



THE REPUBLIC OF UGANDA

**BUDGET SPEECH**  
**Financial Year 2006/07**

*Theme: Enhancing Economic Growth and Households Incomes  
through Increased Production and Productivity.*

DELIVERED AT THE MEETING OF THE 1<sup>ST</sup> SESSION OF THE 8<sup>TH</sup>  
PARLIAMENT OF UGANDA  
AT THE  
PARLIAMENT BUILDINGS  
ON  
THURSDAY, 15<sup>TH</sup> JUNE, 2006

BY

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## 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 2005/2006; and
- b) The Proposals for the Estimates of Revenue and Expenditure for the financial year 2006/2007.

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.

## INTRODUCTION

3) Mr Speaker Sir, permit me to start by congratulating His Excellency the President and the National Resistance Movement Party for the resounding victory in the just concluded elections under a multiparty dispensation. I also congratulate you and the Deputy Speaker of Parliament on the double victory of your re-election as Members of Parliament and Speaker and Deputy Speaker respectively. In the same spirit, permit me to congratulate all Members of the 8<sup>th</sup> Parliament for their victory in the first multi-party elections over several years.

### **Objectives of the Financial Year 2006/07 Budget**

4) The budget I am presenting today is a statement of the revenues that Government expects to collect in the financial year 2006/07 and how it plans to allocate these revenues as Government pursues its economic development vision. It also gives a report on what has been achieved in the previous financial year.

5) The theme for this year's budget is 'Enhancing Economic Growth and Households Incomes through Increased Production and Productivity'. In line with this theme the budget has three major objectives:

- (i) To stimulate the economic growth and development
- (ii) To provide resources for basic public goods and services
- (iii) To promote and maintain macroeconomic stability.

6) In order to ensure that the budget priorities provide tangible benefits to the people, the interventions being proposed will provide opportunities for enhancement of both self and wage employment, and remove constraints to labour productivity. Priority has been given to interventions that will stimulate different sectors of the economy to contribute to employment, income generation and growth.

7) Mr. Speaker, in financial year 2006/07 we will deepen the strategy for economic growth in order to increase household incomes and reduce the prevalence and depth of poverty among our people. We will continue to provide resources for public goods and services such as security, law and order, scientific research, education, health and other important social programmes.

8) Government will also maintain its renowned emphasis on economic stability, which is critical for the attainment of economic growth and development. Economic stability will be assured through the containment of inflation and the maintenance of public confidence in an orderly market-based economy.

9) Mr. Speaker Sir, before elaborating the strategic priority actions aimed at achieving the objectives I have just spelt out, allow me to report to this august House the performance of the economy in the past financial year.

## **ECONOMIC PERFORMANCE AND OUTLOOK**

### **Economic Performance and Forecast**

#### *Growth*

10) Preliminary estimates by the Uganda Bureau of Statistics show a slowdown in economic growth in financial year 2005/06. Real Gross Domestic Product at market prices is estimated to have grown by 5.3 percent this financial year, compared to 6.6 percent in financial year 2004/05. The estimated growth of 5.3 percent for financial year 2005/06 is slightly higher than earlier projections of 4.9 percent. In nominal terms, Gross Domestic Product at market prices is estimated to amount to Shs 17,014 billion, up from Shs 15,156 billion. Taking into account our population of 26.9m, this amounts to Gross Domestic Product per capita of Shs 632,000, compared to about Shs 580,000 in financial year 2004/05. In real terms, Gross Domestic Product at market prices is estimated to amount to Shs 11,949 billion, up from Shs 11,353 billion in financial year 2004/05.

11) The slowdown in growth is largely attributed to two domestic shocks; the prolonged drought, which affected agriculture production, and the reduction in hydro electricity generation capacity at Jinja, which resulted in major load shedding in the second half of the year. This has resulted in a decline in two major sectors of the economy, namely agriculture and manufacturing, which has meant heavier reliance on service and construction for growth in financial year 2005/06.

12) Real Gross Domestic Product at market prices is projected to grow by 5.9 percent in financial year 2006/07. This would be an improvement on 2005/06 but still below our target of 7.0 percent. Provided the economy does not suffer another drought, production of both food crops and cash crops is expected to improve, which would raise overall agricultural growth to 3.4 percent. Growth in industry is expected to recover to 7.6 percent, although formal manufacturing output will not rebound strongly until the second half of the year when additional thermal generation is expected to come on board. Growth in services is expected to remain strong at about 7 percent.

### *Agriculture*

13) The prolonged drought, which severely affected large parts of East Africa, has had a major impact on agricultural production in financial year 2005/06. The estimated growth rate of the whole sector, 0.4 percent, is the lowest annual growth rate in agriculture

since financial year 1991/92. Monetary and non-monetary food crops, which together comprise two-thirds of agriculture value added output, grew by a mere 0.3 percent. This poor performance in the food crop sector was exacerbated by a decline in cash crops of 7.4 percent. Cotton production fell from 250,000 bales in financial year 2004/05 to only 100,000 bales in financial year 2005/06, as a result of drought and low farm gate prices in the previous season. Tobacco production also fell significantly, owing to difficulties in contract negotiation between buyers and farmers. The present trend of a declining growth rate in agricultural production is not only a cause of widening income and asset inequality and an immediate obstacle to poverty reduction but also a constraint to sustainable and broad-based development of the non-farm sectors of the economy.

### *Industry*

14) Mr Speaker Sir, the impact of the energy crisis is yet to be fully known, since data on industrial output for the second half of this financial year are not yet available. However, it is estimated that growth in industry has declined from 10.8 percent in financial year 2004/05 to a disappointing 4.5 percent in financial year 2005/06. Hardest hit is the formal manufacturing sector, where growth has fallen sharply from 13.5 percent to -3.5 percent. Most manufacturers have either been forced to reduce production, revert to 24-hour shift work patterns or use diesel generators, which has increased their costs of production. The only sub-sector

within industry that performed well was the monetary construction sector, which registered growth above 10 percent for the fifth consecutive year.

