2016 BUDGET ADDRESS BY HON. ALEXANDER B. CHIKWANDA M.P,
MINISTER OF FINANCE
DELIVERED TO THE NATIONAL ASSEMBLY ON FRIDAY,
9TH OCTOBER, 2015

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, 2016 to 31st December, 2016, presented to the National Assembly in October, 2015.

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, shortly after I presented the 2015 Budget to this august House, the nation lost the Republican President, His Excellency, Mr. Michael Chilufya Sata on 28th October, 2014. He was a leader who tenaciously fought for the wellbeing of all Zambians and will forever hold a place of honour and distinction in the hearts of our people. We will do well to perpetuate his vision of making Zambia a better place for all.

4. Sir, the loss of our President was a devastating blow to us all, but, as a nation, we showed our political maturity in the way we responded to our loss. On 20th January, 2015 we peacefully elected a new President, His Excellency, Mr. Edgar Chagwa Lungu, who has fittingly taken over the mantle of leadership and who, like his predecessor, is also driven by a passionate commitment to uplift the lives of all Zambians.

5. Mr. Speaker, the year 2015 has been economically challenging. The slowdown in the Eurozone and in the Chinese economy has lowered the demand for, and the price of copper. With copper being the main source of our foreign exchange earnings, the fall in price has put pressure on the value of the Kwacha and lowered our tax receipts from the mining sector. Further, climate change has become a reality and is affecting our day-to-day lives. It affected the timing, distribution and amounts of rainfall last season that adversely affected our agricultural sector and weakened our capacity to generate sufficient electric power.

6. Sir, with the development of a strong El Nino, a weather pattern which generally results in lower rains in Southern Africa, and continued economic restructuring in China, these challenges are expected to remain with us as we enter 2016. Indeed, new challenges are anticipated, such as higher interest rates on dollar denominated loans as the United States Federal Reserve Bank System ends its cheap money programme known as quantitative easing.

7. Mr. Speaker, I want to assure the nation, through this august House, that the Patriotic Front Government is fully committed and resolved to meet these challenges. Over the last four years, we have built a firm foundation to sustain broad based and inclusive growth, diversify and deepen the resilience of our economy and further entrench social justice so that all Zambians, of every age and gender, and
from all parts of Zambia, benefit from the nation’s development path.

8. Sir, Government remains grateful to all citizens, institutions and organisations who patriotically responded to the call to submit proposals for the 2016 Budget. These valuable contributions made it possible to formulate the 2016 Budget in a manner that balances the requirement to consolidate our fiscal position with the need to sustain economic progress and raise the living standards of all Zambians.

9. Mr. Speaker, it is evident that the expansionary fiscal stance of the past four years will need to be moderated in the current global economic environment. It is in this context that the theme of the 2016 Budget is “Fiscal Consolidation to Safeguard Our Past Achievements and Secure a Prosperous Future for All”.

10. Sir, my address this afternoon is in four parts. Part I gives an overview of the global developments and their impact on the domestic economy. Part II outlines Government’s response to these developments and sets out the macroeconomic policies, targets, sectoral objectives and strategies for 2016, aimed at sustaining socio-economic progress while ensuring that Government follows a fiscally prudent path. The details of the 2016 Budget are presented in Part III and finally, I conclude my address in Part IV.

PART I

GLOBAL AND DOMESTIC ECONOMIC DEVELOPMENTS IN 2015

11. Mr. Speaker, I present the Budget at a time when global economic growth is sluggish, with output growing at an estimated 3.1 percent in 2015 compared to 3.4 percent in 2014. In the United States of America, the economy is expected to grow by 2.6 percent this year, while the outlook in the Eurozone remains weak at 1.5 percent. In emerging market and developing economies, growth of 4.0 percent is expected. China’s growth is expected to slow to around 6.8 percent this year, presenting a major impediment to growth prospects for commodity dependent economies including Zambia, due to a significant decline in commodity prices.

12. Sir, commodity prices in 2015 have registered the largest decline since the economic and financial crisis of 2008. Copper prices are estimated to have fallen from an average of US $6,829 per metric tonne in 2014 to US $5,160 per metric tonne in 2015. This outturn poses serious challenges to our growth prospects, with some mining houses reconsidering the scale of their operations and investments in light of these adverse developments.

13. Mr. Speaker, given the adverse global economic environment, Zambia’s growth in 2015 is projected to be much lower than the 7.0 percent that I announced to this august House in October 2014. I now project growth to be 4.6 percent. This is due to weaker global economic activity, especially in China and the Eurozone, which has dampened demand for commodities and lowered mining sector output. The poor rains last season also led to an unfavourable performance of the agriculture sector. Further, electricity supply constraints in the second half of this year, will affect output across all sectors of the economy.
14. Sir, budget implementation in 2015 continues to face a number of challenges. These include the fall in copper prices, the depreciation of the Kwacha, higher interest payments and the need to clear arrears for fuel and crop purchases. It is on account of these challenges that the 2015 Budget deficit is expected to widen to 6.9 percent of GDP from the projected 4.6 percent of GDP.

15. Mr. Speaker, the annual inflation rate declined to 7.7 percent in September, 2015 from 7.9 percent in December, 2014. The decline in inflation was mainly attributed to non-food inflation, which fell to 7.3 percent in September, 2015 from 8.4 percent in December, 2014 largely on account of a reduction in fuel pump prices effected in January, 2015. However, food inflation rose to 8.1 percent from 7.4 percent over the same period.

16. Sir, tight monetary policy also eased inflationary pressures in 2015. However, the recent sharp depreciation in the exchange rate and the electricity deficit are exerting inflationary pressures that have potential to raise inflation further above the end-year target of 7.0 percent over the remainder of the year. With continued implementation of appropriate policies, I remain confident that inflation will be contained in single digits by end-2015.

17. Mr. Speaker, the foreign exchange market has experienced considerable pressure in 2015 with the Kwacha depreciating against the major trading currencies due to international and domestic factors. International factors included the general strengthening of the US dollar, low copper prices and a noticeable reduction in foreign portfolio investment inflows.

18. Sir, on the domestic front, relatively low net supply of foreign exchange on the market, uncertainty over the performance of the mining sector and the widening fiscal deficit contributed to the weakening of the Kwacha. Further, the reduction in electricity supply, has had a negative impact on production and exports which has also contributed to the adverse performance of the Kwacha.

19. Mr. Speaker, to moderate the impact of these factors the Bank of Zambia sold foreign exchange to the market and tightened monetary policy through an upward adjustment in the statutory reserve ratio and use of open market operations. In the long term, stabilising the exchange rate will require continued diversification of the economy, building up of foreign exchange reserves and commitment to fiscal consolidation and macro-economic stability.

