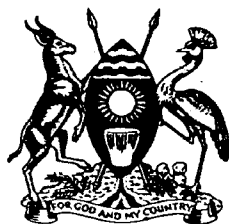


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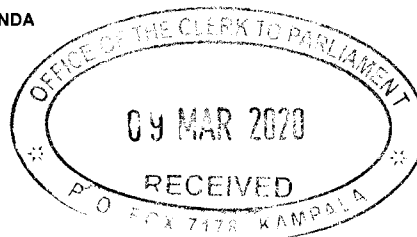
THE REPUBLIC OF UGANDA

Ministry of Finance, Planning &  
Economic Development  
Plot 2-12, Apollo Kaggwa Road  
P.O. Box 8147  
Kampala  
Uganda

In any correspondence on  
this subject please quote No ALD 207/346/01

5<sup>th</sup> March, 2020

The Clerk to Parliament,  
Parliamentary Building,  
**KAMPALA.**



**THE PROPOSAL TO BORROW UP TO USD 229.47 MILLION FROM THE AFRICAN DEVELOPMENT BANK (ADB) AND EURO 90 MILLION (EQUIV. TO USD 105 MILLION) FROM AGENCE FRANÇAISE DE DÉVELOPPEMENT (AFD) TO FINANCE THE CONSTRUCTION OF KAMPALA – JINJA EXPRESSWAY (KJE) PROJECT**

In line with Article 159 (1) & (2) of the Constitution and Section 36 (1) & (5) of the Public Finance Management Act, 2015, Government can borrow from any source as prescribed by an act of Parliament and the terms and conditions of the loan / borrowing (except loans raised through issuance of securities or for the management of monetary policy) must be approved by Parliament.

The purpose of this letter is therefore to;-

- 1) Forward Five (5) copies of the Minister's brief to Parliament seeking the authorization of Parliament to allow the above mentioned borrowing; and
- 2) Request you to make arrangements for my Minister to lay the financing terms on the table of Parliament, and subsequently arrange for the presentation of the request before Hon. Members on the Committee of National Economy.

  
Keith Muhakani

**PERMANENT SECRETARY / SECRETARY TO THE TREASURY**

*Mission*

*"To formulate sound economic policies, maximize revenue mobilization, ensure efficient allocation and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development"*

- Copy to:
- Rt. Hon. Prime Minister, Office of the Prime Minister.
  - Hon. Minister of Finance, Planning and Economic Development.
  - Hon. Minister, Ministry of Works and Transport.
  - The Hon. Minister of State for Finance, Planning and Economic Development (General Duties).
  - The Hon. Minister of State for Finance, Planning and Economic Development (Planning).
  - The Hon. Minister of State for Finance, Planning and Economic Development (Privatization & Investment).
  - The Hon. Minister of State for Finance, Planning and Economic Development (Micro Finance).
  - The Chairman, Committee on National Economy, Parliament of Uganda.
  - The Permanent Secretary, Ministry of Works and Transport.
  - The Executive Director, Uganda National Roads Authority (UNRA).

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**Mission**

*"To formulate sound economic policies, maximize revenue mobilization, ensure efficient allocation and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development"*

# THE REPUBLIC OF UGANDA

## BRIEF TO PARLIAMENT

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### **THE PROPOSAL TO BORROW UP TO USD 229.47 MILLION FROM THE AFRICAN DEVELOPMENT BANK (ADB) AND EURO 90 MILLION (EQUIV. TO USD 105 MILLION) FROM AGENCE FRANÇAISE DE DÉVELOPPEMENT (AFD) TO FINANCE THE CONSTRUCTION OF KAMPALA – JINJA EXPRESSWAY (KJE) PROJECT**

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#### **PURPOSE**

1. This brief is for the purpose of seeking authorization of Parliament and as required under Article 159 of the Constitution of the Government of the Republic of Uganda, to allow the Government to borrow up to USD 229.47 million from the African Development Bank (ADB) and Euro 90 million (equiv. to USD 105 million) from Agence Française De Développement (AFD) to finance the Construction of Kampala – Jinja Expressway (KJE) Project.

