

BRIEF TO PARLIAMENT

ON THE PROPOSAL TO BORROW UP TO EUROS 219,482,721 FROM THE UK EXPORT FINANCE (UKEF) AND EUROS 30,384,976 FROM STANDARD CHARTERED BANK (LONDON) FOR THE DEVELOPMENT (DESIGN AND BUILD) OF KAMPALA INDUSTRIAL AND BUSINESS PARK AT NAMANVE

(by the Minister of Finance, Planning and Economic Development)

THE OBJECTIVE OF THE MEMORANDUM

1. Honourable Members of Parliament, the objectives of the Memorandum are:
 - (i) Seek Parliament's authorization to borrow up to Euros 219,482,721 from the UK Export Finance (UKEF) and Euros 30,384,976 from Standard Chartered Bank (London) for the development (Design and Build) of Kampala Industrial and Business Park at Namanve into a fully serviced and modern park;
 - (ii) For Parliament to authorise the Minister of Finance, Planning and Economic Development to enter into financing agreement for the development (Design and Build) of Kampala Industrial and Business Park at Namanve into a fully serviced and modern park;

BACKGROUND

2. Hon. Members, the government of Uganda has identified industrial parks as key enablers to sustainable industrial development and strong economic growth.
3. Colleagues, in 2006, Government supported by the World Bank carried out a consultative study to support the development of the

Kampala Industrial and Business Park (KIBP) at Namanve. Following this study, it was agreed that the KIBP ought to be a model business park that would be used to brand an image of "modern Uganda". The KIBP would, therefore, be a full-fledged Business Park that would provide basic facilities, common-user facilities, offer collective services and outsourcing opportunities, and an improved business environment.

4. Following a letter dated 8th February 2007 from H.E. the President directing the Ministry of Finance, Planning and Economic Development to develop fully serviced industrial parks, Uganda Investment Authority (UIA) embarked on developing industrial parks in the various towns of Uganda to exploit the natural resources and other business opportunities. The targeted towns included; Kampala, Arua, Lira, Gulu, Soroti, Moroto, Mbale, Tororo, Iganga, Jinja, Masaka, Luwero-Nakaseke, Nakasongola, Mbarara, Bushenyi, Kabale, Kasese, Fort-Portal, Hoima, Rakai and Mubende.
5. Hon. Members, to implement the vision of H.E The President, Government formulated a 10-year National Industrial Parks Development Strategy with effect from FY 2008/09 to FY 2017/18 with the goal of creating 22 industrial parks across the Country. The objective is to provide fully serviced land in one location where industrial investors would not find it difficult to start a manufacturing business. The serviced land would have all the required infrastructure and utilities to ease the operations of the investors.
6. Therefore the main goal of the proposed financing is to develop KIBP into a fully serviced first class "Model" park located within the broader boundaries of Kampala city.

PREVIOUS WORLD BANK SUPPORT TO DEVELOP KIBP

7. In 2008, UIA embarked on the development of Kampala Industrial and Business Park (KIBP) with the support of the World Bank, to build roads, extend water supply and power throughout the park. However after two years, the World Bank cancelled its funding citing government bureaucracy and accountability issues. This caused a slowdown in infrastructure development and management of KIBP. To keep the park active, Government continued to fund some limited infrastructure development using domestic resources on a piece meal basis. This has been insufficient resulting in low infrastructure development and inefficient management of the park since its inception 10 years ago.

CURRENT STATUS OF THE PARK

8. The Kampala industrial and business park is an approximately 2,200-acre facility with all its land already allocated to 291 prospective investors for development in the various sub-sectors such as agro-processing, mineral processing, ICT, logistics and freight, warehousing, general manufacturing as well as tourism promotion activities.
9. Several businesses have already set-up in the park albeit with significant park facilities unavailable. Currently, there are 36 operational factories (See Annex 2), 197 factories under construction, 10 at pre-start stage (doing paper work like surveys, ESIA's and architectural and structural designs) while 50 have just been allocated land. At full capacity the park is expected to accommodate about 500 factories and employ over 60,000 Ugandans.

10. Only 30% of the park has had water and power extended and there is no infrastructure in terms of solid and sewerage waste management. All the occupants of the park are currently using their own septic tanks for waste disposal as no National Water and Sewerage Corporation (NWSC) sewer system has been installed and commissioned to date. No road lighting has been installed in the park to date. However, potable water from NWSC is currently available in the park. In addition, power by UMEME has been provided to all entities currently operating in the park; and Uganda Electricity Transmission Company Limited (UETCL) is in its final stages of constructing a power substation within the park while telecom services have also been provided to a portioned extent.
11. Out of the entire 42 km of the planned road network length, only approximately 6.5km is tarmacked, although part of this is temporarily bituminous surfaced. A significant portion of approx. 30km of the road network is just earth filling, while some of the planned roads have not even been opened up.
12. Developments have occurred generally in the North and South A Estates. In the North Estate, the proposed loop road from the main Jinja Road has been partially constructed with a fully finished surface but lacking all other requirement needed to the Park. Generally, the existing roads within the site area are earth works.

