

**Fourteenth MIIU Board of Directors Meeting  
No. 04/2000  
and  
MIIU Progress Report  
April 2000 - June 2000**

**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

10 November 2000

Mr. Joel Kolker  
COTR  
USAID/South Africa  
P.O. Box 55380  
Arcadia, Pretoria 007

Dear Mr. Kolker:

Re: Contract No. 674-031220C-00-8023-00

Provided herewith, in accordance with the provisions of §F of the above-cited Contract, is the Contractor's Performance and Monitoring Report (PMR) for the period ending 30 September 2000. The report consists of the Quarterly Report prepared for the MIIU Board of Directors meeting to be held 17 November 2000, and is supplemented by this letter.

This letter identifies those provisions in the Quarterly Report that correspond to the PMR reporting requirements as set forth in §F.3 of the Contract.

### Work Plan

There were no changes to the work plan during the reporting period. However, a proposed MIIU three-year strategy and a new exit strategy will be presented to the MIIU board on 17 November. Please refer to Annexures D and I of the Quarterly Report.

### Section 1. Specific Work in Progress or Completed.

Contractor's report for this section is contained under Annexure C of the Report.

### Section 2. Summary of the the Accomplishments and Recommendations of any Short-Term Consultants.

None during this reporting period.

### Section 3. Analysis of and Significant Problems Being Encountered in Carrying Out the Responsibilities Under the Contract.

Contractor's report for this item is contained in Annexure C.

Section 4. Copies of any Reports, Studies, Etc., Prepared During the Quarter.

See the documents that appear in the Quarterly Report.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'J. Aiello', with a long horizontal flourish extending to the right.

James A. Aiello  
Chief of Party

CC: Gugu Moloi, PADCO

**FOURTEENTH MEETING OF THE BOARD OF DIRECTORS OF THE MUNICIPAL  
INFRASTRUCTURE INVESTMENT UNIT (MIU) TO BE HELD ON  
FRIDAY 17 NOVEMBER 2000  
IN ROOM CR2, DBSA BUILDING, LEVER ROAD, MIDRAND.  
TIME 10H00 -13H00**

**CHAIRPERSON: MS MARLENE HESKETH**

**AGENDA**

- |    |   |       |
|----|---|-------|
| 1. | <b>INTRODUCTION AND WELCOME</b>   | Chair |
| 2. | <b>APOLOGIES</b>  | Chair |
| 3. | <b>ADOPTING OF PREVIOUS MINUTES</b><br>Annexure A   |       |
| 4. | <b>MATTERS ARISING</b><br>Institutional linkages within the MIU.<br>Annexure B                              | JD    |
| 5. | <b>PROGRESS REPORT 01 JULY -30 SEPTEMBER 2000</b><br>Annexure C<br><u>For notification</u>                  | JA    |
| 6. | <b>STRATEGIC AND POLICY ISSUES (INTERNAL)</b>   |       |
|    | 6.1 Strategic Document: The MIU in the Next Three Years<br><u>For discussion and adoption</u><br>Annexure D | GM    |
|    | 6.2 MIU Success Fee and Revolving Fund Proposal<br><u>For discussion and adoption</u><br>Annexure E         | JL    |
|    | 6.3 MIU Capacity Building/Mentorship Proposal<br><u>For discussion and adoption</u><br>Annexure F           | JL    |
|    | 6.4 Marketing and Communications Plan<br><u>For discussion adoption</u><br>Annexure G                       | JA    |
|    | 6.5 Multi-year Budgeting - <u>For discussion and adoption</u><br>Annexure H                                 | CS    |
|    | 6.6 Exit Strategy - <u>For discussion and adoption</u><br>Annexure I  | BJ    |

6.7 Board of Directors/PPU Workshop  
For notification  
Annexure J

GM

**7. STRATEGIC AND POLICY ISSUES (EXTERNAL)**  
7.1 MECs and Provincial Visits

7.2 Metro Meetings  
Annexure K  
For notification

GM

**8. GENERAL**

**9. PROPOSED MEETING DATES**  
For adoption  
Annexure L

JML

**10. CLOSURE**

Chair

**MINUTES FROM PREVIOUS  
MEETING  
ANNEXURE A**

**Minutes of the Meeting of the  
Board of Directors  
of the Municipal Infrastructure Investment Unit (MIIU)  
18 August 2000  
CR 20 DBSA, 1258 Lever Road, Midrand**

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**Present :**

<b>Directors :</b>	Marlene Hesketh (Chair) Neil Macleod Sisa Njikelana Mzimkula Msiwa Nozabelo Ruth Bhengu John Barton-Bridges Nonhlanhla Mjoli-Mncube David Savage Elroy Africa
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<b>Functionaries :</b>	Gugu Mloi James Aiello James Dohrman Barry Jackson Beverley Parsonson Chris Strydom Jackie Lesaoane
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**Apologies :**

<b>Directors :</b>	Noma-India Mfeketo Nomagugu Mgijima Brian Whittaker David Ferreira
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<b>Functionaries :</b>	James Leigland
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<b><u>Absent:</u></b>	Mike Madlala
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**ACTION**

**1. INTRODUCTION AND WELCOME**

The meeting convened at 10h05. Chair Marlene Hesketh welcomed all attendees to the meeting of the Board of Directors of the Municipal Infrastructure Investment Unit (MIIU). The Chair welcomed Gugu Mloi as the new CEO and David Savage and Elroy Africa as newly appointed board members.

**2. APOLOGIES**

Noma-India Mfeketho, Brian Whittaker, Nomagugu Mgijima, David Ferreira and James Leigland

**3. ADOPTION OF PREVIOUS MINUTES**

The agenda for the meeting was adopted after the addition of 'the Life Span of the MIIU' was added and the minutes of the previous meeting were approved. It was noted that absentees should also be reflected on the minutes.

**4. MATTERS ARISING FROM PREVIOUS MINUTES**

CEO Appointment and Progress

The new CEO had been appointed after a thorough and competitive process had been followed.

Management Contract with DBSA

The new contract has been signed and better reflects the relationship between the MIIU and the DBSA.

DBSA/USAID S & T Policies

These had been circulated to all Board Members. A copy to be circulated to Elroy Africa.

PPU

**5. APPROVAL OF FINANCIAL STATEMENTS**

Joséph Njoroge from Ernst & Young presented the financials on a line-by-line basis. In terms of the Articles of Association, the financials and Directors' Report need to be approved by the Board of Directors before the end of August.

It should be noted that last year, the financials reported on eight months of the year and this year on 12 months of the year. Also, the rates of interest decreased from last year, reflecting in less interest earned as anticipated.

It was agreed that the item under 'Debtors' – PADCO be changed to read 'Recoverable Expenses'.

PPU

It was further agreed that Note 11 on the funding provided by USAID for their contract staff is an important item which should be reflected as the real cost of business includes the R7,4 million. The Directors' Report to be amended to include this.

PPU

USAID should be spelt out and explained in the Directors' Report.

PPU

The Board of Directors approved the 1999/2000 financials of the MIIU and authorised the Chair to sign the statements, the Directors' Report and the Directors' Responsibility after these minor editions have been done.

Chair

Joseph Njoroge left the meeting at 10h40.

**6. LIFE SPAN OF THE MIU VERSUS USAID FUNDING**

James Aiello explained that the two-year extension of the contract would have to be competitively bid. The funding for this extension has, however been approved. The Chair reported that she had stressed to the USAID representative that we had a preference for continuity. It was also reported that the CEO would be part of the evaluating team. It was suggested that the possibility of having a South African partner as part of the winning bid be built into the tender, as well as the issue of skills transfer. CEO

It was requested that the CEO prepare a report on the institutional linkages within MIU for presentation at the next meeting. PPU

**7. PROGRESS REPORT – 1 APRIL 2000 TO 30 JUNE 2000**

It was suggested that the information in this report was too limited to assess the impact the MIU are making and that more detail should be included with regard to strategic matters on projects. PPU

Marketing and Publicity

Reports on marketing and publicity should include lessons learnt from such workshops and conferences. PPU

Administrative Matters

It was noted that the introductory session held with David Savage was very useful and that all new directors should be given this kind of briefing.

MSP Study Tour

Mr Msiwa thanked Barry Jackson for the constructive role he played on the MSP Study Tour.

It was agreed that the DPLG should be approached for assistance in funding a National Workshop to discuss the lessons learnt from the tour. The PPU to send a formal letter of thanks to the sponsors of this tour. Barry Jackson's 25-page report to be sent to all members of the Board. PPU

Presentation of Documents

It was agreed that the presentation of the documents to the Board should be balanced. On one hand a strategic overview should be provided articulating the role and policy advice that the MIU has given in a particular project. On the other, it was also agreed that if members of the Board require more detailed information on projects, this information should be provided.

Reason for Terminations of Projects

The Board requested more information be given when a project is terminated. PPU

**8. WORKSHOP WITH BOARD MEMBERS AND PPU**

The CEO recommended that a one-day workshop be held with an independent facilitator. It was agreed that all agenda items should be accompanied by discussion papers. Board members to submit any further agenda items accompanied by discussion papers. It was also agreed that a list of proposed dates for the workshop should be circulated as a matter of urgency.

All

The PPU were authorised to arrange this workshop. It was agreed that this workshop would be regarded as a special board meeting and that all decisions made would be minuted officially.

PPU

**9. NEXT MEETING**

The Chair requested that the PPU arrange for a social function as a public relations exercise to follow the next meeting on 17 November 2000.

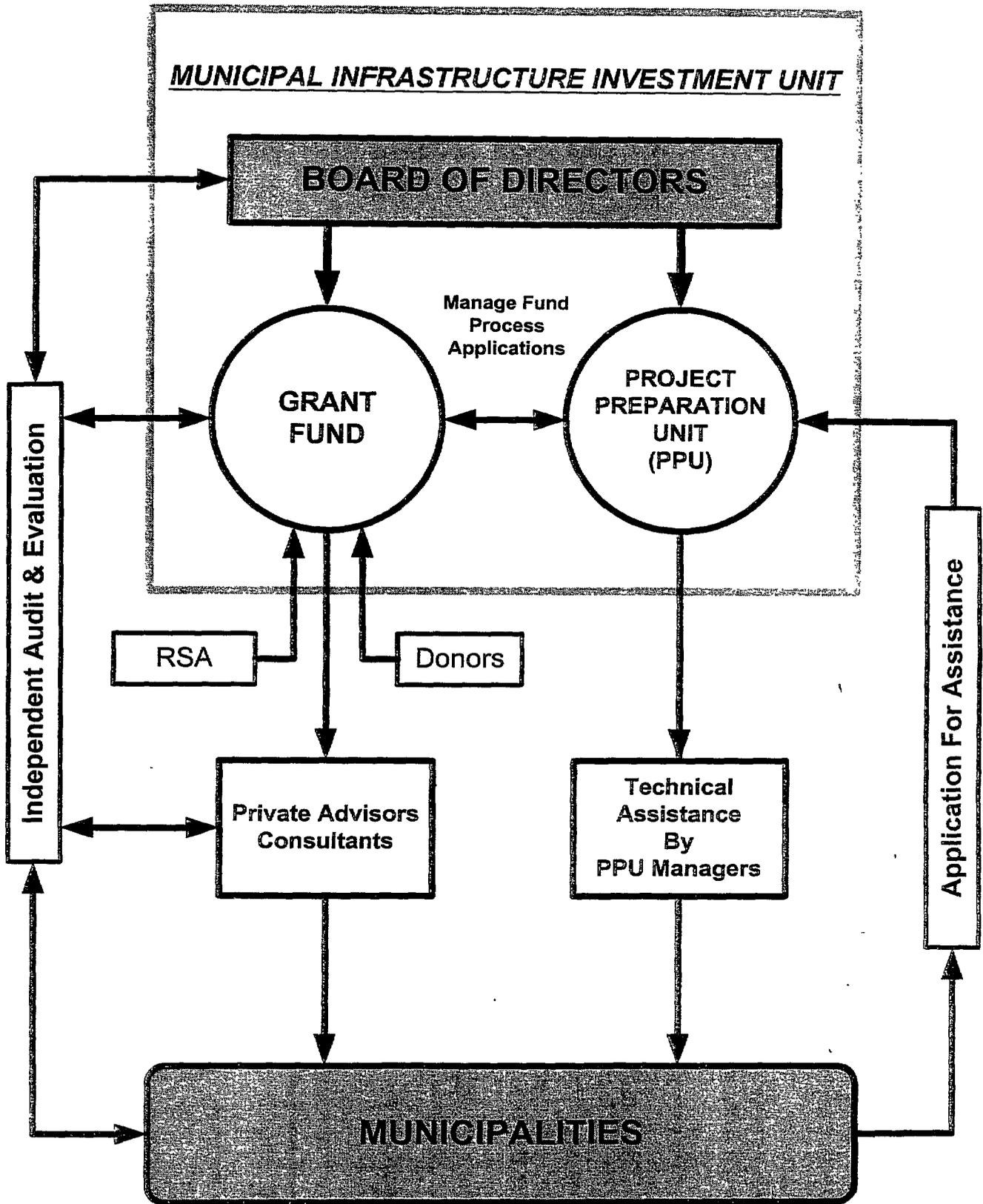
PPU

Attest :

\_\_\_\_\_  
**Marlene Hesketh, Chair**

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

**INSTITUTIONAL LINKAGES  
ANNEXURE B**



**PROGRESS REPORT  
ANNEXURE C**

## **PROGRESS REPORT, 1 JULY – 30 SEPTEMBER 2000**

### **1. Contracts executed during the Quarter.**

#### **1.1 Johannesburg's Metro Gas**

On 18 August 2000, Johannesburg announced the sale of Metro Gas, the municipal gas distribution business that serves approximately 15,000 business and residential customers in the metropolitan area. The price for Metro Gas was R110 million--those revenues have already been targeted at new investment in municipal infrastructure. The new owners are expected to invest another R276 million in Metro Gas over ten years. The total size of the deal, including sale price and future capital investment, makes it arguably the biggest municipal privatisation sale in the country's history. The new owner is the Egoli Gas Consortium, led by Cinergy Global Power, of the U.S., and including a number of prominent South African empowerment companies. All Metro Gas employees have been transferred to the new private owners, strictly according to the terms of the Labour Relations Act. The new owners have guaranteed all employees continuing employment. This sale illustrates the huge financial benefits that can accrue to municipalities from the sale of non-essential businesses, by (1) taking deficit-ridden operations off the city budget; (2) generating substantial sale proceeds; and (3) attracting new investment (in this case, foreign direct investment) in municipal infrastructure.

#### **1.2 Johannesburg IT Outsourcing.**

As part of its iGoli 2002 restructuring the GJMC determined to outsource the Information Technology (IT) requirements of its Core Administration. The MIU participated in Phases I and III (but not Phase II) of this project. HSBC were the consultants to council in all three phases. An RFQ was conducted to determine a five-bidder short list. It was followed by an RFP issued to the short-listed firms, which resulted in a preferred bidder – IBM/Masana – being selected. A five-year management contract was signed 27 September, and is in the process of being implemented. The contract calls for IBM/Masana to make approximately R122.5 million of capital investments over the five years. The contractor must maintain connectivity with the utilities, agencies, and corporatised units that have been established under iGoli 2002, and thus will be instrumental in meeting the IT needs of all service delivery providers to the GJMC's 2.8 million residents. The contractor will also purchase certain of the existing council IT equipment, and provide a credit for that amount against its monthly charges.

#### **1.3 Johannesburg Metro Bus**

Johannesburg Metro Bus Services (MBS) were not sustainable in the manner in which the operation was being run since the formation of the GJMC. The envisioned Transport Bill from DOT will make it mandatory for urban bus routes to be competitively tendered within four years. GJMC applied to the MIU for assistance in seeking an appropriate process through which a business entity might be formed free of the constraints of GJMC control in an attempt to become commercially viable. At the conclusion of the Phase I study, Council took a decision to implement a performance-based corporatisation with a management contract for the MBS. Subsequently, the Johannesburg Metropolitan Bus Company (Pty)Ltd., also known as "Metrobus" was formed as a company under the terms of the Promotion of Local Government Affairs Act 91 of 1983, as amended, a Board of Directors

were appointed, a Managing Director, Asokan Naidu, chosen after public advertisement for the position, and a business plan adopted. The Managing Director is employed under a five-year performance-based contract that provides for operating expenditure reductions, increased revenues, and requires the development of a fleet recapitalisation plan. The company was launched 1 July 2000.

## **2. Contracts substantially completed during the Quarter.**

### **2.1 Harrismith Water & Sanitation**

Negotiations between Rand Water and Harrismith on this contract were completed in September, but the contract was signed in October, so will be fully reported on at the next meeting of the MIU Board. This agreement has become the nation's first public-public water/sanitation contract negotiated on commercial terms by the two partners. It received an unprecedented level of public support from DWAF, the Free State provincial government, as well as the municipal labour unions.

### **2.2 Johannesburg Fleet Outsourcing**

Also as part of the iGoli 2002 restructuring, the GJMC decided to outsource its fleet operations including the current and potential fleet being used by the Utilities, Corporations, and Agencies (UACs). After a feasibility study, an RFQ followed by an RFP was issued, and a preferred bidder - Super Fleet - was selected. A five-year umbrella contract calling for substantial investment by Super Fleet was signed on 9 October. Many user group contracts have also been completed, while others are still in negotiation. Extended negotiations have been conducted with the Waste Utility; however, issues still remain to be resolved. A more complete report will be provided for the next meeting of the Board.

