

**2010 BUDGET ADDRESS BY DR. SITUMBEKO MUSOKOTWANE, MP,  
HONOURABLE MINISTER OF FINANCE AND NATIONAL PLANNING  
DELIVERED TO THE NATIONAL ASSEMBLY ON FRIDAY 9<sup>TH</sup> OCTOBER, 2009**

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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 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2010 presented to the National Assembly in October 2009.
2. Sir, I am the bearer of a message from His Excellency the President of the Republic of Zambia recommending favourable consideration of the motion that I now lay on the Table, in accordance with the requirements of Article 117 of the Constitution, as amended.
3. As I begin this budget speech, I wish to pay tribute to the late John Mupanga Mwanakatwe, SC, a distinguished lawyer and former Minister of Finance. He will be remembered for his many and immeasurable contributions to Zambia and served this nation with honour and dignity. His dedication to duty should be an inspiration to all of us. May His Soul Rest in Peace.
4. Mr. Speaker, today is an historic day for Zambia. Through a constitutional amendment, the Government has been enabled to present the national Budget in advance of the financial year. This landmark decision will ensure that the Budget is implemented over a full twelve-month period. In addition to improving Budget execution, this will give added meaning to Parliament's paramount role in deciding how public monies are spent.
5. For this, Mr. Speaker, and, through you, Sir, I would like to commend the Members of this august House for uniting across party lines to support this amendment. If my memory serves me correctly, it was only the NGO Bill that equally received thunderous support from this House.
6. Sir, as the world takes stock of the impact of the economic crisis, it is evident that its effects have been widespread. Millions of households across the world have lost their businesses and jobs. Others have seen their hard earned savings wiped out over a few months. Gladly, green shoots of recovery from the depths of recession are now showing, and the race to rebuild the global economy has begun.
7. As Zambians, we must aim to be among the winners in this race provided, of course, that we focus our minds more positively and spend less time talking about negatives. Just as millions of our farmers are ready to seize the opportunities of the forthcoming rainy season, as a nation we must also be poised to take full advantage of the coming rebound in economic activity and global trade.
8. Sir, I presented the 2009 Budget earlier this year at a time of great economic uncertainty in the world. Under the circumstances, the responsibility of every Government, including this MMD Government, was to design appropriate response measures to the crisis. Today, hope is on the horizon. This hope has partly been due to the strong measures that the industrialised countries took to counter the crisis at the global level. In part also, Mr. Speaker, this Government took measures to stabilise our economy against the crisis, and therefore, we should

not be shy to congratulate ourselves. At the same time, we cannot afford to be complacent, and must remain focussed on our drive for economic diversification.

9. Mr. Speaker, to remind Honourable Members, I mentioned the word diversification thirteen times in my last Budget address to emphasise this Government's bold agenda to strengthen the resilience of our economy. By the time I finish this speech, I will have used the word fourteen times to re-emphasize our commitment to this effort, and in recognition that our work is unfinished. Sir, as an indication of my Government's commitment to the diversification process, I have decided to retain the same theme as in the previous Budget, which is "Enhancing Growth through Competitiveness and Diversification".

10. Sir, my speech today is in five parts. In Part One, I present the global economic developments in 2009 and the outlook for 2010. I discuss developments in the Zambian economy in Part Two and this Government's economic policy objectives for 2010 in Part Three. In Part Four, I present the 2010 Budget, and conclude my speech, in Part Five.

## **PART I**

### **GLOBAL ECONOMIC DEVELOPMENTS IN 2009 AND OUTLOOK FOR 2010**

11. Mr. Speaker, preliminary indications are that the global economy is beginning to emerge from the raging recession that began late last year. Despite an expected stronger performance in the second half of 2009, global economic output is still estimated to contract by 1.1 percent this year. This contraction, however, is

significantly smaller than earlier estimates. In 2010, the global economy is estimated to record positive growth of 3.1 percent.

12. The global economic crisis has not spared Sub-Saharan Africa, with growth expected to drop sharply from 5.5 percent in 2008 to 1.3 percent in 2009. A recovery, however, is expected in 2010, with growth in the region projected at 4.1 percent.

13. Sir, initial estimates had indicated that in 2009, commodity prices, particularly metals, would remain at the low levels observed at the end of 2008 as a result of the crisis. The prices of most major commodities, however, rebounded towards the end of the first quarter of 2009, leading to upward revisions of projections.

14. In the case of copper, prices are expected to average US \$4,190 per metric tonne, against initial estimates of US \$3,500. This is a positive development, and should boost foreign exchange earnings of copper exporting countries. The international price of oil, however, has risen from US \$33 per barrel in early January 2009 to US \$69 per barrel by end-September.

15. Sir, despite this improvement in international commodity prices, global trade volumes are expected to decline by 12 percent this year, and modest growth of 2.5 percent is projected in 2010. This sharp decline in trade volumes has had a significant impact on growth in Africa, and particularly on commodity export-dependent countries such as Zambia.

16. With regard to inflation in the global economy, there has been a sharp fall as a

result of declining global demand for goods and services. It is estimated that in 2009, inflation in advanced economies will be a marginal 0.1 percent, against the 3.4 percent recorded in 2008. In Sub-Saharan Africa, inflation is projected to fall marginally to 10.6 percent by the end of the year, compared with 11.6 percent in 2008.

## **PART II**

### **DEVELOPMENTS IN THE DOMESTIC ECONOMY IN 2009**

#### *Macroeconomic Performance*

**17.** Mr. Speaker, the performance of our economy in 2009 was largely influenced by the global economic crisis. Sir, it is now evident that the main effect of the crisis on our economy has been through external trade. This, in turn, has had other economic consequences, which I will explain later.

**18.** Sir, as buying power in industrialised countries shrunk in response to the economic crisis, the price of our main export commodity, copper, rapidly declined to a low of US \$2,811 per metric tonne in December 2008 from a record high of US \$8,985 reached in July 2008. In the light of reduced earnings, mining companies responded to this crisis in different ways. First, almost all of them cut back on project developments to conserve cash. Jobs were lost. Second, Luanshya Copper Mine and Munali Nickel Mine were placed under care and maintenance. Again jobs were lost. Third, other mines were being threatened with closure, meaning that more jobs could have been lost, had this Government not taken the bold measures that it did.

**19.** This is why under the 2009 Budget, this Government instituted tax and expenditure measures to safeguard mining operations. This was meant to save jobs not only in the mines, but in related sectors as well. As a result of the measures we took and complemented by improvements in metal prices, Luanshya Copper Mine, which was under care and maintenance, has re-opened. Jobs are back. Munali Nickel Mine, which was also closed, is about to re-open. More jobs are soon returning. The other mines that were threatened with closure are still operating. These jobs have been retained.

**20.** On the whole, Mr. Speaker, it is estimated that 8,500 jobs were initially lost in Zambia, but over 1,500 have been regained since then. These are no mean achievements, Sir, considering that other mining countries have lost even more jobs. In the DRC, for instance, it is reported that over 200,000 jobs were lost in the mining sector. In South Africa, it is estimated that around 30,000 jobs were also lost.

**21.** Mr. Speaker, my Government understands these economic relationships very well. I am therefore very concerned that our detractors do not seem to appreciate the gravity of failing to secure mining jobs. Through the statements they make, I suspect that the mining industry and the whole economy would have been in ruins today if it were them who were in Government.

**22.** Sir, it is against this background that I wish to announce that the projected economic growth for 2009 is 4.3 percent. This is a slight downward revision to the earlier projection of 5 percent announced in my last Budget address. Amidst signs of recovery, however, and should

economic conditions continue to improve in this final quarter, the chances are extremely bright that the 5 percent target will not only be attained, but exceeded.

**23.** Compared to the global growth estimates of negative 1.1 percent, and Sub-Saharan Africa growth projections of 1.3 percent indicated earlier, even the harshest critic will find it difficult not to admire this Government's commendable achievement.

