

**2011 BUDGET ADDRESS BY HON. DR. SITUMBEKO MUSOKOTWANE, MP,
HONOURABLE MINISTER OF FINANCE AND NATIONAL PLANNING
DELIVERED TO THE NATIONAL ASSEMBLY ON FRIDAY 8TH OCTOBER, 2010**

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 2011 to 31st December 2011 presented to the National Assembly in October 2010.

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, I recognise that next year the people of Zambia will give their verdict on the performance of this Government and indeed of members of this august House. Our focus will remain clear. We will maintain the respect of our people and gain a fresh mandate to govern through hard work and determination. Sir, this MMD Government will remain focussed on what we have all worked so hard for – to improve the quality of life for our people in every corner of this country. This budget will be a testimony to this MMD Government’s resolve to improve the lives of our people, on whose mandate we stand to present it.

4. Mr. Speaker, for over a decade, the MMD Government has delivered robust growth for our economy. This is a fantastic achievement, but it is not enough. Every Zambian from every corner of the country must be able to benefit from this growth. What does this mean? It means that every boy and girl must have access to quality education. But this is not enough. Every hard working farmer must find a fair market for his or her produce. But this is not enough. Every home must have clean water. But this is not enough. Every mother must be able to deliver her children safely, and that her children should be vaccinated. But this is not enough. For these services to be accessible, every home in every village and

town must be connected to an all-weather road to ensure this accessibility. It is only when all of this has been achieved can we say, enough.

5. Mr. Speaker, our people have made great sacrifices over the last twenty years. We are where we are today because of these sacrifices. The tangible benefits of our economic successes have started to be felt by all our people. But this is also not enough. We must accelerate this process. Mr. Speaker, we are not a complacent Government. We will not rest on our laurels, but strive to accelerate this process of delivering benefits to our people. This is why the 2011 Budget is **A People’s Budget, from a People’s Government**.

6. Sir, my speech this afternoon is in five parts. In Part One, I talk about the global economic developments in 2010 and the outlook for 2011. In Part Two, I discuss the recent developments in the domestic economy, while in Part Three, I provide this Government’s economic policy objectives for 2011. In Part Four, I present the 2011 Budget, and conclude my address in Part Five.

PART I

GLOBAL ECONOMIC DEVELOPMENTS IN 2010 AND OUTLOOK FOR 2011

7. Mr. Speaker, the global economy continues to recover from the recent global economic crisis. Global economic growth is now projected to reach 4.8 percent in 2010, well above the negative growth of 0.6 percent recorded in 2009. In 2011, the global economy will continue expanding, although at a marginally lower rate of 4.2 percent.

PART II

RECENT DEVELOPMENTS IN THE DOMESTIC ECONOMY

MACROECONOMIC PERFORMANCE

8. Sir, growth in Sub-Saharan Africa is projected to be robust at 5 percent in 2010, compared with 2.6 percent in 2009. This growth is driven by strong demand for primary commodities from emerging markets such as India, Brazil and China, and by the overall recovery in international trade. The region is expected to continue its strong performance in 2011, with growth estimated at 5.5 percent.

9. Mr. Speaker, 2010 has been an excellent year for copper exporting countries. The average price of copper on the international market has reached a record high of US \$7,202 per metric tonne between January and September this year. Never before have prices consistently remained at such a high level. The outlook for copper prices continues to be bright for the remainder of the year, as well as for 2011.

10. At the same time, Sir, crude oil prices remain far below record levels seen in 2008, when the price approached US \$150 per barrel. Between January and September of 2010, oil prices averaged US \$75 per barrel, representing an increase of 31.6 percent from the same period in 2009.

11. Sir, in line with improvements in the global economic environment, world trade volumes are projected to increase by 11.4 percent by the end of 2010, and by 7 percent in 2011. It is expected that this increase will be driven by the continued expansion of emerging economies.

12. Mr. Speaker, global inflation continues to be moderated by the impact of the 2009 recession, and is projected to increase from 3 percent in 2009 to 3.8 percent in 2010. Global inflation is expected to be 3.2 percent in 2011, mainly as a result of lower than expected global food prices.

13. Mr. Speaker, in my last budget address, I highlighted the opportunities and challenges that lay ahead of the Zambian economy in 2009. In particular, the strength of the global economic recovery was still uncertain at the time. In view of this uncertainty, the Government took bold steps to protect jobs and ensure food security for the nation. The benefits of these are being seen this year.

14. Sir, an enabling policy environment and increased private sector investment underpinned Zambia's incredible resilience to the global financial crisis. As a result, the country emerged as one of the best performers in what was one of the worst recessions in recent times. Against an initial projection of 4.3 percent, the Zambian economy grew by 6.4 percent in 2009, the highest recorded during the last decade. At the same time, inflation returned to single digits, while international reserves grew to record levels of over 5 months of import cover.

15. Mr. Speaker, for eleven years in a row the MMD Government has delivered positive growth to the Zambian people. In my last budget address, I promised to reposition the Zambian economy to ensure that it benefited from the rebound in global economic activity. This MMD Government has kept its promise, and expects real GDP growth to reach 6.6 percent in 2010. This year will, therefore, be the twelfth year of positive growth. And Sir, it will be the highest yet.

16. Sir, growth in 2010 will be driven by historic production from two key sectors of our economy, agriculture and mining. In addition, higher growth in construction, transport, communication and tourism are also expected to contribute to this growth.

17. Mr. Speaker, the performance of the agriculture sector over the past two farming seasons can only be described as extraordinary. In my last speech to this House, I indicated that maize production, at 1.9 million metric tonnes, was the highest recorded in the last ten years. Sir, I spoke too soon. This year, maize production is even higher at 2.8 million metric tonnes, the highest ever achieved in the country. As a result of this harvest, along with increased output of other major crops and livestock, the agriculture sector is expected to grow by 7.6 percent in 2010.

18. Mr. Speaker, it is no coincidence that this historic harvest occurred in a year when the Government increased the availability of better extension services and affordable inputs to more than 500,000 farmers. Sir, this Government's policies are working.

19. Mr. Speaker, I am pleased to report that copper production in 2010 will exceed 720,000 metric tonnes, a level of production that was last seen in 1973. This places us within reach of our medium-term target of one million metric tonnes per annum.

20. Mr. Speaker, the tourism sector was one of the hardest hit in 2009 as a result of the global economic slowdown. In 2010, however, there has been a significant rebound in tourist arrivals as a result of the recovery in global economic activity, and from the 2010 FIFA World Cup in South Africa. Consequently, the tourism sector is expected to grow by 25 percent in 2010, compared to a contraction of 13.4 percent in 2009.

21. Mr. Speaker, the construction sector is projected to record growth of 10 percent in 2010 compared to 9.5 percent in 2009. This growth will be driven by strong demand from residential, commercial and public infrastructure construction projects across the country. The coming on stream of a new cement manufacturing facility has contributed to increased supply of cement on

the market, and will support growth in the sector.

EXTERNAL SECTOR PERFORMANCE

22. Mr. Speaker, Zambia's external sector performance has improved significantly in 2010. This reflects the steady recovery in the global economy that has boosted both the demand and price of commodities such as copper. The pickup in domestic activity has also led to strong growth in the imports of goods and services. This year, the value of exports and imports are expected to increase by 38.6 percent and 36.5 percent, respectively.

23. Mr. Speaker, the current account deficit is expected to narrow to US \$378 million in 2010 from US \$404 million in 2009. This is mainly on account of an improvement in Zambia's trade balance, which is projected to increase by 46.5 percent to a surplus of US \$1,327 million from US \$906 million in 2009. This is largely due to the strong growth in copper exports, which are expected to increase to US \$4,612 million from US \$3,179 million in 2009.

24. Sir, Members of this House will be pleased to note that non-traditional exports have expanded by an average of 14.2 percent over the past 9 years. The outlook for 2010 remains bright, with growth projected at 8.2 percent to US \$973.7 million. Increased earnings from the export of products such as maize, sugar, tobacco, cotton, copper wire and gemstones will drive this growth in non-traditional exports.

25. Mr Speaker, by end-September 2010 Zambia's gross international reserves had risen by US \$197.6 million to US \$2,121.8 million, another milestone in the economic performance of this Government. This growth in reserves largely reflected donor inflows, net proceeds from the sale of Zamtel, and increased mining receipts. This level of reserves is sufficient to cover about 4 months of imports.

