ANNUAL ECONOMIC PERFORMANCE REPORT 2016/17

DIRECTORATE OF ECONOMIC AFFAIRS

Ministry of Finance, Planning and Economic Development

December, 2017

FORWARD

Uganda's economy remained resilient amidst national, regional and international challenges in FY 2016/17. The resilience of the economy was mainly attributed to the prudent monetary and fiscal policy measures.

The economy expanded by 4.0 percent and inflation remained within single digit, averaging 5.7 percent. Inflation was within the Government's long term target of 5 percent and in line with the EAC Convergence criteria for 2021.

This report provides a review of the major developments that are in line with the country's aspirations reflected in Vision 2040 and the Second National Development Plan. Government will continue to promote sustainable economic development through ensuring macroeconomic stability, enhancing revenue mobilisation, strengthening investments and increasing accessibility to private sector credit among others.

Government's sustained focus on better service delivery, higher investment and public financial management reform will continue to yield results towards inclusive growth and structural transformation.

Keith Muhakanizi
Permanent Secretary/Secretary

PREFACE

This Annual Economic Performance Report is the ninth in an annual series and provides a performance overview for Uganda in FY 2016/17. It also provides an account of the actions taken to achieve the core objectives as set out during the Financial Year.

The report is comprised of five chapters, which are discussed along the core functions through which the Directorate of Economic Affairs contributes to the overall mandate of the Ministry. The report makes use of outturn data for FY 2016/17 to provide an overview of the country's economic performance and the pertinent challenges that affect economic growth, revenue mobilisation, private sector development, and measures being undertaken to address the challenges.

Also, it provides an update on the country's achievements under the mandate of the Directorate of Economic Affairs, including macroeconomic stability, domestic resource mobilisation, development policy and financial inclusion and deepening.

I wish to appreciate all staff in the Directorate for providing technical support and working tirelessly to ensure that the report is produced annually.

Moses Kaggwa
Ag. Director of Economic Affairs

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List of Acronyms and Abbreviations

ACEs	Area Cooperative Enterprises
AfDB	African Development Bank
AIA	Appropriation in Aid
AML/CFT	Anti-Money Laundering and Combating of Finance of Terrorism
BoU	Bank of Uganda
CBR	Central Bank Rate
CET	Common External Tariff
CGE	Computable General Equilibrium
CMA	Capital Market Authority
CoC	Certificate of Compliance
COIN	City Operators Identification Number
COMESA	Common Market for Eastern and Southern Africa
DC	Development Committee
EAC	East African Community
EACMA	East African Customs Management Act
EAMU	East Africa Monetary Union
EFU	Energy, Fuel and Utilities
FATF	Financial Action Taskforce
FIA	Financial Intelligence Authority
GDP	Gross Domestic Product
ICEA	International Conference on the Emergency of Africa
IMEM	Integrated Macro Economic Model
JLOS	Justice Law and Order Sector
MDAs	Ministries, Departments and Agencies
MFIs	Micro Finance Institutions
MFPED	Ministry of Finance Planning and Economic Development
MSM	Micro – Simulation Model
NDP	National Development Plan
NFIS	National Financial Inclusion Strategy
NRA	National Risk Assessment
NSSF	National Social Security Fund
NTR	Non-Tax Revenue
OSC	One -Stop Centre
PAYE	Pay As You Earn
PFMA	Public Finance and Management Act
PIP	Public Investment Plan
PROFIRA	Project for Financial Inclusion in Rural Areas
PSC	Private Sector credit
PTA	Preferential Trade Area
SACCOs	Savings and Credit Cooperative Societies
SHGs	Self Help Groups
SMEs	Small and Medium Enterprises
STEPMAN	Strategic Economic Policy and Management
TFA	Trade Facilitation Agreement
TFR	Total Fertility rate
TREP	Taxpayer Registration and Expansion Program
UBOS	Uganda Bureau of Statistics
UCDA	Uganda Coffee Development Authority
UCUSCU	Uganda Cooperative Savings and Credit Union

UDHS	Uganda Demographic and Household Survey
UEGCL	Uganda Electricity Generation Company Limited
UETCL	Uganda Electricity Transmission Company Limited
UIA	Uganda Investment Authority
UMRA	Uganda Microfinance Regulatory Authority
UNDP	United Nations Development Program
URA	Uganda Revenue Authority
URBRA	Uganda Retirement Benefits Regulatory Authority
URSB	Uganda Registration Service Bureau
VSLAs	Village Savings and Loan Associations
WHT	Withholding Tax
WTO	World Trade Organisation

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1.0 INTRODUCTION

Fiscal Year 2016/17 was the second implementation year of Second National Development Plan (FY 2015/16 to 2019/2020). The country's economic outlook for FY 2016/17 projected GDP growth of 5.5 percent, while the medium term GDP growth was projected to average 6.3 percent per annum. This was premised on the commitment of Government to facilitate the private sector through fast tracking implementation of key public investment, more especially in infrastructure.

FY 2016/17 witnessed a number of developments both at national, regional and international level. At the national level, the 2016 Uganda Demographic and Health Survey (UDHS) results were released and these provided an insight on the quality of Uganda's population. The results indicated continued improvement in the country's development outcomes. Significant progress has been registered in a number of demographic and health outcomes. The average number of children born by a Ugandan woman in her life time (fertility rate) declined from 6.2 in 2011 to 5.4 in 2016, while infant mortality declined from 54 to 43 deaths per 1,000 live births and under-five mortality reduced from 90 to 64 deaths per 1,000 live births. There has been significant reduction in maternal deaths with the Maternal Mortality Ratio declining from 438 deaths per 100,000 births in 2011 to 336 in 2016.

In FY 2016/17, Government completed the Charter for Fiscal Responsibility, which provides a strategy for operating a fiscal policy that is consistent with sustainable fiscal balances over the medium term and the maintenance of prudent and sustainable levels of public debt. The Charter provides measurable medium term fiscal objectives, and will be critical for driving Uganda towards attaining the East Africa Monetary Union (EAMU) convergence criteria in 2021.

1.1 Objectives of the report

The Annual Economic Performance report provides an account on the performance of Uganda's economy and Government actions undertaken to achieve the economic objectives set out for FY 2016/17. The report provides an account of how the economy performed in relation to the critical areas that are under the ambit of the Directorate of Economic Affairs, in the Ministry of Finance, Planning and Economic Development (MFPED). The key areas include: Macroeconomic Policy Management; Domestic Resource Mobilisation, Development Policy, Investment Mobilisation, and Financial inclusion and deepening.

1.2. Data sources

This report made use of a number of data sources. The key national data sources used include data sets from Uganda Bureau of Statistics (UBOS), Uganda Revenue Authority (URA), Bank of Uganda (BoU), and Ministry of Finance, Planning and Economic Development.

1.3. Structure of the report

The rest of the report is structured into six chapters. Chapter Two provides a discussion on macroeconomic management, more especially in terms of the performance of the real, fiscal and monetary and financial sectors of the economy. Chapter Three is an assessment of Uganda's performance with regard to domestic revenue mobilization during the Financial Year. Chapter four provides a discussion on development policy advisory and investment, while Chapter Five provides an account of the country's performance in relation to financial inclusion and deepening in the country.

2.0 MACROECONOMIC MANAGEMENT

Uganda's economic growth and development are highly dependent of prudent macroeconomic management. The Directorate of Economic Affairs plays a critical role in ensuring that Ministry of Finance, Planning and Economic Development promotes prudent macroeconomic management through price stability and favourable interest and exchange rates. This chapter provides an account of the Directorate's contribution in promoting macroeconomic management through a number of sectors including real, monetary, financial external and fiscal sectors.

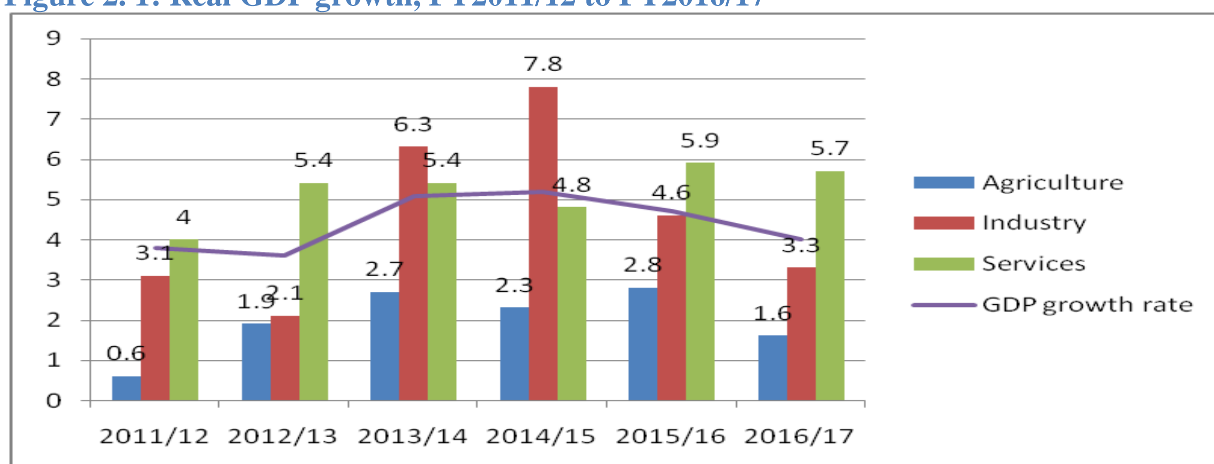
2.1 REAL SECTOR DEVELOPMENTS

2.1.1 Economic Growth

The economy is estimated to have expanded by 4.0 percent during FY 2016/17, and this was slower than the 4.7 percent recorded in FY2015/16. The lower growth is on account of a slowdown in the global economy coupled with domestic factors like drought conditions which affected agriculture production, subdued domestic demand and low growth in private sector activity.

Economic growth by sector for FY 2016/17 shows that agriculture, forestry and fishing sector registered the lowest growth rate at 1.6 percent compared to 3.3 percent and 5.7 percent in industry and services sectors respectively as shown in figure 2.1 below.

Figure 2. 1: Real GDP growth, FY2011/12 to FY2016/17



Source: UBOS

2.1.2 GDP Performance by Sector

Agriculture, forestry and fishing: The agriculture, forestry and fishing sector that accounted for 21.5 percent of total output in FY 2016/17 posted growth of 1.6 percent which was lower than 2.8 percent recorded in FY 2015/16. The slower growth in the agriculture sector was on account of the prolonged drought that affected many parts of the country.

Growth in the agricultural sector was driven by food crops and agriculture support services which grew by 1.4 percent and 2.6 percent compared to 1.3 percent and minus 4.6 percent the previous year respectively. The forestry, fishing and livestock value added slowed to 1.1 percent; 1.7 percent and 1.6 percent in FY 2016/17 compared to 4.7 percent, 4.8 percent and 2.8 percent in the previous year respectively.

Industry: The industrial sector contributed 18.6 percent of total GDP in the FY 2016/17 and is estimated to have grown by 3.3 percent down from 4.6 percent in FY 2015/16. The slower growth was attributed to the weaker performance of mining and quarrying and construction activities when compared to the previous year.

Growth in the industrial sector was mainly on account of improved value addition in manufacturing sector, and increased electricity generation and water supply. Manufacturing posted growth of 2.1 percent in FY2016/17 from a modest growth of 0.6 percent the in FY 2015/16. The growth in manufacturing came from food processing, chemical and pharmaceutical production, and cement and lime production.

Services: The services sector is the biggest of the three broad sectors of the economy, contributing 51.9 percent of total real output during FY2016/17. The sector posted slower growth of 5.7 percent during the year compared to 5.9 percent recorded in FY 2015/16. The drivers of this growth include: information and communication (14.9 percent); education (9.1 percent); accommodation and food services (7.5 percent) and human health and social work (4.9 percent).

However, there was lower growth in the services sector in FY 2016/17 mainly explained by trade and repairs- one of the largest subsectors-whose output was 2.1 percent compared to 3.6 percent in FY2015/16. In addition, slower growth was recorded in financial and insurance, transport and storage, and real sector activities at 1.1 percent, 3.6 percent and 5.6 percent from 5.6 percent, 8.1 percent and 6.1 percent respectively in the previous fiscal year. The size of the economy in nominal terms grew by 10.2 percent reaching Ushs 91,351 billion in FY2016/17 from Ushs 82,903 billion in FY2015/16. This resulted into per capita GDP of US$ 701 in nominal terms. Table 1.1 below shows real GDP growth rates from FY2011/12 to FY2016/17.

Table1. 1: Real GDP Growth Rates from FY2011/12 to FY2016/17

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
GDP at market prices	**3.8**	**3.6**	**5.1**	**5.2**	**4.7**	**4.0**
Agriculture, forestry and fishing	**0.6**	**1.9**	**2.7**	**2.3**	**2.8**	**1.6**
Cash crops	9.4	-0.1	-0.3	4.0	7.9	4.3
Food crops	-1.4	-0.3	2.9	2.2	1.3	1.4
Livestock	2.3	2.5	2.7	2.9	2.8	1.6
Agriculture Support Services	-12.8	7.8	0.5	17.6	-4.6	2.6
Forestry	1.3	11.2	3.5	1.7	4.7	1.1
Fishing	1.2	-3.5	2.1	1.5	4.8	1.7
Industry	**3.1**	**2.1**	**6.3**	**7.8**	**4.6**	**3.3**
Mining & quarrying	-5.6	11.3	5.7	18.1	12.4	-9.3
Manufacturing	2.7	-2.5	2.2	11.6	0.6	2.1
Electricity	7.4	9.9	1.9	5.7	4.0	8.3
Water	6.1	6.3	6.3	6.1	6.3	6.8
Construction	3.9	4.2	12.5	1.9	7.3	6.1
Services	**4.0**	**5.4**	**5.4**	**4.8**	**5.9**	**5.7**
Trade and Repairs	0.8	2.7	-1.8	3.2	3.4	2.1
Transportation and Storage	7.8	4.9	6.1	6.6	8.1	3.6
Accommodation and Food Service	9.3	5.1	8.8	-0.5	5.7	7.5
Information and Communication	18.5	18.0	14.5	-1.8	14.1	14.9
Financial and Insurance Activities	-0.9	8.1	17.8	10.9	5.6	1.1
Real Estate Activities	4.4	4.8	6.3	6.5	6.1	5.6
Professional, Scientific and Technical	-7.5	0.5	0.8	-5.6	-0.3	-3.0
Administrative and Support Service	-3.6	-11.4	8.0	25.5	-13.9	-4.8
Public Administration	-4.0	0.1	0.6	24.2	8.4	2.1
Education	7.6	8.1	4.4	5.2	7.8	9.1
Human Health and Social Work	4.8	4.1	5.2	5.4	3.4	4.9
Arts, Entertainment and Recreation	8.0	-2.8	6.5	5.3	-5.0	-2.3
Other Service Activities	7.6	5.1	10.7	7.9	9.2	13.3
Activities of Households as	1.8	2.1	2.4	2.8	3.4	4.1
Adjustments	**15.3**	**0.7**	**7.5**	**9.9**	**2.1**	**1.1**
Taxes on products	15.3	0.7	7.5	9.9	2.1	1.1

Source: UBOS

2.1.3 Inflation

The **average annual headline inflation** for the FY2016/17, declined to 5.7 percent from 6.6 percent recorded in FY2015/16. This performance was largely on account of subdued domestic demand that resulted in a slowdown in core inflation.

