

# ***State of the Nation Address***

***by***

***H.E. Yoweri Kaguta Museveni***

***President of the Republic of Uganda***

***at the***

***Uganda International Conference Centre,***

***Serena, Kampala***

***4<sup>th</sup> June, 2015***

His Excellency the Vice President,  
Rt. Hon. Speaker of Parliament,  
His Lordship the Chief Justice,  
Rt. Hon. Speaker of EALA,  
Rt. Hon. Speaker of Rwanda,  
Rt. Hon. Speaker of Somalia,  
Rt. Hon. Prime Minister,  
Rt. Hon. Leader of the Opposition,  
Hon. Ministers,  
Hon. Members of Parliament  
Hon. Members of EALA,  
Members of the Diplomatic Corps,  
Distinguished Guests,  
Ladies and Gentlemen.

Madam Speaker,

In fulfillment of the Constitutional requirement under Article 101 (1) of the Constitution of the Republic of Uganda, I am here to deliver the State of the Nation Address, 2015 mainly to give accountability on particular Government commitments and to appraise you of the plans and strategies for the next twelve months.

Madam Speaker and Honourable Members of Parliament, on the 11<sup>th</sup> of June 2015, the Minister of Finance, Planning and Economic Development, will present to this August House and the entire nation, the Budget for FY 2015/2016. He will also detail what has been achieved and what we intend to achieve in the coming Financial Year. On this occasion, I would like to re-emphasize a point I have made repeatedly before.

I will begin with the saying:

*“Baleka bye basanidde okukola, nebakola byebatasanidde kukola, n’amazima tegali mubo – “They left undone what they ought to have done and did that they ought not to have done and there is no truth in them”.*

This is in the Church of Uganda Prayer Book on page 10; and also in the Book of Matthew Chap: 23:23. It says in the Bible: *“...Woe to you, scribes and Pharisees, hypocrites! For you pay tithe of mint and anise and cummin, and have neglected the weightier matters of the law: justice, mercy and faith. These you ought to have done, without leaving the others undone”.* Verse 24 says: *“..... Blind guides, who strain out a gnat and swallow a camel...”.*

All this means that you concentrate on peripheral issues but neglect the much more fundamental issues.

This is the greatest challenge leaders over the ages face. To distinguish the core issues from the peripheral ones or even to prioritize among priorities.

In the last 50 years, the NRM and its precursors – USARF (University Students African Revolutionary Front), FRONASA, UPM, the Anti-Vietnam War Solidarity Committee, PRA (Popular Resistance Army), NRA, etc., have been fighting against this disorientation – the disorientation of failing to prioritize and trying to be everywhere and ending up being nowhere. Trying to do everything and ending up doing nothing.

Where we successfully resist such disorientation, we make good progress. Since 2006, we started resisting the mistake of spending on consumption before we spend on development and wealth creation. We were also able to prioritize among priorities. By doing so, just relying on Uganda Government money, even if you put aside projects supported by outsiders, the following have been achieved:

1. Electricity transmission lines are now 1,627 kms compared to 1,427 kms in 2006; on the power distribution lines, the medium voltage (33KV and 11KV), is now a total

of 15,178 kms compared to 6,245 kms we had by 2006. The low voltage distribution lines connecting electricity to consumers is now about 18,000 kms compared to 8,448 kms in 2006;

2. US\$ 338.4 million of the Energy Fund that we put down as our contribution to Karuma hydro-power dam and Isimba hydro-power station;
3. We have boosted the budget of the Ministry of Works from Shs. 374.15 billion in 2006 to Shs. 3,328.79 billion today per annum; and
4. We have been able to put Shs. 170 billion in the Science Innovation fund as well as funding UIRI.