**24.** Mr. Speaker, with regard to inflation, it was initially estimated that it would be brought down to 10 percent by the end of the year from 16.6 percent at the end of 2008. However, due to higher than expected food prices during the first half of the year as well as increases in the cost of non-food components such as energy and transportation, end-year inflation is projected at 12 percent for 2009.

### **Sector Performance**

**25.** Mr. Speaker, the performance of the manufacturing sector has been negatively affected by lower demand and the rising cost of imported inputs. As a result, growth in the manufacturing sector is estimated to decline to 1.0 percent this year, against the 1.8 percent outturn in 2008.

**26.** Sir, the tourism sector was also adversely affected by the global economic crisis, as evidenced by a sharp fall in passenger arrivals at major airports and a 23 percent drop in tourist arrivals to national parks. Preliminary estimates are that the sector will decline by 15 percent this year.

**27.** The slowdown in the manufacturing and tourism sectors will be mitigated by

growth in the mining, agriculture and construction sectors. The mining sector is projected to grow by 13.1 percent this year, against the 2.4 percent attained in 2008. Copper production is expected to reach 662,000 metric tonnes this year, compared with 575,000 metric tonnes in 2008, and just over 200,000 tonnes at the beginning of this decade. Growth in the mining sector benefitted substantially from improved copper prices, the conducive business environment, and the commencement of production at Lumwana Copper Mine. I wish to commend our hardworking miners who remained patient during this difficult time.

**28.** Sir, the agriculture sector is expected to grow by 5.2 percent this year, compared to 1.9 percent in 2008. This growth is on account of the bumper maize harvest this year. Maize production rose by 26.7 percent to 1.9 million metric tonnes, compared with the 1.5 million metric tonnes recorded in 2008. Mr. Speaker, this is the largest harvest Zambia has recorded in ten years, and I wish to commend our hard working farmers for this exceptional achievement. This is why the Government will continue providing support to our small-scale farmers through the Farmer Input Support Programme, which will enable them to attain even higher production in the years to come.

**29.** Mr. Speaker, despite initial expectations of a weaker performance, construction activities in the country have remained fairly robust this year. Growth in the sector is projected to be 10 percent in 2009, as a result of increased public and commercial infrastructure investments, and continued high demand for housing. The expanded production of cement by local manufacturers, leading to improved supply, will also aid growth in the sector.

### *External Sector Performance*

**30.** Mr. Speaker, there has been a sharp fall in the level of international trade this year, with the value of imports and exports falling by 26 and 19 percent, respectively, during the first half of the year. The reduction in imports was largely attributed to the steep depreciation of the Kwacha during the first half of the year, while exports were affected by weaker global demand for metals.

**31.** Preliminary figures indicate that Zambia's current account deficit is projected to narrow to US \$483.9 million in 2009, from the US \$1,049.5 million recorded in 2008. This is largely attributed to the decline in imports, which are projected to fall by 24 percent by the end of the year. This also reflects, in part, the slowdown in investment expenditure owing to the effects of the global crisis.

**32.** Sir, metal export earnings are estimated to reach US \$2,780.1 million by the end of the year. This is 30.5 percent lower than the US \$4,001 million recorded in 2008, and is mainly due to the lower world metal prices this year, particularly during the first quarter. Volumes of metal exports, however, are projected to increase by 9.6 percent to 648,489 metric tonnes from the 591,735 metric tonnes recorded in 2008.

**33.** Sir, non-traditional export earnings are expected to reach US \$820.2 million this year, and will be 6.4 percent lower than the US \$876.2 million earned in 2008. Notwithstanding an improvement in the competitiveness of our non-traditional exports as a result of a weaker Kwacha, reduced global demand for commodities as well as supply constraints are expected

to reduce non-traditional export earnings this year.

**34.** Sir, our gross international reserves increased to US \$1,788.9 million by end-September 2009, compared to US \$1,085.0 million at end-December 2008. This was mainly on account of the receipt of US \$789 million in additional funds from the International Monetary Fund. Of these additional funds, US \$162 million has been received through augmented access under our ongoing Poverty Reduction and Growth Facility arrangement.

**35.** The remaining US \$627 million has been added to our reserves through increased Special Drawing Rights allocations, resulting from the resolution of the G-20 group of countries to increase allocations to eligible member countries. Consequently, international reserves are expected to rise to about 5 months of import cover by the end of the year. Mr. Speaker, this level of reserves has not been attained in the last thirty-eight years.

**36.** Mr. Speaker, during the first half of this year, the exchange rate of the Kwacha depreciated against major international currencies. This was largely on account of the continuing adverse effects arising from the global financial crisis in 2008. During the second half of the year, however, the Kwacha began to appreciate as a result of improving investor confidence in the Zambian economy.

**37.** Sir, amidst these developments, the performance of the Kwacha was mixed. The average exchange rate of the Kwacha against the US dollar closed at K4,655 in September 2009 compared with K4,883 in December 2008, representing an appreciation of 5 percent. The Kwacha,

however, depreciated by 3 percent against the Euro, 5 percent against the British Pound Sterling and 26 percent against the South African Rand.

### ***Monetary and Financial Developments***

**38.** Mr. Speaker, broad money growth in 2009 is projected to decline to 10.7 percent, from the 21.8 percent recorded in 2008. This is mainly due to a decline in domestic credit growth, which is projected to slow down to 12.3 percent from the 37.8 percent recorded in 2008. The lower growth in domestic credit is mainly attributed to weaker domestic demand and stricter lending conditions by commercial banks.

**39.** Sir, during the first three quarters of 2009, interest rates on Government securities were generally stable. The monthly average interest rate on Treasury bills decreased marginally to 16.8 percent by end-September 2009, compared with 17.1 percent recorded in December 2008. The monthly average interest rate on Government bonds was at 19.5 percent in September 2009 compared with 17.6 percent in December 2008. The average commercial banks lending rate, however, increased to 29.6 percent in September 2009 from the 26.8 percent recorded in December 2008.

**40.** Sir, during the period under review, trading activities at the Lusaka Stock Exchange (LuSE) also reflected the effects of the global financial crisis. Similar to the performance of many global equity markets, the LuSE All-share index recorded a decline, particularly during the first four months of the year. The share index, has however, recovered from a low of 2,096.7 in April 2009, to close at

2,807.3 at end-September 2009. Market capitalisation, which had fallen to K18,583.4 billion in April, recovered to K22,651.0 billion by end-September 2009.

**41.** Sir, despite the global financial crisis and its adverse impact on the banking system globally, the overall financial condition of the banking sector in Zambia as at end-September 2009 was satisfactory, and all banks remained adequately capitalised.

**42.** Notwithstanding the satisfactory condition of the financial sector, the quality of loan performance declined with the percentage of non-performing loans projected to rise to 13 percent by the end of this year, compared with 7.2 percent in December 2008. This decline in loan quality, is however, mitigated by the adequate capitalisation of commercial banks.

**43.** The decline in loan quality, however, did not deter interest in our banking sector. To this end, Mr. Speaker, five new commercial banks were granted licenses to operate. Two of these banks have already started operations, while the remaining three are expected to do so shortly. This is a clear demonstration of confidence that investors continue to have in the Zambian economy and this MMD Government's policies.

### ***Budget Performance in 2009***

**44.** Mr. Speaker, the impact of the global crisis on Zambia has had a negative effect on our fiscal operations. Domestic revenues are projected to underperform by K692.4 billion or 6.5 percent by the end of the year. The withholding of sector and general budget support by some

Cooperating Partners has further weakened our fiscal position. In order to safeguard key programmes in the roads, education and health sectors, the Government has increased domestic borrowing, while simultaneously reducing domestic expenditures in lower priority areas.

45. Let me now give some details on the performance of the 2009 Budget. Members of this august House will recall that they approved total spending of K15,279.0 billion for this fiscal year. This is now projected to be lower by 8.3 percent at K14,013.1 billion by the end of the year.