26. Mr. Speaker, after an initial appreciation in the first quarter, the Kwacha depreciated sharply against the US Dollar, before recovering to some extent. Although export earnings were strong and the current account narrowed, the mixed performance of the Kwacha came as a result of turbulence in the international financial markets. As at end-September 2010, the Kwacha was weaker by 4.4 percent against the United States dollar, at K4,846.

27. Sir, reflecting the turbulence in global financial markets, the performance of the Kwacha was mixed against other major currencies. Against the British Pound Sterling, the Kwacha depreciated marginally by 1.7 percent, while against the South African Rand, it depreciated by 10.6 percent. As a result of heightened sovereign debt risks in the European markets, the Kwacha appreciated by 0.9 percent against the Euro.

MONETARY AND FINANCIAL DEVELOPMENTS

28. Mr. Speaker, annual inflation slowed down to 7.7 percent in September 2010 from 9.9 percent in December 2009. This favourable outturn was largely attributed to the reduction in annual food inflation to 2.8 percent in September 2010 from the 8 percent recorded in December 2009. This was due to the improved supply of food items such as cereals and vegetables. Higher fuel and electricity prices, however, contributed to higher annual non-food inflation of 12.5 percent in September 2010. In addition, a weaker Kwacha against major currencies during the second quarter of 2010 contributed to inflationary pressures. Mr Speaker, notwithstanding this, it is my expectation that the Government's end-year inflation target of 8 percent for 2010 will be achieved.

29. Mr. Speaker, after a sharp slowdown in 2009, money supply grew strongly in 2010. This reflected the broader recovery in domestic economic activity, as well as increased domestic financing for the

Government budget. For the year to August 2010, growth in money supply increased by 23.6 percent from 2.8 percent in the corresponding period in 2009. Much of this growth was a result of increased lending to the Government, which rose by 41.3 percent from 29 percent over the same period in 2009. This increase was due to the need for the Government to provide additional financial resources for maize marketing and the settlement of arrears relating to the procurement of fuel.

30. Sir, credit to the private sector rose by 3 percent compared to 4.5 percent in 2009. This reflected the continued cautious approach of commercial banks in taking on additional risk in the wake of the global financial crisis.

31. Mr. Speaker, over the first two quarters of the year, the yield rates on both Government bonds and Treasury bills declined. This reflected the high demand for Government securities, given the ample level of liquidity in the banking system and the modest recovery in credit extension to the private sector. The average interest rate on Treasury bills declined to 6 percent in June 2010 from 9.5 percent in December 2009. Similarly, the average interest rate on Government bonds declined to 9.5 percent in June 2010 from 15.6 percent in December 2009. The downward trend in interest rates on Government bonds was reversed in the third quarter as excess liquidity was drained from the banking system and private sector credit rose. By September 2010, average interest rates on Treasury bills and government bonds had risen marginally to 7.8 percent and 11.2 percent, respectively.

32. Mr. Speaker, average commercial bank lending rates also declined over the first three quarters of the year, falling to 26.8 percent in September 2010 from 29.2 percent in December 2009. Despite significant improvements in the macroeconomic environment over the last five years, I am concerned that lending rates are still excessively high. Small, medium, and micro enterprises, the bedrock of our

economy, are the worst affected, often paying substantially larger premiums than bigger firms. The Government will continue to actively engage with commercial banks to ensure that this recent downward trend in lending rates is accelerated further.

33. Mr. Speaker, in my last budget address, I announced that the Bank of Zambia was reviewing its monetary policy framework. As a first step, the Bank focused on the link between changes in Central Bank interest rates and commercial bank lending rates. In this regard, the Bank consulted stakeholders to identify concrete steps that need to be taken to reduce interest rate spreads.

34. Sir, a number of factors have contributed to these high spreads. They include limited information on the creditworthiness of borrowers; high loan default rates; high operating costs of commercial banks; high costs associated with legal processes; and the lack of effective competition. The Bank of Zambia is addressing these issues under the Financial Sector Development Plan. As a result, we are beginning to see reductions in commercial bank interest rates and charges. Going forward, the Government expects this trend continue.

35. Mr Speaker, with regard to the development of financial markets, the Bank of Zambia introduced an overnight lending facility in December 2009. So far, the banking system has had ample liquidity and the use of the facility has therefore been limited. In order to enhance the market for Government securities, the Bank of Zambia introduced a formalised set of rules and regulations to facilitate secondary market trading of Government securities. The development of a more liquid and active secondary market for Government securities will deepen the financial sector and support the ability of the private sector to raise finance.

36. Sir, the performance of the Lusaka Stock Exchange was impressive during the first nine months of 2010, recording growth

in both share trading and market capitalisation. The share index increased by 11.6 percent to 3,118.5 at end-September 2010 from 2,794.9 in December 2009. Similarly, market capitalisation increased to K30,634 billion in September 2010, an increase of 23 percent from December 2009. This growth was mainly driven by increased domestic investor participation, increased confidence in the domestic economy, and stable macroeconomic conditions.

37. Sir, the financial performance and condition of the banking sector in the first half of 2010 were satisfactory. The sector's earnings and profitability improved compared to the same period last year. On aggregate, the banking sector was adequately capitalized and the liquidity position remained satisfactory. There was some deterioration, however, in the quality of commercial banking assets as a result of an increase in the level of non-performing loans following the adverse impact of the global financial crisis in 2009. Since March 2010, however, the level of non-performing loans has stabilised. Further, the level of non-performing loans does not represent a major systemic threat as the majority of the banks are generally well capitalized and profitable.

38. Mr. Speaker, the enactment of the National Payment Systems Act of 2007 has facilitated the availability of new and innovative financial services, such as the introduction of mobile and Internet banking services. These innovations have revolutionised the provision of efficient financial services nationwide. Furthermore, the introduction of these services in rural and peri-urban areas without banks has the greatest potential to financially empower millions of Zambians across the furthest reaches of the country. A daughter in Chiengi can now send money to her mother in Shang'ombo at the simple press of a button.

39. Sir, in order to address the challenge of paying salaries to civil servants in remote areas where financial service providers do

not exist, the Government has embraced this remarkable new technology to ensure that all civil servants, wherever they are, are paid in a timely manner. This year, the Government is working with the private sector to undertake trials to pay the salaries of civil servants at Chiengi, Chavuma and Chilubi through mobile payment systems. Based on the results of this trial, a full-fledged pilot programme is expected in 2011.

40. Sir, currently, the process of clearing cheques requires physical presentation at the clearing-house. As part of ongoing efforts to improve payments systems, the Bank of Zambia will, by December 2010, introduce a cheque imaging system that will allow for electronic submission of cheques for clearance. This will substantially reduce the time taken for cheque clearance.

BUDGET PERFORMANCE IN 2010

41. Mr Speaker, the Government's aim in the 2010 budget was to continue with prudent fiscal management and policies to sustain high economic growth.

42. Sir, the budget performance has so far been characterised by mixed outcomes. As at end-September 2010, domestic revenues had performed well, and are now expected to over perform by 12 percent by the end of the year. This performance is attributed to higher collections under income and value added taxes arising from the collection of tax arrears. I am also pleased to report that tax collections from mining companies have improved this year. With the current high copper prices and production, I expect even higher tax payments from mining companies.

43. Sir, notwithstanding this positive performance, customs and excise duties continue to underperform, and are expected to be below target by 1.6 percent by the end of the year. Receipts from our Cooperating Partners have so far underperformed by 36.8 percent.

44. Sir, on the expenditure side, the Government has faced additional expenditure pressures, which include:

- (a) a higher than projected wage award, which will cost an extra K262 billion;
- (b) additional financing for maize purchases amounting to K680 billion;
- (c) the financing of the fuel subsidy, at a cost of K400 billion; and
- (d) the need to finance the numerous by-elections this year at an expected cost of K15 billion.

45. Sir, in order to finance these activities, the Government has been compelled to realign its expenditures and provide additional resources. As a result, total borrowing is now expected to reach 3.3 percent of GDP by the end of the year, against an initial projection of 2.5 percent.

46. Mr. Speaker, the historic maize harvest was the result of the hard work of our millions of farmers. The fruit of this hard work would have gone to waste without the Government's intervention to help purchase, secure and market the maize. This would have discouraged our farmers from future production, and posed serious challenges to our future food security.