### **2.3 Richards Bay Airport Concession**

Negotiations on this project were also completed in September, but like Harrismith, this contract was signed in October and will be reported on in the next MIU Quarterly Report. This is a twenty-year concession arrangement, with R14m in concession fees to be paid by the private partner to the council, ultimately for use in repaying the council debts associated with the facility. The private partner is expected to invest another R6m in airport expansion. Twenty percent of the concession company, and twenty percent of the company's dividends, will go to a community development trust, for upliftment and development of the local community, particularly traditional areas near the airport.

## **3. Project Updates**

### **3.1 Tzaneen Solid Waste**

The greater Tzaneen region was the subject of an MPPP Feasibility Study, which identified a new regional disposal site. In mid-1999 it was decided by the project stakeholders to proceed with an interim plan while land claim issues and demarcation uncertainties were sorted out. A tender was received on August 7 2000 for interim operation of the existing Tzaneen landfill, construction and operation of two transfer stations and collection in two previously unserved areas. It is anticipated that the contract will be expanded to include two additional transfer stations and waste from neighbouring Duiwelskloof. Since the

landfill will include waste from two "B" municipalities, this will become a District Landfill under the new Structures Act Amendments. Contract negotiations will be concluded during October/November.

### **3.2 Johannesburg Kelvin Power Generation Stations**

Early in this reporting period, Johannesburg announced a preferred bidder, with whom the city expects to form a joint venture to own and operate the Kelvin Power Generation Stations. The bidder is a consortium of AES Sirocco Ltd., a subsidiary of the world's largest independent power producer, and a local empowerment partner. The joint venture generating company produce power to be sold to the Johannesburg electricity utility for reticulation to end-users. Actual numbers have not yet been finalised, but the return to the council from the deal will likely be larger than from any other public-private partnership (or asset sale) undertaken by Johannesburg, or by any other SA municipality. The council is already carefully considering investment options for these revenues. In addition, the joint venture is expected to establish a new black empowerment investment fund, with initial capitalisation set at R25m.

### **3.3 Phalaborwa Landfill**

This new project began a combined Phase I/II update during the quarter. Preliminary work was completed by the TLC several years ago included landfill siting, design and permitting as well as related public participation. Due to other resource priorities the Council does not have the required capital to build or operate the new landfill. The MIIU funded work will update previous work, assess the impacts of demarcation and prepare the project for a concession for construction and operation.

### **3.4 Richards Bay / Uthungulu Regional Landfill**

Richards Bay will be combined with Empangeni in a new "B" municipality. An expanded Empangeni landfill will serve this new local municipality as well as several neighbouring municipalities. The project is completing its stakeholder workshops and preparing draft tenders for Council consideration. The project is sponsored by Uthungulu Regional Council (DC28) and should not be impacted by the demarcation transition.

### **3.5 Plettenberg Bay Water Services**

Plettenberg Bay has a permanent population of 43,000 which increase to 90,000 during the summer holiday period. During this time its water supply and sewerage systems are overloaded, and some segments of its permanent population need improvements to their level of service. A feasibility study funded by MPPP indicated that a concession was the best way forward. Project preparation began in April but was slowed down (but not stopped altogether) in August, until after the elections. The council did not want the project adversely affected by the risk of becoming an election issue

## **4. Recent Developments**

### **4.1 Increased Interest in Regional Projects**

During this quarter the MIIU has received funding applications and/or letters of interest from several existing regional district councils who will become District "C" Municipalities under the new demarcation. We are currently working with the Rustenburg District

Council, (DC37) in cooperation with a European Union project to locate and implement a regional waste disposal site. DC38, the Central District Council in the Northwest Province has submitted an application for assistance in forming a new water/sanitation institution to fulfill their service authority under the new demarcation. Their situation is typical of many District Municipalities who will be receiving ownership and operational responsibilities of rural village water and sanitation systems previously owned and operated under DWAF authority. Although still in the discussion phase, we are also considering a region landfill project in Butter worth with the Amatola District Council (DC12) with CMIP project funding support. We are also continuing our existing projects in the West Coast District Council (DC01), Umzinyathi/Uthukela District Councils (DC23 and DC24) in KZN and Uthungulu Regional Council (DC28), also in KZN.

**4.2 Johannesburg Metro Recycling**

The Western Metro Council opened its second recycling/buyback center in Soweto on 23 October. The MIIU assisted the WMLC in establishing its first buyback center in Roodeport in 1999. This second center expands the number of participating companies to include Mondi Paper, Consol Glass and Collect-A-Can as well as sponsorship from Pick & Pay.

**4.3 Amendments to the Articles of Incorporation.**

A meeting has taken place with the States Attorney with regard to amending the MIIU articles of association in accordance with certain decisions of the Board as well as some recommendations by the external auditors, Ernst and Young. Of note is that the articles of association can only be amended by an affirmative vote of all members of the corporation. The States Attorney will attempt to contact the members to obtain a power of attorney, after which, she will prepare and sign the amended articles.

The States Attorney agreed that the articles must be amended to change the fiscal year and to designate the CEO as corporate secretary. However, she was uncertain whether all of the suggested amendments by Ernst and Young were necessary. Ernst and Young were to be contacted and the recommendations discussed, after which a decision would be taken as to the required amendments. We have not heard back from the States Attorney in this regard.

**5. ADMINISTRATIVE MATTERS**

Welcome to Fiona Taunyane, Personal Assistant to the CEO. Ms Taunyane held a similar position for Ms Gugu Moloi whilst she was Chief Director, Local Government, at the Department of Provincial and Local Government.

**6. CURRENT PROJECT STATUS**

The attached schedules reflect the current status on all projects.

7. **MARKETING AND PUBLICITY**

Annexure G contains the proposed Marketing and Communications Plan discussed at the 5 October workshop, with an indicative three-year budget, for Board consideration and adoption.

8. **STRATEGIC AND POLICY ISSUES (INTERNAL)**

8.1 **Board Of Directors Workshop**

At the 5 October workshop, a number of issues were discussed in significant detail. Pursuant to that discussion, and in order to take a decision on these critical issues, the following documents are presented for Board consideration and adoption:

- MIU Success Fee and Revolving Fund Proposal.....Annexure E
- MIU Capacity Building/Mentorship Proposal.....Annexure F
- Exit Strategy .....Annexure I

The Report on the 5 October workshop, by Elizabeth Sithole of ENS Consulting, to provide context for the foregoing, is provided herein at Annexure J.

8.2 **PPU Strategic Planning Workshop.**

On 31 October, the PPU held an all-day strategic planning workshop to develop for implementation the strategies for the next three years to address our expanded mandate, and provide for its successful accomplishment. Annexure D contains the referenced document, for notification and discussion. It sets for the strategic framework that will govern the activities of the PPU through 2003.

9. **STRATEGIC AND POLICY ISSUES (EXTERNAL)**

9.1 **Impact of Emerging Government Policy**

a) **Local Government: Municipal Structures Amendment Bill**

Recently approved by the Portfolio Committee, when implemented, it will have a dramatic affect on the MIU's projects, procedures, and processes. The major affect is the declaration that district municipalities ("C" municipalities –the former district or regional councils, as re-demarcated), and not the "B" municipalities – the current TLCs –will have primary service delivery responsibility for potable water supply systems, bulk supply of electricity including transmission, distribution and where applicable, generation of electricity, domestic waste-water and sewage disposal systems, and municipal solid waste disposal insofar as it relates to the determination of a waste disposal strategy, the regulation of waste disposal, and

the establishment, operation and control of waste disposal facilities for more than one local municipality in the district.

The Act currently in force provides that the allocation of service delivery responsibilities between the "B" local municipalities and the "C" district municipalities would be done on a district-by-district and province-by-province basis. This amendment does away with that entirely, and makes the district municipality responsible for water and sanitation, electricity, and many solid waste disposal functions. This will apply to all of our existing TLC-based water and sanitation projects: Welkom, Ficksburg, Vryheid, Stanger (Kwa-Dukuza), Margate, Plettenberg Bay, Umtata, Mdantsane (East London) and Krugersdorp. Existing District Council-based projects such as the Thukela Water Partnership, Lowveld Escarpment District Council Water Services and Uthungulu DC, West Coast DC, Breede River DC regional landfills should proceed. The only electricity projects we have are the Johannesburg Kelvin project, and the West Pretoria Power Plant. Because Johannesburg and Pretoria are both metros ("A" municipalities), these sections do not apply.

The bill also calls for a two-year transition period during which the local government MEC for each province will effect the establishment and disestablishment of local and district municipalities in accordance with the previously-approved demarcations. The transitional institutional and administrative arrangements will be made by an MEC's proclamation with the advice of a transitional advisory committee, which arrangements will address, among other things, the disposal or acquisition of assets and the conclusion of contracts with a duration longer than one year or the renewal of such contracts. We are hopeful that through this process certain pending contracts such as the Botshabelo Revenue Management Contract will be dealt with.

The PPU is currently establishing processes with the various MECs for the orderly transition of the current TLC-based projects to district municipality-based projects, and attempting to develop and implement a framework for engagement with MECs and the newly established municipalities during the two-year transition period, particularly with regard to pending non-water and sanitation projects.

b)

*Municipal Systems Bill*

Several events have occurred since the 5 October workshop with regard to this bill. A meeting was held between Minister Mufamadi, the Chair, Deputy Chair, CEO, and DPLG representative wherein the Minister indicated a willingness to consider an amendment that would remove the provision permitting him to enact regulations limiting tariff increases if he received credible evidence that the current provision is, indeed, a hindrance to obtaining financing. A DPLG-MIIU task force has been created to (1) determine the exact nature of the evidence the Minister is seeking, and (2) to develop procedures for obtaining that evidence and presenting it to the Minister.

In addition to the foregoing, a draft legal opinion by Ashira Consulting has been received by the MIIU. Its preliminary views conclude that grave legal questions arise with regard to the attempted application of a regulation limiting tariff increases. Ashira is in the process of refining its draft opinion, and the MIIU is liaising with the firm in this regard. The draft opinion has attracted significant interest in the legal and financial communities; however, a definitive response from potential investors will probably only issue after a careful consideration of the final version.

There are other areas that should be re-examine as well, including the failure to specifically repeal certain provisions of the Local Government Transition Act, and the Promotion of Local Government Act that are in apparent conflict with the Systems bill as passed by Parliament. The PPU is hopeful that these other matters may be addressed if and when the Minister agrees to consider amendments.

Notwithstanding the foregoing, the bill contains some provisions that were espoused by the PPU, including clarifying that the third-party service delivery provider can collect service fees for its own account, and the adoption of processes for enacting regulations providing for publication, public comment, and presentation to Parliament for review.

The PPU will continue to liaise with the Minister through the established Task Force to develop evidence sufficient to convince the Minister that the amendments discussed above have merit. The PPU will also monitor and assist, where appropriate, the finalisation of the Ashira Consulting Legal Opinion, and attempt to obtain a definitive reaction from the financial community with regard thereto.

c)

Water Services Act

Because water and sanitation projects make up the bulk of our current undertakings, there are several areas of governmental activity authorized by the Water Services Act that impact the MIIU. Some are detailed below. Others, of a more generic nature, also attract our attention from time to time. These include regulations generally, the restructuring of water institutions, and the creation of new water sector structures such as Conservation Management Agencies.

*Section 10(2)*

This subsection allows the Minister to enact national norms and standards for water tariffs in respect of profits or surplus funds. It is this section that creates the uncertainty that adversely affects private-sector financing for water sector projects, similar to the provision in the Systems Bill, discussed above, allowing the Minister to limit tariff increases. Currently, private-sector financial institutions in South Africa will not lend money for water projects because of this section.

The PPU is already in dialogue with the DWAF Minister regarding amending the section. Hopefully, if sufficient evidence is gathered for the Minister of DPLG with regard to the similar provision in the Systems Bill, it was constitute a sufficient

basis for amending this provision as well

*Section 19(5) Contract Regulations*

This section allows the Minister to enact regulations prescribing provisions that must be included in third-party water services contracts. They would apply to public-public as well as public-private partnerships. The first draft of these regulations was gazetted in August, after receiving extensive input from the DBSA and the PPU. The DBSA and PPU are assisting DWAF in responding to public comments to the gazetted regulations, and will participate in a workshop to be held 15 and 16 November, where they will be discussed..

The PPU will continue to participate with DBSA in the final promulgation of these regulations.

*Pending Tariff Norms and Standards*

These pending regulations relate to the problem mooted above regarding the Minister's ability to promulgate regulations establishing national tariff norms and standards regarding profit and surplus revenues. Drafts are currently being circulated within DWAF.

The PPU will strive to be included in the universe of interested and affected parties selected by DWAF to comment with regard to these draft regulations.

d) Municipal Financial Management Bill

The bill, together with the Property Rates Bill, will, once adopted, provide a comprehensive municipal financial management and reporting statutory framework that should, when fully adopted, provide the data required for, e.g., MSP financing. Further the bill contains strong language intended to repeal the common law "fettering doctrine" which is very important to the MIU. Finally, once adopted, the primacy of this legislation should be a strong force for the economic and financial sustainable of all municipal undertakings, including MSPs.

The PPU has developed a strong liaison with the Department of Finance with regard to this bill. That relationship will continue until the measure is enacted into law. The PPU expects to be consulted as well regarding any future regulations that may issue thereunder.

e) Property Rates Bill

The Property Rates Bill, noted above, has only recently been tabled. It sets forth the statutory mechanism for local governments to assess and set the property rates on, immovable property. The bill is of interest to the MIU in that in many municipalities, charges for solid waste collection and disposal for residential properties are included within the immovable property tax rate for that property. The bill contains a provision that gives the DPLG Minister the authority, with the concurrence of the Minister of Finance, to set a limit on the amount of the rate that municipalities may levy on property or the percentage by which a rate on property may be increased annually. Thus, this bill differs from the Systems Bill in that on

the one hand, it allows the Minister, by notice, to limit annual property tax increases, while the Systems bill only authorises the enactment of a regulation limiting tariff increases, which regulation must be made after consultation with organised local government and the Minister of Finance, and submission to Parliament. On the other hand, the Rates Bill provision requires the concurrence of the Minister of Finance, which may be a more substantial hurdle.

In any event, a popular finance mechanism that has recently emerged is the pledging of rates by a municipality. It thus appears that this provision, like those in the Systems Bill and the Water Services Act, may hinder private sector financing that is premised upon either tariff or rates revenue flows.

The PPU will include the foregoing discussion in its initiatives with the Minister of DPLG outlined above with regard to the Systems Bill.

f) MSP White Paper

The MSP White Paper is an important policy document that will inform local government on the way forward with regard to when and how they should consider MSPs as they deliberate mechanisms for meeting the needs of their un-or-underserved constituencies. In some respects, the Paper is ahead of the Municipal Systems Bill, as much of its success will depend upon passage of the bill in a form substantially the same as it existed when the current iteration of the White Paper was written. In any event, the combination of this White Paper and the Municipal Systems Bill should provide a clear framework for local government to use as it address its municipal services infrastructure needs. These two documents should be seen as supplanting and replacing the SALGA/COSATU "Framework for Restructuring of Municipal Services" executed in December of 1998. The PPU has been informed that the MSP White Paper will be revised by DPLG in the near term.

The PPU will liaise with the Minister of Provincial and Local Government to provide input with regard to the pending revision.

g) MSP Guidelines

These Guidelines provide the implementation framework for the MSP policy as currently articulated in the White Paper. They provide the mechanisms for the consideration, implementation, and regulations of MSPs by local government. They are dependent upon the passage of the Municipal Systems Bill in substantially the same form as it existed when these guidelines were adopted. To the extent the bill is changed in a significant way, the Guidelines will have to be adjusted. PPU staff provided input to these guidelines, and believes that they will facilitate the consideration of MSPs by local government.

The PPU will, when the Systems Bill is signed, recommend any changes necessitated by differences in Act and the wording in the Guidelines.

h) MSP Monitoring Framework

This is a framework for monitoring the compliance by local government, with the guidelines, policies, and legislation attendant to the consideration, adoption, implementation, and regulation of MSPs. This monitoring framework should provide national and provincial governments with sufficient indicators of local government performance with regard to MSPs without unduly burdening local government.

The PPU will suggest any changes necessitated by the wording of the Systems Bill when it is signed into law. Further, the PPU will continue its assistance to local government in crafting regulatory mechanisms in any MSP agreement that will facilitate compliance with the Framework.

i) Framework for Restructuring Municipal Services

As noted above, this document was adopted via an agreement between SALGA and COSATU and observed by Government, in an attempt to regularise the consideration of MSPs, and provide a mechanism for the systematic deliberation and agreement thereon by all stakeholders. It also created a "Sectoral Forum" for debate on policy issues of national stature involving MSPs. As noted above, enactment of the Systems Bill and the White Paper should supplant this document entirely

The PPU will attempt to obtain a clear policy statement by the DP&LG Minister that upon the President's signature to the Systems bill, this document ceases to be in effect.

j) REDS

"REDS" stands for "Regional Electricity Distribution Systems". National government has conceived of a plan to unbundle the distribution of electricity from Eskom and bundle together the existing distribution systems of local government, and repackage them into REDS, that will have the responsibility of providing sustainable electricity distribution within its service area. Long in coming, the portent of the REDS has brought MSP activity in the electricity distribution sector to a halt. If the concept is adopted as currently conceived MIU involvement could occur at a strategic and policy level through the National Electricity Coordinating Council (NECC).

