



THE REPUBLIC OF UGANDA

DIRECTORATE OF ECONOMIC AFFAIRS

**Annual Economic Affairs Performance Report, Financial
Year 2008/09**

February 2009

**Ministry of Finance, Planning and Economic Development P.O Box
8147, Kampala Uganda**

Foreword

The 2008/09 Economic Affairs Performance Report covers a range of economic indicators, sectors and government actions of the five key areas of: Macroeconomic Policy Management; Resource Mobilization to finance the government budget; Investment and Private Sector Promotion; Economic Development Policy and Research; and Microfinance Policies and Programs. The closing year data for 2008/09 is incorporated and is to be considered the outturn for the year that will not be revised. In most cases, the 2008/09 year data is contrasted against information from prior years to give a sense of trend or a change in direction. The objective is to provide a comprehensive snapshot of the Ugandan economy as well as the government actions undertaken to achieve economic objectives that were set at the beginning of the reference year.

We hope that readers find this report useful as a source of data and information on the economy. Comments that are aimed at improving the quality of our future publications are very much welcome.

L.K. Kiiza
Director, Economic Affairs

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List of Abbreviations and Acronyms

AMFIU	Association of Microfinance Institutions of Uganda
APIR	Annual Policy Implementation Review
APRM	African Peer Review Mechanism
ASYCUDA	Automated Systems for Customs Data
Bns	Billions
BOU	Bank of Uganda
C.I.F	Cost, Insurance and Freight
CICS	Competitiveness and Investment Climate Strategy
COMESA	Common Market for Eastern and Southern Africa
DP	Development Partners
DPNs	Deferred Payment Notices
DTA	Double Taxation Agreements
EAC	East African Community
EPA	Economic Partnership Agreement
FEW	Financial Extension Workers
GDP	Gross Domestic Product
GOAR	Government Analysis Outlays Report
GOU	Government of Uganda
IFAD	International Fund for Agricultural Development
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MDAs	Ministries, Departments and Agencies
MDI	Microfinance Deposit Taking Institutions
MDRI	Multilateral Debt Relief Initiative
MFPEd	Ministry of Finance, Planning and Economic Development
MOUs	Memorandum of Understanding
MRA	Microfinance Regulatory Authority
MSCL	Microfinance Support Centre Limited
MSMEs	Medium, Small and Micro Enterprises
NDP	National Development Plan
NEC	National Enterprise Corporation
NFA	Net Foreign Assets
NTR	Non-Tax Revenue
ODA	Overseas Development Programme
PIP	Public Investment Plan
PIRT	Presidential Investor's Round Table
PMT	Performance Monitoring Tool
PRDP	Peace and Recovery Development Programme
RECs	Regional Economic Communities
RFSP-PAU	Rural Financial Services Programme – Project Analysis Unit
SACCOs	Savings and Credit Co-operative Organisation
SADC	Southern African Development Community
TIN	Tax Identification Number
TPD	Tax Policy Department
UCSCU	Uganda Cooperative Savings and Credit Union Ltd
URI	Uganda Industrial Research Institute
URA	Uganda Revenue Authority
VAT	Value Added Tax

1.0 Introduction

This report focuses on five key areas through which the Directorate of Economic Affairs contributes to the Ministry's mission. These are Macroeconomic Policy Management, Resource Mobilization (Domestic revenues and Foreign Aid), Investment and Private Sector Promotion, Economic Development Policy and Research and Microfinance Policies and Programmes. A key objective of the directorate is to achieve sustained and broad-based economic growth which is essential for the reduction and eventual elimination of extreme poverty. To do this, the Directorate's main task is to formulate and implement fiscal policies that balance maintaining economic stability and growth without necessarily sacrificing goals relating to poverty reduction or income distribution.

This report sets out the progress made in the 2008-09 Financial Year on the delivery of set performance objectives in the five areas.

Macroeconomic policy management

The strategic objective in this area was to maintain macroeconomic stability, including sound fiscal policy, which is essential for sustainable economic growth. The aim for the year was to strengthen the foundations for growth by keeping inflation low, maintaining stable financial markets and smooth balance of payments adjustments.

Resource Mobilisation to Finance the Government Budget

There were two main objectives in this area

- (i) To enhance domestic revenue mobilization by developing tax reforms to improve tax to GDP ratio by 0.3? percentage points and providing a tax system conducive to investment to enhance growth. A further objective was to orientate tax policies to the long-term vision for Uganda to be fully and effectively integrated into the regional and global economy.
- (ii) Formulation of external aid management policies, coordination and mobilization of external resources for effective external financing.

Promotion of the delivery of financial services through appropriate microfinance policies and programs

The performance objective was to ensure delivery of affordable financial services to all Ugandans in a sustainable manner through the formulation of;

- policies aimed at promoting long term programmes for the Microfinance sector that are geared towards poverty eradication
- government programmes for expansion of microfinance outreach in Uganda
- a regulatory and supervisory framework for the Microfinance industry

These would be in addition to coordination of capacity building priorities for the Microfinance industry in Uganda and overseeing the implementation of the government microfinance programme and projects.

Investment and Private Sector Promotion

The performance objective in this regard was to improve the domestic business environment and the competitiveness of the country's key productive sectors in order to enhance the country's international competitiveness.

To achieve these objectives, the aim for the year was to spearhead the initiation, coordination and generation of appropriate investment and private sector policies for private sector competitiveness

Economic Development Policy Research and Monitoring

The goal in this area was to generate and apply evidence-based analyses for informing Government decision-making on economic development policy and national development. In this regard, the directorate's objective was also to coordinate and promote development policy and research.

Structure of the report

Section 1 is the introduction of the Report highlighting the priority areas the directorate is charged with.

Section 2, examines macroeconomic policy management performance during the year and focuses on the real sector, inflation, fiscal performance, monetary developments and the external sector.

Section 3, reviews performance regarding resource mobilization (domestic & external) to finance the Government Budget,

Section 4 focuses on government actions meant to promote private investment particularly in strategic sectors as well as progress made in regard to microfinance policies and programs.

Section 5 presents international/regional economic perspectives, particularly progress made regarding greater regional integration during the year. Conclusions are made in **Section 6**.

2.0 Macroeconomic Policy Management Performance

Despite the global economic crisis, macroeconomic performance during the financial year was impressive, particularly when compared to performance in other low-income countries in Africa. This reflects the resilience of the Ugandan economy and the appropriate macroeconomic policy responses undertaken during the year and in previous years. The set macroeconomic objectives for the financial year 2008/09 were;

- Maintaining low levels of inflation, at no more than 5% per annum,
- Ensure an annual Gross Domestic Product (GDP) growth rate of at least 8% in real terms,
- Ensuring a competitive exchange rate that is supportive of the export sector, and,
- Maintaining adequate foreign reserves,

Despite the good macroeconomic performance, some of the macroeconomic targets set at the beginning of the year were not met partly due to the effects of the global economic crisis.

2.1 Economic Growth

In this report, Real GDP refers to real estimates of gross domestic product measured in Constant (2002) Uganda Shillings. Real GDP is an inflation adjusted measure of the gross product that is based on current prices for the goods and services produced within the country in any particular year.

Table 1: Gross Domestic Product (2004/5 – 2008/09)

Year	GDP (Shs bn) (current prices) market prices	Nominal Growth rate	GDP (Shs bn) (constant prices) market prices	Real Growth Rate	Population	Per capita GDP (constant prices)	
						(Shs)	US \$
2004/05	16,026		13,897	6.3	26,741,300	519,683.04	299.06
2005/06	18,172	13.39	15,396	10.8	27,629,300	557,234.53	305.32
2006/07	21,187	16.59	16,685	8.4	28,581,300	583,773.31	327.96
2007/08	24,497	15.62	18,145	8.8	29,592,600	613,160.05	361.43
2008/09	29,972	22.34	19,426	7.1	30,661,400	633,565.33	328.20

Source: Uganda Bureau of Statistics (UBOS), Databases.

The global economic crisis affected growth mainly by reducing aggregate demand in markets for Uganda's traditional exports, tightening of liquidity conditions and a slowdown in the construction sector.

As a policy response to the global economic crisis, the government undertook to fully execute the 2008/09 budget which included significant increases in infrastructure development expenditures. However the full impact of the intended fiscal stimulus was not achieved as implementing agencies faced absorption capacity constraints. In part, this explains the slowdown in the pace of economic activity in 2008/09 with Real GDP (market prices) growing at 7.1 percent compared to a set target of 8 percent (Figure 2). However this growth rate was still high by regional and world standards. Prior to the global economic crisis, Real GDP growth was impressive averaging about 8.6 percent per annum between 2004/5 and 2007/08 (Table 1).

Figure 1: The difference between Nominal Gross Domestic Product and Real Gross Domestic Product and their components.

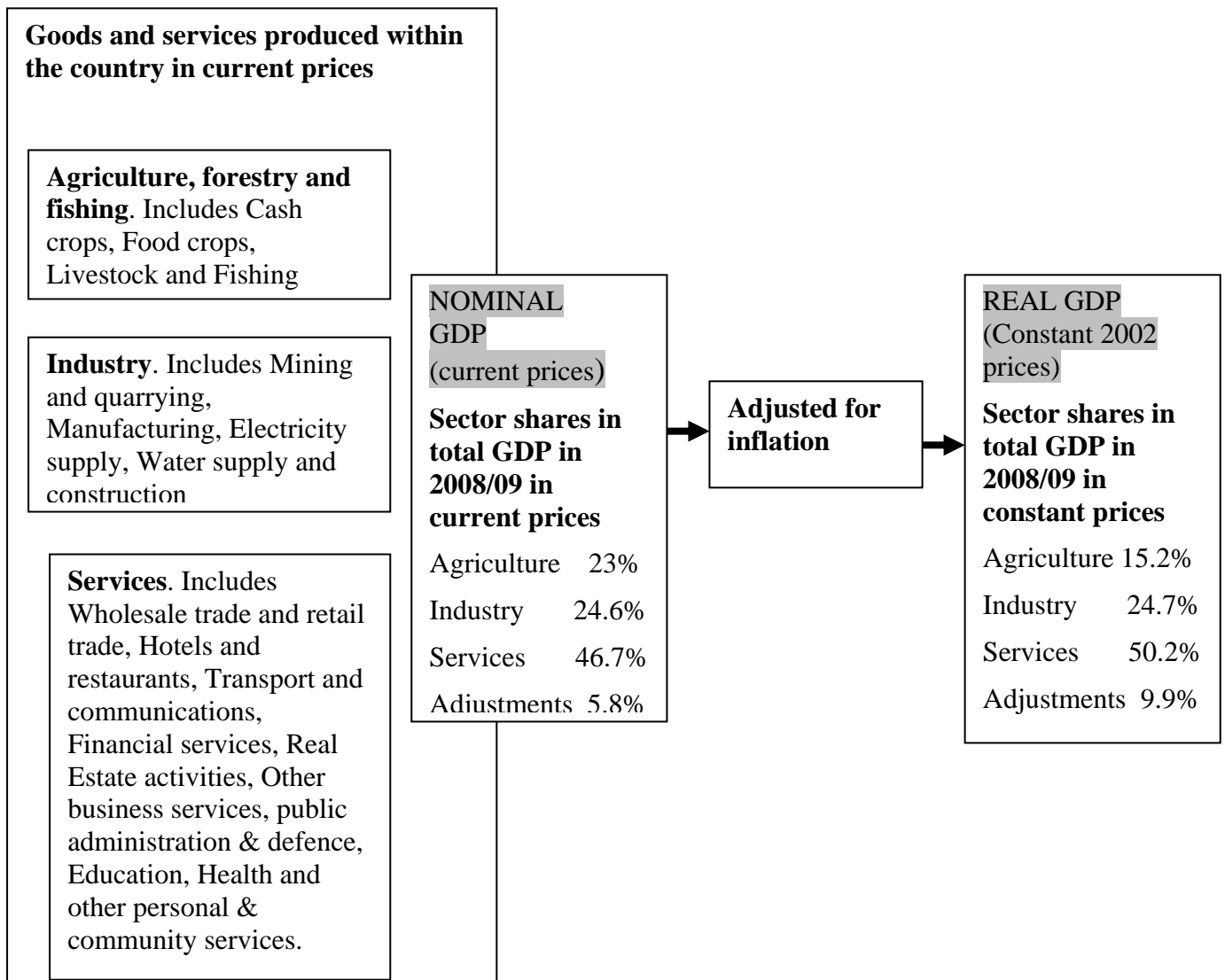
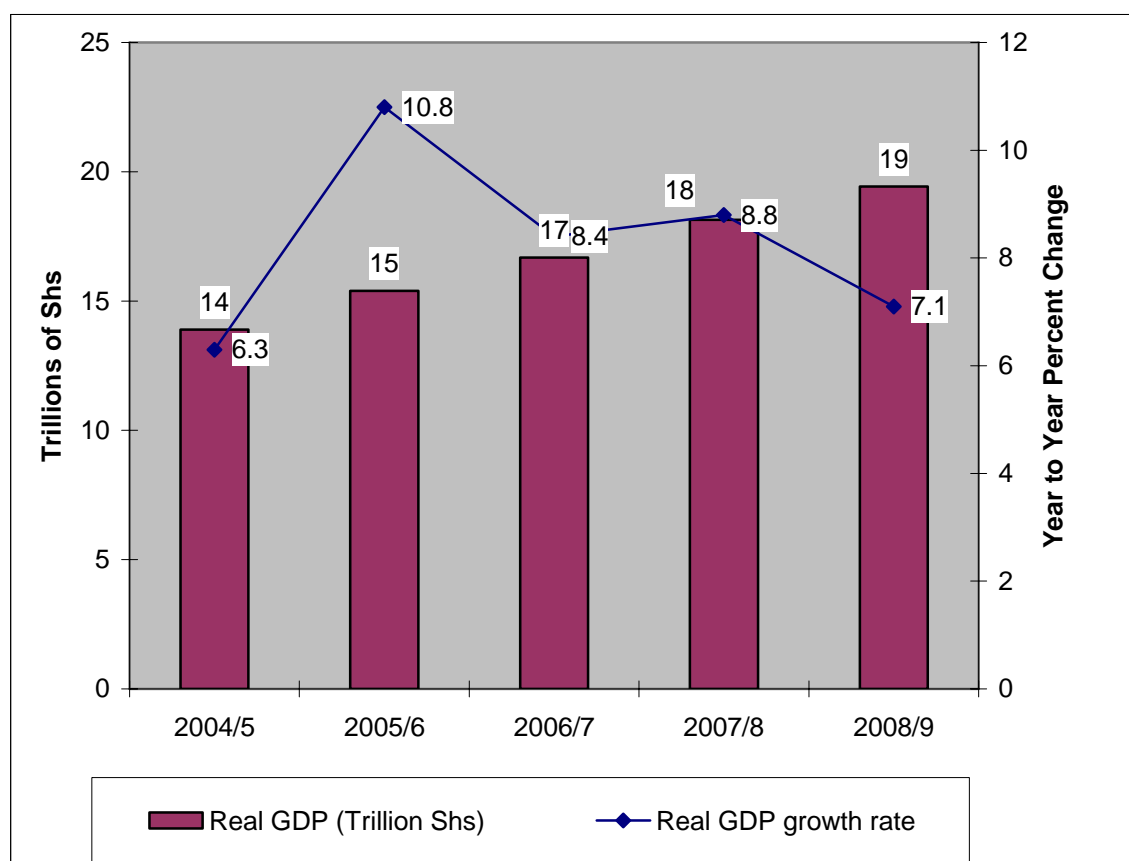


Figure 2: Year to Year Real GDP Percentage Change



The relatively high real GDP growth rate during an economic crisis year was mainly due to the good performances in the food and forestry subsectors which facilitated a recovery in the agricultural sector. The agricultural sector grew at 3.4% in 2008/09 compared to 1.3% the previous year. In addition there were good performances in the manufacturing and water supply in the industrial sector as well as wholesale and retail trade¹, hotels and restaurants, transport and communications (particularly posts and telecommunications) in the services sector (see Table 2).