47. Mr Speaker, total expenditure in 2010 is now expected to be 8 percent higher than budgeted, at K17,853.3 billion. This will be financed by K15,653.3 billion in domestic resources, and K2,200 billion in external grants and loans.

STATUS OF INFRASTRUCTURE PROJECTS

48. Mr. Speaker, in my 2010 budget address, I informed this House that spending would be concentrated on infrastructure and improving service delivery. Sir, I would like to highlight some of the achievements attained in these areas.

ROADS

49. Mr. Speaker, in the 2010 budget, this Government allocated unprecedented resources for the development of road infrastructure, amounting to K1,461.9 billion. By the end of the year, releases to the sector are expected to exceed this figure. I am pleased to report that the following roads are among the ones that have been completed this year:

- (a) Kasama – Mbala – Mpulungu;
- (b) Chipata – Lundazi Lot 1;
- (c) Mukunsa-Nkosha-Mununga;
- (d) Zimba – Livingstone; and
- (e) Choma/Chitongo.

50. Sir, in addition, the following roads will be completed by the end of the year:

- (a) Luansobe – Mpongwe; and
- (b) Kasama – Luwingu.

AGRICULTURE

51. Mr. Speaker, the Government continues to pursue national and household food security. In my last address to this House, I allocated resources for the nationwide rehabilitation of grain silos and storage sheds. I am pleased to report that the storage sheds at Chambeshi, Chisamba, Kalomo and Kapiri Mposhi have been completed. Sheds in Mbala, Mufumbwe, Petauke, and Serenje will be completed by the end of the year.

52. Mr. Speaker, in the 2010 budget, I informed this house of our intention to complete the main gravel access road leading to the Nansanga farm block from Mulilima, bring electricity to the area, and construct three bridges. Sir, the road has been completed. The area has been provided with electricity. Two of the three bridges have been completed, while the third one will be completed by the end of this year. The Nansanga Farm Block is being promoted to investors as a Public Private

Partnership. Significant interest has been raised from both domestic and international investors.

53. Sir, in addition, dams have been rehabilitated in the following locations:

- (a) Muyembe in Luapula Province;
- (b) Mzewe and Kayimbonya in Eastern Province; and
- (c) Kasiya in Southern Province.

TOURISM

54. Mr. Speaker, the opening up of the northern tourism circuit will enhance tourist flows in an area of great potential. To support this initiative, projects such as the rehabilitation of the Kasaba Bay airport, construction of the terminal building at Mbala airport, electrification of Kasaba Bay and rehabilitation of the Mbala - Kasaba Bay road were included in the 2010 budget.

55. Sir, I am happy to report to this august House that about 70 percent of earthworks on the extension of the runway at Kasaba Bay airport has been done and works on the Mbala/Kasaba Bay road have commenced. Electrification works are underway, and will be completed in 2011.

56. Sir, in addition to these initiatives, work is under way to further develop the Kafue National Park in order to attract more tour operators and visitors to the area. Through the assistance of Cooperating Partners, infrastructure is being upgraded, and studies are being undertaken to determine the optimal development strategy. I expect these studies to be completed in 2011, paving way for development to commence over the medium term.

EDUCATION

57. Sir, with regard to education and skills development, the Government set out to raise standards of education and provide better opportunities for our young people.

Significant resources have been provided for infrastructure development and recruitment of teachers. In this regard, about 2500 teachers will be hired this year. I also wish to inform the House that by September, K167.3 billion was released for infrastructure programmes. The following is an update on the status of infrastructure activities in the Education sector:

- (a) In the Copperbelt Province, the construction of one basic school was completed, while the construction of five high schools is ongoing;
- (b) Four basic schools in Lusaka Province have been completed, while construction of seven high schools is ongoing;
- (c) In Luapula Province, one boarding high school and six basic schools were completed, while construction of three high schools is ongoing;
- (d) Two high schools and six basic schools were completed in Eastern Province, while the construction of one high school and four basic schools is ongoing;
- (e) In Northern Province, one high school was completed, while the construction of four high schools is ongoing;
- (f) Three basic schools were completed in North-Western Province, while construction of five high schools and two basic schools is ongoing;
- (g) In Southern Province, seven basic schools have been completed, while the construction of five high schools and one basic schools is ongoing;
- (h) Two high schools and two basic schools were completed in the Western Province, while construction of three high schools and seventeen basic schools is ongoing;
- (i) In Central Province, the construction of seven high schools is ongoing; and
- (j) Under the community mode of construction, an additional 2,019

classrooms and 369 teachers' houses is ongoing.

HEALTH

58. Mr. Speaker, as in all other critical sectors the Government has been making strides in improving health infrastructure throughout the country. This Government has been undertaking a number of infrastructure projects in the Health sector, which include the construction, expansion and rehabilitation of 26 hospitals and 125 health posts in all provinces, broken down as follows:

Province	Number of Hospitals	Number of Health Posts
Central	4	12
Eastern	3	18
Northern	3	23
Luapula	4	13
Copperbelt	2	10
North-Western	3	10
Lusaka	3	7
Southern	2	14
Western	2	18
Total	26	125

59. Sir, the Ministry of Health will provide the full details of these projects during debate on the 2011 Budget.

ASSESSMENT OF THE FIFTH NATIONAL DEVELOPMENT PLAN

60. Mr. Speaker, the launch of the FNDP in 2006 renewed our efforts to address development challenges in a more consultative and coherent way. As the plan comes to an end this year, it is clear that we have achieved some significant success. We have increased growth, lowered inflation, maintained fiscal prudence and strengthened our external position. At the same time, classrooms have been built, hospitals and health posts have been created, and kilometres of roads have been tarred.

Another achievement during the FNDP period has been the ability of the Government to track progress in the implementation of development programmes. As a result, many more Zambians have access to quality services today than they did five years ago. Some examples include:

- (a) An increase in school completion rates at grade seven, from 81.6 percent in 2005 to 91.7 percent in 2009. This is also the trend for all levels of schooling;
- (b) An improvement in the pupil teacher ratio for grades 1-4 from 80.6 in 2005 to 75.6 in 2009; and
- (c) A decline in the prevalence of HIV/AIDS from 16 to 14 percent during the FNDP period.

61. Sir, the implementation of this plan did not come without challenges. One of the lessons we have learned is that we need to better link resource allocations in the Budget to the Plan. There is also greater need for our planning process to be more results oriented, with well-defined measures of success. Most importantly, stronger monitoring tools are needed from the grass roots level up to ensure that results can be measured and feed back to the national planning and budgeting processes.

62. Mr. Speaker, as we prepare to launch the Sixth National Development Plan, we draw on these experiences, and employ more effective strategies to ensure that it will be an even bigger success. One of the main instruments to achieve more effective linkages between planning and budgeting will be the Planning and Budgeting Bill, which will be presented to this House next year. This Bill will also provide a framework for stronger monitoring and evaluation systems to ensure a more results oriented planning and annual budgeting process.

PART III

ECONOMIC OBJECTIVES AND POLICIES FOR THE 2011 BUDGET

MACROECONOMIC OBJECTIVES

63. Mr. Speaker, the economic agenda that we have set for 2011 seeks to translate the macroeconomic gains achieved so far into tangible benefits for our people. It seeks to do this by encouraging and rewarding innovation and entrepreneurship. We will re-double our efforts to reduce the excessive reliance on the success of one sector, as important as it is to our economic development. Zambians across the country, whether in Chama, or Chavuma, Kazungula or Kasama, are impatient for development and prosperity to reach their doorsteps. We will ensure that all Zambians benefit from the fruits of our economic successes.

64. Mr. Speaker, in my last budget address to this House, I informed the nation that any improvements in metal export earnings would not deter this Government from its goal to promote the diversification of our economy and export base. I stand here today immovable in my resolve to honour this promise. The MMD Government remains steadfast in its commitment to diversification. Our future prosperity depends less on our copper, but more on our wildlife, electricity and beef. Sir, with firm resolve and sustained investment in diversification, Zambia can feed and power Southern and Eastern Africa.

