Making communities count

Maximising local benefit potential in South Africa's Renewable Energy Independent Power Producer Procurement Programme (RE IPPPP)

Louise Tait, Holle Linnea Wlokas and Ben Garside

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Acronyms

BBBEE	Broad-Based Black Economic Empowerment
ED	enterprise development
IPPs	independent power producers
RE	renewable energy
RE IPPPP	Renewable Energy Independent Power Producer Procurement Programme
SED	socio-economic development

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Executive summary

This report investigates the community benefit requirements under South Africa's Renewable Energy Independent Power Producer Procurement Programme (RE IPPPP). This government-led procurement programme aims to increase the share of renewable energy in the national grid by procuring energy from private independent power producers (IPPs). Moreover, in line with national economic transformation agendas, the government has aimed to design this programme to maximise the economic development potential for the country. The procurement programme requires independent power producers (IPPs) to contribute to various economic development criteria, including four criteria focussing on the local communities in which renewable energy projects are located. These four criteria are local job creation, local ownership, economic development and socio-economic development.

This model will target development spending into impoverished communities near the renewable energy projects. However, the nature of these requirements, and the 'newness' of this model – being implemented at scale over a short period of time – has also presented private renewable energy businesses with the significant challenge of engaging with community development processes, an area typically outside their expertise. This report explores the experiences and challenges of the renewable energy sector to date, both in meeting the RE IPPPP requirements, and planning for their longer-term implementation.

Key challenges faced by renewable energy project developers include:

- **Defining and selecting local communities**

The RE IPPPP stipulates that communities in a 50-kilometre radius of the project must benefit. However, this leads to overlapping beneficiary areas; the bidding stage is therefore dominated by defining which areas should benefit, and uncertainty about who is developing projects where. Communication with local communities and management of their expectations also require great sensitivity.

- **Alignment of the community engagement process with the project development cycle**

The requirement to submit a socio-economic development plan with the bid submission makes it difficult to carry out participatory community needs assessments and development planning. The realities of procurement mean that many proposed projects are left without approval; and depending on the projects' financial set up, monetary benefits for communities might only occur years after project installation. This hinders community development planning.

- **Realising community benefits in the context of RE IPPPP**

Developers lack feedback on their submitted socio-economic development plans. Feedback could improve the quality of the plans and raise developmental ambitions – for instance, projects under development on community-owned land have not received any special recognition so far in the procurement programme. The competitive nature of the procurement process also deters collaboration on community development among bidders who are developing projects in the same area.

- **Community engagement and the relationship-building process**

The procurement process makes building positive relationships with communities difficult, given its timing and requirements. Differing legal interpretations of criteria and requirements confuse stakeholders and make communication challenging; roles and responsibilities for local government also differ from project to project, as no guidance is provided. This is further complicated by overlapping beneficiary areas. The 50-kilometre radius creates artificial boundaries, often dividing municipal areas or even towns or villages.

Recommendations to maximise community benefits in the South African RE IPPPP

Based on the outcomes of the interviews and workshop process, the following recommendations are made:

Reform the bidding process to create an enabling environment for community benefits.

- **Amend the RE IPPPP economic development requirements and scorecard to better support the community benefit process.** This could include shifting requirements for direct community engagement and trustee selection to later in the project cycle, closer to when revenue will be generated, rather than at project application stage.
- **Address concerns about defining beneficiary communities**, as well as clarify roles for local stakeholders and benefit streams. For example, a facilitated process involving different stakeholders could develop common understanding of good practice and roles and responsibilities.

Develop a representative industry platform to collaborate on community benefit issues

- **Facilitate an enabling environment for collaboration between projects in the same area or region.** This would ideally be facilitated through amendments to the RE IPPPP requirements, but could also be initiated by industry players themselves, who have acknowledged that the competitive nature of the bidding process need not extend to projects' community benefits. This collaboration could include better opportunities for re-aligning overlapping beneficiary areas, but might also include general information sharing, commissioning targeted research, or other support that would benefit the sector as a whole.
- **Ensure community-level platforms are well informed and resourced –** capacity needs to be built at community level to understand the RE IPPPP implications for local job creation and wider development planning, and foster community engagement in developing locally suitable processes and projects. This means exploring more informal mechanisms for information sharing as well as strengthening communication and understanding in local wards, councils, and development agencies. A more horizontal integration between these platforms and other collaborative platforms, such as those of industry players, would facilitate wider lesson learning.

More comprehensive research to develop good practice recommendations

- **Identify the most appropriate governance structures for development funds.** Although community trusts are seen as problematic, stakeholders have not found a clear alternative. Community trusts' main operational difficulties should be identified and alternative governance options investigated.

- **Research different finance mechanisms for the share of community ownership** – to create more stable and predictable funding streams into communities, for instance.

Improve governance and inclusion to maximise developmental benefits

- **Develop regional oversight of projects** – regional government bodies or industry associations should oversee projects in broader regional areas to enable collaboration and streamlined processes, give oversight and improve the efficiency of revenue spending. Ensuring some level of community engagement and adequate representation on these bodies would improve trust and accountability.
- **Closely monitor progress and review** – in the early stages of RE IPPPP there is much to be learned in order to maximise community development benefits. To this end, better monitoring mechanisms and more systematic reviews should be put in place, and integrated with the collaborative platforms to encourage a culture of learning and sharing.

1 Introduction

This report, funded by UK Aid, investigates the community benefit requirements under South Africa's Renewable Energy Independent Power Producer Procurement Programme (RE IPPPP). As a collaboration between the Energy Research Centre (ERC) at the University of Cape Town and the International Institute for Environment and Development (IIED) this work supports mutual interests in exploring opportunities to deliver benefits to communities, particularly the most marginalised, through energy service delivery. The ERC's research aims to support the successful design, implementation, and monitoring of energy policies, and the RE IPPPP is a current focus of their work in South Africa. For IIED, this research helps to build a portfolio of international examples of energy service delivery that directly or indirectly impacts the most vulnerable, and works to improve those impacts. IIED also see this report as supporting IIED and partner work on the CHOICES-SA project in South Africa[1], which aims to build platforms for communities to make more informed choices on local energy services and associated job creation potential.