This prioritization has completely changed the image of Uganda. On the side of electricity transmission, we have now connected or are in the process of connecting all the district towns except for Kaabong, Nwoya, Buvuma and Kotido. If you were to go back to 1986, as the base year, 33 towns which constitute headquarters of the current 112 districts had no electricity. The remaining district towns of Nwoya will be connected in December, 2016, while Buvuma will be connected in June, 2017. This is on the side of electricity transmission. On the side of electricity generation, by the time Karuma and Isimba as well as the mini-hydro stations of Kikagati (16MW),

Mitaano (2.9 MW), Lubilia (5.4MW), Nyagak III (4.5 MW), Siti (21.5 MW), Waki (5.4 MW), Rwimi (10.54MW), Ndugutu (0.5mw), Nkusi (4.8MW), Nyamwamba (9.2MW), Neengo Bridge (6.5MW), Esia (0.11MW), Muziizi (44.5MW Peak Power), Nshungyezi (38MW), Ntono (2.5MW), Sindoro (5.6MW), Aswa-Agago (88MW), Kakaka (7.2MW), Muvumba (4.5MW), Muyembe (3.2MW), Kyambura (8.3MW), Maziba (1.0 MW), Solar power (20 MW) and additional electricity from bagasse at Kinyara (25MW) that are in the pipeline of being constructed, are completed, our generation capacity will be at 1974 megawatts. This is as compared to 1986 when the generation only stood at 60mgws. This is, of course, still far too small if, for instance, you compare with UK that is generating 55,000mgws. However, I am rightly excited if you bear in mind our starting point in 1986 of only 60mgws as pointed out above. When our oil starts flowing in the year 2018 or if we can get funding that is not borrowing, we are going to build the additional electricity generating capacity at Ayago (840 MW), Oryang (392 MW), Uhuru (350 MW), Kiba (300 MW), Albatros thermal plant (50 MW) and Murchison Falls (700 MW). This will give Uganda a capacity of 4356 MW.

We have also agreed with the American company known as AAE Systems Inc to explore and develop another 300MW of electricity from the geo-thermal potential of Uganda (*ebitagata*) in the Katwe area of the Rwenzori region.

The only little mistakes in the electricity sector are two. One is in connection with Bujagali. Unlike in the case of AES (remember the young man Mr. Wright) where they had agreed to develop Bujagaali at US\$ cents 4.9 per unit, in the subsequent agreement with Bujagali Energy Limited (BEL), our people, unfortunately, agreed to the electricity generation cost of US\$ cents 10.1. They say that it was on account of the expensive money the developers used and the high cost of construction materials (steel, oil) at the time of building the dam. This distorts the price of electricity. We are going to engage the developers to find ways of refinancing this project. With our oil money, this should be no problem. However, even before our oil money, we may be able to get cheaper money to pay off this expensive money borrowed by the developers. This mistake should never be repeated. The cost of generation for Karuma, for instance, is going to be 5 US cents per unit.

The one for Isimba is going to be US\$ cents 4.8 per unit. That is how things should be. The price for electricity from the geothermal is going to be US\$ cents 8 per unit. We have taken the decision that for manufacturing, the price of electricity should not exceed US\$ 5 cents per unit. Other electricity users, such as those in the services sector like the trans-night goers or the grasshopper catchers or those who use electricity for merely lighting, can pay slightly higher prices. Factories, however, need to pay low prices because manufacturing is very competitive globally and yet it creates more jobs, adds value to our raw-materials and, therefore, earns more money for our country and consumes utilities; by creating employment, it widens the tax base, etc. etc. Low cost electricity which is reliable only competes with low cost transport in facilitating industrialization. Factories in South Korea, China and Ethiopia buy electricity at US\$ 7 cents per unit, US\$ 8 cents per unit and US\$ 4.5 cents per unit respectively. Selling electricity to factories at 11 US\$ cents per unit is not serious.

The other mistake is the level of electricity losses in transmission. Under Uganda Electricity Board (UEB), the losses were about 34%. With Umeme, the agreement says that they should reduce the losses to 14.7% by 2018. I am, however, not satisfied with this because when I visited South Korea, I found that the losses there were only 4%. Why can we not achieve that target?

