

UGANDA INSTITUTION OF PROFESSIONAL ENGINEERS

PROJECT FINANCING & LIFE CYCLE MANAGEMENT

Financing Agreements and Case Studies



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PRESENTATION OUTLINE

- Learning Objectives
- Mode of evaluation
- Financing Agreements
- Content of Agreements
- Main Funding Agencies
- Financing Models
- Challenges faced on agreements

Case Studies

- Highways
- Water and Resources Engineering
- Buildings and Structures
- Electrical, telecom and IT
- Mechanical Engineering

FINANCING AGREEMENTS

Learning Objectives

The Engineer should be able to have the following skills at the end of the presentation:

- Define and comprehend the concept of financing agreements
- Identify the content in each agreement
- Understand the limitations and challenges of the agreements
- Identify the major development financing agencies
- Relate with the case studies here in Uganda

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Mode of evaluation of participant comprehension

The presenter will assess uptake of presentation by:

- Comprehension survey submitted to UIPE
- Level of engagement of participants
- Remembrance of facts, statistics and details
- Verbal feedback from the participants

Point to Ponder

“

We do not inherit the earth
from our ancestors, we
borrow it from our children.

AFRICAN PROVERB

GRACIOUSQUOTES.COM

FINANCING AGREEMENTS

Definition

- Agreement that a developer may enter into with lenders or equity providers to obtain all or a portion of the financing for a project.
- These are lending agreements between a government agency and a multi lateral bank for the provision of funds for an infrastructure development project.
- Agreement is usually signed at a particular date, is time bound & project specific.
- The borrower (government agency) pays an interest on the capital over the period usually after a grace period.
- Collateral is usually a national asset such as an airport or sea port or tight conditions to ensure repayment.

FINANCING AGREEMENTS

Key Players

1. **Beneficiary/Borrower/Recipient** – Government ministry, parastatal or municipality
2. **The Bank** – Funder or Lender
3. **The Project** – Infrastructure project or consulting services
4. **The Amount** – Agreed sum to lend. It attracts an interest
 - Amount can be a loan or grant (with specific conditions)

FINANCING AGREEMENTS

Development Finance Institutions (DFIs)

- National and international development finance institutions (DFIs) are specialized development banks or subsidiaries set up to support private sector development in developing countries.
- Majority-owned by national governments and source their capital from national or international development funds
- Can raise large amounts of money on international capital markets and provide financing on very competitive terms.
- Can be bilateral (between countries) or multi lateral (more than one country and subject to international law)

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The Main Multilateral DFIs

- AfDB (African Development Bank)
- ADB (Asian Development Bank)
- WB (World Bank)
- EU (European Union)
- EIB (European Investment Bank)
- IFC (International Finance Corporation - WB)
- ISDB (Islamic Development Bank)

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The Main Multilateral DFIs

- UN (United Nations and related agencies – UNDP, UNICEF, UNESCO)
- AFRIEXIM (African Export Import Bank)
- China EXIM (China Export Import Bank)
- USAID (United States Agency for International Development)
- SIDA (Swedish International Development Agency)
- DANIDA (Danish International Development Agency)

FINANCING AGREEMENTS

Typical Agreement - Definitions

Consulting/Construction Guidelines - means the Guidelines on the Use of Consultants and Contractors

Consulting/Contracting Services - means the services to be financed out of the proceeds of the Loan or the Grant

Project Executing Agency – Ministry or department of ministry

Resettlement Framework, Resettlement Plan – For Project Affected Persons

FINANCING AGREEMENTS

Typical Agreement - Definitions

Governance for the environment: Environmental assessment and review framework, environmental management plan, Environmental Impact Assessment, Environmental Safeguards:

Governance for Gender: Gender Equality and Social Inclusion Action Plan

Goods: Equipment and materials to be financed out of the proceeds of the Loan or the Grant; and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance.