Despite the recovery in the agricultural sector, the share of agriculture in total real GDP continued to decrease reaching 15.2% compared to 15.8% in the previous year. The share of the Industrial sector slightly decreased to 24.7% compared to 25.1% in 2007/08, while the share of the services sector continued to increase from 49.9% in 2007/08 to 50.2% in 2008/09.

¹ Even though the growth rate for wholesale and retail trade was 9.4% compared to 14.7% achieved the previous year. Wholesale and retail trade has a relatively big share in GDP which was 14.1 percent in 2008/09.

Table 2: GDP by Economic Activity in Constant 2002 prices.

Percentage change, Fiscal years					
	2004/05	2005/06	2006/07	2007/08	2008/09
Total GDP at market prices	6.3	10.8	8.4	8.7	7.1
Agriculture, forestry and fishing	2.0	0.5	0.1	1.3	3.4
Cash crops	-5.5	-10.6	5.4	9.0	5.6
Food crops	-0.2	-0.1	-0.9	2.4	2.9
Livestock	3.0	1.6	3.0	3.0	3.0
Forestry	6.5	4.1	2.0	2.8	6.3
Fishing	13.5	5.6	-3.0	-11.8	-0.1
Industry	11.6	14.7	9.6	8.8	5.1
Mining & quarrying	27.2	6.1	19.4	3.0	4.7
Manufacturing	9.5	7.3	5.6	7.3	9.0
Electricity supply	2.1	-6.5	-4.0	5.4	1.5
Water supply	3.9	2.4	3.5	3.8	5.7
Construction	14.9	23.2	13.2	10.5	3.7
Services	6.2	12.2	8.0	9.7	7.6
Wholesale & retail trade; repairs	7.2	12.3	10.4	14.7	9.4
Hotels & restaurants	6.5	8.7	11.3	10.7	11.9
Transport & communications	9.8	17.1	17.7	21.3	19.6
Road, rail & water transport	6.7	12.8	9.5	20.8	12.4
Air transport and support services	19.4	6.9	13.8	17.8	-3.6
Posts and telecommunication	11.8	26.2	29.1	22.6	32.2
Financial services	13.0	31.7	-11.9	17.1	12.5
Real estate activities	5.5	5.6	5.6	5.6	5.7
Other business services	9.2	12.5	8.0	10.8	12.3
Public administration & defence	-5.4	15.8	-6.3	12.1	-20.9
Education	4.4	9.4	10.6	-6.5	1.4
Health services	5.6	12.9	2.7	-4.8	5.1
	15.0	14.1	13.4	12.8	12.3
	3.4	17.6	27.9	17.5	15.7
FISIM	39.2	34.2	-13.8	15.9	9.4
Taxes on products	6.7	19.5	22.3	17.3	15.1

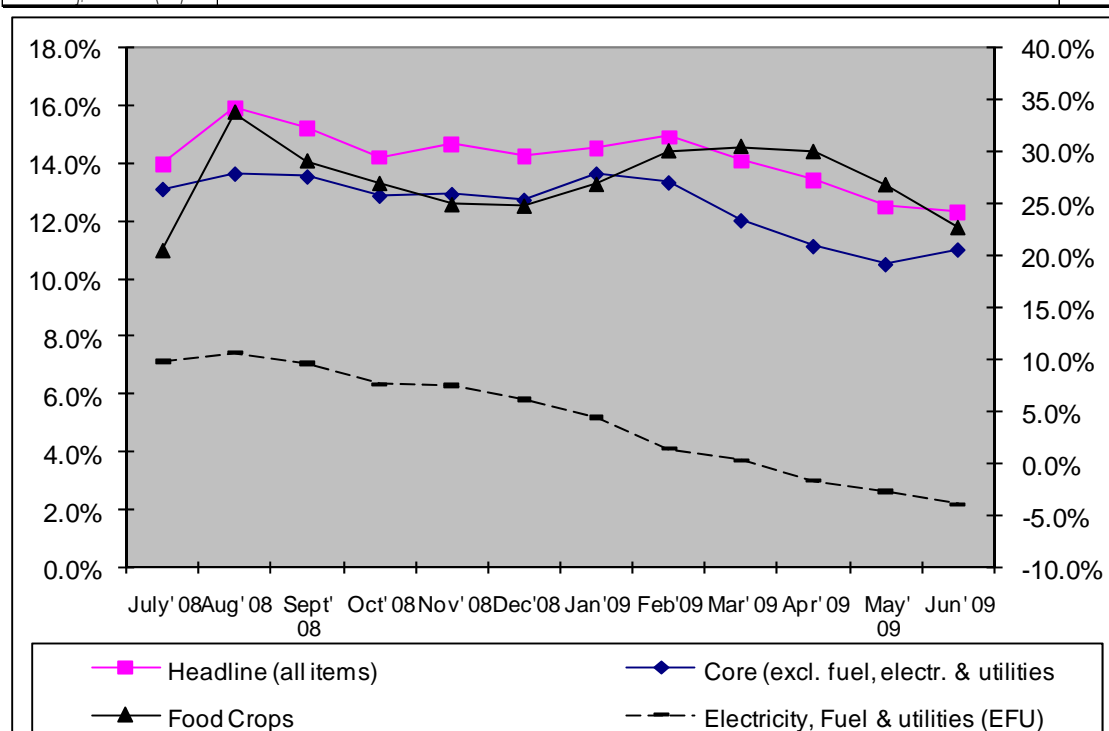
Source: Uganda Bureau of Statistics (UBOS) databases.

2.2 Inflation

Inflationary pressures during the year were driven largely by the increase in regional food demand, international fuel prices and exchange rate depreciation. This resulted in the inflation rate reaching double digits after a long period of low inflation. The annual headline inflation rate for the financial year 2008/09 almost doubled to 14.1 percent from 7.4 percent recorded in previous year 2007/08. However the headline inflation rate dropped from 14.9 percent in February to 12.3 percent in June 2009, reflecting lower fuel prices. Nevertheless, it remained in double digits.

Table 3: Annual Percentages Changes: July 2008 – June 2009

	July'08	Aug'08	Sept'08	Oct'08	Nov'08	Dec'08	Jan'09	Feb'09	Mar'09	Apr'09	May'09	Jun'09	Average
Headline (all items)	13.9%	15.9%	15.2%	14.2%	14.7%	14.2%	14.5%	14.9%	14.1%	13.4%	12.5%	12.30%	14.1%
Core (excl. fuel, electr. & utilities)	13.1%	13.6%	13.5%	12.8%	12.9%	12.7%	13.6%	13.3%	12.0%	11.1%	10.5%	11.0%	12.5%
Food Crops	20.5%	33.7%	29.0%	26.9%	24.9%	24.7%	26.8%	30.0%	30.4%	29.9%	26.8%	22.7%	27.2%
Electricity, Fuel & utilities (EFU)	9.8%	10.6%	9.6%	7.6%	7.5%	6.2%	4.4%	1.4%	0.3%	-1.6%	-2.7%	-3.9%	4.1%



Source: Uganda Bureau of Statistics, Consumer Price Index, November 2009

Notes:

Primary Axis: Headline Inflation

Secondary Axis: Food crops, Core and Electricity, Fuels and Utilities inflation.

The annual average core² inflation for the year 2008/09 was 12.5 percent, 4.5 percentage points higher than the average for the previous year. This was largely due

²Core inflation excludes food crops, electricity, fuel and utilities.

to the pass through of the sharp nominal depreciation of the exchange rate to domestic prices during the year.

Going forward, the government will continue to pursue its long objective of reducing core inflation towards the long-term goal of 5 percent.

2.3 Fiscal Performance

Fiscal performance at a macroeconomic level was below projected levels. Both revenues and overall expenditures underperformed relative to targets. Tax revenues underperformed with the tax to GDP ratio falling from 12.9% to 12.2 % and as such did not meet the targeted expansion for the financial year 2008/09 (see details in section 3.0). Total expenditures fell short of the projected amount by 3.3 percent of GDP mainly because of shortfalls in development expenditures in domestically financed and donor funded projects. The underperformance in total government expenditure was due to lower than expected disbursements by donors (donor aid-financed projects), poor revenue performance as well as absorption capacity problems in implementing agencies. Ministries, Departments and Agencies (MDAs) were slow in in adapting to the newly introduced budgeting systems, which included the need for work and procurement plans before budget funds are disbursed.. It is expected that as implementing agencies begin to internalize the new budgeting systems, absorptive capacity problems will be minimized. In the final analysis, the fiscal deficit excluding grants was smaller than projected at -4.6 percent compared to the projected -7.2% of GDP (see table 4).

Table 4: Trends in Major Fiscal Aggregates

	2007/08		2008/09		2007/08		2008/09	
	Proj.	Outturn	Proj.	Outturn	Proj.	Outturn	Proj.	Outturn
RESOURCE ENVELOPE (billion Shillings)	(Billions of Shillings)				(Percentage of GDP)			
A. Domestic Resources	3189.7	3246.8	3979.6	3786.6	13.0	13.3	13.3	12.6
Tax Revenue	3076.1	3161.1	3850.7	3662.3	12.6	12.9	12.8	12.2
Non-Tax Revenue	113.6	85.7	128.9	124.3	0.5	0.3	0.4	0.4
o/w own collection	38.8	10.3	57.2	61.2	0.2	0.0	0.2	0.2
o/w URA	30.6	30.7	36.4	34.6	0.1	0.1	0.1	0.1
o/w MDRI	44.2	44.7	35.3	28.4	0.2	0.2	0.1	0.1
B. Donor Grants	995.9	662.7	1206.8	788.3	4.1	2.7	4.0	2.6
Budget Support Grants	512.6	475.2	484.0	530.9	2.1	1.9	1.6	1.8
Project Support Grants	483.3	187.5	722.8	257.4	2.0	0.8	2.4	0.9
C. Total Revenue and Grants	4185.7	3909.5	5186.4	4574.9	17.1	16.0	17.3	15.3
D. Total Government Expenditure	4734.4	4386.2	6148.5	5159.0	19.3	17.9	20.5	17.2
Recurrent Expenditures	2720.3	2884.7	3116.6	3291.9	11.1	11.8	10.4	11.0
Development Expenditures	1904.9	1380.3	2727.7	1641.0	7.8	5.6	9.1	5.5
Net lending & Investment	-170.8	-162.9	4.3	-56.7	-0.7	-0.7	0.0	-0.2
Domestic Arrears	280.0	284.1	300.0	282.8	1.1	1.2	1.0	0.9
E. Fiscal Deficit								
Excluding grants	-1544.7	-1139.4	-2168.9	-1372.4	-6.3	-4.7	-7.2	-4.6
Including Grants	-548.7	-476.7	-962.1	-584.1	-2.2	-1.9	-3.2	-1.9
F. Financing	548.7	476.7	962.1	584.1	2.2	1.9	3.2	1.9
External Financing net	759.7	566.2	642.3	548.6	3.1	2.3	2.1	1.8
Budget Support Loans	198.8	211.1	176.7	232.8	0.8	0.9	0.6	0.8
Project Support Loans	717.6	494.8	586.1	466.3	2.9	2.0	2.0	1.6
Domestic financing (net)	-211.0	-234.6	319.7	-94.0	-0.9	-1.0	1.1	-0.3
G. Errors & Omissions	0.0	145.1	0.0	129.6	0.0	0.6	0.0	0.4
memo items								
Nominal GDP (billions of shillings)		24497.4		29971.8				

Source: Macroeconomic Policy Department, Ministry of Finance, Planning and Economic Development Databases

2.4 Monetary Developments

Table 5: Monetary Sector Growth 07/08 – 08/09 in UGX Bn

	Jun 2007	Jun 2008	Jun 2009	07/08	08/09
Net Foreign Assets	3835.39	5090.74	5708.7	32.73%	12.14%
Domestic Credit	1116.36	1913.60	2974.8	71.41%	55.46%
Claims on Central Government (net)	-731.55	-946.62	-717.2	29.40%	-24.24%
Claims on Parastatals (crop fin, barter)	34.64	29.63	37.3	-14.47%	25.80%
Claims on Local Government	0.35	0.09	0.0	-72.77%	-56.45%
Claims on the Private Sector	1812.93	2830.50	3654.6	56.13%	29.12%
Broad Money - M3	3842.02	5062.87	6297.6	31.78%	24.39%
Broad Money - M2	2993.90	3901.65	4920.70	30.32%	26.12%

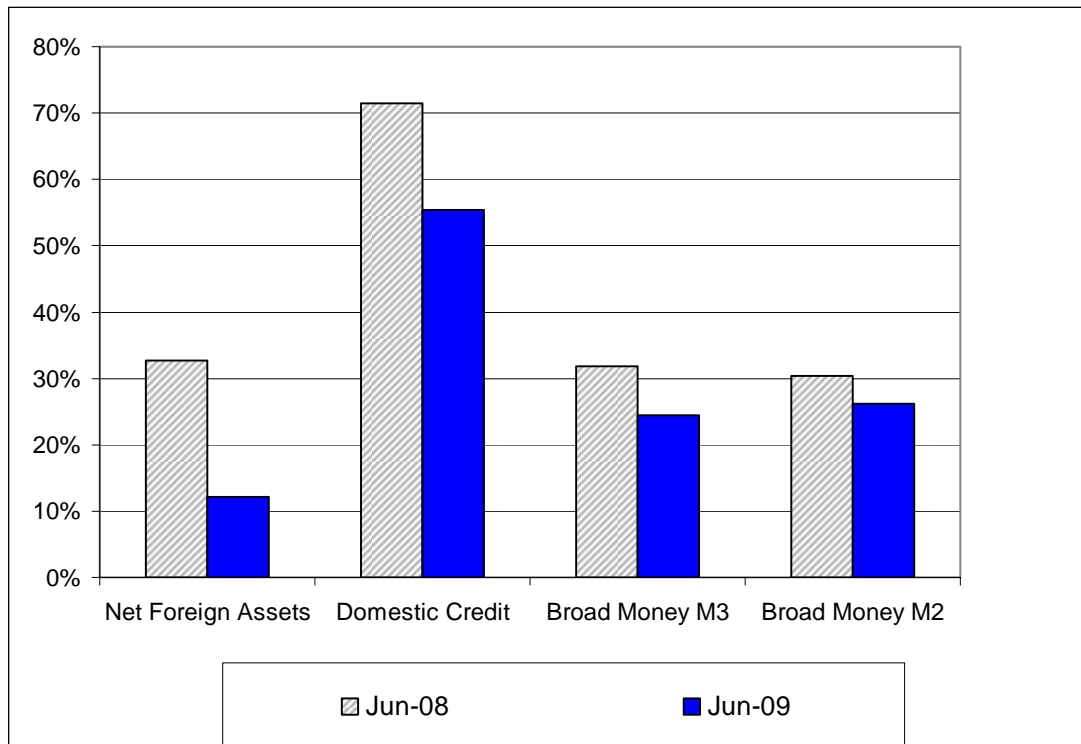
Source: Bank of Uganda Monetary Survey

In the financial year 2008/09 Net Foreign Asset³ (NFA) grew by 12.1% representing Shs 617.95 billion compared to a 32.7% growth of assets amounting to Shs 1255.3 billion in 2007/08. Despite the lower rate of growth realized in 2008/09, NFA increased to Shs 5708.7 by end June 2009 from Shs 5090.74 in June 2008. Foreign reserves rose to Shs 5040.7 billion at end June 2009 from 4347.3 in June 2008 indicating a 15.9% increase in 2008/09 but which is approximately fifty percent less than the 30.87% increase in the financial year 2007/08. Table 5 above indicates major developments in the monetary sector.