### *Services*

15) Growth in road transport, telecommunications and financial services remained strong, while impressive performance was also registered in the hotels and restaurants and air and support services sectors. The telecommunications sector has been the fastest growing sub-sector in the economy, with the number of mobile phone subscribers passing the 1.5 million mark in December 2005.

### *Investment*

16) Investment is projected to increase to 24.6 percent of GDP in financial year 2005/06, of which private investment is projected to increase by over three percentage points to 19.6 percent. Our rate of domestic savings, although still low, is expected to rise by just over a percentage point to 9.1 percent of GDP. This is welcome progress towards greater sustainability in our domestic economy. A large share of domestic and external savings is being channelled into commercial and residential construction. The challenge is to attract these savings into more productive investment such as plant and machinery. The share of private construction in Gross Domestic Product has steadily increased from 8.8 percent in financial year 2000/01 to 15.0 percent in

financial year 2005/06, accounting for almost the entire rise in private investment.

17) Foreign direct investment is estimated to have increased by US\$15million in financial year 2005/06 to US\$261million or 2.8 percent of Gross Domestic Product. This compares favourably to less than US\$50 million in the early 1990s.

### *Exports*

18) Total export earnings of goods and services are expected to grow by 10 percent in financial year 2005/06 and exceed US \$1.3 billion. Much of this growth is due to an improvement in world coffee prices and increased fish volumes and unit prices. The unit price index of goods exports, which weights movements in all goods export prices, is estimated to have improved by 17.4 percent. In contrast, despite increased fish volumes, the goods export volume index is estimated to have declined by about 5.0 percent compared to last fiscal year, due to lower export volumes for coffee, cotton and tobacco.

### *Inflation*

19) Mr Speaker Sir, the average rate of underlying inflation over the first 11 months of financial year 2005/06 was 5.3 percent, slightly higher than our target of 5.0 percent. One of the major price pressures during the year has been the continued rise in world oil prices, which has fed through to increases in petrol

pump prices and transport fares relative to the previous year. However, Bank of Uganda has once again been successful in containing these inflationary pressures and underlying inflation now stands at 4.4 percent, down from 6.4 percent in July 2005.

### **Monetary Developments**

20) Mr Speaker Sir, performance under the monetary program was good. Consistent with the broad macroeconomic objectives for the year, the Bank of Uganda maintained a tight and cautious monetary policy stance. Consequently, the March 2006 target for base money growth was met. The banking sector remained healthy with the ratio of non-performing assets to total advances remaining very low at less than 3 percent as of March 2006.

21) In financial year 2006/07, the Bank of Uganda will continue to pursue monetary, financial and exchange rate policies aimed at ensuring continued monetary and financial stability, which is conducive to growth and investment.

### *Exchange Rate Developments*

22) Bank of Uganda continued with a flexible exchange rate policy in financial year 2005/06, with occasional intervention to smooth volatilities. The shilling experienced depreciation pressures against the US dollar in the first four months of this financial year, with the average exchange rate depreciating by 6.8 percent from Shs 1,738 in June 2005 to Shs 1,857 in October 2005. For the

remainder of the financial year, the exchange rate has remained relatively stable.

#### *Interest Rate Developments*

23) By April 2006, the effective yields on the 91-day, 182-day, and 364-day Treasury bills averaged 7.9 percent, 8.4 percent and 10.0 percent respectively, which are lower than the rates in the same period last year. Similarly, rates on Government bonds fell relative to last year. For example the yield on the three-year bond fell from 15.5 percent in June 2005 to 13.5 percent in March 2006. It is anticipated that the Government's comprehensive strategy for domestic debt management will help to determine the optimal mix of securities issuance and enable the reduction of interest costs.

24) The commercial banks' weighted average lending rates were fairly stable over most of the financial year. However they remained high due to the following factors:

- (i) the large size of government's fiscal deficit which gives commercial banks the option to invest in risk-free Government securities rather than lend to the private sector
- (ii) the perceived high risk of lending to the private sector due to both the structure of the economy with a large agricultural base and absence of a credit reference bureau

- (iii) lack of competition and dynamism among commercial banks who are content to service stable 'niche' market segments; and
- (iv) high operating costs from modernisation, expanding outreach and the low income base of customers.

#### *Private Sector Credit*

25) Credit to the private sector from the banking system is estimated to have increased by 14.6 percent between June 2005 and March 2006. Trade and other services continued to take up the largest share of commercial-bank credit as at end March 2006, with a share of 60.2 percent of total credit, followed by manufacturing and agriculture at 18.5 and 10.1 percent respectively.

#### *Micro Finance*

26) During financial year 2005/06, three additional Microfinance Deposit-Taking Institutions (MDIs) were licensed under the Microfinance Deposit-Taking Act 2003, taking the total number to four. The newly licensed MDIs are PRIDE Microfinance Limited, Uganda Microfinance Limited and Uganda Finance Trust Limited. Combining the performance of all four MDIs, both customer deposits and consequently credit available for lending grew strongly in the year.

27) In a bid to further bolster the level of savings mobilization and investment among the poor, Government adopted the strategy this financial year of supporting member-used and member-owned financial institutions, commonly referred to as Savings and Credit Cooperative Organizations (SACCOs). The objective has been to assist communities to start and operate these institutions for financial service delivery at the sub-county and subsequently at the parish level.

*Medium and Long Term Financing*

28) Mr. Speaker Sir, with respect to medium and long-term financing, Government is currently restructuring Uganda Development Bank as a source of longer-term credit, which is not currently available from commercial banks. Once the restructuring is complete, this will present a good opportunity for Government to place an Industrial Fund for private sector development in UDB, which can be managed transparently, with clear criteria for access and eligibility. In addition, Government will identify long-term lines of credit, such as the European Investment Bank Apex loan scheme, which can be channelled through UDB to viable productive sectors of the economy. To date, a sum of Euro 90.4 million has been disbursed to private investors under Apex I, II, III and IV, and a further Euro 19.6million is still available for lending.

