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## Addressing the challenges in fulfilling the community benefit requirements in the RE IPPPP

*Report back on consultative workshop held on 7 March 2013*

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### ***Background to the RE IPPPP requirements and context for the workshop***

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The government's utility scale renewable energy plants, being rolled out across the country between now and 2016 under the Renewable Energy Independent Power Producer Procurement Programme (RE IPPPP), has specific requirements around economic development and community inclusion. Four of these criteria relate to the citizens residing within a 50-kilometre radius of a proposed project site and require that projects have a percentage of local community ownership and local job creation, as well as spending directed towards socio-economic development and enterprise development. Whilst these requirements open up exciting development potential for impoverished communities, the experiences of the industry to date, after completion of the first two bidding rounds, have revealed a number of potential problem areas emerging.

It was on this basis that the Energy Research Centre at the University of Cape Town decided bringing together specific experts in a workshop environment to explore issues regarding the RE IPPPP rollout. The workshop was attended by 22 participants comprising representatives from IPPs (representing wind, solar and hydro), South African Photovoltaic Industry Association (SAPVIA), Development Bank of South Africa (DBSA), Industrial Development Corporation (IDC), Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ) as well as community development practitioners from Community Development Resource Association (CDRA), South African National Biodiversity Institute (SANBI) and Conservation International South Africa. Whilst there are, of course, many more important voices with a stake in these issues including municipalities, communities, other government departments, the ERC targeted this event to initiate a process of on-going dialogue within the broader sector.

Out of the many discussions during the day, consensus emerged that there is definitely a pressing need for the industry to start collectively addressing these challenges and for more engagement with policymakers to streamline processes for implementing these requirements. Suggestions were made to establish a representative industry platform across all technologies, in the hope that this could enable different industry players to address issues in a collaborative manner. Such a platform should allow liaising with and lobbying relevant government departments, particularly the Department of Energy (DoE), Trade and Industry (DTI), National Treasury and other governmental stakeholders such as DBSA and IDC. There was also agreement amongst workshop participants of the need for the renewable energy sector to work collaboratively to streamline the bidding process, and enhance processes around governing and implementing these community benefit processes. This document presents a high-level overview of some of the key discussion points that emerged from the day and suggestions for a way forward to start looking for concrete ways to engage and address these issues.

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## ***Red flags and reflections from the first two bidding rounds***

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The workshop aimed to elicit insights and experiences from the first two bidding rounds to better understand some of the opportunities and challenges emerging. This was used to provide context to explore ideas, suggestions and recommendations around how to address these in current approved projects and/or to also improve the process going forward. These recommendations could either trickle back upstream to inform policy, or downstream to help improve the interaction between developers and communities at the implementation level. This section introduces some of the key challenges and questions that emerged. There is a call, at an industry level, for stakeholders to collectively identify solutions and collaborations, but there is also a particular need for more interaction, engagement and feedback with policymakers to identify ways forward. Intervention at policy level was the most widely discussed area to focus on moving forward.

- **The timing and staged approach required by the procurement process is ill-suited to implementing the local economic development requirements.** The implementation process for the community benefit criteria is currently very disjointed, with time lags of up to several years between socio-economic development strategy formulation, engagement and trust registration and monetary benefits being generated from revenues and dividends. This is not optimal from a developmental perspective, as it makes the management of expectations and interventions difficult. The engagement processes of projects with communities and the establishment of trusts for projects that may never reach preferred bidder stage could have negative implications for the industry and the country. Secondly even if projects are successful, this preparatory work has, in all likelihood, no relevance for the several years until revenue generation begins. This time lag can create the potential for contention and conflict.
- **Defining and selecting local communities.** How to define 'local communities' was a prominent theme in the discussions. There were suggestions that the definition should allow for greater flexibility, depending on local circumstances. The fixed 50km radius is overly simplistic and does not reflect complex socio-spatial realities on the ground. It is not clear, for example, on what basis IPPs should select communities if more than one falls within the radius – whether it should be all or one should be selected. It is also difficult to delineate beneficiaries in larger metropolitan areas. The complexities involved with development work in densely populated areas can lead to such 'communities' being ignored in favour of smaller, more easily definable settlements. The programme also faces overlapping beneficiary areas and it is likely there will be more of these with future procurement rounds.
- **Unequal distribution of development spending.** Projects will tend to cluster in specific regions, based on energy resources. It is not clear whether this is necessarily a good match for development spending. There was discussion around whether development spending might actually be more efficiently administered and allocated at a higher regional level than at individual project level. Overlapping beneficiary areas, for example, doubles up on developmental spending in specific areas. This could be better coordinated at a local level with more collaboration between such projects.
- **The bidding process hinders opportunities for collaboration.** There was widespread agreement from many stakeholders that many of the challenges would benefit from a collaborative approach. The competitive nature of the procurement process however hinders the potential for collaboration, especially pre-bid selection. It is not feasible, for example, to effectively collaborate or share information in overlapping beneficiary areas due to competition. Challenges in such areas will also prove increasingly difficult with additional projects being

selected in successive rounds. There were many questions around 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 post-preferred bidder stage and this needs to be actively encouraged and facilitated.

