

12th June 2014

Final Budget Speech FY 2014/15

THE REPUBLIC OF UGANDA



BUDGET SPEECH

Financial Year 2014/15

*Theme: Maintaining the Momentum: Infrastructure Investment for Growth and
Social Economic Transformation*

DELIVERED AT THE MEETING OF THE 4th SESSION OF THE 9TH PARLIAMENT
OF UGANDA

ON

THURSDAY, 12TH JUNE, 2014

BY

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MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

PREAMBLE

Your Excellency the President,
Your Excellency the Vice President,
Right Honourable Speaker of Parliament,
His Lordship the Chief Justice,
Right Hon. Deputy Speaker of Parliament,
Right Hon. Prime Minister,
Right Hon. Leader of the Opposition
Honourable Ministers,
Honourable Members of Parliament,
Distinguished Guests,
Ladies and Gentlemen

I. INTRODUCTION

1. In accordance with Article 155(1) of our Constitution and in exercise of the powers delegated to me by H.E the President, I have the honour to present the Government Revenue and Expenditure Proposals for the FY 2014/15.
2. I beg to move that Parliament resolves itself into a Committee of Supply to consider:
 - i. The Revised Revenue and Expenditure Estimates for the Financial Year 2013/2014; and

- ii. Proposals for the Estimates of Revenue and Expenditure for the Financial Year 2014/2015.
3. Madam Speaker, despite challenges including the aftermath of the global economic crisis, the Government has achieved significant milestones in the socio-economic transformation journey over recent years. These include the following:-
 - i. The proportion of people living below the poverty line has declined from 56.4 percent in 1992/3 to 24% in 2009, and further to 19.7 percent in 2012/13. This indicates that our country has already surpassed the Millennium Development Goal (MDG) target of halving the proportion of its population living in extreme poverty by 2015. This is the first and most significant MDG.
 - ii. An improvement in the quality and stock of physical infrastructure with 830 km of new roads constructed; 1,630 kilometers of transmission lines were laid; and over 42,000 new rural users were connected to the national grid.
 - iii. Increased quality and access to social services like education, water and health; and
 - iv. An overall improved business and economic environment.
4. The challenge going forward is to ensure that we sustain this inclusive growth trajectory towards true socio-economic transformation. This year's Budget is a continuation of our long journey towards creating a better Uganda for people today and future

generations. The theme for the FY 2014/15 budget is therefore ***“Maintaining the Momentum: Infrastructure Investment for Growth and Socio-Economic Transformation.”*** It will focus on implementing key development priorities over the next year within existing resource constraints, continue to narrow the infrastructure gap, while promoting economic productivity and diversification for better job creation to satisfy Ugandans.

5. I wish to extend thanks to H.E. the President for continued guidance in the entire budget process, my Cabinet Colleagues, Members of Parliament, our Development Partners, Civil Society and the Uganda people for the time dedicated to scrutinise the budget proposals and the valuable input towards finalising the forthcoming year’s budget. This was a truly consultative budget process.

II. ECONOMIC PERFORMANCE AND OUTLOOK FOR FY 2014/15

A. MACRO-ECONOMIC PERFORMANCE AND OUTLOOK

Real GDP growth

6. Madam Speaker, Uganda’s economy continued to grow through Financial Year 2013/14 albeit more modestly than the 6.2% that was projected year ago. This was a result of a slow-down in performance by the manufacturing, construction, telecommunication and financial services sub-sectors. Meanwhile the ongoing unrest in the region reduced our export and remittance proceeds, and the last stages of the global crisis effects were played out on the world stage towards a new equilibrium.

7. Although the estimated growth has been less than expected it still represents a credible performance by our economy, and is higher than the average growth achieved by the non-oil producing countries in sub Saharan Africa, estimated at 5.3 percent in 2013.
8. During next fiscal year, real GDP growth is projected at 6.1 per cent. Cash crops production, manufacturing, mining and quarrying, increased electricity production, and transport and communication are projected to be the major drivers of growth. Government's medium term objective is to restore real GDP growth to 7 percent per annum. This is the minimum level of growth that can achieve socio-economic transformation. This will require continued implementation of sound macro-economic policies, implementation of financial sector reforms and the acceleration of the intervention required in removing bottlenecks to private sector development and competitiveness.

Annual Inflation

9. Madam Speaker, inflation has remained low this year and dropped to 5.4% by May 2014. Annual core inflation declined to 3.3% as of end-May 2014. The slowdown in price increases followed a reduction in food prices resulting from drought in the first half of this financial year. The price increases were contained by coordinated prudent fiscal and monetary policy management. Maintaining low inflation continues to be a key objective of Government's

macroeconomic policy in order to ensure a stable investment climate and preserve the welfare of Ugandans.

Savings and Investment

10. Madam Speaker, Government long term objective is to boost domestic savings to provide long term development finance. This will help match domestic project finance requirements to project implementation profiles, as well as lower lending interest rates to borrowers.

Exchange Rate

11. Madam Speaker, over the year, the exchange rate has remained relatively stable, with the marginal appreciation of the Shilling by about 2 percent against the US dollar. The strengthening of the Shilling has largely been on account of strong foreign inflows from investment portfolio inflows and foreign direct investment. This is due to the attractive investment climate in Uganda. In addition, the Shilling has appreciated as a result of the persistent weakness of the US dollar on the global financial markets.

Balance of Payments

12. Madam Speaker during the year now ending, our balance of payments (BOP) continued to be affected by the persistent current account deficit, which has been largely financed by surpluses on the capital and financial account. The current account has remained weak due to a large trade deficit which is projected to widen from US\$ 2 billion last to US\$ 2.46 billion by the close of the year. This is

equivalent of about 14 percent of GDP. This is mainly due to the continued strong demand for imports, especially investment imports and weaker than expected global and regional demand for our exports. Whilst exports registered an improvement compared to last financial year, performance was undermined by political unrest in the region.

Exports

13. Madam Speaker, during the year now ending, Uganda's value of exports of goods and services are projected to be US\$ 5.4 billion. This performance is due to the slow recovery in export demand in Europe, and unrest in South Sudan. However, our demand for Imports of goods and services remained robust with imports expected to increase to US\$ 7.9 billion during this fiscal year.
14. Government's medium term export strategy includes maintaining and stable and competitive exchange rate, ensuring political stability and undertaking investments in infrastructure to facilitate trade. Government will also promote manufacturing and agro-processing. Our Export Strategy will maximize demand for our products and services above and beyond local effective demand, thereby spurring demand for jobs here in Uganda. In the medium term, our competitive advantage lies in agro-processing using locally-sourced inputs and lower skilled labour, even as we train for higher value added industries. This budget will focus on enhancing the business

environment for already existing firms and SMEs in rural areas, and encourage productivity for existing key crops.

Foreign Exchange Reserves

15. The level of our foreign exchange reserves has slightly improved from US\$ 2.9 billion in June 2013 to US\$ 3.1 billion, expected at the end of June 2014. This is equivalent to 4.2 months of future imports of goods and services. Government's medium term objective is to maintain a level of foreign exchange reserves of at least five months import cover, which adequately provides a buffer against external shocks.

B. FISCAL SECTOR PERFORMANCE FY 2013/14

Domestic Revenues

16. Madam Speaker, net URA revenues for FY2013/14 were projected at Shs. 8,578 billion, but collections are estimated at Shs. 8,104 billion or 94% of the projected revenue, which represents a shortfall of Shs.475 billion for this year. The underperformance of revenue collections was mainly due to the lower than projected growth in the economy, which affected particularly Value Added Tax and Corporate Income Tax. However, in comparison to last financial year, URA revenue collection have increased by 13.4%.
17. Madam Speaker, during next year, Government will take corrective measures to improve revenue performance. This will include

strengthening tax revenue administration, and new tax revenue enhancement measures. I will spell out these measures later when I come to the tax proposals.

