



STANDARD GAUGE RAILWAY (SGR) PROJECT MINISTRY OF WORKS AND TRANSPORT



LOCAL CONTENT STRATEGY



September 2016

THE FOREWORD

The Ugandan Government is striving to raise the country's competitiveness, reduce the cost of doing business and foster socio-economic transformation in line with the National Development Plans (NDP I and II) 2010/11 - 2019/20 and Uganda Vision 2040 by developing a Standard Gauge Railway (SGR) network and the Greater Kampala Metropolitan Area (GKMA) Light Rail Mass Transit (LRT) system.

This Main SGR and the SGR-GKMA LRT will be modern, high-capacity standard gauge railway systems that are efficient, reliable, safe and affordable. The Main SGR project is being implemented as a regional project with the partner states of Kenya, Rwanda and South Sudan.

The Government recognises that the SGR Project is the largest project ever implemented by the country and appreciates the transformation impact that the project will have on the country.

It is widely believed that such mega infrastructure projects have numerous opportunities for local participation. The Government has through a number of development policies and strategies highlighted the need for Local Content. It is in this spirit that the SGR project has developed a local content strategy to enable the private sector and or individuals of Uganda to effectively participate in the development, maintenance and operations of the SGR by ensuring preference to domestically produced/ sourced goods and components or substantial value addition.

The strategy outlines the key possible areas of participation and the respective strategies both general and specific that have been developed to enhance the capability of local participation. It also stresses the need for adequate attention to social issues such as HIV/AIDs, elderly and persons with disability, gender, culture, teenage pregnancy, sexual harassment, child labour, protection of the environment among others.

Local content mainstreaming is enshrined in the Malaba-Kampala SGR EPC contract and the government is working hard to ensure that the country achieves the 40% local content target as per the contract. To achieve the target, the following is being undertaken:


- The Ministry is collaborating with the EPC contractor to provide the necessary information to stakeholders on a timely basis;

- Capacity development to ensure the 9:1 Local- Foreign labour ratio as stipulated in the EPC contract;
- Engagement of local cement manufactures to ensure that all cement is locally sourced;
- Engagement of Steel manufacturers to ensure that they improve their capacity to meet the required standards so that all reinforcement steel is bought locally;
- Putting in place mechanisms for local businesses to supply other earth materials like gravel, sand, aggregate, and ballast which will be sourced locally;
- Discussions with private sector associations such as Private Sector Foundation, Uganda Manufacturers Association, Uganda National Association of Building and Civil Engineering Contractors (UNABCEC), individual major suppliers, banking institutions and others on the pending opportunities are ongoing.
- Engagement of Government MDAs such as Ministry of Finance, Planning and Economic Development, Uganda Revenue Authority and the Ministry of Internal Affairs to iron out issues including immigration, tax exemptions, licensing among others is ongoing to ensure a fair playing field for local players.

Prudent implementation of the strategy will go a long way in preparing the Ugandan private sector for not only the current SGR project but also for future infrastructure projects including those in other subsectors.

I wish appreciate the input by the various individuals that were involved in the development of this Strategy.

In conclusion, I call upon all Ugandans and the contractors to support the implementation of the strategy to ensure maximum benefits for Uganda.



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Minister of Works and Transport

LIST OF ABBREVIATIONS AND ACRONYMS

AU	African Union
ATM	Automated Teller Machine
CCECC	China Civil Engineering Construction Corporation
CHEC	China Harbour Engineering Company Ltd
COMESA	Common Market for East and Southern Africa
EAC	East African Community
EAS	East African Standards
ESMP	Environmental and Social Management Plan
E&P	Exploration & Production
EPC	Engineering, Procurement and Construction
EU	European Union
FY	Financial Year
GDP	Gross Domestic Product
GKMA	Greater Kampala Metropolitan Area
GOU	Government of Uganda
ISO	International Standards Organization
KCCA	Kampala Capital City Authority
LRT	Light Rail Transit
M	Meter
MG	Meter Gauge
MGR	Meter Gauge Railway
MOU	Memorandum of Understanding
MOWT	Ministry of Works and Transport
NCIP	Northern Corridor Integration Projects
NDP	National Development Plan
O&M	Operations and Management
OPC	Ordinary Portland cement

PMU	Project Management Unit
PPDA	Public Procurement and Disposal of Public Assets Authority
PPP	Private-Public Partnership
SADC	Southern Africa Development Corporation
SME	Small and Medium Enterprises
SGR	Standard Gauge Railway
SWOT	Strength, Weaknesses, Opportunities and Threats
MT	Metric tons
UACE	Uganda Association of Consulting Engineers
UGX	Uganda Shillings
ULS	Uganda Law Society
UNBS	Uganda National Bureau of Standards
URC	Uganda Railways Corporation
USA	United States of America
USD	United States Dollars

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EXECUTIVE SUMMARY

The primary objective of the local content strategy is to enable the private sector of Uganda to effectively participate in the development and maintenance of the SGR project.

The Local content strategy has an introductory part, a detailed SWOT analysis of the Ugandan Private sector in respect to SGR, Strategy for the private sector participation, an implementation, enforcement and sustainability plan. It concludes with the way forward or action plan for the strategy.

The Introductory part highlights the commitments of the NCIP partner member states protocol to jointly development the SGR network within the member states. The SGR purpose, Vision and Mission is also highlighted.

Chapter two (2) explains local content with its intended benefits to the country in line with the SGR project and brief of how it can be achieved.

Chapter three (3) Analyses the best practices from selected countries. This chapter delves into what the selected countries are doing to ensure that local participants are given priority in areas where this can be achieved.

Chapter four (4), Analyses the current situation in terms of local content. In the introductory section, it highlights the huge and growing trade deficit that the country is experiencing. The chapter notes that the PPDA Amendment Act (2014) has created provisions for Preference for domestically manufactured goods and Ugandan contractors and consultants to promote their development by giving them a competitive edge but asper the 2014/15 Procurement Performance and Measurement System (PPMS) report over 30% of the value of all Public Procurement contracts are awarded to Foreign Providers.

