

NATIONAL ASSEMBLY

OFFICIAL REPORT

Thursday, 14th June, 2012

The House met at 2.30 p.m.

[Mr. Speaker in the Chair]

PRAYERS

COMMUNICATION FROM THE CHAIR

WORKSHOP ON DEVOLVED SYSTEM OF GOVERNMENT

Mr. Speaker: Hon. Members, I have one Communication to make. The Constitution of Kenya, 2010, introduces a two-tier system of Government with a National Government and 47 County Governments. Each County Government will consist of a County Executive under County Assembly. While a number of enabling laws have been passed, some are still pending. The process of constituting the Transition Authority to oversee the implementation of devolved Government is about to be completed. In view of the likelihood of the general election in less than one year's time, it is important to review the country's preparedness for this new institution of governance and how to ensure they contribute to successful implementation of devolved Government.

It is against this background that the Kenya National Assembly (KNA) through the Constitutional Implementation Oversight Committee (CIOC) and the Departmental Committee on Local Authorities in collaboration with the Kenya Institute of Administration (KIA) and donor partners have convened a workshop titled, "*Towards Effective Devolved Government in Kenya, Reflecting on and Planning for County Assemblies.*" The workshop will be held on Friday 22nd June, 2012 and Saturday, 23rd June, 2012 at the Safari Park Hotel, Nairobi. The workshop will bring together all Members of Parliament, constitutional institutions, non-state actors and critical players relevant to devolved governance in Kenya as envisaged in the Constitution of Kenya.

Hon. Members, the workshop will provide a forum for representatives of all the critical actors to deliberate, share perspectives and help clarify the architecture of devolved system of Government. Specifically, participants will seek to clarify the role of County Assemblies and Government and to mark out steps to support their effective establishment and performance. I urge all hon. Members to attend and participate in this important workshop.

I thank you.

PAPER LAID

The Report of the Joint Committee on Energy, Communications and Information and the House Broadcasting Committee on public Petition on the state of affairs at the Kenya Broadcasting Corporation (KBC).

(By Eng. Rege)

NOTICE OF MOTION

ALLOCATION OF FINANCIAL RESOURCES TO RESEARCH/TECHNOLOGY/INNOVATION

Dr. Otichilo: Mr. Speaker, Sir, I beg to give notice of the following Motion:-

THAT, aware that investment in science and technology, research and education is one of the most critical sources of economic transformation of any country, acknowledging that success of today's most advanced and developed countries had been due to their consistent annual investment of over 1 per cent of their Gross Domestic Product (GD) to pure and applied research in science, technology and innovation; aware that Vision 2030 proposes intensified application of science, technology and information to raise productivity and efficiency levels across economic, social and political development pillars; this House urges the Government to allocate over 1 per cent of its GDP to research in science, technology and innovation, and establish an independent national research foundation to promote and coordinate research activities.

QUESTIONS BY PRIVATE NOTICE

ILLEGAL DETENTION OF ANN WANJIKU GITHAI BY S.D. AL ANZEE IN DUBAI

Mr. Kabogo: Mr. Speaker, Sir, I beg to ask the Minister for Foreign Affairs the following Question by Private Notice.

(a) Is the Minister aware that Ms Ann Wanjiku Githai is being held hostage in the house of her employer, one Mr. Saleah D Al Anzee, (telephone number +966557144144) in Gassim, Dubai, since September 2011 and that she has not been paid since she got employed?

(b) Is the Minister further aware that she is currently ill and in need of medical attention, yet she is being subjected to hard labour?

(c) What urgent measures is the Minister taking to ensure that she is released by her employer and subsequently repatriated back to the country and also indicate measures taken by the Government to ensure that Kenyans living in Dubai do not experience the same treatment?

The Assistant Minister for Foreign Affairs (Mr. Onyonka): Mr. Speaker, Sir, I beg to reply.

(a) The hon. Member for Juja wanted to know whether Madam Anne Wanjiku Githai was being held as a hostage in a house in Saudi Arabia by her employer. When we discussed last time, I informed the House that she was actually not being held as a hostage because after consultations with our Embassy in Jeddah, the Ambassador informed us that they saw her last week on Thursday. The Ambassador says that to prove that she was free, working and happy with where she is, she actually remitted her money to her relatives in Kenya. I have evidence to prove the same. These are money transfer documents which show the amounts of money received by her relative, a Mr. Githai in Kenya.

