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# **Municipal Infrastructure Investment Unit (MIIU) Final Completion Report**

## **Volume 1 Main Report**

**APRIL 2006**

This publication was produced for review by the United States Agency for International Development. It was prepared by Mark Brown and Laila Horton, Planning and Development Collaborative International, Inc. (PADCO).



# **Municipal Infrastructure Investment Unit (MIU) Final Completion Report**

## **Volume 1 Main Report**

This report was prepared by PADCO's contract with USAID No 674-C-00-02-00007-00 under USAID/South Africa's Strategic Objective No. 6: Increased Access to Shelter and Environmentally-Sound Municipal Services to Historically Disadvantaged Populations (HDPs).

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## Acronyms

BOT	Built Operate and Transfer
CBO	Community Based Organization
CTO	Cognizant Technical Officer, the USAID officer responsible for managing a project
DBSA	Development Bank of Southern Africa
DCA	Development Credit Authority, USAID's credit guarantee facility
DFID	United Kingdom's Department for International Development
DPLG	Department of Provincial and Local Government
DWAF	Department of Water Affairs and Forestry
MIIU	Municipal Infrastructure Investment Unit
MSP	Municipal Service Partnership, includes Public-Private and Public-Public Partnerships
O&M	Operation and Maintenance, a type of PPP contract
PPP	Public-Private Partnership
PPP Unit	Public Private Partnership Unit in National Treasury
RFP	Request for Proposal
RTI	Research Triangle Institute
SMME	Small and medium enterprise
TOR	Terms of Reference
USAID	United States Agency for International Development

# 1. Executive Summary

*“One of the best initiatives USAID ever had the opportunity to support.”*

Rebecca Black, USAID CTO 2002 to 2003.

The Municipal Infrastructure Investment Unit (MIIU) was created by the Government of South Africa in 1998 as a non-profit corporation with the mission to provide technical and grant assistance to municipalities to help them access private financing and expertise to meet their municipal services infrastructure needs. The Government recognized that local and national governments lacked the capital resources and technical expertise necessary to meet the daunting municipal infrastructure needs backlog. The backlog in municipal services was particularly severe due to the fact that new democratic South Africa has to redistribute its services from a racially skewed provision to one that provided for all equitably. It was decided to create the MIIU to assist municipalities to access private sector funding by concessions, BOT, or other privatization mechanisms.

PADCO was contracted by USAID to provide technical and financial management services to help the MIIU achieve its goals. The USAID assistance was provided through two consecutive contracts. This Final Report was prepared for the second project (contract 674-C-00-02-00007-00) but includes some information from the earlier project – for all practical purposes there was no distinction between the two contracts.

PADCO provided a team of resident advisors and numerous short-term specialists to help establish the MIIU and support its operations. Over the 8-year life of the two technical assistance projects the MIIU has added local specialists to its staff who were provided in-service training by the PADCO team. The PADCO and MIIU staff worked together as a single integrated organization.

The PADCO advisors initially assisted in strengthening the policy, legal and regulatory framework and establishing operating processes and procedures for the MIIU and its grant-funding and technical assistance programs. These procedures covered all aspects of MSP project development, including:

- Application and Approval Procedures
- The Project Development Cycle
- Case Studies
- Model Documents (Application Questionnaire, Project Preparation Report, Grant Agreement, Cost-Sharing Guidelines)
- Procurement and Contracting procedures (RFPs and TORs for consulting services, Newspaper Advertisement, Consulting Contract, MSP Project prequalification requirements, MSP Project RFPs, Term sheets for MSP contracts in various sectors).
- Contract Management Guidelines (for municipalities)

The team then provided continuous technical assistance over the lifespan of the MIIU to develop successful “projects” – applications from municipalities that resulted in



municipal service partnerships supported by technical assistance or grant funding provided by the MIIU.

Forty-six municipal service partnerships were completed by the MIIU with PADCO's assistance. The services include water/wastewater, solid waste, airports, markets, bus service, municipal revenue management, electricity, and parking facilities. Over its lifetime, through 230 some projects, the PPU assisted 95 municipalities, and typically managed 50 – 70 projects each year in the process from application to completion. For projects that did not achieve MSP closure, the municipalities better understood their problems and possible solutions and often introduced internal improvements in service delivery.

The USAID technical assistance of \$7 million in the two contracts assisted the disbursement of \$12.5 million of grants which have generated MSPs that will result in approximately US\$ 720 million in private sector investments over the terms of the various projects. More than 4.5 million persons in 1.2 million formerly disadvantaged households will benefit directly from improved or expanded essential water, sanitation and solid waste services from the private investment leveraged with MIIU support.

With PADCO assistance the MIIU developed expertise in packaging a wide variety of solutions for different types of problems and municipalities. For example:

- SMME/CBO refuse collection contracts such as those in Cape Town and Msunduzi which serves disadvantaged areas with affirmative procurement to engage local and emerging contractors from the areas being served. These contracts are often managed by a larger “parent” company who oversees the CBOs and provides training and access to finance. At the end of the contract, these CBOs often can bid for projects on their own.
- Operation and management contracts for water treatment plants, such as the Richards Bay MSP where the private company manages nine treatment plans, seven of which serve disadvantaged areas exclusively.
- Complex, capital intensive water projects such as the Mogalakwena Pipeline and the Nelspruit Concession. In Mogalakwena, the PPP project will supply water to a mine in exchange for a pipeline and other upgrades for city water facilities paid for by the private mine owner. Partners include the municipal council, the district council, the regional water board, as well as the private mining company. The partnership includes eight separate sub-agreements, and is worth over R190 million in total contract value. In addition, 2000 jobs will be created with associated new housing construction.

The largest projects involving international partners have included:

- Nelspruit water concession (Bewater)
- Dolphin Coast water concession (Saur Services)
- Metro Gas sale (Cinergy Global Power)
- Kelvin Power sale (AES)
- Richards Bay airport concession (Black and Veatch)
- Johannesburg Info Tech (IBM)
- Johannesburg Fleet Management (SuperGroup)
- Hibiscus Coast Airport concession (SA Airlink)

In addition to supporting MSP “deal making,” the PADCO team filled other roles to enhance households’ access to services and increase access to finance for service provision:

- Development of model documents and a project preparation methodology
- Capacity building – through intensive, hands-on participation in developing MSP projects the PADCO/MIIU team provided continuous capacity building for MIIU staff, municipal staff and local firms and individuals who provided professional services in project preparation.
- Publicizing and promoting the potential of MSP’s through pro-active involvement in conferences, workshops and seminars by both PADCO team members and the locally capacitated MIIU employees.
- Advising on, and influencing, national policy and legislation in respect of the municipal sphere of government and the challenges facing the development of municipal infrastructure.
- Development Credit Authority -- PADCO assisted the MIIU and USAID to establish a credit enhancement mechanism for municipal borrowing using USAID’s Development Credit Authority (DCA). This allows USAID to provide partial credit guarantees on \$35 million of debt issuances by South African municipalities for projects designed and arranged by the MIIU. The loans extended under the DCA guarantee will enable municipalities to invest in infrastructure and purchase equipment necessary to improve levels of service and enhance the generation and collection of related revenues.
- The creation of a market for MSPs. Lastly and possibly most importantly, by working with and building the capacity of the consulting industry, preparing standardized documents and project development methodology that create transparency and predictability, providing input to policy and legislation, and establishing precedents for MSPs, the PADCO/MIIU team has assisted with the creation of a market for MSPs which will last well beyond the life of the project.

The USAID/PADCO project also supported information dissemination. For example, in May, 2002 the project assisted MIIU in sponsoring and organizing South Africa’s first National Conference on Municipal Public-Private Partnerships. The response to the conference was overwhelming, with over 550 officials from local, provincial, and national government attending, along with representatives of organized labor and the private sector. Sidney Mufamadi, Minister of Provincial and Local Government, opened the conference by congratulating the MIIU on another successful year spent structuring, negotiating, and implementing public-private partnerships.

MIIU/PADCO considers that key conditions for success of the MIIU included:

- *Grant fund.* The grant fund has allowed municipalities to pay for feasibility studies and hire transaction advisors. In most instances, without the grant, municipalities will not be able to finance the project development work. In some others, this grant provided the necessary incentive for municipalities to initiate the process.
- *Government role and ownership.* It has been critical that this unit was initiated by and received full support from the Government of South Africa. This is particularly important as PPPs is a matter that can be controversial in South Africa due to perceptions that jobs are cut tariffs inflated by PPP arrangements. .

- *Institutional Arrangement and Governance.* While fully supported by the Government, the Unit was set up outside of government which allowed it to be unencumbered by government bureaucracy and interventions and focus on deal facilitation. Being a non-profit entity and independent from government also increased the credibility of the unit in the both the eyes of private and public players. A non-executive Board of Directors provides oversight to the MIIU management as intermediary on behalf of DPLG and Treasury.
- *Project Preparation Methodology.* Having the resources and expertise to guide and handhold the municipalities through the whole project life cycle process from preparing scopes of work, procuring transaction advisors, to tendering and negotiation has been important where there is serious lack of capacity at the municipal level. The 80/20 cost-sharing ensured ownership of the project from the municipality's side. Standardization of project management procedures put in place a methodology that ensured consistency, quality control, and disbursement of funds against deliverables.
- *Staffing Strategy.* The initial staffing by expatriate advisors with international experience followed by very qualified local staff allowed the Unit to benefit from international experience while having local knowledge and to impart skill transfer which is important for long term institutional sustainability.

To build on the success of MIIU, the following is recommended for the successor of the MIIU as well as other project development facilities that have been in operation for a while and are looking to enter the next phase of MSP development.

- More aggressive marketing of MSPs and dissemination of best practices need to be done to overcome the mistrust and lack of knowledge surrounding MSPs. MIIU has found that many municipalities either have misconceptions about MSPs or are not aware of the successes of existing MSPs, even those in neighboring municipalities. These MSPs need to be documented and disseminated in simple, easy to digest formats and through appropriate mediums. Primary fears surrounding MSPs such as job losses and price hikes need to be explained and defused, for example, by publicizing positive results and mitigating strategies. In addition to municipal officials, municipal councilors should also be targeted.
- The legislation and regulation that regulates MSPs need to be reviewed, simplified, and aligned. The establishment of a threshold whereby projects below the threshold could undergo a simplified approval and feasibility process should be considered.
- Given the mistrust and lack of capacity surrounding MSPs, the deepening of MSPs involving more risk transfer should be done incrementally. This can be done by targeting municipalities who already have experience with structuring and managing MSPs with to undertake larger and more complex MSPs.
- Given that experience in smaller operation and maintenance projects already exists in the market, MIIU's successor or other project development facilities should focus assistance on larger complex projects, innovative projects, or projects that pioneer MSPs in new sectors or new areas.
- To facilitate the replication of the smaller, routine projects in the market and reduce transaction costs, standardized documents should be developed.

- Consideration should be given to expanding eligible sectors to include new sectors and non-basic services, such as housing, markets, IT, tourism, local economic development, and sale of non-core assets.
- Models that make MSPs viable in smaller municipalities should be explored. For example, a MSP contract providing service to multiple municipalities benefiting from economies of scale might make the MSP more viable. In areas where there is the revenue stream from users is limited, one could explore the possibility of pledging a portion of the municipality's own source revenue or government grants to the project.
- Effort should be made to build the capacity of municipal officials and councilors. The MIIU did not focus on this, emphasizing instead on the need to demonstrate results through completed deals to establish precedents. Building the capacity of the market was accomplished mainly by building the capacity of the consulting industry. MIIU believes that this is the correct approach for the first 5-7 years. In subsequent years, however, as the market becomes more developed, effort should be given on building the capacity of the municipal officials through activities such as training or internship programs.
- Given that a sizeable number of municipalities will decide to stay with internal options, effort should be made to ensure that if a municipality does decide to stay internal options, improvements will still be introduced. Hence, recommendations for internal improvements should be thorough enough that they can be adopted and implemented and should be prioritized according to their potential to yield results. Furthermore, mechanisms should also be developed so that commitments to provide the necessary human and financial resources will be honored.

## 2. Overview of the Project

*“There were no precedents on how to design, put out to tender, negotiate, implement or monitor a public-private deal; there was limited expertise amongst lawyers, engineers and accountants; and there was no legal or regulatory framework for such transactions – what the municipalities most needed were advisory services to enable them to launch such projects.”*

David Ferreira, former Manager, Private Sector Investment Unit, Development Bank of South Africa.

### 2.1 Brief History of the MIIU

Millions of urban and rural households in South Africa lack access to essential services such as water, sanitation and solid waste management. The Government’s Municipal Services Partnerships White Paper (2000) conservatively estimated the infrastructure backlog at R50 billion (about \$6 billion). The Government of South Africa recognized the necessity of increasing private participation – capital and expertise -- to overcome the severe service deficits. Legal, policy and regulatory changes needed to enable public-private partnerships were identified and addressed.

Key actors concluded that a unit should be formed to help municipalities establish public-private partnerships for municipal service provision, and to facilitate growth of a mature market for municipal PPPs. The conceptual approach that led to the MIIU was developed by staff in the Department of Constitutional Development (later the DPLG), RSA Treasury Department, USAID and World Bank.

Important features of the MIIU design included:

- Primary emphasis and tight focus on enabling local authorities to access private capital and expertise – success mainly measured by the number and quality of “deals” completed
- Secondary emphasis on strengthening the legal, regulatory and policy framework for MSPs
- Independence from ministries, government departments, and development finance banks such as the DBSA
- Access to world-class technical expertise
- Building the capacity of local public- and private-sector stakeholders
- Creation of models for replication

The Government of South Africa, through DPLG, agreed to fund staff and operating costs, while the Development Bank of South Africa (DBSA) and USAID agreed to

provide a pool of funding for project preparation grants, and USAID agreed to supply world-class expertise to support the new unit.

The MIIU was incorporated in 1998 as a Section 21, not-for-profit organization, with the Department of Provincial and Local Government as its shareholder. The Cabinet appointed a diverse board of directors who represented expertise with the types of projects that MIIU would pursue, and who represented public and private sector interests. The original life-span of MIIU was set for five years, but it was subsequently extended to 8 years.

As the end of MIIU approached, debate was held on whether MIIU should be extended yet again and if so what form it should take. There was agreement in government and in the market that the functions of MIIU were still needed, regardless of where those functions would be located. While a developed market did exist whereby precedents existed and a capacitated consulting industry also was in place, most municipalities still needed assistance with the process and with managing the consultants. Even advanced countries such as the UK which is at the forefront of PPPs still have the equivalent of the MIIU (i.e., 4Ps and Partnership UK) and still believe that such units are needed. Several institutional models were considered from continuing MIIU in its current form, to privatizing MIIU, to housing the MIIU functions within government. In the end, it was decided to house the functions within National Treasury in Government. This home was chosen because a similar Public Private Partnership Unit dealing with national and provincial PPPs already existed in NT and because under the Municipal Finance Management Act, National Treasury held the responsibility to regulate municipal PPPs.

The objectives of the MIIU were to:

- Encourage and optimize private sector investment in core local authority services on a basis that is sustainable for both local authorities and at a national level; and
- Assist the development of an established market containing informed local authority clients, private sector advisers, and private sector investors and service providers.

