

2020 BUDGET ADDRESS BY HONOURABLE DR. BWALYA K.E. NG'ANDU, MP,
MINISTER OF FINANCE, DELIVERED TO THE NATIONAL ASSEMBLY ON
FRIDAY 27TH SEPTEMBER, 2019

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1. Mr. Speaker, I beg to move that the House do now resolve into Committee of Supply on the Estimates of Revenue and Expenditure for the year 1st January, 2020 to 31st December, 2020 presented to the National Assembly on Friday, 27th September, 2019.

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

3. Mr. Speaker, as this is my first Budget Address to this August House, it is befitting that I begin by thanking His Excellency, Dr. Edgar Chagwa Lungu, President of the Republic of Zambia for granting me the honour to serve as Minister of Finance. It is indeed a rare opportunity, and I hereby commit myself to work towards achieving economic stabilisation and growth in order to improve the lives of our people.

4. Sir, allow me to thank my predecessor, Honourable Margaret D. Mwanakatwe, MP, for her stewardship of the economy as Minister of Finance. I will continue to build on the foundation that she has laid in steering our economy and the nation forward.

5. Mr. Speaker, on 13th September, 2019, His Excellency, Dr. Edgar Chagwa Lungu, President of the Republic of Zambia officially opened the Fourth Session of the Twelfth National Assembly. In his address, the President outlined, among others, the key challenges of limited fiscal space and

the devastating impact of climate change. In this context, the President called upon us to work together as a people to achieve economic stability, sustainable growth and development, within the spirit of *“doing more with less”*.

6. Sir, the 2020 Budget takes into account the challenges highlighted by His Excellency the President. The Budget and the policy measures, therefore, prioritise creating fiscal space, ensuring debt sustainability and dismantling domestic arrears. I will pay particular attention to the dismantling of arrears related to pensioners and suppliers of goods and services to Government.

7. Mr. Speaker, these measures are aimed at alleviating hardships to those owed money by the Government, preserving businesses, saving jobs, increasing liquidity and in so doing boosting economic activity. Further, Government will hence forth strictly enforce the provision requiring 20 percent allocation to Zambians of works carried out by foreign contractors as part of the empowerment agenda. This Budget will also outline some measures to mitigate the effects of climate change, which has negative impacts on especially the poor and small businesses.

8. Sir, the theme for the 2020 Budget is therefore ***“Focusing national priorities towards stimulating the domestic economy.”*** For this Budget to achieve its objectives, it will require us to deliver on our commitments with discipline, determination and dedication. This is in

accordance with our National values and Principles of ethics, patriotism, national unity and integrity as enshrined in the Constitution. All of us, the public sector, the private sector, civil society and every Zambian are therefore called to focus our priorities towards building the Zambia we want. The time to act is now! Our resolve to do so must be firm.

9. Mr. Speaker, allow me now to provide an outline of my budget presentation. In Part One, I will highlight the global and domestic economic developments in 2019. In Part Two, I will present the macroeconomic objectives, policies and strategies for 2020. In Part Three, I will provide the details on the estimates of revenue and expenditure for 2020. Finally, in Part Four, I will conclude my address.

PART I

GLOBAL AND DOMESTIC ECONOMIC DEVELOPMENTS IN 2019

Global Economic Developments

10. Mr. Speaker, the world economy is expected to record a reduction in growth in 2019, with real output growth estimated at 3.2 percent compared to 3.6 percent in 2018. This is mainly on account of the trade war between the United States of America and China, prolonged uncertainty on Brexit and geo-political tensions.

11. Sir, in advanced economies, growth is projected to fall to 1.9 percent in 2019 from 2.2 percent in 2018. In emerging market and developing economies, growth is projected to slowdown to 4.1 percent compared to 4.5 percent in 2018. However, in Sub-Saharan Africa, growth is expected to improve from 3.1 percent in 2018 to 3.4 percent in 2019. This is mainly due to growth in non-resource intensive countries.

12. Mr. Speaker, commodity prices have generally been lower over the first eight months of 2019 due to a fall in global demand. Copper prices averaged US\$ 6,091 per metric tonne compared to US\$ 6,723 per metric tonne over the corresponding period in 2018. Over the same period, crude oil prices averaged US\$ 63 per barrel compared to US\$ 71 per barrel. However, disruptions to global supply of oil arising from geo-political tensions affecting the Middle East may raise oil prices.

13. Sir, I now turn to review the performance of the Zambian economy in 2019.

Domestic Economic Developments

Economic Growth

14. Mr. Speaker, preliminary data indicate that growth in 2019, initially projected at 4 percent, will slowdown to 2 percent compared to 3.7 percent in 2018. This is mainly on account of adverse climatic conditions, particularly poor rainfall in the 2018/2019 rainy season, which negatively affected agricultural production and electricity generation. The lower electricity generation has had negative spill-over effects on other sectors.

15. Sir, growth has further been adversely affected by a decline in copper output due to low grades of ore at some mines coupled with lower copper prices, mainly attributed to the fall in global demand. In addition, tight liquidity conditions mainly attributed to external debt servicing and as reflected in the accumulation of domestic arrears, have contributed to subdued economic growth.

16. Mr. Speaker, notwithstanding the general slowdown in the economy, the service sector has performed favourably, especially the wholesale and retail trade, information and communication technology, and financial services.

Budget Performance

17. Mr. Speaker, for the period January to August 2019, revenues and grants, at K42.8 billion, exceeded their target by 9.1 percent while expenditures including amortisation, at K60.9 billion, were above target by 3.4 percent.

18. Sir, despite the positive performance of revenues and grants, budget implementation has faced various challenges. These include under-subscriptions on Government securities auctions and the depreciation of the Kwacha against the United States dollar, which contributed to higher than programmed external debt service payments.

19. Sir, although the revenue outturn is projected to be above the 2019 target, the outlook for financing remains weak. Financing continues to be constrained by tight liquidity conditions in the domestic market coupled with an unfavorable global environment. The budget deficit is, however, estimated to close in line with the target of 6.5 percent of GDP on a cash basis.

