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BUDGET SPEECH

(***Theme: Promoting Economic Growth and Reducing Poverty Through Public Expenditure***)

DELIVERED AT THE MEETING OF THE 4TH SESSION OF
THE 7TH PARLIAMENT OF UGANDA
AT THE INTERNATIONAL CONFERENCE CENTRE
ON THURSDAY, 1OTH JUNE, 2004

BY

THE MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

HON. GERALD M. SSENDAULA

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Your Excellency the Vice President,

Mr. Speaker Sir,

Honourable Members of Parliament,

I beg to move that Parliament do resolve itself into a committee of supply for the consideration and approval of:

(i) The Revised Revenue and Expenditure Estimates for the fiscal year 2003/2004; and

(ii) The Budgetary proposals for the Estimates of Revenue and Expenditure for the fiscal year 2004/2005

INTRODUCTION

1. Mr. Speaker Sir, under Article 155 (1) of the Constitution, the President shall cause to be prepared and laid before Parliament estimates of revenue and expenditure for each financial year. I am accordingly performing this duty on behalf of the President.

2. Mr. Speaker Sir, the theme of this year's budget is *"**Promoting Economic Growth and Reducing Poverty through Public Expenditure**"*. This theme focuses on the priority interventions that will impact on the development and competitiveness of the private sector as the engine of growth, while at the same time ensuring efficiency and effectiveness of public expenditure, to obtain value from the limited resources and improve delivery of socio-economic services.

3. Mr. Speaker Sir, accelerating economic growth and distributing it equitably for the eradication of mass poverty, remains the single major challenge for this Government and the people of Uganda. Although we have recorded a positive trend in poverty reduction and social service delivery over the past decade, there is evidence that the proportion of people below the poverty line is still high at 38 percent, as recorded in 2003.

4. Since mid 2003, Government has been engaged in a long and highly participatory process of revising our policy and strategic focus, to address the emerging development challenges. Through this process, we have taken stock of what has been achieved so far to identify, analyse and build consensus on the major priorities for public financing in the medium term and beyond. The outcome of this process will be a revised Poverty Eradication Action Plan (PEAP) which is consistent with the country's Long Term Vision and the Millennium Development Goals (MDGs).

5. Mr. Speaker Sir, the PEAP revision consultations have revealed that public policy and financing, in the medium term, should evolve around five strategic intervention areas: Economic Management; Enhancing Production, Competitiveness and Incomes; Security, Conflict Resolution and Disaster Management; Good Governance and Human Development. These areas for intervention call for enhanced and effective collaboration and focus on the part of Government and all other stakeholders, in order to achieve the requisite transformation of the economy through enhanced private investment, industrialisation and export-led growth. Equally important is the need to ensure good governance and peace throughout the country, as well as improved delivery of services.

BUDGET ACHIEVEMENTS FOR FY 2003/04 AND PLANNED OUTPUTS FOR FY 2004/05

6. Mr. Speaker Sir, let me report on what we have achieved from the implementation of the budget for the FY 2003/04 and highlight the priority interventions and expected outputs from the FY 2004/05 budget. I will follow the priority areas, as set out in the Poverty Eradication Action Plan. The details on sector performance can be found in the Background to the Budget 2004/05.

Performance of the Economy

7. Mr. Speaker Sir, the Government continues to be committed to the implementation of sound economic policies and the maintenance of macroeconomic stability. Real GDP growth is estimated at 6 percent this year, up from 5.2 percent last financial year. Although this is lower than our targeted rate of growth of 7 percent, it still represents a credible performance by our economy, and is higher than the average growth achieved by the rest of Africa, estimated at 4.1 percent in 2003. The challenge is to ensure accelerated transformation of the economy and diversification of production, to promote much higher growth through value-addition to export products and the quality of services.

8. Next fiscal year, real GDP growth is projected at 5.9 percent, with cash crops, manufacturing, construction and wholesale and retail trade being the major sources of growth. The medium term objective nonetheless remains restoring GDP growth rates to 7 percent per annum. This is the level of growth required, among other things, to eradicate absolute poverty. Achieving this objective calls for continued implementation of sound macroeconomic policies and the acceleration of the critical supply side reforms, required to remove bottlenecks to private sector development and competitiveness. These reforms are embedded in the Plan for the Modernisation of Agriculture, and the Medium Term Competitiveness Strategy for the Private Sector.

