

1.0 INTRODUCTION

On 11th September 2018, a Motion for a Resolution of Parliament to authorize Government to borrow up to Euro 40.0 Million from the Kreditanstalt Fur Wiederaufbau (KfW), the German Development Bank, to Finance the Lira-Gulu-Agago Transmission Line Project was presented to Parliament and referred to the Committee of National Economy.

2.0 METHODOLOGY

2.1 Meetings:

The Committee held meetings with the following:

- i. The Minister of Finance, Planning and Economic Development;
- ii. The Minister of Energy and Mineral Development; and
- iii. The Uganda Electricity Transmission Company Limited (UETCL).

2.2 Documentary Review:

The Committee studied and made reference to the following documents:

- i. The Minister of Finance, Planning and Economic Development's Brief to Parliament on the loan request;
- ii. Bujagali Interconnection Project Completion Report (*Annex 1*);
- iii. Quarter 1 Uganda Electricity Transmission Company Limited (UETCL) Status Report on Power Transmission Project as at August 2018 (*Annex 2*);
- iv. Disbursement Status of UETCL On-going Projects as at September 2018 (*Annex 3*);
- v. Value for Money Audit Report of the Implementation of Transmission Line Infrastructure Projects by UETCL (*Annex 4*);
- vi. National Planning Authority Letter affirming the Project is in line with NDP II and PIP (*Annex 5*);
- vii. Draft Loan Agreement between KfW, Republic of Uganda and UETCL (*Annex 6*);
- viii. Request For Proposal for Design and Supervision and Resettlement Action Plan Implementation (*Annex 7*);

- ix. Chief Government Valuer Approval for the Project (*Annex 8*);
- x. Environment Impact Assessment Submission Evidence and NEMA Assessment (*Annex 9*); and
- xi. Project Implementation Plan (PIP) (*Annex 10*).

3.0 BACKGROUND

The total installed electricity generation capacity in the country increased by 56 percent from 595MW in 2010/2011 to 930MW in 2017/2018. The growth in overall installed capacity in recent years has largely been due to 630MW of large hydro power plants, 103MW of small hydro power plants, 100MW of heavy fuel oil thermal power plants, 77MW of cogeneration power plants using bagasse, and 20MW of solar power plants. In addition, with the commissioning of the Isimba 200MW hydro power plant, the electricity generation capacity has increased. However, during the similar period, the total grid electricity supply increased by 8.8 percent from 2,737.8GWh in 2012 to 3,716GWh in 2017.

Access to electricity increased from 11 percent in 2010 to 25 percent in 2017, and about only 10 percent with access to electricity in the rural areas. Despite the registered progress countrywide, the current power generation sites and transmission lines have changed little over the past forty years with Karuma 600MW hydro power plant, and Agago/Achwa 42MW hydro power plant construction works ongoing.

The electricity sub-sector is currently characterized by insufficient transmission and distribution capacity to evacuate the upcoming large generation plants and supply power to load centres, which is growing steadily. The present electricity situation in the North and West Nile regions of Uganda is characterized by medium voltage, which is lower than the acceptable lower limit of 9.9kv and 29.7kv respectively.

The proposed project will therefore improve the voltage profile and thus help in reducing energy losses, while improving power supply availability and quality

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through the construction and installation of 132KV power line that will improve the system performance and restore the supply voltages to the required limits in the North and West Nile regions of the country.

4.0 THE PROJECT AND COUNTRY STRATEGY

The project is in line with the National Development Plan II objective of expanding the transmission network, improving reliability and security of power supply and reduction of technical energy losses. In the NDPII, "promotion of development of infrastructures" is one of critical areas of focus of the Government in order to achieve the development goals highlighted in the plan. The project is also in line with the UETCL Grid Development Plan 2014-2030 that highlights the mid- to long-term distribution facility plan for the entire country.

5.0 PERFORMANCE OF ELECTRICITY TRANSMISSION PROJECTS

The disbursements of the existing loan projects in under UETCL as at 30th September 2018 was on average 80 percent higher than the Committee requirement of at least 50 percent disbursement rate, as observed in **Table 1**:

Despite that high average disbursement rate, some of the loans acquired as far back as 2013 have very low disbursement rates for example the Entebbe-Mutundwe Transmission line project where the loan was committed in October 2013 but had a loan disbursement rate of 0 percent and grant disbursement rate of 39 percent as at end September 2018 while the GOU component had a release performance of 57percent of the budget by June 2018. Similarly, the Opuyo-Moroto project loan was signed in December 2013 but had a disbursement rate of 13 percent and the RAP disbursements had a release performance of 33 percent of the budget indicating that not all the land has been acquired.