29) The Government has continued to consolidate its participation in regional integration activities with the objective of facilitating trade and investment in the East African Community. During this financial year, the convertibility of the three East African Community currencies has increased substantially. Attempts are also underway to implement the East African cross-border payments system. Furthermore, in an effort to ensure financial sector stability in the region, the three East African Community Central banks have adopted risk-based supervision which will strengthen the financial sector and help mobilise and channel resources to productive sectors.

### **Fiscal Performance**

#### *Revenue performance*

30) Mr Speaker Sir, in light of the lower than projected economic growth this financial year, domestic revenue has performed below target. Total domestic revenue is expected to amount to Shs 2,242 billion, compared to the budgeted level of Shs 2,281 billion. This under-performance is on account of shortfalls in both tax revenue and non-tax revenue collections from line ministries and other Government departments.

#### *Expenditure Performance*

31) In this financial year, Shs 2,685 billion was released, excluding donor financed projects. Releases to the Poverty Action Fund amounted to Shs 886 billion, resulting in a pro-rata

performance of 98.2 percent. The overall performance demonstrated continued prudent and effective fiscal management.

## **SECTOR PERFORMANCE AND OUTLOOK**

### **Agriculture**

32) Mr. Speaker Sir, in FY 2005/06, the Agricultural Sector focused on providing advisory services to farmers through the continued roll out of the National Agricultural Advisory Service (NAADS). NAADS was rolled out to 8 new districts of Gulu, Kaberamaido, Kasese, Kotido, Mubende, Nebbi, Ntungamo and Sembabule. This brings the total national coverage of NAADS to 344 sub-counties and 37 Districts.

33) Emphasis was also placed on the control of livestock vector and disease outbreaks. The sector carried out extensive vaccination of animals, and plant pest and disease outbreaks were controlled. Two trial mobile plant clinics were tested in the districts of Mukono and Mbale, while three were operational in Soroti, Iganga and Mukono in collaboration with Non-Governmental Organisations.

### **Lands, Environment and Natural Resources**

34) Mr. Speaker Sir, during financial year 2005/06 a draft Land Registration and Titles Amendment Act was prepared to support

land ownership rights and 16,000 hectares were purchased using the Land Fund.

35) The National Environment Management Authority (NEMA) enhanced the capacity of districts to manage the environment. In collaboration with NGOs, NEMA also developed draft sample guidelines for mainstreaming environmental management into development planning at the local government level. During financial year 2006/07 Government will ensure sustainable use of natural resources through strengthening the National Forest Authority and the Forest Inspection Division to enable effective mobilization of the District Forest Services and communities in sustainable forest management.

36) With respect to meteorology, civil works for installing automatic weather stations commenced and the Tororo Meteorological station was renovated. In the next financial year, national meteorological services will be improved by equipping the centre with facilities and personnel to monitor and forecast changes in the weather and climate to enable more effective utilisation of climate information for agriculture.

### **Tourism Development**

37) Mr. Speaker Sir, over a ten-year period from 1995 to 2004, indications are that international tourist arrivals have increased and consequently earnings from the tourism sector.

38) The overall drive in the tourism sector during financial year 2006/07 will be to provide strategic financial and policy interventions, create sustainable tourism infrastructure, and gain more access to the tourist source markets in Africa, Middle East and Eastern Asia. In addition, emphasis will continue to be placed on strong and reliable security for tourists.

### **Mineral Development**

39) Mr Speaker Sir, mineral wealth can support Uganda's national economic and social development and poverty reduction goals. During financial year 2005/06, efforts were made to stimulate the development of the mineral sector by designing systems for Geological Information, Documentation and Environmental Management.

40) Government also continued efforts to explore the crude petroleum resources in Western Uganda. Exploration wells were drilled in Mputa and Waraga sites and in both instances crude petroleum was discovered. The quality has been confirmed and efforts are underway to determine the commercial viability of the sites.

### **Roads**

41) Road infrastructure, which provides for over 90 percent of passenger and cargo traffic, comprises 10,800 kilometres of

national (trunk) roads, 27,500 kilometres of district roads, 4,300 kilometres of urban roads and approximately 30,000 kilometres of community roads. The Government has committed substantial funds to road improvement (mainly national roads) under the Road Sector Development Programme. During the financial year 2005/06, Government completed the upgrading of the following national roads, Kagamba –Rukungiri and Gayaza – Kalagi. In addition to these, a total of 554 kilometres of the following national roads are currently at various stages of upgrading/rehabilitation; Karuma – Olwiyo, Olwiyo – Pakwach, Fort Portal – Hima, Hima – Kasese –Kikorongo and Kasese –Kilembe, Kikorongo – Katunguru and Equator road, Busunju-Kiboga, Kiboga – Hoima, Kafu - Masindi and the Kampala Northern By-pass.

### **Waterways**

42) The Kalangala ship was commissioned on 26<sup>th</sup> January 2006. This ship is providing an efficient, safe and affordable transport between the Ssesse Islands and the mainland.

43) Mr Speaker Sir, in financial year 2006/07 Government will survey navigable routes and landing sites on Lake Victoria, design and rehabilitate Nakiwogo and Lutoboka landing sites on Lake Victoria and undertake economic studies of landing infrastructure on the Albert, Kyoga, George and Bunyonyi Lakes.

## **Air Transport**

44) Over the last five years international passenger traffic passing through Entebbe has increased substantially. Exports of fresh agricultural produce have also increased remarkably.

45) Mr Speaker Sir, in financial year 2006/7 government will capitalise the Civil Aviation Authority in order to enable it undertake crucial investments to maintain regional and international standards. The Authority's medium term development programme will be implemented in order to upgrade facilities to meet the demand in growth and foster regional competitiveness. Some of these facilities will also be crucial for facilitating the Commonwealth Heads of Government Meeting in 2007.