The PPU will continue to monitor the development and implementation of REDS, and will, if requested participate in the NECC process.

k) Non-Grid System

Recently the prospect of more sustainable non-grid electricity provision has again arisen. The PPU will monitor the developments of these proposals and where appropriate offer assistance to municipalities considering them.

l) Transportation Legislation

Also contemplated, but not yet tabled, is legislation that will require municipalities with bus systems to put them out to tender by a certain date. Key to any such tender is the rationalisation of the bus system into a form that may engender a positive market reaction when a tender issues. The MIU has received requests for assistance in regards bus services in both Johannesburg and Bloemfontein. Once the legislation finally is tabled, we may see additional inquiries from municipalities that currently operate bus systems.

The PPU will continue to monitor any legislation that may be tabled on the matter, and comment as appropriate.

m) Public Finance Management Act

The possible application of this Act to MIU activities seems to be in regards to the Act's accounting requirements. The MIU is not named in the Act, nor listed in any of the Schedules that are attached to the Act. In fact, §47(4)(b) seems to indicate that because it functions only in the local sphere of government, it is not covered by the Act.

In any event, the PPU will remain cognisant of the existence of the Act, and at such time as an appropriate authority suggests that the does apply to the MIU it will comply therewith.

n) Competition Act

There is a growing consensus regarding the application of the Competition Act to asset sales, outsourcing that entails the purchasing and/or acquisition of municipal assets, and such-like transactions. Johannesburg obtained a ruling from the Competitions Commission in its Metro Gas sale that the transaction did not run afoul of its provisions. Umgeni Water, which is currently negotiating the acquisition of the bulk water infrastructure from Kwa-Dukuza (Stanger), has informed the PPU that it will seek clarification regarding application of the Act to the proposed transaction. Section 3(1)(d) of the Act exempts the Act from "acts subject to or authorised by public regulation". However, there has been no official interpretation as to what that means, and pending legislation would repeal this provision.. In any event, compliance with the Act is indicated in projects involving municipal asset sales, or public-public partnerships where one public entity takes over the assets or facilities of another. Financial institutions are concerned about the application of the Act to their "step in" rights in funding agreements. The financial industry is seeking clarification in this regard from the Competition Commission.

The PPU will examine current and future projects for possible application of the Act, and suggest that parties take appropriate action where its provisions seem to apply.

o) National Health Bill

We are informed that this bill may address municipal public health responsibilities.

We also have noted that municipal public health is one of the areas that the Structures Act amendment has determined to be a district municipality responsibility. Should this bill pass, the MIU may see applications for assistance in constructing and operating municipal public health facilities

The PPU will monitor for the appearance of this legislation, especially in light of the Structures Act Amendment.

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SCHEDULE A - EXPRESSIONS OF INTEREST from JULY to SEPTEMBER 2000

No.	LOCAL AUTHORITY	SECTOR	PROVINCE	DATE FIRST CONTACT	FOLLOW UP ACTION
1.	Paulpietersburg	Combined	KN	9-Feb-2000	Await return of questionnaire
2	Kokstad	Water/sanit/waste	KN	7-Jan-2000	Preliminary discussion
3	Pietermaritzburg	Waste collection	KN	2-Mar-2000	Preliminary discussion
4.	Amatola	Solid waste	EC	13-Apr-2000	Preliminary discussion
5.	Cape Town	Solid waste	WC	17-Apr-2000	Preliminary discussion
6.	Lekoa/Vaal	Water Services	GA	17-Jan-2000	Await return of questionnaire
7.	Ceres	Bulk water	WC	12-Nov-1999	Demarcation delay
8	Barberton	Bulk water	MP	3-May-2000	Await return of questionnaire
9.	Rustenburg	Abattoir/Resorts	NW	28-Aug-2000	Written advice sent
11	Randfontein	Combined	GA	20-Sep-2000	Sent questionnaire
12.	Pietermaritzburg	Airport	KN	7-Sep-2000	Preliminary discussion
13.	Umtata	Solid waste	EC	3-May-2000	Await return of questionnaire
14.	Maclear	Solid waste	EC	1-Sep-2000	Await return of questionnaire
15	Central District Cour	Water service	NW	13-Sep-2000	Await return of questionnaire
16.	Rustenburg DC	Solid waste	NW	7-Aug-2000	Preliminary discussion
17.	Westonaria	Unspecified	GA	8-Aug-2000	Decided to wait
18.	Pietermaritzburg	Fresh prod. mkt.	KN	31-Aug-2000	Decided to wait
19.	Pretoria	Health Serv.	GA	3-Aug-2000	Preliminary discussion

**SCHEDULE B - PROJECTS IN CONCEPTUAL PHASE from JULY to SEPTEMBER 2000**

No.	LOCAL AUTHORITY	SECTOR	PROVINCE	MIIU GRANT AGREEMENT	
				Client Sign.	MIIU Sign.
1.	Brits	Water/sanit	NW	Awaiting demarcation results	
2.	Grahamstown	Water/waste	EC	In negotiation	
3.	Zululand RC	Water/waste	KN	In negotiation	
4.	Welkom	Water/sanit	FS	Awaiting demarcation results	
5.	East London	Solid waste	EC	Awaiting signature	
6.	Lekoa/Vaal	Solid waste	GA	In negotiation	
7.	Rustenburg	Water/sanit	NW	Awaiting demarcation results	
8.	East London (Mdantsane)	Water/sanit	EC	Awaiting demarcation results	
9.	Krugersdorp	Water/sanit	GA	Awaiting demarcation results	
10.	Bloemfontein	Water/sanit	FS	In negotiation	
11.	King Williamstown	Waste water	EC	In negotiation	
12.	Hermanus/Hangklip-Klein	Water/sanit/waste	WC	In negotiation	
13.	Zeerust	Water service	NW	In negotiation	
14.	Phalaborwa	Solid waste	NP	In negotiation	
15.	Vryburg	Water	NW	In negotiation	
16.	Highveld Ridge	Water/sanit	MP	In negotiation	

**SCHEDULE C - FEASIBILITY STUDIES IN PROGRESS**

**from JULY to SEPTEMBER 2000**

NO.	LOCAL AUTHORITY	SECTOR	PROVINCE	CONSULTANTS APPOINTED	CONTRACT COMMITMENT	
					MIIU Portion (R)	Client Portion (R)
1.	Newcastle	Solid waste	KN	V3 Engineers	200,000	200,000
2.	Grt Thohoyandou	Solid waste	NP	Jarod Ball	367,600	81,900
3.	West Coast	Solid waste	WC	Entech	253,200	63,300
4.	Queenstown	Solid waste	EC	Jeffares & Green	304,000	50,000
5.	Umtata	Water	EC	BKS/PWC	220,000	76,000
6.	Stanger	Water/sanit	KN	BKS Consort	200,000	50,000
7.	Richards Bay	Solid waste	KN	GFJ Engineers	464,500	199,010
8.	Wolseley	Solid waste	WC	V3 Engineers	203,600	86,400
9.	Uthukela/Umzinyathi	Water/sanit	KN	GRP Dev.Services	150,000	-
10.	Ficksburg	Water/sanit	FS	Ficksburg Consort	200,000	50,000
11.	Vryheid	Combined Serv.	KN	V3 Engineers	160,000	40,000
12.	Lowveld Esc. DC	Water	MP	Awaiting bids	240,000	60,000
13.	Grt Thohoyandou	Waste water	NP	Jarod Ball	48,400	12,100

**SCHEDULE D - FEASIBILITY STUDIES COMPLETED - AWAITING NEXT STEPS**

from JULY to SEPTEMBER 2000

NO.	LOCAL AUTHORITY	SECTOR	PROVINCE	CONSULTANTS APPOINTED	CONTRACT COMMITMENT	
					MIU Portion (R)	Client Portion (R)
1.	Lowveld RDC	RSC Collection	MP	Vic Nielson	50,000	10,000
2.	Port Elizabeth (MPPP)	Water/sanit	EC	BKS Consort.	120,000	80,000
3.	East London	Prod. Mkt	EC	PWC	120,000	80,000

**SCHEDULE E - PROJECTS IN PREPARATION PHASE as at 30 SEPTEMBER 2000**

No.	LOCAL AUTHORITY	SECTOR	PROVINCE	ENVISAGED CNTR. TYPE	CONSULTANTS APPOINTED	CONTRACT COMMITMENT		STAGE OF ACTIVITY
						MIU Portion	Client Portion	
1.	Plettenberg Bay	Water/sanit	WC	Concession	S Scott & Consort	600,000	400,000	Prep.RFP
2.	Margate	Airport	KN	Concession	PWC	235,000	150,000	Tender docs. Issued
3.	Margate	Sanit	KN	Mgmt Contract	BKS	390,000	390,000	Contract on hold - UGU study
4.	Margate	Road Maint.	KN	Employ/Mgmt. buyout	BKS	296,000	74,000	FS complete
5.	GJMC - Jhb	Water/sanit	GA	Mgmt Contract	Various	600,000	1,400,000	Bids received
6.	Pretoria	Power	GA	Long term lease/BOT	Fieldstone	300,000	200,000	Pref. bidders select.
7.	Richards Bay	Waste water	KN	BOT	GFJ Engineers	200,000	30,000	Contract on hold
8.	Stanger	Solid waste	KN	Concession	Lombard & Assoc.	577,798	197,303	RFP pending
9.	Middelburg	Roads	MP	Service contract	N/A	TA only	-	Adjudication/negotiations

**SCHEDULE F - PROJECTS IN NEGOTIATION from JULY to SEPTEMBER 2000**

<b>NO.</b>	<b>LOCAL AUTHORITY</b>	<b>SECTOR</b>	<b>PROVINCE</b>	<b>ENVISAGED CNTR. TYPE</b>	<b>CONSULTANTS APPOINTED</b>	<b>PREFERRED BIDDER</b>
1.	Harrismith	Water/sanit	KN	Mgmt. Contract	Black&Veatch	Rand Water
2.	Richards Bay	Airport	KN	Concession	PWC	Black & Veatch
3.	East Cape	Regional IT	EC	Mgmt. Contract	Black&Veatch	PSU Int.
4.	GJMC - Jhb	Stadium	GA	Sale	PWC	Kaiser Chiefs
5.	Thabazimbi	Solid waste	NP	Concession	V3	Waste Group
6.	Tzaneen	Solid waste	NP	Concession	V3	Waste Group
7.	GJMC - Jhb	Fleet	GA	Mgmt. Contract	HSBC	Superfleet
8.	Botshabelo	Rev. Mgmt.	FS	Mgmt. Contract	PSU	PSU Int.

**SCHEDULE G - PROJECTS COMPLETED from JULY to SEPTEMBER 2000**

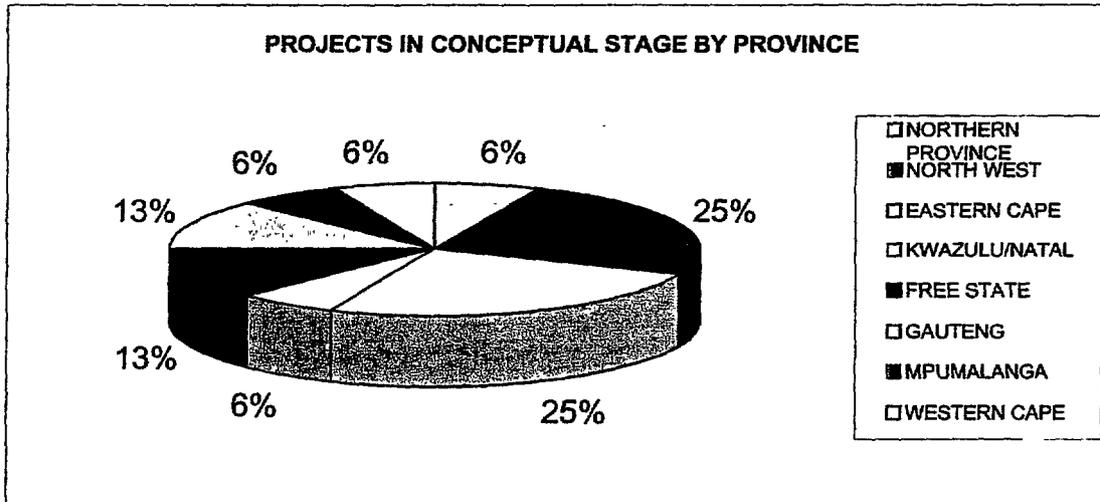
NO.	LOCAL AUTHORITY	SECTOR	PROVINCE	PROJECT OUTCOME	PRIVATE PARTNER
1.	GJMC - Jhb	Airport	GA	Sale	Rand Operators Assoc.
2.	Pretoria -Metro	Airport	GA	20 year concession	Pretoria Int. Airport Co.
3.	Dolphin Coast (MPPP)	Water/sanit	KN	30 year concession	Siza Water Co./SAUR
4.	Nelspruit (MPPP)	Water/sanit	MP	30 year concession	GNUC/Biwater
5.	WMLC	Solid waste	GA	5 year concession	Mondi Recycle
6.	Robertson	Solid waste	WC	5 year service contract	Du Plessis Garden Services
7.	GJMC - Jhb (MPPP)	Solid waste	GA	FS completed - merged with GJMC waste utility	-
8.	Lekoa/Vaal (MPPP)	Water/sanit	GA	FS completed - Sect.21 company created	-
9.	Bloemfontein (MPPP)	Transport	FS	FS recommended status quo & mgmt improvement	-
10.	Richards Bay	Water	KN	FS recommended status quo & mgmt improvement	-
11.	GJMC - Jhb	Prod. Mkt	GA	Corporatisation complete	JHB Fresh Produce Mkt (Pty) Ltd
12.	GJMC - Jhb	Bus	GA	Corporatisation complete	Metro Bus (Pty) Ltd
13.	GJMC - Jhb	IT	GA	Management contract plus investment	IBM/Masana

**SCHEDULE H - PROJECTS TERMINATED PRIOR TO COMPLETION from JULY to SEPTEMBER 2000**

NO.	LOCAL AUTHORITY	SECTOR	PROVINCE	REASON FOR TERMINATION
1.	Cape Town	Power/Solid waste	WC	Unclear public objectives
2.	GJMC	EMS	GA	MIIU & L. Authority decision not to participate further
3.	GJMC - Jhb (MPPP)	Inform.trading	GA	MIIU & L. Authority decision not to participate further
4.	GJMC - Jhb	Unacc.for water	GA	Incorporated in the water utility
5.	Lambert's Bay	Harbour & precinct	WC	FS established that future development be commercially-led
6.	Hangklip-Kleinmond	Caravan Park	WC	Commercial project
7.	Rustenburg	Abattoir	NW	Decided to use own procurement rules
8.	DME Uthungulu	Non-grid	KN	No local request for assist. - conflicting national priorities
9.	Scottborough	Waste water	KN	District council override
10.	Cape Town (MPPP)	Water/sanit	WC	Municipality has decided to go no further
11.	Durban (MPPP)	Waste-to-energy	KN	MIIU decision not to participate further as project was unviable
12.	Khayalami (MPPP)	Waste water	GA	Inaction by municipality after warning
13.	Kimberley (MPPP)	Resorts	NC	Inaction by municipality after warning
14.	Bochum/My Darling	Water	NP	Uncertainties over demarcation & lack of counterpart funding
15.	Nkadimeng (MPPP)	Rural water supply	NP	MIIU & DC concluded that project was unviable

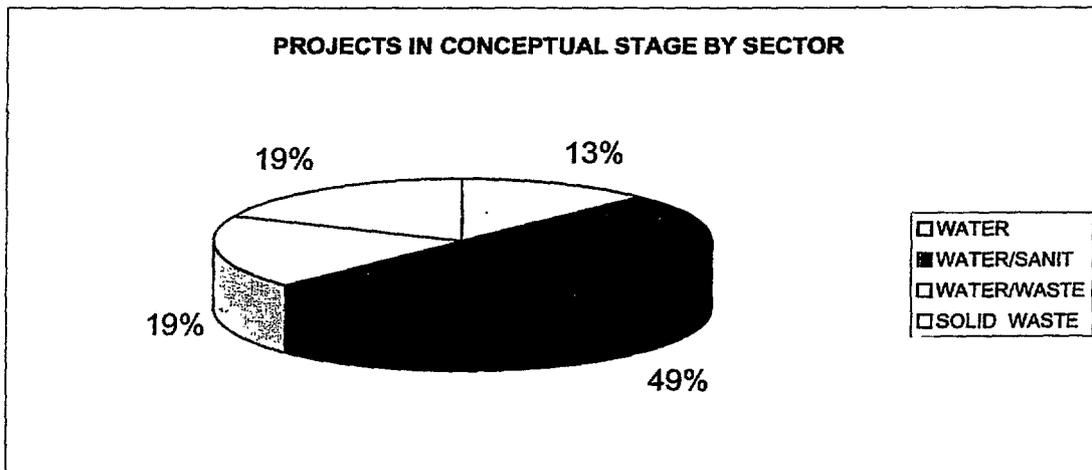
**PROJECTS IN CONCEPTUAL STAGE BY PROVINCE**

NORTHERN PROVINCE	6%
NORTH WEST	25%
EASTERN CAPE	25%
KWAZULU/NATAL	6%
FREE STATE	13%
GAUTENG	13%
MPUMALANGA	6%
WESTERN CAPE	6%
	<u>100%</u>



