ANNUAL ECONOMIC PERFORMANCE REPORT FY2021/22

DIRECTORATE OF ECONOMIC AFFAIRS
Ministry of Finance, Planning and Economic Development

DECEMBER, 2022

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FOREWORD

The FY2021/22 was the second year of implementation of the Third National Development Plan (NDP III) but implementation of the plan was hampered by COVID-19 pandemic. Global and domestic supply chain disruptions further contracted economic activity and resulted into a decline in consumer demand, employment opportunities and per capita incomes. However, Uganda's economy remained largely resilient despite the unprecedented challenges occasioned by climate change effects and most recently, the global pandemic.

As a result of prudent monetary and fiscal policy measures, Uganda's economy is on its recovery path. The size of the economy was estimated at Ushs162.1 Trillion in the FY2021/22. This is equivalent to US$45.7 Billion. Economic activity has been more buoyant at the growth rate of 4.7% in FY2021/22 up from 3.5 percent in FY2020/21. This shows that the economy is on a path to significant recovery from the COVID-19 disruptions. With this buoyant recovery and resilience of the economy induced by Government's deliberate and prudent economic policies, the country's GDP per capita increased from US$954 in FY 2020/21 to US$1,043 in FY2021/22 surpassing the NDP III target of US$991.

The external position strengthened reflecting external sector resilience compared to the previous FY2020/21 which was supported by inflow in the financial account. The financial account surplus expanded providing sufficient cover to finance the current account deficit which resulted into an overall balance of payment surplus of USD 642.2 million in 2022, a turnaround from a balance of payment of USD 74.9 million recorded in the previous year, 2021. This favourable external position was supported by the improved economic environment associated with diminishing pandemic related restrictions leading to the full reopening of the economy by end of year compared to the stringent restrictions imposed in the 12 months to February 2021.

However, the recent developments including rising international and domestic commodity prices as well as global and regional geo-political conflicts are threatening to slow down the speed of economic recovery. Nevertheless, the environment of high global commodity prices presents opportunities for Uganda to take advantage of. Government is fast tracking the remaining impediments to project implementation in the Oil and Gas sector, including securing the required financing and right of way for oil and gas related projects. Domestic production of oil will subsequently lower the cost of fuel in the country.

Rising commodity prices and the overall increase in cost of living pose new risks to livelihoods that had just begun recovering from the effects of COVID-19. These and other shocks are threatening to stall socio-economic transformation, thus increasing the likelihood of the people falling deeper into poverty.

Government continued to address binding macro and microeconomic constraints in order to de-risk the economy for an improved investment climate, business environment and socially inclusive economic growth. In the fiscal strategy for FY2022/23 and the medium term, Government will prioritize fiscal consolidation and prioritization of spending towards human capital development and greener investments as a prerequisite into a greener, resilient, inclusive and sustainable recovery. Economic growth for FY2022/23 is expected to average at a range of 5.0-5.3%, driven by increased investments in the oil sector, a rebound in agricultural production owing to good weather, the government's interventions, and a rebound industrial activity.

Ramathan Ggoobi
PERMANENT SECRETARY / SECRETARY TO THE TREASURY

PREFACE

This Annual Economic Performance Report provides an account of the country's annual macro and socioeconomic performance over the NDPIII period and details key interventions undertaken to achieve the set macro and microeconomic targets of the NDPIII.

The report is comprised of six chapters discussed along the core functions of the Directorate of Economic Affairs. The key functions through which the Directorate contributes to the overall mandate of the Ministry include Macroeconomic Management, Economic Development Policy Advisory, Domestic Resource Mobilization, and Financial Sector Development.

The report makes use of the outturn data for FY2020/21 and FY2021/22 to provide an overview of the country's economic performance, the achievements and major challenges affecting economic growth, revenue mobilization, private sector development, and measures undertaken to address the challenges over the reference period. The report further provides insights and opportunities to address binding macro and microeconomic constraints in order to de-risk the economy for an improved investment climate, business environment and socially inclusive economic growth.

I take this opportunity to thank all staff for providing technical support and ensuring that the Ministry provides an account of the management of the economy.

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Moses Kaggwa
Ag. DIRECTOR/ECONOMIC AFFAIRS

ACRONYMS & ABBREVIATIONS

AEO	Authorized Economic Operators
AfCFTA	African Continental Free Trade Area
AMISOM	African Union Mission in Somalia
APSA	African Peace and Security Architecture
ARIA	Africa Resilience Investment Accelerator
ASEAN	Association of Southeast Asian Nations
ATMIS	African Transition Mission in Somalia
AU	African Union
B2B	Business to Business
BDS	Business Development Services
CESA	Continental Education Strategy for Africa
CIS	Common Wealth of Independent States
COMESA	Common Markets for East and Southern Africa
COVID-19	Corona Virus Disease of 2019
DFIs	Development Finance Institutions
DRR	Disaster Risk Reduction
EABC	East African Business Council
EAC	East African Community
EAHRC	East African Health Research Commission
EASTECO	East African Science and Technology Commission
ECOSOC	Economic and Social Council
EMDEs	Emerging Markets and Developing Economies
ENSAP	Eastern Nile Subsidiary Action Program
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
FID	Final Investment Decision
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HDI	Human Development Index
IIAs	International Investment Agreements
IOM	International Organization for Migration
ISDS	Investor State Dispute Settlement
IUCEA	Inter-University Council for East Africa
LICs	Low Income Countries

LVBC	Lake Victoria Basin Commission
MRA	Mutual Recognition Agreement
MSMES	Micro, Small and Medium Enterprises
NBI	Nile Basin Initiative
NCIP	Northern Corridor Integration Projects
NDC-PP	Nationally Determined Contribution Partnership Plan
NDP	National Development Plan
NELSAP	Nile Equatorial Lakes Subsidiary Action Program
NGOs	Non-Governmental Organizations
NWSC	National Water and Sewerage Corporation
ODA	Official Development Assistance
OSBPs	One-Stop Border Posts
PAYE	Pay As You Earn
PDM	Parish Development Model
PERD	Public Enterprises Reform and Divestiture
PIAPs	Programme Implementation Action Plans
PIDA	Programme for Infrastructure Development in Africa
RCEP	Regional Comprehensive Economic Partnership
RECs	Regional Economic Communities
RFTIs	Regional Flagship Institutes
RISE	Reshaping Industry for a Sustainable Economy
RUFORUM	Regional Universities Forum for Capacity Building in Agriculture
SDGs	Sustainable Development Goals
SDRs	Special Drawing Rights
SMES	Small and Medium Enterprises
SSA	Sub-Saharan Africa
STEM	Science, Technology, Engineering and Mathematics
STI	Science, Technology and Innovation
STISA	Science, Technology and Innovation Strategy for Africa
SWAQ-U	Sanitation and Water Quality-Uganda
TFA	Trade Facilitation Agreement (TFA)
TIPs	Treaties with Investment Provisions
TVET	Technical Vocational Education and Training
UDC	Uganda Development Corporation
UEGCL	Uganda Electricity Generation Company
UETCL	Uganda Electricity Transmission Company Limited
UNCTAD	United Nations Conference on Trade and Development
UNHS	Uganda National Household survey
UPDF	Uganda People's Defence Forces

CHAPTER ONE: INTRODUCTION

Overview

1.1. The end evaluation of NDPII identified a number of concerns that hindered effective implementation of planned interventions including dominance of the subsistence economy, the high rates of under nutrition, regional disparities in terms of poverty reduction and Covid-19 induced lockdown measures in FY2020/21. Under the NDP III, government sought to overcome the above-mentioned challenges by leveraging Private and Public investments to finance its strategy of industrialization for sustainable economic growth and development.

1.2. The Budget Strategy for FY2021/22 and the medium term accordingly pursued restoration of economic activity to the pre-pandemic levels, and subsequently accelerate the pace of socio-economic transformation. This is in line with NDPIII's goal of increasing household incomes and improve the quality of life of Ugandans through sustainable industrialization for inclusive growth, employment and wealth creation. This is aimed at accelerating the pace of socio-economic transformation of the country.

1.3. Government accordingly commenced implementation of the PDM- as its strategy for transiting the 39% of households still engaged in subsistence into the money economy. Government also established the small business recovery fund (SBRF) to support businesses recover from the impact of the COVID-19 pandemic. In addition, arrange of economic management measures were instituted to restore lost jobs and livelihoods; protect households from the rising prices of food, fuel, and other essential commodities using prudent economic policies.

