

**BUDGET ADDRESS BY HONOURABLE DR. SITUMBEKO MUSOKOTWANE, MP,
MINISTER OF FINANCE AND NATIONAL PLANNING
DELIVERED TO THE NATIONAL ASSEMBLY ON FRIDAY, 30TH JANUARY, 2009**

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 2009 to 31st December 2009 presented to the National Assembly in January 2009.

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

3. Mr. Speaker, as I begin this budget speech, I wish to acknowledge the macroeconomic achievements that Zambia attained when the economy was under the stewardship of my predecessor, Honourable Ng'andu Magande, MP. I would also like to pay tribute to the late Honourable Emmanuel Kasonde, who twice served as Minister of Finance, and laid the foundation for the liberalisation of the Zambian economy.

4. Mr. Speaker, I present this budget at a time of great uncertainty in the world economy. The global economy is under severe strain, with recession in several advanced economies, and significantly slower growth in emerging countries. Recent developments in the mining sector have demonstrated that Zambia is also vulnerable to this crisis. These events have had a significant influence on our thinking, and therefore the preparation of this year's budget.

5. Sir, despite these unprecedented challenges, my vision is that of a prosperous Zambia. I see a vibrant and diversified economy where hard work and

the spirit of entrepreneurship are rewarded. This economy will be one that provides ample opportunity for every citizen to realize their potential and fully provide for their families. I see all our citizens, in all corners of our country, waking up each morning well nourished, in decent housing, with access to clean water and sanitation. I see our citizens having paved roads that do not flood each rainy season, reliable and renewable energy, and high quality health and education services that are within easy reach.

6. Mr. Speaker, this is the vision of Zambia that I have as I present this budget.

7. Sir, in order to realise this vision, it is critical that we build on the achievements already registered under various economic diversification programmes the Government has pursued over the years. We cannot afford to slow down on these programmes as the risks of dependency on the mining sector have once again come to the fore during the current global economic crisis. Sir, our country has abundant opportunities for diversification, and it is time for us to accelerate our efforts to harness them.

8. Sir, just as we expect citizens to work hard to drive our economy forward, they expect Government to play its role in creating a conducive and competitive environment for wealth creation and poverty reduction in every part of our country.

9. Mr. Speaker, in view of the urgent need for accelerated diversification and enhanced competitiveness, the theme for this year's Budget is **“Enhancing growth through competitiveness and diversification.”**

10. Mr. Speaker, my address this afternoon follows a slightly different pattern from previous years in order to bring together Government's policy objectives and budgetary allocations for 2009. This will enable both Honourable Members as well as the public at large to better appreciate the underlying rationale behind this Budget.

11. This Budget address therefore contains five parts. In Part I, I give an overview of the performance of the global economy during the past year. In Part II, I discuss developments in the Zambian economy during 2008. In Part III, I detail the underlying policy measures that will guide the Budget. In part IV, I present the 2009 Budget and supporting Policy, Expenditure and Revenue measures. Finally, in Part V, I conclude my address.

PART I

DEVELOPMENTS IN THE GLOBAL ECONOMY

12. Mr. Speaker, preliminary data indicate that global economic growth in 2008 slowed to 2.5 percent from 3.7 percent in 2007. This was on account of the onset of recession in advanced economies in the last two quarters of the year, triggered by the turbulence in the financial markets of these economies.

13. Sir, emerging economies such as Brazil, Russia, India, and China continued to drive global growth in 2008. However,

growth in these economies was significantly dampened as a result of the global economic crisis.

14. Sir, Sub-Saharan Africa's limited integration with the global financial system saw the continent posting more robust growth compared to advanced economies. Growth in the region was projected to be 5.4 percent compared with the 1.3 percent growth recorded in advanced economies.

15. Mr. Speaker, a significant consequence of the global financial crisis was the dramatic collapse of commodity prices in 2008. Oil prices, which reached record highs of US\$ 147 per barrel in July, fell significantly to US\$ 48 per barrel at the end of the year. Similarly, copper prices reached a record high of US\$ 8,985 per tonne in July, before plummeting to US\$ 2,902 by the close of the year, representing a 67.7 percent fall. Prices for other key commodities such as fertiliser also followed similar trends during the year.

16. Sir, on the inflationary front, fuel and food prices were high in the first half of the year, contributing significantly to inflationary pressures around the World. These inflationary pressures were acutely felt in developing countries, including sub-Saharan Africa where inflation rose to 11.7 percent from 7.1 percent in 2007. However, by the close of the year, inflationary pressures began to subside, due to the significant shrinkage in global demand.

17. Mr. Speaker, these global developments had some negative effects on the domestic economy, adversely affecting growth, inflation, the exchange rate and the terms of trade.

PART II

DEVELOPMENTS IN THE DOMESTIC ECONOMY IN 2008

MACROECONOMIC PERFORMANCE

18. Mr. Speaker, in order to reduce poverty, the Government targeted an average annual growth rate of 7 percent over the Fifth National Development Plan (FNDP) period. Over the period 2006-2008, real Gross Domestic Product (GDP) growth averaged 6.1 percent per annum, which while robust, was below the FNDP target.

19. Sir, macroeconomic performance in 2008 was weaker due to unprecedented global and domestic events. As a result, growth was lower than projected, whilst inflation and interest rates were higher. Preliminary estimates indicate that the Zambian economy grew by 5.8 percent in 2008. This performance was mainly driven by growth in the transport, storage and communication; mining; manufacturing; and trade sectors. However, this was lower than the 6.3 percent achieved in 2007. The poor performance of the agricultural sector, and a slowdown in the construction sector contributed to the lower than expected growth.

20. Although the mining sector registered positive growth, it was affected by a sharp fall in world copper prices in the second half of the year, thereby dampening the prospects of higher growth and profitability. The agriculture sector, which employs the largest share of our workforce, experienced negative growth on account of heavy rains that resulted in flooding in some areas, thereby destroying

crops. However Mr. Speaker, the country recorded a food surplus.

21. Mr. Speaker, Government policy with regard to inflation in 2008 and over the FNDP period is to achieve and sustain single digit inflation. In the last three years, this has generally been achieved with inflation outturns of 8.2 percent and 8.9 percent, in 2006 and 2007, respectively. However, the pass-through effects of high international oil and food prices resulted in the inflation outturn for 2008 being significantly higher at 16.6 percent against the target of 7 percent. Food inflation in particular, accelerated to 20.5 percent compared with 5.9 percent in 2007.

22. Sir, the exchange rate was also affected by the effects of the global financial crisis. This resulted in the sharp depreciation and increased volatility of the exchange rate of the Kwacha, particularly in the last quarter of the year. The Kwacha depreciated by 27.3 percent against the US dollar to an average rate of K4,882 in December 2008 compared to K3,835 in December 2007. However, the Kwacha appreciated by 6.3 percent and 11.1 percent against the Pound Sterling and South African Rand, respectively, reflecting their weakening against the US Dollar.

