

NEW YEAR MESSAGE

2012

BY

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President of the Republic of Uganda

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Fellow Ugandans,

I congratulate you all, upon the completion of the year 2011 and wish you a prosperous 2012. I wish to convey my sympathies to all who have experienced losses and misfortunes during the course of the year. We thank God for all the successes we have had as individuals and as a Nation. I congratulate the Uganda National football team, the Uganda Cranes, for winning the CECAFA Senior challenge cup. I congratulate our athletes who got medals in Maputo, particularly, Kipsiro, Negesa, Akoru Christine and Mugabi Silver.

As we start the next year, government continues to work on the priorities set out for the 2011/12 Financial Year:

- i. Infrastructure development in roads, railways and energy;
- ii. Enhancing agricultural production and productivity;
- iii. Employment creation, especially for the youth, women and in Small and Medium Enterprises;

- iv. Human Resource development; and
- v. Improving service delivery

Uganda's economic performance over the last year has continued to be robust, even in the face of challenges. This is clear manifestation of the resilience that has been built by consistent economic policy and management of the NRM Government, enabling the economy to resist the economic shocks, both local and global, over the last decades.

Economic growth rates have averaged 6.5 per cent per annum in real terms and the exchange rate of the Uganda Shilling has not suffered major volatility, the increase rate of exchange being beneficial to exporters and reigning in increased demand for imports. Inflation has been at single digit over the years and the recent surge caused by rising food and fuel prices has abated. As compared to other global and in Regional economies, the overall performance of the Uganda economy has been comparatively better.

As we commence the Year 2012, there are numerous opportunities that present themselves to Ugandans from the challenges that we have all faced in the past year. It is imperative that Uganda seize these opportunities to increase production and household incomes as increased prices are meant to be a stimulus rather than being a short-term constraint.

Economic Performance

National Output

During 2011, total National Output of goods and services, or Gross Domestic Product (GDP) was estimated to grow at 6.4% in the year ending June 2011 amounting to a total GDP of the Uganda Economy of Uganda shillings 38.73 trillion (US\$ 16.7 billion). The growth performance was quite good despite the pressures that emerged late in the second half of the financial year that led to increasing food

and fuel price inflation. The GDP growth rate was an increase from 5.9% registered during the previous financial year, while the global economy recovered slowly from recession. Isn't this continued growth of the economy of Uganda, in spite of the bad economic situation globally, a shame to those who were predicting doom at the beginning of the year? It is good that many Ugandans, especially in the countryside, did not believe these charlatans. The few Ugandans that believed these charlatans should remember what is written in the Gospel of St. Matthew, 6: 30-31, which says: “....O *you people of little faith...*”

Prices and Recent Inflation Trends

Since February 2011, Uganda, like other East African countries, has been experiencing inflationary pressures, with prices rising from 1.4% per annum in November 2010 to 27% per annum in December 2011. The increase in inflation in Uganda over the last year was driven primarily by the following factors:-

- i. High regional demand for food, arising from widespread drought in the region;
- ii. High international fuel prices;
- iii. Imported inflation leading to rise in prices of capital and consumer goods and services;
- iv. Poor rainfall in a few areas of the country resulting in reduced market supply of food; and
- v. Impact of a weaker shilling against the dollar due to a strong dollar globally.

Food crop prices have registered the greatest increase rising from negative 5.5% November 2010 to 20.4% in December 2011. Food prices have, themselves, been driven up sharply in the last 12 months because of the following two factors. Firstly, constraints to food production, notably poor rainfall in some parts of Uganda has led to lower than normal food production in some parts of the country. The second reason has been the increased local and regional

demand for food. While demand for food increases, without commensurate production the prices inevitably shoot up.

I reiterate that this challenge presents an opportunity for farmers to increase production, since there is increased certainty that their produce will be sold at higher prices than when they only fetched a mere pittance for their efforts. Commensurately, increased production of food will enable the eventual lowering of food prices, which will benefit non-food producers such as industrial workers and other urban-based consumers.

External Sector Developments

During the year, the Uganda shilling had continued to depreciate against the United States Dollar. The exchange rate of the Uganda Shilling to the United States Dollar depreciated from 1,900 in 2009 to 2,400 early December 2011. This was due to two main reasons. First, the depreciation in the initial phase reflected a market-based

correction of the exchange rate since the Uganda Shilling was over-valued, a factor that penalized exports, as export earnings in foreign currency earned less Uganda Shillings.