The day-to-day activities of the MIIU were to support local authorities in developing project proposals involving a broad range of private sector participation. While supporting private sector participation was its primary mandate, MIIU over time also supported non-private sector models that improves service delivery, such as corporatization. The different models that MIIU supported include:

- Contracts requiring the private sector to design, build, finance and operate assets to deliver services for the local authority (BOT, BOOT)
- Concessions to operate the local authority's assets over a defined period
- Private sector financing of municipal debt
- Privatization of assets and services
- Contracting out of the management of services
- Corporatization and public-public partnerships

The MIIU's scope of activities included:

- Providing and managing grant funding to local authorities on a cost sharing basis to contract for project preparation expertise from the private sector

- Assisting local authorities in the process of contracting private sector consultants
- Providing oversight and quality control over outputs provided by consultants (transaction advisors) to municipalities
- Packaging of diagnostic and feasibility studies – setting out requests for proposals, completing tender processes, project management of the deliverables
- Management of projects to develop a knowledge base of practical lessons for continuous improvement in the MSP practice area
- Standardization – crafting model contracts, model scopes of work for consulting services and studies, etc.
- Contract renegotiation and other post-award services such as contract performance monitoring
- Dissemination of best practices
- Engaging and advising lenders and service providers
- Providing advice and feedback to national government on draft legislation and regulations
- Capacity building of municipal officials and consultants
- Assisting local authorities in navigating through the legislative requirements
- Commissioning of legal opinions to help arrive at optimal PPP arrangements
- Marketing and publicizing the MIU's services

Table 1. MIIU Milestones

<b>MIIU Milestones</b>	
<b>1998</b>	<ul style="list-style-type: none"> <li>• MIIU established</li> <li>• Start of first USAID funded PADCO/RTI contract to support MIIU</li> <li>• Existing MPPP projects transferred to MIIU</li> <li>• Development of MIIU systems and procedures</li> <li>• Input on policy and legislation provided</li> </ul>
<b>1999</b>	<ul style="list-style-type: none"> <li>• First 3 MSP projects completed, contracts signed; 34 active projects at year-end</li> <li>• Continued development of standard models and procedures</li> <li>• Input on policy and legislation provided</li> </ul>
<b>2000</b>	<ul style="list-style-type: none"> <li>• Three projects reached Implementation stage</li> <li>• Input on policy and legislation including MSP Policy and Municipal Systems Bill</li> <li>• MIIU website developed</li> <li>• <i>Development South Africa</i> summer issue focused on PPPs in South Africa</li> <li>• First study tour organized and conducted (South America, Australia)</li> <li>• 50 active projects at year-end</li> </ul>
<b>2001</b>	<ul style="list-style-type: none"> <li>• 5 major projects completed</li> <li>• Cumulative total of 18 projects completed since 1998</li> <li>• Continued input on Municipal Systems Act which was passed this year</li> </ul>
<b>2002</b>	<ul style="list-style-type: none"> <li>• 7 partnerships concluded this year</li> <li>• A greater variety of types of projects completed including asset sale, and multi-jurisdictional municipal service district</li> <li>• Start of second USAID funded PADCO contract to support MIIU</li> <li>• MIIU hired 2 more project managers</li> <li>• Introduction of Diagnostic Studies to investigate municipal service delivery</li> <li>• National PPP Conference organized and conducted (550 participants)</li> </ul>
<b>2003</b>	<ul style="list-style-type: none"> <li>• 10 MSP projects completed, 90 active projects in pipeline at year-end</li> <li>• MIIU complies with requirements of Public Finance Management Act</li> <li>• Three-year extension of MIIU's mandate approved</li> <li>• 90 active projects in pipeline at year-end</li> </ul>
<b>2004</b>	<ul style="list-style-type: none"> <li>• Increased emphasis on post-MIIU institutional landscape</li> <li>• Management Information System developed and implemented</li> <li>• Development Credit Authority (DCA) program approved</li> <li>• Second study tour to Mexico implemented</li> </ul>
<b>2005</b>	<ul style="list-style-type: none"> <li>• 6 projects completed, 77 active projects in pipeline</li> <li>• MSP case studies initiated</li> <li>• Third study tour developed, implemented (United Kingdom)</li> <li>• DFID funding provided to support monitoring and evaluation of PPPs</li> </ul>
<b>2006</b>	<ul style="list-style-type: none"> <li>• Documentation and transfer of MIIU institutional memory</li> <li>• Informational leaflets for municipal councilors prepared, distributed</li> <li>• Solid Waste PPP Guideline prepared, disseminated</li> <li>• Revenue Enhancement Guidelines prepared, disseminated</li> <li>• Final MIIU Publication "A Journey of Partnership" prepared, disseminated</li> <li>• 1 project completed this year</li> <li>• MIIU mandate expires, operations ended, and project pipeline transferred to DBSA and the P3 Unit at National Treasury.</li> <li>• USAID/PADCO project closed</li> </ul>



## **2.2 *MIIU Legal and Organizational Structure***

The MIIU was established on 20 March, 1998 pursuant to Cabinet Memorandum No 14 of 1997. There were three main structural components of the MIIU:

- The Board of Directors, 16 members appointed by DPLG with broad oversight and policy roles, and a fiduciary responsibility over the grant fund;
- The Grant Fund, seed-funded by Government and USAID, and replenished annually by Government which provided direct assistance to municipalities for the preparation of projects involving private sector funding; and
- A Project Preparation Unit which served as the operational core of the MIIU, and which processed applications and managed the Grant Fund.

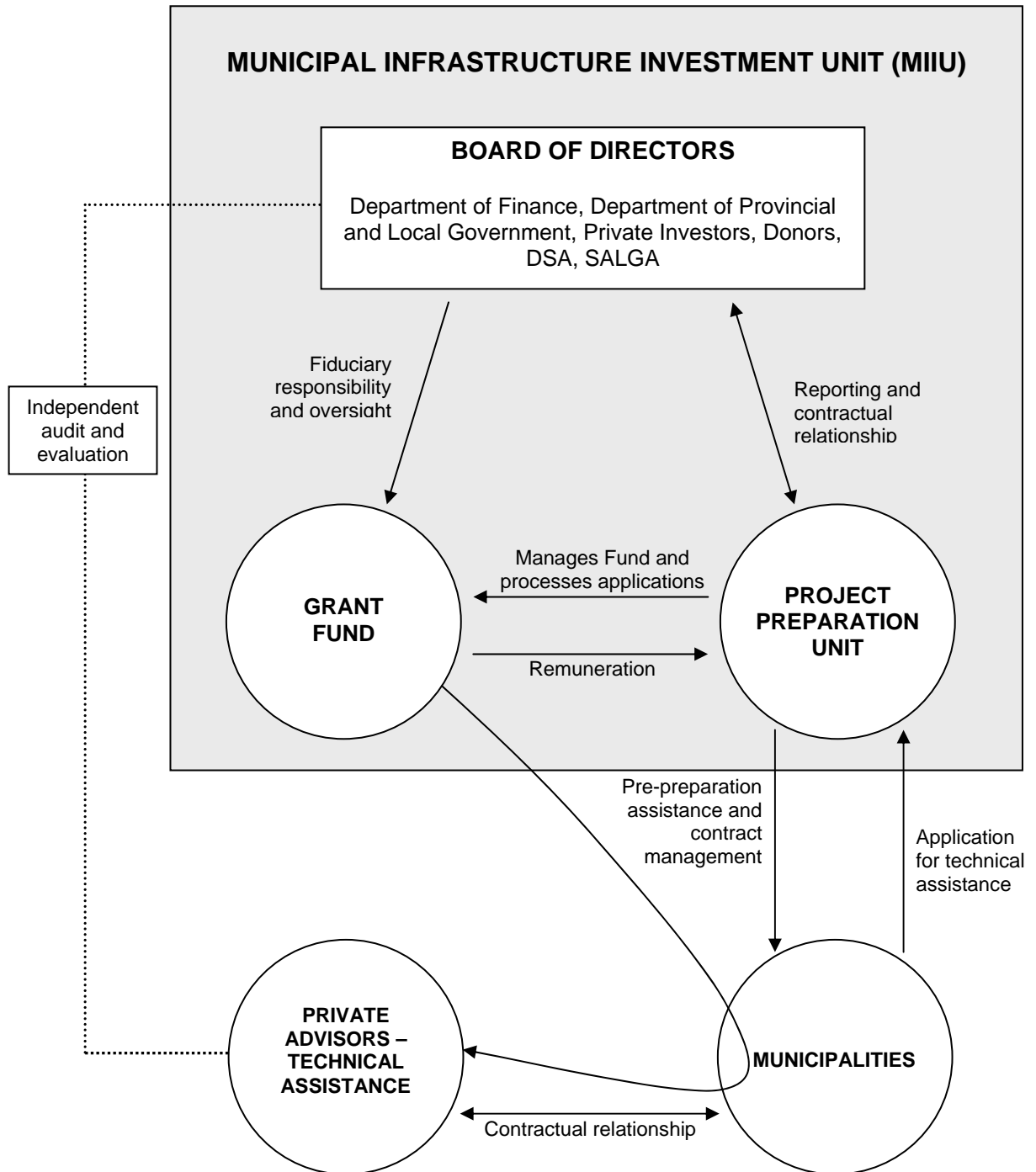
The structure of the MIIU is shown in Figure 1.

## **2.3 *USAID Support to MIIU***

Two USAID contracts provided technical and financial management expertise to the MIIU. This was done through a mix of long- and short-term local and international experts to support the activities of the unit:

- During the first USAID contract (1998 – 2002) the PADCO team (including personnel of subcontractor RTI) included three resident technical advisors and one South African financial controller. A limited number of U.S. and local short-term experts were also provided.
- The second USAID contract (3/12/2002 thru' 4/20/2006) continued the provision of long- and short-term technical assistance, but as the MIIU increased its own staff the number of PADCO resident advisors decreased, and a more flexible arrangement to provide short-term local and expatriate advisors was developed. In the final year of the project the resident Chief of Party and local full-time Financial Controller were supplemented by three local and U.S. short-term advisors.
- At times the PADCO Chiefs of Party also have served as Acting CEO for MIIU to provide continuity and stability during staff changes.
- In addition to providing staffing, the USAID/PADCO project also funded other activities such as conferences and international study tours.

Figure 1: Structure of the MIIU



Over its eight-year life the full-time professional staff of the MIIU ranged from 4 to 8 people.

### 3. Accomplishments

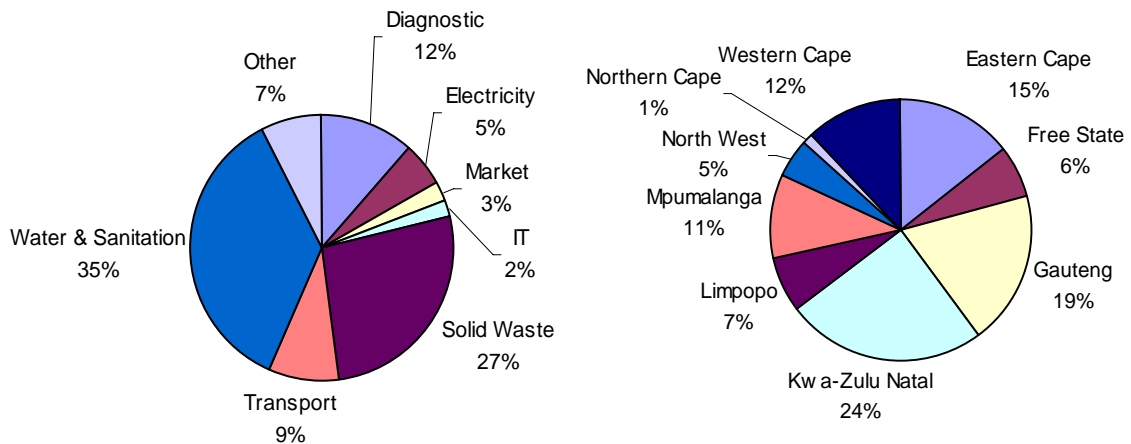
*“The MIIU has built an approach which is going to carry on for decades, and it’s going to significantly help the way that government works.”*

Crispian Olver, former Chief Director for Local Government, Department of Local and Provincial Government.

#### Key Accomplishments of MIIU with USAID/PADCO Support

The MIIU made significant progress in laying a foundation and building expertise for a mature financial market in which private capital and private-sector expertise flow to municipal infrastructure. The pioneering work of the MIIU helped to build awareness of MSPs as viable options for upgrading and expanding municipal services. Specific benefits include:

- 46 Municipal Service Partnerships (MSP) were completed
- 4.56 million residents in 1.2 million households have benefited or will benefit from improved services as a result of the MSPs
- Through more than 230 projects, 95 municipalities received assistance from the PPU over its lifetime (see Annex 3 for detailed breakdown)



- MIIU-supported MSPs will mobilize at least US \$750 million in private capital to improve services. This capital was leveraged through a USAID funding of \$7 million which amounts to a leveraging ratio of 102 to 1 (see table 3)
- MIIU/PADCO specialists provided technical inputs to Government policy and legislation including the Municipal Systems Act, the Municipal Financial Management Bill, and the delegation of powers and functions to municipalities
- The development of a project development methodology starting from the selection of viable projects, standardized terms of references, standardized contracts, and project management procedures based on deliverables.
- Noteworthy projects completed by the MIIU include:
  - First two long-term water and sanitation concessions – Nelspruit and Dolphin Coast
  - First two long-term concessions in the airport sector -- Richards Bay & Pretoria
  - First airport privatization -- Johannesburg's Rand Airport

- Largest municipal privatization -- Johannesburg's Metro Gas Company
- First successful public-public partnership -- Harrismith Water and Sanitation
- First waste management concession -- Tzaneen
- First metropolitan water utility established -- Johannesburg Water
- First power plant privatization – Johannesburg Kelvin
- First multi-jurisdictional service district created – KwaZulu Natal
- The creation of a market for MSPs. This was accomplished through the completion of MSPs which sets a precedent for other MSPs, the strengthening of the consulting industry which previously did not have experience in MSPs, and standardized project development methodology which will lend more certainty and predictability to the process and transparency which is important for private sector participation.

Other significant activities and accomplishments are identified below:

**Policies, Laws and Regulations Strengthened.** To strengthen the framework for private participation in local infrastructure and services the MIIU/PADCO team reviewed and commented on draft policies and laws, including the Municipal Systems Act, the Municipal Financial Management Bill, and the delegation of powers and functions to local authorities. These inputs were made in the form of one-on-one discussions, frequent written commentary, and by making presentations to parliamentary committees.

**Non-MSP Performance Improvements Identified and Implemented.** In addition to supporting projects that resulted in municipal service partnerships, the MIIU team provided technical support to local authorities that regularly contributed to non-MSP performance improvements such as management improvements, reorganization, reduction in non-revenue water, and training of local staff. In many cases technical assistance from the MIIU helped municipalities to clearly evaluate service options and to select the most advantageous option – many times the selected options did not include an MSP.

**Sustainable MSPs and PPPs Promoted.** A significant accomplishment of the MIIU was the success in building awareness of MSPs as useful approaches for municipalities. This required changing attitudes of stakeholders at national and municipal levels through promotion of concepts and demonstration of real results. MIIU/PADCO staff and their consultants participated frequently in seminars, workshops and conferences to promote private participation and inform public- and private-sector stakeholders about successful approaches. In May, 2002 the project assisted MIIU in sponsoring and organizing South Africa's first National Conference on Municipal Public-Private Partnerships. The conference was designed to give local officials basic information about MSPs and PPPs including practical examples of successful partnerships. Response to the conference was overwhelming, with over 550 officials from local, provincial, and national government attending, along with representatives of organized labor and the private sector.

**Project Preparation Unit Operating Principles and Procedures Strengthened.** The MIIU Board has always recognized the importance of sound corporate governance principles and practices, including openness, fairness, integrity and accountability. In

order to maintain effective, sound governance the MIIU/PADCO team developed, reviewed and revised the following:

- Risk Management Plan – to identify risks and develop mitigating measures to ensure that the business operates smoothly
- Investment Policy – to ensure the adequate availability of funds; minimize losses the company could incur if counterparts fail to meet funding commitments; and to ensure the protection of principal amounts invested while generating an acceptable return for the risk taken
- Procurement Policy and Procedures – to guide and control procurements to reduce risk and make effective use of limited resources.
- Fraud Policy – to highlight the Board and CEO’s attitude to fraud, its prevention and response to its occurrence.
- Internal Control Procedures – to articulate processes and procedures to ensure the smooth running of the business by management and support staff.
- Management Information System – to record, monitor and evaluate projects in which the company is involved.
- Audit Plan – provides a framework for audits, defines roles and responsibilities and the scope of the audit, and communicates important information such as the expectations and needs of MIIU management to the Audit Committee which is required to report and make recommendations to the audit authority; report annually on the effectiveness of internal controls; and, to comment on its evaluation of the financial statements in the annual report.

Strengthened operating procedures can be evidenced by the fact that MIIU has always received an unqualified audit by the Auditor General in its seven years of operation.

**Study Tours Developed Understanding of MSP Approaches.** PADCO assisted in organizing and conducting three study tours to help counterparts learn from global MSP experience. Study tours to South America and Australia, and to Mexico, were conducted during the first USAID project. The study tour was very instrumental in assisting officials from Johannesburg gain exposure and understanding on issues surrounding the issuance of bonds in Mexican cities. This new knowledge assisted in Joburg’s issuance of a R660 million bond.

During the second project a Study Tour was made to the United Kingdom. The UK was selected because the Private Finance Initiative (PFI) was pioneered there, and the UK has the most experience with this approach. South Africa’s guidelines and regulations for PPPs were based on PFI models from the UK. There were six study tour participants from South Africa. They met with organizations such as city councils, the regulatory authority “Office of Water Services” (OFWAT), water companies, and with consulting firms and research institutes.

The UK study tour was considered immensely useful as the team acquired much valuable information based on the UK experience.

**MIIU Exit Strategy Prepared.** By Government decision the MIIU was closed in March, 2006. The PADCO advisors assisted MIIU to prepare and implement an Exit Strategy to assure the smooth transition of selected functions and information to successor organizations including the PPP Unit at National Treasury

**Energy Efficiencies and Environmental Improvements Achieved.** The 46 MSP projects completed will introduce energy efficiencies in municipal service delivery and therefore reduce the consumption of greenhouse gases that contribute the global warming. More specifically, these projects will involve the private sector to introduce energy efficiency in the following ways:

- Reduction of water losses (and therefore energy losses) in water production and distribution systems through repairs in the distribution system, installation of more energy efficient pumping systems, and repairs in household plumbing.
- Reduction of water and electricity wastage by consumers through requiring consumers to pay for services, the installation of pre-paid meters, and the installation of proper billing and collection systems.
- Reduction of fuel consumption in waste transport and disposal as a recycling and composting activities that result in smaller volumes of waste that needs to be transported and disposed of.

While the contributions of the project to the above Presidential Initiatives are significant, they cannot be measured on the oil-equivalent or greenhouse emission indicators.

**Ring-fencing Approaches Supported.** MIIU also supervised two "ring-fencing" projects for municipal electricity distribution systems. Ring-fencing is the creation of self-contained business units to streamline the management by bringing all functions and personnel under one management structure. The process greatly improves the operating efficiency of these systems, by simplifying management and planning procedures, and will allow these units to roll out services to poor, rural areas more quickly and efficiently. MIIU also prepared an extensive study on the most efficient approaches for electricity ring-fencing for use by government policy makers in the power sector.

