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THE REPUBLIC OF UGANDA

BRIEF TO PARLIAMENT

THE PROPOSAL TO BORROW UP TO EURO 10.0 MILLION (EURO TEN MILLION) FROM THE GOVERNMENT OF THE REPUBLIC OF ITALY TO FINANCE THE KARAMOJA INFRASTRUCTURE DEVELOPMENT - PHASE II PROJECT UNDER THE HEALTH SECTOR DEVELOPMENT PLAN (HSDP)

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 Euro 10.0 Million from the Government of the Republic of Italy to finance the Karamoja Infrastructure Development Phase II Project under the Health Sector Development Plan.

BACKGROUND

2. Rt. Hon. Speaker, as you are aware, the Health Sector Development Plan (HSDP) 2015/16 – 2019/20 sets out key objectives to be attained during a period of 5-years. These include: (i) contributing to the production of a healthy human capital for wealth creation through provision of equitable, safe and sustainable health services; (ii) increasing financial risk protection of households against impoverishment due to health expenditures; (iii) addressing the key determinants of health through

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strengthening intersectoral collaboration and partnerships; and (iv) enhancing health sector competitiveness in the region and globally.

3. In order to achieve the objectives under the HSDP, the health sector has been investing in strengthening the national health system, as well as health infrastructure development. The HSDP has been financed by both public and private resources.

4. The Italian Government through the Directorate General for Cooperation to Development (DGCS) of the Italian Ministry for Foreign Affairs and International Cooperation (MAECI), and its operational branch, the Italian Agency for Development Cooperation (AICS), a Health Development Partner in Uganda, has been focusing support to the Northern and Karamoja Region. Accordingly, the Government of Uganda (GoU) through the Ministry of Health (MoH) secured funds from the Italian authorities towards the cost of the Karamoja Infrastructure Development Project-Phase II.

5. The proposed project is a follow on project of Phase 1 Project designed for the construction of 68 Staff Houses for selected Health facilities in all the districts of Karamoja. The Civil works and Consultancy contract agreement were signed on the 8th February, 2016 and 14th September, 2016 between the MoH, the Contractor and the Consultants. The present proposal is for funding Phase II of the project. The details pertaining to the physical and financial progress of Phase I is detailed in ***Annexure A.***

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6. Under the proposed Phase II project, Government will continue to (a) to cover the health sector gaps in Karamoja through constructing more staff houses (Details in *Annexure B*), (b) construction and equipping of new Health Centers IIIs in the sub-counties that are not yet covered; and (c) upgrade the already existing Health Centers II to III and HC III to IV.

THE PROJECT AND THE NATIONAL COUNTRY STRATEGY

7. The overarching policy and strategic framework governing the health sector in Uganda consists of the Vision 2040, the Sustainable Development Goal (SDG) 2030 framework, the National Development Plan 2015/16–2019/2 (NDP II), the Second National Health Policy (NHP II), the Health Sector Development Plan (HSDP) 2015/16–2019/20, and the Health Sector Strategic Plan.
8. The Health Sector Development Plan (HSDP) sets key objectives to be attained during the 5-year period. These include: (i) contributing to the production of a healthy human capital for wealth creation through provision of equitable, safe and sustainable health services; (ii) increasing financial risk protection of households against impoverishment due to health expenditures; (iii) addressing the key determinants of health through strengthening intersectoral collaboration and partnerships; and (iv) enhancing health sector competitiveness in the region and globally.

PROBLEM STATEMENT

9. Rt. Hon. Speaker, Karamoja Region has the worst poverty indices and health indicators. A significant proportion of the population in Karamoja still have limited access and coverage with quality health services. The consequence is that many diseases like HIV, malaria, lower respiratory infections, meningitis and tuberculosis still cause the highest numbers of loss of lives in the region.

