national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

A CALL FOR PROPOSALS FOR CONSIDERATION BY THE BUDGET FACILITY FOR INFRASTRUCTURE

26 March 2024

INTRODUCTION

Central to government's strategic plans is a focus on infrastructure investment to promote growth and social development in a sustainable manner. The Budget Facility for Infrastructure (BFI) is a budget reform initiative established to support priority infrastructure projects through a more rigorous project planning, appraisal, and selection process. The intention is to support enhanced project outcomes and improved value for money to government. It requires that projects have sustainable financial arrangements and effective development and execution capacity.

2024 SPECIAL BFI CALL FOR PROPOSALS

In the 2024 Budget process, the National Treasury intends to utilise the BFI mechanism to develop a pipeline of projects to test alternative financing and funding models. The intention is to use government's resources more efficiently to leverage financing and funding from sources other than fiscal resources. This includes private sector financiers and funders, Development Finance Institutions (DFIs), and International Finance Institutions (IFI's) and funders.[1]

The primary purpose of this BFI Special Window is to close funding gaps and provide viability gap funding. This BFI Funding Window will therefore consider two types of proposals:

A. Projects and programmes that can or have already secured private, development or related financing – but require additional funding to address a viability gap.

B. Projects and programmes that have not yet secured private, development or related financing and require support to structure a financing arrangement.

This BFI Funding Window will not support requests for guarantees or 100% funding of a project.
The funding accessed through the BFI will be used to leverage alternative sources of finance and funding, including concessional finance from IFI's.

ELIGIBILITY CRITERIA

The Budget Facility for Infrastructure (BFI) is issuing this call for proposals to invite submissions from public institutions in respect of projects and programmes[2] that will form part of this pipeline. Public

[1] International partners include Multilateral Development Banks (MDB's), International DFI's, as well as Commercial Banks operating internationally, Institutional Investors and Donors.
[2] Programmes comprise a set of inter-related and inter-dependent projects which form an input into one long-term objective.

institutions that qualify to submit proposals include National, Provincial and Municipal spheres of government as well as Public Entities. The Call for Proposals is also open to Public-Private Partnership (PPPs) arrangements that have completed feasibility studies and received Treasury Approval I (TA I) or Treasury Views and Recommendations I (TVR I).
In respect of Public Entities, this Special Window will only consider clearly ring-fenced projects or programmes.

To be eligible projects and programmes must meet the following criteria:

Type	A	B
Description	*Projects that can or have already secured private, development or related financing – but require additional funding to address a viability gap.*	*Projects that have not yet secured private, development or related financing and require support to structure a financing arrangement.*
Minimum Total Project / Programme Cost[3]	R 1 billion	
Targeting	Should support economic growth, social equity, and employment creation.	
Project Readiness	Must have completed a full Feasibility Study or the equivalent. With fiscal support over the 2025 MTEF will reach financial close or bankability.	
Special Conditions	Must demonstrate potential financing interest from private or DFI parties. Projects must prove financial viability and sustainable revenue streams, demonstrated through an appropriate financial model.	Must demonstrate the potential for the project to take on private, development or related financing.

The submissions may include blended finance initiatives[4] that require a capital contribution for the social component and/or debt instrument(s) to enhance the transaction. Further, submissions under private sector participation frameworks including PPPs (concessions and special purpose vehicles) that have a viability gap will be considered. Social interventions that want to use alternative delivery mechanisms (such as output-based contracts) to accelerate delivery but have a capital expenditure funding gap or do not have access to debt markets may also be submitted.

The BFI will support the budget process to consider the proposals through its multi-disciplinary structures, dedicated procedures, and criteria. This is to ensure that strategic investment choices are made in tandem with effective project and programme development, robust appraisal review, sustainable financing and procurement arrangements, and pragmatic delivery.

[3] Total project cost includes the capital as well as full lifecycle cost.
[4] Blending is defined as the strategic use of limited funds from the fiscus to mobilise financing from multilateral institutions, development finance institutions and the private sector to enhance the development impact of infrastructure.

The packaging of submissions must be done in accordance with the *Infrastructure Planning and Appraisal Guideline*[5]. The Guideline sets out a standardised approach to the design and appraisal of budget submissions using appropriate and uniform methodologies. It further outlines the principles and criteria that should be used to reach decisions on the desirability of projects and programmes to ensure alignment across government.