**New Jobs Created.** MIIU contributed to job creation through the labor employed in the construction of new capital projects as well as the labor employed in the operation and maintenance of these new facilities or the operation and maintenance of existing facilities in the case of the private sector taking over existing facilities. Contrary to what some skeptics would say, MSPs in South Africa for the most part have resulted in job creation and not in job losses. This is because most of the services are either new services which reduce backlogs, or in the case of existing service, the municipal worker is seconded to the private operator or deployed to another position within the municipality. A deployed worker faces no threat of termination as there are many positions at the municipality at all levels that are currently vacant and can be filled. Municipal workers also face no danger of losing benefits if seconded or transferred to a private operator as the South African Labor Relations Act require that the level of service (e.g., salary, benefits, working conditions) be at least the same.

The number of jobs created as a result of MIIU activities has not been tracked, but it is estimated that more than 500,000 jobs have been created. This rough estimate is based on the assumptions that 30% of the capital investment goes towards labor, that workers are paid at a minimum wage of R36/day, and that the average duration of a construction job is 90 days. Jobs created from the operation of the facilities post construction are not included.

**Table 3. Use of Funds, Leveraging Ratio, and Disbursement Ratio.**

Type/Source of Funds	1999	2000	2001	2002	2003	2004	2005	2006	Total
Operating Expense (‘000 of US \$)	SA Govt.	284	240	303	284	801	849	703	3,915
	USAID	1,012	1,072	881	575	1,132	782	567	7,052
	CA						2	0	2
Subtotal Operating Expense	1,296	1,312	1,184	859	1,482	1,933	1,633	1,270	10,969
Capital/Grant Expense (‘000 of US \$)	SA Govt.	1,342	251	876	814	2,519	2,560	1,714	10,999
	USAID		836	305	47	0	0	0	1,188
	CA						291	56	347
Subtotal Grant Funding	1,342	1,087	1,181	861	923	2,519	2,851	1,770	12,534
Total Operating Expense and Grant Funding	2,638	2,399	2,365	1,720	2,405	4,452	4,484	3,040	23,503
000 US \$ Leveraged	(for 2 years) 233,398		201,099	110,963	46,097	104,415	19,310	5,356	720,637
Disbursement ratio		97%	121%	100%	161%	77%	57%	72%	88%
Leveraging Ratio (USAID only)		112 to 1	228 to 1	193 to 1	45 to 1	92 to 1	25 to 1	9 to 1	102 to 1
Leveraging Ratio (USAID and SA Govt)		46 to 1	85 to 1	65 to 1	19 to 1	23 to 1	4.3 to 1	1.8 to 1	31 to 1

**Notes:**

1. "SA Govt." is funding provided to MIIU by the South African Government
2. "CA" is funding provided by Cities Alliance
3. The "US \$ Leveraged" is the estimated total capital expenditure for all projects concluded in that year, converted from Rand to US\$ at the exchange rate for that year.
4. Disbursement ratio is Operating Expense/Grant Funding and measures the cost to disburse grant funds
5. Leveraging Ratio is \$ Leveraged/Expense and Grant Funding
6. DfID provided an off-budget contribution of US \$ 80,000 in 2005 and \$561,000 in 2006 (not included in the table)
7. Project pipeline in 2005 and 2006 were scaled down significantly in preparation for closure.

## 4. Methods, Systems and Toolkits

*“The MIIU was a successful model for any government trying to effect change, build capacity and promote partnerships for investment and operating capacity for delivery, whilst institutions are in transition.”*

Karen Mathebula, former CEO, MIIU.

A key factor in the success of the MIIU was the establishment of procedures, methods and tools to govern and regularize the activities of the unit and facilitate the identification, preparation and implementation of municipal service partnerships. PADCO assisted the PPU to design, test, refine and apply a number of procedures and model documents. They are briefly identified below. Most were developed under the first PADCO contract, but they have continued to be used and refined throughout the two contracts.

Copies of the standard documents, and samples of documents as used in practice are available from Volume II of this report.

**Project Application and Approval Procedures.** Detailed, step-by-step procedures governing the process by which municipalities apply and applications are approved for MIIU grant funding and technical assistance.

**Procurement and Contracting Procedures.** Comprehensive procedures for all procurement and contracting activities associated with MIIU-supported projects, including the procurement of consulting services and the procurement of PPP partners.

**Project Preparation Report.** An internal report from the Project Preparation Unit to the CEO recommending whether or not a project should receive technical assistance or grant funding.

**Grant Agreement.** An agreement between a municipality and the MIIU describing the project, the terms of reference for the work to be undertaken, and the roles and responsibilities for project supervision, information sharing, disbursement procedures, and cost-sharing.

**Cost-Sharing Guidelines.** Guidelines for sharing project preparation costs between MIIU and the municipality.

**Terms of Reference (TOR).** Detailed but generic scopes of work were developed for basic feasibility studies in water, solid waste projects, and fleet projects

**Request for Proposals.** A sample call for proposals that announces a competition to provide advisory services (e.g. feasibility study preparation) to a municipality. It provides information to prospective advisors on the nature of the proposal required, time schedule and process of submission, evaluation and selection.

**Newspaper Advertisement.** A sample format that municipalities can use to advertise their calls for proposals for advisory services.

**Consulting Contract.** A model agreement to be adapted and signed by a municipality and the selected advisor to undertake feasibility studies or project preparation activities.



**Diagnostic Studies.** In 2001, the MIIU recognized that many municipalities were struggling to provide well-managed municipal services and that municipalities could benefit from a long-range municipal reform program linked to a long-term municipal finance strategy. It was apparent that the municipalities lacked capacity to consider such measures to improve their situation. For this reason, the MIIU developed an approach to “diagnostic studies” to be used by small teams of short-term consultants to investigate municipal service delivery and municipal budgeting, and to quickly conceptualize viable projects. The Diagnostic Studies cost approximately \$ 25,000 per municipality, and were designed to assist municipalities in:

- assessing their infrastructure service needs;
- identifying possible innovative measures for meeting those needs; and
- encouraging the municipalities to take a strategic outlook on their municipal infrastructure plan.

The diagnostic studies recommended service restructuring measures, including identification of options for municipal service partnerships, and made recommendations on debt management. Regardless of the recommendations (which the municipalities were under no obligation to accept), the studies were designed to produce useful information for municipal officials.

**Management Information System.** In 2005 the MIIU developed a Management Information System to better manage historical and working knowledge on the projects in the pipeline. Previously the information was managed in simple spreadsheets (one for projects, the other for disbursements). The use of spreadsheets made it tedious and time-consuming to control and report on performance. The new MIS provided for real-time updating of outstanding liabilities (grant commitments) between MIIU and municipalities, and simplified reporting on the status of projects. This capability went a long way towards managing the flow of funds towards the closure of the MIIU grant fund. The MIS also created an on-line repository of deliverables making deliverables such as feasibility studies and contracts easy to access.

**Key Performance Indicators.** In 2002 the MIIU developed an approach to measure and monitor its internal performance using Key Performance Indicators” (KPI). The KPIs were developed in response to the Public Finance Management Act which requires companies to use auditable performance measures and targets. Many of the indicators that would seem appropriate for the MIIU are not easily auditable: the number of completed projects is difficult to use as an annual measure as many projects evolve over long periods; the value of capital investment leveraged by MSPs is not an ideal performance measure because it is based on estimates and expectations, and because good contracts usually specify investment outputs rather than value; and the financial or economic impacts of MSP projects are difficult and costly to estimate with any accuracy. A range of practical indicators was developed, and reported on a quarterly schedule to the MIIU Board of Directors. The KPIs include, for example:

- Number of active, new and completed MSP projects during the year
- Total Disbursements via grants to clients in the year
- Number of new and completed diagnostic studies per year
- Ratio of disbursement-related operational costs to total grant expenditure
- Number of case studies prepared
- Amount of technical assistance provided that is not associated with specific MSPs
- Number of internal staff development plans implemented.

The report of KPIs from the MIIU Annual Report for 2005 is included for reference at Annex 6.

**Contract Management Guidelines—The South African Solution.** Prepared for MIIU by PriceWaterhouseCoopers with funding from the UK's DfID. These guidelines assist municipalities to put in place effective mechanisms to manage the implementation of a PPP contract. They provide a roadmap for managing the PPP Contract, bringing together an outline of recommended approaches, together with models, summaries of key tasks, and references to more detailed sources of advice. In addition to being specific for PPP contracts these guidelines also provide a basic approach to the effective management of all forms of contracts.

**A Practical Guide to Enhancing Municipal Revenue.** PADCO subcontractor PSU prepared and disseminated these guidelines to create awareness of the areas that must be addressed for a municipality to enhance its revenue. The Guide provides an overall methodology on how to undertake revenue enhancement, including these topics: (a) socio-economic profile and attitude surveys; (b) customer information audit and data cleaning; (c) indigent management; (d) credit control; (e) debt collection; (f) communication strategy; (g) customer care; and (h) cost-cutting measures such as reduction of unaccounted-for water.

**A Practical Guide to Best Practices in Municipal Solid Waste.** Describes, in a single document, the feasibility study process that needs to be followed as legislated by the Municipal Systems Act and the Municipal Financial Management Act. Provides basic principles, guidance, practical tips, pitfalls and lessons learned through recent solid waste MSPs/PPPs supported by the MIIU. Reviews process for developing projects including unique aspects for Solid Waste projects; presents options for projects in waste minimization, collection, transfer and transportation, recovery, treatment and disposal.

**Community Participation Toolkit.** Prepared for MIIU by PriceWaterhouseCoopers with funding from DfID. The purpose of this toolkit is to provide a powerful and fully integrated step-by-step guide to people involved in Community Participation processes in Public Private Partnerships (PPP). The toolkit captures in one place 'best/good' practices in Community Participation activities for PPP projects and provides practical 'hands-on' tools and methods to develop and implement a community participation strategy. The toolkit consists of five tools, namely stakeholder management strategy, communication strategy, communication network, and a capacity building strategy. Again this toolkit can also be used to establish a basic approach to effective community participation in a wide range of municipal circumstances.

**Leaflets for Local Councilors.** Municipal councilors (and sometimes municipal officials) find the legislation and guidelines relating to MSPs difficult to understand and reconcile. This situation will be worsened after the elections in March 2006 when many of the elected councilors will be new to the municipal sector. MIIU/PADCO designed, developed and distributed 5000 leaflets that simplify and summarize the main points that they should be taking into consideration. Leaflets were developed on the following topics:

- Getting Value out of a Section 78 Process (a single source of information on requirements of the Section 78 of the Municipal Systems Act and Sections 78 and 120 of the Municipal Finance Management Act).
- Using the Private Sector to Assist with Service Delivery
- Revenue Collection – Experience to Date
- Options for the Improved Delivery of Water Services
- Solid Waste Management

- CBO Waste Collection
- Community Consultation and Relations
- Contract Monitoring and Evaluation

**Development Credit Authority.** In 2003 the MIIU/PADCO team worked with USAID to prepare a credit guarantee scheme using USAID's Development Credit Authority (DCA) to guarantee projects up to \$35 million on a 50/50 risk sharing basis. The projects had to be for capital investment that improves basic municipal services such as water, solid waste, and electricity or for equipment that would improve municipal revenues. At least 50% of the beneficiaries had to be historically disadvantaged.

Due to a much changed environment which resulted in a shortage of projects that meet the prescribed criteria, the MIIU/PADCO team revised the design in 2005. The new design entailed the selection of banks with large networks in the country to assist with project identification and viability analysis. The benefit of this approach is that the outreach capability of MIIU will be significantly enlarged; the banks will do a lot of the upfront viability analysis which MIIU would have done otherwise; and the process to select the banks only has to be done once; whereas in the previous approach it would have to be done for every single project. At the time of MIIU's closure, the two banks had been selected and marketing program implemented. One project had been put forward to USAID for approval. The new USAID project, Increased Sustainable Local Government Services (ISLGS) commenced in March 2006, will continue with the implementation of the DCA facility.

## 5. Lessons Learned

*“I think the critical challenge I faced was the relationship that I had to build with the union, and organized labour in general in South Africa, because of the - maybe miscommunication? - at the time between government policy and the challenges that we face generally in delivery. The feeling that we’re facing in South Africa is how we lever government finance with private sector finance, and make sure that we utilize the resources that we have as effectively as possible. That is really the bottom line at the MIIU.”*

Gugu Moloi, former CEO, MIIU.

MIIU/PADCO considers that key conditions for success of the MIIU included:

- **Grant fund.** The grant fund has allowed municipalities to pay for feasibility studies and hire transaction advisors. In most instances, without the grant, municipalities will not be able to finance the project development work. In some others, this grant provided the necessary incentive for municipalities to initiate the process.
- **Government role and ownership.** It has been critical that this unit was initiated by and received full support from the Government of South Africa. This is particularly important as PPPs can be controversial in South Africa.
- **Institutional Arrangement and Governance.** While fully supported by the Government, the Unit was set up outside of government which allowed it to be unencumbered by government bureaucracy and interventions and focus on facilitating deals. Being a non-profit entity and independent from government also increased the credibility of the unit in the eyes of private and public players alike. A non-executive Board of Directors provided oversight to the MIIU management as intermediary on behalf of DPLG and National Treasury. Regular reporting and meetings ensured that operations were based on a sound business strategy and sound financial management and performance-oriented operations.
- **Project Preparation Methodology.** Having the resources and expertise to guide and handhold the municipalities through the whole project life cycle process from preparing scopes of work, procuring transaction advisors, to tendering and negotiation has been important to offset the serious lack of capacity at the municipal level. The 80/20 cost-sharing ensured ownership of the project from the municipality’s side. Standardization of project management procedures put in place a methodology that ensured consistency, quality control, and disbursement of funds against deliverables.
- **Staffing Strategy.** The initial staffing by expatriate advisors with international experience followed by very qualified local staff allowed the Unit to benefit from international experience while having local knowledge and to impart skill transfer which is important for long term institutional sustainability. This level of expertise has benefited participating municipalities through the transfer of skills and knowledge that was achieved – even if the ultimate decision was not to proceed into an MSP.

While the MIIU has achieved significant accomplishments as described earlier in the report, it is useful to point out the challenges it has faced and highlight areas where improvements can be made. The points below are made with both the South African audience in mind as well as the international audience which might be considering initiatives similar to MIIU.

- **Primary reasons for projects not resulting in MSPs.** Although MIIU successfully completed a good number of MSPs, leveraged finance, and created a market, the number of MSP projects completed as a share of the projects that entered the pipeline is modest. It is estimated that one MSP is completed for every four projects with those that do not reach MSP deciding to stay with internal provision. Furthermore, the number of MSP projects completed per year in the latter years decreased and were mostly operation and maintenance contracts with limited risk transfer and private investment. Primary reasons for this are a legislative framework that has recently become more restrictive, limited municipal capacity, and ideological opposition to private sector participation from organized labor. Subsequent points below elaborate on these reasons and the next section make recommendations on how they can be addressed.

In addition to the above, political instability and lack of commitment and understanding have also contributed to projects not resulting in MSPs or projects suffering from delays. In a few cases delays were caused by lack of commitment and involvement from councilors leading to indecisiveness when actual decisions had to be taken. Also, councilors did not always understand the implications of choosing an internal option (see point below on the phases in doing a feasibility study under the Municipal Systems Act). They often commit the required human and financial resources to provide services internally—a commitment which are required under the Municipal Systems Act—but do not follow through with that commitment. Hence, as mentioned below, decisions to stay internal is often based on incomplete information and furthermore there are no mechanisms to ensure a Council does make good on its undertaking if going internal.

- **Cumbersome legislative framework.** The legislative framework for municipal PPPs is an enabling framework in that it specifies the process that must be followed and ensures that a robust feasibility process be followed. However, it is also disabling in that it heavily regulated and in some cases discriminates against private sector participation.

The Municipal Systems Act is one example. When considering service delivery options (e.g., private or public), municipalities are required to do so in two phases. In phase I a municipalities is only allowed to look at internal options and only after it has done so can it consider external options in phase II. It can also decide to stop at phase I and not explore external options at all. The problems arising from this are several fold. First, municipalities who are genuinely interested in exploring external options cannot do so right away and compare all options simultaneously. Instead it must follow a lengthy process that adds time and money to the process. Second, the decision a municipality makes at phase I can only be an uninformed one as the municipality cannot compare all the options that are available to it. Also, given the absence of benchmarking activities in South Africa, it cannot even compare its performance against other municipalities. It should be noted that the clause requiring the assessment of internal options first was lobbied into the Act by organized labor. If a municipality decides to stay with an internal option, the Act requires the municipality to provide the financial and human resources necessary to meet service standards prescribed by the Act; however, many municipalities do not make good on this commitment.

The public participation process, while highly commendable in principle, often adds long delays to the process. It is not uncommon, for example, to have to hold ten public meetings in larger and geographically spread municipalities. Consultation with organized labor also adds significant time to the process as it is difficult to obtain their input.

Another example is the Water Systems Act. It gives preference to public service provision by allowing municipalities to negotiate with an external provider when that provider is another public entity but requires competition when the external provider is a private entity. The Act also gives the government discretion to cap water tariffs which does not give investors the comfort they need that the tariff review process will reflect costs.

The 2003 Municipal Finance Management Act and its associated regulation which is the other key legislation for municipal PPPs also pose their own problems. It specifies a very sophisticated feasibility analysis designed for large capital intensive projects which is sometimes inappropriate for smaller municipal projects. The transaction advisory costs as a result has increased between 40 to 70%.

The Act also requires municipalities to seek “views and recommendation” in all phases of the project life cycle from several departments at the national level from the National Treasury, DPLG, and the responsible line department. In some instances, views and recommendations could also be required from provincial governments. These additional layers of approval could easily add nine months to the process.