FEASIBILITY STUDIES AND PRELIMINARY DESIGNS

13. Uganda Investment Authority (UIA) carried out feasibility studies and preliminary designs and this was completed in July 2018 which was supervised by an inter-ministerial/agency technical committee. These studies have formed the basis for the

requirements of the necessary infrastructure of the park and informed the basis of financing of this project. (Extracts of preliminary designs are in Annex 1)

THE PROBLEM

14. The locations where investors, especially manufacturers, can find all the required utilities to be able to start operations without difficulties are limited. This has been a major constraint to industrial development, and attraction of foreign companies.
15. To address this constraint, UIA was mandated to establish twenty two (22) industrial and business parks throughout the country, allocate serviced land to prospective investors, with the aim of creating jobs and adding value to locally available raw materials to stimulate economic growth and improve productivity of Uganda's Private Sector. A fully serviced industrial and business park entails provision of amenities such as roads, power, water, ICT, drainage, waste treatment plants, etc; and be free from any encumbrances.
16. The proposed development of KIBP at Namanve is therefore aimed at removing one of the major constraints to the Country's development efforts by putting in place a fully serviced park to support industrial and business growth. This will boost industrial production, create employment and ensure sustainable economic growth.

THE PROJECT AND COUNTRY STRATEGY

17. The KIBP project is in line with the Uganda Vision 2040; the NDP II; and NRM Manifesto. In line with Vision 2040, the development of the Kampala Industrial and Business Park at Namanve is one of the

flagship projects aimed at increasing sustainable production, productivity and value addition in key growth opportunities; and increasing the stock and quality of strategic infrastructure to accelerate the country's competitiveness and attraction of direct foreign investments. This project is in line with the country strategic objectives of value addition, improving service delivery and employment creation through industrialization.

THE PROJECT DESCRIPTION

18. **Objective:** The main objective of Kampala Industrial and Business Park is to put in place integrated infrastructure and services in one location with all the required utilities including electricity, industrial water, waste disposal and management facility, ICT infrastructure, roads and modern lighting systems, parking facilities, etc for investors to set up manufacturing facilities to facilitate efficient and low cost production of goods and services both for local consumption and for export.
19. **Location:** The KIBP site, which covers an area of about 894 hectares (ha) is located approximately 11 km east of Kampala and extends across the Kampala -Jinja Highway. The site is 4.5 km west of Mukono District Administrative headquarters and Mukono Town. It straddles both Wakiso and Mukono districts with a larger portion situated in Mukono District.
20. **Scope of work for the Development of the Park:** The scope of works for the project include:
 - a) Detailed engineering designs for all the project components based on the preliminary designs undertaken at Feasibility Study stage.

- b) Construction of the road network and bridge including traffic management for the entire park.
- c) Construction of the water distribution network including water reservoirs for the entire park.
- d) Construction of a sewerage network including sewer underground pipe network for the entire park.
- e) Construction of a waste treatment plant including public toilets, a solid treatment plant for the park.
- f) Construction of MN Power Services for the entire park.
- g) Construction of fiber optic services and CCTV services for the entire park.
- h) Construction of solar street lighting for the entire park.
- i) Construction of the SME Park.

21. **Minimum Specifications (Deliverables):** Based on the above scope of works, the minimum specifications for each component of the project are as follows:

- a) **Construction of an integrated road network and bridge:**
 - Circa 0.78km of Primary distributor roads, approximately 30-meter-wide with two 8m wide carriageways with 100/50mm asphalt pavement on 200mm crushed aggregate base on approximately 300mm natural gravel subbase on required gravel fill, rock fill, swamp treatment, extensive cross drainage, lined side drainage, Provision and construction for Utility services like Water, Sewerage, ICT, Power and river training amongst others.
 - Circa 33.77km of primary/secondary distributor roads, approx. 24-meter width with two 4.5 meter carriageways with 50mm Asphalt pavement on 200mm crushed aggregate base on approx. 300mm natural gravel subbase on required gravel fill, rock fill.
 - Circa 7.8km of Secondary distributor roads, approx. 20-meter-wide with two 3.5 m carriageways with 50 mm Asphalt pavement on 200mm crushed aggregate base on approx. 300mm imported natural gravel subbase on the required gravel fill and rock fill markings, road kerbs.
 - Circa construction of two weigh bridges, raised walkways, sign posts, road kerbs, guard rails etc.