Domestic Financing

18. Madam Speaker, financing from the domestic financial markets for the FY2013/14 budget amounted to Shs.1,747.8 billion, on a net basis to supplement domestic revenues for the infrastructure investment projects (especially roads). In the coming financial year, net domestic financing will amount to Shs.2,539.1 billion, which includes a drawdown of the energy fund to finance the Karuma and Isimba hydropower projects, and reflects an additional Shs.791.3 billion over and above the approved levels in Financial Year 2013/14.

External Financing

19. Madam Speaker, development partners continue to provide critical financial support in the development of our country, for which I acknowledge. External financing has been directed towards areas that we have prioritized in the implementation of our national development objectives. Government has been able to accelerate progress especially in infrastructure and social sectors. Together with our development partners, we have strengthened public financial management to eliminate wastage and corruption in the utilisation of public resources.

20. Madam Speaker, during the year, external assistance to finance the Budget was projected at US\$ 1,028 million. It is projected that by the end of the financial year, Government will realize just above half of this assistance. The slow disbursement is largely attributed to low absorption by sector ministries arising from slow implementation of projects. Government agencies will be required to implement projects as programmed in order for the country to fully accrue the benefits from external assistance.
21. Madam Speaker, next financial year, US\$ 1,017 million in external support. Project support constitute US\$991 million. In addition general budget support amounting to US\$ 25.7 million, excluding debt relief, has been committed by our bilateral Development Partners. We recognise that even though our development needs are still substantial, Official Development Assistance (ODA) is declining worldwide. We will work together with development partners to ensure maximum value for money of the ODA.

Expenditure Performance

22. Madam Speaker, total expenditure during the year is projected to amount to 19.7 percent of GDP, compared to 18.8 percent in the previous financial year. Government expenditure, excluding Karuma during the year is project to be Shs. 11.93 Trillion, 99.7 percent of the planned.

Public Debt

23. The stock of public debt is projected to rise to US\$ 7 billion by the end of FY 2013/14, from US\$ 6.4 billion in financial year 2012/13. US\$ 4.2 billion of the debt is external and US\$ 2.8 billion is domestic. Notwithstanding the increase, our public debt remains sustainable and Uganda is not under debt distress. Over the medium term, the debt-to-GDP ratio is projected to peak at about 39.8 percent of GDP. However, this level of debt excludes pipeline borrowings, in particular for the Karuma and Isimba hydropower and the Standard Gauge Railway projects.
24. Madam Speaker, as Government diversifies its sources of debt financing, we will ensure our borrowing strategy remain sustainable in line with our Public Debt Management Framework 2013. The underlying principle will be to confine any commercial (or near-commercial) financing to only infrastructure projects with an income stream to ensure guaranteed repayments. Meanwhile, grants and concessional financing will continue to finance social projects with long term indirect benefits.

C. FINANCIAL SECTOR DEVELOPMENTS

Banking Sector

25. Madam Speaker, during the year now ending, the banking sector remained stable and registered rapid asset growth, arising from increased deposits and lending activity by bank customers. However, interest rates have remained high, primarily because of high levels of

borrower risk. Profitability in the banking sector declined largely due to non-performing assets which increased from 4% to 6.2%. The good news is that the Central Bank reference interest rate was reduced to 11% in June 2014, and average commercial bank lending rates have also declined from 24.2% to 20% during the year.

26. The emergence of new mobile telephone technology and agency banking have been key drivers of improving financial inclusion over the year. During last year, 14 million persons utilized mobile money services with transaction value of Shs. 18.6 trillion during the year. In the next financial year, Government will deepen the financial sector by accommodating alternative banking approaches including mobile banking, agent banking, bank assurance, and Islamic Banking. To this end, Government will present to Parliament amendments to Financial Institutions Act 2004 (FIA) and Bank of Uganda Act 2001, in line with international best practise.

Non-bank Financial Institutions

27. Madam Speaker, access to non-bank financial services increased from 49 percent in 2009 to 65 percent in 2013. The effect of this was a significant reduction in the financially excluded population from 4.3 million (i.e 30 percent of adults in 2009) to 2.6 million (i.e 15 percent of adults in 2013).
28. In order to promote savings and enhance consumer financial protection for majority Ugandans. Cabinet approved the policy

principles for the Tier 4 Microfinance Law to regulate and supervise the Microfinance institutions including SACCOs and money lenders. The Bill will be presented to Parliament in the coming financial year.

Deepening Financial Markets

a. Retirement Benefits Sector

29. Madam Speaker, Government is making progress in reforming the retirement benefits sector to improve savings in the economy, protect savings of workers, and restore trust in the retirement benefits system. The framework for regulating and providing oversight of the sector is now fully operational. Government has liberalised the pension sector to allow workers to have a choice in the pension schemes they contribute to, the form of benefit payments and in terms of annuity or lump-sum; while ensuring maximum safety of their savings.

b. Capital Markets

30. Madam Speaker, during the year the stock market registered a record turnover of Shs. 198 billion up from Ushs 31 billion recorded in 2012. Capital assets under professional management grew to over Shs 800 billion by the end of 2013. This growth has mainly been driven by the recent reforms in the pensions sector that have encouraged more occupational pension funds to outsource investment management to licensed professional fund managers.

31. Capital markets development is critical to attain long term sustainable economic growth, because it plays a major role in the mobilization of domestic resources and promoting investment. There are currently only 40,000 registered shareholders in Uganda. Public awareness will be stepped up in order to draw many more Ugandans into the formal savings sector, thereby increasing investment opportunities. This will lead to an increased level of domestic savings, which is currently estimated at only 10% of GDP. During the next financial year, we intend to reach an additional 20,000 potential investors in the securities market, through a focused capital markets development campaign.
32. Government will amend the Capital Markets Authority (CMA) Act in order to provide for a greater diversity of financing opportunities, and to facilitate movement of capital across the East African region in line with the EAC Common Market protocol.

c. Insurance Sector

33. Madam Speaker, during the year, gross insurance premiums rose to Shs 457 billion, representing a 30% annual growth. Agricultural insurance products were offered for the first time and currently 8 insurance companies are underwriting agricultural related policies. The first ever re-insurance company, Uganda Reinsurance Company Ltd, was licensed to underwrite risks locally and reduce on the amount of premiums issued outside Uganda.

Anti-Money Laundering

34. During the FY 2013/14 the Anti-Money Laundering Act was passed. This demonstrates our clear commitment to fight money laundering and the financing of terrorism. During FY 2014/15 the Financial Intelligence Authority will be operationalized and begin to conduct financial sector surveillance in order to secure all international financial transactions and insure that they occur in compliance with the Anti-money laundering Act.

Public Private Partnerships

35. Madam Speaker, Government will use Public-Private Partnerships (PPPs) as an important option for delivering public infrastructure projects and services. The Public Private Partnership Bill 2012 that supports PPP regulation is before Parliament, and I appeal for its expeditious enactment. The law will provide the regulatory framework for the institutional arrangements and monitoring the implementation of PPP projects throughout the country.
36. Madam Speaker, PPPs if not well regulated, increase contingent liabilities and fiscal obligations on the public. Contingent liabilities create the possibility that Government may be required at some future date to make unexpected and substantial payments. In this respect, Government is will track and monitor PPP projects in order to mitigate any future fiscal risks by establishing a robust PPP fiscal risk management framework. In accordance with reporting and

disclosure principles of Public Sector Management, the PPP Project contingent liabilities currently stand at Shs 169 billion or 0.27% of GDP.