In monetary terms, domestic credit grew to Shs 2974 .8 at end June 2008/09 against Shs 1913.6 at end June 2007/08. This indicates a 55.5% increase amounting to Shs1061.19 billion by end June 2009 compared to a 71.4% increase in June 2008 amounting to Shs 797.24 billion. Credit to Government fell from 29.4% in 2007/08 to 24.2% in 2008/09. Credit to Parastatals increased from 14.5% in 2007/2008 to 25.8% in 2008/09 while credit to the private sector fell from 56.1% in 2007/08 to 29.1% in 2008/09. Credit to other sectors of the economy other than the above mentioned also fell from 56.1% in 2007/2008 to 33.7% in 2008/09. Growth in credit slowed down in 2008/2009 due to the fear of losses by banks arising from the economic crisis during the period under review. However, despite the crisis the private sector still remains the highest borrower (see Table 5, figures 3 and 4).

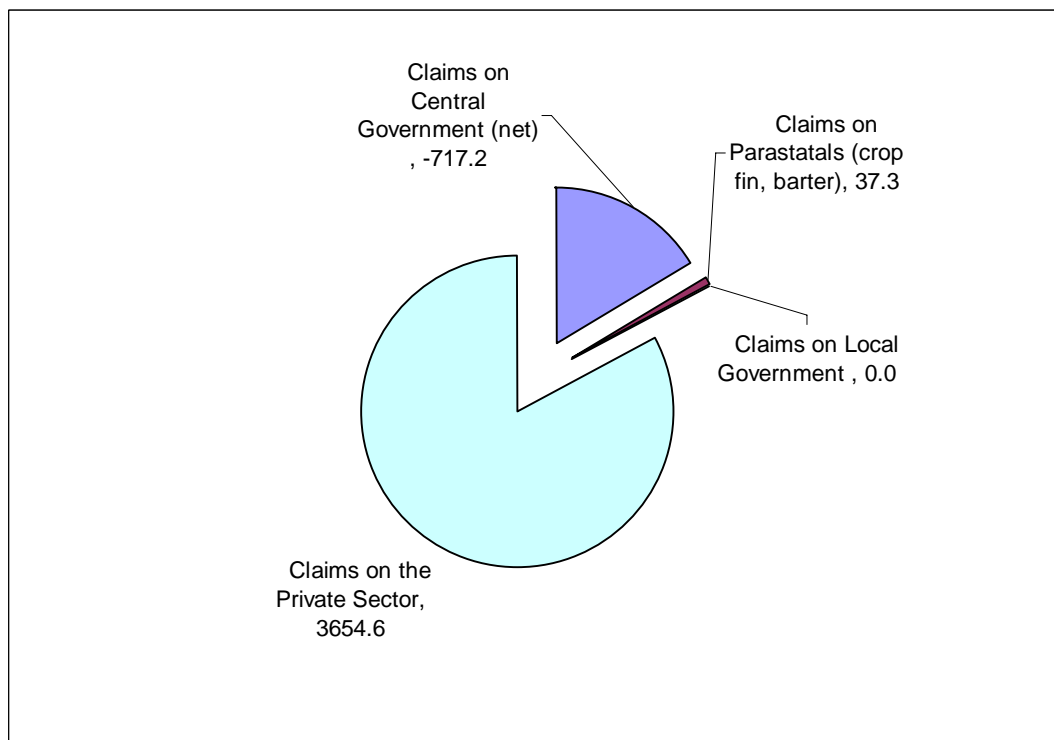
³ NFA represents the net foreign assets held by the central bank and depository Corporations (Commercial Banks).It shows the total of "Claims on Nonresidents" minus "Liabilities to Nonresidents" of the central Bank and "Claims on Nonresidents" minus "Liabilities to Nonresidents" of depository corporations

Figure 3: Percentage changes in NFA, Domestic Credit and Money, 07/08 -08/09



Source: Bank of Uganda Monetary Survey

Figure 4: Domestic Credit June 2009 (Shs bn)

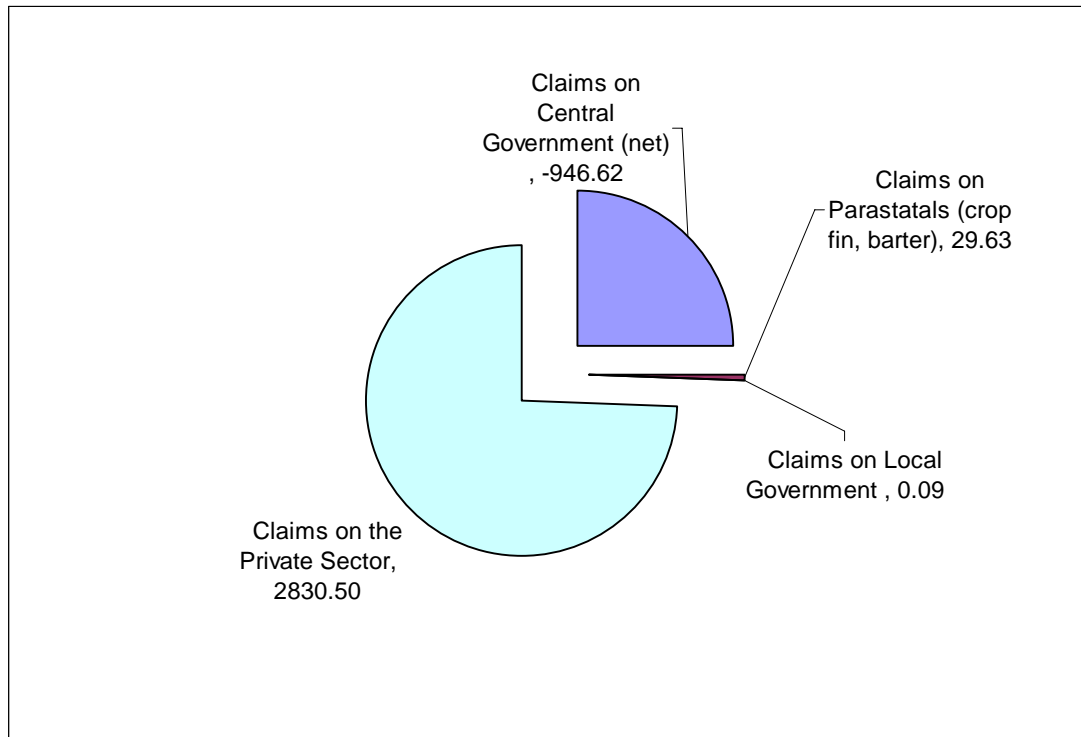


Source: Bank of Uganda Monetary Survey

Despite the fact that NFA, domestic credit and money supply increased in monetary terms in 2008/2009 compared to 2007/2008, there was a slowdown in the growth rates

of these economic indicators in 2008/2009 compared to 2007/2008 as shown in Figure 3 and Table 5. This is attributed to the indirect effects of the global financial crisis⁴. In addition, a fall in these economic indicators has partly been reflected in the slowdown in the growth of the economy with the rate of economic growth (GDP at factor cost) falling from 7.9% in 2007/08 to 6.2% in 2008/09.

Figure 5: Domestic Credit June 2008 (Shs bn)



Source: Bank of Uganda Monetary Survey

Money supply (M3) by end June 2009 grew to Shs 6927.6 billion compared to Shs 5062.87 billion in June 2008. However the rate of growth in M3 fell to 24.4% in 2008/09 from a 31.1% growth in the previous financial year. M2 which consists of currency in circulation, private demand deposits and private time and savings deposits grew by 26.2% in 2008/09 compared to 30.3% in 2007/2008 indicating a general slowdown in the growth of money supply. In Monetary terms though, M2 increased from Shs 3905.65 billion end June 2008 to Shs 4920.7 billion in June 2009.

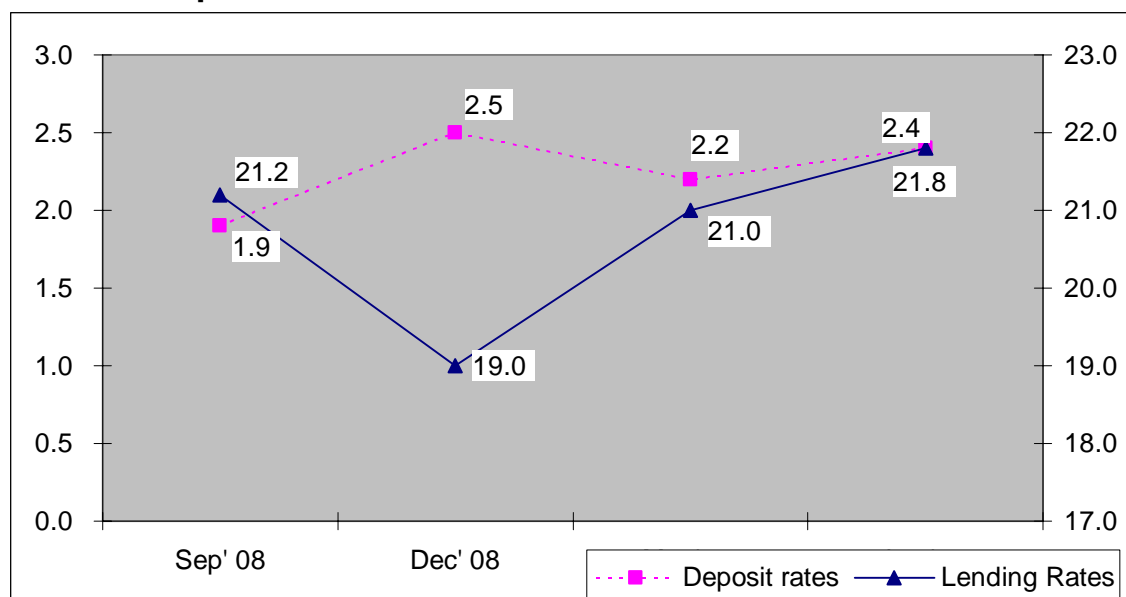
⁴ The indirect effects are through the decline in capital flows (Official Development Assistance, ODA, foreign direct investment (FDI), Remittances), and Trade (Exports, imports and tourism receipts).

Domestic Money Markets and Interest Rates

Commercial Bank lending Rates

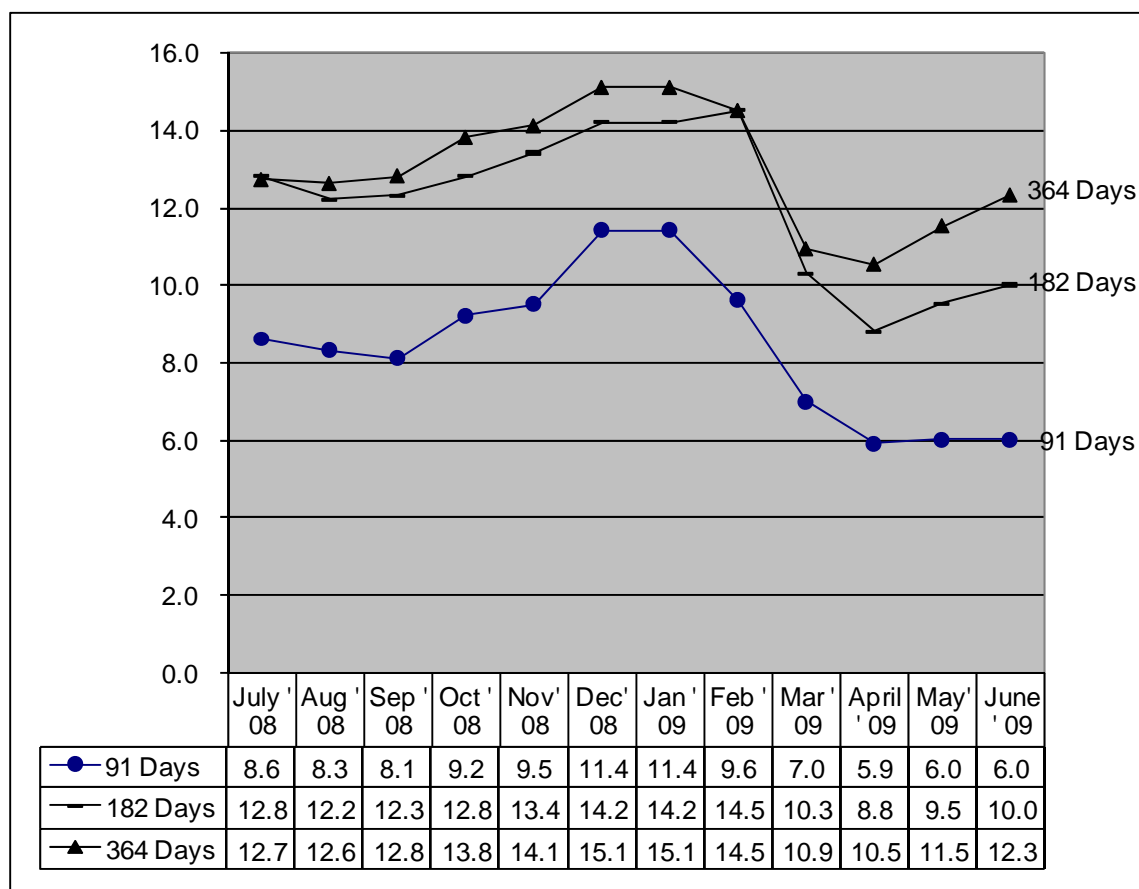
Commercial banks' weighted average lending rates on shillings denominated loans remained fairly stable oscillating between 19-24 percent in 2008/9 as indicated in figure 6. With the recent efforts by government and the central bank in terms of financial sector development and operationalisation of the credit reference bureau amongst other interventions, the high interest spreads are expected to reduce.