65. Mr. Speaker, in this context, the Government's macroeconomic objectives in 2011 will be to continue with the diversification programme, while increasing productive employment and maintaining a stable macroeconomic environment. Specifically, our objectives will be to:

- (a) achieve real GDP growth of above 6 percent;
- (b) reduce end-year inflation to 7 percent; and

- (c) maintain international reserves of at least 4 months of import cover.

66. Mr. Speaker, real GDP growth in 2011 is projected to be 6.4 percent. This growth is premised on a revival of the manufacturing, transport and communication sectors, and continued growth in the mining, construction and tourism sectors.

67. Sir, growth in the manufacturing sector had fallen below trend levels in recent years. Following two strong crop harvests and sustained mining production, the manufacturing sector is expected to expand as a result of increased food and copper processing activity.

68. Mr. Speaker, the communications sector is also expected to be a strong driver of growth in 2011 following the launch of third generation mobile services in the country. Similar to the innovation of mobile banking, this technology has the potential to transform the way we communicate. It will allow for the provision of high-speed Internet services in areas that are currently unserved by traditional Internet service providers. In addition, recently announced reductions in call tariffs are expected to further boost growth.

69. Sir, the mining and construction sectors are expected to support growth in 2011. The coming on stream of production from new copper projects such as Konkola Deep, as well as increased production from the Munali nickel mine will drive growth in the sector. The construction sector will be boosted by strong demand for residential and commercial property, and through large public expenditures in the roads sector. The sector will also benefit from the commencement of construction works at the Kafue Gorge Lower project and various mini-hydro projects, which are expected to start in 2011.

MONETARY AND FINANCIAL SECTOR POLICIES

70. Mr. Speaker, monetary policy in 2011 will remain focussed on the maintenance of single-digit inflation. In line with this objective, the Bank of Zambia will continue to rely on market-based instruments to contain end-year inflation in 2011 to no more than 7 percent.

71. Maintaining a sound financial system is essential to growth and investment in the economy. In this regard, the Bank of Zambia will continue to promote the stability of the financial sector through monitoring financial institutions and ensuring their compliance with prudential regulations.

72. Sir, in January 2010, the Government extended the implementation of the Financial Sector Development Plan by three-years to December 2012. The second phase of the plan will mainly focus on enhancing market infrastructure, increasing competition and access to finance. The plan will also deal with longer-term issues including the harmonisation of financial sector laws, the full establishment of an independent Financial Intelligence Unit and the implementation of a national switch. The national switch is a payments system innovation that allows banks to share facilities such as automated teller machines and point of sale terminals that will offer customers wider access to financial facilities.

73. Sir, the Government will also enhance financial safety nets by implementing a deposit protection scheme and strengthening the lender of last resort framework. This framework will enable the Bank of Zambia to assist solvent financial institutions that may encounter temporary liquidity stress. In addition, the Government has made important strides in designing a financial sector contingency plan that provides a framework for resolving financial crises.

74. Mr. Speaker, access to financial services is key to empowering our

entrepreneurs to better contribute to economic development. Recent data shows that there has been an increase in access to financial services between 2005 and 2009. With the financial sector becoming more contestable and competitive, we expect even more Zambians to have access to financial services. The Government remains committed to providing a platform for financial service providers to embrace new technologies that increase access to financial services.

FISCAL POLICY

75. Mr. Speaker, maintaining fiscal prudence will remain critical in 2011 in order to further the economic gains made during the FNDP. Our focus will be to create fiscal space through increased revenue mobilisation, increased external financing, and through realignment and prioritisation of expenditures. In this regard, our fiscal objectives in 2011 will be to:

- (a) return domestic revenue collections to above 18 percent of GDP;
- (b) limit domestic borrowing to no more than 1.4 percent of GDP in order not to crowd out private investment while increasing external financing to 2 percent of GDP; and
- (c) commit at least 50 percent of the budget to social sectors and infrastructure development.

FOREIGN DEBT

76. Mr. Speaker, Zambia's long-term economic prosperity depends on the resources we invest today. These investments in roads, bridges, and power stations are necessary in order to build a more economically vibrant Zambia for our children. Our domestic resource base cannot accommodate the substantial amounts required to finance these investments. In this regard, the Government intends to receive about US\$400million in concessional and

non-concessional loan disbursements during 2011.

77. Sir, keeping debt within sustainable levels remains critical for macroeconomic stability. These resources we intend to borrow will be spent wisely. We remain mindful that five years ago we were still paying the price of unsustainable debt contraction for projects of little or no economic return.

COMPETITIVENESS

78. Mr. Speaker, over the past two years I have reiterated the importance of enhancing the competitiveness of our economy. The removal of structural impediments will clear the way for broad based private sector driven growth.

79. Sir, high inland transportation costs reduce the competitiveness of our exports. In an effort to address this, the Government has embarked on an ambitious programme to improve regional transportation linkages. These include the rehabilitation of the Mwinilunga-Jimbe and Mongu-Sikongo roads to Angola, the recently completed Chipata-Mchinji railway line, the improvement of the Great East Road, and the construction of the Kazungula Bridge. These projects are expected to reduce transportation costs, and improve the competitiveness of Zambian exports.

80. Sir, in 2009, I announced the Government's intention to divest the majority of its equity in ZAMTEL. This was aimed at improving the quality of service and reducing high costs in the telecommunications sector. I am pleased to report that the Government divested 75 percent of its equity in ZAMTEL to LAP Green Networks of Libya earlier this year. LAP Green has already injected US\$64 million for operations. The company has further committed to invest an additional US\$75 million. With this fresh investment, ZAMTEL will set new standards in service delivery. This in turn will encourage the

industry as a whole to reduce costs and improve the quality of service.

81. Mr. Speaker, the high cost of the international telecommunication gateway licensing fees has been cited as one of the main reasons for the high cost of communication in the country. In response to these complaints, the Government liberalised the international gateway earlier this year, resulting in a 97 percent reduction in charges from US\$12 million to US\$350,000. Within days of this development, mobile operators reduced tariffs on international calls by up to 70 percent.

82. Sir, I wish to take this opportunity to commend mobile telephone operators for this decisive action. However, both local and international call tariffs remain above regional averages. I, therefore, call upon operators to further reduce tariffs and empower Zambians through affordable access to communication services.

83. Mr. Speaker, the Government is committed to ensuring reliable electricity supply to power economic activity. The multi-year electricity tariff adjustment framework is aimed at attracting further investment into the sector by ensuring that tariffs allow for cost recovery. In line with this policy, the Energy Regulation Board, in July 2010, approved an average increase of 25.6 percent in electricity prices.

84. Mr. Speaker, let me take this opportunity to indicate that this Government is sensitive to the needs of our people, and that the higher electricity tariffs were a difficult sacrifice to make. Not increasing the tariffs, however, would have done more harm than good. Zesco would have been forced to use resources intended for investment to cover the cost of existing facilities. This would have led to more load shedding. It would also deter the private sector from investing in key projects for Zambia's future energy security such as Kafue Gorge Lower and Itezhi-tezhi.

85. Sir, I, therefore, ask Zambians to be patient, as these increases in electricity tariffs will ensure that the country will meet its future energy requirements. It will also provide for a more diverse source of export earnings to protect our economy from volatile copper prices.

86. Mr. Speaker, the cumbersome business licensing and regulatory environment has been identified as one of the reasons for the high cost of doing business in the country. To date, 21 Acts have been reviewed, resulting in the elimination of 38 licenses and simplifying the procedures for 10 more. As the reform process continues, the Government expects to eliminate an additional 132 licenses, which is expected to significantly reduce the costs of regulatory compliance for businesses.

PUBLIC PRIVATE PARTNERSHIPS

87. Mr. Speaker, Public Private Partnerships have emerged as an important modality for financing large infrastructure projects. It enables the Government to raise additional resources to finance large investment projects, while also allowing the private sector to participate in projects that may have otherwise been unviable without Government participation. So far, the private sector has shown keen interest to partner with Government in undertaking projects through Public Private Partnerships.

88. Mr. Speaker, in my last address, I informed this House that the Government would undertake a large number of infrastructure projects through Public Private Partnerships. This year, the first project in Zambia, the Kasumbalesa border post will be completed. The border post is expected to significantly reduce transactions costs for cross-border trade.