20. Sir, following the recovery in the US economy, there are strong indications that the Federal Reserve Bank may raise interest rates. This has led to an outflow of capital funds from the emerging market and developing economies. Additionally, the fall in copper prices has reduced Zambia’s foreign exchange earnings to about US $3.6 billion in the first half of 2015 from US $5.0 billion over the same period in 2014.

21. Mr. Speaker, following a sharp deterioration in the trade balance over the first half of the year, the current account deficit widened to US $386 million from US $179 million recorded during the same period in 2014. Merchandise export earnings, at US $3.6 billion, were 28 percent lower than the US $5 billion recorded during the first half of 2014. This was as a result of a decline in earnings from copper, cobalt
and gold, due to lower commodity prices and demand on the international market.

22. Sir, there was also a reduction in non-traditional exports to US $0.9 billion in the first half of 2015 from US $1.1 billion over the same period in 2014. This reduction was largely on account of a reduction in demand for the major export commodities such as gemstones, electrical cables, cement, sulphuric acid, and fresh fruits and vegetables.

23. Mr. Speaker, the value of imported goods at US $3.4 billion was 18.3 percent lower than the value registered during the first half of 2014. This was driven by a relatively weaker Kwacha and lower demand for capital goods from the mining sector.

24. Sir, as at end-September 2015, Zambia’s gross international reserves stood at US $3.6 billion compared to US $3.1 billion recorded at end-December 2014, representing 4.4 months of import cover. This improvement was partly on account of inflows from the recently secured sovereign bond.

25. Mr. Speaker, trading activity at the Lusaka Stock Exchange declined in 2015 mainly due to the strengthening of the US economy which has attracted portfolio investments out of equity in developing and emerging markets. Market capitalisation declined by 2.7 percent as at end-September 2015 to K64.6 billion from K66.5 billion as at end-December, 2014. Similarly, the All-Share index declined by 5.9 percent to 5,800.2 from 6,160.7 as at end-December, 2014 due to a general fall in share prices.

26. Sir, Government remains committed to the growth of the local bourse to facilitate long term financing for private sector investment. To attain this, the Alternative Investment Market was launched in April 2015 to cater for emerging corporates that are yet to meet the listing requirements on the main window.

27. Mr. Speaker, in order to increase opportunities for Zambian citizens to participate in economic development and to comply with listing requirements on the Lusaka Stock Exchange, Government commenced the process of reducing its shareholding in ZCCM-IH Plc. In this regard, 15.8 million shares, representing 36.0 percent of the available shares have since been sold to the National Pension Scheme Authority. The process of offloading the balance of the shares is ongoing.

28. Sir, credit to the private sector increased by 20.9 percent to K27.2 billion as at end-August 2015 from K22.5 billion as at end-December, 2014. The bulk of the loans were personal loans followed by credit accessed by the agriculture, manufacturing and wholesale and retail sectors. The growth in domestic credit, however, was constrained by tight monetary conditions necessitated by the need to contain inflation. Access to credit was also inhibited by the high interest rates, which, though stable at around 20.5 percent, continue to be prohibitive.

29. Mr. Speaker, the performance of the financial sector during the first nine months of 2015 was satisfactory. Total assets and earnings increased, the capital adequacy position was strong while the overall liquidity position remained fair. In line with Government policy of financial
inclusion and improving financial infrastructure, there was a significant increase in the number of branch and agency locations, Automated Teller Machines and Points of Sale terminals in the country. Consequently, the number of adult Zambians with access to financial services increased to 59 percent in 2015 from 36 percent in 2009.

30. Sir, the stock of Government’s external debt as at end-August 2015 was US $6.3 billion. This represents an increase of 31.0 percent from US $4.8 billion as at end-December 2014. The increase in the external debt stock was mainly on account of the US $1.25 billion Eurobond that was issued in July, 2015 as part of the financing required for the 2015 Budget.

31. Mr. Speaker, some of the projects that have benefited from the proceeds of the bond raised in 2015 include infrastructure development in the transport, health, education and agriculture sectors. Other investments are in water supply and sanitation infrastructure, the development of infrastructure in newly created districts, recapitalisation of state-owned enterprises and the provision of support to small and medium scale enterprises.

32. Sir, the total external debt service for the first nine months of 2015 amounted to US $225.4 million.

33. Mr. Speaker, preliminary data indicates that Zambia’s domestic debt as at end-September 2015 stood at K26.5 billion compared to K23.5 billion as at end-December 2014. This was mainly on account of an increase in the stock of Government securities.

PART II

MACROECONOMIC OBJECTIVES, POLICIES AND STRATEGIES FOR 2016

34. Mr. Speaker, for over a decade the Zambian economy has registered continuous buoyant growth. Despite this feat, unemployment and poverty have remained unacceptably high and the participation of Zambians in the economy has remained low. Nonetheless, we remain determined to continue on our positive growth trajectory given our resource endowment coupled with the resilient and entrepreneurial spirit of our people. In this regard, the focus in 2016 will be to implement programmes that will enable Zambians to participate in various economic activities.

35. Mr. Speaker, His Excellency the President in his address to this august House provided a vision of where this country must be in the next 50 years. He implored us to embrace a transformative and smart approach in handling national matters in order to deliver smart government institutions and public services. This Budget will therefore, lay the foundation towards the attainment of a smart economy.

36. Sir, the 2016 macroeconomic objectives will be to:

(a) achieve an annual real GDP growth rate of 5.0 percent;
(b) increase domestic revenue mobilisation to at least 20.4 percent of GDP from 18.1 percent of GDP projected in 2015;
(c) reduce the budget deficit to 3.8 percent of GDP from 6.9 percent of GDP projected in 2015 and limit domestic borrowing to 1.2 percent of GDP;

(d) maintain single digit inflation with an end-year target rate of no more than 7.7 percent;

(e) accelerate the diversification of the economy, particularly towards tourism, energy, agriculture and agro processing;

(f) maintain international reserves at no less than 4 months of import cover; and

(g) create employment opportunities through accelerated implementation of programmes such as the Industrialisation and Job Creation Strategy and the Youth Empowerment Action Plan.

Economic Sector Policies

Agriculture

37. Mr. Speaker, the performance of the agriculture sector during the 2014/2015 farming season was unfavourable owing to inadequate rainfall. This, once again, highlighted the challenge of over-reliance on rain-fed agriculture, which has been the Achilles heel in our efforts to ensure national food security. Given the reality of global warming, Government will redouble its efforts to expand the area under irrigation in 2016 and beyond.

38. Sir, it is in this regard that Government will expedite implementation of activities under the Irrigation Development Support Programme to bring a further 5,000 hectares under irrigation in 2016. This will bring the total area under irrigation to 22,500 hectares since 2011. The areas to be covered include Lusitu in Chirundu, Mwomboshi in Chisamba and Musakashi in Mufulira. The increased output from the expanded area under irrigation will enhance national food security.