Access to affordable and clean energy services, particularly electricity, is a key concern globally and increasingly high on the political agenda, as shown by the 2012 launch of the UN Sustainable Energy for All initiative. The RE IPPPP, with a strong government lead, aims to help increase the share of renewable energy in the electricity system – currently dominated by coal – while also maximising the economic development potential for the country. The procurement programme requires independent power producers (IPPs) to contribute to various economic development criteria, including for the local communities in which renewable energy projects are located.

The model presents an important opportunity to attract investment into impoverished communities living near the renewable energy infrastructure. However, the nature of these requirements, and the newness of this model – being implemented at scale over a short period of time – has also presented private renewable energy businesses with the significant challenge of engaging with community development processes, an area typically outside their expertise.

This research investigates the experiences and challenges of the renewable energy sector to date both in meeting these requirements, and planning for their longer-term implementation. We aim to better understand emerging successful models of engaging with communities, as well as the key challenges the sector is facing in addressing these

1 The Community and Household Options in Choosing Energy Services (CHOICES) project is a collaboration between IIED (London), OneWorld (Cape Town), and the Energy and Resources Institute (TERI, India). Working in the Eastern Cape, the aim is to build community platforms for more informed choices on local energy services, and associated job creation potential - including linking community priorities on energy with potential sources of investment. More information is available at http://www.oneworldgroup.co.za/index.php?option=com_content&view=article&id=1258:access-to-clean-energy-for-improved-rural-livelihoods&catid=207:low-carbon-development

requirements. This is crucial to understanding how best to unlock the opportunities presented by development funding, enabling learning for the sector as a whole, and identifying key ways in which challenges could be overcome.

This research was essentially explorative in nature, attempting to understand the issues and experiences the renewable energy sector is facing in meeting the community benefit requirements under the RE IPPPP. The authors sought to establish an evidence base of recent experience, drawing on perspectives from a range of different stakeholders including government, the private sector and development practitioners. This was undertaken with a view to not only evaluate overall programme requirements and understand the challenges, but also to identify how best to unlock the development potential of this funding and promote successful developmental outcomes.

The guiding question for this study was:

- What has renewable energy project developers' experience in South Africa been to date, and what key challenges do they face in their community engagements?

We took a qualitative approach, using interviews and a multi-stakeholder workshop to gain deeper insight into the issues. It was vital to hear multiple perspectives in order to address the central research questions. These perspectives include government, who set the requirements and who are involved in financing community trusts and monitoring their implementation. Another key perspective is the private sector, including IPPs and other renewable energy (RE) industry stakeholders, who are ultimately responsible for owning and implementing community benefit requirements. The scope and limitations of this research led the authors to focus on the challenges faced by project developers. Developers are the most powerful and active stakeholders in this current context, so it was considered a priority to engage and empower them; future research efforts should incorporate the views and challenges of local communities. The researchers also identified 'key principles' of effective community development, to give a context for understanding the RE IPPPP's proposed model of benefits. These principles are described below.

Key principles in community development processes

The authors considered the following principles in community development processes, drawn from development literature, as relevant to the challenges facing RE IPPPP:

1. **Beneficiary definition needs careful consideration**. Communities can be most easily defined along the lines of geography. However, this can be problematic when assumptions of homogeneity are made, and artificial barriers across 'functional' or 'common interest' groups can be created (De Beer and Swanepoel 1998). Areas in South Africa are likely to incorporate several social groupings, often also in separate locales with different languages, and there may be little overall cohesive unity or common identity between them. Participatory 'stakeholder mapping'[2] is one process that can help define different 'communities of interest' and select the most appropriate 'granularity' (or breakdown) of beneficiary groups.

2 Stakeholder mapping is the process of identifying stakeholders and analysing their attitudes towards something (usually a project, but also applicable to broader issues). One project management oriented definition of stakeholder analysis is documented by Babou (2008) and is available at www.pmhut.com/what-is-stakeholder-analysis.

2. **Identifying beneficiaries' needs is a key and ongoing process.** A community development process must start by defining the needs of different beneficiary groups; quick consultations are unlikely to yield reliable results. A community development process should start by defining needs, and good plans for project implementation will be based on an analysis of the issues in meeting these needs. 'Needs' are a subjective notion, and how they are defined can be influenced by values and the dominant ideology, media, advertising and so on (Ife 1995). Needs as described by people may well differ from those inferred by an external consultant, based on statistics and other desk studies. It is important therefore that all these perspectives are captured. Participatory planning processes can themselves facilitate learning processes, empowerment, and problem identification and solving.
3. **Consultation with community groups.** Top down project implementation is unlikely to solve complex local problems. Instead, problems are often best identified and solved through iterative and participatory processes that foster learning and buy-in, backed by resources and political will. Participation can be considered on different levels, ranging from pure consultation to more in-depth engagement or participation.
4. **Inclusive governance that adapts over time is important for impact**. Governance institutions are essential to managing longer-term processes that are inclusive and representative of communities. Common issues affecting long-term community governed structures include high staff turnover, intrusion of local politics, and inadequate capacity and skills in such institutions (Tshikululu 2010; De Beer and Swanepoel 1998). Making sure the appropriate accountability mechanisms are in place from the start is therefore essential. The intrusion of local politics affecting local decision-making and relationships is a key risk that must be mitigated wherever possible.

2
Community benefit requirements in the South African Renewable Energy Procurement Programme

2.1 Introduction

The South African Renewable Energy Independent Power Producer Procurement Programme (RE IPPPP) issued by the Department of Energy in 2011 aims to increase the share of renewable energy in the national electricity grid by procuring energy from private independent power producers (IPPs). This programme developed over several years, proposed in its original form as a renewable energy feed-in tariff (REFIT) programme. REFITs guarantee a fixed price paid to renewable energy generators for a specified time period.

