THE REPUBLIC OF UGANDA

A BRIEF ON THE PROPOSAL FOR PREFINANCING THE DESIGN AND BUILD OF KAYUNGA-BBAALE-GALIRAYA ROAD (87KM) FROM GRAVEL TO PAVED STANDARD

*(A Brief by the Hon. Minister of Finance, Planning and Economic Development_*

1.0 INTRODUCTION

1.1 Hon. Members, this brief is about the proposal to prefinance the Design and Build of Kayunga-Bbaale-Galiraya Road (87km) from Gravel to Paved Standard. The Company to prefinance the project is China Road & Bridge Corporation (CRBC) registered in China with experience in road construction in the region having paved the Dokolo-Soroti road, financed, designed and constructed the Nairobi Expressway and Nairobi Western Bypass in Kenya among others.

2.0 BACKGROUND

2.1 The Kayunga-Bbaale-Galiraya Road (87km) is part the road network that was prioritized for upgrading during the NDPII planning period. The project was subsequently rolled over to NDPIII and later to NDPIV.

2.2 This project was progressed and completed the Public Investment Management Systems (PIMS) appraisal processes and admitted in the Public Investment Plan with Project Code: 1821.

2.3 Due to budget constraints and limitations on concessional borrowing, funds have not been secured for the upgrading of this road as planned.

2.4 My Ministry received a Pre-financing offer from China Road and Bridge Corporation to prefinance the project with favourable terms. His Excellency the President gave a no-objection to the prefinancing proposal provided it would fit in our debt strategy.

2.5 Hon. Members, this is the second prefinancing proposal to be considered by Parliament under National Roads, following the prefinancing of Masaka-Mutukula road reconstruction. The submission is made in line with Sections 23 and 36 of the Public Finance Management Act, 2015 (as amended).

2.6 Hon. Members, as you are aware, the planned NDPIII national road upgrading projects were not fully implemented as scheduled due to limited resources and government's commitment to adhering to borrowing thresholds, other avenues including Project Prefinancing by Contractors are necessary during the NDPIV planning period to ensure timely implementation of such projects.

2.7 Under the Prefinancing arrangements, a contractor is expected to mobilize own resources to kick-start civil works of the proposed project on the understanding that the requisite costs of the civil works undertaken by the contractor are reimbursed after an agreed period of time.

2.8 Hon. Members, China Road & Bridge Corporation (CRBC) expressed interest to prefinance, Design and Build the Kayunga-Bbaale-Galiraya road to paved standard within 24 months. The terms include a down payment of 10% of the Contract Sum (excluding VAT) before works commencement, with the balance paid to the contractor within two years after completion of works.

2.9 Given the limited budgetary resources available for this road upgrading, Government proposes approving this prefinancing modality, with an estimated cost of UGX 313.2 Billion, inclusive of taxes.

2.10 The Attorney General guided that prefinancing modality constitutes a multi-year commitment which under Sections 23 and 36 of the Public Finance Management Act, 2015 (as amended) requires approval from both Cabinet and Parliament. Hon Members, it is based on this guidance, that I present this proposal to you for consideration.

2.11 This proposal was approved by Cabinet on 13th October 2025, Under Minute CT (2025). A copy of the extract is attached to the brief as **Annex 1**

3.0 OBJECTIVES OF THE BRIEF

3.1 Hon. Members, the objectives of this Brief are to:

(a) Seek Parliament's approval for the Ministry of Works and Transport (MoWT) to contract China Road and Bridge Corporation to prefinance, Design and Build of Kayunga-Bbaale-Galiraya Road at a cost of Shs. 313,222,123,665 inclusive of 18% VAT.

(b) Seek the authorization of Parliament to provide for the payments for this Project in the last two Financial Years of its implementation (FY 2027/28 and FY 2028/29), following the contractor's prefinancing of the first two years (24 months) of project implementation in line with Section 23 of the Public Finance Management Act, 2015 (as amended).

4.0 THE PROJECT DETAILS

4.1 **Project Description:**

4.1.1 Hon. Members, Kayunga – Bbaale – Galiraya Road (87km) is an existing C gravel road situated in the Central region of Uganda in Kayunga district. The road starts at Kayunga Town Council and traverses five sub-counties of Kayunga, Kitimbwa, Kayonza, Bbaale and Galiraya and terminates at the shores of Lake Kyoga (Kawongo Landing Site).

4.1.2 The road is a link across Lake Kyoga to districts of Amolatar, Kaberamaido, Serere, Apac and Lira. The road also serves districts surrounding Kayunga which include Mukono to the South, Jinja, and Buikwe to the East (across the River Nile), Kamuli to the North East, Luweero to the West and Nakasongola to the North West. A map showing the location of the project road is attached as **Annex 2**.

