# NATIONAL ASSEMBLY

## OFFICIAL REPORT

**Thursday, 13th June, 2002**

The House met at 2.30 p.m.

*[Mr. Speaker in the Chair]*

PRAYERS

ARRIVAL OF HIS EXCELLENCY
THE PRESIDENT

*(Mr. Speaker announced the arrival of His Excellency the President, the hon. Daniel Toroitich arap Moi, MP)*

*(Hon. Members rose in their places while His Excellency the President took his seat in the Chair of State)*

**COMMITTEE OF WAYS AND MEANS**

**MOTION**

THAT MR. SPEAKER DO NOW
LEAVE THE CHAIR

**The Minister for Finance** (Mr. Obure): Mr. Speaker, Sir, I beg to move that Mr. Speaker do now leave the Chair. The economy began to recover in the year 2001 during which it grew by 1.2 per cent after the unprecedented negative growth of 0.2 per cent in the year 2000.

*(Applause)*

The recovery, although modest, was a positive and welcome development that our economy was beginning to emerge from the poor performance of the last two years when our income per capita declined, leading to increased levels of poverty and considerable suffering and hardship amongst most of our people.

Despite the rising levels of poverty, we have good reasons to be encouraged, now that our economy has begun to grow. We are encouraged by the resilience of our economy and the resourcefulness of the Kenyan people. We have emerged from one of the severest droughts to have hit country in recent memory, the effect of which continued in the year 2001/2002. In addition to the consequences of the drought, the economy suffered from the adverse effects of the serious downturn in the world economy and the resulting drastic decline in commodity prices, particularly coffee and tea prices.

We were further affected by the continued withholding of the Budget support by the International Monetary Fund, the World Bank and the main donor countries. We are encouraged that our economy, people and Government were sufficiently resilient to withstand those severe and adverse economic events and external shocks. We sustained the economy through the admirable determination of the hard-working Kenyans who courageously weathered the hardships and redouble their efforts to produce bumper agricultural harvests and other goods and services.

The Government facilitated these heroic efforts of hard-working Kenyans by making timely and effective interventions. The Government implemented prudent economic policies and undertook difficult,but necessary political and economic reforms. This disciplined approach enabled the country to achieve excellent macro-economic stability as demonstrated by low inflation, stable and declining interest rates, a stable exchange rate and a comfortable level of foreign exchange reserves. We could not have weathered these adverse conditions without peace and security in our country. I salute all Kenyans for their contributions to peace and stability which we have all enjoyed.

As you all know, the survival of our nation is progress and prosperity which is firmly linked to peace and stability in our region. His Excellency the President Daniel Toroitich arap Moi has championed peace and security in our own country and has been on the forefront in the efforts to resolve conflicts and achieve peace and stability in our region so that, together with our neighbours, we can lead our people out of the present hardships and humiliating poverty.

*(Applause)*

Through you, I thank His Excellency the President for steady stewardship of our nation for his tireless efforts, his strong commitment to political and economic reforms and for his unwavering commitment and leadership on regional peace initiatives.

Mr. Speaker, Sir, I would also like to thank my colleagues in the Cabinet and hon. Members in this august House for the support and co-operation they have given to me since I took over the stewardship at the Treasury. Without the support and understanding of you, and hon. Members in this august House, without the co-operation and strong encouragement of the various Committees of this House, particularly the Committee on Finance, Planning and Trade and the guidance and advice of His Excellency, we could not overcome the challenges which our nation faced in the past year. This patriotic spirit made it possible for the Government to mobilise resources and promptly to remit our financial obligations as they became due. We all look forward to building on these positive relationships and sense of nationalism in facing the challenges that lie ahead.

Most importantly, I would like to thank all Kenyans for their hardwork and willingness to sacrifice and tighten their belts and their strong beliefs in the future of this country. It is the farmers, the workers everywhere; in fact, in the offices, the business fraternity and the *Jua Kali* entrepreneurs who work day and night to produce goods and services which create real wealth for this country. It is from their taxes that we are able to run the Government, deliver services, finance our infrastructure and invest in our future. I commend all hardworking creators of wealth for their continued commitment and dedication which combined to build a strong and competitive economy.

I would like to thank our development partners for their continued projects support. Their assistance has enabled us to implement many development projects which helped---

*(A mobile phone rang)*

**Mr. Speaker:** Order! Will all those gadgets be turned off, including those from Strangers!

Proceed, Mr. Minister!

**The Minister for Finance** (Mr. Obure): Thank you, Mr. Speaker, Sir. The assistance of our development partners has enabled us to implement many development projects which help us sustain our infrastructure, including roads, hospitals and educational facilities. We continue to work very hard to strengthen our partnership with all of our development partners. We shall continue to ask them to increase their support and understanding, to assist us to implement our reforms in order to tackle effectively issues which, impede, productivity and competitiveness of our economy.

The domestic economy has begun to recover and is showing brighter prospects for a renewed growth. All sectors of the economy, except building and construction, recorded positive growth in the year 2001. Several factors have contributed to the brighter economic prospects. These include favourable weather conditions, economic recovery in the rest of the world, stable macro economic conditions in the country, increased demand for information and communication services, favourable tax reforms, expanded access to regional and international markets and the enabling domestic business environment which is steadily improving. We must now move with speed to consolidate our political and economic reforms and to take the necessary measures to put our economy on a higher and more solid recovery path.

Mr. Speaker, Sir, during the next financial year, we shall ensure economic recovery benefits to all Kenyans in order to address the increasing poverty and widening income inequalities. Achieving a higher rate of economic recovery requires taking effective measures to promote higher productivity, competitiveness of our tradable goods and improved enabling environment for investment. These measures will accelerate growth, create employment opportunities for our people and reduce poverty.

Mr. Speaker, Sir, our underlying and fundamental objective in this year's Budget is achieving overall improvement in the quality of life of all Kenyans. The theme of this year's Budget is resource mobilisation and utilisation for accelerated economic recovery. During the fiscal year 2002/2003 and in the medium term, we shall focus all our energy towards: Efficient revenue collection, targeting expenditures to the highest priority activities and eliminating wasteful expenditure. This will be achieved by centralising revenue collection in Kenya Revenue Authority, broadening the tax base, improving revenue collection through improved tax administration, achieving revenue collection targets, allocating expenditure strictly on the basis of the highest priorities established through the consultative process as outlined in our Poverty Reduction Strategy Paper, maintaining firm and strict budget discipline, achieving efficient and effective utilisation of all Government revenue and other resources and lastly, setting realistic measurable benchmarks which will be continuously monitored and evaluated.

Mr. Speaker, Sir, I would like to outline some of the main challenges we face. As stated in last year's Budget, the last six years have been very challenging. It was a period during which Kenya experienced extreme whether conditions with both damaging *El Nino* in 1997 and severe drought in 1999 and the 2000. *El Nino* rains damaged our road network and other infrastructure and caused serious food shortages. The drought drastically reduced our water supply, decimated our hydro-electric supply by about 41 per cent and caused severe food shortages. This negative impact on physical infrastructure adversely affected productivity in all sectors of our economy, but more particularly in the agricultural and manufacturing sectors. We propose to start the process of reducing our vulnerability to whether conditions and start harnessing rain water and storing it in dams to sustain our crops and livestock during the dry seasons. We must do this because extreme wet and dry whether conditions will always be with us and may get worse. In this Budget, we have made various provisions to begin to address this problem.

Mr. Speaker, Sir, our economic performance was made worse by capital outflows from the country. Both official development assistance and foreign direct investment have continued to decline and are now negative on a net basis. Our economy was also negatively affected by the strained relations with the International Monetary Fund and other development partners who suspended disbursement of committed Budget support funds in 1997 and again in November, 2000. Despite intensive dialogue and strengthening of our governance and anti-corruption efforts, the International Monetary Fund has not lifted the suspension on disbursements. We plan to continue our dialogue with the IMF, World Bank and other development partners with a view to restoring their Budget support during the year.

Mr. Speaker, Sir, high real interest rates in Kenya continue to be a major disincentive to the private sector. The private sector continues to have difficulties accessing the funds it needs for investment in expansion projects and new businesses needed to create jobs and improve economic activity. The need to borrow from the domestic market in order to maintain Government expenditure has exacerbated these problems. Unfortunately, the Government uses its funds mostly for recurrent consumption. The Economy is denied investment resources each time the Government borrows the savings of the private sector and uses them for recurrent consumption. During the coming year, we propose to minimise Government borrowing from the domestic markets.

Mr. Speaker, Sir, insecurity in certain parts of our country has contributed to undermining investor confidence and tarnished Kenya's image as a safe tourist destination and a secure place to invest in. The Government is aware that this partly accounts for the decline in foreign direct investment in Kenya. Despite our revenue constraints, this year's Budget, has maintained the necessary resources to deal with security requirements adequately.

Mr. Speaker, Sir, incidences of poor management of public expenditure and corruption are also major causes of poor performance in the public sector and the economy. Returns on public investments are very low as a result of mismanagement and inflated project costs in public projects. Misappropriation of funds jeopardises Government projects and denies us good service delivery. This is one of the reasons the Government is unable to adequately maintain roads, buildings and other facilities. Without adequate infrastructure, our people and private sector enterprises are unable to compete effectively with imports and are disadvantaged when they try to export to regional and international markets. Slow implementation of public sector projects, even when funding is available, also adds to our poor economic performance. The Government will intensify its anti-corruption campaign and will ensure that procurement regulations are rigorously and transparently applied and projects are implemented with greater financial discipline.