Food crop inflation was the only component of inflation that increased. On average, annual food crop inflation was recorded at 12.5 percent in FY2016/17 compared to 5.9 percent in FY2015/16.

Core inflation measure remained close to the 5 percent monetary policy target, recording at 5.1 percent in FY 2016/17. This was an improvement from the 6.7 percent average of FY2015/16.

Annual Energy, Fuel and Utilities inflation declined considerably in FY 2016/17 to an average of 2.2 percent from 6.7 percent in FY 2015/16. The decline in the Annual EFU inflation is attributed to the lower prices on fuels such as liquefied gas, kerosene, firewood,

petro, charcoal and diesel. Table 2.1 below shows trends in inflation from FY2012/13 to FY2016/17.

Table 2. 1: Inflation trends from FY2012/13 to FY2016/17

	2012/13	2013/14	2014/15	2015/16	2016/17
Annual Headline Inflation	4.9	5.3	2.9	6.6	5.7
Annual Core Inflation	5.4	4.7	1.4	6.7	5.1
Annual EFU Inflation	4.9	2.0	1.8	6.7	2.2
Annual Food crops Inflation	0.8	13.2	3.2	5.9	12.5

Source: UBOS

Inflation within the East African Community (EAC) Region

There were inflationary pressures in all the EAC Partner States as the wide spread drought suppressed food supplies and consequently increased food inflation in FY2016/17. Average headline inflation was highest in South Sudan, Burundi and Rwanda at 462.4 percent, 12.4 percent and 10.4 percent respectively. Besides the drought, Burundi and South Sudan suffered civil unrest. Table 2.2 below shows the average annual headline inflation among EAC Partner States.

Table 2. 2: Average Annual Inflation among EAC Partner States

Country	FY2016/17
Burundi	12.4
Kenya	8.1
Rwanda	10.4
South Sudan	462.4
Tanzania	5.3
Uganda	5.7

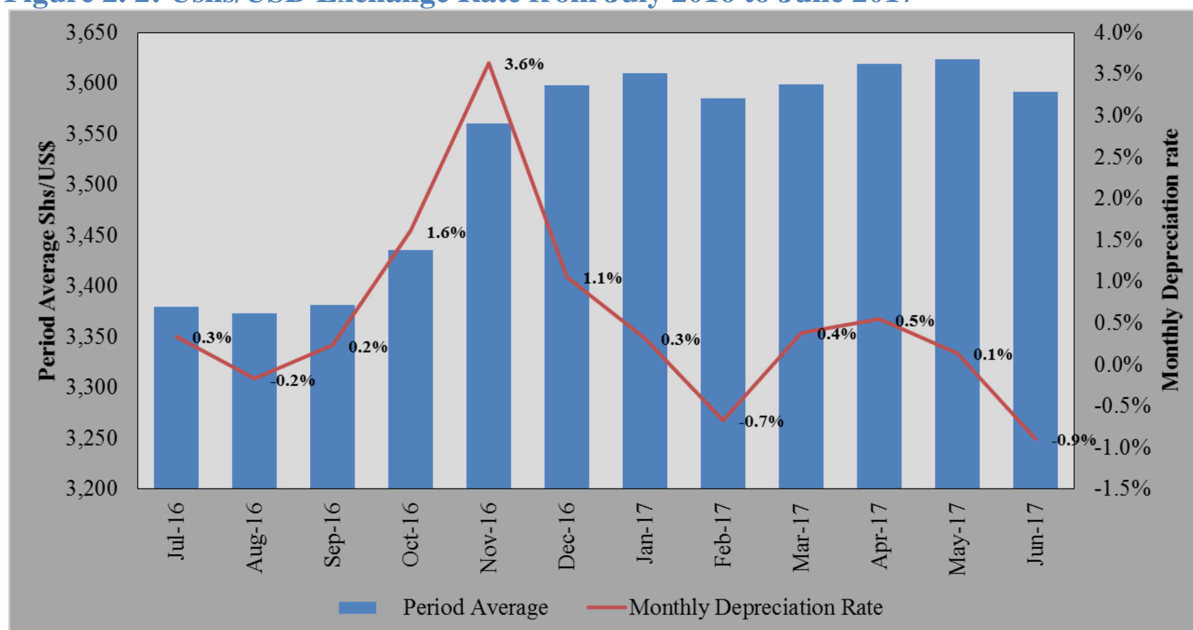
Source: Respective EAC Bureaux of Statistics

2.2 Monetary Aggregates

2.2.1 Exchange rate

In FY2016/17, the Shilling weakened against the United States Dollar, depreciating by 2.5 percent to an average mid-rate of Ushs 3,528.3 per USD from Ushs 3,442.96 per USD in FY 2015/16. The largest depreciation was seen in the second quarter of the FY2016/17 where the shilling depreciated by 5percent to an average rate of Ushs 3532.0 per USD from Ushs 3377.9 per USD in the first quarter. The depreciation was on account of increased demand mainly from manufacturing, oil, energy and telecommunication sectors coupled with the global strengthening of the dollar as the United States economy continues to recover and perform admirably.

Figure 2. 2: Ushs/USD Exchange Rate from July 2016 to June 2017



Source: BoU

2.2.2 Financial Sector Trends

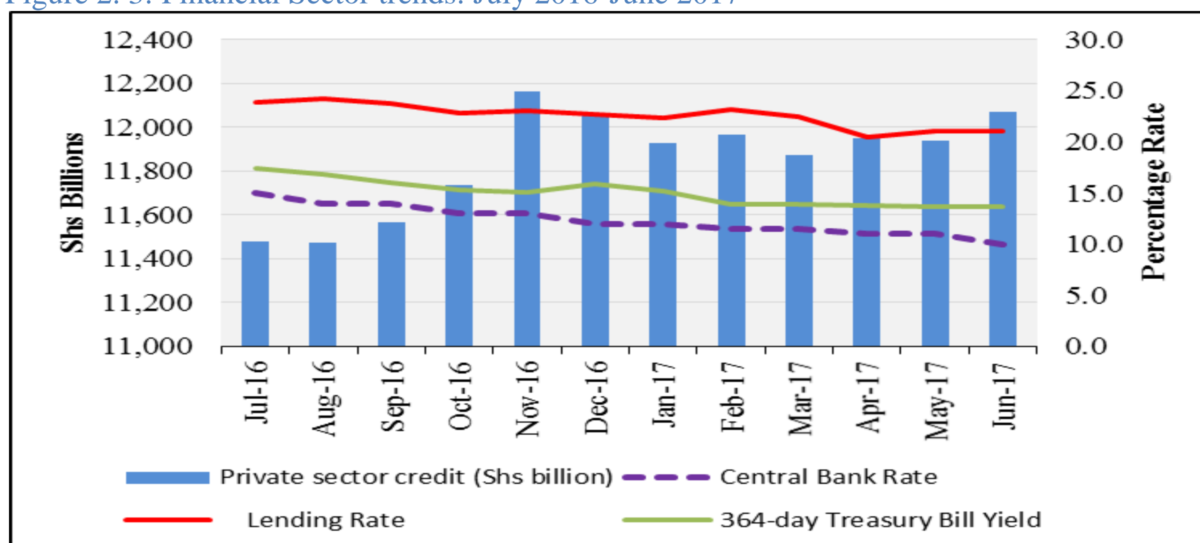
Bank of Uganda eased monetary policy through FY2016/17, with gradual downward revisions of the Central Bank Rate (CBR) from 15 percent in July 2016 to 12 percent in December 2016 and 10 percent in June 2017. The rediscount rate and the lending rate were also reduced from 19 to 14 percent and 23.9 to 21.1 percent respectively from July 2016 to June 2017. This was largely as a result of the central bank expecting medium to long run inflation to be within the 5 percent target. Additionally monetary policy easing was also done with the aim of stimulating domestic demand and boosting economic activity.

2.2.3 Government Securities and Interest Rates

Bank of Uganda eased monetary policy in FY2016/17 with the average CBR recorded at 12.3 compared to 16.3 in the FY2015/16. The Central Bank Rate (CBR) was gradually reduced from 15 in July 2016 to 10 in June 2017. The rediscount rate or the inter-bank rate and the lending rates also decreased from 19 percent to 14 percent and 23.9 percent to 21.1 percent respectively from July 2016 to June 2017. The easing of monetary policy was supported by a positive outlook on inflation development as well as the need to stimulate domestic demand in order to boost economic activities.

The yields on treasury instruments edged downwards throughout FY2016/17 compared to FY2015/16. The reduction in the yields was on account of increased liquidity in the money market. The average weighted yields to maturity for the financial year were 13.2 percent and 15.1 percent for the 91 and 364 day tenors, respectively down from 17.8 percent and 20.1 percent respectively in FY2015/16. During the FY2016/17, Ushs 5,986 billion (at cost) was raised from the primary securities market. Of the amount raised, Ushs 5,374 billion was issued for the refinancing of maturing debt, while Shs 612 billion went towards financing the Government budget. Figure 2.3 below shows trends in the financial sector during FY2016/17.

Figure 2. 3: Financial Sector trends: July 2016-June 2017



Source: BoU

2.2.4 Private Sector Credit (PSC)

The stock of outstanding Private Sector Credit (PSC) registered a 5.7 percent growth in the Financial Year 2016/17 compared to a growth of 4.3 percent in the Financial Year 2015/16. This growth is attributed to supportive fiscal and monetary policy during the year.

During the Financial Year, credit advanced to the major sectors of agriculture, trade and personal and household loans grew by 18.2 percent, Ushs12.2 percent and 18.6 percent respectively. In contrast, the flow of credit to the manufacturing sector and building, mortgage, construction and real estate sector declined by 3.3 percent and 4.4 percent respectively.

The total stock of PSC as of June 2017 stood at Ushs 12.1 trillion out of which the largest share was in the building, mortgage, construction and real estate (20.6 percent), followed by the trade sector (20.1 percent) and personal and household loans (17.7 percent), manufacturing (13 percent) and agriculture (11 percent). Table 2.3 below shows the growth rate and share of private sector credit by sector.

Table 2. 3: Growth and share of Private Sector Credit by Sector

Sector	Share of Credit FY 2015/16	Credit growth FY 2015/16	Share of Credit FY 2016/17	Credit growth FY 2016/17
Agriculture	10.3%	10.4%	11.5%	18.2%
Trade	19.0%	-3.1%	20.1%	12.2%
Manufacturing	14.0%	-5.5%	12.8%	-3.3%
Building and Real Estate	22.8%	5.5%	20.6%	-4.4%
Personal & Household loans	15.8%	9.2%	17.7%	18.6%

Source: BoU

2.3 Fiscal Sector Developments

The Fiscal Strategy for FY2016/17 was focused on maintaining infrastructure investment, while being mindful of a sustainable level of public debt over the medium term and promoting excellence in public service delivery. In order to implement this strategy, the budget had an overall fiscal balance amounting to 6.4 percent of GDP which was to be financed through external and domestic sources. However, owing to implementation challenges, the outturn amounted to 3.9 percent of GDP, as actual expenditure on development projects was lower than projected.

Revenues and Grants

Revenues and Grants for FY2016/17 amounted to Ushs. 13,668.4 billion, representing 95 percent achievement against the annual budget target and a growth of 10 percent from FY2015/16. Domestic revenue collections were Ushs. 12,817.1 billion against the budget target of Ushs. 12,782.2 billion as indicated in Table 2.4 below.

Grant disbursements in the Financial Year 2016/17 dropped by 37 percent compared to the previous fiscal year. Grant disbursements are tied to project performance. Any delays in project execution affect disbursements. During the fiscal year, there were delays associated with insufficient provisions for counterpart funding and procurement processes which affected timely start or execution of some projects. Total grants amounted to Uhs. 721.5 billion which was lower than budget projection of Ushs. 1,545 billion.

Table 2. 4: Domestic Revenue Performance FY2016/17 (excluding oil revenues)

	Outturn	Budget	Deviation
Revenue	12,817.1	12,782.2	35
o/w Tax	12,463	12,480	(16)
o/w Non Tax	353.7	302.3	51

Source: MFPED

2.3.1 Expenditure Performance

Expenditure and net lending amounted to Ushs. 17,401.2 billion, which was significantly lower than the budget target (excluding Appropriations in Aid) of Ushs. 20,793.1 billion. This performance was a result of development expenditures performing below program by Ushs. 2,507.8 billion. The Development Budget was affected by the underperformance of externally financed projects which is linked to disbursements. The delays in availing financing affected the performance of a number of projects.

On the contrary, recurrent spending was at Ushs. 9,958.1 billon, which reflects a performance of 4 percent above the projection for the FY. Net lending in FY2016/17 was lower than programmed as disbursements for the Hydro Power Projects (Karuma and Isimba) were only 33.7 percent of the initial projection. Nonetheless, works on the hydro power projects are on-going as scheduled. This is because of the nature of the contract between the Government and the contractor that allows payment of certificates for work completed.

A breakdown of expenditure by sectors shows the highest expenditures were recorded in the transport Sector; followed by Interest Payments, Education, Security, Public Sector Management, and Justice Law and Order Sector (JLOS). Expenditure towards the transport Sector increased from 12.6 percent of total expenditure in FY 2015/16 to 15.9 percent of expenditure and net lending (excluding arrears repayments) in FY 2016/17 which is

consistent with Government's drive to develop infrastructure within the economy. Releases to the PAF[1] sectors were 101.2 percent of their approved budgets which is consistent with Government's policy of releasing a minimum of 95 percent to PAF sectors of their approved budget. These sectors are meant to address issues of poverty and inequality. Table 2.5 below shows the shares of the various sectors of the total expenditure including donor projects (excluding arrears repayments).