Chapter five (5), analyses Strength, Weaknesses, Opportunities and Threats of the private sector in Uganda with respect to the SGR local content approach

It discusses the plan in the following breakdown areas; SGR internal management system and coordination, Working closely with the other relevant stakeholders, Infrastructure and government support and Concludes with constant monitoring and evaluation measures.

Chapter five (6) delves into the major strategies to enhance local participation in the key identified areas. It provides both general and specific strategies for achieving local content objectives in SGR project delivery.

Chapter seven (7) discusses the implementation strategy. It emphasizes the need for a concerted effort with clear stakeholders and their roles in ensuring enshrinement of local content in project delivery.

Chapter Eight (8) provides the monitoring and evaluation framework and the last chapter summarizes with the way forward to be taken to achieve the intended objectives.

1.0 INTRODUCTION

The Governments of Kenya, Uganda, Rwanda and South Sudan are committed to the development of a seamless railway transport system within the framework of the Northern Corridor Integration Projects (NCIP) regional initiative. In May 2014, the four Partner States signed a regional SGR Protocol that commits them. The Protocol provides mechanisms for cooperation between Partner States and stipulates key timelines for project completion. It is in this respect that the SGR project is being fast-tracked to enable faster socio-economic transformation of the NCIP economies.

The total route length of the SGR project in Uganda is 1724km. The project will be developed in phases starting with the Eastern route from Malaba to Kampala which is 273km.

Government of the Republic of Uganda (Represented by the Ministry of Works and Transport) and China Harbour Engineering Company Limited (CHEC) signed an Engineering, Procurement and Construction (EPC) contract on March 30th, 2015 to develop the Eastern Route (Malaba-Kampala) and the Northern Route (Tororo - Pakwach/Gulu-Nimule) Standard Gauge Railway (SGR) lines.

A memorandum of understanding was also signed with China Civil Engineering Construction Company (CCECC) Ltd to develop the Kampala – Kasese line including the Greater Kampala Metropolitan Area Light Rail Mass Transit system.

1.1 SGR Purpose

To build an efficient Railway System that will stimulate Industrialization, reduce unemployment and Transform Uganda.

1.2 Vision

To develop a modern and efficient railway transport System in Uganda.

1.3 Mission Statement

To develop in a cost effective manner the SGR network in line with the regional SGR protocol and the greater Light rail Mass Transit System

All the above under the SGR project shall require the ultimate participation of the local indigenous stakeholders, therefore calling for a clear local content strategy for the project.

2.0 SGR LOCAL CONTENT

SGR Local content is the added value brought to Uganda through the competitive and gainful participation of citizens and the Ugandan private sector in its initial planning, development and maintenance leading to;

- value addition,
- skills and knowledge development and retention,
- Enhancement of economic multipliers, thus economic growth and improvement of citizen's welfare.

It shall be promoted through:

1. Work force development by employment and training of local workforce
2. Investments in supplier development through:
 - Developing and procuring supplies and services locally
3. Subcontracting of specific elements of the project

It is estimated that the project benefits which will accrue to the economy by 2040 is at USD 118.4 billion.

In this regard as per the PPDA Act, a company will be regarded local if at least 51% of capital is owned by Ugandans (PPDA ACT section 59A Sub SEC 5)

2.1 Objectives of the local content Strategy

The strategy recognizes the fact that the Standard Gauge railway Project is the biggest project of its kind that the Government is implementing. It is therefore important that Ugandans are engaged fully in the entire process to ensure the realization of the benefits to the present and future generations

2.1.1 Main Objectives

The main objective of the local content strategy is to enable the private sector and or individuals of Uganda to effectively participate in the development, maintenance and operations of the SGR by ensuring preference to domestically produced/ sourced goods and components or substantial value addition

2.1.2 Specific Objectives

To develop the Ugandan local businesses to become competitive locally and internationally through the empowerment of local suppliers to meet the needs and standards of the SGR project

- To have appropriate technology transferred to Ugandans for developing, managing and operating the new railway system
- To enable local training institutions run requisite curriculum relevant for the railway industry

- To maximize participation of skilled and unskilled Ugandans in the SGR project activities
- To enhance value addition and job creation through the use of local businesses.
- To have local goods and services that meet the standards and specifications procured by the contractors in line with the terms and conditions of their contract
- To ensure mainstreaming of cross cutting issues and activities such as gender, Environment, HIV & AIDS and other infectious diseases in the delivery of the project.
- To Ensure sustainable development of the railway industry in particular and the economy in general

2.1.3 Possible areas of participation

The SGR project presents several possible areas of participation for the local industry. By identifying them in each case, companies can justify applying the necessary resources and management effort and simultaneously identify the functions and areas of the business that should be involved.

These include the following:

- a. Major Construction Materials
 - i. Cement of various types, batten, converted timber, board, geogrid, geomembrane, geotextile, rubble, ballast, sand and gravel aggregates, Steel bars,
 - ii. petroleum products
 - iii. pre-stressed metal bellows, steel bars, shape steel, and steel strand
- b. Sub-contracting (Labour outsourcing for civil and building works)
- c. Equipment leasing and hiring
- d. Consultancy services
- e. Labour resources (Skilled and Unskilled)
- f. Security services
- g. Financial services
- h. Insurance and brokerage services (IRA)
- i. Communication services and data systems
- j. Legal Services
- k. Vehicle hire services

- l. Tools, small equipment, Instruments and spare parts
- m. Travel and tour services
- n. Personnel Management (Agencies)
- o. Hospitality, (Hotel/catering services, Accommodation, food supplies)
- p. Cleaning services
- q. Vehicle service/repair
- r. Clearing and forwarding services
- s. Health/Medical Services
- t. Events/PR/Entertainment
- u. Training Services
- v. West recycling and Management
- w. Environmental issues
- x. Translation Services
- y. Logistics and warehousing
- z. Social issues Services – HIV, people with less ability, Gender, cultural, Reproductive Health (Teenage pregnancy), sexual harassment, Child labour.

