2019 BUDGET ADDRESS BY HONOURABLE MARGARET D. MWANAKATWE, MP, MINISTER OF FINANCE, DELIVERED TO THE NATIONAL ASSEMBLY ON FRIDAY 28TH SEPTEMBER, 2018

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1. Mr. Speaker, I beg to move that the House do now resolve into Committee of Supply on the Estimates of Revenue and Expenditure for the year 1st January, 2019 to 31st December, 2019 presented to the National Assembly on Friday, 28th September, 2018.

2. Sir, I am a bearer of a message from His Excellency, Mr. Edgar Chagwa Lungu, President of the Republic of Zambia, recommending favourable consideration of the motion that I now lay on the Table.

3. Mr. Speaker, this is my first Budget Address since I was granted the rare privilege to serve as Minister of Finance. Let me take this opportunity to thank His Excellency, Mr. Edgar Chagwa Lungu, President of the Republic of Zambia for bestowing this great honour on me. It is a privilege I do not take lightly and I intend to execute my duty diligently.

4. Sir, allow me also to thank my predecessor, Honourable Felix Mutati, MP, who steered the economic fortunes of our great nation over the past one and a half years. As all can attest, the Honourable Minister gave his best. I will work diligently and invest all my energies to build on his achievements.

5. Mr. Speaker, as I present this Budget, I wish to emphasize that Zambia is and will remain a Christian nation whose values, principles and ethics in all aspects of life are anchored on our covenant with God. These values will always be mainstreamed in our policies and national development plans to guide our attitudes and aspirations.

6. Sir, this is the eighth budget presented to this august House under the stewardship of the Patriotic Front Government. It is therefore almost a decade since the Patriotic Front became custodians of the fortunes of the Zambian people. This is an opportune time for us as a nation to reflect on the progress that we have made and lessons learnt in our quest to create an inclusive and just society that leaves no one behind.

7. Mr. Speaker, the Patriotic Front Government has made great progress in developing our country. This is evidenced by the notable achievements we have made which include: the amendment of the Republican Constitution, expansion in our health and education facilities, and enhanced interconnectivity of our country through improved road and information and communication technology infrastructure. We have also scaled up the provision of social safety nets for the vulnerable. We will consolidate and build on these achievements.

8. Sir, Government has laid the ground for a more inclusive economy. However, we acknowledge that growth

remains below our country's potential and poverty remains high, especially in rural areas. To address these challenges, the private sector needs to be encouraged to invest, innovate and create jobs. In practice this means that Government needs to reduce the fiscal deficit, maintain debt within sustainable levels and build a smart Zambia to stimulate private sector investments.

9. Mr. Speaker, the budget I am presenting today continues to build on the firm foundation that has been laid in the past seven years and addresses the challenges that we face head on. It is a budget that seeks to progressively reduce the fiscal deficit, maintain a sustainable debt position and safeguard the vulnerable of our society. These are the key issues of our time and we must deal with them decisively. By doing so, we lay the foundation for higher and sustainable growth.

10. Sir, from the onset, I would like to state that Zambia is a sovereign and unitary State as enshrined in the Constitution and is also governed by international law. As a sovereign state, we make decisions that foster the best interests of our people. Therefore, any insinuations on Government surrendering strategic assets to foreign interests are unfounded.

11. Mr. Speaker, overcoming the problems we face today and advancing the interests of our people requires our collective commitment to implement ambitious reforms. It is in this context, that the theme for the 2019 Budget is **"Delivering Fiscal Consolidation for Sustainable and Inclusive Growth".**

12. Sir, let me provide an outline of my budget presentation. Firstly, I will outline global and domestic economic developments in 2018, and give an update on implementation of key reform measures. Then, I will provide the socio-economic policies for 2019 under Part II. In Part III, I will provide the details on the estimates of revenue and expenditure for 2019. Finally, in Part IV, I will conclude my address.

PART I

GLOBAL AND DOMESTIC ECONOMIC DEVELOPMENTS IN 2018

Global Economic Developments

13. Mr. Speaker, in 2018, global economic growth is projected to be broad based and is estimated at 3.9 percent compared to 3.7 percent in 2017. Advanced economies, led by the United States of America, are projected to grow at 2.4 percent, the same as in 2017. Emerging markets and developing economies are projected to grow by 4.9 percent compared to 4.7 percent in 2017. This is due to continued strong economic performance in emerging markets in Asia. Economic growth for Sub-Saharan Africa is projected to rise to 3.4 percent from 2.8 percent in 2017 riding on favourable commodity prices. However, trade tensions between the United States and other major economies as well as the

strengthening of the United States dollar, which led to the depreciation of currencies for emerging and developing economies, pose downside risks to these projections.

14. Sir, in line with the high global growth, commodity prices trended upwards in 2018. Copper prices averaged US$6,723 per tonne in the first eight months of 2018 compared to US$5,892 per tonne in the same period in 2017. However, the prices moderated after the first half of the year and are now around US$6,000 per tonne.

15. Mr. Speaker, crude oil prices have also been rising, averaging US$71 per barrel in the first eight months of 2018 compared to US$49 per barrel in same period in 2017. The price is now around US$80 per barrel. This upward trend is projected to continue for the rest of 2018.

16. Sir, let me now turn to developments in the domestic economy.

Economic Growth

17. Mr. Speaker, the economy in 2018 is projected to grow at around 4 percent from 3.4 percent in 2017. This is due to improved performance in sectors such as mining, construction, manufacturing, wholesale and retail trade as well as stable and reliable energy supply that is supporting growth. However, agriculture output was subdued in the last farming season due to prolonged dry spells given our dependence on rain-fed agriculture.

Budget Performance

18. Sir, overall revenue and grants for 2018 are expected to be broadly in line with the 2018 Budget projections. However, expenditures are projected to be higher on account of higher interest payments and project loan disbursements. Consequently, the budget deficit is estimated at 7.4 percent of GDP against the target of 6.1 percent. I will later highlight, during this Budget Address, what Government is doing to reduce the deficit to 6.5 percent of GDP in 2019.

Debt Position

19. Mr. Speaker, Government's external debt stock as at end-June 2018 was US$9.4 billion, representing 34.7 percent of GDP from US$8.7 billion as at end-December 2017. The increase was on account of disbursements on existing loans. The total stock of Government guaranteed debt stood at US$1.2 billion as at end-June 2018.

20. Sir, the stock of domestic debt in the form of Government securities amounted to K51.9 billion as at end-June 2018 representing 19.2 percent of GDP, compared to K48.4 billion as at end-December 2017. Domestic arrears amounted to K13.9 billion by end-March 2018 from K12.7 billion as at end-December 2017.

Monetary and Financial Performance

21. Mr. Speaker, implementation of monetary and supervisory policies by the Bank of Zambia continued to focus on containing inflation within the target band of 6-8 percent, strengthening the resilience of the financial sector and supporting economic activity. The Policy Rate was reduced to 9.75 percent in May 2018 from 12.5 percent in November 2017. Over the same period, the statutory

reserve ratio was reduced to 5.0 percent from 8.0 percent.

22. Sir, inflation remained relatively stable within the target range of 6-8 percent in the first half of 2018. Inflation was 7.9 percent in September 2018 from 6.1 percent in December 2017. Food inflation was the key driver of the increase and was recorded at 8.6 percent in September 2018 compared to 4.8 percent in December 2017. Over the same period, non-food inflation reduced to 7.3 percent from 7.5 percent.

23. Mr. Speaker, following the easing of monetary policy, lending rates declined to an average of 23.5 percent in August 2018 from an average of 26.7 percent in December 2017. These rates, however, remain too high to support private sector growth. Consequently, domestic credit to the private sector remained relatively subdued, with growth of 6.7 percent during the year to August 2018. Non-performing loans, at 11.9 percent as at end-August 2018, remained above the prudential threshold of 10 percent.

24. Sir, Government has been concerned with the high cost of most financial services which has been constraining business expansion as well as financial inclusion. To address this, the Bank of Zambia, in August 2018, issued directives to do away with unwarranted bank charges and fees.

25. Mr. Speaker, in an effort to strengthen the legal framework for credit provision, the Credit Reporting Act was enacted in July 2018. This provides for the effective functioning of the credit reporting system. This, together with the Movable Property (Security Interest) Act No. 3 of 2016, should help to reduce risks associated with information asymmetry and use of movable property pledged as collateral.

26. Sir, in the 2018 Budget Address, Government informed this august House that Intermarket Banking Corporation Limited had been restructured. I am glad to inform this House that the Zambia Industrial Commercial Bank Limited opened its doors to the public in August this year, having taken over the assets of the Intermarket Banking Corporation, which is in liquidation.

