



THE REPUBLIC OF UGANDA

BUDGET SPEECH

Financial Year 2007/08

Theme: Re-orienting Public Expenditure Towards Prosperity For All.

DELIVERED AT THE MEETING OF THE 2nd SESSION OF THE 8TH
PARLIAMENT OF UGANDA
AT THE
PARLIAMENT BUILDINGS
ON
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BY

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I. PRELIMINARIES

Your Excellency the President,

Mr. Speaker Sir,

Honourable Members of Parliament,

1. I beg to move that Parliament resolves itself into a Committee of Supply for the consideration and approval of:

- a) The Revised Revenue and Expenditure Estimates for the financial year 2006/2007; and
- b) The Proposals for the Estimates of Revenue and Expenditure for the financial year 2007/2008.

2. Mr. Speaker Sir, Article 155(1) of the Constitution provides that the President shall cause the preparation and lay before Parliament estimates of revenue and expenditure for each financial year. I am accordingly performing this duty on behalf of the President.

II. INTRODUCTION

3. Mr Speaker Sir, the budget I am presenting today is a statement of the revenues that Government expects to collect in the financial year 2007/08 and how it plans to allocate these revenues as it pursues its vision for the economic and social transformation of Uganda.

4. The theme for this year's budget is '**Re-orienting Government Expenditure Towards Prosperity For All**'. This theme represents the NRM Government's desire and determination to transform Uganda into a country of opportunity and prosperity for all Ugandans. It also represents our strategy of public-private partnership in the quest for prosperity. Expenditure will therefore be focused on areas that will increase production of marketable products that bring high returns, and on critical infrastructure that is necessary to transform households, businesses and communities in Uganda.

III. STRUCTURE OF THE BUDGET STATEMENT

5. Mr Speaker Sir, the Structure of the Budget speech today is as follows:
- a) I will first present Highlights of Economic and Fiscal Performance in 2006/07 and the Outlook for Financial Year 2007/08.
 - b) I will then outline some of the Emerging trends in the domestic, regional and international economy.
 - c) Thirdly, I will present the Program for FY2007/08 including Prosperity for All.
 - d) Finally, I will announce the Proposed Taxation Measures
 - e) And then state the Conclusions.

IV. ECONOMIC PERFORMANCE AND FORECAST

Developments in the Real Economy

6. Mr Speaker Sir, real GDP growth in FY 2006/07 is estimated at 6.5 percent this year, up from 5.1 percent last financial year. Although this is lower than our targeted rate of growth of 7 percent, it still represents a remarkable performance of our economy, and is higher than the average growth

achieved by the non-oil producing countries in Africa, estimated at 5.2 percent in 2006.

7. Next fiscal year, real GDP growth is also projected to grow by 6.5 percent. We are expecting stronger growth in cash crop production, manufacturing, construction, transport and communications. The medium term objective is to achieve GDP growth rates of 7 percent per annum. This is the level of growth required to meet our poverty reduction targets. Achieving this objective calls for continued vigilance in our macroeconomic policies, acceleration of the critical supply side reforms, and removal of bottlenecks to private sector development and competitiveness.

Savings, Investment and Export

Savings

8. The money which the people save is the main source of the capital that drives every economy. Uganda's domestic savings ratio currently stands at about 10% of GDP. This is far too low compared to some of the fastest growing economies which have sustained a savings rate in excess of 30% of GDP for many decades.

9. It is for this reason that the Government has embarked on the policy of creating a financial infrastructure throughout the country so that all our people can have access to safe financial institutions in which they can save their money. I call upon all Ugandans to save a part of their income, no matter how small. Research all over the world has shown conclusively that poor people can, and do save. Savings is the proven route to get out of poverty. Countries which were once very poor, but which adopted a culture of saving, have now become super economic powers. If Uganda is to become a great nation, we must, together, increase the proportion of our income we save from the current 10% to at least 20%.

Investment

10. Investment is perhaps the most strategic activity of the economy. Government has always been committed to creating an attractive and enabling environment for the private sector as an engine of growth. Private investment has grown strongly for each of the last five years at an average growth rate of 16% in real terms. As a percentage of GDP, private investment has risen from 12.4% in FY 2002/03 to 17.9% in FY 2006/07. Public investment, investment by our Government, also grew very strongly at 23.5% in real terms compared to a growth rate of 11.8% in FY 2005/06.

Competitiveness

11. Mr Speaker Sir, it is our intention to make Uganda a leader in Sub-Saharan Africa in terms of cost competitiveness and ease of doing business. For the year ahead the priorities for easing the regulatory burden on doing business will be in easing the costs of registering and transferring property; in access to credit; and in easing the cost of trading across borders.

12. The Government is also committed to reducing the time to export and import in Uganda from the current 42 days to under 30 days within the next 5 years. Improved transport and energy infrastructure will also contribute to this improvement.

Exports

13. Mr. Speaker, the growth of our export sector is truly remarkable. Total export earnings for both goods and services are projected to increase by 22 percent to US\$ 1,714 million this financial year, from US\$ 1,403 million last year. Exports of goods are projected to increase by 36 percent to US\$ 1,205 million, while exports of services are projected at US\$ 509 million. Earnings from coffee exports are projected to increase by 29 percent to US\$ 224 million this year. Coffee export volumes have grown by 15.2 percent and coffee prices rose by 11.6 percent.

14. The improved overall export performance is mainly due to higher world commodity prices, especially for non-traditional exports. The earnings from

non-coffee export goods are projected to increase by 31 percent to US\$ 923 million, largely due to increased export earnings from cotton, tobacco, tea, soap, fish and other products especially locally manufactured goods. Our earnings from fish exports are projected to increase by 23 percent to US\$ 238 million this fiscal year.

Developments in the Monetary Sector

Inflation

15. Mr. Speaker, it has been a fundamental policy of this government to maintain stable prices for all good and services without interfering in the operations of free markets. This year was no exception. Despite difficulties arising from high prices of fuel on the international market, domestic escalation in sugar prices in December 2006 and other inflationary pressures that built up during this fiscal year, the government maintained economic stability through macroeconomic measures that did not interfere with the markets.

16. These upward pressures on prices were compounded by the upward revision in utility prices particularly electricity. This in turn led to increases in the prices of manufactured goods and transport fares.

17. Additionally, there has been a remarkable increase in not only domestic, but also in the regional demand for goods and services. The combined effect of these pressures is that annual underlying inflation will average 8.1 percent this financial year. In the coming months, we expect inflation to fall back towards the target of 5% per year as the impact of these one-off price shocks is reduced.

18. Maintaining low inflation at an average of 5 percent will continue to be the cornerstone of Government's macroeconomic policy, because low inflation is essential to a stable economic climate, in which the private sector can make long-term investment plans and the purchasing power of the poor is protected.

The Exchange Rate

19. Over the year, the exchange rate has faced appreciation pressures, with the Uganda Shilling appreciating by 8 percent against the US Dollar during this fiscal year. This means that people who want dollars can buy them more cheaply while sellers of dollars have been getting fewer and fewer shillings for each dollar they sell. The strengthening of the Shilling has largely been on account of more dollars coming to Uganda as exports have increased. This is proof of the success of our policy of increasing Uganda's exports. Another cause of the appreciation of the shilling has been increases in investment inflows and high levels of donor aid, particularly project support and transfers to NGOs. This was in addition to the persistent weakness of the US dollar on the global financial markets.