III. BUDGET STRATEGY FOR FY 2014/15

37. Madam Speaker, in the next financial year, Government's budget strategy is built on four key inter-linked interventions. These interventions are :-
- i. Improving the Business Climate by undertaking key economic infrastructure investments, while maintaining peace, security, and macro-economic stability;
 - ii. Leveraging Government assistance Agriculture, Agribusiness, Agro-processing, Tourism, Industry and Services such as ICT;
 - iii. Improving the Productivity of Uganda's Human Resource by enhancing the provision of quality education, health and water services; and
 - iv. Strengthening Institutional Governance, Accountability and Transparency.
38. Madam Speaker, this budget strategy will lead to faster economic growth and higher employment levels; acceleration in growth of per capita incomes and sustained poverty reduction. The strategy also ensures that Government facilitates the private sector by implementing measures that improve efficiency and lower the cost of doing business.

A. IMPROVING UGANDA'S BUSINESS CLIMATE

39. Madam Speaker, the budget strategy to improve Uganda's business climate will focus on inter-linked actions that reduce the cost of doing business. I will later elaborate on each of the sectoral actions to improve the business environment as part of next year's sector priorities.

Business Environment

40. Madam Speaker, Uganda ranks among the top 10 recipients of foreign direct investment (FDI) in sub-Saharan Africa. Investment opportunities in infrastructure development, oil and gas, agriculture, mining and telecommunication are supported by sustained political stability and the macro-economic environment.
41. In the next financial year 37 licenses will be abolished and amendments to laws affecting 307 licenses will be completed. I wish to also appeal to Parliament to expedite consideration and enactment of the Investment Code (Amendment) Bill, the Counterfeit Bill and the Public Private Partnerships Bill to further facilitate the business climate and encourage investment.
42. The Uganda Investment Authority and the Uganda Registration Services Bureau will be transformed into one-stop centers to efficiently facilitate investors and quicken business registration. Company Registration online will also be launched to speed-up

registration. Government will reduce the burden of multiple data requirements for business start-ups, by use of information collected at business registration for taxation and licensing.

43. Madam Speaker, in the next year, Government will roll-out the National Land Information System from 6 zones to 21 land offices, thereby significantly reducing the time and cost of undertaking land transactions, and enhancing the security of land registration. This will reduce fraud and corruption related to transfer and titling of land.

Regional Integration

44. Madam Speaker, key interventions that have been implemented under the East African Community include implementation of the Customs Union, Common market and Monetary Union protocols. EAC partner states are now undertaking common infrastructure investments and reducing non-tariff barriers. By removing road blocks, weigh bridges, and multiple bonds, the number of days it takes a container from Mombasa to Kampala has been reduced from 18 to a maximum of 4, and to Kigali from 22 to a maximum of 7. A Single Entry East African Tourist Visa, and Common Payment system has also been introduced. In addition, the EAC Monetary Union Protocol which was signed in November 2013 is undergoing ratification in all partner states.

45. Madam Speaker, during the year now ending, Government has continued to build infrastructure to ensure serviced industrial and business parks have water, roads and power. Specific focus attention has been placed on making the Luzira, Soroti, and Namanve Industrial Business Parks operable.
46. Madam Speaker, in the next year, Government will enhance support to industrial research institutions in order to develop and commercialise technology innovations..

Financial Inclusion

47. Madam Speaker, the budget strategy will deepen the financial sector to facilitate the availability of affordable credit for the private sector, including agricultural and SMEs. Government has prioritized the promotion of financial literacy to sensitize potential beneficiaries about new products such as crop insurance, and stimulate domestic capital mobilisation through investment clubs.

B. ENHANCING PRODUCTIVE EMPLOYMENT

Employment

48. Madam Speaker, as Uganda celebrates progress with the MDG's our work force is growing due to better life expectancy and social service delivery. Their pathway to stable value-added employment is our economy's opportunity but also our challenge. SMEs are critical in creating jobs and mobilizing the informal and rural economic activity. It is important to note that SMEs span the whole economy

including artisans, health services, schools, entertainment tourism, ICT agriculture and agriculture to name but a few. The two main constraint to job creation from increased SME activity are the lack of knowledge skills transfer; and inadequate availability of affordable credit for viable and ‘bankable’ projects on a sustainable basis. Stable value added employment will be achieved in the medium term, within the following framework:

- i. enhanced life expectancy, as depicted by progress on the MDG’s;
- ii. significant opportunities presented by agriculture and agribusiness; and
- iii. emphasis on a holistic approach encompassing increased formal employment, higher staff productivity, contract farming and support to SMEs , both formal and informal.

49. Government’s task remains how to facilitate productivity and encourage the private sector to create jobs. Government agencies will implementation and integrated strategy focusing on the commodity chain, to undertake the following interventions:-

- i. Curriculum reform to enhance market orientation and private sector entrepreneurship;
- ii. Implement the Skilling Uganda initiative in the Business, Technical and Vocational Education Training with an emphasis on provision of hands on technical skills training, business

skills development, and re-orienting the mind-set of potential entrepreneurs

iii. Enhancing Financial Literacy and Inclusion,

IV. REVENUE AND EXPENDITURE FRAMEWORK FOR FINANCIAL YEAR 2014/15

50. Madam Speaker, the revenue and expenditure framework for the Financial Year 2014/15 Budget has been developed in line with the recent trends in the domestic, regional and international economy. Next financial year, total resource inflows are projected to amount to **Shs 15,054 billion**. Domestic sources will contribute **Shs 12,321 billion** representing 81.8% of the total budget resource for the year. The Uganda Revenue Authority will collect taxes amounting to **Shs 9,577 billion**; and Non-Tax Revenues of **U. Shs 206 billion** will be collected. The Budget will also be financed by issuing Government securities worth **Shs 1,437 billion** on domestic markets; and net Government drawdown from our savings of **Shs 1,102 billion**.
51. Total external financing of the Budget will amount to **Ushs 2,733 billion**, equivalent to **18.2 per cent** of the total budget resources. Budget support comprises of **Shs 69 billion** while Project aid amounts to **Shs. 2,664 billion**, an increase of **Shs. 116.3 billion** over the financial year now ending.
52. The resources available to finance discretionary Government expenditure next year, therefore amount to **Shs 11,088 billion**,

excluding project aid, public debt and other statutory obligations, which amount to **Shs 3,966 billion**. The total resources available for discretionary Government expenditure next financial year represent an additional **Shs 1,546 billion** above the approved level for the year now ending.

V. SECTOR PERFORMANCE FOR FY 2013/14 AND PRIORITIES FOR FY 2014/15

53. Madam Speaker, in order for a detailed report on sector performance over the last year, the Background to the Budget for Financial Year 2014/15 has endeavoured to cover the performance of all sectors comprehensively. I will therefore only highlight the key achievements of the major sectors; while emphasizing the priorities for the forthcoming year and the medium term.
54. The FY 2014/15 budget strategy is based on the following objectives:
- i. Achieve real economic growth rate of at-least 7% per annum;
 - ii. Keep annual consumer price inflation within single digit;
 - iii. Position Uganda in the context of EAC integration to ensure competitiveness;
 - iv. Maintain a prudent level of foreign exchange reserves of at least five months import cover, that can provide a buffer against external shocks;

- v. Maintain a competitive real exchange rate which can support export growth.