Table2.5: Sectoral shares of total expenditure

	2015/16		2016/17	
Sectors (Shs. Billion)	**Outturn**	**% of total exp**	**Outturn**	**% of total exp**
Security	1,665.3	10.1%	1,433.8	8.4%
Roads & Works	2,073.2	12.6%	2,720.4	15.9%
Agriculture	401.6	2.4%	745.0	4.4%
Education	2,002.4	12.2%	2,156.1	12.6%
Health	1,073.6	6.5%	1,063.5	6.2%
Water & Environment	597.0	3.6%	551.2	3.2%
Justice, Law & Order	1,161.2	7.1%	1,087.7	6.4%
Accountability	782.2	4.8%	971.4	5.7%
Energy & Minerals	2,046.6	12.5%	977.8	5.7%
Tourism, Trade & Industry	82.9	0.5%	89.5	0.5%
Lands, Housing & Urban Development	153.7	0.9%	125.1	0.7%
Social Development	72.9	0.4%	124.4	0.7%
Information & Communication Technology	29.8	0.2%	82.0	0.5%
Public Sector Management	1,289.0	7.9%	1,212.0	7.1%
Public Administration	907.0	5.5%	573.2	3.3%
Parliament	416.8	2.5%	507.4	3.0%
Interest Payments Due	1,681.7	10.2%	2,360.2	13.8%
Total exp (excl. arrears & BOU recap)	**16,408.0**	**100%**	**17,117.2**	**100%**

Source: MFPED

2.4 External Resource Mobilization

External financing on a net basis amounted to Ushs. 2,800.9 billion which was lower than planned levels by Ushs. 2,936 billion. The lower financing was on account of undisbursed grants and loans as a result of lower than expected execution levels. In addition, a World Bank loan of Ushs. 261 billion was cancelled due to delays in setting up of the necessary environmental and social safe guards. Of the Ushs 596.9 billion revolving credit (PTA loan) that was expected to be disbursed in FY2016/17, only Ushs. 572.8 billion was received. In FY2016/17, Ushs. 612 billion was raised from the domestic market to finance Government's expenditures as had been approved in the budget. Table 2.6 below shows fiscal operations over the last 3 FYs ending in FY 2016/17.

[1] PAF sectors include: - Agriculture, Education, Health and Water & Environment sectors.

Table 2.6: Performance of Fiscal Operations in billion shillings

(UGX Billion)	FY 2015/16 Outturn	FY 2016/17 Budget	FY 2016/17 Prel. Outturn	Deviation prel vs Budgt	Performance Vs. Program
Revenues and Grants	**12,463**	**14,459**	**13,668.4**	**(791)**	**95%**
Revenues	**11,377**	**12,782.2**	**12,817.1**	**35**	**100%**
Tax	11,059	12,480	12,463	(16)	100%
Non-Tax	318	302.3	353.7	51	117%
Grants	**965**	**1,545**	**721.5**	**(824)**	**47%**
Budget Support	157	55	31	(24)	56.4%
Project Support	808	1,490.0	690	(799.5)	46%
Oil Revenue	**121**	**132**	**130**	**(2)**	**98%**
Expenditure and Lending	**16,727**	**20,793.1**	**17,401.2**	**(3,392)**	**84%**
Current Expenditures	**9,169**	**9,600**	**9,958.1**	**358**	**104%**
Wages and Salaries	2,966	3,359	3,382	23	101%
Interest Payments	1,682	2,023	2,324	301	115%
o/w Domestic	1,470	1,592	1,954	362	123%
o/w External	212	431	370	(61)	86%
Other Recurr. Expenditures	4,520	4,218	4,252	34	101%
Development Expenditures	**5,907**	**9,226**	**6,718**	**(2,507.8)**	**73%**
Domestic	3,523	4,190	4,241	51	101%
External	2,384	5,036	2,477	(2,559)	49%
Net Lending/Repayments	**1,532**	**1,605**	**541**	**(1,064)**	**33.7%**
GoU HPPs	1,332		-	-	n.a
China Exim Bank			441	441	n.a
BoU Recapitalization	200		100	100	n.a
Others (including arrears)	119	362	184	(178)	51%
Overall Fiscal Bal. (incl. Grants)	**(4,264)**	**(6,334)**	**(3,733)**	**2,601**	**59%**
Financing:	**4,264**	**6,334**	**3,733**	**(2,601)**	**59%**
External Financing (Net)	**2,494**	**5,737.2**	**2,801**	**(2,936)**	**49%**
Disbursements	2,813.50	5,906.38	2,984	(2,922)	51%
Budget Support	-	872	-	(872)	0%
Concessional Project Loans	1,537	2,521	1,675	(846)	66%
Non-concessional borrowing (HPPs)	1,074	2,514	736	(1,778)	29%
Non-concessional borrowing (other)	202		573	573	n.a
Amortization (-)	(313)	(169)	(183)	(14)	108%
Exceptional Financing	(6)	-	-	-	n.a
Domestic Financing (Net)	**1,899**	**597**	**603**	**7**	**n.a**
Bank Financing (Net)	923	290	(297)	(588)	n.a
Central Bank	309	(4,993)	(622)	4,371	n.a
Commercial Banks	614	5,283	325	(4,958)	n.a
o/w securities		5,283	(289)		
Non-bank Financing (Net)	976	306	901	594	n.a
o/w securities		306	901		
Errors and Omissions	(129)	0	329	n.a	n.a
Memo items:					
Fiscal deficit incl. grants(% of GDP)	-5.1%	-6.6%	-4.1%	-	-
Revenue (% of GDP)	13.7%	13.4%	14.2%	-	-
Expenditure(% of GDP)	20.1%	21.8%	19.2%	-	-

Source: MFPED

2.5 External Sector

The Balance of Payments (BoP) position continued to improve during FY2016/17, recording an overall surplus of US$ 438 million following a surplus of US$ 101 recorded the previous year. The performance of the BoP was largely on account of a narrowing of the current account deficit (CAD).

In FY 2016/17, the current account deficit reduced by US$ 169 million or 14 percent to US$ 1,039.8 million, from a deficit of US$ 1,208.8 million recorded in FY2015/16. The reduction was mainly driven by improvements on the trade account, with the deficit reducing by 13.7 percent to US$ 1,839 million, which was attributed to a faster growth in exports and a slow-down in growth in the value of imports.

Export earnings were driven by increased exports of coffee, gold, cotton, fish and its products. Coffee continued to be the major export crop, contributing 15.5 percent of total export earnings during the FY, up from 13.1 percent the previous year. Export volumes of coffee, gold, cotton, fish and its products increased by 17.8 percent, 60.3 percent, 78.3 percent, and 4.5 percent respectively. The increase in the volumes of coffee is on account of improved yields from the on-going drive to scale-up coffee production by UCDA and Arabica coffee that started yielding in the biennial cycle [2]of production.

Table 2.7: Performance of Exports (US$ million)

	2015/16	2016/17	Annual percentage change
Total Exports	**2,687.83**	**3,163.72**	**17.7%**
Coffee (Value)	**352.03**	**490.41**	**39.3%**
Volume (60-Kg bags)	3,556,766	4,188,170	17.8%
Av. unit value	1.65	1.93	17.5%
Non-Coffee formal exports	**1,946.10**	**2,189.62**	**12.5%**
O/w gold	204.26	339.09	66.0%
Flowers	49.10	53.56	9.1%
Cotton	24.29	48.31	98.9%
Maize	81.97	72.26	-11.8%
Fish & its products	115.15	131.04	13.8%
Simsim	29.59	16.16	-45.4%
ICBT Exports	**389.70**	**483.68**	**24.1%**

Source: BoU

Destination of Exports

The East African Community remained the major destination for Uganda's exports, followed by the Rest of Africa, the Middle East and the European Union during the FY2016/17 as shown in Table 2.8 below. Uganda`s trade with the EAC is facilitated by the tariff-free movement of goods and services, as well as improved regional transport infrastructure. Exports to the EAC region grew by 9.2 percent from US$ 1,156.67 million in FY2015/16 to US$ 1,289.83 million. Kenya took the largest share in EAC exports (42 percent), followed by South Sudan (28 percent) then Rwanda (17.3 percent) in FY2016/17. Kenya took the largest share of total exports (17.8 percent), followed by United Arab Emirates (15.2 percent), Democratic Republic of Congo (13.4 percent) and South Sudan (9.4 percent).

[2]Arabica coffee production has an on-year followed by an off year. This means that getting a higher crop this year would mean lower yield the subsequent yearunlike Robusta production. That is what is called the biennial nature.

Table 2.8 Destination of Exports (By percentages):

	2015/16	2016/17
European Union	15.4%	16.0%
Rest of Europe	1.9%	1.3%
The Americas	1.8%	1.7%
Middle East	13.3%	15.9%
Asia	7.3%	6.1%
EAC	40.8%	40.0%
Rest of Africa	19.4%	18.9%
Others[3]	0.09%	0.04%

Source: BoU

Performance of Imports

The value of total merchandise imports amounted to US$ 4,718.4 million in FY2016/17, a growth of 3.1 percent compared to the value of US$ 4,574.5 million registered in FY2015/16 as shown Table 2.9 below. This was on account of an increase in the price of private sector imports (both oil and non-oil imports), particularly, (vegetable products, animal, beverages, fats and oil) that registered the highest growth rate of 28.9 percent. Whereas private sector imports increased by 2.2 percent, Government imports declined by 11.3 percent. The fall in Government imports could be attributed to low disbursements by the development partners.

Table 2.9: Performance of Imports (US$ million)

	2015/16	2016/17	% change
Total Imports (fob)	**4,574.47**	**4,718.43**	**3.10%**
Government Imports	**494.18**	**438.18**	**-11.30%**
Project	449.09	411.96	-8.30%
Non-Project	45.09	26.22	-41.80%
Formal Private Sector Imports	**3,862.65**	**3,947.70**	**2.20%**
Oil imports	645.92	693.8	7.40%
Non-oil imports	3,216.73	3,253.90	1.20%
Estimated Private Sector Imports	217.64	332.55	52.80%

Source: BoU

2.5 Integrated Macro Economic Model (IMEM)

The Directorate of Economic Affairs finalised the development of the IMEM Model in June 2017. The model is currently being used for economic policy analysis and forecasting. This milestone is a key enhancement of capacity in technical analysis and forecasting of the major macroeconomic aggregates. The model is also being used to assess economy-wide implications of current and planned Government interventions. The IMEM Model is composed of the following three modules; a) The Computable General Equilibrium (CGE) Model mainly for sectoral analysis, b) the Macro-Econometric Model (MEM) for macroeconomic analysis and c) the Micro-Simulation Model (MSM) for social welfare analysis.

[3] Others include Australia, Iceland

3. 0 DOMESTIC RESOURCE MOBILISATION

Effective domestic resource mobilization is critical for achieving the Country's socioeconomic transformation. Achieving key milestones in regard to Vision 2040 and getting the country into the middle income category requires effective resource mobilization to raise revenue for the core projects in infrastructure(including energy, transport and ICT), and human development among others. The Directorate of Economic Affairs ensures that policies relating to domestic revenue mobilization are in line with the core principles of fairness and equity. This chapter provides a discussion on the main role of Government in relation to raising domestic revenue, the level of performance in regard to tax revenue and the challenges faced in FY 2016/17.

3.1 Overall objective of Government

Government's main revenue goal is to raise Revenue to GDP ratio to 16 percent by the FY 2019/20 as envisaged in the second National Development Plan (NDPII). Taxes are imposed mainly to raise revenue to fund Government operations and a good tax system must generate sufficient revenues to meet this objective.

In FY 2016/17, Government's intention was to raise domestic revenues by 0.5 percentage points of Gross Domestic Product (GDP). This was based on policy measures, improved tax administration and the core assumptions indicated in Table 3.1 below. However, the assumptions were generally not achieved, and hence affected revenue performance during FY 2016/17.

The main driver of tax revenues is Gross Domestic Product (GDP). The buoyancy of taxes measures the responsiveness of tax revenues to changes (growth) in the economy. Over the years Uganda's tax system has not been buoyant as evidenced by the static tax to GDP ratio at about 12.5 percent. Nonetheless, Government revenue (Tax and NTR) has exhibited an impressive average nominal growth of about 17 percent for the last six (6) Financial Years.

Table 3.1 : Macroeconomic assumptions used to project the revenue target for FY 2016/17

	2015/16	2016/17	2016/17
	Outturn	Projection	Outturn
Exchange Rate (UGX per US Dollar)	3,476.6	3,474.8	3,524.1
Inflation (Headline) (%)	6.6	5.5	5.7
Change in non-fuel imports value (US$) (%)	-7.6	9.1	7.1
Real GDP (MP) growth (%)	4.7	5.0	3.9

Source*:* MFPED

3.2 Revenue performance

3.2.1 Target for FY 2016/17

The overall net revenue (tax, non-tax and fees and licenses) target for FY 2016/17 was Ushs 13,259.29 billion, of which Ushs 12,929.28 billion was tax revenue, Ushs 330 billion was non-tax revenue (NTR) and Ushs 177.52 billion was fees and licenses. Appropriation in Aid (AIA) was estimated to be Ushs 671.98bn.

3.2.2 Overall revenue performance

The net revenue collections for FY 2016/17 amounted to Ushs 12,797.35 billion against the target of Ushs 13,260.65 billion, registering a shortfall of Ushs 463.31 billion. The net revenue performed as follows;

i. Tax revenue collected by URA amounted to Ushs 12,463.28 billion against the target of Ushs12,929.28 billion giving a shortfall of Ushs 466.00 billion; and
ii. Non Tax Revenue (NTR) amounted to Ushs 334.07 billion against the target of Ushs 331.37 billion, giving a surplus of Ushs 2.69 billion.

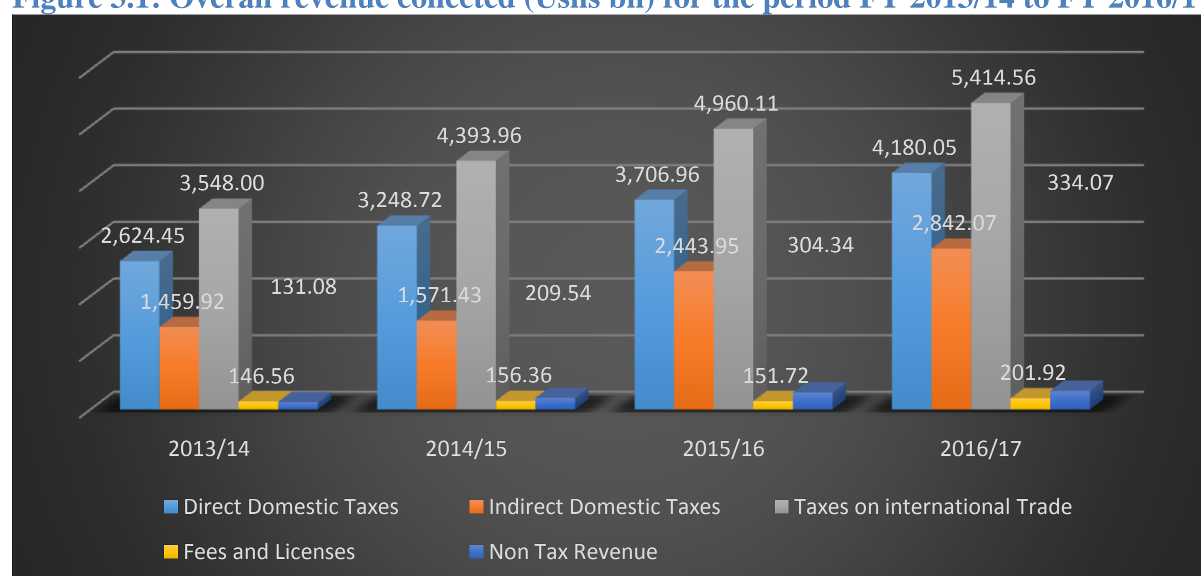
Despite the shortfall, there was growth of 12.8 percent in revenue collections compared to FY 2015/16. The above shortfall gives a tax to GDP ratio of 13.8 percent for FY 2016/17 which remains a very low tax effort. This requires enhanced enforcement and administration efforts by Uganda Revenue Authority (URA) to achieve the projected revenue effort of 16 percent by end of NDP II.