**Figure 6: Weighted Commercial Bank Deposit and Lending Rates
Sep 2008 – June 2009**



Source: Bank of Uganda

Figure 7: Trends in Monthly Average Treasury bill Interest Rates, July 2008 – June 2009



Source: Bank of Uganda

Trends in Average Treasury Bill Interest Rates

Average Treasury bill rates exhibited a fairly stable pattern during the financial year 2008/09. The discount rate on the 91 day Treasury Bill averaged 9.2% in the first half of 2008/09. It then rose to 11.4% in January 2009 after which it reduced to 6% by end June 2009. The 182 day TB discount rate for the same period increased from 12.8% in July 2008 to 14.5% in February 2009 and then reduced to 10% in June 2009. The average discount rate on the 364 day TB rose from 12.7% in July to 15.1% in Dec 2008 and settled at 12.3% in June 2009. The rates increased in the first half of the financial year as the central bank maintained its efforts to keep the growth of base money within the targeted levels to ensure macroeconomic stability and growth.

In the second half, as liquidity conditions eased, the rates on all TB'S dropped with the 91 day, 182 day and 364 day TB discount rates falling to 6%, 10% and 12.3% from 8.6%, 12.8% and 12.7% respectively in July 2008.

2.5 External Sector

The global economic crisis resulted into an external shock to the economy particularly in the second quarter of 2008/09. **The first round effects** of the global economic crisis manifested themselves through an outflow of portfolio investments⁵, a weakening of the currency, falling prices on the stock market and inflation. However, the strong initial conditions (e.g. healthy foreign reserves and fiscal balance) in Uganda mitigated the direct impact of the global financial crisis, with the Central Bank managing to stabilize the currency.

As shown in Table 6 and 7, **the second round effects** affected the economy mainly through the impact on formal exports, tourism, remittances and other capital flows.

Table 6: Growth in Export Earnings and Remittances, 2008/09

	2007/08 US \$ m	2008/09 US \$ m	% change
Total Exports (Merchandise)	2596.01	3085.28	18.85
Formal Exports	1527.59	1536.08	0.56
Informal Exports	1068.42	1549.2	45.00
Workers Remittances	546.36	745.85	36.51
Private Transfers (excl'dg workers' remittances)	547.23	453.64	-17.10

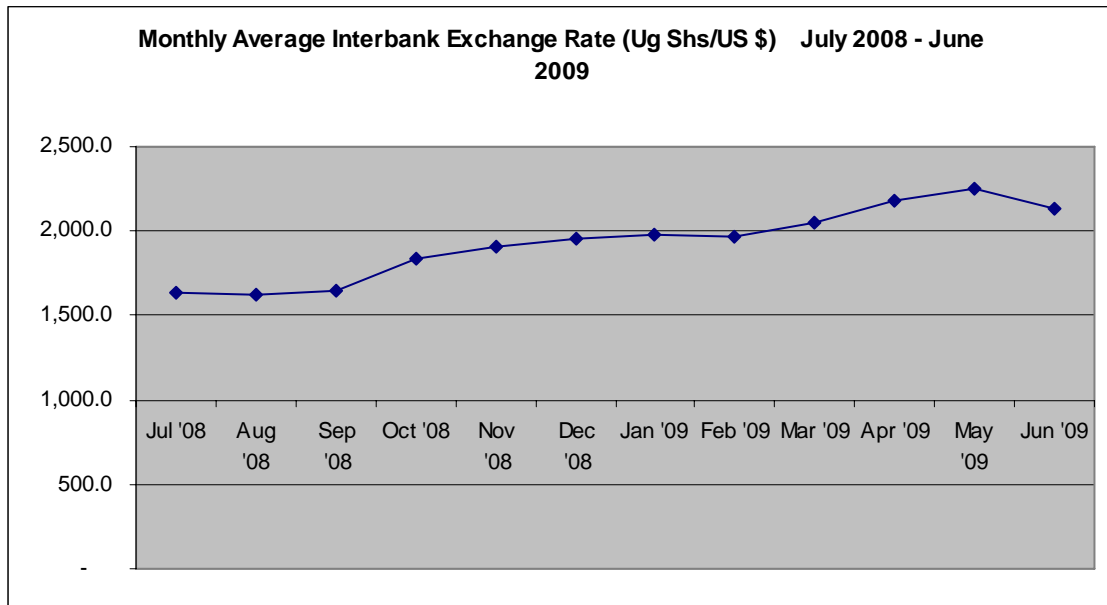
Source: Bank of Uganda

Formal export earnings grew by only 0.56 percent while private transfers (excluding workers remittances) decreased by about 17 percent.

There was a slowdown in import growth due to exchange rate depreciation. However the trade deficit was larger in 2008/09 than in 2007/08. The surplus of the capital and financial account was reduced as a result of the reversal of portfolio capital flows mainly related to offshore investors in the Government securities market, who drew back from emerging and frontier markets across the globe.

⁵ Portfolio flows in Uganda are trivial. There was an outflow of about 195 million dollars in 2008/09.

Figure 8: Monthly Average Nominal Exchange Rate Movements during the FY 2008/09



Source: Bank of Uganda and MFPED

Table 7: Selected Balance of Payments Indicators

	2007/08	2008/09	%change
Exports of Goods & Services			
Exports Gds & Svs (US\$.M)	3,187.11	3,763.45	18.1%
Exports Gds & Svs (UG Shs.bns)	5406.58	7263.60	34.3%
% GDP	22.07	24.23	
Imports of Gds & Services			
Imports of Gds & Svs (US\$.M)	4631.52	5441.07	17.48%
Imports of Gds & Svs (UG Shs.bns)	7856.87	10501.48	33.66%
% GDP	32.07	35.04	
Trade deficits (Gds & Svs)			
US\$.M	-1444.41	-1677.62	16%
UG Shs. Bns	-2450.29	-3237.88	32.14%
% GDP	-10.00	-10.80	
Current Account balance			
US\$.M	-457.20	-748.61	64%
UG Shs.bns	-775.59	-1444.86	86%
% GDP	-3.17	-4.82	
Foreign Direct Investment			
Foreign Direct Investment (US\$ M)	778.43	733.19	-5.8%
Foreign Direct Investment (Ug Shs Bns)	1,320.52	1,415.10	
% GDP	5.4	4.7	
Overall balance			
US\$.M	745.79	448.70	-40%
Ug Shs.bns	1,265.16	866.01	-32%
% GDP	5.16	2.89	
Nominal Exchange Rate			
Average Exchange rate (US\$/ Ug Shs)	1,696.39	1,930.04	13.8%

Source: Bank of Uganda and MFPED

The external shock that hit the balance of payments resulted in the depreciation of the nominal exchange rate against the US dollar especially in the months of April 2009 and October 2009. As a result the average exchange rate depreciated by over 10 percent during the year compared to the projected 1 percent.

The nominal average exchange rate had been projected to depreciate to Shs.1753.02 to a dollar in 2008/09 down from the average of Shs.1735.23 in 2007/08. However the actual outturn was Shs.1930.04 to a dollar.

Table 8: Summary of Performance of Policies, Programmes and Projects under the Macroeconomic Policy Management Function.

Project/ Programme	Output indicators	Target Outputs	Performance
Development of appropriate macroeconomic policies	High growth rate Fiscal consolidation Macroeconomic stability	High GDP growth estimated at 8.1% , Inflation not above 5% Average Exchange Rate (US\$/Ug.shs) 1735.02 Fiscal deficit at 7.9%	GDP outturn at 7.1% Inflation all items outturn 12.3%- mainly driven by high food demand in the region. And other external factors Average Exchange rate outturn was 1930.04 The fiscal deficit outturn was -4.6%, attributed largely to lower disbursements of project aid. Macroeconomic stability was maintained, even though a high depreciation of the shilling was experienced which was a result of reduction in forex inflows due to decline in remittances, low demand for traditional exports by overseas markets and low performance in the capital markets and the securities markets.
Compiling Government Finance statistics. The results are expected to give a consolidated picture of government fiscal performance (central government, local government and public enterprises).	Performance Reports GFS book Publication in GFS Year Book by the IMF Statistics department. The statistics are presented in the international best practice standards to help make comparisons with the rest of the IMF member countries.	LGFS 2006/07 data compiled. The central government budgetary operations had been complied.	GFS database was complied and updated, however the exercise was not completed in time to be published in the 2008 year book Report. The report is now ready and the 2006/07 and 2007/08 reports will be submitted to the IMF statistics department this year.

Develop a macroeconomic model	Development of the macroeconomic integrated model, to supplement the currently used financial programming framework	Procurement of a consultants to design and develop the macroeconomic model Develop a comprehensive historical statistical database that captures various macroeconomic variables to be used in the macroeconomic model	Procurement of the consultant was not concluded as the best evaluated consultancy team did not satisfy practical requirements for the macro model. The macro department (Which one?) reviewed the TOR for this assignment and plans to re-advertise.
Prepare the Medium-Term Fiscal Framework. This triggers the national budget preparation process.	National resource envelope projected for the medium-term (MTEF period). The resource consolidates all expected inflows that finance the budget and nets out the mandatory statutory obligations.	The three stages resource envelope was provided in time and the resources for preparing the FY 2009/10 medium term budget delivered	Resource envelope for FY 09/10 provided as targeted. The challenge is the effective utilization of the resources and secondly the commitment by development partners to disburse in a timely manner and for URA to collect resources as targeted to avoid disrupting the implementation of the budget.
Reporting on economy performance and commissioned studies	Preparation of monthly Economic performance reports. Report on the impact of the 2007 energy crisis on the economy	Monthly Economic performance reports. The study was commissioned in 2007/08, UBOS was assigned to implement a household/enterprise and business survey	Twelve monthly economic performance reports prepared and disseminated to selected stake holders and also published on the Ministry's web site. The results of the commissioned study on energy crisis were not concluded due to delays in finalization of the household/enterprise survey data by UBOS. The Analysis exercise has commenced and the report is expected in the first quarter of FY 2010

<p>Enact Anti-Money Laundering Law and amend the Insurance Act Cap.213</p>	<p>Present the AML Bill to parliament for debate and passing.</p> <p>Debate and passing of the Insurance (Amendment) Act</p>	<p>Table Anti money laundering bill in parliament</p> <p>Table the proposed amendment to the Insurance Act Cap. 213 in parliament</p>	<p>AML Bill was approved by cabinet for and gazette, it was however not presented to parliament as expected to delay to have it discussed by cabinet.</p> <p>The enactment of this bill will put in place international practices in curbing fraud that leads to laundering of funds in the economy. This is an undertaking by the East and Southern African council of Ministers.</p> <p>The proposed amendments to the Insurance Act Cap 213 were presented to cabinet and approved. They are currently been drafted by First Parliamentary Counsel.</p>
<p>Reforms of the Pension Sector Services</p>	<p>Retirement benefits regulatory authority established to provide protection of pension funds, pension members and beneficiaries interest by promoting transparency and accountability.</p>	<p>Finalization of the draft Retirement Benefits Authority Bill presented to parliament</p> <p>Pension Policy paper including liberalization presented to cabinet.</p>	<p>Draft Retirement Benefits Authority bill, the Principles of liberalization and the pension's policy paper were prepared and approved by cabinet in December 2009.</p>

3.0 Resource Mobilisation to Finance the Government Budget

During the FY 2008/09, the set objectives were to continue to enhance domestic revenue mobilization and reduce external dependence while at the same time mobilising adequate external resources to finance the country's fiscal deficit.

3.1 Domestic Revenue Mobilization

The Government's objective is to improve the tax/GDP ratio by 0.5 percentage points each year. However, in recent years this has not been achieved because of the few tax policy handles that could be relied upon to deliver the required revenue. In financial year 2008/09, the tax/GDP ratio was projected at 0.3 percent of GDP. To achieve this, a number of amendments and revisions to tax laws were initiated as well the introduction of new measures to improve revenue collection and administration. All this was done while taking into account the fact that the tax system needs to be conducive to investment needed for economic growth and poverty reduction.

3.1.1 Revenue Performance

The net tax revenue collections by the URA, excluding government taxes and tax refunds, for fiscal year 2008/09 were Ushs 3662.3, against a target of US\$ 3,850.7bn. Compared to recent years, FY 2008/09 recorded a shortfall of Ushs 188.4bn, achieving 95.2% of the projected outturn. On a year to year basis, however, revenue collections increased by US\$ 501.2 billion, from 2007/08 to 2008/09, representing a growth rate of 15.9%.

The revenue growth was less than that of nominal GDP at market prices, which grew by 20.7%. This meant that the tax to GDP ratio fell from 12.9% to 12.2% and as such did not meet the target expansion for the financial year 2008/09.

