EVALUATION LENS

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SOUTH AFRICA: GREENHOUSE GAS EMISSION REDUCTION AND ENERGY SECTOR DEVELOPMENT PROJECT

BACKGROUND. The Greenhouse Gas Emission Reduction and Energy Sector Development Project is the first project in South Africa evaluated by the Independent Evaluation Office (IEO) of the New Development Bank (NDB). The evaluation was done in 2023.

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Onshore Wind Farm financed by the project, South Africa

PROJECT DESIGN. The NDB Board of Directors approved the project in July 2018, for a total anticipated investment of over USD 600 million, of which NDB financing represented USD 300 million. The Development Bank of Southern Africa (DBSA) was the borrower and overall executing agency of the project. The project's main objectives were to facilitate investments in renewable energy that can contribute to the power generation mix and reduce CO^2 emissions in South Africa, in line with the government's Integrated Resource Plan and its target of reducing greenhouse gas emissions as articulated in the National Development Plan 2030.

PROJECT DATA

Approval date:	**July 20, 2018**
Loan signing date:	**March 15, 2019**
Project effectiveness date:	**March 15, 2019**
Project closing date:	**March 14, 2022**
Extended project closing date:	**January 29, 2024**
Total project cost at approval:	**Over USD 600 million**
NDB financing:	**USD 300 million**
Co-financing (DBSA and others):	**USD 2.2 billion**
Estimated project cost at completion:	**USD 2.5 billion**
Renewable energy plants financed:	**15 plants in four provinces**
Technologies supported:	**Solar PV (9), On-Shore Wind (4), Concentrated Solar Power (1) and Biomass (1)**
Renewable energy generation estimated at completion:	**Over 3,540 GWh annually**
CO^2 emission's reduction at completion:	**Over 3 million tons annually (estimated)**
Sustainable Development Goals:	**SDG7, SDG8, SDG9, and SDG13**

The loan agreement was signed in March 2019, and five amendments were made subsequently. The project was to be implemented from March 2019 to January 2024 which includes a 22 month extension to the original closing date. The project mobilised co-financing of approximately USD 2.2 billion to finance 15 renewable energy sub-projects, bringing the total project investment to USD 2.5 billion[1]. From 2020 to 2022, 14 sub-projects have begun commercial operations in North West, Northern Cape, Western Cape, and Mpumalanga provinces.

MAIN FINDINGS. The project, a successful collaboration between NDB, DBSA, and South African Government,

[1] Around Rand (ZAR) 40 billion, the number is converted into USD using an exchange rate of 15.7 ZAR/USD from the NDB Project Performance Assessment report as of September 30, 2022.

greatly advances the national strategy of expanding renewable power generation, reducing emissions, and enhancing electric supply reliability for industry and the population. The financing of 15 renewable energy plants has achieved a total energy capacity of 1,147 MW so far, reducing over 3 million tons of CO^2 emissions annually.

The selection of DBSA as executing agency was an appropriate choice and a large part of the success of the operation is due to their strong financial standing and discipline as a National Financial Intermediary. Coupled with the South African Renewable Energy Independent Power Producer Procurement Programme's (REIPPPP) effectiveness and robust monitoring and evaluation (M&E) procedures, alongside a mature sub-project pipeline with private sector co-investors, these elements contribute significantly to the project's satisfactory outcomes. The NDB Africa Regional Center (ARC) and South African National Treasury also played key roles in the operation.

Nonetheless, time delays and frequent amendments to the loan agreement during implementation marked the project's progress. Recognizing this as NDB's inaugural non-sovereign operation fully disbursed in South Africa and the limited staff capacity in the NDB at the time, the gaps identified by the evaluation in project design, disbursement and reporting of progress during implementation, knowledge management, and communication are understandable. It is however important to note that the shift of responsibility for accompanying project implementation from NDB headquarters to the NDB ARC resulted in diligent monitoring and evaluation of the activities in close collaboration with DBSA.

THE INDEPENDENT EVALUATION OFFICE

The NDB Independent Evaluation Office was established in April 2022. The Director General of IEO reports directly and exclusively to the NDB Board of Directors. The main objective of IEO is to promote accountability and learning for enhancing the Bank's performance. IEO conducts a range of independent evaluations at different levels: evaluations of projects and programmes as well as of policies, strategies, instruments and corporate processes.

Evaluation Lens provides a short summary of evaluations conducted by IEO. The full evaluation report and related documentation may be accessed through the IEO web pages.

RECOMMENDATIONS

Recommendation 1: Formulate a South Africa-NDB country strategy

NDB should prepare a comprehensive South Africa-NDB country strategy to guide NDB's engagement in the country. Such a strategy should be rooted in meticulous diagnostics and insights covering proposed lending and non-lending activities.

Recommendation 2: Proactively explore options for local currency financing

NDB should review options to increase its local currency lending in South Africa to finance sustainable infrastructure like renewable energy plants, which generate revenues in local currency. This would assist clients in managing foreign-exchange risk and reducing reliance on costly swap markets.

Recommendation 3: Clearly define, generate, and leverage NDB's additionality

NDB has the potential to enhance the impact of projects financed in South Africa by devoting attention to innovation. For instance, NDB should develop the capacity for integrating smart technologies into upcoming energy projects while prioritising impactful project designs that include provision for social development activities.

Recommendation 4: Further strengthening the relationship with the National Financial Intermediary (NFI) and conducting in-depth reviews of member countries' systems

NDB should further collaborate with NFIs to amplify project impacts, leveraging country systems for greater environmental, social, and governance related additionality that benefits local communities. NDB should conduct regular knowledge sharing and comprehensive reviews to identify opportunities for enhancing NFIs own practices, procedures and systems.

Recommendation 5: Enhance the project Design and Monitoring Framework (DMF) quality and the M&E processes

NDB should enhance its future project DMF by drawing on international good practices. In particular, NDB should tailor reporting templates and M&E procedures to reflect the modality of on-lending operations better, improving project implementation efficiency and loan agreement management. Sub-borrowers' consent for sharing financial, operational, environmental, social, and governance data for NDB's M&E process should be secured upon project approval.

Recommendation 6: Project designs and implementation should include coherent knowledge management plans and communication strategies

NDB should devote deeper attention to sharing of knowledge, lessons, and good practices. Future project design should make provisions for a knowledge and communication strategy and activities including dedicated events, exposure visits for policy and decision-makers, and preparation of brochures and infographics. This is essential for enhancing NDB's visibility and disseminating lessons and good practices that can be replicated and/or scaled up by other partners including the Government.

NDB Headquarters
1600 Guozhan Road, Pudong New District, Shanghai 200126, China
ieo@ndb.int +86 21 80216132 www.ndb.int/governance/independent-evaluation/