Ministry of Finance, Planning & Economic Development

BUDGET STRATEGY FY2020/21

Theme: Industrialisation for Job Creation and Shared Prosperity

September 2019

INTRODUCTION

The budget for FY2020/21 will be implemented under a new development plan – the Third National Development Plan (NDPIII). The NDPIII will build on the foundation already laid under the Second National Development Plan (NDPII).

In the second national development plan, the government set a goal of achieving a middle-income status, that is to say, increasing the average income of Ugandans to US$ 1,039. Significant strides have been made already – every Ugandan now earns, on average, US$825 per year. This is up from an average of US$ 745 in 2012/13. While the middle-income goal may not be achieved given the space of time left to the closure of the current plan, good progress has been made with respect to the realization of the strategic objectives of the second national development plan: -

i) Investment in the exploitation of the key growth opportunities have yielded several positive results. The tourism sector now ranks as the leading foreign exchange earner and contributes about 10% of GDP, up from 4.3% in 2011. Value added to agricultural activities increased from Ushs.17.4Trillion in 2011 to Ushs.24.3Trillioon in 2018. The legal and regulatory framework for the oil and gas sector have been put in place, local capacity development and other preparatory work for oil and gas exploitation are on-going.

ii) The stocks of productive, trade and export infrastructure have been increased significantly. Electricity generation capacity increased from 610 megawatts in 2011 to 974 megawatts in 2018. As a result, several economic growth centres have access to power. The percentage of the population with access to electricity also more than doubled from 11 to 23. Paved national roads increased from 16.1 per cent in 2011 to 21.1 per cent in 2018. Consequently, production, trade and exports have been facilitated. Export earnings increased from US$3.4Million to US$5.3Million between 2011 and 2018. Overall, the size of the economy more than doubled from Uganda Shillings 46.9 to 101.0 Trillion within the same space of time.

iii) Several key non-income development targets, especially those relating to the quality of life, have already been achieved ahead of schedule. For instance, life expectancy is currently at 63 years. The NDPII target of 60 years by the year 2020 has been exceeded. The increase in life expectancy mirrors considerable improvement in the quality of social service outcomes. Most notably, the reduction in maternal mortality from 435 to 336; and, under-five mortality from 137 to 64, all between 2011 and 2018.

The development milestones achieved cumulatively under both the first and second national development plans, now provide a solid foundation on which the successor third national development plan will drive higher and more inclusive growth in the coming years, beginning FY2020/21. However, to achieve the intended development outcomes, the existing challenges to growth will have to be addressed decisively.

EXISTING CHALLENGES TO ECONOMIC GROWTH AND DEVELOPMENT

Several development challenges were identified during execution of the second national development plan. The key constraints to accelerated and inclusive growth are: -

i) **Low productivity in the exploitation of the growth opportunities in agriculture, tourism, minerals and the trade**. Low productivity is majorly due to the low uptake of modern technology and a large subsistence nature of production, specifically under the agriculture sector. Over 68% of the population is in the subsistence economy, with little or no commercial endeavours. Besides, there has been slow progress in the commercialisation of minerals, oil and gas because of delays in the development of requisite infrastructure. Consequently, job creation in the economy has been lackluster and has not kept pace with the surge in the number of youths joining the labour force.

ii) **Uncompetitive cost of doing business as a result of high cost of electricity and transport.** This is compounded by inadequate investment in infrastructure maintenance, particularly in the transport sector. Uganda's ranking in the Global Competitive Index for ease of doing business deteriorated from 112 out of 183 economies in 2011 to 122 out of 189 economies in 2018. As a result, Uganda has not been able to benefit fully from the abundant regional and international trade opportunities.

iii) **Existing gaps in social service delivery and widening inequality as well as monetary poverty**, which increased from 19.7% in 2013 to 21.4% in 2017. Most alarmingly, however, 56% of Uganda's children suffer from multidimensional poverty. In other words, they are deprived from things or activities which are deemed essential by the majority of Ugandans and of paramount importance for their cognitive development. To illustrate, 77% of children in West Nile are unable to access a health facility or afford prescribed medicines when ill. Similarly, 86% of children in Karamoja are deprived of three meals per day, and 80% of children in Bukedi are deprived of school fees, uniform and scholastic materials because their parents cannot afford it. Busoga, Bukedi and Bugisu – which, along with Karamoja, Acholi and West Nile rank amongst the poorest sub-regions in the country – are very densely populated and together account for one-third of Uganda's child population.

Rapid population growth in the face of shrinking fiscal space for strategic investments in health, education, and social protection. Countries in East Asia, including the Asian Tigers, had started off with demographics very similar to those exhibited by Uganda today, yet have successfully achieved the demographic dividend between 1965 and 1990. Regardless of the key strategies (policy interventions) used, all countries who successfully harnessed the benefits from the demographic dividend built their economic success around significant increases in health outcomes, improvements in the quality of education, as well as female empowerment, ultimately fueled by a healthy balance between social and economic sector investments.

iv) **Constraints to private sector investment.** The cost of credit has been a major constraint to private sector investments. Other constraints relate to the trade barriers and business regulatory gaps.

v) **The inefficiency from fiscal, monetary and administrative governance**. As a result, returns to public investments are lower than expected. The contribution of public investment to GDP was only about 3.1% in 2018/19. The increase in administrative units have in most cases resulted into unplanned expenditures and the related supplementary budgets which undermines effective fiscal operations e.g. expenditures on elections.

PROPOSED BUDGET STRATEGY FOR FY2020/21

Given that 2020/21 is the first fiscal year of implementation of the third national development plan (NDPIII), the budget strategy will be anchored on the NDPIII medium-term growth and development objectives. To address the existing challenges to growth and further build on the development milestones achieved so far, the medium-term growth agenda will be centred on the following key objectives: -

i) *Efficient and sustainable exploitation of growth opportunities;*
ii) *Consolidating and increasing the stock and quality of productive and urban infrastructure to support trade, industrialisation, trade, exports and efficient urbanization;*
iii) *Increasing the productivity, inclusiveness and wellbeing of the population;*
iv) *Strengthening the private sector to drive growth; and,*
v) *Enhancing the effectiveness of both fiscal and administrative governance.*

Efficient and Sustainable Exploitation of the Growth Opportunities

Uganda's economic growth has been robust over the years, but mainly driven by the services sector that employs a few. As a result, there has been slow growth in new jobs, income inequality has widened, and poverty has risen.

The industrial and manufacturing sectors hold the most enormous potential to employ more, drive more inclusive growth and faster economic transformation. The government will therefore pursue a resource-led industrialisation agenda, focusing on commercialisation and value addition in the four areas with significant opportunities for economic transformation (i) Agro-based Industrialisation, (ii) Mineral Beneficiation, (iii) Petroleum Resource Exploitation, and (iv) Labour intensive Manufacturing and Trade. Scaling up measures for environmental protection and integration of climate change mitigation and adaptation actions within the development plan will be an important aspect of a sustainable resource-led growth.

Agro-based Industrialisation

Agro-industrialisation is undeniably the most urgent priority of the government to transform the economy. Growth of the manufacturing industry is critical in the pursuit of accelerated rates of economic growth; hence the focus on agro-industrialisation as the engine for take-off. Agro-industrialisation will provide enormous potential for a sustained and more inclusive growth by adding value to agro-produce. The forward and backward linkages provide a basis for increased demand for agro-produce and processed agro products, increased jobs, improved trade balance and higher labour productivity.