Loan Disbursement Handbook: Guidelines for the use

FINANCING AGREEMENTS

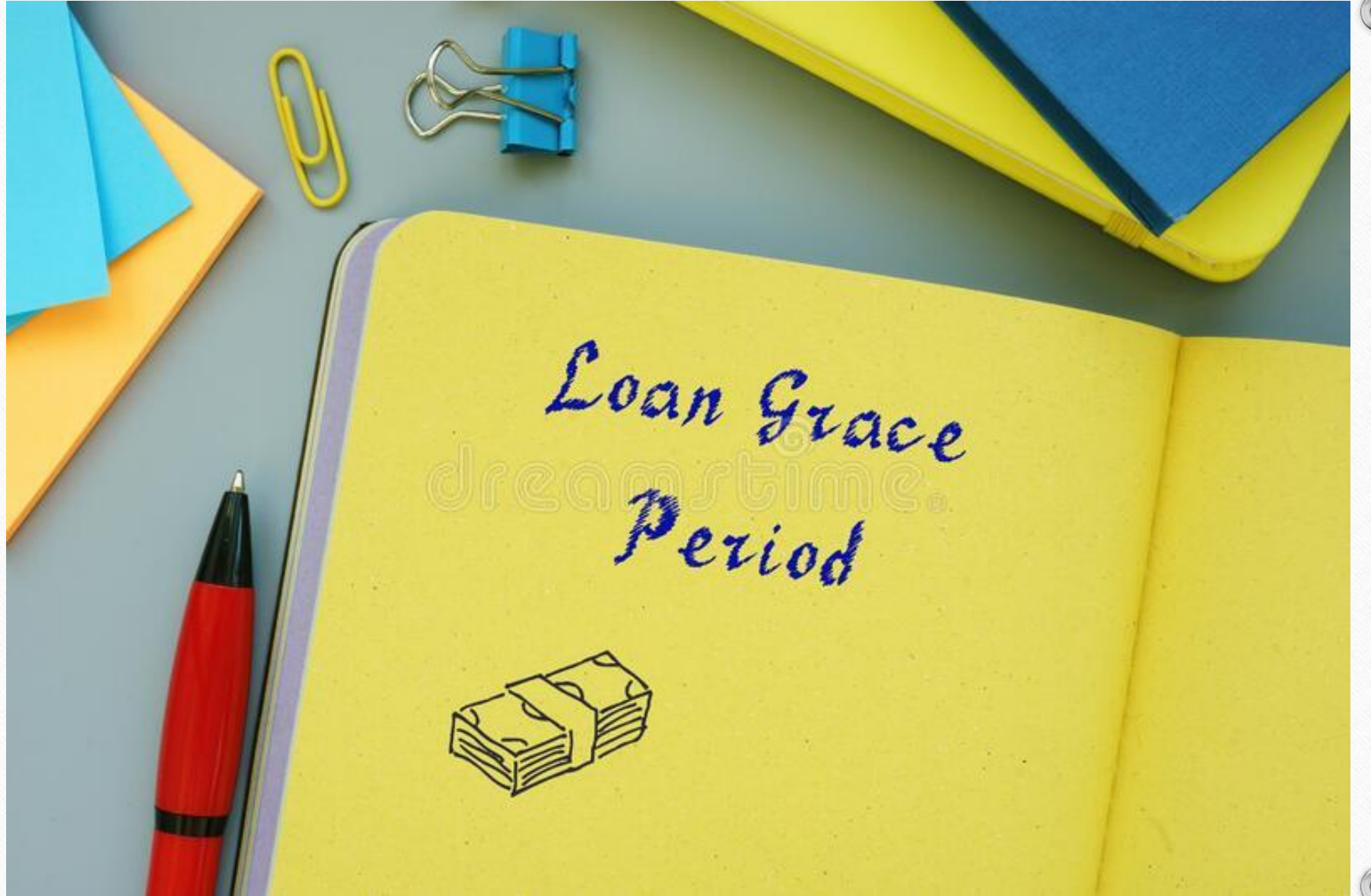
Financing Terms

- Compliance of government with the understandings of agreement.
- Honoring the repayment schedule as agreed
- Use of funds for intended purpose
- Method of repayment shall be by regular installments over specified period of time
- Consequences of non payment include: increase of interest rate, seizure of collateral, damage of borrower's credit score
- Governed by international lending laws and regulations