Mr. Speaker, Sir, low and declining savings have become a major constraint to economic growth. High consumption and low savings have led to declining public and private investments. The poor rate of capital formation over an extended period of time has been a major contributor to our very low economic growth. Last year, our national capital formation declined to about 14 per cent of Gross Domestic Product (GDP). We need a gross investment ratio of at least 25 per cent of GDP on a sustained basis to accelerate economic growth to the desired 7 per cent needed to significantly reduce poverty. To finance the needed investment, gross national savings as a ratio of GDP must rise from the current dismal level of 8 per cent to over 25 per cent. In this Budget, we shall introduce measures intended to encourage long term savings.

Mr. Speaker, Speaker, Sir, our low economic performance has aggravated unemployment and poverty. The low growth has led to an increase in the percentage of Kenyans living below the poverty line from 52 per cent in 1997 to about 56 per cent currently. The Budget includes provisions to finance some core poverty programmes.

Mr. Speaker, Sir, we must address, immediately, the urgent and serious challenges of revamping our economy by restoring our physical infrastructure in order to lower the cost of doing business in Kenya and enable economic activity to pick up by maintaining stable macro-economic conditions, including low inflation, low and stable interest rates and stable exchange rates by restoring investor confidence in order to attract new investments and create jobs for our young population; by restoring security, rule of law and prompt delivery of justice; by promoting and restoring the image of Kenya as the premier and safe tourist safari destination; by rebuilding our tourism infrastructure and reclaiming the high paying upscale tourists and restoring disbursements of funds from the IMF and other development partners in order to regain access to international capital.

Mr. Speaker, Sir, the Government is committed to undertake measures to create the necessary and sufficient enabling conditions to put our economy on the highest sustainable growth back as quickly as possible. To the extent possible within our revenue constraints, this Budget attempts to address all the constraints I have just enumerated.

Mr. Speaker, Sir, as I stated earlier, our economic performance was adversely affected by the slow-down in the world economy. Global economic output recorded the lowest growth since 1991. The growth rate of the global economic output declined from 4 per cent in the year 2000 to 1.4 per cent in the year 2001. This was occasioned by the decline in equity prices, the lagged impact of the rise in oil prices, contraction of world trade and the fall in consumer and business confidence.

Mr. Speaker, Sir, the slow-down in economic activities and contraction in consumer demands in major economies during the year 2001 adversely affected world trade volumes which fell from a record growth of 13.3 per cent in the year 2000 to 1 per cent in the year 2001. This decline had adverse impact on all the major regions of the world. Exports from developing countries grow by only 3 per cent compared to 15 per cent in the year 2000. Agricultural commodity prices remained low, mainly as a result of good harvests and weak global demands. There are now signs that the global slow-down which began in the middle of the year 2000 has bottomed out and recovery is underway. The events of September 11th had only a short-term impact on economic activity. Signs of economic recovery are evident in the United States of America and the Euro area while in Japan, the outlook is beginning to look brighter. Consumer and investor confidence have strengthen and industrial production is levelling off.

Signs of recovery are also evident in markets, especially the emerging Asian markets as a result of improvements in the Information Technology (IT) Sector. Despite the weak external environment, growth in Africa held up relatively well in the year 2001. Real Gross Domestic Product (GDP) recovered to 3.7 per cent from 3 per cent in the year 2000. Kenya's economic performance was below the average performance in Africa, and significantly below the growth rate achieved in Uganda and Tanzania. Conditions and prospects for growth vary widely across individual countries, depending on development in commodity markets, the conduct of economic policies, peace and security, and the level of external donor support.

Mr. Speaker, Sir, the global economic growth in the year 20002 is projected at 2.8 per cent and is expected to raise to 4 per cent in the year 2003. The US economy is projected to grow at 2.3 per cent in the year 2002, and 3.2 per cent in the year 2003. While growth in the Euro area is projected to be 1.5 per cent and 2.9 per cent in the year 2002 and 2003 respectively. Average economic growth of OECD countries is project to be 1.7 per cent and 3 per cent in the year 2002 and 2003 respectively. In developing countries, the focus is for a growth rate of 4.3 per cent in the year 2002, and 5.5 per cent in the year 2003. Africa's growth is projected to be lower at 3.4 per cent in the year 2002 and 4.2 per cent in the year 2003. We project a growth rate of 1.8 per cent in the year 2002 and 2.8 per cent in the year 2003 in our own economy.

Mr. Speaker, Sir, while most of Africa has been adversely affected by the slowdown, primarily because of lower commodity prices and falling external demand for African goods and services, growth has in general been sustained. The reduction of conflicts and increased resources released under the Highly Indebted Poor Countries (HIPC) initiative, will have to sustain economic recovery in some African countries in the year 2003, particularly those countries that benefit from that arrangement.

Mr. Speaker, Sir, I now turn to the domestic economy. The decline in economic growth witnessed over the last five years was reversed in the year 2001. The economy recovered from a growth rate of negative 0.2 per cent in the 2000 to register 1.2 per cent growth rate in the year 2001. This recovery was made possible by many factors including good weather which boosted agricultural production, power generation; increased demand for information and communication services, favourable tax reforms and expanded regional and international markets for Kenyan's exports. As a result, agriculture and manufacturing sectors, which contribute 37 per cent of GDP grew by 1.2 per cent and 0.8 per cent respectively, in the year 2001 compared to the negative growth of 2.1 per and 1.4 per cent in the years 1999 and 2000.

Mr. Speaker, Sir, transport, storage and communication sectors registered a growth of 3.1 per cent in the year 2000. Building and construction sectors on the other hand had the lowest growth of negative 0.5 per cent. A number of constraints hampered full economic recovery during the year 2001. This includes the continued decline in domestic savings to finance capital formation, dilapidated infrastructure, subdued credit expansion, low commodity prices especially coffee and tea; lack of donor-funding and declining investor confidence. Domestic saving to finance capital formation dropped by 5.5 per cent in the year 2001 to about 8 per cent of GDP.

In the year 2001, the Government pursued tight fiscal and monetary policies. This coupled with stable world petroleum prices, exchange rates and low food prices ensured that inflation declined from 6.2 per cent in the year 2000 to 0.8 per cent in the year 2001. Broad money supply expanded by 2.4 per cent. During the same period, domestic credit, through the private sector, dropped by 6 per cent, while credit to the Public Sector increased by 20 per cent. The shilling remained reasonably stable at Kshs78.6 to US$1 through December, 2001, compared to 78 to one US$, through December 2000. Interest rates, as measured by the 91-day Treasury Bill rates, came down steadily to the current level of about 7 per cent. The macro-economic stability is attributable to the sound economic management and prudent fiscal and monetary policies pursued by the Government.

Mr. Speaker, Sir, our Balance of Payments showed a worsening performance in the year 2001, driven more by increased imports and marginal increase in exports. Total export volume grew by 6.8 per cent. The sluggish export performance is explained by weak international demand and lower international commodity prices. Total imports recorded a 17.1 per cent increase largely due to the substantial rise in imports of non-food industrial supplies and transport equipment. These developments resulted in an increased deficit on the Current Account to Kshs25 billion in the year 2001 up from Kshs15.5 billion, recorded in the year 2000. The deficit on the Current Account was, however, fully offset by a surplus on the Capital Account and Financial Account. The net international reserves of the country increased to Kshs13.1 billion from Kshs8.3 billion in the year 2000. The exchange rate remained stable throughout the period.

Mr. Speaker, Sir, the Government will focus on accelerating economic recovery in order to reduce poverty among our people. This will require addressing the challenges facing our country today with urgency and seriousness to remove the obstacles to higher economic growth. The immediate action has to include the following: Strengthening governance measures and public sector reforms; accelerating local Government reforms; restructuring and privatisation of Public Enterprises; and, focusing on sector priorities and strengthening supportive policies.

I will now outline the action we propose to take in these sectors and specific areas.

Mr. Speaker, Sir, you will recall that last year the Government, through the Poverty Reduction Strategy Paper, committed itself to implementing a number of measures to improve governance. I am happy to report that we have made significant progress in implementing these measures. I have tabled a detailed matrix in this House outlining the progress to date.

Mr. Speaker, Sir, the most important governance issue in the minds of Kenyans today is the comprehensive review of the Constitution. This important exercise, which is underway, is, perhaps, the single most important governance measure to be undertaken since Independence. In addition to rationalizing and strengthening governance institutions, a new constitutional dispensation will provide us with the mechanism and tools with which to better manage the economy for greater prosperity of our people.

*(Applause)*

Mr. Speaker, Sir, the conclusion of this process will consolidate our democracy and the rule of law. We have made adequate budgetary provisions to complete this very important national undertaking. The Government is committed to continue consolidating reforms in the public sector. We recognise that a lean, efficient, and professional Civil Service, which is well compensated, is necessary in order to improve the level of service delivery by the Government. Strong institutions are also necessary, not only for generation of economic wealth, but also to ensure that the benefits of growth accrue to all segments of society in an equitable manner.

Mr. Speaker, Sir, legal and judicial reforms are necessary to create the required business climate for investment and improved economic activity. The Government is committed to formulating sound policies and reviewing existing laws with a view to strengthening the rule of law and creating the legal environment which will encourage business activity and economic growth. These reforms, when underpinned by the new Constitution and strengthened by the electoral laws, will solidify our democracy and create an environment for free enterprise to flourish. Budget provisions have been included to facilitate the necessary reforms.

Mr. Speaker, Sir, we shall continue to strengthen our oversight and watchdog institutions, including Parliament and its Departmental Committees, through enhanced budgetary allocations.

*(Applause)*

Similarly, strengthening of our Judiciary through enhanced budget provisions will continue to allow it to implement, on a priority basis, recommendations of various Commissions. This will accelerate the dispensation of justice.

Mr. Speaker, Sir, the Government will aggressively implement measures aimed at improving transparency and accountability. The Anti-Corruption Police Unit is operational and its budget provision has been increased to build its capacity to fight corruption. Budget provisions have been made to help implement the Bills establishing the Kenya Corruption Control Authority and the Public Code of Ethics, and to support the special anti-corruption courts in Nairobi and similar courts to be set up in other regions of the country. In addition to supporting the on-going comprehensive legal sector reforms, this year's Budget makes provision for strengthening the office of the Attorney-General to accelerate prosecutions.