A good foundation has already been laid to support the agro-industrialisation agenda under both the first and second national development plans. Commercial agriculture is emerging in some regions, with integrated agricultural value chains linking nucleus farmers and out-growers to agro-processing plants and markets. A notable example is the BIDCO vegetable oil processing plant in Kalangala, which closed a crucial gap in the value chain for palm oil production. The vegetable processing plant has provided a steady market to palm oil farmers and availed a steady supply of vegetable oil for both the national and regional markets. Consequently, several jobs have been created, poverty levels have been reduced in the region and the cooking oil import bill has also been reduced.

In the coming FY2020/21, the government will prioritise replication of the BIDCO success countrywide for commodities that have potential for transforming the lives of the majority of the Ugandans engaged in farming and agri-businesses i.e. dairy and beef, coffee, fisheries, cotton, maize and beans, fruits, vegetable and oil seeds, covering the 9 agro-ecological zones of the country. The strategic interventions in the agriculture sector will, therefore, be anchored on supporting the nucleus farmers/out-growers along the agricultural zones and integrating them in the value chain, i.e. linking the farmers to agro-processing plants and markets.

To Enhance Value addition for the vital commodity enterprises, the strategy will develop commodity enterprise-specific Value Chain Solutions covering research, production, post-harvest handling, storage and market access elements that will entail the following strategic actions: -

i) Organising farmers into producer cooperatives or groups linked to nucleus commercial farmers/processors who will be encouraged to add value to farmers' produce, put up efficient storage and minimize post-harvest losses.

ii) Providing agricultural extension services to improve farming practices and increasing the uptake of appropriate research and technologies.

iii) Promoting Climate-smart Agriculture to reduce reliance on rain-fed agriculture and mitigate the impact of climate change through irrigation, including the use of solar-powered irrigation pumps; and rainwater harvesting.

iv) Enhancing the rural electrification programme to develop relevant rural growth centres within Ecological Zones.

v) Strengthening enforcement of regulations for standards and quality assurance.

vi) Facilitating market access for agricultural products through export development.

vii) Streamlining financing of Agriculture and attract investments into the sector.

viii) Providing medium and long-term financing and fully implement the subsidized Agriculture Insurance programmes under the Uganda Agriculture Insurance Scheme (UAIS), which provides loss protection from natural disasters for farmers.

Minerals Beneficiation

The beneficiation of the abundance of mineral deposits such as iron ore, copper, and limestone, among others, will provide economy-wide benefits, far beyond creating wealth within the mineral sector. For instance, processing of phosphates, limestone, and Iron ore into fertilizers, cement and steel respectively provide inputs to commercial agriculture and the construction industry which are essential to spur industrialisation.

Good stride has been made already in the beneficiation of some minerals. A case in point is the processing of limestone into cement which has benefitted the construction industry. The total production capacity of cement now stands at 6.8 million metric tonnes compared to 2.3 million metric tonnes in 2015 and 1.6 million metric tonnes in 2011. Several jobs have been created as a result and there has been a reduction in the cost of cement as well as imported cement.

To replicate this success for other minerals, the budget for the coming fiscal year 2020/21 will prioritise the following interventions: -

i) Investment in requisite infrastructure for exploration and value addition to priority minerals. The government will continue to invest in equipment for the Entebbe mineral laboratories and training of mineral analysists. In addition to the already procured equipment, more investment will be channelled to acquiring seismic equipment and positioning systems to strengthen mineral exploration.

ii) Review of the licensing regime to minimize speculation and hoarding. The existing mining regulations 2004 are being revised to align to new proposed legal and regulatory framework.

iii) Enforcement of performance-based system for renewal of licenses. The Ministry of Energy and Minerals commenced development of the Mining Cadastre and e-business portal for renewal of mineral licenses. During FY2020/21, the sector will ensure the harmonisation of the system with the URA system.

iv) Establishment of a proper inventory of the national mineral resource base. In addition to the ongoing Karamoja geo-survey and mapping, there will be more investment in establishing and development of a mineral database and geo-information system.

v) Strengthening the capacity for inspection and enforcement. The Government has already put in place the Mineral Police. Going forward, there is a need to equip and strengthen the police to further promote mineral inspection and enforcement of regulations.

vi) Establishment of the legal framework for non-conventional minerals such as sand and rocks and Streamlining artisan mining. The Minerals and Mining Bill 2019 will establish a legal framework for the whole sector, including new areas such as sand and rocks.

Petroleum Resource Exploitation

The exploitation of petroleum resources was envisaged to add a new base to the economy during the second national development plan period, incentivize growth in other sectors in the economy through backward linkages to agriculture and tourism, and forward linkages to areas such as petrochemicals, oil and gas retail business, among others. However, delays in the development of production and trade infrastructure have prolonged resource exploitation. In the coming fiscal year, the government will need to speed up the development of oil and gas infrastructure and build local capacity to participate and benefit from the sector optimally. The following interventions will be prioritised: -

i) Strengthen human and institutional capacity to enable promotion and licensing, effective monitoring and regulation, and management of the commercial and business interests of the State through building the capacity of UNOC in exploration and other upstream and mid-stream management.

ii) Strengthen the local private sector to promote local participation in the oil and gas supply chain through finalization of the local content Bill under the Oil and Gas industry.

iii) Fast-tracking Investment in oil-related infrastructure; there is a need to clear and compensate project-affected people for the products pipeline from Hoima to Buloba. Investment into the Oil Refinery and the East African Crude Oil Pipleline (EACOP) still await the Final Investment Decision anticipated before close the of 2019.

iv) Attract investment in industries that supply the oil and gas sector with manufactured goods. In the next fiscal year, Government will focus on putting in place a framework that attracts and retains the Private Sector in the development of the Kampala Storage Terminal and Kabaale industrial park.

Labour-intensive light Manufacturing, *Export* and Trade *Promotions*

Uganda is well-positioned to benefit from the many trade blocs that the government has established through multilateral arrangements, e.g. COMESA, EAC and AGOA, among others. However, this will require increasing manufacturing capacity as well as addressing trade-related issues, most problematic – the non-tariff barriers. To increase penetration in this trade blocs. The government will, therefore, priorities the following interventions in the coming fiscal year: -

i) Development of the special economic zones

Continued Development of Border Export Zones/Market Program (BMP) to position the country and help in harnessing regional market opportunities in the spirit of pursuing regional integration under the EAC, COMESA Free Trade Area (FTA) and the EAC-COMESA-SADC Tripartite FTA. The 18 border points (Bibia, Malaba, Mpondwe, Katuna, Lamya-Busunga, Ishasha, Mirama Hills, Mutukula, Amudat, Lwakhakha, Suam, Vura and Oraba, Busia, Lumino, Ntoroko and MadiOpei and Kikagati) are targeted. Master plans for 6 six border points (Katuna, Busia, Kikagate, Oraba, Lwakhakha and Elegu) was developed with construction at Katuna, Busia, Oraba, Lwakhakha and Elegu (from EU through COMESA) being implemented.