89. In 2011, a total of 12,000 houses will be built in Southern, Lusaka, and the Copperbelt provinces under the public private partnership framework. Work will also start on the conversion of the Kitwe-Chingola-Kasumbalesa road into a dual

carriageway. In the energy sector, construction will begin at the Kafue Gorge Lower and Kabompo Gorge power projects, which in total will add over 700 megawatts in generation capacity.

90. Sir, this is a Government that delivers on its promises. In the medium term, we intend to roll out the use of public private partnerships to other sectors such as health and education, with the aim of accelerating the provision of social infrastructure. We hear the needs of our people, and we are responding to their call.

PUBLIC FINANCIAL MANAGEMENT

91. Mr. Speaker, revelations of financial mismanagement at the Ministry of Health, and the Road Development Agency have led to the suspicion that the Government is not committed to the prudent use of public resources. This is far from the truth. This Government places paramount priority in ensuring that public financial resources are used for the intended purposes.

92. Sir, this has been demonstrated by the decisive action taken in dealing with the irregularities identified in the health and roads sectors. In the health sector, the Government has implemented the first phase of the joint action plan developed with stakeholders. We have now embarked on a full systems audit within the Ministry of Health. The results of this audit will be used as a blueprint for strengthening financial management across Government operations.

93. In the roads sector, the Government swiftly dissolved and reconstituted the boards of the Road Development Agency and National Road Fund Agency, to enhance operations and inter-agency coordination. By the end of this year, capacity in financial management, internal audit, and monitoring and evaluation will be strengthened. These measures have been taken after wide

stakeholder consultation, including with Members of this House.

94. Sir, these measures are a concrete demonstration of this Government's unwavering commitment to zero tolerance to the mismanagement of public resources.

95. Sir, the measures taken in both the health and road sectors will allow us to build a more fruitful relationship with all stakeholders including our Cooperating Partners. The Government remains determined to improve the lives of the Zambian people, and actively seeks productive partnerships with all who share this noble cause.

96. Sir, we are involved in discussions with stakeholders on the design of a successor to the Public Expenditure Management and Financial Accountability (PEMFA) programme, which will come to an end this year. The new programme is expected to build on the gains achieved under PEMFA and firmly entrench it within the national development process.

MONITORING AND EVALUATION

97. Mr. Speaker, nationwide monitoring of projects requires active participation of all stakeholders, including local communities. This is to ensure that projects are completed in a timely manner and to the required standard. To this effect, all Sector Advisory Groups, and Provincial and District Development Coordinating Committees are encouraged to form monitoring and evaluation sub-committees. These committees are, in turn, encouraged to partner with my Ministry to monitor various development projects in their areas. This will promote local ownership and enhance transparency and accountability in the use of public resources.

98. Sir, one of the lessons learned from the implementation of the Fifth National Development Plan was the need for a more effective, results-driven, monitoring and evaluation framework. As we launch the SNDP, public institutions will be required to be more accountable to their beneficiaries on the expected deliverables of the projects they undertake. In the 2011 Budget, and over the course of the SNDP, the Government will ensure that each public institution is held accountable for delivering its development outputs.

domestic resources to finance the budget. We remain committed to paying our own way in the world.

102. Sir, K15,769.1 billion or 76.8 percent of the budget will come from domestic revenues, and K1,587.7 billion or 7.7 percent through grants from our Cooperating Partners. The deficit of K3,180.6 billion or 15.5 percent will be financed through domestic borrowing of K1,219.8 billion and external borrowing of K1,960.8 billion.

PART IV

THE 2011 BUDGET

99. Mr. Speaker, this Budget marks the first year of the implementation of the SNDP, which places strategic focus on infrastructure and human development. The 2011 Budget aligns resources towards these strategic areas, by committing more resources towards programmes and projects that carry high economic and social returns.

100. Mr. Speaker, the Government intends to spend K20,537.4 billion in 2011. In total 82.7 percent of the budget will be financed domestically, while the remaining 17.3 percent will come from external resources.

101. Mr. Speaker, over the last ten years, the Government has increasingly relied on

SECTOR POLICIES AND SUPPORTING EXPENDITURES

EXPENDITURE BY FUNCTIONAL CLASSIFICATIONS

103. Mr. Speaker, in 2011, the Government will continue realigning expenditures away from administration and towards investment in economic and social service delivery. While expenditures on General Public Services will fall below 30 percent for the first time, expenditures on economic affairs, health and education have been increased, and will account for over half of the total budget.

104. Mr. Speaker, the following table presents a summary of expenditures for 2011, categorised by function:

2011 Budget `by Functional Classification, K' Billion

Function and Sub-Function	Allocation (K'Billion)	% of Budget
General Public Services	5,855.5	28.5
Executive	708.9	
o/w Grants to Local authorities	146.2	
Constituency Development Fund	108.0	
Legislation	423.3	
General Government Services	4,478.5	
o/w Domestic Debt Interest	1,170.7	
External Debt	494.6	
Compensation and Awards	169.6	
Elections	244.6	
Centralised Administrative Services	244.8	
Defence	1,485.8	7.2
Public Order and Safety	919.0	4.5
Economic Affairs	5,252.0	25.6
General Economic, Commercial, and Labour	248.9	
o/w Empowerment Funds	76.0	
Agriculture, Forestry and Fishing	1,231.6	
o/w Farmer Input Support Programme	485.0	
Strategic Food Reserve	150.0	
Food Security Pack	15.0	
Fuel and Energy	355.8	
o/w Rural Electrification Programme	314.3	
Transport	3,312.0	
o/w Roads	3,098.0	
Communication	15.9	
Tourism	63.3	
Environmental Protection	121.3	0.6
Housing and Community Amenities	646.6	3.2
o/w Water Supply and Sanitation	555.0	
Health	1,772.9	8.6
o/w Infrastructure Development	152.4	
Recreation, Culture and Religion	108.0	0.5
Education	3,828.8	18.6
o/w Infrastructure Development	444.2	
Social Protection	547.5	2.7
o/w Public Service Pension Fund	358.6	
Social Cash Transfer	42.7	
Grand Total	20,537.4	100.0

GENERAL PUBLIC SERVICES

105. Mr. Speaker, the allocation to the General Public Services, amounts to K5,855.5 billion, or 28.5 percent of the budget. Of this, K1,665.3 billion will be used to service domestic and external debt. I have also allocated K244.6 billion for the holding of elections. In addition, K146.2 billion has been provided for grants to local authorities, and K108 billion for the Constituency Development Fund. Following the approval of the Decentralisation Implementation Plan in 2009, K3.5 billion has been set aside for preparations for sector

devolution, which will commence in 2012. When implemented, sector devolution will move resources and responsibilities for service delivery closer to the people, and will allow for greater transparency and accountability.

AGRICULTURE AND LIVESTOCK

106. Mr. Speaker, agriculture remains at the centre of our development and diversification efforts. This year, our hard working farmers delivered an historic production of 2.8 million metric tonnes of maize. We now want to extend these gains

to areas such as livestock and fisheries by encouraging increased output and greater productivity in this sector. I am, therefore, increasing the allocation for agriculture and livestock to K 1,231.6 billion, from K1,139 billion allocated in 2010.

107. Sir, as the focus of our farmers now shifts to the forthcoming planting season, this MMD Government will continue to stand by their side, helping them to increase output, productivity and incomes. The Government's policy focus, therefore, will be on expanding areas under cultivation and irrigation, promoting the use of better seed varieties and improving linkages between research and extension services. Drawing on the successes of the Farmer Input Support Programme in 2010, I have increased the allocation to the programme to K485 billion in 2011, from K435 billion in 2010. Sir, with these interventions, I am confident that our farmers will deliver an even higher harvest next year.

108. Mr. Speaker, sustaining these bumper harvests requires that we strengthen our marketing arrangements to avoid possible wastage and losses to our farmers. In a region where food deficits are common, Zambia has an opportunity to realise its full potential through the export of surplus production. The Government, therefore, will fully engage with stakeholders to increase their participation in crop marketing and in exploring regional export markets.

109. Sir, in order to continue with our efforts to support farmers in far flung areas of the country and to guarantee national food security, I have allocated K150 billion for the Food Reserve Agency in 2011. I am also concerned about the food security of our most vulnerable households. I have, therefore, decided to increase the allocation for the Food Security Pack programme by 50 percent to K15 billion in 2011.