However, concerns over the legality of the REFIT[3] (Tait 2012) saw the programme eventually evolve into a competitive bidding process. Renewable energy projects submitted to the programme are assessed on the tariff they offer (70 per cent of the assessment score) as well as their contribution to the defined economic development criteria (30 per cent). Economic development has been stated as one of the key objectives of the procurement programme (DoE 2011a) and criteria include job creation, local content, ownership, management control, preferential procurement,[4] enterprise development and socio-economic development. These are briefly described in Table 1.

These requirements originate from South Africa's Broad-Based Black Economic Empowerment (BBBEE) legislation. In South Africa the post-apartheid public discourse on national development and transformation envisages a key role for the private sector. This is given effect through various pieces of legislation, but most notably through BBBEE. This places obligations on the private sector to actively contribute to economic and social transformation in the country and to enhance opportunities for people previously disadvantaged under apartheid to gain access to the formal economy (Tait 2012).

Reference to race in the legislation stems from apartheid's policies of racial exclusion against non-white citizens. BBBEE policy therefore focuses on improving economic opportunities for non-white citizens, to address ongoing disadvantages and racial socio-economic disparities. The term 'black' in the context of BBBEE refers to black, coloured, Indian, Asian and second generation Chinese citizens. Although the apartheid regime ended in 1994, and with it the legislated differentiation of people according to skin colour (DTI 2004), legislation like BBBEE continues to refer to these categories for the purposes of statistics and economic empowerment.

3 The REFIT programme was challenged in two important ways. Firstly the National Energy Regulator of South Africa, who was running the process, was found not to have the mandate to run a procurement programme according to the terms of the Electricity Regulation Act. Secondly the procurement programme, with its emphasis on selection of IPPs on the basis of non-price criteria, was found not to be compliant with legislation requiring that the bulk of any procurement decisions by organs of state need to be based on price (Tait 2012).

4 This is a South African policy in which tenders are awarded 'on a prescribed point system where preference is given to Historical Disadvantaged Individuals (HDI's) South African citizens' meaning people of 'colour', women, and those with disabilities. See more at www.westerncape.gov.za/eng/pubs/public_info/P/189909.

Table 1: Overview of the RE IPPPP economic development requirements (first bidding round)

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

* Independent power producers can choose to assign this full black ownership requirement to the local community

Source: DoE, 2011b

Various sectors, including agriculture, mining, land reform and tourism, have signed up to empowerment charters and scorecards[5] to help become more inclusive of those previously disadvantaged in South Africa. Curiously, however, there is little comprehensive research available evaluating the approaches, models, outputs and outcomes of such initiatives (Ponte *et al.* 2007; Patel and Graham 2012). This leaves an important gap in our understanding of the requirements' successes and challenges, and means that there is no substantial evidence base from which to critically evaluate their progress.

The BBBEE criteria in the RE IPPPP address economic development at a national level, but also include a specific focus to spread project benefits to the local communities in the vicinity of renewable energy sites. Local communities in the RE IPPPP are defined as communities living in a 50-kilometre radius around the proposed project site, or if there is none, then the nearest community. The four economic development criteria that relate to local communities include community ownership, job creation, enterprise development and socio-economic development. Table 1 gives an overview of the economic development requirements, with those directed at local communities highlighted in bold. IPPs are awarded points on the basis of their contribution to the seven different elements, and this is known as the scorecard.

The local ownership requirement results in dividend revenue that is earned by local communities. A community trust is established which manages the shareholding asset on behalf of the community and governs spending decisions on developmental goals. The trust is managed by a board of trustees constituted of representatives from the community, independent power producers and other independent members. The socio-economic development (SED) and enterprise development (ED) revenues may also be paid into this trust structure, or may be kept under the control of the project company for spending decisions. Such governance decisions are project specific.

The socio-economic development (SED) criterion requires that developers make a financial contribution of between 1 per cent and 1.5 per cent of total project revenue to communities, to foster socio-economic development (this can include health, education, service delivery, arts and sports programmes) and to support local enterprise development. At bid submission stage, 'bidders are required to identify needs of the surrounding communities, where the project site will be located and to formulate strategies on how such needs could be met utilising the Socio-Economic Development Contributions. These strategies will constitute the Socio-Economic Development Plan of the Bidder' (DoE 2011b: 19).

The enterprise development (ED) requirement is targeted at assisting small businesses in the local area and requires that projects make contributions that 'assist and accelerate the development and sustainability of other enterprises, [and] financial and operation independence of other enterprises' (DoE 2011b: 7). For their bid submission developers are required to 'provide a list of the type of enterprises earmarked for development and also give an indication of the programmes that will be implemented with these enterprises. Provision should also be made for new enterprises' (DoE 2011b: 19).

Since the framework for RE IPPPP provides electricity to the national grid, deciding where to allocate that electricity is technically outside the developer's remit. In theory, however, other

5 A scorecard is a way of assessing a company's contribution to BBBEE by assigning points against their contribution to the different elements of BBBEE. Various sectors may adapt what is known as the 'generic scorecard' to suit their own circumstances, as the Department of Energy has done for the renewable energy sector in the scorecard shown in Table 1.

projects for energy services could be implemented at the local level, using funds in the community trust and from the SED. However, the allocation of these funds would depend on local priorities and the community decision-making process. In the CHOICES-SA[6] project area in the Blue Crane Route Municipality of the Eastern Cape, there are particularly acute power shortages and a significant number of households (around 20 per cent) are not connected to the national grid. In the CHOICES community engagement process, communities have identified lack of adequate energy services as a priority. This scenario has the potential to create ill-feeling in the communities living next to large-scale energy generation projects. Options for local energy services could be explored through SED, community trusts, and other investor mechanisms.

Multiple perspectives and insights are needed to understand the experiences and challenges the industry is facing, and how best they can be supported in delivering community development benefits. Stakeholders include, firstly, various government institutions, who set the requirements and who are involved in financing community trusts and monitoring their implementation. There is also the private sector, including IPPs and other RE industry stakeholders who are ultimately responsible for owning and implementing community benefit requirements. The multi-stakeholder workshop was intended to provide a space to collaboratively explore some of the issues and challenges this sector is facing. The workshop was held in Cape Town and included representatives from:

- Industrial Development Corporation
- Development Bank Southern Africa
- GIZ (German Society for International Cooperation)
- independent power producers
- South African Solar Photovoltaic Industry Association
- and development practitioners from the Community Development Resource Association, University of Cape Town, South African National Biodiversity Institute and Conservation International.