Government will prioritise export promotion and diversification by undertaking the following strategic actions: -

a. Review of the market share of various commodities and design export promotion response mechanism (specific for each market) for increased volumes and values of exports during the remaining period of NDPII and preparation of NDPIII.
b. Review the existing bilateral trade agreements between Uganda and the respective markets and advise Government on inadequacies that may need to be re-negotiated with those countries. Furthermore, there is a need to review export development and promotion programs and propose the best way for both existing and potential exporters to respond to market opportunities.
c. Institute mechanisms for providing regular market intelligence reports from Uganda's foreign Missions in the respective markets to existing and potential exporters.
d. To organize single country exhibitions in those export markets to popularize Uganda's products.

ii) Regarding consolidation of Government investments, Government will urgently strengthen the technical and managerial capacity of Uganda Development Corporation (UDC) and consolidate all its investments under one roof for effective management.

iii) Enforcing standards/quality. Increased standards development and adoption, system/product certification permit issued, enhance market surveillance inspections, enforce inspection and clearance of imports improve on Laboratory analysis and teasing of verified equipment's used in trade and calibration of industrial products, laboratory testing and import inspection.

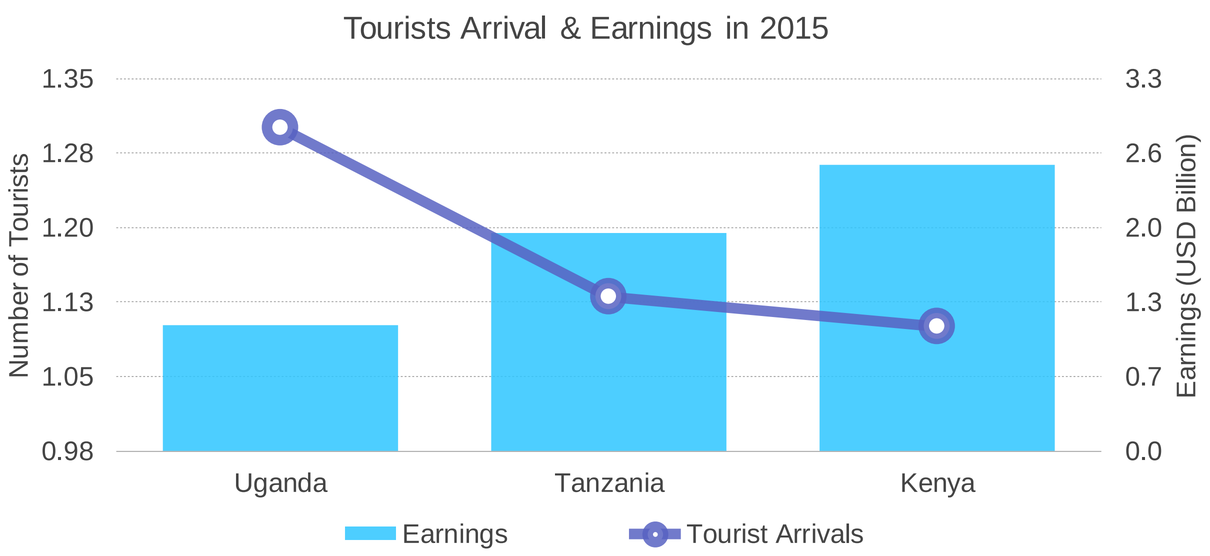
iv) Continued investment in transport, energy and ICT infrastructure to meet manufacturing and trade /export requirements. Regarding the influx of Petty foreign traders, the Ministry of Trade should cooperate with the Directorate of Citizenship and Immigration Control to scrutinize the quality of foreign traders before access and stay in Uganda is granted. The Ministry of Trade, Industry and Cooperatives should expedite the Trade Licensing regulations process.

v) Identifying opportunities for technology importation and streamlining the existing support to the informal sector (Juakalis). Strengthen Uganda's standards development and quality infrastructure and processes to guarantee industry competitiveness mainly for MSMEs; and, Capitalise the Uganda Development Bank, provide incentives to some commercial banks to design financial products that would benefit MSMEs.

Exploiting the rich biodiversity of Tourism

Statistics show a rapid increase in the number of tourists' arrival in Uganda over the years. According to the Civil Aviation Authority (CAA), passenger traffic in Entebbe Airport has been increasing by 7% on average, year-on-year, majorly attributed to growth in the number of tourists to the country. The increase in tourists is undoubtedly a response to the campaign and marketing effort that has been pursued by the government over the years. Tourist arrival increased from 1.3 Million in 2015 to 1.8 Million in 2018, representing about 40% increase (UBOS, 2018). While nominal earning increased only modestly by about 27%, i.e. from USD 1.1 Billion to USD 1.4 Billion between the two periods.

A comparison of tourists' numbers and earning of Uganda against those of regional peers show a rather weak correlation between tourists' numbers and earnings. In 2015, whereas Uganda received more tourists (1.3Million) more than Kenya (1.1Million) and Tanzania (1.1Million), Uganda earned lower (USD 1.1Billion) compared to Tanzania (USD 1.9Billon) and Kenya (USD 2.5Billion), as shown in the graph below.



Source: *MoFPED illustration based on statistics from UBOS & Tanzania Tourism Sector Survey (TTSS), 2015.*

This unusual relationship between visitors' numbers and earnings is explained by the nature of visits for the different countries. Statistics by UBOS indicate that while over 72% of visitors to Kenya and Tanzania go specifically for holiday/leisure, spend more time (about 2-weeks on average), spend more money and with high possibility of visiting again, only 18% of tourists to Uganda come on holiday/leisure, the rest of the visitors come on short business trips, meetings/conferences and visiting friends, spend fewer days (1-3 days on average), spend less money and most of them do not come back to the country.

The various marketing campaigns have contributed significantly to the increase in the number of visitors, laying an excellent foundation to increase earnings from the tourism sector. Unlocking Uganda's tourism sector should now go beyond efforts to increase the number of tourists. The focus should be on increasing the number of high-end tourists who come on holiday and leisure, can stay longer and are interested in coming back again. This will, therefore, require interventions that make Uganda an attractive holiday/leisure destination in the region. In the next FY2020/21, the government should consequently prioritise the following: -

i) Identification and development of high-value tourism product to attract high-end tourists, with potential for higher earnings. The government will undertake steadfast and massive investments in the development of products such as waterfalls, hot springs, cultural heritage sites, water bodies, trails, source of the Nile, mountaineering, zoos, and the design and construction of the equator monument in Queen Elizabeth National Park.

ii) Provision of adequate tourism infrastructure, i.e. roads, regional aerodromes, water and sanitation facilities on tourism sites, and reliable ICT facilities on the that will require NITA-U to improve network coverage in protected and conservation areas. Also, the development of Mt. Rwenzori infrastructure, renovation of the national museum, will be undertaken to improve visitor experience. Furnishing of the visitor Information Centre at Sheraton will also be completed.

iii) Incentivizing private sector investments in world-class holiday/leisure facilities. The tourism industry taxes and incentives structure will be further reviewed to harmonize taxes and fees such as the registration of hotels, Steam boilers, periodic examination of lifts, leisure and recreation facilities, Operation License, Hotel/Lodge License Tax, licensing fees on tourism vehicles, License, Bar License, Swimming pool License and Liquor License.

iv) Government with engage EAC member states to operationalise the EAC single tourist visa.

v) Developing Skills essential for Tourism growth (Hospitality, Hotel Management, marketing). The government will speed-up completion of the Crested Crane Training Institute to facilitate the training of more assessors to improve the classification and grading of tourism facilities. The upgrading of Uganda Hotel and Tourism Training Institute (UHTTI) Jinja to a centre of excellence will be undertaken. The feasibility studies for infrastructure development at the different Institutions, Uganda Wildlife Research and Training Institute (UWRTI) Kasese and UHTTI will also be conducted.