#### **BACKGROUND**

2. Rt. Hon. Speaker, as you are aware, Uganda's road network is a key driver of national and regional economic growth due to the strategic position of the country. It provides core transport linkages to land-locked countries of Rwanda, Burundi, Democratic Republic of Congo (DRC), and South Sudan to the sea primarily through the port of Mombasa in Kenya. The Government of Uganda (GoU) is keen to leverage this national advantage to strengthen its competitive position as a key transit as well as regional trade hub to boost economic growth. This objective is well articulated in its Vision 2040 and 15-year National Transport Master Plan

(NTMP, 2008 – 2023), which identified the proposed **Kampala – Jinja Expressway PPP project** as a flagship project.

3. The initial project preparation commenced with a feasibility study in 2010 funded by GoU and conducted by a UK consultancy firm. Thereafter, in 2014, the International Finance Corporation (IFC) was appointed as the transaction advisor for the PPP feasibility studies and the preparation of the bidding process.
4. Against this background, the project considered scenarios of carrying out interventions either on the existing road or construction of an alternative road. Through a detailed feasibility study, the option of constructing an expressway south of the existing road linking with a southern bypass to the south of Kampala was arrived at.
5. Following the above technical consideration, the following financing options were explored:
  - a. **Traditional (Full Sovereign) Financing**– The feasibility studies conducted in 2010 highlighted that GoU's current and projected capital expenditures towards roads projects would not be sufficient to improve, operate and maintain the network to the desired standards. The lack of fiscal space, but with a need for a long term and sustainable road infrastructure network particularly along the strategic Northern Corridor, motivated GoU to consider engaging the private sector through a well-structured Public Private Partnership (PPP) arrangement for development of the KJE.
  - b. **PPP Model** – Several PPP model options were explored in the feasibility study and the traditional PPP model was found to be the most appropriate for the KJE Project delivery. An extensive due

diligence was conducted on this option and a recommendation was made to implement the project on the basis that payments will be made to the private sector party once the project or facility is available for use in accordance with agreed performance standards (availability payment mechanism). **Toll revenues shall be utilised to offset the payments to the private sector party** through a 30-year design, build, finance, operate, maintain and transfer contractual arrangement.

6. A Value for Money (VfM) Assessment was conducted by comparing a traditional financing option against PPP option by estimating the cost of each option. The PPP scenario was found bankable and achieves significant value for money (VfM) over the lifetime of the Project (VfM in the range of 13.5% to 16% over the traditional financing).

## **STATEMENT OF THE PROBLEM**

7. Rt. Hon. Speaker, according to the National Development Plan II, roads account for 96.5% of freight cargo and 95% of passenger traffic in Uganda. Uganda has a total road network of 144,785km which comprises 20,544km of national roads, 35,566km of district roads, 10,108km of urban roads and 78,567 km of community access roads. The national road network (20,544 km, 14% of road network), carries well over 80% of the total road traffic and provides vital transport corridors linking the land-locked countries of Rwanda, Burundi, Eastern Democratic Republic of Congo (DRC) and Southern Sudan to the sea primarily through the Port of Mombasa in Kenya.
8. Rt. Hon. Speaker, the average road traffic growth is 8% per annum, outstripping population growth and the road infrastructure network has

failed to keep up with this high level of traffic growth. This has led to heavy congestion especially in urban areas; whilst other parts of the country have failed to benefit from the growth in industry around well-connected urban centres.

9. Over the last 30 years consistent economic growth in Uganda has transformed much of Kampala City, Mukono town and the industrial town of Jinja into flourishing business hubs. Consequently, the increased traffic on account of economic growth has led to capacity restriction particularly between Kampala and Mukono leading to severe congestion, delays, unpredictable journey times and high accident rates on the existing Kampala Jinja highway. For instance, the current average peak journey time between Kampala and Jinja is 3.5 hours.
10. A high capacity road along the Kampala - Jinja corridor is therefore required to relieve congestion, improve travel reliability, lower the cost of doing business, and transportation costs especially for freight along the northern corridor. Expanding the existing highway is a very expensive option because of high value developments along the corridor as well as the high cost of resettlement that would be required to clear the right of way. In addition, any expansion of the existing road would significantly affect the Mabira Forest, a sensitive ecosystem.