Objectives

1.4. This report provides an account of the performance of Uganda's economy and Government actions undertaken to achieve the economic objectives set out for FY2021/22. It specifically discusses this performance in line with the mandate of the Ministry of Finance, Planning and Economic Development (MFPED), particularly the key policy outcomes that are under the function of the Directorate of Economic Affairs (DEA). The report further assesses the economic growth strategy for NDPIII and beyond.

Data sources

1.5. Data for this report was obtained from diverse official sources which provide annual data and information on a wide range of key macro and microeconomic indicators. The sources include Uganda Bureau of Statistics (UBOS), Bank of Uganda (BoU), Uganda Revenue Authority (URA), Ministry of Finance, Planning and Economic Development (MFPED) among others.

Structure of the report

1.6. This report consists of five chapters. Chapter one is the general introduction of the report, chapter two discusses the macroeconomic management; chapter three analyses the country's performance with regard to domestic revenue mobilization; chapter four assesses developments in regard to economic development policy advisory and Investment; chapter five provides while chapter five provides an account of the country's performance in relation to financial inclusion and deepening.

CHAPTER TWO: MACROECONOMIC MANAGEMENT

Overview

2.1 This section presents achievements in line with macroeconomic objectives. It covers the real the real sector developments, monetary and fiscal stability in response to sudden and unpredictable events. Economic management during the period under review focused on ensuring macroeconomic stability, inclusive economic growth and fiscal sustainability. The Country's Fiscal policy was guided by two fiscal objectives set out in the Charter for Fiscal Responsibility (CFR) for the period 2021/22-2024/25 namely:

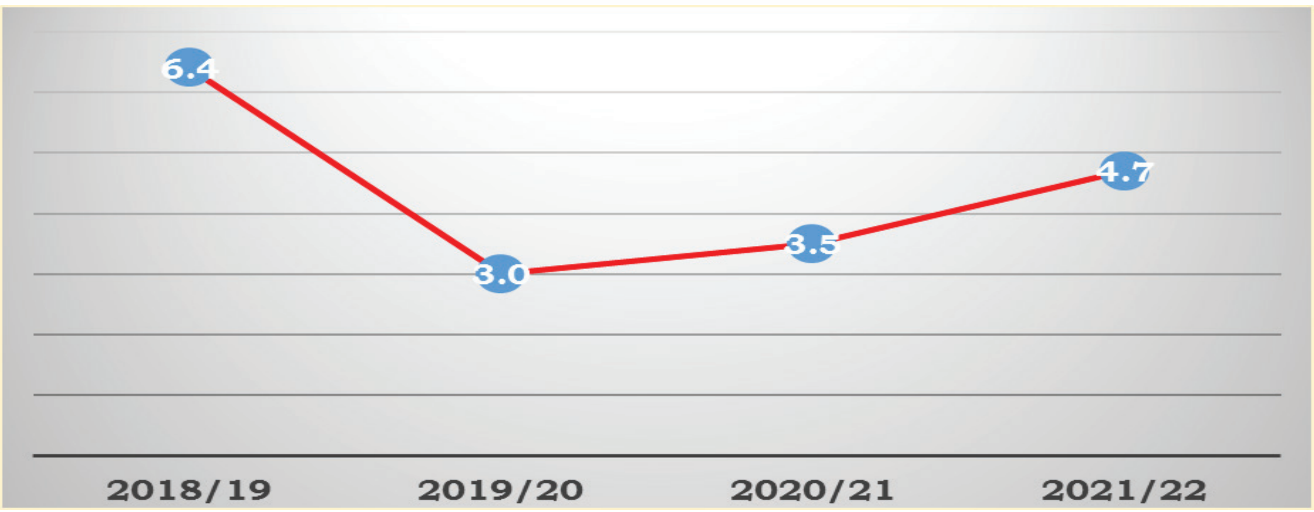
i. The Overall Fiscal Balance (including grants) should gradually adjust to a deficit not exceeding 3.0 percent of non-oil GDP by financial year 2025/26; and the ratio of Non-oil revenue to GDP shall grow by atleast 0.5 percentage points on an annual basis consistent with section 4(3) and 4(2) of the PFMA, 2015.

ii. Total Public debt in Nominal terms is reduced to below 50% of GDP by FY2025/26; Nominal Publicly guaranteed debt to GDP is maintained below 5%; and Total domestic debt interest payments to total revenues (excluding grants) is reduced to 12.5%.

Major Macroeconomic Developments

2.2 Economic growth for the first two years of the NDP III period was lower than envisaged in the plan, with the real GDP growth estimated to average 4.1% lower than 5.3% projected in the Plan. The economy is estimated to have expanded to Ushs162.7 trillion in FY2021/22 from Ushs148.3 trillion Recorded in FY2020/21. This translated into a real GDP growth rate of 4.7% over and above the 3.5% recorded in the FY2020/21, indicating sustained and stronger recovery of the economy from the impacts of the Covid-19 pandemic. This improvement in economic activity was due to the sustained recovery in aggregate demand when the economy fully re-opened in January 2022, as well as government policy interventions to encourage private sector activity.

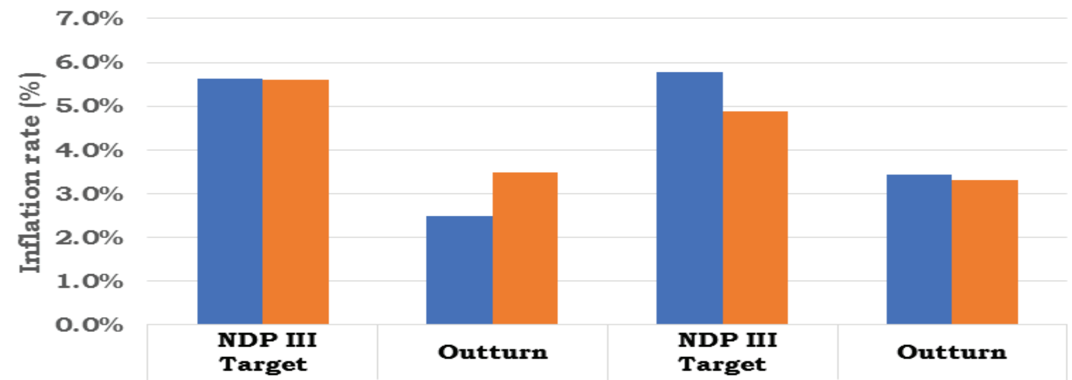
Figure 2.1: Real GDP growth Rates (Annual % Change)



Source: UBoS, 2022

2.3 In FY2021/22, annual headline inflation was recorded at an average of 3.4%, an increase when compared to 2.5% for FY2020/21. This followed a sharp increase in general price levels during the second half of the financial year, largely on account of a significant rise in the prices of household items like cooking oil & bar soap; liquid fuels; and increased costs of education & transportation services. Except core inflation, all the other components of headline inflation increased in FY2021/22 in comparison to FY2020/21.

Figure 2.3: Headline and Core Inflation Performance in the First Two Years of the NDP III

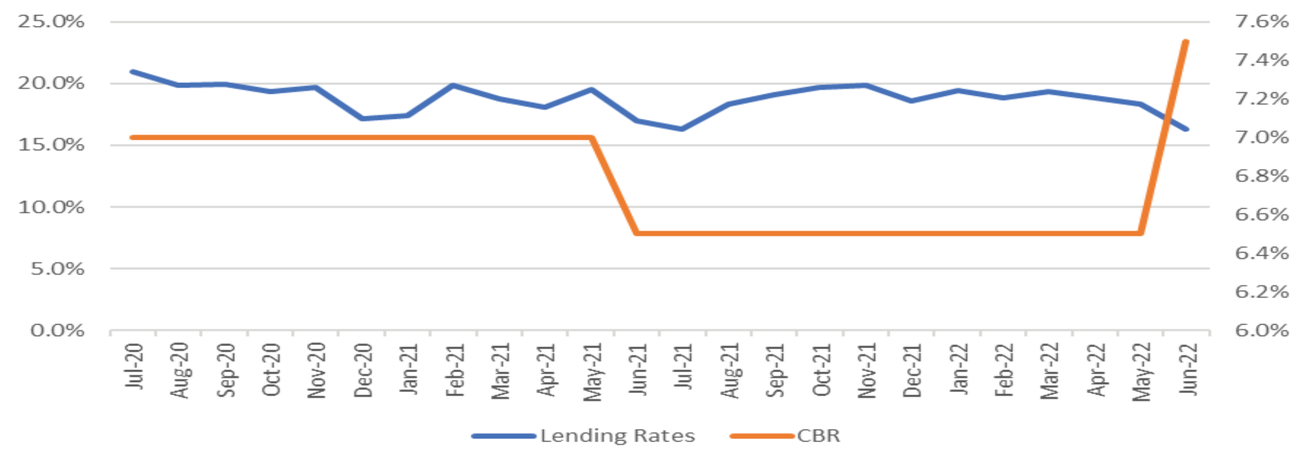


	FY2020/21 NDP III Target	FY2020/21 Outturn	FY 2021/22 NDP III Target	FY 2021/22 Outturn
Headline Inflation	5.6%	2.5%	5.8%	3.4%
Core Inflation	5.6%	3.5%	4.9%	3.3%

Source: UBoS and NDP III

2.4 During the first two years of the NDP III period, effective implementation of monetary policy ensured price stability and supported economic activity. FY2020/21 and FY2021/22 were affected by the covid-19 pandemic, as such, monetary policy was largely expansionary. The Central Bank Rate (CBR) gradually reduced the CBR to annual averages of 7.0% and 6.6% respectively for the two years of NDPIII, the lowest levels it has recorded in history. This was intended to support economic recovery away from the pandemic impacts.

