

**THE REPUBLIC OF UGANDA**

**BRIEF TO PARLIAMENT**



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**THE PROPOSAL TO BORROW UP TO SPECIAL DRAWING RIGHTS (SDR) 237.7 MILLION (EQUIVALENT TO US\$ 331.5 MILLION) AND RECEIVE A GRANT OF UP TO SDR 198.2 MILLION (EQUIVALENT TO US\$ 276.5 MILLION) FROM THE INTERNATIONAL DEVELOPMENT ASSOCIATION OF THE WORLD BANK GROUP TO FINANCE THE ELECTRICITY ACCESS SCALE UP PROJECT (EASP)**

*(Brief by the Hon. Minister of Finance, Planning & Economic Development)*

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**PURPOSE**

1. Rt. Hon. Speaker, this brief is for the purpose of seeking authorization of Parliament and as required under Article 159 of the Constitution, to allow the Government to borrow up to SDR 198.2 million (US\$ 331.5 million equivalent) and receive a grant of **up to Special Drawing Rights (SDR) 198.2 million (equivalent to US\$ 276.5 million)** from the International Development Association of the World Bank Group to support the Electricity Access Scale Up Project (EASP).

**BACKGROUND**

2. Rt. Hon. Speaker, as you are aware, the availability of sustainable (reliable, affordable and clean) energy services is critical for economic growth, poverty reduction and reduction of environmental degradation.

3. Uganda's per capita electricity consumption remains one of the lowest in the world at 215 kWh per capita, far below the sub-Saharan average of 552 kWh per capita and the world average of 2,975 kWh per capita largely due to high electricity tariffs, high connection costs, high energy losses, limited investments and low power supply quality and reliability.
4. To achieve Uganda's electrification targets in the medium term, Government approved the Electricity Connections Policy (ECP) in 2018 to provide free one pole and no pole electricity connections to Ugandans.
5. The proposed EASP project seeks to facilitate at least one million electricity connections covering households, commercial enterprises, industrial parks, mining centers and public institutions.

## **THE PROBLEM**

6. Access rates to modern and clean energy by households especially in the rural and peri-urban areas and refugee hosting communities remains low (with national access to electricity at only 19%) in Uganda. In addition, there is over dependence on biomass for cooking at household and institutions level as well as industries with continued use of inefficient technologies in industries. *This has created a deficit on the sustainable supply of the resource.*

7. Provision of the power distribution infrastructure is capital intensive and therefore achieving universal access by 2030 requires prioritization of the electricity access agenda by Government.
8. Rt. Hon. Speaker, failure to address the problem of low level of access to electricity will among others, negatively: affect Government's efforts in ensuring social-economic transformation of our Country; result in sustained household poverty levels; affect health and education service delivery; limit industrialization; increase deemed energy payments; and reduce Uganda's attractiveness as an investment destination.

## **THE PROJECT**

9. The Project will facilitate rapid scale-up of electricity connections through expansion and intensification of the national grid and mini grid networks to electrify residential, commercial, and industrial consumers. At least 1,200,000 potential customers that qualify for a Pole and No Pole service connection will be connected to the grid. For customers that can not afford conversional house wiring, free low-cost wiring solutions such as ready boards will be provided. The electricity connection materials under this Project will be procured in bulk to leverage economies of scale benefits.
10. Both grid and off-grid renewable energy technologies including clean cooking technologies will also be deployed in Refugee host

communities to ensure sustainable utilization of clean energy by the refugees and their host communities.

11. The Project will also finance network system improvements (extensions and upgrades) targeting individuals, communities, schools, health centers and small and medium scale enterprise ventures that require electricity for Productive Uses but are unable to finance extension of electricity to their sites within a two-kilometer distance from the existing grid.
12. Further, the Project will provide Financial Intermediation for energy access scale up to entrepreneurs to promote energy access solutions for residential, commercial, industrial and institutional consumers

## **OBJECTIVES**

13. The EASP is intended to finance the scale-up of last mile access to modern forms of clean energy while tapping into the existing infrastructure created by NDP I and II. The Project will also contribute to all the objectives of the Electricity Connections Policy and three of the Sustainable Energy Development Programme objectives. The project will deliver the following:
  - i. To increase the proportion of the Population with access to electricity from 24% to 44% by 2027.
  - ii. To increase the share of clean energy usage for cooking from 15% to 40% by 2027.