## **THE PROJECT AND COUNTRY STRATEGY**

11. In line with the Second National Development Plan (NDP II) 2015 - 2020 and Uganda Vision 2040, Government of Uganda recognizes that infrastructure is key for the structural transformation of the country's economy. Therefore, it has been made a priority to increase the stock and quality of economic infrastructure so as to accelerate the country's competitiveness.

12. Over the NDP II period 2015-2020, GoU has designated key strategic expressways to be procured via Public Private Partnerships (PPPs). The expressways are intended to reduce traffic congestion in and around Kampala City and provide rapid transport to/from main economic hubs. These expressways include:
- a. Kampala-Entebbe Expressway/ Munyonyo (51km);
  - b. Kampala-Mpigi Expressway (35km);
  - c. **Kampala-Jinja Expressway (77km);**
  - d. **Kampala Southern Bypass (18km);**
  - e. Kampala-Bombo Expressway (50km);
  - f. Kampala – Busunju Expressway (approx.55km); and,
  - g. Kampala Outer Beltway (second ring road) (100km).
13. The Kampala Jinja Expressway and the Kampala Southern Bypass collectively form **the Project** (the **Kampala Jinja Expressway Public Private Partnership Project (KJE)**) which will be implemented under the Design, Build, Finance, Operate, Maintain and Transfer (DBFOMT) Public Private Partnership (PPP) model.

## **JUSTIFICATION**

14. Rt. Hon. Speaker, the development of the KJE will support the aspirations of the Uganda Vision 2040, the objectives of the National Transport Master Plan and National Development Plan II through capacity upgrades of the major road links leading traffic into and out of Kampala.
15. The project, forms part of the national network of expressways aimed at facilitating an efficient movement of both passengers and freight across the country to support the growth objectives as identified in the National Development Plan II and to support regional trade.

16. The main reasons for developing the KJE are to: -
- a. **Improve the Level of Service along the Corridor:** Traffic flow along a number of sections of the current highway has broken down due to demand that has exceeded available capacity and a high proportion of heavy trucks coupled with increasing road side friction due to a number of developments and business activity on the side of the existing road.
  - b. **Reduce Journey Time:** The average peak journey time recorded between Kampala and Jinja is currently 3.5hrs depending on whether there are incidents on the road. Given the corridor's significance to the region, the delays have become a major constraint and hindrance to economic growth, for the country and the region.
  - c. **Enhance the Backbone of National Road Network:** The Kampala-Jinja corridor is the backbone of the national road network because of its role as the primary entry point into the country for all goods that are transported by road from the port of Mombasa in Kenya. As such, the Kampala – Jinja corridor and trade in the country are intertwined.
  - d. **Improve Road Safety:** The proposed expressway is expected to enhance safety along the Kampala-Jinja corridor due to segregation of traffic for different directions, provision of lighting, 24hr monitoring of the expressway via CCTV and incident management. In addition, it is expected that there will be reduction of the number of trucks and long distance traffic along the existing road which will reduce incidence of collisions.



17. The main motivation to consider private sector participation in the development of the Kampala-Jinja Expressway Project is (i) Private Sector efficiency and innovation, (ii) Improving project and service delivery and (iii) lack of fiscal space. The project offers an opportunity for provision of a whole life (30 year) asset solution that will guarantee users a quality road through quality construction and timely operation and maintenance interventions.
18. GoU allocation to KJE in the National Development Plan II 5-year strategic intervention (FY15/16 to FY19/20) is USD300million. Any expenditure beyond \$300m that has to be provided by GoU risks affecting the country's debt ceilings and/or failure of GoU to fund other priority infrastructure projects. KJE is therefore packaged as PPP to ensure that GoU's budgetary allocation/commitments towards construction costs does not exceed USD300m.
19. The project has also been packaged to ensure it is delivered in line with the land acquisition plan. This mitigates the risk of unnecessary cost escalations that must be borne by government arising out of signing the project agreement without land being available.

## **THE PROJECT**

20. **Rt. Hon. Speaker, the Kampala Jinja Expressway Public Private Partnership Project (KJE)** is a Design, Build, Finance, Operate, Maintain and Transfer (at the end of the 30-year concession term) of the **95km** limited access **tolled expressway between Uganda's Capital city - Kampala and Jinja**. The Expressway is located along the strategic northern trade corridor which originates from Kenya's maritime port of Mombasa passing through Uganda to Rwanda, Burundi, Democratic Republic of Congo (DRC) and South Sudan.