It can be observed from **Table 1** that with the exception of some feasibility studies, only the Hoima-Nkenda project had received all disbursements by September 2018.

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Table 1: UETCL Loan Performance as at 30th September 2018

Project Title	Funder	Currency	Commitment date by GOU	LOAN/Grant Amount Committed	Amount Disbursed millions	Balance	% Disbursed
NELSAP Bujagali Interconnection Switch yard	ADF	UA	13-May-09	7.59	7.59	0.00	100%
	ADF Suple	UA	13-May-09	5.84	0.02	5.82	0%
	JBIC	JPY	13-May-09	5,406.00	4,867.59	538.41	90%
	ADF	UA	13-May-09	19.21	6.98	12.23	36%
	JBIC	JPY	13-May-09	3484	2473.02	1010.98	71%
Hoima-Kafu Feasibility	NORAD	NOK		7	6.98	0.02	100%
Mirama -Nsongezi Feasibility	NORAD	NOK		9	8.07	0.93	90%
Karuma Feasibility Study	NORAD	NOK		14.6	14.6	0.00	100%
Mbarara Nkenda	ADF	UA	13-May-09	52.51	43.4	9.11	83%
Hoima Nkenda	AFD	USD		23	23	0.00	100%
	NORAD	NOK		300	300	0.00	100%
ESDP Kawanda -Masaka	WB	XDR	2-Sep-11	63.37	29.79	33.58	47%
Opuyo- Moroto	ISDB	USD	10-Dec-13	62.67	8.13	54.54	13%
Entebbe Mutundwe Industrial Park	Kfw Grant	Euro	10-Dec-13	6	2.34	3.66	39%
	Kfw Loan	Euro	10-Dec-13	15	0	15.00	0%
Isimba Interconnection project	Exim Bank	USD	3-Feb-16	84.98	44.85	40.13	53%
	Exim Bank	USD	26-Nov-14	9.94	1.99	7.95	20%
Karuma interconnection	Exim Bank	USD	20-Feb-15	246.42	68.22	178.20	28%
Mirama -Kabale	ISDB	USD	22-Jun-14	37.82	0.33	37.49	1%
Mbale-Mbalambulie Feasibility	Kfw	Euro		0.5	0.23	0.27	46%

Source: Uganda Electricity Transmission Company (UETCL), MoFPED

6.0 PROJECT OVERVIEW

The Government of Uganda through Uganda Electricity Transmission Company Limited intends to construct a 132KV Gulu Sub-Station to the proposed 132KV Agago switching station. The 162 km transmission line will evacuate power from the planned Achwa and Agago Hydro Power Project (HPP) and will pass through the districts of Kole, Oyam, Gulu, Omoro ,Pader and Agago.

6.1 Project Objectives:

The main objective of this project is to provide adequate transmission infrastructure to meet energy needs for the Uganda population in the Northern Region of the country.

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6.2 Specific Objectives:

The specific objectives of this project are;

- i. To provide adequate transmission infrastructure to evacuate power from the planned Achwa and Agago Hydro Power Projects
- ii. To provide power supply to the Northern and West Nile Regions of Uganda
- iii. To provide infrastructure to enable implementation of rural electrification programs
- iv. To provide infrastructure to enable implementation of renewable energy projects

6.3 Project Description:

The will improve power supply quality and security by providing transmission infrastructure with adequate capacity to evacuate power from the planned Achwa and Agago HPP I, II, & III (87.9MW) hydro power plants for social and economic development in the project areas.

The project will provide power supply to the Northern and West Nile Regions of Uganda and also provide Infrastructure to enable implementation of Rural Electrification Program in the Northern and West Nile Regions of Uganda.

The project beneficiaries will be located in Northern Uganda within the districts of Lira, Kole, Oyam, Gulu, Pader and Agago.

6.4 Project Components:

The project is composed of three components namely:

- a) Transmission Line 132kV works;
- b) 80MVA substation and Extension of the 132kV Substation works; and
- c) Supervision and Monitoring of works implementation.

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7.0 PROJECT COST AND FINANCING ARRANGEMENTS

The estimated total project cost is Euro 48.5 million financed through a credit from the KfW of Euro 40.0 million (82 %) and Government counterpart contribution of Euro 8.5 million (18%).

