THE REPUBLIC OF UGANDA

National Budget Conference

BUDGET STRATEGY FOR FY 2017/18

DELIVERED BY:

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INTRODUCTION

Your Excellency the President,

Colleague Ministers,

The Leader of the Opposition in Parliament,

Members of Parliament,

Development Partners,

Ladies and Gentlemen

1. It is my pleasure to welcome you all to this year's National Budget Conference which will enable us to discuss and reach consensus on the strategic priorities for the forthcoming FY 2017/18 budget and the medium term.

2. This same week, from 5th – 8th September 2016, Government, under the stewardship of the Rt. Hon. Prime Minister, reviewed the annual budget performance for FY 2015/16 aimed at identifying opportunities for growth, barriers to progress and the required remedies.

3. The National Development Plan 2 (NDP2) sets out a goal of achieving middle income status by 2020. The NRM Manifesto 2016 – 2021, together with the 23 Presidential Guidelines (2016) reaffirm the commitment to achieve this goal.

4. Middle income status requires that average incomes per Ugandan are raised from the current US$ 780 per year to at least US$ 1,035. This translates into annual income per household of at least Uganda Shillings 20 million by 2020. These households are engaged in the primary sectors of the economy.

5. In elaborating the Budget Strategy for FY 2017/18 and the medium term, I will therefore spell out the strategy on how to unlock the key constraints to allow primary sectors to flourish. It is in these primary sectors that all 8 million Uganda Households are engaged. These primary sectors include agriculture, agro-processing and agribusiness, trade and other services such as education health and financial services, and to a limited extent today tourism, oil, gas and mineral sectors.

6. It is also clear that unlocking the potential of the primary sectors requires addressing the issues of other key supportive sectors to facilitate the primary sectors I have mentioned above. These key supportive sectors include infrastructure sectors that are responsible for provision of power and water for industrial and agricultural production, road, rail and water transport which allow increased market access at a national, regional and international level. In addition, it is critical that constraints that face sectors responsible for providing peace and stability, economic management and service delivery are also addressed, in order to ensure the ultimate effectiveness in the delivering of our strategy.

7. The actions we elaborate today will not only lead to increased incomes but also address the increasing threat of unemployment and underemployment, especially of our bulging youth numbers. The achievements we have attained to-date, will all count for nothing if we do not address the gainful employment of the vast majority of the people of Uganda, especially the young people who we have brought forth into this world, bred to be responsible citizens and educated using both family and public resources.

8. Therefore, the proposed budget strategy that I lay before you today is premised on the national development plan, the NRM manifesto, as well as the current and prospective socioeconomic conditions. In a broad way, the budget strategy presents to all of us (both Government and private sector), a task to deliver on ***"Enhanced Productivity for Inclusive Growth and Job Creation."***

OPPORTUNITIES AND CHALLENGES FOR THE BUDGET STRATEGY

9. Allow me first of all to highlight the opportunities and challenges that Uganda faces today in the journey to achieving middle income status, before elaborating the strategy for the next budget and the medium term. There are five key opportunities that Uganda faces today.

Firstly, in the key primary sectors Uganda has tremendous potential. Agriculture and Tourism have great untapped opportunities that will enhance employment, incomes and economic growth. Uganda has also undertaken considerable preparatory work for the development of the oil, gas and mineral sector. It is these primary sectors that will unlock the gates to achieving middle income status and job creation.

However the potential of these primary sectors has not been fully exploited. The agricultural sector is plagued by low productivity as a result of inadequate commercialization. There is also a low application of appropriate high yielding breeds and varieties and lack of critical inputs such as fertilizer. Tourism potential is constrained as a result of poor infrastructure in tourism areas, poor standards development and low visibility to attract national and international tourists.

Secondly, Uganda is faced with market opportunities at a regional and international level which need to be seized. Uganda lies in an enviable geographical position to allow access to regional markets across Central and Eastern Africa. However, Uganda's access to markets at regional and international levels is constrained by lack of sufficient market logistical infrastructure such warehousing, low quality products and high costs of transportation and power infrastructure.

Thirdly, Ugandans are blessed with demonstrable entrepreneurial zeal that provides the basis for Small Medium and Micro-Enterprise development. Uganda is consequently the world's number one most entrepreneurial country with an entrepreneurial rate of 28.1%, with Thailand coming second at 16.7% (The Guardian, 2016). The challenge remains to ensure that businesses can be sustained and survive long enough, for them to make a meaningful impact on job creation, incomes and economic growth. Uganda's private sector also needs to make appropriate investment decisions in order to survive in the competitive and volatile business environment.

Fourthly, we have invested substantially in infrastructure development particularly in power and transport infrastructure which investments should facilitate value addition, industrialisation and market access. Challenges, however, still remain with delays in providing affordable power and the development of adequate transportation modes such as rail and water transportation, which would facilitate low production costs and market access;

Finally, Uganda has been blessed with peace and security across the country for several years, which together with macro-economic stability that has been maintained, are necessary pre-requisites to enhance production and the citizens' welfare. However, the public sector still requires eliminating inefficiency and corruption in service delivery, speed up project implementation, and rapidly enhance domestic revenues to finance much needed development.