The important role that governance institutions play in economic growth and poverty alleviation cannot be overemphasized.

Lack of capacity in local authorities has impacted negatively on delivery of services. Specific reforms currently being undertaken relate to financial management, transparency, accountability and responsiveness to public demands for services. Reforms in local authorities will continue to focus on rationalizing operational relationships between local authorities and the Central Government, communities and the private sector. In addition, strengthening the technical capacities and widening the revenue base of local authorities will be given high priority in our reform efforts.

Local Authorities Transfer Funds (LATF) have been disbursed to local authorities as stipulated in the law. However, the impact that these funds have had in a number of local authorities has been less than satisfactory. Although the LATF is an excellent policy instrument for funding local authorities, we need to institute more effective transparent and accountable service delivery arrangements. In the last three years, the Government has disbursed a total of Kshs8 billion under the LATF programme. We are aware that in many local authorities, these funds have not had significant impact because of abuse and misuse.

*(Applause)*

Our priority in the next financial year will be to ensure proper management of the LATF funds and strict adherence to all conditions in the LATF programmes. During the year 2002/2003, the Government will distribute a total of Kshs3.3 billion through this mechanism to improve local service delivery.

Mr. Speaker, Sir, reforms are necessary to change local authorities and the way they are managed. The local authorities are expected to deliver services and make the investments most needed to fight poverty and improve conditions at the local level.

To meet this challenge, the Government circulated a preliminary draft Bill, which was discussed by major stakeholders in January, 2002. The Bill defines a legal framework within which local authorities will in future operate. It promotes citizen participation in the management of the affairs of local authorities and provides for revenue sharing mechanism with the Central Government. In addition, the Government is also currently preparing a decentralization policy which will define powers, functions, roles and duties of local authorities and the reporting relationships with the Central Government.

Most public enterprises continue to be a major drain on Exchequer resources. The Government has already undertaken a review of all public enterprises to determine their relevance under the current economic circumstances. Arising from this review, it is evident that major reform is required to rationalise these enterprises and streamline their operations with the objective of retaining in public ownership only those enterprises which perform critical roles. Corporate governance will be enhanced to ensure professional and accountable management of these enterprises.

To attract the massive financial resources required to upgrade our infrastructure, it will be necessary to invite private sector to participate in the provision of these critical services.

During the year 2002/2003, the Government will continue its effort to concession the operations of the Kenya Railways Corporation, invite private sector participation in various services at the Port of Mombasa and initiate the implementation of a Private Sector Participation (PSP) option for the Nairobi Water Supply Service. In addition, the Government will continue studies to establish options through which the private sector can participate in the provision of water and sewerage services in other cities and towns. A review to establish the viability and modalities of concessioning roads is underway and a market design and pre-privatisation study for the power sector is at its completion stage. During this process, the Government has and will continue to consult widely with key stakeholders to formulate the preferred strategies.

Last year, we sold about 30 per cent shareholding in Mumias Sugar Company. We also progressed the preparatory process for the privatization of Kenya Reinsurance Corporation to the final bidding stage. In the year 2002/2003, we will complete this transaction and the sale of our remaining 35 per cent shareholding in the Kenya Commercial Bank.

I must emphasize that privatisation, as a policy strategy is only a tool for achieving our economic and social objectives. Where the achievement of these objectives is in doubt, as was the case with the offer made by the private sector bidders for 49 per cent of Telkom Kenya Limited, the Government will explore alternative Private Sector Participation strategies to achieve its objectives. The Government will ensure that the objectives of any proposed privatisation are clearly defined prior to commencement of each transaction. The Government will also maintain its presence through clearly defined regulatory frameworks to ensure that consumers are adequately protected and that agreed standards of service delivery and access to services are met.

Hon. Members will recall that last year, we promised to table a Privatisation Bill aimed at streamlining and accelerating the implementation of the programme. I am pleased to report that we now have a draft bill which has been subjected to extensive consultations with a broad section of stakeholders. We will be tabling this Bill shortly.

A critically important part of our poverty reduction effort is the identification of national priorities which conform to the aspirations of Kenyans. The Poverty Reduction Strategy Paper identified national priorities through consultations at the national and community levels. All the districts identified core priorities which must be tackled as a matter of urgency. In the fiscal year 2002/2003, we have allocated resources based on the priority ranking established under the PRSP.

Despite our tight revenue constraints, we have increased the Budget provision for agriculture and rural development. This is because the agricultural sector continues to be the dominant sector in the Kenyan economy accounting for 25 per cent of our GDP and is, therefore, critical to accelerating growth and achieving a positive impact on poverty alleviation. Last year, growth of this sector improved from a negative 2.1 per cent recorded in the year 2000 to a positive 1.2 per cent in the year 2001. In order to sustain this growth and effectively improve the lives of the majority of Kenyans, we have to invest more resources in the rural areas and in agriculture, in particular.

We must implement specific measures to increase crop and livestock production and improve supporting infrastructure in rural areas, including access to credit and markets. Our priority for crop development will be on building effective and efficient participatory extension systems. We must ensure a faster recovery of the agricultural sector and the overall rural economy. Only then shall we be able to tackle effectively problems of poverty.

*(Applause)*

This will require improved extension services, maintenance and upgrading of rural access roads. Community involvement in road maintenance will be encouraged and made a permanent feature of rural access maintenance plans.

Mr. Speaker, Sir, to facilitate the establishment of efficient finance systems, the Government will support micro-finance schemes by putting in place appropriate institutional and policy arrangements. The medium-term objectives to facilitate the creation of a national rural agricultural credit facility and additional micro-finance institutions.

Co-operatives remain viable mechanisms for small-holder producers to access inputs and markets. In this regard, improving governance in the co-operative sector will continue to be a priority and will be addressed through the on-going review of the Co-operatives Act. Profiteering by the leaders and managers of the co-operatives must be addressed with great urgency and eliminated to restore integrity and confidence in co-operative movement.

Mr. Speaker, Sir, last year, my predecessor informed this House that the Government was developing a Rural Development Strategy to provide a coherent framework for effective co-ordination of investment in the rural areas. I am pleased to note that the Kenya Rural Development Strategy (KRDS) whose vision "sustainable livelihoods for all" has now been developed as a new strategy and policy framework for the development of the rural areas. Its main objective is increasing agricultural productivity, expanding farm and non-farm income earnings, reducing disease and ignorance and achieving sustainable resource management. It reflects the commitment of Government to sustainable improvement in the welfare of all Kenyans. It takes account of the opportunities and threats resulting from globalisation. Among other initiatives, it will involve the establishment of the Kenya Rural Development Strategy Trust Fund.

Mr. Speaker, Sir, the Government will continue to provide additional resources to help alleviate water problems of the rural communities. Activities will include sinking additional boreholes, constructing dams, promoting afforestation and protecting water catchment areas. Initiatives to promote harvesting of rain water and its efficient utilisation in the production of crops and livestock will receive greater emphasis. Livestock production is important for people living in arid and semi-arid lands. The Government will intensify its efforts to control and eradicate livestock diseases and promote livestock extension services. The Government will also explore options for improving marketing systems for livestock and livestock products, including the revival of the Kenya Meat Commission (KMC) to offer an additional outlet to livestock farmers.

*(Applause)*

Mr. Speaker, Sir, food security is of critical importance to national security. The Government proposes to set aside in this Budget a further Kshs1 billion to build and maintain strategic grain reserves. In order to strengthen its capacity to deal with disasters, the Government will strengthen its early warning systems. It is expected that the Commission of Inquiry appointed to examine land law systems will complete its work during the next financial year. Once this is done, the Government will strive to implement its recommendations.

Mr. Speaker, Sir, environmental sustainability is a key objective of the Government. We plan to fund adequately the National Environment Management Authority (NEMA) to provide it with the capacity to develop and enforce environmental standards and create broad national awareness of the importance of environmental management and conservation.

We must be vigilant to identify the opportunities and challenges posed by globalisation. We must seek to exploit the benefits arising from globalisation while minimizing any adverse effects. To this end, the Government will continue within the framework of the World Trade Organisation (WTO) to press for the reduction of high tariffs levied by the developed countries on agricultural products imported from Kenya. We will strive to see the removal of agricultural subsidies in developed countries and the removal of other non-tariff barriers. We shall intensify our efforts to achieve fair international trade which cannot be realised without effective reduction of agricultural subsidies in industrialised countries. These subsidies undermine the competitiveness of our agricultural sector and our agro-based industries.

The Government will intensify surveillance and, where necessary, institute safeguard measures to ensure that our domestic markets are not flooded with subsidized products. We shall strengthen our capacity to deal more effectively with dumping.

Mr. Speaker, Sir, education empowers people to improve their welfare and participate actively in nation-building. As we move towards the goal of universal primary education, re-orienting education to make it more relevant to the needs of the economy remains a critical challenge. During 2002/2003 Financial Year, the highest priority in this sub-sector will continue to be to improve access to basic education, including special education, retention and completion rates and the quality of education. This will be achieved through collaboration with other stakeholders in enhancing provision of textbooks and other teaching materials.

Mr. Speaker, Sir, during the fiscal year 2002/2003, I propose to provide Kshs500 million towards purchase of school textbooks. The management and provision of bursaries to the poor and vulnerable, such as the girl child and people with disabilities will also be enhanced. I also propose to provide a sum of Kshs600 million in the coming fiscal year for secondary schools bursaries, grants to schools for the handicapped, and other activities. The Government will enhance grants provided to secondary schools in poor areas by a sum of Kshs140 million. The development budget for the School Feeding Programme will also be increased. I have set aside an initial allocation of Kshs150 million for this purpose in the 2002/2003 fiscal year.