External Sector Performance

27. Mr. Speaker, export earnings increased by 20.7 percent to US$4.6 billion during the first half of 2018 from US$3.8 billion over the same period in 2017. Copper export earnings were the largest contributor at US$3.5 billion from US$2.9 billion following an increase in both price and export volumes. Non-traditional exports increased by 17.7 percent to US$911 million from US$774.1 million.

28. Sir, notwithstanding the increase in export earnings, the current account deficit widened to US$756.5 million in the first half of 2018 compared to US$340 million in the corresponding period in 2017. This was explained by higher growth in imports relative to export earnings, an increase in interest payments on public sector external debt, and dividend payments to non-resident shareholders.

29. Mr. Speaker, gross international reserves declined to US$1.8 billion or about two months of import cover at end-July 2018 from US$2.1 billion at end-December 2017. However, Government remains committed to achieving its medium-term objective of maintaining reserves of at least four months of import cover.

30. Sir, in the foreign exchange market, the Kwacha remained relatively stable. The Kwacha depreciated by 0.9 percent to an average of K10.10 per United States dollar in August 2018 from K10.01 in December 2017. The depreciation was mainly on the backdrop of the strengthening of the United States dollar. However, during the month of September 2018, the market has seen increased pressure on the exchange rate mainly due to increased demand for foreign exchange by fuel importers.

Update on Implementation of Reforms

31. Mr. Speaker, Government remains committed to implementing reforms as outlined in the Economic Stabilization and Growth Programme, and the Seventh National Development Plan. Notable policy, structural and legislative reforms have been undertaken in agriculture, public financial management, domestic resource mobilization, and state owned enterprises.

32. Sir, in the agricultural sector, Government fully migrated the implementation of the Farmer Input Support Programme to the electronic voucher system in the 2017/18 farming season. This contributed to the reduction of beneficiaries to about 716,000 from 1.6 million through the elimination of duplications and ineligible farmers. This was broadly in line with the target of 1 million beneficiaries. Further, Government restricted the Food Reserve Agency to the purchase of 500,000 metric tonnes of grain for the national food reserves.

33. Mr. Speaker, the Public Finance Management Act No. 1 of 2018 was enacted in April 2018. This is to support and anchor fiscal prudence, as well as make it more punitive for abuse and misapplication of funds.

34. Sir, to enhance domestic resource mobilisation, Government has undertaken reforms such as the appointment of tax agents, piloting of electronic fiscal devices, digitisation of tax stamps and the land titling programme.

35. Mr. Speaker, to raise compliance across tax types, appointment of tax agents has been extended to the collection of base tax, turnover tax, withholding tax on rental income and presumptive taxes on public transport operators. Further, electronic fiscal devices have been distributed to selected taxpayers to capture business transactions in real-time. In this regard, valuable lessons are being learnt to inform the full roll-out of these devices.

36. Sir, over the years, considerable revenue in excise taxes has been lost through illicit trade and tax evasion schemes. This is compounded by the noted weaknesses in the current manual tax stamp system which is prone to

manipulation and fraud. In order to address this, Zambia Revenue Authority has embarked on a project to digitise the manual tax stamp system. The digital tax stamps will enhance the administration of excise duty through its track and trace capability. The tax stamp system which is currently limited to cigarettes will be extended to other excisable products. The project is scheduled to be rolled out in May 2019.

37. Mr. Speaker, to accelerate implementation of the land titling programme, Government rolled out the exercise to 16 district councils and established the National Titling Centre in Lusaka. Further, an automated work-flow process for national land titling was developed. This will enable collection of property ownership details and spatial data to develop a geo-database.

38. Sir, some progress has been observed with regard to the performance of State Owned Enterprises. In 2018, out of 29 State Owned Enterprises under the Industrial Development Corporation portfolio, 15 posted profits out of which 8 declared dividends. In addition, 2 out of 16 companies that are still under the Ministry of Finance were also profitable and declared dividends. This brings the total number of profitable State Owned Enterprises to 17 out of 45.

39. Mr. Speaker, we have attained key milestones in our development agenda. However, much more needs to be done. In this regard, key reforms will be undertaken in 2019 in the electricity and petroleum subsectors as well as land titling, among others.

PART II

MACROECONOMIC OBJECTIVES, POLICIES AND STRATEGIES FOR 2019

40. Sir, in 2019, the Government will continue to promote not only broad-based sustainable and inclusive growth, but also address the high unemployment and poverty levels among our people. Creating space for private sector growth and entrenching macroeconomic stability through fiscal consolidation is central to this process.

41. Mr. Speaker, this budget is aligned to the Economic Stabilisation and Growth Programme, the Seventh National Development Plan, and our vision of becoming a prosperous middle-income country by 2030.

42. Sir, the specific macroeconomic objectives for 2019 will be to:

i. Attain annual GDP growth rate of at least 4 percent;
ii. Sustain inflation within the range of 6 to 8 percent;
iii. Raise international reserves to at least 3 months of import cover;
iv. Increase domestic revenue to not less than 18 percent of GDP;
v. Reduce the fiscal deficit to 6.5 percent of GDP;
vi. Prioritise the dismantling of arrears and curtail accumulation; and
vii. Reduce the pace of debt accumulation and ensure sustainability.

43. Mr. Speaker, I will now outline the critical sector policies and interventions, in line with the pillars contained in our Seventh National Development Plan that will ensure that we sustain growth, while ensuring that no one is left behind.

PILLAR ONE: ECONOMIC DIVERSIFICATION AND JOB CREATION

44. Sir, attaining broad based inclusive growth requires that we pursue our diversification agenda more aggressively. The sectors which can drive growth and help us attain shared prosperity through creating employment opportunities remain agriculture, tourism and manufacturing. These will be supported by the energy, transport and finance sectors. The mining sector will also continue to be important through its linkages with other sectors and the generation of foreign exchange.

Agriculture, Livestock and Fisheries

45. Mr. Speaker, the agriculture sector is the largest source of livelihood for our people. A diversified and export oriented agriculture sector is critical to uplifting the living standards of our people. Agricultural productivity, however, remains very low especially among small scale farmers. This low productivity is attributed to over dependence on rain fed agriculture, poor agricultural practices and limited mechanisation. Other challenges include poor market linkages and low value addition to agricultural output due to inadequate agro-processing industries.

46. Sir, in an effort to reduce dependence on rain fed agriculture and to promote all year round production as well as climate smart agricultural practices, Government will continue to develop irrigation infrastructure. In this regard, the development of irrigation infrastructure at Mwomboshi in Chisamba, Musakashi in Mufulira and Lusitu in Chirundu will be finalised in 2019 bringing an additional 3,000 hectares under irrigation, mainly for small scale farmers.

47. Mr. Speaker, good agriculture practices such as the use of certified seed and application of fertiliser are crucial to improving productivity. To this end, Government undertook to fully implement the e-voucher system under the Farmer Input Support Programme in the 2017/2018 agricultural season. Over 716,000 farmers accessed inputs under the e-voucher system. Further, around 5,800 agro-dealers throughout the country were involved in the supply of agro-inputs. Under this Programme, farmers can access inputs of their choice thereby creating opportunities for diversification in the sector.

48. Sir, a number of challenges were observed with the e-voucher system during the 2017/2018 farming season. Key among these were limitations of telecommunication connectivity, financial services provision challenges and limited information technology. As these challenges are being addressed, in the 2018/2019 farming season, Government will procure and distribute inputs to the affected parts of the country. The affected districts will be re-introduced on the e-voucher system in 2019, once the challenges have been resolved.

49. Mr. Speaker, mechanisation in the agriculture sector is critical to improving productivity. In this regard, the establishment of the US$100 million tractor assembly plant in the Lusaka South Multi Facility Economic Zone is on course to help farmers access cheaper equipment to improve mechanisation. In addition, Government through the Public Service Micro Finance Company will continue to facilitate access to agricultural equipment to those in the public service.

50. Sir, to increase land under cultivation, Government has revised guidelines for land acquisition in farm blocks to foster Public Private Partnerships in the development of infrastructure. This is with a view to accelerate progress in infrastructure development in farm blocks, such as Nansanga, Luswishi and Luena.

51. Mr. Speaker, to support and enhance exports of agricultural products, Government revised the Seed Regulations in 2018 to harmonize them with requirements under the Common Market for Eastern and Southern Africa, Southern African Development Community and Organisation for Economic Co-operation and Development. The new regulations are expected to further expand export markets for Zambian seed. Government will also revise the Food Reserve Act in 2019 to enhance sustainability and efficient management of national strategic food reserve. In 2019, Government will continue with the policy of only maintaining 500,000 metric tonnes of grain as strategic food reserves.

52. Sir, under the livestock subsector, the focus will continue to be on livestock breed improvement through stocking and restocking, artificial insemination and construction and rehabilitation of infrastructure. Given the rising market potential for livestock, especially for goats, sheep and cattle, Government will facilitate access to both local and foreign markets for livestock products with strategic focus on the exportation of goats to Saudi Arabia.