vi) Scaling up tourism marketing using innovative platforms, e.g. on-board Ugandan branded products, and product catalogue on the National Airlines. The government will also continue to participate in international tourism marketing exhibitions and regional marketing events to consolidate the gains so far realized in promoting destination Uganda. Other interventions will include the hiring of Market Destination Representation (MDR) firms to aggressively promote destination Uganda in the International, African and Domestic Markets; and, attracting international Meetings, Incentives, Conferences and Events (MICE) in Uganda.

vii) Contracting of international brand ambassadors, e.g. entertainment celebrities, to supplement efforts by the already contracted PR firms in Europe, America and Asia.

viii) Conservation and Sustainable utilization of Wildlife resources. Focus will be placed on addressing human-wildlife conflicts through Community engagements; research and ecological monitoring; strengthening the general management of Uganda’s 10 National Parks and 12 Wildlife Reserves as well as provision of guidance for the management of 5 Community Wildlife Areas and 13 Wildlife Sanctuaries; and, strengthening the management of wildlife outside Protected Areas.

Climate change adaptation and mitigation

Climate change has resulted in noticeable changes in rainfall patterns, and total annual rainfall amount is expected to worsen in the near future if redress actions are not taken. The changes in the climate system have consequently let to increased food insecurity, the incidence of tropical diseases/pests, land degradation and flood damage to both private and public infrastructure. Therefore, sustainable growth and development will require urgent actions to protect the ecosystem and promote climate mitigation, adaptation and resilience. The following actions will be undertaken in the coming fiscal year: -

i) Attracting climate change financing in the country through strengthening the institutional capacity in the development of bankable projects to lobby for and utilise global climate change financing mechanism, e.g. the Green Climate Fund.

ii) Enhancing efforts to reduce emissions and build resilience to climate change. The government will establish ten (10) regional centres of excellence for demonstrating local champions for climate actions – climate change adaptation sites and learning centres. The development of low emission and climate-resilient investment plans and projects will also be enforced.

iii) Mainstreaming of climate change in policies and development processes at various levels. This will be achieved through building the capacity of Ministries, Agencies and Local government as well as non-state actors in climate risk screening of projects and programs. The ministry of finance will operationalize the tracking of public financing for national climate action through climate change budget tagging for Ministries, Agencies and Local government to enable better targeting of climate change interventions and tracking the utilisation of funds availed for the same.

iv) Strengthen the coping capacity of vulnerable populations to the effects of climate change and disasters through adaptation and mitigation strategies entailing; access to accurate meteorological information, sensitization and implementation of climate-smart agricultural practices, diversification of livelihood opportunities mainly for subsistence farmers and institutionalization of disaster risk reduction.

v) Boost sustainable value addition to water resources, environment and natural resources through leverage of research, innovation and adoption of appropriate green technologies to incentivise conservation and diversify economic opportunities for communities in the vicinity of natural resources. Interventions such as licensed wood and furniture processing, regulated cottage herbal pharmaceuticals and ecotourism activities will be considered.

Consolidating and Increasing the Stock and Quality of Productive and Urban Infrastructure

The government has made very good progress on the development of infrastructure for energy generation and transportation (roads, railways, water and air transport). The challenge now remains on ensuring that energy is evacuated and transmitted to production centres and household consumption. Scaling up investment in maintenance of the transport network is also crucial. In addition, the approval of the new regional cities will require development of requisite urban infrastructure to sustainably support efficient urbanisation.

The government's strategic focus will therefore be on the institutionalisation of regular infrastructure maintenance, development of intermodal transport infrastructure to increase connectivity, increasing access to affordable and reliable energy, and, leveraging urbanisation for socio-economic transformation, mainly focusing on the regional cities. These initiatives will be complemented by investments in urban social protection interventions aimed at fostering economic and social inclusion for millions of young men and women in urban areas. In the coming fiscal year, the government will undertake the following interventions: -

Energy

i) Investment in electricity transmission infrastructure, associated substations and industrial parks. Government has identified priority transmission infrastructure lines and their associated substations for expansion of the grid and promoting regional trade given the new generation capacity. Some of these include Mbale-Bulambuli Transmission Line, upgrade of Mbarara-Mirama-Tororo Substations, Nkenda-Mpondwe line for D.R.Congo, Olwiyo-Nimule-Juba line. Prioritising power supply to main industrial parks including; Mbale, Sukulu, Kapeeka, Kaweweta, Nakasongola, and Wobulenzi.

ii) Evacuation of electricity from Karuma and Achwa hydro dams. Given that the 600MW Karuma HPP will be commissioned in December 2019, there is a need to complete construction of the Karuma Interconnection Lines for the 248km between Karuma - Kawanda 400kV; 55km between Karuma - Olwiyo 400kV (initially operated at 132kV) and the 75km between Karuma - Lira 132kV. In addition, the government will complete construction of Gulu-Agago Transmission Line to evacuate the 83MW Achwa I, II, III HPPs. This will ultimately reduce deemed energy costs.

iii) Electricity distribution and connections to last-mile users. Finalisation of the UMEME Concession extension and enabling its implementation to attract investment in the distribution segment. Besides, the government will intensify the implementation of the Free Connections Policy and other rural electrification interventions to spread to the last mile users of electricity.

MEMD will fast track the amendment of the Electricity Act, which amongst others will prescribe circumstances under which a holder of a generation license may supply electricity to other persons than Uganda Electricity Transmission Company Limited (UETCL). This will enable isolated generators/areas to sell their power to other people rather than the UETCL.

Information and Communication Technology

i) Increasing National ICT Infrastructure coverage by continued extension of the National Backbone Infrastructure (NBI). The overnment will provide the required funding to implement the GovNet project. This project is intended to facilitate the last-mile connectivity to service delivery centres which are currently not covered under the RCIP project. The requirement for the first year of implementation of the project is Ushs. 44 Billion (of which Ushs 32.4Bn is for extension of the NBI). Besides, the government will speed up the acquisition of funding for Phase 5 of the NBI project offered by the China Exim Bank to a tune of US$ 145 Million to enable connectivity of the additional Government administrative units on the National Backbone.

ii) Assembly/Manufacturing of ICT end-user devices which has an impact on job creation. To support this, the government will put in place a supporting tax regime to attract investment. Also, the government will continue funding ICT innovation through the Innovation Fund, and support to commercialization developed ICT solutions.

Transport Infrastructure

i) Modifying existing road contracts to include a provision for road maintenance over the medium and long-term. This will help to improve the quality of road infrastructure as well as reduce the road maintenance burden on the government.

ii) The rollout of the Rural Transport Infrastructure (RTI) which is currently supporting the construction of roads using low-cost seal technologies in twenty (22) districts in Eastern and Northern Uganda to all Local Governments.

iii) Investment in export corridors, that is to say, the northern and southern transport corridors to facilitate ease and competitive access to export markets. Government will prioritise the rehabilitation of the Tororo-Gulu meter gauge; speed up the construction of Bukasa Port to establish a multi-modal transport network to support international trade and reduce on the road maintenance cost due to the burden of heavy good vehicles; expand the operations of the URC railway line to cover other requisite urban centers in a move to decongest cities, reduce road fatalities and improve on the traffic burden; and, fast-track implementation of the Kampala-Malaba meter gauge to cut down the burden of heavy goods on the road network.

iv) Map and acquire infrastructure corridors well in advance to avoid unnecessary delays in infrastructure projects on account of Right of Way disputes and high costs associated with the same. This will also help to avert exorbitant payouts in the future since it is cheaper to acquire the corridors sooner rather than later.

v) Prioritise funding for the completion of the capitalization and operations of the Uganda National Airline.

vi) Prioritising funds for thirteen (13) upcountry aerodromes to provide essential services needed to facilitate the tourism sector.