3.0 BEST PRACTICES FROM SELECTED COUNTRIES

3.1 Brazil

Brazil introduced Local content policies in the Oil and Gas sector in 2003 with an aim of increasing the participation of domestic manufacturers and service providers in the Oil and natural gas supply chain on a competitive basis, Local content policy strictly follows this guideline by requiring a minimum percentage of domestic content for a variety of equipment and materials to promote domestic Brazilian industry and strengthen the country's productive capacity. The country also introduced the Buy Brazil Act (Law 12.349/10 of 15 December 2010). The law gives preference, on public bidding, to companies that offer products and services that comply with Brazilian technical regulation and are produced in Brazil.

The margin of preference considers studies that establish criteria based on jobs and income generation, as well as development and technological innovations that take place in Brazil.

Brazil uses mostly indirect mechanisms to require a certain level of local content, these include;

- a) Subsidized financing through the Brazil Development Bank
- b) Tax breaks for companies reaching a certain level of local content.
- c) Quotas for preferential purchases of locally manufactured goods in government tenders.
- d) Self-adopted policy in companies strongly tied to Government.

3.2 South Africa

The South African Government amended regulations to the preferential procurement policy framework act (PPPFA), Act 5 of 2000, which came into effect in December 2011. This empowered the Ministry of Trade and Industry to utilize government procurement to ensure achievement of key industrial policy objectives namely, increased local production within the economy. The implication of the new regulations for businesses, local and foreign is that all suppliers in designated sectors have to meet the set minimum local content requirements if they are tendering for goods, works and service contracts within the Public Sector. Suppliers are required to submit both a declaration of local content and proof of verification. (Ministry of Trade and Industry Website; South Africa).

Suppliers in certain sectors have to include minimum amounts of Local Content in the goods, works and services that they provide to users in the public sector. This means it affects all national and provincial departments, all municipalities; all entities listed in terms of Schedules as well as all other government agencies. The government supply chain management personnel in these departments and organisations have to check adherence to National Treasury regulations on how tenders must be evaluated against

Local Content. As a supplier, if you do not comply, you do not win the tender. The Government has also;

- Developed tender advice centres;
- Broadened participation base for small contracts (less than R7 500).
- Waived the security/sureties on construction contracts with a value less than R100 000.
- Encouraged unbundling or unpacking of large projects into smaller projects.
- Promoted early payment cycles by government.
- Development of a preference system for SMMEs owned by historically disadvantaged individuals (HDIs).

The Government of South Africa and other social partners including organised labour unions, business (private sector) and community constituencies including Organizations of women, civic structures, people with disabilities, youth and cooperatives signed a Local Procurement Accord on 31st October 2011 to accelerate creation of 5 million new jobs by 2020 as well as the attainment of the goals of the Industrial Policy Action Plan (Local Procurement Accord, 2011 South Africa). This was achieved through a social dialogue which aspired to achieve 75% localization in the procurement of goods and services, both by the public and the private sector.

3.3 Kenya

The Kenyan Government Amended the Public Procurement and Disposal (Preference and Reservations) Regulations, 2013, the Preference and Reservation regulations now cover the following areas generally:

- a) Small or micro enterprise or a disadvantaged group wishing to participate in public procurement should apply for registration with the National Treasury or the Respective County Treasury with which they operate.
- b) Public entities are now required to grant exclusive preference to local providers offering; motor vehicles, plant and equipment that are assembled in Kenya, construction material and other material used in the transmission and conduction of electricity of which such material is made in Kenya and furniture, textiles, foodstuffs and other goods made or locally available in Kenya.
- c) Thresholds were set for exclusive preference in respect of works, goods and services.
- d) Procuring Entities are now required to unbundle procurements of goods, works and services in practicable quantities.
- e) Budgetary Reservations, procuring entities can now allocate at least thirty percent of their procurement spend for the purposes procuring goods, works and services from micro and small enterprises owned by youth, women and persons with disability.
- f) Facilitation for financing of local purchase or service orders. Procuring entities are now required to facilitate financing of enterprises owned by youth, women or

persons with disabilities that have been awarded contracts, by authenticating their notifications of tender awards and local purchase or service orders and subsequently entering into an agreement with the relevant financing institution with conditions that shall include paying the contracted enterprise through their account opened with the financier.

- g) Strict deadlines for payments have also been set.
- h) Procuring Entities are now required to have in their tender documents as a mandatory requirement as a preliminary requirement for all foreign tenderers participating in International Tenders to source at least 40% of their supplies from Citizen contractors prior to submitting a Bid.
- i) Following the increase in the number of foreign contractors tendering for infrastructure work in Kenya, The Government responded to the pressure from Local contractors by introducing new regulations in July 2014. The regulations restrict the categories of work open to foreign contractors and also stipulate that foreign contractors must either joint venture with local contractors or locally subcontract a percentage of the work.

4.0 THE CURRENT SITUATION

Analysis of the current situation is meant to assist in understanding the demand side requirements the supply-side capabilities, and any barriers that limit that may limit local participation. This knowledge will enable the PMU to define what is realistic and achievable.

4.1 Trade

The country has continued to experience a large trade deficit over the years. Over a period of 5 years (2009 to 2013) Uganda's value of imports have continued to double the value of exports. The overall trade deficit has continued to widen as a result of importation of high value manufactured goods compared to low value exports of agricultural primary products. The biggest composition of Uganda's imports includes petroleum and petroleum products. The Manufacturing output in Uganda has been growing at an average rate of 5% annually for the last 5 years with the highest composition of the manufacturing output in food processing. Opportunities exist in virtually all areas ranging from; Food processing & beverages, leather, paper, textiles & garments, fertilizers, pharmaceuticals, oil exploration & extraction, fabrication, ceramics, etc.

4.2 Public Procurement

While there may be widespread agreement with a policy of supporting the participation of local producers in the supply of infrastructure assets, questions are raised as to whether procurement is the best way to do it. The view is often expressed that assistance to local industries should be on the supply side and that procurement policies should be 'neutral' in terms of promoting development. However, current demand-side policies are not neutral and as a consequence because the playing field is not level. Local content in Public Procurement is essential to developing a sustainable Public Procurement System in Uganda.

The Government of Uganda spends a significant amount of money in its expenditure through Public Procurement. However the Public Procurement and Disposal of Public Assets Authority (PPDA) Procurement Performance and Measurement System (PPMS) report of the Financial Year 2014/15 shows that over 30% of the value of all Public Procurement contracts are awarded to Foreign Providers which means that much of the funding through Government Procurements does not benefit the local providers in Uganda.