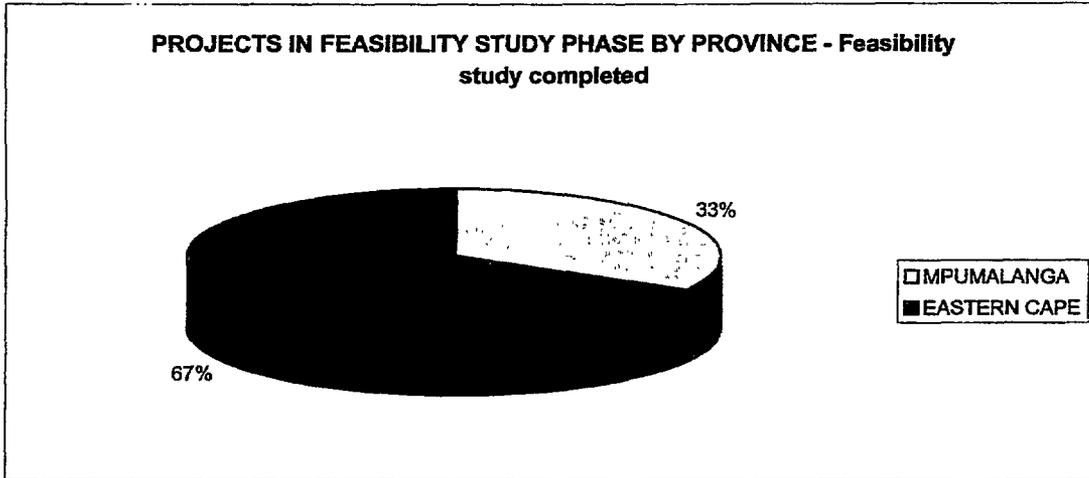
**PROJECTS IN CONCEPTUAL STAGE BY SECTOR**

WATER	13%
WATER/SANIT	50%
WATER/WASTE	19%
SOLID WASTE	19%
	<u>100%</u>



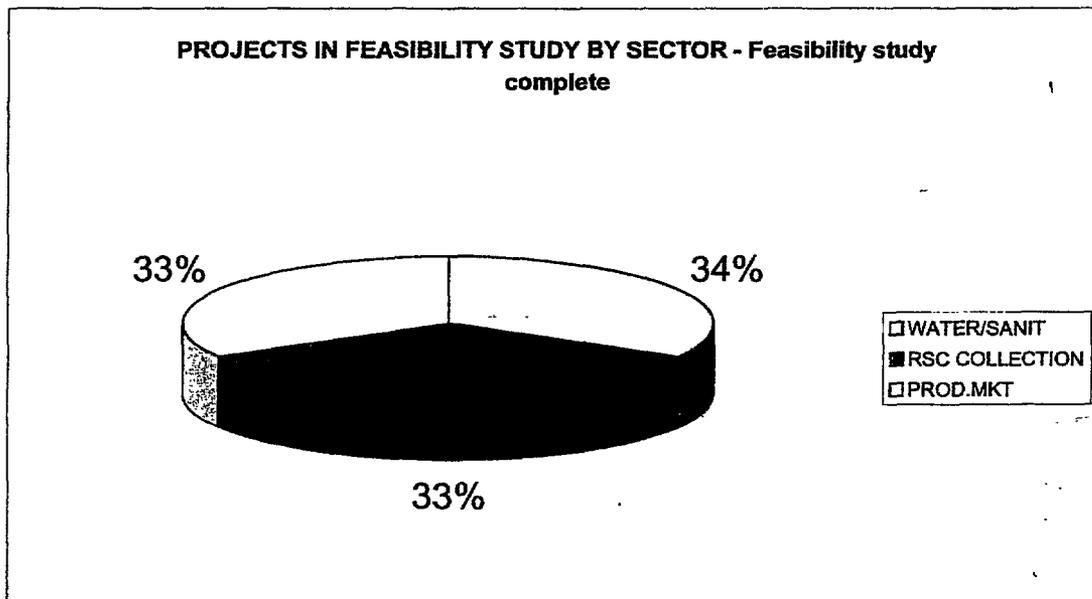
**PROJECTS IN FEASIBILITY STUDIES STAGE BY PROVINCE - FEASIBILITY STUDY COMPLETE**

MPUMALANGA	33%
EASTERN CAPE	67%
	<u>100%</u>



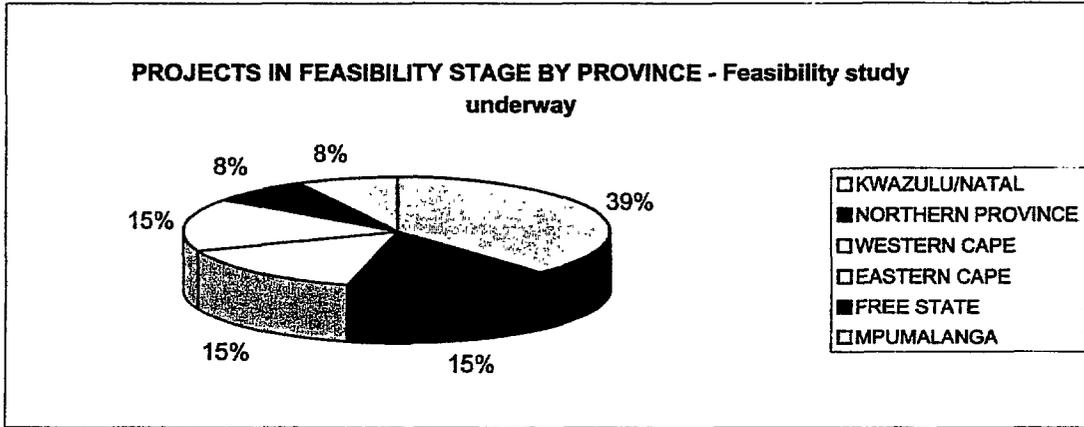
**PROJECTS IN FEASIBILITY STUDIES STAGE BY SECTOR - FEASIBILITY STUDY COMPLETE**

WATER/SANIT	33%
RSC COLLECTION	33%
PROD.MKT	33%
	<u>100%</u>



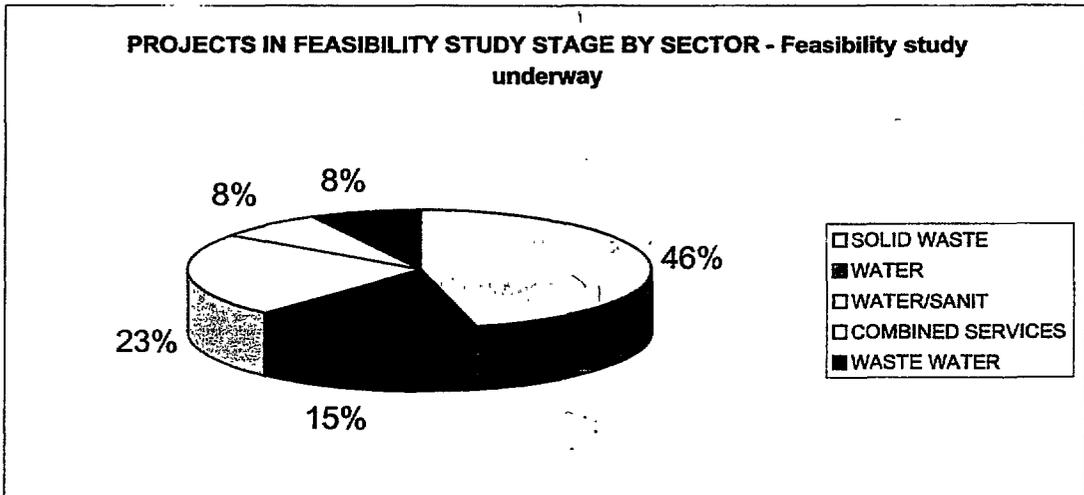
**PROJECTS IN FEASIBILITY STUDIES STAGE BY PROVINCE - FEASIBILITY STUDY UNDERWAY**

KWAZULU/NATAL	38%
NORTHERN PROVINCE	15%
WESTERN CAPE	15%
EASTERN CAPE	15%
FREE STATE	8%
MPUMALANGA	8%
	<u>100%</u>



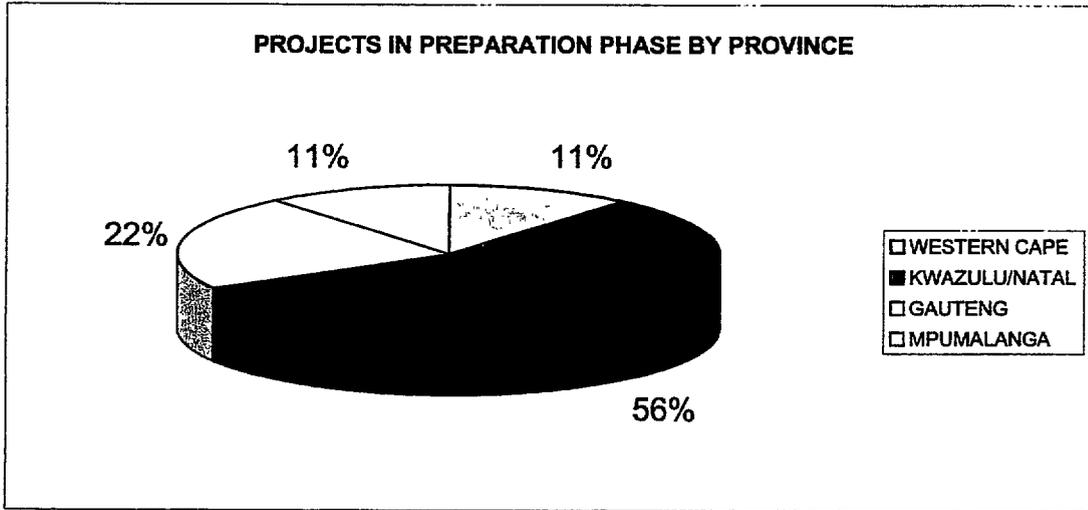
**PROJECTS IN FEASIBILITY STUDIES STAGE BY SECTOR - FEASIBILITY STUDY UNDERWAY**