On the issue of the roads, as you all can see and as you are aware from communication availed earlier, by using our own funds and some funds from outside, plans are either in execution or are in the pipeline for all the major roads to be constructed. Even the Rwenkunyū-Masindi Port-Apac-Lira-Kitgum road, for which we had failed to secure funding, the Islamic Development Bank has accepted to provide the funds. The road upgrading works and construction is expected to commence at the end of 2016. The lists of these roads, to be upgraded from murrām to bitumen, have been published before. They are attached to this speech as an appendix.

On the side of Scientific Innovation, we have supported the Banana project with Uganda shillings 78 billion, Dr. Kyamuhangire's banana juice project with Shs 1.3 billion, Kiira project of the electric car with Shs. 27.7 billion., UIRI with Shs. 14.24 billions. There are very many innovations or transferred technology by our scientists. The only limitation, as yet, are these funds. After we have dealt with the roads and electricity, we shall decisively support this effort. Our scientists can do anything. They just need funding which will come in due course. Although we are tackling the priorities of the roads and electricity for now, we have, at least, made that modest start.

The other cost pusher for producers and manufacturers is transport. Right from the time the British built the railway in 1902, no other effort has ever been made in that direction. Yet, the cost of transport adds – 25% to the cost of a good while electricity at current prices adds 14%. The two account for 39% of the cost of the good. In countries like China, transporting a container of goods from Shanghai to Peking is US\$ 1,500. Here, transporting the same container of goods by road from Mombasa to Kampala, costs US\$ 2,100.

Therefore, in order to make our economy competitive, we have decided, together with Kenya, to build a modern Standard Gauge Railway. The Government of China agreed to help us. That will reduce the cost of transporting goods to US\$1,650 per container.

Another damage to the economy and the people would have been insecurity. However, the UPDF has ensured total peace in the whole country by defeating Kony, defeating ADF and disarming the Karimojong warriors. There is now total peace in the whole length and breadth of Uganda. The only residual nuisance is ordinary crime such as murder, corruption, tax evasion, money laundering, etc. Apart from the normal police methods, we need to build modest infrastructure to cope with this problem. Such infrastructure would, for instance, include CCTV cameras in the major towns, starting with Kampala. Such infrastructure, would make the work of the Police in detecting and apprehending criminals much easier. We are in the process of solving that problem. As of now, we are still using the old police methods of eye-witnesses, etc., that are slow or not conclusive.

Otherwise, Uganda is one of the most peaceful countries anywhere on the globe. Managing successfully the huge numbers of people at Namugongo yesterday, on the Martyrs' day celebrations, goes to prove that point if any proving is necessary.

The other cost pusher for products is the cost of capital – borrowed money. We privatized our Government Bank, Uganda Commercial Bank (UCB), in order to bring down these interest rates. Yet, the interest rates are still high, at 20.1% per annum. Compare this with the cost of capital in South Africa 13.05%, South Korea 3.4% and the USA 5.97%. Now that the route of privatizing UCB did not solve this problem, we are going to take another route, the route of capitalizing Uganda Development Bank (UDB). We have already invested Uganda Shillings 128 billion in the UDB. After the coming elections, in the following financial year, we plan to invest an additional Ug. Shs. 500 billion so that that Bank can lend to manufacturing, business and agriculture at prime rates of not more than 15% interest rate if one assumed inflation to be at 5% per annum or less as it has been most of the previous years.

Emphasizing these five areas – the roads, electricity, the railway, defence and security and the cost of capital, does not mean that we forgot other areas. Scientific innovation is a stand-alone element of capacity building. In the area of ICT, for instance, when I visited China some years ago, I agreed with the Huawei Company to build the ICT backbone. I linked them to the concerned authorities inside Uganda. As we speak today, the following towns have already been linked by the ICT backbone: Kampala, Entebbe, Bombo, Nakasongola, Gulu, Masindi, Nimule, Lira, Soroti, Kumi, Mbale, Tororo, Busia, Jinja, Mukono, Mbarara, Bushenyi, Fort Portal and Hoima. The other towns, such as: Masaka, Mutukula, Kabale and Katuna will be linked in the financial year 2015/2016. With our neighbours in Kenya and Tanzania doing the same and the extending of the undersea cable to Dar-es-Salaam from Cape Town and to Mombasa from Aden, it means that the cost of making telephones will reduce from the average of 300 shillings per minute to 200 shillings and below. We shall shift from using satellite linked telephones to the ICT backbone and undersea cable linked telephones that are much cheaper.