53. Mr. Speaker, to control the outbreak of diseases, Government will continue to implement preventive measures against diseases such as foot and mouth disease and East Coast fever. Further, Government will continue the development of ongoing infrastructure such as regional laboratories, quarantine facilities and dip tanks. Vaccine production will be scaled up at the Central Veterinary Research Institute. In addition, Government will continue to implement sanitary and phyto-sanitary measures to facilitate access to international markets for livestock products.

54. Sir, in the fisheries sub-sector, the promotion of cage fish farming on Lakes Mweru, Kariba, Tanganyika, and Bangweulu as well as along the Kafue River at Kasaka and in the water bodies of Western province will continue. This will be done under the auspices of the Zambia Aquaculture Enterprise Development Project.

55. Mr. Speaker, through this Project, and the Agriculture Production and Market Enhancement Project, Government has acquired 170 fish cages and 280 fish pens. Government also procured motor

vehicles and water vessels to support the establishment of cage fish farming and aquaculture parks in Rufunsa, Mungwi, Kasempa, Chipepo and Samfya. Further, in collaboration with the private sector, two fish feed plants have been established in Siavonga. Government will continue to facilitate the establishment of more plants countrywide.

Industrialisation

56. Sir, Government has been working on setting up Multi Facility Economic Zones, Industrial Parks and other support infrastructure to accelerate industrialisation. I am glad to report that the programme has now gained traction. The actualised investment into the Multi Facility Economic Zones is estimated at US$ 3.3 billion, with more than 15,000 jobs created.

57. Mr. Speaker, to promote local content, Government is implementing the National Local Content Strategy aimed at fostering business linkages between micro, small, medium and large enterprises. The strategy also aims to promote use of at least 35 percent locally available inputs in industrial processes.

58. Sir, Government through the Zambia Development Agency is implementing the business linkage programme aimed at creating synergies in industry and market access for micro, small and medium enterprises. So far, 1,059 small and medium enterprises have been linked to markets while 1,274 enterprises were provided with business development services. Further, our farmers are currently benefitting from supplying barley and cassava for industrial use. Government will continue to support investments in value addition by, among others, procurement of locally manufactured goods such as school furniture, uniforms and hospital linen. The "Buy Zambia" campaign will also be aggressively promoted.

59. Mr. Speaker, to add value to agricultural produce, Government through the Industrial Development Corporation, will make investments in pineapple processing in North Western Province, fruit processing in Eastern Province and cashew nut processing in Western Province. Further, in Muchinga Province, an out-grower scheme for palm oil trees will be rolled out to 500 households covering an initial 380 hectares under the Industrial Development Corporation. Government will over the next 5 years expand the scheme to cover 20,000 hectares in Luapula and Muchinga Provinces with over 25,000 farmers benefiting. This will boost the country's capacity to produce edible oils.

Regional and International Trade

60. Sir, to enhance regional and international trade, Government is implementing a number of interventions. Key initiatives for implementation in 2019 and beyond include the enhancement of border management through legislation review, which will enable, among others, the use of the National Electronic Single Window for trade facilitation. The ultimate objective is to ensure that trade is facilitated through single payment points that avoid multiple interventions at our borders.

61. Mr. Speaker, the concept of developing One Stop Border Posts has remained an important element in our effort to facilitate regional and international trade. In this regard, Government, with support from cooperating partners, is developing a One Stop Border Post at Kazungula and is scheduled to be completed in 2019. Further construction works at Mwami Border are earmarked to commence in 2019.

Tourism

62. Sir, the policy focus in tourism will be the diversification of tourism products and promoting domestic tourism. The diversification effort will be achieved by, among other things, integrating the country's rich cultural heritage into tourism packages beyond traditional ceremonies. As regards foreign tourists, the aim is to lengthen tourists stay to an average of six days from the current four days. In order to promote domestic tourism, implementation of a strategy that targets citizens and residents as well as promotional activities such as use of lower charges will be encouraged.

63. Mr. Speaker, Government will continue with the restocking of wildlife in areas where numbers have been depleted. So far, restocking has been done in Sioma Ngwezi National Park, Bangweulu Game Management Area and seven private game ranches. This exercise is aimed at expanding the tourism resource base from focusing exclusively on the Victoria Falls and the South Luangwa National Park.

64. Sir, to improve access to wildlife tourist sites, Government will rehabilitate and maintain roads to, and within, the major national parks, namely Kafue, South Luangwa, Mosi-oa-tunya and Lower Zambezi National Parks. This will facilitate all-year-round access to tourism sites.

65. Mr. Speaker, to promote international conference tourism, the Government will in 2019 commence the upgrade and expansion of Mulungushi International Conference Centre. This will enable the country to host the African Union Heads of State Summit scheduled for 2022 and contribute towards implementation of the Meetings Incentives Conferences and Exhibition strategy.

Mining

66. Sir, the mining sector, being an important source of foreign exchange earnings, plays a critical role in the economy. In this regard, Government will continue to promote exploitation of industrial minerals and gemstones by making available geological information. To promote small-scale mining, the Development Mineral Capacity Building Programme, with the support of cooperating partners, will continue. The major intervention will be promotion of environmentally and socially responsive mining.

67. Mr. Speaker, Government has gained traction in the implementation of the Mineral Production Monitoring Support Project aimed at enhancing monitoring of mineral production and exports. Currently, all the large scale mining companies are on the system. In

2019, the system will be extended to cover small and medium mining companies as well as other minerals beyond copper. The system will empower Government to collect accurate revenue from mineral royalties and other mining taxes.

Energy

68. Sir, the energy sector is a key enabler for sustained economic growth, diversification and creation of employment. In this regard, the focus in the energy sector will be to continue with provision of adequate and reliable supply of energy through diversification of energy sources. This will require that investment continue to be undertaken into the sector.

69. Mr. Speaker, in the electricity subsector, a number of projects are currently being undertaken to increase electricity generation as well as diversify the energy mix. These include, among others, the 300 megawatts of the second phase Maamba coal-fired thermal power plant, 750 megawatts Kafue Gorge Lower Hydro Power Station and upgrading of the Lusiwasi Hydro Power Project. The preparation process towards the construction of the 2,400 megawatts Batoka hydropower plant co-financed by Zambia and Zimbabwe will continue in 2019.

70. Sir, to diversify the energy mix, Government is implementing the Renewable Energy Feed-in-Tariff Strategy which aims to bring an additional 200 megawatts to the national grid. So far, Government has commenced the procurement process for the first 100 megawatts under this Strategy and implementation is expected to start in 2019.

71. Mr. Speaker, under the Scaling Solar Initiative being implemented in the Lusaka South Multi-Facility Economic Zone, the construction of the two 50 megawatt projects will be completed in 2019. Construction of additional solar power plants will commence in 2019. Once completed, 200 megawatts will be added to the grid. The target is to generate 600 megawatts under the Scaling Solar Initiative.

72. Sir, it is expected that once these and other projects are completed, Zambia will become a net exporter of electricity.

73. Mr. Speaker, migration to cost reflective electricity pricing remains a priority for Government in order to promote investment and growth in the electricity subsector. To ensure that Government has a sound basis for adjusting electricity tariffs in future, a study has been commissioned and once finalised will inform electricity pricing.

74. Sir, to enhance the regulatory framework governing the petroleum sub sector, Government will bring to this august House the Petroleum Management Bill which will, among other things, facilitate enhanced participation of the private sector in the procurement and financing of petroleum products.

Transport, Information and Technology Infrastructure

75. Mr. Speaker, development of transport infrastructure is a pre-requisite

for achieving growth and development by connecting producers and consumers and lowering transaction costs in both the private and public sectors. In order to support fiscal consolidation efforts, Government will focus its domestic resources on infrastructure projects that are at completion rate of 80 percent and above.

76. Sir, with regard to road infrastructure, Government will continue to implement, among other projects, the Link Zambia 8,000, township roads and the Rural Connectivity Project. In addition, greater emphasis will be placed on maintenance in order to increase the lifespan of our roads.

77. Mr. Speaker, to ensure sustainable financing for road maintenance, Government embarked on the National Road Tolling Programme. So far, a total of 14 inland toll stations have been constructed and are operational across the country, with an additional 6 sites expected to be completed this year. The Programme has since raised a total of K194.1 million in the first eight months of 2018 compared to K137.6 million over the same period in 2017. In 2019, an additional 11 sites will be commissioned.

78. Sir, Zambia is on course to become an air transport hub. In this regard, I am pleased to report to this august House that the expansion and modernisation of the Kenneth Kaunda International Airport has reached 75 percent completion. The Airport is expected to be completed in 2019. Construction of the Copperbelt International Airport has also commenced, and is at 13 percent completion.