- Greening the park i.e. tree planting and flowers, along the road side and roundabouts.
- Structure –overpass on the Kampala-Jinja highway, comprised of two 12-meter-wide carriageways, two 1m hard shoulders, safety barriers, two opposite walk ways.
- Includes a range of varying sizes of culverts from box culverts to pipe culverts.

b) **Construction of a water supply network:**

- Provide circa 15km water supply to service the full industrial park with varying pipe sizes from DN 80 to DN 300mm.
- All fitting necessary to provide serviced sites
- All ancillary equipment such as water chambers etc.
- Testing
- Repair circa 17km of existing watermains
- Installation of watermains beneath existing roads where necessary
- Interface with existing water utility.
- Provision of 2No new water pumping stations
- Refurbish and upgrade of existing pump house
- Provision of 2No elevated water reservoirs
- Connection to existing watermain network
- Traffic Management on road network
- Interface with service provider – National Water and Sewerage Corporation.

c) **Construction of a sewerage network:**

- Provide approximately circa 20km of sewerage mains.
- Installation of sewers beneath existing roads and highways.
- Traffic Management on road network.
- Interface with service provider - National Water and Sewerage Corporation

d) **Construction of waste treatment plants:**

- Provision of Solid Waste treatment facility.
- Provision of waste water and sewerage treatment plant.
- Provide approximately circa 16km of leachate collecting pipeline.

- Includes all civil engineering works.
- Includes all mechanical and electrical works.
- Complies with local legislation.
- Interface with service provider - National Water and Sewerage Corporation.
- Training of local utility on operation of the plant.

e) **Construction of power services:**

- Provision of 4 N.O ducts for power cables where required.
- Pits for pulling cables based on drum length of cables provided.
- Provision of circa 65km of power cable.
- Ancillary supplies and equipment to support the new cabling.
- Connection with local network.
- Interface with service provider – UMEME.

f) **Construction of fibre optic services:**

- Provision of 2N.O telecom ducts of circa 88km.
- Installation of telecom chambers at 50m centres.
- Provision of fibre optic cable duct of circa 44km.
- Installation of fibre optic chambers at 50m centres.
- Allowance for future ducting and chambers – circa 88km with chambers at 50m centres.
- Interface with service provider.
- Connection with local network.

g) **Construction of street lighting:**

- Provision of 88km of ducting for bio electric street lighting cable.
- Installation of street lighting cables.
- Allow poles with solar panels at 50m centres.
- Connection with local network.
- Interface with service provider.

h) **Construction cost for CCTV services:**

- Provision of 88km of ducting for CCTV.
- Installation of chambers at 50m centres.

- Provision of CCTV cameras mounted on poles and all respective accessories.

i) Construction SME work spaces:

- The construction shall be as per the detailed design agreed upon with the Government of Uganda, and based on the Feasibility Study done by the Uganda Investment Authority (IUA)

j) Other Amenities

- High Pressure Water Hydrants
- The Gym for the Workers

PROJECT COST AND FINANCING

22. The project is expected to cost about Euros 249,867,697. This will be financed through a loan of Euros 249,867,697 of which Euros 219,482,721 will be provided by UK Export Finance Direct Lending and under the Export Guarantee Department of the UK Government, and Euros 30,384,976 by Standard Chartered Bank of London. The Euros 30,384,976 Commercial Facility by Standard Chartered Bank of London should otherwise have been financed through the government budget (counterpart funding), however due to resource constraints and the need to fast track the project, it will be financed through external borrowing at interest rates which are more competitive than domestic rates.

LOAN TERMS AND CONDITIONS

23. **UK Export Finance facility:** There will be two components of the UK Export Finance as follows:

Component 1: Direct Lending by UKEF as the lender at fixed interest rate based on the Commercial Interest Reference Rate

(CIRR) fixed on the date of Agreement signature, which is currently 1.17% per annum for 13.5 years.

Component 2: Floating rate loan by SCB and/or other financial institutions invited by SCB, to be guaranteed by UKEF Guarantee Facility at interest rate of Euribor plus a margin of 1.2%. Currently EURIBOR, which is the rate at which banks in Europe lend to one another in Euros, is negative 0.257%. The current annual effective interest rate is therefore 0.943%.

24. Financing terms under the UKEF Loan Facility;

a) Amount	-	EUROs 219,428, 721.
b) Nature of Facility	-	Export Credit Agency
c) Grace Period	-	3.5 Years
d) Maturity	-	13.5 years
e) Interest rate/CIRR ¹ Direct Lending Facility	-	1.17 %(to be fixed on the date of signature of financing agreement)
f) Interest Rate for UKEF Guaranteed Facility		6-month EURIBOR plus a margin of 1.2% (Currently EURIBOR is negative 0.257%).
i) Commitment Fees		None for UKEF Direct Lending Facility; and 0.36% for the Guaranteed Facility.