This brings the cost reducer elements to namely: the roads, electricity, the railway, defence and security, the cost of capital and, the cost of ICT transmission. These achievements in the roads' sector, in the electricity generation and transmission and supporting scientific innovation were made possible because we were able to distinguish between a "gnat" and a "camel" – to distinguish between the core and the peripheral, to distinguish between the primary and the secondary. We were even able to prioritize among the priorities. Otherwise, depending on donor funding only, we would have done 1,228 kms of the roads, but Government spending added another 1,200 kms and for those under construction, donors are financing only 250 kms and Government 1,214kms. Donors will finance only 683 kms and Government 797 kms for the projects which are in the pipeline. Besides, even for the donor funded projects, there is counterpart funding and land compensation financed by Government, which constitute 30-40% of the project costs. On electricity transmission/distribution, we would only have covered 9,178 kms instead of the 15,178 kms. This confirms the wisdom of the Banyankore proverb that says: *"egabo yakyeeri, togiheera mwaana bubazi"* – "you

cannot give a laxative to a child and hope to resuscitate him/her with drinks from the neighbour. What if the neighbour does not have the fluids?” The answer is clear – the child will die from dehydration. You cannot fail to plan and prioritize your own resources and only depend on external funding.

As pointed out above, supporting Scientific Innovation is not necessarily a cost reducer but it is an element of capacity building so as to take advantage of our educated people – the result of the human resource development – to build the industrial and research base of our country. They have the capacity to modernize our economy by themselves. That is why I, recently, created a new department of Science and Technology in the Ministry of Education and Sports. They should coordinate all that effort of giving support to our scientific innovators who have, hitherto, been handled by the Ministry of Finance which, understandably, has got a lot of work. There is nothing they cannot do if they are supported. They have the knowledge, they lack the money.

The Soviet Union had used this approach between 1917 and 1950 when the Korean war broke out. In that short period of 33 years, by supporting their scientists, the oppressive atmosphere of Stalin notwithstanding, the Soviet Union was able to transition from a pre-industrial, feudal country to a modern industrial one that was almost solely responsible for the defeat of fascist Germany, relying on its just acquired industrial and technological capacity, thanks to its scientists.

Up to today, the names of those scientists are engraved in the designations of the products they pioneered. The Mig-series of jet planes stand for the names of their designers – Mikoyan and Guriyevich; Sukhoi for Pavel Sukhoi (1939); Ilyushin for Sergey Vladimirovich Ilyushin (1933); Tupolev for Andrei Nikolayevich Tupolev (1922); Kalashnikov for Mikhail Kalashnikov, the designer of the famous rifle in the year 1949. With the infrastructure we are building, with the peace we have achieved and with our scientists, we are on a steady march to modernization. At this pace, Uganda will become a middle income country (lower middle income) by the year 2018/19. By 2040, Uganda will be an upper middle income country.

I do not like the arrogance and carelessness of some MPs who do not show respect and appreciation to these geniuses of our country. The careless and sometimes insulting manner in which the scientists are interrogated as if they are criminals in court, when they are appearing before Parliamentary Committees, is unacceptable. There are four elements all of you must understand. There is research, there is innovation, there is incubation and, then, there is fine tuning the incubation products. All these are being done by our scientists on their own. Then there is the commercialization plan where the economics must come in. Why would any reasonable Ugandan expect the scientists to do all these by themselves? If he or she has done the research and the innovation, you do the rest. What are you – the civil servants and the political leaders – for? It is abuse of power to use Parliament to throw aspersions on bona-fide contributors, especially of the caliber of our scientists. I am glad you approved the money for the banana project. Otherwise, I was on the verge of donating this project to other African countries that have leaders who care more.