23. Mr. Speaker, an important macroeconomic objective over the FNDP period has been to maintain a prudent fiscal policy. In spite of a number of challenges, both domestic and external, I wish to report that the budget deficit for 2008 was favourable and stood at K1,394.3 billion or 2.7 percent of GDP, and was below the projected deficit of 3.0 percent.

MONETARY AND FINANCIAL DEVELOPMENTS

24. Mr. Speaker, on the monetary front, broad money growth slowed down to 22.1 percent in December 2008 from 25.9 percent in December 2007. This was a result of a slowing external sector performance, and a lower than expected build up of international reserves. However, growth in credit to the private sector in 2008 remained unchanged at 44 percent.

25. Sir, interest rates on Government securities increased due to the inflationary environment that prevailed for most of the year. This was compounded by reduced demand for Government securities as a result of withdrawals, especially by foreign portfolio investors. The weighted average Treasury-bill interest rate increased to an average of 17.2 percent in December 2008 from 12.9 percent in December 2007. Similarly, the interest rates on Government bonds rose, with the composite bond rate closing the year at an average of 16.7 percent from 15.6 percent in December 2007.

26. Sir, as a result, the average commercial bank lending rate increased in line with the increases observed in Government securities, rising to 26.9 percent, from 24.4 percent in 2007.

27. Mr. Speaker, the performance of the equity market was also affected by the global financial crisis. The Lusaka Stock Exchange All Share Index declined by 29.2 percent during the year. Despite this downturn, market capitalisation increased by 13.9 percent to K20,468 billion, mainly on account of the initial public offering of Zanaco and Celtel shares. Sir, the listing of local companies on capital

markets is in line with Government's policy of empowering Zambians to own shares.

EXTERNAL SECTOR PERFORMANCE

28. Mr. Speaker, the country's balance of payments position in 2008 was adversely affected by the global economic crisis. Growth in export receipts slowed down significantly in the last quarter of the year. Total exports grew by 7.2 percent, reaching US\$ 4,818.3 million, compared to growth of 13 percent in 2007. Imports increased significantly, growing by 29.7 percent to US\$ 5,202.1 million. As a result, the current account deficit including capital grants widened to US\$ 1,379 million or 9.1 percent of GDP from a deficit of US\$ 494.2 million or 2.4 percent of GDP recorded in 2007.

29. Sir, metal export receipts were US\$ 3,885.1 million in 2008, representing a growth of 5.9 percent from 2007. Non-traditional exports registered further growth in 2008, growing by 12.9 percent to US\$ 933.2 million. The share of non-traditional exports in total export receipts grew to 19.4 percent from 18.4 percent in 2007.

30. Mr. Speaker, the Government continued with its commitment to prudent management of its foreign debt. As a result, the contracting of additional foreign debt was contained within sustainable levels. Preliminary estimates indicate that the total stock of Government foreign debt as at end 2008 was US\$ 1,093.5 million, a marginal increase of 3.7 percent from US\$ 1,054.5 million recorded at the end of 2007. A total of US\$ 132 million in new loans were contracted during 2008, with disbursement commencing this year.

BUDGET PERFORMANCE IN 2008

31. Mr. Speaker, the overall objective of the Government in 2008 was to continue consolidating fiscal discipline by maintaining lower levels of borrowing and improving budget execution. Despite a number of challenges faced in budget execution during the year, overall budget performance was satisfactory.

32. Sir, the Government was faced with a number of unexpected events such as the larger than planned civil service wage award, the need to hold the Presidential elections, the need to augment resources to the Fertiliser Support Programme in the face of record high fertiliser prices, and the need to finance the ZESCO power rehabilitation project. These events exerted significant expenditure pressures, requiring a reallocation of resources to meet these new demands, while remaining within the planned budget deficit.

33. Mr. Speaker, for the year 2008, total expenditures amounted to K13,402.6 billion against the target of K13,761.4 billion. On the other hand, total domestic revenue collections and foreign grant receipts, excluding revenues from the new mining tax regime, were K12,008.2 billion, and were marginally below the target of K12,106.4 billion. The deficit of K1,394.3 billion was financed through domestic borrowing of K811.6 billion and foreign financing of K582.7 billion.

34. Mr. Speaker, domestic revenue collections in 2008 amounted to K9,918.1 billion. This was above the target of K9,828.5 billion and represented 18.5 percent of GDP. Of this amount, tax revenues amounted to K9,350.9 billion,

and were 2.4 percent above target. Non-tax revenues totalled K567.3 billion, and were 18.4 percent below the target of K694.9 billion.

35. Sir, from the new mining tax regime, the Government expected to collect K917.3 billion by end-December 2008. Collections however were much lower at K319.5 billion, representing a 65 percent under-collection. This was mainly on account of administrative challenges in implementing the regime during the year.

36. Mr. Speaker, grant receipts from our cooperating partners totalled K2,090.1 billion against the projected amount of K2,277.9 billion, representing a shortfall of 8.2 percent.

37. Mr. Speaker, total expenditures in 2008, excluding foreign financed projects, amounted to K11,518.0 billion. Categorized by function, General Public Services accounted for the highest share at 33.8 percent, while Education and Health combined followed at 27.9 percent. Economic Affairs accounted for 15.0 percent, while the balance of 23.3 percent went to Housing and Community Amenities; Defence; Public Order and Safety; Social Protection and others.

PART III

ECONOMIC POLICIES IN 2009

MACROECONOMIC POLICIES

38. Mr. Speaker, as a result of weakening global demand, the global economy will, beyond doubt, negatively impact our economy and constrain our efforts to reduce poverty. Our growth and

export prospects will be affected, and job losses may be inevitable.

39. Sir, in the wake of this daunting challenge, we must remain resolute and ensure that the fundamental policies that have contributed to our recent growth and macroeconomic stability are continued. At the same time, we must meet these new challenges by acting decisively to encourage the rapid diversification of the economy, and safeguard vital social services to cushion the impact of the crisis on our people.

40. Mr. Speaker, the broad macroeconomic targets for this year are therefore to:

- (a) achieve growth of 5 percent;
- (b) lower inflation to 10 percent; and
- (c) limit domestic borrowing to 1.8 percent of GDP.

41. Mr. Speaker, in order to achieve this growth objective, the Government will promote diversification and enhance national competitiveness through structural reforms and infrastructure development. Emphasis will be placed on agricultural development, tourism infrastructure development, and the promotion of the manufacturing sector.

42. Mr. Speaker, the performance of the external sector is expected to be challenging in 2009. Our export receipts are expected to be significantly lower than in previous years due to the fall in world copper prices. This will adversely affect our balance of payments. Mr. Speaker, this problem is compounded by our continued dependence on a single major export commodity.

MONETARY AND FINANCIAL SECTOR POLICIES

43. Mr. Speaker, monetary policy in 2009 will focus on maintaining macroeconomic stability in the wake of the global financial and economic crises. In this regard, monetary and supervisory policies will be reviewed to take account of ongoing developments in the domestic and global financial markets.