In nominal terms there was an increase in revenue mobilization as indicated in Figure 3.1 below. Direct domestic taxes, indirect taxes, international trade taxes fees and licenses grew at an average of 14.63 percent, 22.15 percent, 15.36 percent and 17.43 percent, respectively over the last 4 years.

The overall poor performance during FY 2016/17 is mainly attributed to the slowdown in economic growth which affected income taxes (with an exception of PAYE), lower than projected growth in import volumes of dry cargo, coupled with the reduction of prices of imports on the world market which translates to a decline in the taxable value of imports especially wheat and steel.

Uganda's level of revenue effort continued to be grossly undermined by the threat of non-compliance of a large section of taxpayers. In that regard, Government will continue to invest in programs that can change the mind-set of the taxpayers and improve taxpayer compliance. There is need to put emphasis on supporting efforts towards developing a multi-sectoral and institutional collaborative arrangement. The efforts will promote the need to raise revenue effort by ensuring that all taxpayers contribute in order to improve service delivery in the country. Enhancing accountability to enable tax payers realise the value for the taxes paid will play a critical role in raising tax revenue.

Figure 3.1: Overall revenue collected (Ushs bn) for the period FY 2013/14 to FY 2016/17

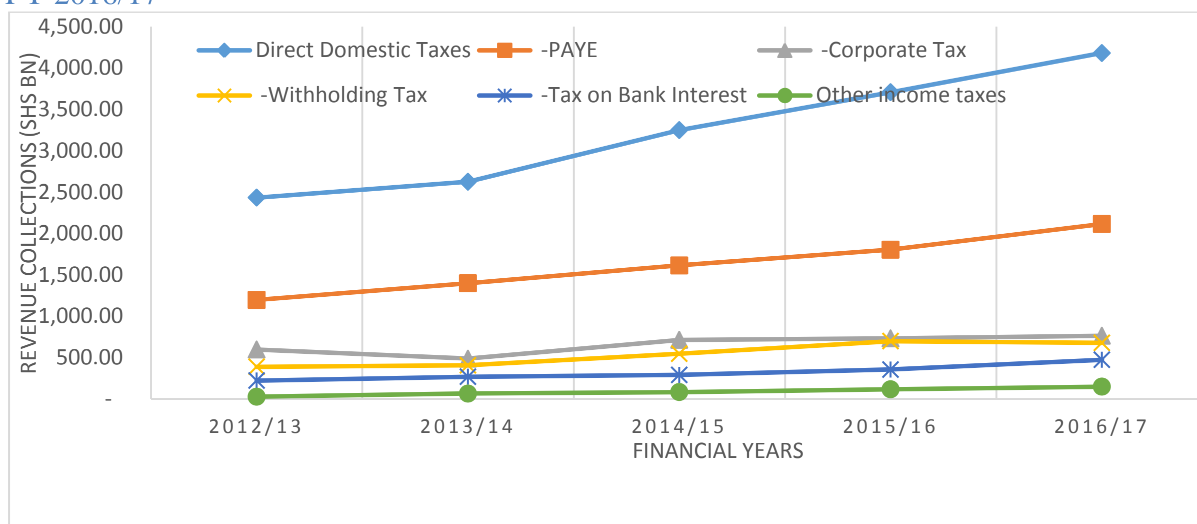


Source: MFPED

Direct Domestic Taxes

In FY 2016/17, direct domestic taxes amounted to Ushs 4,180.05 billion against the target of Ushs 4,328.02 billion giving a shortfall of Ushs 147.97 billion and growth of 12.8 percent compared to FY 2015/16. Pay As You Earn (PAYE), Casino Tax, Tax on Bank Interest and Rental Income Tax performed above their respective targets, while corporation tax, withholding taxes and presumptive taxes posted shortfalls over the period. Figure 3.2 below shows that corporation tax and withholding tax have had stunted growth over the same period. The performance of direct domestic taxes is also highlighted in Table 3.2 below.

Figure 3.2: Trend analysis of direct domestic taxes collections for the period FY 2012/13 to FY 2016/17



Source: MFPED

Table 3.2: Performance of direct domestic taxes for FY 2016/17

		Cummulative Collections 16/17	Cummulative Estimates 16/17	Surplus/ Deficit	Cumulative Collections 15/16	Year to Year Increase	% change 16/17 Vs 15/16
Direct Domestic Taxes		**4,180.05**	**4,328.02**	**- 147.97**	**3,706.96**	**473.10**	**12.76%**
-PAYE		2,114.99	1,940.95	174.05	1,803.53	311.46	17.27%
-Corporate Tax		764.27	961.29	- 197.02	732.16	32.11	4.39%
-Presumptive Tax		4.46	60.00	- 55.54	1.41	3.06	217.39%
-Other		46.31	90.27	- 43.97	42.92	3.39	7.90%
-Withholding Tax		677.93	823.24	- 145.31	699.34	- 21.41	-3.06%
-Rental Income Tax		71.74	61.39	10.35	55.03	16.70	30.35%
-Tax on Bank Interest		473.76	371.36	102.40	355.15	118.60	33.39%
- Casino Tax		26.59	19.52	7.08	17.42	9.17	52.68%

Source: MFPED

3.2.2 Performance of individual tax-heads

Pay As You Earn (PAYE)

PAYE collected on employment income amounted to Ushs. 2,114.99 billion as indicated in Table 3.3 below against the target of Ushs. 1,940.95 billion. This represents a surplus of Ushs. 174.1 billion, a growth of 17.3 percent in PAYE collections compared to FY 2015/16. Table 3.3 also shows the contribution of the private sector and the public sector to PAYE. Private sector is the main driver of PAYE revenue contributing on average 80 percent of total PAYE collections annually since FY 2013/14.

The performance of PAYE was mainly boosted by the following;

i. Bonus and terminal payments by some companies which increased their remittances especially during the period of July-September 2016 compared to the same period in FY 2015/16. The companies include those in the banking sector, soft drink producers, beer producers and telecommunication sectors; and

ii. Enhanced enforcement by URA Public Sector Office (PSO) which resulted into compliance by MDAs, Local Governments and Municipalities. Because of this, PAYE from the public sector has been growing on average at 20 percent per annum for the period FY 2013/14 to FY 2016/17 compared to the average growth rate of 13 percent of the contribution from the private sector for the same period.

Table 3.3: PAYE by the public and private sector, FY 2013/14 – FY 2016/17

	PAYE (UGX Bns)				Growth (%)		
Financial Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2014/15**	**2015/16**	**2016/17**
Public Sector	279.89	325.21	371.82	483.69	16%	14%	30%
Private Sector	1,117.67	1,288.03	1,431.71	1,631.30	15%	11%	14%
Total	**1,397.56**	**1,613.24**	**1,803.53**	**2,114.99**	**15%**	**12%**	**17%**

Source: URA

Corporation Tax

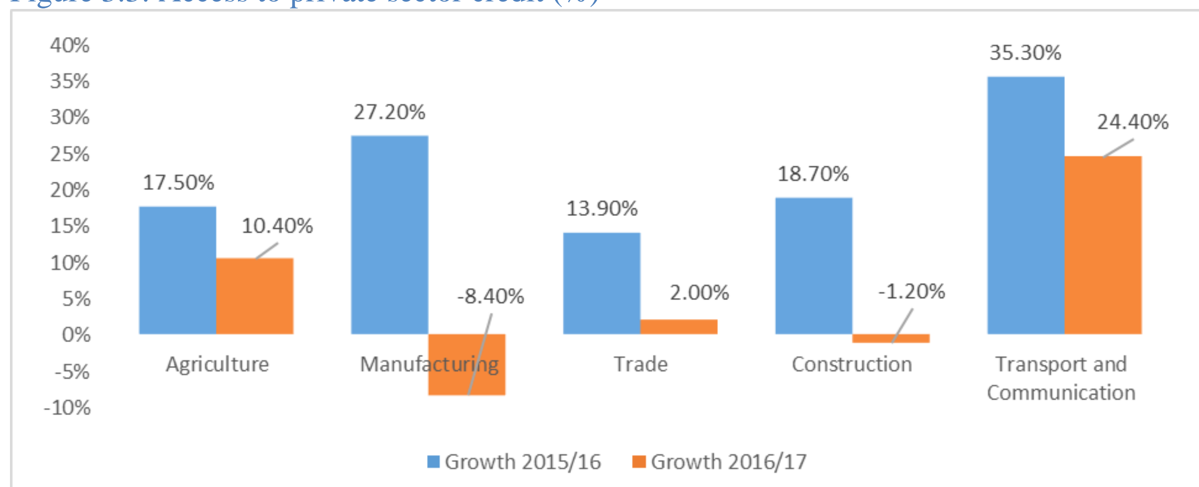
Corporate tax is levied on profits of companies and amounted to Ushs. 764.27 billion, against the target of Ushs. 961.29 billion, representing a shortfall of Ushs. 197.02 billion. Corporation tax registered a slight growth of 4.4 percent compared to FY 2015/16. The poor performance for the period is mainly attributed to the slowdown in economic growth which negatively affected the profitability of firms.

There was also limited access to private sector credit. During FY 2016/17, lending to the private sector was constrained despite the lower cost of credit. The tightening of lending standards by banks as a result of increased risk aversion towards lending resulted into low value of applications approved compared to the value applied. The manufacturing and construction sectors returned negative growth of -8.4 percent and -1.2 percent respectively during the FY 2016/17 while trade registered 2 percent growth in the same period compared to 13.9 percent registered during FY 2015/16 as show in Figure 3.3 below.

There was also decline of turnover in the telecommunication sector. For example, the income turnover of telecommunication sectors declined by 23.3 percent during FY 2016/17 compared to growth of 40.7percent registered in FY 2015/16. Uganda's highest corporate income taxpayer MTN Uganda suffered decline in turnover leading to decline in income tax by Ushs 22 billion.

The re-instatement of initial allowances effective July 2017 saw a number of taxpayers in the manufacturing sector adjust their provisional tax payable in June 2017 to take advantage of the benefit. This led to an estimated loss of Ushs 34.50 billion in corporation tax from just 5 of the top players.

Figure 3.3: Access to private sector credit (%)



Source: BoU, 2017

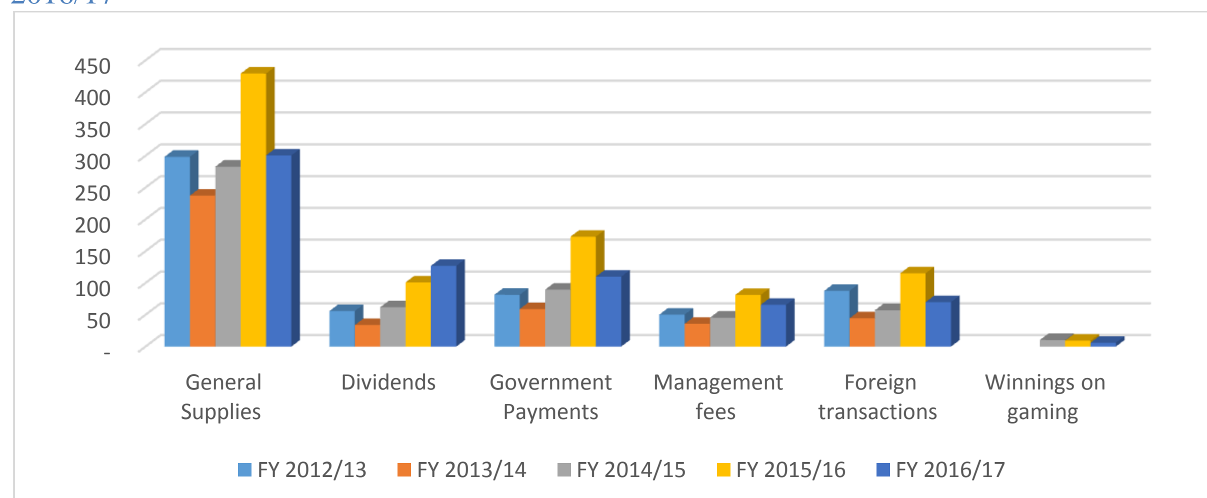
Withholding Tax (WHT)

Withholding tax amounted to Ushs. 677.93 billion, against the target of Ushs. 823.24 billion, posting a shortfall of Ushs. 145.31 billion, reflecting a decline in collections by 3.1percent compared to FY 2015/16. This underperformance is mainly attributed to:

i. Decline by 15 percent in withholding tax on foreign transactions;
ii. Decline in withholding tax on Government supplies. Withholding tax on Government payments declined from Ushs. 172.77 billion in FY 2015/16 to Ushs 109.88 billion in FY 2016/17. Given the fact that Government expenditure has a direct relation with private expenditure, WHT on general supplies was significantly affected.
iii. WHT on general supplies which contributes over 50 percent of WHT declined from Ushs. 429.23 billion in FY 2015/16 to Ushs 300.58 billion in FY 2016/17.

In general, delays in gazetting of withholding tax agents and declines in remittances from Government and general supplies led to the underperformance. Figure 3.4 below shows a summary of performance of withholding tax.

Figure 3.4: Summary performance of withholding tax for the period FY 2012/13 to FY 2016/17



Source: URA

Tax on bank interest

Tax on bank interest amounted to Ushs. 473.76 billion, against the target of Ushs. 371.36 billion, posting a surplus of Ushs. 102.40 billion and growth of 33.39 percent compared to FY 2015/16. Due to the tightening of lending standards by commercial banks as a result of increased risk aversion toward lending, most banks invested in Treasury Bills. As a result tax from interest on Treasury Bills increased from Ushs. 360.98 billion in FY 2015/16 to Ushs. 381.12 billion in FY 2016/17.

Rental income tax

Rental income tax amounted to Ushs. 71.74 billion, against the target of Ushs. 61.39 billion posting a surplus of Ushs. 10.35 billion and growth of 30.35 percent in collections compared to FY 2015/16. This is attributed to increased administrative efficiency by URA through sensitization which led to an increase in registration of new taxpayers.

Taxes on Sports Betting, Gaming and Gambling

Taxes from Sports betting, Gaming and Gambling amounted to Ushs. 26.59 billion, against the target of Ushs. 19.52 billion, registering a surplus of Ushs. 7.08 billion which represents a growth of 52.7 percent. This performance is attributed to enhanced regulation of the sector.

Other individual income taxes

The other individual income taxes amounted to Ushs. 46.31 billion, against the target of Ushs. 90.27 billion, hence posting a shortfall of Ushs. 43.97 billion and growth in revenue collections of 7.9 percent compared to FY 2015/16. Whereas the presumptive tax regime was simplified, less effort has been applied by URA to collect the tax hence need to emphasize interventions by the Taxpayer Registration and Expansion Program (TREP) across urban centres to enforce the collection.