The lesson learned is that while a strong regulatory framework is important, it has to be balanced with the size of projects, capacity of municipalities, and the urgency of delivering on services; and that one needs to be aware of the risks of overregulating. Fortunately, awareness is emerging that the regulations for municipal PPPs need to be simplified. One means of simplifying the regulations is by establishing a threshold below which projects follow a simplified approval process and/or analytical process. This approach has been adopted by the countries leading in the area of PPPs, such as the UK and Canada. In South Africa this approach has been applied in for tourism projects and now is being considered for municipal projects as well.

- ***Municipal MSPs need significant technical assistance.*** Municipal PPPs, unlike national and provincial level PPPs, need a lot more handholding and require longer lead times to complete. It is not uncommon, for example, for even a small project to be completed in 2 years. This needs to be taken into account when planning, budgeting, and staffing. The extensive technical assistance needed is reflected in the ratio between the cost of technical assistance provided by the MIIU and the grant funds disbursed. Table 3 shows that on average it costs 80 cents to provide technical assistance and manage the grant fund for every dollar of grant fund disbursed. While this cost is somewhat inflated as it includes non-project input such as standardization, policy input, and overhead costs, it does indicate the high level of support needed for municipal PPPs.
- ***Misunderstanding and distrust towards MSPs continue to exist.*** Despite numerous information dissemination activities conducted by the MIIU, MSPs continue to be misunderstood by significant sections of the public, including some government officials and politicians who misunderstand how the complicated contractual arrangements work, and sometimes fundamentally mistrust the private sector. The lack of awareness and trust sometimes result in projects moving very slowly or not at all.
- ***Need for post-transaction support.*** In addition to “deal-making” there is also a need to provide support during the implementation, management and monitoring

stages of MSPs. It is not sufficient to provide guidance and assistance only through the signature of the contract – continued assistance is required for contract performance monitoring and to support mid-course corrections as needed. This support can take various forms, from providing contract management support for a limited time, to more periodic, hands-off monitoring, and for complex projects, encouraging the establishment of a contract monitoring unit or strengthen it if one already exists.

In its last year MIIU started to fill this gap by developing and pilot testing guidelines on contract management.

- **Selection of municipalities to receive assistance.** There has always been much interest in how MIIU selects the municipalities it assists. It was initially suggested that a database should be created to assist in targeting MIIU interventions on municipalities that cannot access private finance, but subsequently it was decided that a demand-based approach would be used. The demand approach is then combined with a viability screening consisting of a technical, financial, and institutional analysis. MIIU believes that in general this is a correct approach.

However, the viability screening can be refined. The viability screening component has evolved over the years, from a relatively simple selection process, to a more complicated, ‘diagnostic’ process, and back to a simple process. The diagnostic process (see Annex 12) was abandoned as it was either too complicated for the municipalities to fill out and delayed the process or it required too much consulting resources. In the latter years, in hindsight it can be said that the viability screening was not stringently implemented.

The lesson learned is that while a robust viability analysis needs to be in place to ensure a good quality pipeline, it should not be too demanding that it cannot be done without significant external input.

- **MSP projects do not have to rely solely on user charges to be viable.** MIIU has found that projects which target the poor or projects that do not generate revenues are typically unable to achieve full, direct cost recovery from users and beneficiaries. Rather, they utilize mixed cost recovery strategies in which the sources of funds typically vary by sector and project design. For example, most solid waste projects depended on funding from municipal general revenues. Water projects depended on tariffs and Government subsidies earmarked for the poor. This lesson is important as it dispels the myth that for a MSP to be viable, the revenue stream from users needs to be able to cover all costs. This strategy of mixed cost recovery is not dissimilar to the World Bank’s “Output-Based Subsidies” model.
- **Revenue enhancement programs can support the viability of MSPs.** While MSPs do not have to rely solely on user charges, effort should be made to maximize collection of charges and taxes through revenue enhancement activities as they do increase the viability of MSPs. Revenue enhancement is of particular importance in South Africa where collection of charges and taxes has been poor due to a culture of non-payment, a demarcation process merged municipalities with different systems into fewer municipalities, and limited municipal capacity. In the last year of MIIU, with PSU as the subcontractor, MIIU prepared a guideline that documented the methodology used in MIIU’s revenue enhancement projects.
- **The importance of having a multi-disciplinary team.** Given the multi-disciplinary nature of PPP projects—including technical, financial, legal and contractual—unit such as the MIIU should have a mix of skills from all of the above areas and all projects should go through a multi-disciplinary review.
- **Size and composition of MIIU Board.** MIIU’s Board was appointed by the Minister of the DPLG with a view to representation of various constituencies rather than on

the ability to provide strategic policy advice and direction. Consideration should be given to decreasing the size of the Board to a smaller number having the capacity, commitment, and awareness of MSPs to better direct the MIIU mission. Consideration should also be given to compensating the Board to enhance the commitment and ability to better participate as Board members.

- **Expanding into non-basic services.** There has been debate over the years whether MIIU should focus on basic services such as water, sanitation, solid waste, and electricity or include other non-basic municipal functions such as local economic development, IT, and business services. MIIU is of the opinion that given the backlog in basic service delivery, the decision to focus on basic services was the right one. However, a unit such as MIIU should consider expanding into other sectors in the latter years as PPPs in these sectors have great potential to introduce efficiencies and private capital as well.
- **The importance of standardized documents.** Standardized and sample documents can help overcome the lack of awareness and expertise in local authorities, reduce the involvement of expert team, and reduce transaction cost. When standard contracts are already available, legal costs can be reduced significantly.

A number of standard forms and templates were prepared by MIIU. However, as experience is being accumulated on completed projects there are more projects and better understanding of how risk should be allocated, there is a need to update some of the standardized documents and develop new variants for certain sectors or sub-sectors.

- **The trade-offs of being a stand-alone unit.** As mentioned earlier, the stand-alone arrangement has been one of the success factors of MIIU. This arrangement has allowed the MIIU to be unencumbered by government bureaucracy and interventions and focus on facilitating deals. It has also allowed MIIU to be seen as the ‘honest broker’, relied on by both municipalities and the private sector alike. On the other hand, this arrangement has limited MIIU’s ability to influence policy. In the latter years, this arrangement has perhaps resulted in a waning ownership and support of the unit by the executive authority.

Now that the functions of MIIU are going to be absorbed by government (i.e., PPP Unit National Treasury), questions will undoubtedly be asked on whether the effectiveness of MIIU will be affected. The advantages of the transfer to the PPP Unit are the ability to influence policy which can be important given the sometimes ambivalent policy implementation on PPPs, PPP Unit’s strong track record of successful PPP completion in other spheres of government, PPP Unit’s semi-autonomous operations within National Treasury, and a position of strength where it can question unsound decisions by municipalities—something that MIIU was less able to do. The disadvantages are the risk of appearing to be inaccessible to municipalities and the risk of being too heavy handed in its regulatory role. We believe that the set of today’s circumstance is such that the advantages outweigh the disadvantages and that the effectiveness of MIIU can be maintained if the PPP Unit is able to balance its regulatory and facilitatory roles, be accessible municipalities, and continue to provide the handholding role which is important for municipal PPPs.

- **Experience with DCA.** MIIU’s experience with DCA reinforces the experience found elsewhere of not having enough demand for projects to be financed. In South Africa this problem is further compounded by several factors. First is underspending on grant funds by municipalities which make borrowing less attractive as there is free money to be spent. Second, the drive by lending agencies with concessional funds with lower borrowing costs such as the DBSA to go downmarket to mid-sized and smaller municipalities causing the private banks to be uncompetitive in this target



market. Third, recent municipal reform and government targets for the financial sector to lend to 'transformational' infrastructure have also driven private banks to go downmarket themselves. While this is on its own a positive development, it has further shrank the target market of the DCA as the DCA requires an 'additionality' criteria be met. (Additionality is when the loan would not have been extended if it were not for the guarantee). Since private banks would now lend to municipalities in absence of the DCA, the loan is no longer eligible for a DCA guarantee.

The change in project identification and analysis described earlier in this report should increase the chance of increasing the size of pipeline but it will not rectify the upstream and structural problems mentioned.

## 6. Conclusions and Recommendations

*“The MIU was a sensational intervention at a particular time in South Africa’s history when we were trying to push a very ambitious development programme at local level. The contribution that the MIU made was to go out and mobilize private capital, and channel it into that Reconstruction and Development Program (RDP) agenda. That was hugely significant. Equally significant was the number of deals actually done.”*

Crispian Olver, former Chief Director for Local Government,  
Department of Local and Provincial Government.

In conclusion, the MIU has successfully improved the market for MSPs, developed a standardized methodology, and completed deals that will bring significant private investment and service improvements to households. To solidify the gains made in this project and further build on this success, the following are recommended for those who will be taking over MIU’s functions. Many of these recommendations would be applicable for project development facilities elsewhere that have been in operation and are entering the next phase.

- More aggressive marketing of MSPs and dissemination of best practices needs to be done to overcome the mistrust and lack of knowledge surrounding MSPs. MIU has found that many municipalities either have misconceptions about MSPs or are not aware of the successes of existing MSPs, even those in neighboring municipalities. These MSPs need to be documented and disseminated in simple, easy to digest formats and through appropriate mediums. Primary fears surrounding MSPs such as job losses and price hikes need to be explained and defused, for example, by publicizing positive results and mitigating strategies. In addition to municipal officials, municipal councilors should also be targeted.
- The legislation and regulation that regulates MSPs need to be reviewed, simplified, and aligned. The establishment of a threshold whereby projects below the threshold could undergo a simplified approval and feasibility process should be considered.
- Given the mistrust and lack of capacity surrounding MSPs, the deepening of MSPs involving more private investment and risk transfer should be done incrementally. This can be done by targeting municipalities who already have experience with structuring and managing MSPs with to undertake larger and more complex MSPs. For example, assistance can be given to a municipality who already has experience with a management contract to explore a BOT or an O&M contract with a rehabilitation or small investment component. Another advantage of this approach is information on the conditions of service and existing assets would be available which is critical in MSPs.
- Given that experience in smaller operation and maintenance projects already exists in the market, MIU’s successor or other project development facilities should focus assistance on larger complex projects, innovative projects, or projects that pioneer MSPs in new sectors or new areas.
- To facilitate the replication of the smaller, routine projects in the market and reduce transaction costs, standardized documents should be developed. Examples of these standardized documents include model contracts for solid waste collection, waste materials recovery, waste disposal, and operation and maintenance of water

treatment plants. Existing standardized documents should also be reviewed and updated if necessary to reflect changes in legislation, the issuance of standardized provision from National Treasury, and improved understanding of optimal risk allocation. Even standardized bid documents, RFQs and RFPs will assist greatly and reduce costs. If not possible to standardized, guidelines on the content and format would also be useful.

- Consideration should be given to expanding eligible sectors to include new sectors and non-basic services, such as housing, markets, IT, tourism, local economic development, and sale of non-core assets.
- Models that make MSPs viable in smaller municipalities should be explored. For example, a MSP contract providing service to multiple municipalities benefiting from economies of scale might make the MSP more viable. In areas where there is the revenue stream from users is limited, one could explore the possibility of pledging a portion of the municipality's own source revenue or government grants to the project.
- In more complex projects, post-transaction monitoring support should be provided for a limited period (at least from Phase 2). If done properly this will produce a compilation of a proper risk audit of the project. This again will assist all involved to get to know the contract better, to know how lines of authority and communications fit and must be synchronized and can act as a sort of "bonding" exercise between all relevant parties right at the start of the project. Not only that, the above two suggestions will assist with performance management and monitoring of the PPP while fulfilling Treasury requirements and section 116 of the MFMA.
- Effort should be made to build the capacity of municipal officials and councilors. The MIIU did not focus on this, emphasizing instead on the need to demonstrate results through completed deals to establish precedents. Building the capacity of the market was accomplished mainly by building the capacity of the consulting industry. MIIU believes that this is the correct approach for the first 5-7 years. In subsequent years, however, as the market becomes more developed, effort should be given on building the capacity of the municipal officials through activities such as training or internship programs. Increased capacity of municipal officials will help ensure the faster completion and management of MSPs. Giving effort to municipal capacity building does not necessarily mean that the project development facility undertake training programs itself. It just needs to ensure that such programs either exists in the market and that they are continuously updated with experience from the ground. Alternatively if such training programs do not exist, development and management of such programs can be outsourced to an external provider or lastly the facility could undertake the training program itself.

Forums for knowledge sharing between municipalities should be supported, and government at a national level should take the lead by providing the resources for its facilitation.

- Given that a sizeable number of municipalities will decide to stay with internal options, effort should be made to ensure that if a municipality does decide to stay internal options, improvements will still be introduced. Hence, recommendations for internal improvements should be thorough enough that they can be adopted and implemented and should be prioritized according to their potential to yield results. Furthermore, mechanisms should also be developed so that commitments to provide the necessary human and financial resources are honored.



## **Annex A1**

### **Index of Reports and Information Products**

Copies of the following reports and information products were provided to USAID as they were produced. Most are available on a CD submitted with this report.

- Quarterly Reports 2002 (1 per quarter, 4 total)
- Annual Work Plan 2002/2003
- Marketing and Communications Strategy 2002/2003
- Report on National MSP Conference
- MIIU Annual Report 2002
  
- Quarterly Reports 2003 (1 per quarter, 4 total)
- Annual Work Plan 2003/2004
- MIIU Annual Report 2003
  
- Quarterly Reports 2004 (1 per quarter, 4 total)
- Annual Work Plan 2004/2005
- MIIU Annual Report 2004
  
- Quarterly Reports 2005 (1 per quarter, 4 total)
- MIIU Annual Report 2005
- Papers and Case Studies:
  - A Review of Reports by Private-Sector-Participation Skeptics
  - Uthukela Water Case Study
- Guidelines:
  - A Practical Guide to Enhancing Municipal Revenue.
  - A Practical Guide to Best Practices in Municipal Solid Waste
- Leaflets:
  - Getting Value out of a Section 78 Process
  - Using the Private Sector to Assist with Service Delivery

- Revenue Collection – Experience to Date
- Options for the Improved Delivery of Water Services
- Solid Waste Management
- CBO Waste Collection
- Community Consultation and Relations
- Contract Monitoring and Evaluation
- Exit Plan
- Final Completion Report (2006)

In addition to the above, the following were prepared by MIIU without direct USAID funding but is available on the CD accompanying this report.

- Contract management guidelines
- Community relations guidelines
- A Practical Guidelines for Water Service Authorities on Relationship between Water Service Authority and Water Service Provider
- Contract monitoring and community relations case studies
- When Public Partnerships Work: A Case Study of Government Policy in the Proposed Partnership Between Emfuleni and Metsi a Lekoa (Pty) Ltd
- Evaluation Report of the WSSA Water & Sanitation Contract in Lhukanji

## Annex A2 Completed Projects and Results

Project	Signing Date	Water		Sanitation		Solid Waste		Power (gas/elect)		Transport		Capex TOTALS (millions of Rand)	Total HD HHS Benefitting [2]
		Capex	#HHS	Capex	#HHS	Capex	#HHS	Capex	#HHS	Capex	#HHS		
<b>Prior to 30/9/00</b>													
1. Dolphin Coast [3]	29-Jan-99	174.9	5,000	86.1	5,000							261.0	5,000
2. Nelspruit	21-Apr-99	298.8	42,667	147.2	42,667							446.0	42,667
3. GJMC WMLC	7-Oct-99					0.6	5,000					0.6	5,000
4. GJMC airport	17-Jan-00									28.0		28.0	--
5. Pretoria airport	15-Feb-00									306.0		306.0	--
6. Robertson	1-Jul-00					0.5	2,000					0.5	2,000
7. Metro Gas	18-Sep-00							386.0	6,000			386.0	6,000
8. Jo'burg Market [6]	30-Jun-00	25.0	31,250	25.0	31,250								31,250
<b>TOTALS</b>		498.7	78,917	258.3	78,917	1.1	7,000	386.0	6,000	334.0	0	1,478.1	91,917

<b>1 Oct. 2000 to 30 Sept. 2001</b>													
1. GJMC IT [4]	1-Oct-00	59.0		59.0		59.0		59.0		59.0		295.0	--
2. GJMC Fleet [5]	9-Oct-00	240.0		240.0		240.0		240.0		240.0		1200.0	--
3. Harrismith	19-Oct-00	4.0	14,222	2.0	14,222							6.0	14,222
4. Thabazimbi waste	1-Nov-00					10.0	3,000					10.0	3,000
5. Tzaneen	15-Nov-00					20.0	12,000					20.0	12,000
6. Richards Bay Airport	16-Nov-00									17.0		17.0	--
7. GJMC parking	5-Dec-00									12.0		12.0	--
8. Joburg Water Utility	1-Jan-01											0.0	120,000
9. Eastern Cape IT	28-Feb-01											0.0	--
10. GJMC waste utility	1-Jun-01											0.0	--

Project	Signing Date	Water		Sanitation		Solid Waste		Power (gas/elect)		Transport		Capex TOTALS (millions of Rand)	Total HD HHs Benefiting [2]
		Capex	#HHs	Capex	#HHs	Capex	#HHs	Capex	#HHs	Capex	#HHs		
11. GJMC bus	1-Jul-01											0.0	300,000
12. Uthukela water	21-Sep-01	18.5										18.5	100,000
13. Hibiscus Coast airport	29-Nov-01									2	2,000		2,000
<b>TOTALS</b>		321.5	14,222	301.0	14,222	329.0	15,000	299.0	0	330.0	2,000	1,578.5	551,222