44. Sir, in order to curtail inflationary effects, a key challenge will be to ensure the steady supply of food and fuel in the country. The Government has already begun to make available relatively cheaper maize throughout the country. In addition, oil prices this year are expected to remain lower than those seen in 2008, helping to keep the general price level down.

45. Sir, the Government is cognizant of the risks facing the financial sector as a result of the global financial crisis. In this regard, the Bank of Zambia will continue to closely monitor these developments and take appropriate measures to safeguard the domestic financial system.

FISCAL POLICY

46. Mr. Speaker, fiscal policy in 2009 will be geared towards increasing expenditure on infrastructure and social services, in line with the Government's objectives of encouraging diversification and enhancing competitiveness. In light of constrained revenues, this will be achieved through a realignment of resources, and an increase in borrowing. Domestic borrowing will therefore increase to 1.8 percent of GDP from 1.4 percent of GDP in 2008. This modest increase in domestic borrowing reflects

the Government's cognisance of the need to borrow prudently in order to preserve macroeconomic stability.

FOREIGN DEBT POLICY

47. Mr. Speaker, the Government will continue to borrow from bilateral and multilateral institutions in the form of highly concessional budget support and project loans. These loans will finance key expenditures in priority areas such as water and sanitation, energy, and road infrastructure. Although the Government's preference is to contract concessional loans, non-concessional borrowing will also be considered for commercially viable projects in priority sectors such as energy.

STRUCTURAL REFORMS

COMPETITIVENESS

48. Mr. Speaker, one of the key pre-requisites for improving the external competitiveness of the economy is reducing the cost of doing business. Currently, the cost of doing business in Zambia is relatively high, and is due to a number of factors, such as a cumbersome licensing and regulatory framework, poor infrastructure, and high transport and communication costs. The policy and commitment of this Government is to reduce these costs. The Government will therefore step up the regulatory reform process this year so as to achieve a simpler and easier business-licensing regime.

INFRASTRUCTURAL DEVELOPMENT THROUGH PUBLIC-PRIVATE PARTNERSHIPS

49. Mr. Speaker, a significant constraint to growth in the economy has been the slow pace of development in large infrastructure projects. This is partly due to constrained public finances and limited participation by the private sector. In order to accelerate the development of infrastructure in the country, the Government launched the Public Private Partnership Policy in 2008.

50. Sir, a Bill will be introduced in Parliament this year to provide the necessary legal framework to support the implementation of this policy. Through you Mr. Speaker, I implore Honourable Members to support this important bill when it is introduced in this House.

DECENTRALISATION

51. Mr. Speaker, the Government is committed to extending the benefits of growth and development across the whole nation. The Government intends to achieve this through the devolution of appropriate service delivery functions to local authorities. As emphasised by His Excellency the President in his address to this august House, the Government will work towards adopting the Decentralisation Implementation Plan and craft a new partnership with the local authorities.

52. Sir, in this regard, a local government capacity building programme will be developed this year, equipping local councils with the human, technical and financial capacity to effectively deliver quality and responsive services. This is critical in ensuring that the

benefits of growth are shared. Further, work will be initiated to restructure the financial flows between Central Government and local authorities, so that the implementation of the National Decentralisation Policy can be expedited.

PART IV

THE 2009 BUDGET

53. Mr. Speaker, I now present the overall budget for 2009. First I outline expenditures by function. I then discuss sector policies and supporting expenditures. Finally, I discuss revenue measures.

54. Sir, although we are in the middle of a global financial and economic crisis, there are still large numbers of investors, both local and foreign, that continue to look for potential investment opportunities. It is therefore important that we sustain the higher levels of investment, particularly Foreign Direct Investment that Zambia has seen over the last few years. It is with this in mind that this budget will focus on improving infrastructure and creating a more conducive environment for investors, while reducing wasteful expenditures that do not carry an appreciable social or economic return.

55. Mr. Speaker, in 2009 the Government intends to spend K15,279.0 billion or 25.4 percent of GDP. Of this, K10,645.9 billion or 69.7 percent will be financed from domestic revenues while K2,768.7 billion or 18.1 percent will be financed by grants from co-operating partners. The balance of K1,864.5 billion or 12.2 percent of total expenditure will be financed through domestic borrowing of K1,069.0 billion or 1.8 percent of GDP and external borrowing of K795.5 billion or 1.3 percent of GDP.

EXPENDITURE BY FUNCTIONAL CLASSIFICATION

56. Mr. Speaker, the General Public Services function accounts for the highest proportion of total expenditure at 31.8 percent, compared to 32.8 percent in 2008. This is followed by the Economic Affairs function at 19.8 percent, compared to 16.7 percent in 2008. The Education and Health functions account for significant shares of the budget at 17.2 and 11.9 percent, compared to 15.4 and 11.5 percent in 2008, respectively.

57. Mr. Speaker, the detailed expenditures for 2009, categorised by function, are as follows:

2009 Total Budget Allocation by Function and Sub function:

FUNCTION AND SUB FUNCTION	Allocation (K' Billion)	% of Total Budget
General Public Services	4,865.5	31.8
Executive	438.7	
Legislation	453.8	
o/w National Constitution Conference	50.0	
General Government Services	3,638.9	
o/w Dismantling of Arrears	248.5	
Domestic Debt Interest	978.8	
External Debt	372.0	
Compensation and Awards	173.1	
Centralised Administrative Services	334.1	
o/w Public Service Retrenchment Programme	43.0	
Defence	1,068.0	7.0
Public Order and Safety	610.7	4.0
Economic Affairs	3,021.2	19.8
General Economic, Commercial, and Labour	169.1	
Agriculture, Forestry and Fishing	1,096.3	
o/w Fertiliser Support Programme	435.0	
Strategic Food Reserve	100.0	
Livestock Development	70.7	
Irrigation Development	56.5	
Fuel and Energy	120.1	
Mining	29.8	
Transport	1,507.7	
o/w Roads	1,356.9	
Communication	20.8	
Tourism	77.6	
Environmental Protection	117.3	0.8
Housing and Community Amenities	587.3	3.8
o/w Water Supply and Sanitation	214.4	
Health	1,823.4	11.9
Public Health Services	1,365.7	
o/w Control and Management of Malaria	94.9	
HIV/AIDS	170.7	
Infrastructure Development	168.1	
Recreation, Culture and Religion	183.2	1.2
Education	2,628.0	17.2
Social Protection	374.2	2.5
TOTAL	15,279.0	100.0

SECTOR POLICIES AND SUPPORTING EXPENDITURES

AGRICULTURE AND FOOD SECURITY

58. Mr. Speaker, as Honourable Members of this august House already know, the development of the agriculture sector is one of the main pillars of our poverty reduction programme, especially in rural areas. However, this sector's potential has not been fully exploited over the years, making the attainment of the FNDP targets challenging. During 2006-2008, the agricultural sector performed poorly, contracting by an average of 1.2 percent per annum. In 2008, crop production declined by 7.0 percent, contributing to a contraction of the agricultural sector by 4.0 percent. This followed a 2.7 percent decline in 2007. Sir, this poor performance is of grave concern, and is largely attributed to the following constraints:

- (a) high cost of inputs;
- (b) limited access to credit, inputs and extension services;
- (c) inadequate infrastructure;
- (d) poor livestock management;
- (e) weaknesses in the Fertiliser Support Programme; and
- (f) failure to attract adequate private investment in the sector.

