Early Warning System

AFDB-P-ZA-FA0-002

MEDUPI POWER PROJECT SUPPLEMENTARY LOAN

Early Warning System

MEDUPI POWER PROJECT SUPPLEMENTARY LOAN

AFDB-P-ZA-FA0-002

Quick Facts

Countries	South Africa
Financial Institutions	African Development Bank (AFDB)
Status	Approved
Bank Risk Rating	U
Voting Date	2016-02-17
Sectors	Construction, Energy, Technical Cooperation
Project Cost (USD)	$ 1,360.64 million

Project Description

The project components are as follows:

1. Financing to cover the basic and cost price adjustment elements of the contract price of Medupi Power Station Project's boiler and turbine contracts;
2. Financing the Construction of four Transmission Lines: construction of approximately 190km of 2 x 400kV new transmission lines for the integration of the new Kusile Power station and Zeus substation as well as integration between the existing Kendal Power station and Zeus (95km); and construction of two 400Kv lines namely Ariadne - Venus and Ariadne - Eros to ensure strengthening of the Eskom East network grid as well as integration of the Pinetown and Empangeni areas. The project also includes financing Underrated Equipment Replacement in Mpumalanga Region

RATIONALE

The National Development Plan 2030 (NDP) supports the Government's long-term goal of building a harmonious and prosperous society through livelihood improvement, and regionally balanced and environmentally sustainable growth. The three pillars of the National Development Plan are:

(i) Raising employment through faster economic growth,

(ii) Improving the quality of education, skills development and innovation, and

(iii) Building the capability of the state to play a developmental, transformative role. One of the objectives of the National Development Plan is to produce sufficient energy to support industry at competitive prices, ensuring access for poor households, while reducing carbon emissions per unit of power by about one-third. The NDP aims for 5.4% average annual economic growth rate and 11 million more jobs between 2012 and 2030. Accordingly it aims to reduce unemployment rate from 25% in 2012 to 6% in 2030.

However the infrastructure bottlenecks in electricity supply pose significant constraints to economic growth. The excess capacity situation that prevailed over the last decade gave rise to complacency which led to inadequate attention to planning for system expansion. Even though the South African economy experienced significant growth, 2000 to 2007, and demand for electricity grew at a rate of approximately 3.4% per year, limited capital investment was made. Although the national utility, Eskom, actively sought to avoid load-shedding between 2008 and 2014 as part of its "keep the lights on" policy, it has been compelled to resort to load-shedding on numerous occasions since 2014, due to the increased unplanned outages combined with the low operating reserve margin. As South Africa relies strongly on the exports of its precious metals to finance its current account deficit the impact of load shedding on mining operations (which are energy intensive) has led to a strong depreciation of the rand as well as a stalling of economic growth and downward revisions in growth forecasts.

The project is thus consistent with one of the proposed interventions of the NDP - increasing investment in social and economic infrastructure in order to lower costs, raise productivity and bring more people into the mainstream of the economy. The Project will be support of two of the Strategy Integrated Projects in the National Infrastructure Plan 2012 with a focus on accelerating the implementation of new generation capacity and transmission and distribution network to address historical imbalances, provide access to electricity for all and support economic development. It also supports the targets laid out in the Integrated Resource Plan for Electricity 2010-2030 and is well aligned with Eskom's Ten-year Development Plan (2013-2022) which puts integration of power stations developed by Eskom and Independent Power Producers to the network a major priority. reduce carbon emissions and encourage development of clean energy resources. It is also consistent with the Bank South Africa Country Strategy Paper pillars on Infrastructure Development and support for Regional Integration as the investments will strengthen the systems transmission capacity which is essential for regional energy trade.

The Bank Group's Ten Year Strategy strives to support the twin cross-cutting objectives of inclusive growth and transition to

Investment Description

- African Development Bank (AFDB)

Contact Information

Contact information not provided at the time of disclosure

ACCOUNTABILITY MECHANISM OF AfDB

The Independent Review Mechanism (IRM), which is administered by the Compliance Review and Mediation Unit (CRMU), is the independent complaint mechanism and fact-finding body for people who have been or are likely to be adversely affected by an African Development Bank (AfDB)-financed project. If you submit a complaint to the IRM, it may assist you by either seeking to address your problems by facilitating a dispute resolution dialogue between you and those implementing the project and/or investigating whether the AfDB complied with its policies to prevent environmental and social harms. You can submit a complaint electronically by emailing crmuinfo@afdb.org, b.kargougou@afdb.org, b.fall@afdb.org, and/or s.toure@afdb.org. You can learn more about the IRM and how to file a complaint at https://www.afdb.org/en/independent-review-mechanism/.