55. In order to achieve these objectives, the following priorities underpin allocations of resources in the FY 2014/15 Budget:

- i. Maintenance of National Security and Defence;
- ii. Infrastructure Development in Transport and Energy;
- iii. Enhancement of Scientific Research, Technology and Innovation for Industrialization, Competitiveness and Employment creation;
- iv. Enhance production and productivity in Agriculture, Tourism, Trade and Industrial Development;
- v. Human Capital and Skills Development; and
- vi. Continue to strengthen Institutional Governance and Public Service Delivery.

A. NATIONAL DEFENCE AND SECURITY

56. Madam Speaker, peace and stability remain the cornerstone for socio-economic transformation of our country. Under the strong leadership of H.E. the President, we have built a strong, professional, well equipped and pro-people army and other security forces. This has provided a peaceful, secure and politically stable environment that gives confidence and assurance to both foreign and local investors to consider Uganda a viable investment destination.

57. Over the financial year now ending, Government continued to strengthen the capabilities of our armed forces and other security agencies by the acquisition of modern security and defence equipment and other logistical facilities, as well as the improvement of staff welfare and training.
58. In order to facilitate the Government programme of professionalization and equipping the security agencies, Shs 1,005.5 billion has been allocated to the security sector in the FY 2014/15 representing 7.1% of the total budget. The key priorities will be in professional development of our forces, consolidation of peace, promotion of defence diplomacy, resolution of conflicts, internally, regionally and internationally and support the country's foreign policy of peaceful co-existence and good neighbourliness.

B. INFRASTRUCTURE DEVELOPMENT

Transport Infrastructure

Roads and Bridges

59. Madam Speaker, in the financial year 2013/14, the Transport and Works sector was allocated Shs 2,510.66bn. These resources have been used to upgrade to gravel 264 km, rehabilitated 178km, completed construction of six (6) new bridges, and undertaken the routine maintenance of 10,500 km of unpaved roads. A further 1,720 km of paved roads underwent routine maintenance. The

rehabilitation of the existing Nalubale Bridge and construction of the New Nile Bridge at Jinja have also commenced.

60. Madam Speaker, during the year, 830km of the following roads was completed:- Nyakahita-Kazo; Kazo-Kamwenge; Fort Portal-Bundibugyo; Mbarara-Kikagati; Malaba-Bugiri; Tororo-Mbale; Jinja-Kamuli; Kawempe- Kafu; Mbale-Soroti; and Kampala-Masaka. With support from the World Bank, the rehabilitation and reconstruction of the road networks in the following Municipalities commenced during the year:- Mbale, Jinja, Masaka, Gulu, Lira, Arua, Mbarara, Entebbe, Soroti, Masaka, Fort Portal, Kabale, Moroto, Tororo and Hoima. In addition, routine and periodic maintenance for approximately 17,650 kilometres of national, district, urban and community access roads, including an estimated 265 kilometres of roads under Kampala Capital City Authority was carried out. Government has commenced the rehabilitation and constructed numerous bridges across the country. These bridges are mainly in Northern, Karamoja, Rwenzori and other areas of North Eastern Uganda.

61. Madam Speaker, with these interventions, the proportion of the national unpaved road network in fair to good condition is currently at 66% while that of National Paved Road network is at 77%. Our target is to improve the condition of these roads further to 75% and 85% respectively over the medium term.

62. Madam Speaker, in the forthcoming financial year 2014/15, I am increasing the allocation to the Works and Transport sector to Shs 2,575.5bn. Government has targeted the upgrading from gravel to bitumen of 200km of roads, the reconstruction of 178 km of roads, the construction of 10 new bridges, and the rehabilitation of 7 bridges. In addition, 12,875 km of unpaved roads are scheduled for re-grading,

63. Madam Speaker, during the forthcoming year, Government will accelerate the construction on at least 1,700 km of the following ongoing Road projects:- Vura-Arua-Oraba upgrade; Buteraniro - Ntungamo – Rwentobo; Ntungamo-Kabale –Katuna; Hoima–Kaiso–Tonya; Kampala - Mukono – Jinja; Gulu-Atiak-Nimule upgrade; Ishaka-Kagamba; Kampala-Entebbe Expressway; Moroto–Nakapiripirit; Kafu – Kiryandongo; Luuku – Kalangala upgrade; Fort Portal-Kamwenge; Mbarara Bypass; Mukono-Kyetume-Katosi/Kisoga – Nyenga; Mpigi-Maddu-Ssembabule; Kiryandongo - Kamdini; Kamdini – Gulu; Pakwach – Nebbi; Ntungamo-Mirama Hills; Kampala Northern Bypass upgrade; Masaka – Bukakata; Kigumba – Bulima- Kabwoya; Olwiyo-Gulu-Kitgum - Musingo Road; Villa Maria – Sembabule; Musita-Lumino-Busia/Majanji; Mubende - Kakumiro – Kagadi; and Mukono - Kayunga – Njeru.

64. Madam Speaker, construction on 650 km on the following new road projects will also commence in Financial Year 2014/15: Kabwoya – Kyenjojo; Tirinyi - Pallisa - Kumi/Kamonkoli; Kapchorwa-Suam;

Rukungiri-Kihihi-Ishasha-Kambuga; Kihihi - Kanungu – Kambuga; Mbale-Bubulo-Lwakhakha; Kyenjojo - Fort Portal; Ishaka - Rugazi – Katunguru; Sironko - Namunsi – Muyembe; Nansana – Busunju; and Mbale – Nkokonjeru.

65. Madam Speaker, I have allocated an additional Ushs 75bn to the Uganda Road Fund to facilitate the maintenance and rehabilitation of approximately 10,000km of national, district, urban (including Kampala City) roads and community access roads across the country. Government will also continue the construction and several strategic bridges including the Mitaano Bridge in Kanungu district as well as the bridges destroyed by the recent floods in Kasese and other parts of the country.

Rail

66. Madam Speaker, in the railway sub-sector, Government, in collaboration with other Partner States within the East African region, is scaling up efforts to revitalize the railway transport system. The upgrade to Standard Gauge Rail of the Tororo - Kasese and Mirama Hills to link with Kigali in Rwanda. During FY 2014/15, the construction of an Inland Container Depot at Mukono, and the redevelopment and upgrading of facilities at Port Bell and Jinja piers will commence.

Energy Infrastructure

Electricity

67. Madam Speaker, during the financial year, the total national power generation capacity increased to 852 MW. Feasibility studies have been completed for the several small hydropower sites, totalling to 130 MW. The sites are at Kikagati, Mitano, Lubilia, Nyagak III, Siti, Waki, Rwimi, Ndugutu, Nkusi, Nyamwamba, Nengo Bridge, Esia and Muzizi. Construction for these projects will begin in Financial Year 2014/15, with the support from development partners including the World Bank, Norway, the United Kingdom, the European Union, and Germany; together with the Private Sector.
68. Madam Speaker, 1,630 kilometers of transmission lines were added to the national grid during the year now ending. 16 substations were also constructed to improve transmission and distribution efficiency. There are ongoing procurements for 6,250 kilometers of transmission and distribution lines for which construction will begin during Financial Year 2014/15. The terms of the distribution concession will be also be further enforced to reduce systems losses and increase efficiency from 23% to 20%. This will include rolling out of the prepaid system.
69. Madam Speaker, during the year now ending, Government has extended electricity to under-served areas of the country as part of its Rural Electrification Programme. An additional 15 districts have now been connected to the national grid. These include the

Kyegegwa, Katakwi, Amuria, Kiruhura, Lamwo, Nakapiripit, Amudat, Kaberamaido, Dokolo, Amolatar, Ntoroko, Alebtong, Moroto, Buhweju and Napak. This brings the total number of district with electricity connections to 98 out of 112 districts.

