5th 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 Muhakanizi
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).
THE REPUBLIC OF UGANDA

BRIEF TO PARLIAMENT

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

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

*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>
<thead>
<tr>
<th>#</th>
<th>Category</th>
<th>Total (USD m)</th>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>KJE Infrastructure Development (95 km plus 50km link)</td>
<td></td>
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</table>
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 16th
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 ongoing 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>
<thead>
<tr>
<th>#</th>
<th>CATEGORY</th>
<th>AfDB</th>
<th>EU</th>
<th>AFD</th>
<th>Private Sector</th>
<th>GoU</th>
<th>TOTAL</th>
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<tbody>
<tr>
<td>1</td>
<td>Civil Works infrastructure development</td>
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<tr>
<td></td>
<td>(97 km plus 50km link roads)</td>
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<tr>
<td></td>
<td>(iii) Phase 1 (KSB + Kampala-Namagunga)</td>
<td>200</td>
<td>100</td>
<td>105</td>
<td>355.0</td>
<td>-</td>
<td>760.00</td>
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<tr>
<td>Phase 2 (Namagunga-Jinja)</td>
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<tr>
<td>Project Management</td>
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<tr>
<td>(vi) Project Supervision</td>
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<tr>
<td>(vii) Project Implementation Unit</td>
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<tr>
<td>(viii) Graduate Development Programme (200 graduates)</td>
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<td>(ix) Monitoring and Evaluation</td>
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<tr>
<td>(x) Sensitisation and Stakeholder Engagement</td>
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<td>Financial and Procurement Audit</td>
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<tr>
<td>Corridor Development Plan</td>
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<tr>
<td>Community Development Programme</td>
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<tr>
<td>Land Acquisition</td>
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<tr>
<td>TOTAL</td>
<td>229.47</td>
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</table>


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 USD300 million 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
revenue would equate to and subsequently surpass GoU’s Payment obligations, meaning GoU would directly and exclusively benefit from the excess revenue. Over the course of the 30-year term, it is estimated that the quarterly Payments to the private sector party will total $1.91 billion and toll revenues will total $4.75 billion, therefore giving a net revenue to GoU of $2.84 billion. Government will use this net revenue to pay for future road improvements such as additional lanes and interchanges as and when required or to extend the expressway.

**LOAN TERMS AND CONDITIONS**

42. The **AfDB** facility has the following terms;

- **Loan Amount**: USD 229.47 Million
- **Grace period**: Up to 8 years
- **Maturity**: Up to 25 years, including the grace period.
- **Interest rate**: Tentative 2.25% (LIBOR USD - 6 months (1.25%)\(^1\) + Funding margin\(^2\) (+0%) + Lending spread (0.8%) + Maturity premium (0.2%))
- **Front-end fees**: 0.25% of the loan amount payable maximum of 60 days from date of effectiveness.
- **Commitment fee**: 0.25% per year of non-disbursed amount.

43. The **AFD** facility has the following terms;

- **Loan amount**: €90m (USD 105 m)
- **Grace Period**: 8 years
- **Maturity period**: 25 years including grace period

\(^1\) This 6 months USD LIBOR rate is of as 3\(^{rd}\) March, 2020.
\(^2\) The Funding Cost Margin shall be determined semi-annually on 1 January for the semester ending on 31 December and on 1 July for the semester ending on 30 June.
Interest rate: Tentative 1.54% (Euribor 6 months (-0.418)3 + 1.54% (margin))
Commitment Fee: 0.5% per annum of the undisbursed amount of the loan.

44. The loans have the following terms and conditions:
   (i) Approval by Parliament;
   (ii) Legal opinion of the Attorney General on the loan documentation;
   (iii) Letter to the bank authorising persons to sign withdrawal applications together with specimen signatures.

OTHER ISSUES

45. **Project Local Content Provisions:** The project has been structured to provide for local capacity development and ensure inclusiveness through:
   (i) encouraging participation of local currency financing from the pension funds (such as NSSF) and local institutional investment funds towards the project which will help to deepen the local capital market and provide a platform for Ugandans to invest in the project;
   (ii) subcontracting at least 30% of the project works to local companies to boost the local construction industry;
   (iii) developing local skills through the graduate training and placement programme on the project for 200 fresh graduates;
   (iv) the direct creation of at least 1500 jobs during the construction phase and 250 jobs during the operational phase of the project and;
   (v) having dedicated project component on community support and livelihood improvement as well as corridor development to boost

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3 The 6 month Euribor interest rate is the interest rate at which a selection of European banks lend one another funds denominated in euros whereby the loans have a maturity of 6 months. As at 4th March, 2020 the 6th months Euribor rate is -0.418%. Therefore when Euribor is in negatives the rate applied is 0% thereby making tentative interest rate to be 1.54%.
private sector development all geared towards boosting inclusiveness, ownership and buy in of all stakeholders and boosting private sector and socio-economic development.