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The Loan Amount

- Funder can draw amounts from special funds resources, Borrower can get from loan account
- Loan or grant amount can be in various currencies
- Interest is paid per annum according to amortization schedule
- Grace period - period prior to the first principal payment date in accordance with the amortization schedule.
- Principle and interest are paid back from the loan account according to agreed schedule.



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Use of Proceeds of the Loan

- The Beneficiary shall assume the foreign exchange risk on all sums due
- Beneficiary has provision to relend part of the Loan to municipalities for small size projects.
- The proceeds of the Loan and the Grant shall be allocated and withdrawn in accordance with the provisions
- Beneficiary shall procure, or cause to be procured, the items of expenditure to be financed out of proceeds of the loan
- The Loan Imprest Account shall be established, managed, replenished and liquidated in accordance with the Loan Disbursement Handbook.

FINANCING AGREEMENTS

Particular Covenants

- Beneficiary shall **perform**, or cause to be performed, all obligations set forth in the Financing Agreement.
- All accounts and related financial statements shall be **audited** annually, in accordance with appropriate auditing standards
- The beneficiary shall enable, and shall cause the funder's representatives to **inspect** the project, the goods and works and any relevant records and documents.
- No rights or obligations under the Loan Agreement shall be assigned, **amended**, or waived without the prior concurrence of funder

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Suspension and Termination

The agreement shall have been repealed, suspended or amended under the following circumstances:

- Beneficiary shall have failed to perform any of its obligations as agreed in the financing agreement
- The beneficiary is behaving in a manner that may adversely affect project performance and execution
- Unnecessary delays due to indecision and government bureaucracy
- Project price variations due to corruption and wastage of resources

FINANCING AGREEMENTS

Effectiveness of Agreement

- The Project Agreement shall have been duly authorized, and executed and delivered and shall have become fully effective and legally binding on the parties thereto in accordance with its terms, subject only to the effectiveness of the Financing Agreement.
 - Fulfillment of **regulations**
 - Commitment to **terms** of agreement
- A date say 90 days after the date of the Financing Agreement can be specified for the effectiveness of the Financing Agreement

