THE REPUBLIC OF UGANDA

PARLIAMENT OF THE REPUBLIC OF UGANDA

REPORT OF THE COMMITTEE ON NATIONAL ECONOMY ON THE PROPOSAL TO ISSUE PROMISSORY NOTES NOT EXCEEDING US$ 379.71 MILLION TO FINASI/ROKO CONSTRUCTION SPV LIMITED FOR THE FINANCING OF THE INTERNATIONAL SPECIALIZED HOSPITAL OF UGANDA AT LUBOWA, WAKISO

Office of the Clerk to Parliament

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1.0 INTRODUCTION

The Committee on National Economy is provided for under Rule 175(1) & (2) of the Rules of Procedure of Parliament with the mandate to, among others -

(a) Review, consider, and scrutinize all matters relating to national economy generally, finance and any other matter referred to it by the House.

(b) Examine and make recommendations to the House on all loan agreements required to be authorized or approved by the House under Article 159 of the Constitution.

On 12th February 2019, the Minister of State for Finance, Planning and Economic Development in Charge of Planning, Hon. David Bahati, tabled a Proposal to issue Promissory Notes not exceeding USD 379.71 Million to FINASI/ROKO Construction Special Purpose Vehicle Limited for financing the design, construction and equipping of the International Specialized Hospital of Uganda at Lubowa, Wakiso District. The Proposal was accordingly referred to the Committee on National Economy for consideration. The Proposal was premised on Sections 23 and 36 of the Public Finance and Management Act, 2015 (as amended), which provide for multi-year expenditure commitments and authority to raise loans.

Section 23(1) of the Public Finance and Management Act, 2015 (as amended), states that -

> *"A vote shall not enter into a contract, transaction, or agreement that binds the Government to a financial commitment for more than one financial year or which results in a contingent, except where the financial commitment or contingent liability is authorized by Parliament."*

Section 36(1) of the Public Finance and Management Act, 2015 states that -

> *"Subject to the Constitution, the authority to raise money by loan and to issue guarantees for and on behalf of the Government shall vest solely in the Minister and no other person, public corporation, state enterprise or*

local government council shall, without the prior approval of the Minster, raise any loan, issue any guarantee, or take any other action which may in any way either directly or indirectly result in a liability being incurred by the Government."

2.0 BACKGROUND TO THE PROJECT

Due to life style changes, increased life expectancy and genetic factors, non-communicable diseases (NCDs) in Uganda are increasingly becoming a major burden. Consequently, the fatality levels resulting from NCDs is rising significantly, with diabetes, cancer, cardiovascular diseases, self-harm, interpersonal violence and road injuries increasing by approximately 100 percent or more since 1990 (Health Sector Development Plan, pg. 28, 2015). A report on the surveillance of disease burden in Uganda conducted by the Ministry of Health in FY 2017/18, revealed that 7.3 percent of all Out-Patient hospital visits – equivalent to 2.7 million cases, are due to diseases other than the common ailments such as Malaria, non-pneumonia coughs and colds.

Despite this trend, there is lack of both the requisite infrastructure and human resource for health required to offer the much needed highly specialized treatment and medical care to combat the burden of disease within the Country. As a result, many Ugandans have been referred abroad (mainly in India) to receive this treatment but at very high cost while others have succumbed to death.

According to the Report of the Auditor General (2016), a total of 51 patients are referred broad for treatment on average every financial year on the recommendation of the Medical Board. The Report revealed that a total of 154 patients[1] were cleared for treatment abroad in a period of three financial years

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[1] *The common ailments for which reference was made were: Neurology (46), Kidney diseases (30) Cancers (22), Heart conditions (13), Orthopedics (14), Ophthalmology (9) and Gastro-entorology (6).*

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(2013/14 - 2015/16) at an estimated cost of USD 2,837,909 excluding flight, upkeep and attendants' costs; this translated to USD 18,428 per patient *(Table 1)*.

