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REPUBLIC OF SOUTH AFRICA

COMMON REASONS
WHY SUBMISSIONS FAIL TO MEET
BFI APPRAISAL REQUIREMENTS

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INTRODUCTION

The Budget Facility for Infrastructure (BFI) is an appraisal review process that supports the consideration of large-scale infrastructure proposals that require fiscal support to advance. It uses a standardised appraisal methodology to independently validate the merits and risks associated with infrastructure proposals.

This 'review and challenge' function is a necessary feature of a public investment management system to ensure strategic investment choices are made in tandem with effective project or programme development, robust appraisal, sustainable financing and procurement strategies and pragmatic delivery arrangements.

This note details the common reasons that result in submissions failing to meet the BFI requirements. Its aim is to caution sponsors to avoid the pitfalls and, in this way, contribute to improving the quality of submissions to the BFI.

PROPOSALS THAT DO NOT ADVANCE BEYOND THE SCREENING STAGE

All submissions to the BFI are screened to confirm compliance with the eligibility criteria and to establish if sufficient information is provided to enable detailed technical analysis. This section deals with key reasons why proposals do not proceed beyond the screening stage.

- **Proposals do not include the primary submission report which is a key document used by the appraisal team to screen proposals.** The report is meant to provide an overview of the project or programme and reference supporting documents to validate the motivation and conclusions made in the submission. The non-submission of the report leads to automatic disqualification of the proposal.

- **Some proposals do not meet the eligibility criteria as:**
  - The scale of the project or programme is less than the targeted R1 billion cost threshold[1].
  - Planning for the project or programme has not sufficiently advanced to at least the feasibility stage.
  - The proposal requires 100 per cent funding for the upfront capital costs and ignores the gap funding rule; the proposal can be commercially viable without fiscal support and/or there are offtake agreements to support bankability; or the project or programme has not followed due processes before submission to the BFI[2].
  - The proposal is an unsolicited bid that is not supported by the relevant organ(s) of state.
  - The project or programme does not pertain to infrastructure.

- **Other proposals meet the eligibility criteria but sponsors do not submit adequate supporting information to enable detailed technical analysis.** Examples of this include the non-submission of feasibility studies or their equivalent, financial models, and conceptual designs where these are necessary for the project or programme to advance. In these instances, the appraisal team cannot make an informed decision and the sponsor's ability to benefit from the process becomes limited.

- **In the case of resubmissions,** some sponsors ignore previously raised gaps and guidance provided on how the proposals can be improved.

[1] The circular for consideration of proposals by the BFI published in March 2025 clarifies that proposals with a lower cost threshold may be considered in the case of projects and programmes that propose significant private sector participation in financing and implementation.

[2] An example is a Public-Private Partnership (PPP) arrangement that has not received Treasury Approval I (TA I) or Treasury Views and Recommendations I (TVR I).

The outcome of the screening process is that proposals are either advanced to the detailed technical analysis process or not. In the latter case, sponsors may address the issues raised and resubmit depending on the reasons provided. The BFI may also refer proposals to preparation facilities to improve the development of the project or programme and packaging. There are also cases where the proposal may be referred to other processes that may be more suited to support the proposal than or prior to the BFI.

PROPOSALS THAT PROCEED TO DETAILED TECHNICAL ANALYSIS

Only proposals that meet the eligibility criteria and submit adequate information may proceed to detailed technical analysis.

This section deals with common pitfalls found during the detailed technical analysis. The headings are aligned to key sections in the Infrastructure Planning and Appraisal Guideline to give targeted guidance.

DESCRIPTION

This section provides information on the main features of the intervention, the sector in which the proposed project or programme falls and the strategic nature of the intervention, amongst others.

While the information in this section is high level, there are still some pitfalls including:

- The alignment of the project or programme to strategic priorities and policies of government, including sectoral masterplans are not clarified.
- Letters of support from relevant national departments signed by the Directors-General endorsing the project or programme are not provided. As indicated above, this applies to submissions from sub-national spheres of government and public entities.