(b) The second question was whether Madam Anne Wanjiku was unwell and whether she had been treated. The information that our Ambassador, Mr. Saleh passed to us is that she was actually well now and she was doing okay. We asked whether he could provide any medical records to show that she had been treated, he informed us that he had just given the medical

records of this lady and they were being translated into English before faxing them here. I will make sure that I hand over the documents to Mr. Kabogo.

(c) Part “iii” of the Question was whether we had made any urgent measures to make sure that Madam Wanjiku Githai was repatriated back to Kenya.

Mr. Duale: On a point of order, Mr. Speaker, Sir. The Question is about Ann Wanjiku Githai in Gassim Dubai but the Assistant Minister is talking about Jeddah and our Ambassador in Saudi Arabia. Are we talking about the same Question? This is about Dubai.

Mr. Onyonka: Mr. Speaker, Sir, I believe that if the hon. Member had been here last time, he would have known that we were talking about Jedda in Saudi Arabia.

Mr. Speaker: Indeed. The Member for Dujis, sometimes it is good to be keen but when you are overzealous, that is what happens.

Yes, the Member for Juja.

Mr. Kabogo: Mr. Speaker, Sir, indeed, that is the situation. However, if I refer you to the HANSARD, the Assistant Minister promised the House that he would bring evidence to show that this lady was okay. The Chair then suggested to the Assistant Minister to get the Ambassador and the lady to call home to confirm that she was not being held captive. What the Assistant Minister has given the House, from what he has said - I have not seen it - is that she remitted money home. That cannot be proof that this lady is not being held captive. I want, with your permission, to refer you to the HANSARD where the Assistant Minister said; “I promise that next week, I will provide the necessary evidence.”

He was asked by the Speaker to take an hour and make phone calls. The Assistant Minister has told us that she has been sending money home and that she is not captive but there is no evidence. Can he provide evidence to show that this lady is not held against her wish in Jeddah?

Mr. Onyonka: Mr. Speaker, Sir, as a Government Minister, I depend and rely on evidence provided to me by my Ambassador who is a Government officer. I believe that the Ambassador cannot mislead this House nor lie to me as his Assistant Minister. The reason why we have provided the evidence to show that this lady has, in the last week, transmitted money back to Nairobi is because it is only a person with her passport or identity card who can go to a bank and send money in Saudi Arabia because it is an offence to send money to somebody without evidence that you are the person sending it.

The second point is that if my colleague would have a look at the number that has been listed on the Order Paper, he will find that the host of this lady has told the Kenyan Ambassador that he is willing to receive a phone call from hon. Kabogo and discuss the issue. He is also willing to allow the lady to speak to Mr. Kabogo but in good faith, I trust my Ambassador in Jeddah.

Mr. Speaker: Order, hon. Members! You will realise that this Question is appearing on the Order Paper, I think for the fourth time. It has been largely transacted except for the balance of the part that the Member for Juja has interrogated. I am, as at where we are, satisfied that this Question has been handled properly as much information as the Assistant Minister could gather has been supplied. I want to urge and encourage the Member for Juja to take that opportunity to speak to the Ambassador sometime today and also verify with the relatives to whom that money was transmitted as to whether or not they are comfortable with where their relative is and her stake. If need be, we will then revisit the matter.

Mr. Kabogo: Thank you, Mr. Speaker, Sir. Much obliged. In the event that it is not, I will be running back to you at high speed.

Mr. Speaker: Yes, indeed.
Yes, the Member for Gichugu.

IRREGULAR SUB-DIVISION OF LR NO.BARAGWI/RAIMU/22

Ms. Karua: Mr. Speaker, Sir, I beg to ask the Minister for Lands the following Question by Private Notice.

(a) Is the Minister aware that land parcel LR No.Baragwi/Raimu/22 which belongs to Kirinyaga County Council, and which was a subject of Civil Appeal case No.28 of 2001 has been irregularly subdivided and transferred to a third party contrary to the court order?

(b) What is the Minister doing to reverse the irregular transaction?

The Assistant Minister for Lands (Mr. Rai): Mr. Speaker, Sir, I beg to seek the indulgence of the House to answer this Question on Tuesday, first, because it was to be answered by my colleague, who at the moment is having a severe cold. His voice cannot come out!

(Loud consultations)

Mr. Speaker: Order, hon. Members! Let us hear the Assistant Minister.