- **How to align development spending in areas with more than one RE project.** 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 with multiple role-players engaging within a single area. Whilst industry players themselves suggested opportunities for self-organising and collaborating, there was also seen to be a need for policy requirements 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, where there are collaborative approaches or joint implementation, how different projects could be independently evaluated.
- **A lack of feedback from the DoE to developers.** Developers unanimously agreed that there has been no feedback on community benefit aspects of their projects – such as on SED plans, how implementation will be monitored, whether those projects with more ambitious development aspects (e.g. higher ownership shares or on community-owned land) are evaluated more favourably, etc. Many IPPs therefore interpret this silence as suggesting that SED plans are a ‘ticking the box’ exercise. A lack of feedback on whether more ambitious approaches are rewarded may serve to be a disincentive to be more ambitious in future procurement rounds, instead prompting minimum compliance. This again raises the question of the usefulness of doing SED strategy development at bid preparation stage (given its potential to complicate relationships further on), if this is not being evaluated in any meaningful way in the selection process.
- **Clarifying requirements, definitions and terms and stakeholders.** Stakeholders give various and diverging interpretations of certain definitions and requirements, of ‘what needs to be done when’, around which benefits go to whom, and the roles of different local stakeholders. The industry is currently responding with uncertainty to many of the requirements while defining what long-term structures look like. Some developers expressed the difficulty they face in the complex negotiation procedures with different stakeholders and the complex interplay of benefits arising from land leasing, dividend benefits, project revenue benefits and jobs. They find it difficult to understand the roles of different stakeholders and their inclusion in the various benefit streams.
- **Collaboration with municipalities.** Participants noted that it was unclear what role local municipalities should play in the development process, for example in the formation of trust structures or the appropriate level of alignment with IDP and LED strategies. 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. There were discussion around whether municipalities should be part of community trust boards, and whether it is possible or appropriate to channel funds into institutions with no mechanism for ring-fencing that funding.
- **Appropriate governance structures for development funds.** Community trusts are currently the predominant governance structure chosen by developers, but there were many observations that these are inherently problematic, and there was criticism of trusts as a mechanism to guarantee successful community development. There is a clear need to better understand the key operational difficulties with trusts but also to understand alternative governance options. These findings should be proposed to policy makers.

- **Financing community ownership shares and the timing of funding flows to communities.** There are discussions relating to the time-lag before significant development funding is available for community projects. This relates to issues around timing of the requirements and expectations. It was noted, for example, that there is no project finance available during construction for smaller development projects to be initiated. It was 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. Another key issue was the financing of trusts by IDC and the considerable delay before ownership dividends to communities are realised. The massive step change when these are realised can also be destabilising, and difficult in terms of community project development and management (especially when revenues have to be spent quarterly). In general this does not square with developmental principles of incremental and steady growth matched with building capacity. It was noted there are many complex considerations around financing trusts, and questions around whether it is sustainable for development finance institutions to continue financing more of these.
- **Managing expectations and relations over the longer term.** This is seen as one of the biggest challenges developers will have to face. It was noted that the disjointed process and considerable time delays between initiating the development process with communities and implementing development projects increases the potential for difficulties to arise. Stakeholders at a local level have their own expectations about where and how monies should be spent, and managing these relationships is difficult. Introducing resources into poverty stricken communities introduces significant potential for conflict. Anecdotal examples are already emerging: one community development practitioner shared his 'sobering' experience of violent exchanges between stakeholders in a community trust he is working with in another sector. There were concerns raised about how to avoid local politics in the appointment of trustees for example, particularly when holding electoral processes for selecting representatives is not feasible. Some projects had encountered mistrust by communities of their 'representatives'. These development processes require good facilitation in the short-term and a strong focus on management, leadership and institutional support for the longer term. IPPs do not necessarily have the training and expertise to facilitate these processes. It was felt that the industry needed appropriate support measures in this regard.
- **Bringing community voices into the discussion.** There is a need for truly community-owned and developed projects, ones that are not top-down. An alternative policy space is needed to allow this to happen. There is a need for the communities' views to be reflected in discussion forums such as this workshop, as well as discussion on how to deal with expectations. Local communities are under-represented in the RE IPPPP bidding process. Several recommendations have been made regarding how they can be made 'equal partners'. There is one proposed initiative known as 'Communities for Wind' to act as a representative body for communities. It was felt that both the industry and government could facilitate greater community representation and involvement.
- **Monitoring and evaluation.** There are concerns that monitoring and evaluating these requirements on the basis of expenditure only is inadequate. There was comment about the feasibility of meeting the quarterly and annual expenditure targets especially in the context of 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 RE project company would still face penalties if not spent timeously. There were also suggestions about the need for an independent watchdog to oversee implementation and governance to guard against corruption and mismanagement of funds.