## **Communications**

46) Mr. Speaker Sir, a national Information and Communication Technology (ICT) policy and strategy will be implemented with the aim of increasing usage of ICT in the economy. In order to ensure efficient service delivery at both the centre and local government levels, an E-government Strategy and Master Plan will be developed in the medium term. The newly created Ministry of Communications and Information and Communication Technology will spearhead interventions in this sector.

## **Privatization and Utility Reform**

47) Mr Speaker Sir, Government remains committed to broad based private sector led growth of the economy, through reform and privatisation of the parastatal sector. As at the end of April 2006, 128 divestitures had been completed using various modes of privatisation. Twenty-four public enterprises are in various stages of divestiture. Kinyara Sugar Works and the Dairy Corporation are in advanced stages of divestiture while the Mandela Stadium Concession, Stanbic Bank and National Insurance Corporation Initial Public Offerings will be completed in financial year 2006/07.

## **Education**

48) In financial year 2005/06, in order to enhance performance primary teachers salaries were increased from Shs 125,000 to Shs 150,000. To enhance teacher education, construction of libraries in 16 Non-core Primary Teachers Colleges was undertaken.

49) In a bid to enhance equitable access to public universities during financial year 2005/06, 896 students were admitted through the district quota system; 40 students were admitted due to special talent and 64 special needs students were admitted as people with special needs. To increase access to higher education, Government has set up a management committee to kick-start a

public university in Eastern Uganda. It is expected that the university will open its gate to students in academic year 2008/09.

## **Health**

50) Mr Speaker Sir, during financial year 2005/06, the health sector performance in reproductive and health immunization was satisfactory. Mr Speaker Sir, the ‘couple years of protection’, a measure of effectiveness of family planning, increased by 10 percent due to improved availability of contraceptives and intensification of outreaches. The DPT3/Pentavalent coverage of 89 percent performed above the target of 85 percent. Sub-National Immunization Days (SNIDs) were implemented in the 15 high-risk districts of Northern Uganda, following isolation of the wild polio virus in southern Sudan in 2004.

51) In respect of HIV/AIDS, a national sero-survey showed that prevalence has increased from 6.1 percent five years ago to 7.1 percent. This calls for scaling up of interventions to reduce HIV/AIDS prevalence especially among vulnerable groups.

## **Water and Sanitation**

52) Mr. Speaker Sir, the major priority for the sector is the provision and proper management of safe water and sanitation facilities and the provision of water for production. Water coverage in rural areas increased from 61.3 percent in June 2005 to 63.4 percent by June 2006. The sector completed the construction

of 6 water systems in Hoima, Mubende, Bujenje, Bwijanga, Kyatiri and Aduku. Construction of water systems are on going in 13 towns of Iganga, Mityana, Mpigi, Kigumba, Apac, Pakwach, Nebbi, Soroti, Kaberamido, Sironko, Sembabule, Nagongera, and Kangumbira.

53) In the large towns operated by National Water and Sewerage Corporation (NWSC), service coverage improved from 67 percent in June 2005 to 70 percent in June 2006. The Unaccounted for Water (UfW) indicator reduced from 33.8 percent in June 2005 to 29.3 percent by June 2006 and new water connections increased from approximately 22,000 in FY 2004/05 to about 28,000 in FY 2005/06 due to a new customer-friendly connection policy.

54) Mr. Speaker Sir, with respect to water for production, a total of 9 new valley tanks were constructed in Sembabule district during financial year 2005/06. Two windmill powered abstraction systems for watering facilities were also installed in the Karamoja region and the rehabilitation of Kailong dam was carried out.

55) For financial year 2006/07, about 4,600 new water point sources and almost 2,000 rainwater tanks will be constructed in the rural areas. This will target the poor and un-served villages and parishes. In order to improve hygiene and sanitation, up to 10 percent of the district water grant should be earmarked for this purpose. New piped water and sanitation schemes will be provided

to small towns, in particular to district headquarters, these include:  
- Soroti, Kaberamido, Sironko, Iganga, Mpigi, Mityana, Kigumba, Apac, Packwach, Nebbi and Kamwenge. Government will also construct 3 new sewerage systems and drill 86 production wells and 150 boreholes for hand pumps.

56) Government will expand the water production capacity in Kampala and Entebbe to meet the increasing water demand. In addition 28,000 new water connections and 270 new sewerage connections will be provided country-wide.

#### **THE RESOURCE ENVELOPE FOR FY 2006/07**

57) Mr. Speaker Sir, allow me to highlight the resource envelope available for financing government programmes in financial year 2006/07.

58) Mr Speaker Sir, the total amount of resources available in financial year 2006/07 is estimated at Shs 4,255 billion, representing an increase of 18 percent on financial year 2005/06. Approximately 59 percent of the budget in financial year 2006/07 is projected to be financed by domestic revenues, whilst the balance will be provided through the support of our donor partners. This represents a slight decline on the current financial year, when 60 percent of the budget is estimated to have been financed by domestic resources. The widening of the deficit, from 8.6 percent in financial year 2005/06 to 9.2 percent in financial

year 2006/07, is a reflection of the urgent need to provide a short-term solution to the energy crisis. Interest payments and domestic arrears repayments are expected to amount to Shs 408 billion in financial year 2006/07. This means that Shs 3,847 billion will be available to support economic and social development.

### **STRATEGIC PRIORITY ACTIONS FOR FY 2006/07**

59) Mr Speaker Sir, allow me to now turn to the strategic priority actions for financial year 2006/07. The strategic priorities identified will support the attainment of Government objectives as embedded in the National Resistance Movement Manifesto of 2006. The Manifesto recognises the need to improve production and productivity, encourage value addition, provide social services that are critical to economic growth, and provide security and uphold the rule of law. Resources will therefore be provided for the implementation of these strategic priority actions which must be accorded preference in light of limited resources.