Mr. Speaker, Sir, we shall mobilise other stakeholders, including NGOs, the private sector and other development partners, to provide additional educational facilities. The review of the school curriculum will continue at all levels to ensure flexibility, affordability, quality and relevance. We have made provisions to help institutions catering for children with special needs.

Mr. Speaker, Sir, the HIV/AIDS pandemic poses a real threat to the survival of this nation. The Government will intensify its awareness campaigns on HIV/AIDS in schools while ensuring that orphans of HIV/AIDS victims receive priority in the allocation of bursaries.

Mr. Speaker, Sir, good health is a must for the socio-economic development of this country, and must be given priority. The declining health standards and re-emergence of diseases, the unavailability of health care due to high cost, and the HIV/AIDS pandemic need immediate action. In order to guarantee availability, accessibility and affordability for those most in need, the Government will collaborate with the relevant stakeholders to increase funding for preventive health care and rural health services. To facilitate access to health care services, the Government will continue to waive fees for the treatment of certain categories of people and diseases and improve enforcement of the waiver system. The maintenance of health equipment and facilities will also be improved.

Efforts will be intensified to implement high priority activities in health services with particular emphasis on women and children under five years. The fight against HIV/AIDS remains a big challenge. The prevalence rates are reaching disastrous proportions and threaten to reverse our hard-won gains in health, quality of life, and overall socio-economic development. The capacity to respond to the HIV/AIDS pandemic will be improved through increased funding for education, sensitization and creation of awareness.

Mr. Speaker, Sir, the poor state of our physical infrastructure remains the major obstacle to investment and enhanced economic activity. It has significantly increased the cost of doing business in Kenya and reduced the competitiveness of our goods and services in the regional and international markets. We must improve the state of our infrastructure in order to effectively combat poverty and unemployment. The Government will, during the fiscal year 2002/2003 and in the medium-term, institute measures to develop, maintain, rehabilitate, reconstruct and upgrade existing facilities to lower production costs, enhance competitiveness and improve access to markets. Enhancement of competition in the sector and attracting private capital will also be given high priority.

Mr. Speaker, Sir, special attention will be given to redesigning existing facilities to meet the needs of people with disabilities.

Mr. Speaker, Sir, the road sub-sector has a major influence in economic activity. It accounts for over 80 per cent of the country's total passenger traffic and 76 per cent of freight traffic in our country. The road sub-sector has faced a number of challenges, among them, inadequate funding, lack of enforcement of standards in road construction and usage, corruption in tendering, lack of coordination of roads development and poor maintenance. To meet these challenges, the Government established the Kenya Roads Board about two years ago to manage the Road Maintenance Fuel Levy Fund, and to coordinate road development and maintenance.

Mr. Speaker, Sir, although the Kenya Roads Board took a long time to start full operations, I am happy to report to hon. Members that the Board is fully operational. As at the end of May 2002, a total of Kshs7.5 million had been disbursed by the KRB directly to road agencies for implementation of approved road programmes. This included a sum of Kshs5.5 million disbursed to each constituency towards rural access roads.

*(Loud consultations)*

**Mr. Speaker:** Order! Please listen! There will be time for debate!

Proceed, Mr. Obure.

**The Minister for Finance** (Mr. Obure): Mr. Speaker, Sir, during 2002/2003, a total of Kshs8.4 billion will be disbursed for road network development and rehabilitation throughout the country. To ensure quality of the road network, the Board will appoint audit teams to monitor and evaluate the roads under construction to ensure technical compliance.

Mr. Speaker, Sir, the Kenya Roads Board, will, during 2002/2003 Financial Year, continue to co-ordinate with District Roads Committees to maintain all roads falling under their jurisdiction. The Board will also emphasise a labour-based strategy on all rural access roads to create employment and reduce poverty. I will later in my speech announce measures to encourage private sector participation in road maintenance.

Mr. Speaker, Sir, the demand for fixed telephone services has continued to far outstrip supply. This has accelerated the growth and demand for cellular phones which became available when the Government licensed private sector mobile phone operators. In the medium term the Government will continue to encourage modernization of our telecommunications network by licensing more private sector investors in the sub-sector to enhance competition. I appeal to mobile telephone providers to support our efforts towards regional integration by providing affordable roaming services within East Africa.

Mr. Speaker, Sir, an efficient rail system will result in lower transportation costs for goods, improved transit time and a boost to the regional economies. Our rail system has not been efficient. In spite of the progress achieved so far, the Kenya Railways Corporation remains unviable because of outdated and inefficient locomotives and old railway lines which impose high maintenance costs. The Corporation is currently involved in repair, overhaul and rehabilitation of wagons and locomotives, and has been retrenching excess staff. To improve the performance of Kenya Railways, the Government will allocate a sum of Kshs1.6 billion in this year's Budget to assist in preparing Kenya Railways for concessioning.

Mr. Speaker, Sir, maritime transport offers cheap and suitable means of transport for heavy and bulky goods. The operations of our ports have however been hampered by the limited capacity of the container terminal, poor and outdated equipment and poor linkage to the hinterland due to poor performance of Kenya Railways and the poor state of our road network. In order to improve service delivery, the Government will facilitate refurbishment and expansion of port facilities, improve and strengthen the management and operation of our ports, privatise certain operations and replace and modernize equipment and facilities.

Mr. Speaker, Sir, air transport is essential for transporting tourists, high yielding exports and perishable goods. The industry has matured as is demonstrated by the privatization of Kenya Airways, commercialisation of some airport operations and the on going efforts to de-link the Directorate of Civil Aviation from the Civil Service.

With regard to energy, the high cost of power remains a major disadvantage to Kenya's manufacturers and consumers. A number of firms have closed down, citing the high cost of doing business in Kenya, in general and the high cost of power. In addition, electricity supply is often inadequate and unreliable. As a matter of priority, the Government is implementing reforms in the energy sector in order to lower costs of doing business and make our products more competitive.

Mr. Speaker, Sir, the Government will expand the Rural Electrification Programme and increase private sector participation in power generation, transmission and distribution. Emphasis will be put on improved collection and utilization of the Rural Electrification Levy. The Government is also negotiating access to cheaper electricity from East, Central and South African region in addition to all plant generating projects in Kenya.

The Government will continue to encourage and promote fuel wood plantation and forestry. I will also announce today removal of duty on all wood and semi finished wood products. Majority of Kenyans currently do not have access to safe and clean water and sanitation. Poor management of existing water works and sewerage systems is partly to blame. The Government and the local authorities will intensify efforts to provide safe and clean water and sewage systems. To meet the objectives of providing safe and clean water and sanitation, priority action will include the protection and management of water catchment areas, the promotion and encouragement of community based water projects, and the expansion of water undertakership by private entities. The Government will seek to rehabilitate existing water and sewage systems through cost sharing and other measures in the new Water Act.

Mr. Speaker, Sir, manufacturing, trade and tourism contribute significantly to the economic well being of Kenya. However, the great potential of the sector remains inhibited by various factors, including circulation of counterfeit products, high cost of inputs, challenges of globalization, poor infrastructure, cost of financial services and credit. To revitalise the sector, the Government will endeavour to provide an enabling environment for the private sector. I have already highlighted a number of measures the Government is undertaking under energy, telecommunication and road sectors in support of this sector.

The active participation of the country in bilateral, regional and multilateral trade arrangement has greatly benefited the sector. The regional markets of East African Community and COMESA, and our major international markets in the European Union, USA under AGOA account for 80 per cent of our exports. We will continue our support of this arrangement. The Government will also continue to create the necessary enabling environment for traders and the business fraternity. Work is currently going on to review the 13 trade related Acts of Parliament in order to harmonise them with a view to making transactions easier and cheaper. Measures to improve efficiency of the commercial cost have also been instituted. A full Secretariat on counterfeit control was established recently and has made significant progress in ensuring that imports adhere to quality standards and pay correct duty. Further, strict enforcement measures of transit goods have been instituted to avoid diversion of transit goods into the domestic market.

Mr. Speaker, Sir, promotion of micro and small enterprises will enable us to fight poverty. To support the sector, the Government will redirect its assistance towards removing laws and regulations constraining the sector to enable it to realise its full potential. During 2002/2003 Financial Year, the Government will finalise a Sessional Paper on the development of micro and small enterprises. The Government is committed to improving access to credit, especially micro finance, linking financial services to skilled development training and providing extension services, especially on technology and marketing. Special programmes to be targeted are the poor, especially women to enable them access credit, technology and marketing techniques to facilitate entry into viable and self employment. In line with the Government's commitment to poverty reduction, and considering the number of families supported by hawking activities, the Government has embarked on a review of the hawking and vending activities with a view to designating certain specific areas for this business to avoid disruptions and constant harassment.

Mr. Speaker, Sir, in spite of the fact that our manufacturing sub-sector has experienced very difficult economic times over the last three years, it has remained a pillar of our goal towards industrialization, growth and poverty reduction. In view of the challenges facing the sector especially competition from COMESA products, the Government in this year's Budget has proposed the reduction of all raw materials and capital goods that are currently taxed at 3 per cent and 5 per cent to zero per cent in order to lower the cost of production and enhance our competitiveness in the region.

The Government further recognises the need to improve value addition to our locally produced commodities meant for export. To realise these objectives, the Government has instituted various measures.

(i) Providing the necessary support to the textile industry to enhance its access to the African Growth and Opportunity Act (AGOA) market in the United States of America (USA). I will announce specific measures under the Value Added Tax (VAT) to support agriculture and, specifically, the cotton sub-sector.

(ii) Invoking anti-dumping and countervailing measures where dumping is proved. Towards that end, I have already gazetted the appointment of an Anti-Dumping Committee comprising the private sector and the Government Ministries concerned. That measure will ensure a level playing ground for agricultural and industrial goods produced in Kenya.