79. Mr. Speaker, to increase revenue and derive value from airports, Government transferred 10 airports in 2018 to the Zambia Airports Corporation Limited. These are Chinsali, Choma, Chipata, Kasama, Mansa, Mongu, Kasaba Bay, Mbala, South Down and Solwezi Airports. With these transfers, the airports will now be professionally managed in line with the International Civil Aviation Organisation standards.

80. Sir, in order to achieve universal access to communication services, Government is implementing a programme to construct 1,009 communication towers across the country. To date, 318 towers have been erected out of which 193 are operational. A further 300 towers will be erected in 2019. The increased network coverage will not only promote the use of electronic platforms by the larger population, but also enhance efficiency in private sector and Government transactions as well as facilitate financial inclusion.

81. Mr. Speaker, Government has embraced the use of information and communication technology as part of the strategy to reduce its running costs and promote efficiency. In this regard, Government has introduced a number of electronic platforms which include e-cabinet, e-payslips, e-payments, e-voucher and e-visa. The introduction of these platforms has started paying dividends as the cost of running Government and rent-seeking behaviour have reduced.

82. Sir, Government is also utilising information and communication

technology solutions to, among other things, enhance transparency and regulatory compliance in the telecommunications sector through the Telecommunications Traffic Monitoring System. The System will be fully operational in 2019.

83. Mr. Speaker, all the interventions I have outlined under this Pillar are aimed at creating decent jobs for our people and achieving economic diversification.

PILLAR TWO: REDUCING POVERTY AND VULNERABILITY

84. Sir, Government will continue implementing social protection and climate change programmes, even as we reduce the overall budget deficit. This is to ensure that the most vulnerable in our society remain at the forefront of our development agenda.

85. Mr. Speaker, social protection programmes, which include the Social Cash Transfer Scheme, Public Welfare Assistance Scheme, the Food Security Pack and women empowerment programmes will continue to be implemented.

Social Cash Transfer Scheme

86. Sir, Government has been increasing the number of beneficiaries under the Social Cash Transfer Scheme. Currently, there are over 632,000 beneficiary households on the programme. In 2019, Government will maintain the target of 700,000 beneficiaries and will scale up the number in subsequent years. However, recently there has been concerns by stakeholders regarding the administration of the social cash transfer scheme.

87. Mr. Speaker, His Excellency, Mr. Edgar Chagwa Lungu, President of the Republic of Zambia, remains resolute to fully address stakeholder concerns, and appropriate action will be taken in line with the findings of the forensic audit that is underway. I, therefore, appeal to all our cooperating partners to continue supporting this noble programme.

88. Sir, let me assure the nation that Government will comprehensively review the management and administration of the Scheme to ensure that the resources reach the intended households.

Public Welfare Assistance Scheme

89. Mr. Speaker, Government has been providing shelter, food, clothing, bursaries and other basic needs through the Public Welfare Assistance Scheme to incapacitated households and individuals across the country. To continue supporting incapacitated households, the implementation of this Scheme will be sustained in 2019.

Food Security Pack

90. Sir, under the Food Security Pack Programme, Government provided agricultural inputs to 27,650 vulnerable but viable farming households in the 2017/2018 farming season. In the 2018/2019 farming season, the target number of beneficiaries is 80,000 households and the implementation of this Programme will continue in the 2019/2020 farming season.

Home Grown School Feeding Programme

91. Mr. Speaker, Government is implementing the School Feeding Programme to increase enrolments, reduce absenteeism and enhance children's nutritional status and cognitive development. The programme currently covers 38 districts targeting learners at early childhood and primary education levels. In 2018, over 956,000 learners have benefited from the programme with a target for 2019 at 1,250,000 children.

Women Empowerment Programme

92. Sir, to empower women and girls through provision of resources for development of their skills and livelihood, the Government with support from the World Bank has been undertaking the Girls Education and Women Empowerment Livelihood Project. To-date, a total of 22,000 women beneficiaries have been empowered with a further 19,000 targeted for 2019. The Project is also supporting about 15,000 girls from vulnerable households against the target of 16,000.

93. Mr. Speaker, to enhance monitoring of all social protection and empowerment programmes, Government is implementing the electronic Single Registry of Beneficiaries under the Food Security Pack, Village Banking, Public Welfare Assistance Scheme, Women Empowerment Programme, Supporting Women's Livelihood Project and the Social Cash Transfer Scheme. The Registry will provide key monitoring and management reports required for decision-making. So far, beneficiaries from 15 districts are on the Registry. The Registry will be extended to a further 20 districts by the end of this year.

Youth Empowerment

94. Sir, in 2019, Government will focus on providing skills training to out of school youths in vocational and life skills through the youth resource centres. In this regard, Government targets to train at least 3,000 youths in 2019 compared to 2,500 in 2018. Further, 4 youth resource centres will be completed in addition to the 21 currently in operation.

95. Mr. Speaker, Government will also resettle 200 youths at Mwange and another 200 at Mufumbwe Youth Resettlement Schemes where they will be provided with free land and start-up kits to engage in agriculture and agro-related activities. To augment the above initiatives, Government will provide the youth with the necessary equipment and facilitate the acquisition of working capital to enable them realise their full potential.

Climate Change and Disaster Risk Reduction

96. Sir, climate change poses a threat to the environment and to the livelihoods of our people. In line with the National Climate Change Policy launched in 2017, Government has continued to implement a number of interventions in the areas of early warning systems, climate change adaptation, climate change mitigation, and resource mobilisation.

Early Warning Systems

97. Mr. Speaker, addressing climate change requires enhanced early warning systems and increased capacity to interpret climate change information. To this end, Government is strengthening its systems to improve access to weather related information to farmers. Further, the capacity for synthesis, analysis and transfer of climate information for assessment of risks and promotion of climate information services is being strengthened. This will result in increased adoption of climate resilient agricultural practices.

Climate Change Adaptation

98. Sir, it is important to enhance the capacity of our communities to adapt to the adverse effects posed by climate change. In this regard, various adaptation projects are being implemented, with the major intervention being the Pilot Programme on Climate Resilience in Western, Southern, Central and Lusaka Provinces. Under this Programme, 320 different communities have benefited from adaptation interventions. In addition, a 237 kilometre climate resilient road from Kalomo to Dundumwezi up to Itezhi-Tezhi is being developed. So far, about 90 kilometres of the road has been done and the whole project is expected to be completed in 2019.

99. Mr. Speaker, I am glad to report that similar adaptation interventions will be rolled out to Northern, Muchinga and Luapula Provinces under the Transforming Landscapes for Resilience and Development Programme. The preparation of the project, estimated to cost US$150 million, is underway and funds are expected to be secured from cooperating partners in 2019.

Climate Change Mitigation

100. Sir, to contribute to global efforts to reduce the carbon footprint, Government launched the Zambia Integrated Forestry Landscape Project in Eastern Province in February, 2018. This project worth US$32.8 million will help improve livelihoods, protect the environment and involve communities in sustainable management of natural resources such as forestry and wildlife.

101. Mr. Speaker, Government has submitted a US$100 million project to the Green Climate Fund aimed at creating a creditworthy intermediary off-taker for renewable energy. It is expected that this will spur investment in the renewable energy sector thereby reducing greenhouse gas emissions.

Resource Mobilisation for Climate Change

102. Sir, implementation of climate change interventions requires enormous financial resources. Government, therefore, continues to mobilise resources to combat climate change and its effects. In 2018, Zambia mobilised a total of US$84.5 million from the Green Climate Fund to finance projects in agriculture and energy sectors. With additional co-financing, the estimated total cost is US$278 million for the two projects.

PILLAR THREE: REDUCING DEVELOPMENTAL INEQUALITIES

103. Sir, Government remains concerned with the rural -urban divide and the gender and income inequalities that undermine our quest for a socially just Zambia.

104. Mr. Speaker, in order to address the disparity between rural and urban areas, Government will continue investing in rural infrastructure development. Some of the interventions will include construction and rehabilitation of feeder roads under the Rural Connectivity Project, construction of basic infrastructure in newly created districts and the electrification of rural areas under the Rural Electrification Programme.

105. Sir, as part of our effort to address inequality between urban and rural areas, Government has embarked on expositions aimed at attracting investment in provinces. To this effect, a Provincial Expo was successfully held in Luapula Province in 2017 and two others are scheduled to be held in Central and Northern Provinces in the last quarter of 2018.

106. Mr. Speaker, in line with the Seventh National Development Plan to reduce developmental inequalities and vulnerability, Government in 2019 will accelerate the implementation of the Decent Work Country Programme. This is aimed at ensuring that all workers have decent employment that guarantees them social protection and protects their rights at places of work. In this regard, labour inspections will be intensified to ensure compliance with the labour laws and the protection of workers' rights.