46. Mr. Speaker, total revenue and grants for the 2009 fiscal year are now projected to reach K11,647.8 billion. This is a reduction of 13.2 percent from the original budget estimates. By end-September, total revenue and grants amounted to K8,413.6 billion. Of this amount, domestic revenue collections were K7,315.1 billion against the target of K7,955.1 billion, a shortfall of 8.1 percent.

47. The lower revenue collections were mainly attributable to the underperformance of trade taxes, where significant reductions were recorded. In particular, excise duty underperformed by 40.3 percent, import VAT by 29.1 percent and customs duty by 23.0 percent. In contrast, domestic taxes performed well, and are expected to be above target by 7.4 percent by the end of the year. This is on account of an exceptional performance of mining tax revenue, which is projected to be above target by 40.4 percent. In view of the emerging upturn in economic activities, revenue collections are

expected to reach K9,953.5 billion by the end of the year.

48. Sir, in line with lower revenue collections, total expenditures were consequently below the projected level for the first three quarters. The situation was, however, mitigated by the higher than projected domestic borrowing to cushion the revenue shortfall. As a result, domestic borrowing is projected to increase to 3.0 percent of GDP, from earlier estimates of 1.8 percent. By the end of September, a total of K10,512.9 billion had been released, which was 13.6 percent below the budgeted figure of K12,167.4 for the first nine months. For the remainder of the year, we expect additional expenditures of K3,500.2 billion.

49. To protect key programmes in the health, education, and roads, we have had to realign our expenditures. This has entailed constraining operational expenditures across Government departments and agencies. In terms of budgetary releases for domestically financed capital programmes, a total of K658.2 billion has been released towards roads projects, K128.4 billion for health infrastructure and K215.2 billion for education infrastructure by end-September. The Government will ensure that these programmes are fully funded by the end of 2009.

### **PART III**

#### **ECONOMIC OBJECTIVES AND POLICIES FOR THE 2010 BUDGET**

##### *Macroeconomic Objectives*

50. Mr. Speaker, Zambia has continued to enjoy respectable economic growth

averaging close to 6 percent per annum since 2003. This is unprecedented in the last three decades. In spite of the global economic crisis, this growth has by and large remained intact except, of course, for the slight dip this year. As the world regains its economic confidence that the recession is ending, the Government's economic agenda in 2010, and beyond, is to overcome the current dip and restore growth to the pre-crisis trend levels and push growth even further. This will be done by continuing with our economic diversification programme, thereby laying a solid foundation for higher sustainable growth and building resilience to external shocks.

**51.** Sir, the Government recognises that poverty is still widespread in our country despite the growth in the past six years. It is undeniable, however, that growth has brought about some positive changes as evidenced by the phenomenal expansion in the construction of houses, registration of new businesses, and purchases of motor vehicles. From the experiences of countries that have made strong progress in poverty reduction, such as the Asian Tigers, and now China, we know that strong growth has to continue for some time before poverty can be substantially reduced.

**52.** Mr. Speaker, the substantial improvement in economic performance over the last decade is a testimony of the spirit of hard work and common purpose that our country has adopted. It is imperative that we do not lose the ground that we have gained. It is, therefore, essential that we continue to pursue business-friendly macroeconomic policies in order to strengthen and sustain the investor confidence needed for economic growth and job creation.

**53.** Sir, the Government's macroeconomic policies in 2010 will continue to focus on consolidating the recovery of the domestic economy, the rapid diversification of Zambia's economic base, and the protection of key social expenditures in sectors, such as, education and health.

**54.** In this regard, Sir, the Government's macroeconomic objectives in 2010 are:

- (a) to exceed 5 percent growth;
- (b) to reduce end-year inflation to 8.0 percent; and
- (c) to limit domestic borrowing to 2.0 percent of GDP.

**55.** Mr. Speaker, domestic growth in 2010 will continue to be driven by the mining, construction and agriculture sectors, along with a recovery in tourism, and wholesale and retail trade. Growth from these sectors will be augmented by improved metal exports, leading to improvements in the balance of payments position. I wish to reiterate, however, that any improvements in metal export earnings will not deter this Government from its goal to promote rapid diversification of the country's export base.

**56.** Mr. Speaker, the Government remains steadfast in its commitment that the exchange rate continues to be determined by market fundamentals. As Honourable Members are aware, Zambia experienced a copper price shock in the mid-1970s. In the face of uncertainty about the length of the present global economic crisis and the duration of the low copper prices, a depreciated Kwacha was a necessary market correction to prevent a prolonged balance of payments

crisis such as the one we experienced in the mid-1970s.

**57.** That crisis, characterised by shortages of foreign exchange and queues for essential commodities, lasted until the 1990s. In contrast, Mr. Speaker, nothing of the sort has happened or will happen under this MMD Government, which is resolute in its commitment to an open and vibrant Zambian economy.

### ***Monetary and Financial Sector Policies***

**58.** Mr. Speaker, monetary policy in 2010 will continue to focus on sustaining macroeconomic stability and returning to single digit inflation. In light of recent experiences with the global economic crisis, it became evident that the current framework, based on monetary aggregates, provides little room for monetary policy to counter adverse cyclical conditions through lower interest rates. In this regard, the Bank of Zambia is reviewing its monetary policy framework with a view to shift from the strict use of monetary aggregates to short-term interest rates as the anchor for monetary policy.

**59.** Sir, with regard to the development of financial markets, the Bank of Zambia, in consultation with stakeholders, will introduce an overnight lending facility to commercial banks. This will increase liquidity in the money market and improve the effectiveness of monetary policy.

**60.** Another innovation, Sir, will be the introduction of a framework to facilitate secondary market trading of Government securities and other debt instruments. This will provide additional liquidity to investors and provide information that

will assist to improve the efficiency of financial market operations.

**61.** Mr. Speaker, to promote financial stability and safeguard the economy against lagged effects of the global financial crisis, the Bank of Zambia is revising the lender of last resort policy. The policy will be aligned with accepted international standards and ensure that it remains effective and relevant under prevailing circumstances. In addition, the Government is working on a financial sector contingency plan, which will deal with problems of a systemic nature. These initiatives will be firmed up in 2010.

**62.** Mr. Speaker, I am pleased to inform this august House that Zambia's ranking in the latest World Bank's "Doing Business" report has risen by 10 places, putting it ahead of a number of major economies. This is a tremendous improvement, and is a reflection of this MMD Government's commitment to reducing the cost of doing business and promoting financial sector development. This, however, is not enough, and the Government will, next year, commence the implementation of the second phase of the Financial Sector Development Plan. This is expected to improve access to credit and reduce the high cost of borrowing.

### ***Fiscal Policy***

**63.** Mr. Speaker, over the last five years, Zambia's fiscal deficit has been brought under strict limits to ensure sustainability of public debt over the long run. This prudent fiscal management during years of higher growth has now afforded us with the ability to take a more expansionary fiscal stance in 2010, particularly in view

of the need to surpass recent trend growth rates of 6 percent.

**64.** Sir, the economic growth that Zambia has enjoyed has placed greater demands for investments in infrastructure and social spending, yet revenues have not grown at the same pace. Tax revenues as a proportion of GDP have declined from a high of 19.2 percent in 2000 to 15.2 percent projected for 2009. This has posed a major challenge for the financing of our development programmes, especially for investments in infrastructure and social spending.

**65.** Mr. Speaker, Zambia's case is not unique, as many countries around the world are facing revenue shortfalls in the aftermath of the global economic crisis. Nevertheless, the Government's position is that reduced revenue collections from an extraordinary event like this crisis, equally calls for extraordinary, but sensible measures to improve the situation.

#### ***Foreign Debt Policy***

**66.** Mr. Speaker, preliminary estimates indicate that the Government's stock of foreign debt is expected to grow by US \$59.7 million to US \$1,159.6 million by the end of 2009. This is well within sustainable limits, and in line with Government's debt policy. While we will continue to contract concessional debt as a first option, however, for high return investments, the Government may consider seeking non-concessional financing.