(iii) Enhancing support for research and development for industries through investments on development acquisition and dissemination of appropriate technology by the Kenya Industrial Research and Development Institute (KIRDI) and public universities.

(iv) Partnership with the private sector, especially in negotiating trade protocols.

(v) To support capital investments, I recently published the leasing rules which will enable manufacturing and Jua Kali operators who cannot afford to purchase capital equipment upfront, to acquire them on affordable leasing terms.

Mr. Speaker, Sir, our economy cannot grow in the absence of injection of new and additional local and foreign capital. The Government has instituted measures that will attract and secure investment. Towards that end, the investment code will soon be tabled in Parliament. In addition, efforts will be made to reach out to our neighbours in the sub-region to standardise investment practices in order to create level playing fields. We will pursue that through bilateral and multi-lateral arrangements.

Mr. Speaker, Sir, the Government will pursue regional integration arrangements in order to accelerate economic and social benefits to our people. The Government has actively participated in several trade facilitation initiatives under the COMESA. Kenya actively participated in the trade facilitation project, whose principal goal is to provide guarantee against political risk on imports and exports into the region. The implementing agency of that project is the African Trade Insurance Agency, whose headquarters is based in Nairobi.

Mr. Speaker, Sir, hon. Members will recall that there has been an outcry over the importation of some agricultural commodities from COMESA, especially sugar and wheat flour. The Government, through Gazette Notice Supplement No.12 of 1st March, 2002, invoked safeguards and remedial measures to protect the two agricultural sub-sectors. As a result, wheat flour imports are subject to duty rates of 60 per cent. Sugar imports of up to 200,000 metric tonnes can be imported into Kenya from any of the COMESA member states duty free. Imports of sugar after the 200,000 metric tonnes would be subject to 100 per cent import duty and other levies of equivalent effect. The safeguard measures are effective for 12 months to 31st December, 2002. It is expected that within that period, sugar and wheat production would have undergone substantial restructuring, enabling them to be regionally competitive.

Mr. Speaker, Sir, significant progress has been achieved under the East African Community, with regard to the establishment of a single market and investment area. The Council of Ministers under instructions from the Summit of the Heads of State, have taken decisions to increase cross-border trade. That includes the achievement of full convertibility of the East African currency, harmonisation of standards and specifications of goods, automatic free six months entry visa for East Africans and elimination of double-taxation among others. The three partner States will soon announce measures to eliminate visa fee requirements for the East African Community students.

Mr. Speaker, Sir, the New Partnership for Africa's Development (NEPAD) is a new initiative aimed at sustainable development, poverty reduction, promotion of greater income equality, rehabilitation of infrastructure and bridging the digital divide between the North and South. NEPAD is based on a shared vision, a comprehensive development agenda and programme of action. For NEPAD to succeed, there must be participatory consultations and genuine consensus building based on the uniqueness of each country and regional peculiarities. Kenya will soon establish a secretariat to coordinate and spearhead the activities of NEPAD.

Mr. Speaker, Sir, despite recent declines in tourism, the sector continues to play an important role in employment creation, direct investments and indirect linkages with other sectors of the economy. The Government will institute measures to promote tourism, diversity the tourist packages, products and circuits, improve and rehabilitate tourist facilities. To facilitate investment in the sector, we will improve security, tourist roads and our airports. We shall also waive taxes on furniture, fixtures and equipment required to upgrade tourist facilities. More aggressive marketing of our country as a tourist destination will be intensified to increase the number of tourists entering the country. The Government will host several tourism promotions, the highlight of which will be the tourism week scheduled to take place here in Nairobi in September this year.

Mr. Speaker, Sir, efficient and effective public administration will continue to be our top priority. The Government recently launched the Strategy for Performance Improvement in the Public Service, whose aim is to move from the phase of cost containment to that of efficiency in service delivery. To facilitate ministerial rationalisation, guidelines have been developed outlining how to develop ministerial strategic plans, priorities, ministerial core functions and strategic objectives. Ministerial rationalisation is expected to identify overmanning and eliminate non-core functions. The Government recognises the need to make the public service sector more effective. As hon. Members will recall, on 4th October, 2001, His Excellency the President directed that a policy to guide public sector training and capacity building be developed. The Government has now finalised the policy, which will soon be released to the service. The Government has also increased budget allocation for training and capacity building for the public service.

Mr. Speaker, Sir, the Government has undertaken an actuarial study to facilitate review of the current pension scheme arrangements. The objective is to replace the non-contributory pension schemes with contributory schemes that will allow beneficiaries to draw benefits commensurate with their contributions. The Government will also introduce a comprehensive health insurance scheme to provide quality medical care to civil servants.

Mr. Speaker, Sir, public safety, enforcement of law and order and the protection of property rights is necessary to maintain an investment-friendly environment. The security of our people will continue to be top priority and make our country attractive to investments. The Government has made provisions for equipment upgrading and capacity building in the disciplined forces. Additional capacity and resources have been mobilised to support the administration of justice. The congestion in our courts and prisons will be addressed through additional budgetary allocations to upgrade the infrastructure in our courts and prisons.

Mr. Speaker, Sir, information technology is today the world's fastest growing economic activity, transforming resource-based economies to knowledge based economies. Our focus is not so much about technology, but about using technology to improve the lives of Kenyans by improving productivity and efficiency. It will help us find new ways of creating and delivering products and services to a global market. The Government has made provisions to exploit the full potential of information technology. Information technology must be incorporated in all spheres of Kenya's core activities, including here in Parliament, Cabinet and public servants.

IT must be incorporated into all spheres of Kenya's core activities, including Parliament, the Cabinet and public servants many of who are not IT literate. The Government will support initiatives to integrate IT in education to create a large pool of technically competent manpower. The Government will take steps to make IT accessible and affordable. This sub-sector has the potential of being a major export earner in the long-term.

Mr. Speaker, Sir, I now turn to monetary policy. During the year 2002/2003, the Central Bank of Kenya will continue to implement a monetary policy aimed at maintaining the stability of prices of domestic goods and services. The Bank will confine growth in the money supply at rates to support growth and low inflation. In view of the 2 per cent projected growth in real GDP and the objective of keeping inflation rates below the 5 per cent target, the Central Bank projects broad money supply to increase by no more than 6.3 per cent in the next financial year, while the banking system is expected to expand domestic credit by around 12 per cent.

Mr. Speaker, Sir, hon. Members are aware that since the suspension of the external donor support, the Government has relied on domestic borrowing. Interest on domestic debt currently stands at about 12 per cent of the Government recurrent expenditure. Since the Government's domestic debt has been highly concentrated in short-term Treasury Bills, the Government will continue to restructure the domestic debt away from the 91-day Treasury Bills to longer-term Treasury Bonds of more than one year maturity.

Mr. Speaker, Sir, allow me to address the financial sector reform measures which the Government plans to undertake in the course of the financial year. As hon. Members are aware, a sound, vibrant and efficient financial sector is important to the mobilisation of savings, investments and growth. The Government is developing appropriate incentives for long-term saving. This will include appropriate taxation systems for co-operatives, housing and development finance, as well as the insurance sectors. I will be presenting the necessary amendments and legislation to this House before the end of this year.

Mr. Speaker, Sir, the stability of the financial sector will depend on how we effectively deal with the huge non-performing loan portfolio and weak supervision and regulation of the financial sector. Many countries around the world have granted their Central Banks more powers and autonomy to supervise and regulate the financial sectors, and particulary banking operations. In order to enhance the autonomy of our Central Bank and harmonise our banking laws with those of other countries within the East African Community, I will in the course of the coming financial year cede to the Central Bank of Kenya the powers of the Minister for Finance with regard to licensing and de-registration of financial institutions. This is intended to enhance further the supervisory effectiveness of the Central Bank. I also intend to issue regulations to strengthen the operations of the Deposit Protection Fund (DPF) and provide protection to depositors and institutions under liquidation.

Mr. Speaker, Sir, over the last few years, the Government has been pursuing universal banking policy with the objective of providing a level playing field to various financial sector stakeholders. We have now made it possible for banking institutions and building societies to be subject to similar regulations because they do similar business. To make it legally possible for a building society to merge with either a bank or a non-banking financial institution, the Government has proposed amendments to the Building Societies Act to allow for such mergers.

Mr. Speaker, Sir, to fight money laundering and the financing of terrorism, Kenya will continue to co-operate fully with the international community and regional countries. In order to strengthen our laws and regulations on money laundering, the Government is currently working on appropriate legislation to be tabled in Parliament within the coming fiscal year.

Mr. Speaker, Sir, the use of technology in transacting business has become widespread in the country. A regulatory framework for this rapidly growing mode of transacting business is needed. The Government will table in Parliament the Electronics Funds Transfer Bill for consideration, and if found appropriate, enactment into law.

Mr. Speaker, Sir, micro-finance institutions and the savings and credit co-operative societies play a vital role in our economy. There is need to encourage and promote them by creating a conducive and enabling environment, as well as setting up a regulatory framework. The Government has developed a Micro Finance Bill which will be tabled in Parliament soon.

Mr. Speaker, Sir, since the full commencement of the Retirements Benefits Act in the year 2000, major changes have taken place in the retirement benefits industry. Retirement benefits schemes have now largely come into compliance with the Act, resulting in improved administration, professionalism, transparency and accountability.

Mr. Speaker, Sir, in order to enhance the supervision role of the Retirements Benefits Authority, I propose to introduce a fine of Kshs500,000 or imprisonment for a term of two years or both for any trustee of a scheme that fails to submit audited accounts to the Authority. In addition, to bring equity in the sub-sector, I propose to harmonise the registration fees for both managers and custodians with those of the Capital Markets Authority at Kshs50,000.