39. Mr. Speaker, agricultural productivity has remained low not only due to the vagaries of the weather, but also due to over reliance on maize production, even in areas where the conditions are clearly not suitable for the crop. We must as a matter of urgency promote the diversification of the agricultural sector. As a demonstration of Government’s commitment to diversification, the electronic voucher scheme will be implemented during the 2015/2016 agricultural season in thirteen districts namely: Kalomo; Choma; Monze; Mazabuka; Chikankata; Pemba; Chongwe; Mumbwa; Chibombo; Kabwe; Kapiri-Mposhi; Ndola; and Chisamba.

40. Sir, the electronic voucher scheme will give farmers a wider choice of inputs, including requirements for livestock and fisheries such as veterinary drugs, fingerlings and fish feed. Further, the scheme will allow farmers to source their inputs directly from agro-dealers thereby reducing the role of Government in the supply and distribution of inputs.

41. Mr. Speaker, as I will elaborate later in my address, it is Government’s vision that the co-operative movement plays
an increased and dynamic role in the economic development of our nation. In this context, Government anticipates that over time an increasing proportion of grain and agricultural marketing activity will be undertaken by co-operatives.

42. Mr. Speaker, the establishment of the Ministry of Livestock and Fisheries is a demonstration of Government’s resolve to diversify the agricultural sector. In this regard, Government will endeavour to stimulate growth in the livestock and fisheries sub-sectors by providing the necessary technical and financial support.

43. Sir, in order to boost productivity in the livestock sub-sector, Government will enhance the provision of extension services and disease control measures. To this effect, Government will intensify primary animal health care and vaccination programmes especially for cattle and chickens. Further, Government will continue producing vaccines to make these readily available to farmers. As a way of ensuring that small scale farmers have access to dipping facilities, Government will continue to construct and rehabilitate dip tanks across the country.

44. Mr. Speaker, Government will also continue with the construction and rehabilitation of livestock extension service centres and satellite insemination centres. Further, Government will establish additional breeding centres for goats and sheep in an effort to increase supply to both domestic and export markets.

45. Sir, to achieve self-sufficiency in fish production by end-2018, Government will, in 2016, continue with the establishment of fish hatcheries in each province and encourage the establishment of private owned hatcheries. In addition, I would like to urge citizens to set up fish fingerling nurseries in each district while Government will provide technical support and set up a Fisheries Fund to provide credit to small scale fish farmers. Further, fish cage culture, especially for tilapia, will also be promoted through the creation of aqua-parks in Rufunsa, Kasempa, Mungwi and Chipepo. The aqua-parks are intended to provide market to local fish farmers by linking them to commercial core ventures.

**Energy**

46. Mr. Speaker, Government is alive to the negative effects of the electricity deficit that the country is experiencing which has resulted in load shedding. This is not just an inconvenience but has real cost to the economy in terms of loss of production and, therefore, lower incomes.

47. Sir, we have undertaken a number of measures to cushion the impact of the power shortage in the short term, such as, importation of emergency power. Although this has mitigated the full effect of our current situation, it comes at a cost to the fiscus and is not sustainable.

48. Sir, the long term solution lies in promoting private sector participation in the generation of electricity. We have a number of such projects in the pipeline such as the 300 megawatts coal-fired thermal plant in Maamba which is near completion.

49. To encourage private sector investment in electricity generation and ensure that investors get a fair return on their investments, electricity tariffs will continue to be adjusted to make them cost reflective.
Achieving cost reflective electricity tariffs will encourage speedy completion of private sector pipeline projects such as the 150 megawatts Kalungwishi hydro power station and in excess of 300 megawatts from other thermal power projects that are in the offing.

50. Mr. Speaker, the Government has also invested in a 120 megawatts hydro power generation project at Itezhi-Tezhi and it is expected to come on stream next year. Other energy generating projects include the upgrading of the following:

(a) Chishimba Falls mini-hydro power plant from 6 megawatts to 14.8 megawatts;

(b) Musonda Falls mini-hydro power plant from 5 megawatts to 10 megawatts; and

(c) Lusiwasi mini-hydro power plant from 12 megawatts to 101 megawatts.

51. Sir, once all these projects come on stream, the energy sector will emerge as one of the major sources of foreign exchange.

52. Mr. Speaker, Government’s policy in the petroleum sub-sector will be to continue with a cost reflective pricing system and ensure a stable supply of fuel to all parts of the country. This will be achieved by promoting private sector participation in the sub-sector.

Tourism

53. Mr. Speaker, to promote tourism, Government will continue to develop and rehabilitate key infrastructure such as access roads to tourist sites, airports and cultural centres. Government has also made significant progress towards the establishment of a national airline which is scheduled to start operating in 2016. This development is expected to increase tourist arrivals and facilitate their in-country transportation to tourist sites.

54. Sir, Government will further operationalise the Tourism and Hospitality Act of 2015 so as to provide for the sustainable development of the tourism industry through effective tourism planning, management and coordination.

Manufacturing

55. Mr. Speaker, in line with Government’s Industrialisation and Job Creation Strategy, the growth of the manufacturing sector remains critical in our efforts to diversify the economy. In this regard, Government will continue to address the challenges faced by Micro, Small and Medium Enterprises such as access to finance, markets and technology, and the development of entrepreneurial skills. These interventions are expected to spur enterprise growth and contribute to job creation.

56. Sir, other key interventions include the Value Chain Cluster Development Programme which is designed to promote local value addition. Under this programme, Government is currently supporting more than 1,800 projects in activities such as mango juice production and processing of fish, rice, dairy, cotton, honey and forestry products. These projects are being implemented in 42 districts countrywide thereby creating opportunities for employment and income generation.
especially for women and the youth. In the medium term, Government will expand this programme with a view to creating at least 100,000 Micro, Small and Medium Enterprise jobs predominantly in rural Zambia.

57. Sir, Government will continue to provide targeted incentives in designated areas such as Multi-Facility Economic Zones to attract further investment and create more jobs in the manufacturing sector. In 2016, Government will further recapitalise the Development Bank of Zambia, National Savings and Credit Bank and empowerment agencies to enable them provide affordable financing to Micro, Small and Medium Enterprises.

58. Mr. Speaker, to further support the growth of our manufacturing enterprises, the public procurement guidelines were revised to support local manufacturers. In this regard, from 1st September, 2015, it became mandatory for all public sector departments to procure locally manufactured goods for all contracts which are valued at K3 million or less.

59. Mr. Speaker, access to export markets particularly for non-traditional exports is essential to economic diversification. Government will, therefore, continue to promote strategic local industries which have comparative advantage and secure markets for Zambian products in the region and beyond through trade blocks such as the Tripartite and Continental Free Trade Areas.

60. Sir, to improve the competitiveness of our manufactured products, Government has restructured the Zambia Bureau of Standards and the Zambia Weights and Measures Agency to enable them effectively monitor the quality of domestically produced goods to meet international standards.