- iii. Increase number of connections made annually from the average 70,000 to 300,000 connections by 2027.
- iv. Increase electricity demand on the main grid by 500MW by 2027.

## **PROJECT DESCRIPTION**

- 14. **Project Development Objective and Components:** The Project development objective is to increase access to electricity for households, commercial enterprises, industrial parks, and public institutions from 19% to 44% by 2027; and increase the share of clean energy usage for cooking from 15% to 40% by 2027.
  
- 15. **Project components:** The project components are as follows:
  - i) **Component 1: Grid Expansion and Connectivity:** This component will facilitate at least one million (1,000,000) electricity connections covering no-pole and one-pole connections as well as investments in new electricity grid infrastructure (Medium Voltage (MV) and Low Voltage (LV) networks and installing the necessary transformers) to accommodate additional connections.
  
  - ii) **Component 2: Financial Intermediation for Energy Access Scale-up:** This component will be implemented through extension of concessional financing, guarantees, grants and technical assistance to local financial institutions and Energy Companies dealing in clean energy technologies (solar for

households and productive uses such as irrigation, water pumping, refrigeration & cooling, clean cooking appliances, efficient electrical appliances). The activities will cover beneficiaries (households and enterprises) both inside and outside Refugee Host Districts.

**Electrification of public institutions by stand-alone solar technologies.** The electrification of public institutions will be supported including public schools, public health centers and public water supply systems, through stand-alone solar technologies. The component will benefit Ministry of Education and Sports (MoES), Ministry of Health (MoH), and Ministry of Water and Environment (MoWE) to contract solar electricity service providers/ contractors to electrify schools, health centers and water supply schemes located in areas far from grid electricity networks.

**iii) Component 3: Energy Access in Refugee Host Communities:** This will provide interventions detailed under components 1 and 2 but specifically in the Refugee Hosting Districts.

**iv) Component 4: Project Implementation Support and Affordable Modern Energy Solutions:** This will support project implementation and achievement of the agreed project results including technical assistance to strengthen the enabling environment for energy sector projects and support towards

operation and maintenance costs for solar systems in Public Institutions.

- v) **Component 5: Contingent Emergency Response (US\$0 million IDA Credit).** This component aims at providing immediate response to an eligible emergency, as needed in the event such materializes, such as the recent outbreak of the COVID-19 pandemic.

## **PROJECT COST AND FINANCING**

16. The total estimated project cost and financing is US\$638 million; which includes US\$ 331.5 million IDA Credit and US\$276.5 million Grant. The Grant consists of US\$112.5 million from IDA, US\$124 million from the IDA Window for Host Communities and Refugees (WHR), US\$30 million from the Clean Technology Fund (of which US\$25 million is a Contingent Recovery Grant) and US\$10 million from the Clean Cooking Fund. This is supplemented by Government of Uganda (GoU) counterpart funding of US\$10 million and US\$20 million that is to be leveraged from the private sector.

**Table 1: Summary Project Cost and Financing Plan (US\$ Million)**

Project Components	IDA Credit	IDA Grant	IDA-WHR Grant	CTF CRG	CTF Grant	CCF Grant	Private Sector	GoU	Total
Component 1. Grid Expansion and Connectivity	331.5	26	--	--	--	--	--	--	357.5
Component 2. Financial Intermediation for Energy Access Scale-up	--	56	--	25	5	6	15	--	107
Component 3. Energy Access in Refugee Host Communities	--	13.5	107	--	--	--	5	--	125.5
Component 4. Project Implementation Support and Affordable Modern Energy Solutions	--	17	17	--	--	4	--	10	48
Component 5. Contingent Emergency Response	--	--	--	--	--	--	--	--	0
<b>Total financing required</b>	<b>331.5</b>	<b>112.5</b>	<b>124</b>	<b>25</b>	<b>5</b>	<b>10</b>	<b>20</b>	<b>10</b>	<b>638</b>