46. **Project Area and Beneficiaries:** The project traverses four administrative districts of; Kampala, Wakiso, Mukono and Buikwe passing through urban, peri-urban and agricultural areas. Most of the route is on the southern side of the existing Kampala – Jinja road except the first 3km between Lugogo and Kyambogo that follows the existing road. The lands traversed are largely classified as Mailo or freehold land, with most impacted people being Bibanja holders (informal/unregistered landowners/users). One of the largest informal settlements is Kasokoso within the Kinawataka wetland in the Kireka area of Kampala, which has been densely settled with squatters and encroachers. Other informal settlements, small industry, businesses and agriculture also occur in wetlands along the route.

47. Proposed major infrastructure and industrial areas along the KJE route that have been harmonised with the project include the Malaba-Kampala Standard Gauge Railway (SGR) project, Namanve Industrial Business Park located on the eastern periphery of Kampala, Kampala Cement factory, and the proposed Bukasa Port.

**STAKEHOLDER CONSULTATIONS**

48. Road users’ willingness to pay surveys were carried out to establish the amount users were willing to pay. It was established that car users were willing to pay approx. 100UGX per km as per 2016 prices. The toll rates for the road shall therefore be set in line with the results of the users’ willingness to pay surveys.
49. Engagements were also held with the Standard Gauge Railway Project and the two projects harmonised for co-existence without compromising functionality of either projects. The disparity of design standards, rolling terrain and the need to optimise project costs could not enable acquisition of the same corridor for the two projects. However, agreement was reached for joint land acquisition for sections where the two projects cross each other. It was also agreed to develop a joint Corridor Development Plan to promote high value developments along the corridor and maximise benefits out of the proposed infrastructure developments.

50. **Loan Clearance Committee**: The loan was presented to the Loan Clearance Committee under the Office of the Prime Minister. The committee reviewed the project design and made additional input in to the design of the project and thereafter cleared the loan for consideration of Cabinet. The loan clearance letter from the Office of the Prime Minister dated March 29, 2019 is presented in **Annex 3**.

51. **Certificate of Financial Implications**: Rt. Hon. Speaker, the Ministry of Finance, Planning and Economic Development analysed the financial requirements of the project. The total project costs of USD 1.482 million will be financed under a PPP arrangement. It is projected that Government will generate revenue of USD 4.75 billion of which USD 1.91 million will be paid to the private investor. Government will therefore generate net **revenue** of USD 2.84 billion in addition to other benefits including employment to citizens and development of local industries. **Annex 4** presents a detailed description of the financial implication of the project.
IMPLEMENTATION ARRANGEMENTS

52. The overall project implementation period is 30 years including a maximum of 5-year construction period. UNRA has provided for an option of a 3-year construction period if the land acquisition for the entire right of way can be completed by the date of award of the contract.

53. The Project will be implemented by the Ministry of Works and Transport through UNRA. To date, UNRA has expended a significant amount of time and resources in developing the project structure in consultation with various stakeholders and advisors. A team comprising a core UNRA project team, a Project Implementation Unit (to be recruited to augment UNRA’s capacity), Technical Advisor from Trade Mark East Africa (TMEA) and the International Finance Corporation (IFC) as Transaction Advisor (IFC) has been set up to implement the project. These measures position UNRA to deliver a highly successful project.

54. The procurement process for the project is following the Uganda’s PPP Act (2015). The PPP Committee has already been constituted and will regulate UNRA’s relationship with the private party. The PPP Committee has already approved the project (feasibility study and pre-qualification documents) and will approve subsequent stages of the procurement process as mandated by the law.

55. The Project Team for the Kampala- Jinja Expressway PPP project was formulated based on the PPP Act 2015 and is made up of various stakeholders from different government agencies as indicated in Figure 1 below.
56. **Environment and Social Safeguards:** UNRA has an established Department of Environmental and Social Safeguards with adequate staffing as well as dedicated staff to manage environmental and social aspects on the KJE project.

57. **Environmental & Social (E&S) Working Group** - E&S working group has been formed comprising UNRA, EU, AfDB and IFC to support the E&S oversight functions for the project and compliance with international Standards.