Mining

61. Mr. Speaker, copper output for 2015 was projected at 808,000 metric tonnes. However, by end-August, 2015 copper production stood at 441,584 metric tonnes. With this performance, it is unlikely that the target will be met. As I have already alluded to, the major factors for this negative performance are the low copper demand and prices, coupled with electricity constraints.

62. Sir, these negative developments in the mining sector threatened to cause job losses to our people. The Government’s response has been to actively engage mining companies with a view to finding solutions that will minimise job losses and keep the mines operational.

63. Mr. Speaker, these developments in the mining sector are a call for action. For more than fifty years, the call for diversification has been the talk of successive Governments, but we have not walked the talk. What is required is for the country to take meaningful steps to diversify away from copper mining and to further exploit other minerals such as gemstones, manganese, diamonds and gold. I wish to urge the Industrial Development Corporation to work with ZCCM-IH Plc to exploit the opportunities of diversification within the mining sector.

Transport Infrastructure Development

64. Mr. Speaker, my Government remains committed to transforming Zambia
into a truly land-linked country. This commitment is demonstrated through the implementation of various road infrastructure programmes across the country under initiatives such as the Link Zambia 8000, L400 in Lusaka, and the soon to be launched C400 on the Copperbelt.

65. Sir, I am pleased to inform this august House that our accelerated road construction and rehabilitation programme has created over 6,000 job opportunities for our people. It has also led to a reduction in vehicle maintenance costs and travel times as well as created economic growth poles in outlying areas of our country. I am sure we have all seen the progress being made on various road projects and the transformation which our country is experiencing.

66. Mr. Speaker, Government is exploring innovative ways to finance road infrastructure development in a more sustainable manner. In this regard, some commercially viable road projects have been identified and are earmarked to be financed under the Public Private Partnership Model.

67. Sir, to enable our local contractors participate in road infrastructure development, Government has deliberately reserved some road projects for citizen-owned companies with at least 50.1 percent Zambian shareholding under the Link Zambia 8000 programme.

Social Sector Policies

Health

68. Mr. Speaker, in 2016 Government will focus on completing the construction of health facilities as well as on the recruitment, retention and training of frontline medical personnel.

69. Sir, to enhance health care service delivery and ensure timely provision of drugs and medical supplies, Government will continue with the construction of regional drug supply hubs. Further, the decentralisation of drug storage and distribution of essential medicines through the utilisation of the established regional hubs is expected to significantly improve the distribution of drugs to health facilities throughout the country.

70. Mr. Speaker, to achieve universal health coverage, Government will continue to undertake social protection reforms which will include the establishment of the National Social Health Insurance Scheme.

Education and Skills Development

71. Mr. Speaker, to increase access to quality education, Government will focus on completion of the various education infrastructure currently under construction which include early childhood, primary and secondary facilities. Further, teacher recruitment and retention at all levels will continue in order to reduce the pupil-teacher ratio.

72. Sir, Government will also continue to roll-out the revised education curriculum in 2016 which focuses on, among other things, inculcating information and communication technology skills in children at an early age. Further, the piloting of the two tier education system, which gives learners an option to pursue an academic or vocational pathway, will be scaled up in 2016. This follows the first pilot of the system at secondary schools that are
located around Chipata, Nkumbi and Mansa Trades Training Institutes.

73. Mr. Speaker, under the tertiary sub-sector, Government will continue to work on the construction of Lubwa, Chalimbana and Palabana Universities. This is in addition to the expansion of student accommodation at the University of Zambia, Copperbelt University, Mulungushi University and Evelyn Hone College.

74. Sir, the Government will also operationalise Robert Makasa University in Muchinga Province and commence the construction of King Lewanika University in Western Province, Luapula University in Luapula Province and the three university colleges in Katete, Nalolo and Solwezi.

Water Supply and Sanitation

75. Mr. Speaker, in 2016, Government plans to increase rural access to clean and safe drinking water from the current 67 percent to 69 percent and access to sanitation from 44 percent to 47 percent. This will be done through construction of 2,500 water points which will comprise mainly boreholes equipped with hand pumps, small piped water schemes and rehabilitation of 700 dysfunctional water points. Furthermore, with regards to rural sanitation and hygiene, Government will construct 500 institutional sanitation facilities and continue to promote community-led approaches to sanitation.

76. Sir, in urban and peri-urban areas, Government will increase access to clean and safe drinking water from the current 87 percent to 89 percent. Access to improved sanitation will also be increased from 57 percent to 60 percent. This will be achieved through the rehabilitation and construction of water supply and sanitation infrastructure in the various urban towns under the 11 water and sewerage utility companies.

77. Mr. Speaker, with regard to solid waste management, Government will procure solid waste equipment and construct engineered landfills to better manage waste and ensure a cleaner environment. In addition, Government will promote more research in sustainable solid waste management initiatives such as recycling and waste-to-energy innovations. The above interventions will complement the Keep Zambia Clean and Healthy Programme.

78. Sir, to strengthen the implementation of the water supply and sanitation programmes in the country, Government will revise the Water Supply and Sanitation Act No.28 of 1997.

Social Protection

79. Mr. Speaker, in my last Budget address, I indicated that Government would review its social safety net programmes to rationalise coverage and maximise impact. In this regard, the Social Cash Transfer Programme, which has proved to be the most effective tool in providing assistance to vulnerable households, will be significantly scaled up. In 2016, a total of 250,000 vulnerable beneficiaries will be targeted.

80. Sir, Government will continue providing Public Welfare Assistance Scheme support, which, among other things, will provide vulnerable children with access to education and skills training. A total of 50,000 beneficiaries will be targeted under the scheme in 2016.
81. Mr. Speaker, the public service pension system continues to face a number of challenges such as low benefit levels, institutional weaknesses, outdated legislation, design inconsistencies and financing gaps. Whilst this House considered and passed some aspects of the pension reforms, pertaining to the revision of the retirement age, Government will bring to this august House a Bill to actualise the envisaged reforms.

82. Sir, a small elite of leaders have overgenerous pension rights in a country where millions still live in poverty. His Excellency the President has taken the lead in addressing this imbalance by directing that revisions be made to the Former Presidents’ Benefits Act to reduce his benefits. This selflessness should be emulated by all beneficiaries at appropriate leadership levels and I urge them to support the revisions that will have to be made if public service pensions have to be put on a sustainable and equitable footing.

Debt Policy

83. Mr. Speaker, Government is committed to maintaining public debt within sustainable levels. Government will, therefore, significantly limit domestic borrowing and focus on accessing external financing with lower interest rates and longer repayment periods. In addition, Government will strengthen the project appraisal processes so as to ensure that borrowing is directed to projects with high returns.

84. Sir, to ensure timely repayment of the three Eurobonds issued in the international capital markets, Government has established a Sinking Fund for the purpose of redeeming the bonds.