#### 1 Oct. 2001 to 30 Sept. 2002

1. GJMC Kelvin Power	9-Nov-01							1253.0	200,000			1253.0	200,000
2. Margate airport	29-Nov-01									2.0		2.0	--
3. Maluti water	30-Nov-01	12.0	178,000									12.0	178,000
4. Overstrand waste	6-Dec-01					1.0	2,500					1.0	2,500
5. Mbombela electricity	30-Sep-02							3.2	50,000			3.2	50,000
<b>TOTALS</b>		12.0	178,000	0.0	0	1.0	2,500	1256.2	250,000	2.0	0	1,271.2	430,500.0

#### 1 Oct. 2002 to 30 Sept. 2003

1. Mogalakwena water	1-Oct-02	190.0	33,500									190.0	33,500
2. Mbombela rev. mgmt.	1-Jan-03	1.0	10,000									1.0	10,000
3. Theewaterskloof waste	1-Jan-03					1.0	5,000					1.0	5,000
4. Cape Town waste	1-Feb-03					20.2						20.2	500
5. uThungulu waste	14-Apr-03					41.0						41.0	--
6. Ilembe water	1-Aug-03	7.0	82,004	3.0	82,004							10.0	82,004
7. Msunduzi waste	4-Aug-03					19.5	8,500					19.5	8,500
8. uMhlatuze water	28-Aug-03	55.5	14,195	25.0	14,195							80.5	14,195



Project	Signing Date	Water		Sanitation		Solid Waste		Power (gas/elect)		Transport		Capex TOTALS (millions of Rand)	Total HD HHs Benefiting [2]
		Capex	#HHs	Capex	#HHs	Capex	#HHs	Capex	#HHs	Capex	#HHs		
9. Middelburg waste	1-Sep-03					6.6						6.6	--
<b>TOTALS</b>		253.5	139,699	28.0	96,199	88.3	13,500	0.0	0	0.0	0	369.8	153,699

#### 1 Oct. 2003 to 30 Sept. 2004

1. Thulamela waste	1-Nov-03	0.0	0	0.0	0	8.5	12,000					8.5	12,000
2. Cape Town market [6]	23-Feb-04	12.0	10,000	4.0	10,000	0.0	0					16.0	10,000
3. Richards Bay water	19-Mar-04	2.0	7,000	2.0	7,000	0.0	0					4.0	7,000
4. Johannesburg Bonds [7]	14-Apr-04	220.0	82,000	220.0	82,000	0.0	0	220.0	82,000			660.0	82,000
5. Cape Town waste	1-Jun-04	0.0	0	0.0	0	0.5	22,000					0.5	22,000
<b>TOTALS</b>		234.0	99,000	226.0	99,000	9.0	34,000	220.0	82,000	0.0	0	689.0	133,000

#### 1 Oct. 2004 to 30 September 2005

1. Cape Town waste	1-Jan-05	0.0	0	0.0	0	22.4						22.4	--
2. Mogale City rev.mgmt [8]		2.1	5,600	0.9	2,400							3.0	8,000
3. Albert Luthuli rev mgmt [8]	1-Oct-04	0.77	4,200	0.33	1,800							1.1	6,000
4. uThungulu Water		13.4	22,200	3.4	22,200							16.8	22,200
5. Mbombela Water	Apr-05	40.00	5,300									40.0	5,300
6. Kouga Waste	Sep-05					3.4						3.4	0
7. Maluti A-Phofung Electricity	June-05							29.0	60,000			29.0	60,000
<b>TOTALS</b>		56.3	37,300	4.6	26,400	25.8		29.0	60,000	0.0		115.7	101,500

Project	Signing Date	Water		Sanitation		Solid Waste		Power (gas/elect)		Transport		Capex TOTALS (millions of Rand)	Total HD HHs Benefiting [2]
		Capex	#HHs	Capex	#HHs	Capex	#HHs	Capex	#HHs	Capex	#HHs		
<b>1 Oct. 2005 to March 31 2006</b>													
1. Maluti A Phofung Water		24.4	88,000	8.1	88,000							32.5	88,000
<b>TOTALS</b>		24.4	88,000	8.1	88,000							32.5	88,000

Notes:

1. All numbers are nominal values, estimated at time of contract closure (or at time of formal contract amendment).
2. Historically disadvantaged households directly benefiting via better service delivery, improved environmental conditions, or job creation.
3. 67% of concessions assumed to be for water; the rest for sanitation.
4. For service/mgmt contracts (like GJMC Fleet and IT) with capex blended into service fees, assume 50% of contract value is capex.
5. For the distribution of fleet and IT values among sectors, assume each sector gets 20% of capex cost, as calculated above.
6. The assumption here is that the sale proceeds of the market will be invested in water and sanitation infrastructure.
7. Credit is taken here for one-third of the bond proceeds; it is assumed that one-third of the total HHs in the area will benefit.
8. It is assumed that 70% of additional revenues will be invested in water and 30% in sanitation

## Annex A3 Overview of Project Pipeline

No	Province	Municipality	Type of Assistance*	Sector	Year Created
1	Eastern Cape	Alfred Nzo District Municipality	Diagnostics	Diagnostic	2001
2	Eastern Cape	Alfred Nzo District Municipality	MSP	Water & Sanitation	2003
3	Eastern Cape	Alfred Nzo District Municipality	MSP	Electricity: Non-Grid	2003
4	Eastern Cape	Amahlathi Local Municipality	MSP	Solid Waste	2003
5	Eastern Cape	Amatole District Municipality	MSP	Solid Waste	2001
6	Eastern Cape	Amatole District Municipality	MSP	Water & Sanitation	2004
7	Eastern Cape	Amatole District Municipality	M&E	Water & Sanitation	2004
8	Eastern Cape	Buffalo City Local Municipality	MSP	Fresh Produce Market	1999
9	Eastern Cape	Buffalo City Local Municipality	MSP	Solid Waste	1999
10	Eastern Cape	Buffalo City Local Municipality	MSP	Water & Sanitation	1999
11	Eastern Cape	Buffalo City Local Municipality	Diagnostics	Diagnostic: Solid Waste	2001
12	Eastern Cape	Buffalo City Local Municipality	MSP Support	Water & Sanitation	2003
13	Eastern Cape	Cacadu District Municipality	MSP	Asset Sale	2003
14	Eastern Cape	Chris Hani District Municipality	MSP	Water & Sanitation	2003
15	Eastern Cape	Chris Hani District Municipality	M&E	Water & Sanitation	2003
16	Eastern Cape	ECMSS	MSP	Information Technology	1998
17	Eastern Cape	King Sabata Dalindyebo Local Municipality	MSP	Water & Sanitation	1998
18	Eastern Cape	King Sabata Dalindyebo Local Municipality	MSP	Information Technology	1999
19	Eastern Cape	Kouga Local Municipality	MSP	Solid Waste	2003
20	Eastern Cape	Lukanji Local Municipality	MSP	Solid Waste	1998
21	Eastern Cape	Lukanji Local Municipality	Diagnostics	Diagnostic	2002
22	Eastern Cape	Lukanji Local Municipality	MSP	Transport: Fleet Management	2003
23	Eastern Cape	Makana Local Municipality	MSP	Water & Sanitation	2003
24	Eastern Cape	Makana Local Municipality	MSP	Solid Waste	2003
25	Eastern Cape	Nelson Mandela Metropolitan	MSP	Solid Waste	2001
26	Eastern Cape	Nelson Mandela Metropolitan	Diagnostics	Diagnostic	2002
27	Eastern Cape	Nelson Mandela Metropolitan	MSP	Solid Waste	2003
28	Eastern Cape	Nelson Mandela Metropolitan	MSP	Transport: Fleet Management	2003
29	Eastern Cape	Nelson Mandela Metropolitan	MSP	Water & Sanitation	2003
30	Eastern Cape	Nelson Mandela Metropolitan	MSP	Legal Opinion/Review	2003
31	Eastern Cape	Nelson Mandela Metropolitan	MSP	Solid Waste	2004
32	Eastern Cape	Nelson Mandela Metropolitan	MSP	Multiple Sectors	2004
33	Eastern Cape	Nkonkobe Local Municipality	MSP	Water & Sanitation	2001
34	Eastern Cape	Nkonkobe Local Municipality	MSP Support	unknown	2002
35	Eastern Cape	OR Tambo District Municipality	Diagnostics	Diagnostic	2002
36	Free State	Dihlabeng Local Municipality	Diagnostics	Diagnostic	2003
37	Free State	Maluti a Phofung Local Municipality	MSP	Water & Sanitation	1998
38	Free State	Maluti a Phofung Local Municipality	Diagnostics	Diagnostic	2001
39	Free State	Maluti a Phofung Local Municipality	MSP	Water & Sanitation	2003
40	Free State	Maluti a Phofung Local Municipality	MSP	Water & Sanitation	2001
41	Free State	Maluti a Phofung Local	MSP	Solid Waste	2002

No	Province	Municipality	Type of Assistance*	Sector	Year Created
		Municipality			
42	Free State	Maluti a Phofung Local Municipality	Pilot Study	Electricity: Ringfencing Pilot Study	2003
43	Free State	Maluti a Phofung Local Municipality	MSP	Electricity: Distribution	2003
44	Free State	Mangaung Local Municipality	MSP	Transport	1999
45	Free State	Mangaung Local Municipality	MSP	Water & Sanitation	1999
46	Free State	Mangaung Local Municipality	Diagnostics	Diagnostic	2001
47	Free State	Mangaung Local Municipality	MSP	Water & Sanitation	2002
48	Free State	Mangaung Local Municipality	Diagnostics	Diagnostic: Airport	2002
49	Free State	Mangaung Local Municipality	MSP	Multiple Sectors	2002
50	Free State	Mangaung Local Municipality	MSP	Solid Waste	2002
51	Free State	Matjhabeng Local Municipality	MSP	Water & Sanitation	1999
52	Free State	Matjhabeng Local Municipality	MSP	Water & Sanitation	2003
53	Free State	Moqhaka Local Municipality	MSP	Solid Waste	2002
54	Free State	Setsoto Local Municipality	MSP	Water & Sanitation	1999
55	Gauteng	City of Johannesburg	MSP	Fresh Produce Market	1998
56	Gauteng	City of Johannesburg	MSP	Transport: Airport	1998
57	Gauteng	City of Johannesburg	MSP	Information Technology	1998
58	Gauteng	City of Johannesburg	MSP	Electricity: Generation	1998
59	Gauteng	City of Johannesburg	MSP	unknown	1998
60	Gauteng	City of Johannesburg	MSP	Solid Waste	1998
61	Gauteng	City of Johannesburg	MSP	Transport: Fleet Management	1999
62	Gauteng	City of Johannesburg	MSP	Gas	1999
63	Gauteng	City of Johannesburg	MSP Support	Water & Sanitation	1998
64	Gauteng	City of Johannesburg	MSP	Stadium	1999
65	Gauteng	City of Johannesburg	MSP	Transport	1999
66	Gauteng	City of Johannesburg	MSP	Water & Sanitation	2000
67	Gauteng	City of Johannesburg	MSP	Diagnostic: Bond	2000
68	Gauteng	City of Johannesburg	Diagnostics	Diagnostic: CMU	2002
69	Gauteng	City of Johannesburg	MSP Support	CMU	2003
70	Gauteng	City of Johannesburg	MSP	Solid Waste	2003
71	Gauteng	City of Johannesburg	DCA	Water & Sanitation	2003
72	Gauteng	City of Johannesburg	M&E	Electricity: Generation	2004
73	Gauteng	City of Tshwane	MSP	Electricity: Generation	1999
74	Gauteng	City of Tshwane	MSP	Transport: Airport	2000
75	Gauteng	Ekurhuleni Metropolitan	MSP	Water & Sanitation	2002
76	Gauteng	Ekurhuleni Metropolitan	MSP	Solid Waste	2002
77	Gauteng	Ekurhuleni Metropolitan	MSP	Solid Waste	2005
78	Gauteng	Emfuleni Local Municipality	MSP	Water & Sanitation	1999
79	Gauteng	Emfuleni Local Municipality	Diagnostics	Diagnostic: Housing	2002
80	Gauteng	Emfuleni Local Municipality	MSP	Solid Waste	2002
81	Gauteng	Emfuleni Local Municipality	MSP	Transport: Airport	2002
82	Gauteng	Emfuleni Local Municipality	MSP	Housing	2002
83	Gauteng	Emfuleni Local Municipality	MSP Support	Water & Sanitation	2002
84	Gauteng	Emfuleni Local Municipality	MSP	Cemeteries	2003
85	Gauteng	Emfuleni Local Municipality	MSP	Water & Sanitation	2003
86	Gauteng	Emfuleni Local Municipality	Diagnostics	Diagnostic: Fleet Management	2003

No	Province	Municipality	Type of Assistance*	Sector	Year Created
87	Gauteng	Emfuleni Local Municipality	MSP	Transport: Fleet Management	2003
88	Gauteng	Emfuleni Local Municipality	MSP	Electricity: Distribution	2003
89	Gauteng	Emfuleni Local Municipality	Pilot Study	Electricity: Ringfencing Pilot Study	2003
90	Gauteng	Emfuleni Local Municipality	MSP Support	Legal Opinion/Review	2003
91	Gauteng	Mogale City Local Municipality	MSP	Water & Sanitation	1999
92	Gauteng	Mogale City Local Municipality	Revenue Enhancement	Water & Sanitation	2004
93	Gauteng	Mogale City Local Municipality	DCA	Water & Sanitation	2004
94	Gauteng	Mogale City Local Municipality	MSP	Information Technology	2005
95	Gauteng	Sedibeng District Municipality	MSP	Fresh Produce Market	2005
96	Gauteng	West Rand District Municipality	MSP	Solid Waste	2002
97	Gauteng	West Rand District Municipality	MSP	Transport	2002
98	KwaZulu-Natal	Abaqulusi Municipality	MSP	Multiple Sectors	1999
99	KwaZulu-Natal	Amajuba District Municipality	MSP	Business Centre	2002
100	KwaZulu-Natal	Emnambithi/Ladysmith Municipality	MSP	Solid Waste	2003
101	KwaZulu-Natal	Greater Kokstad Municipality	MSP	Solid Waste	2004
102	KwaZulu-Natal	Hibiscus Coast Municipality	MSP	Water & Sanitation	1998
103	KwaZulu-Natal	Hibiscus Coast Municipality	MSP	Transport: Airport	1998
104	KwaZulu-Natal	Hibiscus Coast Municipality	MSP	Transport: Road	1999
105	KwaZulu-Natal	Imbabazane Municipality	Diagnostics	Diagnostic	2003
106	KwaZulu-Natal	KwaDukuza Municipality	MSP	Water & Sanitation	1998
107	KwaZulu-Natal	KwaDukuza Municipality	MSP	Water & Sanitation	1998
108	KwaZulu-Natal	KwaDukuza Municipality	MSP	Solid Waste	1998
109	KwaZulu-Natal	KwaDukuza Municipality	MSP	Water & Sanitation	1998
110	KwaZulu-Natal	KwaDukuza Municipality	MSP	Solid Waste	1999
111	KwaZulu-Natal	KwaDukuza Municipality	MSP	Transport: Fleet Management	2003
112	KwaZulu-Natal	KwaDukuza Municipality	MSP	Solid Waste	2004
113	KwaZulu-Natal	KwaDukuza Municipality	MSP	Roads & Parks	2004
114	KwaZulu-Natal	KwaDukuza Municipality	M&E	Water & Sanitation	2004
115	KwaZulu-Natal	Matatiele Municipality	Diagnostics	Diagnostic	2002
116	KwaZulu-Natal	Matatiele Municipality	MSP	Multiple Sectors	2004
117	KwaZulu-Natal	Msunduzi Municipality	MSP	Transport: Airport	2001
118	KwaZulu-Natal	Msunduzi Municipality	Diagnostics	Diagnostic	2001
119	KwaZulu-Natal	Msunduzi Municipality	MSP	Solid Waste	2001
120	KwaZulu-Natal	Msunduzi Municipality	MSP	Fresh Produce Market	2003
121	KwaZulu-Natal	Msunduzi Municipality	MSP	Water & Sanitation	2003
122	KwaZulu-Natal	Msunduzi Municipality	M&E	Solid Waste	2004
123	KwaZulu-Natal	Newcastle Municipality	MSP	Solid Waste	1998
124	KwaZulu-Natal	Newcastle Municipality	MSP	Solid Waste	2005
125	KwaZulu-Natal	Nqutu Municipality	Diagnostics	Diagnostic	2003
126	KwaZulu-Natal	Sisonke District Municipality	Diagnostics	Diagnostic	2003
127	KwaZulu-Natal	Sisonke District Municipality	MSP	Water & Sanitation	2003
128	KwaZulu-Natal	Ugu District Municipality	Diagnostics	Diagnostic	2001
129	KwaZulu-Natal	Ugu District Municipality	MSP	Water & Sanitation	2002
130	KwaZulu-Natal	Ugu District Municipality	MSP	Water & Sanitation	2004
131	KwaZulu-Natal	Ugu District Municipality	Revenue Enhancement	Water & Sanitation	2004