Exports

9. I am pleased to report that the economic reforms implemented over the years, and enhanced efforts in the private sector, have led to significant increases in the diversity, volumes and value of exports. Total export earnings for both goods and services are projected to increase by 20 percent to US$928 million this financial year, from $774 million last year. Exports of goods are projected to increase by 24 percent to US$ 628 million, while exports of services are projected to grow by 13 percent to US$ 300 million. The improved export performance is mainly on account of larger volumes and improved prices, especially for non-traditional exports.

10. The earnings from non-coffee export goods are projected to increase by 30 percent to US$521 million on account of strong performance by maize, cotton, tea, flowers and fish. Fish exports earnings alone are projected to increase by 17 percent to US$98 million this fiscal year.

Inflation

11. While inflation was above the target of 5 percent at the beginning of the Financial Year, it declined over the year, as Government maintained fiscal discipline, matching expenditures to available resources, while the Bank of Uganda implemented prudent monetary policies. Consequently, inflation averaged 5 percent this financial year. Maintaining low inflation at an average of 5 percent will continue to be the cornerstone of Government's macroeconomic policy, because low inflation is essential to a stable economic climate, in which the private sector can make long-term investment plans and the purchasing power of the poor is protected.

The Exchange Rate

12. Over the year, the exchange rate has faced appreciation pressures, largely on account of strong dollar inflows from the export sector, investment portfolio inflows and high levels of donor aid, particularly project support and transfers to NGOs. The appreciation of the shilling was also partly caused by the persistent weakness of the US dollar on the world market.

Interest Rates and Long-Term Government Securities

13. Interest rates on Government securities were high and volatile for the first eight months of the financial year, as upward pressure on the exchange rate constrained Bank of Uganda's ability to sell foreign exchange, necessitating a heavy reliance on the sale of Government securities to meet the inflation target. The increased sale of Treasury bills led to a rapid increase in interest rates across all maturities, as Government competed for loanable funds with the private sector. The high interest on Treasury Bills in turn led to higher lending rates offered by commercial banks.

14. After examining possible additional instruments to deal with excess liquidity, a decision was taken to introduce long-term bonds. This has eased the pressure on shorter-term interest rates and commercial bank lending rates. Government is committed to pursuing prudent monetary and fiscal policies which are compatible with low and stable interest rates that should enhance private sector borrowing. I am happy to report that the Bank of Uganda has already offered bonds of two, three, five and ten year maturities, and the response from the market has been overwhelmingly positive.

15. These long-term government securities are now providing an additional financial instrument in which to invest savings, thereby stimulating more competition for long-term assets and investments. Furthermore, the positive response to these bonds is a clear demonstration of the strong investor confidence in Uganda's economic prospects and an endorsement of the country's good macro-economic management.

The Government Deficit

16. Mr Speaker Sir, since the Budget Speech of June 2002, Government's emphasis has been to reduce the budget deficit, in order to minimise the pressure created by public expenditures on the economy, particularly on interest rates, the exchange rate and the level of private sector borrowing. This is consistent with Government's objective to create an economic environment which is conducive to private sector-led growth.

17. Despite Government's commitment, the budget deficit has risen slightly at 11.5 percent of GDP this financial year, as compared to 11.2 percent of GDP last year. This reflects the immense challenge faced by all of us in prioritising expenditure and in regulating the inflows of donor project aid, particularly project borrowing. I wish to restate Government's commitment to reduce the fiscal deficit over the medium term. The budget I am presenting to you today projects a decline in the deficit to 11 percent of GDP next financial year. Effective 2004/05 financial year, all external funding of development projects will be integrated into sector ceilings, in order to exert better control over the growth of donor projects and the public investment plan, as well as the fiscal deficit.

External Debt Burden

18. Uganda's external debt is quickly becoming unsustainable. To enable us restore the sustainability of the external debt burden, Government will take action to reduce external borrowing. I am putting in place a process which will enable us to put a ceiling on Government's annual new borrowing to a level that is consistent with debt sustainability. Once the process is established, this ceiling will be announced each year during the annual Budget Speech. The criteria for future borrowing will be mainly for supporting value addition to exports, competitiveness and increased production.

The Financial Sector

19. Mr. Speaker Sir, the performance of the financial sector is critical to the economic development of this country. I must also emphasise that domestically generated savings form a stable anchor for sustainable investment. In the past few years, the sector has benefited from strengthened supervision and regulation of the banking system. Increased competition, product diversification and the enactment of the Financial Institutions Act (FIA 2004) have further strengthened the sector. The Act, inter alia, provides for the setting up of a Credit Reference Bureau, through which information about creditworthiness of borrowers will be made available to financial institutions to reduce the risk of default.