PILLAR FOUR: ENHANCING HUMAN DEVELOPMENT

107. Sir, human development plays a critical role in promoting inclusive growth and laying a foundation for shared future prosperity. In an effort to enhance human development, Government has continued to safeguard budget allocations for the education, health as well as water and sanitation sectors.

Education and Skills Development

108. Mr. Speaker, education and skills development is cardinal to the development of human capital required for national development. The provision of education and skills to our people should, therefore, receive our utmost attention. In order to increase access to education and skills, Government will in 2019 continue upgrading, constructing and rehabilitating facilities at all levels of education.

109. Sir, a programme to upgrade 500 existing basic schools to secondary schools will be undertaken from 2019 to 2022 using low cost construction design as a way to increase enrolments at secondary level. Further, Government has launched the Zambia Education Enhancement Project that is expected to construct 82 high schools across the country. This project is being implemented with support from the World Bank. In addition, the creation of an enabling environment for private sector investment in the provision of quality education and skills training shall continue.

110. Mr. Speaker, in addition to increasing access to education, Government will also ensure that the quality of education provision is improved. To this end, the major programmes will be pre- and in-service training of teachers, provision of teaching and learning materials and ongoing recruitment of teachers. Further, Government will prioritise redeployment of serving teachers to underserved areas with the right mix that includes science, mathematics and information and communication technology.

111. Sir, in order to ensure that affordable teaching and learning materials are readily available in schools, the Zambia Education Publishing House will be recapitalized through a joint venture arrangement. This will enhance the publication and supply of low cost teaching and learning materials in the country.

112. Mr. Speaker, Government has been implementing a two-tier system which offers learners an opportunity to follow either an academic or vocational career path. Due to effective collaboration between secondary schools and Technical Education, Vocational and Entrepreneurship Training institutions, pupils are now able to take an increasing range of vocational examinations while they are still in secondary school. In view of the success scored using this approach to skills development, Government will provide additional skills training infrastructure in selected secondary schools across the country to scale up skill training.

113. Sir, the Zambian economy continues to face distortions in the labour market arising from a mismatch between the demand and the supply of skills. To address this challenge, Government will in 2019 carry out a skills demand and supply survey to form the basis for designing curricula for skills development and maintaining an inventory of skills in the country.

Health

114. Mr. Speaker, a healthy population is a prerequisite to socio-economic development. In this regard, Government will continue to invest in the health sector. To improve access to health services, Government will, in 2019, continue to construct health facilities and recruit frontline staff.

115. Sir, to improve the quality of health services in the country, there is need to ensure availability of adequate skilled human resources. Government has therefore continued with the recruitment of frontline medical personnel. Between 2016 and 2018, over 15,000 core health workers have been recruited against the 30,000 target by 2021. In 2019, recruitment of frontline health staff will continue in order to operationalise the newly constructed health facilities.

116. Mr. Speaker, to build a critical mass of quality health staff, Government has embarked on a programme of establishing specialized health training facilities. In this regard, Government has established Levy Mwanawasa Teaching Hospital and has embarked on upgrading it into a regional medical training hub. Other facilities offering specialised training include

Livingstone, Kitwe and Ndola Teaching Hospitals. Currently, 215 doctors out of a target of 500 are undergoing specialized training. Specialised training for nurses in areas such as Oncology, Public health, and trauma and emergency has also commenced.

117. Sir, in 2019, Government aims to achieve a reduction in maternal, infant and child mortality. This will be achieved through the provision of emergency obstetric and neonatal care equipment and the supply of vaccines and food supplements for children. Efforts will also be made to reduce the malaria disease burden by increasing the coverage of indoor residual spraying, promoting the use of insecticide-treated mosquito nets and strengthening malaria case management.

118. Mr. Speaker, following the implementation of the Test and Treat strategy, Zambia has recorded remarkable progress on the Anti-Retroviral Therapy coverage. Currently, out of the 1.1 million people who are eligible for Anti-Retroviral Therapy, 800,000 people are on treatment, representing a coverage rate of 72.7 percent. Zambia is on course towards achieving the UNAIDS global target of testing 90 percent of those living with HIV and ensuring that 90 percent of those found to be HIV positive are placed on treatment. The measures we have taken will ensure that we achieve the viral suppression for 90 percent of those treated by 2020.

119. Sir, to ensure medical commodity security, Government in collaboration with cooperating partners will continue to strengthen and scale up the timely supply of drugs especially at lower levels of healthcare provision. In this regard, the establishment of regional medical hubs to achieve the last mile distribution of drugs and other essential medical commodities has continued. So far, Mpika, Mansa, Choma and Chipata medical hubs have been completed while Luanshya is due to be completed by the end of 2018. Mongu and Kabompo are the next districts scheduled to have medical hubs.

120. Mr. Speaker, Government will, in 2019, commence the implementation of the National Health Insurance Act No 2 of 2018. The implementation will be done in a phased manner and will ensure universal access to quality healthcare services.

Water Supply and Sanitation

121. Sir, provision of clean and safe drinking water, as well as adequate sanitation services is crucial to avoid the spread of preventable waterborne diseases such as cholera and typhoid. In this regard, Government has strengthened the regulatory framework in the management of ground water resources in order to protect and preserve the water resource from pollution and contamination.

122. Mr. Speaker, Government will, in 2019, continue with improving water and sanitation systems across the country. The key interventions include water resource management, national urban water supply and sanitation and the national rural water supply and sanitation programmes. These programmes will involve construction and rehabilitation of bulk water supply infrastructure, small dams and drilling of boreholes.

PILLAR FIVE: CREATING A CONDUCIVE GOVERNANCE ENVIRONMENT FOR A DIVERSIFIED AND INCLUSIVE ECONOMY

Policy, Regulatory and Structural Reforms

123. Sir, to deliver fiscal consolidation for sustainable and inclusive development, robust legal, policy, regulatory and structural reforms are required. To this effect, Government will diligently implement its bold reform agenda in the areas of fiscal and debt management. This will be complemented by reforms in the monetary and financial sector.

Fiscal Policy

124. Mr. Speaker, fiscal consolidation requires that we reduce the overall budget deficit in order to anchor macroeconomic stability and create space for private sector growth. We must, therefore, cut expenditure and increase domestic resource mobilisation.

125. Sir, it is important to remind ourselves that high fiscal deficits have serious negative consequences. These include reduced levels of credit for private sector growth, higher inflationary pressures and volatility in the exchange rate. Such consequences affect the poorest members of our society disproportionately. Therefore, achieving long-term fiscal sustainability is an important pre-requisite to attaining sustainable and inclusive growth.

126. Mr. Speaker, in 2019, we are faced with higher debt obligations as past loans fall due, thereby constraining fiscal space for other expenditures. However, to protect the most vulnerable in our society, we have prioritised spending on social protection and allocations to the social sectors in general. These efforts will be supported by public financial management reforms aimed at ensuring more effective use of the available public resources.

127. Sir, the key measures that Government will undertake include the following:

i. Significant reduction in expenditure on administrative parts of the public service so as to prioritise allocations to key service delivery expenditures such as drugs;
ii. Controlling the growth in the wage bill by restricting recruitment to only 3,500 frontline personnel;
iii. Scaling down domestically financed capital expenditure by phasing the completion of existing projects. In this regard, projects that are at least 80 percent complete will be prioritised;
iv. Increasing domestic resource mobilisation to 18.7 percent of GDP through the measures that I will outline later in my Address; and
v. Curtailing domestic borrowing from 4 percent to 1.4 percent of GDP.

128. Mr. Speaker, a predictable tax policy regime is vital in encouraging local businesses to expand while attracting new investment both domestic and foreign. To enhance revenue mobilization,

Government will focus on broadening the tax base and enhancing compliance levels. Key measures to be undertaken include the following:

i. Digitalisation of all revenue collection processes for Government services. This will help reduce rent-seeking behaviour;

ii. Enhancing system interface between Zambia Revenue Authority and other institutions to maximise the use of third-party data in taxpayer compliance management;

iii. Review the Rating Act to facilitate the mass valuation of properties so that appropriate taxes and fees can be collected;

iv. Establish a Land Management Authority to deal with all matters relating to the land management and titling. This will accord citizen security of land tenure and boost revenue from ground rent;

v. Establish a public auction mechanism for timber and lift the ban on all timber exports; and

vi. Undertake a review of all existing tax exemptions. This will involve, among others, stepping-up monitoring of all investors who have accessed the tax exemptions to ensure fulfilment of investment pledges.

129. Sir, to support and anchor fiscal prudence, Government enacted the Public Finance Management Act earlier this year. The Act strengthens the punitive actions for cases of abuse and misapplication of funds. Further, I will, in due course, bring before this House revisions to the Public Procurement Act and the Planning and Budgeting Bill. These are aimed at strengthening public financial management.