Project Financing Leads to Debt Burden



FINANCING AGREEMENTS

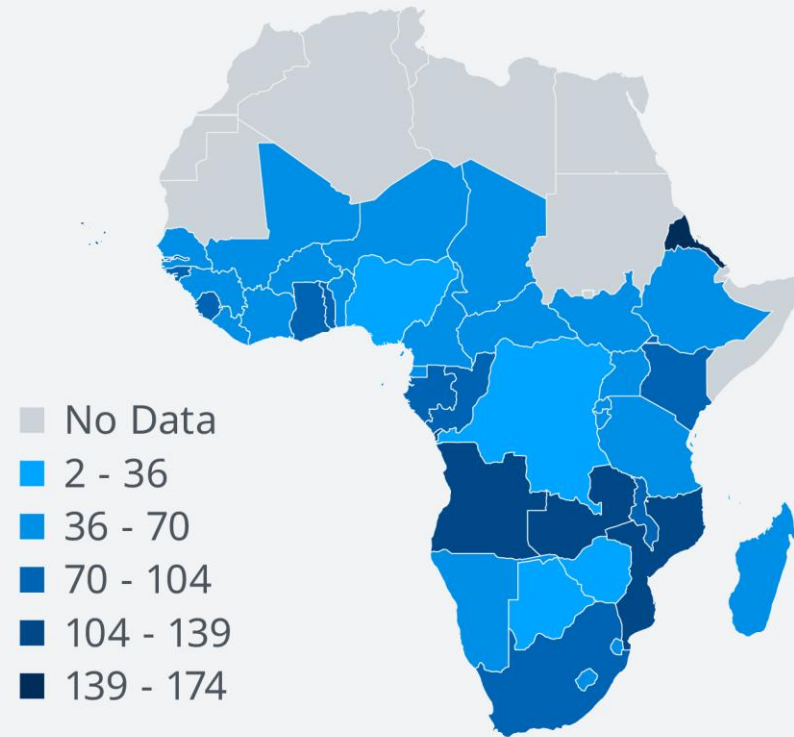
Challenges

- Corrupt regimes who divert aid funds to other uses for example election campaign funding
- Challenges with interest rates, banking sector regulations and high tax regimes that are prohibitive
- General public moral decadence with no respect for public finances
- Careless legal reviews of terms and conditions of the agreements; deadly clauses usually not detected till government default
- Misuse, re-allocation and wastage of borrowed funds

Is this Sustainable?

Debt-to-GDP ratio for African countries

2021, in percent



Source: International Monetary Fund, World Economic Outlook Database, Oct. 2020



USD 140 Billion

Debt to China Alone

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Lessons Learnt

- We need to adjust our approach and concentrate on projects that directly aid economic development
- Aid/Foreign debt doesn't necessarily aid development; the repercussions outweigh the benefits
- Structural reforms aimed at improving the overall macro economic environment
- Growth oriented adjustment programs that discourage capital flight
- Governance and goodwill to utilize the funds for intended purpose
- **Borrow responsibly**

FINANCING AGREEMENTS

Next Steps

- **Debt cancellations** – Under discussion by the G20 members
- **Special Drawing Rights (SDRs)** – IMF offers foreign reserves of members to help poor countries with liquidity (America is against; France and Germany is for)
- **Stimulus packages** to ignite economic growth - Recently USD 100-150 Billion was proposed by African Union
- **Waiver of interest payment** on bilateral and multi lateral debt
- **Debt ‘standstill’** – Suspend official debt obligations for a period of time especially in crisis.

Mindset of a Revolution for Radicle Change

Africans have no time to rest,
even after dying they have
to work as ancestors...

President Robert Mugabe



The *'Curse'* of Africans

#WisdomWillKillMugabe

Case Studies



HIGHWAY ENGINEERING



HIGHWAY ENGINEERING

Kampala Entebbe Express Highway

Funder: Exim Bank of China

- Over priced
- Value for money?
- Tolling?

Kampala Northern Bypass

Funder: European Union

- Delays
- Interest accumulation
- Stakeholders and PAPs

WATER AND RESOURCES ENGINEERING



WATER AND RESOURCES ENGINEERING

Katosi Water Project (NWSC)

Funder: European Development Aid/EU/KfW (Consortium)

- Good project planning and management
- Close supervision
- Stakeholder management

Nakivubo / Bugolobi Waste Water Treatment Plan (KCCA)

Funder: ADB/EU (Consortium)

- Site and ground conditions – Risk, Inadequate designs

ELECTRICAL, TELECOM AND IT



ELECTRICAL, TELECOM AND IT

Bujagali Power Station

Funder: World Bank

- Environment and Climate Change effects

Umeme

Funder: World Bank (IFC)

- Operations
- Outages and Leakages

BUILDINGS AND STRUCTURES



BUILDING AND STRUCTURES

Jinja Nile Bridge

Funder: Japanese Government & JICA

- Expertise
- Knowledge transfer

Entebbe International Airport

Funder: Chinese State

- Hidden clauses
- Delays
- National monument compromised



Beg, borrow, steal, Africa
needs to build infrastructure.

Sunil Bharti Mittal

quotefancy

KEY TAKE AWAYS?

LET'S TALK

THANK YOU!