

Zambia Budget 2019

Working together

September 2018

“I believe that we have reached a stage in life in the economic development of Africa where moving forward is perilous, moving backwards is cowardice and standing still is suicidal but we must persevere because winners do not quit and quitters never win.”

PLO Lumumba

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2019 Budget – A private sector perspective

The Government Budgeting process tends to follow a continuum of fiscal strategies from one year to the next, but within a medium term framework that targets specific goals.

The linkages between budgets is very important to ensure that every successive budget takes the country closer to the desired goals each year.

Clearly, the 2018 budget was very ambitious in respect to expectations of private sector growth and contributions to the revenues of the nation with targeted higher tax collections compared to 2017 of 30% on VAT, 26% on Company Income taxes, and 86% on Mining taxes. These targets were set against a backdrop of a 290% increase in Government borrowing from the domestic economy which, by default crowded out the private sector from the money markets, and an increase in Government spending of 44% in 2018.

The lesson learned was that it is necessary to attract, facilitate, motivate, and promote private

sector investment through Government strategic planning and regulatory provisions, if the private sector is expected to contribute significantly to Government revenue collection.

One clear message that came through during the 2018 budget year, is that Zambia is managing a growing and debilitating debt stock that is reflected by the huge allocations made towards debt servicing over the last three years.

The impact of Government spending to the tune of K25.9 billion put immense pressure on the treasury at the expense of completion of economy building and infrastructure development.

The Government's mid-term review of the budget execution cycle revealed that as at June 2018, a total of US\$161.3 million or K16.1 billion had been spent on debt servicing which is 14% higher than the resource envelope prescribed for the entire year.

The review also noted that going forward, Government would focus on non-tax revenues and

would reduce borrowing from the domestic market, as the 2019 budget was being formulated.

Taking the various pressures into consideration, and reflecting on the 2018 budget provisions, an analysis of the 2019 national budget which was presented to Parliament by the Minister of Finance Hon. Margaret Mwanakatwe on 28 September 2018 can be made to determine the possible direction of economic and social development of the country in the forthcoming year.

The 2019 national budget is therefore anchored on the footprints made by the 2018 budget and is motivated by the theme "Delivering Fiscal Consolidation for Sustainable and Inclusive Growth".

The total resource envelope for the 2019 budget is set at K86.8 billion which is an increase of 21% compared with the 2018 budget. Significant allocations to debt servicing of K23.5 billion which is 65% higher than the 2018 allocation of K14.2 billion and has become the top most single allocation even beyond the K20.6 billion set aside for Economic Affairs financing. Debt servicing therefore will gobble up 27% of the total budget compared to 19.7% in 2018.

This means less resources to finance the rebuilding of the economy towards economic

liberalization and lower debt exposure as the economy will be stressed and compelled to contract more debt.

The allocations to public order and safety, roads infrastructure development, and social protection have not increased significantly while allocations to environmental protection, health, and education have received higher allocations ranging from 12% to as much as 174% as in the case of housing and community amenities, albeit that around K2 billion is targeted at water supply and sanitation.

The big shifts are recorded on the revenue side of the 2019 budget where claimable Value Added Tax is being scrapped and replaced with the non-claimable Sales Tax. The tax rate is yet to be disclosed.

Furthermore, the 2019 budget makes casual reference to moving towards cost reflective service fees to be charged by the various Government bodies and agencies. 2018 experiences indicate that these costs could be significant barriers to doing business in Zambia as they quickly add to the cost of doing business.

The 2019 budget puts much emphasis on various forms of new ways to collect taxes and non tax revenues which include export duties on leather and manganese,

increased import duties on mineral concentrates, dividends, used tyres, powdered milk, and precious minerals, and the introduction of a new 'windfall tax' on copper exports.

On the positive side, the 2019 budget promotes the use of solar products by scrapping taxes on imports of various solar products. The introduction of transfer pricing checking mechanisms and penalties should discourage tax evasion, and the reduction in company income tax from 35% to 15% for copper value addition investors is a good incentive to motivate new investments.

It becomes quite difficult to see how the economy is going to grow in 2019 given the new business pressures contained in the 2019 budget.

However, there is an opportunity to engage Government in articulating the desire to educate and skill the Zambian people to become more productive human resources and to retain these skills in this economy.

Much as the 2019 budget professes to support the growth of the private sector, but the budgetary provisions do not make the case very strong.

Lessons from yesteryears should be reflected upon, when the Zambian brain drain was in full bloom, and the economy was reduced to shell buildings on the Copperbelt as businesses moved to more lucrative neighboring environments.

Yusuf M. Dodia

Chairperson, Private Sector Development Association



Taxation changes

The Minister of Finance, Hon. Margaret D. Mwanakatwe, MP, on 28 September 2018, announced the 2019 National Budget for the Republic of Zambia. Taxation and other changes as contained in the budget speech and the Zambia Revenue Authority (“ZRA”) publication “2019 Budget – Overview of Tax Changes” are summarised below:

From 1 January 2019, the following measures are proposed to take effect:

Direct Taxes Income Tax

- Reduction of the Corporate Income Tax rate from 35% to 15% for companies that add value to copper cathodes.
- Increase the Withholding Tax (“WHT”) rate from 15% to 20% on interest, dividends and remittance of branch profits to non-residents
- Abolish the current Turnover Tax regime and reintroduce a flat rate of 4% on business turnover below K800,000.

- Limit interest deductions to 30% of EBITDA when ascertaining the taxable income of a company.
- Make Mineral Royalty Tax a non-deductible expense for Corporate Income Tax purposes.
- House Keeping Measure *Amend paragraph 23 of the Fifth Schedule to the Income Tax Act by replacing the term non-contiguous with a more precise term without losing the concept of ring-fencing. This has no impact to mining operations as its aim is to provide a more precise definition of non-contiguous.*

Mineral royalties

- Increase mineral royalty rates by 1.5 percentage points at all levels of the sliding scale.
- Introduce a fourth tier mineral royalty rate of 10% for copper that will apply when prices go beyond US\$7,500 per metric tonne.

- Increase the mineral royalty rate on cobalt from 5 percent to 8 percent.
- House Keeping Measure *Amend Section 89(3) of the Mines and Minerals Development Act to extend the liability to account for mineral royalty, where it has not been accounted for, to any person in possession of the minerals.*

Transfer Pricing

Transfer pricing continues to be key on the agenda of the Government of Republic of Zambia. We consider that this is, in part, accelerated by the OECD’s Base Erosion and Profit Shifting (“BEPS”) 15 Action plans. The OECD referred to BEPS as tax avoidance strategies that exploit gaps and mismatches in tax rules to, artificially shift profits to low or no-tax locations.

In April 2018, the Government issued Statutory Instrument (“SI”) No. 24 of 2018 that provides detailed guidelines on the approach to be taken by taxpayers to substantiate their arm’s length assertions, and transfer pricing documentation.

The Minister has re-affirmed governments focus on transfer pricing and has proposed the following changes:

- *Removal of the limitation requirement to retain records for up-*

to six years in respect of documents for transfer pricing purposes and allow for assessments to be made beyond the period of six years but not exceeding 10 years.