The Assistant Minister for Lands (Mr. Rai): Secondly, the Questioner has raised an issue of a court case which I want to establish. As far as my records are concerned, I have different case numbers with regard to the same piece of land. So, I want to establish the existence of Civil Appeal No.28/2001.

Thank you, Mr. Speaker, Sir.

Mr. Speaker: The Member for Gichugu, do you want to accommodate the Assistant Minister?

Ms. Karua: Mr. Speaker, Sir, I want to confirm that this is civil case No.280. I think something was omitted in typing. I want to confirm to the House that the Assistant Minister for Lands, hon. Bifwoli, visited the site on Monday this week with me and he made some observations. I am aware that they need time to go through and come back to the House. So, I am agreeable for next week.

Mr. Speaker: Fair enough! Two weeks from today! It is so directed. Mr. Assistant Minister, please note that!

Yes, the Member for Wajir South.

ORAL ANSWERS TO QUESTIONS

Question No.1293

NUMBER OF CADETS RECRUITED BY KAF IN 2011

Mr. Sirat asked the Minister of State for Defence:-

(a) how many cadets were recruited by the Kenya Armed Forces during the last exercise in 2011 and whether he could provide a per-constituency list of recruits and state how many were recruited from northern Kenya;

(b) how many such cadets have been recruited from Wajir South Constituency in the last five (5) years; and,

(c) whether he could consider lowering the minimum grade from B to B- or C+ for the marginalized areas.

The Minister of State for Defence (Mr. Haji): Mr. Speaker, Sir, I want to sincerely apologise to you, Parliament and my colleagues because I was made to understand yesterday, when I came to the House that the Question was supposed to be answered by my Ministry on Tuesday afternoon.

Your Excellency, Mr. Speaker, Sir, on the material day---

Hon. Members: Address Mr. Speaker!

(Laughter)

The Minister of State for Defence (Mr. Haji): Well, he can become one! Mr. Speaker, Sir, on the material day, I was away in the constituency and I had allowed my Assistant Minister, hon. Nkaisserry to stand in for the Ministry and answer this Question. Unfortunately, when I came here yesterday, I was told that Members were very annoyed that the Question was not answered. I tried to investigate why the Question was not answered and Maj-Gen. Nkaisserry told me that he was attending a funeral committee meeting in the Office of the President and he forgot to come and answer the Question.

On the same breath, the same evening on Tuesday, I was telephoned from Nairobi and told that I was required to escort the Prime Minister of Somalia to make a courtesy call to His Excellency the President. Because I was 600 kilometres away, I asked hon. Musila to escort the Prime Minister on my behalf. That is why he was also not able to answer the Question. In view of this, I humbly request---

Mr. Mbuvi: On a point of order, Mr. Speaker, Sir. Is the Minister in order to give stories instead of excusing himself so that we move on to other business?

Mr. Speaker: Order, the Member for Makadara! I shall say no more other than call you to order!

Mr. Minister, proceed!

(Laughter)

The Minister of State for Defence (Mr. Haji): Mr. Speaker, Sir, having explained, I apologise once again.

I beg to answer.

Mr. Speaker: Fair enough. The Member for Wajir South, are you prepared to accommodate the Minister because he needs time to gather this information?

Mr. Sirat: Yes, Mr. Speaker, Sir. I witnessed that the Minister was not around.

Mr. Speaker: Mr. Minister, I am giving you two weeks plus one day from today.

The Minister of State for Defence (Mr. Haji): Mr. Speaker, Sir, I am ready to answer the Question now!

Mr. Speaker: Okay. Do it in three minutes!

The Minister of State for Defence (Mr. Haji): Mr. Speaker, Sir, I beg to reply.

(a) A total of 142 cadets were recruited by the Kenya Defence Forces during last year's recruitment exercise. Recruitment has never been informed by constituencies but rather by the only original 72 districts.

The aspect of equity also informs the recruitment exercise of cadets. Out of the 142 recruits, six were recruited from North Eastern Province.

(b) Mr. Speaker, Sir, 13 cadets have been recruited from Wajir County in the last five years.

(c) Considering the regional and national educational level statistics, there is a clear testimony that those regions previously referred to as marginalized, especially in terms of educational levels, have since realized a marked improvement and candidates from such regions have continued to be competitively selected and recruited to join the Kenya Defence Forces (KDF) as cadets among other Kenyans.

Mr. Speaker, Sir, we demand that the minimum grade be B (plain) because cadets, these days do a Bachelors Degree in Military Science.