Interest Rates and Government Securities

20. The Bank of Uganda has been active in the securities market in an effort to control money supply growth and inflation. As a result, interest rates on Government securities have faced upward pressure. The increased sale of securities during the financial year has led to an increase in interest rates across all maturities. Government is committed to the achievement of lower interest rates together with prudent monetary and fiscal policies.

21. Although high lending rates have become a persistent problem, I wish to assure Ugandans that Government has taken some decisive measures to solve the problem. First, Government has increased the capitalization of Uganda Development Bank by shs 20 billion in the past 2 years. The lending rates at UDB are lower than those of commercial banks and are intended to assist small and medium investors to access medium and long term funds. Secondly, Government has committed itself to support Savings and Credit Cooperative Societies (SACCOS) with the necessary infrastructure in order to reduce their cost of establishment so that they can lend at lower interest rates since they now have lower overhead costs. Finally, Government lifted the ban on entry into the commercial banking sector in order to increase competition.

22. Government is aware of the difficulties facing Ugandans in accessing capital and in the high cost of capital. We shall not rest until the cost of capital comes down to more internationally competitive levels so that the prices of our exports can be more attractive in the in world market.

Financial Sector Developments

23. The performance of the financial sector is critical to the economic development of the country. Over the past few years, the sector has benefited from the strengthening of supervision and regulation of the banking system. There has been continued public confidence in the sector and increased product diversification. During this fiscal year, all banks remained well capitalized and in line with the requirements of the Financial Institutions Act 2004. The volume of non-performing assets as a percentage of total lending remained low, at 2.95 percent in December 2006, which is well within the 10 percent prudential limit. The low ratio of non-performing assets to Bank's total credit portfolio is due to improved risk management by banks and a strengthened supervisory framework.

Anti-Money Laundering

24. To combat money laundering and terrorist financing, the Anti-Money Laundering Bill will soon be laid before Parliament for discussion and approval. In the meantime, Bank of Uganda has taken a pro-active approach by participating in regional efforts aimed at combating money laundering and also issued anti-money laundering guidelines to all supervised financial institutions in Uganda.

Capital Markets

25. Capital markets demonstrated strong growth this financial year. The capitalization of the Uganda Securities Exchange (USE) has grown to over 4 trillion Shillings. The growth of the market for securities is attributed to two major factors; the general appreciation of share prices of listed securities and the initial public offer of shares by Stanbic Bank. In the coming fiscal year,

the sale of Government shares in a number of public enterprises is expected to lead to a further deepening and widening of the capital market.

Social Security and Pensions Reform

26. Over the past several years there has been a vigorous debate over the reform of the pensions sector. There is no doubt that Uganda needs and deserves a good social security and pensions system. Such a system should provide a secure and adequate income to people who are aged, unemployed and/or disabled. Mr. Speaker, I want to take this opportunity to assure Ugandans that this will be done.

27. Mr. Speaker, we have had to resist pressures to move hurriedly before assuring ourselves of how to avoid the disastrous mistakes which in the not so distant past wiped out the savings of tens of thousands of our people. We should not and we will not be stampeded into a repeat of those mistakes. We shall ensure an adequate regulatory framework to protect the retirement savings of all Ugandans. We shall resist pressures to use the pension savings of our people for speculative gains. I want to assure Ugandans that their pensions savings will not be allowed to become a game for speculators. Uganda will establish a system of pensions that takes full advantage of best practices in the world. It will provide for safe investment of those funds and a fair return to members. It will also attempt to widen access to the greatest possible number so that more and more of our people have an increasing measure of income security.

28. Mr. Speaker, there is also considerable anxiety concerning pensions arrears. I am pleased to announce that financing has been provided in next year's budget to clear up Shs280 billion of arrears of which shs200 billion will be for outstanding pension arrears. Over the medium term, resources will be set aside to clear the present stock of pension arrears, while at the same time aiming to convert the present system, to a contributory scheme, to prevent further accumulation of arrears.

Fiscal Performance and Forecast

Revenue and Expenditure Outturns

29. The projected outturn for URA revenue collections this financial year is Shs 2,615.2 billion, reflecting a surplus of 59.7 billion. I congratulate the URA on this outstanding performance. Non-URA domestic revenue collections are projected at Shs 95 billion this year, compared to the approved budget estimate of Shs 42 billion.

30. The outturn on Government expenditure, including donor financed projects, is projected at Shs 4,352.2 billion, representing a 99 percent outturn compared to the approved budget. This reflects a near perfect overall performance on expenditure.

V. OPPORTUNITIES AND CHALLENGES.

31. The Ugandan economy is facing at least four major opportunities and challenges in both the domestic and international arena. These are as follows:

- a) First, we are witnessing the promise of a transition to domestic peace in Northern Uganda. This will increase both the demand and supply for goods and services, including infrastructure, and should increase the growth in the Gross Domestic Product.
- b) Second, we are surrounded by an emerging regional peace that has brought with it an unprecedented increase in the demand for goods and services. This calls for a supply response which should also spur acceleration in economic growth.
- c) Third, there is a remarkable world wide rise in the prices of raw materials, including oil, and we ourselves are anticipating the prospects for participation in trade in these commodities.
- d) Fourth, we are witnessing the world wide technological revolution in information technology that makes international employment possible without the physical movement of labour.

32. Mr. Speaker Sir, I believe that these are important economic opportunities that are already having a powerful impact on Uganda's economy. The

challenge we have is to design appropriate policies to take advantage of them. I wish to request honourable members and all our people to keep these opportunities and challenges in mind as we debate strategies and solutions to Uganda's economic problems.

VI. THE BUDGET STRATEGY FOR FY 2007/08.

The Strategy for Prosperity for All

33. Mr. Speaker, Prosperity for All is the central theme and message of the NRM Election Manifesto of 2006. Ugandans have overwhelmingly embraced this drive to transform the country from a poor peasant society into a modern, industrial, united and prosperous society, in a stable and peaceful environment.

34. In this budget, Government is addressing the entire range of constraints which often stand in the way of production, marketing, access to financial services and the cost of capital. In order to attain 'Prosperity for All', the budget must address both the private sector concerns, as well as the provision of public goods and services such as Security, Law and Order, Energy, Roads, Education, Health and Water.

35. The strategy for increasing household incomes needs to address the value chain of our products. The value chain concept attempts to identify the various activities through which a product passes to reach the consumer. The value chain components include production, processing and marketing. Financing facilitates the value chain at all points and is therefore a critically necessary ingredient of the 'Prosperity for All' programme. This concept attempts to avoid a haphazard approach that, for example, addresses production while ignoring marketing and vice versa. When production increases without prior arrangements for marketing, farmers are frustrated.

36. We should, therefore, encourage the value chain for products that:

- a) have a market, especially an export market;
- b) have a relatively high value; and
- c) can be grown by a large part of the population.