¹ "CIRR Calculation Rate" means the "Commercial Interest Reference Rate" relating to euro published by Organisation for Economic Co-operation and Development on its website at <http://www.oecd.org/tad/xcred/cirrs.pdf> from time to time. where such reference rate is not ascertainable the rate would be the Bank of England yield plus one hundred (100) basis points.

25. Financing Terms under the Commercial Facility- Standard Chartered Bank, London.

The proposed financing terms under the Commercial Facility to be provided by Standard Chartered Bank are as follows:

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|-----------------------|---|----------------------------------|
| a) Amount | - | Euros 30,384,976 million |
| b) Nature of Facility | - | Commercial Facility |
| c) Grace Period | - | 1 year |
| d) Maturity/Tenor | - | 6 years |
| e) Interest rate | | EURIBOR2(-0.257%) + Margin of 4% |

Conditions Precedent to Initial Utilisation

- (i) Approval of loan terms by Parliament of Uganda;
- (ii) Clearance of the Solicitor General of Uganda of each of the Finance Documents to which the Borrower is a party for execution;
- (iii) Payment of UKEF Support Fee.
- (iv) Letter containing specimen signatures of each person authorised by government to sign disbursement requests.
- (v) The Commercial Facility Agreement has been duly entered into by the parties to it.
- (vi) A template for the Environmental and Social Self-Monitoring Report;

26. **Land Acquisition:** Land was acquired for the project. The Project is within the land acquired for the Park, and some of the land is already

² "EURIBOR" means the Euro Interbank Offered Rate which is a daily reference rate, published by the European Money Markets Institute, based on the averaged interest rates at which Eurozone banks offer to lend unsecured funds to other banks in the euro wholesale money market (or interbank market). The Euribor is currently trending in negatives.

allocated to various developers. The land was acquired by the Uganda Investment Authority and the affected persons and properties dully compensated.

27. **Consultations:** Consultations have been held with various ministries, agencies and departments. These include Ministry of Finance, Planning and Economic Development; Ministry of Energy and Mineral Development; Ministry of Justice and Constitutional Affairs; Ministry of Works and Transport; National Water and Sewerage Corporation; National Environmental Management Authority; National Information Technology of Uganda; and Uganda Electricity Transmission Company Limited.
28. **Local Content:** In compliance with the Government of Uganda Policy and Public Procurement Guidelines on the reservation scheme to promote local content in procurement, at least 30% of local content has been included, comprising of local labour , fuel, cement, reinforcement steel, subcontractors, transfer of 'know how " and technology.

BENEFITS OF THE PROJECT

29. Construction of Kampala Industrial and Business Park at Namanve will facilitate increased production, and value addition through manufacturing in line with the industrialization strategy of Government. The fully serviced park will lower the cost of production, and contribute to enhancing the production competitiveness of the country. This will attract more investors to the country.
30. The specific benefits of the project to the country include the following:
 - i. Increase Gross Domestic Product (wealth creation) thus boost incomes for Ugandans
 - ii. Increase exports of manufactured or processed products from Uganda to the region and beyond thus increasing foreign exchange earnings for the country;
 - iii. Lower cost of production and therefore increase the Country's export and business competitiveness in the region;
 - iv. Create employment opportunities due to the many jobs that will be created by the private sector
 - v. Increase the production capacity of the country, through infusion of industrial expertise and technologies.
 - vi. Improve the infrastructure network in and around Kampala City, Mukono and Wakiso districts.

IMPLEMENTATION

31. The project will have a Project Implementation Team comprising of: Ministry of Works and Transport (as the lead implementation Government Agency); Ministry of Finance, Planning and Economic Development; Ministry of Water and Environment; Ministry of Energy and Mineral Development; Ministry of Trade, Industry and Cooperatives; Ministry of ICT and National Guidance; National Water and Sewerage Corporation; National Environmental Management Authority; National Information Technology of Uganda; the Uganda Electricity Transmission Company Limited; and Uganda Investment Authority.
32. It is a Design and Build Turn-key Project, where the Contractor, Joint Venture of Lagan Group Limited of UK and Dott Services (Uganda) Limited will undertake the project design and construction. The Lagan Group Limited UK has recently merged with Breedon UK to strengthen their construction capacity around the World with a much strong balance sheet. The project will be supervised by an "Owner's Engineer" procured by Uganda Investment Authority. Construction is expected to commence in February 2019 upon the approval of the Project loan by Parliament of Uganda.