All submissions will be pre-screened for alignment with the above-stated criteria. Only proposals that meet the criteria and provide adequate information will be considered for detailed technical assessment. An independent analysis of the proposals' financial viability, value-for-money, socio-economic rationale, affordability, risk profile and implementation readiness will be carried out during the detailed technical assessment. The assessment will make recommendations on the technical merits and risks of proposals to the Joint Technical Committee of the BFI.

Proposals that are recommended for fiscal support by the Joint Technical Committee of the BFI will be submitted to the budget process for consideration.

Proposals that do not meet the criteria stated herein will not be considered. Those that do not meet the BFI project size threshold may be submitted as part of the sponsor's budget submission in terms of the main MTEF guidelines that will be published later this year.

All submissions must be in electronic format and must be directed to the BFI Secretariat at: infrastructure@treasury.gov.za. The closing date for submissions is 30 April 2024.

[5] https://www.treasury.gov.za/publications/guidelines/Infrastructure%20Planning%20and%20Appraisal%20Guideline.pdf

SUBMISSION REQUIREMENTS

Submissions must consist of a ***Primary Submission Report***, completed ***Budget Statement Template***[6], supporting documents, and a ***Letter(s) of Support***[7] from the relevant national department, as well as ***Letter(s) of Interest from Potential Financiers***, where applicable.

A *Primary Submission Report* is a concise summary of the proposal that should not be longer than 20 pages. It provides an overview of the following elements:

1. A description of the project/programme; owner/sponsor details; the sector(s) of intervention; stage of development, construction and operating periods; key stakeholder(s) tasked to plan/implement the intervention; and the legal mandate under which the planning/implementing institution(s) operate, amongst others.
2. An account of the internal prioritisation and approval processes followed that resulted in the project/programme being deemed a priority. This should be linked to priorities set out in the National Infrastructure Plan 2050, the Strategic Infrastructure Projects, or sector masterplans.
3. A justification for the project/programme through a description of the status quo, the challenges that the intervention seeks to resolve and their extent, needs and demand analysis.
4. A description of the direct objective(s), outcome(s), and target(s) of the project/programme.
5. A summary of the technical options considered to address the identified challenges, the advantages and disadvantages, the high-level costs, and the rationale for the preferred or selected option(s).
6. A socio-economic analysis that quantifies the economic costs and benefits associated with the preferred option(s) and the anticipated wider and distributional impacts.
7. A comprehensive financial model and budget statement that highlights the estimated capital, operations, and maintenance costs over the intervention's full lifecycle; the proposed funding source(s) and funding requirements per source; cashflow projections; profit and loss account; balance sheet; and a contingent liability statement, where applicable. Fiscal support requested through the BFI over the 2025 MTEF period and beyond, and the rationale thereof must be explicitly stated.
8. A risk assessment that identifies, describes, and groups key risks into major risk categories; uses a risk matrix to assign the likelihood of occurrence and quantify the impacts on the project/programme; and provides risk mitigation strategies.
9. A procurement statement that outlines the proposed delivery method and contracting, pricing, and targeting strategies, as well as the organisational requirements and measures to achieve the proposed delivery statement. A high-level delivery plan showing key milestones and timeframes must also be provided.

[6] A budget statement is a simplified or basic financial model template meant to capture key financial information to inform the budget estimates for the project/programme. Sponsors may download the template from the National Treasury website: http://www.treasury.gov.za/publications/guidelines.

[7] Letter of support is a formal endorsement of the proposal by the relevant national department in cases of submissions made by subnational spheres of government and public entities. The letter should be signed by the Director General of the national department or any person to whom the function is delegated (letter of delegation should also be provided).

10. A statement of institutional and operational readiness highlighting the institutional arrangements in place and governance structures to be used to advance the project/programme; the capacity and capability of those tasked with planning/implementing the intervention; due diligence processes undertaken; and a high-level implementation plan.

SUPPORTING DOCUMENTATION

All documentation that supports the proposal, including feasibility studies[8] or their equivalent, detailed financial models, and comprehensive socio-economic analysis reports and models, must be submitted in an electronic format. The assessment will consider all documents submitted and failure to submit adequate information will result in the proposal not being considered for detailed technical assessment.