37. For example, there is enormous room for expansion in the production, processing and marketing of tea, coffee, cotton, fruits, honey, rice, potatoes, diary products, vegetable oil, poultry and fish. These products can be produced in one or more ecological zones throughout Uganda. Our commitment is to make sure that micro finance is available to facilitate the value chain, as well as providing the technical advice for production while ensuring that the processing and marketing infrastructure is in place.

38. Mr Speaker Sir, we know that the production of any commodity requires the traditional factor inputs of Land, Labour, Capital, and Entrepreneurship. Each of these factors of production requires careful analysis and management by our people. The fact that our people do not possess degrees in business administration does not exempt them from competition in the world market. However, we believe that Government has the duty and the obligation to step in to help our people solve the complex problems associated with the management of each of these inputs.

Land

39. In order to assist people who are landless or whose land holding is too small to realize an income that is above the poverty line, Government has set aside a revolving fund to be used as a Land Acquisition Loan Facility. The facility will be disbursed through Post Bank and participating SACCOs and will be secured by the land that is acquired. I have allocated Shs. 3 billion for this program which will initially cover 30 districts with each district getting shs100 million. The amount per borrower will be kept low in order to enable as many people as possible to participate. Additional requirements for participants will be designed and communicated by Post Bank.

Labour and Extension

40. Production requires trained, skilled labour. The NAADS programme will primarily aim to train farmers in the use of fertilizers, pesticides, farm machinery and irrigation. The programme will also be used to disseminate tested crop varieties and production techniques to farmers to improve their agricultural yields. This will re-orient agricultural production away from traditional subsistence farming toward commercial, high return production. Currently 64 districts are covered by NAADS. In FY 2007/08, I am providing an additional Shs. 12 billion for the roll out of NAADS to all the districts not yet covered by the programme. This will bring the expenditure of NAADS to Shs. 60 billion in FY 2007/08.

Capital (Micro Finance)

41. The micro-finance based accumulation of capital will be done mainly through cooperatives. The emphasis Government has put on the development of Savings, Credit and Cooperative Organisations (SACCOS) is particularly important in mobilizing savings and credit for the people. Out of the 970 sub-counties, only 381 have a SACCO. Government plans to strengthen the 381 SACCOS already in existence and to create new ones in the 589 sub-counties that do not have them. For FY 2007/08, I have provided Shs 10 billion for micro finance infrastructure from domestic resources, and additional funding is also available from ADB and IFAD credits.

42. During FY2007/08, Government will also initiate legislation to improve and strengthen the regulation and supervision of SACCOS. The working group charged with this task has submitted its report. We expect to submit the requisite paper to Cabinet by September 30, 2007.

The Role of Cooperatives in Management

43. Mr Speaker Sir, I beg your indulgence and that of honourable members to dwell upon the role that cooperatives should be encouraged to play in the prosperity for all program. I have already noted that it is difficult for a small individual farmer to solve the problems of financing, production, processing

and marketing entirely on his own and compete successfully in the world market. Indeed we know that in many parts of the world, including the most advanced economies, governments intervene to assist farmers and other businesses.

44. Cooperatives have considerable potential to strengthen the capacity of households in marketing and processing. This is especially true because cooperatives, assisted by Government, can hire professional management. When management is hired to run the cooperative, a board of directors that is drawn from members of the cooperative should be selected by the members and charged with the duty of supervising the management of the cooperative. In the absence of organized effort in cooperatives, I see grave danger for the effort to raise the rural poor from their poverty. I therefore beg to take this opportunity to urge all the Ugandans to join the Savings and Credit Cooperatives and the Production and Marketing Cooperatives. These cooperatives offer a genuine opportunity for Ugandans to act together to defeat the curse of poverty and to eliminate it forever from this country.

45. Consequently, Government proposes to strengthen district cooperatives and management of cooperative societies by

- a) Training the officers to supervise them,
- b) Supporting the formation of enterprise-based cooperatives,
- c) Carrying out a needs assessment for refurbishing storage facilities at primary society level,
- d) Refurbishing and equip stores,
- e) Coordinating NAADS activities with cooperatives, and
- f) Amending the Cooperative Societies Act of 1991 to improve the supervision and regulation of cooperatives.

46. I have allocated shs 2 billion for marketing research and implementation of the cooperatives activities. Additional funds will be available to cooperatives which can engage in value addition and agro-processing.

Processing and Marketing

47. Mr Speaker Sir, a central component of Government's strategy for faster economic growth is to maximize Industrial Development and to promote innovations in Science and Technology. Government will provide the necessary support to innovative scientists to enable them to develop commercial technologies and prototypes. Specifically, scientists will be supported for research in banana development, fruit juice processing and malaria research. This activity has been transferred to the Uganda National Council of Science and Technology in line with its mandate.

48. Mr Speaker Sir, industrialisation is essential to raise labour productivity, add value to products, earn higher export revenues and create employment. I am allocating Shs 8 billion for acquiring land and building infrastructure for industrial estates.

49. Additionally, we plan to increase capital funds for processing and marketing through the issue of an Industrialization Bond. We shall support the Uganda Development Bank and other development banks to raise at least shs50 billion for small and medium enterprises and cooperatives involved in processing. These funds will be made available to the private sector at regionally, and if possible internationally, competitive interest rates.

50. The increase in agricultural and industrial output resulting from these measures should go a long way to respond to both the growing domestic demand due to the transition to peace at home as well as the growing regional demand for both foodstuffs and processed products.

51. Mr. Speaker, Honourable Members, these efforts by Government will complement and not compete with the efforts of the private sector. As these complementary efforts evolve, we hope to make increasingly vital improvements in the design and definition of our public-private partnership arrangements, which will constitute the corner stone of the emerging Ugandan economy.

52. Mr Speaker Sir, these interventions in the drive to attain prosperity for all call for coordination at the centre and change agents who are strategically situated in the rural areas. At the centre, a PFA Coordination unit in the President's office will do the coordination of PFA. In the rural areas, the sub-county Chiefs have been identified and trained to make PFA a reality.

53. Specifically, the sub-county chiefs are responsible for the following:

- a) Manage and maintaining an effective Community Information System that keeps us informed of progress in household incomes as well as in community infrastructure.
- b) Mobilize the people to build, manage and maintain Savings and Credit Cooperative Organizations in Sub-counties.
- c) Mobilize the people to build, manage and maintain functioning marketing co-operatives and reaching out to the parishes within sub-counties.

Infrastructure Development and Maintenance

54. The needs of a household are not limited to its household income. The household also requires community infrastructure such as schools, health centres, water, power, security, law and order and so on. Sectors shall programme the delivery of essential public goods and services at the sub-county level in a coordinated approach. In light of this, the different line ministries responsible for delivering public services at sub-county level are expected to plan their interventions in order to demonstrate results and impact in the sub-counties. Mr. Speaker, Ministries must plan and demonstrate impact accountability. What impact has the ministry had on the ground in each sub-county? If a certain sub-county has not yet been reached, for example with clean water, the people in that sub-county should be told when they will be reached. This is the essence of the sub-county model as a planning tool to deliver higher household incomes for all and better infrastructure for all. In a nutshell, Mr. Speaker, this is the purpose and strategy of Prosperity for All.