**Terms and Conditions of the Loan**

17. The terms of the loan (IDA) are as follows:

- i) Loan Amount      USD 331.5 Million (SDR237.7 million)
- ii) Loan Period     38 years including 6 years grace period.
- iii) Commitment Fee  0.5% p.a on unwithdrawn financing balance.
- iv) Service Charge   0.75% per annum on the withdrawn credit balance.

**Conditions Precedent to Loan Effectiveness:**



18. The conditions to be fulfilled by Government to achieve loan effectiveness include:
- i) The IDA is satisfied that the Recipient has an adequate refugee protection framework;
  - ii) Project Implementation Units have been established;
  - iii) The Project Operations Manual ("POM") has been prepared and adopted by Government;
  - iv) UECCC has developed and operationalized an environmental and social management system in form and substance acceptable to the Association.
  - v) The updated Stakeholders Engagement Framework (SEF) has been disclosed.

## **RATIONALE FOR PROJECT FINANCING**

19. Sustainable access to modern and affordable forms of energy and specifically electricity is a key driver for social-economic transformation. Sustainable Development Goal (SDG) 7 aims at achieving universal access to electricity by 2030. Additionally, the NDP III prioritized increased access to and consumption of clean energy. Therefore, there is need to scale up last mile access to electricity and modern forms of energy to achieve this goal.
20. The EASP is intended to support implementation of the Parish Development Model through facilitating last mile access to modern forms of clean energy for households, commercial enterprises and industrial parks.

21. Rt. Hon Speaker, as earlier indicated, implementation of Government's Electricity Connections Policy (ECP) has been affected by inadequate financing where only 360,000 connections have been supported out of the projected 1,000,000 connections that should have been made by now. As a result, a backlog of 250,000 applications for connections under the ECP remains unconnected while the rest of Ugandans who cannot afford to connect are discouraged to apply. It is therefore imperative that this proposed financing is brought on board to effect over one million electricity connections targeting households, commercial enterprises, industrial parks, and public institutions.

## **OTHER ISSUES**

22. **Stakeholder Consultations:** A number of consultations as detailed below were carried out during project design and appraisal.

- a) Meetings were held with the Electricity Regulatory Authority (ERA) as well as the Electricity service providers to determine the optimal implementation approach for the last mile (one and no-pole) electricity connections in their respective territories.
- b) A market sounding conference was held with local firms to prepare them for the implementation of the project in accordance with the Buy-Uganda Build-Uganda Policy.
- c) The Ministries of Health, Education and Sports, and Water and Environment actively participated in the design of the off-grid electrification and provision of clean cooking solutions for Public Institutions sub- components.

d) The Office of the Prime Minister was consulted and is a key player in the implementation of the Project component 3 that focuses on energy access in Refugee Hosting Districts (RHDs).

23. **Project Beneficiaries:** The project's geographical focus is national and will directly benefit households, commercial enterprises, including minerals and mining enterprises, public institutions, and industrial parks with access to energy and clean cooking solutions. The Project will also support Refugees and their host communities with both grid and off grid technologies. The Key project results include:

a) About 1,073,500 new on-grid electricity connections (The estimated number of connections per District is included under **Annex I**.)

b) 150,000 Off grid new electricity connections made of which 27,000 are in refugee host Districts.

c) Based on the above connection targets, about five (5) million project beneficiaries will be provided with access to electricity under the project through grid, mini-grid and off-grid options of which 2,525,000 will be female.

d) A total of about 600,000 people in refugee hosting districts will benefit, of which about 300,000 will be refugees.