Figure 2.5: Movements in the Central Bank Rate and Commercial Banks' Lending Rate



Source: Bank of Uganda, 2022

2.5 The Ugandan shilling continued to gain value against the United States Dollar in FY2021/22 by 2.4% registering an average mid-rate of Ushs3,572 per US$ compared to UShs 3,661 per US Dollar recorded the previous year. The sustained participation of offshore investors in the domestic securities market for the greater part of the financial year increased demand for the local currency thus contributing to the appreciation of the shilling. Demand for the dollar on the other hand remained subdued compared to pre-COVID levels. Likewise, on average, the shilling gained against the Euro and Pound Sterling by 7.8 % and 3.5 % respectively.

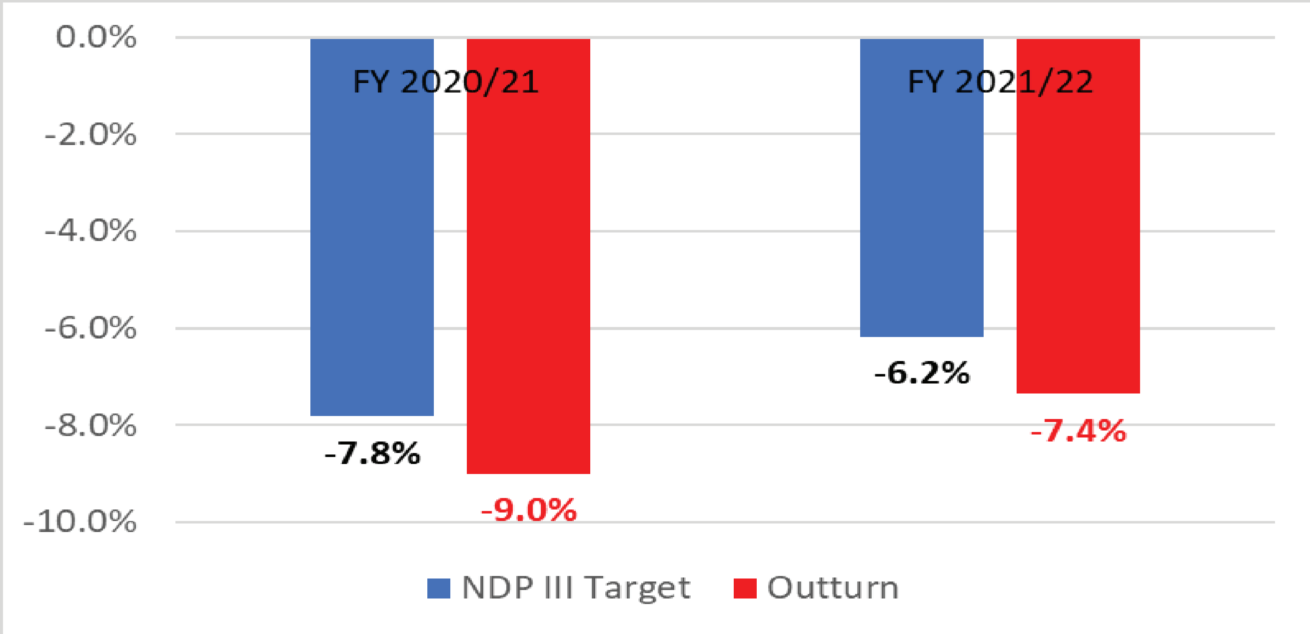
2.6 The merchandise trade deficit widened further during the period under review as the exports fell faster than imports. Export receipts declined by 27.3 % whereas the import bill fell by 14.3 %. The merchandise trade deficit was recorded at US$3,300 million in FY 2021/22, higher than the deficit of US$3,045.4 million recorded a year ago as a result of a decline in exports. This was driven by the import bill excluding gold that substantially increased. Government is keen to increase export receipts through a number of measures, including: enhancing EAC-level discussions to address the issue of non-tariff barriers so as to boost exports to the EAC, which is our biggest export destination; encouraging production in Uganda through efforts to reduce the cost of doing business, including through support to industrial parks and reducing the cost of capital; efforts to add value to our exports, so that we can earn more from such exports.

2.7 External sector changes resulted in a lower overall balance of payments surplus of US$66.1 million in FY 2021/22, compared to a surplus of US$ 241.4 million the previous Financial Year. The reduced surplus resulted from fewer net inflows through the financial account, which fell from US$3,428.9 million in 2020/21 to US$2,999.1 million in 2021/22. The dip in net inflows on the financial account was principally explained by a decrease in disbursements of general government external loans.

2.8 Uganda's public debt stock increased from US$19.54 billion in FY2020/21 to US$20.99 billion in FY2021/22. This represents a much smaller increase in public debt compared to the previous two financial years. External public debt increased from US$12.39 billion to US$12.82 billion while domestic public debt increased from US$7.16 billion to US$8.16 billion in the same period. As a share of GDP, public debt increased to 48.4 percent in June 2022 from 47.0percent in June 2021.

2.9 Fiscal operations during the year were constrained by revenue shortfalls and supplementary expenditures that resulted into additional borrowing and reallocation within the budget. As a result, the overall fiscal balance was a deficit of UShs 11,973 billion, equivalent to 7.4 percent of GDP higher than the 6.4 percent of GDP projected at budget time. However, fiscal operations during these first two years of the NDPIII, were constrained by revenue shortfalls and supplementary expenditures that resulted into additional borrowing. This was on account of the impact of the covid-19 pandemic that affected economic activity thus hampering revenue collections; security threats on the country that necessitated more expenditure on security; as well as unfavorable global developments and their impact on the Ugandan economy. As a result, the overall fiscal deficits for the two years were higher than anticipated in the plan as seen in figure 2.6.

Figure 2.6: Performance of the Fiscal Deficit as a ratio of GDP



Source: MEPD-MoFPED and NDPIII

2.10 Revenues and grants increased by Ushs1,201 billion to Ushs 22,993 billion (14.2 % of GDP) in FY2021/22 from UShs 21,793 billion, the previous year. This represents a shortfall of Ushs857 billion against the target for the financial year.

2.11 This Directorate is responsible for ensuring sound macroeconomic parameters that place the country on a positive economic growth trajectory. In the FY2021/22, the Directorate was able to coordinate/deliver the following critical outputs[1]:

a) Spearheaded negotiations with the International Monetary Fund (IMF) and adopted a three-year Economic Program supported by the Extended Credit Facility (ECF) of the International Monetary Fund (IMF). The program was approved by the IMF Executive Board on June 28, 2021 and will run until June 2024. The need for the program was occasioned by the impact of Covid-19 pandemic on the economy and Government's fiscal position. The effects of the pandemic included reduction in revenue collections and increase in expenditure requirements both of which led to a significant widening of our fiscal deficit, and an increase in the debt to GDP ratio. The program is premised on two components: a) Budget Financing of approximately US$ 1.0 billion (SDR 722 million) over the three years; and b) Adoption of economic policies and structural reforms that will maintain the country's fiscal stability and ensure low risk of debt vulnerabilities. The program has successfully undergone three reviews, the latest being in December 2022. And cumulatively, IMF has disbursed an equivalent of US$ 625 million out of the approximately US$ 1 billion (SDR 451.25 million out of the SDR 722 million) associated with the program.