55. Under the model sub-country development programme, line ministries will therefore have to :

- a) Set infrastructure and service delivery standards that will be implemented at every sub-county.
- b) Develop medium-term and annual budgets for reaching specific sub-counties in the plan period as well as annual targets.
- c) Design a medium to long term action plan for reaching all the sub-counties.

56. In order to operationalize the model sub-county programme, I am allocating Shs.7.5 billion to commence the actual implementation of the model sub-county programme and a further Shs. 3.5 billion to develop the Community Information System.

VII. BUDGET PRIORITIES FOR FY 2007/08

57. Mr Speaker Sir, I would now like to highlight the major priorities of the FY 2007/08 budget. In view of the extensive reporting on sector performance in the Financial Year 2006/07 that we have in the Background to the Budget, I will restrict myself to the major priorities for the forthcoming budget.

58. Our budget strategy has been to maintain high rates of economic growth, low inflation, a sustainable external balance and macroeconomic stability through fiscal discipline. Budget discipline will continue to be a critical part of the overall budget strategy.

59. Mr Speaker Sir, The FY 2007/08 budget strategy places emphasis on aligning our expenditures to the priorities which will support the Vision of the Government. These priority areas will have the first call on all new resources for FY 2007/08. They are:

- a) Investments in Energy Infrastructure;
- b) Development and Maintenance of Transportation Infrastructure;
- c) ICT, Science, Technology and Industrial Development;
- d) Rural Development;

- e) Human Development;
- f) Security and Good Governance

60. The specific Targets of government in these priority sectors are as follows:

- a) To increase thermal power generation to 150 MW and to start on the construction of both the Bujagali and the Karuma dam in FY2007/08.
- b) To implement the road maintenance program in all the constituencies of Uganda.
- c) To increase public investment in innovation and industrialization by at least shs60 billion.
- d) To introduce NAADS to all districts and start SACCOS and Marketing Cooperatives in all sub-counties.
- e) To reform the Pension Sector by setting up a regulatory framework and turning NSSF into a pension fund.
- f) To extend comprehensive peace and security to all the areas of Uganda.

Investments in Energy Infrastructure

61. Mr Speaker Sir, Investment in energy development is critical for improving our competitiveness and output. The current shortfall in energy supply continues to hurt our economy, as manufacturers and other commercial enterprises have had to provide their own sources of energy. This increases operational costs and reduces competitiveness of the country as a whole. The FY 2007/08 budget will therefore continue to support emergency thermal energy supply to mitigate the energy shortfalls in the medium term. Government will deploy cheaper heavy fuel oil (HFO) thermal generating plants in the medium term to mitigate use of more expensive diesel plants. I am providing U. Shs. 92 billion to support thermal power generation.

62. Additional resources will also be set aside in the Energy Investment Fund created in FY 2006/07, for the construction of the Bujagali and Karuma

hydro power dams. The early commencement of construction of the Bujagali Hydropower project, was made possible by utilization of the US \$75 million from the Government of Uganda. This loan will be repaid to Government when financial closure of Bujagali takes place in the near future. The construction of the Karuma Hydropower station is expected to also start in the near future.

63. These two hydroelectric dams will ensure a cheaper source of electricity supply in the long term. The Karuma Hydro Power station is to be fast tracked so that we do not experience any further electricity shortfalls, as it is clear that demand will outstrip supply soon after the completion of the Bujagaali hydro - power dam. The necessary transmission and distribution capacity will also need to be built. I am providing U. Shs. 119 billion in FY 2007/08 for development of hydro power plants and related infrastructure.

64. Mr. Speaker Sir, Government will also support the development of alternative renewable energy generating schemes. A total of 40 MW of electricity will be generated from these schemes over the next five years. The Kakira co-generation facility from bagasse and Nyagak mini-hydro will be operational in the next financial year. Construction of renewable energy schemes at Waki, Bugoye Buseruka and Kikagati will also commence in FY 2007/08. Drilling in the Kibiro/Lake Katwe area to assess geo-thermal potential for power generation has also been undertaken and the evaluation of results is on-going.

65. Mr. Speaker Sir, because energy has become increasingly scarce, efficiency in its use has to be of paramount importance. To this end, loss reduction in the distribution system from 34 percent of power generated to 25 percent in the short to medium term is being targeted. This reduction of losses requires the aggressive implementation of a loss reduction plan and its associated investment by the electricity distributor beyond levels that we have witnessed recently. Efficiency in energy use will also be enhanced through undertaking energy efficiency audits in public buildings including universities, schools and industrial and commercial buildings, including hotels. Government

will expand its ongoing energy audit program, and finance high-impact investments identified by the audits, especially in the public sector.

Development and Maintenance of Transportation Infrastructure

66. Mr Speaker Sir, allow me to turn to road infrastructure development and maintenance. Road transport is the dominant mode of transport in Uganda, accounting for over 82 percent of the volume of freight and human movement. However, the road infrastructure has developed a huge backlog in road maintenance with approximately 20 percent of the entire road network currently classified as in poor or bad condition; and over 60 percent in a warning condition and about to deteriorate to poor condition. For FY 2007/08, I have allocated an additional Shs 35 billion for clearing the backlog on road maintenance, and an additional Shs 15 billion for the completion of road construction projects that have stalled on account of lack of adequate Government of Uganda counterpart funding.

67. In the long term, however, the sizeable amount of resources needed to maintain the road network can not be fully provided for within the Government budget given other emerging priorities such as Energy, and Universal Secondary Education. In order to address the growing problem of road maintenance backlogs, Government has established a Road Fund to allow a direct link between payment of road user charges and provision of road maintenance services, thereby increasing the overall operational efficiency of the road sector. The Road Fund is expected to improve the financing for routine and periodic road maintenance and reduce the backlog in road maintenance. We shall make every effort to ensure that the Road Fund is equitably utilized to reach all constituencies of Uganda so that access to markets and tourist centres is significantly improved. While other qualifying expenditures for a Road Fund could include rehabilitation and new works, road maintenance will have the first call on resources from the Fund.

Science, Technology and Industrial Development

68. Mr. Speaker, in recent times, the need for information to process and

manage land, labour and capital in a highly technological age was recognised. The exponentially increasing technological economic environment required information as a basis for its survival. The advancements in data and voice communications is now apparent the world over. Phones, Internet and email are seen as key factors involved in the success of running any operation in today's global market. The exchange of information is crucial to sustain the current growth of the world economy.

69. The ability to exchange information is vital to spur both foreign and local investments. The penetration of the Internet and data connectivity provides the added value to an investor in a foreign market. The access and exchange of information allows local enterprises to compete with growing foreign investment and to build home-grown businesses.

70. However, there is a 'north - south' Digital Divide within which there is an imbalance in the presence, utilisation and access to the technologies between the developed and developing worlds. In order to bridge this Divide, efforts should be aimed at the use of digital tools and telecommunications to overcome the natural physical barrier of Uganda being 'land-locked' to having digital access to the whole globe, thus, also avoiding being 'e-locked'.