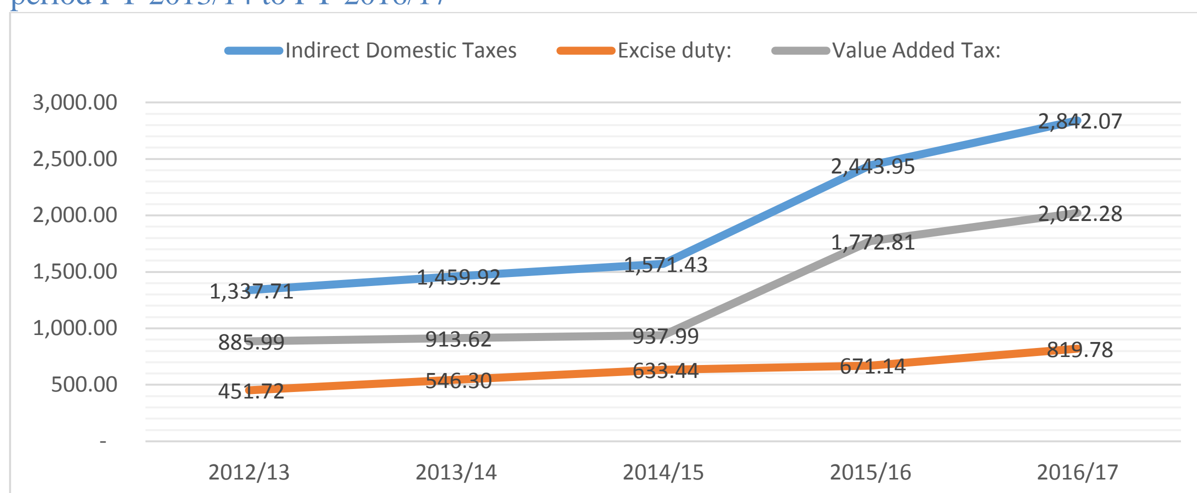
Indirect domestic taxes

Indirect domestic taxes are taxes levied on consumption of goods and services. These are Value Added Tax and Excise Duty.
Collections from indirect domestic taxes amounted to Ushs 2,842.07 billion against the target of Ushs 2,819.28 billion giving a surplus of Ushs 22.79 billion and growth in revenue of 16.36 percent compared to FY 2015/16. This performance indicates that there was strong demand in the economy.

VAT registered surplus of Ushs 69.85 billion against the target of Ushs 1,952.44 billion, while excise duty which is levied on goods of a luxury nature as well as goods whose consumption/production is associated with negative externalities that culminate into market failures, registered a shortfall of Ushs 47.06 billion against the target of Ushs 866.85 billion. The underperformance in excise duty is mainly on account of international calls levy and phone talk time that registered shortfalls of Ushs 21.80 billion and Ushs 25.71 billion respectively.

Indirect domestic taxes indicated an impressive growth mainly influenced by the growth in production and sales of VAT-able goods and services (supplies). This is an indicator that there is strong demand in the economy. Figure 3.5 below shows the performance of indirect taxes, excise duty and VAT between FY 2012/13 and FY 2016/17.

Figure 3.5: Trend analysis of indirect domestic taxes collections (Ushs. Billions) for the period FY 2013/14 to FY 2016/17



Source: MFPED

Value Added Tax

Manufacturing

The manufacturing sector registered a surplus of Ushs 265.68 billion against the target of Ushs 746.09 billion during FY 2016/17 as shown in Table 3.4 below. This performance reflected growth of 19.58 percent in VAT collections from manufacturing compared to FY 2015/16. The surplus was due to the upward shift in the demand for cement influenced by the construction sector as a result of ongoing projects like the Kampala-Entebbe Express high way, expansion of the Northern bypass, Mukono-Katosi road and Hydro Power Projects like Isimba and Karuma dams.

There was also recovery in the production and sales of key products such as spirits, bottled water and cement. Recovery of production and sales coupled with taxpayer compliance and efficiency in tax administration are key for the performance of revenue from the manufacturing sector going forward. However, it is important to note that although cement posted a surplus of Ushs. 22.32 billion, it registered a decline in revenue contribution compared to FY 2015/16.

There were shortfalls of Ushs. 30.21 billion and Ushs. 12.03 billion on VAT from beer and sugar. Despite the shortfall, sugar registered impressive growth of 16.03 percent in revenue collections compared to FY 2015/16.

Table 3. 4: Performance of VAT in the manufacturing sector for FY 2016/17

		Cummulative Collections 16/17	Cummulative Estimates 16/17	Surplus/ Deficit	Cumulative Collections 15/16	Year to Year Increase	% change 16/17 Vs 15/16
Manufacturing		**1,011.77**	**746.09**	**265.68**	**846.12**	**165.65**	**19.58%**
-Cigarettes		9.04	16.75	- 7.71	9.37	- 0.32	-3.46%
-Beer		126.86	157.07	- 30.21	120.51	6.35	5.27%
-Spirits/Waragi		6.82	1.61	5.21	1.28	5.54	431.19%
-Soft Drinks		43.02	51.03	- 8.01	35.45	7.57	21.37%
-Sugar		139.66	151.68	- 12.03	120.36	19.29	16.03%
-Bottled Water		24.25	20.02	4.23	23.98	0.27	1.13%
-Cement		66.49	44.18	22.32	72.01	- 5.52	-7.67%
-Milk		11.03	10.73	0.30	9.21	1.82	19.76%
-Others		**584.60**	**293.02**	**291.57**	**453.94**	**130.65**	**28.78%**

Source: MFPED

Services

VAT collections from services amounted to Ushs 501.57 billion as shown in Table 3.5 below, against the target of Ushs 501.79 billion hence a slight shortfall of Ushs 0.23 billion. There was growth of 11.6 percent in collections from services compared to FY 2015/16.

Phone talk time, insurance services and agriculture registered surpluses of Ushs 16.04, Ushs 11.92 and Ushs 3.05 billion respectively. However, electricity continues to underperform perennially by registering cumulatively Ushs 33.64 billion below the target of Ushs 161.18 billion. There is a need for URA to improve enforcement and monitoring of the electricity sector.

Table 3.5: Performance of VAT on services for FY 2016/17

		Cummulative Collections 16/17	Cummulative Estimates 16/17	Surplus/ Deficit	Cumulative Collections 15/16	Year to Year Increase	% change 16/17 Vs 15/16
Services		**501.57**	**501.79**	**- 0.23**	**449.64**	**51.93**	**11.55%**
-Electricity		128.08	161.18	- 33.10	114.68	13.40	11.69%
-Phone Talk Time		205.34	189.31	16.04	181.94	23.40	12.86%
-Water		23.06	21.20	1.87	20.89	2.17	10.38%
-Insurance Services		131.54	119.63	11.92	122.83	8.71	7.09%
-Agrriculture		13.54	10.49	3.05	9.29	4.25	45.74%

Source: MFPED

Other sectors

The other sectors are characterized by largely informal transactions and therefore are non-compliant to a great extent, requiring a lot of URA intervention. Collections for FY 2016/17 amounted to Ushs 508.95 billion as shown in Table 3.6 below, against the target of Ushs 704.55 billion registering a shortfall of Ushs 195.61 billion. Despite the shortfall, there was growth of 6.99 percent in collections compared to FY 2015/16. There is a pressing need to invest more in compliance and enforcement in these sectors but also urgent requirement for use of EFDs.

Table 3.6: Performance of VAT on other services for FY 2016/17

		Cummulative Collections 16/17	Cummulative Estimates 16/17	Surplus/ Deficit	Cumulative Collections 15/16	Year to Year Increase	% change 16/17 Vs 15/16
Other Sub-Sectors		**508.95**	**704.55**	**- 195.61**	**475.68**	**33.27**	**6.99%**
Construction		87.80	80.64	7.16	78.81	9.00	11.42%
Wholesale and retail trade, rep		190.15	244.86	- 54.72	186.58	3.56	1.91%
Hotel and restaurants		70.59	92.57	- 21.99	65.20	5.39	8.27%
Transport and Communication		33.43	62.65	- 29.22	31.30	2.13	6.82%
Real Estate activities		85.75	100.44	- 14.69	75.80	9.95	13.13%
Public Administration and Def		31.74	74.83	- 43.09	28.74	3.01	10.46%
Mining and Quarrying		8.79	38.55	- 29.76	7.88	0.91	11.53%
Oil and Gas		0.85	10.00	- 9.15	-	0.85	

Source: MFPED

Excise duty

Collections for FY 2016/17 amounted to Ushs 819.78 billion against the target of Ushs 866.85 billion registering a shortfall of Ushs 47.06 billion. Despite the shortfall, there was growth in collections of 22.15 percent compared to FY 2015/16. Specifically, performance is attributed to the following;

Excise duty on international incoming calls
At USD 0.09 per minute registered a shortfall of Ushs. 21.80 billion, against the target of Ushs 55.77 billion. According to URA, this is attributed to tax evasion owing to lack of a monitoring system that is capable of verifying the source of international calls. Because of this gap and the removal of this excise duty on calls originating from the Northern corridor (Kenya, Rwanda and South Sudan), allows simbox owners to terminate internationally while maintaining the local country code.

Excise duty on phone talk time
Excise duty on phone talk time registered a shortfall of Ushs. 25.71 billion, against the target of Ushs 220.01 billion. Despite the shortfall, there was growth in collections of 16.50 percent compared to FY 2015/16. According to URA there is limited technical capacity to effectively collect revenue from this industry.

Excise duty on beer
The excise duty on beer had a surplus of Ushs. 12.33 billion, against the target of Ushs 204.39 billion. There was impressive growth of 21.97 percent in excise duty collections from beer compared to FY 2015/16

Excise duty on Cigarettes
The excise duty on cigarettes registered a shortfall of Ushs. 4.91 billion, against the target of Ushs 16.98 billion. There was a decline of 4.32 percent in collections compared to FY 2015/16. Local sales have declined by 40,576 miles compared to FY 2015/16. There was also an increase in imports of cigarettes which negatively impacted local sales.

Excise duty on sugar
Excise duty on sugar registered a shortfall of Ushs 7.03 billion against the target of Ushs. 45.00 billion as shown in Fig 3.7 below. Despite the shortfall, there was growth of 108.41percent in collections compared to FY 2015/16. The shortfall was due to a decline in the demand for sugar arising from an increase in prices. The increase of sugar prices was as a result of a reduction in the supply of sugarcane due to the long dry spells.

Table 3.7: Excise Duty performance for FY 2016/17 (Ushs. Billion)

	Cummulative Collections 16/17	Cummulative Estimates 16/17	Surplus/ Deficit	Cumulative Collections 15/16	Year to Year Increase	% change 16/17 Vs 15/16
Excise duty:	**819.78**	**866.85**	**- 47.06**	**671.14**	**148.64**	**22.15%**
-Cigarettes	12.07	16.98	- 4.91	12.62	- 0.55	-4.32%
-Beer	216.72	204.39	12.33	177.68	39.04	21.97%
-Spirits/Waragi	98.89	74.96	23.93	58.20	40.68	69.90%
-Soft Drinks	90.01	101.04	- 11.03	83.12	6.88	8.28%
-Phone Talk time	194.30	220.01	- 25.71	166.78	27.52	16.50%
- Sugar	37.97	45.00	- 7.03	18.22	19.75	108.41%
- Bottled Water	16.17	16.02	0.15	14.49	1.68	11.58%
- Cement	23.73	25.42	- 1.69	20.78	2.95	14.17%
cosmetics	9.65	10.71	- 1.06	8.57	1.08	12.64%
Mobile Money Transfers	45.81	54.62	- 8.81	37.73	8.08	21.42%
International Calls	33.97	55.77	- 21.80	34.23	- 0.26	-0.76%
Bank Charges	40.50	41.94	- 1.44	38.71	1.78	4.61%

Source: MFPED

International trade taxes

International trade taxes include all taxes collected at importation on imported goods and services in accordance with the East African Customs Management Act (EACMA) and the Common External Tariff (CET). Collections amounted to Ushs 5,414.56 billion against the target of Ushs 5,791.96 billion giving a shortfall of Ushs 377.40 billion and growth of 9.16 percent compared to FY 2015/16 as shown in Table 3.8 below. Generally, there was lower than projected growth in import volumes of 7.1 percent compared to the projected 9.1 percent, which further points to the lower levels of economic activity.

The performance of international trade taxes during FY 2016/17 is attributed to:

Lower than projected growth of import volumes which registered a growth of 7.1percent compared to the projected growth of 9.1 percent. Re-exported goods registered a growth of 11.4 percent during FY 2016/17 compared to a decline of 3.88 percent registered during the FY 2015/16. As a result, the VAT- able goods decreased by 2.9percent from USD 2.94 billion during FY 2015/16 to USD 2.86 billion during FY 2016/17.

Also, the dutiable volumes were expected to grow by 15 percent, but registered a growth of 9.5 percent. Uganda is engaged in regional integration initiatives involving creation of larger markets in the EAC, COMESA, and other regional integration blocks. The initiatives have led to shrinking of the import products on which we collect import duty to just 26 percent of all imports into the country. There is a need to find ways of compensating the revenue foregone as a result of these arrangements if we are to mitigate the revenue losses arising from entering into such regional trading bloc agreements.

The decline in international trade taxes was also attributed to the following:

i. A decline in collections from excisable goods during the FY 2016/17 compared to FY 2015/16. For example, Ethyl alcohol declined by Ushs 17.18 billion, while beer declined by Ushs 7.83 billion;
ii. Depreciation of the shilling during the course of the FY, whose gains from valuation of imports could have been offset by the decline in dutiable import volumes;
iii. Government policy interventions on brown husked rice which led to a revenue loss of about Ushs 30 billion.