#### ***Competitiveness***

**67.** Mr. Speaker, this Government is unwavering in its commitment to promote economic diversification. This diversification drive will be undertaken through targeted fiscal interventions that I will outline shortly, as well as through structural reforms that will unshackle the constraints to doing business. In my last Budget address to this House, I outlined a number of structural measures aimed at enhancing national competitiveness. These were:

- (a) accelerating the regulatory reform process through the review of business licensing procedures. This has been done, and a number of Bills will shortly be presented to this august House for approval;
- (b) introducing a legal framework for Public-Private Partnerships. This has been done and the Government has moved to swiftly review and initiate proposals for Public-Private Partnerships in key areas of infrastructure development, such as roads, bridges, and energy projects;
- (c) revising electricity tariffs to enhance investment in the energy sector while ensuring improvement in service delivery levels by Zesco. This has been done and I will elaborate shortly; and
- (d) reducing international telecommunication gateway licensing fees to regional averages. This is ongoing and I will elaborate shortly.

**68.** Mr. Speaker, with regard to the electricity subsector, the Government approved a new multi-year tariff

adjustment framework aimed at inducing operational efficiency and increasing the profitability of the sector. This will attract private investment in electricity generation and consequently reduce load-shedding. In addition, Zesco has embarked on a countrywide programme to install prepaid meters, most of which are now locally manufactured. The public utility is also in the process of improving its cost structure for the benefit of its customers.

**69.** Mr. Speaker, the alignment of international gateway licensing fees with regional averages will be implemented by the end of this year. With the arrival of fibre optic connectivity in Zambia, however, the usage of satellite based telecommunications gateways will soon become obsolete, and the cost and standard of services are expected to improve substantially.

**70.** In addition, Sir, the Government has recently announced its intention to divest up to 75 percent of its equity in Zamtel. Furthermore, we may consider divesting the remaining 25 percent through sale of shares on the Lusaka Stock Exchange. This is an historic move and will also go a long way to improving the quality of service and reducing high costs in the telecommunications sector.

**71.** Mr. Speaker, this MMD Government does not merely talk about job creation and competitiveness. It acts decisively to attract job-creating investments across all sectors of our economy. For example, in agriculture, the Government has signed a Memorandum of Understanding with Man Ferrostaal for a US \$400 million investment in the cultivation and refinement of Jatropa in Northern Province. In the property development

sector, NAPSA is investing US \$200 million in a major residential and commercial property development at the Levy Junction in the heart of Lusaka. In the minerals sector, Zhongui Mining Group is investing more than US \$3 billion in mineral exploration and development in the North-western Province. Altogether, the current value of projects in the pipeline through ZDA is valued at over US \$6.2 billion, which will have the potential to create jobs for tens of thousands of Zambians.

### **Infrastructure**

**72.** Sir, the provision of infrastructure will remain a priority for this Government in 2010. As I will elaborate on later, the focus will be on building and rehabilitating roads, bridges, electricity generation projects, schools, and hospitals, among others.

**73.** Sir, in a further effort to reduce the cost of doing business, the Government is working with Cooperating Partners and regional Governments to improve and expand regional transportation networks. Projects such as the Kazungula Bridge and the Nacala Corridor are expected to commence in 2010 as part of the North-South Corridor programme, which will improve cross-border infrastructure and reduce regional trading costs.

### ***Public Financial Management***

**74.** Mr. Speaker, recent revelations of financial mismanagement in the Ministry of Health have greatly tarnished the substantial progress that has been made in improving the management and care of Government financial resources. This is a shameful attack against a sector that serves many poor people, and is

unacceptable. The Government has provided all the support required by the investigative agencies so that they get to the bottom of the matter. Sir, to hasten the detection and prevention of financial irregularities in Government, I am increasing resources available to the offices of the Auditor-General and the Anti-Corruption Commission. This will equip them with the human capital and operational resources needed to effectively carry out their mandates. In addition, the Government will move swiftly to introduce a Financial Intelligence Unit to enhance the fight against financial crime.

75. Mr. Speaker, I wish to take this opportunity to warn that any public servant who dares to misappropriate public resources will face the full force of the law.

76. Sir, the Government will continue to strengthen systems and build capacity within its agencies to undertake monitoring and evaluation, and will step up its efforts to disseminate information on public expenditures on a regular basis. In 2010, all Ministries and Government Agencies will again publish their work plans so that the general public can follow the progress of projects on the ground. These measures reaffirm the Government's commitment to increased transparency and accountability.

77. Mr. Speaker, in our efforts to improve budget execution we presented the Constitutional amendment Bill earlier this year. To continue with these improvements, a Treasury Single Account will be introduced in 2010, which will further improve budget execution and cash management of public finances. By streamlining financial management, we

will reduce the amount of idle balances held across hundreds of accounts at commercial banks, which are accruing unnecessary bank charges. In addition, planning and budgeting legislation will be introduced, in conformity with the Constitutional amendment.

## **PART IV**

### **THE 2010 BUDGET**

78. Sir, having presented this Government's strategic focus for 2010, I will now outline how budgetary resources will be used to position our country to take full advantage of the upturn in the global economy. This Budget, therefore, will entail constraining lower priority expenditures and directing more resources to programmes that are aimed at stimulating growth and diversifying the economy.

79. Mr. Speaker, the Government proposes to spend K16,717.8 billion or 22.5 percent of GDP in 2010. To finance these expenditures, the Government will raise domestic revenues of K12,107.0 billion representing 72.4 percent of the budget and expects to receive grants from our Cooperating Partners amounting to K2,426.7 billion or 14.5 percent of the budget. The balance of K2,184.1 billion or 13.1 percent will be financed through domestic borrowing of K1,487.0 billion and foreign borrowing of K697.1 billion.

### ***SECTOR POLICIES AND SUPPORTING EXPENDITURES***

#### ***Expenditure by Functional Classification***

80. Mr. Speaker, as in the previous years, expenditure on General Public Services will account for the largest share

of the 2010 budget at 32.1 percent. This is slightly higher than the 31.8 percent share in 2009, as a result of the need to finance certain key expenditures such as voter and national registration at a cost of K128.5 billion, the national census at a cost of K97.6 billion, and the constitution making

process at K50.0 billion. These allocations are essential, and are a demonstration of this Government's commitment to the democratic process. These programmes will collectively consume 1.7 percent of the 2010 Budget.

| <b>2010 Budget Functional Classification , K' Billion</b> |                                   |                        |
|---|-----------------------------------|------------------------|
| <b>Function and Sub-Function</b>                          | <b>Allocation<br/>(K'Billion)</b> | <b>% of<br/>Budget</b> |
| <b>General Public Services</b>                            | <b>5,369.0</b>                    | <b>32.1</b>            |
| Executive   | 487.9                             |                        |
| o/w Local Authority Grants                                | 135.3                             |                        |
| Constituency Development Fund                             | 100.0                             |                        |
| Legislation   | 442.0                             |                        |
| o/w National Constitution Conference                      | 50.0                              |                        |
| General Government Services                               | 4,070.8                           |                        |
| o/w Domestic Interest                                     | 1,188.0                           |                        |
| External Debt Interest and Amortisation                   | 392.4                             |                        |
| Voter and National Registration                           | 128.5                             |                        |
| National Census   | 97.6                              |                        |
| Centralised Administrative Services                       | 368.2                             |                        |
| <b>Defence</b>  | <b>1,326.0</b>                    | <b>7.9</b>             |
| <b>Public Order and Safety</b>                            | <b>771.5</b>                      | <b>4.6</b>             |
| <b>Economic Affairs</b>                                   | <b>3,217.8</b>                    | <b>19.2</b>            |
| General Economic, Commercial, and Labour Affairs          | 126.8                             |                        |
| Agriculture, Forestry and Fishing                         | 1,139.0                           |                        |
| Fuel and Energy   | 269.5                             |                        |
| Mining  | 24.2                              |                        |
| Transport   | 1,522.4                           |                        |
| o/w Roads   | 1,461.9                           |                        |
| Communication   | 15.1                              |                        |
| Tourism   | 120.8                             |                        |
| <b>Environmental Protection</b>                           | <b>148.5</b>                      | <b>0.9</b>             |
| <b>Housing and Community Amenities</b>                    | <b>659.1</b>                      | <b>3.9</b>             |
| o/w Water Supply and Sanitation                           | 433.7                             |                        |
| <b>Health</b>   | <b>1,362.5</b>                    | <b>8.2</b>             |
| o/w Infrastructure  | 134.0                             |                        |
| <b>Recreation, Culture and Religion</b>                   | <b>97.5</b>                       | <b>0.6</b>             |
| <b>Education</b>  | <b>3,320.9</b>                    | <b>19.9</b>            |
| o/w Infrastructure  | 553.5                             |                        |
| <b>Social Protection</b>                                  | <b>445.0</b>                      | <b>2.7</b>             |
| <b>Grand Total</b>  | <b>16,717.8</b>                   | <b>100.0</b>           |

