



THE REPUBLIC OF UGANDA

BUDGET SPEECH
Financial Year 2008/09

STRATEGIC PRIORITIES TO ACCELERATE
PROSPERITY FOR ALL

DELIVERED AT THE MEETING OF THE 3rd SESSION OF THE 8TH
PARLIAMENT OF UGANDA

AT THE

PARLIAMENT BUILDINGS
ON
THURSDAY, 12TH JUNE, 2008

BY

HONOURABLE DR. EZRA SURUMA
MINISTER OF FINANCE, PLANNING AND ECONOMIC
DEVELOPMENT.

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 2007/2008; and
- b) The Proposals for the Estimates of Revenue and Expenditure for the Financial Year 2008/2009.

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 2008/09 and how it plans to allocate these revenues as it pursues its vision for the economic and social transformation of Uganda and prosperity for all the people.

4. The theme for this year's budget is **'Strategic Priorities to Accelerate Prosperity for All.'** It is the NRM Government's continued desire and determination to transform Uganda into a country of opportunity and prosperity

for all Ugandans. Expenditure will therefore be focused on areas that will increase employment opportunities and on the critical infrastructure and institutions of 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 2007/08 and the Outlook for Financial Year 2008/09.
 - b) I will then outline some of the Emerging Trends in the domestic, regional and international economy.
 - c) Thirdly, I will present the Priorities and the Strategy for expanding Employment and Growth Opportunities during Financial Year 2008/09.
 - d) Finally, I will announce the Proposed Taxation Measures and the Way Forward.

IV. ECONOMIC PERFORMANCE AND FORECAST

Economic Growth

6. Mr. Speaker Sir, real GDP growth in Financial Year 2007/08 is estimated at 8.9 percent. This is considerably higher than the growth rate of 6.5 percent which we projected in last year's Budget speech. Mr. Speaker, to avoid doubt let me point out that the figure I am reading is the rate of growth after removing the effects of the rise in prices. The figure of 9.8 percent growth which the President cited in his State of the Nation Address was the market rate of growth and he was careful to say so. When the impact of inflation is removed from the figures it then becomes possible to compare the rates of growth of various years.

7. Mr. Speaker, the economy has grown substantially faster than we had anticipated. It is a remarkable performance of our economy given the extreme

pressures we encountered such as the floods in the east and the disruption of our export and supply routes to the sea. Next fiscal year, real GDP growth is projected to grow by 8.1 percent. We are expecting better prices for our export products especially coffee, fish and tea, as well as continued strong demand for regional exports mainly foodstuffs. We also expect continued strong expansion in manufacturing, construction, transport and communications. The medium term objective is to achieve average GDP growth rates of at least 8 percent per annum. This optimistic economic outlook is premised on Government commitment to redirect public investment to the critical growth sectors of the economy that will lead to productivity enhancement. This includes addressing infrastructure constraints particularly transport and energy, as well as addressing productivity issues in agriculture. Sustaining a high level of growth will entail shifting resources within the Medium Term Fiscal Framework (MTFF) from largely consumption to investment.

Investment

8. Investment is certainly one of the most strategic activities 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 grew strongly over Financial Year 2007/08 at 15 percent in real terms consistent with private investment growth over the last five years. As a percentage of GDP, private investment has risen from 13.7 percent in Financial Year 2001/02 to 21 percent in Financial Year 2007/08. Public investment grew by 23 percent in Financial Year 2007/08, much higher than in the last five years.

Exports

9. Mr. Speaker Sir, the growth of our export sector has continued to be very strong. Total export earnings for both goods and services are projected to increase by 15 percent to US\$ 2,293 million this Financial Year, up from US\$ 1,998 million last year. This is an increase of US\$ 295 million in one year!

Merchandise exports excluding services are projected to increase by 15 percent to US\$ 1,520 million in the 12 months to June 2008, while exports of services are projected at US\$ 541 million in the same period. Coffee export receipts are estimated to increase by 32 percent from US\$ 228.5 million in Financial Year 2006/07 to about US\$ 301.6 million in Financial Year 2007/08. This increase is on account of an 11 percent increase in the coffee volumes and a 19 percent increase in the international coffee prices.

10. Export earnings from non-traditional items such as bottled water, beer, foodstuffs, cement and other items usually regarded as non-tradable grew by 32 percent in 2007/08 following a 117 percent increase in 2006/07. This is on account of increased regional trade with our neighbouring countries. Overall non-coffee export earnings are projected to increase by about 10 percent from US\$1,010.8 million to US\$1,116.0 million for the 12 months to June 2008. Remittances from Ugandans working abroad are estimated at US\$ 1,392 million in Financial Year 2007/08 up from US\$ 646 million in Financial Year 2006/07. Remittances are increasingly becoming a major source of foreign exchange earnings, and are playing a strategic role in supporting macroeconomic stability as well as private investment.

Business Environment

11. Mr. Speaker Sir, it is our objective to make Uganda a leading competitive destination for private investment in Sub-Saharan Africa by reducing the cost of doing business. Over the last year, Government has implemented programmes to improve the business climate by implementing the following measures to reduce the cost of doing business.

- a) The reduction of the energy deficit through the introduction of alternative energy sources
- b) Improving the regulatory environment by passing a number of commercial policies and laws that are important for business operations.

These included the Tourism Act and the Biotechnology and Biosafety policy.

- c) Improving the efficiency of the land registry leading to reduction in the time taken to transact mortgages. The time taken to complete a search has been reduced from 12 days to 30 minutes for the sorted files, and mortgage transactions reduced to three (3) days.
- d) The construction of the National Data Transmission backbone connecting Kampala, Entebbe, Jinja and Bombo.

12. In the Financial Year 2008/09, Government will continue efforts to improve the business environment by implementing the following actions:

- a) Enactment of additional commercial laws including the Counterfeit bill, the Mortgage bill, the Free Zones bill, the Company bill, the Insolvency bill, and amendment of the Investment Code.
- b) Completion of basic infrastructure such as roads in the Kampala Industrial and Business Park (KIBP) at Namanve and the allocation of industrial plots to investors.
- c) Improving access to financial services by complementing the credit guarantee schemes available in a number of commercial banks with government resources and further capitalization of Uganda Development Bank.
- d) The establishment and launch of the Credit Reference Bureau in the first quarter of Financial Year 2008/09 that will improve the ability of Commercial banks to screen loan applicants. This will contribute to reducing default rates on loans which in turn should lead to reductions in interest rates.
- e) Fast tracking infrastructure investment for priority sectors such as roads serving mining areas and facilities of tourism attraction.

13. Mr. Speaker Sir, Government is committed to maintaining a high level of public-private policy dialogue through the Presidential Investors Roundtable

(PIRT) and regular consultations with private sector organizations including the Private Sector Foundation of Uganda (PSFU) and the Uganda Manufacturers Association (UMA). This dialogue ensures that Government is fully aware about the constraints to doing business and that decisive action to mitigate these constraints are implemented.

Trends in Key Macroeconomic Indicators

Inflation

14. Mr. Speaker, it has been a fundamental policy of this government to maintain stable prices for all goods 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, and the escalation of domestic food and other commodity prices that built up in the second half of the Financial Year 2007/08, the Government maintained economic stability through macroeconomic measures that did not interfere with the markets.

15. Mr. Speaker, Honorable Members, the upward pressures on prices were compounded by a remarkable increase in both domestic demand and regional demand for goods and services, particularly Uganda's farm products. The combined effect of these pressures is that annual underlying inflation will average 8.6 percent this financial year. Over the medium term, we expect inflation to fall back towards the target of 5 percent per year when the impact of these price shocks is reduced.