The *Primary Submission Report* should refer to supporting documents which can be referenced easily and accessible with verifiable data sources. Supporting documentation should contain sufficient information to validate the motivation and conclusions made in the primary submission report. The supporting documentation cannot substitute for the primary submission.

ELEMENTS OF THE PRIMARY SUBMISSION

1) DESCRIPTION

The section must provide key project/programme information, including the name, main features (i.e., output, service levels and capacity) and location(s) of the intervention; the associated infrastructure sector(s) of intervention; strategic nature of the project/programme; stage(s) of development; estimated construction and operating periods; and the name of the sponsor, other key stakeholder(s) tasked to plan/implement the intervention and their respective roles and responsibilities, and the legal mandate under which the planning/implementing institution(s) operate; amongst others.

2) DEMAND AND MARKET ANALYSIS

The purpose of the section is to outline the need for the project/programme and justify the scope and timing of the intervention. The section can thus be divided into two parts:

a) Needs analysis: The subsection identifies and describes the status quo around the intervention; the challenges that the intervention seeks to resolve, their extent and impacts; the factors that contribute to the challenges; the consequences if the intervention is not implemented; and potential beneficiaries of the intervention and a justification for their selection.

b) Demand analysis: The analysis assesses the factors that underpin the demand for the intervention; how these factors translate into demand; and quantifies the current levels of

[8] It is expected that submitted projects or programme have at a minimum met the requirements prescribed for Gate 2 of the Framework for Infrastructure Delivery and Procurement Management for applicable institutions. For public entities not subject to the Framework, this means feasibility stage and beyond. For PPPs, it means Treasury Approval I or TVR 1.

demand and how it is expected to evolve over time. This is compared to the output of the intervention to gauge if the project/programme is appropriately sized and well-timed.

3) OBJECTIVES

This section sets out the desired objective(s) and outcome(s) of the intervention. The purpose is to clearly define what the intervention is trying to achieve; the extent to which the intervention will contribute towards addressing the problem; and what would constitute a successful outcome or set of outcomes. The section further highlights the broad contribution(s) of the intervention to the economy and society at large.

The objective(s) must be specific, measurable, achievable, relevant, and time-bound (SMART), and expressed in general terms so that the range of solution options to meet them can be easily identified. Where feasible, the submission should quantify the extent to which the project/programme addresses or alleviates the identified challenges. It is also important to identify project/programme outcome(s) that are directly related to the identified challenges and project/programme objective(s).

4) SUMMARY OF OPTIONS CONSIDERED

The purpose of this section is to demonstrate that proposed solution is the optimal one that represents the most appropriate technical solution given the demand as well as Value-for-Money to government. Importantly this section should be able to provide evidence that the identified funding gap is not a consequence of an inappropriate specifications or selected technical solution.

Sponsors must present the technical options considered at the feasibility stage (or equivalent), and describe each option in detail, covering aspects such as technical configurations (i.e., output, capacity, service levels and site selection), and environmental safeguards. The purpose of the analysis is to critically evaluate all the possible options against each other to ensure that the selected option(s) can achieve the objectives better and most cost-effectively. The preferred option(s) must be explicitly stated together with a rationale for its suitability, effectiveness, and cost-efficiency compared to alternatives.

5) SOCIO-ECONOMIC ANALYSIS

The section provides information that enables the assessment of socio-economic viability of the intervention, which is critical to justify fiscal support. The analysis can be done by examining the economic costs and benefits associated with each of the technical options using a cost-benefit analysis (CBA) or cost-effectiveness analysis (CEA). The *Infrastructure Planning and Appraisal Guideline* provides details on the CBA[9] and CEA[10] methodologies.

[9] CBA methodology can be found on pages 28 – 45 of the *Infrastructure Planning and Appraisal Guideline*.
[10] CEA methodology can be found on pages 66 – 70 of the *Infrastructure Planning and Appraisal Guideline*.