20. Mr. Speaker, I will later in my Address outline measures Government will implement to reduce the deficit in 2020.

External Sector Performance

21. Mr. Speaker, over the first half of 2019, the current account deficit narrowed to US\$ 414.4 million or 1.7 percent of GDP from US\$ 586.1 million or 2.2 percent of GDP during the same period in 2018. This was due to a larger decline in imports relative to exports.

22. Sir, export earnings, at US\$ 4.0 billion, were 14.7 percent lower than US\$ 4.6 billion realised over the same period in 2018. Copper export earnings declined by 22.0 percent to US\$ 2.8 billion from US\$ 3.5 billion, following a decline in both export volumes and copper prices.

23. Mr. Speaker, non-traditional export earnings, however, increased by 17.2 percent to US\$ 1.1 billion from US\$ 911 million over the first half of 2018. This outturn was attributed to higher exports of gemstones, cement, lime, sulphuric acid and sugar.

24. Sir, imports of goods declined by 21.4 percent to US\$ 3.3 billion from US\$ 4.2 billion over the same period in 2018. This followed a reduction in importation of copper ores, concentrates, motor vehicles, chemicals and other intermediate goods.

25. Mr. Speaker, gross international reserves declined to US\$ 1.4 billion at end-July 2019 from US\$ 1.6 billion at end-December 2018. At this level, reserves were equivalent to 1.7 months of import cover. The reduction in reserves was mainly attributed to external debt service payments. The moderate reduction in reserves was due to net purchases of foreign exchange from the market amounting to US\$ 387.4 million and mineral royalty tax receipts of US\$ 191.9 million. The target of the Government is to increase reserves to at least 3 months of import cover in the medium term.

26. Sir, in the foreign exchange market, the Kwacha depreciated by 9.4 percent to an average of K13.03 per United States dollar in August 2019 from K11.91 per United States dollar in December 2018. The depreciation was largely on account of increased demand for debt service, energy imports and the strengthening of the United States dollar.

Debt Position

27. Mr. Speaker, the external debt stock as at end-June 2019 increased to US\$ 10.23 billion from US\$ 10.05 billion at the close of 2018. This was mainly on account of disbursements on existing loans. The rate of debt accumulation at 1.9 percent was lower than the 7.6 percent recorded in the corresponding period in 2018.

28. Sir, the stock of Government guarantees, on a net basis, was US\$ 1.2 billion as at end-June 2019.

29. Mr. Speaker, the stock of Government securities increased to K60.7 billion as at end-August 2019. This is a 4.1 percent increase from the K58.3 billion recorded at end-December 2018, attributed to new issuances on a net basis.

30. Sir, domestic arrears, excluding VAT refunds, as at end-June 2019 amounted to K20.2 billion from K15.6 billion in December 2018.

Monetary and Financial Performance

31. Mr. Speaker, average inflation remained broadly in line with the 6 to 8 percent target range in the earlier part of 2019. In the second quarter, inflationary pressures built up, resulting in inflation breaching the upper bound of the target range in May, 2019 at 8.1 percent. As at end-August 2019, inflation rose further to 9.3 percent. This was largely on account of higher food prices and the pass-through effects from the depreciation of the Kwacha against the United States dollar. To counter inflationary pressures, the Policy Rate was adjusted upwards to 10.25 percent in May 2019 from 9.75 percent in December 2018.

PART II

MACROECONOMIC OBJECTIVES, POLICIES AND STRATEGIES FOR 2020

32. Sir, the commercial banks' average lending rate rose to 26.0 percent in August 2019 from 23.6 percent in December 2018. Domestic credit to the private sector grew by 9.0 percent to K36.2 billion in August 2019 from K32.9 billion in August 2018.

33. Mr. Speaker, the banking sector's overall performance and condition was rated satisfactory in 2019, mainly on the backdrop of a strong aggregate capital adequacy. The ratio of non-performing loans to total loans dropped to 9.4 percent at end-August 2019 from 11.0 percent at end-December 2018. This is within the prudential threshold of 10.0 percent.

34. Sir, the overall performance and condition of the non-bank financial institutions sector was rated fair. The non-performing loans ratio at 24.8 percent, however, remained above the prudential threshold of 10.0 percent.

35. Mr. Speaker, the implementation of the National Financial Switch project, which will allow universal access to digital transacting, has made significant progress. All domestic Automated Teller Machine transactions by the various commercial banks are now being channeled through the National Financial Switch Platform. The project will be fully implemented by end-December 2019. This will reduce dependency on cash and its associated risks.

36. Mr. Speaker, the 2020 Budget will focus on stimulating the domestic economy by reducing the budget deficit, rationalising debt contraction and dismantling of domestic arrears while protecting social sector allocations. This is in line with the Seventh National Development Plan, austerity measures and key reform areas in the Economic Stabilisation and Growth Programme.

37. Sir, the macroeconomic targets for 2020 are to:

- i. Achieve a real GDP growth rate of at least 3 percent;
- ii. Achieve and maintain inflation within the target range of 6 to 8 percent;
- iii. Increase international reserves to at least 2.5 months of import cover;
- iv. Reduce the fiscal deficit to 5.5 percent of GDP; and
- v. Increase domestic revenue mobilization to at least 22 percent of GDP.

38. Mr. Speaker, I now present the detailed macroeconomic policies for 2020, in line with the pillars of the Seventh National Development Plan. I wish to point out that the activities under each pillar are within the Budget resource envelope. As we carry out these activities, crosscutting issues of gender, youths and disability will continue to be mainstreamed.

39. Sir, I recognize the support of cooperating partners and other stakeholders in the implementation of various programmes in the Budget.

PILLAR ONE: ECONOMIC DIVERSIFICATION AND JOB CREATION

40. Mr. Speaker, the tight fiscal space for 2020 requires refocusing our resources on priority areas to achieve more with less. We are confident that economic diversification and job creation can be attained with continued public and private investments in the agriculture, tourism, mining, energy and manufacturing sectors.