Fiscal Policy

85. Mr. Speaker, Government is alive to the fact that, under the present economic conditions the expansionary fiscal stance of the recent past can no longer be sustained. The Treasury will, therefore, act to consolidate the fiscal position so that Government expenditure is primarily financed from domestic revenues. In this regard, Government has drastically reduced allocations for non-core recurrent allocations by more than 50 percent and has taken measures to enhance domestic revenue mobilisation. Consequently, the fiscal deficit in 2016 is projected to reduce to 3.8 percent of GDP.

86. Sir, to create more room for private sector credit, domestic borrowing by Government will be limited to 1.2 percent of GDP in 2016. In order to sustain investment levels in essential socio-economic infrastructure under this constrained fiscal environment, Government will increasingly engage the private sector in identifying and appraising projects which are commercially viable in order to attract private financing.

87. Mr. Speaker, to further strengthen domestic tax administration, Government will put in place measures that will require VAT registered vendors to use electronic fiscal cash registers that will be interfaced with the TaxOnline System. This will allow real time capture of transactions for VAT compliance purposes and reduce under-declarations.

88. Sir, with regard to trade taxes, Government will accelerate the
implementation of an Electronic Cargo Tracking System to ensure real time monitoring of cargo movements transiting through the country. This will mitigate revenue leakages perpetrated through transit fraud.

**Monetary and Financial Sector Policy**

**Financial Sector Outlook**

89. Sir, the overall financial performance and condition of the banking sector in the second half of 2015 and in 2016 is expected to remain satisfactory. Capital adequacy ratios are expected to remain stable as the banking sector is sufficiently well capitalised. However, earnings performance may be affected due to the tight liquidity conditions which has resulted in higher cost of funds for banks.

90. Mr. Speaker, the Basel II Framework, which is aimed at strengthening the safety and soundness of the international financial system, is expected to be fully implemented by Bank of Zambia in early 2016. The Framework promotes the adoption of strong risk management practices and enhanced corporate governance in the financial sector. When fully implemented, it will greatly improve the stability of the sector.

**Inflation Outlook**

91. Sir, while inflationary pressures are likely to continue, the rate is expected to remain in single digits in 2016. Upward pressure is expected to come from the pass-through effects of the depreciated exchange rate as well as higher demand for grain in the region. Further, the projected unfavourable weather, due to the effects of El Nino, is also likely to contribute to upward pressure on food prices.

**External Sector Outlook**

92. Mr. Speaker, the gross international reserves are projected at US $3.2 billion by end–December 2015, representing about 4 months of import cover. It is expected that this level of import cover will be maintained in 2016.

**Monetary Policy**

93. Sir, the Bank of Zambia will continue to monitor global and domestic developments and take appropriate measures to maintain price and financial system stability. Monetary and supervisory policy formulation and implementation will remain focused on supporting Government’s broad economic objectives.

94. Sir, monetary policy will continue to be implemented through market based monetary tools, guided by an interest rate targeting framework. In the foreign exchange market, Bank of Zambia’s interventions will be limited to smoothening short-term volatility and building up international reserves. The Bank of Zambia will continue to engage stakeholders in order to improve the operations of the foreign exchange market and encourage the development of hedging instruments.

95. Sir, the Government will continue to enhance the development of both the primary and secondary market for Government paper. In the secondary market, the aim will be to create a more liquid and efficient domestic debt market that promotes the efficient utilisation of financial resources in the economy.
Mr. Speaker, Government is cognisant of the negative impact that high lending rates have on economic activity, particularly on the growth of Micro, Small and Medium Enterprises. To mitigate this impact, Government will work towards consolidating the fiscal position to contribute towards the reduction in interest rates, taking into account the need to maintain financial sector stability.

**Structural Reforms**

Mr. Speaker, as I earlier alluded to, the Patriotic Front Government has embarked on steps to reinvigorate and reposition the co-operative movement to be an effective vehicle for national development. In addition to the traditional agriculture related co-operatives, co-operative development across all business sectors will be encouraged. In this regard, Government has formulated a strategy to enhance the capacity of co-operatives in all districts, allowing them to grow their incomes and create employment.

**Public Financial Management**

Mr. Speaker, prudent public financial management is indispensable in the prevailing economic environment. In this regard, the Planning and Budgeting Bill aimed at integrating planning and budgeting will be presented to this House for enactment. In addition, the Public Finance Act is being reviewed to foster and improve accountability and transparency in the management of public resources.

Sir, as part of the Public Financial Management reforms, implementation of the pilot Output Based Budget (OBB) is now underway. As Honourable Members may recall, OBB is a results-oriented budgeting process. It aims to align Budget allocations more closely with national development priorities and also provide this august House with more relevant information for assessing Government’s budget proposals and performance. An evaluation of this pilot will be undertaken in early 2016 and, on the basis of the results; decisions will be taken about how the pilot may be rolled out in 2017. In the meantime Output Based Budgets have been prepared by the Ministries of General Education and Higher Education for 2016 and are presented in Volume II of the 2016 Estimates of Revenue and Expenditure.

Further, the roll-out of the Integrated Financial Management Information System to line Ministries, Provinces and other Spending Agencies will be completed in 2016 and will improve financial accounting and reporting.

Sir, to enhance cash management, Government has commenced the operationalisation of the Treasury Single Account. All payments by the Ministry of Finance are now made through the Treasury Single Account. It is envisaged that the full roll-out of the Treasury Single Account will be completed in 2016.

Mr. Speaker, to enhance transparency in the mining sector, development of the Mineral Output Statistical Evaluation System for monitoring of the country’s mineral value chain has reached an advanced stage. The prototype has been developed and the piloting of the system is expected in the fourth quarter of 2015. The full roll-out and implementation is targeted for June 2016 and Government
expects all mining companies to cooperate with the implementation of the programme.

Development Planning

103. Mr. Speaker, the Revised Sixth National Development Plan is coming to an end in 2016. In this regard, Government has commenced the process of preparing the Seventh National Development Plan. In addition to our national priorities, the Plan will incorporate, among other issues, international and regional initiatives such as the Sustainable Development Goals and the African Union’s Agenda 2063. I would like to urge Members of this august House to participate in the development of the Plan.

Fiscal Decentralisation

104. Mr. Speaker, in line with Government’s policy of decentralisation, funds for devolved functions will be transferred directly to districts through the Treasury Single Account. Full fiscal decentralisation will be implemented once capacity has been built in local councils.

105. Mr. Speaker, the Constituency Development Fund was introduced twenty years ago to facilitate a quick response by Honourable Members, working through their councils, to the development needs of local communities. Unfortunately, implementation of the Fund has not always met this noble objective. Consequently, Government is reviewing the modalities for implementing the Fund. The aim will be to enhance community participation in the identification of projects, improve the efficiency of project implementation and raise their long-term impact. Once the Fund has been reformed to make it more transparent and effective in meeting the development aspirations of local communities, Government will once again consider raising the allocation to the Fund.