2.2 Experiences of the renewable energy sector in meeting the community benefit requirements

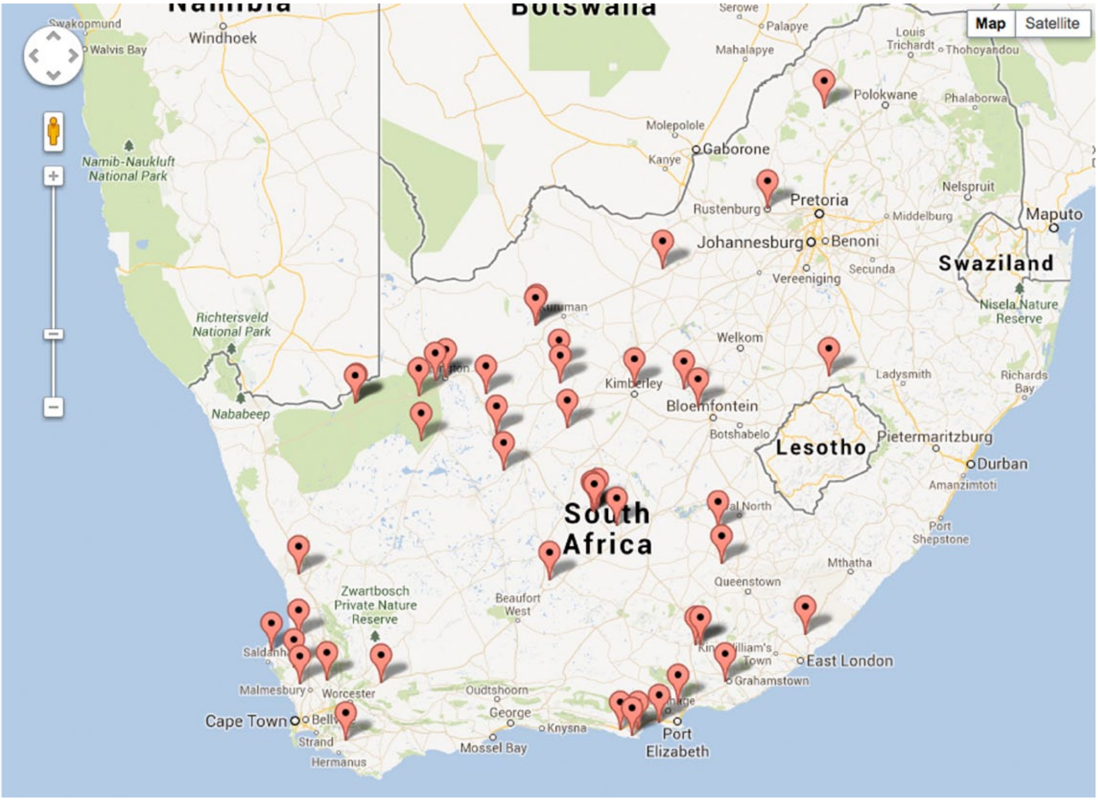
This section documents some of the key challenges that were raised by stakeholders in consultations. Most stakeholders who were interviewed and present in the workshop felt that overall there is a lack of sufficient guidance for developers on the community benefit aspects of the procurement programme. It is not clear to them, for example, how much detail to engage in when submitting SED strategies; beneficiary definitions are overly simplistic; and there is little indication from the policy requirements as to the roles that various local stakeholders should have in the process, for example local municipalities. There is no reference to community engagement or participatory approaches to development, appropriate governance structures or alignment with local municipal Integrated Development Planning objectives. This results in considerable variations in interpretation. This section gives a brief overview of some of the main challenges with meeting the policy requirements for developers, and the impacts on achieving good developmental outcomes.

2.2.1 Beneficiary definition and selection

A development process, particularly for the purposes of BBBEE ownership transactions and empowerment, must generally start with defining the beneficiary community. In the RE IPPPP this is described as any community within a 50-kilometre radius, or if there is none, then the nearest. The definition of communities on a geographical basis has raised a number of

6 Project partners for CHOICES-SA are IIED (London), OneWorld (Cape Town), and the Energy and Resources Institute (TERI, India).

Figure 1: Map of approved renewable energy projects – first and second bidding round



Source: www.energy.org.za

issues. Figure 1 indicates the location of approved projects in the first and second bidding rounds thus far. It indicates that there are already several areas where beneficiary areas overlap. As the RE IPPPP continues with further bidding rounds, such areas of overlap are likely to increase. This raises further challenges for development initiatives. The design and implementation of development initiatives concerning the same beneficiaries requires careful planning and collaboration between all stakeholders.

However, in a competitive bidding environment, it is difficult to foster collaboration amongst different IPPs and share project information prior to project selection. This is made more difficult by the fact that there are successive bidding rounds at different times, meaning different projects in the same area may be at different stages of development. And before bid selection there is no certainty that a project will get selected. Overlapping boundary areas therefore means that there would be multiple IPPs all individually communicating different information, different timelines of projects and following different approaches. This situation opens up the potential both for miscommunication and discontent among beneficiary communities. This is also not the best way to organise resources; it presupposes doubling up administrative procedures as each project undertakes its own development strategy and establishes its own trust structure.

As mentioned in the key principles outlined in the introduction, the definition of community on a geographical basis can be overly simplistic and is not necessarily reflective of the complex socio-spatial realities on the ground. In trying to work with this definition in the RE IPPPP, project developers have interpreted the definition in different ways. For example, where more than one community falls within the 50-kilometre radius, some IPPs have chosen to include all of them, while others have selected only one. The implication of differing approaches to selecting beneficiary communities is not yet clear, and may indeed not be significant; however, one developer questioned whether there was any legal recourse to communities living within the stipulated 50-kilometre boundary who are excluded from the beneficiaries as defined by the project. The definition also raises challenges where the 50-kilometre radius interacts with a larger metropolitan area (for example Port Elizabeth, or Jeffreys Bay in the Eastern Cape) making it even more difficult to delineate beneficiaries. One stakeholder observed that the complexities involved with defining beneficiaries in larger towns and metropolitan areas are resulting in many IPPs ignoring such 'communities' in favour of smaller, more easily defined settlements. It was suggested that this definition needs to allow for greater flexibility, depending on local circumstances.