b) In line with Section 5 (1) and (2) of the PFM Act, 2015 as amended and the ECF-financed program, the Ministry facilitated the process that led to adoption by Parliament of the Charter for Fiscal Responsibility. The Charter highlights Government's fiscal policy objectives that will ensure fiscal sustainability while delivering the country's goal of socio-economic transformation Such as set floor for the overall fiscal balance, establishes the Country's Public Debt to GDP threshold, and sets a maximum level of the annual transfer from the Petroleum Fund to the Consolidated Fund.

c) In line with the ECF-financed program, a number of reforms were adopted focused on prudent fiscal and monetary policies, inclusive growth- and debt-friendly composition of spending and financing, safeguarding a resilient financial sector, and anti-corruption measures. These include:

   i. Established a legal and regulatory mechanisms for timely access to accurate, basic and beneficial ownership information for legal entities;

   ii. Developed and adopted a framework which presents and/or tracks all Covid-19 budget allocations, identifying the source of funding and which institution receive the financing;

   iii. Government developed and published the project selection criteria for admission of new projects from the pipeline of Bankable Projects into the Public Investment Plan (PIP) and budget;

   iv. Prepared a unified registry of all Social Assistance Programs (SAPs). This is an online platform meant to ease information access about Government's interventions to help the poor and the under-privileged, e.g SAGE for the elderly, Northern Uganda Social Action Fund (NUSAF) for the people affected by war in Northern Uganda, etc; and

   v. Expanded the Credit Bureau Coverage by adopting amendments to the Credit Reference Bureau.

d) In fulfilment of the requirements of the Charter for Fiscal Responsibility and the Public Finance Management Act (2015); DEA conducted a Debt Sustainability Analysis for FY2021/22. The findings of this DSA indicate that public debt is projected to remain sustainable over the medium to long-term. This will be supported by a recovery in GDP growth as the economy returns to its pre-COVID-19 potential; a reduction in borrowing as some major infrastructure projects were finalised, alongside strong domestic revenue growth following the implementation of the Domestic Revenue Mobilisation Strategy; and realisation of oil revenues in the medium to long term.

e) Held the Sixth Economic Growth Forum (EGF). The Ministry, in partnership with IGC held this high-level conference dubbed "Economic Growth forum" to inform the Budget Strategy for FY2022/23. The conference provides an opportunity to discuss key growth challenges, learn from policy experiences in other countries and identify a course of actions to drive accelerated and inclusive growth in Uganda. The theme for 6th Forum was "A Self Sustaining Economy to Weather Future Shocks" Fostering Resilient Growth with five thematic areas: Climate change; Domestic Resource Mobilisation for Growth; Exports to Promote Growth; and Domestic Value Addition. The following policy measures were raised to address the economic issues mentioned above.

   i. Avoiding measures that could lead to long-term distortions in the economy e.g. demand-side subsidies, tax cuts, price controls etc although they seemed more popular at the time.

   ii. Maintaining a competitive environment to support a continuous supply of goods and services whose stream has been constrained overtime. This is intended to ensure that demand does not outstrip supply and that the demand and supply market is not distorted.

   iii. Supporting increased production of food and manufactured goods to ensure sufficient domestic supply, and to also take advantage of the rising global and regional prices to boost our export earnings.

iv. Maintaining macroeconomic stability and sound economic policies. This is by Maintaining economic policy consistency (no policy reversals, not introducing price controls or subsidies, and not introducing export bans). This is in addition to a close coordination between fiscal and monetary policies (counter-cyclical measures).

v. Promoting open economy, trade openness and liberalised economy. This can be enhanced by further allowing market-based economic dynamics, together with targeted Government interventions.

vi. Budget prioritization and maintaining fiscal flexibility to be able to address emerging issues, in addition to strengthening social safety nets, including social insurance payments.

vii. Taking advantage of the opportunities created by the global shortage of imported items to produce them locally and also exporting the excess.

viii. Digitizing the economy and supporting online business to lower cost of doing business.

ix. Leveraging private sector financing to finance public investments, this requires putting in place an effective partnership framework for mutual benefit.

f) The Directorate led MFPED's participation in the review of the East African Monetary Union (EAMU) Road Map which resulted in the adoption of a new timeline of 2031 for introducing the single currency. The EAMU Protocol provides for a set of four primary convergence criteria which were supposed to be attained by 2021 and maintained by each Partner State, for at least three years before joining the Monetary Union. They include: a ceiling on headline inflation of 8 percent; reserve cover of 4.5 months of import; a ceiling on the overall deficit of 3 percent of GDP, including grants, and a ceiling on gross public debt of 50 percent of GDP in net present value terms. The envisaged Monetary Union was expected to be in place in 2024 which was affected by non-achievement of the targets set out in the criteria by 2021.

g) The Directorate, working with the Bank of Uganda conducted the Regulatory Impact Assessment for the amendment of the Bank of Uganda Act 2000. This is aimed at improving Uganda's competitiveness domestically, regionally and internationally.

h) To facilitate production of Government Finance Statistics, the Directorate led the following:

i. Coordinated the development and operationalisation of a Tool for Quarterly- in-year project profiles. The tool was used to determine the quarterly fiscal profile for FY2022/23 and FY2023/24. The results from the tool are used to inform the quantitative performance targets in the IMF program with government and the quarterly cash flow plan.

ii. Produced a policy paper on climate change implications on Government fiscal operations. This was based on the Assessment of the impact of FY2022/23 Government investments on natural capital in Uganda using the Rapid Environment Assessment Model.

iii. Built the Capacity of government departments in GFS 2014 framework through training on Chart of Accounts. This facilitated the update of the Cash flow database in line with the updated Government Chart of Accounts and the Government Finance Statistics Manual 2014 (GFSM2014). The Directorate now provides projections of Revenues, Expenses, Acquisition, Financial Liabilities, and Assets in the GFSM2014 framework and the Medium-term fiscal framework.

iv. Produced high frequency government finance statistics in line with the GFSM2014 framework that facilitated preparation of monthly economic performance reports and the annual fiscal performance report for period under review.

v. Coordinated production of a Public Sector Institutional Unit Table for the FY2021/22. It is on this basis that the Government Finance Statistics and Public Sector Debt Statistics for the FY2021/22 were collected, compiled, and consolidated for the Public Sector.

Outlook for FY2022/23

2.12 The Directorate will continue prioritizing economic management strategies focused on ensuring macroeconomic stability, inclusive economic growth and fiscal sustainability through prudent fiscal and monetary policies, mobilization of domestic revenue for public expenditure and ensuring the continued growth of the economy. Key priorities include: facilitating processes to maintain inflation at single digit; to recover the economy to precovid-19 growth level of 5.5-6.0percent before increasing to 6.5-7.5% in the medium-term (2 to 3-years ahead) driven by the ongoing vaccinations and easing of restrictions; reducing the fiscal deficit; among others.

2.13 However, the balance of risks for growth was still tilted to the downside. The major source of concern is that more aggressive Covid-19 variants could emerge before widespread vaccination. Import growth is expected to outpace exports due to recovery in import-intensive household consumption and private investment. As a result, the contribution of net exports to GDP growth will be negative for an extended period.

CHAPTER THREE: DOMESTIC REVENUE MOBILIZATION

Overview

3.1 Government's main revenue goal is to raise revenue to GDP ratio to 13.7 percent by FY2024/25 as envisaged in NDPIII[2]. This is in line with the Plan's overall objective of increasing total revenues and grants from 13.7percent to 15.4 percent of GDP between FY2020/21 and FY2024/25. Taxes are imposed mainly to raise revenue to fund government operations and a good tax system must generate sufficient revenues to meet this objective.

3.2 The Directorate of Economic Affairs is responsible for coordination of initiatives to facilitate domestic revenue mobilization to finance Government budget. Over the course of FY2021/22, revenue mobilization efforts were centered on implementation of the Domestic Revenue Mobilization Strategy (DRMS), mainly focusing on improvements in efficiency in tax collection and enforcement of compliance.