Table 2 shows that 33 percent of the total project cost is for the transmission line 132KV works while 34 percent is for the 80 MVA Substation and Extension of the substation 132KV works and 5 percent is for supervision and monitoring of works. Contingency is 11 percent of the total project costs.

Table 2: Project Cost by Components

Components	Cost (Euros-millions)	% share
Component 1- Transmission Line 132kV works	16	33%
Component 2 - 80MVA Substation and Extension of the Substation 132kV works	16.3	34%
Component 3 - Supervision and Monitoring of works implementation	2.5	5%
Contingencies	5.2	11%
Total components and contingency	40	82%
Land purchases, Compensation, Way leaves	5.5	11%
Taxes	3	6%
Total	48.5	100%
o/w KfW	40	82%
o/w GoU	8.5	18%

Source: MoFPED

8.0 LOAN TERMS, CONDITIONS AND BUDGETARY IMPLICATIONS

8.1 Loan Terms:

Government of Uganda will obtain a loan Euro 40.0 Million from the Kreditanstalt Fur Wiederaufbau (KfW), the German Development Bank, to implement the Gulu-Agago Transmission Line Project. Table 3 shows the loan terms.

Table 3: KfW Financing Terms

Item	Terms
Loan Amount	Euro 40.0 million
Maturity Period	15 years
Grace Period	5 years
Repayment Period	10 years
Interest Rate	Annual Euro Interbank Offered Rate ("EURIBOR") plus + 0.20 % p. a.) on loan disbursed
Commitment Fee	0.25% p.a. every 15 th May and November each year on undisbursed amounts beginning 3 months after signing the loan agreement and lasting till the date of disbursement of the loan in full or if applicable until the date of definitive termination of disbursements from the loan.
Management Fees	0.50 % of the Loan amount (one-time lump-sum payment)

Source: Draft Loan Agreement

From **Table 3**, it can be observed that commitment fees will begin to accrue 3 months after signing of the loan agreement.

8.2 Conditions to Loan Effectiveness:

In addition to the entry into force of the loan agreement by the submission to the Lenders of the Attorney General's legal Opinion on the legal validity of the loan documentation to the Government, the following conditions are attached to the loan:

- i Exemption of KfW from all taxes on income from interest earnings and all levies, commissions and similar costs in the Republic of Uganda when granting the Loan;

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- ii. Submission to KfW of the signed original Credit Financing Agreement and the Separate Agreement for purpose of on-channelling the loan funds to the project executing agency;
- iii. Submission to KfW of specimen signatures of the borrower's representatives for purposes of making disbursement requests;
- iv. The Borrower has paid the Management Fee set forth in Article 4.2 (Management Fee) hereof;
- v. Government has submitted to KfW an Environmental and Social Management Plan ('ESMPJ in relation to the Project, in line with the World Bank Group Environmental, Health, and Safety Guidelines, and the core labour standards of the International Labor Organization;
- vi. Provided of evidence that the necessary funds for compensation payments as determined in the Resettlement Action Plan (RAP) in the respective fiscal year have been allocated in the national budget for the Project before the first disbursement to the EPC Contractors and;
- vii. The Project Executing Agency has obtained the approval of the National Environmental Management Agency (NEMA) for the Environmental and Social Impact Assessment (ESIA).

8.3 Concessionality of the Loan:

Table 4: Level of Concessionality of the Loan

Item	Value in Euros
Nominal Value of the Loan (NV)	40.0 million
Present Value of the loan(PV)	24.55 million
Total Debt Service of the loan	40.38 million
Grant Element (%)	39%
Discount Rate	5%

Source: Draft Loan Agreement between GoU and KfW and PBO Computations

From **Table 4**, the present discounted value of the loan from the KfW (Euro 24.55 million) is lower than the nominal value of the loan (Euro 40.0 million). This

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implies that the total future payment of the loan is cheaper than the proposed amount to be borrowed in present terms.

The total future payment of the loan will amount to Euro 40.38 million after the loan period of 15 years. The loan is concessional since its grant element (39%) is higher than the concessional limit of 35% of the PDMF, 2013.

8.4 Budgetary Implication:

Government has committed to provide counterpart funding for the project. The project is part of the Public Investment Plan FY 2018/19 and has a GOU allocation of UGX 0.2billion for FY 2018/19. The total Resettlement Action Plan Funds released as at 30th January 2019 amount to UGX 12 billion.