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

The Exchange Rate

17. Over the year, the exchange rate has faced appreciation pressures, with the Uganda Shilling appreciating by about 11 percent against the United States Dollar between June 2007 and March 2008. This persistent strengthening of our shilling reflects the strength of our economy. Our exports are doing well, tourism is booming, and there are inflows from portfolio investors, such as those buying into Ugandan companies. The strengthening of the shilling 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 government will mitigate the effects of a continued appreciation by investing in areas that improve private sector productivity. With improved productivity, private export firms will be more competitive. In the short to medium term however, the Bank of Uganda will only intervene in the foreign exchange market to prevent excessive fluctuations in the exchange rate.

Interest Rates

18. Due to the structural constraints in the economy, lending interest rates have remained high. This is because of a number of factors which include: (i) high operational costs; (ii) absence of long-term finance; (iii) high risks of borrowers; (iv) high litigation costs for contract enforcement; (v) inefficiencies in land and company registries; (vi) a few banks controlling a large share of the market; and (vii) inadequate insolvency laws and cumbersome procedures.

19. In order to reduce interest rates, the launch of the Credit Reference Bureau will enable lenders to make informed decisions about borrowers thereby reducing lending risks. The Bank of Uganda will dialogue with commercial banks to promote transparency in determining lending terms and collaborate with them to regularly publish bank charges in the print media. Bank of Uganda will also license more deposit taking institutions in an attempt to increase competition.

Credit to Private Sector

20. Commercial bank credit has continued to growth despite high interest rates. Between June 2007 and March 2008, credit to the private sector grew by 43 percent from Shs. 1,792 billion to Shs. 2,569 billion. The year on year growth of credit to the private sector up to March 2008 was 49 percent.

Financial Sector Developments

Micro-Finance

21. In 2005 the Government 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. This program is expanding steadily and has now reached 800 sub-counties out of the 1020 sub-counties, municipalities and town councils that we expect to cover. This is a coverage of 78 percent which is a remarkable achievement in such a short time. I would like to commend the Minister of State for Microfinance, Honorable General Caleb Akandwanaho (Gen. Saleh) for his focussed determination and progress in this very important effort by the NRM government.

22. Mr. Speaker, I am confident that a revolution in the financial landscape of Uganda is underway and that it will be for the great benefit of Ugandans. I therefore call upon all Honorable members of Parliament and all Ugandans and Development Partners, to support this effort and not to obstruct it.

23. Let me also point out that there has been extensive consultations on the Regulatory Legislation for microfinance institutions. Although it has taken longer than we originally anticipated, it is in the national interest that we consult stakeholders so that we produce legislation that takes into account their views and interests. The Microfinance Institutions Regulatory Bill is due for submission to Parliament as soon as the consultations are concluded and I expect this to happen within a few months.

Bank Performance

24. The banking sector remained sound in 2007. It grew considerably in 2007, both in terms of size and number of institutions. Following the lifting of the moratorium on the licensing of new banks, Bank of Uganda approved five new private commercial banks to start operations. The entry of new banks has stimulated competition in the sector, resulting in expansion in the branch network from 160 branches in December 2006 to 213 branches by end March 2008. The deposit base of banks increased by 26 percent from Shs. 3,175 billion in March 2007 to Shs. 4,014 billion in March 2008. In the same period, the total banking sector's advances or loans grew by 49 percent from Shs. 1,703 billion to Shs. 2,542 billion. The total non-performing loans as a percentage of total advances were estimated at 3.94 percent as at end March 2008. This was well within the prudential limit of 10 percent. All banks held adequate liquidity to meet operational requirements with an average ratio of liquid assets to deposits of 51 percent, which is well beyond the minimum statutory requirement of 20 percent.

Anti-Money Laundering

25. In January 2005, Cabinet approved in principle the draft Anti-Money Laundering Bill. However, it was recognized that further consultations with stakeholders was necessary prior to its submission to Parliament. These consultations have been concluded and the bill will be tabled in Parliament during Financial Year 2008/09. The Anti Money Laundering legislation will facilitate financial crime prevention, the fight against terrorism, and will enhance corporate governance and accountability.

Capital Markets

Social Security and Pensions Reform

26. Mr. Speaker, as I reported last year, there has been a vigorous debate over the reform of the pensions sector. In February 2008, a Pensions Regulatory Framework was approved by Cabinet and the Bill to be presented to

Parliament is being drafted. It is expected that the Regulatory Authority will be established by December 2008, which shall supervise all pensions and retirements benefits schemes in the country. Once this has been accomplished and the savings for pensioners fully protected, the pensions sector will be gradually opened up. The medium to long term objective of the reforms in the pensions sector is to protect funds of pensioners and retirees while at the same time utilize these resources for mobilizing domestic investment capital.

27. Mr. Speaker, there continues to be considerable anxiety over pensions arrears. I am pleased to announce that following financing of arrears to the tune of Shs. 280 billion in Financial Year 2007/08 of which Shs. 200 billion was for pensions, we have now provided a further Shs. 300 billion for arrears in Financial Year 2008/09 of which Shs. 122 billion will cover the remaining pension arrears. All verified pension arrears are expected to be cleared in the next two years. Now that sufficient funds have been provided to cover all pensions arrears, I appeal to those administering the program to act zealously in assisting claimants to obtain their funds quickly and efficiently.

28. The Ministry of Public service has completed a Policy paper to convert the present system of pensions to a contributory scheme. When this is implemented, there should be no more accumulation of pension arrears.

Fiscal Performance and Forecast

Revenue and Expenditure Outturns

29. The projected outturn for URA revenue collections this financial year is Shs. 3,160 billion, reflecting a surplus over target of Shs. 83 billion. This is equivalent to 13.1 percent of GDP. As we scale up public investment in infrastructure, it will be necessary to improve further our tax revenue collection. This will be mainly by improving efficiency of URA. I want to take this opportunity to commend the URA for what has been achieved to date, and

encourage the Authority to do even more. Mr. Speaker Sir, I also wish commend tax payers who have met their tax obligations in a timely manner.

30. The outturn on Government expenditure, including donor financed projects, is projected at Shs. 5,057.6 billion during Financial Year 2007/08, equivalent to 21 percent of GDP. This compares with the expenditure outturn of 22.1 percent of GDP in the previous fiscal year. The fiscal deficit as a percentage of GDP is estimated at 7.5 percent for Financial Year 2007/08, an increase from 7.1 percent in the previous year. This is mainly on account of the need to create the fiscal space to allow more expenditure in priority growth sectors of the economy.

V. OPPORTUNITIES AND CHALLENGES.

31. Last year I reported four major opportunities and challenges in both the domestic and international arena that the Ugandan economy was facing.

a) First, we were witnessing the promise of a transition to peace in Northern Uganda. We predicted that peace would result in an increase in the demand and supply for goods and services, including infrastructure, and would increase the growth in the Gross Domestic Product. This has indeed happened. Demand for goods has grown strongly and has outstripped supply leading to higher prices. Mr. Speaker, I believe that in the foreseeable future, our brothers and sisters in Northern Uganda will not only have peace, but also access to basic goods and services. I shall return to this subject later in this speech. For now let me note that the increased demand and the increased prices could be a stimulus that will lead to increased supply and incomes for our people in the months ahead.

b) The second major challenge we noted last year was that we were surrounded by an emerging regional peace that would bring with it an unprecedented increase in the demand for goods and services. This called for a supply response which should also spur acceleration

in economic growth. Regional demand has grown beyond our expectations. The response is confirmed by the strong GDP growth and record regional export figures.

- c) Thirdly, there was a remarkable world wide rise in the prices of raw materials, including oil. Mr. Speaker, the surge in food and oil prices has gone beyond our wildest expectations. I am confident that in the coming year, Uganda will take full advantage of the rising food and oil prices to expand employment and to increase economic growth.
- d) Finally, I referred to the world wide technological revolution in information technology that makes international employment possible without the physical movement of labour. Mr. Speaker, we have since laid the electronic backbone cable and this work is continuing. We shall not rest until Uganda is fully connected to the external submarine cable which will reduce the cost of using the internet and turn Uganda's landlocked position from a competitive disadvantage to a competitive advantage.