Debt Management Policy

130. Mr. Speaker, Government is committed to maintaining the debt levels within sustainable limits. In this regard, in June 2018, Government undertook to implement a number of measures to return the country to a moderate risk of debt distress in the medium-term and to low risk over the long-term.

131. Sir, since I announced the austerity measures, I have undertaken, with my Government colleagues, and under the guidance of His Excellency, the President, further consultation on specific measures to reduce planned and existing debt and to reduce debt service obligations over the medium to long-term. I will, within the current session, be coming to this House with specific details on the implementation of austerity measures related to debt.

132. Mr. Speaker, I wish to reiterate that Government remains committed to meeting its debt obligations as they fall due and will not take any unilateral action as it designs and implements its debt management strategy. To ensure dissemination of accurate information, Government through my Ministry will continue to provide quarterly updates on the debt position.

Arrears Dismantling Strategy

133. Sir, the dismantling of arrears remains key to improving liquidity to the private sector in the domestic economy and to promoting economic activity. This will also help to reduce the risks associated with nonperforming loans in the banking sector. Government will

therefore continue with the dismantling of arrears and strengthen expenditure commitment control systems in order to curb the accumulation of new arrears.

Monetary and Financial Sector Policies

134. Mr. Speaker, monetary policy in 2019 will remain focused on price stability by maintaining the annual inflation rate within the target range of 6-8 percent. The Bank of Zambia will therefore, continue to enhance the use of the forward looking monetary policy framework that is anchored on the Policy Rate as the key signal for the monetary policy stance. This is intended to improve the transmission of price signals and reduce reliance on non-price tools. Further, the liberal foreign exchange system will be maintained, with Bank of Zambia interventions limited to smoothing short-term fluctuations in the exchange rate and building international reserves.

135. Sir, maintaining a stable financial system and increasing access to formal financial services remains a priority objective of the Government. To enhance stability of the financial sector, the Deposit Insurance Bill will be brought to this House for legislation in 2019. This provides protection to depositors in event of failure of a bank or other deposit-taking financial institutions. The implementation of the Credit Reporting Act enacted earlier this year together with the Movable Property (Security Interest) Act will help reduce the risks associated with information asymmetry on borrowers.

136. Mr. Speaker, to further reduce the cost of financial services and modernise payment systems, the National Financial Switch will be operationalised. This will facilitate the integration of automated teller machines, points of sale terminals, mobile and internet banking transactions between participants. The project is being implemented in two phases. The first phase will facilitate the settlement and clearance of Automated Teller Machines and Point of Sale transactions, and is expected to go live by the end of this year. The second phase will cover mobile payments and is expected to go live in 2019.

137. Sir, to promote the secondary market for Government securities, increase liquidity and enhance price discovery in the Government bond market, the Bank of Zambia will introduce a Primary Dealership System in 2019. This will create a more vibrant wholesale and retail market for Government securities. Government has further stepped up its sensitisation efforts to retail customers to expand the investor base.

Insurance

138. Mr. Speaker, section 120 of the Insurance Act expressly prohibits the placement of Zambian business with companies not licensed in Zambia except under certain circumstances. This provision must be enforced to grow the insurance industry in Zambia. I am, therefore, directing the Pensions and Insurance Authority to work with the relevant stakeholders to ensure that this part of the law is implemented. I also appeal to all importers to insure their assets-in-transit with local insurers.

Decentralisation

139. Sir, in line with the Constitution (Amendment) Act No. 2 of 2016, Government is devolving a number of functions to the local authorities.

140. Mr. Speaker, to support the devolution process, Government has commenced the transfer of staff performing some functions from affected Line Ministries to local authorities through the implementation of the Human Resource Management Reform Programme. In 2018, implementation of this programme commenced in Chibombo District in Central Province with the roll-out to other districts expected to continue in 2019.

141. Sir, in line with the principle of "finance follows function", Government will utilise the existing deconcentrated structures to channel financial resources to the district as an interim measure to devolution. Further, to strengthen the revenue base and collection efficiencies for local authorities, Government will review relevant legislation such as the Rating Act which will allow for mass valuation of properties.

Business Regulatory Reforms

142. Mr. Speaker, to reduce the cost of doing business and facilitate efficient business friendly registration and licensing services, Government in 2018, established two regulatory service centres in Kitwe and Chipata. This brings the total number of regulatory service centres to four.

Labour Law Reforms

143. Sir, a motivated worker is a productive worker. In recognition of this, Government is undertaking labour law reforms to strengthen the protection of rights of workers. Government has made progress in the harmonisation of various labour laws, by consolidating the Employment Act, the Employment of Young Persons and Children Act, and the Minimum Wages and Conditions of Service Act into a single Labour Code. In addition, Government is amending the Labour and Industrial Relations Act aimed at enhancing industrial relations. The two pieces of legislation will be brought to this House for consideration in 2019.

144. Mr. Speaker, the Government attaches importance to improving productivity in the economy. To this end, Government commenced the development of the National Productivity Policy which will be finalised in 2019. The overall objective of the Policy is to promote productivity in the country so as to enhance competitiveness, accelerate economic growth, and improve the living standards of our people.

Public Investment Management Reforms

145. Sir, Government has made progress in the establishment of a comprehensive system for the appraisal of projects in order to ensure value for money. Business processes and an institutional framework are being elaborated. In 2019, a multi-sectoral public investment board will be established to scrutinise investment proposals prior to inclusion in the budget.

To this end, all major projects will be required to undergo comprehensive appraisal through the system.

Census of Population and Housing

146. Mr. Speaker, Government will, in August 2020, undertake the Census of Population and Housing, to count all the people living in Zambia, their distribution, living conditions and other key data that are critical for development. I am happy to report that preparations towards the Census of Population and Housing commenced in 2017. The Census Office has been established and preparation of maps for Enumeration Areas is underway.

147. Sir, the 2020 Census will utilise an electronic data collection method that is expected to improve data quality and reduce the time-lag between data collection and analysis. The pre-testing of the census data collection instruments will be conducted later this year and in 2019.

Rebasing of the Gross Domestic Product

148. Mr. Speaker, in 2019 Government will undertake an exercise to rebase the Gross Domestic Product, an exercise last conducted in 2012. The rebasing of the Gross Domestic Product will provide reliable and updated information on the current size and structure of the national economy. The rebasing will also provide Government with an opportunity to update and develop appropriate social and economic indicators to measure progress in achieving the objectives under the National Development Plans and the Sustainable Development Goals.

State Owned Enterprises

149. Sir, through the Industrial Development Corporation, Government has been restructuring state owned enterprises to make them competitive, viable and contribute to national development. In this regard, ZSIC Life Limited has been successfully restructured while Zesco Limited, Zamtel Limited, Zambia Daily Mail and Times of Zambia will be restructured in 2019. Further, Government will divest some of its shares to the private sector. Strategic equity partners will be invited into Indeni Petroleum Refinery Limited and ZSIC General Limited, while ZSIC Life Limited and the Zambia Forestry and Forest Industries Corporation will be listed on the Lusaka Securities Exchange in 2019.

PART III
THE 2019 BUDGET

150. Mr. Speaker, the 2019 Budget has been formulated against the backdrop of the austerity measures being implemented by Government to deliver fiscal consolidation. It provides a firm foundation for us to return to moderate debt levels, entrench overall macroeconomic stability and promote sustained and inclusive growth.

151. Sir, the 2019 Budget proposes bold and substantial changes in revenue mobilisation and spending strategies in support of our goal for fiscal consolidation. The proposed measures will ensure that domestic revenue as a proportion of GDP increases to 18.7 percent from 17.7

percent in 2018. On the expenditure side, Government will rationalise current expenditures within the context of the announced austerity measures.

152. Mr. Speaker, the 2019 Budget aims to achieve a fiscal deficit of no more than 6.5 percent of GDP from the projected 7.4 percent in 2018.

153. Sir, I now provide details of the 2019 Budget.

154. Mr. Speaker, Government proposes to spend K86.8 billion or 28.9 percent of GDP in 2019.

Expenditure Allocations by Functions of Government

155. Sir, the expenditure allocations I now present are aligned to the sector policies that I outlined in Part II of my address. I will begin by providing details of how resources have been allocated across the broad functions of Government.