Public Procurement can be a very good avenue of promoting Local Content in Uganda with Trillions of shillings being spent through public procurement each year.

The PPDA Amendment Act (2014) has created provisions for Preference for domestically manufactured goods and Ugandan contractors and consultants to promote their development by giving them a competitive edge. Also to promote particular specified

geographic areas, specified public procurement contracts or parts of a contract can be reserved.

4.3 Development Policies and Strategies

The Government has through a number of development policies and strategies highlighted the need for Local Content (enhancing the country's competitiveness through support of locally manufactured products, knowledge transfer and human capital development). These include but not limited to;

4.3.1 National Development Plan II (NDP II) 2015/16-2019/2020

The key objectives of the NDP II include;

1. Increasing sustainable production, productivity and value addition in key growth opportunities,
2. Increasing the stock and quality of strategic infrastructure to accelerate the country's competitiveness,
3. Enhancing human capital development; and
4. Strengthening mechanisms for quality, effective and efficient service delivery

Objectives (1) and (3) can best be achieved through promotion of Local Content and as such some of the strategies outlined by the NDP II include; industrialization and export oriented growth through value addition, agro processing, mineral beneficiation, selected heavy and light manufacturing and an employment creation strategy through fast tracking skills development and harnessing the demographic dividend.

4.3.2 Buy Uganda Build Uganda Policy, 2014

In September 2014, the Government of Uganda through the Ministry of Trade, Industry and Cooperatives launched the "Buy Uganda Build Uganda" Policy to give guidance to policy makers to ensure that promotion of the consumption of local produced goods is integrated into their policies and procedures. The Buy Uganda Build Uganda Policy also intends to foster local economic development through increasing input of local labor, goods and services.

The policy vision is "To develop a vibrant dynamic and competitive private sector that transforms local products through the value chain to meet the required standards." And the mission is "To support the production, purchase, supply, and consumption of local goods and services." The policy aims at promoting consumption of local goods and services, promoting the use and conformity to standards to guarantee quality goods and services and providing capacity building programs to local suppliers of goods and services.

The policy also outlines several strategies that can be used to achieve the above objectives and shows a range of products including beverages, cereals etc. currently being imported that can be provided in Uganda.

4.3.3 National Trade Policy 2007

The National Trade Policy encourages the use of locally developed materials in production with a view of stimulating growth in local production sectors. The policy also encourages the consumption of locally produced goods and services and providing affirmative action to local suppliers under Government procurement, while ensuring conformity with existing national laws.

4.3.4 National Industrial Policy 2008

One of the policy objectives of the National Industrial Policy is to exploit and develop natural domestic resource- based industries such as petroleum, cement and fertilizer industries and promote competitive industries that use local raw materials.

The policy encourages the use of local raw materials in value adding industrial processes to enhance market opportunities for supply sectors through use of cluster development initiatives and encouraging existing industries and new investors to utilize the services of local technology institutions and consultants as a means of developing national local technological capabilities.

4.3.5 National Petroleum Local Content Policy

In 2014 the Government of Uganda developed petroleum national content regulations 2014. The purpose of these regulations is to promote the training and employment of Ugandans, transfer of knowledge and technology and the provision of goods and services by Ugandan companies in petroleum activities and to promote cooperation between international companies and Ugandan Universities research institutions and technical institutions.

The policy also requires licensed companies to source goods and services exclusively from Ugandan companies where the goods and services meet the desired quality, the provision of goods and services not available in Uganda by international companies that have entered into joint ventures with Ugandan companies and in exceptional cases, with the approval of the Authority , wholly foreign owned companies.

4.3.6 National Public Sector Procurement Policy

The National Public Sector Procurement Policy promotes socially responsible public sector procurement. It provides for Government to promote equal engagement opportunities and ethical trading initiatives that support marginalized groups for purposes of socio-economic development through achieving the following objectives;

- Ensure that public contracts are awarded to providers who maintain acceptable standards of business probity and ethics.

- Institute deliberate efforts to involve the disadvantaged groups [especially women and the youths], SMEs and Local Providers in Public Sector Procurement.
- Develop simplified and accessible procedures to promote participation of SME's and local providers without compromising value for money.
- Promote incorporation of both international and regional standards, especially those related to supporting social inclusion, decent work and promoting employment opportunities.
- Ensure that there is effective access of information and credit facilities to local providers and SME's.
- Support local providers, women, youths and SME's to build sufficient capacity to enable them participate in the procurement process.

The policy also provides for using public procurement as an economic development tool through promoting progressive procurement policies which are receptive to, and considerate of the local economy

4.4 Education, Employment and Human Capital Development

In the Financial Year 2012/13, the working population in Uganda (aged 14-64) was 13.9 million people. Over 70% of these were engaged in the Agricultural Sector and the education level of these is still low with three quarters of these having primary school as their highest level of education. About 43% of all working persons are involved in subsistence agriculture and over 50% of the working persons are self-employed.

There have been considerable efforts by the Government of Uganda into the Education Sector in Uganda, 13.4% of the overall National Budget of FY 2013/14 was allocated to the Education Sector.

There have been considerable achievements such as expanded access to secondary school education with over 1.3 million students being enrolled into Secondary school education per year and introduction of the Students Loan scheme to support students for higher learning and increase in the number of higher learning institutions. However there is still a large gap between the education and workforce dynamics in Uganda partly because there have not really been conscious human capital development programs or efforts in Uganda. This is supported by the World Economic Forum's "The Human Capital Report, 2015" which ranked Uganda at position 102 out of 124 countries. The report cited a below average quality of Math/Science education, below average capacity to attract and retain talent and ranked the country 166 out of 189 countries.

5.0 SWOT ANALYSIS OF THE UGANDA PRIVATE SECTOR IN REFERENCE TO THE SGR PROJECT

A SWOT (Strength, Weaknesses, Opportunities and Threats) analysis was carried out to identify the Ugandan Private Sectors strengths and Weaknesses as well as the broader underlying opportunities and threats in respect to their involvement in the SGR project. This was carried out to help in developing the local content strategy and decision making.