70. Work has commenced also commence for the connection an additional eleven (11) districts. These are Bulisa, Adjumani, Moyo, Amuru, Otuke Zombo, Koboko, Maracha, Yumbe, Nwoya and Namayingo. The remaining three (3) districts of Kotido, Kaabong and Kalangala will be supplied by the end of 2016, thus completing the long but steady journey of supplying electricity to all district of the country.

71. Madam Speaker, in the forthcoming year, special attention will be placed on accelerating implementation of the construction of the major Hydropower plants at Karuma and Isimba.

Oil, Gas and Petroleum Development

72. Madam Speaker, during the year now ending, Government has made significant progress in Oil, Gas and Petroleum development. A total of one hundred and sixteen (116) wells have been drilled, with successful results from one hundred one (101) wells where oil has been found. Of the wells with positive exploration results, Twenty nine (29) wells have been flow tested.

73. With respect to the development of an Oil Refinery, land acquisition has progressed with the compensation for 50% of Project Affected Persons. In addition, the Environmental baseline study for the Oil refinery has been concluded. The process for selection of the Lead Investor for the Oil Refinery has also reached advanced stages following submission of proposals by four (4) of the six (6) shortlisted international firms.
74. The Oil Refinery will be developed as a Public-Private Partnership (PPP) with the selected Lead Investor holding a 60% shareholding; and Government and participating East African Community partners states holding upto 40% of the Oil Refinery shares. Over the next year, the engineering design of the Oil Refinery will be completed to pave way for construction to begin.

Mineral Development

75. Madam Speaker, in the area of mineral exploration, iron ore discoveries at Buhara, Nangara, Kisoro, Rugando, and Butogota estimate total reserves at 116 million tonnes, with a gross value of US\$ 15.6 billion. In addition, reserves of 7.8 million ounces of gold have been proven at Tiira in Busia, Kamalenge in Mubende, Mashonga in Bushenyi, Kampano in Ibanda and Alupe in Busia. These gold reserves have a total gross value of US\$ 10.9 billion. Vermiculite reserves at Namekhara in Manafwa have been valued at US\$ 11.5 billion while Limestone/Marble reserves in Hima, Dura Muhokya and Tororo have increased to over US \$ 300 million.

Government will support the development of these strategic mineral reserves to ensure the benefits accrue to Uganda, and the localities where the reserves have been discovered.

76. Madam Speaker, I have allocated Shs 1,675.7 billion to the Energy and Minerals Sector to undertake mineral development.

Information and Communication Technology (ICT)

77. Madam Speaker, during the year now ending, Government has completed construction of two phases of the National Transmission Backbone Infrastructure (NBI). This has improved Internet connectivity at a more affordable cost. This has reduced the cost of bandwidth to USD 300 per Mbps (Megabit per second) per month, down from USD 600 per Mbps prevailing on the market. Bulk Internet bandwidth agreements have to date been signed to Government Institutions with 18 Ministries are being supplied with cheaper bandwidth. I encourage the private sector to utilize this infrastructure in order to reduce their costs of doing business and enhance their efficiency and profitability.

78. Madam Speaker, in order to increase the economic benefits the country receives from improved connectivity, a Business Process Outsourcing (BPO) incubation center at the Statistics House was officially launched. The Centre employs 250 employees, directly. An additional 4,000 employees are currently employed by other BPO operators in the sub-sector. This represents an opportunity for

Uganda to become a business process outsourcing (BPO) hub on the global market.

79. Madam Speaker, in the Financial Year 2014/15, Government will accelerate the commercialization of the second phase of the National Backbone Infrastructure project and commence construction of the National ICT Park and Innovation Center. Government will also promote and support the operations of Business Process Outsourcing (BPO) centers.

C. KEY GROWTH SECTOR PRODUCTIVITY AND PRODUCTION

Agriculture Production and Productivity

80. Madam Speaker, agriculture and agribusiness is a priority to Government to create jobs, improve productivity and expand exports in the medium term. The sector employs 70 percent of the Uganda's labour force, and contributes about 21 percent to the GDP. Government plays an important support role to ensure value for money and lower the cost of doing business.

81. Madam Speaker, during the next year, Government will support interventions in the agriculture sector on the following key actions:-

- i. Focus on provision of inputs, while minimizing expenditure on administrative costs, seminars and workshops;
- ii. Place resources available for inputs provision under a single umbrella and leverage them to effectively focusing on the needy and graduates

- iii. Encourage small holders to produce surplus, focusing on enterprises that provide high returns to small holder farmers
- iv. For medium and commercial scale farmers, encourage commercial ranching, large scale crop production and value addition.

82. The above strategy will be implemented holistically by Government agencies working in concert.

Tourism Development

83. Madam Speaker, the tourism sector will significantly contribute to national output if its full potential is utilized. In order to realize the tourism sector's potential, Government will formulate a comprehensive Tourism Sector Strategy that addresses promotion, training regulation, and infrastructure development. I have accordingly allocated an additional Shs 5.0 billion to the Uganda Tourism Board (UTB) for Tourism Promotion, for the formulation of the strategy.

D. HUMAN CAPITAL AND SKILLS DEVELOPMENT

84. Madam Speaker, Government strategy for skills development entails among others, increasing access to quality education with emphasis on skilled development, quality health care as well as safe water and sanitation facilities. Government spending on the three sectors of Health, Education and Water in the forthcoming year will amount to

over Shs 3,550 billion, which is approximately 25% of the total budget.

Education

85. Madam Speaker, during the year now ending, Government has continued to increase the availability of school facilities infrastructure to enhance access, improve the quality of learning through provision of teaching materials, recruitment of additional teachers and enhanced monitoring and supervision.
86. Madam Speaker, 8.4 million primary school age going children now have access to an education, against a target of 8.5 million. At secondary school level, enrolment has reached 1.26 million compared with a target of 1.33 million students. Enrolment in Business and Vocation Education and Training (BTVET) has also increased to about 24,000 while enrolment in higher education institutions is now close to 200,000 students. 2.4 million copies of core textbooks and teachers' guides have been procured and distributed, to improve the quality and relevance of primary education.
87. Madam Speaker, 486 secondary schools have been rehabilitated and constructed, with the support of the World Bank. Construction works are on-going at an additional 639 schools.

88. Madam Speaker, I have allocated Shs 1,699.4 billion to the education sector in the next financial year to enhance the quality of education. Priorities to be implemented include the enhancement of Teachers' salaries, with emphasis on Primary School Teachers. Shs 215bn has been allocated for this purpose. I have also provided Shs. 5 billion towards supporting Teachers' SACCOs, in addition to the Shs. 2.5 billion provided during this year.
89. Madam Speaker, I have also specifically allocated 68.7 billion for the implementation of the Skilling Uganda programme. Workshops will be constructed at technical schools at Kihanda in Kanugu; Namasale in Amolator; Namisindwa in Manafwa, Bukoli in Bugiri, and St. Joseph Kyalubingo in Kamwenge.
90. Madam Speaker, Government will also operationalise and expand the Student Loan Scheme with emphasis on science and vocational training. The Loan Scheme will be rolled out starting with undergraduate students in both Public and Chartered Private Universities.
91. Madam Speaker, in addition to the primary and secondary schools construction programme already underway, Government will commence the construction of 8 Primary Teachers Colleges (PTCs). These are at Buhungiro, Paidha, Bundibugyo, Bukedea, Kapchorwa, Arua, Ibanda and Canon Lawrence. Construction of the National

High Altitude Training Centre (NHATC) will also commence, in addition to the rehabilitation of 6 regional stadia.