Agriculture, Livestock and Fisheries

41. Mr. Speaker, the 2018/2019 farming season underscored the continued challenge of climate change and therefore the importance of risk mitigation and management measures. Addressing climate related challenges requires the adoption of climate smart agricultural technologies and practices. These are already being disseminated in the 2019/2020 farming season and will continue in the subsequent farming seasons. Further, to provide our farmers with the latest weather information, Government has continued to build capacity in the Zambia Meteorological Department to improve early warning systems.

42. Sir, in order to reduce dependence on rain-fed agriculture, Government working with Cooperating Partners will continue with irrigation development projects. The construction of the dam at

Mwomboshi in Chisamba District has been completed, while the irrigation scheme will be completed in 2020. The works at Lusitu Irrigation Scheme in Chirundu District have reached 85 percent completion, while works at the Musakashi South Irrigation Scheme in Mufulira District has reached 50 percent completion. Recently, the Government commissioned Chiansi Irrigation Scheme Project in Kafue District which is expected to benefit over 1,000 households.

43. Mr. Speaker, Government will continue supporting eligible farmers under the Farmer Input Support Programme. For the 2019/2020 farming season, Government has already commenced the distribution of inputs across the country under the direct input supply model targeting 60 percent of the one million eligible beneficiary farmers. The balance of 40 percent of the eligible beneficiary farmers will be covered under the e-voucher system.

44. Sir, Government will reform the implementation and management of the Farmer Input Support Programme so as to cut the administrative costs as well as avoid wastage. To ensure wider e-voucher coverage, Government will speed up the construction of telecommunications towers across the country to address connectivity challenges.

45. Mr. Speaker, in the livestock sub-sector, the prevalence of animal diseases such as foot and mouth disease has negatively affected the performance in recent years. To address this situation, Government is stepping up farmer sensitisation, vaccinations, movement restrictions and enforcement of bio-

security measures on farms. Further, construction and rehabilitation of dip tanks across the country has continued. Acting on the commitment made in last year's Budget Address, a total of 80 dip tanks have been constructed while 153 have been rehabilitated this year.

46. Sir, to improve the quality of the national livestock herd, Government has rehabilitated and stocked 15 livestock breeding centres across the country. The centres provide artificial insemination and other breeding services. Further, 87 livestock service centres have so far been constructed where dipping, branding, vaccination and other disease control services are provided. This is in addition to the setting up of regional and district laboratories, and quarantine centres across the country.

47. Mr. Speaker, to promote aquaculture farming, I will provide appropriate incentives to stimulate activity in the sector. Further, we will continue to build capacity among fish farmers through training. So far, 270 farmers have been trained under the Zambia Aquaculture Enterprise Development Project. The Project aims to train more than 1,000 farmers by 2022. The objective of these interventions is to raise productivity and make Zambia self-sufficient in fish production.

Industrialization

48. Mr. Speaker, under the National Industrial Policy, Government aims to promote an export-oriented industrialisation. Progress is being recorded in the export of products such as cement, honey and detergents. In line with

the National Local Content Strategy, these products are being manufactured from local raw materials.

49. Sir, to support locally owned small enterprises undertaking light-manufacturing such as carpentry and foundry, Government is establishing Industrial Yards across the country. Industrial Yards being constructed in Solwezi, Ndola, Kasama, Mongu and Chipata districts, are expected to be completed this year, while those in Kitwe, Lusaka and Mansa, will be completed in 2020. Upon completion, these yards will result in increased access to processing facilities and the creation of more than 4,000 direct jobs.

Regional and International Trade

50. Mr. Speaker, Government will continue securing markets and facilitating trade with our regional and international trading partners, particularly for non-traditional exports. A key development in securing markets was the signing of the African Continental Free Trade Agreement by Government. This Agreement will create a market that will offer vast opportunities for growth and job creation. Government will therefore, put in place measures to ensure that the country benefits from the continental market.

Tourism

51. Mr. Speaker, in a bid to diversify the tourism sector and contribute to job creation, Government will focus on developing the Northern Circuit and facilitating the actualization of pledges in the sector made during the provincial Investment Expositions. This will be done

through the rehabilitation of roads to and within the tourist sites. The priority will include enhanced promotion of the Lumangwe, Kalambo and Kabwelume water falls as well as revamping tourism activities around the Samfya Beach.

Mining

52. Mr. Speaker, to diversify the mining sector, Government is promoting the exploration of non-traditional minerals such as gold and manganese. In this regard, I will in this Budget allocate additional resources for the generation of geological information on the extent of these deposits in order to attract investment.

Energy

53. Mr. Speaker, the energy sector has been adversely affected by climate change especially in the second half of 2019. This has widened the electricity deficit in the country thereby negatively affecting business operations and communities due to increased hours of load shedding. Government will step up the diversification of energy sources in order to build resilience to the negative effects of climate change.

54. Mr. Speaker, the Bangweulu and Ngonye Solar Power Plants generating a combined total of 90 megawatts have been completed and are operational. Further, the construction of the 750 megawatts Kafue Gorge Lower Hydropower Station Project and upgrading of Lusiwasi Upper Hydropower Station to 15 megawatts are expected to be completed in 2020. The upgrading of Chishimba Falls Power Station from 6 megawatts to 15 megawatts will commence in 2020. In addition, the

developer of the 2,400 megawatts Batoka hydropower plant between Zambia and Zimbabwe has been identified.

55. Sir, Government will accelerate reforms that will ensure that the energy sector attains cost reflective tariffs to attract investments in various sources of power generation in addition to hydro power. The diversification of the energy mix is in response to the challenges of climate change.

Information and Communication Technology

56. Sir, to enhance transparency and accountability in public service delivery, Government will continue rolling out electronic platforms. This will not only reduce the cost of doing business for both the private and public sectors, but also enhance information sharing.

57. Mr. Speaker, Government has started actualizing the Government Service Bus that will connect 28 Government services on an online platform. This will limit human-to-human interaction, thereby, reducing revenue leakages. Under Immigration, Government has made significant progress by actualizing the online processing of visas and work permits. This has resulted in efficiency, cost reduction and increased revenue collection.