58. **Strong Stakeholder Support:** a dedicated team of 5 Senior Land Economists/ Valuers from the Chief Government Valuer (CGV)’s office (Ministry of Lands, Housing and Urban Development) has been set up to support the Resettlement Action Plan implementation and fast track approvals from CGV.
59. **Technical Assistants:** To assist the capacity of UNRA, the Development Partners (AfDB and World Bank) are financing technical assistants (environment and social development specialist, and Right of Way Experts) who will also support the execution process for the project. The EU is also providing technical assistance through a grant to train and support UNRA’s capacity in managing and supervising E&S risks and impacts associated with the project in line with international standards.

60. **Transaction Advisors:** IFC has been providing support to UNRA through the project structuring and preparation phase and will continue to provide support to UNRA through the procurement phase until financial close. The IFC advisory team includes Ashurst (Legal), SPEA Autostrada (Technical) and IMC (environmental and social). Trade Mark East Africa through a grant is also supporting UNRA through their PPP Technical Advisor to support the entire PPP project procurement process.

61. **PPP Project Implementation Unit:** The recruitment of key technical experts with PPP project experience to form a PIU is underway. The PIU will support and work alongside the Project Team and provide PPP support, guidance and skills transfer. Given that UNRA has not implemented PPP Projects before, the PIU comprising technical experts experienced in the management of PPP Projects is key to enhance UNRA capacity in implementing the KJE Project including providing support, guidance and training. **The PIU shall be in place for the first 8 years and thereafter it is expected that UNRA shall have developed adequate capacity to manage the project for the remaining 22 years.** Given that PIUs are recruited based on needs for each project, and lapse at the end of each project, it is not possible to use previous PIUs established for other Development Partner projects.
The Loan and the Current Debt Situation: As at end June 2019, total public debt amounted to USD 12.43 billion, out of which external and domestic debt accounted for USD 8.27 billion (66.6%) and USD 4.16 (33.4%) billion respectively. Nominal Debt as a percentage of GDP stands at 35.9% using the rebased GDP of Ug. Shs 128.49 Trillion for Fiscal year 2018/19. (Source: Directorate of Debt and Cash Policy, MoFPED)

CONCLUSION

In light of the above, I shall request Hon. Members to:-

a) Note the need to acquire the AfDB and AFD loan to support the construction of the Kampala – Jinja Expressway;

b) Endorse the request by Government to borrow up to UA 164.47 million (US $ 229.47m) from the AfDB and Euro 90 million (USD 105m) from AFD for the construction of the Kampala – Jinja Expressway;

c) Authorize the Government by passing a Resolution in line with the requirements of Article 159 of the Constitution of Uganda (as amended), to borrow up to UA 164.47 million (US $ 229.47m) from the AfDB and EURO 90 million (USD 105m) from AFD to support the construction of Kampala – Jinja Expressway upon the terms and conditions stated above; and

Prepared by:
Ministry of Finance, Planning and Economic Development
P.O. BOX 8147
KAMPALA

March, 2020
Annex 1: Kampala-Jinja Expressway Route Alignment
<table>
<thead>
<tr>
<th>#</th>
<th>Project Name</th>
<th>Scope</th>
<th>Country</th>
<th>Unit Cost</th>
<th>Project Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>R1 Motorway</td>
<td>30-year concession for the construction and management of a 52km dual carriageway between Nitra and Tekovske, Nenec, Slovakia. Payment to the Private Party based on periodic payments/Availability Payments.</td>
<td>Slovakia</td>
<td>Euro 26.92 million/km</td>
<td>Euro 1.4 Billion</td>
</tr>
<tr>
<td>2.</td>
<td>A7-2 Motorway</td>
<td>30-year concession for the upgrading and lane-widening of a 60km section of the federal motorway between Bocken and Göttingen.</td>
<td>Germany</td>
<td>Euro 15.1 million/km</td>
<td>Euro 438 million</td>
</tr>
<tr>
<td>3.</td>
<td>A2 Segment II Toll Motorway</td>
<td>30-year concession for the upgrading and lane-widening of a 29km stretch from four to six lanes, 48 bridges, noise protection walls and rest areas. Payment to the Private Party based on periodic payments/Availability Payments.</td>
<td>Germany</td>
<td>Euro 13.2 million/km</td>
<td>Euro 1.562 Billion</td>
</tr>
<tr>
<td>4.</td>
<td>A8, Ulm-Augsburg Motorway</td>
<td>Design, construction, funding and operation of 2x2 motorway with a total length of 105.9km new construction and 18.5km expansion.</td>
<td>Germany</td>
<td>Euro 13.7 million/km</td>
<td>Euro 562 million</td>
</tr>
<tr>
<td>5.</td>
<td>A15, Maasvlakte-Vaapleun Motorway</td>
<td>41km long and maintenance of (688km section.</td>
<td>Netherlands</td>
<td>Euro 52.2 million/km</td>
<td>Euro 941 million</td>
</tr>
<tr>
<td>6.</td>
<td>Limerick Ring Road PPP</td>
<td>Design, construction and Operation and maintenance of 95km tolled expressway, including tunnels, toll plazas and viaducts.</td>
<td>Ireland</td>
<td>Euro 43.7 million/km</td>
<td>Euro 437 million</td>
</tr>
<tr>
<td>7.</td>
<td>Northern Marmara Motorway</td>
<td>Design and construction of 160km 8 lane expressway including 4x4 lanes for first 3km from Ludogo, 3x3 lanes for the next 32km, 2x2 lanes for the Kampala Southern by pass, payment to the Private Party based on periodic payments/Availability Payments.</td>
<td>Turkey</td>
<td>USD20 million/km</td>
<td>USD20 million/km</td>
</tr>
<tr>
<td>8.</td>
<td>Kampala-Jinja Expressway</td>
<td>Design and construction of 160km 8 lane expressway including 4x4 lanes for first 3km from Ludogo, 3x3 lanes for the next 32km, 2x2 lanes for the Kampala Southern by pass, payment to the Private Party based on periodic payments/Availability Payments.</td>
<td>Uganda</td>
<td>USD12 million/km</td>
<td>USD 1.14 billion</td>
</tr>
</tbody>
</table>
ANNEX 3: CERTIFICATE OF FINANCIAL IMPLICATIONS