Regional Cities/Urban Infrastructure

Since the turn of the millennium, the share of Uganda's population living in urban areas increased by more than 50%, and it is estimated that by 2040 over 20 million Ugandans will reside in urban areas. Notably, the majority (54%) of Kampala residents live in slums with inadequate housing, poor sanitation and limited access to basic services, including education and employment. Alarmingly, 21% of urban children complete primary school, and only 2% complete secondary school. To facilitate efficient urbanisation, the following strategic actions will be pursued: -

i) Sustainable urban and housing infrastructure development. The government will prioritise the development of physical plans for the approved cities, including the district and lower local governments per the national urban policy. The development of mass transport infrastructure and affordable housing units for the ten (10) cities will also be prioritized to support efficient urbanisation.

ii) Facilitate private sector financing in the design and development of satellite cities to decongest Kampala city and other neighbouring areas.

iii) Continue with the upgrading of urban infrastructure in all the Municipalities across the country.

iv) Prioritize investments in urban social protection programmes to alleviate high level of deprivation across vulnerable populations, with a focus on adolescent girls.

Increasing the Productivity, Inclusiveness and Wellbeing of the Population

Improving the productivity of the population

As the country pursues an industrialization agenda, it is important to note that, industrialization requires access to both domestic and foreign capital. For the country to be an attractive destination for Foreign Direct Investment FDI, there is need for a skilled, innovative and healthy labour force with the right mindset.

Nearly 60% of the Ugandan population is below 18 years of age, government's vision to achieve Vision 2040 is highly contingent upon our ability to invest in children, young men and women. Such investments demand greater emphasis in (i) pre-primary education services and the effective implementation of the integrated early childhood development policy, (ii) heightened and urgent prioritization of the quality of the education system, as well as (iii) firm assurance of adequate financing for basic health and nutrition commodities. These areas of intervention ought to be supported by improved governance and efficiency in budget execution with a view to prioritize human resource planning to match growth and development needs, including skills and vocational advancement. Such efforts demand the systematic expansion of national social protection programmes, informed by rigorous research and bold financial and programmatic innovations aimed at promoting equitable growth across all regions.

In that regard, the focus will be on skilling, social protection and access to education and health services.

Education and Skilling

Uganda has a young and fast-growing population. Notably, poor education outcomes and the lack of good-quality vocational education – such as in practical skills and management – resulted in mismatches between labour skills and business needs, particularly in the skill-intensive manufacturing and service sectors. Several studies have shown that there is a significant gap between the requirements of industry and the skills taught in the education institutions. With an increasingly young labour force, the need for skill development is rising rapidly. An estimated 700,000 individuals enter the Ugandan labour market each year, and they need good-quality education to gain competency for high wage jobs and become competitive in regional and global markets.

Notably, however, children are stuck in early primary school grades and failing to transition into lower secondary. This dynamic has led to swollen numbers in early grades driven by a high level of repetition. This has subsequently led to a far lower transition rate into lower secondary compared with regional peers. Recent evidence suggests that out of 1.7 million children entering the education system at P1, only 100,000 complete ordinary level education. This reflects a highly inefficient use of resources for a small pool of students.

Such inefficiencies have led to poor quality of service delivery. To elaborate, teachers play a key role in the attainment of learning outcomes, yet multiple leakages exist in teacher management in Uganda. Out of a sample of nine countries in SSA, only Mozambique had higher absenteeism rates than Uganda. Moreover, in terms of teacher quality, Uganda scored worse on teacher knowledge of maths, pedagogy and lesson preparation compared with Tanzanian and Kenyan schools.

Going forward, the sector must prioritize improving the quality of the education system at all costs. Key recommendations include: -

i) Invest in pre-primary education to improve the efficiency of the UPE by better preparing students entering the primary system and minimizing the risk of high repetition and drop out.

ii) The Ministry of Education and Sports to develop a more targeted approach to teacher training and management of the school inspection grant. The role and information flows for inspection reporting and unit cost assumptions for primary teacher colleges should be clearly articulated. Concomitantly, there is an urgent need to prioritize the scale up non-wage recurrent funding to districts that meet the relevant performance criteria under the revised conditional grant structure.

iii) Operationalization of international certification for TVET Programs. The Uganda Petroleum Institute Kigumba (UPIK) and Uganda Teacher Colleges (UTC) Kichwamba are being assessed, and final reports on whether they are viable will be communicated within the course of this FY2019/20. The accreditation of Uganda Teacher Colleges (UTCs) of Bushenyi, Elgon, Kyema, Lira, and Arua, Buhimba, Mubende, Kiryandongo, Nyamitanga, Bukalasa and Iganga Technical Institutes to International standards will be fast-tracked to help uplift the institutes to a global and competitive standard.

iv) Retooling of new public universities. Whereas the government operationalised the three new public Universities of Soroti, Busitema, Kabale and Lira, the functionality of these Institutions is still lacking with the majority having staffing levels as low as 30% and inadequate infrastructure to house students and equipment for the practical courses. There is a need to retool not only the new public Universities but also the already existing Public Universities in Uganda which are also operating with limited equipment and staffing hence hindering the quality of education offered. The strategy of retooling will help improve service delivery in Public Universities.

v) Implementation of the recently reviewed national curriculum for secondary education. The government will disseminate the curriculum across the Country, undertake retraining of the teachers on the mode of delivery of the reviewed curriculum, and retool UNEB on the examinable areas with the new curriculum in place.

Health Care

Uganda has spent more on health compared with low-income country and regional averages, yet outputs and outcomes have not been realised at a commensurate level. Notably, while other EAC countries are investing more domestic resources in order to sustain their health systems, Uganda has relied heavily on external support. This practice, coupled with the unpredictable nature of foreign resources, has led to recurring shortages in basic health and nutrition commodities.

Service delivery constraints at decentralised health facilities point to shortfalls in operational funding, which have been declining in real per capita terms since the early 2000s. Surveys conducted at lower-level health clinics point to weaknesses in health worker knowledge, absenteeism and pharmaceutical supply as key service delivery challenges. Training of health workers, inspection of facilities and provision of medical commodities all rely on non-salary funding, yet non-wage and development spending has declined by 80 per cent from their peak levels in the early 2000s. This suggests that although total sector spending is higher than peers, the targeting of resources to key areas of service delivery is sub-optimal.

On the basis of the analysis clearly articulated above, this budget strategy represents a clear call for increased provisions of non-wage recurrent funding to district local governments. In addition, the Ministry of Health should clearly identify and ensure adequate resources for the provision of basic health and nutrition commodities nationwide.