Mr. Imanyara: On a point of order, Mr. Speaker, Sir. Given that we have done away with the Provincial Administration as a unit of governance, is it in order for the Minister to answer the Question by giving figures of provinces instead of counties?

Mr. Haji: Mr. Speaker, Sir, I am answering the Question which says, "...according to the provinces---."

(Mr. Imanyara stood in his place)

Mr. Speaker: Order, Member for Imenti Central! I think the Minister has explained himself.

Mr. Sirat: Mr. Speaker, Sir, I had asked the Question for my constituency. However, the Minister has refused to lower the entry grade from B (plain) to B- (minus) or C+ (plus), yet only one student has got B (plain) in the last five years in my constituency. I will table a report from the District Education Officer (DEO). I note that there are many high school leavers with grade C (plain) and D (plain) in my constituency. They cannot pursue further education due to lack of resources. They are also susceptible to joining illegal movements. Could I, therefore, request the Minister to give more chances when recruiting soldiers if my constituents cannot make it as cadets?

Mr. Haji: Mr. Speaker, Sir, although recruitment is not based on constituencies, I am going to consider the request by the hon. Member.

Mr. Mwangi: Mr. Speaker, Sir, the hon. Member has asked about his constituency. I think the grading here is not right. If a university requirement is C+ (plus), how do you equate the training of a cadet with that of student at a university? Is the Minister ready to look into the aspects regardless of where one comes from and follow the policy of the Ministry of Education?

Mr. Haji: Mr. Speaker, Sir, I do not think our universities take students with C+ (plus) as the hon. Member has alleged.

Mr. Mwangi: On a point of order, Mr. Speaker, Sir.

Mr. Speaker: Member for Kiharu, allow the Minister to answer. Please, proceed, Minister.

Mr. Haji: Mr. Speaker, Sir, I said that military training has changed given the scientific situation in the world. We, therefore, require that students attain grade B (plain) to be able to be trained and obtain a Bachelors Degree in Military Science.

Mr. Koech: Mr. Speaker, Sir, there are so many youths in the Republic of Kenya who yearn to be in the military or Kenya Police Force. In order to ensure fairness in the recruitment exercise, could the Minister consider dropping the use of 72 districts and use constituencies in the country?

Mr. Haji: Mr. Speaker, Sir, I do not think Members of Parliament would like to have ragtag soldiers. We want to have soldiers who can read and learn military science, and also be able to fight. If I knew you were going to ask that question, I would have tabled a letter here to show how the military of Kenya is being praised all over the world.

Mr. M.M. Ali: Mr. Speaker, Sir, the question asked by the hon. Member about marginalized areas has not been given due attention. Indeed, the Government has to address the question of all school dropouts, because it is becoming a problem to the country. However, with regard to part “c” of the Question, I would like the Minister to clarify something. When they set out to do recruitments countrywide, what serious affirmative action do they consider as a Ministry so that marginalized areas are not left behind because of performance as has been indicated clearly?

Mr. Haji: Mr. Speaker, Sir, I said that recruitment is not based on constituencies, but rather on districts. If one constituency cannot provide one student, other constituencies can provide him. Therefore, the question is answered.

Mr. Sirat: Mr. Speaker, Sir, I thank the Minister for undertaking to recruit more soldiers in my constituency which is the second largest in the country. Unfortunately it has not been divided. My constituency borders Somalia along a border line of 210 kilometres. I congratulate the Minister for capturing Afmadow, Doblely and Tato which are my immediate neighbours, I request the Minister to recruit from Diff and Dadajabula sub-districts, so that we give a moral boost to the school leavers there.

Mr. Haji: Mr. Speaker, Sir, I cannot promise that we are going to recruit from those areas, but the point has been taken. We shall look into it.

Mr. Speaker: Hon. Members, the last Question, which is No.1462, is deferred to Tuesday, next week, because of the nature of business before the House. We want to move to the next Order.

Question No.1462

PROVISION OF DETAILS ON BOAT ACCIDENT IN LAMU

(Question deferred)

MINISTERIAL STATEMENTS

BUSINESS FOR THE WEEK COMMENCING 19TH TO 22ND JUNE, 2012

The Minister for Transport (Mr. Kimunya): Mr. Speaker, Sir, I take this opportunity to make the following Statement with regard to business for next week pursuant to the provisions of Standing Order No.36(4).