10. In addition to these major causes, the sector has faced challenges with, new emerging conditions that cause significant public health risks e.g. polio, Hepatitis E & B, Ebola Virus Disease, Marburg, and the idiopathic "Nodding disease". On the other hand, Non-Communicable Diseases are increasingly becoming a major burden due to life style changes, increased life expectancy in addition to genetic factors. Although Protein Energy Malnutrition has also reduced, it still remains the underlying cause in nearly 60% of infant deaths (Uganda Nutrition Action Plan (UNAP) 2011–2016). The latest burden of risk factors shows alcohol use, tobacco use, household air pollution, childhood underweight, iron deficiency and high blood pressure as the most significant risk factors, responsible for over 16% of all disease conditions.

11. Karamoja region has 1 Regional Referral Hospital, 4 General Hospitals, 4 Health Centre IVs, 44 Health Centre IIIs and 80 Health Centers IIs (MOH Health Facility Inventory 2018). The region has the lowest health infrastructure density of all the

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regions of the country. Built in the early 30's, Moroto is the only Regional Referral Hospital serving the whole Karamoja region after recently being upgraded from a General Hospital status. Kaabong Hospital on the other hand was constructed around 1996 but requires repairs and finishing and improvements/provision of a Chronic Care Clinic, Laboratory services and an obstetric theatre.

12. As the health care infrastructure distribution in the Karamoja Region is low, the loan provided by the Government of Italy will help improve the situation, improving coverage, access and quality of health care.

JUSTIFICATION OF THE LOAN

13. With respect to funding of health care, the significant sources of external funding to Uganda include the Global Health Initiatives like Global Fund, GAVI, and PEPFAR directed to HIV, malaria, tuberculosis and immunizable diseases, and multi-lateral partners like the World Bank.
14. Italy has supported the health sector in Uganda for the last 40 years, in the provision of essential medicine and health supplies, health infrastructure development, human resource development, and community health initiatives. This support has been through direct Government budgetary support, and through Private Not-For Profits (PNFPs), Non-Governmental Organisations (NGOs) and Civil Society.

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15. The Republic of Italy has over the years been supporting health development in Northern Uganda, in infrastructure, equipment, human resources for health, medicines and supplies, and health service delivery using both Government and PNFP/NGO modalities. Furthermore, the terms and conditions of the loan are very favourable and will be discussed in detail in the later sections of this Cabinet Memo.

DESCRIPTION OF THE PROJECT

16. Rt. Hon. Speaker, the overall objective of the project is to contribute to Universal Health Coverage through the delivery of essential health services in Uganda. In order to do so, the main activities of the Project are:

- i) Construction of 6 new Health Centers III
- ii) Construction of 31 general/maternity wards
- iii) Construction of 20 outpatient departments
- iv) Construction of 5 operating theatres
- v) Construction of 75 staff houses
- vi) Construction of 5 incinerators
- vii) Construction of 141 pit latrines
- viii) Construction of 10 placenta pits
- ix) Construction of 8 medical waste pits
- x) Construction of 16 medical stores
- xi) Procurement of 1 ambulance
- xii) Procurement of equipment items for 10 health centres

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- xiii) Re-tooling for primary health care for the 8 districts (8 vehicles, 16 motorcycles and 8 public address systems for outreaches, monitoring and community mobilization)
17. The support being provided by the loan may be divided under three categories:
18. **Component 1:** Infrastructure Development. This will target selected hospitals and health centres as identified in the needs assessment, the validation meeting in Karamoja with the stakeholders, the sector priorities, and other investments by Government and other partners in the region. The project will build new HC IIIs, and construct new wards at the existing HC IIIs and HC IVs to make them functional. In the existing HCs III and IVs, the project will replace the old dilapidated infrastructure with the new infrastructure. The project will build new HCs III and upgrade HC IIs to III and IIIs to IV. The total investment will be **UGX 42,155,512,000** and will be funded by the Italian assistance.
19. **Component 2:** Equipment and priority re-tooling for primary health care. The project will provide equipment to selected Health Centres according to the Medical Equipment Standard Lists recommended by the National Advisory Committee on Medical Equipment. Furthermore, the project will support the Local Governments for Primary Health Care through selected re-tooling (tools, speakers, microphones, solar battery, etc). This component

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will cover the health sensitization, community outreaches, monitoring, supervision and training of the communities that live in Karamoja in order to reduce the vulnerability and increase the awareness about public health. Each of the 8 districts will receive 1 car (4WD), 2 motorbikes and equipment to support primary health care, particularly the implementation of the community health initiatives of Government. The total investment will be **UGX 3,338,000,000** and will be funded by the Italian assistance.