60) Mr. Speaker Sir, Honourable Members will undoubtedly be aware of a number of sectors which require increased resources in order to accelerate the economic growth, social progress and stability of the country. Let me cite the specific priority actions which require the most urgent attention:

1. Investing in the Energy Sector to deal with the energy crisis;

2. Rural Development and Support to Urban Poor;
3. Rehabilitation and Reconstruction of Northern Uganda;
4. Industrial Development;
5. Support to Scientists
6. Development and Maintenance of Transportation Infrastructure;
7. Defence and National Security;
8. Justice, Law & Order; and
9. Investment in Social Sectors.

61) Mr Speaker Sir, allow me to elaborate the actions Government will be undertaking in these areas.

### **Investment in Energy Development**

62) Mr Speaker Sir, the prolonged drought reduced effective generation capacity at the Kiira and Nalubaale hydropower stations from 180MW to 135MW at the beginning of this year. Coupled with increased demand for energy arising from economic growth over the years, this has created a severe power shortage. The current shortfall in electricity supply at peak periods amounts to almost 200 MW. Development of immediate energy generating capacity sources to address this gap is therefore a critical focus of the financial year 2006/07 Budget.

63) Key actions that Government will undertake beginning in financial year 2006/07 are as follows:-

- a) immediate procurement of additional thermal power capacity of 100 MW to deal with the current crisis and
- b) establishment of the energy fund to finance the development of Bujagali and Karuma hydro power projects in partnership with the private sector.

64) Government has allocated an extra Shs 70 billion to thermal generation in addition to the deferral of loan repayments to Government from the electricity generation, transmission and distribution companies amounting to Shs 33 billion per year. This will contribute towards subsidizing the cost of thermal energy generation. While the recent increase in tariffs will meet some of this cost, revenues from tariffs cannot by themselves cover the high cost of thermal power generation.

65) Government is also allocating Shs 99 billion to the Energy Fund, which will be ring-fenced for dam construction only. The newly created Energy Fund will be set up in the Bank of Uganda and will only be used for investment and not for routine recurrent expenditures. Government, using the Energy Fund, will develop the larger hydropower generation facilities at Bujagali and Karuma with the private sector in order to address the power crises in the long term. Government is also encouraging the development of

smaller hydropower options. A total of 235 rural electrification schemes have been accomplished all over the country since 2001.

66) Further actions to improve efficiency in energy use and demand are being implemented through importation of 500,000 energy saving bulbs, and support will be given to consumers installing solar lighting and water heating systems.

67) Mr Speaker Sir, the principal target of the rural electrification programme in financial year 2006/07 and the medium term is to link more of the district headquarters and the productive areas to the main grid. The productive areas, which will enhance exports, include landing sites, tea and wet coffee processing centres.

### **Rural Development and Supporting the Urban Poor**

68) Rural development remains a central tenet of Government's socio-economic development strategy over the medium term as 20 million Ugandans live in rural areas where 98 percent of the population depend on agriculture. Agricultural output has been growing slower than anticipated since financial year 1998/99 leading to lower overall GDP growth performance, with a percentage growth of only 0.4 percent in 2005/06 as compared to 4.6 percent in 2000/01. The crop sub-sector in particular continues to perform poorly and faces an increasingly high incidence of diseases (coffee and banana wilt) as well as animal diseases. There is widespread food insecurity in areas affected by

conflict in north and north-eastern Uganda resulting in high malnutrition. In other parts of Uganda, protein-energy malnutrition, and child stunting remains a serious concern.

69) Mr Speaker Sir, to address these concerns, the financial year 2006/07 Budget will focus on raising the incomes of the 4 million households through the following actions

- a) Improve agricultural productivity and production
- b) Improve marketing and trade
- c) Increase access to rural financial services (RFS)
- d) Establish a Community Information System (CIS) to monitor progress

70) These strategic actions will be focused on the needs of the household using the sub-county as the operational center for delivery of the respective programmes. The financial year 2006/07 Budget will empower the sub-county and its structures to carry out the development role. The Strategy will be implemented by deliberately engaging more households in gainful production enterprise by re-orienting the role of sub-county chiefs and production personnel at the Sub-county level to undertake community mobilisation.

71) All Sub-county chiefs will receive training to transform them into change agents who will be responsible for showing

households what the viable commodities to produce are. The Sub county chiefs will also coordinate their activities with Savings and Credit Cooperative Organisations (SACCOs) to provide the necessary credit to households and cooperatives. The key personnel at the Sub-county will facilitate the formation of SACCOs to deepen micro finance activities, and the collection of community information statistics.

72) Mr Speaker Sir, the Integrated Support to Farmers Groups and NAADS will be re-focused to support this initiative. NAADS and other on-going extension projects will be deepened with an emphasis on targeting the poor and linking more effectively with the National Agricultural Research System. NAADS will be rolled out to cover 517 sub-counties in 65 districts, up from 344 sub-counties in 37 districts in financial year 2005/06. A target of approximately 39,000 farmers groups will be supported in financial year 2006/07, rising from 20,000 farmer groups supported in financial year 2005/06. An additional Shs 10 billion has been provided to NAADS for the roll-out.

### **Rehabilitation and Reconstruction of Northern Uganda**

73) Northern Uganda continues to have the highest incidence of poverty due to the persistent insecurity over many years. With renewed peace and security, the financial year 2006/07 budget has prioritised the implementation of the Northern Uganda Recovery and Development Plan which is being developed. For financial

year 2006/07 I have allocated Shs 18 billion for resettlement of Internally Displaced Persons, post-conflict recovery and development of Northern Uganda.

### **Industrial Development**

74) Mr Speaker Sir, energy shortages and inadequate transport infrastructure translate into high costs of production and consequently affect the competitiveness of Uganda's products. In financial year 2006/07, Government's interventions in the industrial and infrastructure sectors are all geared towards addressing these constraints and thereby supporting private sector development. In the industrial sector, the country will focus on export-oriented investments by establishing Economic Processing Zones that support agro-zoning and processing.