110. Sir, agricultural extension workers provide frontline support to our farmers. In a continued effort to make extension services more accessible, the Government will

continue to construct and rehabilitate camp houses, step up efforts to increase farmer training, and improve the mobility of our extension workers. For this I have allocated K13.3 billion.

111. Mr. Speaker, overdependence on rain-fed agriculture poses one of the biggest risks to national food security. Currently, less than one percent of Zambia's arable land is under irrigation. In order to step up efforts to bring more land under irrigation, I have allocated K37.2 billion for the construction of dams, irrigation projects and training for small-scale farmers.

112. Sir, now that the Nansanga Farm Block is almost complete, preparatory works at the Luena Farm Block in Kawambwa District will continue in 2011, to pave way for major works to commence in 2012. I have allocated K1.5 billion for the construction of an access bridge and further preparatory works.

113. Mr. Speaker, as I emphasised in my speech last year, the livestock and fisheries sector has tremendous potential to create jobs and serve as a source of diversified economic growth and export earnings. Focus in the sector will be on animal disease prevention and control, and fisheries development. I have allocated K261.8 billion to livestock and fisheries programmes in 2011.

114. In an effort to reduce the incidence of animal disease through the creation of disease-free zones, the Government will, in 2011, construct livestock service centres in five districts in Northern Province, four districts in Southern Province, two districts each in Central and Western provinces, and one each in North-Western and Eastern provinces. In addition, disease checkpoints will be constructed across the country, and more vaccines will be procured in 2011. For these activities, I have allocated K26.6 billion in 2011. In addition, K21.8 billion has been provided for fish breeding, and aquaculture extension services.

TOURISM

115. Mr. Speaker, prospects remain bright for our tourism sector over the medium-term, in line with a projected uptake in global tourism. For Zambia, tourism continues to represent a key source of jobs, prosperity, and competitiveness, particularly in rural areas. To continue the development of this sector, I have allocated K63.3 billion in 2011. The main focus in the sector will be to take full advantage of the recovery in global tourism to reposition Zambia as a premier nature, wildlife, and cultural tourism destination. This will be done through increased marketing activities, for which I have allocated K12.8 billion.

116. Tourism infrastructure development will also continue in 2011, through the development of the Northern Tourism Circuit. With the completion of the Mbala-Mpulungu road, focus will move to complete the Mbala – Kasaba Bay road and the terminal building at Kasaba Bay airport. For this, I have allocated K38.6 billion.

117. In addition, I have allocated K37.7 billion for the development of roads and infrastructure in the Kafue National Park, the development of Lusaka National Park, and the creation of a Tourism “One-Stop Shop” facility which will provide a single window licensing platform for tourism operators. In addition, K1.1 billion has been allocated to upgrade permanent exhibitions at the Lusaka National Museum.

ENERGY

118. Mr. Speaker, as this MMD Government positions the Zambian economy to achieve even higher and more diverse growth, the availability of power will emerge as one of the critical constraints for further growth and development. Our focus over the medium term will be to turn Zambia’s vast energy potential into generation capacity that can be used to light and power our homes and businesses for decades to come.

119. Sir, this is a Government that values action over empty promises. I am pleased to report to this House that progress has been made on a number of energy projects across the country. Impressive progress is being made on the Kariba North Bank Extension Project, which is on-track to commence operations in 2013. Work on the 600 megawatt Kafue Gorge Lower project is now expected to commence by mid-2011, and will be one of Africa’s largest public private partnerships in the energy sector. The project will be developed by Zesco, in partnership with Sino Hydro Corporation of China, and is likely to be completed by 2016.

120. Sir, work will also start in 2011 on the Kabompo Gorge and Kalungwishi projects. When completed over the medium-term, these projects will add about 258 megawatts in generation capacity.

121. Mr. Speaker, rural development cannot take place without sustainable energy sources. The Government will, through the Rural Electrification Programme, develop mini-hydro power stations and extend access to electricity in rural areas, helping to open these areas to investments and reduce the rural-urban divide. I have, therefore, increased the allocation for the Rural Electrification Programme to K314.3 billion in 2011, from K234.7 billion in 2010. This is the first step in attaining the Government’s SNDP target of increasing rural access to electricity from 3 to 15 percent of the rural population by 2015.

TRANSPORT AND COMMUNICATION

122. Mr. Speaker, the power of an all-weather road in bringing development to a rural area is only matched by the power that the mobile phone can bring in providing access to information and communication. Together, the road and mobile phone have partnered to transform the lives of Zambians, even in the most remote parts of the country. In this partnership, the Government is investing substantial resources in road development, while the

private sector has taken the lead in enabling millions of Zambians to communicate more easily.

123. Sir, this partnership has proven to be one of the most effective weapons in our unwavering effort to empower our people. In furthering this partnership, I have more than doubled the allocation for road infrastructure development, from K1,461.9 billion in 2010 to K3,098 billion in 2011. Of this, K2,881 billion will be spent in road construction and rehabilitation, and K150.8 billion will be spent on the building and maintenance of bridges.

124. Mr. Speaker, let me outline some of the major road works that will be undertaken in 2011:

- (a) Mongu – Kalabo;
- (b) Kalabo – Sikongo - Angola Border;
- (c) Sesheke – Senanga;
- (d) Landless Corner – Mumbwa;
- (e) Kabompo – Chavuma;
- (f) Isoka – Muyombe;
- (g) Chipata – Mfuwe;
- (h) Chipata – Lundazi Lot 2;
- (i) Mukuku Bridge – Samfya; and
- (j) The “Bottom Road” from Siavonga to Sinazongwe.

125. In addition, the Government will continue with its programme of constructing and rehabilitating rural feeder roads. For this, each provincial rural roads unit will receive K6 billion in 2011. Roads will also be rehabilitated in the urban areas of Lusaka, Chingola, and Chipata, among others. Further, bridges will be constructed across the country, including at Mufuchani, Sioma, Lufubu, and Chiawa.

126. Sir, I have allocated a further K28.4 billion for the rehabilitation and upgrading of airports and airstrips, including at Kasaba Bay, Mansa, Kasama and Mongu.

127. Sir, the full details of all these infrastructure programmes will be available in the work plans of the Road Development Agency and the Ministry of Communication and Transport.

128. Mr. Speaker, the total allocation to the transport and communications sector, amounting to K3,327.9 billion, is historic and unprecedented. This is unequivocal evidence of a proactive Government laying the foundations for the prosperity for our children and our children’s children.

129. Mr. Speaker, I have repeatedly stated that this MMD Government is in a hurry to bring progress and prosperity to all. Sir, this is just the beginning.

EDUCATION AND SKILLS DEVELOPMENT

130. Mr. Speaker, in line with our focus on human development under the SNDP, I have allocated K3,828.8 billion, or 18.6 percent of the total budget, to education and skills development in 2011. This represents a 15.3 percent increase from the 2010 Budget. The allocation reflects the MMD Government’s continuing commitment to facilitating the empowerment of our citizenry with the knowledge and skills to fight poverty, disease, and ignorance.

131. Sir, over the last five years, the Government has followed a dual strategy of accelerating infrastructure development, while ensuring requisite staffing of the newly built facilities. This programme will continue in 2011 and over the SNDP, with additional emphasis on upper basic, secondary and tertiary education.

132. Mr. Speaker, the Government will continue with infrastructure creation and rehabilitation in the education and skills development sector. In 2011, the Government will complete the construction of 7 high schools in Central Province, 5 high schools and 1 basic school in Copperbelt Province, 6 high schools and 3 basic schools in Lusaka Province, 4 high schools and 6

basic schools in Luapula Province, 1 high school and 3 basic schools in Eastern Province, 5 high schools each in Northern and North-Western Provinces, 4 high schools in Southern Province, and 18 basic schools in Western Province. For these and other infrastructure projects in the education sector, I have allocated K444.2 billion in 2011. In addition, I have provided K36.5 billion for construction and rehabilitation of training institutes and research centres across the country.

133. The full details of these infrastructure projects will be available in the work plan for the Ministries of Education and Science, Technology and Vocational Training.

134. Sir, new schools need new teachers, desks, and books. In 2011, the Government will recruit 5,000 teachers, for which a provision of K131.6 billion has been made. Another K46.4 billion has been provided for the procurement of desks and learning materials.