59. Mr. Speaker, I propose a 37.0 percent increase in the allocation to the agricultural sector this year, providing K1,096.3 billion from K800.5 billion in 2008. This augmentation will work towards addressing these constraints, allowing us to embark on the development of this vital sector.

60. Mr. Speaker, the Government considers the Fertiliser Support Programme as an important tool in empowering small-scale farmers and ensuring national food security. In this regard, I am allocating K435.0 billion to the Programme in 2009. With lower fertiliser prices, it is expected that a larger number of small-scale farmers will benefit from this scheme in the next crop season. The Government is however concerned that the Programme has had a limited impact on increasing agricultural productivity. The Government has therefore initiated a comprehensive review of the Programme in order to improve its efficiency and effectiveness, especially with regard to distribution at district and constituency level.

61. Sir, increasing productivity and diversification in the sector goes beyond just providing fertilizer but also requires the enhancement of extension services. To this end, a total of 1,700 extension workers were recruited in 2008. This year, I have allocated K25.4 billion for the procurement of motorbikes and bicycles, and K12.3 billion towards the construction and rehabilitation of camp houses for extension workers. This will increase the mobility of extension workers, allowing them to serve a larger part of our rural areas.

62. Sir, diversification entails more than just moving away from the copper monoculture. We also have to diversify our production in agriculture. Some of our neighbours have successfully developed a vibrant livestock industry, and have consequently penetrated the export market. Zambia can also achieve similar results, especially since the country already has favourable natural conditions. To this end an allocation of K70.7 billion

has been provided for livestock development this year, including the creation of at least one disease-free livestock zone. This represents a significant increase over the K29.2 billion allocated in 2008.

63. Mr. Speaker, with regard to infrastructure, the Government will ensure that infrastructural development at the Nansanga Farm Block in Serenje District is completed this year. The development of this 155,000-hectare farm block is expected to be a model of agricultural development in Zambia. A sum of K42.4 billion will be invested in this initiative and includes K36.2 billion for roads and bridges. When this block is fully populated, it will look like Nakambala Sugar Estates, but ten times the size, with large estates and small scale farmers located in the same vicinity.

64. Sir, given the increasingly unpredictable weather patterns, enhancing the productivity of small-scale farmers by reducing their dependency on rain-fed agriculture is critical to development in this sector. I have therefore allocated K56.5 billion for various irrigation projects.

65. To continue with its policy of supporting small-scale farmers, particularly those in outlying areas, the Government has allocated K100.0 billion to the Food Reserve Agency in 2009, compared with K80.0 billion in 2008. Through this effort, Mr. Speaker, our farmers will be guaranteed a stable and ready market, which is vital in stimulating future production and enhancing national food security. Furthermore, K10.0 billion has been allocated to continue the Food Security Pack as part of the measures to

mitigate the high cost of food and ensure food security at the household level.

TOURISM

66. Mr. Speaker, the pivotal role that the tourism sector can play in the diversification process and in the attainment of broad based economic growth cannot be overemphasized. Although the sector has recorded positive growth over the last few years, preliminary estimates indicate that growth slowed down to 6.3 percent in 2008, compared with 9.6 percent in 2007. Much more needs to be done however in order to make Zambia the destination of choice for more tourists.

67. Sir, the major challenges in tourism have been inadequate infrastructure and service delivery; and limited marketing activities. To rise to these challenges, the Government has increased the allocation for tourism to K77.6 billion from K26.0 billion in 2008.

68. Mr. Speaker, in order to improve access to the Northern Tourism Circuit, K24.0 billion has been allocated towards the rehabilitation of the road from Mbala to Kasaba Bay. Additionally, K11.0 billion has been allocated towards the construction of a terminal building at Mbala airport and the rehabilitation of the Kasaba Bay airstrip. An amount of K1.0 billion has been allocated towards the preparation of an integrated development plan for the Kasaba Bay tourist area. A further K14.7 billion has been allocated for the electrification of Kasaba Bay. Once these infrastructural developments are completed, we hope to attract to the area more than 12 world class hotels, thereby creating thousands of jobs for our people.

69. Further, a sum of K7.5 billion will be used to develop a new tourism zone in Livingstone that will have the necessary infrastructure for investors to readily establish tourist facilities there. Additionally, I have allocated K99 billion towards the rehabilitation of the Zimba-Livingstone road, which when completed will improve access to the tourist capital.

70. In addition to these commitments Mr. Speaker, the Government will continue with the development of road infrastructure in other tourist areas. To this end, a total of K59.1 billion has been allocated towards the rehabilitation of roads in key national parks. Of this amount, K30.6 billion will be used for the upgrading of the Chipata-Mfuwe road, and K24.0 billion will be used for the Kafue National Park spinal road.

71. Mr. Speaker, in an effort to promote the marketing of the country and as a measure of tourism promotion, the Government proposes to refund certain expenses incurred in shooting movies that will promote Zambia.

MANUFACTURING

72. Mr. Speaker, Zambia's narrow manufacturing base has significantly contributed to its high import bills over the years. The high cost of doing business has been a major impediment towards the development of this sector and with it the ability to create more jobs. The Government has taken cognisance of the fact that stimulating growth in the manufacturing sector is a critical element of any successful diversification drive.

73. In order to expand the manufacturing base, the Government is

promoting the establishment of Multi-Facility Economic Zones, with initial Zones located in Chambishi, Lusaka South, and Lusaka East. These Zones are being promoted through the provision of fiscal incentives, quality infrastructure, and a conducive regulatory environment. The development of infrastructure at Chambishi commenced in 2008. This year, the development of high quality infrastructure at the Lusaka South Multi-Facility Economic Zone will begin. On its part, the Government has allocated K30.0 billion for the construction of access roads. Further, the Government will provide incentives that I will elaborate on later.

74. Sir, in addition to the development of economic zones, processes and procedures for doing business in this sector will be enhanced through regulatory and other reforms relating to the cost and conduct of business in Zambia.

MINING AND QUARRYING

75. Mr. Speaker, despite the turbulence in the latter part of the year, the mining sector recorded positive growth of 4.9 percent in 2008, comparing favourably with growth of 3.6 percent in 2007. Preliminary estimates indicate that copper production increased by 3.7 percent to 569,891 metric tonnes while cobalt production increased by 19.5 percent from 4,414 metric tonnes in 2007 to 5,275 metric tonnes.

76. Sir, from late 2008, the global economic downturn and the subsequent sharp decline in world copper prices, has had a telling effect on the operations of the mining sector, including the loss of jobs. The Government considers mining

companies as important partners in the process of national development. In this regard, I have proposed a number of fiscal measures in order to support this vital industry and enhance its competitiveness in the world market. I will elaborate on these measures later.