75) Mr Speaker Sir, Government will therefore complete and begin implementation of the National Industrialisation Policy. The Namanve Industrial Park and other spatial schemes have been prioritised for completion. Government has allocated Shs 5 billion for the development of the park and a credit of US\$ 30 million has been obtained from the World Bank for its completion. This project will be actively pursued in financial year 2006/07.

76) Standards and capacity for quality assurance will also be improved by enhancing the capacity of the Uganda National Bureau of Standards. This will include the accreditation of

laboratories for standard development and implementation, and quality assurances; continuing Product Certification and monitoring of all imports on the mandatory list at all border entry points.

### **Support to Scientists**

77) Mr. Speaker Sir, Government has prioritised the provision of support to scientists who are undertaking research and innovations related to our production processes. In this regard, I have provided Shs 8 billion towards research in banana development, fruit juice processing, and malaria research. In addition, Government has negotiated a five-year US\$ 30 million project under the Millennium Science Initiative funded by the World Bank, to support research, education and training in science and technology with linkages to the industry. Work on strengthening the Uganda Industrial Research Institute, under this project has already started. This will also entail restructuring of both the Institute through creation of a Technology Development Centre and the Uganda National Council for Science and Technology.

### **Development of Transportation Infrastructure**

#### *Roads*

78) Mr. Speaker Sir, in financial year 2006/07, Government will upgrade to bitumen standard the following roads; Fort Portal – Bundibugyo (73 kilometres), Soroti - Dokolo – Lira (120 kilometres), Atiak –Moyo (93 kilometres), Kampala - Ziobwe –

Wobulenzi (70 kilometres), Matugga – Semuto – Kapeka (42 kilometres), Masaka - Bukakata road (38 kilometres) and Muyembe – Moroto – Kotido road (290 kilometres). In addition to upgrading, Government will strengthen the following key national roads; Kawempe – Kafu (166 kilometres), Kampala – Mbarara, Masaka –Kyotera and Busega –Mityana roads (57 kilometres).

79) Mr. Speaker Sir, as a measure to reduce traffic congestion and improve road safety within Kampala City, Government will undertake the improvement of the key road junctions and roundabouts over the medium term. These are; Clock Tower, Shoprite/Ben Kiwanuka, Kitgum House/Access Road, 6<sup>th</sup> Street/Mukwano Road and Garden city roundabouts. Work has already commenced on Clock Tower roundabout.

80) During the financial year 2006/07, emphasis will be placed on dealing with the backlog of maintenance of paved roads. More attention will also be given to improving district and community access roads and bridges to ease movement of agricultural produce.

81) Mr. Speaker Sir, Government is in the process of creating the Uganda National Road Authority (UNRA), which will come into existence during the first half of financial year 2006/07 as a long-term solution to the problem of national road maintenance. This Authority will eventually be in charge of road maintenance.

Furthermore, as a measure to address the funding problem of road maintenance, Government is working on establishing a Road Fund to mobilize resources through the imposition of appropriate Road User Charges, which will be based on the full maintenance costs of national and district road network as well as the administrative cost of the Fund. Government is studying the modalities for the operation and management of the Fund.

### *Railways*

82) Mr. Speaker Sir, in order to improve transportation to the sea, the Governments of Kenya and Uganda signed a concession agreement in April 2006 with the Rift Valley Railways (RVR) Company. The two Governments were driven by the following common objectives:

- a) Improve rail infrastructure and the quality of service
- b) Enhance the utilization rate of the assets including the reduction of operating costs and tariffs in order to cope with increasing demand and competition from the truck industry, particularly in the Northern Corridor.
- c) Increase market shares for rail in freight traffic by providing reliable service to customers, particularly into and out of Mombasa port.
- d) Foster regional economic integration and growth
- e) Reduce the deterioration of the road network as a result of over-use of heavy commercial trucks.

- 83) The 25-year joint Concession provides for the following:
- a) Core infrastructure and existing assets will remain under the ownership of the respective Governments of Kenya and Uganda.
  - b) The Concession Company will undertake rehabilitation of existing infrastructure and will make new investments of at least US\$18 million.

84) The Uganda Railway concession will enhance the operating efficiency of Uganda's rail infrastructure, which should double the volume of cargo transport within 5 years. Handing over the operation of the two railway systems will take place by the end of July 2006, after which the concessionaire is expected to immediately take over full operation of the active rail system and launch the agreed investment programme.

### **Defence and National Security**

85) Mr Speaker Sir, priorities for the sector in the next financial year will be to increase capacity in Information Communication Technology (ICT). Emphasis will also be placed on combating local and international terrorism through elimination of LRA insurgency, disarmament of the Karamojong and intelligence and research development.

86) The welfare of the army will be improved through the construction of barracks, and the provision and improvement of health facilities in order to increase motivation in the army. Efficiency in the army will also be improved through acquisition of strategic capability, computerisation of financial and human resources management programme, payment of terminal benefits and increased training both locally and abroad. A new command structure and participation in regional and international activities will be implemented.

### **Justice, Law and Order**

87) Mr. Speaker Sir, the sector's commitment to ensure good geographical coverage of the country and equity in service delivery is ongoing through construction of courts, prisons, police stations, and staff accommodation for Police and Prisons, forensic laboratories and regional offices. The Judicial Service Commission has established a public complaints system through which it can receive and quickly process complaints with a view to improved delivery of justice. In addition, 36 courts countrywide were inspected covering Chief Magistrate, Grade I and II magistrates' courts.

88) During financial year 2006/07, Government will build on earlier gains and continue to ensure rationalised physical access and services through de-concentration of Justice, Law, and Order sector institutions. Emphasis will be placed on strengthening

existing initiatives and adaptation of innovative approaches to reduce case backlog and increase levels of case clearance throughout the country.