135. Sir, this MMD Government appreciates the significant contribution that our teachers and lecturers make by endowing our youth with the knowledge and life skills they need to become productive citizens. It is in this spirit that we have provided a total of K159.9 billion towards the dismantling of personnel related arrears to our teachers and lecturers.

HEALTH

136. The Government continues to make steady progress in the health sector through investments in infrastructure and human resources. In the continued absence of commitments from Cooperating Partners in the health sector, I have increased the allocation of domestic resources to the health sector by 30.1 percent. In 2011, I have allocated K1,772.9 billion to the sector compared to K1,362.5 billion in 2010. This is a demonstration of our resolute commitment to ensuring that service delivery is not compromised at our health posts, health centres, and hospitals.

137. Sir, I have allocated K114.3 billion for infrastructure development in the sector. These resources will be used to construct and rehabilitate district hospitals at Serenje, Chama, Samfya, Lufwanyama, Chongwe, Chiengi, Nakonde, Kaputa and Shang'ombo; six health centres in Northern and Luapula provinces; 16 nurses' flats in each of the following districts: Chipata, Solwezi and Mansa. In addition, our programme of building, rehabilitating and upgrading rural health posts and urban health centres will continue.

138. Sir, the full details of these infrastructure projects will be available in the work plan for the Ministry of Health.

139. Mr. Speaker, these infrastructure projects need new medical equipment, doctors, nurses, essential drugs, and hospital linen. Our efforts to increase recruitment in the health sector will continue with the engagement of 1,700 doctors, nurses and other essential medical personnel, at a cost of K52.7 billion. I have also allocated K37.5 billion for the procurement of medical equipment. In addition, K117.8 billion has been allocated for the procurement of essential drugs and medical supplies, of which K23.1 billion is for anti-retro-viral medication, and K11.5 billion for vaccines and immunizations.

WATER SUPPLY AND SANITATION

140. Mr. Speaker, we must accelerate our efforts to meet our Millennium Development Goal target of halving the proportion of people without access to safe drinking water and basic sanitation. In this regard, I have increased the allocation for this key sector to K555 billion, representing a 28 percent increase from 2010. These resources will be used to construct boreholes, repair water reticulation systems, and provide pit latrines.

141. Sir, from this allocation, I have provided K179.3 billion towards the National Rural Water Supply and Sanitation

Programme. Of this, K135.8 billion will be used to construct boreholes and water points in rural areas, and K6 billion will be used to provide sanitation facilities at the district level.

142. I have also allocated K166.3 billion towards various urban and peri-urban water and sanitation programmes. Of this, K110.1 billion will go to support the Nkana Water and Sewerage Company to extend water and sanitation facilities to more households in Kitwe, Chambeshi, and Kalulushi. K56.2 billion will be used to improve other water supply and sanitation facilities under the National Urban and Peri-Urban Water Supply and Sanitation Programme. An additional K98.3 billion has been allocated to water supply and sanitation programmes in Eastern, Luapula and Northern Provinces. I have also allocated K97.8 billion for various water infrastructure development programmes in the country.

PUBLIC ORDER AND SAFETY

143. Mr. Speaker, this Government's continued investment in public order and safety has resulted in a safer, more open and vibrant society and economy. In 2011, I have allocated K919 billion towards public order and safety programmes. These resources will be used to:

- (a) Complete prisons in Mwembeshi, Livingstone, Luwingu, and Kalabo;
- (b) Complete construction of a forensic laboratory in Lusaka;
- (c) Construct and rehabilitate immigration border control centres in Kamapanda, Kilwa Island, Kambimbi, Namafulo, Sindamisale, Kanyala, Imusho, Vubwi, Chikalawa, and Chipungu; and
- (d) Complete the construction of police and prison officer housing in Kasama, Chipata, and Livingstone.

144. In addition, Sir, the Government will continue with its programme of constructing and rehabilitating of local courthouses

across the country. For this, I have allocated K40 billion.

SOCIAL PROTECTION

145. Mr. Speaker, the Government has a responsibility to assist its citizens to plan and prepare for when they are no longer in active employment, and to protect those who are most vulnerable in our society. In this regard, the Government has allocated a total of K547.5 billion towards social protection activities in 2011.

146. Of this amount, K358.6 billion has been allocated to the Public Service Pension Fund. These resources will help ease the financial challenges faced by the institution, and reduce waiting periods for public service retirees before they obtain their pension benefits. In addition, a total of K42.7 billion has been allocated to the Social Cash Transfer Programme being piloted by the Government in collaboration with its Cooperating Partners.

EMPOWERMENT FUNDS

147. Mr. Speaker, the spirit of entrepreneurship runs in every Zambian. This Government will continue encouraging this spirit, and will empower our citizens, particularly our women and youth entrepreneurs, with affordable capital to help their businesses flourish. In this regard, I have provided K76 billion for the empowerment funds. Of this amount, K10 billion is specifically for the youth; K26 billion is for women while the balance of K40 billion has been allocated to the Citizens Economic Empowerment Fund.

REVENUE ESTIMATES AND MEASURES

REVENUE ESTIMATES

148. Mr. Speaker, the 2011 Budget is anchored on an expansionary fiscal policy aimed at increasing Government resources to undertake essential public services and

development programmes required by our citizens.

149. Sir, the Government expects to raise K20,537.4 billion in 2011. K15,230.1 billion will be raised from taxes, K539 billion will come from non-tax revenues, and K1,587.7 billion will come as budget and project support grants from our Cooperating Partners. In addition, K1,219.8 billion will be borrowed domestically and K1,960.8 billion will be sourced externally.

150. Mr. Speaker, the summary of the estimates of revenue and financing to support expenditure in 2011 is as follows:

Total Resource Envelope for the 2011 Budget

	(K'billion)	
Tax Revenues		15,230.1
Direct Taxes	7,800.8	
Company Income Tax	1,337.1	
Other Income Taxes	894.7	
Pay As You Earn	3,710.6	
Mining tax	1,858.4	
o/w Mineral Royalty Tax	404.7	
Mining Tax Arrears	554.8	
Value Added Tax	3,998.8	
Domestic	828.5	
Import	3,170.3	
Customs and Excise Duty	3,430.5	
Customs Duty	1,674.5	
Excise Duty	1,756.0	
o/w Fuel Levy	313.8	
Non-Tax Revenue		539.0
Total Domestic Revenues		15,769.1
Domestic Financing		1,219.8
Total Domestic Revenues and Financing		16,988.9
Total Foreign Grants and Loans		3,548.5
Grants	1587.7	
Direct Budget Support	586.6	
Project Support	1,001.1	
o/w SWAPS	220.5	
Foreign Financing	1,960.8	
Project Financing	1,762.0	
Budget Financing	198.8	
Total Revenue and Financing		20,537.4

REVENUES MEASURES

DIRECT TAXES

151. Mr. Speaker, in my first Budget Address to this august House in 2009, I

emphasized Government's firm commitment to provide relief to workers. At the time, we increased the PAYE exempt threshold from K600,000 to K700,000 per month. In 2010, we again increased this threshold to K800,000 per month.

152. Sir, we are a listening Government that is concerned about the welfare of our workers. This is why we want to provide even more relief to them, particularly those in lower income brackets. I, therefore, propose to increase the exempt threshold by 25 percent, from K800,000 to K1,000,000 per month, and to adjust the income bands as follows:

Current PAYE System

Income Band	Tax Rate
K800,000 and below per month	0%
K800,001 - K1,335,000 per month	25%
K1,335,001 - K4,100,000 per month	30%

Proposed PAYE System

Income Band	Tax Rate
K1,000,000 and below per month	0%
K1,000,001 - K1,735,000 per month	25%
K1,735,001 - K4,200,000 per month	30%

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

- (a) increasing the exempt portion of income paid at termination of employment from K25 million to K35 million; and
- (b) increasing the tax credit for differently-abled persons from K1.92 million to K3.0 million per annum.

154. Sir these measures will result in a revenue loss of K222.2 billion but will keep this large sum of money in the pockets of our workers.

155. Mr. Speaker, in order to mitigate the revenue loss as a result of the personal income tax relief that I have proposed, but still raise sufficient resources for our development agenda, I propose the following:

- (a) to align the income tax structure for the telecommunication sector with that applicable for the banking sector. In this regard, profits of K250 million or below will continue to be taxed at 35 percent while any profits above K250 million will now attract a tax rate of 40 percent;
- (b) to increase the property transfer tax rate from 3 to 5 percent; and
- (c) to make interest paid on mortgage for residential property non deductible for tax purposes.