Mr. Speaker, Sir, I propose the maximum limits on investments by the Retirement Benefits schemes in corporate bonds and commercial papers to be raised from 15 per cent to 30 per cent. Additionally, I propose to reduce the minimum levy payable for the registration of retirement benefits schemes from Kshs6,000 per year to Kshs2,000 per year. In order to protect the employee benefits in case of winding up of companies, I am proposing that employee retirement benefits be ranked equally with unpaid wages and salaries.

Mr. Speaker, Sir, to enhance the supervisory role of the Retirement Benefits Authority and to deter falsification of information, I propose that penalties charged for giving false information or hindering the work of an inspector appointed by the Authority be increased from Kshs50,000 to Kshs500,000, in line with other penalties in the Act.

Mr. Speaker, Sir, the majority of workers in the informal, agricultural and professional sectors are not able to join occupational retirement benefit schemes, including the National Social Security Fund (NSSF). In order to provide such workers with a channel for saving for retirement, I am proposing to extend all tax incentives given to registered occupational retirement benefits under the Income Tax and Value Added Tax Acts to apply equally to individual retirement benefit schemes registered by the Retirement Benefits Authority and the Commissioner of Income Tax.

Mr. Speaker, Sir, in order to enable the Retirement Benefits Authority to judiciously and expeditiously apply the Retirement Benefits Act and protect the interests of scheme members, I am proposing an amendment to the Act, to give the Authority power to directly prosecute offenders as is the case with other regulatory bodies.

Mr. Speaker, Sir, health management organisations have continued to transact medical insurance business in Kenya without any form of regulation or supervision. To ensure that the sector is regulated and public interests protected, I am proposing that all health medical aid organisations and similar bodies that are involved in the provision of medical insurance be brought under the ambit of the Insurance Act. This measure will protect the public from potential fraud and improve the quality of service to Kenyans seeking medical care.

Mr. Speaker, Sir, the premium payments handled by insurance intermediaries on behalf of insurers has resulted in huge outstanding non-remitted premiums, thereby undermining the financial viability of insurance underwriters. The 60 day credit period accorded to insurance brokers under the Insurance Act has proved to be too long, jeopardising the interests of the insured and the general public. I propose to reduce the credit period to 30 days from the commencement day of the policy with a view to moving towards a policy of cash and carry in the next fiscal year.

Mr. Speaker, Sir, the economy is projected to grow, in real terms, by between 1.8 and 2 per cent in the year 2002. In the medium term, the economy is projected to grow by 2.8 per cent and 3.9 per cent in 2003 and 2004 respectively, owing mainly to expected increase in investments, sustained macro-economic stability and the measures I have outlined so far.

Mr. Speaker, Sir, the current fiscal strategy draws from the experience of implementing the past two years of the Medium Term Expenditure Framework (MTEF) and has the following key objectives:

(i) to reduce the share of public expenditure to Gross Domestic Product (GDP);

(ii) to achieve a sustainable level of domestic debt relative to GDP in the medium term;

(iii) to shift Government expenditure to more efficient public investment and to Operations and Maintenance (O&M) in the long run; and,

(iv) to maintain Government taxation at a level that achieves a gradual reduction of domestic debt without overburdening taxpayers.

Mr. Speaker, Sir, to achieve these objectives, the Government will include revenue collection primarily through modernisation of tax collection institutions, setting optimal tax rates to realise improved compliance and expanding the tax base. The revenue target for the MTEF period is to increase collections from Kshs210.3 billion in the year 2001/2002, to Kshs257.1 billion in the year 2004/2005.

Mr. Speaker, Sir, the Government will seek to shift expenditure from recurrent to development. Indeed, over the 2001/2002 to 2004/2005 Development Expenditures are expected to grow by an annual average of 9.9 per cent, while Recurrent Expenditures will grow by an annual average of 3.8 per cent. The domestic debt is expected to stabilize at below 24 per cent of GDP over the medium term while the external debt, on the other hand, will rise to about Kshs409 billion by 2004/2005 or 35 per cent of GDP. Total public debt will decline from 62.8 per cent of GDP in 2001/2002, to 57.1 per cent of GDP in 2004/2005.

Mr. Speaker, Sir, as a matter of prudence and conservatism, the Government has not included the likely external receipts in Budget support from our development partners in the Budget financing strategy. Our current forecasts include a conservative target for privatisation proceeds of Kshs3.5 billion over the 2002/2003 to 2004/2005. The Government also plans to sell non-institutional Government houses in this financial year and expects to realise a total of Kshs2 billion.

Mr. Speaker, Sir, let me now briefly review the financial outturn for the 2001/2002 fiscal year. As a result of a lower economic growth, we project a Budget deficit on a commitment basis and before grants of 4 per cent of GDP or Kshs34.2 billion. This compares unfavourably with a deficit of 1.8 per cent of GDP in 2000/2001. In the absence of external Budget support, the Government borrowed about Kshs32 billion through the issuance of additional Treasury Bills and Bonds.

Mr. Speaker, Sir, on the revenue side, total revenues, including LATF, were originally estimated at Kshs218.6 billion, comprised of Kshs194.8 billion in ordinary revenue, and Kshs23.9 billion in Appropriations-in-Aid. Due to the lower unexpected economic growth rate, total revenues are now estimated to be about 3.8 per cent below target. I now expect a total of Kshs186.5 billion in ordinary revenues and Kshs23.8 billion in Appropriations-in-Aid, giving us total revenue of Kshs210.3 billion.

Mr. Speaker, Sir, the Supplementary Appropriations Bill, which was approved by this House, reflected a net increase of Kshs5 billion which was made up of Kshs4.8 billion and Kshs190 million for Recurrent and Development Expenditures respectively.

Mr. Speaker, Sir, let me now turn to the year 2002/2003 Budget. The total revenue target for fiscal year 2002/2003 is expected to be Kshs218.9 billion, or nearly 22.2 per cent of GDP. This is composed of Kshs198.6 billion in ordinary revenues and Kshs20.3 billion in Appropriations-in-Aid. As hon. Members have already noted from their copies of the Printed Estimates, gross Recurrent Expenditure for the year 2002/2003 is estimated at Kshs277.7 billion. This includes Kshs18.5 billion to be financed through Appropriations-in-Aid, and payments to be financed directly from the Consolidated Fund Services amounting to Kshs110.5 billion. This will leave Kshs148.8 billion for discretionary expenditures. Consolidated Fund Services comprise of Kshs29.9 billion for domestic interest, Kshs8.5 billion for foreign interest and Kshs11.7 billion for pensions and gratuities; Kshs1.1 billion for Constitutional Offices, and Kshs132.6 million for subscriptions to international organisations. In addition, I am expecting to finance external redemption amounting to Kshs20.7 billion, and domestic redemption amounting to Kshs36.9 billion.

Mr. Speaker, Sir, the gross Development Expenditure for the year 2002/2003 is estimated at Kshs46.5 billion. This will consist of Kshs26.7 billion which will be financed through Appropriations-in-Aid. The Appropriations-in-Aid includes direct project financing of Kshs10.7 billion in loans; Kshs14.2 billion in grant commitments and Kshs1.8 billion which will be realised as Appropriations-in-Aid from domestic sources. I am, therefore, expecting to finance net development expenditures amounting to Kshs19.8 billion during the financial year 2002/2003.

Mr. Speaker, Sir, let me now go into how I propose to finance these expenditures. I have received commitment of project grants amounting to Kshs15.9 billion from bilateral and multilateral development partners to finance development expenditures. In addition, I have received commitments for project loans amounting to Kshs16.4 billion. In an effort to maintain service delivery, maintain our infrastructural assets, respond to the PRSP priorities, meet the high citizens' expectations raised by the PRSP consultative process, and to meet the high cost of constitutional review and elections, it has not been possible to shrink Government expenditure substantially. As a result, we expect to run a deficit equivalent to about 4 per cent of GDP. We shall finance this deficit either by additional domestic borrowing or from external Budget support if the IMF, the World Bank and other donors resume disbursements during this financial year.

Mr. Speaker, Sir, based on the proposed macro-economic forecasts and the current taxation structures, we are able to realise total revenue of Kshs209.9 billion in the year 2002/2003. However, Kshs218.9 billion is required to finance Government expenditure requirement. This leaves a revenue gap of Kshs9 billion.

Mr. Speaker, Sir, the rest of my speech outlines the tax measures I intend to take to raise revenue required to bridge this gap. I now request that the reminder of my speech be regarded as a Notice of a Motion to be moved before the Committee of Ways and Means.

Mr. Speaker, Sir, let me now turn to amendments to the Customs and Excise Act that have direct revenue implications. First, as a final phase of Government commitment to eliminate duty rates on raw materials in order to reduce the high cost of production and make manufactured goods competitive in the regional market and affordable to Kenyans, I propose to reduce across the board duty rates on all raw materials not produced locally, which is currently taxed at 3 per cent and 5 per cent down to zero per cent.

*(Applause)*

Mr. Speaker, Sir, in addition, to support the manufacturing sector further, I propose to reduce duty rates on all capital equipment which is currently taxed at 3 per cent and 5 per cent down to zero per cent. Although these measures will be very costly to the Exchequer in the short-term, I am confident that they significantly reduce the cost of doing business in Kenya and spur continued growth of industry. More importantly, the measures will support the agricultural sector, which will now be able to obtain all their capital goods, fertiliser and chemicals for agriculture and other input requirements duty-free. I expect the concession relating to capital goods to encourage more investment in agro-processing industries to take advantage of the available raw materials, enhance value addition and subsequently increase earnings to farmers.