4.1.3 The existing gravel road is in a fair condition characterised by surface corrugations, potholes and inadequate drainage with water logged low-lying areas.

4.1.4 The current gravel state of this road does not meet the expected level of service of this road thus leading to: High vehicle operating costs and longer travel times; high road maintenance costs and; low level of economic activities in the project area.

4.1.5 In order to avert the challenges noted above, upgrading of this road to paved standard needs to be prioritized.

4.1.6 Government of Uganda, carried out a feasibility study and detailed engineering design of the project road which was completed in August

2015. Given the time lapse of 10 years, this design will be used as a reference by the contractor to design and build the road to paved standard.

4.1.7 The road will be constructed to Class II Paved Standard with Asphalt Concrete Surfacing and a design life of 20 years. The lane width will be 3.5metres, carriage width of 7.0metres and shoulders of 2.0metres on either side in urban areas and 1.5m on either side in rural areas.

4.1.8 The project will also include construction of a ferry landing site at Kawongo on the shores of Lake Kyoga, for future ferry routes to Zengebe and Namasale, tarmacking of 2km urban roads and provision of street lighting in critical urban centres not exceeding 2km.

4.2 The Problem Statement

4.2.1 The Kayunga-Bbaale-Galiraya road is an existing class C gravel road in poor condition, characterised by a flat to rolling terrain with surface corrugations, potholes, narrowness, and poor drainage including water logged low-lying areas and swamps. Given its traffic volume, upgrading it to paved standard is overdue. However, Government lacks adequate funds to finance the project using domestic revenue or traditional external financing.

4.2.2 Government therefore proposes engaging a contractor to prefinance the Design and Build of the road, starting this FY 2025/26. The understanding is that Government will refund the contractor in the 3rd (FY 2027/28) and 4th (FY 2028/29) years after construction begins, with payments commencing in the third year after realization of some fiscal space to fund the project.

4.2.3 Prefinancing constitutes a commitment by Government, requiring Parliament's authorization in line with section 23 of the Public Finance Management Act, 2015 (as amended).

4.3 Justification of the Pre-Financing

4.3.1 The prefinancing option has been considered for the following reasons:

(i) The Kayunga-Bbaale-Galiraya road is a one of the longest outstanding commitments that was designed in 2015, and has been rolled over from NDPII, but resources have since not been allocated for its upgrading to paved standard.

(ii) Upgrading of this road to paved standard cannot be adequately financed within the current Government of Uganda (GoU) budget ceiling for the Ministry of Works and Transport for FY 2025/26 and 2026/27, given the commitment with ongoing and new road projects.

(iii) Prefinancing the project with only a 10% down payment (approximately UGX 25.28 billion) from Government in FY 2025/26 will provide some fiscal space for Government to accommodate this critical project.

(iv) The prefinancing offer is interest-free and features a competitive rate of about US$ 1.0 million including VAT, which is lower than recent market rates in Uganda. For instance, the pre-financing of Oil Roads Package 1 (Design and Build of Masindi (Kisanja)-Park Junction, Tangi (Pakwach) Junction-Paraa-Buliisa and Wanseko-Bugungu Roads (159km) was priced at USD 1.37

Million per Km (excluding financing costs & VAT) while recently approved contract for the design and build of Karugutu-Ntoroko road (68km) was priced at USD 1.56 million per Km (excluding financing costs & VAT). This makes the current offer a cost-effective option for the project.

4.4 Expected Benefits of the Project

4.4.1 The project will greatly stimulate and support local economic activities by improving connectivity to socio-economic facilities, reducing road maintenance costs, vehicle operating costs (VOCs), and travel time in the Central region;

4.4.2 The road serves districts surrounding Kayunga which include Mukono to the South, Jinja, and Buikwe to the East (across the River Nile), Kamuli to the North East, Amolatar and Apac to the north (across Lake Kyoga), Luweero in the West and Nakasongola to the North West;

4.4.3 The upgraded road will improve access to rural, economically productive areas, contributing to socio-economic development, poverty reduction, and reduced transport costs.

4.4.4 The upgraded road will offer a safe, secure, environmentally sustainable, reliable and dependable transport system, meeting national road sector needs.

4.4.5 The economic analysis updated in July 2015, confirmed the project's feasibility yielding an Economic Internal Rate of Return (EIRR) of 13.9% and Economic Net Present Value (ENPV) of USD 11.672

Million for upgrading the road to paved standard with Asphalt Concrete Surfacing.

4.5 Stakeholder Consultations

4.5.1 Hon. Members, consultations have been held with relevant stakeholders including the Integrated Transport Infrastructure and Services Programme Working Group, the Solicitor General among others.