9.0 ECONOMIC AND FINANCIAL RATE OF RETURN

The Economic Internal Rate of Return (EIRR) of the project is 101 percent, however, according to the certificate by the NPA, national parameters were not used for generating the EIRR. Extending the construction time of the project by one year reduces the EIRR to 66.5 percent. The feasibility studies indicate a Net Present Value of the investment of USD289 million using the discount factors of 12 percent , however extending the construction time by one year reduces the NPV to USD 255 million. This implies that the project is worth the country investing in it since the EIRR is higher than the economic opportunity cost of capital that is 11percent and it has a positive Net present value. However, delays should be minimized to maximize the net present value of the project.

10.0 THE LOAN AND THE CURRENT DEBT SITUATION OF THE COUNTRY

This loan will increase the country's public debt that has been on the rise over the years. The total public debt stock (at nominal value) as at end of June 2018 stood at Ushs 42,070.47 billion (42 % of GDP) (Bank of Uganda Annual Report 2017/18),

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of which Ushs 28,514.48 billion was external debt and Ushs 13,555.99 billion was domestic debt. This is an increase of 22 percent relative to June 2017. As at end of June, 2017 the public debt stood at Ushs 34,409.83 billion, which was equivalent to 38% of GDP.

11.0 COMPLIANCE WITH PARLIAMENTARY APPROVAL GUIDELINES

The Committee developed guidelines to be considered when scrutinizing all loans that require approval of Parliament. The guidelines require performance information and impact assessment for previous projects by a Ministry or Government agency; evidence of project appraisal; consistency with the national planning framework; institutional framework for project implementation; procurement plan; evidence of implementation of the Resettlement Action plan; provision of counterpart funding; evidence of project readiness for implementation; and the financing mechanism. Below are the scores by UETCL based on submitted documents.

Table 1: Compliance with Parliamentary Approval Guidelines

Indicator	Target score	Institutional score	Performance (%)
Performance of previous projects	5	4	75
Consistency with the National Planning Framework	3	3	100
Institutional Framework	2	2	100
Procurement	1	0.5	50
Resettlement Action Plan	4	3	75
Budgetary Implications	3	2	67
Implementation Readiness	8	6	75
Financing	6	5	83
Total	32	25.5	80

Source: PBO Computations

12.0 OBSERVATIONS AND RECOMMENDATIONS

12.1 Strategic Importance of the Project:

The Committee observed that request is in line with the NDP II objective of expanding the transmission network, improving reliability and security of power supply and reduction of technical energy losses and; is itself an NDP II

The Committee further observed that electricity generation capacity has improved, however, there is limited distribution and transmission lines, which results in the current power plants producing below capacity. The idle capacity referred to as deemed energy was paid for through tariffs and government subsidies, which on average was UGX 11 billion, and yet some parts of the country like Northern Uganda and West Nile are characterized by insufficient transmission and distribution capacity that is lower than the acceptable lower limit of 9.9KV and 29.7KV respectively.

The Committee recommends that Government invests in distribution and transmission lines to eliminate expenditure on deemed energy, and reduce the cost of electricity tariffs.

12.2 Supervision of Projects under UETCL:

The Committee observed that a number of projects executed by UETCL that were audited revealed that most works were behind schedule and supervision contractors received pay for work not done among others.

The Committee further observed that while the project is viable given its level of economic returns to the country, project implementation should be expedited to minimize any delays. This will enable the country achieve economic returns, while at the same time enable it to repay its debt.

The Committee therefore recommends that UETCL ensures that supervision contracts are designed to match construction works.

The Committee further recommends that projects should be implemented in a timely manner to avoid cost overruns, commission fees, and maximize the economic returns from the projects.

12.3 Resettlement Action Plan (RAP) Compensation:

The Committee observed that a number of loans have low disbursement rates, not only in the Energy Sector, but in a number of sectors. The low disbursement was partly attributed to inadequate preparation by government and absence of counterpart funding, especially in projects that were implemented before Parliamentary Guidelines on loan acquisition were put in place.

The Committee further observed that in some cases landowners have rejected Government's compensation, while in other cases land ownership is in dispute, which delays the acquisition of land and subsequent implementation of the project.

The Committee recommends that Government expedites the acquisition of land for the affected projects. In addition, Ministry of Finance should ring-fence counterpart funds for loan projects to ensure timely implementation.

12.4 Development process of generation and transmission projects:

The Committee observed the slow realization of electricity infrastructure projects particularly in the generation and transmission segments. While some progress has been registered on the mini-hydros, large projects tend to take too long in the development phase.

The committee recommends that Ministry of Energy and Mineral Development and UETCL, should accelerate the development process of

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projects in the generation and transmission segments in order to attract long-term financing in the electricity sector.