Secondly, in order to encourage local assembly of motor vehicles and make the Kenyan motor industry more competitive in the region, I propose to reduce duty payable on imported completely knocked-down kits for assembly of motor vehicles down to zero from the current 3 per cent. I expect that local manufacturers will pass on the benefit from this measure to consumers through lower prices for locally assembled vehicles. I also expect to see the re-emergence of a flourishing motor spares and fabrication industry to support the motor vehicle assembly sub-sector.

In order to discourage the importation of very old and uneconomical vehicles which are not only expensive to run and maintain, but also cause pollution to our environment, I propose to amend the Customs and Excise Act to prohibit the importation of motor vehicles older than ten years, in line with the requirements stipulated under the Kenya Bureau of Standards Act. In addition, I propose to modify the existing 20 per cent surcharge on second-hand motor vehicles between five and eight years old, and make it subject to a minimum surcharge of Kshs30,000. Similarly, vehicles over eight years old will be required to pay a surcharge of 20 per cent, subject to a minimum of Kshs60,000. The removal of duties previously charged on raw materials has negated the need for maintaining the duty/VAT remission provided for under the Export Promotions Programmes Office (EPPO) and Essential Goods Support Programme (EGSP). I propose, therefore, to amend the Customs and Excise Act to delete the provisions relating to the EPPO/EGSP duty/VAT remission scheme altogether. Kenyan Exports will remain competitive since duties on raw materials have largely been eliminated. These measures will eliminate the abuse and leakages of uncustomed goods, which have caused considerable damage to our agriculture and industry. I have ensured that manufacturers of medicaments and other pharmaceuticals which are duty-free will have an automatic exemption from payment of duty on their raw materials.

I propose to reduce the Excise Duty rate on residual fuels used to run energy generation turbines, boilers and furnaces for tea factories by 50 per cent. I expect that this measure will be translated into lower prices for electricity, cement, paper and paper products, and lower cost of goods whose manufacture requires the use of fuel oil. This measure will also support conservation initiatives by reducing the use of wood for fuel. The poor performance of the steel industry and the introduction of protective duties by the United States of America and other countries is likely to lead to major steel manufacturers diverting their products to young markets in Africa. I propose to protect our infant steel industry by reducing duty on all imports used by this sub-sector while maintaining a maximum import duty rate of 35 per cent on all manufactured steel products. This measure will assist not only the steel industry but also the construction and allied industry.

While our leather and steel industries have been adversely affected by insufficient raw materials, countries in the Far East are purchasing raw animal hides, skins and scrap metals from Kenya at low prices. To discourage the export of such raw materials, encourage value addition and enhance capacity utilisation of our industries, I propose to introduce a development levy of 20 per cent on raw hides, skins and scrap metals. I expect this measure to assist in the revival of existing tanneries and value addition using local raw materials and recycling of scrap metals. In order to widen the tax base and bridge the revenue gap, I propose to introduce an additional Excise Duty of 10 per cent on all motor vehicles, except commercial vehicles, tractors, passenger motor vehicles and buses of a sitting capacity of at least 26 passengers. I believe that Kenyans who can afford to buy motor vehicles can also afford to make a modest contribution to their country's development. Furthermore, these measures will encourage operators of passenger vehicles to invest in bigger and more economical vehicles. It will also help to decongest our roads.

While the mobile phone industry has witnessed tremendous growth, it faces a multiplicity of taxes, a situation which has encouraged tax evasion and complaints of unfair competition. In order to simplify the taxation structure of the mobile phone industry, I propose to remove duty on mobile telephone handsets, sim cards, and scratch cards, and in their place introduce an Excise Tax of 5 per cent based on the rate of the value of airtime usage. This measure will raise an additional revenue of Kshs800 million, which I propose to spend as follows: A sum of Kshs300 million will be allocated as a revolving fund to micro-finance institutions to provide credit to small-scale enterprises, farmers and those who would not normally access credit from formal financial institutions. A sum of Kshs200 million will go towards Rural Electrification. A sum of Kshs300 million out of this money will go towards treatment of HIV/AIDS patients and purchase of anti-retroviral drugs. A sum of Kshs50 million will go towards a bursary fund for HIV/AIDS orphans and children with disabilities. These Excise Tax will be collected along the same lines as the VAT and for ease of administration, will be collected by the Commissioner of VAT.

Lately, the Government has experienced a drop in excise revenue collection owing to marketing techniques adopted by some excise manufacturers, which have effectively lowered the excise value and Excise Tax paid. Indeed the decline in Excise Tax revenue has not been because of drastic reduction in consumption but due to tax avoidance techniques adopted by the manufacturers. This practice is unfair and unequitable to other excise entities and should be discouraged. I propose to amend the Customs and Excise Act to require that where an excise manufacturer sells only to an associated company or a sole distributor, the value for tax purposes shall be the price at which the goods are sold to a retailer. In other words, in such cases the excise value shall be the selling price at the distributor level.

To discourage wanton destruction of forests and conserve the environment, I propose to reduce to zero, duties on all wood and semi-finished wood products.

Mr. Speaker, Sir, to address increasing cases of smuggling, tax evasion and the under-declaration that has characterised tobacco industry in the recent past, I propose to levy a hybrid excise duty of a minimum specific tax of Kshs400 per 1,000 cigarettes or *ad valorem* rate of 130 per cent on domestic cigarettes, and similarly, Kshs500 per 1,000 *ad valorem* rate of 130 per cent on imported cigarettes, whichever is higher. This measure deals with a persistent problem of under-declaration of taxable values.

Mr. Speaker, Sir, the Government has been concerned about perennial floods that not only disrupt people's lives, but also make them vulnerable to diseases and poverty. In addition, a number of districts continue to suffer water deficits for both animal and domestic use. To alleviate this problem, the Government proposes to set up an annual fund to be financed by an additional levy of Kshs1 per litre on kerosene. This measure will raise Kshs600 million, which will specifically be targeted to water harvesting and conservation, floods control, as well as construction of dams, boreholes, and wells in ASAL districts. This will secure the livelihood of Kenyans living in marginal areas and support irrigation farming. This adjustment in Customs and Excise Duties will raise an additional Kshs3.2 billion.

*(Applause)*

Mr. Speaker, Sir, I now turn to the amendments to the Customs and Excise Act that have no direct revenue implications. First, in order to keep pace with electronic commerce and to serve importers and exporters more efficiently through faster clearance of cargo, the Customs and Excise Department will, in the course of the fiscal year 2002/2003, accept importers' and exporters' returns and entries filed through electronic means. To this end, I propose to make amendments to the Customs and Excise Act to support application of electronic commerce in the conduct of Customs business. This measure is intended to facilitate faster and more efficient Customs transactions.

Second, in order to streamline Customs warehousing of goods, I propose to expand the list of goods that may be warehoused, and at the same time remove the Commissioner's discretion to allow warehousing of prohibited goods.

Third, the Government has progressively liberalised cargo handling business over the years and encouraging private sector participation. Before liberalisation, legislation governing cargo handling was mostly aimed at protecting the Government from claims relating to loss of cargo. One such provision in the Customs and Excise Act states that importing ships or aircraft remain accountable for goods landed even when such ships or aircraft have long left the country. In order to rectify this anomaly, I propose to amend the Customs and Excise Act to make transit shed operators responsible for goods landed in their godowns.

Fourth, in order to improve control of ex-warehouse exports and minimize their diversion into the local markets, I propose to introduce a requirement that exports by sea be restricted only to vessels of over 250 ton register.

Fifth, the adulteration of petroleum products continues to be a menace not only to Government revenues, but also to road safety and public safety in general. I propose to introduce a custodial sentence to offenders.

Sixth, to harmonise the Customs Tariff nomenclature with the nomenclature of other countries in the world, I propose to review the national nomenclature and harmonise this with the current version of the World Customs Organisation Commodity System by implementing Harmonised Commodity Description and Coding System of the year 2002 version.

Seventh, in the past, some people have formed companies to commit offences by circumventing the Customs and Excise Act, only to close those companies down and vanish. To discourage this "fly by night" companies and improve compliance, I propose amendments to the Customs and Excise Act to enable the Commissioner of Customs to charge all officers and directors of a body corporate who have been privy to such an offence.

Eighth, Mr. Speaker, Sir, as you may be aware, Kenya grants 90 per cent preferential tariff discount to both Uganda and Tanzania. This discount was given on two conditions: First, that neither Uganda nor Tanzania were to charge Kenyan exports either suspended or excise duties or any other taxes of equivalent effect. Secondly, that the two countries were to extend Kenyan exports a preferential tariff discount of 80 per cent. Tanzania and Uganda have continued to charge some Kenyan goods a suspended duty of 20 per cent and an Excise Duty of 10 per cent respectively. To give our manufacturers an even playing ground, I propose to charge reciprocal duty of an equivalent effect on the respective Tanzanian and Ugandan goods, should our sister partner states continue to do so.

*(Applause)*

Ninth, Mr. Speaker, Sir, last year we began the rationalization of duty remission with a view to reducing them and improving administration. This year, I propose to further rationalize them by:-

(i) eliminating the provision for direct exemption with respect to goods imported for the official use of the Kenya Police and the Kenya Prisons. Instead, I have provided adequate additional funding to the institutions to cover the cost of tax payable; and,

(ii) specifying monetary limits for taxes in respect of motor vehicles imported by senior civil servants, judges, university lecturers and professors.

Mr. Speaker, Sir, in line with duty remission rationalization within the East African Community, I propose to delete direct exemption provisions in respect of the Armed Forces Canteen Organizations (AFCO) and all the Armed Forces, and instead provide additional funding to the institutions to cover all taxes payable, and delete direct exemption provisions in respect to motor vehicles imported by hon. Members, and instead provide additional funding under the National Assembly Budget to cover all taxes payable. I propose that all the above changes take effect from 1st July, 20002, with exception of the changes relating to hon. Members which will become effective after the end of the current parliamentary term.