To help us along, fortunately, we have recently attracted very useful investors after a long and arduous struggle. Some time ago, we had achieved a break through when we attracted a capable milk processor, Sameer company, to help us cope with our huge potential in that sector. Sameer, by leasing the under-utilized Government little facility of 15,000 litres per day, has been able, in the last 11 years, to push that production to 150,000 litres per day. The artificial glut of milk that had been created has now been converted into more demand for milk from the increasing number of factories. Apart from the factories that merely pasteurize the milk to preserve it and separate the traditional products of ghee, butter, yoghurt (*amakamo*), fresh milk (*amashununu*), cheese (evaporated *machunda*), we now have factories such as Amos dairies, that crack the whole milk and get separate proteins such as Casein, which is used in human medicine and exported to the USA. Milk production jumped from 200 million litres per annum in 1986 to almost 2 billion litres today. We should push this to 20 billion litres per annum by ensuring, through Operation Wealth Creation (OWC), that each of the 6 million Ugandan rural families has, eventually, slowly by

slowly, 6 high yield milk cows able to give 20 litres per day per cow. If only 2 cows are milking at a time, that will mean 87 billion litres per annum. The global demand of milk is 603.9 billion litres (625 million metric tonnes) per annum. The cattle population would go to 36 million compared to our present population of 13 million, itself being a big advance from the 3 million cattle of 1986. This commercialization of the ancient domestic product of milk in 1989, gave opportunity for my late father, Mzee Amosi Kaguta, at that time 73 years of age, to fully join the money economy and, therefore, graduate from subsistence, traditional farming to commercial farming. By that fact and by the volumes of the money his colleagues and himself were earning on a daily basis, they had metamorphosed into the middle class. Their huge but under-utilized wealth in terms of land and cattle had, at last, joined the modern age of wealth through money.

Some Ugandan families had joined commercial coffee growing in the colonial era, different from the traditional coffee for chewing. Indeed, Uganda has been producing 4 million bags, of 60 kgs, per annum for a long time.

Out of this, Uganda earns US\$ 400 million per year. The NRM is now, however, up-scaling the industry of coffee to new heights. First, we want all the old 220 million coffee trees to be replaced by the new ones that produce four times more coffee than the old ones. By simply doing this, coffee production in Uganda will go from the present 4 million bags per annum to 20 million bags, overtaking all the other coffee producing countries except for Brazil. At present prices, that will bring in US\$ 2 billion instead of the present US\$ 400 million. However, it is not just the replanting that we are doing. New areas that never grew coffee before, such as the North, are now joining in growing coffee. The yields will, therefore, exceed my target of 20 million bags.

There is something much more we are doing for coffee. After endless trials and disappointments of trying to help your country break out of the modern slavery of producing raw materials where the coffee growing country earns less than US\$ 1 per kg but the countries processing coffee will get US\$ 10 per kg, 10 times more than we the coffee growers, we are now finally succeeding.

That has been the same for cotton, for minerals, etc. This is where the under-development has been. We export money (ten times more than we get), we export jobs, we export taxes and, of course, we export the nutrients of our soils (nitrogen, phosphorous, potassium, etc.) and do so for peanuts. This has been the basis of colonialism and neo-colonialism. This is a situation we had to get out of. I was even beginning to think of bringing back the parastatals to do this job. Fortunately, however, we are beginning to get big successes. In coffee, we have, at last, got a serious investor, Vinci, who will add value here to 60,000 tonnes of our coffee. That 60,000 tonnes will bring in US\$ 600 million per annum.

As if by coincidence, we also got a serious investor for adding value to cotton, the Fine Spinners Company. That company will process 10,000 bales of cotton into finished garments and will bring in US\$ 23 million per annum. We have also got a big meat processor, up in Bombo, the first modern meat packers after the collapse of the meat packers in Soroti.