Table 1: Expenditure on treatment abroad FY 2013/14 – 2015/16

Year	Number of patients	Treatment Cost (USD)
2013/14	46	831,752
2014/15	51	739,873
2015/16	57	1,266,284
Total	**154**	**2,837,909**
Average		18,427.98

Source: Auditor General's Report on MoH FY ended 30th June 2016

In an effort to reduce on medical referrals abroad, Government is investing in establishing centers of excellence (the Heart Institute, the Cancer Institute), rehabilitation and construction works to upgrade Mulago National Referral hospital into a super-specialized facility, the pediatric hospital at Entebbe and the newly completed neonatal and Women's hospital at Mulago. However, huge investment is still needed to have them functional.

Despite these efforts, affordability will remain a challenge without fully functional public health insurance in place. A report of the Committee of Health (2017) revealed that when the super-specialized hospital at Mulago is finalized, it will require an additional UGX 468 billion annually if free services are to be offered to Ugandans (current allocation is UGX 54 billion). While UGX 277 billion will be required to have it operate on a business modal under which patient charges will be classified as Platinum, Gold and Silver.

At the moment, none of the hospitals in Uganda (incl. private) is internationally accredited. Absence of the much needed highly specialized medical care and treatment has not only contributed to foreign exchange hemorrhage but also to the high levels of mortality due to the high costs involved to seek services abroad.

Consequently, in October 2014, Government approved the project to construct an International Specialized Hospital of Uganda, to be operated as a world-class internationally accredited health facility. This facility is expected to provide highly specialized medical care for the common ailments currently being referred abroad at very high cost. Government and FINASI/ROKO Construction SPV Ltd negotiated and signed a number of agreements to have this facility established on the 32-hectare piece of land located at Lubowa.

The following is the sequence of events to-date:

i. **November 2014:** the project framework agreement was signed in November 2014 to guide the negotiation of the final Project Agreements.

ii. **May 2015:** the project works investment agreement (PWIA) was signed for the design, finance, construction and equipping of a 240-bed hospital and staff training. It was agreed that construction would cost US$ 249.9 million and the financing cost of US$ 99.5 million.

iii. **December 2015:** the project services agreement was signed for the operation and maintenance of the hospital for a period of eight years. It was agreed that Ministry of Health among others shall pay the hospital operations remunerations (management services remunerations) of US$ 5 million per quarter during the first year and USD 6 million per quarter in the following years. In addition, the Ministry shall pay annual operations services remuneration to be agreed upon by the Ministry of health and the Hospital.

iv. **December 2018:** the Direct Agreement was signed with the Project's Promissory Note Funders.

Upon obtaining accreditation from the Joint Commission International (JCI), one of the world's leading non-profit patient safety organizations that certifies world-class healthcare facilities, it is envisaged that the hospital will attract patients both from Uganda and abroad, in particular neighboring countries.

This is expected to minimize Government costs on overseas treatment as well as providing speedier and more accessible response to medical needs of Ugandans. In addition, the realization of the project will promote Uganda's reputation internationally and provide a centre for health care training for Ugandans.

3.0 METHODOLOGY

In scrutinizing the Proposal, the Committee:

a) held meetings with;

i. the Minister of Finance, Planning and Economic Development in Charge of Planning;

ii. the Minister of Health;

iii. the Minister of Lands, Housing and Urban Development;

iv. Mr. Peter M. Mulira, a Partner in Mulira & Company Advocates; and

v. Prince Joseph Kiggala and Ms. Victoria Semwanga, Administrator and Beneficiary respectively, of the Late Kasalina Nkizi, a daughter of the Late Yusufu Suna Kiwewa Omulangira.