The proposed measure will allow for assessments to be raised beyond the current 6-year statute of limitation, and provide for the ZRA to collect any unpaid taxes on related party transactions going back 10 years.

- *Increase in penalty for non-compliance with the transfer pricing regulations from 10,000 penalty units (K3000) to 80 million penalty units (K24,000,000)*

The TP Regulations require that taxpayers that have carried out transactions with associated parties should prepare and retain contemporaneous documentation evidencing the arm’s length nature of the controlled transactions for the relevant charge year. The documentation is considered contemporaneous if it is in place by the due date of the annual income tax return, i.e. 21 June 2019 for the 2018 tax charge year.

Taxpayers should therefore ensure that they are fully compliant with the transfer pricing documentation requirements by 21 June 2019 to avoid the increased penalty.

- *Limit the deductibility of interest on debts owed by a taxpayer to 30% of the Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for purposes of company income tax. This measure excludes businesses on the turnover tax system and those registered under the Banking and Financial Services Act, and Insurance Act.*

Currently, the ITA provides for specific thin capitalization rules for mining companies that limits the deduction of interest where the debt to equity ratio exceeds 3:1. However, there was no prescribed debt-to-equity ratio in legislation or published guidance for non-mining companies. This measure therefore provides clarity on thin capitalisation rules.

The proposed measure is aimed at addressing BEPS involving interest and payments that are economically equivalent to interest. It aligns Zambia's thin capitalisation rules with

BEPS Action 4, on limiting base erosion involving interest deductions and other financial payments.

Value Added Tax

- Abolishment of the Value Added Tax system and its replacement with a Sales Tax system.

It is proposed that the Value Added Tax system should be abolished and replaced by a Sales tax system. Sales tax is a tax that is collected by a retailer on the final sale of goods or services to the end consumer.

Implementation of this measure has been deferred (it will not apply from 1 January 2019). The Minister recognises the need for the Zambia Revenue Authority to finalise audits of all outstanding VAT refund claims and enforce all outstanding VAT assessments in order to collect any unpaid taxes.

We expect that certain transactions such as the sale of selected foodstuffs, educational materials, medicine, financial services, and exports to be exempt from the sales tax.

Multiple points of taxation could be one of the major challenges but can be mitigated by providing exemptions to registered resellers.

- **House Keeping Measures**
The following House-Keeping Measures have been proposed under VAT:
 - Amend Section 2 of the VAT Act to replace the definition of “fiscal cash register” with Electronic Fiscal Device “EFD”.
 - Amend Section 44 of the VAT Act to provide for the prosecution of the directors or managers of a company, where the company commits an offence under the VAT Act.

Customs and Excise Duty

- Introduction of Customs Duty on importation of Copper and Cobalt Concentrates at the rate of 5%
- Introduction of Export Duty on precious metals including gold, precious stones and gemstones at the rate of 15%
- Introduce Excise Duty of 30 ngwee per litre on non-alcoholic beverages
- Increase Excise Duty on plastic carrier bags to 30% from 20%
- Increase Customs Duty on used and re-treaded tyres from 25% or K3 per Kg to 40% or K5 per Kg
- Increase Customs Duty on powdered milk to 15% from 5%
- Increase in the period of absence from Zambia required for a returning resident to qualify for a rebate on Customs Duty payable

on a motor vehicle per household from 2 to 4 years

- Lift suspension of Export Duty on Manganese Ores and Concentrates and reintroduce Export Duty of 15%.
- Lift the ban on the export of raw hides and skin and introduce an Export Duty of 10%.
- Suspension of Customs Duty on Light-Emitting Diode (LED) lights

We note that the wording of the proposed measure presents this as a suspension rather than a removal of the Customs Duty. It is therefore not clear at this stage whether the customs duty will be re-introduced in the near future, when national energy consumption levels are matched with production.

- Removal of Customs Duty rebates in the construction of shopping malls

Key house Keeping Measures

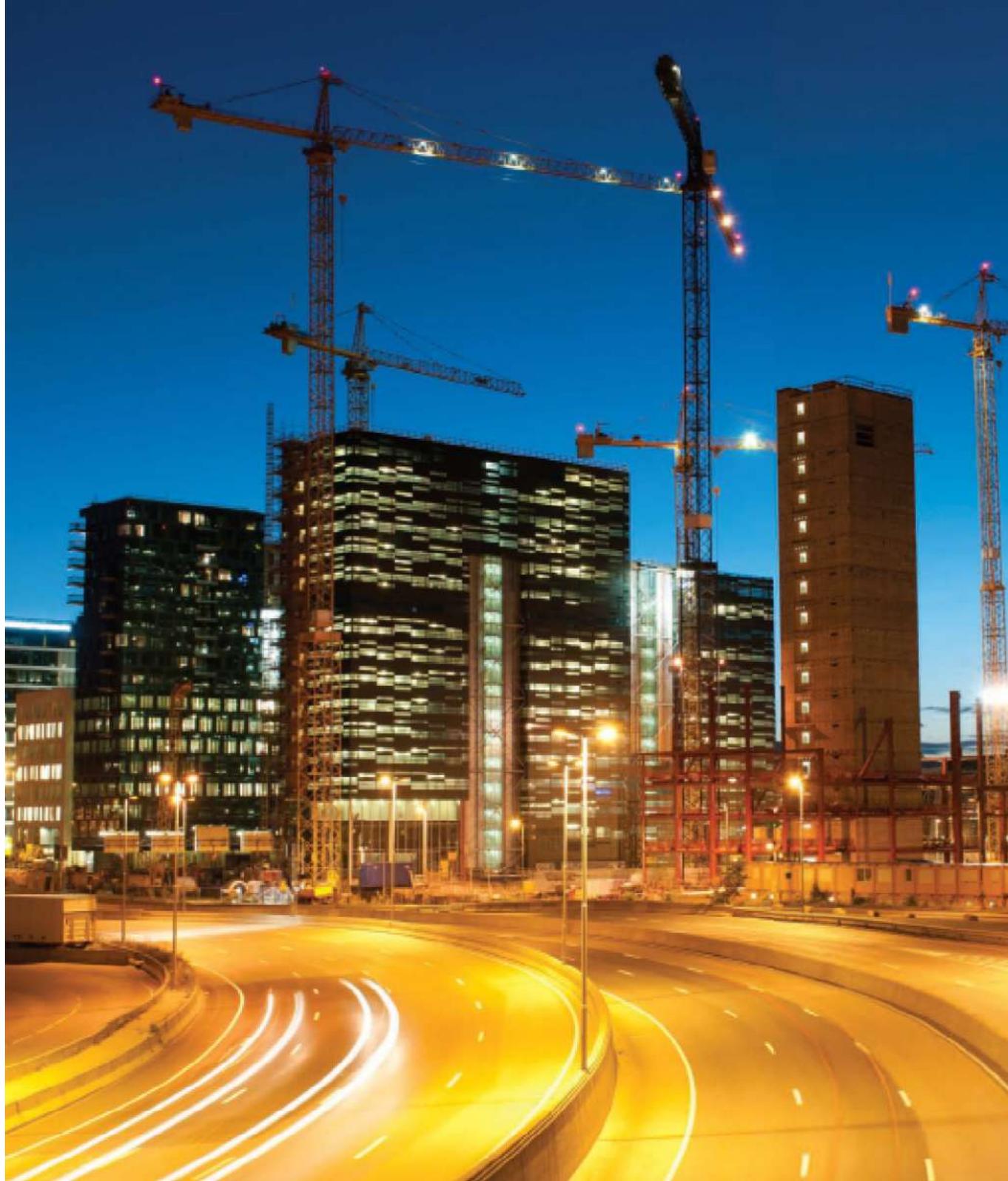
- Amend the Section 34 of the Customs and Excise Act by the insertion of a new subsection 34(2) (e) to provide for the dispensation of a bill of entry for personal vehicles used by persons transiting through Zambia and allow for the use of the Integrated Border Declaration Form.