20. The capital market demonstrated strong growth this financial year. The capitalization of the Uganda Securities Exchange (USE) rose by 245 percent to Shs.1,300 billion. The performance was attributed to three major factors; the general appreciation of share prices of listed securities, the

issuance of a corporate bond by Uganda Telecom Limited and the introduction of the Government long term bonds. In the coming fiscal year, the growth of corporate interest in the bond market and the sale of Government shares in a number of Government enterprises, are expected to lead to a further deepening and widening of the capital market.

21. Mr. Speaker Sir, although we have made progress in deepening and strengthening the financial sector and our capital market, more work needs to be done particularly in credit delivery. In order to address this position, the Uganda Development Bank which was restructured in 2001, will now be merged with the Development Finance Department of the Bank of Uganda. Management of the institution will be contracted to a private firm. The lines of credit previously handled by the Development Finance Department of the Bank of Uganda will now be handled by the new institution.

Financial Services Delivery

22. Mr. Speaker, Sir, savings play a critical role in economic development as they generate resources for investment. Experience shows that savings from the small household can be successfully mobilized by Micro-Finance Institutions. A strong micro finance sector has now been established and this has been boosted by a credit line of Shs 40.8 billion from the African Development Bank. Access to these resources is through established and viable Micro Finance Institutions. It is projected that in the financial year 2004/05, Shs 11 billion will be available from this credit line. The Micro Finance Institutions have to date mobilised almost Shs 130 billion equivalent to 15 percent of national savings. Out of these savings, Shs 86 billion has been loaned out.

23. In order to strengthen the capacity of Micro-Finance Institution in the country, a credit of US$ 18 million has been secured to facilitate the expansion of outreach services of the rural financial system.

Pension Sector Reform

24. Mr. Speaker Sir, I must admit that over the years, pension reform has presented one of the greatest challenges in Uganda's Public Service Reform. A good pension reform requires addressing the financial benefits to all workers, public and private. It is also important in mobilizing long term financing. In my speech last year, I indicated to you that the current and future public pensions obligations are unaffordable, and that a strategy was being developed to remedy the situation.

25. I am happy to inform you that after consultations with all key stakeholders, we now have a strategy for dealing with the public service pensions. This includes financing over the medium term the present stock of pension arrears estimated at about Shs 300 billion, while at the same time converting the present system, to a contributory scheme, to prevent further accumulation of arrears. In addition, extensive consultations with stakeholders have confirmed the need for broader pension sector

liberalisation, to stimulate long-term savings and to cater adequately for the retirement benefits of employees.

Domestic Arrears

26. Mr Speaker Sir, inspite of the Commitment Control System, domestic arrears have continued to accumulate and this is mainly in the area of utilities. In order to address this problem, I urge all utility companies to move to a pre-payment system following the example of Uganda Telecom Limited. I reiterate the policy that all provision of goods and services should be backed by cash. Starting this year, I will publish a list of all verified arrears annually in order to remove doubt as to who is owed money by Government.

Privatisation

27. Mr. Speaker Sir, to date a total of 117 enterprises have been divested leaving a balance of 31 to be privatised. During Financial Year 2003/04, Nile Hotel International Ltd and Uganda Electricity Distribution Company Ltd have been concessioned to the private sector. Before the end of September 2004, Government will have offered the remaining shares in DFCU for sale, by way of initial public offer, through the Stock Exchange. During FY 2004/05, Government will divest the following enterprises: National Insurance Corporation; Kinyara Sugar Works; and a 20 percent stake of the New Vision Printing and Publishing Limited through public offering of shares. In addition, a joint concession of Uganda and Kenya Railways will be undertaken. Government will continue to implement actions designed to improve the performance of parastatals which are not slated for divestiture in the medium term. In order to promote public participation in privatisation, priority will be given to divesting the remaining well-managed public enterprises, through the public offering of shares.

Strengthening the Business Environment

Country Rating

28. The Government has decided to have Uganda internationally rated by reputable credit rating agencies. This transparent evaluation of Uganda's credit worthiness and risk profile will be important for issuers of debt instruments in the private and public sectors. The rating will serve as an indicator of investor and business confidence in the economy.