156. Mr. Speaker, these three measures will result in a revenue gain of K61.7 billion.

157. Sir, all these measures will take effect on 1st April 2011.

VALUE ADDED TAX

158. Mr. Speaker, in 2009, the Government revisited its VAT policy on agriculture in order to accelerate our economic diversification programme. As a result, selected agricultural equipment and accessories were zero rated for Value Added Tax purposes. This tax measure, coupled with other policy interventions of the Government and the hard work of our farmers, has delivered an unmatched harvest this year.

159. Sir, now that our small-scale farmers have enough grain to sustain their families, they need hammer mills to turn their maize into mealie-meal. In order to encourage investment in hammer mills and benefit our people, I propose to include hammer mills on the list of agricultural equipment that are zero-rated for Value Added Tax purposes.

160. Mr. Speaker, when the VAT law was introduced, it was meant to expand the revenue base and become a major contributor to tax revenue. This law was also meant to facilitate the Government's achievement of the tax policy objective of shifting the burden from direct to indirect taxation. Put simply, this means less tax on personal income and the taxpayer is given a choice to pay tax at the point of spending.

161. Sir, in order to broaden our VAT base and generate more revenues, I propose to standard rate property and casualty insurance for VAT purposes. I also propose to standard rate fee-based banking services, such as managers/bank cheques, drafts and transfers, and excess withdrawal fees.

162. Sir, these two measures will result in a revenue gain of K109.9 billion.

163. Mr. Speaker, all the VAT measures will come into effect on 1st January 2011.

CUSTOMS AND EXCISE

164. Mr. Speaker, imported electricity attracts a customs duty of 15 percent. Electricity may be imported during power shortages, when Zesco and other power utility providers import electricity to meet the shortfall. This increases the cost and may not be passed onto the consumers under the current pricing system. I therefore propose to remove customs duty on electricity.

165. Sir, I have also proposed to remove customs duty on fire-fighting equipment in order to reduce costs and improve fire safety and compliance in the country.

166. Mr. Speaker, I propose to provide a specific tariff classification for "palm olein" oil at a duty rate of 5 percent so as to align it with the rate applicable to "palm stearin" oil. I expect to raise K5.8 billion from this measure.

167. Mr. Speaker, the policy of Government has always been to align our tax policy to promote local manufacturing, in line with

our diversification objectives. As a result of increased local production capacity, I propose to introduce customs duty of 15 percent on cold-rolled coils, and 25 percent on deformed bars and galvanised cold-rolled coils.

168. Sir, these measures will raise revenues of K1.6 billion.

169. Mr. Speaker, in virtually every shop in the country, plastic bags are provided free of charge to shoppers. These bags cause harm to our environment by littering our townships and blocking our drainage systems. In order to promote environmental-friendly behaviour and discourage the use of these plastic bags, I propose to introduce an excise duty on these bags at the rate of 10 percent. This duty will not apply to paper bags, which are biodegradable.

170. Sir, this measure will generate K1.8 billion.

171. Mr. Speaker, under the current provisions of the law, any person importing goods worth US\$ 500 or more is required to appoint a clearing agent for customs clearance purposes. For our small-scale cross-border traders, the cost incurred in agency fees is too high in relation to their business turnovers. I, therefore, propose to increase the threshold at which an individual requires the use of a clearing agent for customs clearance purposes, from US\$ 500 to US\$ 2,000.

172. Sir, in addition, I propose to remove the requirement for importers to apply to the Commissioner-General for entry of goods for pre-clearance. Honourable Members of this august House may be aware that the introduction of pre-clearance was intended to allow for faster customs clearance of goods and support risk-based interventions by customs officers. By removing the requirement to formally apply to the Commissioner-General for pre-clearance, the Government will streamline the administration of the pre-clearance facility and better facilitate trade.

173. Mr. Speaker, in line with the Government's commitment to reducing the cost of doing business, the Zambia Revenue Authority is implementing reforms to improve customs clearance at our borders. In support of these reforms, commercial importers will be required to register their entries and provide supporting documentation to the Zambia Revenue Authority at least 7 days before the goods arrive at the border or within 24 hours when the goods are accompanied by the importer. This requirement will not only facilitate trade but will also reduce border delays and fraud.

174. Mr. Speaker, in the 1990's the Government introduced a Duty Drawback Scheme to make exporters more internationally competitive. Under this scheme, the tax paid on inputs used to produce exported goods can be reclaimed. Although this law is well intended, exporters have consistently complained about bureaucracy and complications in the claim procedures. In order to continue assisting our non-traditional exporters, especially those involved in horticultural products, I propose to review the system so that simplified procedures for exporters can be introduced.

175. Mr. Speaker, all the Customs and Excise duty measures will come into effect on 1st January 2011.

NON-TAX REVENUES

176. Mr. Speaker, road user charges are one of the main sources of financing for road maintenance under the Road Sector Investment Plan. Current charges, however, are too low to meaningfully contribute to the cost of road maintenance. I, therefore, propose to increase one of these charges, the motor vehicle licence fee, by 50 percent.

177. Sir, this measure will raise K40.7 billion and will take effect on 1st January 2011.

HOUSEKEEPING MEASURES

178. Mr. Speaker, the Government proposes to amend the Customs and Excise, Income Tax, Value Added Tax and the Property Transfer Tax Acts so as to update and strengthen provisions and remove ambiguities in certain sections of these pieces of legislation.

PART V CONCLUSION

179. Mr. Speaker, in a little over a month, the MMD Government will have the privilege of starting its twentieth year as the chosen representatives of our great people. As we step into this twentieth year, there is much to celebrate.

180. In what has been a difficult decade for the agriculture sector, the performance of our farmers over the last two years has been extraordinary. The prospects for agriculture in Zambia have always looked promising, but never as bright as they look today.

181. Today, we stand on the threshold of a new era for the mining sector in Zambia. A sector that is now driven by the spirit of entrepreneurship and private enterprise. A sector whose future is no longer only dependent on just the shine of our copper, but the allure of our gemstones, the lustre of our gold, the power of our uranium, the abundance of our manganese, and the promise of our oil.

182. Sir, as we reflect on these successes, we should not forget that Zambia was once a middle-income country. In 1964, Zambia's per capita income was just over US \$1500, far higher than in Botswana, South Korea or Thailand. In just two decades, it had fallen by almost half, reaching US \$785 in 1984. By the start of the new millennium, our per capita income had again fallen by half, to US \$365, one quarter of what it was at independence.

183. Mr. Speaker, in the last ten years of this MMD Government's stewardship, per capita income has increased by three times. We are now within hair's breadth of middle-income status once again.

184. Sir, these economic achievements are a tremendous success. We have not stumbled into this historic occasion by accident. Rather, it is an outcome of bold decisions and sacrifices that we as Zambians have made over the last two decades. For the last nineteen years, the MMD Government has stood by the side of our people, providing them with the investments and policy environment that were needed to help repair and restart the engines of Zambia's growth.

185. Mr. Speaker, translating the benefits of Zambia's economic successes to tangible benefits for our people lies at the very heart of this Government. This budget will deliver these concrete benefits in 2011. How?

We have cut the cost of running Government, so that we can spend more than half our budget investing in our people.

We have doubled resources for roads and bridges that will bring the people of this country closer together.

We have substantially increased allocations to water, health, and education, providing the surest foundations for our children's future.

We have returned money to the pockets of our workers to enable them to better provide for their families.

And we will empower more Zambian entrepreneurs than we have ever done before, putting power where it rightly belongs – in the hands of our people.

186. Mr. Speaker, this is a people's budget that empowers our citizens in unprecedented ways by creating opportunities and widening possibilities. But real empowerment is self-empowerment. This is my open challenge to

the Zambian people: use these possibilities to aim higher and reach further to achieve your full potential. Use our roads and bridges. Use our electricity. Use our schools, hospitals, and markets to improve the lives of your families, communities, and this great Nation. This is the vision we have – of an open, honest and unbreakable partnership between the Government and its people, working together to provide for a Zambia that is equally prosperous whether in Mwansabombwe or Mtendere, Nakonde or Nakambala.

187. Mr. Speaker, I beg to move.