Financial Sector Reforms

106. Mr. Speaker, during the implementation of the Financial Sector Development Plan which came to an end in June 2015, a number of milestones were achieved. These included the establishment of the Credit Reference Bureau to address the poor credit culture, promotion and development of bank branches, agencies, Automated Teller Machines and Point of Sale terminals across the country. Work towards harmonisation of financial sector legislation was also initiated.

107. Sir, to further increase financial inclusion, Government will facilitate the operationalisation of a National Financial Switch platform. This will integrate different payment channels such as Automated Teller Machines, Point of Sale terminals, mobile and internet banking platforms, and other e-commerce and e-government platforms.

Industrial Development Corporation

108. Mr. Speaker, Government has transferred its shares in 29 out of 33 State-Owned Enterprises from the Minister of Finance to the Industrial Development Corporation. This is with a view to enhancing the strategic focus of parastatals in order to maximise their contribution to national development. To this end, the Industrial Development Corporation will promote economic diversification and increase non-traditional exports by investing in strategic non-mining sectors. In addition, dividends earned by the Industrial Development Corporation will be
channelled to the Sovereign Wealth Fund to spur further investments for the benefit of future generations.

**PART III**

**THE 2016 BUDGET**

109. Mr. Speaker, in 2016, Government proposes to spend K53.14 billion, representing 25.8 percent of GDP. This will be financed through domestic revenues of K42.11 billion and grants from co-operating partners of K550 million. Financing will comprise K6.07 billion in net external financing representing 2.9 percent of GDP and net domestic borrowing of K1.75 billion representing 0.9 percent of GDP. Amortisation is projected at K2.66 billion.

**Expenditure Allocations by Function:**

110. Sir, I now present to this august House the expenditure allocations by function of Government for the year 2016.

### 2016 Expenditure by Function

<table>
<thead>
<tr>
<th>Function</th>
<th>2016 Budget</th>
<th>Percentage of Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Public Services</strong></td>
<td>19,171,696,837.00</td>
<td>36.1%</td>
</tr>
<tr>
<td>Local Government Equalisation Fund</td>
<td>717,013,167.00</td>
<td></td>
</tr>
<tr>
<td>Tripartite Elections/Referendum</td>
<td>727,900,000.00</td>
<td></td>
</tr>
<tr>
<td>Public Affairs and Summit</td>
<td>82,691,590.00</td>
<td></td>
</tr>
<tr>
<td>External Debt Interest</td>
<td>3,615,599,302.00</td>
<td></td>
</tr>
<tr>
<td>Domestic Debt Interest</td>
<td>3,549,266,546.50</td>
<td></td>
</tr>
<tr>
<td>Sinking Fund</td>
<td>536,237,121.00</td>
<td></td>
</tr>
<tr>
<td>Awards and Compensation</td>
<td>100,000,000.00</td>
<td></td>
</tr>
<tr>
<td><strong>Defence</strong></td>
<td>3,145,795,491.00</td>
<td>5.9%</td>
</tr>
<tr>
<td><strong>Public Order and Safety</strong></td>
<td>1,840,555,811.00</td>
<td>3.5%</td>
</tr>
<tr>
<td><strong>Economic Affairs</strong></td>
<td>13,247,239,002.00</td>
<td>24.9%</td>
</tr>
<tr>
<td>Empowerment Fund</td>
<td>373,255,937.00</td>
<td></td>
</tr>
<tr>
<td>Fisheries Development Fund</td>
<td>5,000,000.00</td>
<td></td>
</tr>
<tr>
<td>Farmer Input Support Programme</td>
<td>1,000,355,810.00</td>
<td></td>
</tr>
<tr>
<td>Food Reserve Agency</td>
<td>750,000,000.00</td>
<td></td>
</tr>
<tr>
<td>Rural Electrification Fund</td>
<td>118,186,876.00</td>
<td></td>
</tr>
<tr>
<td>Roads Infrastructure</td>
<td>6,629,938,774.00</td>
<td></td>
</tr>
<tr>
<td><strong>Environmental Protection</strong></td>
<td>151,406,460.00</td>
<td>0.3%</td>
</tr>
<tr>
<td><strong>Housing and Community Amenities</strong></td>
<td>468,751,628.00</td>
<td>0.9%</td>
</tr>
<tr>
<td>Water supply and Sanitation</td>
<td>283,647,640.00</td>
<td></td>
</tr>
<tr>
<td><strong>Health</strong></td>
<td>4,431,850,156.00</td>
<td>8.3%</td>
</tr>
<tr>
<td>Drugs and Medical Supplies</td>
<td>754,000,000.00</td>
<td></td>
</tr>
<tr>
<td>Medical Infrastructure and Equipment</td>
<td>387,070,833.00</td>
<td></td>
</tr>
<tr>
<td><strong>Recreation, Culture and Religion</strong></td>
<td>261,545,249.00</td>
<td>0.5%</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td>9,143,215,926.00</td>
<td>17.2%</td>
</tr>
<tr>
<td>School Infrastructure</td>
<td>637,325,937.00</td>
<td></td>
</tr>
<tr>
<td>University Infrastructure</td>
<td>390,000,000.00</td>
<td></td>
</tr>
<tr>
<td>Student Loans and Bursaries</td>
<td>310,913,011.00</td>
<td></td>
</tr>
<tr>
<td><strong>Social Protection</strong></td>
<td>1,273,768,804.00</td>
<td>2.4%</td>
</tr>
<tr>
<td>Public Service Pension Fund</td>
<td>805,000,000.00</td>
<td></td>
</tr>
<tr>
<td>Social Cash Transfer</td>
<td>302,000,000.00</td>
<td></td>
</tr>
<tr>
<td>Food Security Pack</td>
<td>20,000,000.00</td>
<td></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>53,135,825,364.00</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
Mr. Speaker, I propose to spend K19.2 billion on General Public Services. Notable expenditures under this category include K5.5 billion and K4.3 billion for external and domestic debt related payments, respectively.

Sir, to ensure that adequate capacity is built to repay the Eurobonds as and when they fall due, I have allocated K536.2 million to the Sinking Fund.

Mr. Speaker, I propose to spend K727.9 million to cover all the costs related to the 2016 Tripartite Elections and the Constitution making process.

Sir, to continue providing Local Authorities with buoyant and more predictable resources, I have allocated to the Local Government Equalisation Fund a total of K717 million. This represents an increase of 22.2 percent from the 2015 allocation.

Sir, K100 million has been allocated to cater for litigation costs and related expenditures under Compensation and Awards.

Mr. Speaker, the Patriotic Front Government remains fully committed to supporting the expansion and diversification of our economy. Consequently, I propose to spend a total of K13.2 billion, or 24.9 percent of the Budget, on the economic affairs function.