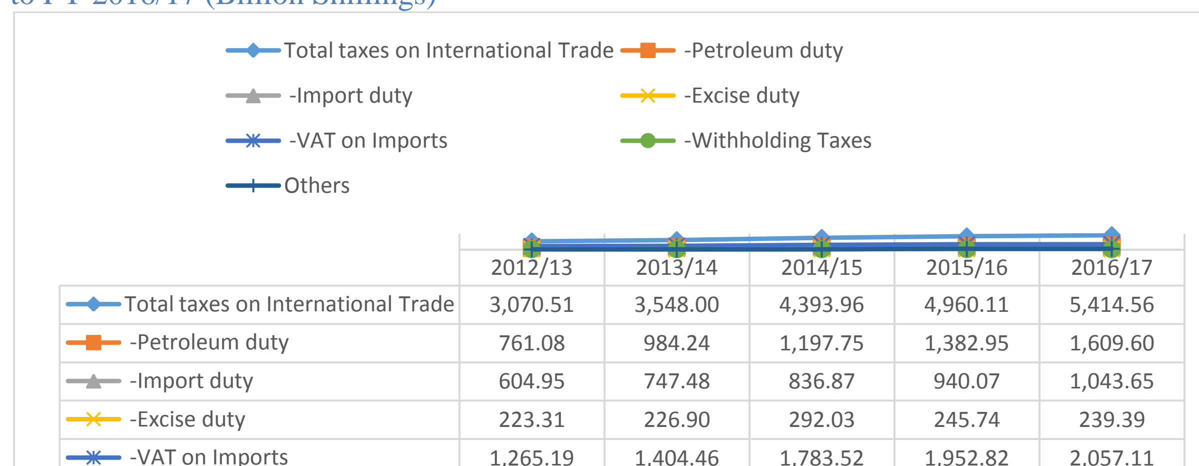
Table 3. 8: Summary of international trade taxes performance for FY 2016/17

	Cummulative Collections 16/17	Cummulative Estimates 16/17	Surplus/ Deficit	Cumulative Collections 15/16	Year to Year Increase	% change 16/17 Vs 15/16
Taxes on International Trade	**5,414.56**	**5,791.96**	**- 377.40**	**4,960.11**	**454.45**	**9.16%**
-Petroleum duty	1,609.60	1,475.07	134.53	1,382.95	226.65	16.39%
-Import duty	1,043.65	1,110.90	- 67.24	940.07	103.59	11.02%
-Excise duty	239.39	301.98	- 62.59	245.74	- 6.35	-2.58%
-VAT on Imports	2,057.11	2,274.36	- 217.25	1,952.82	104.29	5.34%
-Withholding Taxes	154.95	249.02	- 94.07	165.14	- 10.19	-6.17%
-Surcharge on imports	164.61	171.25	- 6.64	136.28	28.33	20.79%
Temporary Road Licenses	62.16	98.45	- 36.29	58.29	3.87	6.64%
Infrastructure levy	69.11	84.89	- 15.78	62.94	6.17	9.81%
-Export levy	13.97	26.03	- 12.07	15.88	- 1.91	-12.03%

Source: MFPED

Figure 3. 6 below shows the trend analysis for international trade taxes collections.

Figure 3.6: Trends analysis for international trade taxes collections for the period FY 2012/13 to FY 2016/17 (Billion Shillings)



Source: MFPED

Petroleum duty

There was a surplus of Ushs. 134.53 billion, against the target of 1,475.07 billion representing growth of 16.4 percent. This performance is attributed to growth in petrol import volumes by 4.91 percent. Despite this performance, diesel import volumes grew slightly by 2.95 percent while kerosene import volumes declined by 0.05 percent compared to FY 2015/16.

Fees, licenses, permits and stamps duty

Total collected revenue was Ushs. 201.92 billion against the target of Ushs. 177.52 billion posting a surplus of Ushs. 24.41 billion and growth of 33.08 percent in collections compared to 2015/16. This performance was boosted by Driving permits and Stamp duty which registered surpluses of Ushs 17.18 billion and Ushs 24.31 billion respectively.

The surplus on stamp duty is attributed to Ushs 29 billion paid by Government on registration of debentures on behalf of Uganda Electricity Transmission Company Limited (UETCL) and Uganda Electricity Generation Company Limited (UEGCL).

Non-Tax Revenue (NTR)

Collections amounted to Ushs 334.07 billion against the target of Ushs 331.37 billion giving a surplus of Ushs 2.69 billion. This performance was boosted by a remittance of Ushs 26.16 billion from Uganda Communications Commission during the month of April 2017. This performance also reflects growth of 17.54 percent in NTR collections compared to FY 2015/16.

Table 3.9: Non Tax Revenue performance for the period July to December 2016 (Ushs. Billion)

	Cummulative Collections 16/17	Cummulative Estimates 16/17	Surplus/ Deficit	Cumulative Collections 15/16	Year to Year Increase	% change 16/17 Vs 15/16
Non-Tax Revenues	**334.07**	**331.37**	**2.69**	**284.22**	**49.85**	**17.54%**
URA NTR	**256.19**	**247.07**	**9.11**	**234.70**	**21.49**	**9.16%**
Passport Fees - Citizenship and	21.07	26.50	- 5.44	21.66	- 0.59	-2.75%
Migaration Fees - Citizenship a	121.89	124.91	- 3.01	123.25	- 1.36	-1.10%
Land Transfer Fees - Ministry o	1.61	1.52	0.09	1.78	- 0.18	-9.85%
Transport Regulation Fees - W	6.38	4.52	1.86	4.25	2.13	50.24%
Company Regulation Fees	0.10	0.09	0.01	0.08	0.02	18.92%
High Court Fees	8.65	7.23	1.42	6.53	2.11	32.37%
Mining Fees and Royalties- Ene	16.93	11.65	5.28	10.91	6.02	55.12%
Uganda Registration Services B	32.55	27.60	4.95	24.42	8.13	33.30%
Occupational Safety and Healt	0.99	1.20	- 0.21	1.18	- 0.19	-16.13%
Others	46.03	41.86	4.17	40.64	5.40	13.28%
MDAs (Non URA NTR)	**77.88**	**84.30**	**- 6.42**	**49.52**	**28.36**	**57.26%**

Source: MFPED

Appropriation-In-Aid (AIA)

Appropriation-In-Aid (AIA) collections, according to the numbers received from Accountant General's Office amounted to Ushs 291.41 billion.

3.2.3 Policy changes implemented

The main driver of revenue collection is economic growth, as already noted, but some policy changes and administrative measures were put in place to raise additional revenues at the beginning of the FY 2016/17. The changes made were mainly intended to close loopholes in the tax laws and raising tax rates in some areas. Major areas where changes were made include; Excise duties (on Petroleum products, cigarettes, ready to drink spirits, cement, motor spirit (gasoline), and sugar confectionaries), VAT and income tax.
The policies were to be implemented alongside URAs administrative initiatives aimed at boosting taxpayer awareness, expanding the tax register through the TREP, compliance monitoring, enhancing staff productivity and improving business processes.

Assessment of the performance of policies for excise duty, VAT, income tax policies and adjustments in the NTR instruments indicate a total of Ushs. 361.91 billion was realized during FY 2016/17. The break down is shown in Table 3.10 below. The highly performing tax measures were excise duty measures which generated Ushs. 321.85 billion, against the target of Ushs. 181billion. Tables 3.10 and 3.11 below highlights the performance of all policy measures and evaluation respectively for FY 2016/17.

Table 3.10: Performance of policy measures for FY 2016/17

Tax Head	***Annual Target***	***Annual Outturn***	***Achievement rate (%)***
Excise duty	181	321.85	177.82
VAT	12	3.22	26.83
Income tax	40	14.99	37.48
CET Adjustments	10	7.17	71.70
Non tax revenue	21.5	14.68	68.30
Total	**264.5**	**361.91**	**136.80**

Source: URA

Table 3.11: Tax Policy Measures Evaluation Matrix for FY 2016/17

Tax Head	Amendment/New Policy	Expected Annual Revenue Gain or Loss	Revenue generated FY 2016/17 (Ushs. billion)	Remarks
EXCISE DUTY	Increase on petrol and diesel by Ushs. 100	120	171.17	Total revenue of Ushs. 171.17 billion was generated from the policy change. Ushs 83.81billion was generated from petrol sales while Ushs. 86.29Bn was generated from Diesel Sales.
	Soft cap from Ushs. 45,000 to Ushs. 50,000 per 1000 sticks and Hinge lid from Ushs. 75,000 to Ushs. 80,000 per 1000 sticks.	10	17.98	Ushs. 17.98 billion was generated. Ushs. 10.56 billion was generated from Local Excise duty while Ushs. 7.43 billion was generated from customs excise.
	Increase excise duty on motor vehicle lubricants from 5% to 10%	10	7.31	Excise duty realized as at end June 2017 was Ushs. 7.31 billion. Imports of lubricants have registered a decline of 15.13% compared to FY2015/16.
	Increase excise duty on sugar from Ushs. 50	20	32.95	The policy change generated Ushs. 32.95

Tax Head	Amendment/New Policy	Expected Annual Revenue Gain or Loss	Revenue generated FY 2016/17 (Ushs. billion)	Remarks
	per kg to Ushs. 100 per kg.			billion.
	Increase Excise Duty on Confectionaries from 10% to 20% (Sweets, Chocolate, chewing gum)	6	6.42	The policy change generated Ushs. 6.42 billion. Ushs. 1.43 billion was generated locally while Ushs. 4.98 billion was generated from customs. Import volumes of these items have meagerly reduced by 0.47% compared to FY 2015/16.
	Impose excise duty on furniture at a rate of 10%	5	0.27	Ushs. 0.27 billion was generated. Furniture imports have grown by 4.57% compared to FY 2015/16.
	Increase excise duty on wine and ready to drink spirits from 70% to 80%	2	85.14	Ushs. 85.14 billion was generated. There was an increase in volumes of local production and sales of spirits by 45.3% 21% respectively compared to FY 2015/16.
VAT	Impose VAT on bulbs other than compact fluorescent bulbs	2	3.22	Ushs. 3.22 billion was generated.
INCOME TAX	PAYE on allowances for Members of Parliament	40	14.99	Ushs. 14.99 billion was generated. However, it should be noted that Section 21 of the ITA as amended was revised to exemp MPs allowances from income tax. Revenue foregone at the end of the FY 2016/17 is estimated at Ushs. 25

Tax Head	Amendment/New Policy	Expected Annual Revenue Gain or Loss	Revenue generated FY 2016/17 (Ushs. billion)	Remarks
				billion.
COMESA	Derogate from not Imposing duty on high value consumer products from the COMESA region and charge 6% Duty	10	7.17	Ushs. 71.17 billion was generated.
NON-TAX REVENUE INSTRUMENTS		21.5	14.68	This revenue was generated from various adjustments were made in the fees and charges for NTR.
TOTAL REVENUE		**264.5**	**361.3**	

Source: URA

3.2.4 Performance of tax expenditures for FY 2016/17

The Government committed to pay taxes on behalf of some taxpayers in different sectors with a view of attracting investment and creating employment opportunities.

During FY 2016/17, Ministry of Finance, Planning and Economic Development paid UShs. 104.99 billion on behalf of companies as strategic intervention to support industrial development, hotels, religious and cultural institutions, Non-Government Organizations and other institutions. This Ministry also remitted in whole Ushs. 83,892,351 in Pay As You Earn (PAYE) payable by National Community of Women Living with HIV/AIDS (NACWOLA) for the period June 2012 to October 2013 in accordance with Section 40(2) of the Tax Procedures Code Act, 2014.

Details of the persons for whom taxes were paid, the reasons for payment of the tax, the amount paid by Government and the benefits to Government are highlighted in the Table 3.12 below.

Table 3. 12: Government Tax Expenditures for FY 2016/17

BENEFICIARY	DETAILS OF THE GOODS	TOTAL TAX FOREGONE (SHS)	BENEFITS
All Nations Christian Care	Motor vehicle and relief goods for people in Northern Uganda	Shs. 13,339,247	Supplement Government effort in poverty alleviation through provision of safe water, health and education services.
EMMAUS Foundation	Relief goods for people in Luzira and Northern Uganda	Shs. 1,357,008,702	Supplement Government effort in poverty alleviation and skilling of Ugandans
Cooperation and Development	Relief goods for people in Karamoja	Shs. 433,949,983	Supplement Government objective of wealth creation through job creation, human capital development and economic growth
AYA Investments Ltd	Assorted building materials	Shs. 4,122,534,604	Job creation, tourism promotion and foreign exchange earnings.
National Cement Company Ltd	Port land cement, galvanised steel bars, assorted black pipes and VAT returns on local purchases	6,939,331,150.00	Export promotion, import substitution and job creation.
Presidential initiative on Banana Industry Development (PIBID)	Dry Chamber	Shs. 254,765,676	Job creation, value addition, export promotion and modernisation of agriculture.
Oil Palm Ltd (BIDCO)	VAT returns for the month of August 2016, Stamp Duty on registration of charges	Shs. 16,771,850,607	Job creation, Value Addition, export promotion, modernisation of agriculture and import substitution.
Southern Range Nyanza Textiles	Import duty and VAT on raw materials (polyester staple fibre)	Shs. 9,481,806,951	Job creation, Value Addition and industrialization.
Fine Spinners U Ltd	VAT Returns on aw materials	Shs. 1,231,189,649	Job creation, Value Addition and industrialization.
Lily Benefits Investment Ltd	Import duty and VAT on raw materials	Shs. 1,415,496,242	Job creation, Value Addition and industrialization.
Cipla Quality Chemicals Limited	Corporation Tax	Shs. 29,833,238,438	Job creation, transfer of technology and industrialization
Steel and Tube Industries Limited	Corporation Tax for FY 2015/16	Shs. 1,650,000,000	Job creation, Value Addition and industrialization.
Roofings Rolling Mills	VAT returns for the month of July 2(	Shs. 649,794,038	Job creation, industrialization and revenue
Liao Shen Industrial Park	Various construction materials	Shs. 1,121,010,236	Promote industrialization, value addition and job creation
Uganda Electricity Generation Company Limited (UEGCL)	Stamp Duty on Loan Financing	Shs. 25,321,237,214	Electricity Generation
Uganda Electricity Transmission Company Limited (UETCL)	Stamp Duty on Transmission Line	Shs. 4,230,672,110	More efficient transmission of electricity
Obwakamuswaga Bwa Kooki	Toyota Vellfire and various household goods	Shs. 161,447,165	Good relationship between cultural institutions and Government and promotion of culture.
TOTAL		**Shs. 104,988,672,012**	

Source: MFPED

3.2.5 Administration by Uganda Revenue Authority

In FY 2016/17, various initiatives including monitoring the different taxpayer segments, expanding the taxpayers' register, monitoring the filing ratios, audit, arrears were carried out. These were aimed at encouraging voluntary taxpayer compliance and influencing taxpayer's behavior.

3.2.6 Tax register and filling

As at end of June 2017, the tax register had 1,030,000 taxpayers out of which 943,000 were individual while 83,000 were non-individual. During FY 2016/17, 127,203 new taxpayers were registered leading to a growth rate of 14.10 percent.

The filing ratio analysis indicates that VAT filing ratio for STO was above target while filing ratios for other tax segments were below the target. Various efforts such as register cleaning

and advisory and compliance visits to taxpayers and monthly reminders on timely filing were undertaken to improve filing ratios and enforce on the non-filers are being undertaken by URA to improve filling ratios.

3.2.7 Audits

Over 1,900 audits were completed during FY 2016/17 against the target of 2,386. Inspection actions indicate that 2,115 returns examination, 12,592 compliance advisory and 1,928 compliance visits were carried out. The value of assessments issued from both audit and inspection actions amounted to Ushs 366.71 billion leading to a recovery of Ushs 68.91 billion.

During FY 2016/17, the total number of customs audits completed were 329 against the target of 332 cases of which 280 cases were comprehensive audits cases and 49 were issue audit case.

3.2.8 Enforcement

Enforcement interventions during FY 2016/17 led to 6,710 seizures that yielded Ushs 51.56 billion. Recoveries were majorly as a result of mis-declaration, under valuation, outright smuggling and other offences including concealment.
The top most risky items included; electrical cables, rice, neutral spirit, garments, chewing gum, textiles, wines, footwear, motor vehicles and motor cycle spares.