71. The Government has recognised the role of ICT in national development and transformation programmes. The new Ministry of Information and Communications Technology (ICT)'s new measures include the full liberalisation of the telecommunications sector. This has lead to more investors in the sector and to more products and services at lowered costs and wider coverage. In addition, Government has embarked on a National Data Transmission Backbone which shall link districts using fibre optic cable to high speed connectivity for both voice and data exchange. The project also includes the linking of all Government Ministries and agencies using fibre optic technology.

72. The FY 2007/08 budget includes Shs. 5 billion to fund the construction of a National Data Transmission Back Bone to enhance Uganda's domestic fibre-optic network and wireless capability. This counterpart funding will supplement a US\$ 30 million loan from the Peoples' Republic of China.

Rural Development

73. Mr Speaker Sir, as I noted earlier, the plan to achieve Prosperity for All aims to raise the incomes of households through increasing access to land, labour productivity, access to capital and improving economic organisation of farmers. Over the short to medium term, households will be facilitated to access basic production inputs such as planting materials, breeding stock and extension services, marketing infrastructure and rural financial services. The linkage between farmers and processors as well as processing capabilities will be enhanced with the industrial development interventions I have just spelt out.

74. At the community level, Government is already building an effective supportive community infrastructure in the form of roads, water, and education and health facilities. This will be complemented by a community information system to enable the communities themselves to generate information for use in planning and service delivery.

Human Development

75. Mr Speaker Sir, with respect to interventions for Human Development, Government will continue to implement the Universal Secondary Education initiative that commenced in January 2007. Since then, a marked increase in enrolment rates in secondary schools has occurred, thereby increasing transition rates of pupils from primary education into secondary education. USE has been broadly embraced and will enable the country to reap greater benefits from a more knowledgeable and disciplined population. This is a major achievement which will make a crucial contribution to the socio-economic transformation of Uganda.

76. For FY 2007/08, I have provided additional resources amounting to Shs 24 billion for the recruitment of teachers, construction of classrooms and capitation in support of the Universal Secondary Education Programme for participating schools. Universal Secondary Education requires additional funding over and above the current projections for the FY 2007/08 budget, hence it is necessary to ensure that the available budgetary resources are used more efficiently by the sector.

77. Whereas, the programme is generating unprecedented increases in the level of enrolment in secondary education, we should guard against a number of quality related concerns which have already emerged as constraints to the success of UPE. Government intends to critically review these constraints and address them to ensure greater efficiency in the delivery of these two crucial programmes.

78. Mr. Speaker Sir, in the Health Sector, the major priority remains the implementation of the Uganda National Minimum Health Care Package. The top priorities that need to be emphasised in the delivery of the Uganda National Minimum Health Care Package include the enhancement of Sexual and Reproductive Health and Rights with a focus on improving maternal and child health, Malaria control, Immunization, Sanitation, Community Mobilization and HIV/AIDS.

79. Priority interventions to improve maternal and child health will entail a focus on the provision of emergency obstetric care at all maternity centers at Health Centers III and IVs and at hospitals; and increasing access to family planning services. Emphasis will be placed on programmes promoting child survival including the Integrated Management of Childhood Illness, the Expanded Programme on Immunization, Nutrition, and the Newborn Health and Survival. The sector will intensify immunization services through intensified social mobilization, making the appropriate vaccines available at all health centers and expanding and strengthening outreach centers and active surveillance. Malaria Control programmes will focus on strengthening

preventive measures including the preventive treatment of malaria during pregnancy, vector control measures, and prompt and effective malaria case management at all health facilities, communities and households.

80. Mr. Speaker Sir, under the infrastructure development programme, the Health Sector will concentrate on equipping the existing health infrastructure. This will entail equipping Health Centre II's, III's and IVs. I have allocated Shs. 11 billion specifically for recruitment and provision of drugs at Health Center III's. I have also provided Shs 8 billion for the rehabilitation of Referral Hospitals.

81. To respond to the challenge of alternative and sustainable health care financing, Government will evaluate the costs and benefits of setting up a National Social Health Insurance Scheme.

82. Mr. Speaker Sir, with respect to HIV/AIDS, Government shall continue to promote the ABC strategy as a measure to prevent the spread of HIV/AIDS. The finalisation of the revised framework of the National HIV/AIDS Strategic Plan will guide Government's national intervention against the HIV/AIDS pandemic.

83. Mr. Speaker Sir, with respect to water sector, in FY 2007/08, efforts will be made to increase the number of functional water points in rural areas and piped water systems in rural growth centres. This activity is aimed at increasing district rural water supply coverage from 61 percent to 63 percent. Government also intends to increase coverage of piped water systems and sewerage systems in urban areas with efficient management. Water supply coverage in small towns will be increased from 65 percent to 69 percent.

84. Emphasis will be placed on educating and sensitising communities and households on harvesting and storage of water from their roofs especially those who have modern roofs. We shall encourage SACCOS to lend for water harvesting equipment and government will seek funds to subsidize this

activity. I have allocated an additional Shs. 20 billion to the Water Sector for water for production and provision of rural water supply.

Security and Good Governance

85. Mr Speaker Sir, the focus for the security sector in FY 2007/08 will be on combating Local and International Terrorism. Government will transform the Uganda People's Defence Forces into an efficient, effective and professional modern force. The welfare of soldier's will be enhanced through an increase in salaries from Shs 140,000 to Shs 180,000 per month for infantry soldiers.

86. Additionally, Government will also pay duties on a specific quantity of roofing iron sheets and cement to enable soldiers build homes for themselves at subsidized prices. The specific quantities will be worked out with the Ministry of Defence. This measure will address the complaint that members of the armed forces in other countries in the region have access to duty free shops while ours do not.

87. Government will also intensify efforts at improving access to justice for all, especially the marginalized and the poor. We have urged the Ministry of Justice and Constitutional Affairs to design and implement a plan to increase the number of magistrates in rural areas so that the time and distance taken to access justice can be substantially shortened.

88. Mr Speaker Sir, in the commercial arena, Government is committed to providing and ensuring a sustainable conducive legal environment for both local and foreign investment. This will be done through the harmonization of all related local laws and agreements or Acts at national, regional and international levels.

Commonwealth Heads of Government Meeting

89. Mr Speaker Sir, the Commonwealth Heads of Government meeting is scheduled to take place in Uganda this year. To facilitate this meeting,

Government in FY 2006/07 paid for a 25 percent shareholding in Munyonyo Commonwealth Resort. Infrastructure projects including road repairs in Kampala and the provision of street lighting in Kampala and Entebbe were also carried out. In addition, works were carried out on the improvement and expansion of the radar facility at Entebbe Airport. In FY 2007/08, I am providing additional resources for completion of the activities related to hosting the meeting in the country.

Pay Reform

90. Mr Speaker Sir, Government has approved a pay policy for public service institutions and Government agencies. The policy includes principles for setting pay levels across the service, approval of the salary structure for the public service institutions and government agencies including cadres in high demand and short supply and those who are critical to the social transformation of the country. Government has now embarked on costing the structure of the entire Public Service based on the proposed salary levels within the pay policy. This will provide the basis for ascertaining the resource requirements and draw strategies for phased implementation of the policy within the resource constraints. I have provided Shs. 30.2 billion to cater for salary shortfalls experienced this year as well enhancement of salaries for public servants. While this should go a long way in reducing the need for wage supplementary schedules, there remains room for improvement in hiring and management of practices before the wage supplementary can be eliminated completely.