**81.** In line with the Government's development agenda, expenditures to the Education, Economic Affairs, and Health functions will also have a significant share of this budget at 47.3 percent, collectively. Other functions include Defence at 7.9 percent, Public Order and Safety at 4.6 percent, and Housing and Amenities at 3.9 percent.

**82.** Sir, the details of expenditures in the 2010 Budget, classified by function are as follows:

### *Agriculture and Livestock*

**83.** Mr. Speaker, despite a significant improvement in the performance of the agriculture sector, the Government will relentlessly continue to improve the productivity of the sector and raise the incomes of the millions of Zambian farmers. The Government views the improved performance of agriculture and livestock as one of its most powerful tools to reduce poverty and stem the rural-urban divide. As a demonstration of this commitment, I have increased the total allocation to the agriculture and livestock sectors to K1,139.0 billion in 2010 from K1,096.3 billion allocated in 2009.

**84.** Mr. Speaker, in my last Budget address I announced that the Government would undertake a comprehensive review of the Fertiliser Support Programme, now known as the Farmer Input Support Programme. This review has been undertaken, and some recommendations have been implemented to improve its design for the 2009/2010 farming season.

**85.** Sir, this year, the Government has rationalised the distribution of fertiliser and seed for small-scale farmers. As a

result, the number of our small-scale farmers that will benefit from the Farmer Input Support Programme will double to 534,000 eligible farmers. This will mean that they will now receive four 50kg bags of fertiliser and one 10kg bag of seed, instead of eight 50kg bags of fertiliser and two 10kg bags of seed, to ensure optimal utilisation. This rationalisation is aimed at increasing the coverage of the programme.

**86.** Sir, the efficiency of distribution has been improved through the usage of institutions at the agricultural camp levels rather than at the district as was the case previously, and through the increased participation of community organisations. Furthermore, farmers receiving fertiliser will be targeted for support from agricultural extension workers to ensure that their fertiliser is applied correctly and efficiently. With these interventions, the Government expects crop yields, which have not been very satisfactory in the past, to improve.

**87.** The Government remains committed to this vital form of input support to small-scale farmers. In this regard, I have allocated K430 billion for the programme in 2010.

**88.** Sir, in continuing with our support to small-scale farmers, K100 billion has been allocated to the Food Reserve Agency. These resources will augment the Agency's ability to be used to purchase grains from farmers, particularly those in remote areas, providing them with market access to ensure future food production and household food security. In addition, I have allocated K10 billion towards the Food Security Pack initiative designed to protect vulnerable households from high food prices.

**89.** As an additional food security measure, the Government, this year, rehabilitated silos in Lusaka, with the aim to improve grain storage and protection against damage. Next year, this programme will continue, through the rehabilitation of silos in Kabwe, and Ndola. Furthermore, three new storage sheds will be constructed in Serenje, Mbala and Mufumbwe, while six hard-standings will be upgraded in Chambeshi, Chisamba, Kalomo, Petauke, and Kapiri-Mposhi.

**90.** Sir, on the marketing side, the Government will introduce the Agricultural Marketing Bill during this Parliamentary session. This Bill is intended to enhance access by small-scale farmers to markets, and ensure that transactions take place in a fair manner. The Bill will also include provisions for warehouse receipting, thereby allowing farmers to access finance against the value of their produce and enabling them to purchase inputs for the subsequent farming season.

**91.** Mr. Speaker, in order to increase investment and productivity in the sector, the Government announced this year that it would step up the development of farm blocks where large scale and smallholder production would co-exist in a symbiotic relationship. The first of these, the Nansanga Farm Block in Serenje District, is close to completion. To this end, all the budgeted resources of K42.4 billion to the farm block for access roads, electricity lines and water development, have been released in 2009. These works have been done. In 2010, the Government will complete remaining works in the Farm Block, particularly relating to the construction of additional roads and bridges. For this, I have allocated K26.0

billion in 2010. An additional K3.0 billion has been allocated for the construction of dams.

**92.** Sir, the Government has already begun to aggressively market Nansanga to investors. From the promotion efforts that have been undertaken this year, substantial interest has already been expressed in the block.

**93.** Mr. Speaker, in 2010 the Government will also commence similar infrastructure development in Luena Farm Block in Kawambwa district. This farm block is an area with vast potential for the development of the sugar industry. I have provided K3.4 billion for preliminary work in 2010.

**94.** Sir, the recent creation of a specialised Ministry of Livestock and Fisheries Development will ensure that this vital subsector receives focussed attention from this Government. The potential of the livestock subsector is immense, and will be supported through targeted interventions aimed at controlling animal disease and improving veterinary services. Through these interventions, beef will become our next copper. Greater attention will also be placed on fisheries development, through the construction of aquaculture centres for the breeding of fingerlings that will be used for restocking.

**95.** Sir, to support the livestock subsector, the Government will continue with the creation of disease-free zones to facilitate livestock exports. The first zone is expected to cover Central Province, Lusaka Province, and parts of the Copperbelt Province. Work has commenced on the renovation of a number of laboratories, the construction

of checkpoints into the proposed disease free zone, and the establishment of breeding centres. In 2010, this work will continue and I have allocated K12.5 billion for disease-free zone programmes.

**96.** Sir, the disease burden around these zones will also be targeted through the establishment of extension service centres in the livestock disease prone areas of Western, Southern, and Eastern Provinces. For this, and other livestock and fisheries activities in the provinces and districts, I have allocated K95.2 billion. The full details are available in the work plan for the newly created Ministry.

### ***Tourism***

**97.** Mr. Speaker, the Tourism sector was the most affected by the global crisis in 2009. The sector, however, is expected to pick up in 2010 on the back of a global recovery and the upcoming football world cup in South Africa next year. Growth in the sector is projected to be 15 percent in 2010, compared to an estimated contraction of the same magnitude in 2009.

**98.** Sir, in my last Budget address I announced that the focus of the Government's interventions in the tourism sector would be on the construction of vital infrastructure in tourism areas. This will continue to be our focus in 2010 and in the medium-term.

**99.** Sir, in our continued efforts to transform the Northern Tourism Circuit into a high quality tourism destination, I allocated K50.7 billion in 2009 towards infrastructure projects in the area. These resources have been released in full.

**100.** To continue with this programme in 2010, I have allocated K95.0 billion towards the development of the Northern Tourism Circuit. Of this, K20.0 billion will be used towards the continued construction of the road from Mbala to Kasaba Bay, K70.0 billion will come from the Rural Electrification Fund for the electrification of the area, and K5.0 billion is for the reconstruction of the Kasaba Bay Airport. A further provision of K1.0 billion has been made for the restocking of the Nsumbu National Park.