- Amend Section 191(a) of the Customs and Excise Act by the deletion of the words “customs duty and surtax” and substitution therefore of the word “duty”.
- Amend Regulation 20 of the Customs and Excise (General) Regulations to provide for the Integrated Border Declaration Form on which a personal vehicle transiting through Zambia shall be cleared.
- Amend Regulation 51 to allow arriving passengers to purchase goods from duty free shops situated in the arrival halls at international airports in Zambia.
- Require all importations of gaming machines and equipment to be accompanied by a valid license from the regulator.
- Amend the Customs and Excise Act by providing for a penalty regime for offences committed by providers of excisable services.
- Amend the first schedule to the Customs and Excise Act by subdividing heading 2206 to provide for a separate tariff line for ciders and treat the ciders the same as lagers (of heading 2203) for duty purposes.

Casino, lottery, betting and gaming taxes

20 percent casino levy has been abolished and a new tax regime has been introduced as follows:

- i. Casino live games at 20 percent of gross takings;
- ii. Casino machine games at 35 percent of gross takings;
- iii. Lottery winnings at 35 percent of net proceeds;
- iv. Betting at 10 percent of gross stakes; and
- v. Gaming at K250 to K500 per machine per month



Sector Analysis

Pillar One:

Economic Diversification and Job Creation

Agriculture, livestock and fisheries

In order to uplift the living standards of Zambians, Government recognises the importance of a diversified and export oriented agriculture sector.

To achieve this the Government will do the following:

- The stocking and restocking, artificial insemination and construction and rehabilitation of infrastructure for livestock and the facilitation of access to both local and foreign markets for livestock products with a strategic focus on the exportation of goats to Saudi Arabia.
- Continued support for the E-voucher system.

In the fisheries subsector the government aims to promote cage fish farming on Lakes Mweru, Kariba, Tanganyika, and Bangweulu as well as along the Kafue River at Kasaka and in the water bodies of Western province. This will be done under the auspices of the Zambia Aquaculture Enterprise Development Project.

Improvement of productivity

Low productivity over the years has been attributed to over dependence on rain fed agriculture, poor agricultural practices and limited mechanisation. Other challenges include poor market linkages and low value addition to agricultural output due to inadequate agro-processing industries.

To address this the Government proposes to:

- Develop irrigation infrastructure at Mwomboshi in Chisamba, Musakashi in Mufulira and Lusitu in Chirundu in order to bring an additional 3,000 hectares under irrigation, mainly for small scale farmers;
- Increase land under cultivation, through the revision of guidelines for land acquisition in farm blocks such as Nansanga, Luswishi and Luena to foster Public Private Partnerships in the development of infrastructure;

- To continue with the mechanisation of the agriculture sector. In this regard, the establishment of the US\$100 million tractor assembly plant in the Lusaka South Multi Facility Economic Zone is on course; and
- Continued expansion of the E-voucher system by addressing challenges that affected its implementation during the 2017/2018 farming season. Challenges faced were limitations of telecommunication connectivity, financial services provision challenges and limited information technology. The districts affected by these challenges will be re-introduced on the E-voucher system in 2019, once these are resolved.

Industrialisation

Government has continued to focus on industrialisation to drive economic growth. To achieve this, the Government;

- Actualised investment in multi facility economic zones estimated at US\$3.3 billion;
- Will implement the national local content strategy aimed at fostering business linkages between small, medium and large enterprises;
- Will promote use of locally available inputs in industrial processing;

- Through the Zambia Development Agency, implement business linkage programme in order to create synergies in industry and markets access for micro, small and medium enterprises;
- Will support the buy Zambia campaign by purchasing locally made products; and
- Will make investments through Industrial Development Corporation in:
 - Pineapple processing in North Western Province.
 - Fruit Processing in Eastern Province.
 - Cashew nut processing in Western Province.
 - Out grower schemes for palm oil trees in Muchinga Province.

Regional and International Trade

To foster regional and international trade the Government has implemented a One Stop Border Post at Kazungula border post which is set for completion in 2019. Further construction works at Mwami Border are earmarked to commence in 2019.

Enhancement of border management will see the use of the National Electronic Single Window for trade facilitation. The ultimate objective is to ensure that trade is facilitated through single payment points that avoid multiple interventions at our borders.

Tourism

Tourism continues to be one of the key sectors for the creation of decent employment opportunities in the spirit of reducing poverty and inequality. In the medium term, the key focus in the tourism sector will be the diversification of tourism products and promotion of domestic tourism. Other key interventions will be development of tourism related infrastructure, and improving the regulatory framework.

In this regard, the Government will:

- Integrate the country's rich cultural heritage into tourism packages beyond traditional ceremonies, aimed at increasing foreign tourists stay;
- Implement strategies that shall target the citizens and residents, as well as promoting activities such as the use of lower domestic charges;
- Continue with the restocking of wildlife in areas where numbers have been depleted; and
- Promote international conference tourism by the upgrading and expanding of Mulungushi International Conference Centre, allowing for hosting of key summits and meetings.

Mining

As an important source of foreign exchange earnings for the country, the mining sector will continue to play a critical role in the economy. Copper prices averaged US\$6,723 per tonne in the first eight months of 2018 compared to US\$5,892 per tonne in the same period in 2017. However, the prices moderated after the first half of the year and are now around US\$6,000 per tonne.

Government will continue to promote exploitation of industrial minerals and gemstones by making available geological information. To promote small-scale mining, the Development Mineral Capacity Building Programme, with the support of cooperating partners, will continue. The major intervention will be promotion of environmentally and socially responsive mining.

Government has gained traction in the implementation of the Mineral Production Monitoring Support Project aimed at enhancing monitoring of mineral production and exports. Currently, all the large-scale mining companies are on the system. In 2019, the Government aims to extend the system to cover small and medium mining companies as well as other minerals beyond copper. The system will empower Government to collect accurate revenue from mineral royalties and other mining taxes.

Energy

The energy sector continues to be a key driver of economic growth, diversification and creation of employment. To enhance its contribution to economic growth, the Petroleum Management Bill which will, among other things, facilitate enhanced participation of the private sector in the procurement and financing of petroleum products will be introduced to Parliament.

In the electricity subsector the Government has continued to diversify the country's electricity generation pool with the development of the 300 megawatt coal fired thermal power plant in Maamba, the 750 megawatts Kafue Gorge hydro power plant and the construction of the 100 megawatts Solar power plant in the Lusaka Multi facility economic zone whose completion is expected in 2019.