CONSTRUCTION

77. Mr. Speaker, the construction sector has performed well over the past three years. Commercial and residential construction activities, and the development and construction of new mines contributed to this favourable performance. Average growth in the sector reached 15.8 percent per annum over the past three years, despite growth in 2008 sharply declining to 5.0 percent from 20 percent in 2007. This outturn was a result of supply constraints, particularly cement and other materials, and led to a slowdown in residential and commercial construction. It is expected that growth in this sector will continue to be sluggish in 2009 as Zambia faces the effects of the economic slowdown.

ENERGY

78. Mr. Speaker, the performance of the energy sector in the preceding year was unsatisfactory. This was evidenced by significant load shedding by ZESCO and increasing demand with total electricity generation declining to 9.5 million megawatts from 9.7 million megawatts in 2007. This challenge needs to be urgently addressed in order to ensure that disruption to the production of goods and services in the economy is minimized.

79. Sir, in response to this challenge, the Government's immediate focus will be to complete the ZESCO power

rehabilitation project by the end of this year. In addition to the K98.5 billion disbursed in 2008, K16.8 billion has been allocated to ensure the completion of this project this year. Upon completion, 230 megawatts will be added to the existing capacity, thereby alleviating the power shortages that our people are experiencing.

80. Mr. Speaker, in an effort to sustain existing capacity as well as attract additional investment in the sector, electricity tariffs will be adjusted upwards, starting this year, to reach cost recovery levels by end-2010. With these tariff adjustments, the Government expects ZESCO to improve its performance and service delivery.

81. Further, the Government is promoting private sector investment in new hydropower generation capacity. Work has already commenced on the Kariba North Bank Extension Project and will be completed by 2012. Feasibility studies for the Kafue Gorge Lower Project are due to be completed early this year, paving way for investors to move forward with the project. Preparatory work to initiate the development of the Itezhi-tezhi power project is also continuing.

82. In addition, the Government is promoting private sector investment in new hydropower projects at Kalungwishi and Kabompo. Feasibility studies will commence this year for the development of a mini-hydro power station at Mujila in North-Western Province. These projects are due to be completed in the medium-term.

83. Mr. Speaker, less than 20 percent of Zambians, and only 3.1 percent of the rural population have access to electricity.

We, as Government, must improve on this situation. I have therefore allocated K88.8 billion to the Rural Electrification Fund so as to expand the national grid and improve access to power in rural areas. This is a significant increase from the K26.1 billion allocated in 2008.

TRANSPORT AND COMMUNICATIONS

84. Mr. Speaker, preliminary estimates indicate that the Transport, Storage and Communications sector grew by 16.4 percent compared with 19.0 percent in 2007. The growth in this sector was largely attributed to a strong performance in the communications and road transportation sub-sectors. The rail transportation sub-sector in contrast, continued to perform poorly in 2008.

85. Sir, to address the poor performance of the rail sector, the Government is exploring ways to improve the performance of TAZARA through the identification of a strategic private partner. Furthermore, Railways System of Zambia has committed to investing US\$ 30 million over and above that committed in the concession agreement towards infrastructural development. The Government, on its part, will support this investment, the details of which I will elaborate later.

86. Sir, there is still great potential for improvement in the communications sector. At the moment, the sector is characterised by high costs and low quality of service. To address these issues, the Government will improve the regulatory framework and promote competition in the sector, as it is one of the potential sectors for job creation. In this regard, the Government will remove barriers to entry in the communications

sector by significantly reducing international gateway license fees to regional averages.

87. Furthermore, I have allocated K21.2 billion towards the rehabilitation of Kasama, Solwezi, Mfuwe, and Mansa airports. This is in addition to the allocations for the Northern Tourist Circuit that I have already outlined. I have also allocated K10.0 billion for the completion of the Chipata-Mchinji railway, which could not be finished last year due to unexpected increases in the cost of materials.

88. Sir, in the first three years of the FNDP, the Government has invested over K2,700 billion in the construction and rehabilitation of roads across the country. Through these investments Mr. Speaker, the quality of arterial road infrastructure has improved over the last decade. However, much more needs to be done to improve the road network, particularly our rural roads. I have therefore allocated K1,356.8 billion for roads in 2009. Of this amount, K250.3 billion has been specifically provided for the rehabilitation of feeder roads, and includes K2.0 billion for each provincial rural roads unit that will be used to operate road maintenance equipment procured last year.

89. Mr. Speaker, while we are spending these large sums of money, inadequate attention to road drainage in particular, and poor quality works in general by some contractors is of concern. This has led to many roads deteriorating within a very short period of time. Therefore, the Government will move decisively to ensure that contractors are effectively supervised so that the quality of work improves and our people get value for money.

SOCIAL SECTORS

90. Mr. Speaker, in line with the FNDP, social sector policies for 2009 and in the medium term will continue to focus on among other areas, health, education, and water and sanitation. The key policy objectives in these sectors will be geared towards attaining the Millennium Development Goals by 2015 through adequate financial support and improved service delivery.

HEALTH

91. Mr. Speaker, in the health sector, the Government in recent years has focussed on:

- (a) improving the supply, distribution and management of drugs and other medical supplies;
- (b) recruiting frontline medical personnel; and
- (c) developing infrastructure, especially the construction and rehabilitation of health centres.

92. Mr. Speaker, as a result of the need to scale-up interventions in order to address these issues, I propose to increase the allocation to the health sector by 12.9 percent, from K1,586.6 billion in 2008 to K1,823.4 billion.

93. Sir, the availability of essential drugs at health centres was estimated at 68 percent last year, against the target of 100 percent. For referral hospitals, there was a slight reduction in essential drugs availability from 81 percent in 2007 to 80 percent in 2008. In 2009, I have allocated K208.6 billion towards the procurement of essential drugs and medical supplies.

94. Mr. Speaker, one of the major constraints in health service delivery has been the inadequate level of frontline medical staff. In 2008, the Government recruited 1,658 frontline medical personnel, bringing the total to 15,349. A further 1,970 will be recruited this year at a cost of K25.0 billion. The Government recognizes that this number is still far below what is required in the sector, but is faced with limited output from training institutions as well as having to cope with the effects of the brain drain. To tackle this, the Government will continue to provide incentives to retain frontline medical workers in our rural areas.

95. Sir, we shall continue to improve infrastructure in the health sector. In this regard, I have allocated K168.1 billion towards this effort. Some of the key projects to be undertaken will be the construction and expansion of 14 district hospitals in Samfya, Chadiza, Mumbwa, Kapiri-Mposhi, Isoka, Shang'ombo, Lumwana, Lufwanyama, Chiengi, Mpulungu, Kaputa, Chama, Mufumbwe and Chongwe. Furthermore, the Government will rehabilitate and expand all 27 training schools so as to increase enrolment and help mitigate the deficit of frontline medical personnel.