Local Government Financing

91. Mr Speaker Sir, the financing of local governments today is characterised by their inability to collect sufficient revenue to support the effective delivery of services to the population. Over the last eight years, there has been a steep decline in revenue collection by local governments. While Graduated Tax was the main source of revenue for local governments, it was regressive to the poor and so Government abolished it in July 2005. In order to mitigate the impact of declining local government financing on service delivery, Government has approved new revenue sources for local governments to broaden their revenue base. Mr Speaker Sir, I am proposing that the new

taxes for Local governments take effect on 1st July 2007. The new taxes have been carefully selected because unlike Graduated Tax, they are productive, equitable, easy to collect and are levied on wealth and incomes, not individuals. With these taxes in place, there should be less pressure for Graduated Tax compensation. However, as an additional measure to augment Local Government revenue, I have provided Shs 33 billion to enhance the Unconditional grants for FY 2007/08.

92. Mr. Speaker Sir, I will announce the specific tax measures relating to local governments when I discuss taxation and revenue measures later.

93. Local governments have in the past expressed concern over the management of royalties. Government has now opened an account with Bank of Uganda under the Ministry of Energy and Mineral Development. The royalties paid on this account will periodically be transferred to the respective local governments on submission of claims through the Ministry of Local Government. Local governments are increasingly burdened by the inability to pay pensions leading to the accumulation of pension arrears. For FY 2007/08, I have provided Shs. 17.5billion for the settlement of verified Local Government pension arrears.

Peace Recovery and Development of Northern Uganda

94. Mr. Speaker Sir, Northern Uganda including the Karamoja region urgently requires interventions to effect post-conflict reconstruction and recovery. Continuing the pacification and development of Northern Uganda and the Karamoja region is a priority in the Financial Year 2007/08 Budget.

95. The resettlement of persons now residing in Internally Displaced Persons camps that began last financial year will be completed in FY 2007/08. Government will also support the people of Northern Uganda to engage in productive ventures. Engaging resettled persons in productive activity will require rationalisation of the implementation of the Northern Uganda Peace, Recovery and Development Plan with current initiatives such as

the National Agricultural Advisory Services and existing Sector Investment Plans. In addition to maintaining the U. Shs 18.6 billion provision to support resettlement, I am allocating a further U. Shs. 5 billion specifically for the provision of water in Northern Uganda. The full assessment of the interventions required for the Recovery and Development of Northern Uganda is currently underway, and further support to implement the programme will be made available.

Accountability

96. Mr Speaker Sir, I will now highlight Government efforts to ensure adequate accountability for public funds.

Tackling Corruption

97. With regard to the fight against corruption, I am happy to announce that Government has received a grant of US \$10.2 million from the Government of the United States of America to strengthen the investigation, documentation and prosecution of corruption cases. Moreover, the Government will safeguard the independence of the judicial process and promote efficient, transparent and timely enforcement of the judicial decisions in a professional manner with zero tolerance on corruption. Let all of us stand warned.

98. Mr. Speaker Sir, Government will continue to support the institution of the Inspector General of Government as well as strengthen the Office of the Auditor General. Strategic partnerships between the Inspectorate of Government and other relevant organisations such as the Directorate of Ethics and Integrity, the Police, the CID, the Directorate of Public Prosecutions, the Attorney General, the Office of the Auditor General, NGOs and community based organisations will be strengthened. This approach will lead to strong coordination and cooperation in the fight against corruption. The US\$ 10 million, which I referred to earlier, which Government has also received from the United States Millennium Challenge Account will be used to strengthen anti-corruption agencies.

Efficiency and Effectiveness of Public Expenditure

99. Mr Speaker Sir, in order for us to achieve our goal of Prosperity for All, Government needs to identify and implement efficiency gains in service delivery. To achieve this, the various proposed programmes relating to the PEAP, the Rural Development Strategy, the Prosperity For All Programme and other initiatives will be harmonised and rationalised. Mr Speaker Sir, other efficiency measures are currently being undertaken at the sector level. For example, we are addressing quality concerns in education by putting in place a thematic curriculum and vernacular teaching to improve literacy, community participation to reduce dropout rates and performance contracts to minimize absenteeism.

VIII. RESOURCE ENVELOPE FOR FY2007/08

100. The total Resource Envelope for FY 2007/08 amounts to Shs. 5,025 billion. This is composed of the following components.

Domestic Revenue

101. Domestic revenue in the next fiscal year is projected to increase by 15.5 percent from the current fiscal year's projected outturn to Shs 3,190 billion, which is equivalent to 14.4 percent of market price GDP. This is an increase of 15 percent over this fiscal years projected outturn of shs 2711 billion. In FY2007/08 URA revenue collections are projected to increase by 16 percent from shs2615.2 billion to Shs 3,076 billion, while non-URA non - tax revenues are projected at Shs 114 billion.

Budget and Project Support

102. External resource inflows to support the budget consist of budget support loans and grants, as well as loans and grants to support development projects. Budget support is projected to decline to Shs 711 billion in the next fiscal year from a projected outturn of Shs 1,086 billion this year. Project support loans and grants will amount to Shs 1,201 billion next financial year. In total, budget and project support from outside Uganda will finance 38.7 percent of the Budget for FY2007/08.

103. Several loans contracted continue to disburse slowly for various reasons, including lack of counterpart funding and weak procurement planning. From next financial, I will place significant emphasis on requiring sector ministries to provide for faster utilisation of project funds and improve their institutional capacity in management.

Loan Repayments by Parastatals

104. Loan repayments by parastatal organizations will contribute Shs. 35 billion to the budget Resource envelope.

External Debt Repayment

105. A sum of Shs. 157 billion is required for servicing external debt.

Domestic Financing

106. Domestic financing will contribute Shs. 38 billion to the resource envelope in FY 2007/08.

Domestic Arrears

107. Funding for domestic arrears will require Shs. 280 billion.

Constitutional Self - Accounting Bodies

108. Mr Speaker Sir, the budgetary proposals of the following Self Accounting Bodies have been submitted in compliance with Article 155(2) of the Constitution.

- I. Courts of Judicature
- II. Electoral Commission
- III. Inspectorate of Government
- IV. Parliamentary Commission
- V. Uganda Law Reform Commission
- VI. Uganda Human Rights Commission
- VII. Uganda Aids Commission
- VIII. National Planning Authority

109. In accordance with Article 155(3) of the Constitution, Government has made recommendations on these proposals. I hereby lay both the budgetary proposals and the recommendations of Government before this August House, as required by the Constitution.

110. In order for me to submit a fully financed National Budget for your consideration in accordance with Article 155(1) of the Constitution, the budget provisions of these Self Accounting bodies are in accordance with the resource envelope conveyed to them in the course of budget preparation, including the presentation of the National Budget Framework Paper to Parliament, in accordance with the Budget Act 2001.

