

Financier pulls out of Nyagak III power dam

By Vivian Agaba and Mary Karugaba

KfW, a German development bank, has pulled out of the deal to finance the construction of Nyagak III hydro power project citing reasons of incompetence by the private partner, Hydromax.

Following complaints of incompetence, KfW cancelled the grant funding of Euro 6M (about sh27b) and this has affected the construction works of the project.

Nyagak III power station, a 5.5MW mini hydroelectric station is located across the Nyagak river in Nyaruga sub county, Okoro Nyaruga district in the West Nile sub-region of the Northern region.

Nyagak hydro-power plant represents a strategic investment, correcting the intermittent energy supply in the West Nile region.

The scheme is a private sector-led investment and is very much in line with the Government policy which encourages private sector participation in the energy sector with important implications for rural electrification.

The Minister of Energy and Mineral Development, Irene Muloni while appearing before the MPs on the natural resources committee last week said the cancellation of the funding has delayed the start of the actual civil works as the Government is mobilising funds to cater for the gap created.

Documents presented to

the committee by Muloni, indicate that the strategic partner Hydromax was unable to fulfill the KfW condition of commencement of excavation and foundation works within the second half of 2017 for extension of the grant disbursement period because of KfW's further condition that no construction works should commence before full approval of the updated Environmental and Social Impact Assessment (ESIA) Report, Contractor's Environmental and Social Management Plan (ESMP) and Environmental and Social Action Plan (ESAP) from KfW, GOPA and the National Environment Management Authority (NEMA).

"This led to KfW cancellation of grant funding due to the failure by the developer to fulfill the above conditions precedent for the extension of grant disbursement period," said Muloni.

"This has delayed the start of the actual civil works as the Government is mobilising funds to cater for the gap created by the cancellation of the Euro 6M by the KfW.

In case we do not get the funding, the Government has no choice, but to fund the project itself," she added.

Relatedly, the Chief Executive officer, Uganda Electricity Generation Company Limited (UEGCL), Dr Eng Harrison E. Mutikanga told MPs that the incompetence on the side of Hydromax raised by KfW was related to delays in financial closure and absence of designs.

According to the documents, there were key milestones attained; financial closure was

attained by the private partner, Hydromax in late September. Workers camp and access roads were constructed by the developer and procurement of Engineering, Procurement, and Construction (EPC) contractor was completed in November.

During the meeting, it was also revealed that 33% of the

BETWEEN THE LINES:

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funds provided had been used on the project, and the MPs

tasked the minister and her team to explain.

Thomas Dyebwya, the MP, Rubinda north asked, "What did you spend the 33% of the funds on, when you are saying there were no designs?"

Mutikanga said the money was used by the Government to acquire land for the project and also compensating land

owners that were to be affected by the project.

The Isingiro county south MP, who is also the chairperson of the committee, Alex Byaruhanga asked Muloni to prepare a written explanation with solid details concerning the project and make recommendations to plenary.

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MONETARY POLICY STATEMENT FOR APRIL 2018

The inflation data released by the Uganda Bureau of Statistics (UBOS) indicate that inflation remains subdued. Annual headline inflation marginally declined to 2.0 percent in March 2018 from 2.1 percent in February 2018 largely because of a decline in food crops inflation which dropped to minus 1.7 percent from minus 0.7 percent in February 2018. Core inflation remained unchanged at 1.7 percent, which could point to a trough of the disinflation cycle in the next two months. Energy Fuel and Utilities (EFU) inflation declined to 10.3 percent in March 2018 from 11.2 percent in February 2018.

The economy continues to recover. The Composite Index of Economic Activity (CIEA), which is Bank of Uganda's high frequency indicator of real economic activity points to a relatively robust economic growth in Financial Year (FY) 2017/18. In the year to February 2018, the CIEA projects economic growth of about 6.4 percent. In addition, the Quarterly Gross Domestic Product (GDP) for 2017 released by UBOS indicates economic growth of 6.3 percent in 2017 compared to 3.0 percent in 2016. Economic activity improved across all sectors: the agricultural sector grew by 6.1 percent in 2017 from minus 0.4 percent in 2016; the services sector grew by 8.1 percent from 4.5 percent; while industry grew by 4.4 percent from 4.2 percent in the same period.

The economic growth outlook is more positive than was forecast at the Monetary Policy Committee (MPC) meeting of February 2018 and there are signs of increased business confidence. Economic growth is projected at an average of 6.5 percent in the next three years. At these economic growth rates, the negative output gap, which was estimated at about minus 2.0 percent in the FY 2016/17, is expected to close in FY 2018/19.

The forecast gradual recovery of GDP growth is premised on a favourable external scenario, strong private and public investments, improved agricultural productivity, and the absence of significant macroeconomic imbalances. There are nonetheless downside risks to this outlook, as indicators of aggregate demand including fiscal absorption and private sector credit growth remain weak.

The inflation forecasts are largely similar to those of the MPC meeting of February 2018. Inflation is expected to rise gradually as the output gap closes in a sustained manner. The planned increase in indirect taxes, especially on fuel pump prices and financial services during FY 2018/19 may also contribute to a rise in inflation. Although the economic growth forecast has improved, demand pressures in the economy are not assessed to pose significant risks to the inflation outlook at the moment. The Bank of Uganda (BoU) estimates that the risks to inflation are currently balanced. Inflation is projected to converge to and stabilise at the medium-term target of 5 percent by the end of 2019. However, the evolution of the exchange rate, food crop and international oil prices could cause inflation to divert from the projected path.

On the basis of the assessment of the current and evolving macroeconomic situation, the BoU will maintain the Central Bank Rate (CBR) at 9.0 percent. This is consistent with supporting economic growth and achieving the inflation target over the medium-term. The band on the CBR will be maintained at +/-3 percentage points and the margin on the rediscount rate at 4 percentage points on the CBR. Consequently, the rediscount rate and the bank rate will remain at 13.0 percent and 14.0 percent, respectively.