Infrastructure Development

(i)Transport

29. In order to enhance access to services and markets as well as stimulate economic activities, the Government accords high priority to the construction and maintenance of national roads. Government has now embarked on construction of the Northern Kampala Bypass, which will provide an alternative route to traffic from the Kenya/Uganda border that are bound for southern and western Uganda and the Democratic Republic of Congo, Rwanda and Burundi. This road is also part of the Northern Corridor, which is an important road link in the country network, over which 90 percent of Ugandan imports and exports are transported.

30. Mr. Speaker Sir, in the 2004/05 Budget, I am providing Shs 7 billion to complete the following ongoing projects including the Pakwach – Nebbi, Sironko – Kapchorwa, Gayaza – Kalagi, Busunju – Kiboga roads. Other ongoing projects include Hoima Road, Karuma – Olwiyo and Kagamba – Rukungiri roads, together with the reconstruction of the Jinja – Bugiri road. In addition, procurement of civil works is under way for roads between Fort Portal and Hima, Hima and Kikoroyo, Kasese and Kilembe, Soroti and Lira, Busega and Mityana, Kampala, Gayaza, Zirobwe and Wobulenzi, Matugga, Semuto and Kapeka. The road between Atiak and Moyo will be regravelled.

31. In order to improve the regional rail links and ease the pressure on the road network, the Governments of Uganda and Kenya are engaged in discussions to implement a joint concessioning of the two rail networks. As a landlocked country, we will continue to engage Tanzania on the southern route.

(ii) Communication

32. Under the Rural Communication Development Programme, a Fund was launched in 2003 to improve communication access in rural areas. The objective is to ensure a minimum of one or two public access points to telephones in each sub-county and internet points in every district by 2005. Under this Fund, during Fiscal Year 2004/05, there are plans to extend the telephone network to 154 sub-counties, and to establish 32 internet cafes, and 20 multi purpose community telecentres.

(iii) Water

33. The increased water production capacity and the extension of water to peri-urban areas will increase the urban piped water coverage from the current 65 percent to 67 percent by June 2005. In addition, the National Water and Sewerage Corporation will extend water to Mukono and Seeta using its own self-generated funds, rehabilitate and expand Entebbe Water and Sewerage System, refurbish

the Gulu water and Sewerage System, and increase production capacity in Kampala under the Gaba III project.

(iv) Industrial and Business Park

34. In order to speed up activities in the manufacturing sector mainly for export, Government is finalising arrangements to provide serviced land with basic facilities that will include roads, electricity, water, sewerage and drainage systems in the Namanve Industrial and Business Park. Construction of this park will commence in this coming financial year.

Land Registration

35. A well-functioning land information system that ensures security of land-ownership is critical to private sector growth, as it facilitates the use of land as collateral, and enhances land markets. There is urgent need for updating and modernizing land registry records, improving operational efficiency and transparency, and implementing a phased decentralization of land registry records. Over the next five years, Government will invest about US$20 million to rehabilitate existing land records, establish a land information system, and equip zonal land offices.

Science and Technology

36. Government will continue to prioritize science and technology in order to accelerate the modernization and transformation of the economy. In addition to the existing Technology Innovation Fund, I am announcing the establishment of the Presidential Scientific Innovation Award, with an allocation of Shs 400 million for the year 2004/05. This award will go to scientists developing new and appropriate technologies of great national and international importance. In order to keep pace with the current science and technology demands for the development of the economy, the National Council of Science and Technology will be revamped and the law establishing this Council will be amended accordingly.

Higher Science Education

37. Government will from now on sponsor a dedicated number of students pursuing courses in critical disciplines at higher institutions of learning. Furthermore, salaries for such professionals will be enhanced both at higher training institutions and in the Service.

Good Governance and Security

38. Mr. Speaker Sir, the prevalence of good governance and security in the country has long been recognised as a precondition for accelerating private sector development and sustainable and equitable economic growth. To address any security threats to the country, and to build a professional and capable army, a Defence Policy and Transformation Strategy have been prepared for implementation

over the medium term. The Defence Policy and Transformation strategy will include the operationalisation of a Corporate Plan now under finalisation, to guide the implementation of the Ministry of Defence's activities. A Sector Working Group for Defence (SWG) will also be set up whose major focus will be the implementation of the standard public expenditure management principles in the defence sector, including preparation of a comprehensive Budget Framework.