92. Madam Speaker, Government will also provide instructional materials to support the roll out of the new curriculum for 45 Primary Teacher Colleges Educational institutions, and also for Special Needs Education (SNE).

Health

93. Madam Speaker, during the year now ending, Government in the Health Sector procured and distributed medicines and drugs worth Shs 124 billion. These include essential medicines including Anti-Retrovirals, Tuberculosis Medicines and Reproductive Health Supplies. The enrolment for Anti-Retroviral (ARVs) Treatment increased from 376,000 in 2012 to 570,000 in 2013. In order to reduce the incidence and impact of malaria, Long-lasting insecticide treated Nets were also distributed in all districts and Indoor Residual Spraying (IRS) has also been ongoing in the high prevalence districts of northern Uganda, Kumi and Ngora. Vaccines for the nine (9) vaccine-preventable diseases were also procured and distributed in order to eliminate stock-outs completely.

94. In order to decongest the Mulago National Referral Hospital, the construction of new hospitals in Kawempe and Kiruddu in Kampala is ongoing. In addition, Regional Referral Hospitals at Moroto

Mityana, Nakaseke, Kiryandongo, Nebbi, Anaka, Moyo, Entebbe and Iganga General Hospitals, are being rehabilitated.

95. Madam Speaker, in the next financial year, Government will enhance Health workers remuneration and improve their skills through capacity building. Health facility infrastructure at both local government and referral levels, will also be expanded, in addition to the construction of additional staff houses in lower level health facilities to minimize on absenteeism.

96. Government will also implement the Malaria Strategy for effective prevention and control through the mass distribution of Long-lasting Insecticide-Treated Nets (LLINs), and mass Indoor Residual Spraying (IRS), commencing in the high malaria-prone areas of Lake Kyoga and Northern Uganda. The Malaria Strategy will also entail the Enhanced Diagnosis and Treatment of all cases before treatment to improve case management, and provide correct treatment.

97. Madam Speaker, I have allocated Shs 1,197.8bn to enable implementation of the Government priority programmes in the health sector.

Water and Sanitation

98. Madam Speaker, Government has made considerable progress in access to clean safe water and sanitation. 65% of Ugandans now have access to safe water within a distance of 0.5 km. The expansion

of the Ggaba Water Works and construction of Namasuba Hill Reservoir commenced during the year. Piped water systems and Gravity Flow schemes in Kahama in Ntungamo district, Wadelai and Singila in Alwi dry corridor, the expansion of the Tororo-Manafwa Water supply and Kanyampanga were completed. The cumulative storage for water for production is estimated at 28.3 million cubic meters. The functionality of water sources at rural water supply points ranges between 83%-85%.

99. Madam Speaker, during the year, the construction of the Lubigi Waste water Treatment Plant and rehabilitation of Bugolobi sewerage treatment Plant was completed. The construction of the Nakivubo and Kinawataka Waste water Treatment Plants was also started. Sanitation coverage is estimated at 71% for rural areas and 83% for urban households. Our target is to improve access to safe water and sanitation to 100% for all Ugandans by 2018.

100. Madam Speaker, in the next financial year, the Gaba Water works will be expanded increasing water production in Kampala from 180,000 cubic meters per day to 230,000 cubic meters per day. Government will also implement the Kampala Sanitation Master Plan Project to increase sewerage coverage in Kampala, construct works for the Nakivubo Treatment Plant facility and rehabilitate and expand the water supply systems in the towns of Arua, Gulu, Mbale and Bushenyi.

101. Madam Speaker, I have allocated an additional Ushs 30bn for the purpose of enhancing safe water provision and sanitation.

E. STRENGTHENING INSTITUTIONAL GOVERNANCE AND PUBLIC SERVICE DELIVERY

102. Madam Speaker, during the year now ending, Government has vigorously instituted accountability measures to effectively and efficiently utilize public resources.

Cash Management

103. The Treasury Single Account was implemented to strengthen day to day cash and debt management.. All redundant Bank Accounts at the Bank of Uganda have been closed, and the number of Bank Accounts operated by any Government Agency have now been restricted. We have also enforced limits on cash withdrawals to a maximum of Ushs 20 million per day to reduce the amount of public funds exposed to abuse. In the next financial year, Government will strictly enforce the Commitment Control System which bars any Accounting Officer from over-committing Government beyond the available resources. Accounting Officers will be required to honour payments to contractors and service providers within 14 days from receipt of invoices.

Payroll Management

104. Madam Speaker, we have fully decentralized payroll management in the public sector from the Ministry of Public Service and the Ministry of Finance, Planning and Economic Development, to Accounting Officers. This has addressed the perennial problem of delayed salary payment and existence of “Ghosts” staff on the Government payroll. With this arrangement, Accounting Officers are personally and financially responsible for all salary transactions.
105. In order to improve payroll management, the biometric information of all Public Servants across the country has been taken and a comprehensive audit of the payroll by The Auditor General has been completed. The Integrated Personnel and Payroll System (IPPS) is being rolled out and will interface with the Integrated Financial Management System (IFMS) to ensure payment of all staff salaries through the IFMS, as Government’s payment system.
106. In order to improve the management of Government Pension and Gratuity, with effect from 1st July 2014, the budgeting and payment of Gratuity will be decentralized from the Ministry of Public Service to the individual institutions where the Public Officers retire from. This decentralization will be extended to the payment of monthly Pension, in the medium term.

Budget Transparency and Accountability

107. Madam Speaker, the Ministry of Finance, Planning and Economic Development continues to publish the quarterly releases to all

Government Departments and Agencies in the print media. I call upon Hon. Members of Parliament and the public to take keen interest in this information and use it to monitor the implementation of Government programmes and utilization of tax payers' money.

108. During the year, the Ministry of Finance, Planning and Economic Development launched the Budget Information Website which provides all budget related data. The budget information on the website provides the performance of Government programmes by locality, and serves as a platform for the public to provide feedback and report any information related to implementation of the national budget.

109. Madam Speaker, in the next year, budget transparency will be enhanced by working closely with the Civil Society. The Ministry of Finance is establishing an SMS system and Hotline for the public to air their views, seek responses from Government agencies on implementation of public programmes, and whistle-blow irregularities in public financial management.

Additional Key Interventions

110. Madam Speaker, in the next year, other key priorities for improving institutional governance, accountability and efficiency measures will include the following:

- i. Conduct the National Population and Housing Census to gather demography and economic data critical for proper planning. I

- have allocated an additional of Shs. 40 billion to the Uganda Bureau of Statistics for the census.
- ii. To ensure timely preparation for the 2016 General Elections, an additional Shs. 105.6 billion has been allocated to the Electoral Commission to carry out preparatory activities. I have also allocated an additional Shs. 80 billion to the Uganda Police Force, to cater for recruitment of required personnel and other activities in preparation for the elections. An additional Shs 74 billion has been allocated to the implementation of the National Security Information Systems Project, commonly known as the National ID Project.
 - iii. Madam Speaker, I have allocated Shs 450 billion to enhance the salary of all Public Servants. This includes provisions for the teachers' pay increase in line with Government's agreement with the Uganda National Teachers' Union (UNATU). The salary of the lowest paid Teacher will therefore increase by between 15% and 25%. Other Public Servants' salaries will also be adjusted within the available resources.
 - iv. Government will institute tax inclusive budgeting for all goods and services procured by Government, including those of development partners supporting public programmes, with effect from Financial Year 2014/15. This measure will remove distortions and loopholes that arise by not treating Government transactions in the same way as those of the private sector, and also eliminate the accumulation of Government tax arrears.