VI. THE BUDGET STRATEGY FOR FINANCIAL YEAR 2008/09.

The Strategy for Prosperity for All

32. Mr. Speaker, Honourable Members are well aware that Prosperity for All is the central theme and message of the NRM Election Manifesto of 2006. In the Financial Year 2007/08 budget, I indicated that Government strategy was to address 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.

33. In Financial Year 2007/08 we announced that there was 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**. Mr. Speaker Sir, agricultural production requires the traditional factor inputs of Land, Labour, Capital, and Entrepreneurship. In Financial Year 2007/08 we promised that Government would step in to help our people solve the complex problems associated with the management of each of these inputs.

Land

34. 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 set aside a revolving fund to be used as a Land Acquisition Loan Facility. The facility was to be disbursed through Post Bank and participating SACCOs and would be secured by the land that is acquired. I allocated Shs. 3 billion for this program to initially cover 30 districts with each district getting Shs. 100 million. I regret the slowness in disbursing this facility. However I am glad to report that the money has finally been disbursed to Post Bank and is ready for disbursement to SACCOs. An additional Shs. 3 billion has been allocated in this Financial Year 2008/09 bringing the total to Shs. 6 billion. An agreement has been signed with Post Bank to ensure timely and efficient disbursement of this facility. I call upon honorable members to assist the people you represent, especially the poorest who have little or no land to access this facility. Maximum pressure should be exerted on both Post Bank and the SACCOs to administer these funds quickly and competently.

Labour, Extension and Mechanisation

35. The program to train farmers in the use of fertilizers, pesticides, farm machinery and irrigation and to disseminate tested crop varieties and production techniques to farmers to improve their agricultural yields using the NAADS has been extensively and intensively reviewed and restructured. In 2006/07, 64 districts were covered by NAADS. In Financial Year 2007/08, we

provided an additional Shs. 12 billion for the roll out of NAADS to all the districts not yet covered by the programme. This brought the expenditure of NAADS to Shs. 60 billion in Financial Year 2007/08. As a result, NAADS has now rolled out to 712 sub-counties in 79 districts. Mr. Speaker, I am happy to announce an unprecedented 62 percent increase in NAADS allocation by Shs. 37 billion bringing the total allocation to NAADS to Shs. 97 billion. The additional funding will be for inputs to the small farmers who cannot afford to purchase the necessary agricultural inputs.

36. Mr. Speaker Sir, I am also allocating Shs. 2.8 billion to commence the nationwide move towards mechanisation of agriculture. By the commencement of the next season in September 2008, NAADS will have imported 500 walking tractors with standard implements to be distributed to farmer groups in 500 parishes to begin the drive to increase agricultural production. These tractors have been tested over the last year and found to be versatile in all regions of Uganda. Honourable Members will need to note that a phased approach to mechanization is necessary to allow development of the necessary training and maintenance support that will need to be created across the country.

Capital (Micro Finance)

37. The emphasis Government has put on the development of Savings, Credit and Cooperative Organisations (SACCOS) remains particularly important in mobilizing savings and credit for the people. While out of the 1020 sub-counties only 381 had a SACCO in Financial Year 2006/07, in this year, nearly 800 sub-counties have a SACCO. This means that in 2007/08 the number of SACCOS has more than doubled. For Financial Year 2007/08, I provided Shs. 10 billion for micro finance infrastructure. This year I am providing an additional Shs. 22 billion, bringing the total to Shs. 32 billion in Financial Year 2008/09.

Cooperative Development

38. Mr Speaker Sir, in the Budget Speech of 2007/08 I dwelt at some length on the role that cooperatives should play in the prosperity for all program. I 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.

39. Let me once again take this opportunity to urge 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 from our country.

40. 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 equipping stores,
- e) Coordinating NAADS activities with cooperatives, and
- f) Amending the Cooperative Societies Act of 1991 to improve the supervision and regulation of cooperatives.

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

Processing and Marketing

42. 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.

Industrial Workspace

43. Mr. Speaker Sir, industrialisation is truly essential to raise labour productivity, add value to products, earn higher export revenues and create employment. Government will in Financial Year 2008/09 develop an industrial park in each of the four regions to provide investors with workspaces in industrial parks. These parks will be serviced with the necessary facilities such as electricity and water. In the long term, Industrial Parks will be built in Arua, Lira, Gulu, Soroti, Moroto, Mbale, Mbarara, Tororo, Iganga, Jinja, Luwero-Nakaseke, Nakasongola, Bushenyi, Kabale, Kasese, Fort-Portal, Hoima, Rakai and Mubende. A framework for the operationalization of these industrial parks on a Public-Private Partnership basis is being prepared. I am providing an additional Shs. 16 billion for the construction of these regional industrial parks.

Industrial Bond

44. In order to further support industrialization, we plan to increase capital funds for processing and marketing through the issue of an Industrialization Bond managed by the Uganda Development Bank to raise at least Shs. 20 billion for small and medium enterprises and cooperatives involved in processing. These funds will be made available to the private sector at affordable interest rates. The intention is to create a significant revolving fund

to be accessed primarily by manufacturing entities in the SMEs sector particularly targeting value addition in agro-processing.

45. Mr. Speaker Sir, these measures are aimed at unleashing the potential of Small and Medium-sized Enterprises (SMEs) in agro-processing, and to specifically provide support to agro-processors in specific zones so that increased production is processed and marketed. Small and Medium sized enterprises present the greatest opportunity to generate employment, increase productivity and stimulate economic growth. Preliminary estimates show that there are over 1 million Small and Medium sized enterprises in Uganda today that employ over 2.5 million people. SME's are therefore a critical source of new jobs and play a crucial role in income generation, especially for the poor.

46. Government renewed focus on addressing the constraints faced by SMEs will be marshalled through the establishment of a private sector-led SME Development Steering Group with Enterprise Uganda as its secretariat. It will oversee proposed SME interventions and its membership will include the Uganda Development Bank (UDB), Private Sector Foundation of Uganda (PSFU), Uganda Manufacturers Association (UMA), NAADS, Uganda Industrial Research Institute (UIRI), Uganda Export Promotion Board (UEPB) and the ministries of Finance, Agriculture and Trade and Industry.

47. The Steering Group will be responsible for developing interventions for SME development. Interventions will include the provision of financial, organizational and entrepreneurial support to target sub-sectors engaged in agro-processing. The Group will also develop and oversee implementation of a "One-Zone-One-Product" strategy that is patterned on the "one village one product movement" which has worked remarkably well in Japan. Government shall implement agreed interventions through existing institutions. For example, the commercialization of processing technology will be done by the

Uganda Industrial Research Institute (UIRI) and standardization of products by the National Bureau of Standards (UNBS).

48. Government will also support a Loan Guarantee Scheme for commercial banks that provide credit to agricultural and agro-processing projects. This will be available for projects appraised and vetted by commercial banks, for which the Scheme will guarantee 50 percent of the lending. This will support value addition activities by agro-processors outside the designated industrial parks. I am also providing tax incentives for new investments in agro-processing which I will return to when presenting tax proposals.

49. 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.

50. 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.

51. 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 'Prosperity for All' Coordination Unit in the Office of the President will undertake the overall coordination and monitoring of implementation. In the rural areas, all the sub-county Chiefs and LCIII Chairmen have been trained to assist in making 'Prosperity of All' a reality. Focus on the sub-county as the unit of planning and accountability will

continue and where possible we shall try to go even further down to the parish to ensure that prosperity programs are actually being implemented.

VII. BUDGET PRIORITIES FOR FINANCIAL YEAR 2008/09.

52. Mr. Speaker Sir, I would now like to highlight the major priorities of the Financial Year 2008/09 budget. This year's Background to the Budget contains extensive reports on sector performance in the Financial Year 2007/08. I will therefore restrict myself to the major priorities for the forthcoming budget.