Domestic Revenue Performance

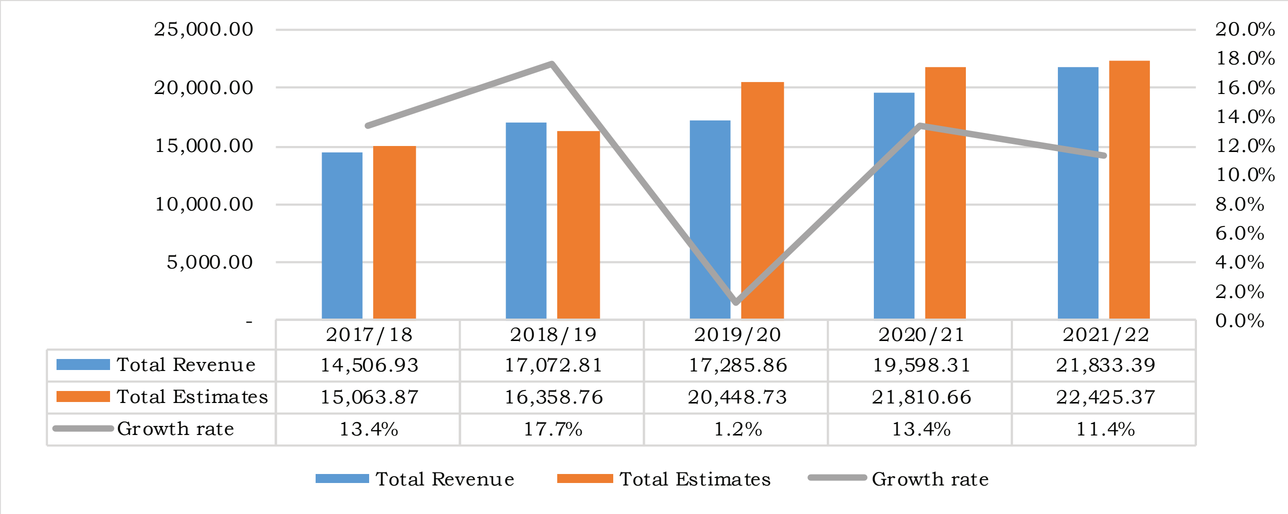
3.3 The Directorate monitored Tax and Non-Tax Revenue Performance for the financial year in line with the DRMS as a framework. The DRMS was aimed at guiding reforms in the tax system in order to facilitate expansion of the tax base by gradually increasing the tax-GDP ratio from 11.5 percent in FY2019/20 to 18 percent by FY2024/25.

3.4 The approved revenue target for FY2021/22 was Ushs22,425.37 billion, of which tax was Ushs 20,876.95 billion and Non-Tax Revenue (NTR) was Ushs1,548.42 billion. This target was based on the changes in tax policy and innovations in tax administration (tax measures) of Ushs1,259.63 billion, macroeconomic assumptions and the revenue outturn for FY2020/21 (Ushs 19,598.31 billion).

3.5 Consequently, Net Revenue collections in the period under review amounted to Ushs21,833.39 billion against a target of Ushs22,425.37 billion, registering a shortfall of Ushs591.97 billion. Out of this, tax revenue amounted to Ushs20,426.35billion while NTR amounted to Ushs1,407.04 billion. This represents a growth rate of 11.4 percent compared to the same period in FY2020/21. It is however below the average growth of 16.5 percent registered for the last five financial years before the COVID 19 pandemic. (Figure 3.1). In nominal terms, domestic revenue has grown at an average rate of 13 % of GDP in the five years, excluding FY 2019/20 whose performance was affected by COVID-19.

2 NDPIII

Figure 3.1: Revenue Performance (FY2017/18 – FY2021/22)



	2017/18	2018/19	2019/20	2020/21	2021/22
Total Revenue	14,506.93	17,072.81	17,285.86	19,598.31	21,833.39
Total Estimates	15,063.87	16,358.76	20,448.73	21,810.66	22,425.37
Growth rate	13.4%	17.7%	1.2%	13.4%	11.4%

Source: Tax Policy Department, MFPED

3.6 Over the past 6 financial years, Tax Expenditures in Uganda have grown in both the number of provisions and value of revenue foregone. The value of revenue foregone has increased from 1.02% to 1.80% of GDP between FY 2016/17 and FY2021/22. The largest increase under any one tax head is the VAT, where revenue foregone rose from Ushs229.58bn to Ushs1151.47bn between FY2016/17 and FY2021/22[3].

3.7 Overall government expenditure (excluding domestic debt refinancing and external debt amortization, as well as expenditure related to local revenue and AIA) amounted to UShs 34,967 billion, exceeding the budgeted amount by Ushs733.55 billion due to additional supplementary expenditures to various MDAs.

Review of tax laws

3.8 In FY2021/22, the Directorate coordinated amendments to various tax laws with the aim of providing clarifications on ambiguous provisions, closing loopholes that may lead to revenue leakage, as well as simplifying the tax laws with a view to supporting tax administration to enhance its efficiency and promotion of voluntary taxpayer compliance. Some of the key amendments include the following:

3.8.1 *Income Tax Act:* The decision to amend the Income tax was aimed to reduce the effective tax rate of individuals to encourage compliance, while ensuring that companies which have been declaring rental income tax losses perpetually begin to make contributions. The Income Tax Act was amended to streamline the rental income tax regime for individuals and non-individuals as follows:

i. Rental income tax of NIL for individuals that earn an annual rental income not exceeding Ushs2,820,000 and a rate of 12 percent of rental income exceeding Ushs2,820,000;

ii. In the case of non-individuals, impose a rate of 30 percent on the difference between rental income and expenses capped to 50 percent for each year of income. Any excess expenses shall not be carried forward to a subsequent year of income.

iii. Parliament also extended the corporate income tax exemption for Bujagali Hydro Power Project for one (1) year up to 30th June 2023 as a measure to bring down the cost of electricity.

3.8.2 *Value Added Tax Act:* The Value Added Tax Act was amended to streamline a number of provisions as follows:

i. Previously, suppliers were required to pay VAT even when Government had not yet paid them. This was especially so in infrastructure projects or projects that transcend one year. To address this problem, the law was amended so that such contractors or suppliers pay VAT when Government has paid them.

ii. Previously, the Value Added Tax Act provided for exemption of imported services used in the provision of exempt supplies. Imported services include cloud computing, computer software, any online services, among others. This meant that suppliers of exempted supplies who import such services as inputs would not pay tax, leading to loss of revenue. In addition, this decision encouraged importation of those services as opposed to sourcing for them locally in Uganda. To correct this anomaly, the law was amended to repeal that particular exemption in order to encourage sourcing of these services in Uganda in addition to generating revenue.

iii. Exempted the supply of oxygen cylinders or oxygen for medical use. Whereas oxygen cylinders are already exempt from VAT, the supply of oxygen, such as when refilling a cylinder had not been exempt. Therefore, this measure was intended to correct this anomaly and consequently reduce the cost of the supply of oxygen for medical use.

iv. Exempted the supply of assistive devices for persons with disabilities to reduce the cost of the equipment used by persons with disabilities and enhance their welfare.

v. Exempted the supply of airport user services charged by the Civil Aviation Authority to reduce the cost of transiting through Entebbe Airport. This, in addition to the country's strategic location will enhance competitiveness of Entebbe Airport as a regional aviation hub.

3.8.3 *Tax Procedures Code Act:* As part of the measures to bring more taxpayers on board and also to deter tax evasion, Government introduced EFRIS and DTS. This was aimed to enforce compliance to these reforms, the law was amended to introduce penalties for non-compliance. The law was also amended to introduce penalties for failure to provide information for purposes of Automatic Exchange of Information (AEOI) to improve compliance.

3.8.4 *Stamp Duty Act:* The key amendment under this act was providing for NIL stamp duty on Agricultural Insurance Policy instruments, to encourage the uptake of agricultural insurance services.

3.8.5 *Excise Duty Act:* The Act Excise Duty Act to provide clarification of definitions of various products that attract excise duty such as sprits and juices to enhance taxpayer compliance. The law was also amended to reduce excise duty applicable on opaque beer and fermented beverages made from locally sourced raw materials to 12 percent or UShs.150 per litre, whichever is higher. This is intended to promote value addition and the use of locally sourced raw materials.

Negotiation of Double Taxation Agreements (DTAs)

3.9 The Government of the Republic of Uganda represented by Officers from this Ministry, Ministry of Foreign Affairs, Ministry of Justice and Constitutional Affairs, and URA, engaged in final negotiations with the Government of the Republic of Mauritius on a Protocol to amend the Convention for Avoidance of Double Taxation with respect to Taxes on Income and the Prevention of Fiscal Evasion signed in Pretoria on 19th September 2003.

Natural Resources Taxation

3.10 This Directorate coordinated negotiations that led to the FID of the Refinery, East African Crude Oil Pipeline (EACOP) on 1st Feb, 2022. Concluded legislation of enabling framework for the East African Crude Oil Pipeline (EACOP) project. In addition, review of proposed submissions from the oil, gas and mining sectors to the tax laws was concluded with amendments in the Public Finance Management Act and Income Tax Act.