96. Mr. Speaker, the lack of medical equipment presents a serious impediment to service delivery. To address this issue, I have allocated K33.2 billion for the procurement of essential medical equipment.

97. Sir, as a result of the efforts being undertaken in the health sector, some gains have been made with regard to the health Millennium Development Goals. Preliminary results of the 2007 Health Demographic Survey indicate the

following improvements since the last survey in 2002:

- (a) under-five mortality declined from 168 to 119 per 1,000 live births;
- (b) maternal mortality declined from 729 to 449 per 100,000 births;
- (c) prevalence of HIV for the population aged 15-49 dropped from 15.6 to 14.3 percent; and
- (d) incidence of malaria declined from 89.5 to 75 per 1,000 population.

98. Sir, these achievements are the result of significant investments over recent years, as evidenced by steadily increasing budget allocations to the sector.

99. Mr. Speaker, in order to continue the fight against major causes of morbidity and mortality in Zambia, I have allocated K170.7 billion for the prevention and treatment of HIV/AIDS, K94.9 billion for the control and management of malaria, and K9.6 billion for the fight against tuberculosis.

100. Mr. Speaker, the Government will welcome private sector investment in this sector, and has provided incentives to entice investors to take advantage of these measures. The Government recognizes that a partnership with the private sector can go a long way in improving the quality of health care services available to our people.

EDUCATION AND SKILLS DEVELOPMENT

101. Mr. Speaker, in line with the FNDP, the Government will continue to invest in human capital development in order to enhance productivity and contribute to the attainment of a vibrant economy. This investment will enable our

children and youth to become skilled and industrious citizens and thereby escape the shackles of poverty. In this regard, I am increasing the allocation to the education sector by 24 percent, from K2,118.5 billion in 2008 to K2,628.0 billion this year.

102. Sir, the Government will use these resources to continue improving access to education at all levels. In this vein, a total of 5,000 teachers were recruited and deployed to basic and high schools in 2008, thereby reducing the pupil-teacher ratio. The ratio at grades 5 to 7 dropped to 34.7 in 2008 from 37.5 in 2005 while for grades 10 to 12, the ratio fell to 18.9 from 21.7 in 2005. With a further net recruitment of 5,000 teachers in 2009 at a cost of K45.0 billion, the Government expects the pupil teacher ratio to continue improving, thereby raising the quality of education in the country.

103. Mr. Speaker, the Government must improve access to education, especially in rural areas. This can only be achieved by increasing investment in school infrastructure and continuing the recruitment effort. The Government has therefore put in place an ambitious investment plan to construct basic school classrooms and high schools using both contracts and the community mode of construction. Using these methods, the construction of 1,527 classrooms was completed in 2008 across the country, thereby creating additional school places for 137,000 children. The community mode of construction has proven to be a quicker method of providing school infrastructure and enhances local ownership.

104. Sir, this year the Government has provided K577.9 billion towards

infrastructural development in the education sector compared with K368.7 billion in 2008. Of this amount, K423.3 billion will be for construction of basic and high schools, providing an additional 2,500 classrooms. In addition to these allocations, K42.8 billion has been allocated for educational materials including books and desks.

105. Mr. Speaker, with regard to tertiary education, the Government's focus remains to enhance infrastructure and skills development. To this end, I have allocated K207.9 billion to the three public universities. Of this amount, K35.0 billion has been allocated towards infrastructural development. Resources have also been provided to complete construction activities that were earmarked for the All-African Games. Further, K164.9 billion has been allocated for operations in the three universities.

106. Furthermore, the Copperbelt Secondary Teacher Training College and Kwame Nkrumah Teacher Training College will be converted into university colleges this year at a cost of K5.0 billion. The Government will also convert the dilapidated Mulakupikwa Police Training College in Chinsali district into a teacher training college specialising in sciences at a cost of K5.0 billion.

107. Sir, the development of technical, vocational and entrepreneurship training (TEVET) in Zambia is of great importance. It provides a gateway to training for a significant number of our young hard-working citizens who are eager to acquire skills that can lead them towards gainful work. I have therefore provided K71.3 billion for this sub-sector. Of this, K37.7 billion will be used for the construction and rehabilitation of trades

training institutes at Mongu, Kaoma, Ukwimi, Mwinilunga, Lusaka, Chipata, and Solwezi.

WATER SUPPLY AND SANITATION

108. Mr. Speaker, increasing access to clean water and sanitation for our people continues to be a major goal of Government, not least in order to prevent water-borne diseases. The Government has, accordingly, prioritised this sector, by making it one of the seven main investment areas in the FNDP. The provision of clean water has however not reached the desired level, as only 58 percent of our population has access to clean drinking water. To increase access to clean water and sanitation, I have allocated K214.4 billion to the National Rural and Urban Water Supply Programmes. These resources will improve current infrastructure, and extend services to underserved areas, particularly in peri-urban areas.

109. Sir, in order to alleviate the problems relating to poor drainage systems in Lusaka, I have allocated K10.0 billion towards improvement of drainage. This will go a long way in alleviating problems of sanitation that the residents have faced.

110. Furthermore, the Government has contracted a loan of US\$ 57 million to improve water supply and sanitation facilities in Kitwe, Kalulushi and Chambishi. This project will be implemented over a five-year period and is expected to benefit about 90,000 households.

PUBLIC ORDER AND SAFETY

111. Mr. Speaker, the maintenance of law and order protects life and property, and enables our citizens to enjoy their fundamental human rights and freedoms. This year, the Government will spend K610.7 billion towards the maintenance of public order and safety. Of this amount, K475.8 billion will be allocated to policing services. This will, among other things, enable Zambia Police to recruit 1,000 additional officers, and complete the construction of 500 houses that began in 2008. Further, a forensic laboratory will be built in Lusaka, which is expected to improve criminal investigations. In addition to these allocations, K35.0 billion has been provided for the construction of housing for defence personnel.

SOCIAL PROTECTION

112. Mr. Speaker, a total of K374.2 billion has been allocated for social protection programmes. Of this amount, K174.3 billion has been provided for grants to the Public Service Pension Fund, with a further K128.1 billion allocated as Government's employer contribution to the Fund.

CITIZENS EMPOWERMENT

113. Mr. Speaker, the Government has set out to empower citizens through business development support through the Citizens Economic Empowerment Fund. In 2008, a total of K15.2 billion was disbursed, creating employment for close to one thousand four hundred people. This programme will continue in 2009 and I propose an allocation of K40 billion.

CONSTITUENCY DEVELOPMENT FUND

114. Mr. Speaker, the Constituency Development Fund is a vital tool of the Government to develop rural areas. To continue this important programme, I have allocated K67.5 billion towards the Constituency Development Fund, as compared to K60.0 billion in 2008. While this represents a modest increase, prevailing economic conditions constrained our ability to provide further resources.