53. As Honourable Members are well aware, our budget strategy has been to maintain high rates of economic growth, low inflation, a sustainable external balance and overall macroeconomic stability through fiscal discipline. Mr. Speaker I regret that budget discipline makes my ministry extremely unpopular. However, budget discipline must continue to be a cornerstone of our overall budget strategy in order to maintain economic stability.

54. Mr. Speaker Sir, the Financial Year 2008/09 budget strategy places emphasis on aligning our expenditures to the priorities which best support the Vision of the Government. The priorities must have the first call on all new resources in Financial Year 2008/09.

55. The priority areas in Financial Year 2008/09 are as follows:

- a) Development and Maintenance of Transportation Infrastructure;
- b) Energy Infrastructure;
- c) Industrial Development;
- d) Human Development; and
- e) Security and Governance

56. The specific goals of government in these priority sectors are as follows:
- a) To urgently embark on new road development and implement a vigorous national, district and community road maintenance program.
 - b) To increase agricultural production through mechanization, and provision of tested varieties and improved breeds nationwide.
 - c) To commence the construction of the Karuma Hydro Power dam and critical power transmission lines, and conduct feasibility studies for Isimba Hydro-power Project.
 - d) To enhance the pace of industrialization by providing financial, organizational and technical know-how and support to agro-processors.
 - e) To implement minimum service delivery standards in the health centers for reproductive health, child health services including immunisation, and control of communicable diseases including HIV/AIDS and Malaria, and to improve the quality of UPE and USE.
 - f) To extend comprehensive peace and security and to reap widespread benefits from the peace dividend, and to maintain law and order in all the areas of Uganda.

Infrastructure Development and Maintenance

Transportation Infrastructure

57. Mr. Speaker Sir, Government proposes to make the development and maintenance of Uganda's road network the first priority. There is an urgent need to build all-weather roads and to maintain national, district and community roads. We must increase efficiency and effectiveness in the implementation of road projects, complete projects in a reasonable time and do so at a fair and competitive cost.

58. Mr. Speaker Sir, I have made a total allocation of Shs. 1.1 trillion in Financial Year 2008/09 to the road sector for road development and

maintenance. Including development partner project assistance equivalent to Shs. 347 billion, this now makes this sector the largest single allocation in the whole budget overtaking the education sector for the first time in many years.

59. Critical strategic investments will include the construction of the Northern Transport Corridor into a dual carriageway from Busia/Malaba to Katuna. I have provided US \$200 million in Financial Year 2008/09 for work on this international highway and a total of US \$600 million over the next three years for the construction of major highways. The facility will be availed on a special fund in the Bank of Uganda and will be drawn on presentation of the relevant implementation documents in line with an agreed work plan based on contracts. The development of these major routes will be done through Government partnership with the private sector in a manner that enables the greatest efficiency in delivery of new highway roads at the least possible cost.

60. Mr. Speaker Sir, this is the first time that we are committing such substantial funding from our own budgetary resources to the construction of major roads. This has become necessary because it is now clear that the cost of delay in the disbursement of donor funds that are tied to the fulfillment of conditionalities is harmful to the economy.

61. Mr. Speaker Sir, the delays in disbursement allow the roads to deteriorate thus increasing the costs of future repair. As we wait, the deteriorating roads increase the wear and tear on vehicles, increase the time of travel and the consumption of fuel. When the funds are finally released, we find that substantial increases in road construction costs have occurred as a result of the increases in cost of inputs used in construction

62. It is for these reasons that Government has decided to allocate our own resources to this effort instead of being totally dependent on external funding. We shall, of course, continue to seek external funding since our resources are

insufficient to meet our infrastructure needs. However, urgent national road arteries should not be captives of conditionalities notwithstanding the good intentions of our development partners.

63. Mr. Speaker Sir, with regard to improving road infrastructure, the construction, upgrading and rehabilitation of the following roads will either commence and/or continue in Financial Year 2008/09:

- | | |
|-------------------------------|-------------------------------|
| (i) Fort-Portal-Bundibugyo; | (xi) Ntungamo-Mirama Hill, |
| (ii) Kabale-Kisoro-Bunagana; | (xii) Muyembe-Moroto, |
| (iii) Soroti-Dokolo-Lira; | (xiii) Kapchorwa-Bukwo, |
| (iv) Gayaza-Ziobwe; | (xiv) Nyakahita-Kamwenge, |
| (v) Kaiso-Tonya-Hoima; | (xv) Mbale-Bumbo-Magale, |
| (vi) Mattugga-Semuto-Kapeeka, | (xvi) Kyenjojo-Hoima-Masindi, |
| (vii) Mukono-Katosi, | (xvii) Gulu-Bibia, |
| (viii) Nyendo-Sembabule, | (xviii) Arua-Koboko-Orapa, |
| (ix) Mpigi-Maddu, | (xix) Masaka-Bukakata |
| (x) Mbarara –Kikagati, | (xx) and Kampala-Mbarara. |

64. Mr. Speaker, let me also say a word about road maintenance. In order to improve road maintenance, Government proposed a Road Fund in Financial Year 2007/08 to specifically earmark resources for road maintenance. The budget allocation for roads maintenance has been increased to a total of Shs. 240 billion to eliminate the backlog on road maintenance at national, district and urban levels. The process of setting up the Fund is advanced and once established it will go a long way in providing a sustainable and predictable source of funding to the sector. An additional Shs. 35 billion has been allocated to the existing budget for clearing the road maintenance backlog.

65. Mr. Speaker, in addition to the work to be coordinated by the Government from the centre, the Government will acquire road equipment for use in the districts to maintain district roads. There will be a considerable

recruitment of manpower to ensure a continuous maintenance of roads throughout the country. I therefore wish to echo His Excellency the President's assurance in his State of the Nation Address that Government is definitely addressing the problems of the roads. The sector ministry will announce the details of the administration and implementation of these programs.

66. Concerning the need for a new bridge across the Nile River, the Japanese Government has been approached and I am pleased to report that they have indicated a preliminary willingness to support us in the construction of the new bridge across the River Nile at Jinja.

67. Concerning rail transport, in view of its importance in reducing transport costs, plans for the re-opening of the railway between Tororo and Gulu and Pakwach, and between Kampala and Kasese will be prepared during Financial Year 2008/09. Government will also develop a master plan for the further development of the national rail network and will, as a matter of urgency, provide resources for the development of an alternative route through the Port of Dar es Salaam by rehabilitating wagon-ferries on Lake Victoria. An additional Shs. 14 billion has been allocated for the purchase of a new ferry wagon to replace the *MV Kabalega* which sank in 2004.

Energy

68. Mr. Speaker Sir, shortage of power remains one of the severe constraints to economic growth of Uganda. In order to bridge the short term power deficit in the country the Government has been implementing emergency thermal power projects. We have also been able to embark on our long term plans which entail the construction of big power generation projects. The construction of 250 MW Bujagali project commenced in July 2007 and is progressing very well.

69. Mr. Speaker Sir, a critical concern in the electricity distribution sector is the high level of losses that we have observed; 38 percent, or over one third, of the expensive power generated is being lost as a result of a dilapidated distribution system and because of the theft of power by unscrupulous consumers with illegal connections. This power theft accounts for 25 percent of the losses while technical losses constitute the other 13 percent. Government is extremely concerned about this and is going to take measures to curb this theft. This will include the vigorous pursuit, prosecution and conviction of those caught stealing power. The faithful consumers who pay their bills are encouraged to volunteer information to help identify illegal consumers.

70. Next financial year, the main focus in the Energy Sector will be the commencement of construction of the Karuma Hydropower Project using the Energy Fund for which a further Shs. 109 billion has been provided. US\$ 208 billion of the Energy Fund has been carried forward from Financial Year 2007/08 for use in the development of Karuma Hydropower Project.