5.1 Strengths

The Ugandan private sector has evolved over time and has a number of strengths that can be taken advantage of to enhance their ability to effectively participate in the SGR project as listed below;

- Existing nascent construction industry
- Liberalized economy
- Government policy on strengthening local industry
- Educated labour force
- Abundant young semi-skilled affordable labour force
- There are business firms in the country with international background such as VIVO Energy, TOTAL, HIMA Cement (Lafarge Group) etc.
- There is stable government with good political will to address the local content agenda
- Good investment climate and incentive regime

5.2 Weaknesses

There are a number of weaknesses that may affect the full participation of the private sector in the SGR project that require to be closely analyzed and addressed. Some of the key weaknesses are;

- Limited government support to local private sector
- Fragmented uncoordinated, unregulated and heavily informal private sector
- Limited Technology and Research & Development
- Few established industries that are internationally competitive
- Poor work ethics and managerial skills
- Inadequate legal and regulatory framework for the construction industry

5.3 Opportunities

There are a number of available opportunities for the private sector to explore under the SGR project to enable local content participation. SGR management is to address the local firm's participation in the supply chain of the project with strengthened capacity to compete, which is very crucial to the promotion of local content.

The Local firms shall be required to meet the quantity, quality, consistency and competitive pricing as per the project standards and specifications. The opportunities are listed below:

- Political Will
- Public Private Partner Act in place
- Availability of local materials to be used in the project
- Government strategy to invest in infrastructure over a long-term horizon
- Tax incentives for construction industry

5.4 Threats

There exist external factors that still pose a threat to the private sector in respect to their effective participation in the SGR project, both in the short and long term. These threats require close internal government intervention to give a favorable climate for the Ugandan private sector. Some of the threats are;

- Unfamiliar standards (Chinese Standards)
- Varying export quotas from various countries that make imports cheaper.
- Deliberate support by foreign Governments to their respective companies in strategic sectors
- Regional bodies such as COMESA, SADC, and EAC have conditions that may not be favorable to the Ugandan private sector.
- High production cost
- High cost of finance to support the private sector, especially lack of construction specific financing

6.0 STRATEGIES FOR PRIVATE SECTOR PARTICIPATION

The local content strategy looks at the available opportunities alongside the existing Strengths, weaknesses and threats. General and specific strategies are proposed to mitigate the weaknesses and threats and also harness strengths and opportunities

6.1 General Strategies

1. Putting in place mechanisms for enhancing the capabilities of the local human resource through training, attachments other capacity building mechanisms. A skills mapping exercise will be undertaken and strategies to bridge identified gaps developed and implemented.
2. Sensitizing and mobilizing the private sector through their umbrella bodies and or individually to take up the opportunities offered by the project
3. Holding SGR – Private Sector forums to share information, develop strategies to enhance private sector participation and monitor progress
4. Working with specific industries to meet the required standards for the contract.
5. Engaging key Government MDAs including MoFPED, MTIC, and regulatory bodies with the key objective of enhancing private sector participation in the project
6. Encouraging the private sector to benchmark the neighboring countries of Kenya and Ethiopia so as to better appreciate the need and or modalities for their participation
7. Work with URA, MoFPED, on the issues of taxation and immigration of labour.
8. Continuous building of local human capacity to ensure that they have the requisite skills, experience, attitude and work ethic required in a global market.
9. Ensuring that the contractor provides timely information on his quantitative and qualitative needs in terms human resources, materials, procurement procedures and any other opportunities to allow for ample preparation time on the part of the prospective private sector participants¹.
10. Establish a collaborative approach with all stakeholders especially with the contractors to ensure that implementation of the strategy will not generate unbearable constraints to delivery of the project.

6.2 Specific Strategies

6.2.1 Human Resources

Ensure the implementation of the contractual obligations such as 9:1 local labour to foreign labour ratio. This will be ensured through, ring fencing certain jobs, immigration control, skills transfer/apprenticeship for specific jobs and regular skills audit, training for

¹ It is important to note that in countries where local content enhancement has been successful, it has taken a long term view as there is no quick fix solution for local participation especially in cases where the local base is narrow. Contractors usually meet difficulties in finding partners with the requisite capacity and managements standards but these diminish over time as capabilities are reinforced and business connections are more easily made.

special skills (e.g. Machine operators, stone pitching), labour audits, ensuring competitive wages among others,

- Favorable working conditions in compliance with the relevant laws of Uganda in collaboration with district labour offices.
- Work closely with LG in organizing and training local labour force especially on work culture, alcohol and other substance abuse among others. Annex I provides a list of some of the professions/skills that shall be required during construction of and operation of the SGR.
- Early identification of skill requirements: creating the opportunity to train workers for the construction phase.

6.2.2 Major Construction Materials

All materials to be used in construction of SGR shall conform to the Standards specified in the EPC/Turnkey Contract. These are the same standard agreed upon by the NCIP partner states in the SGR protocol and are also a requirement by the financing institution.

The SGR PMU will ensure early information sharing on the supply side to ensure that prospective suppliers are given ample time to prepare themselves to compete for the available opportunities. Two key strategies will be employed to achieve this: sensitization of the private sector on the procurement systems, policies and the use of dedicated supplier or enterprise development' programmes.

Cement

The Cement to be used in the project will be both ordinary and high grade cement. Ordinary cement will be 32.5N and 42.5N and high-grade 45.5N and 52.5N. The high grade cement will conform to the National Standard of Peoples Republic of China, GB 175 - 2007. The SGR Project will engage local companies to configure their manufacturing processes to be able to supply the required high-grade cement conforming to the Chinese standards and quantities. This will be easier for companies that produce clinker locally. Annex II provides details of the current status of the cement industry

Steel (Reinforcement bars)

The steel products that shall be used in the project range from smooth and ribbed bars (8 – 32mm), angle bars, and tendons, flat steel, I – Beams, C – Channels, steel pipes, tracks and Turnouts. Some of the products are not manufactured locally and it is important for the Ugandan Steel manufacturing sector to focus on what they are currently manufacturing to start with. The National Standards of Peoples Republic of China for steel is GB 1499 – 2007 (part 1, 2 &3) and this shall be followed.