Tenth, the Customs and Excise Act provides the minimum collectable duties and taxes at Kshs5. Due to inflationary trends over the years---

*(Loud consultations)*

**Mr. Speaker**: Order! Order, hon. Members! The Minister is talking and he may be saying something of great moment when you are not listening!

Proceed, Mr. Minister!

**The Minister for Finance** (Mr. Obure): Thank you, Mr. Speaker, Sir.

Due to inflationary trends over the years, this limit is currently unrealistic. Indeed, even the Customs receipt issued in exchange for a payment of Kshs6, for example, costs approximately Kshs70. I, therefore, propose that the minimum collectable duty and tax amount under the Customs and Excise Act be raised to Kshs100.

Mr. Speaker, Sir, I now turn to VAT measures. The measures I am proposing under VAT are aimed at streamlining tax administration, expanding tax base and improving tax yield in order to compensate for revenue loss arising from the reduction on duty on raw materials and capital goods already mentioned earlier in my remarks.

First, to bring more businessmen into the culture of contributing to development by paying tax, I propose to reduce the minimum turnover limit of VAT registration from Kshs3.6 million to Kshs3 million per year.

Secondly, to enhance recruitment and follow-up of non-filers, I propose to remove turnover limit for registration of taxable services rendered by professionals.

Thirdly, to simplify VAT administration and to expand the tax base further, I propose to extend taxation of all taxable good to the retail level. This will make it easier for taxpayers to charge and account for VAT, while at the same time benefiting from deduction of the import tax they pay on purchase of these goods and other expenses. The proposal will also enable traders who are dealing with zero-rated goods, especially fertilizers and medicine, to claim refunds. I expect that the savings realised will be passed on to customers in the form of lower prices.

Fourth, I am also proposing to introduce VAT on some prepared and preserved food products which are currently affordable by the high-income bracket members of our society. I am sure this modest increase is likely to go unnoticed.

Fifth, revenue has been lost through refund to business people who construct buildings, warehouses or go-downs for their own use but sell them after receiving refund of VAT. To ensure that the Government recoups the revenue lost through such VAT refunds, I am proposing to impose VAT on sale of buildings, warehouses or go-downs in cases where the developers claimed and received VAT refunds.

Sixth, to curb diversion into the local market of goods intended for export, I propose to introduce a regulation to empower the Commissioner of VAT to require that specified goods meant for export be appropriately marked "FOR EXPORT ONLY".

Seventh, the Kenyan Revenue Authority is stuck with a number of cases where tax arrears cannot be collected because directors intentionally closed down companies to avoid paying tax arrears. To curb this practice, I am proposing to make such directors and officers liable to pay such tax after the closure of their registered companies.

Eighth, there has been substantial revenue leakage through remission of tax and duties to Non-Governmental Organizations. In order to close this loophole while leaving a window for the deserving Kenyans, I propose to restrict remission to only the poor and destitute persons.

Mr. Speaker, Sir, I now turn to the VAT measures that will revamp our industries and stimulate economic activity. First, to revive the ailing cotton and textile industries, I propose to remove VAT on all cotton ginning and textile manufacturing machinery. Further, I propose to remove tax on all supplies of taxable goods and services to cotton ginning factories.

There is urgent need to support our cotton and textile industries by encouraging local production. The strategy is to progressively raise duties on imported second-hand items, so that we can encourage the production of these items locally using our own resources. Our future lies in the number and diversity of productive activities we can generate locally. We should avoid degenerating into a mere consumer country; rather, we must intensify our efforts to produce goods using our own raw materials. In this way, we shall help to create jobs in this country instead of creating jobs elsewhere, where our people cannot benefit. For this reason, I propose to increase duty on imported second-hand clothes and other used items from the current Kshs15 per Kg to Kshs25 per Kg. This will discourage importation of such items and promote locally produced goods at competitive and affordable prices.

Second, to encourage the private sector participation in rehabilitation of our dilapidated infrastructure, I am proposing to grant remission of VAT on construction services supplied to approved public road rehabilitation projects funded entirely by the private sector contributions.

Third, a number of taxpayers have lost substantial amounts in time-barred tax because of the current restriction on deduction of input tax to six months. In order to ensure that our valued taxpayers get their due benefits, I am proposing to extend the input tax deduction period to 12 months. These adjustments to the VAT rates will raise an additional Kshs2.3 billion.

Fourth, to support the fishing industry in Kenya and improve the welfare of those whose livelihood depends on this industry, I propose to zero-rate fishing nets.

Mr. Speaker, Sir, I will now turn to Income Tax measures. Let me now turn to proposed amendments under the Income Tax Act. First, to encourage savings, I propose that collective investment schemes set up by employers on behalf of employees which invest in shares traded on the Nairobi Stock Exchange be exempt from income tax. In addition, dividends received by shareholders will be subject to a final withholding tax of 5 per cent while interest received from deposits or Government securities will be subject to a final withholding tax at 15 per cent, and any other gains arising from sale of shares will be exempt from tax.

Second, to further encourage activity in the Nairobi Stock Exchange through mobilisation of savings, I propose that with effect from 1st July, 2002, any newly listed company with an initial listing of at least 30 per cent of its share capital be allowed to enjoy a corporation tax rate of 25 per cent for a period of five years.

Third, in line with the Government commitment to improve the welfare of workers and to encourage employers to provide decent meals to employees, I propose that the expenditure incurred by the employer on account of meals provided to all categories of employees within the business premises be tax deductible.

Fourth, I am proposing a number of measures to harmonize the Income Tax Act and the Retirement Benefits Act and in the process ensure that the provisions for the regulation of the Retirement and Provident Funds be consolidated in the RBA Act. In addition, the rule limiting the maximum contributions to pension and provident funds by both employer and employee to 30 per cent of pensionable income of Kshs210,000 be removed from the Income Tax Act.

Fifth, to encourage growth in the insurance industry, and to mobilise savings, I propose to give life insurance relief for Life Policies and Education Policies of not less than ten years at the rate of 15 per cent of the premium paid subject to a maximum of Kshs3,000 per month.

Sixth, to widen the tax net, I propose to increase the rate of withholding tax currently at 2 per cent to 10 per cent in the case of consultancy and agency fees, and to 5 per cent in the case of contractual fees. These adjustments in Income Tax will realise an additional Kshs2.6 billion.

I will now go to the miscellaneous measures. I am proposing the following changes. First, to ensure strict professionalism is upheld, I am proposing an amendment to the Local Government Act to require that any professional or member of an occupation regulated by any other professional law must first satisfy such other professional laws before the issuance of a Single Business Permit by the local authorities.

Second, to strengthen the role of the Kenya Bureau of Standards in controlling imports of counterfeit goods and substandard goods, I propose to increase the penalty to Kshs500,000 and a daily penalty of Kshs20,000. I further propose the destruction of such goods be done at the cost of the importers.

Third, to adjust for inflation and cater for increasing administration costs, I propose to raise various fees and charges under the Traffic Act by 15 per cent.

Fourth, the objective of the TLB licence fees as a measure of regulating the transport industry and, in particular, reducing the congestion on our roads has not been realized. Instead, the fee penalizes the transport industry. I am proposing the withdrawal of TLB fees.

Fifth, last year, a proposal to transfer collection of catering levy to the Kenya Revenue Authority was made, but amendments to the relevant Acts were not effected. To correct the situation, I propose amendments to the KRA Act and Hotels and Restaurant Act.

Sixth, a number of taxpayers have complained of ill advice given on tax matters by tax consultants. To protect taxpayers from fraudulent tax consultants, I propose that, that tax agents be regulated by the KRA.

Seventh, taxation of the free lumpsum payments has always been limited to occupational pensions and provident fund schemes and not to individual retirements benefit schemes. In order to ensure equity in the treatment of benefit schemes, I am proposing to extend the tax-free lumpsum payments to individual retirements benefit schemes.

Eighth, insurance companies are required to deposit a specified, amount of money with the Central Bank of Kenya to discharge policyholders' liability when an insurer is unable to pay. To match this amount with inflation, I propose to increase the deposit to 5 per cent of the admitted assets.

Ninth, to enhance the powers of the Commissioner of Insurance in carrying out inspection of all registered persons under the Insurance Act, I propose to impose a penalty of Kshs200,000 payable by persons found dealing with or carrying on insurance business without registration or authorization.

Tenth, to give the insurance industry the credibility it requires, I propose to increase the margins of solvency to 5 per cent of the admitted assets in excess of the admitted liabilities.

Eleventh, to protect policyholders, I am proposing to increase the bank guarantee required for insurance brokers to Kshs10 million or 5 per cent of the premium written, whichever is higher.

Mr. Speaker, Sir, these miscellaneous adjustments will raise an additional Kshs870 million.

In conclusion, I would like to affirm my strong conviction that if we implement the proposed Budget with maximum discipline, we can face the future with confidence and optimism. This will require all Kenyans to marshall their collective energies and skills to squarely and boldly face the challenges confronting our nation. We have the capacity to mobilise the required resources to determine our destiny. We should seize the opportunity to unite under a common vision and objective to realise the full potential of our country.

Our economy has begun to recover. Let us each rededicate ourselves to make a positive contribution to sustain our economy on a higher recovery path.

Mr. Speaker, Sir, I beg to move.

**The Vice-President and Minister for Home Affairs** (Prof. Saitoti) seconded.

*(Question proposed)*

## DEPARTURE OF HIS EXCELLENCY THE PRESIDENT

**Mr. Speaker:** Hon. Members, it is now His Excellency's pleasure to take his leave.

*(Hon. Members rose in their places while His Excellency the President left the Chamber)*

## ADJOURNMENT

**Mr. Speaker**: Hon. Members, that concludes the business on the Order Paper. The House is, therefore, adjourned until Tuesday, 18th June, at 2.30 p.m.

House rose at 4.45 p.m.