Under the Scaling Solar Initiative, the Government aims to generate at least 600 megawatts of electricity from solar energy.

In addition the preparation process towards the construction of the 2,400 megawatts Batoka hydropower plant co-financed by Zambia and Zimbabwe will continue in 2019.

Transport, information and technology infrastructure

The Government has allocated K6.5 billion for road infrastructure which represents 7.5% of the budget. This is a significant reduction compared to 2018 where it was 12.1% of the budget. With these funds, the Government will continue to implement various infrastructure programs such as the Link Zambia 8000, township roads, rural connectivity and maintenance of roads.

The Government will continue with the National Road Tolling programme that has proved successful in raising revenue for road maintenance. In the first eight months of 2018, the Government raised K194.1 million, 41% more than the same period in 2017. In 2019, 11 additional toll sites will be commissioned in addition to the 14 already commissioned and the 6 expected to be completed by end of 2018.

The expansion and modernisation of the Kenneth Kaunda International Airport has reached 75 percent completion and is expected to be completed in 2019. The construction of the Copperbelt International Airport has commenced. The Government in 2018 has transferred 10 airports to the Zambia Airports Corporation Limited that include Chinsali, Choma, Chipata, Kasama, Mansa,

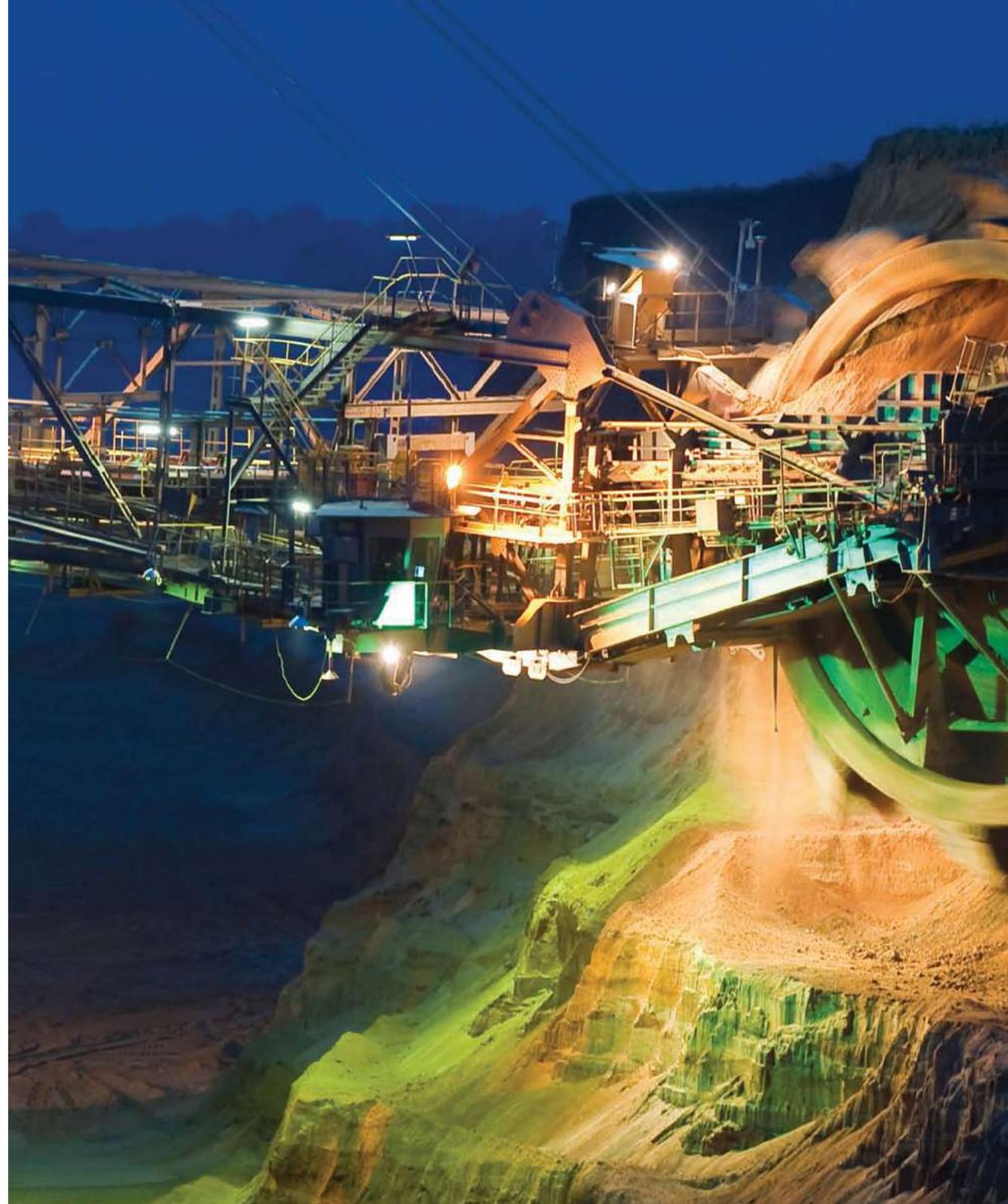
Mongu, Kasaba Bay, Mbala, South Down, and Solwezi Airports.

The aim is to enable these to be professionally managed resulting in increased value and revenue from the airports.

To achieve universal access to communication services, the Government has implemented a programme to construct 1,009 communication towers across the country of which 318 towers have already been erected out of which 193 are operational. A further 300 towers will be erected in 2019. The increased coverage is expected to promote the use of electronic platforms by the larger population, enhance efficiency in private sector, Government, and facilitate financial inclusion.

The Government has embraced the use of information and communication technology as part of its strategy to reduce running costs and promote efficiencies through the introduction of a number of electronic platforms. These platforms, which have started paying dividends through reduced cost of running Government, include e-cabinet, e-payslips, e-payments, e-voucher and e-visa.

To enhance transparency and regulatory compliance in the telecommunications sector, the Government will operationalise the Telecommunications Traffic Monitoring System in 2019.



Pillar Two:

Reducing Poverty and Vulnerability

The Government proposes to continue with its drive to implement social protection and climate change programmes for the benefit of the most vulnerable in society. Among such social programmes are the following:

Social Cash Transfer Scheme

The Social Cash Transfer has seen an increased number of beneficiaries to over 632,000 on the programme in 2018 from 590,000 in 2017. In 2019, the Government will maintain a target of 700,000 beneficiaries.

Home Grown School Feeding Programme

The school feeding programme aims to increase enrolments, reduce absenteeism and enhance children's nutritional status and cognitive development. The Programme currently covers 956,000 early childhood and primary education learners in 38 districts and is expected to cover 1,250,000 children by 2019.

Women Empowerment Programme

Government with support from the World Bank has been empowering girls and women through the Education and Women Empowerment Livelihood Project. A total of 22,000 women beneficiaries have been empowered with a view to increase this by a further 19,000 for 2019.

Government is also implementing the electronic Single Registry of Beneficiaries under the Food Security Pack, Village Banking, Public Welfare Assistance Scheme, Women Empowerment Programme, Supporting Women's Livelihood Project and the Social Cash Transfer Scheme. This is aimed at monitoring all social protection and empowerment programmes.