20. **Component 3:** Project management, Environmental and Social Impact Assessment, geo-terrestrial or soil studies, political and technical monitoring, and taxes. This component will support the Ministry of Health in (a) development of environmental and social impact assessment and soil studies, (b) strengthen Ministry of Health's capacity to plan, facilitate and monitor the implementation of health investments in the Karamoja Region, enforce minimum service standards, mainstream gender and human rights, and support partnerships, and (c) compensation of Project supervising Consultants and clerks of works, (d) political oversight of the project. The total investment in management and oversight will be **UGX 10,969,600,000**. UGX 1,009,600,000 provided by Italian assistance will be used for payment of project supervising consultants and for project coordination, office support and project assistance. The remaining UGX 9,960,000,000 being Government counterpart funding will cater for taxes, environmental and social impact assessment, monitoring and evaluation of the project among others.

FINANCING COST

21. Rt. Hon. Speaker, the total cost of the project is estimated at UGX 56,513,112,000 of which UGX 46,553,112,999 (82% of the total cost) equivalent to EURO 10.0 Million (Euro Ten Million) will be funded by Government of Italy as a soft loan. The remaining 18% of the total cost being UGX 9,960,000,000 is being funded by GoU, inclusive of UGX 8,000,000,000 as taxes. The breakup of the costs for all the three components are provided herein below:

COMPONENT	COST (UGX)
A. Italian Loan	
Component 1 (Infrastructure Development)	42,155,512,000
Component 2 (Equipment and Re-tooling)	3,388,000,000
Component 3 (Project management)	1,009,600,000
Total A (*)	46,553,112,000
B. GoU Contribution	
Component 3 (Project management including taxes)	9,960,000,000
Total B	9,960,000,000
TOTAL COST (A+B)	56,513,112,000

() The assistance of Euros 10 million is approximately UGX 46,553,112,000.*

FINANCING TERMS

22. The Loan terms are as follows:

a. Loan Amount: Euro 10.0 Million

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b. Maturity:	32 years (21 years grace period)
c. Interest Rate:	0.00%
d. Management Fee:	0.00%
e. Commitment Fee:	0.00%

CONDITIONS ATTACHED TO THE LOAN

23. The loan financing has the following conditions;

- a) Issuance of a Legal opinion of the Attorney General of Uganda on the legal validity of the loan documentation to the lender; and
- b) The first installment of € 5,000,000.00 (Five Million Euro) will be disbursed upon the entry into force of Loan Agreement, the signature of the Financial Convention (an agreement between the Ministry of Finance and Cassa Depositi e Prestiti), and the approval of the work plan and the Procurement Plan respectively by the Project Steering Committee and the Italian Agency for Development Cooperation.
- c) The second installment amounting to € 5,000,000.00 (five million euro) shall be disbursed subsequently, upon completion of the following two conditions:
 - i. The handing over of the Performance Financial Report (certified by the Auditor General) concerning the use of the previous installment; and

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- ii. The handing over by the Ministry of Health of the next updated Procurement and Work Plan for the next Project phase approved by the Project Steering Committee and the Italian Agency for Development Cooperation.

IMPLEMENTATION AND MONITORING FRAMEWORK

24. Rt. Hon. Speaker, the Karamoja Infrastructure Development – Phase II Project will be implemented in a period of 36 months by Ministry of Health. The day-to-day management of the project will fall under the Director of Planning and Development, with regular coordination meetings held monthly throughout the implementation period. The Multi-sectoral Project Steering Committee is responsible for the overall stewardship of the Project that will meet every three months and will be chaired by the Permanent Secretary of Ministry of Health and comprise of representatives of Italian Cooperation Agency, Ministry of Finance, Planning and Economic Development, Office of the Prime Minister, Ministry of Health, Ministry of Local Government, Local Governments. The Project Governance Framework will also include a Project Coordinator and a Project Coordination Team (PCT) to be in charge of the overall implementation management support throughout the duration of the Project.