2019 Expenditure by Functions of Government

Function	2019 Budget	
	Amount (K)	Share of Budget
General Public Services	**31,277,061,748**	**36.0%**
External Debt Payment	14,947,077,126	
Domestic Debt Payment	8,626,278,083	
Local Government Equalization Fund	1,164,567,612	
Zambia Revenue Authority	900,000,000	
Compensation and Awards	200,000,000	
Public Affairs and Summit Meetings	176,478,995	
Constituency Development Fund	249,600,000	
Defence	**5,072,431,839**	**5.8%**
Public Order and Safety	**2,865,505,045**	**3.3%**
National Identity Documents	24,999,000	
Economic Affairs	**20,651,090,605**	**23.8%**
Roads Infrastructure	6,501,672,380	
Farmer Input Support Programme (e-voucher)	1,428,000,000	
Strategic Food Reserves	672,000,000	
International Airports	1,592,850,000	
Rural Electrification Programme	182,461,999	
Energy Power Infrastructure	415,763,796	
Environmental Protection	**875,101,216**	**1.0%**
Climate Change Resilience	213,035,243	
Housing and Community Amenities	**2,238,697,351**	**2.6%**
Water Supply and Sanitation	1,984,759,408	
o/w Lusaka Sanitation Project (Millenium Challenge)	*175,000,000*	
Kafue Bulk Water Supply and Sanitation Project	*257,750,000*	
Kafulafuta Water Supply Scheme Project	*416,635,390*	
Nkana Water Supply and Sanitation Project II	*304,500,000*	
Markets and Bus Stations	16,809,740	
Health	**8,069,128,277**	**9.3%**
Drugs and Medical Supplies	900,082,236	
Hospital Operations	725,884,552	
Health Infrastructure	620,188,226	
Recreation, Culture and Religion	**297,272,319**	**0.3%**
Education	**13,274,546,421**	**15.3%**
School Infrastructure	258,806,582	
Student Loans and Scholarships	557,000,000	
University and College Infrastructure	601,645,546	
o/w FTJ Luapula University	442,670,455	
Skills Development Fund	163,993,697	
Social Protection	**2,187,059,905**	**2.5%**
Public Service Pension Fund	1,060,550,212	
Social Cash Transfer	699,494,400	
Food Security Pack & Public Welfare Assistance Scheme	110,880,000	
TOTAL	**86,807,894,727**	**100.0%**

General Public Services

156. Mr. Speaker, I have allocated a total of K31.3 billion for General Public Services. Of this amount, the largest component is K23.6 billion for debt obligations, of which K14.2 billion is towards interest payments and the balance of K9.4 billion for principal loan repayments.

157. Sir, to support service delivery by local authorities, I have allocated a total of K1.2 billion to the Local Government Equalisation Fund. This allocation is in addition to the revenues that local

authorities collect in their respective jurisdictions. Further, I have allocated K249.6 million to the Constituency Development Fund.

158. Mr. Speaker, other notable allocations include K200 million to the Compensation Fund for payments arising from court cases ruled against the Government and K100.6 million for the contingency vote for unforeseen and unavoidable expenditures.

Economic Affairs

159. Sir, in order to support Government's agenda for economic diversification and job creation, I have allocated a total of K20.7 billion towards the Economic Affairs function compared to K17.3 billion in 2018. Honourable Members will agree with me that without consistent investment in our economic sectors, it will not be possible to achieve sustainable and inclusive growth that can significantly help to reduce the developmental inequalities, poverty and vulnerabilities that continue to affect many of our people.

160. Mr. Speaker, I have allocated a total of K6.5 billion to the road infrastructure. This will cater for, among others, the continuation of the Link Zambia 8,000 Project and the rehabilitation and upgrading of feeder roads across the country through the Rural Roads Connectivity Programme.

161. Sir, agriculture remains a key priority area for job creation and economic diversification. In 2019, Government intends to spend a total of K5.4 billion in the agriculture sector including fisheries and livestock.

162. Mr. Speaker, to support our small scale farmers, I have allocated K1.4 billion to the Farmer Input Support Programme. I have also allocated K672 million to the Food Reserve Agency for the maintenance of the national food reserve.

163. Sir, a further K2.1 billion has been allocated towards other agriculture, fisheries and livestock development programmes across the country. This includes K483.2 million earmarked for the Zambia Small Ruminants Value Chain Support Project, K585.7 million for irrigation development, which will include the upscaling of small scale irrigation projects. Other allocations are K277.9 million for the Cashew Nut Infrastructure Development Project and K169.2 million for the Zambia Aquaculture Entrepreneurship Project. These interventions will make significant inroads towards making our diversification agenda a reality.

164. Mr. Speaker, in the energy sector, Government will continue to focus on promoting alternative energy sources, accelerating sector reforms and connecting rural households to the national grid through the Rural Electrification Programme. In this regard, I have allocated K415.8 million for various energy power infrastructure, and a further K182.5 million is earmarked for rural electrification.

Education and Skills Development

165. Sir, recognizing the importance of education and skills training in national development, I propose to spend K13.3 billion in 2019 or 15.3 percent of the budget on this function. Within this amount, I have allocated K601.6 million for university and college infrastructure, while K258.8 million is for the completion and rehabilitation of school infrastructure across the country.

166. Mr. Speaker, under skills development, I have allocated K164.0 million to support Government's action, in collaboration with the private sector, in building a cadre of qualified personnel in artisan skills that are relevant to the needs of the industry.

Health

167. Sir, I have allocated a total of K8.1 billion or 9.3 percent of the budget to support health service delivery systems across the country. In order to ensure good supplies of medicines in health centres and hospitals, I have allocated K900.1 million. I have also allocated K32.8 million for community health services in order to redress the imbalances between curative and preventive health care. Further, K620.2 million has been allocated towards the various infrastructure development projects that are currently underway in the sector.

168. Mr. Speaker, I have allocated K10.7 million towards operationalisation of the newly introduced National Health Insurance Scheme.

Public Order and Safety

169. Sir, Public Order and Safety plays a significant role in safeguarding strategic installations, economic investments and maintaining peace within the country. In this regard, I have allocated K2.9 billion towards Public Order and Safety.

170. Mr. Speaker, Government is cognizant of the compelling imperative to improve the welfare of inmates in correctional facilities. Accordingly, I have allocated K7.6 million for the on-going construction and rehabilitation of correctional facilities. I have also allocated K46.4 million for food rations to supplement the food grown by correctional facilities.

171. Sir, to ensure access to justice for all, I have allocated K515.7 million for the operations of our courts across the country.

Housing and Community Amenities

172. Mr. Speaker, as part of this Government's commitment to improve the provision of potable water, adequate sanitation and decent housing, I have allocated K2.2 billion towards Housing and Community Amenities. Of this amount, K1.98 billion is for the water supply and sanitation programme. Some of the notable projects under this programme include, the Kafulafuta Water Supply Scheme Project, the Nkana Water Supply and Sanitation Project and the Kafue Bulk Water Supply and Sanitation Project.

Social Protection

173. Sir, Government remains committed to reducing poverty and vulnerability among the economically disadvantaged in society. In this regard, I have allocated K2.2 billion towards social protection. As a demonstration of Government's commitment towards clearing pension arrears, K1.1 billion of this amount will go towards payment of retirement benefits to former public service workers under the Public Service Pensions Fund. Further, I have increased the Government's contribution to the Social Cash Transfer from K550 million in 2018 to K699.5 million in 2019. I have also allocated K110.9 million as grants for other social welfare programmes, such as the Food Security Pack and the Public Welfare Assistance Scheme.

Other Functions

174. Mr. Speaker, I have made further allocations of K6.2 billion for the functions of defence, environmental protection, recreation, culture and religion.

REVENUE ESTIMATES AND MEASURES

175. Sir, to support the expenditure measures that I have outlined, total resources for 2019 are projected at K86.8 billion. Of this amount, domestic revenues account for 64.6 percent, while 2.2 percent is support from cooperating partners. The balance of 33.2 percent is financing from domestic and foreign sources.

Sir, the breakdown of the resources is tabulated below:

Resource Envelope for the 2019 Budget

	Amount (K)	Share of Budget	Share of GDP
TOTAL RESOURCES	**86,807,894,727**	**100.0%**	**28.9%**
I. Total Domestic Revenues	**56,086,808,424**	**64.6%**	**18.7%**
Tax Revenue	**46,956,570,349**	**54.1%**	**15.6%**
Income Tax	***23,291,352,240***	***26.8%***	***7.8%***
Company Income Tax	7,221,608,108		
Personal Income Tax	11,420,999,545		
Withholding Tax and Others	4,648,744,587		
Value Added Tax	***14,862,475,640***	***17.1%***	***5.0%***
Customs and Excise	***8,410,789,934***	***9.7%***	***2.8%***
Customs duty	3,537,747,908		
Excise duty	4,723,889,127		
Export Duties	149,152,899		
Other Revenues	***391,952,535***	***0.5%***	***0.1%***
Skills Development Levy	163,993,697		
Tourism Levy	13,837,397		
Licence - Motor Vehicles	105,879,759		
Insurance Premium Levy	108,241,682		
Non-Tax Revenues	**9,130,238,075**	**10.5%**	**3.0%**
Fees and Fines	4,242,640,211		
Mineral Royalty	4,887,597,864		
II. Total Grants	**1,924,177,050**	**2.2%**	**0.6%**
Foreign Grants	1,924,177,050		
III. Total Financing	**28,796,909,253**	**33.2%**	**9.6%**
Domestic Financing	***4,164,207,253***	***4.8%***	***1.4%***
Foreign Financing	***24,632,702,000***	***28.4%***	***8.2%***
Programme Loans	7,825,000,000		
Project Loans	16,807,702,000		

176. Mr. Speaker, let me now discuss the details of the revenue measures I am proposing for 2019.

Direct Taxes

177. Sir, base erosion and profit shifting through aggressive tax planning is detrimental to enhanced domestic resource mobilisation. I propose to introduce a new method of computing the amount of interest to be disallowed when computing profits of a business. Under this method, interest allowable for deduction will be limited to 30 percent of the earnings before interest, tax, depreciation and amortisation. This measure will exclude businesses on the turnover tax system and those registered under the Banking and Financial Services Act, and the Insurance Act.