Other key strategic interventions under the health sector will encompass the following: -

i) Development of Centres of Excellence for delivery of specialized medical care. Fast-tracking the construction of specialised hospitals such as Regional Hospital for Paediatric Surgery and the International Specialised Hospital of Uganda.

ii) Investment in disease prevention by addressing critical determinants of health in a multisectoral approach. The government will undertake mass sensitization of the public on improving nutrition, especially for children, immunization, use of mosquito nets and HIV/AIDS prevention services.

iii) Investing in prevention and management of non-communicable diseases (NCD) by expanding the geographical coverage of services. Mass sensitization on prevention of NCDs, speeding up the construction of a standalone home for Uganda Heart Institute and the establishment of the proposed regional centres for cancer treatment will also be undertaken.

iv) Strengthening the supply chain for medicines and medical supplies to improve the availability of medicines and ensure accountability for medicines. The government will finalise the procurement of an integrated inventory management system at the National Medical Stores (NMS) with connections to critical supply chain management points at both district and health facility level to improve the tracking of medicines. This system should be interfaced with the electronic solution that is being piloted at hospital levels so that monitoring and accounting for medicines are made possible; The district and hospital stores for medicines should be improved. This would improve the availability of basket of health commodities at health facilities from the current 83%.

As an important caveat, over the years, weak institutional accountabilities across sectors and MDAs have resulted in poor social outcomes for priority areas of policy intervention such as nutrition and sanitation. This has led to alarmingly high malnutrition and stunting rates nationally. Similarly, the slow rate of improvement in sanitation outcomes has been associated to the absence of a clear policy stance to tackle sanitation related issues effectively across sectors. Given that nutrition is cross-cutting in nature, the sectors of Health, Agriculture, Water, Education, and Social Development, among others, shall be required to ensure that their work plans and associated budgets support the effective implementation of thematic cross-sectoral investments in both nutrition and sanitation.

Promoting Science, Technology and Innovation

The following interventions will be undertaken: -

i) The Uganda Industrial Research Institute (UIRI) will fully operationalize the Machining, Manufacturing and Industrial Skills Training Centre (MMISTC) project at the Kampala Industrial Business Park (KIBP), Namanve.

ii) This Uganda-China bilateral project has been supported by a US$ 30million grant for the construction and equipping of specialized facilities that will be used for integrated training and production, as a means to churning out industry ready personnel.

iii) The STI Sector will complete the construction and operationalization of the National Science, Technology and Engineering Skills Enhancement Centre or the National Institute for Techno-prenuership (NIT) in Uganda to enhance the technological and skills base of Ugandan graduates, craftsmen, technicians engineers in the STI fields of Construction and Machinery, Metallurgical, automotive engineering, electro-pneumatics, hydrology, industrial and agricultural mechanization.

Promoting Equity

In order to ensure that all Ugandans benefit from growth and development progress, the government will quickly address issues relating to regional inequality, poverty and economic vulnerability, including social protection.

Social protection plays a key role in alleviating the burden of multiple deprivations on Uganda's vulnerable populations. In this regard, prioritised investments in social protection represent an important avenue to elevate the national equitable growth agenda. This is especially the case in contextual circumstances characterised by heightened levels of vulnerability in the face of rapid urbanisation, or at the intersection between the national development agenda and the humanitarian response.

The most immediate actions of the government will target the most vulnerable groups/regions and those at higher risks of food insecurity, social and health related problems. The strategic interventions will include: -

i) Promoting food security especially in high poverty regions through targeted investment in production of priority fast-growing food crops. Regional economic empowerment initiatives for high poverty areas of Busoga, Teso, Bukedi, Bugisu, Karamoja and Acholi will also be pursued.

ii) Fast-tracking implementation of Universal Health Coverage. In particular, efforts to increase access to health insurance will be undertaken.

iii) Increased investment in social protection, encompassing the expansion of the coverage of Social Assistance Grant to the Elderly (SAGE) to all the vulnerable elders of 80 years and above, while maintaining all those already on the scheme, irrespective of the age.

iv) Facilitate strategic investments in areas not attractive to the private sector. Government will pursue regionally balanced key strategic public investments to spur private investment in key growth areas.

v) Undertaking further fiscal reforms to support equitable distribution of government financing for education and health services at the local government level.

vi) Provision of operational funds for Community Development Workers (CDWs). CDWs play a key role in community engagement and mobilization. They are key ingredients for the effective implementation of national programmes affecting Uganda's poor and vulnerable populations.

vii) Recruitment and budget transparency for social welfare and probation officers. The Ministry of Gender, Labour and Social Development should provide a phased approach to how social welfare and probation officers will be recruited, funded and trained as part of the FY2020/21, incorporating the plans of an MOU between JLOS, local government and social development.

Strengthening the Private Sector to drive Growth

The growth and development of the private sector is vital for generation of jobs, increasing the revenue base and closing the gaps on publicly provided services, mostly under education and health sectors. The government should thus provide an enabling environment for growth of the private sector through maintaining macroeconomic stability, provision of long-term finance at affordable rates, reduction in the amount of domestic arrears and enacting required laws and regulations.

Lowering the cost of credit

The following interventions should be undertaken: -

i) Increasing the capitalisation of the government owned Commercial Banks to avail capital at lower rates.

ii) Mobilization of alternative financing sources to finance private investment. The government will promote leveraging of non-traditional financing sources like collective investment vehicles and blended financing to provide a wider range of long-term finance options at affordable rates. This, however, will require establishing a regulatory framework for venture capital.

iii) De-risking investments. In particular, partnerships will be established and leveraged to catalyse transformational change towards low risk development.

iv) Enhancing the investment and industrialisation role of government. In particular, the government will continue to strengthen the role of Uganda Development Corporation.

v) Reviving and strengthening the cooperative movement, including the Cooperative Bank. In particular, the government will facilitate formation of producer cooperatives and pooling of resources for investment.

Improving the Business and Investment Environment

i) Improving the business environment requires nurturing of local enterprises and speeding up enactment of business-related legislations. The following interventions will be prioritised in the next fiscal year: -

ii) Implementation of the local content policy framework specially to increase participation of local firms in public investment programmes across all sectors.

iii) Rationalising and harmonising standards institutions, and policies at local and regional level. In addition, the review of legal and regulatory framework to remove restrictive legislation and fast-track pending bills is critical.

iv) Strengthening research capacity in support of private and public investment.

v) Increasing integration of local value chains. In particular, nurturing local enterprises for participation in local, regional and global product value chains

Enhancing the Effectiveness of Fiscal and Administrative Governance

Fiscal governance

Inefficiencies in fiscal management are majorly a result of weaknesses in the enforcement of public finance laws and reforms. While government priorities over the years have been consistent with the growth and development needs of Ugandans, the absence of fiscal discipline has hindered progress. To counteract this, the government will prioritise the following: -

i) The government will introduce the e-citizen program by linking all key government systems together, including the Land information system, the NIN and the TIN as a crucial reform for increasing revenue collection.

ii) Strengthening fiscal management, including local government financing

iii) Rationalization of the entire government architecture, to come up with a lean and efficient government.

iv) Intensifying fight against corruption to ensure that public resources are strictly utilized for the intended purpose. All government institutions must implement the recently reviewed rewards and sanctions framework.

v) Full operationalization of the program-based planning and program-based budgeting in readiness for the full rollout of the reform in FY2021/22. This will to ensure achievement of planned outcomes. The sector working groups will be revamped and allocated some joint funds for effective outcomes planning. Sectors contributing to a similar result will jointly plan and agree on which intervention each MDA should implement as a contributor to a particular outcome.