58. Sir, with regard to the e-Government programme, Smart Zambia has so far connected 122 Government departments to the Government Wide Area Network. A further 50 will to be connected in 2020. This connectivity will ensure that Government transactions are paperless and reduce operational costs.

59. Mr. Speaker, the Social Cash Transfer programme will now be administered electronically to authenticate beneficiaries. Additionally Government will carry out a comprehensive review of the Programme to assess its effectiveness. Similarly, work has commenced to authenticate the beneficiaries of the Farmer Input Support Programme.

60. Mr. Speaker, increased access to ICTs for people in unserved and underserved areas is a priority. Government will therefore continue the construction of Communication Towers. A total of 667 out of the target of 1,009 have so far been constructed of which more than 500 are operational.

61. To ensure effective management of the public service wage bill, Government will carry out a comprehensive review and verification of the payroll using electronic platforms.

Road Transport Infrastructure

62. Mr. Speaker, in the spirit of doing more with less, our strategy will be to rescope existing projects, seek alternative financing to debt contraction and increase the use of local contractors in the implementation of these projects.

63. Sir, Government will continue to expand the National Road Tolling Programme which will be the backbone of the road maintenance programme. As at August 2019, a total of K765 million was raised compared to K549 million over the same period in 2018 under the programme.

Air Transport

64. Mr. Speaker, in the air transport sector, the expansion and modernisation of the Kenneth Kaunda International Airport has reached over 85 percent completion and is scheduled to open in 2020. This will support the strategy of making Zambia an air transport hub. The construction of the Copperbelt International Airport, which commenced in 2019, is on schedule and is now at 50 percent completion. Works on the Copperbelt International Airport will continue in 2020.

Water Resources Development and Management

65. Mr. Speaker, under water resources development, Government undertook rehabilitation of dams across the country to ensure availability of water. To safeguard water resources in the midst of devastating climate change effects, Government will intensify programmes aimed at preventing environmental degradation.

PILLAR TWO: POVERTY AND VULNERABILITY REDUCTION

66. Mr. Speaker, Government remains committed to reducing poverty and vulnerability amidst the effects of climate change. The vulnerable members of our society such as the youths, women, aged and persons with disabilities are disproportionately affected by the effects of climate change. In this regard, in 2020, Government will continue to implement policies aimed at mitigating the effects of climate change and empowering the vulnerable.

Climate Change

67. Mr. Speaker, as I have already indicated, interventions are being undertaken to mitigate and manage the effects of climate change in various sectors. Government is empowering rural communities in Central, Eastern, Southern and Western Provinces with information on better use and management of the resources. Over 500,000 direct beneficiaries have been supported to enable them adopt climate resilient practices. To finance these interventions, Government will continue to mobilize resources under various initiatives.

Social Protection Programmes

68. Mr. Speaker, social protection programmes shall continue to be extended to the most vulnerable in our society even in the midst of tight fiscal conditions. In this regard, Government will continue to support the social cash transfer scheme, food security pack as well as women and youth empowerment programmes.

69. Sir, under the social cash transfer programme, 700,000 households will be targeted while 80,000 beneficiaries will be supported under the food security pack in 2020. To empower women and girls, Government under the Girls' Education and Women's Empowerment and Livelihood Project will support 75,000 women with training in life and business skills by 2020. Under the same project, 16,000 adolescent girls will be supported with educational provisions in order to keep them in school. Further, more than 3,500 youths will be empowered with life skills and start-up kits to venture into business.

PILLAR THREE: REDUCING DEVELOPMENTAL INEQUALITIES

70. Mr. Speaker, Government is concerned with the high levels of developmental inequalities between rural and urban areas and the need to pursue a unified and integrated national development for all.

71. Sir, Government will in 2020 prioritise completion of ongoing education, health and water and sanitation infrastructure in rural areas in order to increase access to basic social services. Government will also continue with the improved rural connectivity project, construction of communication towers and the rural electrification programme. Under the improved rural connectivity project, a total of 3,375 kilometers of selected rural gravel roads will be rehabilitated over a five-year period to improve access to markets.

PILLAR IV: ENHANCING HUMAN DEVELOPMENT

72. Mr. Speaker, health, education as well as water and sanitation are key to attaining sustainable economic development. These sectors contribute to improving the wellbeing of our people.

Education and Skills Development

73. Mr. Speaker, to improve access and quality of education, Government will prioritise completion of some infrastructure development projects and provision of school materials.

74. Sir, with regard to skills development, support to technical education, vocational and entrepreneurship

development as a means for job and wealth creation will remain a priority. Skills and entrepreneurship training to the out-of-school youth and adults, will be accelerated by better targeting of funds generated through the Skills Development Fund.

75. Mr. Speaker, to improve the progression rate from primary to secondary school level, 68 out of 115 schools under the Zambia Education Project have been completed this year. Further, the construction of the 82 secondary schools under the Zambia Education Enhancement Project, which commenced this year, are scheduled for completion in 2020.

76. Sir, to reduce the pupil teacher ratio and enhance the quality of education at early childhood, primary and secondary school levels, Government, in 2019, recruited and deployed 2,009 teachers out of which, 1,263 were female. The majority of the teachers recruited were in the fields of science, mathematics and technology.

77. Mr. Speaker, to enhance the skills of teachers in science, mathematics and technology subjects, Government completed the construction of the National Science Center in 2019. The Center provides in-service training to local and foreign teachers. So far, 150 local and 50 foreign teachers have been trained. In addition, 550 Zambian lecturers of education in science have been trained at the Center.

78. Sir, the Home Grown School Feeding Programme, targeting vulnerable children, will continue to be implemented to increase learner attendance and retention. Currently, one million learners

countrywide are benefiting from the Programme. Further, to enhance equity, 35 percent of schools at early childhood, primary and secondary level, cater for learners with special education needs.

79. Mr. Speaker, at university level, focus in 2020 will be on the completion of the on-going projects. Further, construction of student hostels at the University of Zambia, Copperbelt University and Mulungushi University will be completed.