X. REVENUE AND TAX MEASURES FOR FY 2007/08

Revenue and Tax Measures for FY 2007/08

111. The theme of tax policy in the medium to long term is simplicity, fairness and growth. Government has over the years undertaken major reforms to the tax system in pursuit of these objectives. Value Added Tax was introduced in 1996 as part of the measures to modernize domestic indirect taxes and the income tax law was reformed in 1997. Since then, no major review of the tax system has taken place to assess whether it still meets its objectives especially in today's changing environment. In this regard, Government is to establish an Expert Tax Commission to advise Government on the propriety of the tax system.

Investment Incentives

112. Mr Speaker Sir, in order to enhance investments, employment, competitiveness and growth, I am proposing to enhance tax incentives for investors. The tax incentives **will be limited to persons engaged in the exportation of finished consumer and capital goods.**

113. The incentives which are in line with the practice in the other Partner States in the East African Community will include the following:

- (a) 10 year tax holiday to companies engaged in value added exports.
- (b) Withholding tax exemption on interests, raw materials and plant & machinery
- (c) Stamp duty exemption on increase in share capital and mortgages.
- (d) Duty and tax exemption on raw materials and plant & machinery

114. The details are contained in the various tax Bills that Government is proposing to bring before Parliament.

115. Mr. Speaker Sir, the revenue loss out of this measure is estimated at about Ushs. 22 bn.

VAT on Residential Properties

116. Mr Speaker Sir, in order to encourage development of large scale, well-planned residential areas so that Ugandans acquire and live in decent houses and environment, it is proposed that VAT on sale of residential properties be reduced from 18 percent to 5 percent. The revenue loss out of this measure is estimated at about Shs. 2 billion.

Abolition of Road Licenses under the Traffic Act

117. Mr. Speaker Sir, license fees are a major revenue category projected to bring in about Shs.80billion this Financial Year. However, it is undermined by the high rate of default, rampant forgery of license stickers and requires a lot of administrative resources to ensure compliance. This state of affairs is untenable.

118. Mr Speaker Sir, I am therefore proposing to abolish the Road License Fees, except charges on first registration, to be compensated through other measures.

Excise Duty on Fuel

119. Investment infrastructure is critical for increases our competitiveness and poverty eradication. To maintain Uganda's infrastructure it is critical to

raise sufficient resources for road maintenance. Mr. Speaker Sir, for this reason the excise duty on diesel and petrol will be increased from Ushs. 450 and Ushs 720 per litre to Ushs. 530 and Ushs. 870 per litre respectively. This measure will generate Ushs 76 bn.

VAT on Hotels Inputs

120. Mr Speaker Sir, as an incentive to support hoteliers to upgrade their facilities and to increase room availability in preparation for CHOGM, Government intervened with effect from Financial Year 2005/06 by paying import duties and taxes on construction materials for hotels. Taxes paid so far amount to 8 billion. The policy has achieved its objective as evidenced by the relatively large number of hotels that have been constructed.

121. Mr Speaker Sir, this policy will be terminated with effect from 1st July 2007; but we shall allow a transition period of up to December 31st, 2007 for Hoteliers who were granted this incentive to clear their goods.

Taxation of Airlines

122. Mr Speaker Sir, the airline industry faces a lot of costs in international transport of goods and services. Airlines consolidate their worldwide income to arrive at their profit or loss. Taxing an airline on income it derives from Uganda, without taking into account its overall income may discourage international carriers from flying the Uganda route. As a landlocked country Uganda needs policies that encourage international carriers to fly to Entebbe.

123. Mr. Speaker Sir, I am proposing that international carriers be exempted from tax on the income derived from Uganda in respect of international traffic. The details are contained in the Income Tax (Amendment) Bill 2007.

Tax Amnesty

124. Mr Speaker Sir, a number of taxpayers would want to come out and pay their outstanding obligations but are wary of the penalties that they face which

sometimes surpass the principal tax. A few have approached Government for clemency.

125. Mr. Speaker Sir, to encourage voluntary compliance I am proposing an amnesty on penalties and interest to all taxpayers who voluntarily disclose and pay their principal tax liability. The amnesty will cease on 31st December 2007. The details are contained in the Finance Bill 2007.

Agricultural Loans

126. Mr Speaker Sir, in the 2005/06 Budget Speech, Government announced that interest earned by financial institutions on loans granted to persons engaged in agriculture be exempt from tax. The purpose was to encourage banks to extend credit to the Agricultural Sector.

127. However, this has been hampered by the costs incurred by financial institutions and the bad debts that they register which have not been deductible as expenses. This therefore keeps the interest rates still high.

128. Mr. Speaker Sir, in order further encourage banks and to reduce the costs of lending to the Agricultural Sector, I am proposing that expenditures and losses and bad debts incurred in lending to the agricultural sector be deductible for tax purposes.

Levy on Hides and Skins

129. Mr Speaker Sir, in the budget speech of 2001/02 Government introduced a 15% levy on the value of all exported raw hides and skins. The rate was later increased to 20%. The levy was intended to support and encourage value addition. Since the levy is based on value, exporters are now

declaring that the bulk of the hides and skins are rejects thereby underpaying the levy. As an alternative measure, I am proposing to introduce a fixed levy of US 0.25 per kg.

Environmental Levy on Used motor vehicle Spare parts

130. In line with Government policy to deter the importation and use of environmentally hazardous used goods, a 10% levy was introduced in the 2006/2007 Budget Speech, on used motor cars over 8 years old. However, used motorcycles, bicycles and spares for motor vehicles were not included.

131. Mr Speaker Sir, I am proposing that a 10% levy be introduced on used motor vehicle spare parts. This measure is consistent with the practice in the East African Community and the region.

Transit Parking Areas

132. Mr Speaker Sir, in 2002 we introduced Transit Parking Yards to help in the control of Transit Vehicles, provide adequate security and to minimize revenue leakage. However, URA has since modernized and automated the processes for controlling cargo in transit. Therefore to reduce transport costs and to increase the movement of cargo across the country, I am abolishing transit parking yards with immediate effect.

East African Community Common External Tariff (CET)

133. Under the Protocol on the Establishment of the East African Customs Union, prior to reading their national budgets, the Ministers of Finance have to hold joint budget consultations with regard to the implementation of the Common External Tariff. The Ministers agreed on a number of measures to be implemented in the coming Financial Year 2007/2008. One of the major decisions taken by the Ministers was the alignment of the EAC CET Harmonized System Nomenclature (HS) with the latest HS Version adopted by the World Customs Organisation (WCO). The details of the Ministers' decisions

will be contained in the gazette and in a new EAC CET handbook to be published by the East African Community Secretariat.

134. Mr Speaker Sir, in view of their significance to our economy, I wish to highlight the following decisions that made by the Ministers:

Polythene Bags and Plastic Containers

135. In the Budget Speech of June 2002, Government announced that due to the serious environmental concerns and the difficulties in the disposal of polythene bags and plastic containers, material action was required in order to encourage producers and consumers to minimize the use of these bags and containers, and to develop more environmentally friendly alternatives. This being a common problem in the region, the Ministers agreed to ban plastic bags (commonly known as “buveera”) of less than 30 microns and to impose an excise duty of 120% on the rest. Importation and production of these items is banned with effect from 1st July 2007. However, there will be a transitional period of up to 30th September to allow for clearance of the products in stock.