3.2.9 Arrears

Arrears stock as at end of June 2017 was Ushs. 2,130.68 billion, of which Ushs. 1,961.01 billion was domestic arrears and Ushs. 169.67 billion was customs arrears as shown in Table 3.13 below;

Table 3. 13: Total arrears status as at end of June 2017

Arrears (UGX Bn)	**FY 2014/15**	**FY 2015/16**	**FY 2016/17**	**Arrears growth**
Non-government arrears	*788*	*1,146.33*	*1,828.86*	*59.54%*
Government arrears	*60.03*	*71.83*	*132.15*	*83.98%*
Total domestic arrears	848.03	1,218.16	1,961.01	60.98%
Total customs tax arrears	35.84	57.73	169.67	111.14%
Total arrears	**883.87**	**1,275.89**	**2,082.90**	**63.25%**

Source*: URA Databases.*

4. 0 DEVELOPMENT POLICY ADVISORY

Under its management function of both economic development policy and investment policy, the Directorate of Economic Affairs spearheaded a range of knowledge management processes and stakeholder engagements. This Chapter discusses the major knowledge management processes that transpired during FY 2016/17 and the recent development outcomes for the country.

4.1 Economic Development Management

4.1.1 Graduation to Middle Income Status

Uganda envisions graduating from the category of least developed countries to a lower middle income country with a GDP per capita of USD 1,039 by 2020, and to an upper middle income county with a GDP per capita of 9,500 by 2040. The country's GDP per capita (constant prices) increased by US$ 8 from US$ 766 in FY 2015/16 to US$774 in FY 2016/17 as shown in Table 4.1 below.

Annual performance of per capita GDP growth in FY 2016/17 was below the NDPII target for of US$ 888. This underperformance, as discussed in Chapter 2, is attributed to the slowdown in the global economy and the climatic shocks that affected the country. Results from both the NPHC 2014 and the UDHS 2016 indicate that the population growth rate has begun to slowdown[4], a development which coupled with the improved GDP growth forecast for the medium term, promises to positively impact the growth rate of per capita income over the remaining NDP II period.

Table 4. 1: GDP Per Capita at Constant 2009/10 Prices

	2012/13	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
UGS '000	1,459	1,554	1,571	-	-	-
US $	719	766	774	-	-	-
NDP II Target	743	833	888	931	982	1,033

Source: UBoS & NDPII

As part of its policy research effort on appropriate pathways to drive faster per capita income growth, MFPED remained actively engaged at regional and international level on existing policy frameworks for countries progression towards middle income status. Key among these is the International Conference on the Emergence of Africa (ICEA). ICEA is aimed at promoting exchange of ideas on emergence and the learning experiences among some African countries on the critical conditions for achieving economic and social transformation, as the case in emerging countries such as China, Brazil, India, and Malaysia.

The Directorate in collaboration with UNDP produced a national report for the 2nd International Conference on the Emergence of Africa 2017 focusing on Uganda's experience in regard to the implementation of plans for emergence, with a focus on export diversification for structural transformation. The report observes that graduation to middle income status can

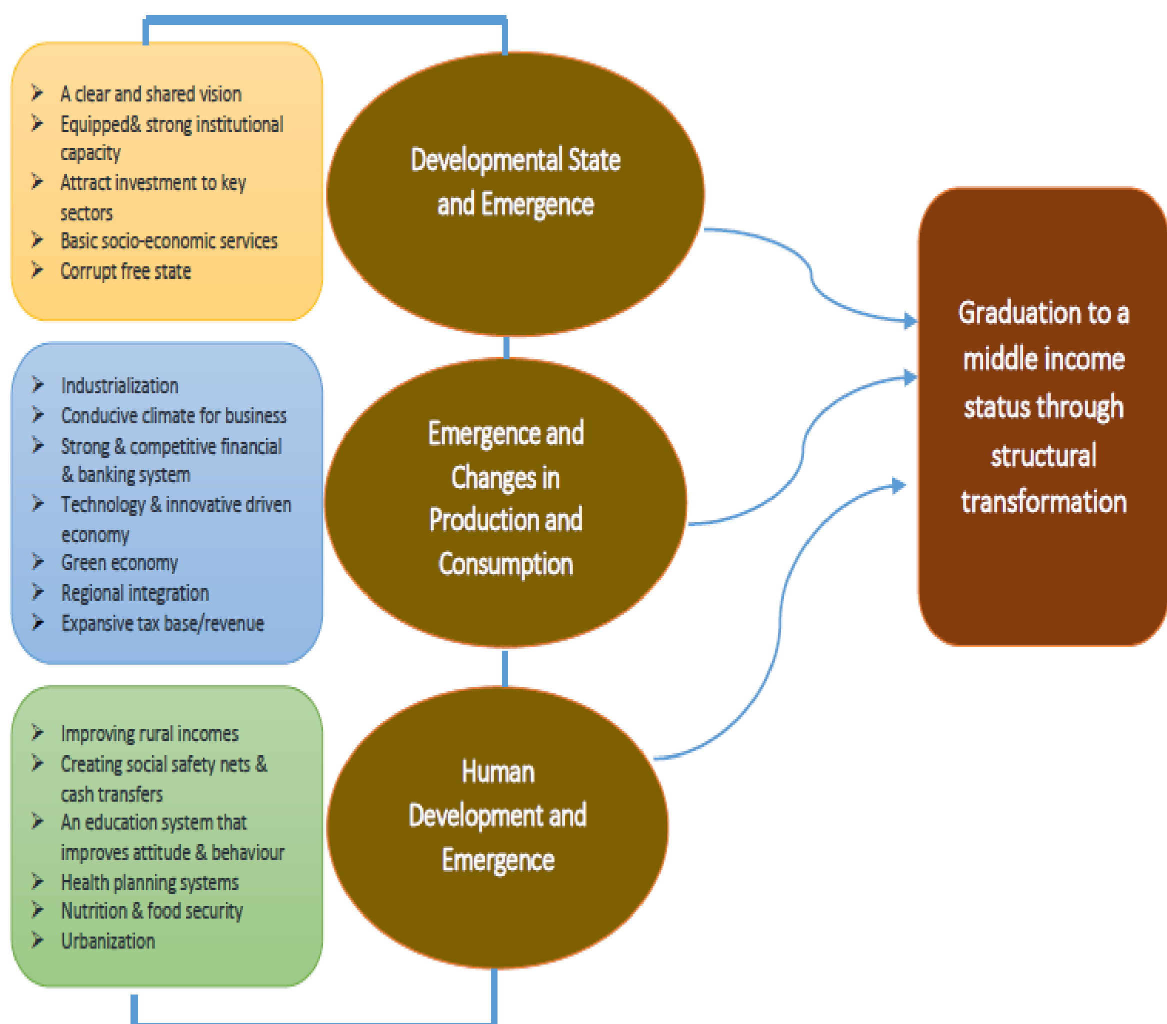
[4] Uganda population growth rate slowed down from 3.2 to 3.0 per annum between 2012 and 2014 and the fertility rate declined from 6.2 to 5.4 children per woman.

be achieved through meeting key imperatives of emergence that are summarised in Fig.4.1 below.

The report recommended that for Uganda to achieve structural transformation there is need to strengthen the linkages between the agriculture sector and manufacturing. The country exports few manufactured products, which cannot significantly transform the key backward and forward linkages of the value chain. It also recommended a need to address the supply constraints through increased farm and firm, and labour productivity for economic transformation through job growth and increased incomes.

Uganda's manufacturing industries need to exploit the production potential including structural metal products (steel structures and parts of iron and steel) for factories and related installations; other worked sheet and plates of iron or steel; spare parts, motor vehicle bodies, trailers and transports containers; and domestic appliances, water tanks, and electricity conductors.

Figure 4. 1: Imperatives for Emergence



Source: MFPED, 2017

4.1.2 Socioeconomic Development

As part of its function of monitoring, assessing and communicating Uganda's economic development policy and its results, the Directorate generated and communicated salient policy messages based on the final results of the 2016 Uganda Demographic Health Survey (UDHS) that were released by Uganda Bureau of Statistics in FY 2016/17. The results provided critical information for assessing the performance of Government policies and public investment. Analysis of the results informed a number of policy and management briefs and also featured in some of MFPED flagship publications including the Background to the Budget, FY 2017/18.

Analysis of the UDHS results confirmed that social investments in social services and social infrastructure under NDP I yielded significant positive returns. Dependency ratio reduced on account of a decline in the Total Fertility Rate (TFR) which fell from 6.2 children per woman in 2011 to 5.4 children per woman in 2016. Infant mortality declined from 54 in 2011 to 43 deaths in 2016 per 1,000 live births while Under-five mortality reduced from 90 in 2011 to 64 deaths in 2016 per 1,000 live births. Maternal Mortality Ratio declined from 438 deaths per 100,000 births in 2011 to 336 in 2016.

The analysis also shows that investment in human development (especially health and education) is critical for enhanced incomes and employment. The level of education, especially for girls/women was found to have a huge influence on small families, and this often translates into better savings, incomes, investment and employment.

4.1.3 Policy Analysis and Performance

In FY 2016/17, the Directorate through Economic Policy Research (EPRC) undertook a number of studies. The studies examined the effects of mobile money on aggregate economic activity and other macroeconomic variables, and financing infrastructure development in Uganda amongst others. The analyses estimated the long-run effect of mobile money deposits and value of transactions on monetary aggregates and the short-term effects on selected macroeconomic variables. Amongst the findings of the studies is that the macroeconomic impacts of mobile money were modest because it had moderate positive effects on monetary aggregates, the consumer price index, and private sector credit. They also observed that mobile money deposits did respond to changes in monetary policy instruments. This signals possible ameliorating effects for the conduct of monetary policy. These results provided evidence for policy makers to continue supporting the growth of mobile money platforms in the country, and highlighted the need for policy makers to provide the policy and regulatory framework through which mobile money balances can become interest-bearing assets, and hence strengthen further the monetary policy transmission mechanism.

On financing infrastructure development in Uganda, analyses explored the options for financing the scaling up of infrastructure development in Uganda and found the best available options for financing infrastructure to include enhanced domestic resource mobilisation and improved efficiency of public investment management. They also deduced that the decreasing availability of concessional financing and options in private financing could make debt sustainability dynamics difficult if challenges in public investment management and execution are not addressed. They highlighted a number of measures for scaling up domestic revenue mobilization through leveraging the contributions of non-tax revenues; expanding the tax base by unlocking the potentially large contributions from the informal sector; and curtailing of capital flight from the country.

4.2 Public Investment Management

4.2.1 Project Appraisal and Analysis

As part of the process of ensuring the public investment agenda of Government is up to-date, relevant and effective, the Public Investment Plan (PIP) is reviewed annually with the aim of ensuring a smooth closure of projects that are due for exit from the PIP and revalidating those that are continuing. In this regard, the Directorate through its function as chair of the Sub-Committee of the Development Committee oversaw the review of PIP in FY 2016/17. A total of 447 projects worth Ushs 4.370 trillion were reviewed. Of these, 73 projects valued at Ushs 1.088 Trillion were identified for exit from the PIP at the end of FY 2016/17; 41 projects worth Ushs 835.02 billion were granted extensions; and 4 projects worth Ushs. 167.67 billion were recommended for transfer to the recurrent budget on account of the recurring nature of their expenses. The review recommend exit of 28 projects worth Ushs 152.3 billion from the PIP at the end of FY 2016/17.

The review identified a number of issues which have continued to affect public investment. Key among these issues are lack of project concept approvals by Sector Working Groups; non-compliance of externally funded projects to the PIMS framework; misguided use of projects as a financing mechanism; poor prioritization of projects by sectors; poor linkage of projects to the sector master plans and policies; overlapping mandates amongst MDAs; absenteeism by members of DC Sub-Committee meeting; and limited internal consultation with MFPED.

4.2.1 Public Spending and Compliance

Government has directed efforts towards ensuring that public spending achieves the desired results and services. In that regard, National Planning Authority is required under the Public Finance and Management Act (PFMA) 2015, Section 13 (7) to issue Certificates of Compliance (CoC) on both the National Budget and Sector Budgets. The CoC aims at ensuring that the National Budget (including the Sector, MDA and Local Government budgets) is aligned to the objectives and priorities set of the National Development Plan (NDP).

Results of the assessments show that the Annual Budget (AB) for FY2016/17 was less compliant compared to that of FY2015/16. Specifically, the FY 2016/17 AB was 58.8 percent compliant compared to 68.2 percent in FY2015/16. The overall decline in compliance scores in the FY2016/17 was mainly attributed to the declining performance at macro level of 48.1 percent compared to 71.4 percent of FY2015/16, and the below average performance for LGs at 51.8 percent that was not part of the FY2015/16 compliance assessment. Nonetheless, at the national strategic level, the FY2016/17 AB performance was rated 74.2 percent compliant, which closely compares with the 75.4 percent compliance for FY2015/16.

4.2 Sector Investment Strategies

4.2.1 Strategic Economic Policy and Management Research

MFPED under the auspices of the Strategic Economic Policy and Management (STEPMAN) Forum generated policy briefs on Uganda's export strategy and agro-industrialization for inclusive growth and development. These studies formed a key part as the knowledge base that informed policy orientation for the Budget Speech for FY 2017/18. The studies identified coffee, tea and fisheries as low hanging fruits with potential to yield sizeable export revenues with fairly minimal resource efforts. The three commodities combined were estimated to have an export revenue potential of US$2.8billion per year compared with their current level of about US$ 615m. The studies confirmed both the approach and initiative under the newly

launched Coffee 2020 Roadmap which targets to increase coffee production to 20 million 60-kilogramme bags per annum by 2025 through implementation of 9 initiatives organized around three areas of boosting demand and value addition; increasing production; and strengthening enablers.

The studies also established the imperative for according attention to the following interconnected areas:

a) Agro-processing which involves processing raw materials and intermediate products derived from the agricultural sector;
b) Institutional and organizational coordination between agro-industrial firms and farms i.e. increasing vertical coordination; and
c) The management of attendant changes in the farm sector, such as changes in product composition, technology, and sectoral and market structures.