2.2.2 Time lags in the development process

There are significant challenges in aligning the community benefit process with the concurrent overall procurement process and engineering project cycle (Wlokas *et al*. 2012). Both of these other processes impose certain constraints on when actions can be taken in the community benefit process. The overarching procurement process has rigid stipulations for what steps in the development process need to be undertaken at bid submission stage and financial close of projects. For example, the scope of developmental activities needs to be clearly defined when the project is submitted for tender, but it is potentially problematic to start engaging with communities about development projects and financial benefits before a renewable energy project has been successful in its bid application. This could lead to expectations which could damage future working relationships if not carefully managed.

At the same time, undertaking a community needs assessment and planning process without undertaking broader participatory processes with communities is not an effective form of long-term development. The community development processes are also subject to the conventional engineering project cycle stages of feasibility and planning, construction, operation and eventual revenue generation and dividend pay-outs (depending on project financing and so on). So a development process cannot really begin until the project begins generating revenue to earn SED and ED contributions, which might be several years after initial engagement began for the purposes of the procurement process. Furthermore, the development process might have to wait even longer before ownership dividends are earned, depending on how the project is financed.

Trying to establish what a 'typical' development funding stream will look like is very difficult given that these vary widely from project to project, depending on such factors as the size of project, the percentage ownership share decided by the developer, and the way in which projects are financed. There are three revenue streams for communities: ownership revenues, SED revenue and ED revenue. The ownership revenues will typically form the greatest share of development funding going to communities. Since the communities in question are impoverished and do not have money to invest in these projects, there are two main ways in which the ownership element can be financed.

One option is to give the shareholding as a 'free carry' to communities, in other words, a gift. A developer may choose this option if they feel the project can 'afford it' and still earn an acceptable rate of return. Alternatively, the ownership share may be financed through a 'soft loan' by a Development Finance Institution, such as the South African Industrial Development Corporation (IDC). Where community ownership shares are funded through loans by the Industrial Development Corporation, the dividend pay-outs to communities will not be seen for the first few years of the project's life while the loans to purchase the equity investment are repaid to the funders. The stream of development funding for many projects may therefore be very low in the first ten years (the time period depending on financing arrangements) and then see a huge step jump to several million South African rand per year.

The considerable delay, and then massive step jump when ownership dividends to communities are realised, are problematic. All stakeholders interviewed and in workshop discussions felt that this can be destabilising and difficult to manage in terms of project development and management (especially when revenues have to be spent quarterly). A community development practitioner commented that this pattern of financing does not match developmental principles of incremental and steady growth over time matched with building of local capacity. There was general agreement in workshop discussions that the issue of financing trust structures needed to be addressed. Participants thought there might be more innovative ways for early realisation of benefits to overcome the considerable time lag between when a project is selected and when it starts to generate revenue and dividends. For example, investigating the feasibility of making a 'free carry', or some combination of the two financing arrangements, could be a mandatory requirement. If the requirement were placed on all projects, it would not unduly prejudice particular projects and would help to address time lags in financing streams. This would require extensive consultation and research with relevant stakeholders including policymakers, financiers and project developers.

The implementation of the community benefit process is therefore currently very disjointed, with time lags of up to several years between development strategy formulation, engagement and trust registration, and when monetary benefits will be generated from revenues and dividends. This is not desirable from a developmental perspective, as it creates false expectations, and risks miscommunication. Furthermore, even if projects are successful, this preparatory work may have no relevance for several years before revenue starts to be generated. This time lag can indeed create conditions for conflict.

2.2.3 Creating the right incentives through the procurement policy

Representatives of IPPs unanimously reported that there has been no government feedback yet on the community benefit aspects of their RE projects, such as on SED plans, how implementation will be monitored, whether those projects with more ambitious development aspects (such as higher community ownership shares or on community owned land) are evaluated more favourably, and so on. Many IPPs are interpreting this silence to mean that SED plans are simply a 'box-ticking' exercise. No feedback on whether more ambitious approaches are rewarded results in a disincentive in future procurement rounds to take on more developmentally ambitious projects, and to instead adopt a minimum compliance approach. This calls into question the value of doing SED strategy development at bid preparation stage, considering its potential to complicate relationships further on, if these are not being evaluated in any meaningful way in the selection process.

Some stakeholders in the workshop suggested that the procurement process could create better incentives for more ambitious approaches through the scorecard and points system. It was noted that the current approach encouraged a compliance approach – or a typical business-oriented approach – to fulfilling the requirements. However, when it comes to developmental processes, outcomes can be enhanced by rewarding businesses to do more than the minimum. This observation has found its way into the procurement rules: the economic development criteria have been adjusted for the third procurement window, in August 2013. Projects' local ownership, SED and ED quantitative monetary commitments will be assessed competitively, with the highest offer being the benchmark, rather than a government prescribed target. However, the quality of socio-economic development plans remains undervalued.

A stakeholder in the workshop mentioned contracting with communities on community-owned land as an example of how projects' developmental ambitions can be raised. In such projects, communities would be able to negotiate land leasing agreements with developers, which could create an additional source of income. There are very few projects on community-owned land to date. Such projects require more extensive engagement upfront with communities, negotiating complex terms and contracts, obtaining title deeds and so on. It is inherently more complex and time-consuming, and therefore costlier, than contracting with a farmer who owns commercial farmland. And these costs are incurred at project development stage, when the project is being developed at the developer's risk. IPPs interviewed were nonetheless very supportive of engaging in more community-owned land projects, although they stressed that the additional risk and cost involved would need to be offset by some incentive, such as a greater points allocation in the procurement scorecard, for example. In the current procurement scorecard, an IPP who has established a project on community-owned land would not get any more points than another IPP contracting with a commercial farmer, despite the potentially greater developmental benefits.