71. In addition, Government, through a public-private partnership, will commence the development of the 100 MW Isimba Hydropower Project. The Kairo-Tonya-Nkenda transmission line to evacuate power generated from our own Heavy Fuel Oil plant at Mputa will also be constructed. Government is also embarking on the construction of the Opuyo-Moroto-Katikile transmission line. The current budget allocation of Shs. 92 billion for support to Thermal Power provision will be maintained in order to address the energy shortfalls. In addition, Shs. 35 billion has been allocated for the resettlement action plan for the Kairo-Tonya Transmission line.

Petroleum Exploration

72. Mr. Speaker Sir, since 2006 there has been substantial activity in petroleum exploration and development. Under the early production scheme (EPS) we expect oil production to start in mid 2009. Additionally, we expect to

start generating thermal power from Heavy Fuel Oil (HFO) from the oil in 2010. This power will be evacuated to the national grid to ease the power shortages.

73. Government has made intensive and extensive consultations concerning the optimum policy to manage and to regulate the oil industry. We have also embarked on measures to strengthen the capacity of the Ministry of Energy and Mineral Development through the establishment of a Midstream Petroleum Unit to specifically promote, monitor and regulate mid-stream petroleum activities like crude oil sales, transportation, refining and pricing.

Rural Development

74. Mr. Speaker Sir, the Financial Year 2008/09 budget will provide additional resources to increase employment and incomes of rural households. The Financial Year 2008/09 budget will focus on interventions that address rural unemployment and underemployment in order to stimulate the agricultural sector. This will include the provision of seeds and seedlings, walking tractors with standard implements, irrigation and pesticides.

75. Mr. Speaker, Honourable Members, the review of the NAADS Programme that we embarked on a few months ago has now been completed. As explained by His Excellency the President in his State of the Nation Address, the strategy underlying the programme has been reviewed to emphasise enterprise selection, value addition, increased production and export orientation. The Financial Year 2008/09 budget will provide additional funds for the supply of improved varieties and inputs to farmers. Capacity building within the community will be linked to Savings and Credit Cooperative Organizations (SACCOs) as well as marketing cooperatives. The provision of technologically improved inputs will be linked to the production of specific commodities including coffee, tea, cotton, fish and fruits. NAADS will further support the primary processing of agricultural produce, so that agricultural

surpluses beyond subsistence consumption can be packed and preserved for the market. An additional **Shs. 40 billion** has been allocated to NAADS **and an additional Shs. 22 billion** has been allocated to microfinance for these activities.

Expanding Market Access

76. In addition to the above activities through NAADS and Microfinance, Government will make an effort to draw more farmers into commercial agriculture by improving marketing infrastructure. Government will refurbish a total of 173 commodity stores; construct at least 10 LCIII warehouses and extend support to the operations of the Uganda Commodity Exchange (UCE).

Human Development

Education

77. Implementation of the UPE and USE programmes to achieve the target of universal completion of secondary schooling by 2015 will remain the Government's priorities for the education sector in Financial Year 2008/09. Government will improve the efficiency and the quality of Universal Primary Education and Secondary Education by strengthening the Education Standards Agency (ESA) to undertake the inspection function and remove wastage and misuse of resources. While enrolment numbers have grown significantly in primary education, completion rates are still low. Government will ensure that once children are enrolled, they complete primary education. Accordingly, Government will improve the efficiency and quality of Universal Primary Education and Secondary Education by strengthening the inspection function and removing wastage and misuse of resources at both the centre and local government levels.

78. In Financial Year 2008/09, resources have been provided for science, technical and vocational education, in order to provide employable skills to the growing number of school leavers. Government is currently undertaking

reforms in science and technical vocational education to meet the growing demand for technical skills in the labour market. The establishment of the Uganda Vocational Qualifications Framework to standardize and rationalize vocational training as a basis for assessment of skills and competency levels will be completed in 2008. Government will also operationalise community polytechnics where they exist, and also establish more in counties that do not have them. An additional Shs. 59 billion has been provided to the education sector to support UPE, USE, Business Technical and Vocational Education and Training (BTVET) and to honour Presidential Pledges in that sector.

Health

79. The health system in Uganda has continued to suffer from poor service delivery and inefficiency. The health centers continue to have drug stock-outs and attendance by many health workers at their duty stations is irregular. The inefficiency, corruption, poor service delivery and stock-outs in health centers must be dealt with decisively. The Health Sector must implement the age-old labeling of drugs meant for the public health system to prevent theft and sale in private clinics and on the open market. An inspection function under the health sector is also necessary to regulate and monitor adequacy of the health system in delivery of expected health outcomes. This will also deal with the inefficiency, mismanagement and consequently poor service delivery in the sector.

80. We have urged the Health Sector to urgently establish minimum service delivery standards in the health centers. Additional resources in this sector will focus on provision of basic health infrastructure, recruitment of health workers, provision of drugs and basic equipment. An additional Shs. 98.69 billion has been provided to the health sector of which Shs. 60 billion will be for the provision of Anti-Retroviral Treatment to all who require them. The balance of Shs. 38 billion will support Referral hospitals and health centers in sub-counties and parishes throughout the country.

Water, Sanitation and Environment

81. Government plans to increase the storage of water for production from the current level of 48 percent to 52 percent of the projected national demand by the end of Financial Year 2008/09. Government will also complete construction of bulk water schemes in the Karamoja region this year, build additional ones in Sembabule and Mpigi, and also build four control structures in Karamoja to mitigate flooding.

82. Government will also provide an estimated 660,000 people with safe water by constructing 325 protected springs, 1,000 shallow wells, 650 boreholes and 900 water tanks. Additionally, 18 piped water systems in rural growth centers will be built and 580 boreholes will be rehabilitated. Government will also continue with its stepped up monitoring of water quality including water sources in rural areas. As part of the effort to ensure that Uganda meets the MDG target of 72 percent latrine coverage, the Ministry of Water and Environment will carry out a national sanitation marketing campaign in Financial Year 2008/09, to reinforce the district efforts.

Security and Governance

Security

83. Mr. Speaker Sir, in pursuit of its medium term focus of building a modern and professional national Defense Force, the Ministry of Defense and UPDF will focus on improving defense management systems, of which the Integrated Resource Management System is a key pillar. This is aimed at improving human resource and logistics management in the armed forces.

Governance

84. Mr. Speaker Sir, with regard to the enforcement of the rule of law in the Justice, Law and Order Sector (JLOS), future interventions will focus on addressing the high incidence of corruption in the sector. The effort to improve

the capacity of the office of the Inspector General of Government, the Ministry of Ethics and Integrity and the Director of Public Prosecution using the funding from the Millennium Challenge Corporation grant of US\$ 10.2 million is underway and will continue in Financial Year 2008/09. I have provided U. Shs. 1.5 billion as our local contribution to that effort to investigate crimes, improve professionalism and accountability, and strengthen the enforcement of laws and decisions.

85. Over the medium term, the accountability sector will prioritize the fight against corruption and abuse of office. The Directorate for Ethics and Integrity will take a leading role in strengthening the framework and policy to fight corruption, and in the monitoring and evaluation of observance of ethical standards and integrity. The other relevant agencies within Government will also continue to play an active role.

86. Public awareness programs will be conducted through workshops, seminars, radio and television programs and publications, to enlist support in the fight against corruption. Strategic partnerships to fight corruption, abuse of office and administrative malpractices will be promoted and strengthened.

Local Government Financing

87. Mr. Speaker Sir, one of the main challenges facing the decentralization strategy and the operation of local governments is inadequate revenue. In the Budget Speech of financial year Financial Year 2007/08 I announced local revenue measures to replace graduated tax. I am happy to report that Parliament passed the bill establishing these measures in form of a Local Service and Hotel Tax. These measures will take effect next financial year and should help to supplement local government financing.

