



Analyse
Assess
Activate

Strategic & Technical Advisory

National Treasury
REPUBLIC OF SOUTH AFRICA

COMMON REASONS

WHY SUBMISSIONS FAIL TO MEET

BFI APPRAISAL REQUIREMENTS



COMMON REASONS WHY SUBMISSIONS FAIL TO MEET THE BFI APPRAISAL REQUIREMENTS

The Budget Facility for Infrastructure (BFI) is a reform to the budget process that seeks to support the execution of national priority projects and programmes by establishing specialised structures, procedures, and criteria for committing fiscal resources to public infrastructure interventions. Its aim is to support quality public investments through effective project and programme development, robust appraisals, sustainable financing and appropriate procurement arrangements, and credible execution.

The BFI appraisal process is twofold; the pre-screening assessment and the detailed technical analysis. Below are the common pitfalls:

THE PRE-SCREENING ASSESSMENT

All submissions to the BFI are vetted for alignment with key requirements and whether sufficient information is provided to proceed to detailed technical analysis.

- **Some proposals do not meet the key requirements of the BFI as detailed below:**
 - **The project or programme scale is not sufficiently large:** the total cost is less than R1 billion (bn) for projects and less than R3bn for programmes¹.
 - **The project or programme is not aligned with national priorities** as per the National Infrastructure Plan 2050, is not designated as a Strategic Infrastructure Project (SIP) or aligned to SIPs.
 - **The project or programme is not in one of the targeted infrastructure sectors** (i.e. energy, water and sanitation, roads and transport, digital communications, human settlements, agriculture and agro-processing, health, education and municipal infrastructure), and/or its strategic imperative is unclear.
 - **The project or programme is not sufficiently advanced** to begin implementation in the medium-term period within which it is submitted (i.e. the stage of development is not yet shovel ready).

Notwithstanding the above, the BFI has been flexible to accept proposals that do not fully meet the key requirements, provided that the strategic imperative is sufficiently demonstrated.

- **Other proposals may meet the key requirements of the BFI**, but inadequate information is submitted to enable the appraisal team to do a thorough assessment of the project or programme. Examples of inadequate information include the lack or non-submission of feasibility studies or their equivalent, financial models, and conceptual designs, where applicable. In these cases, the appraisal team cannot make an informed recommendation and the extent to which the sponsor may benefit from the appraisal process in reconfiguring the proposal becomes limited.

- **There are also proposals that may fully meet the key requirements of the BFI** and submit adequate information but do not proceed beyond the pre-screening assessment stage because of broader sectoral, policy and institutional issues, which are beyond the scope of the BFI. An example includes a request for funding by SANRAL for their tolled road network, which requires a policy decision before the BFI can proceed with assessment of such a funding request.

The BFI is an appraisal process and not an authority on policy, institutional arrangements and funding principles, amongst others. As such, it requires that these broader issues are resolved elsewhere, to avoid a situation where the appraisal makes a recommendation for fiscal support but that cannot be effected.

¹ Some sponsors combine components/projects that are not directly related to each other just to meet the cost threshold or are at different stages of development without phasing in implementation. This often disadvantages the whole proposal largely because of information gaps in relation to less advanced components/projects.

DETAILED TECHNICAL ANALYSIS

Only proposals that are found to meet the key requirements of the BFI, submit adequate information, and are not affected by broader issues, may proceed to detailed technical analysis. The pitfalls below are those that remain post the Technical Review Panel meetings where sponsors are given an opportunity to clarify, respond and address the gaps identified before the appraisal process is concluded.

The sections below are structured according to categories in the BFI guidelines.

JUSTIFICATION

The justification for the project or programme is not clearly demonstrated.

- **The status quo, undesirability, and consequences of not intervening are not adequately described.** In addition, the factors that created the need for intervention are not provided. This makes it difficult for the appraisal team to understand the need and urgency of the intervention.
- **The suitability of the proposed intervention is not adequately demonstrated.** This relates to failure to show how and/or the extent to which a project or programme will address the identified challenges.
- **The factors that drive demand are neither identified, stated nor quantified.** Where identified and stated, proposals often do not translate these into quantifiable demand over the life of the intervention. This makes it challenging to understand the suitability of the scale or phasing of the intervention.

OBJECTIVES

- **The objectives identified are often too broad, not measurable and/or not directly linked to the intervention and challenges it purports to address.** In addition, some proposals do not clearly articulate what constitutes a successful outcome. This makes it difficult to ascertain the extent to which the intervention will contribute to addressing the problem and the impacts on the broader economy and society at large.

OPTIONS ANALYSIS

The technical solution options analysis is not credible.

- **The list of technical solutions considered is not exhaustive and often omits obvious options without a clear rationale.** While it is common course to filter down options from a long-to short-list as proposals advance, say from pre-feasibility to feasibility stage, the criteria used to advance and discard options is inadequately described. Without this, the appraisal team will not understand the rationale for why some options have been left out.
- **There is an upfront bias in favour of the preferred solution in that it is discussed in a lot more detail compared to alternatives.** Also, the advantages and benefits of the preferred option are highlighted without or with limited information on the disadvantages and risks. The converse is true for alternatives.
- **There are cases where the options are limited to the mandate of the sponsor,** the implication being that not all the options that may resolve the problem are identified.

Some options analyses are exclusively done from a financing or funding and implementation rollout perspective, which is inadequate if it is not complemented by the technical solution options.

SOCIO-ECONOMIC ANALYSIS

While the BFI Guidelines state that this section is important to justify fiscal support from a welfare perspective, it remains among the weakest in submissions. Typically, a methodologically sound and robust cost-benefit or cost-effectiveness analysis (CBA/CEA) to demonstrate the economic viability of the proposed intervention is not done. Even where attempts are made, the assumptions underpinning the impacts and an explanation of the methodology used are not provided. With the published Appraisal and Evaluation Guideline² and national parameters³, the National Treasury aims to guide sponsors and make it easier to complete this section. Nonetheless, dedicated training is still required to ensure a full understanding of the tools and methodologies.