SOLID WASTE	46%
WATER	15%
WATER/SANIT	23%
COMBINED SERVICES	8%
WASTE WATER	8%
	<u>100%</u>



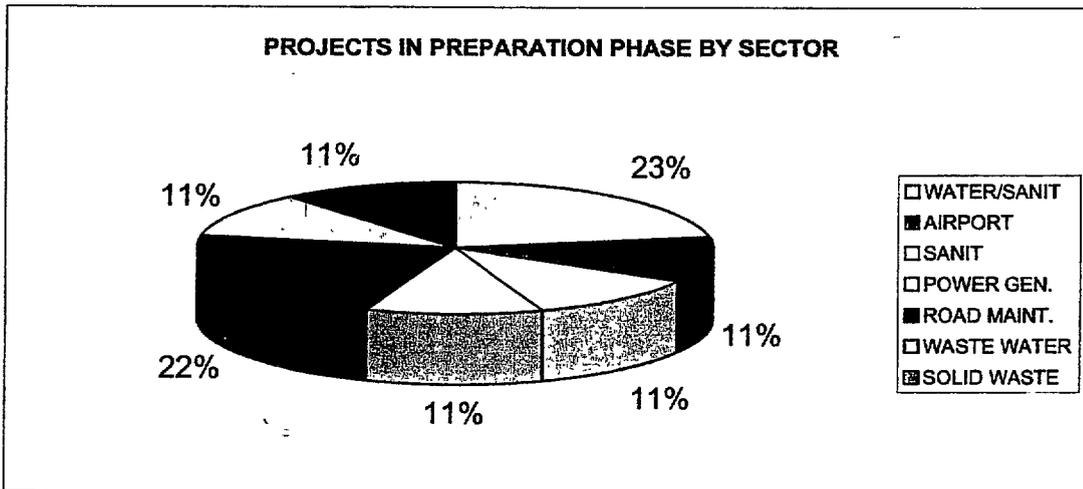
**PROJECTS IN PREPARATION STAGE BY PROVINCE**

WESTERN CAPE	11%
KWAZULU/NATAL	56%
GAUTENG	22%
MPUMALANGA	11%
	<u>100%</u>



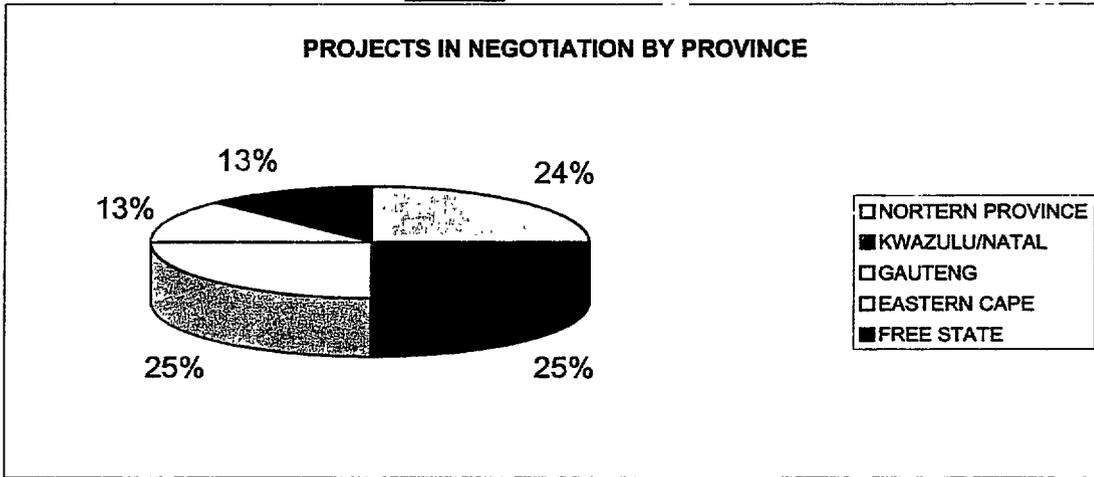
**PROJECTS IN PREPARATION STAGE BY SECTOR**

WATER/SANIT	22%
AIRPORT	11%
SANIT	11%
POWER GEN.	11%
ROAD MAINT.	22%
WASTE WATER	11%
SOLID WASTE	11%
	<u>100%</u>



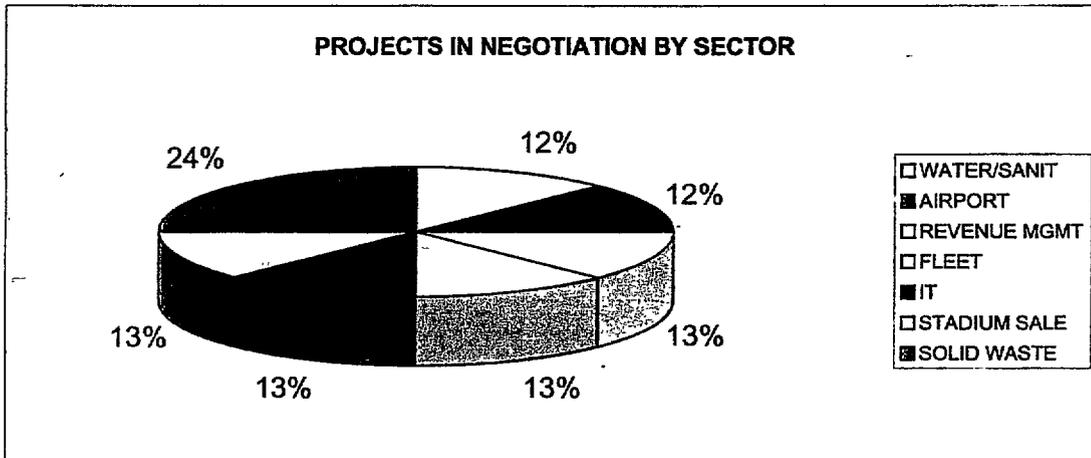
**PROJECTS IN NEGOTIATION BY PROVINCE**

NORTERN PROVINCE	25%
KWAZULU/NATAL	25%
GAUTENG	25%
EASTERN CAPE	13%
FREE STATE	13%
	<u>100%</u>



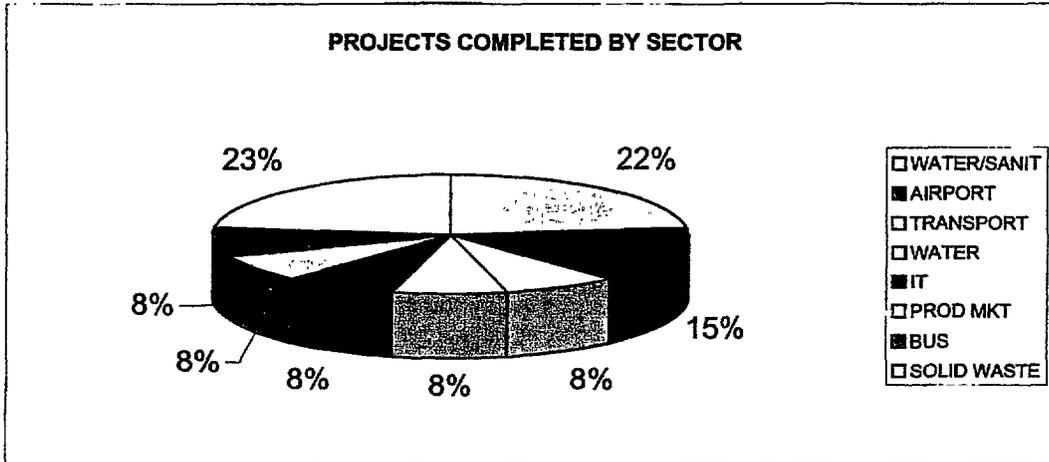
**PROJECTS IN NEGOTIATION BY SECTOR**

WATER/SANIT	13%
AIRPORT	13%
REVENUE MGMT	13%
FLEET	13%
IT	13%
STADIUM SALE	13%
SOLID WASTE	25%
	<u>100%</u>



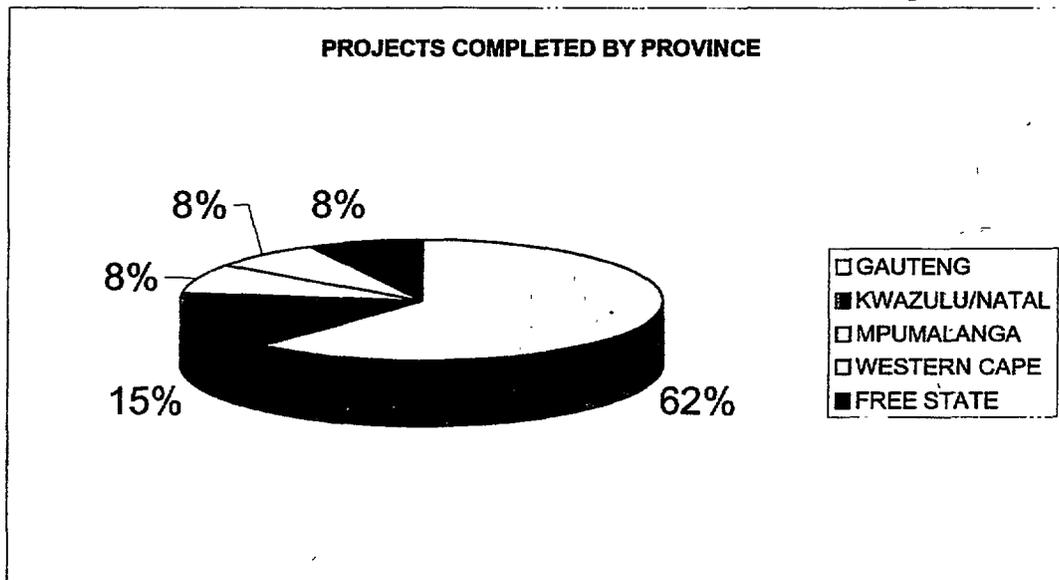
**PROJECTS COMPLETED BY SECTOR**

WATER/SANIT	23%
AIRPORT	15%
TRANSPORT	8%
WATER	8%
IT	8%
PROD MKT	8%
BUS	8%
SOLID WASTE	23%
	<u>100%</u>



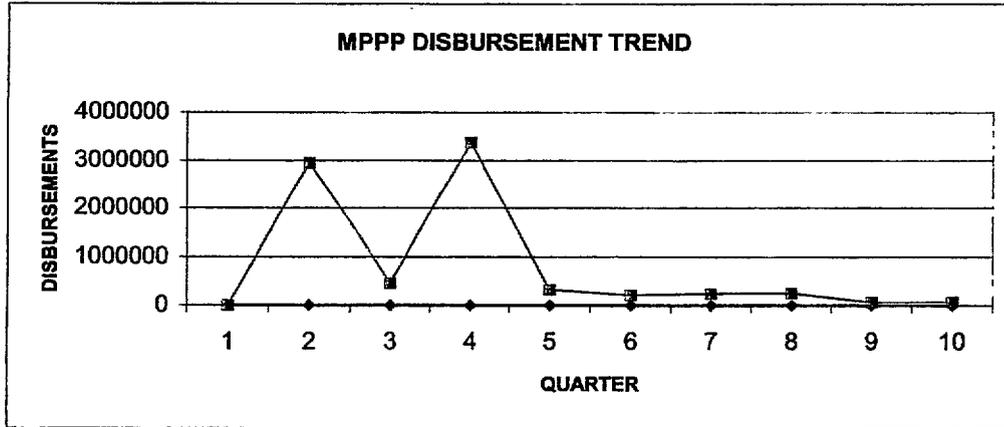
**PROJECTS COMPLETED BY PROVINCE**

GAUTENG	62%
KWAZULU/NATAL	15%
MPUMALANGA	8%
WESTERN CAPE	8%
FREE STATE	8%
	<u>100%</u>



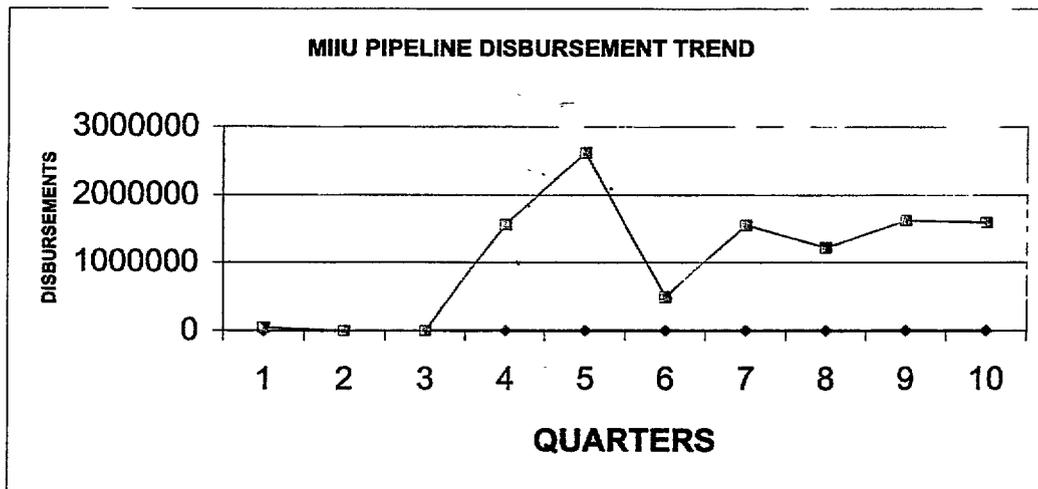
**DISBURSEMENT BY QUARTER SINCE INCEPTION - MPPP**

QUARTER	Disbursements
1	-
2	2,952,778
3	461,126
4	3,381,364
5	330,880
6	218,434
7	249,649
8	252,414
9	62,848
10	77,978



**DISBURSEMENT BY QUARTER SINCE INCEPTION - MIU PIPELINE**

QUARTER	Disbursements
1	50,000
2	-
3	-
4	1,569,581
5	2,624,831
6	497,209
7	1,559,231
8	1,222,453
9	1,630,312
10	1,597,683



**MPPP PROGRAMME - as at 30 SEPTEMBER 2000**

City	Project Sector	MPPP Grant Approved	Disbursed by DCD	Transferred to MIJU	Transferred				Disbursement MIJU to date	Balance Remaining	
					Apr. 98 - Sep 99	Oct - Dec 1999	Jan - Mar 2000	Apr-Jun 00			Jul - Sep 00
1	Nkadameng Water supply	250,000		250,000		249,649	-		19,983	269,631	19,631
2	Port Elizabeth Water/sanit	1,000,000	55,566	944,434	373,815					373,815	670,619
3	Stanger Solid waste	505,000		505,000	132,330		232,750	62,848	57,995	485,925	19,075
4	Bloemfontein Transport	300,000		300,000	280,724					280,724	19,276
5	Dolphin Coast Water/sanit	1,000,000		1,000,000	974,274					974,274	25,726
6	JNB Metro	500,000	-	500,000	500,000					500,000	-
	1) Informal trading	500,000	-	500,000	355,393					355,393	144,607
	2) Solid waste	500,000	-	500,000							
7	Lekoa/Vaal Water/sanit	600,000		600,000	600,000					600,000	-
8	Nelspruit	2,947,269	2,047,816	899,453	899,453					899,453	-
	1) Water/sanit (PPP)										
	2) Water/sanit (Capex)	5,674,851	3,594,852	2,079,999	1,583,236					1,583,236	516,763
9	Plettenberg Bay Water/sanit/s waste	280,000		280,000	280,000					280,000	-
10	Richards Bay Solid waste	451,000	-	451,000	293,769		19,664			313,433	137,567
11	Tzaneen Solid waste	275,000		275,000	275,000					275,000	-
12	Cape Town Water/sanit	672,155	217,155	455,000	-	-	-			-	455,000
13	Durban Waste-to-energy	1,000,000		1,000,000	816,588					816,588	183,412
14	Khayalami Waste water	400,000		400,000						-	400,000
15	Kimberley Resorts	250,000		250,000						-	250,000
		<b>16,605,275</b>	<b>5,915,389</b>	<b>10,689,886</b>	<b>7,344,582</b>	<b>249,649</b>	<b>252,414</b>	<b>62,848</b>	<b>77,978</b>	<b>7,987,471</b>	<b>2,702,415</b>
<b>% of the disbursements against approved grant</b>		<b>100%</b>	<b>36%</b>		<b>69%</b>	<b>2%</b>	<b>2%</b>	<b>1%</b>	<b>1%</b>	<b>75%</b>	<b>25%</b>

## DISBURSEMENT TREND ON MIU PROJECTS AS AT 30 SEPTEMBER 2000

NO.	LOCAL AUTHORITY	SECTOR	PROVINCE	BUDGET ESTIMATE	DISBURSEMENT TREND						CUM. TOTAL
					Apr98-Jun99	Jul-Sep99	Oct - Dec99	Jan-Mar00	Apr-Jun00	Jul-Sep00	
				(R)	(R)	(R)	(R)	(R)	(R)	(R)	
1.	Newcastle	Solid waste	KN	200,000		120,000	72,000				192,000
2.	Grt Thohoyandou	Solid waste	NP	367,600			168,398	27,927		54,205	250,530
3.	Stanger	Solid waste	KN	253,796				154,317			154,317
4.	West Coast	Solid waste	WC	325,000			74,096	46,454	91,941	38,423	250,914
5.	Queenstown	Solid waste	EC	304,000			152,000	152,000			304,000
6.	East London	Prod. Mkt	EC	120,000		-					-
7.	Umtata	Water	EC	220,000						184,462	184,462
8.	Stanger	Water/sanit	KN	250,000							-
9.	Richards Bay	Solid waste	KN	464,500							-
10.	Wolseley	Solid waste	WC	203,600							-
11.	Uthukela/Umzinyathi	Water/sanit	WC	124,000				-			-
12.	SMLC	Solid waste	GA	50,000	50,000						50,000
13.	Johannesburg Metro	Fleet	GA	267,000	213,600						213,600
14.	Johannesburg Metro	IT	GA	1,300,000	967,250		-				967,250
15.	Johannesburg Metro	Bus	GA	455,000	296,000						296,000
16.	Johannesburg Metro	Prod. Mkt	GA	236,800			236,800				236,800
17.	Cape Town	Power/SW	WC	160,000		160,000					160,000
18.	Johannesburg Metro	Power	GA	300,000	240,000						240,000
19.	Pretoria	Power	GA	300,000			180,000	42,000		24,000	246,000
20.	Richards Bay	Water	KN	200,000		80,131					80,131
21.	Richards Bay	Wastewater	KN	200,000	79,370		24,858			50,399	154,628
22.	Lowveld RDC	RSC Collection	MP	45,000							-
23.	Margate	Road Maint.	KN	20,000				20,000			20,000
24.	Johannesburg Metro	EMS	GA	145,000	20,611						20,611
25.	Tzaneen P2	Solid waste	NP	120,000		38,144		28,332			66,476
27.	Johannesburg Metro	Fleet (PII)	GA	490,000							-
28.	Johannesburg Metro	Bus (PII)	GA	443,800							-



**STRATEGIC DOCUMENT  
ANNEXURE D**

## PROPOSED MIIU THREE-YEAR STRATEGY

The CEO and staff of the MIIU held a one-day strategy workshop to bring better focus to the work of the unit. The unit has since its establishment, been very successful in the initiation and delivery of several municipal infrastructure projects. Despite this success, the MIIU needs to constantly review both the internal and external environment in which it operates. This strategy attempts to respond to challenges in the environment so that the MIIU continues to be a relevant and key player in the municipal infrastructure sector.

### THE MISSION OF THE MIIU

The current mission statement reads:

*"To encourage and optimise private sector investment in 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."*

The emphasis of this mission is clearly on optimising private sector investment in the delivery of municipal services. There is however an expressed need for the MIIU to consider a broader spectrum of service delivery options beyond those based purely on private sector investment. Such a broader focus will place new challenges on the MIIU, but would begin to address the expectations of government as a key stakeholder.

It was proposed and agreed that the **re-defined mission** of the MIIU would reflect this response and read thus:

**"To improve and extend municipal service delivery through municipal service partnerships, and**

**to assist with the development of an established market of informed municipal clients, advisers, investors and service providers.”**

The proposed mission enables the MIIU to broaden its focus such that it is able to provide advice and expertise in respect of private sector investment, but also to build strategic alliances and partnerships with organisations such as the IDT, Mvula Trust, NGOs and CBOs in the crafting of alternative service delivery options.

### **SWOT ANALYSIS**

The following were understood or perceived to be the strengths, weaknesses, opportunities and threats

#### **STRENGTHS**

- Financial support from the donors and DPLG
- International and local expertise of the team
- Diversity of the Board
- Ability to facilitate private sector investment
- A small cohesive team that can act swiftly
- Actual project experience and track record
- A good work ethic
- Local and international expertise
- A well connected and experienced CEO
- A self directed team

#### **WEAKNESSES**

- Limited ability to influence policy
- Board does not speak with one voice
- Limited staff resources
- A predominantly white, male and expatriate staff
- No succession plan in place
- No public/ NGO expertise to meet broader mandate
- Inefficient geographical allocation of projects to managers

- Inadequate communication with our principals
- Targets and performance measures not clearly linked to mandate
- Apparent tension among principal objectives
- Staff working too independently of each other
- Inadequate communication between the staff and the Board
- Board is not decisive – does not provide the required leadership

### **OPPORTUNITIES**

- Demarcation would result in a new client base
- The restructuring of the local government sector
- The huge need to restructure and improve service delivery
- Attracting further donor support from USAID, World Bank, UNDP etc
- Responding to the Municipal Systems Bill
- Possible merger with the PPP Unit in the Dept of Finance
- Building on our success and attracting funds for broader mandate
- Sharing our best practice and successes in and outside of SA
- Developing strategic alliances and partnerships

### **THREATS**

- Losing donor support
- Delays caused by the demarcation process and the transition
- Challenges by labour unions
- Disagreements and differing expectations on the role of MIU
- Insufficient government funding for the broader mandate
- Decentralisation of certain functions from national to local level
- Policies that may discourage private sector involvement
- Losing support from the DPLG
- Losing our quality control capability

## **KEY FOCUS AREAS**

Key Focus Areas for the MIIU need to be informed primarily by the Mission. In choosing these areas and prioritising them, we need to leverage, as far as possible, our existing strengths and available opportunities, and eliminate or minimise threats and weaknesses.

The MIIU's work has up to now been demand driven. While this is good particularly for meeting the client needs, it does present particular challenges for focusing the work of the MIIU. At present, the work is spread across sectors, type of client, geography, types of MSP contracts etc. It seems inevitable that the MIIU's work will continue to be largely demand driven. This makes the planning and setting of targets less predictable.

The focus of the MIIU over the next three years would be in the following areas:

### **KEY FOCUS AREA 1: MUNICIPAL SERVICE PARTNERSHIP WITH A SOCIO-ECONOMIC EMPHASIS**

**OBJECTIVE** : To develop and implement projects with a socio-economic emphasis together with chosen strategic allies/partners

The objective is to enter into a working relationship/strategic alliance with organisations which have experience in structuring and delivering projects with community involvement and particular emphasis on socio-economic benefits, job creation eg Mvula Trust, the IDT etc. The MIIU would seek to learn from these projects but also provide its expertise where it would enhance the viability and sustainability of such projects.

The **key activities** in the short term would be to:

- (a) Enter into a strategic alliance/partnership with appropriate organisations over the next six months

- (b) Identify and agree on at least two pilot projects in the following six months
- (c) Deliver the projects over the next 12 to 24 months

### **KEY FOCUS AREA 2: CONCESSION PROJECT**

**OBJECTIVE:** To identify and implement a long term municipal infrastructure concession project

A long term municipal infrastructure concession project would assist with attracting and retaining critical donor support in the short term. The immediate **key activities** would be:

- (a) To focus efforts on possible key municipal infrastructure concession projects in the next 3 to 6 months
- (b) To manage the implementation of at least one project over the next 2 years

### **KEY FOCUS AREA 3: METRO STRATEGY**

#### **OBJECTIVES:**

- (a) To assess the needs and potential projects for metros and prioritise viable projects for implementation
- (b) To conclude current metro projects in the next 12 to 24 months

### **KEY FOCUS AREA 4: DISTRICT MUNICIPALITY / MULTI-JURISDICTION MUNICIPAL DISTRICT SERVICE (MJMSD) STRATEGY**

#### **OBJECTIVES:**

- (a) To develop a strategy to address the service delivery needs of Category C Municipalities in the next 6 months
- (b) Implement the strategy in 3 Category C municipalities over the next 2 years
- (c) Conclude current MJMSD projects in the next 12 to 24 months

## **KEY FOCUS AREA 5: EDI RESTRUCTURING**

**OBJECTIVE:** To develop a strategy to address the comprehensive energy needs of rural communities where grid electricity is not available. The focus will be on institutional and operating finance mechanisms. Strategy to be developed over the next 6 months.

## **KEY FOCUS AREA 6: CATEGORY B MUNICIPLALITY STRATEGY**

**OBJECTIVE:** To review the status of current Category B municipality projects and to effect transfer of these to Category C municipalities. Ministerial approval to be sought to some projects as category B and others to category C.