There was widespread agreement from many stakeholders that many of the challenges would benefit from a collaborative approach between different IPPs. The competitive nature of the procurement process however hinders the potential for collaboration, especially prior to bid selection. It is not feasible, for example, to effectively collaborate or share information in overlapping beneficiary areas, due to this competition. Challenges in such areas will also prove increasingly difficult with additional projects being selected in successive rounds. There were many questions about how IPPs can work together to optimise economic development outcomes within the current policy framework. It was agreed that there is, at least, much potential to explore greater collaboration after the preferred bidder stage, and this needs to be actively encouraged and facilitated.

Alignment and collaboration within overlapping boundary areas can enhance the impact of spending, reduce unnecessary duplication of administrative structures, and mitigate against potential confusion and conflict situations that could arise when multiple players engage within a single area. While industry stakeholders themselves suggested opportunities for self-organising and collaborating, it was felt that policy requirements need to facilitate this. For example, under the current framework it is still seen as necessary to establish individual community trusts per project, and it is unclear how different projects could be independently evaluated where there are collaborative approaches or joint implementation.

2.2.4 Managing community relations and long-term governance

Managing community relations was seen as one of the biggest ongoing challenges developers will have to face over the longer term. Relationship management is made difficult by several aspects of the policy requirements, including the time lags already discussed, overlapping beneficiary areas with multiple developers in one area, selecting community representatives and managing the inputs and expectations of all local stakeholders. It may also be helpful to consider tensions that could arise in local areas where neighbouring communities may not be receiving the same level of benefits.

Stakeholders gave diverging interpretations of certain definitions and requirements, of 'what needs to be done when', which benefits go to whom and the roles of different local stakeholders. Some developers said they have difficulties dealing with the negotiation procedures with different stakeholders and the complex interplay of benefits arising from land leasing, dividend benefits, project revenue benefits and jobs. It is unclear what roles different stakeholders should play and how they could or should be included in the various benefit streams. There is potential for confusion and discontent if stakeholders feel they have been unfairly excluded.

A key stakeholder in local development processes are local municipalities; however stakeholders commented that it was unclear what role they should play or how they should be included. For example it was questioned whether they should be included in the formation of trust structures or what the appropriate level of alignment with Integrated Development Plans (IDPs) and Local Economic Development (LED) strategies were. These roles and relationships with municipalities also become more complicated when beneficiary areas cover more than one municipal area and multiple stakeholders must be coordinated. As one provincial municipal representative noted, a more collaborative approach to building on a municipality's existing development projects could create synergies and better outcomes than many individual processes. However, one stakeholder expressed concern about the appropriateness of channelling funds into institutions with no mechanism for ring-fencing that funding.

Municipalities often also suffer from critical skills shortages and a lack of human capacity, which can act as a significant barrier to fostering effective partnerships. The provincial representative also remarked that excluding these stakeholders could result in them being uncooperative and making development processes in their jurisdictions more difficult for projects. He stressed the importance of managing these relationships too.

Community development practitioners agreed that as soon as monetary resources are introduced into a local impoverished area it raises significant potential for tensions, mistrust and corruption. It was noted that the disjointed process and considerable time delays between initiating a process and implementing development projects increases the potential for difficulties to arise. All stakeholders at a local level have their own expectations about where and how monies should be spent, and managing these relationships is difficult. Various anecdotal examples are emerging even at this early stage of the process, and one community development practitioner shared his 'sobering' experience of violent exchanges between stakeholders in a community trust he is working with in another sector. Many stakeholders observed that IPPs may not necessarily have the expertise to manage complex community interactions and relations.

Community trusts are currently the predominant governance structure being used to manage funds in the RE IPPPP. A community trust is an entity which governs assets on behalf of a defined beneficiary group, and is a common choice of legal vehicle for community development in South Africa. There were however many criticisms by government, IPPs and development practitioners about these structures as a governance mechanism to guarantee successful community development. They are seen as being exclusive rather than inclusive, difficult to manage operationally and introducing many challenges to representing communities and local politics.

Questions were also raised during the workshop about how to avoid local politics and how to select appropriate trustees. One developer noted they are already encountering issues of mistrust by communities of the 'representatives' they have put forward. No suggestion for the process to select trustees is put forward in the RE IPPPP. The most transparent and accountable manner would be to get beneficiaries to elect representatives. However one developer described the infeasibility of holding electoral processes in their area, considering the number of people across multiple communities and the cost that would be involved. This results in developers appointing representatives, rather than conducting an election process. While being aware that local politics are a real threat to governance, it is often difficult to practically avoid such elements in community negotiations. One community development practitioner remarked that, at the local level, communities are often organised along political lines thus making it difficult to avoid; often the only representatives suggested are ward councillors, who are political appointees.

As an illustration of this point, an evaluation of BBBEE community trusts (Tshikulu 2010) in South Africa found that they were plagued with many operational challenges. These included:

- ensuring adequate representivity of the beneficiary community on trust boards. Even with the best of intentions, it is difficult to ensure that representatives will always consistently and effectively communicate, and represent community interests, in an impartial manner;
- poor communication with stakeholders;
- challenges in delineating community boundaries and working in communities with no common identity or mobilisation to take advantage of;
- the fragility of community institutions, which rely on people's voluntary commitment, often results in high turnover rates. Operational challenges included project management, sub-contracting consultants, financial oversight, monitoring, evaluation and reporting and stakeholder consultation require dedicated and skilled personnel. Administration of trusts requires dedicated, paid employees;
- the intrusion of local politics in governance and relationships, and the 'inevitable contest over resources' (Tshikululu 2010: 47). Introducing significant resources into a community can impact existing social arrangements and provoke contention in often unanticipated ways;
- low levels of skills and capacity in communities, which are difficult to address in the frequently noted reality of high staff turnover;
- there is frequently inadequate monitoring and evaluation. This should be an embedded procedure in trusts and be undertaken by a third party, to be seen as independent.

