



national treasury

Department
National Treasury
REPUBLIC OF SOUTH AFRICA

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Dear Mr. Apleni

APPLICATION FOR TREASURY APPROVAL I UNDER TREASURY REGULATION 16: REDEVELOPMENT OF SIX PORTS OF ENTRIES

The National Treasury received the Department of Home Affairs' (DHA) application for Treasury Approval I for the redevelopment of six ports of entries (PoEs). The DHA was invited to present the feasibility study on the 11th May 2017. Subsequent to the presentation, the DHA was requested to submit additional documentation and clarification on issues relating to the project. In arriving at a decision on the application, the National Treasury has taken into account the additional engagements that took place and the additional information provided by DHA.

The feasibility study has demonstrated the need for the project and provides a compelling case for the redevelopment of the ports of entries. We note that the project will be of great benefit to the country by facilitating trade through the reduction of delays at the borders and through the improvement of infrastructure and technical equipment required for traffic management.

We note that the affordability and value for money for the project is heavily reliant on chargeable toll fees on commercial vehicles focusing mainly on revenues that will accrue on the Lebombo and Beit Bridge Border posts. The feasibility study also notes that revenues collected from Lebombo and Beit Bridge will be adequate to subsidise the costs of redevelopment of the other borders. In this regard the viability of the project is heavily reliant on the realisation of the demand and revenue assumptions modelled in the feasibility study.

The National Treasury would like to highlight the following observations:

- The demand forecast is based on a 3 per cent growth that was previously observed at the border and the proposed toll fee to commercial users is R1000, lower than the cost of delays assumed in the project. The feasibility study makes no reference on the fee that may potentially be charged by the other countries and how this may impact on the total fees that would be required to cross the two borders.
- The viability of the project relies on the traffic volumes forecasted and the pricing of the revenue from toll fees that the commercial users are expected to pay. Should the traffic be less

than forecasted, government will be expected to take up the downside risk and ensure that the private party is guaranteed the envisaged return on investment (i.e. IRR of 18%).

- The DHA needs a mandate in order to initiate the project. Once the BMA bill becomes law, BMA will have this mandate. In the meantime, a Multi-Party Agreement has been initiated and is in the process of being signed by the Director Generals of the relevant government departments that operate at the borders. There are governance issues that need to be resolved and institutional mechanisms that need to be determined.
- The feasibility study proposes the introduction of toll fees to supplement the cost of redeveloping all the six PoEs. However, there is currently no law that allows commercial users to pay toll fees. This implies that if this proposal is to be successful, the BMA Act and the Immigration Act may need to be changed.
- There is no agreement with any other country on the One Stop Border Post (OSBP) Policy, except for Mozambique on the Lebombo Border Post. The feasibility study proposes semi-OSBP at Beit Bridge border. In the absence of an agreement with the neighbouring country, there is a risk that the border processing time can be improved on the SA side without necessarily changing the processing time in the other country. This increases the inherent risk in the project.
- The consultation process has been limited (only four major logistics companies were consulted) given the multi-stakeholder nature of the project and the sensitivity surrounding the introduction of any new toll fees. Only initial engagements or early consultations have taken place. Wide consultations are required both for public sector and private sector stakeholders as well as with neighbouring countries.

The issues raised above are pivotal for the realization of affordability, value for money and significant risk transfer during the procurement process of the project. The National Treasury recognizes the soundness of the project concept as outlined in the feasibility and it is on this basis that Treasury Approval I (TAI) is hereby granted to the DHA in terms of Section 16.4.2 of Treasury Regulation 16. The project may proceed subject to the following conditions:

- 1) **Establishment of the acceptability by users of charging toll fees on a subset of the commercial users (trucks).** A higher level wider consultation with all stakeholder and approval process would be required to establish at a national level the acceptability of undertaking this project.
- 2) **The legal framework for the DHA to charge, invoice and collect revenue from toll fees needs to be put in place.** The level of toll fees that can be chargeable and the institution's ability to effectively carry out this function and channel the resources to the project has to be established.
- 3) **Building certainty on output specifications for the project.** The outputs specifications in the feasibility study are based on considerations on the South African side only but at the same time the semi-OSBP has been proposed. The need for a consultative process with neighbouring countries that establishes standard operation procedures that will inform the infrastructural designs and layout of the border facilities is required in order to firm up the output specifications. This is important to pin the project scope and to derive the costs of the project.
- 4) In tandem with above point, **a legal instrument is required to effect any bi-lateral agreements** that will culminate in the design of the infrastructural requirements for the borders.

- 5) The mandate to procure the project must lie with the accounting officer for the DHA. To this effect, either the **Multi-Party Agreement must be signed by all stakeholder departments or the BMA Bill must come into law to give the mandate to DHA.** In line with this is the need for the resolution and completion of other necessary administrative/governance requirements for the project to start.

The feasibility study indicates that DHA would like to engage the market through a request for qualification (RFQ). In engaging with the market it is important that all the conditions as laid out in Regulation 16 are followed. The DHA should also ensure complete disclosure with regards to outstanding issues that still need to be finalised. **It should be emphasized that the DHA cannot, however, proceed to issue the Request for Proposals without the finalization of all the above issues**

Kind regards



Michael Sachs

Deputy Director-General: Budget Office

Date: 10/08/2017

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