Uganda has about twelve steel manufacturing companies but only eight are operational (UNBS report 2015). These include: Roofing rolling Mills, Madhvani Group Steel, Steel Rolling Mills, Steel and Tube, Pramukh Steel, Tembo Steel, Mayuge Sugar steel Division, Tian Tang Steel Group, Abisha Steel, and Yogi Steel.

The total annual production rate of metal/steel products by 2014 was at 156,000 tons with a percentage increase of 4.8 % from the year 2013.

Annex III highlighting key details of the Steel companies in Uganda and Annex IV provides some required materials with estimated quantities.

In the case of steel, three main strategies will be employed as follows:

Structural Steel: Because it is manufactured by few companies world over and none of these is found in Uganda, the contractor will be having to import.

Reinforcement steel bars: Steel manufacturers that import billets will be provided with the required standards and advice on how to configure their processes to meet the required standards. However, where manufacturers do not meet the standards, the contractor will be allowed to import. The SGR project will work hand in hand with the Uganda National Bureau of Standards to augment their capacity given the new developments railway development in the country.

Benchmarking: The project will encourage the private sector to benchmark from Kenya given that they have had experience with the Chinese requirements during their construction of the Mombasa-Nairobi SGR section.

6.2.3 Auxiliary construction materials

Uganda has large quantities of good local materials such as sand, aggregates, timber, gravels etc. These materials and sources for the SGR project will be subjected to detailed study and analysis to determine their suitability to meet the minimum quality acceptable standards.

Aggregates and Ballast

The stone base with good tested and approved granite rocks for construction in Uganda is enormous. This will be used in the SGR construction in form of hardcore, coarse and fine aggregates, stone/quarry dust etc. It is important to note that the specifications have stringent physical and chemical properties of the rock and production processes including gradation and cleanliness and therefore any supplier must adhere to these requirements. For quality control purposes the contractor will be allowed few specific sites that must be approved by the employer. The project will work with the contractor to ensure that the sites approved by the project are the only source. The private sector will be participating in processing and transportation of the materials.

Sand & Gravel

Sand & gravel mining is one economic activity supporting the construction sector in Uganda with SGR not being an exception. Sand is mined from lake shores, and inland dunes. Sand mining has increased considerably in Uganda to meet the demands of the construction sector where it is used to make concrete products etc. Gravel soil is abundant in all parts of the country. All these materials must conform to the chemical and physical properties and must be cleaned in compliance to the Chinese standards.

The project will work with the contractor and National Environment Management Authority (NEMA) to ensure that the sites approved by the project are the only source. The private sector will be participating in processing and transportation.

However all the above requires approvals from NEMA that issues licenses for sand-mining on the lakeshore, and for large scale projects away from water bodies as well as gravel mining

6.2.4 Sub- Contracting

The SGR Project has so many areas of civil works that the local contractors can tap in as subcontractors based on their abilities, experience and skills. Main areas shall include;

- Drainage works
- Slope protection works including grassing and stone pitching
- Construction of station houses etc.

The Ugandan Contractors under their Umbrella body, Uganda National Association of Building and Civil Engineering Contractors (UNABCEC) are better placed to negotiate with the EPC/Turnkey contractor. Only labour subcontracting shall be allowed in this contract.

6.2.5 Other Opportunities

Consultancy services

The project shall have engineering and non-engineering works that require consultancy services.

Members of Uganda Association of Consulting Engineers (UACE) and Private Professionals will be encouraged to take up these opportunities.

Oil and Petroleum products (Fuel and Lubricants)

The project shall require large quantities of fuel and its lubricants to run the many equipment's to be used. Therefore there will be opportunity to supply oil and petroleum products to the project.

Training

There will be various opportunities for training firms and institutions to impart skills, transfer knowledge, and build capacity during the SGR project implementation. The SGR project will encourage the contractor to engage local firms to partake in opportunities in this area.

Financial services

The magnitude of financial transactions that shall be involved in the project calls for the direct participation of local financial institutions. The SGR project expects the financial institutions regulated by the BOU to play a major role in the delivery of the project.

Insurance services

The magnitude of financial transactions that shall be involved in the project calls for the direct participation of local insurance companies. The SGR project expects insurance companies regulated by the IRA to play a major role in the delivery of the project.

Insurance of the civil works, construction equipment , contractors workers, are requirements for the project that calls for the many insurance firms under their umbrella Association, Uganda Insurance association with close to 29 members to take lead.

Communication services

Uganda has a number of local Communication service providers that have to take up the opportunity for providing data, Courier, Broadcasting and telecommunication services. This shall be both to the Contractors and associated firms.

Table 5, below highlights the number of the different licensed service providers in the country by the end of FY 2015.

Annex IV highlights the number of licensed communication service providers in the country, 2015

Legal Services

In Implementing the Standard Gauge Railway Project, management shall ensure adherence to the rule of law, respect for human rights and business. This will require the services of the different Ugandan law firms and the legal professionals.

Security services

Security is an important aspect of the society. The management of SGR project alongside the government security agencies looks forward to the many private registered local companies in Uganda to offer the different security services to the project.

Uganda has close to 60 registered private security companies with over 20,000 private security personnel. Private security firms will be encouraged to take up opportunities presented by the project.

Equipment Hire and leasing

There will be opportunities in leasing equipment for haulage of cement, gravel, aggregates, ballast, reinforcement bars and others. The private sector is encouraged to take up opportunities in this area.

Logistics, Clearing and forwarding

Given the magnitude of the SGR project, there will be significant opportunities in Logistics, Clearing and forwarding. The contractor will be encouraged to advertise these opportunities. NB. The contractor and all other players will be encouraged to meet the axle load requirements of the country.

Tourism and Hospitality

There will be opportunities in Tourism and Hospitality services. The private sector is encouraged to take up opportunities in this area. These opportunities include: accommodation, catering services for camp and sites, tour and travel services,

Medical and Health Services

There will be opportunities in Medical and Health Services including: counseling, general medical treatment, immunization, vaccination, HIV/AIDS testing, treatment and counseling and others. The private sector is encouraged to take up opportunities in these areas.