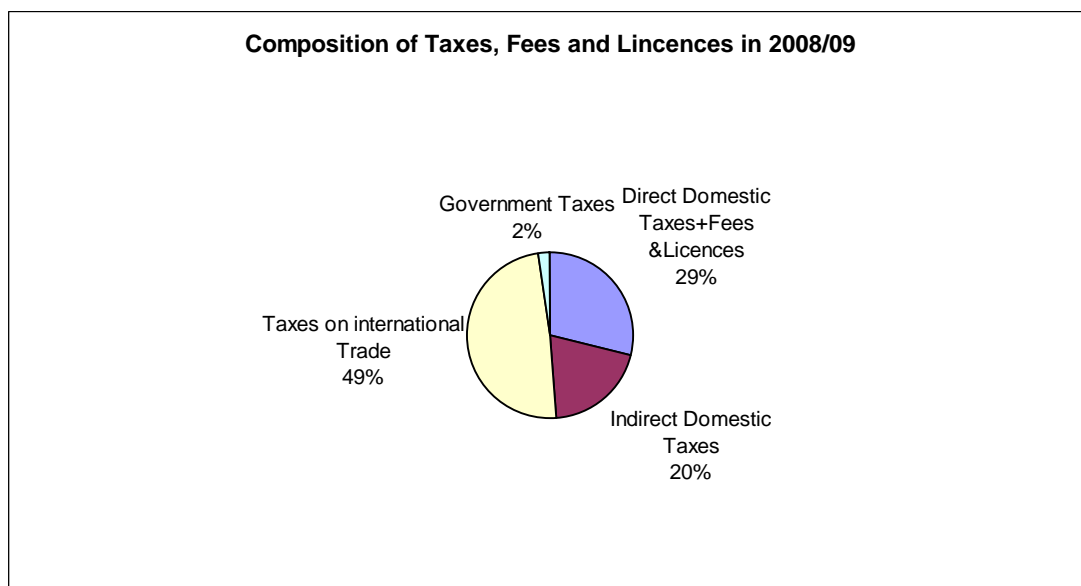
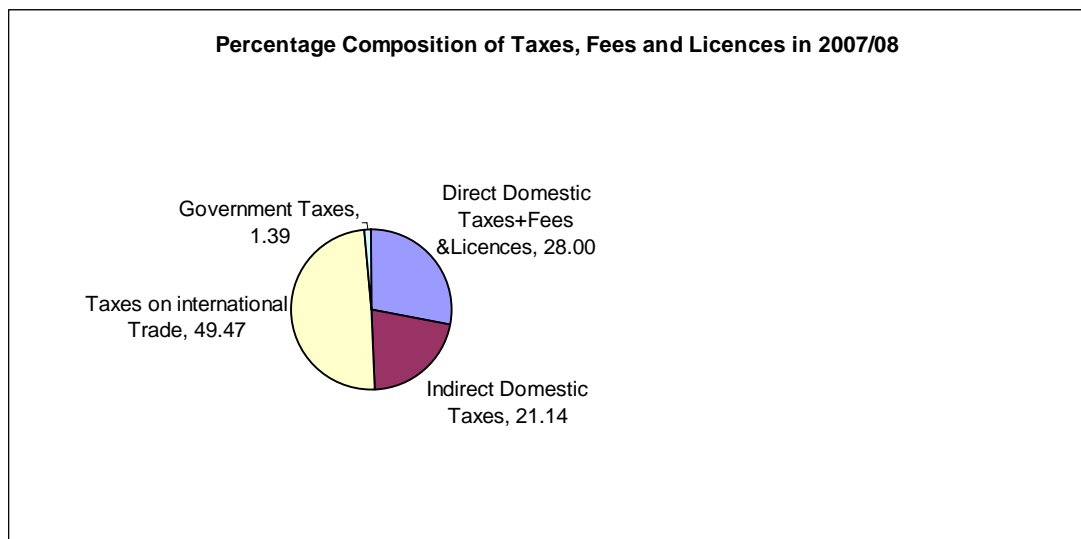
The shortfall in revenue was mainly attributed to the under performance of local Value Added Tax, excise duty, corporate tax, import duty, petroleum duty, and fees and licenses.

The contribution of direct domestic taxes to total revenue increased slightly from 26.5% recorded in FY 2007/08 to 26.7% in FY 2008/09. The collections were US\$ 1,028.9 billion against the target of US\$ 1,020.1 billion, reflecting a surplus of US\$

8.8 billion. The performance of direct domestic taxes was largely driven by PAYE, which currently contributes 54.0% of direct domestic taxes.

Trade taxes increased from US\$ 1,633.67 billion collected in 2007/08 to US\$ 1,891.73 billion in 2008/09, representing growth of 15.8%. However, like local indirect taxes, this performance was also below the expected growth of 17.2%, in line with the five-year trend, representing a shortfall of US\$ 22.43 billion. The relatively weak performance was mostly due to shortfalls in import duty, and Petroleum duty. VAT on imports performed strongly, registering a surplus of US\$ 66.3 billion.

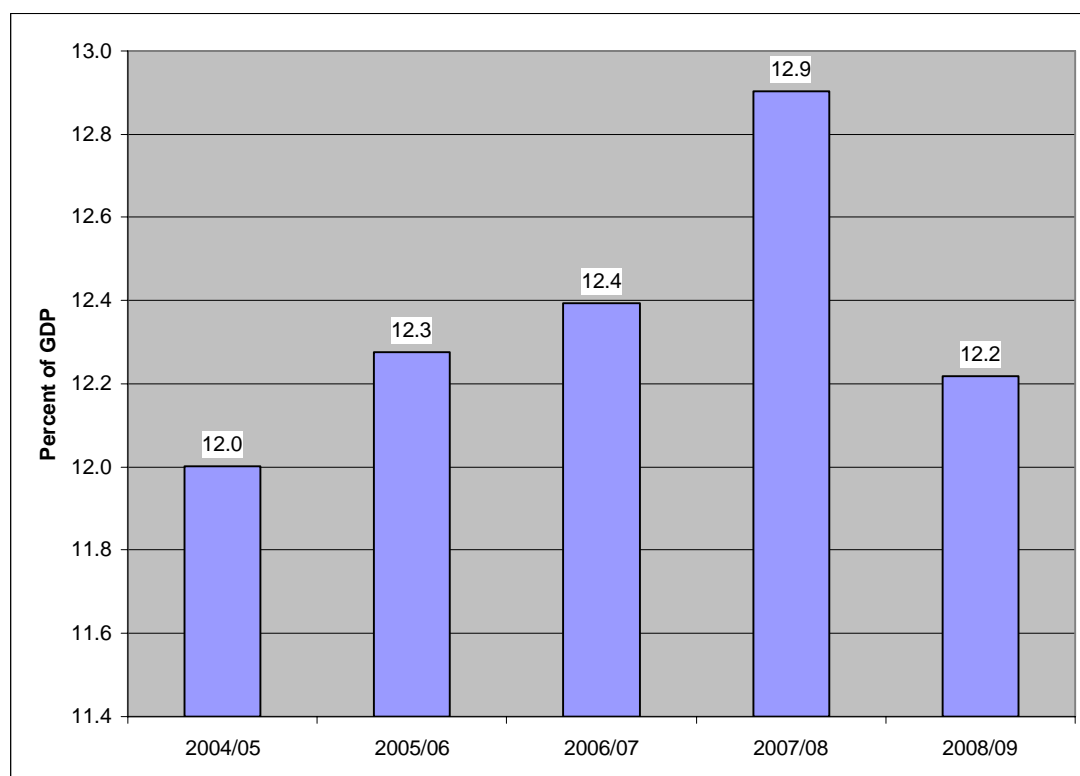
Figure 9: Contribution of different taxes, licences and fees to Gross Revenue in 2007/08 and 2008/09



Source: Tax Policy Department (TPD), MFPED

Despite the growth in the nominal URA revenue collections, there have been modest increases in URA revenues as a percentage of GDP in recent years of about 0.2 percentage points per annum on average. In 2008/09 there was a drop of about 0.7 percentage points compared to the financial year 2007/08 (Figure 10). Hence in 2008/09, performance fell short of the set target of increasing the tax/GDP ratio by 0.3 percentage points.

Figure 10: URA Revenue Collections % of Nominal GDP, 2004/5 – 2008/09



Despite the failure to achieve the set targets in 2008/09 (partly explained by the onset of the global economic crisis), progress was made regarding planned projects and activities set for the year.

3.1.2 Tax Policy formulation and legislation:

A number of tax laws were reviewed and amendments to the law made to improve the administration and revenue collection of those taxes, in cases where, it was identified that there were weaknesses or opportunities to introduce new measures. The amendments included new provisions for the promotion of industry, in particular in

agricultural processing and local steel industries. Some new provisions were also introduced to support the protection of the environment.

The following tax laws were enacted:

The Finance Act 2008 was enacted to:

- (i) Prohibit the importation of used refrigerators, freezers, computers and television set which are hazardous to the environment;
- (ii) Prohibit the importation, local manufacture, sale or use of polythene materials and also generate revenue;
- (iii) Prohibit the export of scrap metal to enable local steel industries access raw materials by encouraging value addition in the country; and
- (iv) Generate revenue through varying the fees payable under the Traffic and Road Safety Act.

The Income Tax (Amendment) Act 2008 was enacted to allow all entities involved in agro-processing to benefit from tax exemption of business income enjoyed by entities investing in agro-processing. The Act also contained amendments to harmonise the Income Tax Act with the Petroleum Sharing Agreements (PSA) provisions by streamlining the procedures for assessment and collection of oil revenues and detailing the time of payment and accounting procedures.

The Excise Tariff (Amendment) Act 2008 was enacted to amend the rate of excise duty on beer to encourage research and development in the use of locally grown raw materials, value addition and alleviating poverty through farmers selling their produce readily to brewers.

The VAT (Amendment) Act 2008 was enacted to:

- (i) enhance clarity in the definition of own use by a taxable person;
- (ii) ease implementation of government projects in the health, education and agriculture sectors by exempting VAT on the supply of services to these sectors; and
- (iii) include brokerage services in the definition of insurance services.

The Stamps (Amendment) Act 2008 was amended to introduce new rates. In FY 2008/09, Government granted incentives to a number of sectors as a way of providing support and an enabling environment to the private sector. The incentives included exempting the education sector from income tax, extending of the exemption of duty payments on construction materials for another one year and granting incentives to

persons engaged in agro processing. In the short and medium term, the incentive will impact on the revenues, but in long run the incentives will enhance production and income generation thus improving revenues collection.

Tax and trade policies Harmonized

Negotiations for concluding a Double Tax Agreements (DTAs) with the People's Republic of China were completed and the draft initialled. The DTA with the Kingdom of Belgium was signed and is waiting completion of the ratification process by the two countries to enter into force.

3.1.3 Widening the tax base

Strengthening of non-tax revenue (NTR) performance

Non-Tax Revenues (NTR) currently contribute about 1% of total domestic revenue. Over the medium-term, the efforts have been geared towards implementing a new policy on revised NTR rates by Government Ministries, Departments and Agencies (MDAs). Capacity in the line ministries and agencies responsible for some of these revenues to review, assess, monitor and enforce has posed a challenge in achieving the targets.

In 2008/09, the Ministry through the Tax Policy Department started developing a database to support policy making and monitoring of NTR. All 21 ministries were approached and asked to review NTR rates, some of which have now been revised, e.g. transport regulation fees. The review also covered NTR collected by government agencies, including hospitals, embassies and education institutions. It is expected that better information and improved monitoring of ministries and agencies collecting NTR will improve NTR performance.

Table 9: Comparison of NTR/GDP ratio and Analytical Performance for FY 2007/08 and 2008/09 FY.

Year	NTR Outturns (Shs Bns)	GDP (Shs Bns)	Domestic Revenue (Shs Bns)	NTR/GDP ratio	Domestic Revenue/GDP ratio
2006/07	61.18	21186.56	2625.82	0.29	12.4
2007/08	76.37	24497.00	3161.10	0.31	12.9
2008/09	95.34	29972.00	3662.32	0.32	12.2

Source: MFPED and Uganda Bureau of Statistics

Table 9 above shows that the NTR/GDP ratio has steadily been increasing from 0.29% in FY 2006/07 to 0.32% in FY 2008/09. This represents a slight increase of 0.03%. In nominal terms the NTR collected in FY 2006/07 was US\$ 61.18bn compared to US\$ 95.34bn registered in FY 2008/09.

NTR Collected by Ministries

The total NTR collections for FY 2008/09 was US\$ 95.34 bn, of which US\$ 46.81bn came from Ministries, Missions abroad, Referral Hospitals and other agencies, US\$ 5 bn from treasury consolidation and US\$ 43.3 bn from dividends.

Impact of Implementing New NTR rates by the Complying MDAS

In line with the 2008/09 Budget Speech, Government Ministries needed to revise their NTR rates, which were to be effective by 1st January 2009. The following 9 Ministries out of 21 had their rates revised;

- 1) Ministry of Works and Transport
- 2) Ministry of Energy and Mineral Development
- 3) Ministry of Agriculture, Animal Industry and Fisheries
- 4) Ministry of Lands, Housing and Urban Development
- 5) Ministry of Energy and Mineral Development
- 6) Judiciary
- 7) Ministry of Water and Environment
- 8) Ministry of Gender and Social Development
- 9) Ministry of Internal Affairs

Out of the 9 Ministries that revised the rates, only 3 Ministries namely;

- 1) Ministry of Works and Transport
- 2) Ministry of Agriculture, Animal Industry and Fisheries
- 3) Ministry of Finance, Planning and Economic Development

implemented the new rates with effect from March 2009. Table 10 below demonstrates the impact of the implementation of new rates by Ministry of Works and Transport.

It can be observed from the table that after the implementation of the new rates, the Ministry of Works and Transport collected US\$ 578,244,300/= having made 11756 transactions /sales of items, as compared to 15542 made before the revision of the rates. It can be noted that although less sales were made after the implementation of new rates, more funds were collected. More non-tax revenues were also realised in the

ministries of Finance, Planning and Economic Development and Ministry of Agriculture, Animal Industry and Fisheries.

Table 10: Impact of New NTR rates on Collections for Ministry of Works and Transport for FY 2008/09

Months	Volumes of transactions made	%age increase for volumes	Collections in Shillings	%age increase
<i>Before revision of rates</i>				
July	2457		68,120,000	
Aug	2962	21%	82,631,300	21%
Sept	3067	4%	82,038,800	-1%
Oct	2357	-23%	87,462,600	7%
Nov	2081	-12%	79,321,500	-9%
Dec	2618	26%	95,363,000	20%
1st Half	15542		494,937,200	
<i>After revision of rates</i>				
Jan	2380	-9%	79,731,700	-16%
Feb	829	-65%	91,818,500	15%
March	1972	138%	92,138,000	0%
April	2543	29%	120,767,800	31%
May	1965	-23%	93,338,300	-23%
June	2067	5%	100,450,000	8%
2nd Half	11756	13%	578,244,300	17%
Sub total	42840		1,073,181,500	
Fees from M/W			86,818,500	
Total Outturns			1,160,000,000	

Source: Ministry of works and Transport

Other Ministries

Regarding other Ministries, the implementation of new proposed fees did not come into effect from 1st January 2009. In addition, some MDAs did not revise the rates.

Ministries that did not revise the rates include;

- i) Ministry of Education and Sports
- ii) Ministry of Tourism, Trade and Industry
- iii) Ministry of Health
- iv) Ministry of Public Service
- v) Ministry of Defense

- vi) Office of the Prime Minister
- vii) Office of the President
- viii) Ministry of Justice and Constitutional Affairs
- ix) Ministry of Local Government
- x) State House
- xi) Law Reform Commission
- xii) Inspector General of Government
- xiii) Health Service Commission
- xiv) Uganda Human Rights Commission

Non-Tax Revenue Collected by the Uganda Revenue Authority

In FY 2008/09, non-tax revenues collected by URA were higher than the previous year. Passport fees increased by US\$ 0.21 bn, and Migration fees were US\$ 18.48bn against budgeted US\$ 17.70 bn, registering a surplus of US\$ 0.78 bn. mainly due to an increase in migrants.