4.5.2 The Solicitor General cleared the contract under the following conditions;

(i) The contractor must execute the contract without prior receipt of payment from the Ministry of Works and Transport during the design and construction phase.

(ii) The prefinancing arrangement is considered a loan as defined under Article 159 (7) of the Constitution, requiring approved by Parliament as per Article 159(9) of the Constitution. A copy of the Solicitor General's letter is attached for reference as **Annex 3.**

4.5.3 The Contractor however, declined to sign the contract without the 10% down payment by Government, citing it as condition precedent required by China Export & Credit Insurance Corporation (SINOSURE) to secure financing from the Chinese Financial Institutions.

4.6 Financial Implications

4.6.1 Commercial contract details

4.6.1.1. Hon Members, the Draft Contract for the Design and Build of Kayunga-Bbaale-Galiraya Road (87km) including a Landing Site, was submitted to the Solicitor General for clearance. The Contract sum is Shs. 313.22 Billion, inclusive taxes. This Contract Sum includes Shs. 252.802 Billion for Design and Civil Works, Shs. 12.64 Billion for 5% physical contingency and Shs. 47.78 Billion for 18% VAT. A copy of the draft contract agreement and particular conditions of contract are attached for reference as **Annex 4.**

4.6.1.2. The above offer is interest-free and features a competitive rate of approximately USD 1million per kilometre. The contractor however requires a down payment of 10% of the contract sum (exclusive of VAT and 5% contingencies), equivalent to UGX 25.28 Billion from Government before commencement of works.

4.6.2 Prefinancing Terms

4.6.1.3. The Works shall be pre-financed on the following conditions:

(i) Government shall make a co-financing contribution of 10% of the contract sum (exclusive of VAT and 5% contingencies) which shall be paid to the contractor before commencement of works. This is a condition precedent required by China Export & Credit Insurance Corporation (SINOSURE) to secure financing of the project from the Chinese Financial Institutions. This payment shall be made in Uganda Shillings.

(ii) The Contractor will prefinance the remaining value of the works until substantial completion is achieved. The reimbursements shall be paid to the contractor in US$ at a fixed exchange rate of 1US$ = Shs. 3,599.77.

(iii) During the period of civil works execution, Interim Payment Certificates (IPCs) will be raised, but payment will be made in quarterly instalments over 24 months in the 3rd and 4th year after commencement.

(iv) The 18% VAT amounting to Shs. 47.8 Billion will be deemed paid by the contractor in the prefinancing period of 24 months. The contractor will commence effecting VAT payments only upon the Government's commencement of actual payments under the contract.

(v) The prefinancing will not have additional cost to Government beyond the contract price.

4.6.3 Cost-Benefit Analysis

4.6.1.4. A feasibility study was conducted for the project in 2015 and the economic analysis yielded an Economic Internal Rate of Return (EIRR) of 13.9% and a Net Present Value of US$ 38.518 Million for Upgrading of the road to paved standard with Asphalt Concrete Surfacing. The EIRR is higher than the economic discount rate of 11% indicating that it is economically feasible to undertake upgrading of this road to paved standard.

4.6.4 Implications of the project on the budget

4.6.1.5. Hon. Members, to comply with the prefinancing terms, Government will need to find resources in FY 2027/28 and FY 2028/29 in order to accommodate the reimbursements to the contractor.

4.6.1.6. The Ministry of Works and Transport will allocate an additional Shs. 4.28 Billion from its current budget for FY 2025/26, to supplement the already allocated Shs. 21 billion to meet the 10% down payment required before works can commence. A letter of clearance of financial implication was issued for the same, attached as **Annex 5**.

4.7 The Public Debt Situation as at End of June -2025

Table 1: Total Public Debt Stock (USD billion)

	Jun-24	**Jun-25**
External Debt Stock (USD Billion)	14.59	15.50
Domestic Debt Stock (USD Billion)	10.96	16.00
Total Debt Stock (USD Billion)	**25.55**	**31.50**
External Debt to GDP (%)	26.76	24.90
Domestic Debt to GDP(%)	20.10	26.40
GDP (UGX Billion)	202,131	226,300
Debt to GDP (%)	**46.86**	**51.30**
End of Period Exchange Rate	3,706.72	3,682.54

Source: MoFPED

4.7.1 Uganda's debt remains within sustainable limits, with the total stock projected at USD 31.5 billion (approximately Shs 116 trillion) for FY 2024/25. This comprises USD 15.49 billion (Shs 56.3 trillion) in external debt and USD 16 billion (Shs 59.77 trillion) in domestic debt. Public debt as a share of GDP is estimated at 51.26 percent, aligning with the targets set in the Charter for Fiscal Responsibility.