b) made reference to the following documents;

i. the Constitution of the Republic of Uganda;

ii. the letter from the Minister of Health to the Minister of Finance, Planning and Economic Development on the construction and equipping of Entebbe specialized hospital and a specialized cancer centre at Uganda Cancer Institute, dated 28th February, 2013;

iii. the letter from H.E the President to the Minister of Finance, Planning and Economic Development on reducing medical expenses incurred abroad dated 23rd April, 2014 (Ref: PO/12);

iv. the Ministry of Health's Contracts Committee Decision on the Approval of the Project Framework Agreement dated 28th August, 2014;

v. the Report on the Due Diligence of FINASI LLC, PGXXII Specialised Hospital, Bergamo and ROKO Construction Limited;

vi. the Project Investment Proposal for the International Specialised Hospital of Uganda dated 5th November, 2014;

vii. the Project Framework Agreement for the design, construction, financing and operation of two top quality hospital facilities in the Republic of Uganda between the Government of Uganda and FINASI S.R.L entered into on 17th November, 2014;

viii. the projected income, balance sheet and cash flow statements for the International Specialized Hospital of Uganda developed by FINASI in February, 2015;

ix. the Public Finance and Management Act, 2015;

x. the Project Works Investment Agreement (PWIA) to finance, design, build and equip the International Specialized Hospital of Uganda between the Government of Uganda and FINASI/ROKO Construction SPV Ltd entered into on 27th May, 2015;

xi. the Public Private Partnership Act, 2015;

xii. the Project Services Agreement for the management, operation and maintenance of the International Specialized Hospital of Uganda between Government of Uganda and the International Specialized Hospital of Uganda entered into 27th January, 2016;

xiii. the copy of the Certificate of Title for the proposed project site land *(Block 269, Plot 2772 at Lubowa-Wakiso District-30.314 hectares)* dated 16th March, 2018;

xiv. the letter from the Minister of Health *(Minute Extract)* to the Permanent Secretary, Ministry of Health dated 17th May, 2018 on the Owner's Engineer for the International Specialized Hospital of Uganda;

xv. the FINASI/ROKO Construction SPV Ltd letter to the Permanent Secretary, Ministry of Health dated 9th July, 2018 (Ref:FR/18/03) on the appointment of the Owner's Engineer for the International Specialized Hospital of Uganda;

xvi. H.E the President's letter to the Minister of Health dated 4th September, 2018 (Ref: PO/12) on the Employment of Engineer Francis Wakabi as the Owner's Engineer for the International Specialized Hospital of Uganda;

xvii. the Permanent Secretary, Ministry of Health's letter to the Permanent Secretary, Ministry of Public Service dated 28th November, 2018 (Ref: ADM.124/341/01) on the Employment of Engineer Francis Wakabi as Owner's Engineer for the International Specialized Hospital of Uganda;

xviii. the Permanent Secretary, Ministry of Public Service letter to the Permanent Secretary, Ministry of Health dated 3rd December, 2018 (Ref: CP 105733) on the Employment of Engineer Francis Wakabi as the Owner's Engineer for the International Specialized Hospital of Uganda;

xix. the Direct Agreement between Government of Uganda and FINASI/ROKO Construction SPV Ltd and African Export-Import Bank and Barclays Bank of Uganda Limited entered into on 4th December, 2018;

xx. the Promissory Note Purchase Agreement dated 4th December, 2018 between FINASI/ROKO Construction SPV Limited *(As Seller)*; and African Export-Import Bank, ABSA Bank Limited, Barclays Bank of Uganda Limited and Eastern and Southern African Trade and Development Bank *(As Arrangers)*; and African Export-Import Bank *(As Note Purchaser, Administrative Agent and Security Agent)*; and Barclays Bank of Uganda Limited *(As Local Administrative Agent)*; and the Original Note Funders;

xxi. the Brief to Parliament by Ministry of Finance, Planning and Economic Development on the Proposal to issue Promissory Notes not exceeding USD 379.71 Million to FINASI/ROKO Construction Special Purpose Vehicle Limited for financing the design, construction and equipping of the International Specialized