With respect to wider economic impact assessments, these are often undertaken showing results focused on high-level job creation estimates and regional economic growth impacts of the projects or programmes. However, the assumptions that underpin the estimates/results and the methodology used are not adequately described.

BUDGET STATEMENT

- **Some sponsors either do not use the Budget Statement Template⁴ or do so inaccurately,** resulting in key information gaps and inconsistencies.
- **Where sponsors have detailed financial models,** these are often not submitted to complement the template, or the models are submitted instead of the template. Both the template and the detailed financial model, where available, are necessary for appraisal purposes.
- **Proposals fail to provide the assumptions and the methods used to estimate the cash flows** of the proposed project or programme. For example, assessing the revenue estimates requires the provision of assumptions around projected volumes, the tariff structure and expected growth underpinning the estimates. Similarly for costing, the estimates are presented at a high level and omit key cost categories, making it difficult to validate the accuracy of the estimates.
- **The cash flows do not reflect the full life-cycle costs of interventions.** This means the capital expenditure, operating expenditure including routine maintenance, major maintenance costs and schedule, and the cost of decommissioning or rehabilitating the infrastructure assets at the end of the economic life where these costs are likely to be significant, are not fully reflected. It is thus difficult to assess the long-term sustainability of the projects or programmes.
- **The rationale for approaching the BFI and the disbursement period is unclear.** Conventional funding sources are not demonstrated to be constrained or earnestly considered before approaching the BFI; and the funding sources during the operational period are not identified, or confirmed to be affordable to undertake the intervention.

² <https://www.treasury.gov.za/publications/guidelines/Infrastructure%20Planning%20and%20Appraisal%20Guideline.pdf>.

³ <http://sa.cri-world.com/>.

⁴ The BFI provides a Budget Statement Template which is a simplified and basic financial model to guide sponsors to capture key financial information to inform the budget estimates for a project or programme and enable the assessment of the proposed intervention's cost-effectiveness, affordability and financial sustainability over the asset's full lifecycle.

RISK STATEMENT

- **Proposals' risk statements tend to focus on institutional or strategic risks** and less on project or programme-specific risks. The risks identified also tend to not span the lifecycle of the intervention, i.e. planning, construction, and operational periods.
- **The risk matrix omits key risks**, the impacts are minimised without clear justification, risk mitigation factors are inadequate, and risks are not allocated to any stakeholder.
- **Some submissions do not conduct a quantitative sensitivity analysis** which is meant to test the impact of changes in various modelling assumptions on the financial and economic viability of the project or programme and identify the most vulnerable variables.

Given the susceptibility of large infrastructure projects and programmes to risks of cost and schedule overruns or non-delivery according to specifications, submissions do not provide comfort that sponsors have earnestly considered and planned for the key risks.

PROCUREMENT STATEMENT

- **The overall procurement needs and the scope of each activity are stated at a high level.** In addition, the grouping of activities into work packages where applicable is provided in vague terms and justification for the packages is not provided.
- **There is a tendency to opt for conventional procurement and contracting strategies without a clear rationale.** The main concern is that options are not compared, and it is therefore unclear what informs the choices made by the sponsor. It may also be a missed opportunity to leverage other stakeholders' strengths to drive effective and efficient delivery.
- **The procurement plan is not detailed enough.** It does not list all the procurement activities/milestones, associated timelines, status of the activity, financial implications, and on whose role or responsibilities the activity falls.

INSTITUTIONAL AND OPERATIONAL READINESS

- **The mandate to undertake a project or programme in its entirety is not established** because the authority to undertake aspects of the intervention may lie with other institution(s). In these instances, the institutional arrangements which should be underpinned by legally binding agreements are not.
- **Institutional arrangements are vague and limited information is provided on governance structures** that will be used to drive effective delivery of the project or programme with clear roles and responsibilities of key stakeholders, and accountability measures. The institutional track record, and/or capacity and capability to deliver the proposed project or programme on time, on budget, and to specifications are also not adequately demonstrated.
- **There are gaps in relation to legal and technical due diligence** to demonstrate regulatory approvals and authorisations in place and those that are still required prior to the commencement of construction (e.g. geotechnical studies, water use licenses, land ownership and zoning rights).
- **There is no implementation plan that details the project or programme milestones**, the timelines and the status of the project or programme in the delivery timelines. The information provided in this area is scant or left blank, and this makes it difficult to assess whether the sponsor would be able to procure and deliver the project or programmes in the projected timelines.

CONCLUSION

Sponsors should note the common pitfalls identified in this note and endeavour to avoid these in their submissions.

The prevalence of the pitfalls reflects inadequacies in the planning, preparation and packaging of proposals. As such, sponsors must invest adequate time and resources in these activities and/or collaborate with those that are specialists in these areas before submitting to the BFI. This will help in informing sponsor decisions and improve the chances of meeting the BFI appraisal requirements.

For its part, the BFI will continue to guide and train sponsors on the appraisal requirements and share insights to improve the quality of submissions. It will also provide support to sponsors through the linkage to Preparation Facilities. This will help to develop a credible pipeline that is investable for the fiscus and others.

With respect to unlocking fiscal support, the BFI will do this to the extent that resources are set-aside and available within the budget. Sponsor's ability to spend allocated funds effectively and achieve value for money is a critical success factor in the BFI process. Underspending and inefficiencies undermine the credibility of the BFI. As it pertains to cases where there is insufficient fiscal funding, approved projects and programmes may be added to the credible pipeline for when resources become available