Improving budget implementation, including Public Investment Management

Improving service delivery is still faced with several budget implementation challenges. In the budget for FY2020/21 the government will emphasis addressing the implementation issues through the following measures: -

i) Strengthening capacity among state actors, especially in areas of project, contract and logistics management.

ii) Enhancing supervision and monitoring of programmes by improving staffing, skilling and facilitation.

iii) Promote public awareness of government programmes and demand for accountability. All Government institutions will be required to disseminate their client charters to make citizens aware of their entitlements, roles and responsibilities under public service provision. The Budget Transparency Initiative (BTI) will also be strengthened to promote transparency and accountability for public resources.

THE FINANCING STRATEGY FOR THE BUDGET OF FY2020/21

In order to increase domestic financing capacity, the government has developed a Domestic Revenue Mobilization Strategy (DRMS). The strategy is the result of a long period of collaborative working, principally by the Ministry of Finance, Planning and Economic Development and the Uganda Revenue Authority, with contributions from a wide range of institutions and development partners, as well as civil society and the Ugandan business community.

The DRMS aims to raise the ratio of revenue to GDP from 15.5% in FY2018/19 to between 18-20% over the next five years, bringing Uganda closer to its theoretical revenue potential.

Over the next financial year, the government will implement reforms, covering several aspects of tax policy and administration: -

Tax Policy Initiatives

i) Reform of the tax policy making process. The Government of Uganda has established a process for tax policy-making with a high level of clarity and certainty in many of its stages, where reforms are carefully assessed, quantitatively analysed, and openly debated. This will facilitate the design of a tax system that encourages sustainable economic and social development and has wide public buy-in. Government will review the way that tax policy is made in Uganda. This review will map the tax policy-making process in Uganda from the birth of an idea for reform, through the development of the proposal and related analysis, to the implementation of a legislative measure, and the subsequent review of its impact.

ii) Development of the reporting and monitoring framework for taxation. Government will review the set of key performance indicators to monitor tax revenue performance, administrative efficiency, and the health of the wider economy. Government will build the necessary database of indicators and information, improve the speed and quality of policy analysis and increase the demand for structured reporting of information from the URA to MFPED, within the timeframes required by both parties.

iii) Establish and publish a comprehensive Tax Expenditure Governance Framework. Incentives, while sometimes necessary to attract investment, develop the private sector, and encourage employment, pose a risk to the expansion of the tax base and revenue. To address this risk, it is important to develop a tax expenditure governance framework to monitor the effectiveness and cost of incentives, unintended revenues losses, abuse of the tax system including the process of assessment and approval. In FY 2020/21, Government will develop an appropriate, evidence-based Tax Expenditure Governance Framework to limit leakages and improve transparency, which will be published annually as part of the Budget papers and will be used to re-assess the fiscal cost of all existing tax incentives, exemptions, and holidays.

iv) Address the informal economy while preserving Uganda's entrepreneurial spirit. The spirit of Uganda is entrepreneurial, and this is reflected in the many small and micro-businesses that thrive in cities and villages. However, most of these businesses operate informally, outside the scope of the tax system as well as the regulatory frameworks, hence, missing out on the benefits that are derived from operating in the formal economy. There are, also, other informal or semi-informal businesses that need to be encouraged to register as taxpayers and to report their income in full, rather than operating half in the shadows to evade taxes. In this context, the Government will introduce measures to encourage formalization of informal businesses as well as enhancement of compliance to regulatory frameworks and tax laws.

v) Streamlining tax policy and the tax laws. The government will review the existing tax policy and laws with a view of introducing proposals aimed at providing more clarity to the tax laws, enhancing compliance, minimise unnecessary disputes between taxpayers and the tax authorities, eliminate any existing loopholes to deal with tax evasion as well as streamlining tax incentives to promote industrialization and investment in strategic areas. Furthermore, Government will, where necessary propose adjustments to tax rates with a view of widening the tax base.

vi) Complete the review of the Common External Tariff (CET). In FY2020/21, Government will complete the review of the CET, taking cognizant of the need to preserve fiscal stability and revenue generation, the level of progress in manufacturing and value addition that has taken place in certain sectors of Uganda's economy in particular and the economies of EAC Partner States in general, as well as the value chain nature of certain sectors since the inception of the CET. The review will also aim at enhancing the protection of EAC manufacturers by using relevant trade defence measures (safeguard measures, anti-dumping measures and countervailing measures), facilitate businesses to take advantage of various incentives in the EAC that favor exporters, at the same time reviewing the rules of origin to ensure that they are relevant to the trade regime of the region.

vii) Enhancing Non-Tax Revenues. Over the last five years, Non-Tax Revenue (NTR) has increasingly become a significant source of financing for the budget. Government's objective is to enhance the contribution of NTR to total revenues by raising NTR to GDP ratio by 0.2 percentage points of GDP every financial year. Government will ensure that the URA web portal correctly captures all the NTR items and rates under respective MDAs mandates, review the relevance and appropriateness of the rates currently charged and propose any necessary adjustments to ensure that the rates are commensurate to the services offered by Government, enhance accountability and reporting of NTRS by ensuring that all NTR collected is remitted to the Consolidated Fund in accordance with Section 29 (2) (a) of the Public Finance Management Act 2015.

viii) Strengthen the revenue-raising capacity of local government. The government recognises that the sense of community is strong at the local level and supports the principle of local funding for local needs. In FY 2020/21, Government is committed to working with local government authorities to strengthen their revenue base and to broadening the range of revenue instruments available to them. This will help to make them more independent of transfers from national government.

ix) Strengthen the Tax Appeals Tribunal (TAT). The Tax Appeal Tribunal will be facilitated to enhance its capacity to deal with the high number of pending tax disputes which tie up large amounts of tax revenue to Government and impact on business sentiments. This will enhance provision of independent, accessible, and efficient review mechanisms which safeguard a taxpayer's right to challenge a tax assessment and get a fair hearing in a timely manner.

Tax Administration

i) Lift the human resource capacity at URA. URA is experiencing human resource constraints, with gaps in both staff numbers and staff capacities, particularly on data analysis, tax audit and enforcement, and specialised areas of tax areas such as international tax. Compared to the size of the labour force and taxpayer population, URA's human resources are overstretched, and research indicates that URA's staff may be misallocated compared to the importance of certain functions and international benchmarks. In the next Financial Year, URA will undertake a comprehensive review of the human resource strategy, including re-examining the allocation of staff to critical functions and adjustments to the performance management system to enhance staff morale, with a view of addressing the human resource constraints.

ii) Enhance URA's ICT capacities and data access. The existing ICT infrastructure no longer comprehensively meets URA's growing needs, with missing electronic services, complexities in updating the system, a limited interface with other internal and external systems, intermitted system availability, and a lack of adaptability to emerging user needs. Poor third-party data access and internal tax management processes limit the ability of the organisation to capture potential taxpayers and validate taxpayer declarations. URA's technology will be modernised to expand ICT capacities and to fully exploit the available data, including upgrading systems and enhancing the analytical capacity of staff. Furthermore, cross-government information sharing to support tax enforcement and compliance management will be enhanced. This will be facilitated by ensuring that information on citizens is stored and captured in a standard, systematic way across government, which requires expanding the use of the National Identification Number to access government services.

iii) Expand the taxpayer register. Despite a concerted effort, the current taxpayer register does not capture the full potential tax base. Significant challenges remain in ensuring that taxpayer information is accurate, and there appear to be a high number of inactive Corporate Income Tax and