Hospital of Uganda at Lubowa-Wakiso District *(Laid on Table on 12th February, 2019);*

xxii. the Presentation by Ministry of Lands, Housing and Urban Development regarding the Ownership of Blocks 269, Lubowa;

xxiii. the Letter to the Speaker of Parliament from Mr. Peter M. Mulira, a Partner in Mulira & Company Advocates, on Block 269, Lubowa;

xxiv. the Submission to the Committee on Block 269, Lubowa by Prince Joseph Kiggala and Ms. Victoria Semwanga, Administrator and Beneficiary respectively, of the Late Kasalina Nkizi, a daughter of the Late Yusufu Suna Kiwewa Omulangira; and

xxv. H.E the President's letter to the Rt. Hon. Speaker of Parliament, dated 25th February 2019 (Ref: PO/12) on his position on the International Specialized Hospital of Uganda (ISHU) at Lubowa.

4.0 FINDINGS

4.1 PROJECT DESCRIPTION:

The objective of the project is to reduce morbidity and mortality attributable to Non-Communicable diseases through appropriate specialized interventions targeting Ugandans and the neighboring states. The project is located in Lubowa and is to be implemented in two phases namely:

i. Phase 1: Comprising a 264-bed specialized Healthcare Facility inclusive of an 80-bed oncology center, in addition to Doctors and Nurses school and accommodation, up to 72,000 sqm construction area, a 9MW power house and the proposed National Ambulance control center.

ii. Phase II (to be implemented later) expanding phase 1 facilities into a Medical City of up to 500 beds total capacity. There is need for clarity on what is envisaged in phase II, its potential financing options and expected implementation time frame.

4.2 CURRENT STATUS OF THE PROJECT:

The Project is comprised in the current PIP (project code 1393) as one of the Health Sector Planned multi-year projects. It is indicated as an on-going Public Private Partnership (PPP) project. It has been described as a Finance, Design, Build, Operate and Transfer public Private Partnership. The project start date is July 2016 and it is expected to be completed in June 2020. The PIP estimated project cost is UGX 955 billion (approx. US$ 258 million).

In line with the terms of the agreements, the company presented the first milestone completion certificate, duly certified by the Ministry of Health Owner's Engineer on 20th December 2018 totaling to US$ 86,370,954.13. The agreement requires that upon receipt of the Certificate, MoFPED must issue a Promissory Note (PN) within two (2) days. This means that the respective PN was required by 22nd December 2018.

However, on 21st December 2018 the Attorney General (AG) reversed his earlier opinion of 5th December 2018[2] to the effect that Parliamentary approval was required for issuance of Promissory notes. Upon default, on 30th January 2019, the company issued and delivered a notice of default with respect to the Direct Agreement executed on 4th December[3].

Whereas it is has not been reported, failure to provide for a remedy, could result into the company terminating the agreements - with far reaching financial implications – arbitration costs in London and costs awarded by the arbitration court in respect to works remuneration for completed works, all costs and liabilities incurred by the company, redundancy and breakage costs, termination costs among others – these costs must be paid within 20 days after arbitration decision.

[2] *The Attorney General had advised that there was no requirement for prior authority of Parliament to issue Promissory Notes.*

[3] *The direct agreement required that if no remedy is made within 45 days from a notice of default, in this case, 30th January 2019, the company may issue a notice of termination within 30 days (clause 5.4(c) of direct agreement.*

4.3 CONSISTENCY OF THE PROJECT WITH COUNTRY STRATEGY:

This project contributes to the National Development Plan (NDP) II health sector objective of enhancing health sector competitiveness in the region through establishing centres of excellence in heart, cancer, renal care domains and highly specialized diagnostic services and health care. Provision of such super-specialized medical services is critical for a healthy and productive population.

4.4 PROJECT COST:

4.4.1 Estimated Project Cost;

The project is estimated to cost US$ US$ 557.9[4] (incl. cost of financing and operational management costs) during the first eight years. However, this cost excludes the cost of land, other operational costs of the hospital during the eight years other than hospital management costs and taxes. Of this, US$ 366.9 million (64 percent) is for construction costs including the cost of financing and the balance of US$ 191million (34 percent) will be incurred on management operation costs of the project during the eight (8) years after construction.