However, despite their concerns, stakeholders were unable at this stage to identify better alternative governance structures. There is a clear need to both better understand some of the common failings of trusts and how to plan for these; but also to explore suitable alternative governance structures.

There were concerns that monitoring and evaluating these requirements on the basis of expenditure alone is inadequate. One stakeholder questioned the feasibility of meeting the quarterly and annual expenditure targets, especially for larger projects with significant ownership dividends. This revenue would be paid from the RE company to the community trust whose board would then have power over decisions regarding its spending, but the RE project company would still face penalties if the money was not spent within the correct timeframe. It was suggested that an independent watchdog may be needed to oversee implementation and governance, to guard against corruption and mismanagement of funds.

3 Discussion and recommendations

This section discusses the key challenges the current development model proposes for the stakeholders involved and makes recommendations towards a more inclusive, more coordinated and collaborative solution.

3.1 Distribution of benefits

It is often assumed that local economic development projects, such as a new power generation project, will be regionally inclusive and bring actual tangible benefits to the local areas where the investment is made. However, all too often, the benefits from construction or other inward investment has very limited local 'multipliers' (knock-on economic effects) (Walker 2008; Munday *et al.* 2011; Pike *et al.* 2007). This has been a key concern with renewable energy development, particularly from wind, in many other countries with more established sectors (Walker 2008; Munday *et al.* 2011). A focus, therefore, on enhancing real tangible benefits to local areas where projects are located, such as the RE IPPPP aims to do, is an important recognition of the need to make economic development more locally inclusive.

However, as the sector develops in South Africa, it is becoming apparent that targeting spending at extremely localised levels (i.e. a 50-kilometre radius around projects) may not be either efficient or appropriate. The current model of distribution of development spending cannot be aligned to target the most needy areas, or on an equitable basis nationally or even regionally. Projects will tend to cluster around optimal resources (such as wind, solar, hydro or biomass) and wherever land is available. These areas might not necessarily represent an equitable per capita allocation of funding.

On a regional basis, the bulk of the projects (and therefore the bulk of development spending) are currently in the Northern Cape, a province with a population of just over one million people (Statistics South Africa 2013). In contrast, the eastern provinces of the country have very few projects so far. There may be longer-term unintended impacts of this inequality, such as migration and conflict between different communities within beneficiary areas. This picture of clustering and unequal distribution repeats itself down even to a very localised level. There are already cases of overlapping beneficiary areas, for example in the town of De Aar in the Karoo.

There is a strong potential for problems to arise over the longer term from spending significant sums of money on an annual basis in very specific localised communities. Over a 20 year period, larger projects may result in tens of millions of rand being directed at specific communities; it should be considered now how feasible it will be to develop projects on a big enough scale to match the required spend.

The proposed model of development spending controlled at a localised level may not therefore be the most efficient way to strategically plan or administer this development funding. There will be significant duplication of many administrative procedures by different projects in accounting, the legal establishment of trusts, and multiple monitoring and evaluation processes. An alternative consideration might be, for example, to have higher regional oversight of planning and administering development funding.

3.2 Integrated planning with all stakeholders and maximising benefits

Although there are in theory good opportunities to align development efforts between projects in the same local area, the procurement process requirements make collaboration between different projects difficult. Before bid selection, IPPs are operating in a competitive environment, which does not enable collaboration or information sharing. After projects have been approved, although IPPs expressed their support for working collaboratively, there are still difficulties in doing so, especially on monitoring and evaluating the expenditure of different renewable energy projects that might have collaborated on a development project.

Another issue with the policy requirements as they stand is that developers are not required to align with local and national development goals and priorities. It is questionable whether substantial development related processes and decisions are best run without context or reference to nationally defined processes and goals. Although in reality most developers do appear to be consulting with local municipal development processes (such as Integrated Development Plans (IDPs) and Local Economic Development (LED) strategies) the private sector still retain overall control over deciding how SED and ED revenues are spent.

The project identification and selection process may look different from a business perspective than it does from a purely developmental perspective; it is important to be aware of diverging motivations. One participant, a development practitioner who has conducted SED strategy development for an independent power producer, noted that this particular IPP decided to focus on smaller, high profile projects in its early years to build its 'brand' in the local area, and hence improve its image and acceptance. This approach risks neglecting strategies to unlock the longer-term economic potential of local areas, by focussing on projects with easy and 'high visibility' impacts. Such projects may or may not align with priority needs that other stakeholders have identified. Policy requirements do not include stipulations to align with other processes, or to use participatory planning processes. Definitions, terms and roles of stakeholders associated with the procurement programme, and subsequent implementation of projects, need to be clarified.

Many stakeholders commented that communities' voices are not well represented in policy formulation and other processes and negotiations. Structures could be established to enable better community representation at different stages in the process. For instance, one IPP is spearheading an initiative called 'Communities for Wind'. Its mandate, activities and financial operations are not yet finalised, but it aims as an organisation to represent communities' interests in their local renewable energy projects. It might also offer skills and capacity building to support the activities of the initiative. Any community structure should be independent of renewable energy companies and should not necessarily be technology specific. They must be truly representative of communities and address any needs they might have – for example, in skills and capacity building; sharing their own experience; and horizontal engagement.

As well as the moral case for optimising the inclusion of local communities, and evidence for community buy-in through local inclusion in decision-making, there is a strong business case to be made too. Discontented communities are a risk for projects, and business has a clear interest in minimising such risks. This business case can be strengthened through government offering the right incentives. Participants felt that this should not just be about 'ticking boxes', but that clear incentives need to be offered for more ambitious approaches to development.

3.3 Recommendations to maximise community benefits in the South African RE IPPPP

The economic development requirements as they stand create a number of challenges for the industry, and all the stakeholders consulted wanted to see these requirements amended. There were two suggested approaches, however: on the one hand, work could be done to overcome the challenges and optimise outcomes within the existing framework. On the other hand, some argued that the framework is fundamentally flawed and should be substantially revised. These stakeholders felt that the current requirements were a serious impediment to successful development outcomes.