80. Sir, to improve financing to the education sector, Government has continued to strengthen the recovery of loans under the Higher Education Loans and Scholarships Scheme. This is in an effort to increase coverage of students receiving support at our public universities.

81. Mr. Speaker, to strengthen skills development, equipment was procured for 26 Technical Education Vocational and Entrepreneurship Training institutions across the country using the Skills Development Fund.

Health

82. Mr. Speaker, Government will continue to strengthen the health system and provide essential medical supplies for the delivery of quality health care services as close to the people as possible. In this regard, Government has continued with the recruitment of frontline health personnel, infrastructure development and provision of medical supplies.

83. Sir, in 2019, Government has recruited 3,000 nurses and 309 medical doctors to operationalise constructed

health facilities. Government remains committed to improving the health personnel to population ratio.

84. Mr. Speaker, the construction of health facilities to improve access to health services will continue. In 2019, the construction of a specialized hospital in Lusaka reached 75 percent completion while Petauke and Chinsali General Hospitals were at 80 percent and 90 percent completion, respectively. In addition, the upgrading of the Maina Soko Military Hospital reached 58 percent completion, while Levy Mwanawasa Medical University is at 80 percent. Further, the project to construct 650 health posts, of which 342 have been completed, will continue in 2020.

85. Sir, significant investment has been made in strengthening the supply chain of essential medicines and medical supplies. In this regard, the Lusaka ultra-modern central warehouse has been completed and is fully operational. In 2020, focus will be on the implementation of an integrated procurement, financing and logistics system and scaling up of 24 hour pharmaceutical services in all the provinces to ensure timely supply of essential medicines and medical supplies.

86. Mr. Speaker, to enhance healthcare financing and promote universal access to health services, Government remains committed to implementing the National Health Insurance Act No. 2 of 2018. Government will therefore, continue engaging stakeholders to ensure smooth implementation of the Act.

Water Supply and Sanitation

87. Mr. Speaker, to improve universal access to water and sanitation, Government continued to implement the National Urban and Rural Water and Sanitation Programmes. Projects being implemented under the National Urban Water and Sanitation Programme include the Nkana Water Supply and Sanitation Project, Lusaka Water Supply and Drainage Project, Chongwe Water Supply Project and Kafulafuta Water Supply System Project. The Kafulafuta Project will provide clean and safe water to cover over one million people in Mpongwe, Luanshya, Masaiti and Ndola districts in the Copperbelt Province.

88. Sir, under the Rural Water and Sanitation Programme, Government is setting up piped water schemes as well as drilling and rehabilitating boreholes. In 2019, a total of 225 boreholes have so far been drilled and equipped with hand pumps. Other projects include piped water schemes in Mwense District to cater for 15,000 people. Further, under the Transforming Rural Livelihood Project in Western Province, 863 boreholes have been drilled and 10 piped water schemes are at various stages of construction.

**PILLAR V: CREATING A
CONDUCTIVE GOVERNANCE
ENVIRONMENT FOR A
DIVERSIFIED AND INCLUSIVE
ECONOMY**

**Policy, Regulatory and Structural
Reforms**

89. Mr. Speaker, a conducive governance environment is important in creating the conditions necessary to trigger and sustain economic diversification, job creation and inclusive growth. It is in this regard that the implementation of policy, regulatory and structural reforms continued in 2019. These reforms, which are part of the Economic Stabilization and Growth Programme, are aimed at enhancing domestic resource mobilization, refocusing expenditure, narrowing the fiscal deficit, reducing the pace of debt accumulation, and dismantling of domestic arrears.

90. Sir, these reforms coupled with austerity measures will continue in 2020 and the medium term.

Domestic Resource Mobilization

91. Mr. Speaker, to enhance domestic resource mobilization, Government in the medium term will implement the following measures:

- i. Continue with the modernization and automation of revenue collection processes and provision of Government services. The Government will implement a service platform and payment gateway to create efficiencies in service delivery and enhance tracking of revenues;

- ii. Continue rolling out implementation of the Electronic fiscal devices, to curb tax evasion and further improve revenue collection by making it mandatory to use them for all consumption tax related transactions;
- iii. Develop a National Policy on Avoidance of Double Taxation Agreements to protect the revenue base;
- iv. Enhance implementation of the provisions of the Rating Act No. 21 of 2018 to ensure that all property developers and traders are included in the tax base;
- v. Accelerate implementation of land titling and revaluation of properties following the enactment of the Rating Act so as to increase revenue collection and use third party information to identify non-compliant developers;
- vi. Continue to review legislation for non-tax collecting institutions and adjusting fees and fines to cost reflective levels; and
- vii. Invest in human capacity development and technology to support revenue collection.

92. Sir, on the expenditure side, the measures will include:

- i. Effective management of the public service wage bill and other expenditure areas such as subsidies;

- ii. Minimise the cost of running Government;
- iii. Halt the accumulation of domestic arrears and prioritise the dismantling of the current stock in order to unlock liquidity and stimulate economic activity in the country;
- iv. Use off balance sheet financing model such as Public-Private Partnerships;
- v. Re-scope some works in the road sector from bituminous to gravel in order to reduce costs; and
- vi. Revise the Public Procurement Act to provide for reference pricing and strengthen oversight for high value procurements.

Debt Management Policy

93. Mr. Speaker, prudent management of debt remains a key priority to ensure that debt is maintained within sustainable levels. To this end, the Government will:

- i. Slowdown external debt contraction;
- ii. Postpone or cancel some pipeline loans;
- iii. Cease the issuance of guarantees; and
- iv. Refinance existing loans.

94. Sir, to enhance these measures, Government will develop the 2020 to 2022 Medium Term Debt Strategy to ensure that Government's financing needs are met at the lowest possible cost, consistent with a prudent degree of risk.

Arrears Dismantling Strategy

95. Mr. Speaker, to address the challenge of domestic arrears, Government will implement the following measures:

- i. Increase the allocation of funds to reduce the stock of domestic arrears;
- ii. Use of Debt swaps to liquidate part of the outstanding arrears; and
- iii. Enhance commitment control systems to curb further accumulation.