Internally Displaced Persons

39. Mr. Speaker Sir, the Government is concerned about the plight of the people of the North and North-East living in the Internally Displaced Persons camps. While the restoration of peace is being addressed, there is urgent need to improve the welfare of the people. As a priority, Government has evolved a program to ensure food security and family incomes. Under this programme, 40 tractors have been procured. For the efficient management of the scheme, these tractors will be operated through participating Cotton Ginners under a subsidised leasing scheme, managed by the Cotton Development Organization. The subsidised terms in the purchase price of the tractors is government contribution, to enable the operator of the scheme to open/cultivate land for the people in the camps free of charge. This scheme will enable people in the camps to produce food crops such as millet, maize, beans and grow cotton on contract. The details for the operationalisation of the scheme will be discussed with the leadership of the districts concerned.

40. In addition, Government is implementing a special programme (NUSAF) of US$100 million to address the critical needs for sustaining lives and stimulating production in the North. Government will continue to deliver other critical services through the district programmes.

Administration of Justice, Law and Order

41. Following the enactment of the Community Service Act (2000) and its successful piloting in the districts of Masaka, Masindi, Mpigi and Mukono, community sentencing will be rolled out to all districts. This will offer efficiency savings on the administration, treatment, accommodation and maintenance of prisoners.

42. An Express Traffic Penalty Scheme was launched by Police and involves on spot sentencing and fining of traffic offenders. This scheme is to be rolled out country wide and is expected to impact on the drivers' discipline, and the citizens' general compliance with the traffic regulations. Given the increasing carnage on Uganda's roads, Government will introduce stiff laws and regulations to keep unworthy vehicles and untrained and careless drivers off the roads.

Public Service Reform

43. Mr. Speaker Sir, Government is committed to the implementation of the Pay Reform Strategy in order to attract, recruit and retain a competent and motivated workforce in the public service. Nonetheless, it has become increasingly clear that Government needs a comprehensive, vision-led and affordable public pay strategy, to adequately address critical skill shortages in the public sector, especially of scientists. In the coming financial year, I am providing Shs.15 billion for further implementation of the strategy, while deliberately targeting increased remuneration to retain critical skills.

Financial Management and Accountability

44. Following the enactment of the Public Finance and Accountability Act 2003, which empowers the Auditor General to examine, inquire and audit classified expenditures, the accompanying regulations and instructions to expedite this function have been issued. In order to improve financial management and accountability in local government, the Local Government Financial and Accounting Regulations are being revised to align them with the Act.

Fiscal Decentralisation Strategy (FDS)

45. Mr. Speaker Sir, last year I announced the piloting of the Fiscal Decentralisation Strategy in 15 local governments. The Strategy streamlines and harmonises the transfer of resources to local governments, allowing them to exercise autonomy in decision making and at the same time enhancing public expenditure management. The pilot has been successful and we will roll out the strategy to all Local Governments in FY 2004/05.

Agriculture

Agricultural Marketing and Agro-Processing

46. Mr Speaker Sir, increasing agricultural output in itself will not automatically translate into higher household incomes. We need to add value to agricultural products and ensure that they are able to access regional and international markets. Interventions in the Marketing and Agro Processing Strategy, such as certification of organic export products, procurement of wet-processing units for coffee, are aimed at further improving value addition, export competitiveness and access to markets.

47. In addition, during Financial Year 2003/04, considerable support has gone into roads and market development and provision of market information to farmers and traders. In order to comply with the new EU regulations, 34 crop inspectors have been recruited and trained and diagnostic laboratories have been provided in support of the establishment of export villages. The Uganda Commodity Exchange is in place which should help in reducing the time and cost of doing business in the country.

The extension of the NAADS programme to more districts and the introduction of a National Agricultural Research Policy will promote the growth and transformation of the sector.

Environmental Management

48. This year's World Environment Day theme, "proper waste management: our wealth, our health" is a reminder for all Ugandans to practice good environmental management at the household, community, private business and institutional levels. In order to guarantee sustainable development, Ugandans must learn to sort degradable from non-degradable waste and must be educated about the good practices for disposal. Government will work closely with the Local Authorities, particularly Kampala City, Town and Municipal Councils, to eliminate the unsightly over-stacked and overflowing garbage and promote use of alternative materials to the deadly "kaveera", which threatens human health and the productivity of our soils.

Forestry

49. The forestry sector is undergoing reform to address key emerging challenges, particularly the depletion of forestry resources due to unsustainable harvesting, conversion to other uses, urbanisation and industrialisation. Following the passing of the National Forestry and Tree Planting Act, the newly established National Forestry Authority will manage all the Central Forest Reserves (CFRs). Effective next fiscal year, funds will be transferred directly from the central government to the District Forestry Services (DFS) to fund wages under the conditional grant arrangements.