**101.** Sir, in addition to these allocations, I have provided K83.4 billion towards the Support to Economic Expansion and Diversification Project aimed at fostering growth in the tourism sector. A further K6.4 billion will be used for tourism marketing activities, and K6.3 billion will be used to finance the operations of the National Museum Board. Additionally, K4.1 billion has been allocated towards the Zambia Wildlife Authority.

**102.** Sir, I have also allocated K22.4 billion towards the construction of access roads to and within National Parks, including the continued development of the Kafue National Park spinal road network.

**103.** Mr. Speaker, in 2007, this august House passed the Tourism and Hospitality Act to provide for the development of the tourism industry through enhanced tourism planning, management and co-ordination. It is the Government's desire to establish the Tourism Development Fund, in accordance with Section 62 of the Act. This is for purposes of product development, marketing, training and research and also to support participating local councils to develop tourism related infrastructure.

**104.** Sir, tourism promotion requires urgent attention for Zambia to reap the full benefits from its tourism potential. In view of revenue constraints, the Government will, in the course of this sitting of Parliament, introduce legislation for a tourism levy to be collected in 2010. In the medium term, this will become a major source of financing for the sector.

### ***Manufacturing***

**105.** Mr. Speaker, the growth of the manufacturing sector is an essential part of this Government's agenda for national development. The expansion of manufacturing activities will, over the medium term, improve Zambia's growth prospects and competitiveness, and reduce its dependence on imports through a wider base of locally produced goods and services. In this regard, the Government will continue to place emphasis on this vital sector through the construction of arterial infrastructure and investment facilitation through the Zambia Development Agency.

**106.** There has been substantial progress in the development of the US \$900 million Chambishi Multi-Facility Economic Zone. Eleven manufacturers have begun operations, and another five are expected to do so in 2010. As the pace of operations accelerates, hundreds of jobs will be created.

**107.** Sir, in my last address to this august House, I had announced that development of the Lusaka South Multi-Facility Economic Zone would commence in 2009. To support the construction of access roads to the Zone, I had allocated K30.0 billion, and these resources have been released in full. In 2010, a further K20.0 billion has been provided to

complete infrastructure development at the Lusaka South MFEZ. Furthermore, the master design plan for the Lusaka East Multi-Facility Economic Zone will be completed by the end of this year, and construction is expected to start in 2010.

### ***Energy***

**108.** Mr. Speaker, in the energy sector, improving the supply of, and access to, electricity remains a key strategic focus for this MMD Government. Considerable momentum will be gained in 2010, as construction of a number of electricity generation projects are expected to commence.

**109.** Sir, work is ongoing at the Kariba North Bank Extension Project. At Kafue Gorge Lower and Ittezhi-tezhi, feasibility studies have been completed, and the Government is in the process of finding suitable financing. Development of these projects will commence next year and will be completed over the medium term. Combined, these projects will add in excess of 1,000 megawatts of electricity supply.

**110.** Sir, while these large projects will almost double the country's ability to generate electricity over the medium term, there is an urgent need to improve the supply of electricity in the farthest areas of our country. We cannot wait to bring reliable electricity supply to these areas. Given the high cost of building lengthy distribution networks, the Government has commenced the development of a number of mini-hydro projects aimed at supplying smaller local areas with electricity.

**111.** Sir, given the great expense of constructing these facilities, the Government will actively seek private

sector participation through the Public-Private Partnership framework. A number of projects have been identified, and we expect to start the tendering process shortly. Public resources in 2010 will instead be focussed on stepping up rural electrification programmes, for which I have allocated K234.7 billion.

### ***Transport and Communications***

**112.** Sir, the development of the transportation sector is one of the pillars of this MMD Government's development agenda. Last year, I significantly increased the budgetary allocation for the development of road infrastructure, in line with our firm commitment to reduce the cost of doing business and improve access to rural areas. To continue with this commitment, I have allocated K1,461.9 billion towards the construction, rehabilitation and maintenance of our road networks in 2010.

**113.** Allow me, Sir, to highlight certain key projects that these resources will be used for. The first phase of the Zimba-Livingstone Road will be completed later this year, and work has already commenced on the second phase. I have allocated K194.5 billion for the completion of this major project, which will not only improve access for tourists, but also enhance the smooth movement of goods across our southern borders.

**114.** Some other projects that will be undertaken in 2010 include the upgrading of the Choma-Chitongo, Chembe Bridge - Mansa, Mongu-Kaoma-Tateyoyo, Kasama-Luwingu, and Luansobe-Mpongwe roads, at a cost of K146.2 billion. I have also allocated K60.9 billion to improve the condition of urban roads within Ndola and Kitwe. A further K603.9

billion, representing over 40 percent of the roads budget, will be used to undertake routine maintenance and rehabilitation works. Full details of these and other projects are available in the work plan for the Road Development Agency.

**115.** Sir, a further K106.3 billion has been allocated to the rehabilitation of feeder roads and river crossings across the country. In our tireless efforts to improve access to markets and other services for our rural communities, I have more than doubled the allocation to rural road development in the nine provinces to K45 billion. This translates to K5 billion for each provincial rural roads unit, compared with the K2 billion that was allocated in 2009.

**116.** Sir, I have also allocated K15.7 billion for the rehabilitation of airports and airstrips across the country. Of this amount, K5 billion is for Kasama Airport, K4.9 billion for Solwezi Airport, K4.2 billion for Mansa Airport, K0.5 billion for Nyangwe Airstrip in Lundazi District, and K0.6 billion for Serenje and Senanga Aerodromes.

### ***Health***

**117.** Mr. Speaker, despite the immense pressures of finding adequate resources to cater for all national priorities, this MMD Government remains steadfast in its commitment to bring healthcare to the far reaches of this great nation. Access to quality health services has significantly improved as a result of the interventions by the Government, assisted by our Cooperating Partners. This is evidenced by the falling incidence of malaria, lower maternal, infant, and child mortality rates, and reduced prevalence of HIV/AIDS, among others.

**118.** Sir, disbursements to the health sector, are however, expected to be lower than budgeted in 2009. This is due to the suspension of aid by Cooperating Partners, which has jeopardized the progress that has been made. As a consequence of the continued uncertainty regarding Cooperating Partners' commitment to supporting the sector, the Government has moved swiftly to realign domestic resources to mitigate the shortfalls in the health sector both in 2009 and 2010.

**119.** Mr. Speaker, following the alleged misappropriation of resources in the Health Sector, we have had several meetings with Cooperating Partners on the resumption of funding to the sector. As a result of these meetings, a joint action plan was developed and agreed to determine the way forward. On its part, the Government has met all its obligations under the first phase of the plan, and we await a favourable response from our Cooperating Partners.

**120.** Sir, due to this non-commitment of resources from our Cooperating Partners, the allocation to the health sector has reduced by 25.3 percent to K1,362.5 billion in 2010. In terms of the domestically financed budget, however, the allocation has increased by 18.6 percent from the K1,151.2 billion allocated in 2009. This increased allocation, despite the lack of support from Cooperating Partners, is a clear demonstration of Government's unwavering commitment to improving health services in the country.

**121.** Mr. Speaker, in 2009, I had allocated K135.5 billion towards infrastructure development in the health sector. A total of K128.4 billion has been released so far

towards the completion of nine district hospitals and 21 health posts across the country.

**122.** Sir, despite reduced funding to the sector, the construction and rehabilitation of health infrastructure will continue. For 2010, I have allocated K134 billion towards the continued construction, expansion and rehabilitation of 16 district hospitals, and the construction of staff houses. The full details of these infrastructure projects are available in the work plan for the Ministry of Health.

**123.** Mr. Speaker, in addition, I have allocated K83.8 billion for drugs and medical supplies in 2010. For the prevention and treatment of HIV/AIDS, I have allocated K33.7 billion. In addition, K20 billion has been allocated towards the procurement of essential medical equipment. To achieve this Government's commitment to expand access to quality healthcare, we must continue to recruit essential and frontline medical staff. In this regard, I have allocated K13.7 billion for recruitment in the health sector.