Monetary and Financial Sector Policies

96. Mr Speaker, in 2020, monetary policy will focus on bringing inflation back to the target range of 6-8 percent in the medium-term. In this regard, the Bank of Zambia will continue to strengthen the forward-looking monetary policy framework anchored on the Policy Rate as the key signal of the monetary policy stance.

97. Sir, Government will continue to ensure that financial stability is maintained. The Bank of Zambia will continue to implement measures aimed at enhancing the resilience of the financial system, to both internal and external economic and financial shocks. In addition, risk management will be enhanced.

98. Mr. Speaker, to contribute to the development of the capital market, Government will introduce an electronic trading platform to increase transparency, price discovery and liquidity in the secondary market for Government bonds.

99. Mr. Speaker, Government will continue to pursue open economy policies aimed at encouraging trade, attracting foreign investment and accumulating international reserves. In this regard, Government will continue to promote export diversification and maintain a liberal foreign exchange regime.

Public Investment Management Reforms

100. Mr. Speaker, Government has developed a comprehensive system for the appraisal of projects in order to strengthen the management and implementation of public investments. To support this Public Investment Management System, Government has constituted a multi-sectoral Public Investment Board to appraise major public investment projects.

Census of Population and Housing

101. Mr. Speaker, Government will undertake a Census of Population and Housing in August 2020. In preparation for the Census, two core activities have to be conducted, namely mapping and listing, and a pilot census. Mapping and listing has commenced and has successfully been completed for Lusaka Province.

Budget Process and Tax Policy Review

102. Sir, Government will undertake a comprehensive review of the tax system and budgeting process and implementation to make it more responsive to the needs of the economy.

THE 2020 BUDGET

103. Mr. Speaker, the 2020 Budget I am presenting today, seeks to further consolidate the austerity measures that Government has been implementing by directing resources and efforts towards stimulating the domestic economy by dismantling domestic arrears and addressing the debt overhang. The process of formulating the 2020 Budget was informed by the compelling need to continue consolidating the fiscal position whilst safeguarding the allocations on social protection and other core service delivery areas.

104. Sir, Government proposes to spend K106.0 billion in 2020, representing 32.4 percent of GDP. Of this amount, K72.0 billion, representing 22.0 percent of GDP will come from domestic revenues, while the balance will be raised through domestic and external financing.

105. Mr. Speaker, as a key strategy to stimulate economic activity, I have increased the allocation towards dismantling of arrears to K2.3 billion in 2020 from K437 million in 2019. Further, Government will reduce borrowing from the domestic market to 1.1 percent of GDP from 1.4 percent of GDP in 2019.

106. Sir, the fiscal deficit is projected to reduce to 5.5 percent of GDP in 2020 from 6.5 percent in 2019. This is a clear demonstration of Government's resolve to restore fiscal health and stabilize the economy.

107. Mr. Speaker, in light of this background, I now provide the specific details of the 2020 Budget.

Expenditure Allocations by Functions of Government

108. Mr. Speaker, the expenditure allocations I propose in this Budget are

aligned to the priorities of the Seventh National Development Plan. To efficiently allocate resources in the 2020 Budget, the Output Based Budgeting system has been rolled out to 22 more Ministries and Spending Agencies from seven in 2019.

2020 Expenditure by Functions of Government

FUNCTION	2020 PROJECTION	
	Amount (K)	Share of Budget
General Public Services	44,080,742,270	41.6%
O/w External Debt	21,090,794,858	
Domestic Debt	12,634,848,146	
Dismantling of Arrears	2,278,733,732	
Local Government Equalization Fund	1,184,587,612	
Sinking Fund	636,000,000	
Constituency Development Fund	249,600,000	
Public Affairs and Summit Meetings	143,726,597	
Elections & Voter Registration	135,000,000	
Contingency	100,636,628	
Compensation Fund	100,000,000	
Defence	6,526,391,423	6.2%
Public Order and Safety	4,042,702,155	3.8%
O/w National Identity Documents	50,000,000	
Economic Affairs	21,833,351,543	20.6%
O/w Energy Power Infrastructure	11,167,970,334	
Roads Infrastructure	10,552,606,147	
o/w Government Contribution	2,772,777,430	
International Airports	1,823,481,818	
Farmer Input Support Programme	1,111,840,201	
Strategic Food Reserves	660,000,000	
Rural Electrification Fund	166,339,781	
Environmental Protection	611,777,853	0.6%
Housing and Community Amenities	3,460,376,555	3.3%
O/w Water Supply and Sanitation	2,620,137,161	
o/w Nkana Water & Sanitation Project	607,500,000	
Kafulafuta Water Supply and Sanitation Project	540,000,000	
Kafue Bulk Water Supply and Sanitation Project	405,000,000	
Water Supply and Sanitation (GRZ Contribution)	185,000,000	
Markets, Bus Stations and Solid Waste Management	24,441,200	
Health	9,366,591,584	8.8%
O/w Health Infrastructure Projects	1,479,947,346	
Drugs and Medical Supplies	900,622,880	
Hospital Operations	686,266,173	
Recreation, Culture and Religion	383,045,401	0.4%
Education	13,121,648,466	12.4%
O/w Infrastructure Projects	1,071,920,363	
o/w FTJ University	860,625,000	
Skills Development Fund	179,181,956	
Social Protection	2,580,984,987	2.4%
O/w Public Service Pension Fund	1,020,387,712	
Social Cash Transfer	1,047,422,180	
O/w Donor	347,927,780	
Food Security Pack & Public Welfare Assistance Scheme	122,162,992	
TOTAL	106,007,612,236	100.0%

General Public Services

109. Mr. Speaker, in order to ensure smooth running of Government, I have allocated a total of K44.1 billion for General Public Services. Notable expenditures under this category include K33.7 billion for debt obligations and K2.3 billion for dismantling of arrears to unlock the much needed liquidity in the market.

110. Sir, to empower our local authorities, I have allocated K1.2 billion for the Local Government Equalization Fund. Further, K249.6 million has been allocated for the Constituency Development Fund for the implementation of projects identified by local communities to address their immediate development needs.