### **CRITICAL SUCCESS FACTORS:**

For this plan to succeed, the following minimum competencies and resources are:

- Secure multi-year financial commitment from government
- Secure additional funding of 6 to 10 million rands per annum
- Capacity to handle the expanded mandate requirements
- Cohesive support from the Board
- A government champion for the MIIU
- A strategic communication plan
- Well tuned administrative systems and support
- Ability of municipalities to successfully engage labour unions around projects
- Succession plan and expanded internship and mentoring programme
- Diversity of the MIIU team

## PERFORMANCE MEASUREMENT AND REVIEWS

1. INTERNAL EVALUATION
  - ⊖ Monthly progress reviews
  - ⊖ Quarterly reports to the Board and donors
  - ⊖ Strategy review and refinement every six months
  
2. EXTERNAL REVIEWS/EVALUATION
  - ⊖ Project reviews/ evaluation by external bodies e.g. HSRC
  - ⊖ Donor and stakeholder evaluations e.g. focus groups
  
3. INDIVIDUAL PERFORMANCE
  - ⊖ Appropriate system for individual performance to be investigated and adopted

**MHIU SUCCESS FEES  
AND  
REVOLVING FUND  
ANNEXURE E**

# MIIU SUCCESS FEES & REVOLVING FUND: POLICIES & PROCEDURES

## INTRODUCTION

In an effort to respond in a meaningful way to decreasing levels of government funding for MIIU activities, the PPU has developed policies and procedures for recovering some of its project preparation costs, and revolving those funds for use on other MSP projects. The mechanism to be used is the "success fee," a one-off charge paid directly into the MIIU grant fund account by the selected MSP "partner" at the time of financial closure of the MSP contract. Success fees are used worldwide in MSP preparation, and are already understood and used in South Africa. Success fees were incorporated into the concession deals in Nelspruit and Dolphin Coast, and will become a standard part of the operation of the DOF PPP unit.

Success fees are not expected to generate huge revenues, or meet all of MIIU's financing needs. However, such fees can make a contribution to MIIU's Project Preparation Fund, and demonstrate to potential MIIU funding sources that the unit is beginning to follow best international practice in sourcing funds for its operation on a sustainable basis.

The following sections articulate MIIU policies and procedures for managing this process.

## GUIDING PRINCIPLES

### 1. Transparency

The size and nature of success fee payments must be incorporated into public bid documents used to procure private partners via open and competitive bidding. In other words, all bidders must understand the total size of success fee payments expected of them, and be able to price their bids accordingly. The size and nature of these payments are not subject to change or negotiation; they are fixed costs to be incorporated into each bid. The amount of the fee and method of payment will be incorporated into the MSP contract as a suspensive condition.

### 2. Municipal Cost Recovery

Municipalities are clearly entitled to recover some or all of their project preparation costs from successful deals. PPU staff will assist municipal officials in estimating the size of these costs, and the extent to which they

can be recovered. In cases where the size of the deal does not support recovery of all costs incurred by both the MIIU and local government, the local government's costs will take precedence. Municipal officials will be encouraged to revolve these costs just as MIIU does, in order to support new MSP projects.

3. Appropriate Deal Types

Success fees are not appropriate in every case. MSP contracts involving payment by a council to a service provider, such as via traditional service contracts or management contracts, would not provide appropriate opportunities to recover costs. MSP contracts that involve investment by partners and/or fees (including sale proceeds) paid to council, are typically able to support success fee payments and will be considered prime candidates for cost recovery. Success fee payments can be made to MIIU and local governments by both public and private partners, assuming the ultimate MSP arrangement involves investment and/or fees/payments to local government made by the partner.

#### 4. Size of Success Fees

As a general principle, success fees should recover as much of total MIIU-local government project preparation costs as possible, without adversely affecting the chances of closing a deal that provides affordable services. In practice, preparation costs can vary widely, and may or may not be proportionate to the size of the deal or its capacity to generate success fees. In order to insure that projects (and project end-users) are not burdened with unusually high success fee costs, MIIU success fees per project should not exceed R 2.5 million, approximately the amount of MIIU costs incurred in the Nelspruit project preparation. Higher fees may be appropriate in some circumstances, but must be approved by the MIIU Board, or a subcommittee thereof. As success fees are established for each project, they should be reported on in MIIU Quarterly Reports.

#### 5. Types of Costs to be Recovered

Project preparation costs to be recovered include the total cost of contracts with consultants to carry out feasibility studies and other investigations into the viability of MSP options, as well as an estimate of consulting costs to be incurred after the time when MSP bid documents are issued, including proposal evaluation, contract drafting, negotiation, etc. Costs must be directly related to the preparation of the specific project in question in order to be considered for recovery. MIIU costs include only those costs reflected in expenditure of MIIU grant funds--costs incurred by the MIIU staff in providing advice or administrative assistance will not be recovered. Local government costs to be recovered will reflect the municipality's contribution to total project costs, and should not include "expenditures-in-kind" such as staff time, office space, etc. (Note that local governments involved in MSPs can recover some of these costs indirectly via concession fees, lease payments, sale proceeds, etc.) Any unforeseen costs, incurred after the MSP bid process has begun, which have not been included in the estimate used in the bid documents, cannot be recovered.

#### 6. Payment of Success Fees

At the time of deal closure (financial close), the public or private partner will make out two checks (or make direct bank transfers) covering success fee payments, one each to MIIU and the local government involved. Concession fees, lease payments, and other ongoing payments to the local government may be incorporated into the MSP contract. However, the payment to MIIU is one-time only. MIIU will receive no additional

payments of any kind during project implementation. The relevant local government has no obligation to make any success fee payments to MIU.

7. Management of the MIU Revolving Fund

Success fees will be deposited directly into the MIU Project Preparation Fund account. A separate fund or account will not be maintained for this purpose. DBSA, as MIU's cash manager, will account for these funds as with any other source of MIU revenue. The MIU financial reports will show these revenues as a separate line item.

8. One-Year Review

Twelve months from the adoption of this policy by the MIU Board, a report evaluating the implementation of this policy should be submitted to the Board by the PPU. Among other issues to be considered in the report will be the impacts of success fees on project viability and affordable service provision, as well as the possibility of expanding the types of recoverable costs to include costs of MIU staff time. The report should offer a conclusion regarding the possibility of full recovery of all MIU project-related costs.

## MIIU SUCCESS FEES & REVOLVING FUND

### PROCEDURES

	PROJECT PHASE	ACTION	COMMENTS
1.	Application, conceptualisation, and project feasibility study (normal project steps)	Maintain an accounting of preparation costs incurred by the MIIU and municipality	Costs must be limited to those directly related to relevant project, and may not include staff time
2.	Assessment of viability of proposed MSP option (final stage of standard feasibility study)	Incorporate past and estimated future preparation costs to be paid to consultants assisting in the process	Success fees should be estimated by consultants, with MIIU and local govt. review & approval, and added to the financial model to test effects on project viability and affordability of services
3.	MIIU-local govt decision on MSP option to be pursued	Prepare letter agreement on success fees to be recovered	Local government cost recovery to take precedence; agreed success fee to be reported on in MIIU Quarterly Report
4.	Preparation of bid documents (RFP, draft contract)	Inclusion of past and estimated future preparation costs as a success fee payment requirement	MIIU fee not to exceed R 2.5 million without approval of MIIU BOD; amount of fee and nature of payment to become a suspensive condition of the MSP contract

5.	Financial closure of project	Selected partner makes one-off payment to MIU Project Preparation Fund (and one payment to the local government)	No special account or separate fund needed; monitoring is an accounting exercise carried out by DBSA cash managers
6.	Implementation	Fee revenue now available for preparation of new projects	In this sense, funds are "revolved"



**MIU INTERNSHIP  
AND  
MENTORSHIP PROGRAMME  
ANNEXURE F**

# MIIU INTERNSHIP & MENTORSHIP PROGRAM

## Policies and Procedures

### INTRODUCTION

The staffing resources of the Project Preparation Unit (PPU) of the MIIU are fixed by agreements between national government, USAID, and the Development Bank of Southern Africa (DBSA). A primary Mission of the MIIU is to assist units of local government assess alternative means of accessing private sector funding for municipal services infrastructure. In pursuit of that goal, the PPU is currently handling some 61 Municipal Services Partnerships (MSPs). The MIIU also has a mandate to capacitate, through participation in projects, elected and appointed municipal officials, the consulting community, and the financial community. The MIIU must also provide input to national, provincial, and local government, to ensure an enabling environment for the assessment, consideration, and implementation of MSPs.

As a result of the foregoing, the staffing resources of the PPU are fully employed, and there is a need for additional resources that will not entail the addition of full-time, permanent staff, which would necessitate the approval or concurrence of national government, USAID, and the DBSA.

The policies and procedures outlined in this document articulate an MIIU internship and mentorship programme for young, energetic junior staff members who will support the senior PPU experts in the ongoing work of managing the design, tendering, and negotiation of MSPs. With assignments of six to twelve months, and compensated as entry-level professionals, each junior staff member will be assigned to support a specific "mentor" among the senior experts. The mentor's job will be to facilitate learning-by-doing on the part of the junior staff member, involving him/her in a wide range of MSP-related activities to provide as broad a range of experience as possible in the shortest period of time. Junior staff will be recruited from a variety of local university programmes and other sources. As these assignments are completed, letters of reference and contact names and numbers from the PPU staff will help facilitate career placement.

### GUIDING PRINCIPLES

1. Intern Qualifications
  - a. Graduates of recognized educational institutions in South Africa.
  - b. Recommended for placement at the MIIU by these educational institutions or by other professional organisations.
  - c. Possessed of basic word processing, research, and report writing skills.

2. Number of Interns

No more than two (2) interns shall be employed by the PPU at any one time.

3. Compensation and reimbursement

Interns shall be compensated as entry-level professionals, with compensation to be paid on a consulting fee basis (thus no payments for retirement or medical aid). Exact compensation levels will be negotiated based on training and experience, but it is anticipated that interns would receive between R 5-6,000 per month, net of tax. The total annual MIIU budget for this program is expected to be approximately R220,000 (assuming 24 paid months per year, and a monthly amount capable of generating R5-6,000 after taxes).

4. Logistics

The PPU shall obtain suitable office space, computers, printers and telephone access from the DBSA, and may restrict access thereto in accordance with any existing DBSA or PPU policies.

5. Cost Centre for Intern Expenses

All expenses incurred under items #3 and #4 above shall be charged to the administrative cost centre of the PPU.

6. Duration of Internship

Internships of six months in duration are preferred, in order to ensure some significant skills transfer, but duration may vary in length and will be subject to negotiation. No single internship assignment shall extend beyond nine months.

7. Assignments to Mentors

Interns shall be assigned to work with specific members of the senior project staff, to perform tasks involving logistical, research, administrative, and/or clerical matters as the needs of the PPU may then dictate, or as provided in any memorandum executed by the CEO.

8. Certification

Upon successful completion of a period of internship, the CEO will issue a Certification of Completion to participating interns.

9. Liability

All internships shall be undertaken with a clear understanding by the interns and the intern placement organisation that neither the MIIU, the DBSA, nor USAID shall be liable for any claims, losses, or damages of whatever nature, arising out of, or occurring during, their internship.

10. MIIU Administrative Responsibilities

- a. The CEO is authorised to adopt and implement such additional policies and procedures as deemed necessary for operation of the internship programme
- b. The CEO shall inform the DBSA of the presence of interns on DBSA premises, and such other details as to the nature of their internship as may be requested by the DBSA.
- c. The PPU shall adopt such record-keeping measures as are necessary for the proper administration of the program, including, but not restricted to:
  - Compensation paid and any taxes withheld.
  - Reimbursements made to interns for subsistence and travel expenses incurred.
  - Copies of any memoranda executed by the CEO and the intern placement organisation with regard to the internships that will ensue.
  - Copies of all Certificates awarded.
  - Any reports to the intern placement organisation, the MIIU Board of Directors, or any national or donor organisation regarding the internship program.

11. Reports

The CEO shall report on any current internship program in effect during a calendar quarter at the next quarterly meeting of the Board of Directors. Each report shall include the items mentioned in #10, above. A brief summary of the preceding year's internship programme shall also be included in the Annual Report.

12. Policy Amendments

This Policy may be amended from time to time on such terms as the Board of Directors shall, by majority vote, determine.

**MARKETING  
AND  
COMMUNICATIONS STRATEGY  
ANNEXURE G**

**Marketing and Communications Strategy for the  
Municipal Infrastructure Investment Unit**

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**A. Introduction and rationale**

National Government foresaw that many local governments in the New South Africa would lack the financial resources to provide the infrastructure necessary for basic municipal services. To address this problem, the Municipal Infrastructure Investment Unit (MIIU) was established in 1998 through the collaboration of the then-Department of Constitutional Development (DCD) (now the Department of Provincial and Local Government) and the Department of Finance. Its mission is to assist municipalities in accessing private sector funding to provide this needed infrastructure. A section 21 company operational since 1 May 1998, the MIIU is currently assisting over sixty municipalities throughout the country. It provides grant funding, on a cost-sharing basis, to local governments for technical assistance in assessing Municipal Service Partnerships (MSPs) in order to provide sustainable basic services to their constituents.

Because of labour's concerns regarding MSPs, SALGA (the South African Local Government Association), and COSATU (the Congress of South African Trade Unions) came together under the auspices of government and negotiated a Framework For The Restructuring Of Municipal Service Provision, which is intended to guide the overall approach to local government restructuring and the MSP process. The Municipal Systems Bill, together with the White Paper on MSPs, the Guidelines to Municipal Service Partnerships, and the MSP Policy Framework for Implementing the Guidelines are intended to supplant the Framework with regard to the consideration by local governments of their municipal services provision alternatives.

The re-demarcation of municipal entities currently in process provides both an opportunity and a challenge to the MIIU. The opportunity is to use any hiatus that may take place with regard to MSP activity during the period leading up to the municipal elections currently scheduled to occur 5 December 2000 to deliberately and systematically develop this marketing and communications strategy and its implementation plan. The challenge will be to implement the plan whilst preparing for the anticipated flood of requests for assistance from newly-demarcated local government units once the demarcation process runs its course.

With over two and a half years of MSP experience, and the above-described initiatives underway, it is now necessary for the MIIU to adopt a marketing and

communications plan to assist the MIU in fulfilling its mission within the current five-year mandate.

**B. Phase I: Identification of Target Audiences and Development of the Marketing and Communications Plan**

**1. Target Audiences**

Target audiences include:

- Elected local government officials, as determined by the pending local government elections including "B" municipality, "C" municipality, and "Unicity" Councilors.
- The expanded constituencies of these municipalities, with special emphasis on previously disadvantaged populations which become included within the municipal boundaries as a result of the re-demarcation process.
- National and provincial government and parastatal agencies having supervisory or other responsibilities related to the discharge, by local authorities, of their constitutional and legislative local services delivery obligations.
- Members of Parliament, particularly those who are members of portfolio committees whose responsibilities include local government matters.
- Domestic and international municipal infrastructure financial institutions.
- Domestic and international companies that compete for MSPs.
- Municipal employee labour organisations.
- Non-trade electronic and print media.
- Local government, engineering, and infrastructure-related electronic and print media.
- CBO and NGO organizations concerned with the provision of local services delivery.

**2. The Marketing and Communications Plan**

The marketing and communications plan to address the Target Audience contains the following elements:

- 2.1 A *media package* reflecting the current status of the MIU and of MSPs in South Africa, capable of easy updating to reflect rapidly-changing situations, containing at least:
  - 2.1.1 a description of the MIU and its mission;

2016/5

- 2.1.2 summaries of current MIIU-supported projects;
  - 2.1.3 statements from Ministers Mufamadi (Department of Provincial and Local Government) and Manuel (Department of Finance) in support of the MIIU;
  - 2.1.4 statements from Mayors, CEOs, Town Clerks, and other municipal officials lauding the efforts of the MIIU;
  - 2.1.5 a statement from the Chair of the Board of Directors of the MIIU;
  - 2.1.6 profiles of the Members of the MIIU Board of Directors;
  - 2.1.7 copies of major news stories on MIIU projects;
  - 2.1.8 the latest issue of Partnerships, and
  - 2.1.9 such other materials and documents as may be appropriate at any given point in time..
- 2.2 *Collateral materials* capable of being distributed singly or in combination, or included within media packages, including at least the following:
- 2.2.1 a description of the various types of MSPs currently in operation in South Africa;
  - 2.2.2 a tri-fold MIIU brochure;
  - 2.2.3 the MIIU Annual Report;
  - 2.2.4 "fact sheets" with regard to specific MIIU-supported projects;
  - 2.2.5 "frequently asked questions" sheets regarding:
    - 2.2.5.1 the MIIU;
    - 2.2.5.2 MSPs in general;
    - 2.2.5.3 specific, high profile projects;
    - 2.2.5.4 the MSP Guidelines, Framework for Monitoring MSPs, and the Municipal Systems Act (once adopted).
    - 2.2.5.5 exemplar "advertorials" for inclusion in specialised publications; and
    - 2.2.5.6 other topical matters, such as the effects of demarcation on MSPs
- 2.3 *A materials creation and information dissemination plan*, setting forth appropriate time-frames wherein the materials described above will be created and made ready for

dissemination, and a suggested list of dissemination mechanisms.

2.3.1 Among the dissemination mechanisms to be considered are:

- 2.3.1.1 direct mailings to targeted recipients;
- 2.3.1.2 inclusion in various stakeholder publications;
- 2.3.1.3 government, parastatal, and private-sector Internet sites;
- 2.3.1.4 conventions, seminars, and the like convened by parties other than the MIIU and the DPLG;
- 2.3.1.5 conventions, seminars, and the like convened by the MIIU and/or the DPLG and DOF;
- 2.3.1.6 "op-ed" pieces in prominent newspapers;
- 2.3.1.7 appearances on SABC radio and television by MIIU spokespersons;
- 2.3.1.8 speeches and papers given by MIIU spokespersons at important, relevant public undertakings; and
- 2.3.1.9 such other mechanisms as may appear useful from time to time.