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25. AICS, the Italian Cooperation Agency, will periodically provide technical assistance and monitoring during the implementation of the project.

CONSULTATIONS

26. The borrowing has been examined for financial implications as required under Section 76 of the Public Finance Management Act, 2015 (as amended). The intended borrowing has cost implications arising from loan servicing, both principal and interest, in addition to other related costs. The Ministry confirms that the proposed financing arrangements are within the Government Medium Term Fiscal Framework and Debt Strategy as provided in the Certificate of Financial Implications attached as **Annexure C**.

THE LOAN AND THE CURRENT DEBT SITUATION OF THE COUNTRY

27. The Loan and the Current Debt Situation of the Country: Provisional total public debt amounted to USD 12.43 billion as at end June 2019, 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 was 35.9% using the rebased GDP of Ug. Shs 128.49 Trillion for Fiscal year 2018/19. This number is important because it clearly highlights the proportion of the country's debt to its income.

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28. The Ministry adhered fully to the Public Finance Management Act 2015, the Public Debt and Other Financial Liabilities Management Framework 2018, the Charter of Fiscal Responsibility and the EAMU Protocol to ensure short and long time debt sustainability and the current proposal falls within the borrowing plan and will not affect the future savings and investments which might impact the economy. **Source: Directorate of Debt and Cash Policy, MoFPED**

CONCLUSION

29. In light of the above, I shall request Hon. Members to:-
- a) Note the status of the implementation of Phase I of the Karamoja Infrastructure Development Project and the need to acquire financing for Phase II of the Project under the Health Sector Development Plan;
 - b) Approve the request by Government to borrow up to Euro 10.0 Million (Euro Ten Million) from the Republic of Italy to finance the Karamoja Infrastructure Development – Phase II Project; and
 - c) Authorize my Ministry to proceed to Parliament in line with Article 159 of the Constitution, to borrow up to Euro 10.0 Million (Euro Ten Million) from the Republic of Italy to finance the Karamoja Infrastructure Development – Phase II Project under the Health Sector Development Plan, for

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the purposes and upon the terms and conditions here above stated.