Minerals

50. Effective next year, Government will implement the Sustainable Management of Mineral Resources Project. The objective of the project is to increase investment in mineral exploration through acquisition of geo-data, and supporting activities of small and private miners.

Primary and Post Primary Education

51. Human resource development is key to economic and social transformation. In the next year, I am providing Ushs 10 billion for the recruitment of extra primary teachers to cater for increased enrolments so as to improve the quality of education.

52. The policy of attracting and retaining teachers in schools in places referred to as the "hard to reach areas" will be enhanced, with the construction of another 280 teachers' houses next FY 2004/05, in addition to the existing stock of 800. In addition to furniture to be provided under the general School Facilities Grant (SFG), to furnish about 5,000 classrooms, another 2,000 classrooms are to be

furnished in 2004/05. A school for the children traumatised by the war in Northern Uganda is to be constructed in Gulu.

Secondary Education

53. For next financial year Ushs 9.9 billion has been provided to fill vacant teacher posts in secondary schools. The Bursary Scheme for the bright but poor secondary students is to be strengthened with more funding to cover 6 science students per sub-county or a total of 5,400 students.

Health

54. The availability of appropriately trained and well-motivated health workers is an important factor for delivery of basic health care. To this end, in Financial Year 2003/4 Government enhanced salary and lunch allowance for the medical workers. An additional Shs 38.6 billion has been provided in the next financial year to maintain the enhanced salaries.

55. In recognition of the role played by the private, but not for profit e.g. missionary hospitals and other NGOs health service units, Government will maintain the financial grant towards these services at Shs 17.72 billion in Financial Year 2004/5.

Water and Sanitation

56. Mr. Speaker Sir, next financial year, the water sector has been allocated Shs 112 billion up from Shs 97 billion in the current financial year. Within this allocation, Shs 30 billion is for the District Rural Water and Sanitation Development Conditional Grant, and Shs 1.5 billion for operation and maintenance support to the Small Towns water system. This funding is in line with Government's intention to increase Rural Water coverage from the current 58 percent to 61 percent by June 2005. In order to effectively deliver the water and sanitation services, the already agreed sectoral plans must be adhered to.

REVENUE AND EXPENDITURE PERFORMANCE FY 2003/04

57. The estimated outturn for Government expenditure excluding arrears this financial year is Shs. 3,168 billion, against a budgeted expenditure of Shs. 3,090 billion. This is primarily due to donor project spending, which is estimated to be Shs. 71 billion higher than budgeted. In addition, Shs. 47 billion has been spent on clearing arrears. The estimated outturn for tax revenue is Shs.1,635 billion, a shortfall of Shs. 20 billion against the target for the year. The shortfall is mainly due to failure of efficiency gains from tax administration particularly VAT. This poor performance undermines

government efforts in the provision of goods and services. VAT compliance and enforcement has to improve substantially.

58. The performance of VAT, rental and presumptive tax in recent years has been disappointing. VAT with its wide base and coverage should be yielding a bigger percentage of total revenue. Registration, filing and payment by taxpayers is grim. Enforcement of these taxes has been very weak. In the coming fiscal year, compliance and enforcement are going to be top priority in improving tax collections among these tax heads.

59. Mr. Speaker Sir, both the Income Tax Act and VAT Act require persons to have Tax Identification Numbers (TIN) for transacting any business. It should be noted that TIN is critical in the management of tax collection and offering services to taxpayers. Failure to obtain a TIN is an offense under the tax laws. Mr. Speaker Sir, URA will in the first quarter of the coming fiscal year be identifying and visiting businesses to ascertain that they have Tax Identification Numbers.

PROPOSED REVENUE AND EXPENDITURE FOR FY 2004/05

The Resource Envelope

60. Total Government expenditures in the coming year will rise by 7.8 percent to Shs. 3,381 billion as compared to this year's Budget, of which Shs. 1,933 billion will be on recurrent expenditures and Shs. 1,449 billion on development expenditures. Domestically funded development expenditure, is projected at Shs. 513 billion. In addition, Shs. 55 billion has been allocated for the clearance of domestic arrears.

61. Total domestic resources will amount to Shs 1,867 billion or 54 percent of the resources we require to finance our budget. Tax revenues are projected to increase by 12 percent to Shs 1,830 billion while non-tax revenues will amount to Shs. 37 billion. The growth in tax revenue for next fiscal year and in the medium term will be constrained by the implementation of the EAC Customs Union. To attain a target of Shs.1,830 billion, tax policy measures yielding Shs.30 billion are required. Mr. Speaker Sir, I will be returning to these measures shortly.