Any proposed social programme or intervention should be based on a coherent causal model of change. Such a model should be informed by an evidence-based understanding of the issues that are being addressed – in this instance, socio-economic development in impoverished communities. In the RE IPPPP it is not clear that there is a proposed causal model on which the policy is based. As one reviewer of the policy noted, its framework does not necessarily address the fundamental issues that communities are dealing with, such as power relationships and inclusion in the economy. The RE IPPPP, which supports a passive beneficiary type relationship (or in the case of local ownership, a top-down approach), may not necessarily provide the right framework to deal with such issues. Nor is it clear that the private sector is the right stakeholder to be driving these processes. In the absence of a guiding model of change, simply refining the process is not guaranteed to address some of the more fundamental issues that the current framework has in achieving outcomes.

However, at this stage of the policy rollout, it may not be realistic to fundamentally change the proposed model for community benefits. It may therefore be more strategic to investigate how to optimise the existing framework. In light of this, several recommendations for the industry to navigate a way forward within the existing framework have been made, informed by the outcomes of the interviews and workshop discussions.

Engage with policymakers to reform the bidding requirements, to better support the community benefit process

There are opportunities to create a more streamlined community benefit process that can overcome some of the main challenges. However, this requires dialogue and engagement with the issues. There are also multiple government departments which have a stake in the outcomes of the community benefits associated with the RE IPPPP process, including the Department of the Environment, the Department of Trade and Industry, the Development Bank of South Africa, the Industrial Development Corporation, and local government. In particular, dialogue is needed on the following key issues:

- **Amending the RE IPPPP economic development and scorecard requirements**. This could include for example shifting requirements for direct community engagement and trustee selection to later in the project cycle closer to when revenue will be generated, rather than at project application stage. At the stage of bid submission, the content of the required socio-economic development plan could be limited to specifying intended financial commitments and a desktop study.
- **Reviewing the scorecard points awarding system** to investigate how it could better incentivise more ambitious approaches rather than a compliance-based, box-ticking approach. This has partly been achieved through the changes put forward by government in the procurement rules for the third bidding window.

- **Address concerns about defining beneficiary communities, and clarify roles for local stakeholders and benefit streams.** For example, a facilitated process involving different stakeholders could develop common understanding of good practice and roles and responsibilities.
- **Get feedback from government on bids.** Greater dialogue between government and industry is needed. The industry is currently responding with uncertainty to many of the RE IPPPP requirements. There is the potential to encourage greater ambition in respect of these requirements if industry better understand government's priorities.

Develop a representative industry platform to collaborate on community benefit issues

A representative industry platform could enable the industry to organise and identify concrete actions to collectively support their individual endeavours. The renewable energy industry already has representative bodies, through their industry associations, and it was suggested that these could look at establishing a collaborative working group to oversee community benefit issues. Such a representative working group could investigate how to:

- **Facilitate an enabling environment for collaboration between projects in the same area or region.** This would ideally be facilitated through amendments to the RE IPPPP requirements, but could also be initiated by industry players themselves, who have acknowledged that the competitive nature of the bidding process need not extend to projects' community benefits. Collaboration could include better opportunities for re-aligning overlapping beneficiary areas, but might also include general information sharing, commissioning targeted research, or other support that would benefit the sector as a whole.
- **Serve as a primary liaison with government.** The industry needs to approach government as one coordinated voice to better communicate the respective bidders' experiences. Interaction with policymakers would benefit from presenting widely canvassed and representative views of the industry.
- **Identify support measures for the industry.** This could include, for example, taking a lead in creating good practice guidelines.

Targeted research to develop good practice recommendations

Stakeholder discussions succeeded in shedding light on many of the current challenges and issues, but revealed that there are outstanding questions on how to address these. There is clearly a need for further targeted research or facilitated problem-solving dialogue, to understand alternative and viable options to propose in relation to specific challenges. More research is required for the following issues, for example:

- **Identify the most appropriate governance structures for development funds**. Although community trusts are seen as problematic, stakeholders have not found a clear alternative. Community trusts' main operational difficulties should be identified, and alternative governance options investigated. These findings should be proposed to policy makers.
- **Research different finance mechanisms for the share of community ownership,** ensuring more stable and predictable funding streams to communities.

Improve governance and inclusion to maximise developmental benefits

More general recommendations, which are not necessarily best managed by the private sector, included the recognition that issues related to governance and inclusiveness need to be addressed.

- **Develop regional oversight of projects** - regional bodies should oversee projects in broader regional areas to enable collaboration and streamlined processes, oversight and more efficient spending of revenues. Ensuring some level of community engagement and adequate representation on these bodies would improve trust and accountability. These would probably be best placed under the auspices of public sector review processes, but of course this raises questions about resourcing such institutions.
- **Closely monitor progress and review** – in these early stages of RE IPPPP there is much to be learned in order to maximise community development benefits. To this end, better monitoring mechanisms and more systematic reviews should be put in place, and integrated with the collaborative platforms to encourage a culture of learning and sharing.
- **Ensure community level platforms are well informed and resourced –** capacity needs to be built at community level to understand the RE IPPPP implications for local job creation and wider development planning, and foster community engagement in developing locally suitable processes and projects. This means exploring more informal mechanisms for information sharing as well as strengthening communications and understanding in local wards, councils, and development agencies. A more horizontal integration between these platforms and other collaborative platforms, such as those of industry players, would facilitate wider lesson learning.

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In South Africa, independent producers of renewable energy are invited to bid to take part in a large-scale, innovative, government-led scheme which aims to not only increase the share of renewable energy in the national grid, but also to benefit impoverished communities. The Renewable Energy Independent Power Producers Procurement Programme (RE IPPPP) requires independent power producers to contribute to various economic development criteria, including in the communities where their projects are located.

However, the nature of these requirements, and the 'newness' of this model – being implemented at scale over a short period of time – has also presented private renewable energy businesses with the significant challenge of engaging with community development processes, an area typically outside their expertise.

This report explores the experiences and challenges of the renewable energy sector to date, both in meeting the RE IPPPP requirements, and planning for their longer-term implementation.

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