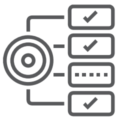
DEMAND AND MARKET ANALYSIS

This section is critical to justify the need to intervene and demonstrate that the scale and timing of the intervention are appropriate. The common pitfalls include:

- The need for the project or programme is not clearly demonstrated. This emanates from the status-quo and its undesirability not being adequately described and/or the factors that created the need for the proposed intervention and their extent and impact not outlined.
- The consequences of not intervening, and the potential beneficiaries of the proposed intervention and a justification for their selection are not indicated.
- The factors that drive demand for the intervention are either not identified and if identified, how these are translated into a quantified demand estimate is not demonstrated. Further, how demand is projected to evolve over time is not indicated. Proposals fail to effectively validate the intervention's scale and timing.

OBJECTIVES

Objectives set out what the proposed project or programme is trying to achieve and the desired outcomes. The key issues include:

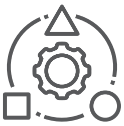


- The stated objectives are not directly linked to the proposed intervention and challenges it purports to address.
- The objectives do not adhere to the SMART (Specific, Measurable, Achievable, Relevant and Time-bound) principles and it is unclear what will constitute a successful outcome.
- The submission does not highlight the broad contributions of the proposed intervention to the economy and society at large; in some instances, the broad objectives are outlined while the primary objectives are ignored.

OPTIONS ANALYSIS

This section must demonstrate that a reasonable range of alternatives to address the core problem were considered, and how the preferred solution meets the objectives more effectively and is optimal.

The common pitfall is that the technical solutions options analysis is not credible, stemming from the following:



- The list of technical solutions considered to address the core problem is not exhaustive and often omits obvious options without a clear rationale. While it is expected that options will be filtered down from a long- to a short-list as a project or programme advances, say from pre-feasibility to feasibility stage, the criteria used to advance and discard options is inadequately described.
- There is an upfront bias in favour of the preferred solution in that it is discussed in more detail compared to alternatives. Further, 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.
- With respect to the technical configuration of the options, these are inadequately described, the extent to which the option conforms to sectoral norms and standards is not indicated, and the trade-offs considered[2] in reaching a decision on the preferred options are not stated.
- Some options analyses are exclusively done from a financing/funding and implementation rollout perspectives, which is inadequate if it is not complemented by the technical solution options.

[2] Including environmental considerations

SOCIO-ECONOMIC ANALYSIS

While this section is critical to demonstrate the economic rationale for undertaking the proposed intervention, it remains among the weakest in submissions. In general, a methodologically sound and robust cost-benefit- or cost-effectiveness analysis (CBA/CEA) is not done, albeit there have been improvements in recent submissions.

Where a CBA is provided, there are often methodological flaws including:

- The standing or perspective from whom the assessment is done is not stated.
- The base-case against which all options must be compared is not defined or it is unjustifiable.
- The assumptions underpinning the estimated impacts and their rationale are not explained or exhaustive.
- The impacts analysed include indirect and induced instead of only direct impacts; externalities are ignored; and benefits and costs are conflated.
- The analysis uses financial values without converting to economic values. Where economic values are provided, how these were estimated is not described.
- Arbitrary Social Discount Rates are used without a clear rationale and indication of why the National Treasury recommended rate is not appropriate.

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

FINANCIAL MODEL AND BUDGET STATEMENT

Assessing the financial implications, sustainability and affordability of a proposed intervention over its lifetime is critical from an investment and budgeting perspective.

Sponsors often provide incomplete or unreliable financial information due to the following:

- Some sponsors do not complete the Budget Statement Template or do so incorrectly. Other sponsors only submit detailed financial models instead of both the financial model and the template. There are also instances where the Budget Statement Template, the financial model and the primary submission report provide inconsistent information without a clear explanation of the differences, making it difficult for the appraisal team to discern which information is accurate and reliable for assessment purposes.

- Submissions fail to provide the assumptions and methods used to estimate the cash flows. For example, assessing the revenue estimates requires assumptions on the projected output levels, pricing and expected growth in revenue determinants over time. Similarly for costing, the estimates are presented at a high level and omit key cost categories. These gaps make it difficult to assess the financial implications of the proposal and ascertain the accuracy of the estimates.

- The cash flows do not show the full lifecycle costs of the intervention, particularly maintenance, nor identify sources of funds for these. It thus becomes difficult to assess the long-term sustainability of the project or programme. In some instances, funding sources are identified but due processes to confirm their availability or affordability are not done.