- v. Government currently spends colossal sums of money on acquiring Right of Way to implement key infrastructure projects, which causes a major fiduciary risk. Accordingly, next financial year, Government will establish a common corridor for key infrastructure investments to avoid double costs of compensation. Government will not compensate any private entity or person for investments undertaken in gazette public facilities, especially road reserves.
- vi. In order to improve service delivery at local government level, we shall reform inter-governmental transfers system by making it simpler, more equitable and reduce the number of conditional grants.
- vii. Madam Speaker, in accordance with the PPDA (Amendment) Act Section 59A , it is now mandatory for all Government agencies, when using the open bidding, to grant a 15% margin of preference to goods which are domestically manufactured, mined, extracted or grown in Uganda; and 7% margin of preference for works by Ugandan contractors or services provided by Ugandan consultants. This is meant to promote local content.
- viii. Government will work with the Utility Companies to rollout the prepayment system for electricity and water starting with Government institutions to address the problem of accumulation of utility bills and eliminate domestic arrears.

VI. CONSTITUTIONAL SELF ACCOUNTING BODIES

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

- i). Courts of Judicature
- ii). Electoral Commission
- iii). Inspectorate of Government
- iv). Parliamentary Commission
- v). Uganda Law Reform Commission
- vi). Uganda Human Rights Commission
- vii). Uganda Aids Commission
- viii). National Planning Authority
- ix). Office of the Auditor General

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

113. In order for me to submit a fully financed National Budget for your consideration in accordance with Article 155(1) of the Constitution, the budget provisions of these Self Accounting bodies are in accordance with the resource envelope conveyed to them in the

course of budget preparation, including the presentation of the National Budget Framework Paper to Parliament, in accordance with the Budget Act 2001.

VII. FINANCIAL YEAR 2014/15 TAX AND REVENUE MEASURES

114. Madam Speaker the objectives of the various tax measures for the Financial Year 2014/15 are to raise revenues, enhance transparency in collection and enforcement, improve compliance and encourage investment by promoting value addition.

115. I will propose amendments to the tax laws to achieve the above objectives and introduce amendments to simplify the laws, clarify ambiguous provisions and enhance compliance in the various tax laws. I will also highlight the decisions reached at the East African Community (EAC) Pre-Budget consultative meeting.

A. INCOME TAX

Elimination of Initial Allowances on Eligible Property

116. Madam Speaker, a person who places an item of eligible property into service for the first time during a year of income is allowed a double tax deduction for that year of income of accelerated depreciation and ordinary depreciation. I, therefore, propose to terminate initial allowance on eligible property in order to widen the tax base. This measure is expected to generate Shs.53.2 billion.

Increase the Presumptive Tax Threshold from 1% to 3%

117. Madam speaker, a lot of businesses in Uganda are operating informally making it difficult to apply the normal income tax regime on them. A presumptive tax system was developed for them but the rates of tax on their income have not been revised since 1997. I propose to increase the presumptive tax threshold from 1% to 3% to raise revenue. This measure is expected to generate Shs.8 billion.

Imposition of 15% tax on Sports and Pool Betting winnings and Designation of Gambling Houses to withhold the tax

118. Madam speaker, I propose to introduce a 15% tax on winnings on sports and pool betting and designate gambling houses as agents to withhold the tax. This measure is expected to generate Shs.8.0 billion.

Termination of exemption on Interest Income on Agricultural Loans

119. Madam Speaker, I propose to terminate the exemption on interest income on agricultural loans to raise revenue. This measure is expected to generate Shs.25.1 billion.

Capital Gains Tax on sale of Commercial Property

120. Madam speaker, I propose to introduce capital gains tax on the sale of commercial property to raise revenue. This measure is expected to generate Shs.52 billion.

Income Tax Act Thin Capitalization Rules

121. Madam Speaker, I propose to limit deductions for interest paid to non-associated persons not to exceed 50 percent of earnings before interest and depreciation. This will ensure that it is effective in limiting the avoidance of tax abuse through low taxed interest payments.

Termination of exemption on Income derived from Educational Institutions

122. Madam speaker, I propose to terminate the exemption on income derived by a person from managing or running an educational institution for commercial gain. This is consistent with the principle of equity and transparency in tax regime, and broadening the tax base by bringing more taxpayers into the tax net. This measure is expected to generate Shs.15 billion.

Definition of Start-up Costs

123. Madam Speaker, currently, there is no definition of start-up of costs in the Income Tax Act and this causes a risk of mixing start-up costs with capital expenditure, thus getting a double benefit. I propose to restrict start-up costs to only non-recurring preliminary costs, which are associated with starting up a business.

Other Technical Amendments

124. Madam Speaker, I propose to other technical amendments Madam Speaker, the details of the above proposals are contained in the Income Tax (Amendment) Bill 2014.

B. VALUE ADDED TAX (VAT)

125. Madam Speaker, Value Added Tax (VAT) is a well-designed tax and follows best international best practise. It is a tax designed for generating revenue and is borne by the final consumer. However since its introduction, changes have been introduced to address perceived problems that have created complexity both in the underlying tax structure and its administration. These include VAT exemptions for intermediate inputs to various sectors. To restore its credibility and enhance revenue mobilisation, I propose to restructure the VAT Act to remove these distortions, with the objective of promoting transparency, formalization of businesses, and compliance in the management of VAT.

Termination of Exemptions under the Second Schedule of the VAT Act

126. Madam Speaker, I propose to terminate the exemptions on the following supply with effect from 1st July 2014:-

- i. Supply of New Computers, Desktop Printers, Computer Parts & Accessories and Computer Software Licenses;

- ii. Supply of hotel accommodation in tourist lodges and hotels outside Kampala District;
- iii. Supply of Liquefied Petroleum Gas;
- iv. Supply of Feeds for Poultry and Livestock
- v. Supply of Agriculture and Diary Machinery
- vi. Supply of Packaging Materials to the Diary and Milling Industries
- vii. Supply of Salt
- viii. Supply of Insurance Services except medical and life
- ix. Supply of Specialized Vehicles, Plant and Machinery services and civil works related to roads and bridges construction, Agriculture, Water, Education and Health.

127. Madam Speaker, the above measures are projected to generate Shs.215 billion and the details are contained in the VAT (Amendment Bill) 2014.

Termination of Zero-rated Supplies under the Third Schedule of VAT Act

128. Madam Speaker, I propose that the following VAT zero-rated supplies be terminated with effect from 1st July 2014:-

- i. Supply of Printing Services for Educational Materials
- ii. Supply of cereals, grown, milled or produced in Uganda
- iii. Supply of processed milk and milk products

- iv. Supply of Machinery and Tools for Agriculture
 - v. Supply of Seeds, Fertilizers, Pesticides and Hoes
129. Madam Speaker, the above measures are projected to yield Shs.30.4 billion and the details are contained in the VAT (Amendment Bill) 2014.

