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FINANCE



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LOOKING BACK: KATAMBA'S FOUR YEARS AT DFCU

Mathias Katamba's resignation as chief executive officer at dfcu bank was a little surprising at the time financial institutions were seen to be recovering from a tough time. The banker who is highly regarded cited 'personal reasons' for throwing in the towel

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ANALYSIS



EXPORTS: DO DUE DILIGENCE

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A section of Isimba dam while under construction in Kayunga district. Over 80% of civil works contracts in 2021 were awarded to foreign firms

WHY LOCAL CONTENT IS GROWING SLOWLY

Public Procurement and Disposal of Public Assets Authority's (PPDA) Benson Turanye said foreign firms are undertaking more high-value infrastructure projects than local contractors.

"A road project worth sh100b taken on by a foreign firm can form about 1,000 small contracts of micro-procurement taken by local contractors," he said.

"However, we are trying to amend the guidelines to increase the value thresholds so that local contractors and consultant firms can undertake road works of higher value."

"This will build the capacity of local contractors so that, in future, they have the capability of competing for bigger projects," he added.

A more recent study (2021) on local content implementation conducted by CoST Uganda indicates that over 80% of

COVER STORY

A 2018-2020 analysis of infrastructure projects procurements in Uganda by CoST Uganda indicates that over 90% of infrastructure projects contracts in the study period went to local firms. However, the fraction that went to foreign firms carried more money value.

By Nelson M. Muhoozi

of civil works contracts in Uganda were awarded to foreign firms.

The results of a study that analysed 15 Procuring and Disposing Entities

(PDEs) show that 51% of the local firms consulted had never participated in the public procurement processes, pointing to the high cost of bidding and unfair competition with foreign firms.

Others, according to the study, considered public procurement a waste of time and resources since they are never considered.

Olive Kabatwawe, the Africa regional manager and programme co-ordinator of CoST Uganda, said local firms lack financial and human capacity to execute government infrastructure projects.

She added that this has affected their ability to prepare bankable bids and engage favourably in public infrastructure procurement processes. As a result, many have been forced out of business.

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UDB Commits UGX 14.8.5 Billion to Enhance Electricity Access in Uganda.

Uganda Development Bank (UDB) has committed UGX14.8.5 billion to enable 550,000 households to access electricity through the **Hybrid Electricity Customer Connection Credit Framework**, in partnership with the Electricity Regulatory Authority (ERA) and the Ministry of Energy and Mineral Development.

The Hybrid Electricity Customer Connection Credit Framework is based on the 2020 connection costs of UGX720,883 for a no-pole connection as approved by ERA. The framework will be implemented as follows:

- I. The customer makes a down-payment of UGX200,000 as a contribution towards their connection.
- II. The second proportion of UGX270,000 is taken as a credit line provided by UDB. Repayment of the credit line shall be recovered as a proportion of every bill payment/energy purchase by the customer, considering the cheap and patient nature of funds provided by UDB, connected customers shall have up to eight (8) years to pay off the credit facility of UGX270,000 per connection. The extended repayment period is aimed at minimizing the deduction every time a consumer makes an energy purchase or "yaka" token.
- III. The last portion of UGX250,883 and the interest payable for the UDB financed credit portion shall be a subsidy to the customers.

The funds provided by UDB are used to purchase connection materials and are channeled through the electricity distribution companies.

Connection applicants are **NOT** required to apply to UDB separately or directly for the connection credit facility. Applicants shall express their interest in the UDB credit connection facility upon making an application for an electricity connection and sign the necessary application documentation through their designated Electricity Distribution companies.

The program has been rolled out for Umembe Limited and the Uganda Electricity Distribution Company Limited customers as a pilot.

For more details, visit the Uganda Development Bank offices located on: Plot 6 Nakasero Road, 1st Floor, Wing B, Ravenzori Towers OR visit our website: www.uadb.com OR call 0414355509.

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Despite Uganda's effort to install preference and reservation schemes through PPDA to promote economic emancipation and development of the capacity of local contractors and consulting firms, Kabatwairwe said little has been achieved.

However, these reservations are not being implemented well according to Kabatwairwe. She said the definition of local content is still under contention.

"Clarifications are still needed on thresholds because we have multinational corporations that later become domesticated as required in the provisions. This thickens the competition for local firms," she said.

The Government spending on procurement is estimated to be 60% of the national budget. In 2019, this was equivalent to sh23.51 trillion.

Kabatwairwe noted that most of this money is lost through capital flight when all high-value contracts are awarded to foreign firms.

He said implementation is still a challenge because the reservations and preference schemes gives license to some multinational firms to forego the 30% subcontracting of works.

Kabatwairwe said Uganda has many local contractors and senior consultants who can execute some of the infrastructure projects.