7.0 IMPLEMENTATION STRATEGY

The project management team envisages a long term program in achieving the local content objectives with clear flexible implementation and sustainability strategy. This shall involve proper internal organization and coordination as well as working with all the stakeholders.

7.1 Internal organization and coordination

To advance coordination within the project management, the following shall be effected;

- a local content desk shall be established within the project office with a designated focal person whose performance is partly based on local content strategy implementation objectives
- The Project will ensure establishment of a strong contract supervision team, mechanisms and monitoring, evaluation and reporting framework to enforce the strategy.
- Information flow shall be clear between the project management and contractors' staff to understand the capabilities of local suppliers and how to reach them. Meanwhile the local suppliers need to understand when and where opportunities will become available.
- Establishing a corporate approach to recognize local content as a strategic issue. This shall be done by developing and implementing corporate standards with easy communications between the different stakeholders and business units.
- Integration of the local content into the project systems to maximize local content outcomes.
- Encouraging and enforcing the contracting firms to include local content among their key performance objectives.
- Ensuring transparency in all dealings

7.2 Working closely with other stakeholders

The project management recognizes close collaboration with stakeholders in implementing local content. The stakeholders need to play a key role in developing a

successful strategy. Stake holders participation brings with it valuable Knowledge, resources, ownership, sustainability, legitimacy and commitments.

The project management shall closely work with the following key stakeholders to implement the SGR local content;

- The Private sector Foundation Uganda
- Uganda Manufacturers Association
- Government Ministries such as Ministry of Internal Affairs, Immigration department to handle issues of labour importation
- Government Agencies such as Uganda Revenue Authority on Issues of taxation and imports
- Local governments are crucial stakeholders
- The EPC Lead contractors
- Communities
- Business community and Chambers of Commerce
- Financial institutions
- Uganda Association of Building and Civil Engineering Contractors
- Uganda Association of Consulting Engineers
- Insurance firms etc.

7.3 Infrastructure and Government Support

Infrastructure such as power, water and Transport facilities and favorable tax regime are critical to the success of local content plan and activities. SGR management therefore will look at such factors and advice government accordingly for policy formulations.

7.4 Constant measuring of Progress

The strategic plan has an appropriate monitoring and evaluation tool with clear indicators to allow measuring progress against set objectives. Conducting a baseline survey and collecting suitable performance data will help to meet compliance and reporting requirements. Management will put in place mechanisms to ensure that the targeted beneficiaries are actuary benefitting from the strategy²

Management will constantly review the environment in which the local content strategy is developed and implemented. The review of systems and procedures regularly may include;

- The regulatory environment
- Availability of goods and services

² There are cases where setting KPIs has led to perverse behavior. One example of this is 'front' where companies are established with the prescribed local ownership or address, but the decision making and benefits are held by individuals other than those who are targeted. The impact on the economy is also restricted when goods supplied to the contractor are merely imported, repackaged and sold by local firms

- Availability of service providers
- Social and political environment

7.5 Increase awareness of local content (communication strategy)

Currently there are a number of policies that address local content issues and yet there is little knowledge about their existence and implementation. The SGR PMU will develop and implement communication strategy for the Local Content Strategy. The strategy will among other things ensure timely information flow, through different communication channels such as radio, TV, Print media, Social Media and Public campaigns.

8.0 IMPLEMENTATION, MONITORING AND EVALUATION

This strategy will be managed by the SGR PMU on behalf of the Ministry of Works and Transport. The PMU will establish a dedicated office to among others ensure adequate implementation of the strategy. In executing this mandate, the office will work hand in hand with the private sector, the contractor and other Government bodies to ensure proper planning, coordination, implementation, visibility, monitoring, and evaluation, reporting, accountability and sharing of experiences.

A Monitoring and evaluation framework that sets out appropriate indicators that allow for the collection of appropriate data, measurement and tracking of progress against objectives will be developed. The template will assist in estimating number of contracts and the actual monetary value delivered by local firms for each contract. See Annex VI: For a template for Monitoring and Evaluating Local Content

It is important to note that the environment in which a local content strategy is developed and implemented is likely to be very dynamic. It is therefore essential to review systems and procedures regularly.

9.0 WARFORWARD

In order to achieve the intended objectives, all the stakeholders have to play their respective roles with maximum cooperation. The EPC contractor, a key player for the successful implementation of the strategy shall be effectively involved.

Continuous research, test on materials and conducting study tours and visits to other countries to understand and learn their success stories and challenges shall be undertaken.

The project management, Ministries, departments and agencies shall look forward to having strong government policy and legislation on local content in place.

- **ANNEX I: LIST OF PROFESIONS/SKILLS THAT SHALL BE REQUIRED DURING THE SGR CONSTRUCTION/OPERATIONS**

Profession	Trade
Humanities	Managers
	Procurement officers
	Lawyers
	Monitoring and Evaluation Specialist
	Transport Economist/Planners
	Human resource
Accountants	
Engineers, Technologist/Technicians	Mechanical
	Electrical
	Civil/structural
	Quantity Surveyors
	Land Surveyors
	Information Technologist
	Architects
Artisans	Welders
	Carpenters
	Steel fixers
	Masons
	Concrete works
	Plumbers
	Electricians
	Mechanics
	Painters
	Truck drivers
	Earth Moving Equipment Operators
Railway operations	Railway operations, control, Traffic Engineers
	Locomotive/Rolling stock Dispatchers
	Locomotive operators/crew

- **Annex II: Key Details of the Cement manufacturing companies in Uganda**

Table 1; highlighting key details of the Cement manufacturing companies in Uganda