Youth Empowerment

To empower the Youth, Government will focus on providing educational and life skills training to out of school youths. Government aims to train at least 3,000 youths (2018: 2,500).

Government will also resettle 400 youths at Mwange and Mufumbwe Youth Resettlement Schemes where they will be provided with free land, equipment and start-up kits to engage in agriculture and agro related activities.

Other schemes

Other schemes are also expected to continue in other areas such as the following:

- **Public Welfare Assistance**

Scheme: This programme enables vulnerable people to have access to education and healthcare. In 2019, the Government is committed to continue providing shelter, food, clothing, bursaries and other basic needs through the scheme to incapacitated households and individuals across the country.

- **Food Security Pack:**

This programme supports vulnerable but viable farming households. The Government provided agricultural inputs to 27,650 households in 2017/2018 and plans to double household beneficiaries to 80,000 from 40,000 in the 2018/2019 farming season.

- **Climate change and disaster risk reduction:**

Government has continued to implement a number of interventions in the areas of early warning systems, climate change adaptation, climate

change mitigation, and resource mobilisation.

Government is working towards improving access to weather related information for farmers. Further, the capacity for analysing climate information to assess risk is being strengthened. This will result in increased adoption of climate resilient agricultural practices.

To assist communities adapt to the adverse effects of climate change, various adaptation projects are being implemented, with the major intervention being the Pilot Programme on Climate Resilience in Western, Southern, Central and Lusaka Provinces.

In contributing to global efforts to reduce the carbon footprint, Government launched the US\$32.8 million, Zambia Integrated Forestry Landscape Project in Eastern Province. The project is expected to improve livelihoods, protect the environment and involve communities in sustainable management of natural resources such as forestry and wildlife. Government has also submitted a US\$100 million project to the Green Climate Fund in a bid to spur investment in the renewable energy sector thereby reducing greenhouse gas emissions.

Pillar Three:

Reducing Development Inequalities

Government continues to focus on the disparity that exist between rural and urban areas focusing on investing in rural infrastructure development. Accordingly, Government will:

- Continue with water resource management, national urban water supply and sanitation and the national rural water supply and sanitation programmes. These programmes will involve construction and rehabilitation of bulk water supply infrastructure, small dams and drilling of boreholes;
- Construct economic infrastructure such as feeder roads, communication and rural electrification infrastructure;
- Accelerate the implementation of the Decent Work Country Programme with the aim that all

workers have decent employment that guarantees them of social protection and protection of rights at places of work;

- Intensify labour inspections to ensure compliance with the labour laws and the protection of workers' rights; and
- Holding of Provincial Expos in order to attract investments in Provinces.

Pillar Four:

Enhancing Human Development

The Seventh National Development Plan identifies three components of human development namely education and skills development, health and improved access to water supply and sanitation.

Education and skills development

For 2019, Government's focus will be to ensure increased access to education and skills at all levels. In order to achieve this, Government will continue to focus on construction and rehabilitation of education facilities at all levels, provision of learning materials, and continue creating an enabling environment for private sector investment in the provision of quality education and skills training.

Government will continue increasing access to and improving quality of education through programmes pre- and in-service training of teachers, provision of teaching and learning materials and ongoing recruitment of teachers. Government will in 2019, prioritise

redeployment of serving teachers to underserved areas with the right mix that includes science, mathematics, and information and communication technology.

Infrastructure development will be a key focus for the Government over the period 2019 - 2022. In line with this, the Government has launched a programme to upgrade 500 existing basic schools to secondary schools to be undertaken from 2019 to 2022 using low cost construction design as a way to increase enrolments at secondary level. The Government has also launched, with the support from the World Bank, the Zambia Education Enhancement Project that is expected to construct 82 high schools across the country.

To ensure affordable teaching and learning materials are readily available in schools, the Government will recapitalise the Zambia Education Publishing House through a joint venture arrangement.

The Government has been implementing a two-tier system that offers learners an opportunity to follow an academic or vocational career path. In view of the success of this approach to skills development, Government will provide additional skills training infrastructure in selected secondary schools across the country to scale up skills training.

To address the challenge of distortions in the labour market arising from a mismatch between the demand and the supply of skills, the Government will carry out a skills demand and supply survey in 2019. This will form the basis for designing curricula for skills development and maintaining an inventory of skills in the country.

For 2019, Government has allocated K13.3 billion (K11.5 billion in 2018) for the Education sector. This accounts for 15.3% of the budget. Out of this, K601.6 million has been earmarked for university and college infrastructure, K258.8 million for completion and rehabilitation of school infrastructure across the country, and K164.0 million to support Government's action, in collaboration with the private sector in building artisan skills relevant to the needs of the industry.

Health

For the 2019 budget, priority will be on ongoing construction of health

infrastructure, ensuring availability and timely supply of drugs, procurement of medical equipment, recruitment of health personnel and establishment of the National Health Insurance Scheme.

In order to increase access to health services, Government will continue to construct and upgrade health facilities across the country.

In order to strengthen and scale up the timely supply of drugs especially at lower levels of healthcare provision, the Government in collaboration with cooperating partners, will continue to establish regional medical hubs to achieve the last mile distribution of drugs and other essential medical commodities. So far, Mpika, Mansa, Choma and Chipata medical hubs have been completed while Luanshya is due to be completed by end of 2018. Mongu and Kabompo are the next scheduled medical hubs.

The Government will continue to recruit frontline health staff to operationalise the newly constructed health facilities and continue on the path to achieve the 30,000 target by 2021, with over 15,000 so far recruited between 2016 and 2018.

To build critical mass of quality of health staff, the Government has embarked on a programme of establishing specialised health



training facilities. Government has established Levy Mwanawasa Teaching Hospital and embarked on upgrading it into a regional medical training hub. Other facilities offering specialised training include Livingstone, Kitwe, and Ndola Teaching Hospitals. Currently, 215 doctors out of the target 500 are undergoing specialised training. Specialised training for nurses in areas such as Oncology, Public Health, and trauma and emergency have also commenced.

To achieve a reduction in maternal infant and child mortality, the Government will provide emergency obstetric and neonatal care equipment, and the supply of vaccines and food supplements for children. To reduce the malaria disease burden, the Government will increase coverage of indoor residual spraying, promote use of insecticide-treated mosquito nets, and strengthen malaria case management.

Zambia has recorded remarkable progress on the Anti-Retroviral Therapy coverage with 800,000 people out of 1.1 million people who are eligible for the treatment on treatment, achieving a coverage rate of 72.7 percent. Zambia is on course towards achieving the UNAIDS global target of testing 90 percent of those living with HIV and ensuring 90 percent of those found to be HIV positive are placed on treatment by 2020.

In order to enhance universal health coverage, the Government enacted the National Health Insurance Act No.2 of 2018. In 2019, the implementation of the Act will commence and this will be done in a phased manner.

Government has proposed to spend a total of K8.1 billion (K6.8 billion in 2018) on the health sector accounting for 9.3% of the budget which is a slight reduction from 9.5% of the 2018 budget. Of this, K900.1 million has been allocated to drugs and medical supplies, K620.2 million on various ongoing infrastructure projects and K32.8 million for community health services. To operationalise the National Health Insurance Scheme, the Government has allocated K10.7 million.