24. **Project Outcomes and Benefits:** Once implemented the project will have the following benefits and outcomes:

- a) Support to the Country's efforts to scale up access to electricity and clean cooking for households including for refugees and their host communities, commercial enterprises, industrial parks, and health and education facilities;
- b) The increased connectivity and access to energy will facilitate the development of productive uses of electricity to generate income and jobs for the community, including women beneficiaries, which in turn will help in the alleviation of poverty and promotion of shared prosperity. This will facilitate the implementation of Government's Parish Development Model (PDM);
- c) Contribute to the provision of adequate power distribution infrastructure to supply quality, reliable and adequate power nationwide;
- d) Supply of quality, adequate and reliable power to the growing industries within different locations in the country;
- e) Increased economic activities in the project areas and employment opportunities;
- f) Decreased use of charcoal for cooking by institutions and households and thereby less deforestation;
- g) Increased consumption of electricity for productive uses;
- h) The beneficiary ministries and implementing agencies will benefit from institutional and capacity strengthening, and from improved data, planning and monitoring tools that will enhance electricity sector planning as a whole.

**25. Monitoring and Evaluation:** Over the years, the MEMD and MoFPED have developed adequate capacity to monitor results and

undertake impact evaluation of project activities. The PCU will undertake and coordinate M&E activities with external stakeholders during Project implementation, including tracking of results indicators using data from the PIUs and other stakeholders. The Budget Monitoring and Accountability Unit of the MoFPED will track and evaluate the impact of project activities on the beneficiaries and the economy.

## **PROJECT IMPLEMENTATION ARRANGEMENTS**

26. The main Project implementing entities will be the Ministry of Energy and Mineral Development (MEMD) for the grid expansion and connectivity aspects and the Uganda Energy Credit Capitalization Company (UECCC) for the financial intermediation aspects largely targeting off-grid interventions and clean cooking solutions.
  
27. The two main implementing entities will collaborate closely with the Ministry of Finance, Planning and Economic Development (MoFPED), Office of the Prime Minister (OPM), Ministry of Education and Sports (MoES), Ministry of Health (MoH), Ministry of Water and Environment (MoWE), Ministry of Local Government (MoLG), Ministry of Agriculture, Animal Industry and Fisheries (MAAIF), Ministry of Works and Transport (MoWT), Ministry of Gender, Labor and Social Development, electricity distribution Companies (Service Providers), and other relevant sector stakeholders to implement the various project activities.

28. The MEMD will establish a Project Steering Committee (PSC) to provide strategic guidance and overall oversight during project implementation and ensure effective coordination among all the stakeholders. The PSC will be chaired by the Permanent Secretary, MEMD with representatives from MoFPED, UECCC, OPM, Ministry of Justice and Constitutional Affairs, Ministry of Local Government, Ministry of Health, Ministry of Education and Sports, Ministry of Water and Environment.

## **THE LOAN AND THE CURRENT DEBT SITUATION OF THE COUNTRY**

29. **Current Debt Position:** As at end June 2022, the total public debt stock increased by USD 1.5 billion from USD 19.5 billion as at June 2021 and was recorded at USD 21 billion as at end June 2022. Whereas both the domestic and external debt components of the public debt stock increased, the share of domestic debt increased from **37%** (USD 7.2 billion) in FY 2020/21 to **39%** (USD 8.2 billion) in FY 2021/22. On the other hand, the share of external debt reduced from **63%** (USD 12.3 billion) in FY 2020/21 to **61%** (12.8 billion) in FY 2021/22 of the total debt stock. This increase in the pace of growth of domestic debt stock was largely on account of increased borrowing from the domestic market as opposed to the dwindling windows of external financing.
30. Following the growth of public debt, the nominal value of public debt as a percentage of GDP stood at 48.58% as at end June 2022, increasing from 46.70% registered in June 2021. Similarly, the

**Present Value (PV) of total debt to GDP increased from 37.60% as at end June 2021 to 40.17% in June 2022. (Source: Directorate of Debt and Cash Policy, MoFPED)**