Ministry of Finance, Planning and Economic Development

P. O. BOX 8147

KAMPALA,

March, 2020

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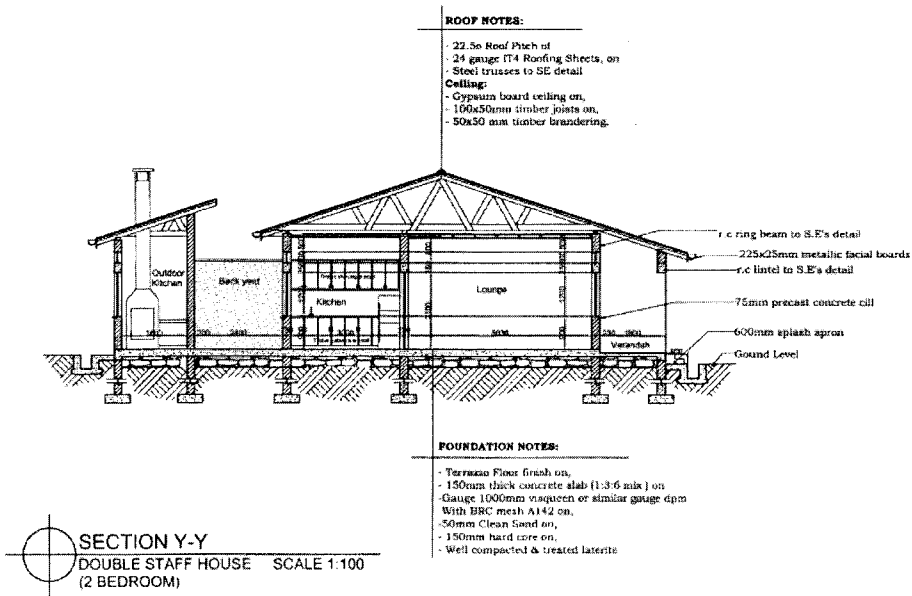
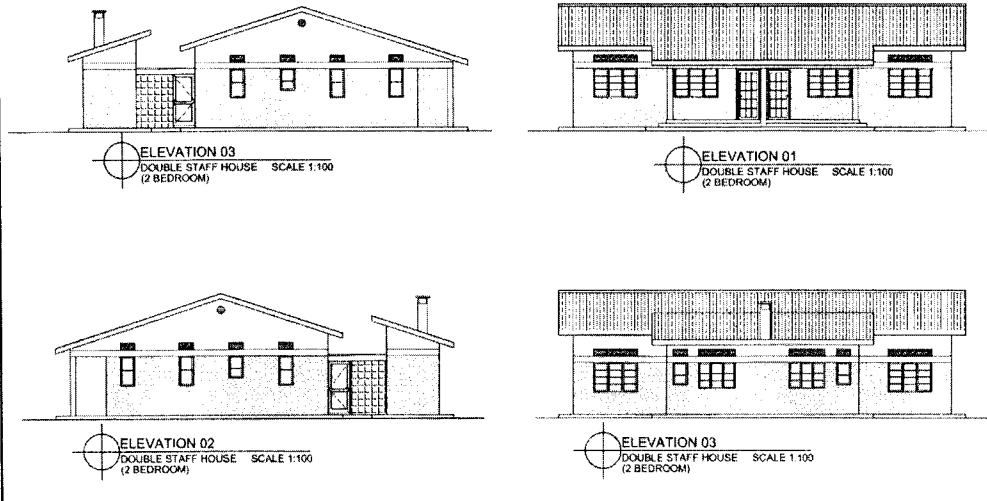
ANNEXURE A: DETAILS OF THE ITALIAN FINANCING FOR PHASE I OF THE PROJECT

PROJECT DETAILS	PERFORMANCE, STATUS AND CHALLENGES				
<p>Name of Project: Italian support to the Ugandan health sector development plan (HSDP) and the peace, recovery and development plan (PRDP) for Northern Uganda: Karamoja Region Staff Housing Project (Construction of staff houses for selected facilities in Kaabong, Kotido, Abim, Moroto, Napak, Amudat and Nakapiripirit Districts)</p> <p>Donor: Italian Development Agency of the Republic of Italy</p> <p>Amount: Euros 4,200,000</p> <p>Signature Date:</p> <ul style="list-style-type: none"> • First Grant Agreement: 23rd December, 2010 • Second Grant Agreement: 19th May, 2017 <p>Date of Effectiveness: 20th June, 2016</p> <p>Date of Closure: 30th June, 2019</p>	Financial Performance (Disbursement Amount and Disbursement Percentage):				
	Cert. No.	Certificate Date	Amount Certified (U\$)	Date of Payment	Amount Paid
	IPC1	31 st March, 2016	1,118,577.04	16 th June 2016	1,118,577.04
	IPC2	14 th September, 2016	385,884.88	25 th October 2016	385,884.88
	IPC3	16 th November, 2016	732,449.80	22 nd February 2017	732,449.80
	IPC4	10 th January, 2017	274,171.18	23 rd June 2017	274,171.18
	IPC5	31 st March, 2017	421,944.97	19 th February 2018	421,944.94
	IPC6	25 th November, 2017	330,531	26 th March 2018	330,531.20
IPC7	10 th November, 2017	259,649.67		0	
<p>Total amount received: Euros 4,200,000</p> <ul style="list-style-type: none"> • March 2015: Euros 1,400,000 • March, 2018: Euros 1,400,000 • May, 2019: Euros 1,400,000 					
<p>Amount on Account as by 26th August, 2019: Euros 1,464,932.05</p>					
<p>Physical Progress:</p> <ul style="list-style-type: none"> • Abim, Kotido and Kaabong: 85% • Amudat, Napak, Moroto and Nakapiripirit: 38% 					
<p>Successes and factors for successes: Overall estimated physical progress of works against the first two instalments of grant financing received (Euros 2,800,000 or 66%) was 61.6%, which was commendable, despite irregular remittance of the grant by the funder</p> <p>Government received the last instalment of the grant, verification of remaining works and the cost overruns analysis is being conducted, following which Cabinet will be requested to approve more financing, over and above the available Euros 1,464,932.05, to complete the project.</p>					
<p>Challenge: Delays in disbursement of funds by the funder and this have caused implementation challenges. Expiry of contracts for construction works has also contributed to delays in implementation.</p>					