62. The overall deficit, excluding grants, is projected at Shs. 1,587 billion, which is equivalent to 11 percent of market price GDP. The deficit will be financed with grants and highly concessional loans, in line with Government's debt strategy.

63. Donor grants, which include project grants and debt relief, will provide Shs. 991 billion while Shs. 633 billion will be provided through long-term soft loans.

CONSTITUTIONAL AUTONOMOUS BODIES

64. Mr. Speaker Sir, the budgetary proposals of the Self Accounting Bodies have been submitted in compliance with Article 155 (2) of the Constitution. In compliance with Article 155 (3) of the Constitution, Government has made recommendations on them. I hereby lay both the budgetary proposals and the recommendations of Government before the House, as required by the Constitution.

65. In order for me to submit a complete National Budget for your consideration in accordance with Article 155 (1) of the Constitution, the budget provisions of these Self Accounting Bodies are in accordance with the resource envelope conveyed to the Self Accounting Bodies in the course of our discussions, including the presentation to Parliament, in accordance with the Budget Act, 2001.

SCHEDULE OF INDEBTEDNESS

66. Mr. Speaker Sir, in accordance with the provisions of Section 13 (1) and (2) of the Budget Act, 2001, I hereby lay before the House the statement on: (i) Government's total external indebtedness as at 31st May, 2004; and (ii) the grants that Government received during the financial year 2003/04. With respect to Section 13 (3) of the same Act, I am pleased to announce that during the financial year 2003/04, Government did not guarantee any loans or provide grants to any individual or statutory body. Details of the utilisation and the performance of each loan and grant, including the extent of the achievement of the objective and targets, will be provided in the policy statements of the Ministries and departments which received the loans and grants, as well as in our poverty monitoring and assessment reports.

67. Furthermore, in accordance with Articles 159 (1) and (2) of the Constitution, I will shortly lay before the House the terms and conditions of the Fourth Poverty Reduction Support Credit amounting to about US$ 150 million which Government intends to borrow from the International Development Association of the World Bank during fiscal year 2004/05. I wish to request that this is approved concurrently with the budget, as it forms part of the total resource envelope.

TAX MEASURES

Tax Proposals for 2004/2005

68. Mr. Speaker Sir, Government continually faces pressure to raise revenue in order to finance expenditure. On the other hand certainty and stability in tax policy is critical for investment. Unpredictable tax policy imposes costs by way of risk and uncertainty and that is why we have maintained a stable tax system. Since the enactment of our VAT and Income Tax Laws, the

fundamentals of our tax laws have remained relatively predictable. We have a system which is reliant on consumption and income tax. Individual income tax has remained progressive.

69. Mr. Speaker, Sir, while maintaining the stability of our tax system, I am proposing modest tax policy measures to provide some growth in our revenues and also meet expenditure demands.

East African Community (EAC)

70. Mr. Speaker Sir, the Protocol for the Establishment of a Customs Union between Uganda, Tanzania and Kenya was signed on 2nd March 2004. The Customs Union is aimed at promoting trade and investment within the East African Community. Under the Protocol, goods entering EAC will be subject to: common rules; a common legal, institutional and administrative structure; and a Common External Tariff (CET). The CET will have three tariff bands: 0 percent for essential goods, raw materials and capital goods; 10 percent for intermediate goods; and 25 percent for finished goods. The commencement date for the Customs Union is 1st January 2005. The current duty and tax regime on imports remains in force until the commencement date of the EAC Customs Union.

Double Taxation Agreements

71. Mr. Speaker Sir, Uganda has a network of double tax agreements (DTAs) with its main trading and investment partners which eliminate certain forms of double taxation. Double taxation agreements are aimed at reducing tax impediments to cross-border trade and investment and assisting tax administration.

72. Mr. Speaker Sir, in addition to the existing double taxation agreements, we have recently concluded agreements with Italy, Mauritius and India, which I am laying before you for ratification in accordance with the Ratification of Treaties Act.

73. Mr. Speaker, Sir, in the coming fiscal year we expect that agreements with Egypt, China and Netherlands, which are awaiting signing, will be brought to conclusion. We have also begun negotiations with the United Arab Emirates and Belgium.

Investment Protection and Promotional Agreements (IPPA)

74. Mr. Speaker Sir, along side the double taxation agreements we have concluded a number of Investment Protection and Promotional Agreements with the following countries; Sweden, France, Belgium, China, Sudan, Ethiopia, and Mozambique. These agreements are aimed at attracting and providing protection to foreign investments.