## **CONCLUSION**

**31. In light of the above, I shall request Hon. Members to: -**

- a) Note the need to implement the proposed Electricity Access Scale Up Project (EASP);**
- b) Endorse the request by Government to borrow up to Special Drawing Rights (SDR) 237.7 million (equivalent to USD 331.5 million) and receive a grant of up to Special Drawing Rights (SDR) 198.2 million (equivalent to US\$ 276.5 million) from the International Development Association (IDA) of the World Bank Group to finance the Electricity Access Scale Up Project (EASP);**
- c) Authorize the Government by passing the resolution attached to this brief and in line with Article 159 of the Constitution, to borrow up to Special Drawing Rights (SDR) 198.2 million (equivalent to US\$ 276.5 million) from the International Development Association (IDA) of the World Bank Group to finance the Electricity Access Scale Up Project (EASP) upon the terms and conditions stated above.**

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## ANNEX I: PROPOSED ELECTRICITY CONNECTIONS TO BE MADE PER DISTRICT UNDER THE EASP

Central Region	Connections	Eastern Region	Connections	Northern Region	Connections	Western Region	Connections
BUIKWE	17,257	AMURJA	4,724	ABIM	1,872	BUHWEJU	2,321
BUKOMANSIMBI	3,496	BUDAKA	4,392	ADJUMANI	4,115	BULISA	2,029
BUTAMBALA	3,106	BUDUDA	3,995	AGAGO	3,984	BUNDIBUGYO	4,603
BUVUMA	1,663	BUGIRI	8,590	ALEBTONG	4,011	BUNYANGABU	4,074
GOMBA	3,770	BUKEDEA	4,071	AMOLATAR	2,677	BUSHENYI	8,252
KALANGALA	2,259	BUKWO	1,627	AMUDAT	1,849	HOIMA	11,191
KALUNGU	5,198	BULAMBULI	3,530	AMURU	3,357	IBANDA	5,802
KAMPALA	174,539	BUSIA	9,027	APAC	6,885	ISINGIRO	9,412
KAYUNGA	11,618	BUTALEJA	4,948	ARUA	10,811	KABALE	8,729
KIBOGA	3,897	BUTEBO	2,718	DOKOLO	3,244	KABAROLE	12,091
KYANKWANZI	4,363	BUYENDE	5,986	GULU	9,199	KAGADI	6,360
KYOTERA	6,805	IGANGA	16,973	KAABONG	2,891	KAKUMIRO	5,573
LUWERO	22,551	JINJA	20,765	KITGUM	4,965	KAMWENGE	7,922
LWENGO	8,033	KABERAMAIDO	3,861	KOBOKO	4,006	KANUNGU	4,525
LYANTONDE	2,548	KALIRO	4,634	KOLE	4,375	KASESE	19,772
MASAKA	16,326	KAMULI	12,577	KOTIDO	3,456	KIBAALE	2,755
MITYANA	13,619	KAPCHORWA	2,863	LAMWO	2,479	KIRUHURA	6,351
MPIGI	10,261	KATAKWI	2,942	LIRA	12,466	KIRYANDONGO	5,353
MUBENDE	9,981	KIBUKU	4,036	MARACHA	3,947	KISORO	6,578
MUKONO	46,505	KUMI	4,833	MOROTO	1,940	KYELEGWA	6,403
NAKASEKE	6,148	KWEEN	1,706	MOYO	1,809	KYENJOJO	8,447
NAKASONGOLA	4,251	LUUKA	5,044	NAKAPIRIPIT	2,750	MASINDI	9,486
RAKAI	5,594	MANAFWA	3,185	NAPAK	2,494	MBARARA	18,869
SSEMBABULE	5,554	MAYUGE	9,821	NEBBI	4,484	MITOOMA	3,807
WAKISO	220,232	MBALE	20,725	NWOYA	2,352	NTOROKO	1,226