No	Province	Municipality	Type of Assistance*	Sector	Year Created
132	KwaZulu-Natal	Ulundi Municipality	MSP	Transport: Fleet Management	2003
133	KwaZulu-Natal	Umgungundlovu District Municipality	Diagnostics	Diagnostic	2001
134	KwaZulu-Natal	Umgungundlovu District Municipality	MSP	Water & Sanitation	2003
135	KwaZulu-Natal	Umgungundlovu District Municipality	MSP	Solid Waste	2003
136	KwaZulu-Natal	Umkhanyakude District Municipality	Diagnostics	Diagnostic	2002
137	KwaZulu-Natal	Umkhanyakude District Municipality	MSP	Electricity: Non-Grid	2002
138	KwaZulu-Natal	Umkhanyakude District Municipality	MSP	Water & Sanitation	2003
139	KwaZulu-Natal	Uthukela District Municipality	MSP	Water & Sanitation	2000
140	KwaZulu-Natal	Uthungulu District Municipality	MSP	Solid Waste	2000
141	KwaZulu-Natal	Uthungulu District Municipality	MSP	Water & Sanitation	2003
142	KwaZulu-Natal	eThekweni Metropolitan	MSP	Bond/Debt	2000
143	KwaZulu-Natal	eThekweni Metropolitan	MSP	Solid Waste	2002
144	KwaZulu-Natal	eThekweni Metropolitan	MSP	Transport	2003
145	KwaZulu-Natal	iLembe District Municipality	MSP	Water & Sanitation	2003
146	KwaZulu-Natal	iLembe District Municipality	MSP Support	Water & Sanitation	2003
147	KwaZulu-Natal	iLembe District Municipality	MSP	Water & Sanitation	2003
148	KwaZulu-Natal	uMhlathuze Municipality	MSP	Transport: Airport	1998
149	KwaZulu-Natal	uMhlathuze Municipality	MSP	Water & Sanitation	1998
150	KwaZulu-Natal	uMhlathuze Municipality	MSP	Solid Waste	2000
151	KwaZulu-Natal	uMhlathuze Municipality	MSP	Water & Sanitation	2001
152	KwaZulu-Natal	uMhlathuze Municipality	MSP	Water & Sanitation	2005
153	KwaZulu-Natal	uMlalazi Municipality	MSP	Chalet & Conference Centre	1999
154	Limpopo	Ba-Phalaborwa Municipality	MSP	Solid Waste	2000
155	Limpopo	Blouberg Municipality	MSP	Water & Sanitation	1998
156	Limpopo	Blouberg Municipality	MSP	Solid Waste	2002
157	Limpopo	Bushbuckridge Municipality	Diagnostics	Diagnostic	2002
158	Limpopo	Bushbuckridge Municipality	MSP	Solid Waste	2003
159	Limpopo	Capricorn District Municipality	MSP	Water & Sanitation	2002
160	Limpopo	Capricorn District Municipality	MSP	Solid Waste	2003
161	Limpopo	Greater Letaba Municipality	MSP	Solid Waste	2000
162	Limpopo	Greater Tzaneen Municipality	MSP	Solid Waste	1999
163	Limpopo	Lepele-Nkumpi Municipality	MSP	Water & Sanitation	2000
164	Limpopo	Makhado Municipality	MSP	Solid Waste	2003
165	Limpopo	Mogalakwena Municipality	MSP	Water & Sanitation	2001
166	Limpopo	Mogalakwena Municipality	M&E	Water & Sanitation	2004
167	Limpopo	Thabazimbi Municipality	MSP	Solid Waste	1999
168	Limpopo	Thulamela Municipality	MSP	Solid Waste	1998
169	Limpopo	Thulamela Municipality	MSP	Water & Sanitation	2000
170	Mpumalanga	Albert Luthuli Local Municipality	Revenue Enhancement	Water & Sanitation	2003
171	Mpumalanga	Dr JS Moroka Local Municipality	Diagnostics	Diagnostic	2002
172	Mpumalanga	Dr JS Moroka Local Municipality	Revenue Enhancement	Water & Sanitation	2003
173	Mpumalanga	Ehlanzeni District Municipality	MSP	unknown	1998

No	Province	Municipality	Type of Assistance*	Sector	Year Created
174	Mpumalanga	Ehlanzeni District Municipality	MSP	Water & Sanitation	1999
175	Mpumalanga	Emalahleni Local Municipality	MSP	Fresh Produce Market	2003
176	Mpumalanga	Govan Mbeki Municipality	MSP	Water & Sanitation	2000
177	Mpumalanga	Govan Mbeki Municipality	MSP	Solid Waste	2002
178	Mpumalanga	Greater Groblersdal Municipality	MSP	Solid Waste	2003
179	Mpumalanga	Mbombela Local Municipality	MSP	Water & Sanitation	1998
180	Mpumalanga	Mbombela Local Municipality	MSP	Electricity: Distribution	2002
181	Mpumalanga	Mbombela Local Municipality	MSP	Water & Sanitation	2002
182	Mpumalanga	Mbombela Local Municipality	MSP	Water & Sanitation	2002
183	Mpumalanga	Mbombela Local Municipality	MSP	Water & Sanitation	2003
184	Mpumalanga	Mbombela Local Municipality	MSP	Water & Sanitation	2003
185	Mpumalanga	Mbombela Local Municipality	M&E	Water & Sanitation	2004
186	Mpumalanga	Mbombela Local Municipality	MSP Support	Water & Sanitation	2004
187	Mpumalanga	Mbombela Local Municipality	Revenue Enhancement	Water & Sanitation	2005
188	Mpumalanga	Middelburg Local Municipality	MSP	Solid Waste	2002
189	Mpumalanga	Sekhukhune Cross Boundary District Municipality	Diagnostics	Diagnostic	2001
190	Mpumalanga	Sekhukhune Cross Boundary District Municipality	MSP	Water & Sanitation	2000
191	Mpumalanga	Thaba Chweu Local Municipality	MSP	Solid Waste	2002
192	Mpumalanga	Thembisile Local Municipality	Revenue Enhancement	Water & Sanitation	2003
193	Mpumalanga	Umjindi Local Municipality	MSP	Water & Sanitation	2001
194	North West	Central District Municipality	Diagnostics	Diagnostic	2001
195	North West	Local Municipality of Madibeng	MSP	Water & Sanitation	2004
196	North West	Moses Kotane Local Municipality	Diagnostics	Diagnostic	2002
197	North West	Naledi Local Municipality	MSP	Water & Sanitation	2000
198	North West	Naledi Local Municipality	MSP	Abattoir	2002
199	North West	Naledi Local Municipality	MSP	Water & Sanitation	2003
200	North West	Naledi Local Municipality	MSP	Water & Sanitation	2003
201	North West	Naledi Local Municipality	MSP	Resort	2003
202	North West	Naledi Local Municipality	MSP	Solid Waste	2003
203	North West	Rustenburg Local Municipality	MSP	Water & Sanitation	1999
204	North West	Rustenburg Local Municipality	MSP	Solid Waste	2002
205	Northern Cape	Ga-Segonyana Municipality	MSP Support	Bond/Debt	2000
206	Northern Cape	Kgalagadi District Municipality	Diagnostics	Diagnostic	2002
207	Northern Cape	Siyathemba Municipality	MSP	Local Economic Development	2003
208	Western Cape	Bitou Municipality	MSP	Transport: Airport	1999
209	Western Cape	Bitou Municipality	MSP	Water & Sanitation	1999
210	Western Cape	Boland District Municipality	MSP	Solid Waste	2000
211	Western Cape	Breede River/Winelands Municipality	MSP	Solid Waste	1999
212	Western Cape	Cederberg Municipality	MSP	Asset Sale	1999
213	Western Cape	City of Cape Town	MSP	Electricity: Generation	1998
214	Western Cape	City of Cape Town	MSP	Abattoir	2002
215	Western Cape	City of Cape Town	MSP	Fresh Produce Market	2002
216	Western Cape	City of Cape Town	MSP	Solid Waste	2002

No	Province	Municipality	Type of Assistance*	Sector	Year Created
217	Western Cape	City of Cape Town	MSP	Solid Waste	2002
218	Western Cape	City of Cape Town	MSP	Solid Waste	2002
219	Western Cape	City of Cape Town	MSP	Solid Waste: Landfill Gas	2003
220	Western Cape	City of Cape Town	MSP	Water & Sanitation	2004
221	Western Cape	City of Cape Town	MSP	Electricity: Distribution	2004
222	Western Cape	Drakenstein Municipality	MSP	Solid Waste	2001
223	Western Cape	Drakenstein Municipality	MSP	Solid Waste	2002
224	Western Cape	Eden District Municipality	MSP	Solid Waste	2003
225	Western Cape	George Municipality	MSP	Solid Waste	2002
226	Western Cape	Knysna Municipality	MSP	Water & Sanitation	2003
227	Western Cape	Langeberg Municipality	MSP	Water & Sanitation	2003
228	Western Cape	Overberg District Municipality	MSP	Solid Waste	2003
229	Western Cape	Overstrand Municipality	MSP	Solid Waste	2000
230	Western Cape	Stellenbosch Municipality	MSP	Water & Sanitation	1998
231	Western Cape	Theewaterskloof Municipality	MSP	Solid Waste	2002
232	Western Cape	Theewaterskloof Municipality	MSP	Water & Sanitation	2003
233	Western Cape	West Coast District Municipality	MSP	Solid Waste	1998
234	Western Cape	West Coast District Municipality	MSP	Water & Sanitation	2003



## **Annex A4 Selected Project Profiles**

### **1. Dolphin Coast Water and Sanitation Project**

Population Served:	34,000
Funds Leveraged:	\$42,000,000
Type of Contract:	Concession
Period of Contract	30 years

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

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

The Dolphin Coast 30-year concession was signed in January 1999 and the concessionaire, Siza Water Company (a consortium of five South African empowerment companies and the French company SAUR), took over in April 1999. Since then the Company has invested in infrastructure, set up three customer service offices, and provided a full-time community liaison officer for disadvantaged areas. Residents talk of many visible improvements, rapid response to customer complaints, new standpipes and house connections in disadvantaged areas. The concessionaire is now responsible for servicing much of the Borough's long-term debt for water infrastructure. As a result the balance sheet of the Borough has been strengthened such that the Council was able to borrow for major capital expenditures for the first time in three years.

In 2000 the private partner began experiencing cash flow problems primarily due to population growth lagging behind the projections made in the original bid documents. The MIIU worked closely with the Council and Siza Water to structure revised business and investment plans that cut operating costs and increased revenues to maintain the commercial viability of the contract while maintaining the contract's benefits for the Council and consumers. In July, 2001 the MIIU assisted both parties in concluding a legal agreement that clarifies all aspects of the restructuring. The Council approved that agreement on 25 July, 2001.

In 2004 the MIIU assisted in a tariff rebasing exercise that is required every five years by the concession contract. The rebasing exercise involves a fundamental restructuring of the tariffs to ensure that the contract remains on a strong commercial footing – without making

services unaffordable to disadvantaged communities. The rebasing negotiations resulted in a formal amendment to the concession contract.

## 2. Nelspruit Water and Sanitation Concession

Population Served:	240,000
Funds Leveraged:	\$72,000,000
Type of Contract:	Concession
Period of Contract	30 years

The boundaries of the Nelspruit Transitional Local Council expanded dramatically in 1994 to include areas previously managed by the self-governing state of Kangwane. Virtually overnight the area of the jurisdiction increased by eight times, and the population increased tenfold, from 24,000 to 240,000. However, the total income of the jurisdiction increased by only thirty-seven percent. The additional population was grossly underserved by basic urban services, and largely unable to finance needed capital investment through tariff payments.

Nelspruit TLC reviewed a variety of schemes to use the existing municipal workforce more efficiently and better managing existing assets. But the city's capital budget was grossly inadequate in contrast to the investment requirements. After a number of feasibility studies and a socio-economic survey of beneficiaries the TLC concluded that a public-private partnership is the only alternative with a reasonable chance of obtaining the massive investment required.

Under the Nelspruit PPP the concessionaire is responsible to manage, maintain, build, rehabilitate, and transfer back to the city after 30 years all the infrastructure assets related to the city's provision of water and sanitation services. The company has responsibility for metering, billing, revenue collection, and capital investments to progressively extend water and sanitation services to under-served areas. Existing assets were not sold to the company; existing municipal staff working in the Council's water and sanitation sectors were taken over by the company on equal or better conditions of service; and local consultants and contractors must be used in executing the contract as part of the Council's local employment generation strategy. The Council regulates the contractor's activities including tariff setting, asset maintenance, and new asset construction and/or acquisition. The contractor is required to provide regular financial reports, and will face penalties if pre-determined service performance criteria are not met.

In 2004, a supplementary agreement was signed that amended the concession contract. MIIU chaired meetings, facilitated negotiations, provided legal support, liaised with national officials, and managed the research that assessed claims made by the contractor. MIIU drafted the first version of the supplementary legal agreement in early 2003. That draft defined the key issues that guided the negotiation process until its conclusion in August 2003. The supplementary agreement acknowledges that customer non-payment in the Mbombela area has been a much more intractable problem than either party originally anticipated. Despite major investments in infrastructure and corresponding improvements in service levels and quality, payment levels remained below 15% in areas. The municipal council recognized that this problem cannot and should not be addressed by the contractor alone, and agreed to provide extra financial support to the project in the form of permitted reductions in lease payments and electricity charges. The contractor agreed to participate with municipal officials in a much more organized project oversight committee structure, as well as contract out for the services of a revenue management firm specialized in township customer relations and revenue collection.

### **3. Robertson Solid Waste Management**

Population Served:	34,000
Funds Leveraged:	\$77,000
Type of Contract:	Service Contract and Equipment Lease
Period of Contract	5 years

A Feasibility Study was completed by the Development Bank of Southern Africa (DBSA) assessing the potential of a garden waste compost facility as a way of conserving the town's remaining landfill capacity. The Study concluded that there was a strong business case for a public-private partnership for the operation of the facility with the municipality offsetting the equipment costs.

The tendering process and contract, developed with MIIU assistance, calls for operation of a composting facility, and will be subsidized by the municipality up to the value of the avoided landfill costs. The municipality will also purchase all of the compost for public use. A service contract and equipment lease was signed between the Robertson Town Council and Du Plessis Garden Services, an SMME and emerging black contractor. The project was very successful and after two years of operation the contractor purchased the equipment from the municipality, ending the municipal subsidy. The project continued on a commercial basis selling compost on the retail market as well as to the municipality.

The facility and lessons learned will be incorporated into the new landfill site being developed for Brede River Winelands Local Municipality.

### **4. Harrismith Water and Sanitation Project**

Population Served:	62,000
Funds Leveraged:	\$929,400
Type of Contract:	Management Contract
Period of Contract	3 years (verify)

On October 19, 2001, Harrismith and Rand Water signed what became the first public-public water and sanitation contract negotiated on commercial terms. The area served includes three residential areas, Harrismith central, Intabazwe and Tshiame, with a combined population of 62,000 residents – about 80% of them living in disadvantaged areas. An MIIU-co-financed feasibility study confirmed that without radical change, the water and sanitation system in Harrismith would soon begin a rapid decline in quality and levels of service.

A long-term concession contract would have been appropriate, but the parties recognized that the town officials lacked capacity and political will to pursue and implement this approach. Instead, MIIU recommended a phased approach, with the city entering into a 3-year management contract first to improve operations, address revenue performance, and collect data needed to support a full-fledged concession contracting process. Local union officials agreed to the idea of an interim management contract and actively participated in planning and negotiating the deal.

The town received an unsolicited proposal from Rand Water which proposed to operate Harrismith's water and sanitation system for three years at cost, and which guaranteed to give back to the city a fully ring-fenced, corporatized utility plus all the operating data

necessary for the preparation of bid documents to be used in competitive selection of a long-term concession contractor.

MIIU helped draft a memorandum of understanding signed by Rand Water and Harrismith in early December, 1999, committing each side to negotiate a performance-based management contract drafted with MIIU assistance, and allows the Council to test the unsolicited proposal in the marketplace to see if better offers are available.

Following the initial contract the municipality approached MIIU for help in arranging a partnership to assist with water services in the entire metropolitan area which encompassed over 700,000 residents (see next case study).

## 5. Maluti-a-Pfofung Water and Sanitation

Population Served:	334,400
Funds Leveraged:	\$5,424,300
Type of Contract:	Corporatization and Management Contract (phase II)
Period of Contract	6 years

Maluti-a-Phofung is a local municipality that came into being in December 2000 as an amalgamation of the areas of Qwa Qwa, Phuthaditjhaba, Harrismith, Intabazwe, Tshiame and Kestell. The total population is approximately 400,000 with 90,000 households. In 2003 the municipality was officially allocated the responsibility as water services authority for its area.

Previously the Municipality had two service delivery agreements with separate external public sector service providers (water boards) who each provided both bulk and retail services from dedicated water resources in their respective areas. The pending expiry of the agreements triggered an assessment of options. Maluti-a-Phofung made its requirements clear. It wanted a single service mechanism and provider; a consolidated invoice for all services; a mechanism to support local economic development; and to build local capacity to run the service.

Maluti-a-Phofung did not need major new capital investment as it does not have significant water services backlogs. Rather its challenge was to obtain expertise to merge the two current service providers, improve operations, and maximise the use of available infrastructure grants.