4.3 Private Sector Development

4.3.1 Investment Climate and Competitiveness

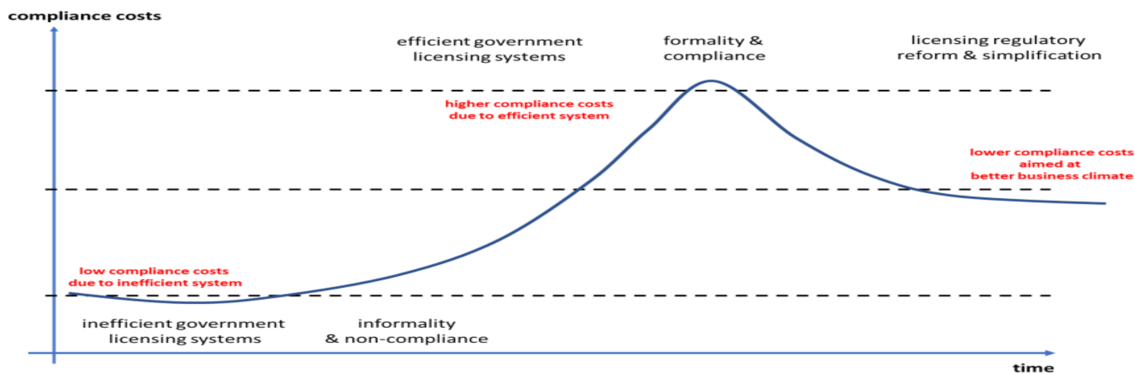
Uganda was ranked in position 114 out of 137 economies in the Global Competitiveness Report (GCR)[5] 2017-2018 published on 26th September, 2017. The ranking was informed by an Executive Opinion Survey (EOS) conducted across the country to capture the perception of key businesses on various factors affecting competitiveness. The most problematic areas for businesses in Uganda continue to be tax rates, corruption, and access to financing and inadequate supply of infrastructure. The 2018 Doing Business (DB) report themed "Reforming to Create Jobs", ranks Uganda in position 122 out of 190 economies. Uganda's Distance to Frontier score[6] shows a slight improvement from 56.52 (DB 2017) to 56.94 (DB 2018). In Sub-Saharan region, Uganda ranks 13th out of 48 economies and third in the EAC following Rwanda and Kenya.

Regulatory Reform

As part of the wider effort of Government to improve Uganda's investment climate, the Directorate conducted an analysis of Business Licensing Reforms and their effect on the administrative burden (compliance costs) on businesses using the Standard Cost Model (SCM) in FY2016/2017. The results revealed reductions in compliance costs of Ushs 93.4 billion, an equivalent of 12.9 percent of the baseline compliance cost of Ushs 725.73 billion. A breakdown of the compliance cost reduction shows that 69 percent of is on account of legal reforms (mainly through elimination of regulations) and 31 percent is a result of administrative reforms, characterized by automation (online information, online facilitation of the license application process), decentralization and capacity increase of government licensing personnel.

[5] Published by the World Economic Forum
[6] The "Frontier" represents the best performance on each indicator, World Bank Group, available at www.doingbusiness.org

Figure 4. 2: Standard Cost Model (SCM) in FY2016/2017



Source: Standard Cost Model

Free Zone Development

The Directorate through Uganda Free Zones Authority (UFZA) launched a five-year strategic plan (FY 2016/17 to 2021/11) to guide the implementation of the Free Zone schemes in the country. Free Zones are expected to play a critical role in promoting an increase in export oriented trade and investments. The first free zone (Arua Special Economic Zone) was licensed in Arua district and mainly focuses on fish processing, timber processing and construction of pre-built factory units and warehousing facilities to provide storage and manufacturing space for operators within the Zone.

Investment Facilitation

In order to facilitate investment in the country, Uganda Investment Authority (UIA) started operating the physical One- Stop Centre (OSC) for investors. The One Stop Centre houses Key investor-related services. The physical Business Facilitation Centre (UBFC) is being constructed Kololo to house key agencies in investor facilitation. This will house Key agencies like UIA, URSB, URA and KCCA to ensure efficient facilitation of investors.

Relatedly, the virtual One-Stop Portal, eBIZ was launched by UIA. The Portal integrates a number of Government services and allows potential and existing investors to access investor relevant services from anywhere including registering/incorporating a business; obtaining a tax identification number; obtaining an investment license; carrying out an EIA assessment; applying for work permits and land verification, certifying products/services and applying for the City Operators Identification Number (COIN) on the eBIZ platform , which can be access at ***www.ebiz.go.ug***.

The National Strategy for Private Sector Development

The Directorate also developed the National Strategy for Private Sector Development (NSPSD) a comprehensive framework to guide execution of initiative aimed at accelerating private sector development. The NSPSD spans a five-year period (2017 to 2022). The strategy provides a comprehensive set of structural and service delivery benchmarks for achievement of a competitive private sector capable of propelling the economy to middle income status by 2020. These performance measurement and management framework of the strategy is structured along three levels (or Pillars), namely: Macro level; ii) Meso/Industry level; and iii) Micro (or firm level).

4.3.2 Investment and Outcomes

FDI Inflows
Foreign Direct Investment (FDI) is one of the key sources of private investment in the economy. FDI inflows into the country increased from USD 238.80 million in FY 2015/16 to USD 494 million in FY 2016/17. This increase comes after a persistent decline over the previous two financial years from USD 345.86 million in FY 13/14 to USD 249.67 million and USD 238.80 million in FY14/15 and FY 15/16 respectively.

Uganda's FDI inflows peaked at an average of 2 percent of GDP over the years and represents about 25 percent of total private investment. The recent increase in the FDI inflows can be attributed to the recovery in the global economy, the stable political environment, investments in infrastructure and the rising labour costs in major global manufacturing hubs. The above factors coupled with a coherent and stable investment policy regime and a proficient investment promotion apparatus such as the One Stop Centre and the Business Facilitation Centre will certainly reinforce the prospects of resurgence in FDI inflows to Uganda.

5.0 FINANCIAL INCLUSION AND DEEPENING

Financial Inclusion and Deeping are key elements for achieving long term growth and development. It is through the Directorate of Economic Affairs that Ministry of Finance, Planning and Economic Development is able to put in place policies that promote financial inclusion and deepening to achieve inclusive growth and development. This chapter provides an account of how the Directorate achieved financial inclusion and deepening through putting in place policies that facilitated access to credit and savings in FY 2016/17 for enhanced private sector growth and employment creation.

5.1 Financial Inclusion

5.1.1 Laws and regulations

In FY 2016/17, H.E. the President assented to the Tier 4 Microfinance Institutions (MFIs) and Money Lenders Act, 2016. The Act aims to promote savings and enhance consumer protection for all Ugandans and it became effective on 1st July 2017. The Act established the Uganda Microfinance Regulatory Authority (UMRA) which is responsible for the licensing/registration and regulation of all Microfinance Institutions, including Savings and Credit Cooperative Societies (SACCOs), non-deposit taking microfinance institutions, Money Lenders, self-help groups and commodity microfinance. The authority has been operationalized, and UMRA Board charter finalised and draft regulations developed to aide in implementation of the Act.

In order to streamline and enhance Government efforts toward promoting financial inclusion in Uganda, MoFPED in collaboration with Bank of Uganda, formulated a National Financial Inclusion Strategy (NFIS) 2017-2022. The NFIS supports the objectives of the National Development Plan through creating an inclusive financial system that builds the financial infrastructure, finances the economy and helps families of any social and economic status to create wealth. The purpose of the NFIS is to develop a consolidated definition, vision and strategy for improving financial inclusion in Uganda with the ultimate goal of reducing the financial vulnerability of families.

It is projected that by end of FY 2021/22, the following targets will improve. Grow accounts at formal financial institutions from 20 percent to 50 percent; Reduce financial exclusion from 15percent to 5percent; Increase access points per 100,000 adults from 548 to 615; Increase credit bureaus coverage from 6 percent to 40 percent; Grow active individual users of mobile money from 31percent to 60 percent; and Increase formal savings from 19 percent to 50 percent through greater transparency, competition and use of technology.

Subsequent to the amendment of the Financial Institutions Act, 2004, the following key regulations were prepared and gazetted:

i. Banc assurance Regulations, gazetted 14th July, 2017
ii. Agent Banking Regulations gazetted on 14th July, 2017
iii. Islamic Banking Regulations, gazetted at FPC for legal drafting

The resulting partnerships between banks and insurance companies, through Bancassurance will generate in greater financial deepening and integration. Agent banking on the other hand is expected to lower overhead costs for financial institutions resulting in lower cost of credit. In addition, it is expected to deepen financial inclusion by extending access to banking and other service infrastructure to a substantial segment of the unbanked population, particularly in the rural areas of the country.

In FY 2016/17, the Principles for legislation in respect to the Microfinance Deposit-Taking Institutions (Amendment) Bill were approved by Cabinet. In addition, the National Payments Systems Policy (2017) was submitted to Cabinet. Government noted the recent proliferation of payments systems, particularly those associated with digital and mobile-telephone platforms and is keen to address the legislative and regulatory gaps in that respect through this framework. This Policy Framework clarifies on the roles of regulators and market participants and its principle aim is to strengthen the safety and efficiency of payment and settlement systems. Enhanced safety and efficiency will result in greater public confidence and transacting through payment infrastructure resulting into greater financial inclusion.

To strengthen and shield the country's financial systems exposure to money laundering and financing of terrorism, the Hon. Minister of Finance, Planning and Economic Development constituted the Uganda Anti-money Laundering Committee and Task Force to fast track implementation of legal and institutional reforms necessary for ensuring that Uganda's Anti-Money Laundering and Combating of Financing of Terrorism (AML/CFT) regime complies with international best practices. The Ministry coordinated the national efforts to address deficiencies in Uganda's Anti-Money Laundering and Combating of Financing of Terrorism (AML/CFT) Regime and delivered several technical inputs in that respect. The legislative amendments to address those deficiencies were submitted and Parliament passed the Anti-Money Laundering (Amendment) Bill 2016 and the Anti-terrorism (Amendment) Bill 2016.

In respect to the recommendations of the Financial Action Task Force, the Financial Intelligence Authority (FIA), in collaboration with relevant MDAs and Development Partners, conducted a National Risk Assessment (NRA) which identified and assessed money laundering and terrorist financing risks and threats to Uganda. Given these developments, Uganda is now in the process to exit the FATF/ICRG Review process and thus avoid being blacklisted.

5.1.2 Insurance

In FY 2016/17, Government operationalized the Uganda Agriculture Insurance Scheme, the agriculture risk mitigation tool, and has registered progress with over 30,000 farmers across all regions of Uganda being hedged against drought, pests and diseases, and other natural calamities. Ten insurance companies are participating with the Agro-Consortium at the Uganda Insurers Association and under the regulation of the Insurance Regulatory Authority of Uganda.

The Insurance Amendment Bill, 2016 was assented to which provides for introduction of new and diversified insurance products like Bancassurance and Micro insurance. Introduction of bancassurance products will facilitate Banks to have wide outreach country wide and hence enhancing penetration. In addition, Micro insurance is aimed at protection of low income people against specific perils.

Consequent to the coming into effect of the Bancassurance regulations, Commercial Banks such as Stanbic Bank have requested for operational licences. These financial institutions shall now be used as distribution channels for insurance products going forward and this is likely to increase insurance penetration from 0.8 percent to 3.5percent over the medium term.

The Insurance sector grew by about 3.6 percent in 2016 as represented by the increase in gross premium underwritten by the insurance industry from UGX 612 billion in 2015 to UGX 634 billion in 2016. However, life insurance premium to GDP is only 0.1 percent while non-

life insurance premium to GDP is 0.5 percent. Insurance plays a critical role in risk mitigation especially among farmers in Uganda. The Government has launched a new 5-year agri-insurance subsidy program to help farmers mitigate the economic impact of drought through agri-insurance.

The sector also conducted an Agricultural Finance Diagnostic Mapping study, in collaboration with the Uganda Agribusiness Alliance, and the study results will inform the implementation of key government policies and programmes.

5.1.3 Strengthening and promotion of the capital markets

IN FY 2016/17, the Capital Markets Master plan which is aimed at expanding avenues for provision of long-term capital for Investment in Uganda was launched by the Rt. Hon. the Prime Minister. The Master plan is a revolutionary reshaping of the capital markets in Uganda and identifies the gaps, challenges and makes recommendations for the success of capital markets and the Uganda Securities exchange, to provide long term capital for Ugandans. Financing will be done through among other things improving efficiency in the Capital Markets Ecosystem, deepening the pool of formal savings and investments opportunities within the economy and improving access to government bond markets in the primary market.

5.1.4 Support to SACCOs, VSLAs, and the PROFIRA project in enhancing financial inclusion

IN FY 2016/17, Government continued to invest in capacity building for Microfinance institutions through the Project for Financial Inclusion in Rural Areas (PROFIRA) and extend credit through, among others, the Microfinance Support Centre. This support is aimed at ensuring sustainability of SACCOs, support Village Savings and Loan Association (VSLAs) and Uganda cooperative Savings and Credit Union (UCUSCU) and other Apex Bodies, and to foster increase in access to financial services in rural areas in the country. PROFIRA has entered into contract with new service providers to support mature SHGs in Mid-North, West Nile, North East and Eastern Uganda.

Government supported the Microfinance Support Centre Limited, a wholesale lending Company with a primary objective of developing SACCOs, MFIs and related institution in order to ensure access to finance by rural enterprises and capacity building. During the FY, the company disbursed 356 loans totalling UGX 33.4bn compared to the target of UGX 30bn representing a 113 percent achievement. Out of this, 39 percent was to agricultural loans, 21 percent to SMEs for trade and commerce, 26 percent as Commercial Loans and the rest to Groups and Teachers SACCOs. In addition, the agency received a disbursement under REEIP equivalent to Ugx 55bn revolving fund financed mainly from the African Development Bank (AfDB).

5.1.5 Islamic microfinance

In FY 2016/17, MSC launched a Window for Islamic/participatory Micro financing in Uganda implementing six financing models. Six models have been rolled out; Musharaka, Mudarabah Murabaha, Salam, Istisna and Muqawala targeting Savings and Credit Co-operative Organizations (SACCOs), Microfinance Institutions (MFIs), Co-operative Unions and Area Co-operative Enterprises (ACEs), Self Help Groups and VSLAs; and Small and Medium Enterprises (SMEs). Working in partnership with IRADA microfinance, training in Islamic microfinance products of technical staff and potential clients was conducted, installation of the Islamic MIS was successfully completed and training completed for all the

technical users. By the end of the financial year, 15 projects have been financed under Islamic microfinance modes.

5.1.6 Pension Sector Reforms

The pension system in Uganda includes the public service pension scheme, National Social Security Fund (NSSF) and voluntary occupational pension schemes. The current 11 percent coverage is low, in terms of the total number of Ugandans under some form of cover compared to the national labour force. The largest pension scheme, National Social Security Fund (NSSF), increased its asset base to UGX 8 trillion (USD 2.2 billion equivalent), about 8 percent of GDP in 2016. The pension sector plays a critical role as the supplier of long-term finance in Uganda.

Government undertook consultations with key stakeholders regarding the on-going efforts to reform the retirement benefits sector. The current Bill before Parliament seeks to provide for liberalization of the retirement benefits sector; to provide for fair competition among licensed retirement benefits schemes for mandatory contributions; to provide for mandatory contribution and benefits; to provide for voluntary contributions and voluntary schemes; to regulate occupational retirement benefits schemes; to provide for licensing of umbrella retirement benefits schemes; to provide for the portability and transfer of accrued benefits and to provide for innovation of new retirement products and services.

Ministry of Finance, Planning and Economic Development also submitted to Cabinet the principles for the amendment of the NSSF Act, 1985. The objectives of the proposed principles are to make NSSF become a mandatory social security scheme for all Ugandans and to make the Act responsive to open market forces in a competitive environment. In FY 2016/17, URBRA's Communication Strategy was revised to enhance knowledge and awareness of the pension sector in Uganda and a system for effective financial management system was developed and operationalized. The online submission portal was also developed and is being implemented.