111. Mr Speaker, I have allocated K636.0 million towards redemption of the Eurobond.

112. Sir, I have also allocated K135.0 million towards voter registration and other election related expenditures. For any unforeseen and unavoidable expenditures, I have allocated K100.6 million. I have also allocated K100.0 million to the Compensation Fund.

Economic Affairs

113. Mr. Speaker, I propose to spend K21.8 billion under Economic Affairs function. Of this amount, K10.6 billion is for road infrastructure, K1.1 billion towards Farmer Input Support Programme and K660.0 million towards the purchase of strategic food reserves.

114. Sir, Further, to enhance livestock and fisheries production and productivity, I propose to spend K225.6 million. This allocation will facilitate enhanced animal and fisheries breeding and stock improvement, disease control measures, as well as research and development among others. Further, to support the adoption of climate smart agricultural technologies, I have allocated K97.9 million for extension services for crop, livestock and fish production.

115. Mr. Speaker, these interventions are critical if we are to ensure national and household food security in the wake of the challenges posed by climate change.

116. Mr. Speaker, I have allocated K1.1 billion for investment in energy power infrastructure to diversify and boost the electricity generation capacity. To increase access to electricity in rural areas, I have allocated K166.3 million to the Rural Electrification Fund.

117. Sir, other provisions under the Economic Affairs category, include, support to the economic empowerment of women and youths, 2020 Census of Population and Housing and promotion of the decent work agenda.

Education and Skills Development

118. Mr. Speaker, to increase access and improve the quality of education and skills training at all levels, I propose to spend a total of K13.1 billion in 2020. Out of this amount, I have allocated K7.0 billion to primary education and K2.2 billion to secondary education. For university education, I propose to spend K2.0 billion out of which K557.0 million is for student

loans.

Health

119. Mr. Speaker, I have allocated a total of K9.4 billion to the health function representing an increase of 16 percent from the 2019 allocation. Of this amount, I propose to spend K5.0 billion for primary health service delivery which includes health promotion, disease prevention and treatment. Further, K2.9 billion has been allocated for hospital services such as curative, rehabilitative and palliative care services.

120. Sir, in order to ensure steady supply of drugs and medical supplies in all our health facilities, I have allocated K900.6 million for the procurement of essential drugs and medical supplies.

Housing and Community Amenities

121. Mr. Speaker, I propose to spend a total of K3.5 billion towards housing and community amenities function. Of this amount, K1.6 billion will go towards the Nkana Water and Sanitation Project, Kafulafuta Water Supply System Project and the Lusaka-Kafue Bulk Water Supply Project. I have also allocated K185.0 million for various water supply and sanitation programmes in the country. Further, I have allocated K247.9 million for the development of housing infrastructure.

Social Protection

122. Mr. Speaker, social protection remains a key priority of the Patriotic Front Government. In this regard, I propose to spend K2.6 billion, of which K1.0 billion will go towards paying retirement benefits to public service workers to reduce the

waiting time between retirement and receipt of benefits.

123. Sir, to support the most vulnerable in society, I propose to spend K1.0 billion on the Social Cash Transfer programme of which K347.9 million is a commitment from our Cooperating Partners. I have also allocated K122.2 million for the Food Security Pack and Public Welfare Assistance Scheme.

Other Functions

124. Mr. Speaker, I propose to spend a total of K11.6 billion on the functions of Defence, Environmental Protection and Recreation, Culture and Religion.

125. Mr. Speaker, the 2020 Budget is anchored on enhancement of domestic revenue aimed at increasing Government resources to undertake essential public services and developmental programmes as outlined in the Seventh National Development Plan.

Revenue Estimates and Financing

126. Mr. Speaker, in order to finance expenditure spelled out for the 2020 Budget, the Government expects to raise a total of K106.0 billion for the 2020 Budget. K53.8 billion will be raised from taxes, K18.2 billion will come from non-tax revenues, and K3.1 billion will come as project support grants from our Cooperating Partners. In addition, domestic financing accounts for K3.5 billion while K27.5 billion will be sourced externally.

127. Sir, despite the tight fiscal position, Government has decided to maintain

direct tax rates to safeguard the disposable income of our people.

128. Mr. Speaker, the summary of the estimates of revenue and financing to

Resource Envelope for the 2020 Budget

	Amount (K)		Share of Budget	Share of GDP
TOTAL DOMESTIC REVENUES, GRANTS & FINANCING		106,007,612,236	100%	32.4%
Total Domestic Revenue and Domestic Financing		75,383,889,280	71.1%	23.1%
I. Total Domestic Revenues		71,927,020,280	67.9%	22.0%
Tax Revenue		53,768,675,819	50.7%	16.4%
Income Tax		25,612,515,638	24.2%	7.8%
Company Income Tax	7,903,927,230			
Personal Income Tax (Incl PAYE)	12,331,422,697			
Withholding and Other	5,377,165,711			
Value Added Tax		18,942,811,154	17.9%	5.8%
Customs and Excise		9,213,349,027	8.7%	2.8%
Customs duty	4,210,537,662			
Excise duty	4,821,813,929			
Export Duties	180,997,436			
Other Revenues		449,226,938	0.4%	0.1%
Skills Development Levy	179,181,956			
Tourism Levy	17,021,011			
Motor Vehicle Fees	146,818,021			
Insurance Premium Levy	106,205,950			
Non-Tax Revenues		17,709,117,523	16.7%	5.4%
Fees and Fines	6,139,501,856			
Exceptional Revenue	6,750,000,000			
Mineral Royalty	4,819,615,666			
II. Domestic Financing		3,456,869,000	3.3%	1.1%
III. Total Foreign Financing and Grants		30,623,722,956	28.9%	9.4%

support expenditure in 2020 is as follows:

Revenue Estimates and Measures

Value Added Tax

129. Mr. Speaker, in the 2019 Budget Address, Government proposed to abolish Value Added Tax and replace it with Sales Tax. Following the pronouncement, a number of concerns were raised by various stakeholders, which included the cascading effect, negative impact on GDP growth and job losses through elimination of intermediaries in the supply chain. As a listening Government, we decided to carry out countrywide stakeholder consultations.