According to the PWIA, the initial cost of the project was estimated at US$ 345.2 million, of which US$ 249.9 million (72.4%) was for construction works (design, construction, equipping the hospital and drugs for the first year) while US$ 95.3 million was for cost of financing. However, in the Direct Agreement (DA), the amount for cost of financing was revised upwards from US$ 95.3 million to approx. US$ 116.986 million.

This is attributed to the changes in agreement conditions that saw the interest rate condition change from floating LIBOR under the PWIA to a fixed rate under the Direct Agreement. As a result, the effective interest rate increased from

4 This money will be required with effect from the third year of project implementation (2020) - through redeeming of promissory notes. In addition, taking the figure submitted to Parliament (US$ 379.71), the amount current is estimated at US$ 522,038,000. This has been attributed to rise in the Libor rate.

4.76 percent under PWIA to 6.49 percent under the Direct Agreement. Consequently, the total project cost as per the Direct Agreement is estimated at approx. US$ 366.436 million.

This adjustment resulted into changes in the shares of construction works costs and cost of financing to the current levels of 68% and 32% respectively *(Table 2)*. It should be noted that the cost of the facility (civil works, equipping of the facility and supplies for the operations of the hospital for the first year) amounts to US$ 249.45 million while the balance of US$ 116.99 million including the cost of financing (interest, hedging costs and commitment fees) and cost of financing for the investor.

4.4.2 Project Construction Costs;

Table 2: Total Project Costs (incl. financing) by Source

S/N	Purpose	PWIA Amount (US$)	Direct Agreement (US$)	Current Share (%)	Brief to Parliament (US$)
1	**Construction Works: design, construction and equipping the hospital**	**249,900,000**	**249,900,000**	**68%**	
	o/w Civil works excluding mobilization costs		88,889,430	36%	
	o/w Engineering, Design & Procurement		18,117,750	7%	
	o/w Medical equipment and Hospital Furniture		101,334,450	41%	
	o/w Engineering supervision		3,748,500	2%	
	o/w Staff training		4,998,500	2%	
	o/w Medicine and consumables for the 1st year		17,992,800	7%	
	o/w Project preliminary development		14,369,250	6%	
2	**Cost of Financing**	**95,300,000**	**116,985,881.91**	**32%**	
	Total	**345,200,000**	**366,885,881.91**		**379,710,000**

Source: PWIA, Direct Agreement (DA), Brief to by MoFPED

4.4.3 Project Operation Costs;

Table 3: Hospital Operational Remunerations Costs

Category (US$, million)	Year1	Year2	Year3	Year4	Year5	Year6	Year 7	Year 8
Management Services Remuneration	20.61	24.34	24.34	24.34	24.34	24.34	24.34	24.34
Operations Services Remuneration	To be agreed upon by MOH & ISHU annually							

Source: Project Service Agreement

As earlier indicated, management services remuneration amounting to US$ 191 million (excl. taxes), equivalent to 34 percent of the total estimated project cost shall be paid to the International Specialized Hospital (ISH) by the Ministry of Health in line with the Project Services Agreement (PSA) within the eight (8) years of operation after construction. Table 3 shows the annual payment projections which must be availed through annual budget appropriation to the Ministry's Annual Budget and the medium term expenditure plan (MTEF) with effect from FY 2020/21 as indicated in *Table 3.*

4.5 PROJECT FINANCING:

4.5.1 Construction Costs;

A review of the project agreements revealed that the Company is responsible for sourcing for the finances that are required to complete the construction and equipping of the International Specialized Hospital for Uganda (ISHU). Government's obligation shall be to issue a promissory note(s)[5] to the company at every stage of implementation upon certified approved completion of each milestone. Consequently, a Milestone Completion Certificate shall be issued by Government within 2 days after receipt of the approved certificate.