Water Supply and Sanitation

In 2019, Government will continue with improving water and sanitation systems across the country. The key interventions include water resource management, national urban water supply and sanitation programmes. These programs will involve construction and rehabilitation of bulk water supply infrastructure, small dams and drilling of boreholes.

Government has strengthened the regulatory framework in management of ground water resources in order to protect and preserve the water resource from pollution and contamination.

Pillar Five: Creating a conducive Governance environment for a diversified and inclusive economy

Policy, regulatory and structural Reforms

As a key element of the Government's Economic Stabilization and Growth programme, Government will continue with structural reforms across sectors. The focus in 2019 will be on implementing Governments' bold reform agenda in the areas of fiscal and debt management to deliver fiscal consolidation for sustainable and inclusive development. This will be complemented by the following reforms in the monetary and financial sector:

Fiscal policy

In order to attain sustainable and inclusive growth, achieving long-term fiscal sustainability is an important pre-requisite.

Government will in 2019, prioritise spending on social protection and allocations to social sectors in general. These efforts will be supported by public financial management reforms aimed at ensuring more effective use of the available public resources.

Key measures that the Government will undertake include the following:

- Significant reduction in expenditure on administrative parts of the public service so as to prioritize allocations to key service delivery expenditures such as drugs;
- Controlling the growth in the wage bill by restricting recruitment to only 3,500 frontline personnel;
- Scaling down domestically financed capital expenditure by

phasing the completion of existing projects. In this regards, projects that are at least 80 percent complete will be prioritised;

- Increasing domestic resource mobilisation to 18.7 percent of GDP; and
- Curtailing domestic borrowing from 4 percent to 1.4 percent of GDP.

To enhance revenue mobilization, Government will focus on broadening the tax base and enhancing compliance levels. Key measures to be undertaken include the following:

- Digitalisation of all revenue collection processes for the Government services, thereby reducing rent-seeking behaviour;
- Enhancing system interface between Zambia Revenue Authority and other institutions to maximise the use of third-party data in taxpayer compliance management;
- Review the Rating Act to facilitate the mass valuation of properties so that appropriate taxes and fees can be collected;
- Establish a Land Management Authority to deal with all matters relating to the land management and titling. This will accord citizen security of land tenure and boost revenue from ground rent;

- Establish a public auction mechanism for timber and lift the ban on all timber exports; and
- Undertake a review of all existing tax exemptions. This will involve, among others, stepping-up monitoring of all investors who have accessed the tax exemptions to ensure fulfilment of investment pledges.

Debt management policy

In addition to a number of measures undertaken in June 2018 to return the country to a moderate risk of debt distress in the medium-term and to low risk over the long-term, the Government will remain committed to meeting its debt obligations as they fall due and to not take any unilateral action as it designs and implements its debt management strategy. Austerity measures are under consideration for implementation.

Arrears dismantling strategy

Government will continue with the dismantling of arrears and strengthen expenditure commitment control systems in order to curb the accumulation of new arrears.

Monetary and financial sector policy

Key highlights under Monetary and Financial Sector are:

- The promotion of the secondary market for Government securities, to increase liquidity and enhance price discovery in the Government bond market. The Bank of Zambia also aims to introduce a Primary Dealership System in 2019. This will create a more vibrant wholesale and retail market for Government securities.
- The introduction of the Deposit Insurance Bill which will be taken to Parliament for legislation in 2019. The Bill provides protection to depositors in the event of failure of a bank or other deposit-taking financial institution. The Government has already implemented Credit Reporting Act and the Movable Property (Security Interest) Act to reduce the risks associated within formation asymmetry on borrowers.
- The lending rates declined to an average of 23.5% in August 2018 from 26.7% in December 2017.
- To curb the high cost of financial services which constrained business expansion and financial inclusion, in August 2018, the Bank of Zambia issued directives to do away with unwarranted bank charges and fees.

- Operationalisation of the National Financial Switch to further reduce the cost of financial services and modernise payment systems. This will facilitate the integration of automated teller machines, points of sale terminals, mobile and internet banking transactions between participants.
- Price stability continues to be the main focus of monetary policy. This will be achieved by containing inflation within the 6-8 percent range, use of the policy rate as the main signal for price transmission, oversight by the Bank of Zambia of the foreign exchange system though limited to smoothing short term fluctuations in exchange rates and building of international reserves.

Labour law reforms

Government is undertaking labour law reforms to strengthen the protection of rights of workers and has made progress in the harmonisation of various labour laws, by consolidating the Employment Act, the Employment of Young Persons and Children Act, and the Minimum Wages and Conditions of Service Act into a single Labour code.

The Government is also amending the Labour and industrial Relations Act which is aimed at enhancing industrial relations.

These two pieces of legislation will be brought to Parliament for consideration in 2019.

Other reforms

Reforms are also expected in other areas such as the following:

- **Insurance** – The Government seeks to grow the insurance industry by prohibiting the placement of Zambian business with companies not licensed in Zambia, unless approved by the Pensions and Insurance Authority;

- **Decentralisation** - Government will continue to devolve a number of functions to the local authorities. In this vein, Government commenced the implementation of the Human Resource Management Reform Programme in Chibombo District in Central Province during 2018 and the programme is expected to be rolled out to other districts in 2019. Government will also utilise the existing deconcentrated structures to channel financial resources to the district as an interim measure to devolution. This is in line with the principle of “finance follows functions”. Further, Government will review relevant legislation such as the Rating Act, which will allow for mass valuation of properties and strengthen the revenue base and collection efficiencies for local authorities; and

- **State owned enterprises** – The Government will continue to restructure the state owned enterprises with a view to make them competitive, viable and contribute to national development.



Conclusion

It is clear from the pronouncements by the Minister of Finance that the 2019 budget speech seeks to achieve the following:

- Plug revenue leakages through the VAT refunds and replacing it with non claimable sales tax;
- Increase revenue collection by increasing revenue collection from the mining sector;
- Increase revenue collection of local authorities in order to improve service delivery;
- Encourage productivity by focusing on empowering the youth through agriculture activity; and
- Recognising that a healthy nation is a productive nation. This will be achieved through the health insurance bill. In addition, the Government will continue to improve health facilities and training of health personnel such as doctors and nurses.

The Government in the 2019 Budget, has proposed to abolish the VAT system, which is used globally as a revenue collection mechanism, as the view is that this has not worked for Zambia. Instead of generating revenues, there have been significant payments through refunds, especially to the mining sector. The Government will continue to focus on job creation, economic diversification through the focus on agriculture. The overall aim will continue to be increased productivity and reduction in the poverty levels especially among the rural population. The 2019 budget aims to further consolidate the economic gains achieved in 2018 hence the befitting theme of: **“Delivering Fiscal Consolidation for Sustainable and Inclusive Growth”**.

NOTE:

The amendments to legislation proposed in the Budget Address must be approved by Parliament. Changes may occur to the Budget proposals before they are enacted.

Therefore, until legislation has been enacted, these proposals should be read only as an indication of the Government’s intentions.