2.4 A *media training plan* for the MIIU officers and staff (PPU), including:

- 2.4.1 a *crisis plan* for unusual events and crises that may arise
- 2.4.2 a *regular media briefing plan* setting forth a suggested program whereby all forms of media are regularly informed of ongoing MIIU activities;
- 2.4.3 *press release execution and launch* training so that MIIU staff may regularly prepare and launch press releases of a nature as will be picked up by the appropriate media; and

2.4.4 such other media training as is deemed appropriate.

**C. Phase II, Implementation Programs**

1. The *dissemination plan* described in 2.3 of Phase I, above, will be implemented in accordance with calendar to be adopted for the ensuing program year that shows when the specific type of information is to be created, the suggested means whereby the information is to be disseminated, the specific media events, as currently envisaged, and other pertinent marketing and communication dates. The calendar will indicate:

- 1.1.1 a schedule of editorial board meetings with major daily and weekly newspapers;
- 1.1.2 a schedule of similar meetings with radio and television executives;
- 1.1.3 a schedule of national conventions and seminars appropriate for MIU information dissemination, together with suggested specific activities to be undertaken thereat;
- 1.1.4 a schedule of events to be sponsored by the MIU, together with suggested agendas;
- 1.1.5 MIU-generated publications publication dates, including:
  - 1.1.5.1 *Partnerships*
  - 1.1.5.2 case studies/papers
  - 1.1.5.3 periodic reports (quarterly, annual, etc.)
  - 1.1.5.4 regular press briefings.

2. The *media training* required by 2.5, in Phase I, above, will be implemented as per the same calendar that shows when the training will take place, the nature of the training, and the suggested recipients of the training.

3. The calendar will be reviewed during the last quarter of each program year, during which the publications, release dates, etc., will be set for the ensuing program year, and a budget developed to be presented to the Board for its approval at the last quarterly meeting of the current program year.

**D. Procurement of Marketing and Communications Consultants**

1. The PPU shall develop an indicative two-year budget for developing and implementing the Marketing and Communications Plan, for purposes of procuring the services of a qualified

marketing and communications plan consultant and present it to the Board for approval.

2. Upon approval thereof by the Board, the PPU shall, by competitive tender, select a preferred bidder to perform marketing and communications consulting services, in full compliance with all applicable national procurement laws and regulations, and commence negotiations for a two-year contract in accordance with the approved budget.
3. Upon conclusion of negotiations and the development of the proposed marketing and communications plan in accordance with the above, the CEO is authorized to execute a contract so providing, and will present the executed agreement to the Board for notification at its next quarterly meeting.
4. The PPU shall be responsible for implementation of the marketing and communications plan once approval has been given.

**E. Plan Amendment**

This plan may be amended by the Board from time to time, and any existing contract shall also be amended accordingly. A provision reflecting this authority to amend shall be included in any contract for marketing and communications services.

**Marketing and Communications Plan – Indicative Budget 2001 – 2003**

For the Program Year 1 February 2001 – 31 January 2002

Assumptions:

1. The contractor's team will be composed as follows:
  - a. Senior Partner R4700/day
  - b. Sr. Creative person R3800/day
  - c. Jr. Creative person R2700/day
  - d. Production specialist R2900/day
2. The first year's efforts would be as follows:

Task	Consultant time	Consultant cost	Production costs	Production Specialist Time	Distribution costs
Review Target Audience	1 day	R8500	Nil	nil	nil
Create Media Package	5 days	R29600	R40000	R2900	R10000
Collateral Materials	10 days	R59200	R40000	R5800	R10000
Work Plan	2 days	R12300	Nil	nil	Nil
Calendar review	1 day	R8500	Nil	Nil	nil
Media training plan	1 day	R8500	Nil	Nil	nil
Media Training	1 day	R8500	R3000	R1450	nil
1 day/mo consultation	12 days	R51000	Nil	Nil	nil

Sub-total R299250

VAT @ 14%= 41895

Total: R341145

For the Program Year 1 February 2002 – 31 January 2003

Task	Consultant time	Consultant cost	Production costs	Production Specialist Time	Distribution costs
Review Target Audience	½ day	R4250	nil	nil	nil
Update Media Package	2 days	R9950	R25 000	R2900	R7500
Update Collateral Materials	2 days	R9950	R25 000	R2900	R12000
Update Work Plan	1 day	R4250	nil	Nil	nil
Calendar review	1 day	R4250	nil	Nil	nil
Media training plan	nil	Nil	nil	Nil	nil
Media Training	nil	Nil	nil	Nil	nil
1 day/mo consultation	12 days	R51000	nil	Nil	nil

Total R158950  
 VAT @ 14% = 22253  
 Total: R181203

Note there is no escalation as to fees in the above.

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For the Program Year 1 February 2003 – 31 January 2004

Task	Consultant time	Consultant cost	Production costs	Production Specialist Time	Distribution costs
Review Target Audience	½ day	R4548	Nil	Nil	nil
Update Media Package	2 days	R10647	R26750	R3103	R8025
Update Collateral Materials	2 days	R10647	R26750	R3103	R12840
Update Work Plan	1 day	R4548	Nil	Nil	Nil
Calendar review	1 day	R4548	Nil	Nil	Nil
Media training plan	nil	Nil	Nil	Nil	Nil
Media Training	nil	Nil	Nil	Nil	Nil
1 day/mo consultation	12 days	R54570	Nil	Nil	Nil

Total R170079

The foregoing includes 7% escalation..

VAT @ 14% = 23811

Total: R193890

Three year total is R716238

**REVISED MULTI-YEAR BUDGET  
ANNEXURE H**

## **PROPOSED MULTI-YEAR BUDGET**

### **1. Purpose of submission**

The purpose of the submission is to propose a revised multi-year budget to the Board for discussion and adoption.

### **2. Context**

Recent internal and external developments directly impacting on the activities of the MIIU provided the imperative to submit a revised multi-year budget. The attached table reflects in monetary terms the current strategic thinking of the PPU and seeks to set the financial parameters within which the PPU must operate up to the 2002/03 financial year and by so doing execute the current mandate of the MIIU. This process was also informed by the outcome of the workshop held by the BOD on 5 October and the PPU strategic planning session held on 31 October 2000. The essence of these worksessions are captured in annexures J and D of this document respectively. The assumptions and underlying philosophy underpinning the proposed multi-year budget will be elucidated on during the 17 November Board meeting.



Municipal  
Infrastructure  
Investment Unit

**PROPOSED MULTI-YEAR BUDGET 1998/99 TO 2002/03 #**

	1998/99 Actual R'000	1999/2000 Actual R'000	2000/01 Budget R'000	2001/02 Budget R'000	2002/03 Budget R'000	TOTAL R'000
<b>A. FUNDING</b>						
MPPP Transfer from DCD	10,690					10,690
DCD Seed Capital Grant	12,000	8,000				20,000
Budget allocation (MTEF process)			4,006	6,000	5,000	15,006
USAID contribution to the PPF (projects)*		5,400	2,400			7,800
Anticipated Interest on investments	2,806	2,744	2,745	384		8,679
Anticipated reimbursement from PADCO			141	91	91	323
<b>TOTAL ANTICIPATED INFLOW OF FUNDS</b>	<b>25,496</b>	<b>16,144</b>	<b>9,292</b>	<b>6,475</b>	<b>5,091</b>	<b>62,498</b>

<b>B. ANTICIPATED APPLICATION OF FUNDS</b>						
<b>B1. CURRENT (operational):</b>						
Board of Directors	13	26	26	28	31	123
DBSA ( management agreement)	1,542	1,053	1,435	1,579	1,735	7,344
Costs related to general admin activities	307	475	526	1,178	1,073	3,559
Succession planning (skills transfer)				1,310	1,441	2,751
<b>TOTAL CURRENT EXPENDITURE</b>	<b>1,862</b>	<b>1,554</b>	<b>1,987</b>	<b>4,095</b>	<b>4,280</b>	<b>13,777</b>

<b>B2. CAPITAL (projects):</b>						
MPPP	6,712	1,135	2,643	200		10,690
Existing contracts	1,619	5,887	14,730	3,094	250	25,580
Contingency plan on existing contracts				5,190	3,450	8,640
Key focus area 1				1,000	2,000	3,000
Key focus area 2				1,500	1,500	3,000
Key focus area 3				5,000	5,000	10,000
Key focus area 4				4,000	8,000	12,000
Key focus area 5						
Key focus area 6				5,000	5,000	10,000
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>8,331</b>	<b>7,022</b>	<b>17,373</b>	<b>24,984</b>	<b>25,200</b>	<b>82,910</b>
<b>TOTAL EXPENDITURE (B1 + B2)</b>	<b>10,193</b>	<b>8,576</b>	<b>19,360</b>	<b>29,079</b>	<b>29,480</b>	<b>96,687</b>

# The USAID contribution to the PPU in terms of the existing PADCO contract is not included as it does not form part of the MIU's financial statements. The total amount is estimated at R18,2 million (R5,9 m in 98/99, R7,4 m in 99/2000 and R4,9 m in 2000/01).

\* US\$1,3 million @ US\$1=R6

<b>SUMMARY OF KEY FEATURES</b>					
	1998/99 Actual R'000	1999/2000 Actual R'000	2000/01 Budget R'000	2001/02 Budget R'000	2002/03 Budget R'000
Balance/(shortfall) of funds available		15,303	22,871	12,802	(9,801)
Anticipated inflow of funds	25,496	16,144	9,292	6,475	5,091
Anticipated application of funds	10,193	8,576	19,360	29,079	29,480
Anticipated surplus/(shortfall) at end of period	15,303	22,871	12,802	(9,801)	(34,190)
Ratio recurrent to capital expenditure:					
Current	18%	18%	10%	14%	15%
Capital	82%	82%	90%	86%	85%

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**EXIT STRATEGY  
DISCUSSION PAPER  
ANNEXURE I**

# EXIT STRATEGY DISCUSSION PAPER

## 1. INTRODUCTION

The MIIU's Mission Statement, derived from its founding Cabinet Memorandum, is to "Encourage and optimise private sector investment in local authority services, on a basis that is sustainable for both the local authority and at a national level" and to "Assist the development of an established market containing informed local authority clients, private sector advisors, 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."

The original conception of the MIIU did not envisage the degree to which the environment of local government would continue in flux. In particular the ramifications of the new demarcations are yet to be felt, and the policy and legislative environment cannot yet be described as wholeheartedly and consistently supportive of MSPs.

This has prompted a re-think of the original strategy to cease functioning within five years. The Board will need to consider prolonging the life of the MIIU until the ramifications of the current round of demarcations are clear, and the supportive environment is in place. Thereafter, the Board should consider which of the MIIU's functions should be continued under some other arrangement, and what form that arrangement should take.

## 2. KEY FEATURES OF THE EXTERNAL ENVIRONMENT

The MIIU was set up in order to assist central government and local government fulfil their obligations under the Constitution and Bill of Rights, and to further their mandate in the Reconstruction and Development Programme to ensure improved service delivery to all citizens. The use of partnership arrangements was seen as a key vehicle in the MIIF (Municipal Infrastructure Investment Framework) in order to leverage private sector finance to supplement government grant funds. This has been given flesh by the MSP White paper and the Municipal Systems Bill.

There are certain features of the **current external operating environment** that affect the future life-span of the MIIU:

- ◆ Continuing backlogs and needs of infrastructure and services in local government
- ◆ Much interest in a wider range of partnership options that include public sector utilities, other public-public partnerships and involving CBOs and NGOs.
- ◆ Continued challenges from organised labour with regard to public-private partnerships, and most forms of out-sourcing.
- ◆ South African banks are still hesitant to lend for municipal infrastructure for a variety of reasons.

The **emerging policy and legislative environment** will also affect the future role of the MIIU. This includes:

- ◆ New municipal demarcation and local government elections which are temporarily retarding the growth of the MIIU's project pipeline, but will probably release exponential growth in demand for MIIU services post demarcation

- ◆ Continuing constraints in the Legislative and Regulatory environment e.g., parts of the Municipal Systems Bill; and parts of the Water Services Act, both of which shall hopefully be reviewed sometime in the future.
- ◆ A whole range of further policy and legislation being developed to give force to decentralisation of service delivery (eg transport and health) which will put new strains on local government who may well seek partnership arrangements to deal with them.

The life-time of the MIIU is most directly affected by the impact of the new demarcation. We have seen a significant downturn in expressions of interest since the beginning of this year. The growth in new starts of feasibility studies has also been retarded, and the gap in the "growth curve" is likely to be 12 to 18 months, or more, before things pick up to the same growth as before demarcation. Even where feasibility studies were ready for moving into project preparation, there have been stoppages and delays. Our optimistic estimate is that the effect on existing projects could be between 6 months and a year, while councils re-constitute, consolidate and develop the confidence to make far-reaching decisions.

Less easy to quantify is the slow rate of achieving a wholehearted and consistently supportive environment for MSPs in South Africa. When the MIIU was being set up, the trenchant resistance from organised labour and the unwillingness to deal decisively with it were not anticipated. Also not envisaged were the time needed to issue a white paper on MSP, to enact municipal systems legislation, and to deal with problems in the Water Services Act. Even now, the provisions in both the Systems Bill and Water Services Act which favour public-public solutions could prove time-consuming where municipalities are tempted to take what appears to be the "easy route" only to find eventually that it does not solve their particular problems. It appears that the required supportive environment is going to take two or three years longer to emerge than originally envisaged.

### **3. EXIT STRATEGY**

The mission statement draws attention to both making deals and establishing a market. The PPU has interpreted this as meaning: the development and transfer of skills through the making of deals, and developing the market and its enabling environment through experience gained in the making of deals. The proposition is therefore made that the MIIU will not have done its job until the necessary supportive environment is in place and there are sufficient skills in the market to take advantage of it.

In essence an exit strategy would look like this:

1. Carry on transferring skills through making deals
2. Establish a capacity-building mentoring/internship programme
3. Develop standardised approaches and documents
4. Contribute to the enabling and supportive environment
5. Consider what kind of entity might be needed to succeed the MIIU, including a possible merger or consolidating with an existing entity
6. Identify and empower such a successor agency

7. Develop a transition plan in which personnel and the need for grant finance are phased out or transferred.

At the time of writing it is unclear how and when, and at what rate, the need for MIU support will increase after the municipal elections. The MIU must ensure that it has the necessary human and financial resources to meet the need. The recent Board Workshop confirmed that the finance requested each year should not diminish over the first five years of the life of the MIU.

For many councils there may be considerable time taken to understand the challenges they face, and the potential role of MSPs in addressing them. The MIU should therefore consider an extension of its proposed lifetime in order to ensure that the necessary technical and financial resources are available to them at that time, and that the required enabling environment, capacity and skills are created.

The development of standard documents continues to be a priority. We need to develop user-friendly, flexible but robust standardised approaches based on a range of project types and sectors. Eventually, the MIU, or its successor, can stop making grants available and continue to give technical assistance and/or ad hoc advice together with standard documentation. This was agreed in principle at the recent Board Workshop, but the extent is yet to be decided.

There is clearly a need to continue to contribute to ongoing policy and law formulation. Experience gained through deals within current legislation must be conveyed to those responsible for its usefulness, and new proposals should be examined to ensure that they are indeed supportive to the widespread use of MSPs. There is also a need to engage with those who propose to devolve more responsibilities to the municipal sphere, in order to ensure that this is done in such a way that Municipalities will be able to use MSPs to their advantage. This was confirmed at the recent Board Workshop.

The MIU must consider what capacity should be available for assisting MSP deals after it has been wound up. In particular, what roles and functions currently performed by the MIU should still be available in a successor entity? Appendix A is an attempt to list our current functions and identify those that are best provided by an impartial or public sector entity. One view is that none of the current functions need be the sole preserve of the public sector. However, those regarded as best provided by an impartial entity are: Dispensing grants, Impartial advice to municipalities, Oversight of procurement processes and Quality control of consultants.

If there is to be a successor organisation the MIU should clarify the nature of such an organisation, criteria and procedure for identifying it, a process for empowering it and for managing such a transition. Personnel from the successor organisation may be seconded to the MIU to gain experience and to subsequently replace expatriate staff. One proposal that has been mooted recently is the merger of the MIU and the PPP Task Team at the Department of Finance which may be a way of dealing with some of these issues. At the recent Board Workshop it was agreed that a small Board sub-committee (Ms Hesketh plus Messrs Africa, Savage and Ferreira) would consider these matters and report back to the Board.

#### 4. RECOMMENDATIONS

It is recommended that the above-mentioned Board Sub-Committee consider the following:

- ◆ The period needed to extend the life of the MIIU and a strategy to achieve it.
- ◆ The definition of what constitutes a consistently supportive environment and sufficient capacity for setting up MSPs.
- ◆ Criteria for a successor entity (or entities) and a plan for identifying it/them.
- ◆ Plans for empowering a successor entity (or entities), for handing over or merging, and for winding down the MIIU.