MIIU funded an assessment of options conforming to section 78 of the Municipal Systems Act. The mechanism finally chosen was to ring-fence the water services into a municipal entity. To address short term capacity constraints, a strategic partner would help establish, consolidate and operate the municipal entity for six years. The outcomes from this new mechanism include:

- creation of a locally based Maluti-a-Phofung water entity;
- staffed with persons appropriately skilled, and committed to the area long-term;
- consistent service delivery and improvement in quality, level and coverage of service;
- optimum utilisation of funds to expand and maintain the water system; and
- maximum collections of payments due.

The structure of the mechanism required two contracts:

- A service delivery agreement that appoints the municipal entity to deliver water, transfers operational risk to the entity, but retains the funding and political risks in the municipality.
- A strategic support agreement between the municipality and the strategic partner who is appointed for six years to manage the municipal entity and . At termination of this contract the objective is to have a fully operational and locally capacitated water service delivery utility that is owned and controlled by the Municipality.

The local councilors played a special role. They benefited from active participation in the monthly co-ordinating meetings with the existing water service providers, and were already well aware of the practicalities of this form of service provision. Their continued participation developed further internal capacity enabling them to communicate effectively with stakeholders such as communities, organized labor, and regulators.

## 6. Tzaneen Regional Solid Waste Collection and Disposal

Population Served:	300,000
Funds Leveraged:	\$3,097,900
Type of Contract:	Management Contract
Period of Contract	5 Years

The Transitional Local Councils of Tzaneen and Duiwelskloof required additional landfill capacity. Smaller transfer stations for waste collection within the district were also overloaded. The dramatic increase in population exacerbated the situation. The two TLCs examined options and hired a consultant to conduct a feasibility study to identify possible sites and conditions for design of a new regional landfill. The site that was selected was delayed by various permitting and siting issues. The Municipality asked for assistance in preparing an interim plan that included optimizing the remaining life of the existing landfill while the search for a new regional site continued.

In August 2000, the town council tendered out the operation of the existing Tzaneen landfill, construction and operation of two transfer stations, and collection in two previously unserved areas. Negotiations were concluded in November, with the signing of a 5-year contract with Waste Group.

The Town has been very pleased with the operation of the landfill and waste collection in the township areas. As a result of the more efficient operation of the landfill, the remaining life of the landfill has been extended from 5 to 8 years. This gain in capacity was based on more efficient excavation of new landfill cells, daily compaction and efficient application of daily cover. The contract has been renewed for a second term.

## 7. Mogalakwena Water and Sanitation

Population Served:	127,300
Funds Leveraged:	\$23,684,000
Type of Contract:	BOT and other Contractual Agreements
Period of Contract	30 years

As with many municipalities in Limpopo Province, water supply is an ongoing challenge for Mogalakwena, formerly Potgietersrust. With many recent changes in local government, limited resources, and a semi-arid climate, Mogalakwena struggled with bulk water supply for the 10 years or more. Several planned projects, including a new pipeline from the Doorndraai dam, failed to materialize in 1999 due to limited finances and institutional problems.

The area's largest industry, Anglo American Platinum Limited (PPL), uses the sewage effluent from the town's wastewater treatment plant for process water in its mining operations. The lack of an adequate bulk water supply was also limiting PPL's future expansion potential. In mid-2002, PPL approached the Municipality with an offer to finance the construction of the new Doorndraai pipeline. Because the pipeline would also lead to increased sewage flows, the company offered to make improvements in the wastewater treatment facilities.

The Municipality approached the MIIU to assist in putting this unique partnership together. An MIIU grant agreement was quickly negotiated and consultants selected, with MIIU staff providing advice and quality control. Most of the work was completed by mid-2003, but much of the effort over that period involved consultation with the many stakeholders, including the local community, the Lepelle Northern Water Board (operator of the existing dam and pipeline), Waterberg District Municipality (the statutory water service authority), the Department of Water Affairs and Forestry, and the Department of Environmental Affairs.

The partnership consists of eight different contracts, a main general agreement, with additional specific agreements dealing with individual project activities. In general, the partnership includes a series of build-operate-transfer (BOT) concession contracts between PPL, the Water Board and the Municipality. PPL will retain ownership of the assets during the concession term but will transfer those assets to the public entities once the capital investment is recouped. The Water Board and the Municipality will continue to operate the facilities during the concession period. Also included in the partnership is an exchange of property between PPL and the Municipality for future mine housing, to accommodate the 2,000 new employees to be added as the mine expands.

Along with the 16 megalitre pipeline, there will be a six megalitre addition to water treatment works and a 9 megalitre upgrade of the wastewater treatment facilities.

The partnership represents a unique win-win situation for all stakeholders. The Municipality will get a new – badly needed – 16 megalitre per day pipeline. The PPL mine will get a guaranteed supply of process water for its expansion plans. The PPL expansion will mean a considerable boost for the local economy.

## **8. Cape Town SMME Solid Waste Collection**

Population Served:	32,300
Funds Leveraged:	\$2,430,700
Type of Contract:	Operation and maintenance
Period of Contract	3 years

In 2002, the City of Cape Town decided to outsource its waste collection services in low income areas to SMME contractors. This decision was taken because it did not have the staff or the suitable equipment to serve the growing waste from informal areas. Additionally,

the use of SMME contractors was also seen as an opportunity to support the small business sector and BEE in particular.

MIIU funded and provided technical assistance for the tendering process, the administrative and operational start up of winning tenderers, and monitoring and mentoring of the SMME contractors. The assistance started with a brief review of the various contracts in solid waste collection already in place that use SMME contractors. The contracts ranged from outsourcing to an established main contractor who then subcontracted smaller portions to small local BEE contractors, outsourcing to an established contractor who are required to employ local labor, to a two part contract with provision of capital intensive work to be outsourced to a large contractor and less capital intensive refuse collection and cleaning to be outsourced to a small contractor. The City decided to go with direct contracting with SMMEs as their experience show that the larger contracts with smaller sub-contracts model just keep getting extended and new emerging contractors do not get a chance to bid on the extensions.

To ensure that this outsourcing model would be successful, the following were incorporated in its design and implementation:

- **Thorough stakeholder consultation process**

This is a very important part of any project. It is more so in poor areas and high unemployment issues which would not be of interest ordinarily, receive high levels of attention. .

- **User friendly tender and contract process**

Tenderers were required to attend a compulsory tender meeting whereby the tender was discussed in detail, highlighting possible difficulties and experiences elsewhere bringing home the point that while money can be made, various outputs will be required.

Non-compulsory tender workshops were held where less experienced tenderers were provided with further assistance, for example with cost models that will ensure that they submitted financially sustainable tenders.

- **Detailed internal cost estimate**

Given the tendency for inexperienced contractors to not fully cost out the service as well as the tendency to low-ball bids to win tenders, it is important the City has a very good idea of what the service should cost. Any tenders that come in substantially lower than the estimate will need to be scrutinized and be required to justify their costs.

- **Start up and administrative assistance for appointed tenderers**

The MIIU assisted the winning tenderers with registering with relevant labor bodies, drafting employment contracts, register with SARS and in particular for VAT, opening of bank accounts and the application for bridging finance to carry the many contract costs until the first council payments came through, and assistance with company registration

- **Operational assistance where needed**

Even established operators generally have some problems when starting up a new contract operation. It can therefore be expected that emerging businesses will almost definitely have difficulties. Therefore the following assistance was provided to winning tenderers.

- Itemize staff needs, appoint and train and do this in time to start the contract
- Draft worker employment contracts
- Prepare and put in place worker wage payment processes
- Decide on worker PPE (Personal Protective Clothing) requirements and purchase in advance

- Decide on small tool and equipment requirements and purchase in advance (the same would obviously have had to be done for larger equipment such as vehicles etc., but this would have been done more automatically in the original tender calculations whilst smaller detail may have been neglected)
- Itemize main contract activities with staff requirements
- Plan processes and routines for main contract activities (especially collection and cleaning routines)

**- Assistance with monitoring and mentoring during implementation**

Regular visits were scheduled and undertaken to inspect the implementation of the documented operational work program. This way problems were identified before they became serious and immediate steps were taken to rectify the situation.

The above process was implemented in Bloekombos and Kalkfontein. The contract in Bloekombos initially experienced problems as the community was dissatisfied with the appointment of an external contractor and that only a limited number of jobs were available. However, over time the performance did improve over time and even the negative community admitted that there was a marked improvement.

The contract in Kalkfontein has been much more successful. From the start due to the leadership of an individual in a community, the project received support from the community. From the start this contractor has shown good organisational abilities as well as initiative in dealing with operational and community issues. The result has been a very clean area, firstly much cleaner than when it was serviced by the Council, and by comparison to other areas.

## 9. Cape Town Market

Population Served:	38,000
Funds Leveraged:	\$22,731,750
Type of Contract:	Sale of Non-core Asset and Lease of Municipal Land
Period of Contract	20 year lease agreement for land

Epping Market – the third largest in South Africa -- was managed traditionally as a city-owned facility. The market and abattoir were huge, deficit-ridden municipal facilities that needed extensive capital investment and commercial management in order to cover operating costs. After an internal restructuring process in 2001, the Market was identified as non-core to city operations. Consultants were appointed with funding and supervisory support from MIIU to investigate future institutional options.

MIIU grant funds to the amount of R600 000 were made available to the municipality on a cost-sharing basis, with the municipality providing a 50% share of project costs. These funds were used to meet the cost of procuring a transaction adviser to conduct an options analysis for the Epping Market. This investigation included an industry overview explaining developments affecting the operations, which were outside the domain of municipalities. At a meeting between city officials, consultants and MIIU staff in 2002, the following options regarding the future of Epping Market were identified for further investigation and analysis:

- Corporatisation
- Sale of the business operation with a lease of land and buildings
- Sale of the business operation with a separate sale of the land and buildings



- Sale of the business operation combined with the sale of the land and buildings

Results of the analysis led to a recommendation that the most appropriate option was a sale of the business operation coupled with a lease of land and buildings.

The City then issued Requests for Prequalification for bidders interested to purchase the Market. The Expressions of Interest were reviewed, a preferred bidder was selected, and documentation was prepared for a Council decision. Negotiations were conducted and agreement was reached on financial terms and conditions. Contracts for sale of the facility and lease of the land were finalized.

The sale price of the market was \$2.4 million. The sale price, long-term lease and other benefits resulted in a net present value of more than \$22.7 million to the city. The city is applying this financial benefit into improved water and sanitation infrastructure to benefit thousands of households.

All repair and maintenance as well as development and expansion risk relating to the lease of the property was transferred to the new owner. The new owner of Epping Market employed approximately 100 new staff-this was consistent with the city's job creation goals.

The transaction was the first of its kind in South Africa and is now used by many other municipalities in the country as a model for market privatization. It also won an African Investment Award in 2004.

## 10. Mogale City Revenue Management

Population Served:	30,400
Funds Leveraged:	\$500,700
Type of Contract:	Operation and management with shared revenues
Period of Contract	3 years

Mogale City requested MIIU to assist with a revenue enhancement project. A data cleaning and community liaison program was already under way, in which pilot sites were identified where there were high value consumers of municipal services; high debt levels; and inefficient and inaccurate billing. MIIU was asked to assist the City to engage a firm that would help identify infrastructure improvements that would enhance revenue collection. Other activities included the development of a communications strategy to promote the importance of paying for services that do not fall into the free basic services category, and assistance in overcoming the cash flow challenges of the City. The latter included water demand management (water losses were estimated at R40 million per year), identifying and following up on recoverable debts, and undertaking a pilot study in Munsieville to ensure that appropriate payments for services are received. The consultant also supported the municipal finance department in improving billings, cash collection, and revenue management. Highlights of the activities include:

- Communication and Community Liaison – an assessment to establish the attitudes and perceptions of households towards the payment for services in these communities. Based on the information gathered, a communications plan as well as an implementation plan were developed with a view to improving the levels of knowledge and understanding of the need to pay for municipal services.
- Revenue Management and Debt Collection – This program undertook a complete analysis of the municipal debtors and looked at the benefits of undertaking a data

cleansing exercise in a selected pilot area. It was identified that over 80% of the total debt can be attributed to three areas in the Municipality. The actual payments received comprised 80% of the billed revenue for all services. Considerable discrepancies existed in the debt records and in the zoning of properties (the latter impacts on the application of the correct set of tariffs).

- Water Losses – It was estimated that it was costing the Municipality in excess of R40 million per year in physical losses of water and non-payment for water delivered. Pilot projects were implemented to meter fire hydrants in an industrial area (after it was found that these unmetered hydrants were being used for water supply), to install pre-payment water meters in a residential area (where payment levels were at 10%) and to test and replace credit water meters (as 50% of meters tested were out of specification). These and other interventions led to a reduction of 30% to 26% of water which could not be accounted for.

The detailed analysis of the customer database and the outstanding debtors will contribute to a much higher level of accuracy in the billings of the Municipality. This reduces queries and gives fewer reasons for nonpayment of accounts. The reduction in un-accounted-for water created a saving of R11 million in one year.

Substantial benefits will accrue in future years as a result of improved knowledge, more accurate customer databases, and the improved billing and credit control systems which are being established.

## 11. uThungulu Water

Population Served:	22,200 households
Funds Leveraged:	\$2,803,925
Type of Contract:	Operations and Maintenance Contract
Period of Contract	4 year contract

In Uthungulu District Municipality the MIU assisted the extension and amendment of an existing contract with a private company for the operation and monitoring of 134 water and sewage facilities in five local municipalities. The partnership consolidated numerous arrangements with Community Based Organizations (CBOs) and traditional leaders under one umbrella contract, which provided easy monitoring by the municipality, cost savings resulting from economies of scale, and strengthened CBO operators. As a result of this assistance, 22,200 households will continue to benefit from improved services.

The basis for this type of contract is effectively limited to the private party operating the water works with limited risk transfer, in their capacity of a “support services agent” or SSA. This contract was negotiated and priced on a cost plus 10% basis. This model is one that is being widely promoted in South Africa not only through the existing s78 legislation which favors an internal option as the optimal solution to municipal services improvement with the municipalities retaining full control versus external interventions. But more especially because it supports local economic development, training and capacity, and community based partnerships.

Water and Sanitation Services South Africa (WSSA) were appointed to operate the water works but also evaluate the work of local contractors employed to effect repairs to the various schemes. Uthungulu, through a tender process appointed 18 private local contractors who on a rotational and geographic spread are appointed to effect repairs. WSSA, evaluate their work after completion of a particular repair. Hence, the maintenance is

split into two components: the contractors who give effect to the repairs and WSSA who evaluate their work.

Unemployment within the area being rife and the labour relations of the country being partial to employees with stringent obligations on the employer is the trigger for the preference of community based organization partnerships. Under this arrangement the private party is obliged to engage the services of the community, remunerate them and further train them to assume ownership and responsibility of the water works with a long term view of taking over the private party's role upon termination of the contract.

Coupled to the benefits of this approach, is the Uthungulu technology used to manage this contract. Uthungulu are responsible for the brainchild of the "district management information system" a software package which effectively manages all incoming queries through the 24 hour helpline and has a 48 hour turnaround time from time of complaint received all the way through evaluation of the repairs, for example after installation of this system within the first six months of operation 4000 queries were reported and finalized. The effectiveness of this technology inspired the KwaZulu Natal province lobbying replicating same throughout the province.

## **12. Nelson Mandela Metropolitan Municipality Diagnostic Study**

Population Served:	1.2 million people in 220,000 households (in 2001)
Funds Leveraged:	n/a
Type of Contract:	n/a
Period of Contract	n/a

A diagnostic study was urgently needed to help establish the state of health of the municipality. Twenty percent of households were registered as indigent, all households had access to an acceptable level of water service but 10% did not even have access to the minimum acceptable level of sanitation. The annual operating budget of the municipality was \$235 million, of which about 37% covered salaries and 12% comprised the capital budget (\$4.75 million). The municipality's total income was \$189 million (\$43 million from property tax and \$146 million from revenues from water, sewerage and electricity services).

This diagnostic study focused on the basic services of water, sanitation and solid waste. Comment was made on the human and physical resources used to provide these services, as well as their financial status and structure within the overall municipal context.

- All residents had access to at least a basic level of water supply, but about 25% were dependent on communal standpipes for their water supply
- Some households received an unmetered – and therefore uncontrolled water use.
- 23,000 households depended on a bucket system for sanitation, which is unacceptable.