### ***Education and Skills Development***

**124.** Mr. Speaker, this Government has placed a high priority on the education and development of our children. While Zambia is well on track to meeting the Millennium Development Goal of providing universal education by 2015, we must now aim higher to raise the standards of education and provide better opportunities for our children.

**125.** In achieving this goal, the role of communities and the private sector has become more critical than ever. The growth of community schools has played a vital role in increasing access to

education. Over the medium-term, the Government will continue to support the development of community schools, and engage the private sector to establish education centres within the Public-Private Partnership Framework.

**126.** Over the last five years we have devoted substantial resources to the education sector. In order to continue with this policy, I have allocated K3,320.9 billion to the education sector for next year, representing an increase of 26.4 percent from resources allocated in 2009.

**127.** Mr. Speaker, in my last Budget address, I had allocated K276.6 billion of our domestic resources for infrastructure development, of which K215.2 billion has been released so far. These resources have been used to complete the construction of twelve basic schools this year. An additional 20 high schools are in the advanced stages of completion. Furthermore, the 2,500 additional classrooms for basic schools across the country that were planned for this year will be completed by early next year.

**128.** Armed with the resources for 2010, Sir, the Government will continue to develop infrastructure such as schools and teacher training colleges. I have, therefore, allocated K553.5 billion for the construction of educational infrastructure in 2010. This will be used to construct an additional 2,900 classrooms that will provide additional school places for another 250,000 students across the country. Most of these classrooms will be built using the community mode of contracting. In addition, K21.4 billion has been allocated towards the procurement of educational materials, including books and desks. Details of these projects are

available in the work plan for the Ministry of Education.

**129.** Sir, in order to continue support to tertiary institutions, I have allocated K317.9 billion to the three public universities. Of this amount, K164.9 billion will be used to finance their operations, while K30 billion will be used for infrastructure development. Additionally, K114.6 billion will be used to provide bursary support to enable deserving students to access higher education. A further K84.3 billion has been allocated to support operations and infrastructure development at TEVET institutions.

### ***Water Supply and Sanitation***

**130.** Mr. Speaker, the Government will continue to increase access to clean water and sanitation for our people in both urban and rural areas. In this Budget, I have allocated K433.7 billion to water supply and sanitation facilities. These are more than double the resources that I had allocated in 2009. Of this amount, K198.2 billion has been directed to the National Urban Water Supply and Sanitation Programme, which will enable Government to rehabilitate urban water supply and sanitation facilities. In addition, K116.5 billion has been allocated towards the National Rural Water Supply and Sanitation Programme. This will go towards the construction of 1,000 boreholes, 300 demonstration pit latrines, and the rehabilitation of 700 boreholes.

### ***Public Order and Safety***

**131.** Mr. Speaker, maintaining law and order through a professional police service

and a strong legal system is critical to attracting investment, thereby creating job opportunities for our people. In 2010, I have increased the allocation towards the maintenance of public order and safety by 26.3 percent to K771.5 billion. Of this amount, K37.7 billion will go toward the construction of courthouses in all nine provinces, while K36.7 billion has been provided for the construction of police houses and expansion of infrastructure at Mwembeshi Prison. Furthermore, resources have been provided for the continued recruitment of police officers in 2010.

### ***Social Protection***

**132.** Mr. Speaker, in these difficult financial times, it is important to ensure that resources going towards social protection are safeguarded. In 2010, therefore, this sector will receive an increase of 19 percent. Of the K445.0 billion allocated for social protection, K194 billion has been provided for grants to the Public Service Pension Fund to cater for early retirement from the civil service. A further K172.7 billion has been allocated as Government's employer contribution to the Fund.

### ***Local Government***

**133.** Mr. Speaker, decentralisation of service delivery functions to districts is one of the key goals of the Public Sector Reform Programme. The ultimate aim is to devolve these functions to local councils over the medium term as the capacity of these institutions improves. A critical element of capacity development in councils is financial empowerment through fiscal decentralisation. To this end, in 2010, the level of grants to

councils has been raised to K135.3 billion, an increase of 23.0 percent over 2009.

**134.** Of these resources, K69.4 billion will be disbursed as a recurrent grant to councils. To enhance transparency and accountability, this grant will be disbursed through a formula, and will have three objectives:

- (a) to compensate rural councils for revenues lost from the abolition of unfair and unpopular crop levies;
- (b) to assist rural councils to cover their operational costs; and
- (c) to improve service delivery performance in all councils.

**135.** Sir, of the other grants to councils, capital grants, restructuring grants and grant in lieu of rates have each been allocated K22 billion. In 2010, the capital grant will be apportioned to support the continuation of the Lusaka drainage project and the construction of basic infrastructure in the 12 recently created districts. From 2011, however, the capital grant will also be disbursed based on a formula, similar to the recurrent grant.

**136.** Mr. Speaker, in addition to these resources, K100 billion has been allocated to the Constituency Development Fund. This represents an increase of 11.1 percent from the K90 billion allocated in 2009, which has been released in full and in an expedient manner this year.

### **REVENUE ESTIMATES AND MEASURES**

**137.** Mr. Speaker, the following is a summary of the revenue estimates and financing to support the 2010 expenditure:

## Total Resource Envelope for the 2010 Budget

|  | <b>(K'billion)</b> |                  |
|--|--------------------|------------------|
| <b>Tax Revenues</b>                          |                    | <b>11,385.3</b>  |
| <b>Direct Taxes</b>                          | <b>5,730.1</b>     |                  |
| Company Tax                                  | 1,363.3            |                  |
| PAYE   | 3,249.9            |                  |
| Other Income Taxes                           | 872.6              |                  |
| Mineral Royalty Tax                          | 244.3              |                  |
| <b>Value Added Tax</b>                       | <b>2,939.7</b>     |                  |
| Domestic VAT                                 | 500.3              |                  |
| Import VAT                                   | 2,439.4            |                  |
| <b>Customs and Excise duty</b>               | <b>2,715.5</b>     |                  |
| Customs duty                                 | 1,300.3            |                  |
| Export Levies                                | 17.9               |                  |
| Excise Duty                                  | 1,397.3            |                  |
| o/w Fuel Levy                                | 290.6              |                  |
| <b>Non-Tax Revenues</b>                      |                    | <b>721.8</b>     |
| User Fees and Charges                        | 348.7              |                  |
| Exceptional Revenues                         | 152.7              |                  |
| Dividends, Interest and Other Levies         | 11.4               |                  |
| Other  | 209.0              |                  |
| <b>Total Domestic Revenues</b>               |                    | <b>12,107.1</b>  |
| <b>Domestic borrowing</b>                    |                    | <b>1,487.0</b>   |
| <b>Total Domestic Revenues and Financing</b> |                    | <b>13,594.10</b> |
| <b>Foreign Grants</b>                        | <b>2,426.6</b>     |                  |
| General Budget Support                       | 980.4              |                  |
| Sector Budget Support                        | 213.3              |                  |
| Sector-Wide Approaches                       | 432.1              |                  |
| Project Support                              | 800.8              |                  |
| <b>Foreign Financing</b>                     | <b>697.1</b>       |                  |
| Budget Support Loans                         | 171.0              |                  |
| Project Loans                                | 526.1              |                  |
| <b>Total Foreign Grants and Loans</b>        |                    | <b>3,123.7</b>   |
| <b>Total Revenue and Financing</b>           |                    | <b>16,717.8</b>  |

## REVENUE MEASURES

### Tax Measures

**138.** Mr. Speaker, as I have mentioned earlier, the recession has affected every country in the world. In Zambia, the effect has mainly been felt in the reduction of tax revenues. To protect our development agenda, however, adequate resources must be mobilised. These are difficult times, Mr. Speaker, and, in difficult times, we must uphold our commitment to fiscal prudence.

**139.** In this regard, Mr. Speaker, the Government proposes the following revenue measures for 2010, in order to ensure that the Government's fiscal programme remains on course.