4.7.2 Measures to Manage Public Debt: To manage and reduce our debt levels, Government has adopted fiscal consolidation measures that include the following:

i. Implementation of the National Public Investment Management Policy (NPIMP) which aims at streamlining the preparation, appraisal, approval and management of all Government Projects and ensuring that these Projects are ready before implementation;

ii. Increase revenue mobilization particularly through the implementation of the Domestic Revenue Mobilization Strategy (DRMS), aimed at reducing debt reliance and keeping debt at sustainable levels to ensure that the fiscal deficit remains within sustainable levels over the medium to long term.

4.8 Project Implementation

4.8.1 The project will be implemented as follows:

i. **Implementing Agency:** The project will be implemented by the Ministry of Works and Transport with the Permanent Secretary, as the Accounting Officer for the project.

ii. **Contractor's Role:** M/s China Road & Bridge Corporation will prefinance, Design and Build the road to paved standard.

iii. **Payment Schedule:**

a) Shs 25.28 Billion will be paid in FY 2025/26 as 10% co-financing by Government.

b) My Ministry will allocate resources in the subsequent two financial year budgets starting in the 3rd year after commencement of works, to pay the Contractor's Interim Payment Certificates.

iv. **Land Acquisition:** Project Affected Persons were engaged and agreed to free land take. These PAPs will be further engaged to sign consent forms before mobilization for the civil works. Special cases of compensation for affected developments (buildings) will be considered. This financing requirement will be provided in the MoWT land acquisition budget in the next FY 2026/27.

v. **Construction Supervision:** The Ministry of Works and Transport will undertake construction supervision using its in-house team.

4.9 Legislative Implications

4.9.1 Hon Members, there are no amendments required to the existing legal framework to implement the prefinancing modality. Section 23 of the Public Finance Management Act, 2015 (as amended) requires that Parliament approves multiyear commitments. In addition, the process of finalizing the contract for the project works will be done in accordance with the Public Procurement and Disposal of Assets (PPDA) Act with expert guidance from the Attorney General.

4.9.2 This submission therefore, is to seek your approval for my Ministry to submit the prefinancing proposal to Parliament for approval since it is a multiyear commitment.

4.10 Linkage to National and International Policy Framework

4.10.1 The proposed upgrading project for Kayunga-Bbaale-Galiraya Road is aligned with Uganda's national development priorities and programme strategies. It directly supports the Fourth National Development Plan (NDP IV 2025/26-2029/30), which prioritizes transport infrastructure development to support value addition, industrialization agenda and harness economic opportunities. It also aligns with Uganda Vision 2040 and the National Integrated Transport Master Plan, both of which emphasise investment in quality transport networks to enhance mobility, trade, and socio-economic transformation.

4.10.2 This road was prioritized for upgrading during the NDPIV as an Ongoing Project No. 25: Upgrading of Kayunga-Bbaale-Galiraya Road (88.5km).

4.10.3 The proposal is consistent with Uganda's legal and institutional frameworks governing infrastructure financing and delivery. It adheres to the Public Procurement and Disposal of Assets (PPDA) Act and Public Private Partnership (PPP) Act, 2015, ensuring value for money, transparency, and appropriate risk-sharing between public and private parties. It also observes the Public Finance Management (PFM) Act in managing fiscal obligations and contingent liabilities, and the Uganda Road Fund Act (2008) in ensuring sustainability of road maintenance and asset preservation.

4.10.4 At the international level, the project contributes to the Sustainable Development Goals (SDGs), particularly SDG 9 on resilient infrastructure, SDG 8 on decent work and economic growth, and SDG 11 on sustainable cities and communities. It also supports the African Union Agenda 2063, which calls for integrated and efficient transport networks to boost regional trade and development.

4.10.5 By linking national policy frameworks and global development agendas, the proposed pre-financing arrangement provides a structured, transparent, and development-oriented approach to infrastructure financing. It promotes timely road construction and maintenance, economic competitiveness, and improved service delivery, while upholding Uganda's commitments to sustainable and inclusive growth.

5.0 CONCLUSION

5.1.1 Hon. Members, this is to request Parliament to:

(i) Approve the Ministry of Works and Transport (MoWT) to contract China Road and Bridge Corporation to prefinance, Design and Build of Kayunga-Bbaale-Galiraya Road at a cost of Shs. 313,222,123,665 inclusive of 18% VAT.

(ii) Approve Government's request in line with Section 22 of the Public Finance Management Act, CAP, 171, to provide for the payments for this Project in the last two Financial Years of its implementation (FY 2027/28 and FY 2028/29), following the contractor's prefinancing of the first two years (24 months) of project implementation.

Prepared by:

Ministry of Finance, Planning and Economic Development

P.O. BOX 8147

KAMPALA

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