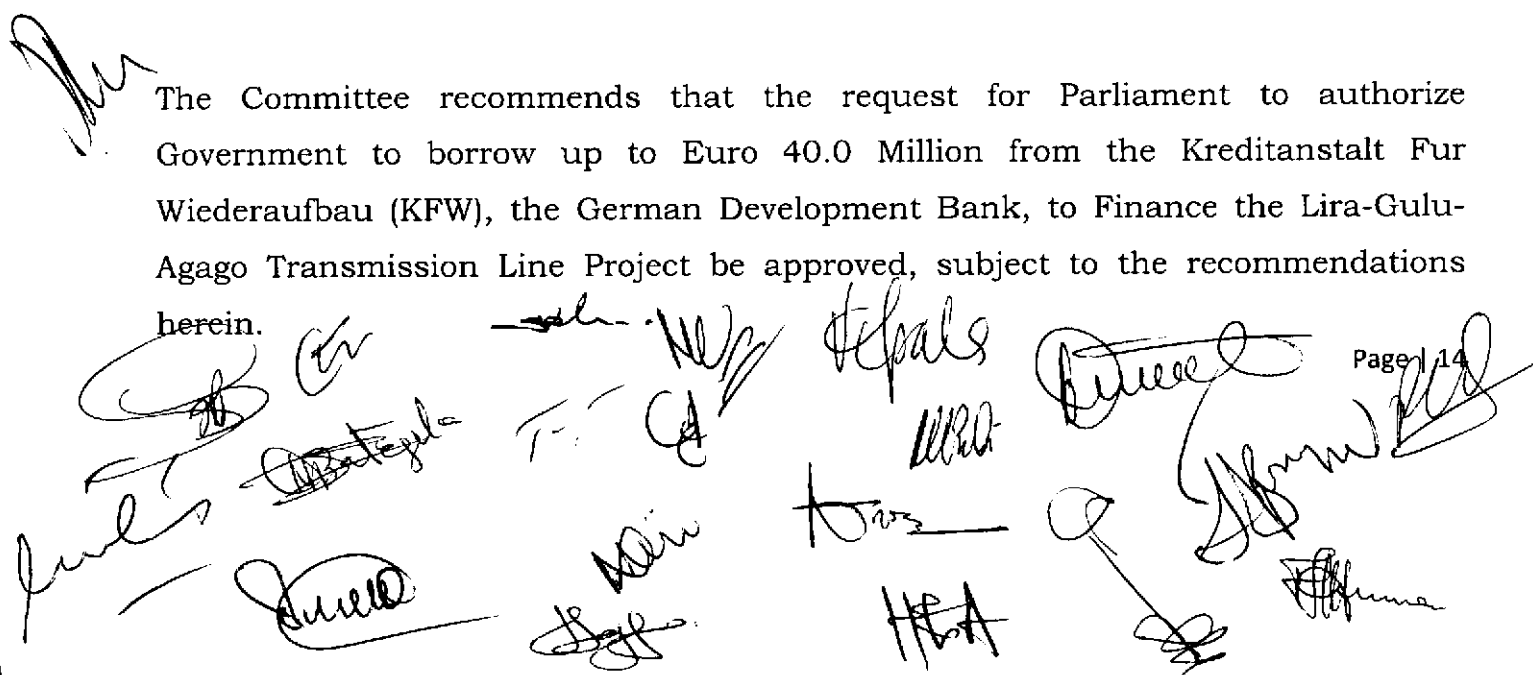
12.5 Government Counterpart Funding:

The Committee noted that Government enters into financing agreements with various development partners, in which it commits to provide counterpart funding through various implementing agencies. Among the lessons learnt from the implementation of projects especially those financed by externally borrowed funds, is the insufficient and untimely release of government counterpart funding and the low absorption capacities of project implementing agencies. For this project, government will contribute USD 13.6 Million towards the implementation of this project.