[5] *A promissory note shall be issued with 2 days after the Milestone certificate has been issued.*

A *Promissory Note* commits government to pay an amount equivalent to its face value when its maturity period comes due. The promissory notes shall be redeemable after the first two (2) years (after project completion) in line with the Promissory Note Redemption Profile Schedule-3 contained in the Direct Agreement (DA). As earlier indicated, the DA indicates that a total of US$ 366 million (incl. financing costs) shall be paid.

Government has committed to earmark all current expenditures currently incurred on medical treatment abroad towards the redemption of costs related to the promissory notes issued as and when they mature – with effect from 2020/2021. It remains unclear whether this amount is sufficient to meet the projected costs. A review of the Auditor General Report for the year ending June 2016, reveals that approximately US$ 2.84 million was spent on medical treatment abroad for 154 patients for three FY 2013/14 - 2015/16 (excl. costs of travel, accommodation and upkeep) – this is inadequate to meet the cost of redemption.

4.5.2 Financing Operation Costs;

Operation costs shall be borne by the Ministry of Health in respect to services rendered by the company - termed as operational remunerations (operational services remuneration and management services remuneration). Whereas it is projected that when operations commence, revenues shall be generated from patients, this is expected to be deposited in the Consolidated Fund (CF). The projected patient revenues in the first year of operation are projected at US$159.63 million, increasing to US$262.3 million in the 11th year, which is more than adequate to cover all the operational expenses.

To avoid penalties for breach of agreement, there will be need to ring-fence patient funds to ensure that there is no shortfall in covering operational expenses.

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4.5.3 Collection and Deposit of Patient Revenues;

In line with the Project Services Agreement (PSA), the company under the instruction of the Ministry of Finance, Planning and Economic Development, shall open a Hospital Revenues Account where all Patient revenues generated by the hospital shall be deposited.

The hospital revenues account shall be operated by the Ministry of Finance, Planning and Economic Development. The proceeds from the account shall be paid into the consolidated fund. Government shall ensure that whenever a withdrawal is made from the Hospital revenue account to the consolidated fund account, there remains an amount equal to the hospital services operations remuneration costs for the previous two quarters.

This implies that depending on amount agreed by both parties for hospital operations services remuneration and number of patients at the hospital, it may take some reasonable time before funds are transferred to the CF. It will be risky to depend on patient revenues as a reliable source of financing Promissory Notes redemption.

5.0 PROJECT AGREEMENTS

5.1 PROJECT FRAMEWORK AGREEMENT (PFA):

- On 17th November, 2014 Government of Uganda (GoU) entered into a Project Framework Agreement with FINASI S.R.L., a company incorporated in Italy, that proposed to the GoU that it was willing to invest in Uganda and in particular the health sector. The cooperation was in respect of a FINASI investment, which was to consist of designing, construction, financing and operation of a modern state-of-the-art hospital facility to be owned by the Ministry of Health (MOH).
- The design, construction and financing of the hospital was to be performed or procured by a special purpose vehicle company, to be incorporated in Uganda by FINASI (the construction company) in accordance with a Project Investment Agreement with the GoU.

- The operation and maintenance of the hospital facility was to be performed or procured by a special purpose vehicle company, to be incorporated in Uganda by FINASI (the operation company) in accordance with a Project Investment Agreement with the GoU.
- Although developed as a public private initiative, the hospital facilities will always be owned by the MOH and will be constructed on GoU land. The hospital is intended to attract patients from Uganda and abroad, in particular African countries, and it will enable the GoU to minimize costs for overseas treatment of patients and provide a speedy and more accessible response to medical needs of Ugandan citizens.