**140.** Sir, Honourable Members of this august House will recall that in 2008, the Government reduced excise duty on diesel from 30 percent to 7 percent in order to mitigate record high international fuel prices. International oil prices have since fallen significantly, to around US \$70 per barrel from a peak of over US \$150 per barrel in 2008. I, therefore, propose a small increase of 3 percentage points on the excise duty on diesel, to bring the effective rate to 10 percent. This is in recognition of the revenue shortfall in the 2010 Budget. At this level, our tax on diesel will still be among the lowest in the region. We expect a revenue gain of K58.8 billion from this measure.

**141.** Sir, in 2006, Honourable Members may also remember that the Government introduced a carbon emissions tax on both imported and domestic motor vehicles. This tax is supposed to be payable annually on domestic vehicles. However, due to administrative challenges, the

Zambia Revenue Authority has not been able to collect this tax on domestic motor vehicles. This measure will now be implemented in 2010, and is expected to raise K30.5 billion.

**142.** Sir, the above measures will take effect on 1<sup>st</sup> January 2010.

**143.** Mr. Speaker, this Government is deeply concerned about the burden that taxation places on our hardworking taxpayers in the formal sector, especially those in the low-income brackets. We are committed to reducing the tax burden on employees, but this can only be achieved gradually in order to sustain ongoing development programmes in view of the revenue constraints imposed by the global economic crisis.

**144.** Sir, I therefore propose to increase the PAYE exempt threshold from K700,000 per month to K800,000 per month while leaving the tax bands unchanged. This means that those earning below K800,000 per month will be exempt from this tax. This measure will return K85.0 billion to the pockets of our workers.

**145.** Mr. Speaker, for 2009, this august House approved an increase in the tax credit for differently-abled persons from K600,000 to K900,000 per annum. To affirm our commitment to provide further relief to the differently-abled, I propose to increase their tax credit to K1,560,000 per annum in 2010. This will result in minimal revenue loss.

**146.** Sir, the above measures will take effect on 1st April, 2010. In line with the changes to the Budget cycle, we will be consulting with stakeholders to harmonize the tax year with the fiscal year so that

measures in future will become effective on the 1<sup>st</sup> January of each financial year.

**147.** Sir, malaria has remained the number one killer in Zambia. While there have been substantial reductions in the incidence of malaria this decade, we must continue to tackle this disease. In an effort to continue the fight against this scourge, we have, in the past, removed taxes on mosquito nets, and on the materials and insecticides used in their manufacture. I now propose to remove import duty and zero-rate insecticide treated curtains for VAT purposes. This measure will result in minimal revenue loss.

**148.** Sir, the sale of commercial property is currently exempt for VAT purposes. In order to further encourage development of commercial infrastructure, I propose to standard rate the sale of commercial property. This will not only broaden the tax base, but also mitigate cash flow by allowing developers to claim input VAT on a monthly basis while the output VAT will only be payable at the time of sale of these properties.

**149.** Mr. Speaker, the penal bonds system was introduced some years back to safeguard Government revenue and has been applicable to manufacturers of excisable goods. This requires them to buy bond guarantees from financial institutions. This system has proven to be costly to businesses as it adversely affects their cash flow. With the modernisation of our tax administration, sufficient measures are now in place to safeguard tax revenue and there is no longer any justification to continue with this system. I, therefore, propose to abolish the penal bond system.

**150.** Sir, in line with this Government's resolve to support the Keep Zambia Clean

and Healthy campaign, and to encourage investment by reducing the cost of capital items for businesses, I propose to remove customs duty on cranes and garbage dumpers. This measure will result in a revenue loss of K4.2 billion.

**151.** Sir, the above measures will become effective on 1<sup>st</sup> January 2010.

**152.** Mr. Speaker, I also propose to carry out amendments to the Customs and Excise, Value Added Tax and Income Tax Acts in order to update, strengthen and remove ambiguities in certain tax provisions of tax legislation and make tax administration more effective. These are housekeeping measures and are revenue neutral.

#### **Non-Tax Measures**

**153.** Mr. Speaker, as I indicated earlier, the Government needs as much resources as it can mobilise to meet our development objectives. I, therefore, propose to increase fees payable under the Lands Act as follows:

- (a) consideration fees by 50 percent;
- (b) ground rents by 80 percent; and
- (c) consent fees by 100 percent.

**154.** This measure will raise K11.1 billion, and will become effective on 1<sup>st</sup> of January 2010.

#### **PART V**

#### **CONCLUSION**

**155.** Mr. Speaker, seven years ago, Zambia faced severely testing times when the Anglo-American Corporation pulled out of the Konkola Copper Mine. This threatened the jobs of thousands of miners

and placed the future prosperity of the Copperbelt in jeopardy. Sir, we emerged from that crisis stronger than before, demonstrating that we are a resilient nation; a tenacious people who can successfully rise to meet the most challenging obstacles that confront us.

**156.** Mr. Speaker, 2009 has been a similarly challenging year, but, again, under the able leadership of this MMD Government, Zambia and her people have weathered the storm well. While growth in the developed world dipped into negative territory and in Sub-Saharan Africa fell to 1.3 percent, Zambia is poised to achieve commendable growth of at least 4.3 percent this year. This is a tribute to the hard work of our farmers and miners, the ingenuity of our private sector and the steady hand of Government under the leadership of His Excellency the President, Mr. Rupiah Bwezani Banda.

**157.** The challenge for 2010 is for us to be united in our resolve to rededicate ourselves to economic diversification, building on the resilience shown by our economy in the dark days of global economic turmoil, so that, as a nation, committed to becoming a middle income country in the next two decades, we can take full advantage in the rebound of international trade and revived global growth. The race to rebuild individual economies and indeed the global economy has now begun in earnest. We Zambians must again rise to meet the challenge to be winners in this global race and in doing so we must focus our minds on positive action to diversify our economy and spend less of our energies on talk, and negative talk at that.

**158.** Sir, the budget I have laid before the House today positions the Zambian

economy to take full advantage of this global rebound. In the context of tight public finances, it focuses resources on targeted programmes that will raise the productivity of millions of our smallholder farmers, add value through the manufacturing sector to the output from our mines and farms, and place Zambia as one of the pre-eminent destinations for world tourism. These are key objectives for Government as we strengthen our resolve to diversify our economy and build an economic base upon which rapid and sustainable growth can be attained.

**159.** The attainment of a resilient and diversified economy with the capacity for sustained and rapid growth is not an option for this Government, Mr. Speaker, it is an article of faith. We must achieve this goal if Zambia is to take its rightful place among the nations of the world, masters of our own destiny and dependent on none. It is indispensable to our resolve to achieve the Millennium Development Goals by 2015 and to surpass them thereafter to become a middle-income country by 2030.

**160.** Mr. Speaker it is indeed true, and unfortunate, that many of our people spend lots of their time on negative thoughts. Unfortunately, this does nothing to solve our development problems. Sir, the vast majority of people in our country are youthful. These young people tend to get inspiration from their elders. If we the adults tend to project predominantly negative thoughts on them, then we should face the real possibility that many of our offspring will inherit the same disposition in life: to complain, to talk, but then achieve nothing tangible.

**161.** Yet we know that it is the young people in any society that have the most active minds. Well nurtured they can achieve a lot even under difficult conditions. The renowned great scientist Albert Einstein achieved most of his breakthroughs at the youthful age of 25. Great musicians such as Wolfgang Mozart and others here in Zambia make it to the top during their youthful years. And indeed even great spiritual leaders such as Jesus Christ were young people.

**162.** Mr. Speaker, what the Government is saying is: Stop contaminating the minds of the young ones with negative attitudes. Instead, let us challenge them, let us encourage them, let us inspire our youth so that they can achieve feats even under difficult conditions. This is what will move our great nation forwards.

**163.** Mr. Speaker, the measures that the Government have taken in this budget is tangible proof of our Government's unwavering commitment to stop talking and deliver. I commend it to this honourable House.

**164.** Mr. Speaker, I beg to move.