CONCLUSION

33. This is to request Parliament to:
- a) Approve the Government borrowing of up to Euros 219,482,721 from the UK Export Finance (UKEF) and Euros 30,384,976 from

Standard Chartered Bank (London) for the development (Design and Build) of KIBP at Namanve; and

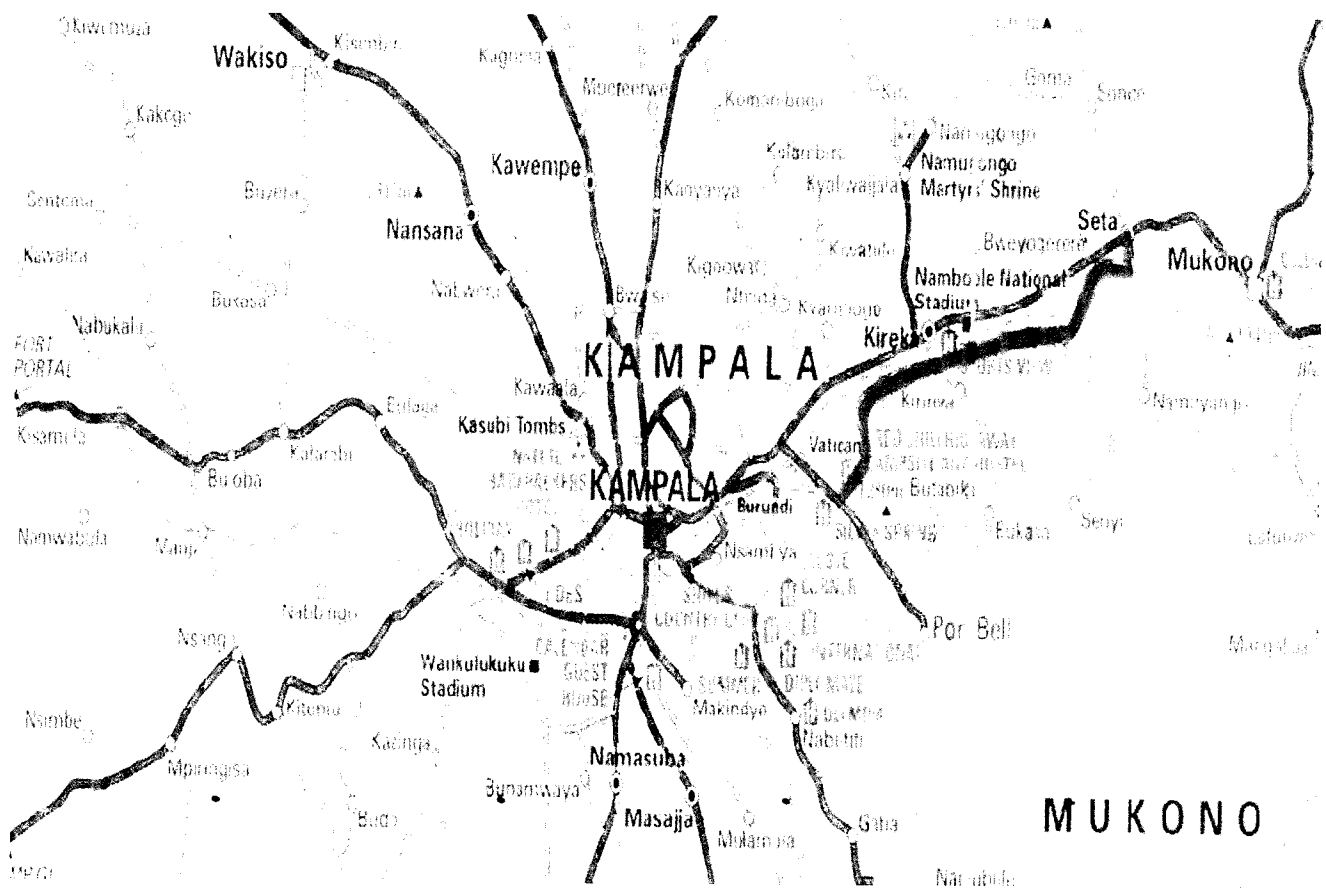
- b) Authorize the Minister of Finance, Planning and Economic Development to enter into loan financing agreement for the Development (Design and Build) of KIBD at Namanve as a turn-key project on the terms and conditions highlighted above.

**Ministry of Finance, Planning and Economic Development,
P.O. BOX 8147,
KAMPALA.**

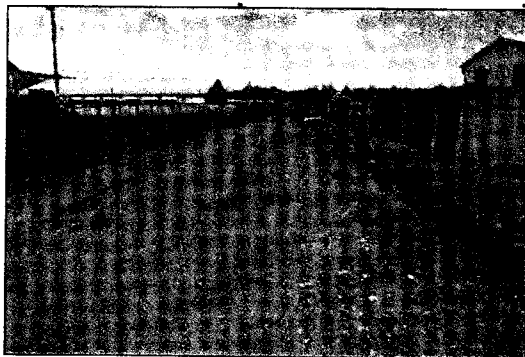
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ANNEX 1 –