Leasing

75. To promote the leasing industry and stimulate economic growth, I am proposing to amend the Income Tax Act to allow lessors to claim capital depreciation benefits. The lessees will be able to

deduct rentals lease payments as expenses. Conferring the benefits of capital depreciation to the lessors will lead to reduction in interest rates payable by lessees.

Safety Belts

76. In line with the law making it mandatory to wear safety belts, I am remitting seven percent import duty on safety belts to encourage their utilisation.

Traffic Act

77. A range of traffic fees and charges are being revised upwards by 10 percent. The details are contained in the Finance Bill. This measure is expected to generate Shs 5.1 billion.

Used Goods

78. Mr. Speaker Sir, the country has been faced with the dumping of used goods like refrigerators and passenger vehicles of more than seven years which degrade our environment. Government will be announcing a policy and measures to minimize the importation of such goods.

Excise Duty on Tobacco

79. The excise duty on tobacco is being raised from 130 per cent to 150 per cent. This adjustment is restricted to locally produced cigarettes. For imported cigarettes, the tax regime will be adjusted accordingly. The details are contained in the Finance Bill. This is expected to generate Shs. 1.9 billion.

Excise Duty on Spirits

80. The excise duty on locally produced spirits is being raised from 45 percent to 60 percent. This measure is expected to generate Shs. 1 billion. However, to encourage utilization of locally produced fruits by manufacturers of wine, I propose to remit excise duty on wine produced from local fruits to 20 percent.

Withholding Tax on Imports and Local Transactions

81. The Income Tax Act imposes a withholding tax of 4 percent on both imports of final consumer goods and on payments for goods and services purchased by the Government, a Government institution or a local authority. This tax rate is being raised to 6 percent. Compliant taxpayers are not liable to pay this tax. This measure is expected to generate Shs. 22 billion.

Customs Duties: HS Code Revisions

81. The 2004/05 Finance Bill will incorporate changes in Harmonised Commodity Code (HS Code) duty rates, mainly to deal with some errors and omissions which have been identified. It will also accommodate proposals emanating from the private sector regarding their inputs.

Tax Administration

(i) *URA Board*

82. Mr. Speaker Sir, a new URA Board of Directors has been appointed which will be vital in spearheading administrative reforms and streamlining operations. We are also maintaining adequate funding for tax administration work, to ensure that URA can build capacity and operate more effectively in terms of enhancing revenue collections.

(ii) *Review of Tax Laws*

83. Mr. Speaker Sir, in order to modernize laws dealing with stamp duty, Casino and Gaming, and Lotteries, my Ministry together with the First Parliamentary Counsel undertook a review of the laws and came up with Bills, which will be laid before Parliament for consideration. The Bills reflect international best practices and are aimed at ensuring proper tax treatment, administration and regulation.

84. In order to keep taxpayers and investors informed of our tax laws, I am making arrangements to include on the Ministry of Finance website all the key legislation pertaining to Uganda's tax regime. Already our Finance Bill is available on the website (www.finance.go.ug)

85. As per the Constitution and the Local Government Act, graduated tax amounting to about Shs. 40 billion is assessed, collected and utilized by local governments to deliver social services. However, in the recent past, there have been various representations on the assessment and collection of this tax. Government has deliberated on this matter and I wish to state as follows: For financial year 2004/05, graduated tax must be assessed and its payment fully enforced. The Minister of Local Government will be in close contact with the local Governments on the assessment and collection of this tax. The Government is studying alternative sources of revenue, and a decisive conclusion on this matter will be made by 2005/06 financial year.

CONCLUSION

86. Mr. Speaker Sir, let me conclude by reiterating Government's determination to use public expenditure more efficiently and effectively, to unlock Uganda's potential for the much needed higher economic growth. To this end, financial resources have been carefully allocated to address, as much as possible, the major constraints on social and economic transformation, prioritizing investments into value addition to exports; in human resources; infrastructure; security and good governance. This will

impact on growth, export quality, volumes, competitiveness and employment. Again this year, I must reiterate the importance of gradually reducing the fiscal deficit, to protect private sector competitiveness and increase the predictability of our budget.

87. Mr. Speaker Sir, a transformed and competitive economy offers greater opportunities for generating higher domestic revenue, more employment and above all greater economic, social and political independence.

88. I highly commend this budget to you Mr. Speaker Sir, and Honourable Members, I beg to move.

FOR GOD AND MY COUNTRY