Table 11: Performance of NTR Collected by Uganda Revenue Authority

NTR Items	Collections for FY 2007/08 (Bn)	Collections for FY 2008/09 (Bn)	Variance
Passport Fees	3.24	3.45	0.21
Migration Fees	14.95	18.48	3.53
Land Transfer Fees	0.43	0.7	0.27
Transport regulation Fees	0.81	1.16	0.35
Company Regulation Fees	2.79	2.66	-0.13
High Court Fees	1.59	2.22	0.63
Mining Fees & Royalties	3.91	3.08	-0.83
Others	3.01	2.88	-0.13
Total NTR	30.73	34.64	3.9

Source: URA

Land transfer fees recorded US\$ 0.7 bn against a target of US\$ 0.51 bn registering a surplus of US\$ 0.19 bn. The strong growth was due to growth in the construction sector and estate development. The index for the whole construction sector rose to approximately 3% above its level in the fourth quarter of 2008. This therefore enhanced the land transactions and registration.

Transport regulation fees recorded a surplus of US\$ 0.2 billion. The strong performance was mainly due to the implementation of the new NTR rates that were effective 1st February 2009.

High court fees have continued to show a strong growth of US\$ 0.33 bn. The new proposed fees and fines were submitted to Parliament for approval. The Company regulation fees were below the target by US\$ 0.64 bn. This was mainly due to low NTR rates.

Mining and royalties generated a deficit of US\$ 1.54 bn. Other NTR's collected still depict lower returns as most of the MDA's retain a big portion at source.

The cause of the short fall was due to lack of implementation of the new NTR rates by most Ministries and strong reduction in volumes of sales, as well as other administrative challenges by some MDA's.

The overall NTR outturn as collected by URA was less than the budgeted by US\$ 1.75 bn. However, the outturn in FY 2008/09 increased by US\$ 3.9 bn as compared to FY 2007/08.

Remaining challenges regarding NTR are the existing data gaps as well as lack of implementation of the new rates. However, TPD took over the responsibility to fill up the data gaps, monitor the implementation of the new rates and design a new NTR policy. This will support policy making and improve the performance of NTR. It is hoped that having in place a consolidated NTR data base, harmonizing the rates and improving the legal framework will improve on the performance NTR.

Revision of existing tax laws and enhancing tax compliance

The Ministry in conjunction with the Uganda Law Reform Commission undertook the revision process of the Excise Tariff Act as a means of enhancing domestic revenue collection. A taskforce comprising of various institutions undertook the followings tasks; prepared an inception report, made consultations with key stakeholders and reviewed literature on the subject matter. The expected output is a new law enacted that will make the collection of excise duty tax payer friendly, hence increasing on the compliance level amongst the tax payers. Other prospects for expanding the tax base are further improvements from tax administration, building tax compliance and winning public confidence through improved service delivery.

3.2 External Resource Mobilization

3.2.1 External Resource Disbursements

Table 12: External Resource Disbursements during the financial year 2008/09 (Millions US \$)

	Programme/Budget	Outturn (Actual Disbursements)	Shortfall/surplus	Performance (%)
Budget Support Grants	308.87	268.7	-40.2	87.0
Project Grants	461.1	134.6	-326.5	29.2
Budget Support Loans	111.17	118.0	6.8	106.1
Project Loans	371.7	241.4	-130.3	64.9
Total	1252.84	762.69	-490.2	60.9

Source: Macroeconomic Policy Department, Ministry of Finance, Planning and Economic Development

Notes: Programme/Budget numbers are as at the day of the Budget speech

Total external resource disbursements to the government, including Budget support and MTEF project support but excluding Non-MTEF (off-budget) support performed poorly. Aid inflows performed at only 60.9 percent of the total budgeted (expected) aid. The performance included disbursements that had been expected in the FY, 2007/08. The main reasons for the shortfall were;

- Delay in the disbursement of PRSC VII funds from the World Bank, amounting to \$100m. This was caused by Government's inability to meet the agreed triggers for the disbursement of funds which required that a bill seeking the revision of the PPDA Act be debated by cabinet.
- A significant depreciation of major international currencies of Uganda's major donors such as the British Pound and the Euro against the US Dollar. All aid to the budget is translated to US dollars and then to Uganda shillings before inclusion into the government budget. Therefore depreciation implied that even with the same level of Pound, Kroner or Euro disbursements as programmed, less funds would be received in US dollars and subsequently in Uganda shillings.
- Lower-than-expected disbursements particularly donor projects coupled with challenges in absorption by implementing agencies.

Budget Support and Project Grants

As shown in Table 12, Budget support grants including debt relief amounted to \$268.69m in FY 2008/09, representing a performance of 87% against the projected \$308.87m at budget time. The performance of project grants was only at 29.2%. Apart from the reasons discussed above, this is indicative of the challenges in information flow between development partners and the Government of Uganda represented by the Ministry of Finance, Planning and Economic Development (MFPED) regarding aid projections/commitments and disbursements.

Budget Support and Project Loans

Budget support loans amounted to \$118m in FY 08/09 compared to the budgeted amount of US \$ 111.17m. Hence performance was at 106.1 percent. However project loans performed poorly. Of the US \$ 371.7m expected, only US \$ 241.4m was disbursed representing a 64.9 percent performance (Table 12).

Aid Management Platform

As noted above, “poor” performance of aid inflows can to some extent be explained by lack of complete and quality information not only in regard to aid commitments but also disbursements. As response to this challenge, the Government undertook a technical assessment to identify and define the associated problems and challenges before developing an Aid Management Platform which is expected to improve information flow between Development Partners (DPs), MFPED and other stakeholders. Challenges identified included;

- Difficulties in the current reporting processes between MFPED, development partners and sectors, including lack of clarity among development partners about on-budget criteria and processes.
- Failure to capture payments outside government systems
 - Donor disbursement/outturn figures (grants) are low. Apparently they exclude Technical Assistance (TA)/In-Kind assistance. MFPED/Bank of Uganda cannot capture all direct donor disbursements to final beneficiaries.
 - Difficulties faced by MFPED when trying to reconcile disbursement data from development partners, Bank of Uganda and line ministries

- Donors report and update actual and planned disbursements, but without disaggregating Technical Assistance (TA) and in-kind contributions.
- TA, in-kind contributions and payments outside the IFMS are included in national budget, but difficult to report on.
- Projects not reporting outputs and expenditure to MFPED, although budget is now output based.
- Information on DP-funded activities', results and expenditure is not easily available and not centrally managed.
- Public Investment Plan (PIP) does not contain all information on donor commitments and no donor actual expenditure data. DP projects are not yet using the IFMS.
- The ODA development cooperation reports are produced by MFPED but difficulties are abound in ensuring data quality.
- Limited data on involvement of NGOs/contractors, in particular with regards to the implementation of Peace, Recovery and Development Plan (PRDP).

Going forward, it is expected that the proper implementation of the Aid management Platform (AMP), will result into;

- Timely and comprehensive reporting, enabling a comprehensive record of all aid resources within the country.
- Reduction of duplication of effort and transaction costs associated with data collection and processing, and
- Standardization of reporting terminology among government staff and donors, allowing harmonization of reports to multiple donors.

3.2.2 External resources mobilized (commitments) during the fiscal year 2008/09

In accordance with the budget pronouncements, Government committed twelve (12) loans worth US\$ 510.6m and twenty two (22) grants amounting to approximately US\$ 200.3 million.

Budget Support and Project Loans committed in 2008/09

The loans approved by Parliament in the fiscal year 2008/09 are shown in Table 13 below. The Public Service Performance & Enhancement loan is to improve the public service to make public service delivery affordable, efficient, accountable and effective in use of public resources. The Sustainable management of mineral resources is for development of a sound mineral sector and making improvements in selected artisanal and small scale mining areas.

Table 13: Loans Approved by Parliament in Financial Year 2008/09

LOAN TITLE/PURPOSE	CREDITOR	APPROVAL DATE	AMOUNT IN LOAN CURRENCY	EQUIVALENT in USD*
Public Service Performance & Enhancement	IDA	15/09/2008	14,000,000 SDR	21,571,649
Sustainable Management of Mineral Resource	IDA	10/10/2008	3,100,000 SDR	4,754,601
Local Government Management and Services Delivery Project	IDA	10/10/2008	35,100,000 SDR	53,834,356
Environment Management Capacity Building II	IDA	10/10/2008	9,300,000 SDR	14,263,804
Kampala Institutional & Infrastructure Development Project	IDA	11/11/2008	22,000,000 SDR	32,400,589
Poverty Reduction Support Credit VII	IDA	01/12/2008	125,000,000 SDR	204,248,366
Small Bridges in North & North East Uganda	IDB	13/11/2008	7,000,000 Isl. Dinar	10,638,298
National Backbone Infrastructure Project Phase II & III	China Exim Bank	28/11/2008	76,450,636 USD	76,450,636
Community Agricultural Infrastructure Improvement Programme(CAIIP) Project II	ADB	7/05/2009	45,000,000 UA	60,000,000
Procurement of Equipment for KCC Road unit Sanitary Services Project	China Exim Bank	28/11/2008	10,000,000 USD	10,000,000
Post Primary Education Training Expansion and Improvement	ADB	7/05/2009	52,000,000 UA	77,900,000
Additional Financing For Environmental Capacity Building Program	IDA	10/10/2008	9,250,000 SDR	15,000,000
TOTAL				510,562,299

Source: Ministry of Finance, Planning & Economic Development

* The conversion into dollars is based on the ruling exchange rate of the day of signing the agreement.

The environmental management capacity building project is for strengthening the capacity of the Environment Management Authority, local government institutions including district and community levels to carry out their own environmental functions and responsibilities effectively.

The Kampala Institutional and Infrastructure project is to improve the institutional efficiency of Kampala City Council (KCC) plus the development of city infrastructure and services particularly the reduction of floods in Bwaise area.

The Poverty Reduction Support Credit VII is budget support intended to contribute to poverty reduction and economic growth in Uganda. The country also acquired a loan for the National Backbone Infrastructure Project Phase II & III, Community Agricultural Infrastructure Improvement Programme (CAIIP) Project II, and Procurement of Equipment for KCC Road Unit Sanitary Services Project to enhance infrastructural development.

The Post Primary Education Training Expansion and Improvement project is to enhance the absorption of the increased UPE enrolment, and Additional Financing for Environmental Capacity Building Program is to cater for the climate change issues. Last but not least, the small bridges project is to take care of construction of small bridges in Northern and North-Eastern Uganda.

As shown in the table above, 14% of the total external assistance mobilized during the year is for the improvement of communication, 40% is budget support while the remaining balance is for construction and infrastructure related activities.

Grants

Table 14 below shows the summary of grants (commitments) concluded this fiscal year.

Table 14: Grants Concluded in FY 2008/09

PROGRAMME	DONOR	SIGN DATE	CURRENCY	AMOUNT	US.DOLLARS
Anti Corruption Program Phase II	DENMARK	15/07/2008	Danish KR	18,000,000	3,834,683
Supp Establishment Climate Change	DENMARK	15/07/2008	Danish KR	5,000,000	1,065,190
Mainstreaming Climate Change	DENMARK	19/12/2008	Danish KR	4,000,000	750,892
Prep Uganda's Participation in Cop 15	DENMARK	19/12/2008	Danish KR	2,000,000	375,446
Multi donor emerg/demobl/reint	IDA	15/08/2008	USD	2,850,000	2,850,000
Support JLOS- PRDP	AUSTRIA	28/11/2008	Euro	1,000,000	1,256,281
PRDP/KIDDP - JLOS Institutions	IRELAND	27/11/2008	Euro	600,000	753,769
Rural Electrification Phase II	JAPAN	1/08/2008	JPN. YEN.	574,000,000	5,238,182
Support To ESSP 2004-2015 -UPE	NETHERLANDS	24/11/2008	Euro	6,000,000	7,537,688
Supp JLOS Strategic Invest Plan 06/11	NETHERLANDS	28/11/2008	Euro	5,000,000	6,281,407
PRDP	NORWAY	3/12/2008	Nor Kr	33,400,000	4,671,329
Supp JLOS Strategic Invest Plan 08/11	NORWAY	2/12/2008	Nor KR.	50,000,000	6,993,007
Health Sector Strategic Plan 08/11	SWEDEN	17/10/2008	SW KR.	227,000,000	31,708,339
Renewable Energy & Efficiency	GERMANY	3/2/2009	Euro	10,000,000	12,771,392
Co financing PRSC VII -VIII	GERMANY	24/11/2008	Euro	14,000,000	17,587,940
Financial Sector Development	GERMANY	24/11/2008	Euro	6,000,000	7,537,688
Promotion Of Renewable Energies and Energy Efficiency	GERMANY	3/03/2009	Euro	10,000,000	14,530,000
Karamoja Livelihoods Programme (KALIP)	EU	9/03 2009	Euro	15,000,000	21,795,000
Uganda Road Policy Programme (SPSP) capacity Building Component	EU	9/03/2009	Euro	10,000,000	14,500,000
Northern Uganda Agricultural Livelihood Recovery Programme	EU	9/03/2009	Euro	20,000,000	29,000,000
Support To Quality Assurance For Fish Marketing Project- (QAFMP)	ICELAND	13/03/2009	USD	3,411,369	3,411,369
Construction Of Rice Research And Training Centre	JAPAN	23/03/2009	JPN. YEN.	651,000,000	5,859,000
TOTAL					200,308,602

Source: Ministry of Finance, Planning & Economic development

4.0 Investment and Economic Development Policy Performance

4.1 Economic Development Policy and Research

One of the Government's objective is the generation and application of evidence-based analyses for decision-making on economic development policy and national

development. In that regard, the following were undertaken during the year in the area of economic development policy and research;

- In collaboration with the National Planning Authority (NPA), the national development Plan formulation process was undertaken. It involved particularly the formulation of guidelines for sectors, review of sector thematic papers and the actual drafting of the National Development Plan (NDP). The National Development Plan (2010/11 – 2014/15) will guide the 2010/11 budget process.
- Analysis of Government Outlays (expenditures) for the financial year 2006/07, whose results were published in the Government Analysis Outlays Report (GOAR) FY 2006/07. One key finding of the report is that central government outlays on inputs that contributed directly to achieving MDG targets in 2006/2007 increased by 33.5 percent when compared to the previous year. Much of these outlays were allocated to poverty eradication and hunger and achieving universal primary education albeit less to ensuring environmental sustainability.
- In collaboration with the Uganda Bureau of Statistics (UBOS), conducted a Needs Assessment and Costing for Sub Counties in 28 districts, namely: Kalangala, Kiboga, Masaka, Nakaseke, Rakai, Wakiso, Bukedea, Busia, Iganga, Kumi, Mayuge, Mbale, Adjuma, Amolatar, Apac, Dokolo, Gulu, Lira, Moroto, Nebbi, Oyam, Buliisa, Bushenyi, Kabale, Kamwenge, Kiruhura, Masindi, and Ntungamo. The report produced highlights the key development needs/priorities at the Sub County level and thus will inform the Budget for FY2010/11.
- In collaboration with Plan for Modernisation of Agriculture (PMA) secretariat conducted Market Research Studies for selected commodity sub sectors, namely: cotton, Citrus Fruits, Maize, Dairy, Sunflower, Rice, and Bee Keeping.
- Produced a Concept Note for the operationalisation of the FINMAP Research Programme. A Development Policy Research Committee was also Operationalised
- Oversaw/supervised 6 research studies. Research Reports were published on the following topics:

- Decentralisation in Uganda – does it improve service delivery;
- Rapid appraisal of Strategic interventions in agriculture to address consequences of rising food prices;
- Review of Agriculture sector investments and institutional performance in Uganda;
- Microfinance lending to the agricultural sector.
- Provided inputs for the Annual Policy Implementation Review (APIR) 2007/08 spearheaded and coordinated by the Office of the Prime Minister.