5.2 PROJECT WORKS INVESTMENT AGREEMENT (PWIA):

- In fulfilment of sub-clause 2.2.1 of the Project Framework Agreement, GoU entered into a Project Works Investment Agreement (PWIA) to finance, design, build and equip the International Specialized Hospital of Uganda with FINASI/ROKO Construction SPV Ltd entered into on 27th May, 2015. The International Specialized Hospital of Uganda will be located in Lubowa-Wakiso District and owned by GoU.
- FINASI and ROKO prepared the plans, financial models and additional documentation relevant to the development of the hospital, making significant investment in the preparation of the hospital project. A concept plan to finance, design, construct, equip and operate the hospital was submitted to GoU on 29th October, 2014 and accepted by the GoU. Project Works Investment Agreement (PWIA) and the works received various approvals including the Solicitor General's Approval, Ref:ADM7/173/01 of 25th May, 2015.
- According to the Project Works Investment Agreement (PWIA), the hospital shall consist of a specialized cancer facility (the Specialised Cancer Unit) and a specialized medical facility (the specialized Medical Unit), and at completion shall offer to its patients the following services/facilities;

Accident & Emergency, Radiology & Imaging, Nuclear Medicine, Radiotherapy, Chemotherapy, Laboratory, Blood Bank, Administration, Outpatient Clinics, Main Surgery (Including, inter alia, Neurosurgery and Orthopaedics), Kidney Transplant, Catherisation Laboratory, Liver Diseases Diagnosis/Treatment, Fertility Medical Services, Epilepsy, Respiratory, Intensive Care Unit (ICU), Coronary Care Unit (CCU), Delivery and Labour, Gynaecology, Opthalmology, Physiotherapy, Plastic Surgery, Cardiology, Cardiothoracic, Trauma, Dialysis, Endoscopy, Paediatric Ward, Female Ward, Male Ward, VIP Ward, Administrative Offices, Mortuary, Pharmarcy, Central Sterilization Supply Department, Biomedical Engineering, Information Technology, Kitchen, Laundry and Staff Houses.

5.2.1 Project Works Remuneration;

In consideration of the works, it is further stated in clause 6 of the Project Works Investment Agreement (PWIA) that the GoU shall pay FINASI an amount equal to USD 345,200,000 (exclusive of taxes) being the aggregate of the following:

i. USD 249,900,000 being the cost of the design, construction and equipping of the hospital as well as other costs, expenses and fees payable in connection with the construction period; and

ii. USD 95,300,000 being the cost of financing being repaid by GoU over a period of eight years. The cost of financing was structured on a floating LIBOR basis and FINASI undertakes to enter into interest hedging arrangements necessary to mitigate increases in the LIBOR rate. The costs of hedging shall be covered by GoU and the additional cost of financing.

In September 2018, Government approved a new Project Works Remuneration amount of **USD 379,710,000** with computed time value of money amounting to **USD 129,810,000** reflecting an effective interest rate of 6.49% arising from the increase in USD LIBOR from 0.3995% per annum in March 2015 to USD LIBOR of 2.535% in September 2018. Conditions for the project financing are the following:

Table 4: Project Financing Plan

Item	Terms
Amount (Principal + Interest)	USD 379,710,000 *(Construct Sum of USD 249,900,00 and Time Value of money of USD 129,810,000 as a result of paying USD 249,900,00 over 6 years)*
Repayment Period	6 years
Grace Period	2 years
Effective Interest Rate (Over 8 Years)	6.49%
Borrower	SPV(FINASI/ROKO)

Source: MoFPED (Feb, 2019)

i. From *Table 4,* the SPV is constituted by FINASI, as the Lender and the Ugandan construction company ROKO Construction Limited and will be incorporated in Ugandan law. ROKO will exit the SPV after termination of the civil construction.

ii. The project model is based on a project financing plan, where the selected private bank (African Export-Import Bank) will finance the total amount of the project to the SPV for a period of 2 years of grace and will be repaid through the following 6 years. The interest on the principal amount will be repaid starting from the second year.

iii. The business model is based on the assumption that the SPV is going to be tax neutral.

5.3 LENDERS DIRECT AGREEMENT:

It is noted in sub-clause 26.12 of the Project Works Investment Agreement that as a condition to achievement of the construction effective date, the Ministry of Health and the Ministry of Finance, Planning and Economic Development shall