130. Sir, based on the outcomes of the consultations, Government has decided to maintain the Value Added Tax, but address the compliance and administrative challenges. In this regard, I intend to introduce the following administrative measures to strengthen enforcement and efficiency of VAT:

- i. Upgrade the Taxonline system for domestic taxes and interface it with customs system to ensure that all claims of refund for import VAT paid to Customs Services during import of goods are validated through systems based controls against data in the customs system;
- ii. Make it mandatory to use Electronic Fiscal Devices (EFD) for VAT and other tax types and facilitate accreditation of additional EFD distributors and Virtual EFD software suppliers

and vendors;

- iii. Make it mandatory to capture and electronically transmit to ZRA the Taxpayer Identification Number and Name of both the buyer and seller of goods and services in all Business to Business and Business to Government transactions;
- iv. Enhance Data Analytics and bulk data matching with third party institutions such as Patents and Company Registration Agency, Ministry of Lands and Natural Resources, NAPSA, ZESCO and the Zambia Public Procurement Authority;
- v. Accelerate implementation of the Government Service Bus and Payment Gateway to ensure interface with ZRA; and
- vi. Augment and ensure timely audits of VAT claims, including outsourcing services of external forensic auditors whenever necessary.

131. Mr. Speaker, I further propose the following measures:

- i. Zero rate capital equipment and machinery for the mining sector;
- ii. Standard rate ancillary services that are directly linked to the transit of goods through Zambia;
- iii. Dis-allow claims of VAT on consumables such as stationery, lubricants and spare parts. This measure will not apply to businesses for which these

consumables are stock in trade;

- iv. Limit input VAT claims by mining companies on diesel to 70 percent from 90 percent; and
- v. Limit input VAT claims by mining companies on electricity to 80 percent from 100 percent.

132. Sir, to encourage value addition, in line with Government's industrialisation and job creation agenda, I propose to zero rate copper cathodes sold locally.

133. Mr. Speaker, to mitigate the impact of climate change and promote the use of alternative energy sources, I propose to zero rate the supply of gas stoves, other gas cookers and gas boilers.

Customs and Excise

134. Mr. Speaker, I propose to introduce duty at 10 percent on specified capital equipment and machinery imported by mining companies which are currently duty free or attract 5 percent. This measure is intended to raise revenue for the Government and discourage transfer pricing.

135. Sir, in order to promote local production of Flexible Intermediate Bulk Containers and create jobs, I propose to impose a surtax at the rate of 5 percent on these containers.

136. Mr. Speaker, in order to maintain competitiveness of domestic producers of cigarettes and increase revenue collection, I propose to increase the specific excise duty rate on cigarettes from K240 per mille to K265 per mille.

137. Sir, in order to streamline the Duty

Draw Back Scheme, I propose to limit the duty refunds under the scheme to import duty paid by a claimant and remove refunds of implied duties on locally sourced inputs.

138. Sir, in order to encourage sustainable industrialisation while mitigating the effects of climate change, I propose to suspend import duty, for three years, on the importation of machinery for processing of solid waste to generate electricity and produce organic fertilizers.

139. Mr. Speaker, in order to mitigate the effects of climate change and air pollution, I propose to increase carbon tax on all motor vehicles entering Zambia by 20 percent.

140. Sir, to promote the aquaculture sub sector and make community fish farming affordable, I propose to suspend duty for three years on selected aqua culture equipment.

Direct Taxes

141. Mr. Speaker, in order to rationalize the capital relief granted to mining companies, I propose to reduce capital allowances claimed by mining companies in respect of capital expenditure from 25 percent to 20 percent.

Housekeeping measures

142. Mr. Speaker, I propose to amend the Income Tax Act, Customs and Excise Act, Property Transfer Tax Act and Value Added Tax Act so as to update, strengthen and remove ambiguities in certain provisions of the tax laws and make tax administration more effective. The details of the proposed changes will be reflected in the respective legislation that I will later

introduce in the house.

Non-Tax revenue measures

143. Mr. Speaker, I propose to revise upwards, to cost reflective levels, various fees and fines charged by Government departments.

144. Sir, all the measures that I have outlined will take effect on 1st January, 2020.

PART IV

CONCLUSION

145. Mr. Speaker, the 2020 Budget is presented amidst economic challenges that have stifled inclusive growth. Our resolve to do more with less requires all of us to focus our resources and efforts to stimulating our economy. This budget therefore, presents us with an opportunity to change our trajectory and put our economy on a sustainable path.

146. Sir, it cannot be business as usual. As a responsible Government, we will address these challenges, including the escalation of debt and the effects of climate change.

147. Mr. Speaker, for Government to have resources required to meet our development needs, every citizen must pay their fair share of taxes. I therefore appeal to all my fellow citizens to be tax compliant. To tax evaders, be warned that the long arm of the law will soon visit you.

148. Sir, corruption is against our core national values and will not be condoned. Let me reaffirm the Patriotic Front Government's resolve to protect public resources. To this end, Government shall

enforce all the provisions of the Public Finance Management Act No. 1 of 2018.

149. Mr. Speaker, I am confident that, working together as a people with support from all our development partners, we can achieve the set targets. It is therefore, my responsibility, your responsibility, our responsibility to do more to reinvigorate our economy.

150. Sir, in unity, no challenge is insurmountable. Together we must emerge stronger from the current challenges. Together we can do it.

151. Mr. Speaker, I commend the 2020 Budget for favourable consideration by this August House.

152. Mr. Speaker, I beg to move.

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Budget Submissions

Advocacy on Public Finance Accountability

2019-09-27

2020 Budget Address By Honourable Dr. Bwalya K.E. Ng'Andu, MP, Minister of Finance, Delivered to the National Assembly on Friday 27th September, 2019

The Zambian Government

THE GOVERNMENT OF ZAMBIA

THE GOVERNMENT OF ZAMBIA (2019). THE 2020 NATIONAL BUDGET. Lusaka, Zambia;

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