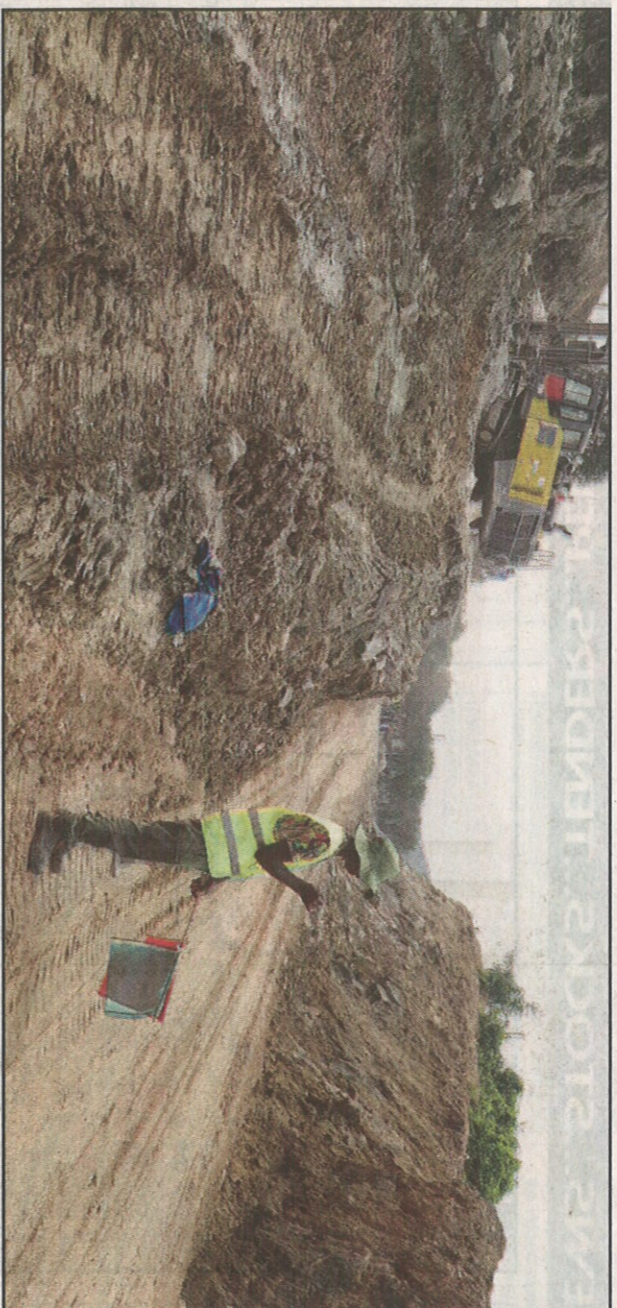
However, she noted, the environment under which reservations are operating does not favour them.

"In our research, most respondents noted that there was unfair competition with foreign companies," she said.

"Foreign firms easily access finances at low-interest rates (2-3%) in their home countries, while local firms borrow from commercial banks at an interest rate of 20-25%. There is no way the two can fairly compete given this huge gap."

"In addition, delays by the Government to pay contractors

'20% LOCAL CONTRACTORS PAID BRIBES TO GET PUBLIC CONTRACTS'



Works on a section of Rukungiri-Kihini-Ishasha-Kanungu road. Most local firms do road maintenance works

CONTRACT BRIBES

Research by PPDA shows that 20% of the local contractors had paid bribes to procurement entity officials to secure public contracts.

Kabatwairwe said this amplifies the need to enhance integrity in bidding for public

infrastructure development-related projects to create transparency and public trust, and reduce the risks of corruption during the bidding processes.



government officials, and many times these are favoured over others, rendering the procurement processes pointless," he said.

Ronnie Akena, a civil engineer with Bar Design and Construction Company, said they have not realised any benefits from the local content policy.

"There are companies that come as international when, actually, they are owned by local people, like some

"What we are proposing in the new guidelines is that when a foreign firm contracts, say, a 10km road, 3km should be subcontracted to a local firm. This will boost the capacity of local firms in terms of the value they get from government projects."

Initially, Turanye said the guidelines only included clothing, medicines, uniforms and electrical, among others, that were manufactured in Uganda.

However, he added that the scope will expand to include other products, such as transformers, furniture and other inputs that are used in the construction sector, like cement, iron bars and sanitary wear, among others.

"Technology cuts off physical contact between the contractors and procurement officials, hence reducing incidences of corruption. We have confidence in the e-procurement portal to solve some of the issues, especially corruption," Turanye said.

Kabatwairwe added that disclosure of information related to the projects plays a big role in creating trust among procurement entities, contractors and the public, and bidders fully gain from government projects.

"Corruption tendencies during the procurement processes affect the quality of works and increase the cost business for the local contractors and consultants," she said.

SKILLING LOCALS

A study by CoST Uganda observed that most graduating engineers are not well equipped with the necessary skills, thus the need for the Government and private sector to invest in skills development.

Mugenyi said the Government should grant a high-value road construction project to about three firms and see how they perform. "You get skills while working. We could test some local firms with say an sh50b project and test their skill level," he said.

"However, we are constructing a skilling school in Luwero for plant operators and we hope it will be a game-changer."

Jaffar Tonda, a real estate developer at Synergy Properties, said locals do shoddy work as a result of lacking the technical capacity to perform.

"Most of our local firms lack sophisticated equipment to do road projects. This calls for them to leverage partnerships with able companies instead of always lamenting," he said.

Kabatwairwe said there is a need to establish placement schemes where graduating engineers are placed and acquire more practical skills, especially on how to bid for tenders and learn advanced skills related to the application of modern technology and machinery on the market.

"PPDA and the finance ministry need to establish programmes to uplift the private sector, such as training them in preparing quality and winning bids and how to manage construction companies, as this is essential when executing infrastructure projects," she said.