21. **Objectives:** The primary objective of the proposed Kampala-Jinja Expressway (KJE) project is to **support Uganda’s transport sector goal of contributing towards sustainable and inclusive economic development and enhancing regional integration.**
22. The **specific objectives** of the project are to: (i) alleviate congestion in and around Kampala, (ii) provide journey time reliability along the Northern corridor, (iii) enhance regional integration and (iv) enhance road safety.

## **PROJECT DESCRIPTION AND COMPONENTS**

23. **Location:** The Kampala-Jinja Expressway (KJE) route alignment starts at Lugogo where it links with the Kampala Flyover project to the west, the Source of the Nile Bridge to the East, the Kampala Northern Bypass to the North and the Kampala-Entebbe Express Spur to Munyonyo on the Southern side as shown in the map attached under **Annex 1.**
24. **Description:** The proposed route corridor largely follows virgin terrain on the southern part of the existing Kampala-Jinja road through Munyonyo, Bunga, Mutungo, Butabika, Mbalala, Namagunga up to Njeru where it links with the Source of the Nile Bridge. The project provides seamless connectivity between the Kampala Northern Bypass and the Kampala-Entebbe Expressway spur to Munyonyo through the Kampala Southern Bypass that will provide a complete ring road around the Kampala City. The project also links with the existing 10 No. major roads along the corridor including the Mukono-Katosi road to enable connectivity with existing and future developments.

25. The Project is to be delivered as one holistic corridor project over a **five-year construction period**, implemented in sections/Phases as follows:

**Table 1: Project Sections and Corresponding Construction Periods**

<b>Phases</b>	<b>Sections</b>	<b>By Length</b>	<b>Construction Period</b>
Phase 1	Section 1	18km – Kampala Southern Bypass (KSB)	3yrs
	Section 2	35km – From Kampala to Namagunga	3yrs
Phase 2	Section 3	42km - From Namagunga to Jinja/Njeru	3yrs

*Note: Construction periods for Phase 1 to overlap with construction period for Phase 2 to ensure a maximum of five-year construction period for the whole project.*

26. **Project Components:** The project is composed of the following components:

a) **KJE Infrastructure Development:** This component constitutes the main infrastructure development of a 95km limited access tolled expressway comprising: i) Kampala-Jinja mainline (77km) and ii) Kampala Southern Bypass (KSB), collectively known as the Kampala-Jinja Expressway PPP (KJE) Project. It also includes construction of several major structures including bridges, junctions, tolling stations, rest areas, lighting; and 50km of ancillary roads.

b) **KJE Project Management:** This component constitutes the services that will support and ensure effective execution of the infrastructure development. These include: i) Project Supervision: by the Independent Engineer; a consulting firm procured to supervise the Project, ii) PPP Project Implementation Unit – to beef up UNRA’s execution capacity and support smooth implementation of the various project activities, iii) Work Placement Program – to support internships and work placement for 200 Ugandan young graduates across

multidisciplinary functions in the construction sector to boost youth employability, address PPP capacity deficits, and create jobs, iv) Monitoring and Evaluation – to prepare baseline studies, continuously monitor and evaluate project impact, periodically update indicators and report on progress in meeting defined Project objectives, and v) Sensitisation and Stakeholder Engagement – to conduct sensitisation with key project stakeholders, including preparation of a video documentary of the different stages of project implementation.

- c) **Audit:** This component constitutes conducting a procurement audit, and a financial audit of project accounts by the Office of the Auditor General or its appointee.
  
- d) **KJE Corridor Development Plan (CDP):** This is an **18 months consultancy** aimed at supporting the local municipalities to optimise the full benefits of the KJE development by preparing a Corridor Development Plan in line with Uganda’s Trade and Industrialisation Policies, to maximize the benefits of the KJE and the Standard Gauge Rail (SGR) projects within a single spatial corridor.
  
- e) **Livelihood Restoration Programme:** This component supports vulnerable communities and project affected persons along the corridor by providing community support in the form of schools, markets, health facilities, among others and shall be implemented in liaison with the respective sector institutions.