88. As we wait for these measures to take effect, Government will continue to supplement local governments with Shs. 45 billion per year. Accordingly, in

Financial Year 2008/09, Government will reinstate the budget item for Graduated Tax Compensation to local governments. Shs. 45 billion has been provided for GT-Compensation, out of which, Shs. 33 billion will be maintained in the Unconditional Grant item, as was the case in Financial Year 2007/08, while Shs. 12 billion has been allocated on the Graduated Tax-Compensation item for the District and Urban Authorities.

89. Mr. Speaker Sir, another area of concern to local government is the allocation formula that underlies central government transfers to local governments. Government has continued to transfer funds to Local Governments in form of conditional and equalization grants as well as unconditional grant. A total of Shs. 1.23 trillion is earmarked for Financial Year 2008/09 which represents 34 percent of the National Budget (excluding donor projects). However, lack of a clear criterion for distribution of resources among local governments has been noted by Parliament and other stakeholders as an area of concern. Accordingly, the Local Government Finance Commission (LGFC) through the Ministry of Local Government is in final consultations with the various sectors before preparing a Cabinet Paper on the new allocation formulae.

Peace, Recovery and Development of Northern Uganda

90. In mid Financial Year 2007/8, Government launched the Peace Recovery and Development Plan (PRDP) for Northern Uganda in order to eradicate poverty and improve the welfare of the populace in Northern Uganda. Progress has been steady, with a number of districts making progress towards return and resettlement of Internally Displaced Persons (IDPs) in addition to rehabilitation of key Government Services in the region. Official implementation of the PRDP is planned for Financial Year 2008/09 and there are sector plans to scale up activities in this respect.

91. The costing of the strategy was based on identifying priority interventions, based on 14 programs under four key strategic objectives:

- i. Consolidation of State Authority
- ii. Rebuilding and Empowering of Communities
- iii. Revitalization of the Economy
- iv. Peace Building and Reconciliation

92. Given that Financial Year 2008/09 heralds the first year of PRDP implementation, the Government has committed an additional **Shs. 51.68 billion** in Financial Year 2008/09 to PRDP strategic objectives. This implies an additional **Shs. 37.20 billion** over and above the Shs. 18.6 billion per annum that was provided for humanitarian assistance in Financial Year 2007/08.

Efficiency and Effectiveness of Public Expenditure

93. Mr. Speaker Sir, last year I called for the identification and implementation of efficiency gains in service delivery. I have already pointed out efficiency measures that need to be undertaken at the various sector levels notably in education and health.

94. Mr. Speaker, improvements in procurement and public financial management are critical. The PPDA's priority will be to bring local Governments procurement and disposal systems onto the central procurement grid, as required by the Local Government Amendment Act. Further, the PPDA should play its core role of monitoring compliance with the law by all procurement entities. Additionally, the Auditor General will carry out value for money audits both centrally and at local Government level, while the Public Accounts Committee will be given support to play its role more effectively and to clear its backlog of reports.

VIII. RESOURCE ENVELOPE FOR FINANCIAL YEAR 2008/09

95. Mr. Speaker Sir, budget expenditures must continue to remain within the resources available. Government is concerned about pressures to finance unplanned expenditure which often results in borrowing from the domestic banking system leading to excessive money creation, inflation and higher interest rates.

96. The resource envelope for the Financial Year 2008/09 is based on the following important assumptions:

- a projected real growth of 8.1 percent,
- a low and stable inflation,
- a 5.8 percent appreciation of the exchange rate over the Financial Year 2007/08 projected outturn
- a 20 percent increase in volumes of oil and non oil imports
- In addition, the framework assumes that donor support remains forthcoming and will be disbursed as committed.

96. The overall budget deficit (excluding grants) for 2008/09 is projected at 7.9 percent of GDP, compared to a projected outturn for the current year of 7.5 percent of GDP. This represents a slight fiscal expansion over the Financial Year 2007/08 budget in order to accommodate additional investments in the Roads Sector. To sustain the above projected growth of 8.1 percent, Government has to fully implement the investments identified and financed in the 2008/09 budget.

97. Mr. Speaker Sir, the Resource Envelope for Financial Year 2008/09 amounts to Shs. **6,142.9 billion**. This is composed of the following components: Shs. **3,994.5 billion** is financing from domestic revenues comprising tax revenues of Shs. **3,850.7 billion**, non-tax revenues of Shs. **103.9 billion** and loan repayments from Government parastatals of Shs. **39.9 billion**. Financing from the domestic banking system amounts to **Shs. 269.8 billion**. The difference of **Shs. 1,878.6 billion** is support from external sources

including both budget support and project aid. In Financial Year 2008/09 Domestic resources including financing from the banking system constitute approximately **70 percent** of the financing needs of the budget.

Domestic Revenue

98. Domestic revenue in the next fiscal year is projected to increase by Shs. 729.46 billion. This will bring total domestic revenue to Shs. 3,994.5 billion which constitutes 65 percent of the total budget.

Budget and Project Support

99. External resource inflows to support the budget consist of:

- a) budget support loans (net of debt servicing)
- b) Budget support grants
- c) Project loans (net of debt servicing)
- d) and grants to support development projects.

100. Budget support is projected to increase to US\$ 419.9 million which is equivalent to Shs. 672.3 billion. In total, budget and project support from outside Uganda will finance 30 percent of the Budget for Financial Year 2008/09.

Constitutional Self - Accounting Bodies

101. 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

102. 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.

103. 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 FINANCIAL YEAR 2008/09

104. Mr. Speaker Sir, last year I informed this House that the theme of tax policy in the medium to long term is simplicity, certainty, fairness and growth. These principles will continue to underline the tax proposals for Financial Year 2008/09. In the formulation of tax policy we recognize that business investments are long term and sudden changes in tax policy without adequate transition can cause significant disruption. Of equal importance is that complexity in the system should be avoided except where it is necessary to protect revenues. The tax proposals do not contain overwhelming revenue measures. Instead we shall rely on the growth of the economy, efficiency gains from URA and compliance to raise the necessary revenues for Financial Year 2008/09. Consequently we have considered the following measures to raise the necessary revenues.

Income Tax

Educational institutions

105. Mr. Speaker Sir, in order to encourage investments into the education sector, I am proposing to exempt income derived from managing, operating and running schools and tertiary institutions from income tax. It is expected that the tax foregone would be re-invested in the institutions to provide better facilities and improve curricula to better equip Ugandans. **The revenue loss is estimated at Shs. 3 billion. The details will be contained in the Income Tax (Amendment) Bill.**

Support to hotels, hospitals, educational institutions.

106. Mr. Speaker Sir, Government has for the last two financial years been providing tax relief in form of payment of duty and taxes on construction materials for persons investing in hotels, hospitals, and to a limited extent, educational institutions. Construction has been the main engine of growth in the last two years contributing 2.5 percent to the total GDP growth recorded in this Financial Year. With expansion of education and the need for investments in the health sector it is proposed that the exemption of duty and tax payments on construction materials be extended for one more year. The intervention will be through the tax expenditure allocated in the Budget. **The revenue loss is estimated at Shs. 12 billion.**

Resident Airlines

107. Mr. Speaker Sir, last year Parliament exempted the income derived by international airlines from the carriage of passengers and cargo in Uganda from tax. This was intended to buttress Uganda as an attractive destination for inbound airlines. The resident airlines were not considered. For purpose of equity, Mr. Speaker sir I am proposing to amend the Income Tax Act to exempt the income of resident airlines from income tax and withholding tax on payment of lease rentals. **The details are contained in the Income Tax (Amendment) Bill.**

Agro Processing

108. Mr. Speaker Sir, Uganda is an agricultural country and we need to encourage production and processing of our agricultural products. In order to attract investments in this sector especially in rural areas it is proposed that we create incentives for persons engaged in agro processing.