In this way, commodity by commodity, we shall end the slavery of exporting raw materials. There are now 28 tea factories in Uganda processing 60 million kilogrammes of tea per annum, up from the 23 million kgs of 1971 and the 3 million kgs of 1986. Kilembe mines is being repaired to produce, not the old blister copper which is 94% pure, but, to produce the cathodes that are 99% pure and can be used straight into making electric cables and other applications. We are sourcing for people to build a steel industry using the Kanungu-Kabale iron ore and the gas of Mwitanzigye (Lake Albert). We commissioned the start of the construction of the fertilizer, steel and sulphuric acid plants at the Sukuru hills near Tororo. We are handling the requests of those that are interested in the Moroto cement, using the 300 million metric tonnes of ore, much bigger than the 23 million tonnes of Hima. The dams, the railway, the construction industry, all need this steel and this cement.

The North of Uganda is going to be the industrial heart of Uganda. At the beginning of my speech, I enumerated the numerous power projects that are either being planned or are

already being implemented. These are: Karuma, Ayago, Kiba, Uhuru, Oryang, Murchison Falls, Agago Falls, etc. All these are either in the North or on the boundary between Bunyoro and the North. Grain milling factories have come up in Nwoya as has large scale farming. A sugar factory, although delayed, is coming up in Amuru. Another one, without any controversy, is coming up in Atiak. You have seen clusters of factories in Mukono, in Luwero (Kapeeka, Semuto, Sanga). All these are, mainly, factories based on agro-processing.

I have referred to Kilembe, Kanungu, Sukuru and Karamoja above in respect of Copper Cathodes, Steel and fertilizers and cement respectively. That is not all the minerals. There is gold; at some point, we shall need a gold refinery so that we have gold ready to be turned into the jewellery industry. Why should we export unprocessed gold and, then, our daughters have got to buy back the jewellery at many times the value we got for our gold? There is coltan, wolfram, tin, Aluminium clays, etc, etc.

These clusters of industries, growing around our natural products (agricultural or mineral) are the medicine to unemployment, to low forex earnings and high import Bill, to a narrow tax-base, etc.

All these are on the assumption of low costs of electricity that is reliable, low cost of transport and low cost of capital. Of course, we also need entrepreneurs if we are to avoid the route of parastatals. Therefore, developing a consensus for prioritizing infrastructure has been crucial for our future or contemporary prosperity. I salute the steadfast members of the NRM Caucus that supported my plan in 2006, of prioritizing among priorities, when I introduced it to them at Statistics House.

All I have said above, does not include petroleum and gas. Our petroleum plan is to build a 60,000 barrel per day, refinery, expandable to 120,000 barrels per day. Apart from getting our own petroleum, diesel and kerosene for aviation fuel, the residuals will feed the petro-chemical industries so as to produce plastics, fertilizers (again, but from another source) and pharmaceuticals.

Some of the oil will be exported through the pipeline. Even if we are to sell only 120,000 barrels per day, according to a price of US\$60 per barrel, that will give Uganda an additional income of about US\$ 3 billion. This money will be dedicated to infrastructure, science innovation and some of the high level science education institutions. It is considerable. We have been doing so much with so little. What will happen now that we are getting quite a bit of additional money?

This time, I will not talk so much on the story of the commercialization of agriculture. I have, in the past, talked a lot on that. May I end by talking a bit on the wood and fibres sectors. A lot of products can be made from wood given our soft and hard woods. Apart from timber, there are many traditional products made out of wood that should be made and promoted. There are wooden plates (*entaatika*), milk pots (*ebyaanzi*), wooden spoons (*endosho*), combs (*ebishunshura*), flour mingling clubs (*enyiko*), etc. etc. All these are very long lasting. The youth who are making them should be encouraged.

I am confident to promote all these production efforts because I am sure there is a sure market (national, regional and international). The regional market, through integration. The international markets through negotiations.

On the side of politics, there is no problem because everything is provided for in the Constitution. Let leaders show the way and not attempt to carry the population. Just explain Government programmes and help implement them. You will get credit without cost to yourself.

It is now my pleasure to declare the 5<sup>th</sup> Session of Parliament open.

I thank you.

4<sup>th</sup> June, 2015

UICC, Serena