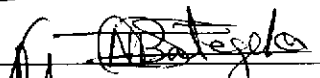
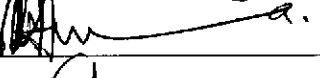

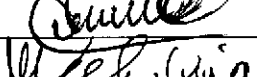
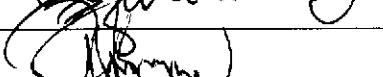
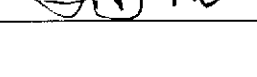


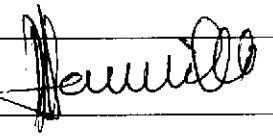
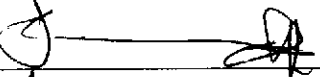
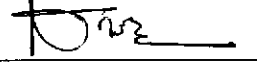

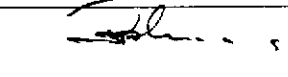
The Committee recommends that Government ensures that adequate counterpart funds for this project are timely integrated into the national budget during the project implementation period. The committee further recommends that the Sectoral Parliamentary committees should critically examine the budgets of MDAs that are beneficiaries of externally borrowed funds to ensure that the budgets of the MDAs explicitly provide for all the required counterpart funds during that financial year for the projects that are under their implementation.

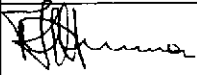


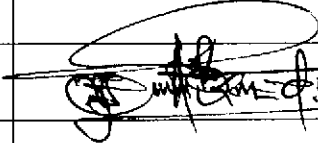
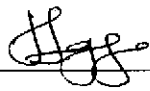

13.0 CONCLUSION

The Committee recommends that the request for Parliament to authorize Government to borrow up to Euro 40.0 Million from the Kreditanstalt Fur Wiederaufbau (KfW), the German Development Bank, to Finance the Lira-Gulu-Agago Transmission Line Project be approved, subject to the recommendations herein.



REPORT OF THE COMMITTEE ON NATIONAL ECONOMY ON THE PROPOSAL BY GOVERNMENT TO BORROW EURO 40.0 MILLION FROM KREDITANSTALT FUR WIEDERAUFBAU (KFW), THE GERMAN DEVELOPMENT BANK, TO FINANCE THE LIRA-GULU-AGAGO 132KV TRANSMISSION LINE PROJECT AND ASSOCIATED SUB-STATIONS

NO.	NAME	CONSTITUENCY	SIGNATURE
1.	Hon. Bbumba Syda Namirembe	Nakaseke North	
2.	Hon. Bategeka Lawrence	Hoima Municipality	
3.	Hon. Tayebwa Thomas	Ruhinda North	
4.	Hon. Kajara Aston	Mwenge South	
5.	Hon. Yeri Apollo Ofwono	Tororo Municipality	
6.	Hon. Kiwanuka Keefa	Kiboga East	
7.	Hon. Seguya Lubyayi John Bosco	Mawokota South	
8.	Hon. Musoke Paul Sebulime	Buikwe North	
9.	Hon. Kabafunzaki Herbert	Rukiga County	
10.	Hon. Ayepa Michael	Labwor County	
11.	Hon. Katoto Hatwib	Katerera County	
12.	Hon. Lokeris Samson	Dodoth East	
13.	Hon. Rwemulikya Ibanda	Ntoroko County	
14.	Hon. Migadde Robert Ndugwa	Buvuma Islands	
15.	Hon. Mandera Amos	Buyamba County	
16.	Hon. Wamakuyu Mudimi Ignatius	Elgon County	
17.	Hon. Okello Anthony	Kioga County	
18.	Hon. Dhamuzungu Geoffrey	Budiope East	
19.	Hon. Guma Gumisiriza David	Ibanda North	
20.	Hon. Sematimba Simon Peter	Busiro South	

NO	NAME	CONSTITUENCY	SIGNATURE
21.	Hon. Elotu Cosmas	Dakabela County	
22.	Hon. Alyek Judith	DWR, Kole	
23.	Hon. Turyahikayo K. M. Paula	Rubabo County	
24.	Hon. Isala Eragu Veronica Bichetero	Kabera maido County	
25.	Hon. Azairwe Dorothy Nshaija K.	DWR, Kamwenge	
26.	Hon. Akol Anthony	Kilak North	
27.	Hon. Okupa Elijah	Kasilo County	
28.	Hon. Ariko Herbert Edmund	Soroti Municipality	
29.	Hon. Nzoghu William	Busongora North	
30.	Hon. Bakireke Nambooze Betty	Mukono Municipality	
31.	Hon. Akena James Jimmy	Lira Municipality	
32.	Hon. Baryayanga Andrew Aja	Kabale Municipality	
33.	Hon. Katwesigye Oliver Koyekyenga	DWR Buhweju	
34.	Hon. Akamba Paul	Busiki County	
35.	Hon. Atiku Bernard	Ayivu County	
36.	Hon. Okumu Ronald Reagan	Aswa County	
37.	Hon. Kassiano Wadri Ezati	Arua Municipality	
38.	Hon. Kutesa Pecos Onesmus	UPDF Representative	