Buses for the transport of more than 25 persons

136. In recognition of the need to provide quality transport services for the CHOGM guests, the Ministers granted Uganda the authority to import buses for the transport of more than 25 persons at a reduced Common External Rate of 10% instead of 25%.

Harmonisation of Visa Fees

137. In line with our efforts to harmonise foreign policy among East African Community Member States, we are revising our visa fees to match those charged by the Partners States. Accordingly, the following rates will be applicable next financial year:

- a) US\$ 50 for single entry
- b) US\$ 100 for six months
- c) US\$ 200 for twelve months

138. Mr. Speaker Sir, for countries charging higher than the above rates, the principle of reciprocity will apply.

Excise Duties

139. The excise duty law is very old and outmoded. Since it was enacted in the 1950s, several amendments have been made piecemeal. Therefore, there is need to overhaul this law in terms of its relevancy to the times and to make it more user friendly.

140. Mr. Speaker Sir, I am proposing to undertake a review of this law in conjunction with the Uganda Law Reform Commission. A Bill on a new excise law will be brought before Parliament in the course of the coming Financial Year.

Tax Expenditures

141. Mr. Speaker Sir, Article 152 Clause (2) of the Constitution obliges me to report to Parliament periodically on the exercise of the powers conferred upon me by any law to waive or vary a tax imposed by that law. I wish to report that from July 1, 2006 to date I have exercised the powers conferred by the Income Tax Act and the Value Added Tax Act and waived tax arrears amounting to Shs.4,835,294,750 due from the business community in the war ravaged Northern Uganda. I also wrote off the penal tax amounting to Shs.71,266,251 owed by Monitor Publications Limited and Income tax (Pay as You Earn) of U. Shs. 15,481,021 due from Comboni Hospital in Bushenyi District..

142. Additionally, Government has paid Shs 6,289,481,424 for NGOs and Shs 14,444,025,714 for private enterprises involved in the hotel sub-sector.

143. Mr. Speaker Sir, I now lay before you the Schedule of the waivers and payments.

Financing Strategies for Local Governments

144. Mr Speaker Sir, as I stated earlier, Government has so far identified sources of taxes for local governments to replace graduated tax and broaden their revenue base. Mr. Speaker Sir, allow me now to highlight the proposed new taxes.

Local Service Tax

145. The Local Service Tax shall be levied on wealth and incomes of the following:

- a) People in gainful employment;
- b) Self employed and practising professionals;
- c) Self employed artisans;
- d) Businessmen and women; and
- e) Commercial farmers;

146. The following persons shall be exempted from the payment of Local service Tax:

- a) Members of the Uganda Peoples' Defence Force;
- b) Members of the Uganda Police Force;
- c) Members of the Uganda Prisons Force;
- d) Members of the local defence forces; and
- e) Unemployed persons, peasants and people living in poverty who are unable to earn minimum income to access basic necessities of life.

Local Hotels Tax

147. Mr Speaker sir, this tax shall be levied on all hotel and lodge room occupants.

148. Mr. Speaker Sir, my colleague the Minister of Local Government will be laying before this august House the details of the local Government finances.

Ratification of the Revised Cotonou Agreement

149. Mr. Speaker Sir, the Cotonou Agreement which sets out the development, trade and political cooperation framework between the European Union, African, Caribbean and Pacific States was concluded on 23rd June, 2002 in Cotonou - Benin. The Agreement provides the framework for the European Commission's development funding to Uganda. The Government of Uganda is required under the Ratification of Treaties Act, to table before Cabinet for approval and lay the Revised Agreement before Parliament. I am therefore laying before you, the Revised Agreement for ratification in accordance with the Act.

XI. SCHEDULE OF INDEBTEDNESS

150. Mr. Speaker Sir, in accordance with the provision of Section 13 (1) and (2) of the Budget Act 2001, I hereby lay before the House the Statement on:

(i) Government's total external indebtedness as at 31st March, 2007;
and

(ii) the grants that Government received during financial year 2006/07.

151. With respect to Section 13 (3) of the Budget Act, Government has provided two guarantees during financial year 2006/07. These are the partial risk guarantee for the private commercial lenders to the Bujagali Power Generation Project worth US \$115 million, the partial risk guarantee for the Uganda Railways Concession worth US \$ 15 million.

152. On utilisation of loans and grants, I have attempted to point out some implementation issues on a loan by loan and grant by grant basis. However, the implementing agencies are better placed to provide detailed information on implementation. I hope that the details of the utilisation and the performance of each loan and grant, including the extent of the achievement of the objectives and targets, will be provided in the policy statements of the ministries and departments which received the loans and grants as well as in our poverty monitoring and assessment reports.

XII. CONCLUSION.

153. Mr. Speaker, I have now come to the end of this year's budget speech in which I have shown that Uganda's record of economic growth in FY2006/07 was remarkably high in spite of a steep rise in oil prices and a severe shortage of electricity. The growth in exports was even more remarkable with double digit increases in both value and volumes.

154. I have attempted, Mr. Speaker, Honourable members, to clarify the Government's strategy to expand opportunities for all our people, in every sub-county, without discrimination, to access savings and credit institutions, agricultural inputs, production and marketing cooperatives so that they can increase their incomes. I have provided for value addition and for the expansion of the industrial parks and their infrastructure. I have urged all ministries to plan for impact accountability at the sub-county level where the great majority of our people are. Mr. Speaker I have provided the ministries the resources, however limited, to use to implement more and better infrastructure in the form of schools, health centres, water, telecommunications, roads, justice, security and other services. I have attempted to provide resources to all sectors of Government at a greater level than last year in almost all cases. Mr. Speaker I have attempted to do all that with modest increases in the taxation levels.

155. Mr. Speaker Sir, in this great partnership among the households, the private sector, the development partners, the Parliament, the Judiciary, the Executive and so many others, there must be room for patience, tolerance and even love and sacrifice if the organic body we call Uganda is to survive and increase in strength. Surely, no family can survive without these sacrifices. Uganda is our home, we have no other home. We must therefore treat one another as members of one family, called Uganda, and not as enemies to be extinguished and exterminated.

156. Mr. Speaker, I wish to end on an optimistic note. I want to be optimistic that a people who have been able to grow at a rate of about 6% per

annum for 20 years while at war and while without oil, can grow even faster when we are without war and when we have oil. I want to pray that with the infinite expansion in educational opportunities which we have put in place and are continuing to expand for our people and with the advent of technological backbones all over the country, these same people who have been so eager to venture thousands of miles abroad to do 'kyeyo' and other menial labours, will now seize the opportunity to earn these dollars without having to leave home and without sacrificing home and family. Mr. Speaker, I would like to hope that the incentives provided in this budget to expand agricultural and industrial production and to reduce the cost of doing business and to increase economic freedom will consolidate the image, and the reality, that Uganda is the spiritual and commercial centre not only of the great Lakes Region, but of Africa. Mr. Speaker, I want to be prophetic, Churchill notwithstanding, in saying that Uganda is marching on and will soon actually become, the real Pearl of Africa.

FOR GOD AND MY COUNTRY

I beg to move.