4.2 Investment and Private Sector Development

In the second half of the financial year 2008/09, the Department of Investment and Private Sector Development was created to enhance the promotion of private sector investment by spearheading the generation of investment and private sector policies. During the year a number of initiatives and activities were undertaken in line with this objective.

Enactment of commercial laws

A review and revision of commercial laws that have a big impact on improving doing business in Uganda were undertaken. Based on the Presidential Investor's Round Table (PIRT) and Doing Business recommendations, efforts were focussed on supporting the passing of key prioritized commercial laws. Among the key bills targeted were the Capital Markets (Amendment) Bill, the Companies Bill, the Insolvency Bill, the Amendment of the Investment Code, and the Free Zones Bill.

National Competitiveness Forum

The National Competitiveness Forum was held in September 2008. The Forum recommended several key interventions under the various forum themes:

Building a National Competitiveness Agenda:

- Eliminate high regulatory costs that increase business costs and hinder competitiveness.
- Maintain macro-economic stability;
- Widen the domestic tax base.

Transport Infrastructure Prioritization for Competitiveness:

- Prioritize and locate infrastructure in response to firm clusters, factor prices and market access.

Role of Urbanization in Economic Development

- The need to plan for urbanization to boost and equally distribute industrial growth.

Public Private Partnerships: Today's Challenges and Future scenarios:

- Review existing policies and laws as a guide to the development of an appropriate policy, legal and institutional framework.

Regional Integration: Opportunities and Challenges:

- Reduce non-tariff barriers to trade.
- Open up to external markets and select niche locations to exploit economic advantages.

Build Data Bank on all investors (Who does what and where as well as the value of the investments and employment created).

During the year, the process of Data collection and analysis of the investors in various sectors since 1991 was undertaken with a view to compile a comprehensive data base on which government can base to make informed decisions to support private sector investments. The data base is expected to be in place by end of FY 2009/10.

Doing Business Reform Action Plan

A Doing Business Reform Memorandum was produced in May 2009 which outlined short and medium term recommendations to improve Uganda's environment for doing business.

The key actions Uganda needs to undertake were presented to relevant government officials and to key stakeholders in this process. Selected key actions are highlighted below:

Starting a Business

- Combining duplicative procedures to eliminate unnecessary ones;
- Simplification of payment of fees;
- Introduction of standard registration forms and articles of association;
- Speedy issuance of business licenses and social security registration.

Registering Property

- Introduce standardized property transfer documents;
- Reduce time to conduct property validation;

- Cut time to obtain a property consent form;
- Unify and computerize property records at the Land Registry;
- Consider replacing the percentage based fee with a flat fee.

Trading Across Borders

- Allow electronic transmission of customs declaration from Mombasa to Kampala;
- Adopt a uniform electronic customs program throughout the region, harmonize documentation with the EAC;
- Improve implementation of risk-based inspections;
- Extend working hours of border posts.

Enforcing Contracts

- Restrict adjournments and limit delays;
- Publish court activity reports;
- Map processes at the Chief Magistrate’s Court to identify points of delay
- Explore introducing a fast track for small claims with streamlined procedures at Chief Magistrate’s Court as well as Commercial Court

The Government of Uganda (GOU) and the Competitiveness and Investment Climate Strategy Secretariat (CICS) hope to meet the following targets by implementing the various Doing Business reforms:

- Recognition of Uganda as a top reformer in Africa.
- Move at least 10 points on the rank scale for at least 5 indicators.
- Action plans guiding budget process for key institutions that support competitiveness.

Two studies were initiated to inform the CICS monitoring process. One study had the main objective of ascertaining the current actual cost and time involved to undertake import and export activities at the Busia border post while the second study focused on establishing the cost of starting a business in Kampala with specific reference to MSMEs.

Key findings from the Busia study indicate the following:

1. **An importer requires over 15 documents to clear his/her goods.** A recommendation was made by respondents on the need to reduce the number of documents to enable faster goods release.

2. **Most goods take between one to five days to be cleared, although the URA stipulated time is one hour on average.** This is dependant on:

- Arrival time at the border;
- Whether ASYCUDA is up and running;
- Flagging off of the trucks in a convoy;
- Deferred Payment Notices (DPN).

The time taken to process clearance of goods at the border is slightly shortened by the fact that the whole clearance process takes place under one roof.

3. Identified Costs to importing are categorised below:

- Demurrage costs; these are categorized into containerized cargo and rail cargo. Containerized cargo is given a grace period of 40 days, beyond which an importer is required to pay 20 dollars per day. On the other hand, rail cargo is given a grace period of 2 days beyond which covered containers are required to pay 9,900/= per day and open wagons required to pay 12,600/= per day.

- Storage fee of 12,500/= per day.
- Craneage fee of 120,000/= per container.
- Clearing agency fees of 1.5% of C.I.F.
- Average Weigh Bridge fees of 200,000/=
- Monthly Transit goods license of 350,000/=
- Transport to owners premises of a 20 ft container ranging between 180,000/= and 200,000/= and a 40 ft container ranging from 250,000/= to 300,000/=. These fees come to approximately 1,000,000/= per container per trip

The study mainly recommended the need for an improved ASYCUDA system citing the constant network breakdowns that lead to delays as well as the need to harmonize working among the offices that are required to complete the clearing process. Thus, banks where taxes are paid from should consider extending their hours of operation to coincide with those at URA from current operations of up to 5.00pm.

Cost of Doing Business Study

General findings from the survey were that majority of the respondents revealed that the bureaucracy and cost linked to the business registration process were a major deterrent to formalization of their businesses. In all the four divisions of Kampala, there was a general consensus that trading licenses were easy to obtain in the first

instance but very difficult to acquire upon renewal. Many small business owners also cited the high cost of contracting lawyers to register their businesses as a major deterrent to formalization of enterprises.

Transferring/registration of property were examined to ascertain the costs and time involved in the process. Unfortunately, the majority of the businesses visited were renting their premises. In this case, the cost of renting varied with business type, location, number of customers and amount of initial capital ranging from Ug shs 60,000 to Ug shs 1,000,000.

The mini survey results showed that only 7.3% of all the enterprises visited held business accounts and, 90% of these were located in central Kampala. The findings also revealed that the process of opening bank accounts was not difficult especially if all the relevant documents were available and in order of requirement. However, most sole proprietorships were using personal bank accounts for their business operations. The majority of sole proprietorships did not own Tax Identification Numbers (TINs), which is a clear indicator of non compliance. The main reason for this is that the Business first needs to be incorporated before it can acquire a TIN number, yet most respondents were not incorporated businesses.

Key recommendations from the survey, point to the need for the business registration process to be simplified and make requirements clearer and easily accessible by all intending business people.

The findings of the mini survey revealed suspicion on the part of MSMEs on the high interest rates by the Commercial bank which makes them reluctant to get loan facilities. This denies them opportunities to access credit facilities to grow their businesses. The mini survey revealed the need for tailor made specific interventions for MSMEs. The Doing Business indicators mainly focus on factors that increase the cost of doing business for larger companies.

4.3 Support to Private Sector Investments in Strategic sectors

During the FY 2008/09 Government undertook a number of strategic interventions to support private sector investments and growth.

Under the sub county development programme, the following were undertaken

- Purchase of 40 Tractors for a Tractor Hire Scheme whose objectives are to: foster national food security through immediate increase in food crop acreage; ensure immediate increase in production so as to enable households benefit from expanding regional market for food commodities; and counter the adverse effects of the global financial crisis through increased production and export of agricultural commodities for the regional market. The Scheme is being implemented by the National Enterprise Corporation (NEC) and is thus a partnership between Ministry of Finance, Planning and Economic Development (MFPED), Ministry of Agriculture, Animal Industry and Fisheries (MAAIF), NEC, and selected Farmer Groups/Associations.
- Collaboration with Uganda Industrial Research Institute (UIRI) to support value addition initiatives especially by small and medium enterprises in agro processing.
- The Purchase of 1,050 Motorcycles for all the LCIII Chairpersons; and
- Supporting value addition in the Tea Sector by extending financial support to M/S Kayonza Tea Growers Ltd.
- Invested Ushs 2.0bn in Buhwenju Tea factory in Bushenyi district and Ushs 400 million in Natural Uganda Fruit drying factory in Kasana in Luwero district. A more detailed project profile for Natural Uganda Fruit drying factory was prepared to streamline funding for 2009/10 and a provision of Ushs 5.0 bn has been earmarked for the Soroti fruit factory.
- Land was acquired for the creation of regional Industrial Parks and Special Economic zones. Industrial land was procured in Mbarara (640acres), Mbale (619acres) and Soroti (219acres). 519 acres in Gulu and 4000 acres in Nakasongola were also in the process of being acquired.

4.3.1 Create awareness of investment incentives for both local and foreign investor

Government provides for a number of incentive regimes to benefit all investors. However, the local investors are not aware of some of the existing ones. In collaboration with Uganda Investment Authority, brochures of available incentives were provided and work was started to publish a policy booklet/Hand Book.

4.4 Microfinance Policies and Programs

To ensure the delivery of affordable financial services to all Ugandans in a sustainable manner, a number of microfinance policies were formulated, programmes implemented and initiatives undertaken;

4.4.1 Strengthening of Regulation and Supervision

- **Development of a draft Savings and Credit Cooperative Organisation (SACCOs) specific Bill** – after the development of a draft SACCO Specific Bill, extensive consultations with stakeholders in the SACCO industry were held, first at the institutional, regional and national levels. Twelve regional consultative workshops were held with representatives of SACCOs, as well as regional political and technical leadership. At National level a workshop attended by a sample of SACCO leadership and management staff, District Commercial Officers, and representatives from the Cooperative Movement, was held and views of stakeholders were integrated into the draft SACCO Bill.
- **Micro Credit Bill; - A Micro Credit Bill was proposed to cater for MFIs not catered for by the MDI Act.** A Microfinance Forum was held at which the stakeholders;
 - Reviewed the draft SACCO Bill;
 - Made proposals on the enactment of a Non–deposit Taking MFIs Bill; and
 - Proposed establishing a Microfinance Regulatory Authority (MRA).
 - A Consultative Workshop was held with Members of Parliament on the Standing Committee of Legal and Presidential Affairs which recommended combining of the SACCO Bill, Micro Credit Bill and the MRA under one Bill to be known to as Tier 4 Microfinance Bill, 2009.
 - A study on Tier 4 Microfinance regulation made by AMFIU also recommended merging the two drafts into one bill. Thus the Tier 4 Microfinance Bill has 3 Parts namely:
 - Part One: SACCOs
 - Part Two: Micro Credit or Non-Deposit Taking Institutions

- Part Three: Microfinance Regulatory Authority (MRA)
- Several initiatives were started during the year and are on-going;
- Further consultations with stakeholders in the microfinance industry undertaken before a final Tier 4 Microfinance Bill is presented to Parliament for enactment.
 - To ensure the licensing of microfinance institutions in the country, licensing criteria for SACCOs was developed. However, implementation of the criteria awaits enactment of Tier 4 Microfinance Bill.
 - Memorandum of Understanding (MOU) was signed with AMFIU which mandates AMFIU to provide Performance Monitoring Tool (PMT) training, follow up and backstopping for supported SACCOs. AMFIU produced and presented an inception report and program activities were undertaken.
 - Plans were finalised to undertake a National Survey of the Microfinance Sector in Uganda and update the microfinance database and update the microfinance outreach map. The survey will be undertaken in Financial year 2009/10
 - A Data base for SACCOs concept paper, questionnaire, and census manual guide for data collection was developed.

Going forward, it will be important that legislation and enactment of Tier 4 Microfinance Bill is effected since it has serious implications for the appropriate functioning of SACCOs. The Microfinance Regulatory Authority (MRA) needs to be established to ensure regulatory compliance by SACCOs and other Microfinance Institutions. In addition, a coordinating committee of Tier 4 Microfinance Industry Stakeholders needs to be established.

4.4.2 SACCO Formation, Strengthening and Outreach

Progress was made in regard to SACCO formation, strengthening and outreach as follows;

Component I: SACCO Formation

The progress made during FY 08/09 in key areas in this component is detailed in Table 15 below;

Table 15: Number of SACCOs covered under different Activities

Activities	No. of SACCOs - FY 07/08 and FY 08/09					FY 09/10
	Target as at Sept '08	Completed Sept '08	Target Oct-Dec '08	Completed Jan '09	Completed Jun '09	Planned FY '09/10
Facilitate SACCO formation	60	68	37	72	140	21
Sensitization of communities for SACCOs	60	68	37	72	140	21
SACCO Registration (Probation)	60	68	37	57	15	-
Community entry training	60	68	37	123	22	21
Election of interim committees	60	68	37	123	17	21
Follow up training	60	0	37	8	10	21

Table 16: Summary of component I achievements;

Component: Facilitate SACCO formation					
Activities	Progress in FY 07/08		Progress in FY 08/09		Progress 09/10
	Planned as at Jul '08	Completed as at Dec '08	Planned as at Jan '09	Completed as at Mar '09	Planned in FY 09/10
Facilitating SACCO formation	60	68	37	72	21
Other achievements					
<ul style="list-style-type: none"> ▪ Sub counties identified without SACCOs have one now ▪ Programme now has big support from the sub county and district leadership ▪ Increase in savings as people join in newly formed SACCOs ▪ Training completed ▪ Interim committees formed 					

- 140 SACCOs were formed with funding from the Government of Uganda (GOU). Community training and mobilization for SACCO formation was delivered in 140 SACCOs.

Component II: Support to existing but weak SACCOs

Under IFAD funding, the Programme targeted a total of 126 weak SACCOs for start up support. However, 128 weak SACCOs were supported. Another 137 SACCOs were supported under GOU funding. Hence, a total of 265 SACCOs were supported.