10. Therefore the strategy for the next year and the medium term has been crafted to seize these opportunities and address challenges faced. In this way Government will address stagnating economic growth, unemployment, and poor service delivery

THE 2017/18 BUDGET STRATEGY

11. The Budget Strategy for the forthcoming year and the medium term therefore seeks to attain the following:-

i) *Increasing Production and Productivity in the Primary Growth Sectors of the economy including agriculture, tourism, oil, gas and minerals;*

ii) *Supporting Private Sector Development for Sustainable Employment and Economic Growth;*

iii) *Enhancing Infrastructure Development to provide affordable power and lower transportation costs for Value addition and enhanced Market Access;*

iv) *Enhancing Economic Management and Domestic Resource Mobilisation;*

v) *Improving Public Service Delivery; and*

vi) *Improving Efficiency in Government Operations.*

Increasing Production and Productivity in the Primary Growth Sectors of the economy including agriculture, tourism, oil, gas and minerals

12. Achieving the desired levels of commercialisation and productivity in the key primary sectors of agriculture, tourism and the oil, gas and mineral sector requires the following interventions:

13. In the Agricultural Sector strategic interventions will include the following:-

i) Strengthening of the Agricultural Extension system to improve agronomic practices at the farm level

ii) Increasing access to quality farm inputs, specifically fertilisers, seedlings, high quality animal breeds backed by research and development in draught resistant crops

iii) Promotion of solar water pump for irrigation

iv) Ensuring availability of water for production by Investing in bulk water schemes on major lakes and rivers to supply water for irrigation and addressing climate change issues – particularly, increasing coverage of trees and discouraging deforestation.

v) Fast–tracking formal land ownership and acquisition of titles to strengthen security for land tenure and ensure leasing of land for farming and collateral to access loans for agricultural financing

vi) Enhancing Post-harvest handling Infrastructure through PPPs

14. In the Tourism Sector, Strategic Interventions will include the following:-

i) Skills development for tourist and hotel service providers to enhance standards to world class levels while promoting and enforcing hotel and restaurant standards through certification

ii) Improving access to tourism sites by rehabilitation of roads to tourism sites including Moroto – Kotido – Kaabong, Kisoro-Bwindi, Katunguru – Ishasha; and Renovation of major tourism sites and promoting investment in affordable accommodation to promote domestic tourism

iii) Continued diversification of tourism products beyond nature viewing to cover cultural, religious and political sites

iv) Maintaining security through protection of tourism sites

15. In order to support the development of the oil, gas and mineral sub-sectors, Government will expedite the following interventions:-

i) Expedite the development of the Oil refinery and associated infrastructure such as the Hoima Airport and the Hoima-Butiaba Roads to support commercialisation of oil resources

ii) Support the private sector's extraction of minerals to ensure commercialisation of key Minerals deposits including Iron Ore, Limestone, Copper, Phosphate and Dimension Stone

Supporting Private Sector Development for Sustainable Employment and Economic Growth

16. In order to ensure sustainable growth and jobs for the population, Government is committed to address current private sector development challenges through the following priority interventions:

i) Provision of fully serviced sector demarcated industrial and business parks with adequate electricity, water, telecommunications and Lake/Rail and Road access at Luzira, Jinja and Namanve/Bukasa

ii) Promotion of local content through ***'Buy Uganda, Build Uganda'*** by ensuring that government procurements target locally produced goods and services, provided they are certified by the UNBS

iii) Promotion of private sector investment, especially Small and Medium Enterprises in value addition to boost export through faster licensing and availing of required land

iv) Reduce the burden of meeting regulatory requirements for starting a business including expedition of business licensing reform.

v) Equipping the Judiciary with adequate financial and human resource to reduce commercial case backlog

vi) Long term financing

Fast-Tracking Infrastructure Development to provide affordable power and lower transportation costs for Value addition and enhanced Market Access

17. In order to enhance Infrastructure Development, the budget strategy will focus on improving Public Investment Management through the following strategic priority interventions:

i) Enforcement of preparation and implementation of Strategic Investment Plans by MDAs

ii) Instituting Independent review of projects

iii) Building capacities of MALGs in project appraisal, evaluation and implementation

iv) Creation of a technical fund for feasibility studies and strengthening monitoring and evaluation

v) Sequencing of Government Programmes and Projects within and across sectors

vi) Speeding up implementation of key infrastructure projects – Standard Gauge Railway (SGR), Isimba Project and Karuma HEPs

vii) Maintenance and rehabilitation of existing roads through equipping Regional Road Equipment Workshops

viii) Enforcing Physical Planning Standards

Enhancing Economic Management and Domestic Resource Mobilization

18. In order to narrow down the budget deficit, Government has set a target of increasing domestic resource mobilisation effort through the following priority interventions:

i) Review of the tax policy and laws focussing on improvement of the business environment, mitigating base erosion and weak tax compliance.

ii) Equipping URA with adequate resources – field vehicles, revenue tracking systems, maintained servers and IT equipment – critical for revenue collection.

iii) Staff recruitment and re-tooling to close down the human resource gaps in tax administration commensurate to the task and best practice.

iv) Facilitation of major Non-Tax Revenue (NTR) collecting agencies – Uganda Registration Service Bureau and Police for instance – with procurement of computerised systems to achieve full potential of NTR collections.

v) Inprovement in local revenue collection and management through rollout of local government revenue database initiative.

vi) Operationalisation of National Lottery and Gaming Act 2015 through recruitment of personnel and provision of resource.