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Economic Development
Plot 2-12, Apollo Kagwaa Road
P.O. Box 8147
Kampala
Uganda

29th May, 2019

To the Deputy Head of Public Service & Deputy Secretary to Cabinet,
Office of the President
KAMPALA.

RE: CLEARANCE OF FINANCIAL IMPLICATIONS FOR THE PROPOSAL TO BORROW UPTO 229.47 MILLION FROM THE AFRICAN DEVELOPMENT BANK (ADB) AND USD 105 MILLION FROM THE FRENCH DEVELOPMENT AGENCY (AFD) TO FINANCE THE CONSTRUCTION OF THE KAMPALA-JINJA EXPRESSWAY A PUBLIC PRIVATE PARTNERSHIP (PPP) PROJECT

Reference is to our letter Ref: ALD 141/341/01 dated 2nd April, 2019 submitting copies of a Cabinet Paper on the proposals to borrow funds for the above mentioned road project.

In line with Section S.76 of the Public Finance and Management Act, 2015 (as amended), this is to report that the Kampala Jinja Expressway project will cost USD 1.482 billion. This will be funded from the above proposed loans and co-financed by a grant from the European Union. GoU domestic funds allocated under the MTEF of UNRA and investments from the Private Sector as summarized in the table below:

<table>
<thead>
<tr>
<th>Project</th>
<th>AMOUNT IN (USD $ MILLION)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ADB</td>
</tr>
<tr>
<td>Construction of Kampala-Jinja-Expressway (95km)</td>
<td>229.47</td>
</tr>
<tr>
<td>including the Kampala Southern Bypass</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>229.47</td>
</tr>
</tbody>
</table>

The project has been packaged as a PPP so that there is no risk of exceeding the country’s debt ceiling. The PPP is a 30-year design, build, finance, operate, maintain and transfer contractual agreement.

The public external debt and grant financing of USD 405 million from AFD, AFD and EU for civil works is required to avoid exorbitant toll fees which the road users may not be in position to afford according to the proposed road user survey that was conducted. The GoU domestic funding is to cater for land acquisition (USD 300 million) and project implementation unit (USD 1.17 million).

The road toll will be set by GoU but collections will be done by the private investor and deposited in an escrow account. From the deposits, GoU will make quarterly payments to the private investor based on the agreed performance targets. It is projected that the project will break even in the 10th year of its operation.

Mission

"To formulate sound economic policies, maximize revenue mobilization, ensure efficient administration and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development."
Accordingly, it is projected that over the PPP project contract period, GoU will generate USD 4.75 billion of which USD 1.91 billion will be paid to the private investor. Therefore, the projected net revenue from the project is USD 2.84 billion in addition to other project benefits including employment to Ugandans and engagement of local industries.

In view of the above, this Ministry has no objection to the above financial implications and confirms that the proposed financing arrangements are within the GoU Medium Term Fiscal Framework and Debt Strategy.

Patrick Ocaliap
PERMANENT SECRETARY/SECRETARY TO THE TREASURY

Copy:  The Hon. Minister of Finance, Planning and Economic Development
       The Hon. Minister of Works and Transport
       The Permanent Secretary, Ministry of Works and Transport
       The Executive Director, Uganda National Roads Authority

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"