## APPENDIX A

### Functions of the MIU

ITEM	How important to remain in the public sector after closing MIU? (***** = most important / non-negotiable)
Dispensing grants	****
Promoting MSPs	*
Impartial advice to municipalities	****
Advising Govt, commenting on policy, legislation etc	***
Oversight of procurement processes	****
Quality control of consultants	****
Assistance with negotiations with consultants and service providers	***
Advice on setting up monitoring	*
Monitoring contract experience	**
Clearing-house for information	*
Reflecting on, and writing up experience	*
Sharing experience, lessons learned etc	*
Training/capacity building	***

**MIU WORKSHOP REPORT  
ANNEXURE J**

**REPORT ON THE MIU WORKSHOP**

**Held on:**

**October 5, 2000**

**At**

**The Croft Conference Centre**

**MIDRAND**

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    - 4.1.2 Success Fees, the Revolving Fund and the Finance Strategy for the MIIU
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    - 4.2.2 Capacity Building and Training
    - 4.2.3 Outcome of the Study Tour
  - 4.3 Theme 3: The Exit Strategy of the MIIU
    - 4.3.1 Marketing and Communications Plan of the MIIU
    - 4.3.2 MIIU Exit Strategy
5. Summary and Recommendations

# MIIU WORKSHOP REPORT

## 1. Introduction

The Municipal Infrastructure Investment Unit Board workshop was held on October 5, 2000 at The Croft Conference Centre. The workshop commenced at 9h30 and ended at 17h30. Mr. Mike Madlala, Deputy Chair, opened the workshop officially. The workshop was planned as a result of a need expressed by the Board for a special session to debate some matters that had stood up as issues at previous Board meetings.

## 2. Background

The purpose of the workshop was to review the work of the MIIU, discuss challenges facing the organisation and to identify critical issues that should be addressed so that the organisation can be folded within the next three years.

## 3. Workshop Objectives

The specific objectives of the workshop included the following:

- To revisit the context within which the MIIU was created with particular attention to the following:
    - ensuring a common understanding about the current mandate of the MIIU
    - articulating what has been achieved by the MIIU
    - what new and emerging challenges are facing the MIIU given the policy and legislative processes that impact on the work of the organisation
  - To discuss the impact of emerging policies and the legislative environment on the work of the MIIU and particularly to pay attention the impact of these policies on the MIIU's role in assisting municipalities package MSPs.
  - To discuss MIIU's capacity to deal with new challenges that will be brought about by the new municipal boundaries.
  - To discuss the possible expanding roles of the MIIU to include other forms of partnerships including of NGOs, CBOs and the public-public partnerships in MSP arrangements.
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- To identify strategies for effective and meaningful involvement of emerging black businesses in MSP arrangements with particular attention to key indicators that can be used to benchmark the involvement of black business therein.
- To discuss key points with regard to the MIIU's exit strategy within the next three years.
- To have an in-depth discussion of the provisions of the Municipal Systems Bill and its impact on the role of the MIIU in facilitating and providing support to municipalities on MSPs.

#### **4. Workshop Themes**

The programme was divided into three themes, which were the following:

- Theme 1: Background to the MIIU
- Theme 2: The MIIU in the next three years
- Theme 3: The exit strategy of the MIIU

#### **4.1 Theme 1: Background to the MIIU**

##### **4.1.1 Outcome of the Mid-term Review**

The CEO, Gugu Moloi, provided an overview of the outcome of the mid-term review of the MIIU. She highlighted the following points:

- The contractual arrangement between the MIIU and the Development Bank of Southern Africa had been resolved.
- There are human resource constraints that still require redress. There is a need to ensure the transfer of skills and capacity to South Africans to ensure that locals understand MSPs and their implications for service delivery.
- The local government is transforming rigorously. A variety of policies and legislative frameworks that have been introduced have implications for the performance of the MIIU. There is the need to discuss these and decide on the appropriate plan of action to resolve possible conflicting provisions.
- The position of the Minister of Provincial and Local Government (DPLG) on MSPs is positive. However, there is the need to ensure that there is sufficient financial support from the Department of Provincial and Local Government for the MIIU for the next three years. The MIIU also needs to find means and ways of leveraging financial support from other funding sources.

- There is the need for "upward" communication to national and provincial government to ensure greater understanding of the roles and functions of the MIU in assisting municipalities to package MSP contracts.
- The discussion on the exit strategy should address the identification of possible successor of the MIU.

#### **4.1.2 Success Fees, the Revolving Fund and the Finance Strategy for the MIU**

Dr. James Leigland gave a brief presentation on the subject of MIU success fees and the revolving fund. He emphasised the following key issues:

There is the need to recover project preparation costs from municipalities that have been successfully assisted by the MIU to finalise MSP contracts. While municipalities that have successfully completed MSP arrangements recover project preparation costs from winning bidders, the PPU does not. A system should be developed that will encourage both municipalities and the Project Preparation Unit recover most of their project development costs through success fees in appropriate projects. The funds can be deposited into the MIU grant fund for use in subsequent MSP projects. This practice can promote:

- the sustainability of the MIU and the continued support to municipalities
- an extension of limited MIU funding by leveraging contributions from successful private partners
- access to more funds from donors with policies encouraging success fee recapture efforts.

*The Board accepted the principle of recovering costs. It was however suggested that cost recovery be structured differently for each project. A more detailed proposal addressing cost recovery will be prepared by the PPU and submitted to the Board for approval. Once approved, the proposal will be discussed with the Departments of Provincial and Local Government and of Finance.*

#### **4.1.3 MIU Project Process**

Mr. James Dorman gave an overview of the MIU project process. He gave a schematic presentation of the MSP project cycle from the expression of interest through project feasibility study to project preparation and implementation. The purpose of this presentation was to explain to the Board how decisions are made on the projects that are ultimately supported by the PPU.

#### **4.2 Theme 2: The MIU in the Next Three Years**

The discussion on the MIU in the next three years was preceded with a discussion of the Cabinet Memorandum that led to the creation of the MIU. The main purpose of the

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MIIU was to provide technical assistance to municipalities in preparing public/private partnership projects or other privately financed infrastructure projects.

Two major concerns on the provisions of the Cabinet Memo that were discussed were that private sector finance appears to be biased towards infrastructure development in urban areas. There were no indications of attracting the private sector towards infrastructure development in rural areas.

The second concern related to the bias towards the private sector in MSP arrangements. There has been little significant involvement of the public sector and the non-governmental organisations, community-based organisations or social development institutions (SDIs). There is no provision for the involvement of these institutions in the Cabinet Memo. There was a strong proposal from DPLG that SDIs become more involved in MSP arrangements.

There was a further discussion on the effectiveness of the Board. One of the contributory factors, as was noted by the mid-term review, was the size of the Board that was reported too large. There are 14 board members representing the Department of Finance, the Department of Provincial and Local Government, the DBSA, private sector financial institutions, the donor community and organised local government. The report had suggested that the Board be downsized and be more expertise based.

*Board members felt that they were performing in accordance to their mandate. They provided policy guidelines as well as strategic leadership for implementation by the Project Preparation Unit. They were also performing their oversight responsibilities as required. Reports submitted by the PPU were read and discussed as appropriate at Board meetings. They were satisfied with size and the constitution of the Board.*

#### **4.2.1. Impact of Emerging Government Policies on MSPs**

Mr. James Aiello led the discussion on the impact of emerging government policy on MSPs. The specific issues raised related to the Water Services Act, Minimum Requirements for Waste Disposal by Landfill, Municipal Systems Bill, Municipal Financial Management Bill, Municipal Structures Act, MSP White Paper, Public Finance Management Act and the Competition Bill.

Much debate was focused on the Municipal Systems Bill. The main concern related to the powers given to the Minister to make regulations placing limits on tariff increases. This provision was seen as discouraging private sector investment in MSP arrangements.

Representatives of government on the Board supported this provision and pointed out that the provision was to safeguard the constitutional right of all consumers to be provided with affordable basic services. Other members of the Board felt strongly that some policies will hinder the MIIU progress in assisting municipalities attract private investment for the delivery of municipal services.

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*As there was no agreement reached on the impact of some of the emerging policies on the MIIU's ability to attract private sector funding towards infrastructure development, it was agreed that MIIU calls a separate meeting with the Department of Provincial and Local Government and the Department of Finance to resolve these concerns.*

#### **4.2.2 Capacity Building and Training**

Currently, "on-the-job" capacity building occurs through the participation by politicians and municipal officials in all elements of an MIIU-sponsored project. These officials and politicians are involved from project identification, feasibility studies, project preparation and handing over to the winning service providers. They are also assisted with monitoring the performance of service providers. In this way, they are taken on board in these projects.

The MIIU plans to join with strategic partners to develop a programme that will ensure that South African talent is developed and is mentored in the next three years. The focus area for this capacity building programme will be the following:

- **On-the-job training, at municipal level**, for officials and politicians from specific municipalities involved in MSP project preparation. Study tours will also be undertaken to ensure sharing of partnership experiences both locally and internationally.
- **Mentorship and internship programme**, which will be aimed at training young staff members who will support the senior staff in the PPU. These interns will be exposed to the on-going work of managing the design, tendering and negotiations of MSPS. The junior staff could be recruited from universities and technikons.
- **Support to national government**, which be used to assist those departments involved in the municipal infrastructure sector.

*It was recommended that the MIIU continue to provide technical capacity building at the municipal level, prepare a detailed policy regarding the proposed mentorship programme and to continue its support of national departments on the subject of MSPs.*

#### **4.2.3 Outcome of the MSP Study Tour**

Mr. Barry Jackson presented a detailed report on the MSP study tour undertaken during May 26 – June 10, 2000. A delegation of South African municipal councillors and officials, a member of national government and representatives of the MIIU visited three South American countries and Australia. The purpose of the visit was to expose South Africans to various forms of public-private partnerships for the delivery of municipal services elsewhere, outside South Africa.

The companies visited were involved in the management of water, water and sanitation and solid waste. They all had different contractual arrangements ranging from management, concessions and total privatisation.

Lessons learned from tour include, inter alia, the following:

- Establishment of priorities that yielded positive results in the area of water management. For example, all bulk meter were tested and replaced, resulting in the improved meter reading. All bills were hand-delivered to consumers. Those who were involved in the delivery of bills were trained to educate consumers on leak management.
- An "independent" regulator regulates the performance of the private partner in municipal service delivery. The role of the regulator needs to be clearly defined. The regulator needs to achieve a balance between controlling and encouraging.
- The relationship between the regulator and the service provider is key to successful implementation of a concession contract. This appeared to have been the case in Buenos Aires where there is good cooperation between the operator and the regulator.
- A concession can bring a major turnaround in the delivery of water services. In Buenos Aires, water prices went down and investment shot up as a result of a concession contract.
- Users can be encouraged to voice their opinions on service delivery even in the event of a concession arrangement for the delivery of water services to communities. This happened in Mendoza where users had become very vocal since the private provider took over. The regulator encouraged user involvement in service delivery matters.

*It was decided that lessons learned from the study tour be applied where appropriate. It was also agreed that some concerted effort be made to consult with labour on employee equity issues.*

### **4.3 Theme Three 3: The Exit Strategy of the MIU**

#### **4.3.1 Marketing and Communications Plan**

Mr. James Aeillo led the discussion on the marketing and communication plan for the MIU. He pointed out that the MIU was communicating with stakeholders in different ways that included reports, presentations at municipalities and various national departments and annual reports on the achievements of the MIU. A draft marketing and communication plan was presented for discussion.

*It was agreed that that the marketing and communications plan be adopted. It was however decided that only the chairperson of the Board, her deputy as well as the Chief Executive Officer of the MIU would deal directly with the media. There is the need for*

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*the selected people to undergo training in media management. There was also a recommendation for an internal communication strategy that would help improve the communication between the decision-makers and the officials of the MIIU. A more detailed marketing and communications plan, with budget will be prepared by the PPU and submitted to the Board for approval.*

#### **4.3.2 MIIU Exit Strategy**

Mr. Barry Jackson led the discussion on the MIIU exit strategy. The MIIU's mission statement, derived from its founding Cabinet Memorandum was to:

- "Encourage and optimise private sector investment in local authority services on a basis that is sustainable for both the local authority and at a national level" and to
- "Assist the development of an established market containing informed local authority clients, private advisers, and private investors and service providers, so that the MIIU can be wound up no later than five years after the date of its original establishment."

The original thinking of was that the MIIU's intervention was fixed for five years. However, it was mentioned that there were external issues that were having an impact on the life span of the MIIU. These include

- the continuing backlogs and needs of infrastructure and services in local government
- much interest in a wider range of partnership options, which include public sector utilities, public-public partnerships and partnerships involving the CBOs and the NGOs.
- continued challenges from organised labour with regard to public-private partnerships, and most forms of outsourcing
- the fact that South African banks are still reluctant to lend for municipal infrastructure
- the emerging policy and legislative environment that may affect the future role of the MIIU.

It will be important for the PPU to ensure that a programme of skill transfer is in place and that the Board closely monitors the implementation thereof. The following recommendations were adopted:

- *That the finance requested for each year should not diminish over the first five years*
  - *That an "in principle decision be taken to extend the life of the MIIU for a further period of two years*
  - *That the Board confirms that contributions to a consistently supportive environment are an important part of the MIIU*
-

- *That the MIIU prepares a transition plan involving criteria for a successor agency (agencies), plans for empowering it and for winding up the MIIU*
- *That a Board sub-committee be convened to consider the above-mentioned exit criteria and transition plan, and a revision of the proposed life span of the MIIU.*

## **5. Summary and Recommendations**

The workshop was effective in addressing issues of concern to the MIIU. Discussions were open and appropriate resolutions were taken. The objectives of the workshop were achieved. The resolutions of the workshop were the following:

- The Board accepted the principle of recovering costs from completed MSP projects. It was however suggested that cost recovery be structured differently for each project. A more detailed proposal addressing cost recovery will be prepared by the PPU and submitted to the Board for approval. Once approved, the proposal will be discussed with the Departments of Provincial and Local Government and of Finance.
- Board members felt that they were performing in accordance to their mandate. They provided policy guidelines as well as strategic leadership for implementation by the PPU. They were also performing their oversight responsibilities as required. Reports submitted by the PPU were read and discussed as appropriate at Board meetings. They were satisfied with the size and the constitution of the Board.
- As there was no agreement reached on the impact of some of the emerging policies on the MIIU's ability to attract private sector funding towards infrastructure development, it was agreed that MIIU calls a separate meeting with the Department of Provincial and Local Government and the Department of Finance to resolve concerns.
- It was recommended that the MIIU continues to provide technical capacity building at the municipal level, prepares detailed policy regarding the proposed mentorship programme and continues its support of national departments on the subject of MSPs.
- It was decided that lessons learned from the study tour be applied where appropriate. It was also agreed that some concerted effort be made to consult with labour on employee equity issues.
- It was agreed that a detailed marketing and communications plan should be presented to the Board for adoption. Only the chairperson of the Board, her deputy as well as the Chief Executive Officer of the MIIU would deal directly with the media. These spokespersons should undergo media training. There was also a recommendation for an internal communication strategy that would help improve the communication between the decision-makers and the officials of the MIIU.

- It will be important for the PPU to ensure that a programme of skill transfer is in place and that the Board closely monitors the implementation thereof. The following recommendations were adopted:
  - That the finance requested for each year should not diminish over the first five years
  - That an "in principle decision be taken to extend the life of the MIU for a further period of two years
  - That the Board confirms that contributions to a consistently supportive environment are an important part of the MIU
  - That the MIU prepares a transition plan involving criteria for a successor agency (agencies), plans for empowering it and for winding up the MIU
  - That a Board sub-committee be convened to consider the above-mentioned exit criteria and transition plan, and a revision of the proposed life span of the MIU.

**MECs AND METROs MEETINGS  
ANNEXURE K**

## MECs AND METRO MEETINGS

### 8.1 MEC: PROVINCIAL VISITS

The team has met with the MECs: local government in some provinces. The purpose of the meetings was to:

- appraise the MECs and their senior officials of the work of the MIU since its inception to date
- provide the MECs and their senior officials with an overview of MIU projects in their provinces, some of which may need to be transferred from a "B" municipality or "C" municipality and in some cases vice versa.
- outline some of the key challenges that are posed by current policy and legislative reforms that impact on municipal service partnerships
- identify areas of co-operation and support in order to drive a common municipal service delivery agenda

The result of the meetings to discuss where the MIU support could best be targeted given the challenges in metros, districts and local council, have been positive and follow-up meetings will be taking place in the coming year. In some provinces the MIU will be participating in service delivery summits or as part of the provincial strategy to address municipal infrastructure backlogs. It was clear from these meetings that the support of the MIU to assist municipalities to think strategically about these issues is a critical element. Each province indicated its own unique plans given its own circumstances and capacity. There is no doubt that support from the MIU will be required particularly if all projects that are currently being run by "B" municipalities are taken over by "C" municipalities.

The following provincial visits have taken place:

- North West - 19 November 2000
- Free State - 06 November 2000
- Western Cape - 09 November
- Eastern Cape - 08 November 2000

The outstanding provinces will be visited early in the coming year. The MECs have also clearly indicated the need for the MIU to provide support to some of the new metros such as the East Rand metropolitan council. The MIU will also develop a strategy to support district councils.

## 8.2 Metro Meetings

- The team has met with metros who have indicated an interest to pursue either municipal service partnerships or think about service delivery. The current changes taking place in these institutions seem to suggest that the MIU needs a long-term strategy to maximize its support to the metros.

The following metros have been visited:

- Durban
- Pretoria
- Port Elizabeth

**PROPOSED BOARD  
MEETING DATES IN YEAR 2001  
ANNEXURE L**

**PROPOSED BOARD MEETINGS DATES FOR YEAR 2001**

FRIDAY 23 FEBRUARY 2001

FRIDAY 15 JUNE 2001

FRIDAY 17 AUGUST 2001

FRIDAY 17 NOVEMBER 2001

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