Mr. Speaker, Sir, let me take this opportunity, again, to thank my colleagues for their unprecedented display of solidarity, goodwill and patriotism during this week as we continue mourning the tragic loss of six patriotic Kenyans who included two Members of this House. In spite of this difficult moment, Members managed to conduct crucial House business, including the passing of the Motion to extend the period for consideration of the Public Financial Management Bill, 2012 and the County Governments Bill, 2012 as per the provisions of Article 261 (2) of the Constitution.

Concerning business for next week, the House Business Committee has scheduled a Motion to extend the sitting of the House to enable us conclude all the business as scheduled in the Order Paper for Tuesday. I believe that this is important and I would like to repeat it for Members to prepare themselves. Tuesday will be a long day because we have scheduled a Motion to extend the sitting of the House to conclude the following business: The Public Financial Management Bill, 2012; The Statute Law (Miscellaneous Amendments) Bill, 2012---

ARRIVAL OF HIS EXCELLENCY THE PRESIDENT

Mr. Speaker: Order, hon. Members! Order, Minister! Please, be upstanding to welcome His Excellency the President!

(All hon. Members stood up in their places while His Excellency the President took his seat in the Chair of State)

Mr. Speaker: Hon. Members, you may now resume your seats!

(All hon. Members resumed their seats)

(Applause)

Proceed, Minister!

The Minister for Transport (Mr. Kimunya): Mr. Speaker, Sir, on Tuesday we will also be looking at the Statute Law Miscellaneous Amendment Bill, Bill No.14 of 12. We will also be looking at the Consideration of the Memorandum for His Excellency the President on the County Governments Bill of 2012. Also scheduled for deliberation is the Motion to adopt the report of the Departmental Committee on Administration and National Security on the vetting of the nominees to the National Police Service Commission. We will also give priority to any remaining business from yesterday and from today which we do not expect to overlap.

Further, the House Business Committee (HBC) will be meeting on Tuesday, the 19th of June at the rise of the House to consider business for the rest of the week.

Thank you.

Mr. Speaker: Order, hon. Members! That brings us to the end of Order No.7. Next Order!

PRESENTATION OF FINANCIAL STATEMENT FOR THE FISCAL YEAR 2012/2013

Mr. Mbadi: On a point of order, Mr. Speaker, Sir. Order No.8 reads:- “Presentation of the Financial Statement for the Fiscal Year 2012/2013 pursuant to Standing Order 148(1) and (2).”

If I check the Standing Order No.148 (1) and (2) it says:-

(1) Unless the House otherwise orders, the debate on the financial statement on the Annual Estimates shall take precedence over all other business, and until disposed of shall be set down each day as the first business of that day.

(2) The debate on the financial statement on the Annual Estimates shall be limited to three days exclusive of the Mover’s speech and reply.

Mr. Speaker, Sir, in line with your ruling last year that what we expect the Minister to do on a day like this was simply to read a statement on policy which is basically a Ministerial Statement and not a speech on Budget Estimates because those are believed to have already been tabled in the House and that was done on 26th April, 2012, I would like the Chair to rule if the Minister is going to give us a Ministerial Statement on policy issues or he is going to give a Budget Speech as was usually the case before the promulgation of the current Constitution. If this is a Ministerial Statement, it would be clear to explain to us why this should take precedence over any other business of the House and yet it is just a Ministerial Statement.

Finally and more fundamentally, why do we have to have a three days debate on a mere Ministerial Statement spelling out the policy issues of Government? However, if the Minister is going to present Estimates, then how is this going to compare with the Estimates that were tabled in the House on 26th April which the Budget Committee of Parliament asked in line with Article 221(5)(6) of the Constitution which spells out how the Budget Committee should listen to presentations from Kenyans and then make a report to the House? The Budget Committee duly, indeed, as per the requirement of the Constitution and this House has already adopted the report on the Estimates on revenue and expenditure. If the Minister, therefore, is going to give another statement on Estimates of revenue and expenditure in this House, how will that be in line with what this House has already resolved?