178. Mr. Speaker, the Government is committed to preventing the abuse of transfer prices by associated enterprises. However, transfer pricing cases normally take longer to conclude due to their complexity. I therefore propose to remove the limitation requirement to retain records for up-to six years in respect of documents for transfer pricing purposes and allow for assessments to be made beyond the period of six years but not beyond 10 years. Further, I propose to increase the penalty for non-compliance with transfer pricing regulations to eighty million penalty units from ten thousand penalty units.

179. Sir, I propose to increase the withholding tax rate on dividends, interest and branch profit remittance to 20 percent from 15 percent. This measure is intended to harmonise at 20 percent the withholding tax rate for all payment in the form of cross-border dividends, interest payments, branch profit remittances, royalties and commissions payable to non-residents.

180. Mr. Speaker, in order to encourage local value addition and employment creation in the copper sub-sector, I propose to reduce the company income tax rate to 15 percent from 35 percent for companies that add value to copper cathodes.

181. Sir, I received numerous submissions that the current turnover tax system is complex and regressive. I have carefully listened to the taxpayers concerns. I therefore propose to abolish the current turnover tax regime and re-introduce a flat rate of 4 percent on business turnover below K800,000 per annum. This is in order to make taxation of small and medium enterprises simpler and thereby encourage compliance.

182. Mr. Speaker, I propose to abolish the 20 percent casino levy and introduce a new tax regime on casino, lottery, betting and gaming to allow for better regulation of the industry as follows:

i. Casino live games at 20 percent of gross takings;
ii. Casino machine games at 35 percent of gross takings;
iii. Lottery winnings at 35 percent of net proceeds;
iv. Betting at 10 percent of gross stakes; and
v. Gaming at K250 to K500 per machine per month.

183. Sir, to ensure effective implementation of this measure, I propose to appoint the Zambia Revenue Authority as an interim regulator for the gaming and betting industry.

184. Mr. Speaker, in order to enhance revenue collection under the turnover tax system, I propose to provide for the appointment of tax agents by the Commissioner General to withhold turnover tax at the source of payment for goods or services supplied.

Customs and Excise Duty

185. Sir, I propose to introduce an excise duty of 30 ngwee per litre on non-alcoholic beverages. The Government will take appropriate fiscal measures to protect local manufacturing of non-alcoholic beverages from unfair competition while discouraging import dependence.

186. Mr. Speaker, solar energy equipment and requisite batteries are exempt from customs duty. To promote and ensure affordable access to off-grid efficient energy solutions, I propose to suspend customs duty on LED lights.

187. Sir, to encourage value addition and further investment in the leather industry, I propose to lift the ban on exports of raw hides and skin and introduce an export duty of 10 percent on these items.

188. Mr. Speaker, to discourage use of plastic carrier bags and curtail their negative impact on the environment, I propose to increase excise duty on plastic carrier bags to 30 percent from 20 percent.

189. Sir, I propose to increase the customs duty on used and retreaded tyres from 25 percent or K3.00 per Kg to 40 percent or K5 per Kg. The measure is intended to reduce the use of used tyres that are in most cases the cause of Road Traffic Accidents and result in loss of lives.

190. Mr. Speaker, I propose to increase the customs duty on powdered milk to 15 percent from 5 percent. The measure is intended to curtail misclassification.

191. Sir, tax concessions are a cost to Government. I have therefore decided to increase the period of absence from Zambia required for a returning resident to qualify for a rebate on duty payable on a motor vehicle per household from 2 years to 4 years. Stringent measures to scrutinise the eligibility of beneficiaries will be put in place.

192. Mr. Speaker, to further rationalise incentives, I propose to remove customs duty rebates on the construction of shopping malls.

Changes to the Mining Tax Regime

193. Sir, our nation is endowed with vast mineral resources which transcend beyond copper and cobalt. As mineral resources are a depleting resource, it is vital to structure an effective fiscal regime for the mining sector to ensure that Zambians benefit from the mineral wealth our country is blessed with. In this regard, I propose the following measures:

i. Increase mineral royalty rates by 1.5 percentage points at all levels of the sliding scale;

ii. Introduce a fourth tier rate at 10 percent on the sliding scale mineral royalty regime which would apply when copper prices rise beyond US$7,500 per metric tonne;
iii. Make mineral royalty tax non-deductible for income tax purposes;
iv. Introduce an import duty at the rate of 5 percent on copper and cobalt concentrates;
v. Introduce an export duty on precious metals including gold, precious stones and gemstones at the rate of 15 percent; and
vi. Lift the suspension of the export duty on manganese ores and concentrates which was put in place in 2012 and increase this duty to 15 percent from 10 percent.

Reintroduction of Sales Tax

194. Mr Speaker, the need to enhance domestic revenue mobilisation cannot be over emphasised. Government has, therefore, undertaken a review of the various taxes currently being implemented with a view to improve their contribution and minimise revenue leakages. To this end, Government proposes to abolish the Value Added Tax and replace it with a simpler and non-refundable Sales Tax.

195. Sir, as we implement the new tax, the Government, through the Zambia Revenue Authority will finalise audits of all outstanding VAT refund claims and enforce all outstanding VAT assessments in order to collect any unpaid taxes. Government also remains committed to settling the verified VAT refund claims that have so far been accumulated.

196. Mr. Speaker, after extensive consultation with all stakeholders, I will at an appropriate time bring to the House, the necessary legislation to repeal the current VAT legislation. I, therefore, call upon all Honourable Members of this august House to support the Bill to re-introduce Sales Tax.

House Keeping Measures

197. Sir, I propose to amend the Income Tax Act, Mines and Minerals Development Act, Customs and Excise Act, Value Added Tax Act, Insurance Premium Levy Act and the Tourism Levy Act to update, strengthen, and remove ambiguities in certain provisions of the tax laws in order to make tax administration more effective. The details of the proposed changes will be reflected in the respective legislation that I will later introduce in the House.

Non-Tax Revenue Measures

198. Mr. Speaker, I propose to adjust upwards to cost reflective levels various fees that have not been revised for a long time for services provided by Government departments. Sir, I further propose that from 2020 onwards, revision of fees and fines be indexed to inflation and adjusted every two years.

199. Sir, all the measure I have outlined, with the exception of Sales Tax, will take effect on 1st January, 2019.

PART IV

CONCLUSION

200. Mr. Speaker, as I conclude my budget address this afternoon, I wish to echo the theme of His Excellency, Mr. Edgar Chagwa Lungu, President of the Republic of Zambia`s Address to this august House just two weeks ago. The President's clarion call was for all Zambians to commit themselves to "Working Together to Achieve Vision 2030".

201. Sir, the Patriotic Front Government is committed to delivering a prosperous Zambia for all by 2030 by harnessing the ideas, energies and talents of all Zambians. We all have a legitimate and rightful stake in this country and we must all work together as a united people to make our Vision 2030 a reality.

202. Mr. Speaker, our road to a prosperous Zambia for all is not without challenges. Government fully recognizes the challenges that lie before us. We must all work together to achieve higher and more inclusive growth. We must contain our debt within sustainable levels in order to reduce the burden of debt service. In this regard, we must progressively reduce our fiscal deficit whilst ensuring that together we protect the most vulnerable in our society.

203. Sir, the 2019 Budget addresses these challenges head-on and continues to build on the solid foundation laid by the Patriotic Front Government over the last 7 years. Delivering fiscal consolidation will require extraordinary measures which need to be supported by a united people. I have no doubt about our capacity as a people to work together to take the resolute actions and make courageous decisions required to meet these challenges. Even as we resolve these challenges, we shall not sink so low as to sell our strategic assets to foreign interests. We shall, however, work in the best interest of our people to transform our Vision 2030 into reality.

204. Mr. Speaker, I beg to move.