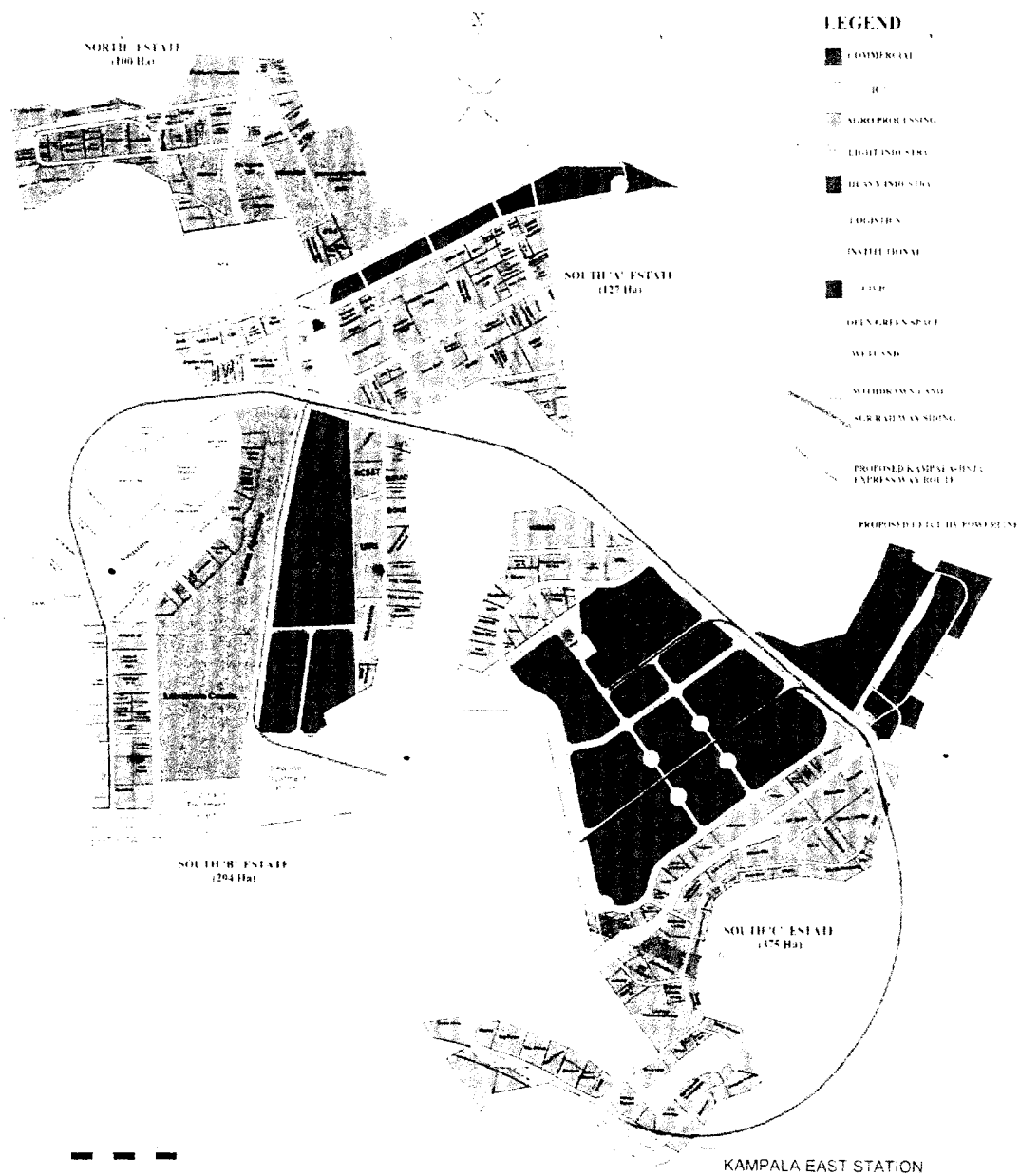
LOCATION OF KIBP:



EXISTING DEVELOPMENTS:

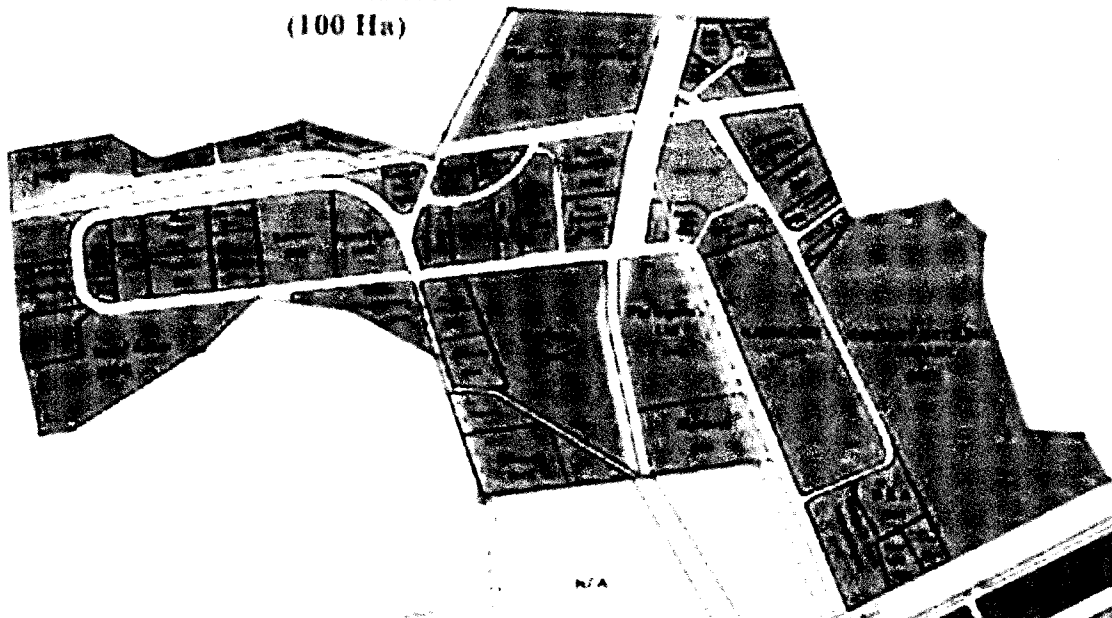


KAMPALA INDUSTRIAL AND BUSINESS PARK MASTER PLAN - 2018



NORTH ESTATE:

**NORTH ESTATE
(100 Ha)**

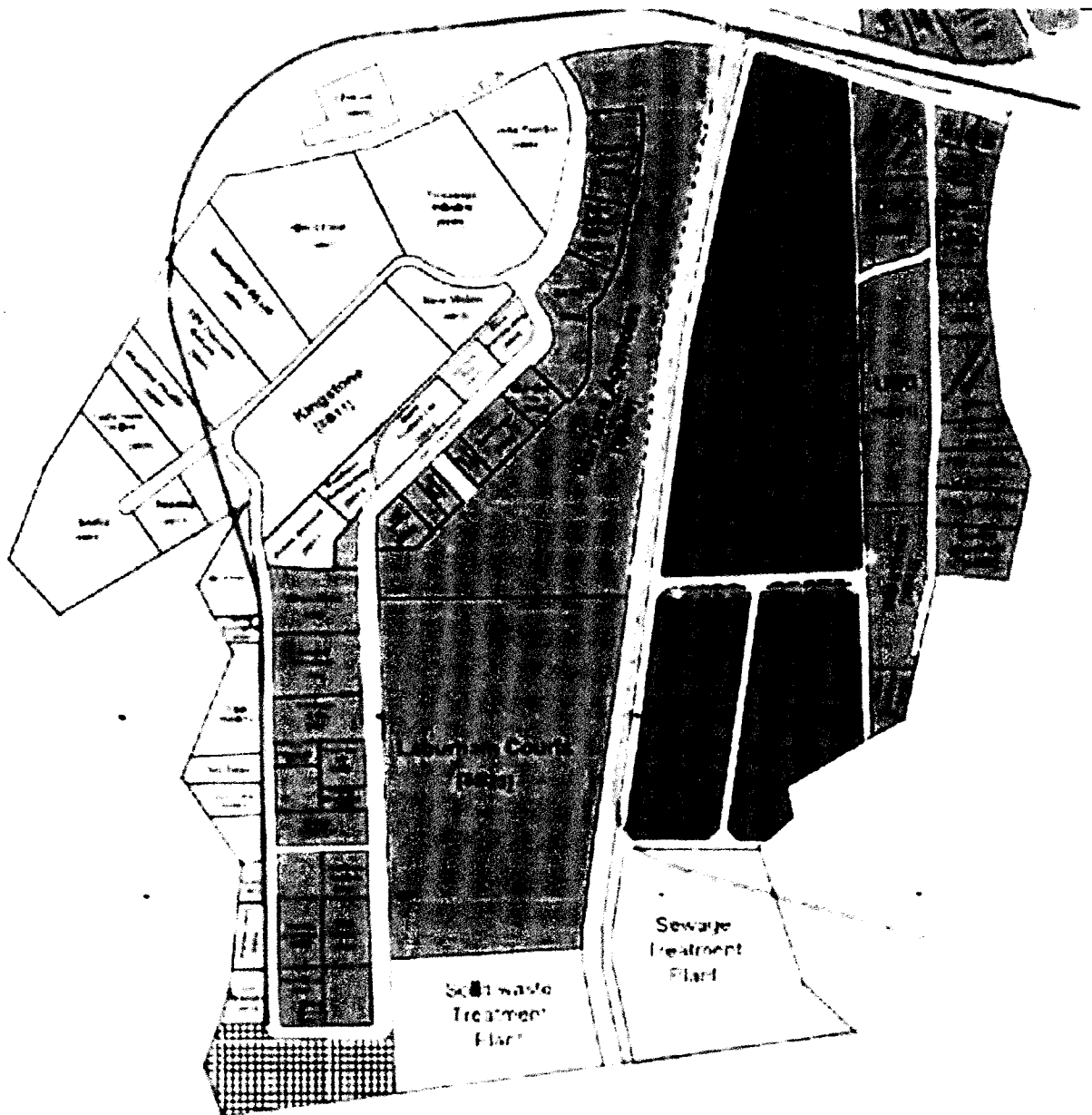


THE SOUTH-A ESTATE:

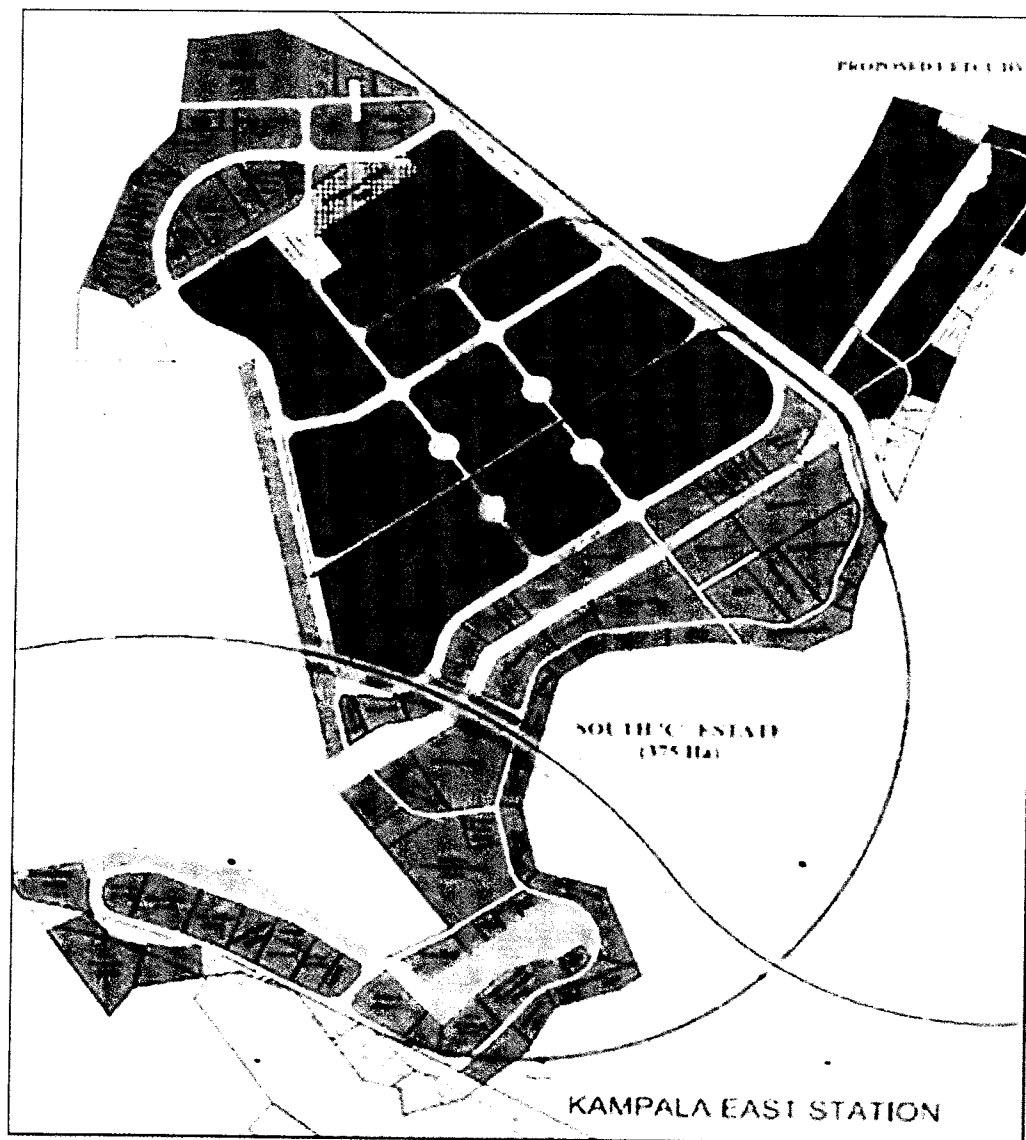
**SOUTH-A ESTATE
(127 Ha)**



SOUTH-B ESTATE:



SOUTH-C ESTATE:



SCHEME LAYOUT AND SITE LOCATION FOR THE DEVELOPMENT OF THE WORKSPACES FOR DOMESTIC INVESTORS AND SMALL-SCALE INDUSTRIALS