27. **Table 2** below shows the cost for each project component:

**Table 2: Project Components and Corresponding Costs**

#	Category	Total (USD m)
1.	KJE Infrastructure Development (95 km plus 50km link	

	roads)	
	(i) Phase 1	
	a. Kampala Southern Bypass (18km)	260.00
	b. Kampala-Namagunga (35km)	500.00
	(ii) Phase 2 - Namagunga-Jinja (42km)	380.00
2.	Project Management	
	(i) Project Supervision	10.00
	(ii) Project Implementation Unit	11.71
	(iii) Graduate Development Programme (200 graduates)	2.12
	(iv) Monitoring and Evaluation	0.55
	(v) Sensitisation and Stakeholder Engagement	0.50
3.	Financial and Procurement Audit	0.40
4.	Corridor Development Plan	2.00
5.	Community Development Programme	15.00
6.	Land Acquisition	300.00
	<b>TOTAL</b>	<b>1,482.28</b>

28. **Unit Costs:** The road / project unit cost is **USD12m/km** attributed to the unique project features such as high design standards, 4.7km viaducts/bridges to prevent degrading swamps, 13 No. toll plazas, 16 No. grade separated junctions, lighting along the entire expressway, CCTV Cameras, Rest Areas and 50km of link roads. The project unit cost is comparable to other projects of similar scope and complexity implemented in other parts of the world some of which are provided under **Annex 2**.

29. **Road Tolling:** The expressway shall be tolled i.e all motorists using the expressway shall be required to pay a toll fee corresponding to their vehicle class. The tolls shall be set by the Minister of Works and Transport based on the costs for road development, operation and maintenance.

30. Government in May 2017 approved the Road Tolling Policy and in March 2018 approved the Roads Bill that provides for tolling of major highways such as expressways. The Roads Bill was passed by Parliament on 16<sup>th</sup>

May, 2019 and is required to be assented into law before tolls can be levied on the expressway.

31. **Project Status:** UNRA initiated the procurement process for the project in May 2018 and has since pre-qualified four (4) consortia, including companies from France, Poland, Austria, Portugal, China, Germany, Turkey, and South Korea. Technical and financial bids are expected to be invited in the third quarter of 2019 leading to award of contract by the second quarter of 2020. The land acquisition process is also already on-going with approx. 20% of the right of way already acquired.
32. **Project Outputs:** Once implemented, the project is expected to deliver complete and high quality construction works of the following:
- (i) **77km of the Kampala-Jinja mainline expressway** with 4+4 lanes for the first 3km, 3+3 lanes for the next 17 km and 2+2 lanes for the remaining 57 km with a design speed of up to 120kph;
  - (ii) **18km Kampala Southern Bypass (KSB)** with 2+2 lanes with a design speed of up to 100kph providing seamless connectivity between Kampala Entebbe expressway Munyonyo Spur, Kampala-Jinja Expressway and Kampala Northern Bypass;
  - (iii) **Viaducts/ Flyovers:** a total of 4.7km viaducts over the swamp crossings to avoid degrading sensitive ecosystems;
  - (iv) **Interchanges/ Grade separated junctions:** 16No. interchanges along the Kampala to Jinja mainline and 4No. interchanges along Kampala Southern Bypass to facilitate connectivity with existing development nodes;
  - (v) **Lugogo Bridge:** 800m flyover over lugogo junction;
  - (vi) **Underpasses, Overpasses and Pedestrian crossings:** 51No. underpasses and overpasses and 14No. pedestrian

- overbridges/underpasses to facilitate connectivity between communities on either side of the expressway;
- (vii) **Toll Plazas:** A total of 13 toll plazas and associated plaza building infrastructure to facilitate toll collection along the expressway;
- (viii) **Link Roads:** A total of 50km of link roads to service existing development nodes along the Kampala-Jinja corridor, by linking the expressway with existing road network;
- (ix) **Lighting:** lighting along the entire expressway to enhance safety;
- (x) **CCTV Cameras and Intelligent Transportation System:** 24-hour monitoring of the entire expressway and real time dissemination of information on road conditions to motorists and general public; and,
- (xi) **Rest areas:** Two (02) number rest areas at Namagunga with one either side of the expressway with a pedestrian walkway to Sezibwa falls.