The section must provide the assumptions, methods and sources of data and estimates used, together with the perspective from which the CBA / CEA is undertaken, and the definition of the base case. Importantly, the CBA model must be attached in Excel format. In addition, sponsors must ensure that the CBA or CEA conducted is methodologically robust and sound.[11] Note: The National Treasury has developed a database of commodity-specific economic conversion factors (CSCF)[12] necessary for undertaking a CBA and CEA. [13]

To complement the CBA and CEA, a wider and distributional impact assessment maybe included, using tools such as social accounting matrix (SAM), input-output model (I/O), or computable general equilibrium (CGE) models.

6) FINANCIAL MODEL AND BUDGET STATEMENT

The financial model brings together in a structured manner the projections of capital expenditure, operational expenditure, revenues, working capital, debt financing, equity financing and tax obligations over the lifetime of the project (i.e. full life cycle costs).

The financial model should at least include the following financial statements:

- Cash flow statement providing a detailed overview of the various incoming and outgoing cash flows over the lifetime of the project;
- Profit & loss account detailing the calculation of profit and resulting tax obligations over the lifetime of the project; and
- Balance sheet detailing the various fixed and current assets and liabilities, including the financing of the project over the lifetime of the project.

The model should be built in easily accessible and widely used spreadsheet software. The structure of the financial model should allow users to run scenarios and sensitivities. It must reflect key business assumptions directly with a consistent approach to the structuring of assumptions, worksheets and formulas with a clear logical structure and layout.

The model should allow for independent audit by third parties and should be acceptable to financial institutions. It should be accompanied by a data book listing all assumptions and their sources as well as a written model user guide.

The budget statement output should provide for the following as per the *Budget Statement Template:*

- Expenditure statement. This statement details all the payments associated with implementing the project/programme. The expenditure statement should cover all capital payments involved in the construction of the asset(s) and interest incurred

[11] Sponsors are reminded to use economic prices to value impacts, as opposed to financial or market prices when conducting a CBA; and that each option's impacts should be assessed on their marginal or incremental effect, by estimating the change in impact under each option against the base case.

[12] These parameters are available at http://sa.cri-world.com/.

[13] The recommended social discount rate (SDR) is 10 per cent.

during construction, where debt is used. It should also detail the operating payments associated with running and maintaining (routine and capitalised) the asset(s) over its useful life. These payments should include all costs that will be borne for the intervention.

- Funding statement. This statement shows all the sources that will be mobilised to fund the costs indicated in the Expenditure Statement. This may include internal funds, equitable share, conditional grants, revenues generated through direct user charges, and debt. Any debt, equity obligations or concession arrangements that the sponsor intends to mobilise in favour of the project/programme must be disclosed, together with their terms and conditions. The fiscal support required through the BFI must be explicitly stated in this statement, the period over which the support is required and the rationale thereof. In this regard, sponsors must demonstrate the extent to which conventional and alternative funding solutions have been explored prior to approaching the BFI, and the constrains therein.
- Cashflow statement. The sponsor should provide a comprehensive account of the annual inflows and outflows associated with the capital, operations, maintenance and financing activities over the life of the asset. Where financial inflows are not sufficient to fund operations and maintenance costs, the sponsor must provide a plan to meet these obligations. In addition, the statement must demonstrate the extent to which the project/programme performs against financial matrices such as the NPV, IRR, Debt-Service Coverage Ratio, etc, particularly for interventions that intend to use debt.
- Contingent liability statement. Any sovereign guarantees, provisions or obligations that could give rise to fiscal liabilities in the future because of any explicit contractual eventuality should be fully disclosed. The statement should give details of all explicit liabilities that will accrue to the national government as well as the extent and consequences thereof. The statement does not apply to projects/programmes in the local government sphere.

7) RISK STATEMENT AND RISK MANAGEMENT PLAN

The section must identify, describe, and categorise potential risks during construction and operations into technical, financial, economic, social, and political risks, etc.; assign the likelihood of occurrence and rank the impacts in a risk matrix; and provide a detailed risk management plan of measures to mitigate and manage the identified risks. The risk management plan should provide detail how those risks will be managed over the life cycle of the project and what organisational measures will be implemented to achieve the required level of risk management.

8) PROCUREMENT STATEMENT

This section is important in demonstrating the intervention’s value for money prospects, shovel readiness and adherence to supply chain prescriptions.