IMPROVING THE MONITORING AND EVALUATION OF PROJECTS

115. Sir, strengthening the monitoring of implementation of infrastructure projects is important to ensuring effective budget execution. To this end, key Ministries and Government agencies will publish booklets showing the resources allocated and actual locations of each project in order to facilitate effective monitoring by stakeholders. This will enhance transparency and accountability, by allowing citizens to hold the Government accountable for the delivery of infrastructure projects in this budget. As an example, I expect the Ministry of Health to publish a booklet containing the locations and resource allocations of all new hospitals to be constructed, those that will be rehabilitated, and all new health posts to be constructed.

REVENUE ESTIMATES AND MEASURES

116. Mr. Speaker, to support the planned expenditures for 2009, an amount of K11,714.9 billion or 76.7 percent of the budget will be raised from domestic sources. Tax revenues will account for 66.7 percent, non-tax revenues 3.0

percent, and domestic borrowing 7.0 percent of the total budget.

117. Sir, the remaining 23.3 percent of the budget will be financed through foreign assistance and grants from our cooperating partners projected at 18.1 percent and foreign loans accounting for 5.2 percent of the total budget.

118. In this regard, our cooperating partners have committed K2,768.7 billion in official development assistance. Of this, K810.1 billion will be through direct budget support. Furthermore, K409.6 billion is expected in sector budget support. Sir, I take this opportunity to sincerely thank our cooperating partners for their continued support to our development agenda.

119. Sir, the summary of the revenue estimates and financing to support this year's expenditure is as follows:

Estimates of Revenues for 2009

	(K' billion)	
Tax Revenues		10,191.6
Direct Taxes	4,530.0	
Company Income Tax	1,104.0	
Pay As You Earn	2,692.5	
Other Income Taxes	579.0	
Mineral Royalty Tax	154.4	
Value Added Tax	2,549.9	
Customs and Excise duty	3,111.6	
Customs duty	1,452.5	
Excise duty	1,659.1	
o/w fuel levy	308.5	
Non-Tax Revenue		454.3
User Fees and Charges	353.3	
Exceptional revenue	34.8	
Dividends, Interest & other Levies	66.2	
Domestic Financing		1,069.0
Total Domestic Revenues And Financing		11,714.9
Total Foreign Grants And Loans		3,564.1
Grants	2,768.6	
Direct Budget Support	810.1	
Sector Budget Support	409.6	
Project Support	1,548.9	
o/w SWAPS	643.8	
Foreign Financing	795.5	
Project Financing	580.5	
Budget Financing	215.0	
Total Revenue And Financing		15,279.0

REVENUE MEASURES

120. The Government recognises that a strong revenue base requires a strong economy. Given the economic challenges the country is going through, it is important that emphasis is placed on stimulating growth whilst at the same time ensuring that the Government has adequate resources to finance its operations. It is in this regard that I propose tax concessions, primarily to

support the productive sectors of our economy.

DIRECT TAXES

121. Mr. Speaker, the Government is committed to providing tax relief to the workers. I therefore propose to increase the PAYE exempt threshold from K600,000 to K700,000 per month and provide further relief by adjusting the income tax bands as follows:

Current System

Income Bands	Tax Rate
0 – K600,000 per month	0%
K600,001 - K1,235,000 per month	25%
K1,235,001 - K4,000,000 per month	30%
Above K4,000,000 per month	35%

Proposed System

Income Bands	Tax Rate
0 - K700,000 per month	0%
K700,001 - K1,335,000 per month	25%
K1,335,001 - K4,100,000 per month	30%
Above K4,100,000 per month	35%

122. Sir, the Government would have wished to provide greater relief to workers this year, but is constrained by the prevailing economic environment. Despite this, the PAYE exempt threshold has increased by 17 percent, which is 7 percentage points above the targeted inflation rate for 2009. This measure will result in a revenue loss of K100.7 billion.

123. Mr. Speaker, I propose to provide further relief by:

- (a) increasing the tax credit for differently-abled persons from K600,000 to K900,000 per annum;

- (b) increasing the exempt portion for terminal benefits from K20 million to K25 million; and
- (c) increasing the allowable pension contribution from K135,000 per month to K155,000 per month.

124. These measures will result in a revenue loss of K23.6 billion.

125. Mr. Speaker, currently, gratuity is taxed based on the PAYE system. It is my view however, that gratuity should be given tax treatment that recognizes the fact that the payment could be a final payment on termination of employment. I therefore propose that qualifying gratuity is taxed as follows:

- (a) income equivalent to the annual exempt income under PAYE is exempt from taxation; and
- (b) the balance is taxed at a flat rate of 25 percent.

126. Sir, this measure will result in a revenue loss of K12.4 billion

127. Mr. Speaker, in view of the power shortage in the country, the Government’s policy is to promote investments in the energy sector. In order to stimulate investment in this sector, particularly in hydro and thermal power generation, I propose to increase the period for carry forward of losses for companies operating in this sector from 5 to 10 years for income tax purposes. This measure will have minimal revenue loss.

128. Mr. Speaker, in 2007, the Government introduced an advance income tax on commercial imports by non-registered traders at the rate of 3 percent. This was introduced to encourage them to register for income and value

added taxes. However, there is evidence to suggest that traders have opted to remain unregistered, paying the advance income tax at the border rather than a higher turnover tax inland. I therefore propose to increase the advance income tax rate from 3 to 6 percent in order to encourage registration and improve tax compliance. Sir, I expect to raise K75 billion from this measure.

129. Mr. Speaker, in computing property transfer tax on shares, interest on related party loans used to purchase shares is currently included in current liabilities, even when transactions are not conducted at arm's length. This leaves room for undervaluation, leading to loss of revenue to the Treasury. To seal this loophole, I propose to exclude interest accruing on loans from such transactions if they were not conducted at arms' length. This is in accordance with the provisions under thin capitalization and will have minimal revenue gain.

130. Sir, I propose to increase the income tax rate on profits from export of cotton from 15 to 35 percent. This is to encourage local value addition and improve supply to local processors. Where local processing capacity has been reached, the Government will, under permit, allow income tax rate on profits from export of cotton at 15 percent.

131. Sir, all the above measures will take effect on 1st April, 2009.

VALUE ADDED TAX

132. Mr. Speaker, the Government has observed with keen interest the growing local capacity of manufacturers to produce windmills and maize dehullers. In

order to support local manufactures, I propose to zero rate dehullers and windmills for Value Added Tax purposes. This measure will have minimal revenue impact.

133. Sir, with the slump in the mining sector, there is a need to accelerate our economic diversification programme. One priority sector that needs support in this endeavour is the agriculture sector. In this regard, I propose to zero rate the following agricultural equipment and spares: Two Wheel Tractor and Accessories; Tractors up to 60 Horse Power; Ploughs; Harrows; Disc Harrows; Planters; Seeders; Rippers; Sub-Soilers; Cultivators; Pump Sets; Treadle Pumps; Hip Pumps; Hand Pumps; Knap Sack Sprayers; and Suction, Delivery and Layflat Hoses. This measure will result in a revenue loss of K38.9 billion.