### **Investment in Social Sectors**

89) Mr. Speaker Sir, Government is committed to providing good quality basic social services to all people especially the most vulnerable, with a view to enable Uganda to achieve the Poverty Eradication Action Plan (PEAP) and the Millennium Development targets. Efficiency and effectiveness of public sector spending will be enhanced so that maximum results are achieved. To this end, Government will ensure the systematic analysis of the social sector budgets and their implementation modalities to ensure efficiency and effectiveness in social service delivery.

90) During the next financial year, Government will continue to commit resources to maintain service delivery in the social sectors. Increased emphasis will be placed on improving the quality of Universal Primary Education, particularly through improving the welfare of primary school teachers. Primary Teachers salaries will be increased from Shs 150,000 to Shs 200,000 per month, with effect from July 1 2006.

91) Universal Post Primary Education and Training (UPPET) will commence in the 2007 School Year, in order to increase access for increasing numbers of pupils who have successfully

completed primary school. UPPET' will cover both secondary education as well as business, technical and vocational education. It will be gradually introduced over the medium term starting with year one entrants from primary seven enrolling in government and government-aided schools. An additional Shs 30 billion has been allocated to cater for tuition and teaching requirements of an estimated 50 percent increase in the year one enrolments.

92) Mr Speaker Sir, in the Health Sector, focus will be placed on health promotion and education for primary health care activities including training for village health and sanitation teams, increased attention to malaria control, and provision of medicines and health supplies for primary health and immunisation.

### **Increasing Public Expenditure Effectiveness**

93) Mr. Speaker Sir, Government will ensure that there is improved efficiency in public expenditure by cutting back on wasteful or duplicative expenditure in sectoral programmes and increasing the share of resources actually being spent on service delivery during budget execution.

94) Government will promote coordination between sectors, to ensure that policy proposals from different sectors are well focused and mutually supportive of one another and avoid the financing of activities through several sectors. Government will

also identify where the private sector could provide certain services more effectively and efficiently than the public sector.

95) Financial management practices will be strengthened through improved monitoring, financial controls and ensuring service delivery units such as health centres and schools deliver improved and timely reporting on the expenditure of funds received.

### **Payroll Management**

96) In financial year 2005/06, Government has undertaken a major payroll cleaning exercise. The objective of the exercise was to ensure that public officers are paid the correct salaries in accordance with their terms of employment and that all invalid records are removed from the payroll. A total of about 4,000 teachers' records and about 2,500 records on the general government payrolls have so far been deleted as at June 2006. This represents an annualized saving of about Shs. 15 billion.

97) Mr Speaker Sir, I wish to reiterate that payroll malpractices will not be tolerated. Accounting officers will henceforth be held responsible for any anomalies that will be found on their respective payrolls. Accounting Officers will be surcharged and also have their non-wage provisions reduced by the amounts of the discrepancy.

## **CONSTITUTIONAL SELF-ACCOUNTING BODIES**

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

1. Courts of Judicature
2. Electoral Commission
3. Inspectorate of Government
4. Parliamentary Commission
5. Uganda Law Reform Commission
6. Uganda Human Rights Commission
7. Uganda Aids Commission
8. National Planning Authority

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

100) 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.

### **SCHEDULE OF INDEBTEDNESS**

101) 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 31<sup>st</sup> March, 2006; and
- (ii) the grants that Government received during financial year 2005/06.

102) With respect to Section 13 (3) of the same Act, Government guaranteed a loan of US\$ 5.5 million to the Uganda Development Bank Ltd. during financial year 2005/06.

103) 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.

## REVENUE AND TAX MEASURES FOR FY 2006/07

### Revenue Outlook for Financial Year 2006/07

104) The provisional URA revenue outturn for financial year 2005/06 is Shs 2,212.6 billion against a target of Shs 2,230.2 billion. The shortfall of Shs 18 billion is attributed to the current power crisis, which was slowed down growth and reduced business profitability. Total domestic collections for the financial year 2006/07 are projected at Shs 2,566.88 billion, of which URA collections are projected at Shs 2,524.9 billion and non-URA revenue at Shs 41.9 billion. Revenue collections include new measures that will raise Shs 50.5 billion

105) Mr. Speaker Sir, may I now turn to a few vital tax issues for the financial year 2006/07 Budget. The full details are contained in the amendments to the tax laws.

#### *Incentives to Capital Markets*

106) Mr. Speaker Sir, I am proposing to reduce withholding tax on dividends distributed by companies listed on the stock exchange from 15 percent to 10 percent and exempt the income of the investor compensation fund. This measure is to encourage savings, promote capital markets and harmonize the withholding tax rates on dividends within the East African Community.

## **Value Added Tax**

### *Exempt supplies*

107) Mr. Speaker Sir, I am proposing to exempt Value Added Tax on Liquid Petrol Gas (LPG) to increase its affordability given its use as an alternate source for lighting and cooking.

### *Exempt and Zero-rated VAT Schedules*

108) Mr. Speaker Sir, I am proposing to exempt Value Added Tax on contraceptives sheaths and acaricides to promote the use of condoms in the fight against HIV/AIDS and to promote animal husbandry, respectively.

## **Income Tax**

### *Withholding Tax*

109) Mr. Speaker Sir, the Government withholds 6 percent on payment for goods and services of Shs 1 million or more from suppliers but there is no legal requirement for private companies to do so. I am therefore proposing to widen the scope of withholding agents to include beer manufacturers, soft drinks bottlers, banks, petroleum, telecommunication, insurance, and construction companies. However, the 6 percent withholding tax will not apply to suppliers whose tax affairs are up to date. This measure is expected to generate Shs 6.4 billion.

*Withholding tax as a final tax on Treasury Bills*

110) Mr. Speaker Sir, I am proposing to introduce a final withholding tax of 15 percent on gross interest received from purchases of Government securities. This measure is expected to generate Shs 13.2 billion.