Sir, a notable allocation under this function is the K6.6 billion for road infrastructure. This allocation is for the continued implementation of the Link Zambia 8000 project, Pave Zambia 2000, the L400 road project in Lusaka, commencement of the C400 road project on the Copperbelt and rehabilitation of rural roads countrywide.

Mr. Speaker, K498.4 million has been allocated for the upgrading and expansion of the Kenneth Kaunda International Airport and the establishment of a national airline.

Mr. Speaker, to advance our ongoing programme to extend the area under irrigation so as to reduce our dependency on rain-fed agriculture, I have allocated K56.7 million to irrigation programmes.

Sir, I have allocated K1.0 billion for the Farmer Input Support Programme of which K248.3 million will be disbursed through the e-voucher modality to cover about 480,000 farmers of the targeted 1,000,000 beneficiaries of the programme.

Mr. Speaker, I have allocated K750 million to procure grain in the 2016 crop marketing season.

Sir, to provide credit for small scale fish farmers, I have allocated K5 million for the establishment of the Fisheries Development Fund.

Mr. Speaker, to provide for the economic empowerment of Zambians, I have allocated K187.5 million to the Citizens Economic Empowerment Fund, K150 million to the Action Plan on Youth Employment and Empowerment and K35.7 million to the Women’s Economic Empowerment Funds. A further K49.5
million has been allocated for youth skills training and development.

124. Sir, to facilitate rural access to electricity, I have allocated K118.2 million to the Rural Electrification Programme.

Education and Skills Development

125. Mr. Speaker, I propose to spend K9.1 billion on education and skills development. Of this amount, K1.0 billion is earmarked for various infrastructural projects in the sector, such as schools, universities and trades training institutes, while K217.8 million is for the recruitment of an additional 5,000 teachers.

126. Sir, to enhance the cognitive ability of vulnerable children and encourage school attendance, I propose to allocate K35.6 million to the rolling out of the School Feeding Programme, which has proven to be a very successful programme especially in the rural schools. A further K311 million has been allocated towards the implementation of the Student Loans Scheme for university students.

Health

127. Mr. Speaker, to ensure equitable access to quality health care, I propose to spend a total of K4.4 billion. This allocation includes K754 million for the procurement of drugs and medical supplies and K340.7 million for completion of on-going health infrastructure development projects. The allocation to the sector also includes K73.8 million for the net recruitment of additional frontline health personnel and K6.3 million towards the establishment of the National Social Health Insurance Scheme.

Housing and Community Amenities

128. Mr. Speaker, I propose to spend a total of K468.8 million for the rehabilitation and construction of water supply and sanitation infrastructure, implementation of housing development programmes, undertaking of physical planning activities and resettlement of displaced persons.

Public Order and Safety

129. Sir, I have allocated K1.8 billion towards the maintenance of public order and safety. Key interventions will include the rehabilitation of prison infrastructure and completion of the construction and rehabilitation of police stations and posts.

Social Protection

130. Mr. Speaker, to uplift the living standards of vulnerable Zambians, I have allocated K1.3 billion for social protection related expenditures. Of this amount, the allocation to the Public Service Pension Fund is K805 million while the allocation to the Social Cash Transfer Scheme is K302 million. The allocation to the Social Cash Transfer Scheme represents an increase of 67 percent over the 2015 allocation.

Other functions

131. Sir, the remaining functions of Defence, Environmental Protection and Recreation, Culture and Religion have a combined allocation of K3.6 billion.

Revenue Estimates and Financing

132. Mr. Speaker, in coming up with the revenue measures for the 2016 Budget, the Government has had to circumspectly
balance the need to raise adequate resources for various development programmes with the need to generate these resources in an equitable and efficient manner.

133. Sir, a summary of the estimates of revenue and financing to support the expenditures in 2016, is as follows:

**Total Revenue and Financing for the 2016 Budget**

<table>
<thead>
<tr>
<th></th>
<th>(K' million)</th>
<th>% of Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Tax Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Income Tax</strong></td>
<td>14,340.3</td>
<td>57.2%</td>
</tr>
<tr>
<td>Company Income Tax</td>
<td>3,239.1</td>
<td></td>
</tr>
<tr>
<td>PAYE</td>
<td>7,934.4</td>
<td></td>
</tr>
<tr>
<td>Withholding &amp; other</td>
<td>3,166.8</td>
<td></td>
</tr>
<tr>
<td>Insurance Premium Levy</td>
<td>44.0</td>
<td></td>
</tr>
<tr>
<td><strong>Value Added Tax</strong></td>
<td>9,893.5</td>
<td></td>
</tr>
<tr>
<td>Domestic VAT</td>
<td>1,503.4</td>
<td></td>
</tr>
<tr>
<td>Import VAT</td>
<td>8,390.1</td>
<td></td>
</tr>
<tr>
<td><strong>Customs and Excise</strong></td>
<td>6,132.5</td>
<td></td>
</tr>
<tr>
<td>Customs duty</td>
<td>2,488.9</td>
<td></td>
</tr>
<tr>
<td>Excise duty</td>
<td>3,643.6</td>
<td></td>
</tr>
<tr>
<td>o/w Fuel Levy</td>
<td>991.2</td>
<td></td>
</tr>
<tr>
<td><strong>Non-Tax Revenues</strong></td>
<td>11,698.9</td>
<td>22.0%</td>
</tr>
<tr>
<td>Fees &amp; Fines</td>
<td>7,645.3</td>
<td></td>
</tr>
<tr>
<td>Exceptional</td>
<td>1,164.4</td>
<td></td>
</tr>
<tr>
<td>Mineral Royalty</td>
<td>2,889.1</td>
<td></td>
</tr>
<tr>
<td><strong>Domestic Revenue</strong></td>
<td>42,109.1</td>
<td></td>
</tr>
<tr>
<td><strong>Domestic Borrowing</strong></td>
<td>2,509.5</td>
<td>4.7%</td>
</tr>
<tr>
<td><strong>Total Domestic Revenue and Domestic Financing</strong></td>
<td>44,618.6</td>
<td></td>
</tr>
<tr>
<td><strong>Total Foreign Grants and Financing</strong></td>
<td>8,517.2</td>
<td>15.0%</td>
</tr>
<tr>
<td>Grants</td>
<td>545.9</td>
<td>1.0%</td>
</tr>
<tr>
<td>Project Grants</td>
<td>545.9</td>
<td></td>
</tr>
<tr>
<td><strong>Foreign Financing</strong></td>
<td>7,971.3</td>
<td>15.0%</td>
</tr>
<tr>
<td>Programme Loans</td>
<td>3,954.3</td>
<td></td>
</tr>
<tr>
<td>Project Loans</td>
<td>4,017.0</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL REVENUE AND FINANCING</strong></td>
<td>53,135.8</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
Revenue Measures

134. Mr. Speaker, in addition to other interventions to encourage the development of sustainable and alternative sources of energy outlined earlier, I propose to implement the following measures:

(a) increase the capital allowance for implements, machinery and plant used in the generation of electricity to 50 percent from 25 percent;

(b) extend the 10 year period for carrying forward of losses for businesses engaged in the generation of electricity using hydro and thermal, to businesses generating electricity using other sources of energy such as wind and solar, but excluding wood;

(c) increase the period for claiming input Value Added Tax, as an intending trader, for electricity generation to 4 years from 2 years; and

(d) remove the 5 percent customs duty on Pitch Coke and the 15 percent customs duty on Petroleum Coke.