Mr. Speaker, Sir, I would urge your ruling on what we are expecting from the Minister because I can see pomp, colour – old habits really die hard and you can see the briefcase which we usually see and the hon. Member of Othaya is also sitting on the seat of the State yet it is expected that he should sit---

(Laughter)

Mr. Speaker: Order, hon. Members! I am not inclined to entertain any further deliberation on this matter as raised by hon. Mbadi because whereas he cites Standing Order No.148, the rest of your argument as presented, indeed, even if it is an opinion will be completely in breach of our Standing Orders as they stand today. Most instructive would be the kind of language that you have used to make your argument. You have started by saying: “If the Minister is going to read.” Then you have gone on to say: “Mr. Speaker, if what the Minister is going to present is what.” You see, the bridge is pretty obvious. If you say “if” and “Mr. Speaker, if the Minister is going to say this as the content of his statement, then Mr. Speaker you must find that, that is out of order,” that obviously would be breaking the rule of anticipating debate and I will not therefore make any ruling in that regard.

Secondly and significantly, this is not new ground. We have walked this path before. We did last year and I gave very exhaustive directions on how we will proceed.

Thirdly and also significantly, the Constitution as promulgated in 2010 is the supreme law of this land but taking over from a dispensation that was otherwise covered by a previous Constitution and implementation of the Constitution is not a one day event. It is going to be progressive and it is my respectable view that as at where we are, we have continued to make positive progress in the interest of this country. I urge that we continue to make that progress even this afternoon and I so direct.

Minister, you may proceed!

(Applause)

The Minister for Finance (Mr. Githae): Thank you, Mr. Speaker, Sir. Before I begin, I would like to lay on the Table of the House some papers.

PAPERS LAID

The following papers were laid on the Table:-

Estimates of Revenue, Grants and Loans of the Government of Kenya for the year ending 30th June, 2013

The Medium-Term Debt Management Strategy, 2012 to 2015

The Finance Bill, 2012

The Proceeds of Crime and Anti-Money Laundering Bill

The Central Bank of Kenya Amendment Bill

The Capital Markets Amendment Bill

The Value Added Tax Bill

The Provisions of Collection of Taxes and Duties

(By the Minister for Finance)

Mr. Ogindo: On a point of order, Mr. Speaker, Sir. The Minister is laying Papers under Order No.8, yet Papers are supposed to be laid under Order No.4. Is he in order?

Mr. Speaker: Member for Rangwe, from the directions that I have given not very long ago, the Minister is in order, and I have allowed him to proceed!

The Minister for Finance (Mr. Githae): Thank you, Mr. Speaker, Sir. I rise to present the Budget Statement for the Fiscal Year 2012/2013.

Mr. Speaker, Sir, it is my privilege and honour to present to this august House my first Budget Statement since becoming the Minister for Finance. May I, at the onset, take this early opportunity to thank His Excellency the President for the trust that he has bestowed on me to spearhead the management of the economic policy of our beloved country. I am equally indebted to the Rt. Hon. Prime Minister, the Vice-President and Minister for Home Affairs, the Speaker, Cabinet colleagues and hon. Members of this House for their wise guidance and continued support to the Treasury.

Mr. Speaker, Sir, this year's Budget is the last one that will be presented to this House during the tenure of hon. Mwai Kibaki as the President of the Republic of Kenya. It is, therefore, instructive to reflect very briefly on the achievements that the Government has made in delivering its priorities since 2003, when he assumed the leadership of this nation.

As outlined during His Excellency's State of Nation Address on 24th April this year, President Kibaki's Administration over the 2003-2007 period and subsequently the Grand Coalition Government, has implemented several very bold economic policies and structural reforms that have significantly improved the welfare of Kenyans.

Mr. Speaker, Sir, let me highlight some of the notable achievements. They include, among others, the following:

1. Economic recovery with real Gross Domestic Product (GDP) growth rising from as low as 0.8 per cent in 2002 to 7 per cent in 2007. The domestic and external shocks of 2008 and 2009 adversely affected growth but, following the return of peace in our country, our economy

rebounded in 2010 and remained resilient in 2011 despite the challenges that we went through. We now project a growth of 5.2 per cent for 2012.

2. Increased the number of children going to school under the Free Primary Education Programme from 5.9 million in 2003 to 10 million in 2012.

3. Provided tuition fees for two million more children in secondary schools and increased the number of students joining university three folds.

4. Increased the number of people accessing ARV drugs to 350,000, up from just 10,000 in 2003; and distributed close to 20 million mosquito nets forestalling a malaria pandemic.

5. Tarmacked over 2,700 kilometres of roads, rehabilitated over 4,000 kilometres of road and connected to the national electricity grid more than 1.7 million Kenyans, up from 700,000 in the 2002.