**Excise Duties**

111) Mr. Speaker Sir, I am proposing the following changes in the excise duty regime:

- i) Increase duty on non-malt beer from 20 percent to 30 percent. This policy is expected to generate Shs 4.3 billion.
- ii) Impose a 10 percent duty on bottled water. This measure is expected to generate Shs 1.7 billion.
- iii) Impose a specific rate of Shs 500/- per 50Kgs bag of cement. This measure is expected to generate Shs 7.6 billion.
- iv) Impose 5 percent duty on landlines and public pay phones. This measure is expected to generate Shs 2.9 billion.

**Environmentally hazardous used goods**

112) Mr. Speaker Sir, in the June 2004 Budget Speech, I announced that Government would initiate measures to minimize importation of used goods. I am therefore proposing to introduce a 10 percent environmental levy on motor vehicles, excluding

goods vehicles, aged 8 years and above, and a specific rate of between Shs 20,000 - 50,000 on household appliances. This measure is expected to generate Shs 4.6 billion.

### **Traffic Fees and Licenses**

113) Mr. Speaker Sir, I am proposing to increase traffic fees and licenses on motor vehicles other than commercial ones, upwards by 5 percent. The measure is expected to generate Shs 3.3 billion

### **Tax Administration**

114) Mr. Speaker Sir, I intend to press ahead with the reforms in URA to strengthen its performance to ensure improved services to taxpayers, encourage compliance and deter evasion through quality audits.

### **Non-Tax Revenues**

115) I am proposing that rates of Non Tax Revenues collected by the ministries be revised upwards by an average of 20 percent. This measure will generate Shs 5.2 billion.

### **Work Permits**

116) Mr. Speaker Sir, I am proposing to increase fees on work permits for foreign employees from Shs 135,000/- to US\$ 1,000. This measure is expected to generate Shs 2.4 billion.

### **East African Community Issues**

117) The implementation of the East African Customs Union (EACU), which commenced on 1st February 2005, is progressing well. In accordance with the Program for the Elimination of Internal Tariffs, the duty imposed on selected goods from Kenya has been reduced from 10 percent to 8 percent.

118) Mr. Speaker Sir, pre-budget consultations of East African Community Ministers of Finance in Arusha reviewed the implementation of the Customs Union Common External Tarrif. Accordingly, a number of changes to the Common External Tariff were proposed. One of the most outstanding proposals was to exempt from import duty energy saving appliances in response to the current power crisis.

119) Mr. Speaker Sir, all these measures announced will take effect from 1<sup>st</sup> July 2006.

### **Tax Expenditure**

120) Mr. Speaker Sir, pursuant to Article 152 Clause (2) of the Constitution, I wish to report that from July 1, 2005 to date I did not exercise powers conferred by any law to waive or vary a tax. However, Government paid taxes amounting to Shs 18.65 billion for hotel developers, higher level education institutions, Non-governmental organizations and some enterprises. Mr. Speaker

Sir, I hereby lay the details of taxes aid by Government before this august House.

### **Arrears on Government Procurement**

121) Mr. Speaker Sir, Government has accumulated a tax liability to the tune of about Shs 120 billion arising from commitments to pay tax on donor-funded NGO projects. The tax arrears are a result of budgetary constraints and failure of Ministries to honor their obligations. I am therefore proposing to write off the tax arrears except PAYE and withholding taxes. I am also instituting a new tax payment mechanism to be managed by the Accountant General and Bank of Uganda.

### **Double Tax Agreements**

122) Mr. Speaker Sir, Government of Uganda and the Government of the Kingdom of Netherlands concluded an agreement for the elimination of double taxation agreement and the prevention of fiscal evasion. The purpose of this agreement is to reduce tax impediments to cross border trade and investment and assisting tax administration in information sharing. The Government of the Kingdom of Netherlands finalized the ratification process. The Government of Uganda is required, under the Ratification of Treaties Act, to table to Cabinet for approval and lay it before Parliament. Mr. Speaker Sir, permit me to lay before the House the agreement for ratification in accordance with the Act.

## CONCLUSION

123) Mr. Speaker Sir, the financial year 2006/07 budget is providing resources for the implementation of the manifesto of the NRM government. The vision of this government is that all households should have the minimum income to meet the basic needs of life. We hope to achieve this by transforming households in traditional subsistence production into modern farmers, providing financial services and other economic institutions. This vision will be achieved through budget interventions such as those I have presented today.

124) Mr Speaker Sir, as we come out of the energy crisis and as our resource base grows, we shall be able to increase the allocations to improve the conditions of the poor by increasing and improving employment opportunities for all. Because Boona Bagagawale means Boona Bakole. Income for all means employment for all.

125) The preparation of this budget has been particularly challenging as the funding constraint for the financial year 2006/07 has been much more severe than in previous years on account of the need to implement the strategic priorities I have outlined and manage the Power crisis. Government has had to make hard choices in allocating resources to high priority areas and identifying efficiency savings in non-priority areas to fund these expenditure priorities. I believe that these choices will

maximise the national welfare. They will focus expenditure on the strategic priorities necessary for accelerating economic growth and development in Uganda.

126) Mr. Speaker Sir, I humbly commend this budget to you and to all Honourable Members. I beg to move.

**FOR GOD AND MY COUNTRY**

## **Annexes**

1. The Medium Term Budget Framework FY 2006/07 – 2008/09
2. Summary of Estimates of Revenue for FY 2005/06 and 2006/07
3. Medium Term Expenditure Framework FY 2005/06 – 2008/09
4. Poverty Action Fund Resources and Expenditures FY 2005/06 – 2008/09
5. Summary of Statutory Charges on the Consolidated Fund, FY 2006/07 – 2008/09
6. Expenditure Ceilings by Vote/Grant
7. Central Government Transfers to Local Governments (Recurrent and Development), FY 2005/06