Participation in Regional Initiatives

3.11 In FY2021/22, the Directorate undertook to conclude the comprehensive review of the EAC Common External Tariff (EAC- CET) in line with the requirement under the East African Community Protocol. Consultations with Partner States were successfully concluded, with effective date of implementation as 1st July 2022. The Partner States agreed to a 4-band tariff structure which replaced the existing 3-band structure. The new structure consists of:

1) A rate of 0% duty to be levied on imports of raw materials, capital goods and goods for social development;
2) A rate of 10% duty to be imposed on imports of intermediate goods(inputs) for further processing; a rate of 25% to be levied on imports of finished goods not readily available in the EAC; and
3) A rate of 35% for finished goods where there is regional capacity or the capacity is being developed e.g. textiles, iron and steel products, paper products, and wood products, among others. In addition, finished goods where there is potential for import substitution (e.g. tooth picks/matches etc.).
4) The Partner States also agreed to maintain the current list of sensitive products to attract duties above 35%. In addition, the department participated in the Tripartite FTA negotiations, EAC and AfCFTA, among others.

Revenue Strategy for FY2022/23

3.12 In FY2022/23, Government's objective was to increase revenue by 0.8 percent of GDP, which was higher than the 0.5 percent projection of the DRMS and the National Development Plan (NDP) III. The projected growth in revenue will take into account the projected growth of the economy as a result of fully reopening all sectors that generate economic output and repurposing of the budget to focus on strategic areas and investments in oil and gas. In addition, Government will continue improving efficiency of tax administration to enforce taxpayer compliance through Electronic Fiscal Receipting and Invoicing System (EFRIS) and the Digital Tax Stamps (DTS).

3.13 Consequently, the approved revenue target for FY2022/23 was Ushs. 25,550.69billion of which tax revenue was Ushs.23,754.86 billion and Non-Tax Revenue (NTR) was Shs.1,795.83 billion. The Directorate will coordinate processes aimed at boosting economic activity to generate sufficient domestic revenues to deliver essential public goods and services. The following strategies will be prioritised:

1) Enhancing the effectiveness of URA by increasing efforts to curb non-compliant behaviour and ensuring that URA have the necessary capacities and capabilities to enforce compliance, as well as strengthen the accountability and transparency of revenue administration by enhancing institutional capacity and human resource development.
2) Improving tax transparency by publishing tax expenditures regularly to facilitate cost-effectiveness assessments, ultimately helping to reduce wasteful tax expenditures. As part of the legal framework and the DRMS, a Tax Expenditure Governance Framework has been developed to improve the transparency and accountability regarding tax incentives and the exercise of powers to vary the tax payable by any person.
3) Implementing joint and individual action to combat tax-motivated illicit financial flows and tax avoidance by strengthening tax governance and fiscal transparency, reducing financial secrecy, and intensifying the exchange of information and technical expertise.
4) Providing an enabling environment for taxpayers and tax practitioners to be meaningfully involved in tax and revenue formulation matters. This is aimed at strengthening stakeholders' role in analysing tax policies, advocating for or against policy reforms, and raising awareness on tax rights and obligations.

CHAPTER FOUR: DEVELOPMENT POLICY ANALYTICS AND ADVISORY

Overview

4.1 The Development Policy Analytics and Advisory function under the Directorate of Economic Affairs generates and manages knowledge for effective formulation, implementation and communication of Uganda's Economic Development Policy. In so doing, it has a threefold objective:

1) Foster a relevant and responsive national economic development policy agenda for superior economic outcomes;
2) Strengthen alignment between national development priorities and public investment objectives for sustainable development outcomes; and
3) Promote a conducive investment climate and business environment for competitive national economy and private investment

4.2 In FY2021/22, the Directorate implemented a number of reforms and spearheaded a range of knowledge management processes and stakeholder engagements. This Chapter discusses the salient features and issues related to the following management outcomes: Economic Policy Management; Public Investment Management; and Business Environment Management.

Economic Policy and Strategy Management

4.3 A number of Economic policy and strategic reforms were implemented to foster competitiveness and sustainable growth. Economic Policy and Strategy Management presents aspects of Microeconomic Management; Private Sector Competitiveness; and Development Policy and Research. In accordance with this aspect, the following key milestones were achieved:

Microeconomic Management

4.3.1 *Microeconomic Strategy:* The Directorate progressed its analytical works on the Public Investment Management for Agro-industrialisation (PIMA) strategy to Cabinet. This was done through preparation of a Cabinet Memorandum on "Market Studies for Public Investment Management for Agro-Industry (PIMA)" under the auspices of the Strategic Economic Policy and Management (STEPMAN) Forum. The Memorandum was aimed to: 1) Inform Cabinet of the findings from the Market Studies conducted on the nine (9) PIMA commodities; 2) Seek Cabinet approval of the recommendations from the Market Studies conducted on the nine (9) PIMA commodities; and 3) Seek Cabinet approval of the public investments measures to immediately start actualizing the potential benefits from the PIMA commodities and proposed implementation arrangements for follow-up and review of the agro-industrialization agenda during the NDP III period.

4.3.2 *Public Investment Management:* As chair of the sub-Development Committee (DC), the Directorate provided strategic guidance on identification and appraisal of projects for the Public Investment Plan (PIP). The Directorate chaired a total of 71 DC meetings in the period under review. In total, the DC reviewed 341 Development Projects of which 12 projects were downgraded; 59 exited the PIP; 37 were extended; 7 were re-scoped; and 226 projected were retained. This workstream contributes to addressing the challenges to improve project identification, preparation and execution for improved service delivery and economic growth outcomes.

4.3.3 *Public Service Delivery:* The Directorate provided technical support and leadership in the design of the Parish Development Model (PDM), whose overall objective is to support the transition of the 39% of Households in the subsistence economy to money economy.

4.3.4 *Household Welfare:* The Directorate led the preparation of Poverty Status Report 2021 within the context of the National Development Policy Agenda of the country. The PSR 2021 provides an in-depth analysis of the poor, the vulnerable, and those likely to fall back into poverty within the context of Uganda's structural transformation agenda – moving from low to high-productive sectors. It is therefore purposed to inform planning especially for the poor and vulnerable. The findings indicate that poverty rate reduced from 21.4% in FY2016/17 to 20.3% in FY2019/20.

4.3.5 *Business Environment and Enterprise Support:* Working with Enterprise Uganda, the Directorate supervised the development of the National Business Development Services (BDS) Framework 2022: The Framework seeks to strengthen the organizational and institutional capacity of the Private Sector and enable mass access to BDS across the country through: Sensitization, promoting and encouraging uptake of BDS countrywide; Facilitating BDS delivery in the Parishes, Sub counties countrywide for the different Medium, Small and Micro Enterprises (MSMEs) categories; Establish a BDS Policy and Regulatory Framework; and Establishing a BDS Centre of Excellence and a Regulatory Agency.

Private Sector Competitiveness

4.3.6 *Trade and Investment:* The Directorate in collaboration UFZA, finalised a Regulatory Impact Assessment (RIA) for the review of the Free zones, 2014. This was aimed to inform options available to resolve the limitations experienced in the course of implementing the Free Zones Act. In addition, the review was aimed at creating more streamlined administrative and regulatory processes to enable locally manufactured and processed goods to compete favourably in the international market, and to create an environment that will increase Uganda's integration into the global supply and value chains.

4.3.7 *Industrial Development:* To speed up Government's agenda on industrial development, the Directorate worked with Uganda Investment Authority to originate reforms in the development and management of industrial and business parks. A Cabinet paper on the status of Industrial Parks in the country was prepared and submit in this regard in line with the industrial Policy (2020). The paper was approved by Cabinet with resolutions that UPDF through the National Enterprise Corporation (NEC) develop the infrastructure for Industrial Parks at every Zone across the country. This direction was aimed at ensuring effective service delivery and reducing the cost of contracting private firms i.e. reducing costs by 70%. Cabinet further guided local governments to provide free unencumbered land for Industrial Park development.

4.3.8 *Private Sector Coordination:* The Directorate formulated the 2nd National Strategy for Private Sector Development (NSPSD) for the period 2022/23 – 2026/27. The strategy is a successor to the first NSPD (2017-2021) and identifies and consolidates Private Sector interventions in the 20 NDP III programmes to guide MDAs on how to improve overall private sector competitiveness. Key proposed intervention areas under the strategy include: Improving the legal and regulatory framework to remove barriers to formalization and digitization of business registration; improve market efficiencies by reviving cooperatives and implementing a competition law and Infrastructural expansion and maintenance.