Item	Company	Brands/Grades	Production capacity	Remarks
01	Tororo Cement	-PC - CEM 1 42.5N & - PPC- CEM 11;32.5N	-Clinker production is 500,000tons p.a and production capacity of 1,800,000tons p.a	-It is ISO 9001 – 2008 and ISO 140001 :2004 certified -UNBS certified - Supplied major construction projects such as Karuma, Isimba & Owen falls project
02	Hima Cement (Lafarge Group)	- Power Crete(CEM I 52.5 OPC) -Powermax (CEM I 42.5 OPC) -Powermax CEMIIA-P 42.5) -Superset (CEMIV 32.5R) -Road Cem (HRB 22.5) -Multipurpose (CEMIV 32.5)	1,000,000 tons p.a	-ISO certified -Member of the Lafarge Holcim group -UNBS certified -Supplied major projects such as the Entebbe expressway, Jinja New Nile bridge, Karuma & Isimba dams
03	Kampala Cement	-NDOVU (42.5R OPC) -KIFARU (42.5R) -NYATI (32.5R)	1,000,000tons p.a	-UNBS certified - Not yet supplied any major project
General comments and Analysis				
From the above analysis, Hima Cement (Lafarge group) and Tororo Cement can be competitive in the supply of the SGR project based on their available products, capacity and experience. Kampala Cement is still a new entrant in the cement market industry with its products not so much used in the major projects in the country and they are only certified by UNBS				

Table 2: showing Production, Exports, Imports and Net domestic supply of Cement ('000 tons)

	2010	2011	2012	2013	2014
Production	1,347	1,666	1,780	2,023	2,141
Imports	503	501	449	322	397
Exports	362	502	556	593	485
Net domestic supply (NDS) <i>(NDS is a proxy of growth in the construction sector)</i>	1,489	1,665	1,673	1,752	2,053

Annual % change in NDS	11.3	11.8	0.5	4.7	17.2
Source: Uganda Bureau of statistics					

- **Annex III: Key Details of the Steel companies in Uganda**

Table 3: Highlighting key details of the Steel companies in Uganda

S/No	Company	Remarks
01	Roofing Rolling Mills	<ul style="list-style-type: none"> • Installed capacity of 72,000tons p.a but producing at only about 33.5% annually • Produces bars from 8 – 32mm • Imports billets from China, Russia & South Africa • Has a complete quality control laboratory • UNBS & ISO certified • Have good machines
02	Madhvani Steel	<ul style="list-style-type: none"> • Installed capacity to produce 40,000tons p.a • Produces bars from 8 – 32mm • Imports billets from China, Russia & South Africa • Has a complete quality control laboratory • UNBS ,ISO, EAS certified • Have new installed machines
03	Steel Rolling Mills	<ul style="list-style-type: none"> • Has capacity of 36,000tons p.a • Produces bars from 8 – 32mm • Uses sponge iron from iron ore mined from Kabale but has challenges of reducing phosphorous content. • On verification, it has no spectrometer but has an old UTM machine for Mechanical test • UNBS certified but was reported for not having renewed its permits for the last two years • Has the required machines installed
04	Steel and Tube	<ul style="list-style-type: none"> • Company is ISO & UNBS certified • Production capacity is 72,000 tons p.a • Imports Billets for its raw materials • Has a complete quality control laboratory • Installed new machinery for steel production •
05	Pramukh Steel	<ul style="list-style-type: none"> • Installed capacity to produce 80,000tons p.a • Produces bars from 8 – 32mm • Raw materials is from scrap • UNBS ,ISO 9001-2008, EAS certified

		<ul style="list-style-type: none"> • Have new installed machines
06	Tembo Steel	<ul style="list-style-type: none"> • Production capacity of 180,000tons p.a at Lugazi and 60,000tons p.a at Iganga • Produces 8 -32 mm bars • Raw materials is majorly scrap metal • UNBS and ISO 9001 – 2000 certified
07	Mayuge Sugar steel Division	<ul style="list-style-type: none"> • Production capacity 30 tons p/d • UNBS certified • Raw materials is majorly scrap metal and Sponge iron from Steel Rolling Mills • Has some quality control management system in place.
08	Tian Tang Steel Group	<ul style="list-style-type: none"> • 60,000tons p.a capacity • UNBS certified • Has inadequate quality management system • Uses scrap as main raw material source
09	Abisha Steel	
10	Yogi Steel	<ul style="list-style-type: none"> • Capacity not known • Not on UNBS certification Scheme • Raw materials used is scrap • Lacks capacity to supply quality products

• **Annex IV: SOME MATERIALS WITH ESTIMATED QUANTITIES**

SOME CONSTRUCTION MATERIALS WITH ESTIMATED QUANTITIES OF THE SGR EASTERN ROUTE MATERIALS QUANTITIES				
		Unit	Quantity	
Earthworks/Auxiliary materials	Gravel	M ³	12,045,604	
	Geotextile	M ²	37,506	
	Geogrid	M ²	39,778,863	
	Compound Geotextile	M ²	1,088,319	
Stone products	Ballast	m ³	968,500	
	Rock fill	M ³	12,047,556	
	Aggregates	M ³	790,621	
	Stone dust	M ³	381,608	
	Sand	M ³	34,538	
Buildings	Office & Workshops	M ²	70,345	

	Accommodation		23,636	
Pipes	Supplying pipe	Km	51.55	
	Drainage Pipe	Km	38.8	
Steel	Rebar	Tons	208,910	
	Pres Stressing wires		8,784	
	Post tensioning wire		16,153	
	Structural steel		5,750	
	Fasteners		1,645	
	Rails		32,888	
Cement	Grade 32.5	Tons	56,849	
	Grade 42.5		190,565	
	Grade 52.5		142,257	

- **Annex V: licensed communication service providers**

Table 4. Number of licensed communication service providers in the country, 2015.

Category	Licensed
National Postal Operator	1
Domestic Courier Operators	11
Regional Courier Operators	5
International Courier Operators	8
National Telecom Operators	2
Public Infrastructure Providers (PIP	25
Public Service Provider (PSP) - Voice & Data	36
PSP (Capacity Resale)	7
PSP (Capacity Resale)	28
Digital TV stations	5
FM Radio station	292
Telecom operators offering Mobile Money enhancement	4

From UCC annual market report 2014/2015 financial year

- **Annex VI: A template for Monitoring and Evaluating Local Content**

Contract No.	Single Sourcing or Bidding	Description	Contract or /Supplier name	Effective date of initial contract	Anticipated finish date	Value of contract and any amendment	Expenditure to date	% of total committed value		
								International	National/local	Total