Under IFAD Funding, the following were undertaken in 2008/09

- a) Provision of goods and equipment;
 - Safes, filing cabinets, bicycles and calculators, as well as printed stationery were delivered to all 128 SACCOs.
- b) Refurbishment of SACCO premises;
 - Works of SACCO premises for 71 SACCOs started.
- c) Training;
 - 127 SACCOs were trained in Module I and II of the Start-up Training Kit
- d) Operational cost subsidy;
 - UCSCU signed a Memoranda of Understanding (MOUs) with 128 beneficiary start-up SACCOs. All these SACCOs have received rent and salary support for their Managers, Cashiers and Security Guards.

Under GOU funding, the following were undertaken in 2008/09

- a) Provision of goods and equipment;
 - 137 SACCOs were provided the some of the following
 - Safes, filing cabinets and stationery were delivered to all the 137 SACCOs.
 - Calculators were delivered to 48 SACCOs
- b) Refurbishment of SACCO premises;
 - The Bills of Quantities (BOQs) for small refurbishment works of premises for 51 SACCOs were prepared.
- c) Training;
 - Module 1 of the Start-up Training Kit was delivered to 105 SACCOs, while Module 2 was delivered to 32 SACCOs.
 - Updating the database of service providers by UCSCU was planned.

Table 17: SACCO Strengthening and Outreach

Advanced training: This support is provided to 50 SACCOs							
	Progress FY 07/08 and FY 08/09					Planned FY '09/10	
Activities		Target at June '09			Completed By Jun '09	Target FY 09/10	
		Module 1,2,3,4,5			Module 1,2,3	Modules 3,4,5	
SACCOs that have received advanced training		50			50	50	
Delivery of Kits: Progress FY 07/08 and FY 08/09					Plan FY 09/10		
Kits/Items	Target at Dec '08	Achieved Jan-Mar '09	Achieved As at Jun '09		Planned FY '09/10	Comments	
Goods and equipment delivered (Stationery)	50	35	50		20	- Orders for printing stationery for the remaining SACCOs are being worked out.	
Signed MoUs	50	37	50		20	- Preparing for the new selected SACCOs	
Computer, printers	50	-	-		20	- Notified winning bidders, final stages of contracts, delivery by October '09.	
Financial software	50	-	-		20	- Working on documents for approval.	
Power source	50	-	-		20	- 68 generators procured, to be distributed in July '09	
Motor cycles	50	-	-		20	- Evaluation of bids done, winning bidders informed, distribution of 180 motorcycles in October '09	
Strong room	50	-	-		20	- Procurement underway	
Audit services	50	-	-		20	- SACCOs to use their auditors (no procuring auditors)	

d) Operational cost subsidy;

- UCSCU signed Memoranda of Understanding (MOUs) with 137 beneficiary start-up SACCOs.

- All 137 SACCOs received rent and salary support for their Managers, Cashiers and Security Guards.

Component III: SACCO Strengthening and Outreach

Under this component, a number of activities and support have been done (Table 17);

The Programme targeted to support 138 SACCOs but 136 were supported because two SACCOs were reassessed and supported under the start up kit. 20 SACCOs were assessed to receive outreach support during FY 2009/10. Under IFAD Funding the following was undertaken in 2008/09;

- a) Provision of goods and equipment; - Progress made in terms of provision of goods and equipment to the afore-mentioned 136 SACCOs
- b) Training; - as in Table 17 above

Component IV: Institutional Support to UCSCU, Regional Networks and Financial Linkages

Institutional support to UCSCU

Under IFAD Funding, the following were undertaken

- a) - Completed recruitment of 12 out of 15 vacant staff positions. 53 Staff members and 29 FEWs were recruited.

Table 18: Staffing, strengthening regional offices and planned areas for the next 2yrs

	Areas strengthened in FY 07/08 and FY 08/09	Planned areas for strengthening FY 09/10 and FY 10/11
UCSCU	53 Staff members 29 FEWs	4 field officers 2 drivers 28 FEWs Procurement of 2 vehicles 1 photo copier
	10 Regional offices opened and 6 laptops procured	5 more regional offices to be opened
	BoQs and structural design for maganjo completed	Refurbishment of UCSCU headquarters – Maganjo
	Financial and accounting software procured and installed at head office. Staff training in use of software completed.	- Facilitate external audits for UCSCU - Furniture and local area network to be procured for UCSCU premises in Maganjo

- (b) Technical Assistants and Service Providers; -
- 30 FEWs were recruited and work in liaison with Regional Offices, District organs.
 - TORs for developing a strategic plan and securing a Technical Advisor were completed and submitted to the World Bank for Approval.
 - Financial and accounting software was procured and installed at UCSCU Head Offices. Training in use of the software was provided to 7 staff of UCSCU.
 - Four (4) offices already being supported.
- c) Provision of administrative support; - UCSCU plans to have a total of 15 Regional Offices. It has so far established 10 offices out of which 4 are supported by IFAD.

Regional/Zonal Networks and Lead Institutions

- RFSP-PAU and UCSCU Regional Networking and Linkage Banking meetings were held in Mbale, Masaka, Mbarara, Lira and Gulu.
- Plans to undertake a study tour in Tanzania and Burkina Faso were finalized.

4.4.3 Administration, Monitoring and Evaluation

Progress made regarding the Information and Communication Strategy include;

- a) Implementation of an Information and Communication Strategy under the Programme; Development and Implementation of the Action Plan which yielded the following:
 - i. Production of educational and promotional print materials in form of brochures, posters, banners, T-shirts, and the RFSP Quarterly News Bulletin.
 - ii. A dialogue with the media on the policy overview, background and overall Programme implementation framework.
 - iii. Radio spot messages promoting the Savings culture and joining SACCOs were developed.
 - iv. Radio and Television talk show scripts were developed. Eleven media houses were contacted, and so far one of them i.e. Impact FM radio station has offered one hour free air time to disseminate information on the Programme activities in the country.
 - v. The programme Website has been developed and is running.
 - vi. Case studies on SACCO best practices and impact on secondary beneficiaries (i.e. selected SACCO clients) were done across the country. Short audio visual documentaries have been produced.
 - vii. Facilitated production and publication of news/features about the program activities in print and electronic media.
 - viii. Conducted Sensitization workshops for Members of Parliament (MPs) and the Local Council (LC) V, Residential District Commissioners (RDCs), Councilors and other Community Leaders of Karamoja and Lango sub regions.
 - ix. Training of all 1048 Sub County Chiefs and sub county LC 3 Chairmen countrywide were conducted at Kyankwanzi in Community mobilization to embrace the culture of savings and credit.
- (c) MSCL facilitated the disbursement of wholesale funds to SACCOs and other MFIs. In the FY 2008/09, Government availed shillings Ugx 25,198,813,800 which MSCL extended to 434 SACCOs while UGX 16,510,127,200 was extended to 41 MFIs. The recovery rate was still low but mainly because most of the loans had not yet matured.

4.4.4 Challenges for the Microfinance Function

Challenges remain in the microfinance industry, particularly in the Rural Financial Services Programme. These Include;

- High level of malpractices in the SACCO and other MFIs such as theft of member's savings

- Poor saving culture and low rates of loan recovery discouraging membership growth and savings
- Poor SACCO governance and leading to ineffective systems and procedures
- Poor record keeping in most SACCOs and most of MFIs. This makes analysis of SACCO performance difficult.
- Lack of trust in SACCO leadership due to dishonesty and lack of skills
- Lack of regulatory framework which has affected SACCO operations and performance, monitoring and supervision
- Delays in signing of MOU between GOU and UCSCU
- Delays in the submission of accountability from UCSCU
- Lack of clarity between the roles of UCSCU Board and Management
- No prompt feedback by Microfinance department, UCSCU, RFSP/PAU and MSCL
- Delays due to the disbursement modalities between RFSP/PAU and UCSCU
- Too strong managers relative to the Board of Directors
- Inadequate technical assistance and follow up on equipment delivered
- Lack of standardized operational and financial controls in the SACCOs and other MFIs
- Local leaders' low motivation to mobilize many people into the Sub county SACCOs

5.0 Regional Integration and International Trade Agreements and Cooperation

There was continued progress towards further and greater regional integration within and beyond the East African Community (EAC), encompassing other regional economic communities, namely, COMESA and SADC. At the tripartite summit, held in Kampala during February 2009, the leaders of the EAC member countries, the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC), agreed to further deepen and widen

cooperation and coordination in all sectors with an ultimate goal to form a super trade bloc.

The Council of Ministers called for the creation of a Free Trade Area, cutting across the three Regional Economic Communities (RECS), encompassing 26 countries with a GDP estimated at US\$624bn. They adopted a communiqué on a program of harmonization of trading arrangements among the three blocs.

Among the three blocs, the EAC has a functioning Customs Union which entails the free movement of goods produced within the EAC. The internal tariffs which Tanzania and Uganda were imposing on some Kenyan Manufactured goods will be eliminated in January 2010. Discussions also commenced, in line with the EAC Customs Union Protocol, to review the Common external tariff, applicable on goods emanating outside the EAC.

COMESA plans to launch its own Customs Union while SADC is preparing to set up a Customs Union in 2010. The EAC's Free Trade Area is fully in force while SADC formally launched its Free Trade Area during the year. COMESA is making progress towards a Free Trade Area

The major challenge to the full cooperation of the three blocs still lies in the multiple memberships of some countries to various trade blocs and fear by weak economies to be flooded with goods from larger economies like South Africa, Kenya and Egypt.

On the global scene, as members of the Africa, Caribbean and Pacific (ACP) Group, East African countries have enjoyed a trade relationship with European Union (EU) with the final arrangement officially ending on 31st December 2007. More recently, the Cotonou Agreement transited to the Economic Partnership Agreement (EU-EAC EPA). The EPA was signed in July 2009.

Further, during the year 2008/09, Partner States held negotiations for conclusion of the East African Community Common Market Protocol.

Free Movement principles

The main elements of Common Market are the “four freedoms” involving free movement of goods, persons, services and capital. The freedoms granted to East Africans under the Draft Protocol comprise the right to freely leave, or enter and reside in a Partner State for the purpose of work, or establishment, or provision of

services. These freedoms, however, will be progressive and subject to schedules agreed upon by the EAC Council of Ministers.

- **Free movement of workers**

The rights granted to the ‘worker’ under the Protocol extend to their families. The rights only apply to those who are involved or wish to be involved in economic activities. Once one acquires the status of a worker, he or she will enjoy a right of entry and residence in the Partner State, and that state will be obliged to give the worker and his/her family a resident permit. These rights may only be denied on public policy, public health and public security considerations.

- **Right of Residence and Establishment**

A person from a Community Partner State shall have the right to install oneself and ‘set up shop’ in another Partner State permanently or semi-permanently for the purpose of performing a particular activity.

- **Right to provide and receive services**

A person from a Partner State will have a right to provide services in another Partner State on a temporary basis without the need to reside in that particular state. Both the right to establishment and to provide and receive services is subject to derogations on grounds of public policy, security and health.

EAC Competition Policy

The “four freedoms” of a common market will have little effect if parties were free to engage in restrictive trade practices. The objective of the proposed competition policy is to encourage economic activity and maximize efficiency by enabling goods and resources to flow freely amongst Partner States. The policy will outlaw anti-competitive agreements and practices that are capable of preventing, restricting or distorting competition.

EAC Commercial Policy

The primary focus of the proposed commercial policy is the harmonization of laws and procedures which are essential to the optimum working of a common market. The purpose of these laws and procedures will be to facilitate commercial activities. The Community commercial policy will also enable the Partner States to formulate uniform commercial policies towards third countries.

EAC Transport Policy

It is proposed that the Community pursues a common transport policy by ensuring uniform rules applicable to (1) transport to or from the territory of a Partner State or passing across the territory of one or more Partner States, and (2) non-resident carriers that may operate transport services within a Partner State.

Environment

The Community's policy on the environment should be anchored on the principle that preventive action should be taken; that environmental damage should be rectified at source; and that the polluter must pay. The objectives of provisions in the Draft protocol are to preserve, protect and improve the quality of the environment so that it contributes to the protection of human health; while securing prudent and rational utilization of natural resources.

Research and Technology

The development industry in the Community will depend on the research and development and technological advances. The Community should therefore encourage research and development for both small and medium enterprises; and in research institutes and universities.

5.1 Government's International/Regional Commitments on Economic Development Issues

- A Cabinet Memo on Africa Peer Review Mechanism (APRM) Programme of Action for Uganda was formulated and costed. Monitoring and reporting on progress of implementation was undertaken.
- Officials from the Directorate represented the Government of Uganda (GOU) at a number of important international forums, including;
 - The China-Africa Experience sharing programme in China;
 - The APRM 6th Session in Egypt; and
 - The Expert Group Meeting at the UN Headquarters on “Climate Change and Sustainable Development: The Role of Indicators” .

6.0 Conclusions

This report examined the performance of a range of economic indicators, sectors and government actions. Despite the global economic crisis, macroeconomic performance during the financial year was impressive, particularly when compared to performance in other low-income countries in Africa. Nevertheless, there was a slowdown in the pace of economic activity in 2008/09 with Real GDP (market prices) growing at 7.1 percent compared to a set target of 8 percent. However this growth rate was still high by regional and world standards. Prior to the global economic crisis, real GDP growth was impressive averaging about 8.6 percent per annum between 2004/5 and 2007/08. The good performance despite the economic shocks reflected the resilience of the Ugandan economy as well as the fact that the appropriate macroeconomic policy responses were undertaken during the year.

There are a number of lessons that can be drawn from the performance of the fiscal year 2008/09. These include;

6.1 Global Economic Crisis

The onset of the global economic downturn during the year posed more challenges for macroeconomic management. It threatened the steady progress achieved over the last several years in terms of macroeconomic stability and economic growth and may yet have deleterious long-term consequences on human development indicators.

In the new strategy for the National Development Plan (NDP), there is need for a concerted effort by government to address the remaining constraints, currently manifested in inadequate infrastructure (particularly transport and energy), in order to at least maintain economic growth. On the other hand, attention needs to be maintained on the critical sector of agriculture, the foundation for building export competences, generating new technologies, and poverty and inequality reduction.

6.2 *Absorptive capacity Constraints in Government Institutions*

As a policy response to the global economic crisis, the government undertook to fully execute the 2008/09 budget which included significant increases in infrastructure development expenditures. However the full impact of the intended fiscal stimulus was not achieved as Ministries, Departments and Agencies (MDAs) faced implementation capacity constraints. Some MDAs were slow in adapting to the newly introduced budgeting systems, which included the need for work and procurement plans before budget funds were to be disbursed. The reforms are intended to improve efficiency in government expenditure and to ensure value for money. It is hoped that as implementing agencies begin to adapt to the reforms better expenditure performance will be achieved. Nevertheless, in order to unlock some of the absorptive capacity constraints, e.g. deficiencies in human resource capacities, deliberate government investments may be required.