109. Mr. Speaker Sir in a bid to encourage value addition of our agricultural products I am proposing to exempt income arising out of new agro processing investments commencing 1st July 2008 from income tax. This incentive will however be limited to investments located 30 kilometers outside the district of Kampala and for processing of Uganda grown produce. **The details will be contained in the Income Tax (Amendment) Bill.**

Amendment of the Income Tax Act to cater for Petroleum Transactions

110. The income Tax Act was enacted in 1997 when no petroleum discoveries had been made. Subsequently a number of Production Sharing Agreements have been concluded. Last fiscal year we amended the Income Tax Act to provide for ring fencing of losses. I am proposing amendments to align the Income Tax Act with the Production Sharing Agreements. **The details are contained in the Income Tax (Amendment) Bill.**

Bank of Uganda Deposit Auction Fund

111. Mr. Speaker in the conduct of monetary policy, the Bank of Uganda is confronted with the challenge of maintaining low inflation. As a result they require instruments for this purpose. However interest payments for entities investing in securities attract 15 percent withholding tax. To support Bank of Uganda in the conduct of its liquidity management I am proposing that **interest income derived out of Deposit Auctions issued by Bank of Uganda for purposes of liquidity management shall be exempt from Withholding Tax. The details will be contained in the Income Tax (Amendment) Bill.**

Deduction for Local Service Tax:

112. Mr. Speaker Sir, Parliament enacted the Local Service Tax Act. The Act imposes on, among others, persons with income to pay a local service tax. The local service tax is not allowed as a deduction for income tax as was the case with Graduated Tax. To mitigate paying tax upon tax, I am proposing that the Income Tax Act be amended to allow local service tax to be deducted from a person's taxable income. **The details are contained in the Income Tax (Amendment) Bill.**

Excise Duty

Payment of duty by Government on diesel for manufacturers

113. Mr. Speaker Sir, Government has paid excise duty on diesel for generators on behalf of manufacturers since the power crisis in 2005/06. Since 2005/06, the Government has been undertaking measures to improve the power crisis. It has introduced thermal power plants using diesel. It has also contracted a thermal plant to produce 50 MW using high fuel oils. With these interventions, this facility will now be terminated. **The revenue gain of is projected to be Shs. 18 billion.**

Beer

114. Mr. Speaker Sir, I am proposing to reduce the excise duty on beer made from local raw materials from 30 percent to 20 percent. This will encourage local value addition, modernization of agriculture and eradication of poverty. **The revenue loss is estimated at Shs. 9 billion. The details are contained in the Excise Tariff (Amendment) Bill.**

Cigarettes

115. Mr. Speaker sir, I am proposing to raise the excise duty on cigarettes in order to raise revenue. The proposed adjustments will raise 2.1 billion. **The details are contained in the Excise Tariff (Amendment) Bill.**

Value Added Tax (VAT)

Heavy Fuel Oil

116. Mr. Speaker Sir, I am proposing to exempt Heavy Fuel Oil from VAT. Heavy Fuel Oil is used in the thermal plants for power generation and for other industrial purposes. This is to reduce the pass through effect to the electricity tariff and to lower the cost of doing business in the country. **The details are contained in the Value Added Tax (Amendment) Bill.**

Plant and Machinery

117. Mr. Speaker Sir, as incentive to industrialists, VAT on plant and machinery is deferred at importation. I am proposing to extend the definition of plant and machinery to include essential industrial spare parts.

Salt

118. Mr. Speaker Sir, table salt is one of the basic commodities for our people. I am proposing to exempt VAT on table salt to make it more affordable for the majority. **The details are contained in the Value Added Tax (Amendment) Bill.**

Trucks

119. In order to reduce the cost of transportation and its effect on the prices of food and other products, the VAT on trucks of the loading capacity of 3.5 tons and above will be exempted. Details are contained in the Value Added Tax (Amendment Bill).

Environmental Levy

120. Mr. Speaker Sir, We introduced an environmental levy on used vehicles aged eight years and above, used goods and other imported used articles. The purpose of this measure was to discourage importation of obsolete items which are hazardous to our people who consume these products and to save the

environment. I also announced that this levy would be reviewed regularly in order to minimize importation of these items. I am therefore proposing to increase the environmental levy on used cars that 8 years and above to 20 percent. The necessary adjustment will also be made on the various rates on the other used items. **The details are contained in the Finance Bill.**

First Motor Vehicle Registration Fees

121. Mr. Speaker Sir, you will recall that last financial year, Government abolished road license fees. With the ever increasing budget pressures and the need to maintain our roads, I am proposing adjustments in the rates for first registration for motor vehicle excluding commercial vehicles. **This measure is expected to raise revenue of Shs. 25 billion. The details are contained in the Finance Bill.**

Tax Treatment of Petroleum Exploration and Production

122. Government has been paying tax for companies licensed to undertake petroleum exploration, development and production activities. This was Government contribution during the early phase of the exploration and an acknowledgement of the risk involved as there was no certainty of oil discovery. The exploration activity has gone on for over 10 years and Government has been supporting the industry. With the recent discoveries the companies can bear the total cost of their imports and other supplies because they are sure of recovery. **The revenue gain is projected at Shs. 8 billion**

Write-off of Tax Arrears

123. Mr. Speaker Sir, Uganda Revenue Authority has a stock of tax arrears dating back more than 7 years, which are evidently non-performing. It is evident that most of the debts cannot be recovered either because the taxpayers cannot be found or the supporting documents are missing. Mr. Speaker Sir, last

fiscal year we extended an amnesty to the taxpayers on penalty` arrears and the results of this policy have encouraged compliance. URA has reported that as result of this policy, they have been able to realize Shs.41 billion. In addition Mr. Speaker, the policy brought a number of new taxpayers on the tax register that URA would never have accessed. Mr. Speaker, this move will help compliance and encourage entities to clean up their books and eventually be free to float shares on the stock exchange. I am therefore proposing to write-off arrears of duty and tax relating to the principle, interest and penalty that has accrued up to June 30, 2002. **The details are contained in the Finance Bill.**

Ratification of the Uganda Belgium Double Taxation Agreement

124. Mr. Speaker Sir, In February 2008, we signed the Double Taxation Agreement between Belgium and GOU. The Double Taxation Agreement needs to be ratified to have effect. In accordance with the Ratification Treaties Act I am laying before Parliament the Uganda Belgium Double Taxation Agreement to conclude the ratification process. In the coming year we shall be concluding Double Taxation Agreements with the United Arab Emirates, Peoples Republic of China, Egypt, Sudan, and Seychelles.

East African Community

125. Mr. Speaker Sir, the implementation of the East African Customs Union Protocol is on course. Together with the other Partner States, Kenya and Tanzania, focus is now on consolidating the Customs Union as the bedrock for further integration of the Community. The Partner States have commenced the negotiations of a protocol for the establishment of a common market. A common market entails the free movement of persons, labor, goods, services, capital and the right of establishment. The ability of the factors of production – goods, services, capital and persons to move freely across Partner States of the East African Community will provide efficient and competitive production of goods and services for both regional and international markets. This means that

the people of East Africa can maximize the talents and resources, leading to greater efficiency and increased profits.

126. By removing barriers to trade in goods and services and opening up new opportunities for over 120 million East Africans, the Common Market will stimulate growth and add to the international competitiveness of the East African Partner States. Mr. Speaker Sir, at the Pre-Budget Consultations of the EAC Partners States Ministers of Finance, on 2nd June 2008 in Nairobi the Ministers of Finance reviewed the import duty structure on a number of items.