The second factor causing the depreciation of the Uganda Shilling was observed more recently at the end of 2010, as the growth of Uganda's export earnings has not been at the same pace as the growth in the import bill. Total export receipts of goods increased from US\$ 2.2 billion in 2009 to US\$ 2.3 billion in 2010. This could have been higher if the demand for exports in developed countries had not slowed down as a consequence of the global economic crisis. In comparison, Uganda's import bill grew by 9.1% from US\$ 4.3 billion in 2009 to US\$ 4.7 billion in 2010, having fallen by only 5.4% in the previous year.

In addition to slow growth in export receipts, several of the main sources of foreign exchange inflows – remittances,

tourism, private capital etc, were negatively affected by the global economic crisis.

Hence, the depreciation of the shilling was an organic mechanism that helped us to discourage excessive imports. Additionally, a depreciated shilling encourages exports because you earn more shillings in each dollar. With strong Regional demand for food, this is a good opportunity for exports.

The National Resistance Movement Government is prioritizing the following interventions to support increased production of goods and services:

Agriculture

Agriculture remains the backbone of our economy and is identified as one of the most critical primary growth sectors of our National Development Plan. That is why over the years, Government has implemented numerous

interventions with the objective of transforming the millions of Ugandan households currently in subsistence agriculture to commercialized agriculture. It has long been recognized that structural transformation entails moving away from relying on rudimentary methods such as rain-fed agriculture to irrigation, from the hand-hoe to mechanized agriculture; and from production for household consumption to production for the market with associated value addition through agro-processing.

The Government will, therefore, address the critical concerns of food security, household incomes, value addition and exports growth through a commodity-based approach within the context of the agricultural zoning strategy of 2004. The commodity approach will allow for focusing interventions on a few strategic commodities at a time, thereby increasing the likelihood of getting maximum value from the resources invested in each commodity. It also permits for a more realistic way of addressing cross-

cutting issues such as extension services, provision of planting/stocking materials, machinery for land preparation, irrigation, disease and pest control and post-harvest handling. This is because the resources will be allocated based on the immediate and known needs rather than allocations based on assumed generic needs. This will form our strategy for increasing agricultural production and productivity.

The Government has identified 15 strategic commodities which were arrived at based on returns on investment, the number of households that grow a given commodity, their contribution to exports among other factors.

Under the category for food security the following commodities will be promoted: (i) Maize, (ii) Beans, (iii) Rice, (iv) Bananas, (v) Cassava, (vi) beef cattle and (vii) dairy cattle. Under the regional export potential category, the priority commodities are: (i) Maize, (ii) Beans, (ii)

Cassava, (iii) Dairy cattle, (iv) Beef cattle, (v) Poultry. Under the third category of International export potential, the following commodities to be prioritized are: (i) Coffee (ii) Tea, (iii) Fish, (iv) Cotton, (v) Flowers, (vi) Vegetables and (vii) fruits. It is imperative to note that the commodities selected have a national character and, therefore, interventions will cover all the areas of Uganda.

The commodity approach will be implemented by partnering with the private sector. Government support using the commodity approach will be used to leverage both private sector and development partner resources through multi-stakeholder platforms. For example, in coffee, there is significant investment by the private sector in many processing facilities and provision of extension services as demonstrated by Kaweri Coffee in Mubende district. Similarly, private sector investment in the fruit processing is growing, with Coca Cola planning to invest heavily in fruit processing. With respect to development partners, we

have a number of agencies including the African Development Bank, the European Union and others that are investing in specific value chains that include maize, oil seeds and coffee.

Transport Infrastructure

In order to ensure efficient movement of goods and people, the NRM Government continues to prioritize the upgrading and maintenance of the national road network to ensure that it is not only permanently motorable but also up to international standards. Our focus will mainly be on construction of several strategic national and feeder roads.

In addition, Government will also soon embark on improving the transport network and ease traffic congestion in metropolitan Kampala which will involve the expansion of key highways leading to and from the city, construction of fly-overs and introduction of the Rapid Bus Transport System within Kampala City. Kampala Capital

City Authority will be provided with all the necessary support in its efforts to decongest the city and infrastructure improvements. With assistance from our development partners from the People's Republic of China, the construction of the new Kampala-Entebbe highway will commence in 2012. Government is also planning to construct an alternative road to Jinja through a Public Private Partnership (PPP) arrangement.