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ANNEXURE B: DETAILS OF STAFF HOUSING PROJECT

Architecture Design of the Staff Houses:



Allocation of 2 Bedroom Semi-Detached Staff House Unit

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2 Bedroom Semi-Detached Staff House Unit		
District	Health Facility	Actual Allocation
1.0 Moroto	1.1 NADUNGET H.C III	2
	1.3 KOSIROI H.C II	1
	Total Moroto District	3
2.0 Amudat	2.1 Loro HCIII	2
	2.2 Karita HCIII	2
Total Amudat District		4
3.0 Nakapiripirit	3.1 Lemusui HCIII	2
	3.2 Nakapiripirit HCIII	1
	3.4 Namalu HCIII	1
Total Nakapiripirit District		4
4.0 Napak	4.1 Lokopo	1
	4.2 Lorengechora	1
	4.3 Iniri	2
	4.4 Kangole (PNFP)	1
	4.5 Apeitolim	1
	4.6 Lotome	1
Total Napak District		7
5.0 Kaabong	5.1 Kalapata HCIII	1
	5.2 Lokolia HCIII	1
	5.3 Kapedo HCIII	1
Total Kaabong District		3
6.0 Kotido	6.1 Kacheri H/C III	2
	6.2 Rengen H/C III	1
	6.3 Nakapelimoru H/C III	1
	6.4 Panyangara H/C III	1
	6.5 Lokitelaebu H/C III	2
	6.6 Napumpum H/C III	1
Total Kotido District		8
7.0 Abim	7.1 Orwamuge HCIII	2
	7.2 Alerek HCIII	1
	7.3 Nyakwae HCIII	2
Total Abim District		5

Total Semi Detached Houses

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ANNEXTURE C: CERTIFICATE OF FINANCIAL IMPLICATIONS

Telephone: 256 41 4707 000
: 256 41 4232 095
Fax : 256 41 4230 163
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21st August, 2019

The Deputy Head of Public Service and
Deputy Secretary to Cabinet,
Office of the President,
Kampala

CLEARANCE OF FINANCIAL IMPLICATIONS FOR THE CABINET MEMO TO BORROW EURO 10 MILLION FROM THE GOVERNMENT OF ITALY TO FINANCE THE KARAMOJA INFRASTRUCTURE DEVELOPMENT PROJECT PHASE-II

This Ministry, in consultation with the Ministry of Health, has prepared the
attached Cabinet Memorandum on the proposal to borrow funds for the
above mentioned project.

In line with Section 5.76 of the Public Finance Management Act, 2015 (as
amended), this Ministry confirms that the above project will be funded by the
proposed loan from Government of the Republic of Italy of Euro 10 Million
(approximately US\$ 46.5 Billion) and co-financed by Government of
Uganda by US\$ 9.96 Billion.

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.

A handwritten signature in black ink, appearing to read 'Keith Muhakanzi'.

PERMANENT SECRETARY/SECRETARY TO THE TREASURY

Copy: The Hon. Minister of Finance, Planning and Economic Development
The Hon. Minister of Health
The Permanent Secretary, Ministry of Health.