The Diagnostic Study recommended:

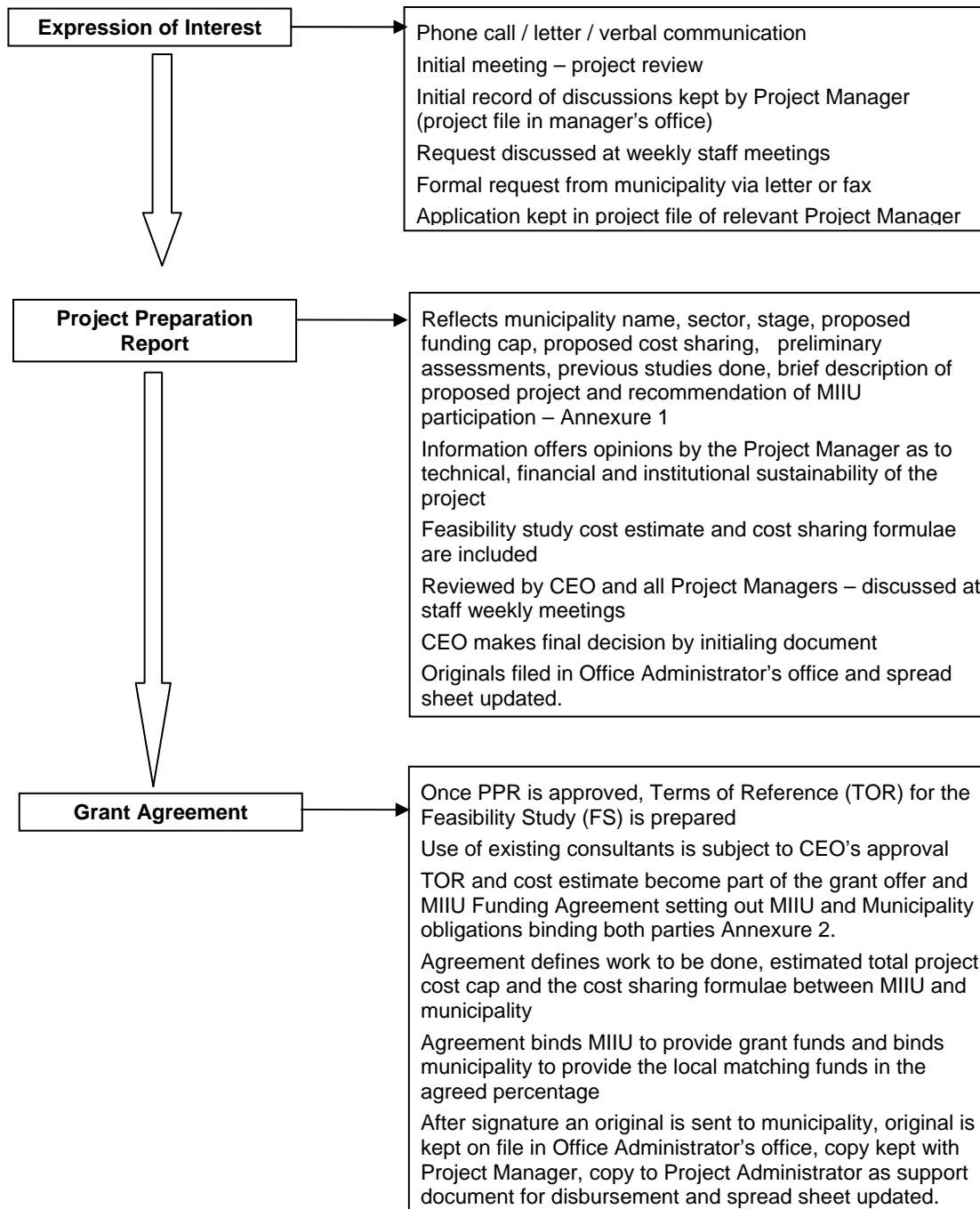
- That the municipality should consider all alternative on-site sanitation options before continuing the current policy of providing water-borne sewerage to all properties;
- To adopt a "zero based budgeting" approach to determine appropriate levels of maintenance expenditure;

- To further assess options to address the challenging sanitation backlog (particularly the replacement of the unacceptable bucket system for night soil removal).
- To optimize the refuse removal service and the operation of the waste disposal sites with a focus on the possible use of local community-based operations and SMME's.
- To immediately implement and strictly enforces its existing credit control policies to ensure a dramatic improvement in levels of payment and the collection of outstanding debtors.

Options for service delivery were ranked in terms of feasibility, and their ability to address the problems identified. The investigations took into account the negative and positive effects which may be created on the overall budget and financial status of the municipality. Outputs were clear, concise, and useful to municipal counterparts, describing what further actions were required with regard to both municipal finance and infrastructure investment.

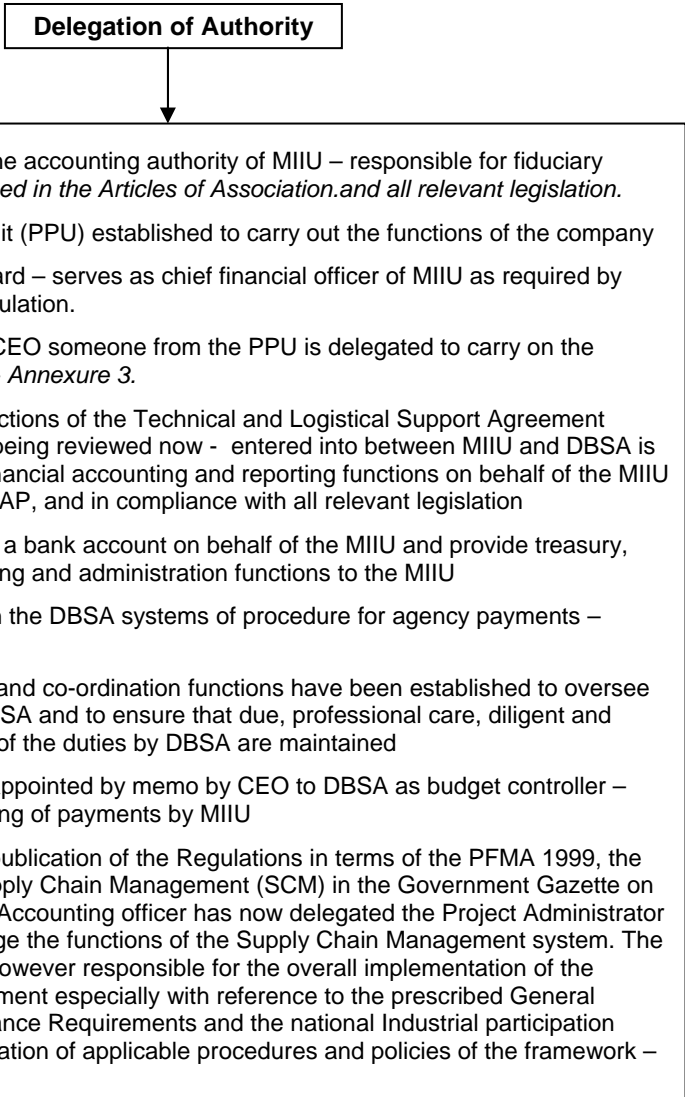
The end product empowered municipal officials with an independent assessment, which gave them a snapshot of the status quo with the consultant's identifying stress areas and then recommending how to prioritize and improve these services and the general financial position of the balance sheet.

## Annex A5 MIIU Project Process



## MIIU Payment / Disbursement Process

### Delegation of Authority



Board of company is the accounting authority of MIIU – responsible for fiduciary functions – *as prescribed in the Articles of Association and all relevant legislation.*

Project Preparation Unit (PPU) established to carry out the functions of the company

CEO appointed by Board – serves as chief financial officer of MIIU as required by National Treasury Regulation.

In the absence of the CEO someone from the PPU is delegated to carry on the functions of the CEO – *Annexure 3.*

One of the primary functions of the Technical and Logistical Support Agreement (TLSA) – Annexure 4 being reviewed now - entered into between MIIU and DBSA is for DBSA to fulfill all financial accounting and reporting functions on behalf of the MIIU in accordance with GAAP, and in compliance with all relevant legislation

DBSA has established a bank account on behalf of the MIIU and provide treasury, internal audit, accounting and administration functions to the MIIU

Functions will be run in the DBSA systems of procedure for agency payments – *Annexure 5.*

Project administration and co-ordination functions have been established to oversee the operation of the TLSA and to ensure that due, professional care, diligent and effective performance of the duties by DBSA are maintained

Project Administrator appointed by memo by CEO to DBSA as budget controller – carries out all processing of payments by MIIU

With reference to the publication of the Regulations in terms of the PFMA 1999, the Framework for the Supply Chain Management (SCM) in the Government Gazette on 5 December 2003 the Accounting officer has now delegated the Project Administrator to establish and manage the functions of the Supply Chain Management system. The Accounting Officer is however responsible for the overall implementation of the Supply Chain Management especially with reference to the prescribed General Conditions, Tax Clearance Requirements and the national Industrial participation Programme and adaptation of applicable procedures and policies of the framework – annexure 20.

## **MIIU Payment / Disbursement Process cont...**

MIIU payments are divided into three categories:

### **General Administration Costs**

*Relates to all operational expenses in the running of the company. These are further subdivided on the DBSA costs as per TLSA – now under review - and administration activity costs initiated by MIIU*

### **DBSA Costs**

All costs payable to DBSA for services rendered and recovery of costs paid on behalf of MIIU

Staff Related Costs -Relates to salaries paid for all seconded staff, DBSA staff involved in the financial and administration functions of MIIU or MIIU staff on the DBSA payroll

Costs recovered by an invoice issued by DBSA

Invoice and breakdown of costs submitted to CEO / CFO to verify accuracy

Invoice is presented to Project Administrator for payment processing

Quality control measures are applied to verify that original invoice is presented, that amounts charged tie up with the arrangements/agreements made and that support documents are also attached.

Request for payment form Annexure 6 is completed and costs allocated accordingly. This is then submitted to CEO for approval then forwarded back to Contracts Administration in DBSA to effect payment

Other costs to DBSA – telephone, office space, stationery, etc.as invoiced by DBSA must have support documents – e.g. break-down of telephone by extension, orders placed on invoices etc.

Management fee also payable to DBSA as per TLSA now under review – terms and conditions of agreement to be checked before payment is made

### **Operating Expenses Initiated from Unit**

Expenses generated from the unit relating to operational activities

Consulting fees are costs of direct procurement of services by PPU as described in the revised Procurement Policy to comply with Framework on SCM – *Annexure 7*.

Procurements over R30,000 and under R100,000 – PPU to compile list of 3 consultants, select and contract with a consultant on the list after a technical and cost comparison

PPU procurement over R100,000 – fully competitive procedures in the Procurement Policy to be used (check on procedures followed before payment made)

Process to be applied to procurement of services in marketing, printing etc

Other minor expense quotations will be requested in either written or verbal form – must tie up with invoices submitted later

Payments will only be entertained on receipt of original invoices or certified copies thereof. All requests by service provider for payments to be deposited into their bank accounts must be in writing

Payment process same as DBSA Cost payments - invoices forwarded to Project Administrator, request for payment prepared after satisfaction / verification with quotations / TOR and costs comparison

## MIIU Payment / Disbursement Process cont...

### **Disbursement on Projects**

*This is the core of MIIU business. The MIIU Procurement Policy - Annexure 7 - explains the process in detail*

Disbursements triggered by request for reimbursement by the municipality in terms of the funding agreement– where the municipality has paid the consultants who are doing a feasibility study or any other service agreed upon per Grant Agreement and TOR

Procurement process would have already taken place at the municipality

Request is usually in the form of an official letter (note official letterhead) to the Project Manager

Request is accompanied by deliverables agreed upon with the consultant – Project Manager to do quality control work thereon and sign to acknowledge his/her satisfaction.

Project Manager to forward request to Project Administrator after thorough inspection of work done

Project Administrator checks claim against Grant Agreement to ensure that the terms and conditions have been complied with, checks accuracy of the claim against the supporting documentation (consultant invoices) and registers the claim in the Disbursement Schedule – *Annexure 8* - to ensure that there are no duplicate payments or overpayments against commitments made per Grant Agreement

Request for payment is then prepared, payment allocated, and submitted to CEO for final approval.

Request is then forwarded to DBSA Contract Administration for payment processing

Method of payment is usually via cheque or electronic transfer ( request for deposit into bank account must in writing)

Register of all cheque payments or electronic transfers is forwarded to MIIU to record payments made

In some instances it is requested that MIIU pay the consultant directly – only original invoices or certified copies will be acceptable.

Official letter of request to be submitted to Project Manager



**CONTROLS AND MEASURES WITHIN UNIT TO MINIMIZE INAPPROPRIATE  
AND  
UNAUTHORISED DISBURSEMENTS**

**Revenue**

Grants Received – The grant are usually transferred directly into the company bank account by DPLG once a year. This is after notification has been made to the CEO. The receipts must be matched with the figures in the general ledger account and the budgeted amount as per MTEF.

Investment Income – This is the interest earned on surplus funds invested which is also debited to the company investment accounts – as determined in the Investment Policy - *Annexure 11* . This form part of the quarterly report and will be reflected in the relevant ledger account which will be verified in the bank statement and bank reconciliation.

Recoverables – this is basically the recoveries received from PADCO Inc. being the costs incurred by the expatriate technical advisors in the form of traveling, computer and telephone costs. These are calculated by the project administrator, confirmed the PADCO Inc. chief of party and acknowledged by the MIIU CEO – *Annexure 12 and 13*

Other Income – This is income derived from services rendered by MIIU staff on (1) work not funded by grants received. This is based on approval by the Board. Such services are rendered on the basis of a written contract between MIIU and party with whom the services are rendered. Such contract sets out the terms and conditions in accordance to Board approval. Revenue received shall be reflected as a separate revenue item per contract and shall be reconciled to the MIIU original invoices done outside their normal duties.

Other income would also be (2) derived from additional Donor funds and shall be reflected as a separate item after notification of such fund agreement to the Board.

## MIIU Payment / Disbursement Process cont...

**CONTROLS AND MEASURES WITHIN UNIT TO PREVENT INAPPROPRIATE  
AND  
UNAUTHORISED DISBURSEMENTS**

**Monthly review of  
Operating  
Expenses**

Auditors' Remuneration – the scope of work and the estimate fee is usually negotiated with the Audit Committee, Management and the audit firm. Based on the written SOW and any additional work that may be done by the auditor payment is then processed in the manner explained above.

Board of Directors Cost – The travel costs are to cover Board meetings or any other MIIU business. Travel is based on policy set that members will travel economy class. Any request over and above the set policy is usually referred to the Chairperson for clarification or the Board member will bear the difference in cost.

Staff remuneration – these costs are based on employment contract the staff members have entered with DBSA and staff member. The DBSA employment and other human resource policies are adhered to – this is reflected in the *DBSA intranet*.

DBSA Staff charges are via an invoice from DBSA, and break-down of costs per staff member provided by Human Resources – *Annexure 14*. The CEO authorizes payment thereof after scrutinizing supporting documents of salary paid.

Temporary staff – DBSA usually procures temporary staff after discussion of the need with CEO. The time sheet of the Temp. is completed on a weekly basis by Project Administrator and approved by CEO – *Annexure 15*. The payment of agencies is done by DBSA and is recovered by via an invoice from DBSA with supporting documents.

Staff development costs – This relates to staff training, conferences and seminars. All these are discussed with the CEO then authorized before registration can be made. Payment will be based on on agreed registration fees. Budget comparison to be checked to avoid overspending.

Consulting Fees – Discussion between project manager and CEO is usually held on the need. Authorization of Direct Contracting form – *Annexure 16* and written TOR and fees are then agreed upon with prospective consultant following the procurement process discussed above. A letter of appointment together with the agreed TOR will then be the source document for payments.

Travel & Subsistence – All trips must be authorized by CEO via the travel form – *Annexure 17* – before any bookings for travel are made. A monthly report is prepared to check on cancelled trips and follow up on cancelled air-tickets.

Other operating expenses – all these are authorized and approved by CEO before payments are made. Every telephone extension is reviewed every month to check on excessive telephone costs by individuals – *Annexure 18*.

Leave – Leave is per fixed term contract appointment agreement entered into with each staff member. Application for leave procedure is as per DBSA HR policies and procedures - these are available in the DBSA intranet and PADCO Inc. Field Operation Manual – record of which is in the Project Administrator's office. A pre-numbered leave form - *Annexure 19* – is filled and approved by CEO and leave administrator. Outstanding leave days record in kept at DBSA HR.

## Annex A6

### Example of MIIU Key Performance Indicators

#### a. Auditable KPIs for 2005

Key Performance Areas	Target April 2004 to March 2005	Actual April 2004 to March 2005
Active MSP Projects	50	77
Completed Projects	7 in total: 4 MSPs  1 loan guarantee  2 revenue management	6 in total: 4 MSPs Uthungulu Water (KZN) CPT drop off (solid waste) (WC) CPT SMMEs (solid waste) (WC) Epping Fresh Produce Market (WC)  0 loan guarantee  2 revenue management: Mogale City (GA) Albert Luthuli (MP)
Disbursement on MSP	R12.8 million	R12.77 million
Efficiency ratio	25.5%	18.8%
Active guarantee projects	3	3: Joburg Water (GA) Mogale (GA) Midvaal (GA)
Active revenue enhancement projects	3	3: Ugu (KZN) Thembisile (MP) Dr JS Moroka (MP)
Target value of guarantees to be committed	50% of \$35 million	0
TA disbursement related to guarantee projects	\$375,000	\$266,231
Monitoring of major projects	5	5 ongoing
Customer Surveys	5 completed projects  3 new projects	5 ongoing: Nelspruit (MP) Dolphin Coast (KZN) Kelvin Power (GA) Msunduzi (KZN) Mogalakwena (LM)  0 – not yet started

## b. Internal KPIs for 2005

Key Performance Areas	Target April 2004 to March 2005	Actual April 2004 to March 2005
Case Studies written up	5	5 in progress (75%)
Standard Terms of Reference documented	3	3: Generic terms of reference Generic requests for proposals Template financial model
Publication of MIIU history and case studies	1	1 pending
Technical assistance not associated with projects	48 hours per project manager per month or a total number of equivalent hours as a ceiling	Section 78 task team, dplg MSP workshops, Project Consolidate
TA disbursement of USAID funds (Megatech)	\$185,000	\$43,365
Market development seminar with financial sector	1	Session with Standard Bank in August 2004; with Nedbank in March 2005
Staff development SA staff (includes the use of USAID funds of \$15,000)	6 personal development plans	6 plans followed: UK study tour, Midrand Graduate Institute, various short courses
Implement MIIU Obligations to Johannesburg Housing Fund if project becomes operational		N/A