- The rationale for approaching the BFI is unclear or unjustified. In the case of pure social interventions, constraints related to conventional funding sources are not demonstrated to justify the gap funding required; the BFI is approached instead of conventional funding channels; or the BFI and conventional funding channels are approached simultaneously. These incidents partially show that the BFI is mistaken for a funding source. In the case of economic interventions, there is a tendency to request direct fiscal allocations beyond the social component. Further, there is often no exploration of debt[3] and other financing instruments and mechanisms to advance projects or programmes advancement other than through fiscal allocations. Related is where there are pricing policy issues that impede the sponsor from recovering the full cost of the service which may limit the extent of financing raised, these are not explained to ensure that the BFI does not result in decisions that undermine government policies.

RISK STATEMENT AND RISK MANAGEMENT PLAN

This section assesses whether an adequate risk assessment and sensitivity analysis have been conducted, and if mitigation measures proposed are robust to contain the risks of cost and schedule overruns or delivery according to specifications. The shortfalls include:

- The risk assessment is done from an institutional or strategic risk perspective without much focus on project or programme specific risks. The risks identified also tend to not span the lifecycle of the intervention; that is the planning, construction, and operational periods.

- The risk matrix omits key risks, the impacts of some risks are minimised without clear justification, mitigation measures are not robust, and risks are not allocated efficiently and to a specific stakeholder/person.

- Sensitivity analyses are either not done or done inadequately to quantitatively show the impact of changes in various modelling assumptions on both the financial - and economic viability of the project or programme. As a result, the variables that the proposal is most sensitive to are unclear.

[3] In some instances, small portions of debts are proposed without justification of the blended finance structure and no other alternative structures and/or combinations are explored.

PROCUREMENT STATEMENT

This section is important in demonstrating the proposed intervention's value for money prospects, adherence to supply chain management prescripts and to some degree, shovel readiness.

Recurring issues include:

- The procurement needs of the project or programme are provided at a high level. Further, the grouping of procurement events into work packages, where applicable and the scope of each work package are provided in vague terms.
- Similar to technical solution options, the exploration of the delivery, management, packaging, contracting, pricing and targeting strategies is not done credibly. Instead of exploring various options available to the project or programme depending on its unique requirements, there is a tendency to use conventional approaches without a clear rationale for why that will achieve better outcomes. As a result, how the chosen procurement options provide better value for money compared to alternatives is not demonstrated.
- The procurement plan is not sufficiently detailed. It does not list all the procurement events and milestones, associated timelines, the status of each event, the financial implication and on whom the responsibility falls.

INSTITUTIONAL AND OPERATIONAL READINESS

This section is critical to demonstrate the institutional arrangements, governance, and the capacity of the client and delivery teams to deliver the project or programme effectively. Further, it demonstrates the extent to which the technical and legal due diligence processes have been undertaken to confirm aspects of the project or programme that are shovel ready.

Commonly encountered gaps include:

- The mandate to undertake a project or programme in its entirety is not established in cases where the authority to undertake aspects of the intervention lies with other institution(s). In these instances, 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 demonstrated.
- A baseline assessment of legal and due diligence issues to demonstrate regulatory approvals and authorisations in place, and those that are outstanding is not provided.
- An inadequate implementation plan is provided. This is meant to detail delivery milestones and timelines in line with the stage of development of the project or programme.

CONCLUSION

Noting the common pitfalls identified in this note will go some way in cautioning sponsors to avoid the pitfalls. Properly considered, the guidance can complement sponsor efforts to prepare and package submissions – which is an integral part of a robust infrastructure planning system. In this way, the note contributes to improving the quality of submissions to the BFI.

Investing adequate time and resources to properly plan, prepare, design and package projects and programmes is necessary to improve the quality of the BFI pipeline and increase the chances of soliciting fiscal support. As decisions regarding fiscal support are determined by budget authorities and Parliament, the BFI can only ensure that projects and programmes considered are worthwhile.

The BFI will continue to guide sponsors and train officials on the appraisal requirements and share insights to improve the quality of submissions. It will also continue to provide support through its linkages to preparation facilities.

However, the BFI is only one part of the public infrastructure value chain and to fast track the delivery of infrastructure and improve its effectiveness will require improving the overall ecosystem.

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