Similarly, the tax card accompanying this Budget Brief is **provisional in nature**.

This brief is prepared based on the **Minister of Finance’s 2019 Budget Address to the National Assembly** made on 28 September 2018 and the Zambia Revenue Authority publication, **2019 Budget highlights: Overview of Tax Changes**.

While all reasonable care has been taken in the preparation of this Brief, Deloitte & Touche accepts no responsibility for any errors it may contain, whether caused by negligence or otherwise, or for any loss, however caused, sustained by any person that relies on it.

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Appendices

Appendix 1: Statistics

	2018	2017	2016	2015	2014
Economic Indicator					
Nominal GDP (ZMK bn)	305	265	224.3	189.0	165.9
Real GDP Growth (% p.a)	4.0	4.0	2.9	3.1	5.6
Inflation, Period End (% p.a)	7.5	7.0	12.5	8.1	7.8
Central bank policy rate (% end of period)	7.75	11.0	15.5	15.5	12.5
External Debt(US\$ m)					
Debt Stock	9,400	7,560	6,700	5,900	5,500
Debt Service Paid	n/a	n/a	n/a	225	365
Debt Service Due	n/a	n/a	n/a	225	365
Monthly Average 91 Day Treasury (%)					
January	9.5	20.5	22.0	13.5	8.0
July	13.52	12.0	21.0	13.5	8.0
December	n/a	9.5	20.0	20.0	12.0
Commodity Exports					
Copper Production (Tonnes'000)	581.99	770	670	650	730
Average Copper Price (US\$/MT)	6,723	5,827	4,641	5,160	6,829
Exchange Rate					
Average (ZMK/ US\$)	10.17	9.45	10.35	9.19	6.16
Average (ZMK/ZAR)	0.79	0.71	0.70	0.89	0.55
Population					
Population (millions)	17.7	17.1	16.7	16.2	15.7

NA - Not Available

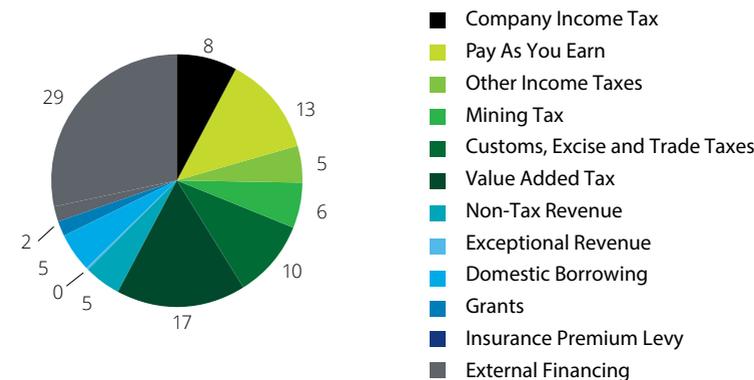
Source: 2013 to 2019 Budget Address, BMI, EIU and World Bank

Appendix 2: 2019 Budget summary

	2019 Budget K' million	2018 Budget K' million	2017 Budget K' million
Revenue			
Company Income Tax	7,222	6,116	4,858
Pay As You Earn	11,421	10,264	9,815
Withholding tax and other Income Taxes	4,621	3,958	3,083
Mining Tax	4,888	3,528	1,891
Customs, Excise and Trade Taxes	8,411	8,099	7,993
Value Added Tax	14,862	12,369	9,463
Non-Tax Revenue	4,243	4,420	5,317
Exceptional Revenue	284	334	519
Domestic Borrowing	4,164	11,153	3,836
Grants	1,924	2,438	2,231
External Financing	24,633	8,984	15,503
Insurance Premium Levy	108	-	-
Total Revenue	86,808	71,662	64,510
Expenditure			
General Public Services	31,277	25,898	17,970
Defence	5,072	3,498	3,204
Public Order & Safety	2,866	2,145	2,343
Economic Affairs	20,651	17,258	20,133
Environment Protection	875	951	616
Housing & Community Amenities	2,239	816	823
Health	8,069	6,782	5,762
Recreation & Culture	297	451	324
Education	13,275	11,562	10,642
Social Protection	2,187	2,301	2,693
Total Expenditure	86,808	71,662	64,510

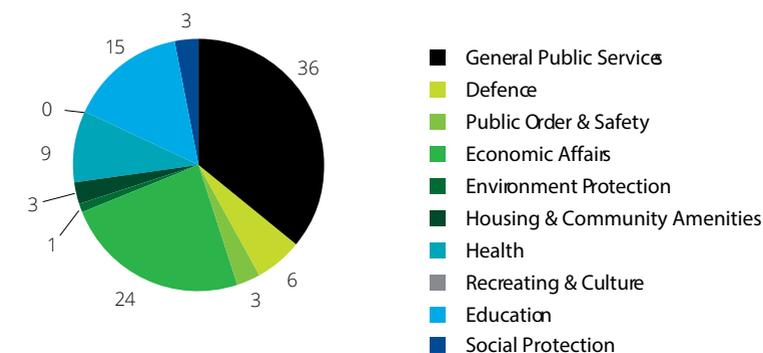
Source: 2016 to 2019 Budget Address

2019 Budget Contribution to Revenue (%)



Source: 2018 Budget Address

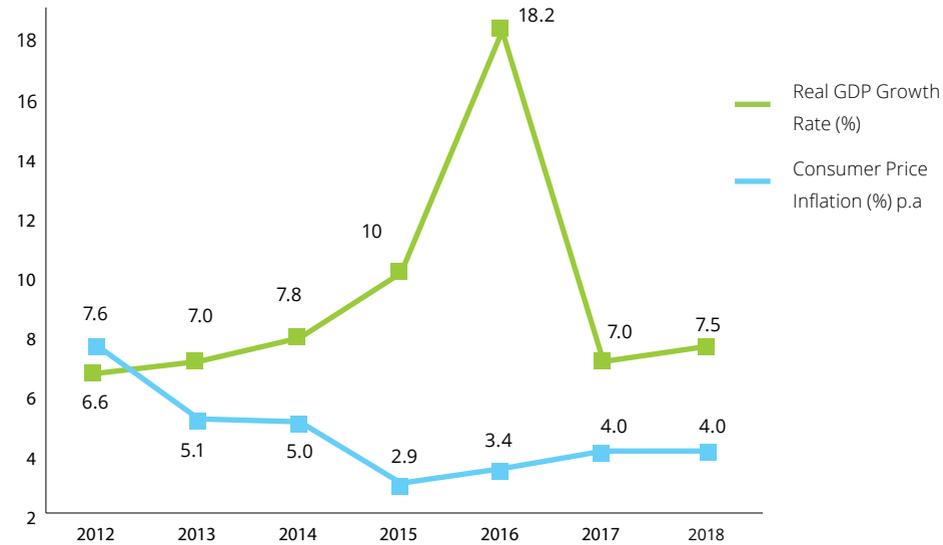
2019 Budget Contribution to Expenditure (%)