4.3.9 *Budget Consultations:* In addition to the National Growth Forum, the Directorate convened the National Completeness Forum (NCF), 2022. National Competitiveness Forum is a principal platform for the public and private sector to engage in identifying best practices and emerging issues in private sector development, competitiveness and the investment agenda to ensure sustainable and inclusive growth. This was the 13th NCF under the theme: Leveraging strategic export market to boost investment in import substitution and export diversification opportunities. The forum identified best practices and emerging issues in private sector development, competitiveness and the investment agenda to ensure sustainable and inclusive growth.

4.3.10 *Investor Relations:* Coordinated the preparation and launch of the Six Presidential Investors Round Table (PIRT). This phase focuses on: Tourism, Oil and Gas, Mineral Value Addition; Transport and Logistic; Agriculture Value Addition; Uganda`s Competitiveness and Ease of doing Business. Consequently, PIRT meetings further aim to bring a new era of improved trust between the public and private sector and enhanced harmony and togetherness, which are critical for sustainable economic growth.

Development Policy and Research

4.3.11 *NDP III Economic Development Strategy:* Prepared the NDP III Economic Development Strategy Update, 2022 to support implementation of the revised NDPIII in response to global economic shocks arising from COVID-19, the Russia-Ukraine conflict, the effects of COVID-19 and climate change. The Directorate further supervised the midterm review of NDPIII. The review aimed to determine extent of progress made at mid-point of implementation of NDP III and lay implementation strategy and financing plan for the remaining NDPIII period.

4.3.12 *Programme-based Planning and Budgeting:* Coordinated the preparation of Programme Implementation Action Plans (PIAPs) for the Development Plan Implementation (DPI) and Private Sector Development (PSD) programmes.

4.3.13 *National Policy Research Agenda:* Coordinated preparation and implementation of the Ministry's priority Policy Research areas as input to the National Policy Research Agenda for FY 2021/12 aimed at advancing National Economic Policy to inform strategic decisions of the Ministry.

4.3.14 *Development Cooperation:* Coordinated Ministry's participation in Regional and International engagements aimed at presenting Uganda's development interests. This is in line with the NDPIII which identifies development cooperation as a key requirement to prioritize efforts aimed at identifying Uganda's market opportunities in global and regional protocol to which Uganda is signatory. These include EAC, the Africa Continental Free Trade Area (AfCFTA), UN Frameworks among others.

4.3.15 *Development Communication:* Managed the Ministry Knowledge and Communication content development policy and performance using weekly and quarterly updates on Development Policy and Performance (DPP) Portal. A total of 66 knowledge products and updates were shared with stakeholders and other users of the Portal.

Outlook for FY2022/23

4.4 The Directorate will continue generating and managing knowledge for effective formulation, implementation and communication of Uganda's Economic Development Policy. Economic policy management will aim at facilitating competitiveness and sustainable growth. Specific strategic priorities include the following:

a) Human Capital Development (HCD) and Growth review: Facilitate the review of the NDPIII Human Capital Development and growth Programme aimed at sharpening national effort to accelerate sustainable investments in human resource for equitable economic growth and development;.

b) Policy Agenda and Legal Reforms: Coordinate implementation of Policy Research Agenda aimed at advancing Strategic National Economic policy to inform decision making processes;

c) Development Committee Business: Chair the Development Committee to provide strategic guidance on identification, appraisal and selection of projects for entry into the Public Investment Plan (PIP);

d) Sub-regional analysis and support: Coordinate the formulation of 15 sub-regional economic planning and public investment frameworks that detail the competitive advantage, growth potential areas, demographics and public investment profiles of the respective sub-regions. This will stimulate the growth potential of the sub-regions in the growth opportunities (Agri-business, Tourism, Mineral and Manufacturing);

e) Development Cooperation: Coordinate Ministry's participation in Regional and International cooperation engagements aimed at presenting Uganda's development interests. This is in line with the NDPIII priority area of increasing access to regional and international markets and take advantage of existing opportunities, through global and regional protocol to which Uganda is a signatory. These include the Africa Continental Free Trade Area (AfCFTA), EAC, COMESA, among others; and

f) Private Sector Projects: In a collaborative program between the Government of Uganda, the private sector and its development partners; the Directorate will provide technical support and leadership in the implementation of INVITE, CEDP and GROW Projects. These projects are aimed to create private sector manufacturing jobs; export promotion and increase incomes across Uganda.

CHAPTER FIVE: FINANCIAL INCLUSION AND DEEPENING

Overview

5.1 This chapter provides an account of the measures undertaken by the Directorate of Economic Affairs to enhance access to and use of a broad range of quality and affordable financial services during the FY 2021/22. Government remained committed to developing a vibrant financial sector that supports inclusive and sustainable growth and development through the provision of a conducive legal and regulatory framework, mobilization of long - term investment capital, increasing access to greater financial inclusiveness, and making affordable capital available.

5.2 The performance is structured along four thematic areas below:

1) Promoting Financial Inclusion;
2) Fostering Financial Sector Stability;
3) Ensuring access to long term financing; and
4) De-risking the financial sector.

Summarized below, are the measures coordinated by the Directorate in line with the key thematic areas above.

Promoting Financial Inclusion

5.3 Financial inclusion is a fundamental component of the broader financial sector. This is because financial inclusion facilitates inclusive growth and enables citizens' access financial services allowing them to smooth out consumption and invest in their futures through education and health. Access to credit enables businesses to expand, creating jobs and reducing inequality.

a. Government launched the Parish Development Model (PDM) and embarked on a nation-wide program roll-out. In line with the PDM Financial Inclusion Pillar, the Directorate coordinated the formation of PDM enterprise groups after enterprise selection; Enterprise group registration; pre-registration training for interim PDM SACCO committees; PDM SACCO formation and registration; Bank account opening; signing of Project Readiness Financing (PRF) Agreements; Setting-up of PDM SACCOs on IFMS; and Capitalization of PDM SACCOs.

b. In addition, the Directorate coordinated the development of the harmonized PDM Trainers Guide as the main tool for training for PDM SACCO leaders and members. This was jointly developed with Ministry of Gender, Labour and Social Development; Ministry of Agriculture, Animal Industry and Fisheries; Ministry of Trade, Industry and Cooperatives; and other Agencies.

c. The Directorate, in collaboration with MoLG, developed an implementation Strategy supporting PDM SACCO to sustainably ensure that the ready SACCOS receive appropriated funds. Relatedly, training activities were rolled-out for PDM District Core Implementation Teams in 36 out of the 110 Local Governments whose PDM

SACCOs received PRF funds. At the end of the FY2021/22, MFPED disbursed Ushs.25m to 110 out of the 144 Local Governments, amounting to Ugshs.151.7bn to 6,070 PDM SACCOs which had submitted complete requirements.

d. Government established the Small Businesses Recovery Fund (SBRF) to provide liquidity assistance to enterprises that have been adversely affected by the Covid-19 pandemic. The SBRF provide financial loans to small businesses that have suffered financial distress arising from the effects of Covid-19 and can show potential for recovery.

Fostering Financial Sector Stability

5.4 Government continued to develop and implement policies, laws strategies and interventions towards fostering financial sector stability as discussed below:

a. The Ministry developed the Financial Sector Development Strategy (FSDS) (FY2020/21–FY2024/25) which envisions a sound and integrated financial sector that supports sustainable and inclusive economic growth. The FSDS focuses on four strategic interventions, namely: 1) Increasing access to and use of finance; 2) Increasing access to long-term finance; 3) Strengthening innovation and supporting infrastructure; and 4) Strengthening financial stability and integrity

b. The Directorate through the CMA continued with its investor education program, which aims at creating awareness about capital markets among the public to drive market activity through Collective Investment Schemes (CIS). The program is conducted through external resource persons contracted by CMA to reach out to potential investors in the capital markets, with emphasis on investment through CIS.

c. Finalized and adopted the National Strategy for combating Money Laundering and the Financing of Terrorism and Proliferation FY2020/21- FY2024/25. The strategy aims to strengthen Uganda's legal and regulatory framework to counter money laundering, terrorism financing and proliferation financing. Relatedly, the ministry strengthened national coordination and cooperation in anti-money laundering and combatting financing of terrorism and combatting proliferation financing (AML/CFT/CPF) matters.

d. Coordinated the Terrorism Financing Risk Assessment (TFRA) for the Non Profit Organizations (NPO) sector. This was spearheaded by the Financial Intelligence Authority with relevant Public and Private sector institutions to review the adequacy of their laws and institutional framework in mitigating the risk (threat and vulnerabilities) of financing Terrorism. The assessment report provides an understanding of the NPO Sector in Uganda. It also identifies the risk, vulnerabilities and mitigation measures in respect to the use of the NPO sector to finance terrorism.