135. Sir, in addition to the revision of electricity tariffs towards cost reflective levels, I am confident that these tax concessions will encourage capital investment and act as a catalyst to enhancing the development and diversification of the energy sector.

136. Mr. Speaker, the development of the manufacturing sector remains key to achieving our objective of diversifying the economy. The Government will, therefore, continue to promote manufacturing by providing an enabling environment that will encourage competitiveness of the sector. To this end, I propose to suspend excise duty on clear beer to 40 percent from 60 percent in order to spur local manufacturing, promote investment and curb smuggling.

137. Mr. Speaker, to further promote economic diversification and expansion of the base for non-traditional exports, I propose to remove the 15 percent and 5 percent customs duty rates currently applicable on greenhouses and rose seedlings, respectively.

138. Mr. Speaker, in order to spur vibrancy in the financial markets and address the low level of liquidity in the secondary market, I propose to restructure the taxation of interest on Government bonds by removing the withholding tax applicable on the discount income while maintaining it on the coupon income.

139. Sir, the current rate of property transfer tax at 10 percent has discouraged people from completing property transfer transactions as it is prohibitive. I, therefore, propose to reduce the rate of Property Transfer Tax on land and shares to 5 percent to enhance compliance.

140. Mr. Speaker, to reduce the cost of upgrading of existing infrastructure for digital migration and encourage the establishment of community based television and radio stations, I propose to suspend customs duty on transmission
apparatus for television and radio for a period of two years.

141. Sir, as a result of these measures, Government will forego K138 million.

142. Mr. Speaker, the current withholding tax system on rental income has presented challenges for some taxpayers. In this regard, I propose to restructure the taxation to provide for a landlord to account for tax on rentals in circumstances where the tenant cannot withhold the tax, subject to approval by the Commissioner General.

143. Mr. Speaker, in order to streamline the taxation of income earned from the provision of management and consultancy services by resident consultants, I propose to extend the application of withholding tax at the rate of 15 percent to this stream of income. However, this will not be the final tax.

144. Mr. Speaker, the application of Value Added Tax in the insurance industry has been a challenge in view of the nature of the industry. I, therefore, propose to simplify the taxation of the insurance industry by removing Value Added Tax and introducing a levy at the rate of 3 percent on insurance premiums.

145. Sir, I also propose to increase the specific excise duty rate on cigarettes to K200 from K90 per 1,000 sticks and introduce incentives to support local manufacture of cigarettes.

146. Sir, to encourage local value addition and enable us benefit from our natural resource endowments, I propose to introduce an export duty on unprocessed wood at 40 percent and semi processed wood at 20 percent. In addition, I propose to increase the customs duty to 40 percent on all wood and wood products.

147. Mr. Speaker, to combat unfair competition from cheap imports and spur local production of edible oils, I propose to increase the specific customs duty rate on refined edible oils to K4.0 from K2.20 per litre.

148. Sir, to discourage the use of plastic carrier bags and reduce their negative impact on the environment, I propose to increase excise duty on plastic carrier bags to 20 percent from 10 percent.

149. Mr. Speaker, I propose to adjust upwards customs duty on selected categories of motor vehicles excluding buses and trucks. Further, I propose to introduce a surcharge of K2,000 on motor vehicles older than five years from the year of manufacture.

150. Mr. Speaker, the estimated gains in 2016 as a result of these measures will be K93.9 million.

151. Sir, I propose that consideration fees for any category of land to be acquired by non-Zambians be adjusted upwards relative to the market value. I further propose that consideration fees for high cost residential, commercial and industrial land also be revised relative to market value.

152. Sir, to augment efforts of enhancing domestic revenues, I propose to revise upwards various fees and fines to bring them to appropriate, cost recovery levels of providing the respective services. These fees include those collected under the ministries responsible for immigration and forestry.

153. Mr. Speaker, the estimated gains in 2016 as a result of these measures will be K5.0 billion.
154. Sir, all the revenue measures I have announced will take effect from 1st January, 2016, apart from measures relating to consideration fees on land which take effect from midnight tonight.

House Keeping Measures

155. Mr. Speaker, I also propose to carry out revenue neutral amendments to the Income Tax Act, the Customs and Excise Act and the Value Added Tax Act so as to update, strengthen and remove ambiguities in certain sections of tax legislation and to make tax administration more effective.

PART IV

CONCLUSION

156. Mr. Speaker, as I conclude my address to this august House, I have a moral imperative to be candid and honest with the people of Zambia. The year 2016 will witness further challenges to our efforts to raise the economy to yet higher heights so as to eradicate poverty. In addition to elevated risks from climate change, the outlook for the world economy is not particularly cheerful. As a result, Zambia should be prepared to meet the challenges that may arise from externally-induced shocks, especially further falls in commodity prices and their knock-on effects on our economy and society at large.

157. Sir, to meet the challenging times ahead, I am confident that Zambians have the collective resolve, unity and character to assign primacy to the national interest over personal and selfish ambition. Our mature commitment to pluralism and democracy in diversity, our tolerance and accommodation of others and our abhorrence of xenophobia and love for peace, earn Zambia a coveted position of distinction in the global community. It is in this context that I urge all Zambians to honour our collective duty and responsibility to ensure that mistaken perceptions about our country, especially in global markets, are not created.

158. Sir, I wish to emphasise to the Zambian people, and to the wider global community, that while Government has made adjustments in light of the more challenging economic environment, there have been no policy somersaults as regards our commitment to social justice, anchored on consistent, predictable and market-friendly economic policies. Zambia is, and will remain, one of the few African countries without crude controls, even in the critical area of foreign exchange. This is why Zambia is, and will remain, a credible investment destination.

159. Mr. Speaker, let us put narrow polemics and hollow feuds aside as we, as a nation, unite to move our country forward. In His Excellency, President Edgar Chagwa Lungu, we have an honourable leader with the necessary attributes of accommodation, tolerance and ingrained humanity, shrouded in total humility. He has flawless depth, affability, and the ability to relate to and be available for us all. These attributes vest him with the capacity to unite our great nation in these challenging times. Under his compassionate and able leadership, let me enter a passionate plea to each and every one of us, to join him in our collective march to a brighter and more prosperous future for all. We owe mother Zambia and posterity that debt.

160. Sir, may God bless Zambia.

161. Mr. Speaker, I now beg to move.