Improving Public Service Delivery

19. In order to address the challenges in social service delivery, the 2017/18 Budget Strategy will focus on the following priority interventions:

i) Equiping the new Ministry of Science, Technology and Innovation with required resources to improve research and innovations

ii) Certification of non-formal trainings to enable skilled youth without formal education background to acquire employment

iii) Sequencing introduction of new curriculum i.e. re-orienting instructors/teachers before introduction of new curriculum

iv) Universal access to maternal health through construction of one health center IV for each island district

v) Intensifying Monitoring/Inspections and Supervision of Government programmes especially under works, health and the education sectors.

vi) Improving the management of the Government payroll through linking of payroll records to national identification numbers

vii) Streamlining of wage enhancement across Government to avoid wage differentials and adhoc wage increment arising from pressure groups.

viii) Implementation of Performance Contracts in the Public Service

Improving Efficiency in Government Operations

20. To address issues of wasteful expenditures and improve Government efficiency, the following measures shall be undertaken:

i) Enforcing adherence to Public Investment Management

ii) Putting temporary hold on creation of new public corporations and state enterprises to avoid duplication, usurping of powers from mother ministries, pay disparities across Government and consequent cost of administration. The existing public corporations/enterprises will be reviewed.

iii) Coordination of Government programmes through enforcement of joint sector activities.

iv) Integration of ICT systems to avoid duplication, benefit from economies of scale and ease sharing of information as well as ensuring data integrity

21. Before I conclude, let me highlight on the macroeconomic performance and outlook.

MACROECONOMIC PERFORMANCE AND OUTLOOK

22. The global economy is projected to grow at 3.2% and 3.5% in 2016 and 2017 respectively. Weaker global growth is attributed to lower commodity prices, slow-down in China, geo-political events and financial uncertainties arising from '*Brexit.*'

23. Growth in Sub-Saharan Africa fell to 3.5 percent in 2015, and is projected to fall further to 3 percent in 2016 and slightly improve to 3.3 percent in 2017. Slow-down in growth is attributed to lower commodity revenues in oil receipts, low power generation and weak investor confidence.

24. **Economic growth** for Uganda was modest at 4.6% in FY 2015/16 in-spite of the external shock and negative market perceptions in run-up to the 2016 elections. Reasonable rates of growth, low inflation, adequate international reserves, and stable exchange rate have been realised.

25. GDP growth rates for FY 2016/17 and 2017/18 are projected to be at 4.8% and 5.2% respectively, slightly higher than the 4.6 percent achieved in FY 2015/16 but lower than the earlier projections. Growth is hinged on the projected recovery in the industry, agriculture, forestry and fishing sectors as government continues to invest in infrastructure projects.

26. Inflationary pressures were contained in FY 2015/16, though inflation peaked at 8.5% in December 2015. This was largely driven by pass-thru effects of the exchange rate depreciation. Inflation receded during second half with Annual headline and core inflation averaged at 6.6% and 6.7% respectively during FY 2015/16 due to low international oil prices and stability of the exchange rate.

27. There has been recent easing of the monetary policy stance. The **Central Bank Rate** (CBR) was lowered to 14% from 17% in August 2016. Monetary policy easing premised downside risks to inflation and it is expected to support a recovery of private sector credit and subsequently economic growth.

28. Domestic Revenue collections during FY15/16 recorded a shortfall of UShs. 350 billion when compared to the revised budget. However, overall expenditure was lower than budget majorly on account of low absorption within externally financed development budget.

29. Depreciation pressures on the exchange rate. The Shilling was affected by both external and domestic shocks resulting into a depreciation of 17.2% in the first half of FY 2015/16. This was mainly attributed to strengthening of US dollar and the sentiments relating to government finances in the run-up to 2016 elections. However, it was relatively stable during the second half of the FY 2015/16 as demand for imports waned.

30. Overall balance of payments was in surplus of US$80.2 million in FY 2015/16 from a deficit of US$352.8 million recorded in FY 2014/15. This was due to a decline in private sector import bill, reflecting a combination of low global crude oil prices and subdued domestic demand.

CONCLUSION

31. Ladies and Gentlemen, the proposed Budget Strategy for FY 2017/18 that I have presented aims at improving productivity in the primary sectors, accelerating infrastructure development to hasten realisation of expected investment returns; improving governance and quality of public service delivery for inclusive growth and development. It is therefore my profound belief that this proposed Budget Strategy will generate positive discussions here and later in the Local Government Regional workshops scheduled to start on 12th September 2016, for concretisation.

I thank you for Listening