## PROJECT COST AND FINANCING

33. The Total Project cost is estimated to be **USD 1,482.38 million**. This includes USD 301.17 Government contribution, a loan of USD229.47 Million from AfDB, a loan of EUR 90Million (USD105 Million) from AFD and a Grant of EUR 90Million (USD105 Million) from European Union. The balance of the funds will be mobilized by the private sector (Project finance and/or Capital market finance) amounting to USD 741.74 Million. The financing details by source of finance, expenditure schedule by component and source are presented in **Table 3** below.

**Table 3: Source of Finance by Category (US \$ Million)**

#	CATEGORY	AfDB	EU	AFD	Private Sector	GoU	TOTAL
1.	Civil Works infrastructure development (97 km plus 50km link roads)						
	(iii) Phase 1 (KSB + Kampala-Namagunga)	200	100	105	355.0	-	<b>760.00</b>

	(iv) Phase 2 (Namagunga-Jinja)	-	-	-	380.0	-	<b>380.00</b>
2.	Project Management						
	(vi) Project Supervision	-	5.0	-	5.0	-	<b>10.00</b>
	(vii) Project Implementation Unit	10.54	-	-	-	1.17	<b>11.71</b>
	(viii) Graduate Development Programme (200 graduates)	0.38	-	-	1.74	-	<b>2.12</b>
	(ix) Monitoring and Evaluation	0.55	-	-	-	-	<b>0.55</b>
	(x) Sensitisation and Stakeholder Engagement	0.50	-	-	-	-	<b>0.50</b>
3.	Financial and Procurement Audit	0.50	-	-	-	-	<b>0.40</b>
4.	Corridor Development Plan	2.0	-	-	-	-	<b>2.00</b>
5.	Community Development Programme	15.0	-	-	-	-	<b>15.0</b>
6.	Land Acquisition	-	-	-	-	300.00	<b>300.00</b>
		-					
	<b>TOTAL</b>	<b>229.47</b>	<b>105.00</b>	<b>105.00</b>	<b>741.74</b>	<b>301.17</b>	<b>1482.38</b>

AfDB: African Development Bank, EU: European Union, AFD: French Development Agency, GoU: Government of Uganda

34. **Phase 1 - Kampala Southern Bypass and Kampala-Namagunga (53km):** is estimated to cost USD760m of which USD405million sovereign funding will be sourced from: AfDB Sovereign Loan of USD200 million; EU Grant of USD100m blended with AFD Loan of USD105 million; and the balance of USD355 to be sourced by the private sector party.
35. **Phase 2 - Namagunga-Jinja (42km):** which is estimated to cost USD380 million will be financed entirely by private capital (no public financing) to be raised through project financing (capital markets).
36. **Private Sector Contribution Versus Public Contribution:** Overall the private sector is expected to mobilise **USD741.74 million (64.7%)** compared to the Government/ public contribution of **USD405 million (35.3%)** towards the civil works construction costs for the entire project. In addition, the private sector will mobilise funds required for the operations and maintenance over the 30-year concession term estimated at an additional USD300m. The private sector will recover their investment over the 30-year concession term through quarterly payments once the facility is available for use. Government contribution of USD405 million is required to avoid charging road users exorbitant toll fees they can't afford.



37. **Right of Way (ROW)** – GoU will mobilise USD300million within Seven budget cycles from 2016 to 2022 for the ROW clearance for the KJE project. To date USD50 million has already been paid for compensation. GoU will also allocate USD1.17 million for the Project Implementation Unit.

## **KJE TRANSACTION STRUCTURE**

38. The KJE project is a PPP project based on the “Design, Build, Finance, Operate, Maintain and Transfer (DBFOMT)” model for a contract period of 30 years where a private sector party will after construction completion, operate and maintain the tolled road before handing it back to Government at the end of the contract period.
39. The Government will set the toll rates but the private sector party will collect the toll fees and forward them to Government through an escrow account. In return, Government will make quarterly Payments to the private sector party subject to meeting agreed operational performance targets.
40. Payments to the private sector party shall only commence after the road is completed and available to the public for use. The quarterly payments will be reduced if the private sector party fails to meet the performance standards detailed in the contract, thereby ensuring that the quality of the road and its availability is maintained throughout the 30-year contract period.
41. Tolls levied for use of the road shall be used to offset the quarterly payments to the private sector party. It is expected that at Year 10 from opening the project road, the project will break even – whereby the toll