I am aware that a number of the district roads taken over by the Central Government are not in good motorable condition. The condition of these roads has been greatly affected by the recent torrential rains. I am, therefore, directing Uganda National Roads Authority and the Uganda Road Fund to start implementing a work plan to rehabilitate these roads.

With assistance from the Government of China, we are also in the final stages of securing the road units for all local

governments. This equipment will provide local governments with the necessary capacity to carry out periodic and routine maintenance of the district and community access roads.

However, despite the increased resources and the progress so far registered, the road sector is still characterized by a number of challenges. These include lack of value for money spent on numerous road projects, high unit costs and corruption by both political and technical officers within the sector who collude with the contractors to inflate contracts and also carry out sub-standard road works. For instance, I have been reliably informed that the unit cost of constructing Mbarara-Kabale-Katuna road is more than double what will be spent on the Rwandan side, the fact that the terrain is almost similar among other factors notwithstanding.

I am also informed that the recent innovation in this hemorrhage is through inflating Bills of Quantities by Engineers which then get translated into high bid prices. I want to caution all those involved in this kind of outright theft that the law will undoubtedly catch up with them sooner than later. I am repeating my directive to the Auditor General to immediately carry out a forensic value for Money Audit in the roads sector using a firm of international repute and urgently submit a comprehensive report.

Energy Infrastructure

Access to power is critical for any country's development because it provides opportunities for increased industrial processing and production, social welfare, education, environmental protection and income generating activities. However, the country is currently experiencing acute power shortages arising out of insufficient power generation, amidst the sharply increasing demand for electricity for

both domestic and industrial consumption. This, as I have told you many times, was caused by the sabotage of some elements in the 6th Parliament.

While there have been some delays in the commissioning of the first unit of the 250 MW Bujagali Hydropower Dam, the key Government interventions of provision of subsidized power from thermal sources and the commissioning of power in the small renewable energy plants have yielded significant benefits for the economy.

The Government subsidy has ensured that the full cost of power is not borne by the consumer as would have been the case had Government left the power tariffs to be determined by the forces of demand and supply. As a result, power tariffs have remained manageable. It is, however, evident that the Thermal power is too costly and unsustainable in both the short and medium term. It is estimated that since the year 2006, we have paid more

than US\$ 1.0 billion in Energy Subsidy. With the full completion of Bujagali hydro power station in 2012, an additional 250 MW will be added to the national power grid and power outages will become much less frequent. Government is also aware that in order to meet the increased demand for power to support industrialization and avert environmental degradation, we will have to scale up power supply by constructing more hydro-electricity generation plants. At present, the demand for electricity at peak hours is 450 MW. Yet electricity production, including the very expensive diesel generated electricity, is 375 MW. Therefore, the deficit is 75 MW. Therefore, with the 250 MW of Bujagali, the deficit will be eliminated for about two years. In order to avoid future problems, we must quickly move on other power projects. Government's long-term intervention will be to increase power supply through increasing generation capacity. Priority will be given to the commencement of the construction of the 700 MW Karuma Hydropower project; and also soon start on construction of

the 140 MW Isimba hydropower plant, which will be developed with private sector financing. We will also speed up arrangements to start on the first phase of the 600 MW Ayago hydropower. In addition to the big projects, several other mini-hydropower plants are being constructed by private developers such as at Mpanga, Buseruka and Ishasha. These will contribute an estimated additional 35 Megawatts to the national grid next Financial Year.

Most of these projects are being funded through a multi-pronged approach, that includes utilization of our own domestic revenues and through the Public-Private Partnerships (PPPs), in addition to traditional sources of financing from bi-lateral and multilateral institutions and non-concessional financing.

Oil and Petroleum

The recent discovery of significant amounts of oil reserves presents a new ray of hope to Uganda's long term vision of

transforming itself from a low income to a medium income and self-sustaining economy. Experience from some oil producing countries clearly demonstrates the need to have prudent management of the oil revenues through establishment of a strong and appropriate legal and institutional framework for oil revenue management. The NRM Government will ensure that these resources are managed in a manner that facilitates sustainable development and avoids economic distortions. Oil and gas resources will be managed in a manner that is consistent with the macro-economic framework of the country.