C. EXCISE DUTY

Increase of Excise Duty of 50 shilling on Petrol and Diesel

130. Madam Speaker, I propose to increase excise duty on petrol and diesel by 50 shillings to increase revenue collections. This measure is expected to raise about Shs.60 billion.

Reinstate Excise Duty of 200 shillings on Kerosene

131. Madam Speaker, I propose to reinstate excise duty on kerosene at 200 shillings per litre to raise revenue. The removal of the duty in 2010 did not lead to reduction of the price as expected and the oil dealers rather than the final consumers were the beneficiaries. Findings from the industry suggest that the reason the price of paraffin did not reduce is the fear that unscrupulous dealers use it to adulterate diesel. This is very hazardous to all users in industry, transport and households. This measure is expected to generate about Shs.15 billion.

Increase Excise Duty on Sugar from 25 shillings to 50 shillings

132. Madam Speaker, I propose to increase excise duty on sugar from 25 shillings to 50 shillings. This measure is expected to generate about Shs.7 billion.

Introduction of 10% Excise Duty on Mobile Money Withdraw Fees

133. Madam Speaker, in Financial Year 2013/14, I introduced a 10% excise duty on mobile money transfer services but the estimated revenues were not realized as the charges were transferred to withdrawals. To correct this anomaly, I am proposing a 10% excise duty on fees charged on withdrawals. This measure is expected to generate about Shs.16 billion.

Excise Duty on Bank Charges and money transfer fees

134. Madam Speaker, I propose to introduce excise duty of 10 percent on bank charges and money transfer fees to generate revenue. This policy will yield Shs.22 billion.
135. Details of the above measures are contained in the Excise Duty (Amendment) Bill 2014.

D. OTHER TAX MEASURES

Treatment of Government Taxes

136. Madam Speaker, the Ministry has embarked on the process of integrating Government in the tax system and removing any

distortions and loopholes that arise by not treating Government transactions in the same way as those of private sector.

137. Madam Speaker, I am proposing that commencing next Financial Year, all goods and services procured by Government, directly or with the donor support will be tax inclusive. Funds have been allocated in the budget to the relevant sectors. Accordingly the gross tax payment system managed under my Ministry will cease.

138. In this respect, to provide for a smooth transition for the new policy framework, I have decided to write off all outstanding taxes owed to Uganda Revenue Authority by both the Central Government and Local Governments. However, this excludes PAYE, Withholding Tax and any other taxes withheld at source which must be accounted for by the responsible persons in accordance with the law.

E. NON TAX REVENUE, NEW TAX LAWS AND OTHER REFORMS

Implementation of the Revised Non Tax Revenue rates by Government

139. Madam Speaker, last Financial Year I revised some Non Tax Revenue rates through the Finance Bill 2014 to raise revenue. The exercise will continue in Financial Year 2014/15 raising further revenue of about Shs. 40 billion. Details will be contained in the Finance Bill 2014.

New Tax Laws and Other Reforms

140. Madam Speaker, Last Financial Year, my Ministry proposed new Excise Duty, Stamps Duty, Lotteries and Gaming laws as well as the Tax Procedures Code. I am happy to report that the Bills are now before Parliament and I am hopeful that they will be considered, enacted and implemented as part of the tax reforms and budget for the Financial Year 2014/15. It is of necessity to expedite the enactment of these laws as they are critical for enhancing compliance and the overall objective of increasing revenue collection.

Tax Administration

141. Madam Speaker, modernization of the tax administration remain a priority to enhance revenue collection. The e-tax system and other information management systems to augment the capacity of tax administration will be stepped up to improve taxpayer compliance. The e-tax is to be linked with the IFMS system, and accessibility of electronic services for small taxpayers enhanced.

142. In order to improve tax administration, a list of key performance indicators has been developed between the Ministry and URA to monitor efficiency gains by tax administration and ensure that URA can deliver the set targets.

East African Community and Regional Initiatives

143. Under EAC Northern Corridor, initiatives have been implemented to improve efficiency in the clearance of goods at Mombasa port and along the Corridor. The focus has been on addressing the perennial bottlenecks that increase the cost of doing business in the region.
144. Madam Speaker, I wish to report the time taken to transport cargo from Mombasa to Kampala has been reduced from 18 to 4 days while the time taken to load and transport fuel from Kisumu and Eldoret to Uganda has been reduced from 3 days to 8 hours.
145. Transit bonds which have been a major complaint by the business community have been eliminated and multiple customs documentation substantially reduced. These improvements are resulting into reduction in costs of transport for Uganda's cargo and also deepening the EAC integration process.

EAC Pre-Budget Consultations

146. Madam Speaker, the East African Community Ministers of Finance agreed on a number of decisions during the Pre-Budget meeting, including introduction of a 1.5% infrastructure levy on selected imports into EAC to finance railway infrastructure development.
147. Details of the decisions will be contained in the East African Community (EAC) Gazette.

F. REPORT OF TAX EXPENDITURES FOR FY 2013/14

148. Madam Speaker, Article 152 (2) of the Constitution requires me to periodically report to Parliament on the exercise of powers conferred upon me by any law to waive or vary a tax imposed by that law. This is to report that this Financial Year, I waived Stamp duty of Shs 200 million payable by Pride Micro Finance Limited and Shs 2 billion payable by Uganda Development Bank Limited on increase in share capital. I also waived PAYE liability of shs 332,252,158/=for Gulu Independent Hospital for the period July 2002 to October 2005. This is in line with the tax waiver granted to the Northern Uganda business community in 2006 due to hardship in the aftermath of the war.
149. Madam Speaker, Government has, as of 26th May 2014, also paid Shillings Eleven billion, Five Hundred Three Million, Two Hundred Fifteen Thousand, One Seven Hundred Fifty Shillings only (Shs.11,503,215,750/=) in respect of Hotels, Textile Manufacturers, Hospitals and Tertiary Institutions, and Non-Government Organizations with tax exemption clauses in their agreement.

VIII. SCHEDULE OF INDEBTEDNESS

150. Madam Speaker, in accordance with the provision of Article 159 (4), Section 13 (1) and (2) of the Budget Act 2001, I hereby lay before the House a report on Government's total indebtedness as at 31st March 2014 and all the loans contracted the grants that Government received during financial year 2013/14. I wish to call upon Colleagues to spare

some time read and discuss the report and provide insights, comments and guidance.

IX. CONCLUSION

151. Madam Speaker, the budget for the FY 2014/15 has been prepared to create a better Uganda. Having a shared vision requires working for the common good as a team. With this common understanding, we shall transform Uganda. We shall build modern and lasting infrastructure, we shall deliver services, create jobs, eliminate poverty, increase incomes and ultimately improve the overall quality of life of Ugandans.
152. The budget has prioritised implementation of actions that have impact on livelihoods of a majority of Uganda such as education, health, water and agriculture, among others. For rural farmers and the business community, the budget aims at enhancing the availability of electricity and transport infrastructure to enable in order to reduce the cost of doing business. For potential entrepreneurs and job seekers, especially the youth, the budget provides opportunity for appropriate skills development for the market, and access to investment finance. For the Uganda worker, pension sector reforms are aimed at securing incomes in retirement, and also ensure efficient savings mobilization for sustainable and long term development, without compromising social security protection of the workers.

153. Therefore, the budget proposals I have presented today are not only a contract among a selected few. The budget proposals reflect a shared vision and common agenda of all citizens of Uganda.

154. Madam Speaker, as I commend this budget to the people of Uganda, I wish to urge my colleagues, Members of Parliament and Government technocrats to play their respective roles and implement the proposals for a better Uganda.

I beg to move.