Personal Income Tax “taxpayers” who have not been deregistered. In FY 2020/21, URA will cleanse the existing taxpayer register to improve operational certainty. This will also seek make it easier for Ugandans who are currently outside the tax system to become registered and active taxpayers, as well as improve the identification of potential taxpayers and verification of taxpayer data through better use of external data, especially from NIRA, URSB, and NSSF.

iv) Strengthen the focus on tax compliance. URA is committed to narrowing the gap between the tax revenues that should be collected under existing law, and those actually collected. URA will continue to make it more difficult for those who can afford to pay taxes by won’t to continue to be “free riders”, benefitting from the contributions of others that fund the development of our economy. URA will undertake strategies that will encourage tax compliance, by creating a predictable and consistent tax system, issuing technical interpretations in a timely fashion, helping taxpayers understand their obligations, ensuring that registration, filing, and payment is efficient, and promoting compliance and fairness through audit and collection enforcement.

v) Improve taxpayer education and services. Over the next financial year, URA will undertake interventions which include conducting systematic surveys to obtain and evaluate taxpayer feedback on URA products, services, and staff integrity. URA’s taxpayer awareness and education campaign currently reflect an isolated approach, unconnected to a comprehensive compliance improvement strategy. URA will also develop and implement a full taxpayer education and service strategy to promote transparency, information-sharing and partnerships with stakeholders. Furthermore, URA will update tax guides, producing clear, comprehensive and easy-to-navigate tax guides and online services.

vi) Tackle corruption. There is a strong negative perception of corruption among tax and government officials and a need to renew efforts to curb dishonest and fraudulent conduct, assuring citizens that this issue is being effectively tackled. Taxpayers should have confidence that the taxes they pay will reach the public purse and be used in value-generating ways. URA will develop strategies aimed at stamping out this errant behaviour as well as ensure staff integrity throughout tax administration.

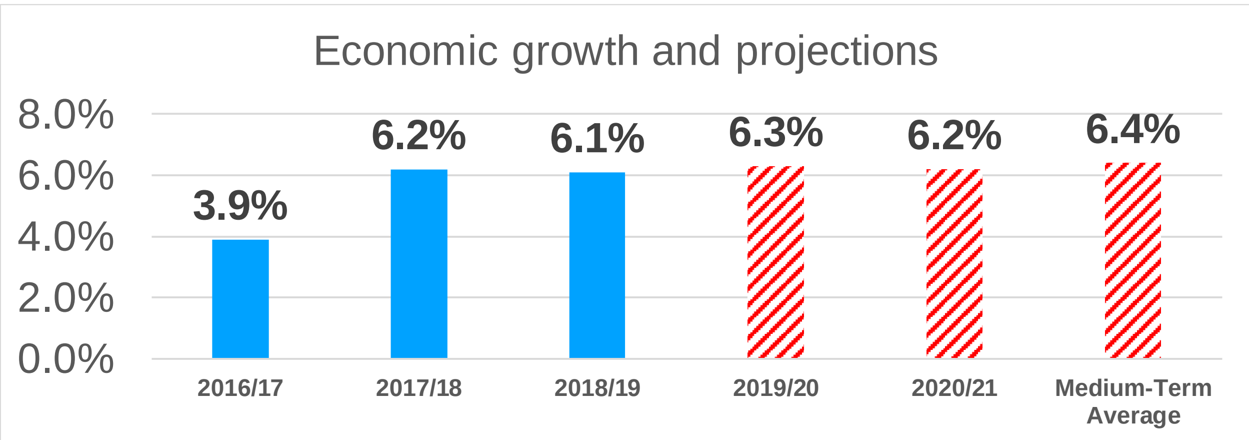
vii) Customs compliance. Undervaluation, misclassification and cargo control continue to present significant challenges in customs management. Smuggling remains a major offense, reducing the volume of revenues collected from import tariffs. Furthermore, the high usage of bonded warehouses gives rise to opportunities for leakages. URA will strengthen and properly embed risk management practices in Customs, as well as enhance warehousing control. URA will enhance the ability to monitor transit procedures, detect evasion and non-compliance, and sanction offenders.

STATE OF THE ECONOMIC AND GROWTH PROSPECTS

Uganda's economy has recovered from the low growth rate of 3.9% experienced in FY2016/17 to an average of over 6% over fiscal years 2017/18 and 2018/19. The recovery in growth is majorly attributed to improvement in productivity. Other critical factors for the economic rebound include the recovery in global economic and domestic factors such as the rise in demand, recovery in private sector as reflected by the growth in private sector credit, among others.

The policies and interventions that the government is currently implementing in FY2019/20 are expected to translate into an economic growth rate of 6.3%. Growth is estimated at 6.2% in FY2020/21 as investment in infrastructure slows down following completion of major hydroelectricity projects, the slow recovery in the global economy and domestic shocks stemming from speculations around the 2021 general elections.

Based on Uganda's productive capabilities and the medium-term growth agenda that government will undertake, the economy is expected to grow at an average of 6.4% in the medium-term.



Source: Ministry of Finance, Planning and Economic Development

During the first month of the current FY2019/20, annual headline inflation was recorded at 2.6%, a decline from 3.4% in June 2019. This was largely attributed to a reduction in core inflation as prices of communication services reduced during the month. The annual headline inflation is projected at 4.1 percent in FY2019/20, which is higher than the 3.1 percent for FY 2018/19 mainly on account of stronger aggregate demand. In coming fiscal year 2020/21, inflation is projected to increase slightly to 5.4%, driven by higher expenditure to support the general elections as well as higher food crop prices on account of unpredictable weather conditions. Despite the likely increase in inflation rate, it is expected to remain within the 5% target over the medium term supported by prudent monetary and fiscal policies.

The Ugandan Shilling gained value against all the major currencies (US dollar, Euro, Pound), during July 2019 compared to June 2019. The Shilling appreciated by 0.9%, 1.6%, and 2.4% against the U.S Dollar, Euro and Pound Sterling respectively in July 2019 compared to the previous month. The appreciation of the Shilling against the U.S Dollar was due to lower demand for the dollar than its supply. Despite the appreciation in the month of July 2019, the shilling is expected to depreciate by 1.6% during FY 2019/20 affected by uncertainty in global trade markets and the persistent current account deficit. The Uganda shilling is also expected to depreciate by 0.5% in FY 2020/21 due to the persistent current account deficit as imports continue to rise at a faster rate compared to exports.

CONCLUSION

To sustain and accelerate inclusive economic growth, the budget for the fiscal year 2020/21 and the medium-term will focus on increasing productivity in the four areas critical for job creation and exports, that is to say, (i) Agriculture and Agro-industrialisation, (ii) Tourism Development, (iii) improving value addition to tradable minerals and commodities, and (iv) enhancing efficiency in public investments in provision and maintenance of productive and trade infrastructure, provision of health services and skill development programmes.

The third national development plan, which is currently being finalised in consultation with government agencies, will spell out programmes and projects needed to drive growth in the priority areas enumerated above. All government institutions will accordingly have to align their investment plans to the third national development plan. In addition, the programme structure for the programme-based budgeting will have to be aligned to the NDPIII implementation and reporting framework. This may necessitate a restructuring of institutions, the composition of sectors and mandate, all of which require extensive consultations and buy-in and therefore gradual transition.

The proposed budget strategy is intended to kick-start budget consultations for FY2020/21. The proposed strategic direction in this paper will be refined after gaining consensus in subsequent budget discussions with local government representatives, development partners, cabinet and other relevant stakeholders.