Source: 2019 Budget Address

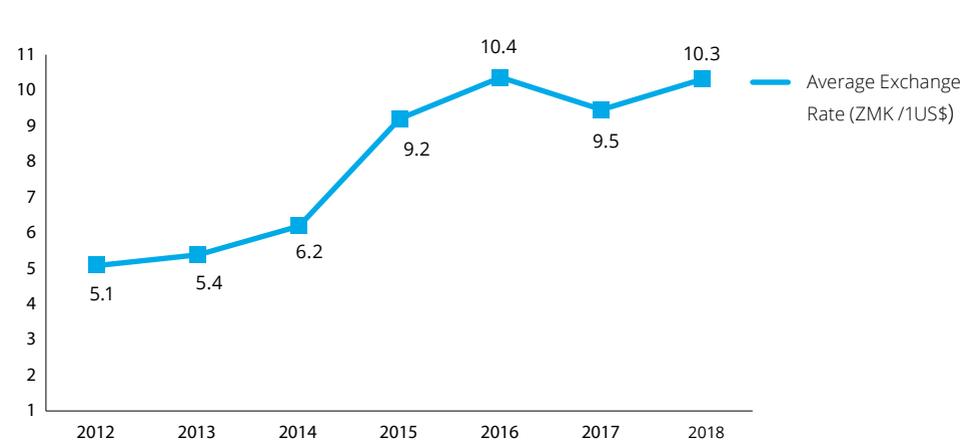
Appendix 3: Graphical economic trends

Inflation and Real GDP Growth Rate (%)



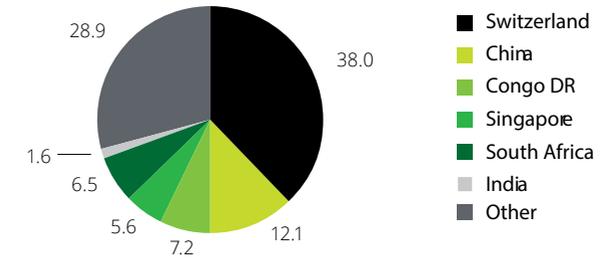
Source: BMI

Average Exchange Rate (ZMK / 1 US\$)



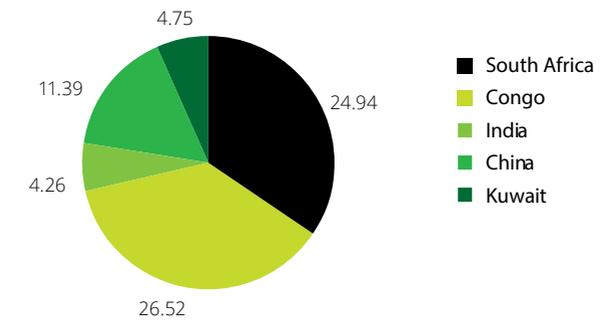
Source: BMI

2018 Export Destination (%)



Source: Central Statistics Office

2018 Origin of Imports (%)



Source: Central Statistics Office

Appendix 4: 2018 vs. 2019 expenditure budget by function

Comparison of Budget Expenditure by Function 2017 and 2018	2018 Budget K'million	2019 Budget K'million	y/y % change	Absolute change K'million	
General Public Services	25,898	31,277	↑	21	5,379
Public Affairs and Summit	235	176	↓	-25	-59
Local Government Equalisation Fund	1,078	1,165	↑	8	86
Domestic Debt Payment	6,972	8,626	↑	24	1,654
External Debt Interest Payment	7,269	14,947	↑	106	7,678
Compensation and Awards	303	200	↓	-34	-103
Zambia Revenue Authority	849	900	↑	6	51
Constitutional Development Fund	218	250	↑	14	31
Defence	3,498	5,072	↑	45	1,574
Public Order and Safety	2,145	2,866	↑	34	721
National Identity Documents	-	25	→	-	25
Economic Affairs	17,258	20,651	↑	20	3,393
Farmer Input Support Programme	1,785	1,428	↓	-20	-357
Strategic Food Reserve/Food Reserve Agency	1,051	672	↓	-36	-379
Rural Electrification Fund	251	182	↓	-27	-69
Roads Infrastructure	8,660	6,502	↓	-25	-2,159
International Airports	941	1,593	↑	100	652
Energy power infrastructure	-	416	→	-	416
Dismantling of Arrears	-	-	→	-	-
o/w Fuel Imports	-	-	→	-	-
Electricity Imports	-	-	→	-	-
Empowerment Funds219.03	-	-	→	-	-
o/w Agriculture & Industrial Credit Guarantee Fund	-	-	→	-	-
Arrears for FISP & FRA	441	-	↑	100	-441
Environmental Protection	951	875	↓	-8	-76

Comparison of Budget Expenditure by Function 2017 and 2018	2018 Budget K'million	2019 Budget K'million	y/y % change	Absolute change K'million	
Climate Change Resilience	458	213	↑	100	-245
Housing and Community Amenities	816	2,239	↑	174	1,422
Water Supply and Sanitation	565	1,985	↑	252	1,420
o/w Lusaka Sanitation Project (Millenium Challenge)	239	175	↓	-27	-64
Kafue bulk Water Supply and Sanitation Project	-	268	-	-	268
Kafulafuta Water Supply Scheme Project	-	417	-	-	417
Nkana Water Supply and Sanitation Project II	-	305	-	-	305
Markets and Bus Stations	18	17	↓	-6	-1
Health	6,782	8,069	↑	19	1,288
Drugs and Medical Supplies	1,200	900	↓	-25	-300
Hospital operations	-	726	-	-	726
Health Infrastructure	-	620	-	-	620
Medical Equipment	52	-	↑	100	-52
Medical Infrastructure and Equipment	275	-	↓	-100	-275
Recreation, Culture and Religion	451	297	↓	-34	-154
Education	11,562	13,275	↑	15	1,713
School Infrastructure	740	259	↓	-65	-481
University Infrastructure	322	602	↑	87	280
o/w FTJ Luapula University	-	443	-	-	443
Student Loans and Busaries	557	557	↑	311	-
School Feeding Programme	-	-	↑	312	-
Skills Development Fund	177	164	↑	313	-13
Social Protection	2,301	2,187	↓	-5	-114
Public Service Pension Fund	1,061	1,061	→	-	-
Social Cash Transfer	721	699	↓	-3	-22
o/w GRZ Contribution	-	-	→	-	-
Food Security Pack	140	111	↓	-21	-29
Grand Total	71,662	86,808	↑	21	15,146

Appendix 5. 2018 vs. 2019 revenue and financing

Comparison of Revenue and Financing 2018 and 2019	2018 Budget	2019 Budget	y/y % change	Absolute change K'million
	K'million	K'million		
Total Tax Revenues	41,140	51,844	26	10,704
Income Tax	20,338	23,291	15	2,954
Value Added Tax	12,369	14,862	20	2,493
Customs and Excise	8,099	8,411	4	312
Other Revenues	-	392	392	392
Mineral Royalty	334	4,888	1363	4554
Non-Tax Revenues	7,947	4,243	-47	-3,705
Domestic Revenue	49,087	56,087	14	7,000
Domestic Borrowing	11,153	4,164	-63	-6,989
Foreign Grants	2,438	1,924	-21	-514
Foreign Financing	8,984	24,633	174	15,649
Total Revenue and Financing	71,662	86,808	21	15,146

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