- a. The import duty rate for Palm Stearin fractions was revised from 0 percent to 10 percent, but Uganda was allowed to stay application of the rate of 10 percent and apply 0 percent for one year.
- b. Garbage trucks were exempt from import on condition that:
 - i. They are specially designed for collection of garbage and
 - ii. Imported or purchased by local authorities or persons contracted by the local authorities to collect garbage.
- c. The import duty on the following items was exempted: milk tankers, gym equipment for hotels, deep cycle batteries that are not sealed for use with solar equipment, computer printers and telecommunication equipment.
- d. The import duty on cement was reduced from 40 percent to 25 percent.

127. Mr. Speaker Sir, aware of the need to limit the danger posed by polythene bags and similar articles to our environment, the Ministers also agreed to maintain the ban on plastic bags and articles for the conveyance of goods of less than 30 microns and the excise duty of 120 percent on the said items of 30 microns and above. The Ministers directed the EAC Secretariat to coordinate consultations with stakeholders with a view to developing a harmonized regional policy.

Non Tax Revenues

128. Mr. Speaker Sir, in our continued effort to widen the tax base and improve domestic revenue mobilization, Non Tax Revenue (NTR) is one of the areas with great potential. Current collections are still dismal at about 0.2 percent of GDP which compares very unfavorably with our neighboring countries within the region with an average of about 4 percent.

129. Mr. Speaker Sir, I therefore propose to implement the following measures in the coming Financial Year to revamp Non Tax revenues:

- a. During the Budget preparation process, Sector Working Groups should prepare in-depth Non Tax Revenue Estimates in as much as they do for Expenditure estimates. Mr. Speaker Sir, my Ministry will not approve the Sector Estimates unless detailed Non Tax Revenue Estimates are part and parcel of the presentations.
- b. Mr. Speaker Sir, one of the major constraints towards the realization of increased Non Tax Revenues is the obsolete legislation and fees/user charges which do not reflect the current market value of services rendered. My Ministry will spearhead the review of legislation in conjunction with the relevant sectors and the Attorney General to update the relevant Non Tax Revenue legislation, fees and user charges and to streamline their administration and accountability. **The new rates should come into effect on 1st January 2009.**

Report of Tax Expenditure for Financial Year 2007/08

130. Mr. Speaker Sir, Article 152 Clause (2) of the Constitution obliges me to report to Parliament periodically on the exercise of powers conferred upon me by any law to waive or vary a tax imposed by that law. I wish to report that this fiscal year I have exercised powers conferred by the Income Tax Act and the Value Added Tax Act and waived Shs. 4.7 billion.

131. However, Government has paid Shs. 21 billion for NGOs and private enterprises involved in the hotel sub-sectors.

XI. SCHEDULE OF INDEBTEDNESS

132. 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, 2008; and
- ii. The Grants that Government received during financial year 2007/08.

133. Mr. Speaker Sir, with respect to Section 13 (3) of the Budget Act, I wish to report that Government has not provided any guarantees in accordance with Article 159 of the Constitution of the Republic of Uganda.

134. The details for the utilization of each loan and grant will be provided in the respective ministerial and government agencies policy statements. The institutions that received and utilized the funds should be able to provide the financial utilization, the actual implementation on the ground, and progress on the respective projects. Our poverty monitoring and assessment reports will provide additional information on the benefits of the funds which were disbursed directly through the Consolidated Fund.

XII. CONCLUSION.

132. Mr. Speaker, I have now come to the end of this year's budget speech. I have put on record Uganda's rate of economic growth which averaged 8.9 percent in real terms in the last three years (10.3 percent in Financial Year 2005/06, 7.4 percent in Financial Year 2006/07 and 8.9 percent in Financial Year 2007/08). I am sure that you Mr. Speaker and honorable members deserve to be congratulated that during your tenure of office our country registered the highest rate of economic growth ever recorded in our history.

133. It is of course true that Uganda is still very far from perfection. But we have cause to thank God that our country's speed of economic progress is comparable to that of the fastest growing economies of the world such as the Peoples Republic of China and India. Mr. Speaker, the world has marveled for long at the achievements of the "Asian tigers." I hope you will permit me Mr. Speaker to express the hope that the world will soon recognize that there are also "African tigers" and Uganda is certainly one of them.

134. It is most reassuring that despite the continuing steep rise in oil prices, the shortage of electricity and the interruption of our supply routes to Mombasa, the economy has shown so much resilience, exceptional adaptation and relative stability.

135. Mr. Speaker, Honourable Members, in today's budget:

- a. I have increased resources for NAADS by 62 percent so that the people in rural areas can get the agricultural inputs and machinery they need to increase production.
- b. I have also tripled the resources for microfinance from Shs. 10 billion this year to Shs. 32 billion next year.
- c. I have increased resources for road infrastructure from Shs. 625 billion this year to Shs. 1.1 trillion next financial year in a

determined assault to dislodge the obstacles that are afflicting road transportation in Uganda.

- d. I have provided for an additional Shs. 20 billion for capital injection for small and medium enterprises in Uganda Development Bank.
- e. I have also provided Shs. 50 billion as credit guarantees for banks that lend for agriculture.
- f. I have Mr. Speaker, provided tax exemptions to encourage enterprises to go into agricultural processing in rural areas and I have also provided tax exemptions to encourage investment in the construction of hotels, hospitals and educational institutions.
- g. Mr. Speaker, I have increased the energy fund to Shs. 316 billion so that the power shortages can be decisively resolved through Uganda's own funding for dam construction.
- h. I have also reduced taxation on the lorries and trucks that carry our goods and services and I have removed the tax on salt.
- i. I have Mr. Speaker substantially increased expenditure on both education and health in the bid to increase our people's access to quality education, to life saving drugs and other health services.
- j. And for all the other sectors and ministries I have tried to ensure that the majority of them will have at least the same levels of domestic funding in Financial Year 2008/09 as they had in Financial Year 2007/08 or slightly more.

136. Mr. Speaker, I would have wished to do better. Indeed during the past several months I have had to bear and absorb attacks and angry protests of many Members of Parliament, Ministers and Heads of Departments who wanted and deserved more money than they got. I am sure we all recognize and understand that this is not a personal matter. These are the real sacrifices we must collectively bear to transform Uganda from poverty to prosperity. I therefore want to ask for forgiveness and understanding from so many people

whose requests I have not been able to address adequately in this budget. I ask you to be patient and remember that even in our homes we cannot provide for every single need and desire that our families may want.

137. Mr. Speaker nine days ago was Martyrs Day. I returned from a long trip to find that my wife had arranged for Clemencia, a truly destitute widow from my village to come to Kampala, for the first time in her life, to participate in Martyrs Day events at Namugongo. Mr. Speaker, honorable members, when I talked to Clemencia, she was truly excited by her visit to Kampala and to Namugongo. When I enquired about life in the village, she informed me that although she owns a house, she has no land of her own to cultivate. She also informed me that the price of salt and soap had doubled and that the road to our village was virtually impassable. She also mentioned that she has some close relatives whom she believes are sure to die of HIV/AIDS. When I asked about progress on Kabale – Kisoro road which is being upgraded she said it was as smooth as glass and the journey which used to take one hour now takes 20 minutes. She was happy about that.

138. Mr. Speaker, I when I first met Clemencia 15 years ago, I had not yet experienced personally the pain and anguish of looking after an HIV/AIDS patient as she had. Later on when I had to care for my late brother Dr. Livingstone Byarugaba who was a member of the 5th Parliament, that is when I discovered that I needed God to give me the courage to go on. Mr. Speaker, although this year was Clemencia's first physical trip to Namugongo, I believe that in her spirit, she has visited it many times before. Mr. Speaker, I dedicate this budget to the millions of Ugandans who like Clemencia sacrifice their time, their love and their soul to help others and to somehow build a better future for all our children. Their work, their struggle, their courage and their life's journey are in the footsteps of the Uganda Martyrs. Uganda is marching on and with the help of God we have the courage to march on, triumphantly.

139. I thank you Mr. Speaker and I beg to move

FOR GOD AND MY COUNTRY.