e. Conducted the second National Risk Assessment update (2021). The second National Risk Assessment (NRA) analyses the overall exposure of Uganda to Money Laundering and Terrorism Financing (ML/TF) risks, the major predicate crimes that generate significant proceeds and the new developments in the Anti-Money Laundering / Combating Financing of Terrorism (AML/CFT) landscape. The main objectives of the second NRA were to; Update the first Money Laundering and Terrorism Financing (ML/TF) risk assessment of March 2017; inform changes in Uganda's AML/CFT regime; allocate and prioritize AML/CFT resources; make available updated information for sectors and accountable persons to use for their own risk assessments; deepen the application of the risk-based approach (RBA) to resource allocation and AML/CFT supervision; and strengthen the AML/CFT regime through appropriate and informed policy interventions.

f. As a way of strengthening the country's Anti-Money Laundering and Financing of Terrorism (AML/CFT) regime, the Directorate embarked on the amendment of the Anti-Money Laundering Act to provide for administrative sanctions for breach of the provisions of the Anti-Money Laundering Act. The Anti-Money Laundering (Amendment) Act, 2022 was assented to by H.E, the President in September 2022.

g. As you will recall, the Country was placed on the list of Jurisdictions under increased monitoring in March 2020, to demonstrate the National resolve to address the Financial Action Task Force (FATF) action plan and get off the Grey List, Government intensified efforts to address the action plan and level of engagement with the FATF and ESAAMLG.

h. The Directorate submitted a draft Cabinet Memorandum to Cabinet Secretariat to facilitate enactment of the Foreign Exchange amendment Bill.

Ensuring access to Long-term Finance

5.5 In a bid to guarantee availability of long term finance for long-term investments, the Directorate undertake the following:

a. Coordinated the research and benchmarking exercises for the review of the Collective Investment Schemes (CIS) legal framework. The regulations under review included: The Collective Investment Schemes (Licensing) Regulations, the Collective Investment Schemes (Unit Trusts) Regulations and the Collective Investment Schemes (Conduct of Business and Miscellaneous provisions) Regulations. The CMA solicited the views of industry players on the areas for amendment to the CIS legal framework. Notably, the Authority that comprised of representatives from the Regulator, Asset Managers, custodians and trustees, constituted a technical working group.

b. The Ministry undertook a comprehensive review of the operations of capital markets in Uganda. The objective of the review was to create a vibrant Domestic Capital Market, in order to create a conducive environment for capital markets growth, promote efficiency and effectiveness, improve access to market-based finance for Uganda's Public and Private sectors' access to a larger variety of investment opportunities for Ugandan savers, Increase public knowledge on the role and functionality of Capital Markets.

c. The Ministry further spearheaded the review of the URBRA Regulations. So far, eight sets of Uganda Retirement Benefits Regulatory Authority (URBRA) regulations have been submitted to FPC for legal drafting. These are: URBRA (Licensing of RBS) (Amendment) Regulations 2022, URBRA (Licensing of Administrators) (Amendment) Regulations 2022, URBRA (Licensing of Trustees) (Amendment) Regulations 2022, URBRA (Licensing of Fund managers) (Amendment) Regulations 2022, URBRA (Licensing of Custodians)(Amendment) Regulations 2022, URBRA (Operations and Management of RBS) (Amendment) Regulations 2022, URBRA (Investment of Scheme Funds) (Amendment) Regulations 2022, URBRA(Financial Reporting and Disclosure Requirements) (Amendment) Regulations 2022.

d. Government embarked on MDI Amendments Bill. The objective of the amendments is to provide for the use of the word “microfinance bank” for Microfinance Deposit Taking Institutions; to provide for Islamic banking; to provide for Bancassurance; to provide for agent banking; to provide for special access to the Credit Reference Bureau by other accredited credit providers and service providers; and for other related purposes.

De-risking the financial sector

5.6 In order to mitigate risks in the financial sector, the Directorate continued to implement various measures to minimize uncertainties in the financial sector and enhance access to finance. These include:

a. The Ministry in collaboration with the key stakeholders continued to develop the Insurance Act regulations. The Takaful Regulations and Marine Insurance Regulations were sent to FPC for legal drafting while the Oil and Gas Regulations are still under internal review. The Insurance (Fees) Regulations 2022 were forwarded to First Parliamentary Council for gazetting. The regulations are meant to amend the annual contribution fees of an insurer conducting guaranteed funds and deposit administration plans, from 0.5% to 0.05% of the total asset value.

b. The Ministry further continued to engage the African Trade Insurance Agency (ATI) on areas of mutual interest on ATI’s support to both Government and the private sector through provision of its products (political risk and credit risk cover) to safeguard Uganda’s business and investment environment.

c. The Ministry in collaboration with the key stakeholders is undertook a review of the Motor Third Party Insurance Act reviewing the draft Regulatory Impact Assessment of the Motor Third party report submitted by IRA.

d. Launched the Insurance Appeals Tribunal to provide a mechanism accessible and efficient alternative to any person dissatisfied with the decision of IRA to appeal instead of going through the length and costly court process.

e. The Ministry continued to oversee the implementation of the Agricultural Insurance Scheme. Phase 1 ended in FY 2020/2021 with 95% disbursement rate of the Premium subsidy and over 300,000 farmers benefitting. Phase 2 began in 2021/2022 and will end in FY 2024/2025.

f. In addition, government with key stakeholders embarked on the amending the Motor Third Party Act to provide adequate compensation for Third Party victims. RIA for the Bill has been finalized, ready for submission to Cabinet consideration.

g. Following Cabinet approval of the cabinet paper regarding Operationalization of Islamic Banking, the Directorate has organized a technical retreat to pre-draft the Tax Bills and the Financial Institutions Amendment Bill, (3-7 Oct). This was aimed at operationalizing Islamic banking in the country.

Financial Sector Legislation

5.7 In line with the Directorate's function of deepening financial inclusion, the FSDS adopted a holistic strategy for creating a robust and well-coordinated financial sector that enhances synergies of all efforts pertinent to optimizing the financial sector's contribution towards the realization of Uganda's growth and development aspirations. The main motivation was to achieve three strategic objectives, namely: Financial services for all; Financial services for markets and Financial services for growth. The FSDS articulates a vision in which Uganda has a sound and integrated financial sector that supports sustainable and inclusive economic growth, by the year 2025. A number of Bills/Acts/ Policies were also enacted over the period under review. These include:

a. Government enacted Tier 4 Microfinance Institutions and Moneylenders Act, 2016 that established the Uganda Microfinance Regulatory Authority (UMRA) to regulate and supervise Tier 4 Microfinance Institutions in Uganda (SACCOs, Moneylenders, Non-deposit Taking Microfinance Institutions and Self Help Groups).

b. Government enacted the Anti- Terrorism (Amendment) Act, 2022; the Partnerships (Amendment) Act, 2022; Trustees Incorporation (Amendment) Act, 2022; The Cooperatives Societies (Amendment) Act, 2022. These laws provide for proliferation financing and beneficial ownership requirements.

Outlook for FY2022/23

5.8 Government recognises the critical role of the financial sector regarding overcoming these economic challenges and achieving Uganda's national aspiration of achieving middle income status by 2040. This is supported by a growing body of evidence confirming the significance of the financial sector development in fostering inclusive economic development.

5.9 The Director will continue prioritizing policy and programme initiatives aimed at: 1) Increasing access to and use of financial services; 2) Increasing access to long-term finance; 3) Strengthening innovation and supporting infrastructure; and 4) Strengthening financial stability and integrity; designed to support achieving the three strategic objectives (Financial services for all, financial services for markets and financial services for growth).

CONCLUSION

Government registered good progress towards implementation of the Budget Strategy for FY2021/22 inspite of the challenges posed by several external shocks including effects of Covid-19 Pandemic, the outbreak of Ukraine-Russia conflict which led to supply chain and demand disruptions in the second half of the financial year. The domestic economy remained resilient and was projected to grow in the range of 5.0-5.3 percent in FY2022/23 higher than the 4.7 observed in FY2021/22[4]. The projected growth outlook was attributed to moderation of external demand, improvement in business activity and consumer optimism at the back of stable prices and interest rates. The growth outlook remains subject to downside risks, which include weaker-than-expected global growth, higher risk aversion in global financial markets amid more aggressive monetary policy tightening in major economies, further escalation of geopolitical conflicts that could spill over into constraining trade and disrupt global supply chain.

4 Bank of Uganda, 2022

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