A procurement strategy details the procurement needs and requirements of the project/programme; explored and selected delivery, packaging, contracting, pricing and targeting options; and procurement procedure(s) to be followed for all the required goods and services to ensure alignment to constitutional requirements and other legislative prescripts. The rationale for adopting a particular option(s) compared to alternatives must be clearly demonstrated.

A procurement strategy must include the following:

a) The organisation that will deliver the project. Description of the organisational set up, its key positions, its governance, and its experience and its ability to carry out the delivery program of the project.
b) The procurement needs of the project/programme. State the goods and services needed to support the implementation of the proposed intervention. This could include professional services provider(s), implementing agent(s), contractor(s), etc. The role(s) and scope of each service provider, and the grouping of work packages into contracts must be specified.
c) Delivery method. The submission must indicate whether traditional or non-traditional procurement (e.g., Public-Private Partnerships, turnkey and lease-to-own agreements) will be used to deliver the project/programme.
d) Contracting strategy. The sponsor must consider the various contracting strategies and determine the most suitable for the project/programme (i.e., design by employer, develop and design, design and construct, construction management, or management contractor).
e) Pricing strategy. The submission must detail the pricing strategies (e.g., price-based, cost-based and performance-based) that have been explored and selected to secure financial offers and remunerate service provider(s).
f) Targeting strategy. The sponsor should specify the targeting strategies (e.g., local content, youth employment creation, Broad-Based Black Economic Empowerment and gender equity) that are to be employed to achieve the secondary or developmental objectives of the project/programme.
g) Procurement procedure. The procurement strategy must demonstrate alignment with the requirements for a fair, equitable, transparent, competitive, and cost-effective process. Options may include a negotiated procedure, competitive selection, or a combination of the two.
h) Procurement plan. A detailed plan with estimated milestones, timelines and roles and responsibilities of the stakeholder(s) involved must be provided.

In deciding on an appropriate set of options with respect to the above-listed aspects, supporting documentation should detail the advantages and disadvantages of each option, risks and trade-offs, and the rationale for the chosen option(s).

The above aspects should already be selected at the time of submission for a proposal to demonstrate shovel-readiness. In addition, the procurement timeframes must demonstrate that the sponsor would be able to procure, contract and/or start construction within twelve months, should fiscal support be granted. The timelines would be different for projects/programmes that are yet to reach bankability.

9) INSTITUTIONAL AND OPERATIONAL READINESS

The purpose of the section is to demonstrate that the necessary institutional arrangements and governance structures are in place, and the client and delivery team(s) have the skills and capacity required to deliver the project/programme on time, within budget and to specifications.

a) Mandate: Confirms the mandate of the sponsor to undertake the project/programme and their operating environment. Should the responsibility to implement be ceded to another party, the relevant authorisations must be attached.

b) Governance and institutional arrangements: Detail the project/programme's governance structures, institutional arrangements that involves all stakeholders involved in the planning/implementation of the intervention and their respective roles and responsibilities. The governance structures need to be specific to the intervention and show clear reporting lines that ensure accountability and adherence to internal controls and systems. In the case of project/programme that involves multiple institutions, a stakeholder coordination plan and signed agreements (i.e., Memoranda of Agreement/Understanding or Service Level Agreements) must be submitted.

c) Capacity: Demonstrate that there is or there will be sufficient capacity within responsible institution(s) and team(s) to deliver the project/programme on time, on budget and to specifications. This can be done by outlining the skills profiles of the current teams and institutions, their proven track record of successful delivery of similar projects/programmes and skills/capacity gaps that still exist. The plans for human resources and funding requirements needed to support project/programme implementation must be outlined. In addition, monitoring and evaluation plans, incentives and/or penalties to be put in place to support successful delivery must also be outlined.

d) Legal and technical due diligence: Confirm whether the project/programme has and/or will comply with all statutory and technical requirements. These include authorisations and approvals for required licenses and permits, compliance with sector regulations, norms and standards, and environmental impact assessments and management plans. Further, confirm the suitability and availability of site, basic designs, and environmental safeguards. Where authorisations and approvals have not yet been secured, timeframes for their finalisation should be provided.

e) Implementation plan. A detailed rollout plan that clearly shows the key delivery milestones, timelines, and relevant stakeholders responsible for each milestone must be provided. This must also reflect how implementation will be phased, where relevant.

[END]