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## ***Looking forward – industry partnerships, collaboration and engagement with policymakers***

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The following points indicate or summarise some key high-level questions, issues and suggestions that emerged:

- Amendments to the ED scorecard and procurement process requirements to better support the community benefit process.
- Direct community engagement and trustee selection should only happen later in the process. Indeed, not before certainty around preferred bidder status, but ideally only much closer to the stage when revenue will be generated.
- Clarifying definitions and roles for stakeholders.
- Identification of the most appropriate legal entity to deliver community development benefits is needed. If not community trusts, then what?
- Creating an enabling environment for industry collaboration.
- Regional bodies or associations to oversee projects in broader areas to enable collaboration and streamlined processes, oversight and more efficient spending of revenues.
- Finally, the debate about these policy requirements hinges around whether the current framework is actually viable or whether it needs to be substantially revised.

On the basis of the key challenges and discussions about a way forward, various suggestions on what the sector needs going forward were identified.

**An industry representative platform/joint working group.** There is, firstly, a need to coordinate the renewable energy sector to start collectively addressing these issues through a representative industry working group. This common platform could allow collaboration even within the competitive environment in the interests of the broader social objectives related to these community benefit requirements. It was suggested that that industry bodies such as the South African Wind Energy Association, South African Photovoltaic Industry Association and the Southern African Solar Thermal and Electricity Association could form a joint working group, as these issues and requirements are common to all technologies and the wider the consensus on challenges and collaboration on solutions the better. Arrangements need to be made for companies which are not currently members of any (of these) associations. This was seen as a key starting point, as many of the other steps (such as engagement with policymakers) would benefit from widely canvassed and representative views of the industry. The industry needs to approach government as one coordinated voice to better communicate the respective bidders' experiences regarding community inclusion in projects, in order to streamline processes for the remaining three bidding rounds. The objective would be to provide feedback on policy, identify industry needs in terms of guidelines and specifications of bidding processes, and to be a platform for coordination and collaboration. It could also serve to liaise with communities to bring their issues to both the private sector and government.

**Engagement with policymakers.** There was interest to explore with policymakers the potential to create a more streamlined community benefit process. At the stage of bid-submission, the content of the required socio-economic development plan could, for example, be limited to specifying intended financial commitments and a desktop study. This would help to alleviate issues around managing expectations, not waste resources on unnecessary administrative undertakings, and also allow for more effective collaboration between nearby projects further down the line. The workshop participants discussed many suggestions around altering requirements:

- *Amending the policy requirements.* There was a clear call from participants that the ED requirements as they stand introduce particular challenges for the industry. There are two levels of engaging with the policy requirements. It is clear that some concerns and suggestions are looking at how to optimise outcomes within the existing framework, but there is also recognition that there are fundamental problems with the current framework for delivering community benefits and that this should be substantially revised. Some stakeholders felt that the current requirements compromise the objectives of achieving successful development outcomes.
- *Industry needs feedback from government* on where bidding processes failed or succeeded and a joint working group could give the appropriate forum.
- *Inter-governmental engagement.* Many different government departments have stakes in the outcomes of the community benefits associated with the RE IPPPP process, including DoE, DTI, DBSA, IDC, and local government. There appears to be also a need for inter-governmental dialogues.

**Developing support measures for the industry.** Under the auspices of a representative industry platform such as a joint working group, industry can start to identify concrete actions to collectively support their individual endeavours. This might, for example, include further dialogue sessions with stakeholders to address key issues, share approaches and experiences, commission targeted research, training and liaison with key professionals from other sectors for insights into key problem areas – for example from community development practitioners working elsewhere. Certain thematic areas emerged from the workshop discussions that clearly need further attention, for example around financing and dividend flows, governance structures, community liaison, etc.

**A platform for communities to be represented.** Structures should be established for community representation to give the local communities involved a space to represent their interests at different stages in the process. This should be independent of renewable energy companies and be truly representative of communities and address needs they might have – for example, around skills and capacity-building, or sharing their own experiences and horizontal engagement. There is an initiative being spearheaded by a particular IPP known as ‘Communities for Wind’ but, again, such an initiative should ideally stretch across all technologies.

**There is a clear business case for optimising development outcomes.** Critically, the outcomes of these discussions also revealed that as well as a moral case for optimising the inclusion of local communities in these projects, there is a strong business case to be made too. This business case can be further strengthened through government sending the right incentives to business. Participants felt that this should not just be about ‘ticking boxes’ in government-stipulated compliance processes, and incentives and feedback on more ambitious approaches needs to be made clearer to projects. Discontented communities are a risk for projects and business has a clear interest in optimising outcomes.