134. Sir, the above measures will take effect from midnight tonight.

CUSTOMS AND EXCISE

135. Mr. Speaker, the aim of Government has been to foster a strong manufacturing sector, with intent to achieve broad-based economic growth and reduce our dependency on imports. I, therefore, propose to reclassify and re-categorise certain goods with a view to lowering customs duty rates. These include the following materials mainly used in the manufacturing and textile industry: crude vegetable oils, gray fabric and packaging materials.

136. In addition, I also propose to remove customs duty on various capital equipment in order to encourage investment and reduce the cost of doing

business. These include: Survey and Geophysical Instruments; Earth Working and Levelling Equipment; Refrigerating or Freezing Equipment for Cold Rooms; Track Laying Bull Dozers and Angle Dozers; Graders and Levellers; Scrapers; Tamping Machines; Mechanical Front Ended Shovel Loaders; Pile Drivers and Pile Extractors; Coal and Rock Cutters; Tunnelling Machinery; Boring or Sinking Machinery; Tamping or Compacting Machinery; Mechanical Horses; Fork Lift Trucks; and Special Purpose Motor Vehicles.

137. Sir, these measures will lead to a revenue loss of K22.5 billion.

138. Mr. Speaker, smuggling and tax evasion on certain imports has been a worrying trend. I am convinced that a prohibitive excise duty on certain imports encourages this, and one example is the clear beer industry. I therefore propose to reduce excise duty on clear beer from 75 to 60 percent. This measure will lead to improved tax compliance, and as a result I do not expect any revenue loss.

139. Mr. Speaker, last year, the Government introduced an export levy of 15 percent on cotton-seed in order to encourage local value addition. In view of increasing local processing capacity, I propose to increase export levy on cotton-seed from 15 percent to 20 percent. This measure will result in a revenue gain of K282 million

140. I also propose to increase customs duty on cellular phone handsets from 5 percent to 15 percent to encourage local production of handsets. This measure will result in a revenue gain of K3.6 billion.

141. Sir, all the above measures take effect from midnight tonight.

CONCESSIONS FOR THE MINING SECTOR

142. Mr. Speaker, the current mining tax regime was introduced last year aimed at providing a stable and robust tax system that works during periods of both high and low prices and costs. This regime was intended to ensure that the nation received a fair return from its resources, while maintaining a globally competitive mining industry.

143. Sir, having consulted with the industry and other stakeholders, and in light of the impact of the global crisis on the mining sector, I propose the following refinements:

- (a) remove the windfall tax and retain the variable profit tax, which will still capture any windfall gains that may arise in the sector;
- (b) allow hedging income to be a part of mining income for tax purposes; and
- (c) increase capital allowance to 100 percent as an investment incentive.

144. Sir, these measures will come into effect on 1st April 2009.

145. Furthermore, I propose to reduce customs duty on Heavy Fuel Oil from 30 to 15 percent and to remove customs duty on copper powder, copper flakes and copper blisters. In addition, I propose to include copper and cobalt concentrates on the import deferment scheme for VAT purposes. These measures will reduce the operating costs of mining companies as well as encourage the utilisation of local smelting capacity. These measures will

result in a revenue loss of K19.3 billion and will come into effect from midnight tonight.

CONCESSIONS FOR DEVELOPERS AND INVESTORS IN THE MFEZ AND INDUSTRIAL PARKS

146. Mr. Speaker, in order to expand the country's manufacturing base and enhance national competitiveness, I propose to establish industrial parks and extend tax incentives under the ZDA Act to developers of, and investors in Multi-Facility Economic Zones and industrial parks. In addition, I propose to:

- (a) remove withholding tax on management fees, consultancy fees, and interest re-payments to foreign contractors;
- (b) zero rate supplies to developers of MFEZ and industrial parks;
- (c) exempt foreign suppliers to the MFEZ and Industrial parks from reverse VAT charge; and
- (d) Exempt equipment and machinery imported for the development of MFEZ and Industrial Parks from customs duty.

147. For purposes of clarity, I propose that developers of an industrial park should qualify for the above incentives only if:

- (a) the layout of the development plan is approved by the relevant planning authority;
- (b) the park to be developed is at least 15 acres in size;
- (c) the park will have paved roads; and
- (d) water and electricity supply within the park is provided.

148. Sir, it is hoped that with these measures, the country will attract both local and foreign private investors to open up and invest in the MFEZ and industrial parks across the country.

HOUSE KEEPING MEASURES

149. Mr. Speaker, I 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 provisions of tax legislation and make tax administration more effective. These measures are revenue neutral.

OTHER MEASURES

INCENTIVES FOR SHOOTING OF WORLD CLASS MOVIES LOCALLY

150. Mr. Speaker, the tourism industry plays a significant role in job creation, foreign exchange earnings and has the ability to support a number of other industries. However, as a country, we need to move away from the traditional view that tourism is restricted to hotel building and costly media promotions.

151. In this regard, Sir, I propose to provide a rebate or refund to filmmakers of up to 15 percent of the expenses incurred in shooting movies locally. This will not only enhance our country's reputation, but will also provide job opportunities and synergies for local actors.

INVESTMENT IN THE RAILWAY NETWORK

152. Mr. Speaker, in order to support the rehabilitation of the railway infrastructure and improve rail transport, I propose fuel levy paid by Railway Systems of Zambia be earmarked for investment in the rail network.

PART V

CONCLUSION

153. Mr. Speaker, as we enter the year 2009, the global economy, of which we are a part, faces unprecedented challenges not seen for generations. Zambia is not insulated from this turmoil, even though its causes were not of our making and its origins were far from our borders. This budget offers a vigorous response to meeting these challenges.

154. Sir, in 2008 our character as a nation was severely tested, and we were not found wanting. As we move forward we must not be demoralized or intimidated by these testing economic times. We are a nation of proven character with unity of purpose, and we must all rise to meet these challenges with ingenuity and resolve so that the attainment of our development goals is not placed in jeopardy.

155. Mr. Speaker, at the start of my speech I described the vision I hold of an educated, healthy, hardworking, well disciplined and prosperous people, nourished with plentiful food, with the

skills and drive required of a 21st century economy, and well served with the requirements of modern life.

156. Sir, this Budget moves us towards the attainment of this vision. It ensures that the difficult circumstances that Zambia, like all nations, faces this year are confronted squarely and decisively by encouraging us all to be more productive.

157. Mr. Speaker, through this Budget I have significantly realigned resources towards the development of agriculture, tourism, education, health and national infrastructure; I have provided incentives and outlined essential structural reforms to support industry; and I have allocated substantial resources to improve delivery of basic services to our people.

158. Mr. Speaker, by so doing, this MMD Government under the leadership of His Excellency the President, Mr. Rupiah B. Banda, will unlock the potential of Zambians by promoting growth and diversification, enhancing competitiveness, and improving the quality of public service delivery to our people.

159. Sir, as a nation, by implementing these measures, we can emerge from these troubled economic times stronger and better positioned to seize the opportunities of this still-new century. Then we will be better able to spread the benefits of growth and development to all our people.

160. Mr. Speaker, I beg to move.