Because Oil is a non-renewable resource, the revenues will be only to the primary development sectors of the economy as identified in the National Development Plan (NDP). The key priority sectors will be in energy infrastructure including enhancing electricity generation, and transmission capacity and rural electrification; investment in rail transport and major road infrastructure;

establishment of irrigation schemes to ensure availability of water for agricultural production; skills development through Science and Technology including enhancing technical and vocational education. Oil revenues shall not be used for consumption but for durable investments that will benefit the present and future generations. Oil and gas activities will provide opportunities for both forward and backward linkages in the country's quest for industrialization. In order to achieve the above objectives, we will establish a strong and appropriate legal and fiscal regime to guide overall management of the oil resource.

Education and Skills Development

The introduction of Universal Education at both Primary and Secondary School levels has greatly increased school enrolment in the country. In addition, the liberalization of University and Tertiary education has seen the number of graduates qualifying from higher institutions of learning increasing sharply. However, there have been several

significant constraints, pertaining to quality of education at all levels. The high number of unemployed graduates is a clear indication that the education system is not equipping the students with the critical skills required to create employment and job opportunities.

Studies have also consistently shown that UPE is still characterized by high rates of teacher absenteeism, high dropout rates, inability of children to gain an acceptable level standard of reading and writing. I have also established that the education sector is still marred by “ghost” schools, teachers and pupils. Most of these challenges are largely attributed to the weak inspection, supervision and monitoring. I am directing the Ministries of Education and Sports, Finance, Planning and Economic Development and of Public Service to immediately address the issue of “ghosts” in schools. I set up an inquiry into UPE almost three years ago but I am surprised up to now I have not received the report. In order to address the

current problem of unemployment, Government is embarking on a comprehensive programme to promote vocational training to ensure skills development and job creation for the youth.

Efficiency of Public Service Delivery

Uganda has in the past undertaken numerous reforms aimed at strengthening the performance of Government. However, amidst all these reforms, delivery of public services is still impeded by various forms of inefficiency through wastage, laxity, and limited responsiveness to critical service needs. The key reasons for poor service delivery include procurement delays, non-compliance with standing regulations, corruption, inefficient resource allocation, inadequate monitoring and evaluation, institutional weaknesses, poor accountability, lack of performance-related remuneration, among others. In order to tackle these challenges, Government is taking the following measures:

- i. Strengthening contract management, with emphasis on the key sectors such as roads, energy, education and health.
- ii. The Public Procurement and Disposal of Assets Act has been amended to address the weaknesses in the previous law. The new law requires all Governments to prepare and link their annual Procurement Plans to the budget and work plans. These plans must be submitted to the Ministry of Finance, Planning and Economic Development and to PDDA. In addition, the approved procurement plan should be displayed on public notice board.
- iii. Joining up Government to work as one based on the cluster approach. For example, a cluster approach to sanitation would clearly define mandates and responsibilities across education, health and water

sectors to enhance services and reduce duplication. Monitoring and evaluation should also be undertaken at the cluster level. The Prime Minister should follow up implementation of this approach.

- iv. Enhancement of public servants' salaries with emphasis on teachers and scientists effective FY 2012/13 to address the issues of low morale and absenteeism. Priority will be given to pay for scientists as they are able to generate products of the brain that will earn more than our traditional colonial exports such as coffee, tobacco, etc. Recently, our scientists made an electric car, produced animal vaccines, added value to a range of our agricultural products and are able to make machine making machines.
- v. Rotation of senior public sector managers to reduce corruption should be immediately undertaken. The policy will involve rotation of Permanent Secretaries,

Undersecretaries, Directors, Accountants and Auditors every 2 years, which will address problems of stagnation and entrenched corruption tendencies.

Fighting corruption

Government remains committed to its political will to stump out corruption especially within the public service. While I salute the 9th Parliament for their efforts in this endeavour, I urge them to take time to verify any claims and work with the investigative institutions towards this end, avoiding undue excitement that might hamper the correct procedures.

As we get into the New Year, I call upon all Ugandans to continue to embrace patriotism and use our freedom of expression responsibly. Divergence of opinion and affiliations of any kind should not lead to intolerance; any legitimate views must be expressed and settled in a civil manner. Persons engaged in lawless activities shall

continue to be handled by the law enforcement bodies within the constitutional provisions.

Let the year 2012 be the year of peace, hard work, accountability and efficient service with integrity. Government is committed to concretizing the measures already in place to ensure the prosperity of all Ugandans. We must aim at being a country of producers rather than of consumers.

I wish you all a happy and prosperous New Year Two Thousand and Twelve.

31st December 2011

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Rwakitura