6. Disbursed over Kshs100 billion under the Constituencies Development Fund (CDF), which financed the construction of 1,000 health centres, 10,000 classrooms, numerous roads, security posts as well as water and fish projects throughout the country.

7. Introduced the Women Enterprise Development Fund and the Youth Enterprise Development Fund; Small and Medium Enterprise (SME) Fund and Agri-Business Fund to provide affordable credit accessible to women, the youth and other small business enterprises and expand employment.

8. Revived and expanded irrigation projects throughout the Arid and Semi-Arid Land (ASAL) areas to secure food security.

Mr. Speaker, Sir, with the foundation firmly laid and supported by a new constitutional dispensation providing for a devolved system of government, the President has given us the challenge to sustain the Vision of our country of attaining a higher income status by the year 2030. Going forward, we should strive to build on this legacy to transform and modernize our nation, create jobs for our people and significantly reduce poverty. In this context, therefore, I have chosen the theme of this year's Budget as "Deepening our Economic and Social Prosperity within a System of Devolved Government".

We have, without any doubt, achieved much progress but the journey has just begun. There are challenges that lie ahead, which we must work together to deal with, both at the domestic and global levels. We continue to face exogenous shocks associated with climate change and volatility in the international oil and other commodity prices and worse still the global economic outlook, in the mid-term, is expected to remain fragile. We must rise to the challenge and courageously confront them – and we must confront them with bold and pragmatic policies.

Mr. Speaker, Sir, through this Budget Statement, we are responding to these challenges by implementing a number of economic policies and structural reform measures. Firstly, we are strengthening our financial systems by implementing further legislative and institutional reforms to keep the global crisis and uncertainty at bay. Secondly, we are scaling up infrastructural investment as the building blocks needed to achieve a more lasting and stable growth. Thirdly, we are making growth and development more inclusive and equitable across counties by investing in our people.

We are also renewing our commitment to progressively deliver on the constitutionally mandated economic and social rights, including measures to ensure food security and protection of the vulnerable members of our society.

Mr. Speaker, Sir, we acknowledge that accelerating and sustaining inclusive and equitable growth for prosperity require tough choices, hard work and determination by all

Kenyans. It goes beyond not just identifying hurdles to progress and proposing solutions, but also rolling up our sleeves and working together across the political divide to make painful decisions and implement sensible economic reforms. As Kenyans, we all shoulder the responsibility of building a better and prosperous Kenya in order to achieve a common future for all that we desire.

Through this Budget, we recognise that for us to engage the youth in gainful employment and put up a meaningful dent on poverty, we have to grow our economy uninterruptedly for many years, and it has to be inclusive growth. To do this, we have to continue investing in infrastructure, provide quality education and healthcare; deepen reforms in the public service to enhance efficiency and effectiveness; improve competitiveness by removing regulatory burdens on small businesses, and deepen regional integration.

Mr. Speaker, Sir, this year's Budget takes into account the principles of public finance as specified in the Constitution. The proposed Budget is intended to continue stabilising the economy and sustaining the growth momentum going forward. Accordingly, it will be necessary to:-

- (i) accelerate growth even in the face of difficult domestic and global environment;
- (ii) invest in infrastructure, especially in roads, energy, railways and ports;
- (iii) improve law and order to ensure security for our people and uphold property rights;
- (iv) reform the public service to make it efficient and effective in service delivery and facilitate private sector growth;
- (v) provide adequate resources for priority social programmes in education and health;
- (vi) promote equitable rural development and invest in agriculture to ensure food security;
- (vii) provide adequate resources for the implementation of the Constitution; and,
- (viii) set aside adequate resources for the general election.

Mr. Speaker, Sir, to achieve these objectives and still stay within sound fiscal framework is not easy. However, we must confront our challenges broadly and within our means. We have to do more with the limited resources at our disposal. Therefore, we have to work smarter and harder as well as capitalize on our resilience and opportunities to move our country forward to prosperity.

Mr. Speaker, Sir, let me now turn to the recent economic developments and outlook. I will start with the global environment.

Due to continued global challenges the world economy is not now projected to grow by 3.5 per cent and 4 per cent for the year 2012 and 2013 respectively. The advanced economies are projected at a sluggish pace averaging 1.7 per cent over the same period, while the developing countries of Asia and Sub-Saharan Africa are expected to continue with a robust growth averaging 6.7 per cent and 5.4 per cent respectively. The sovereign debt crisis in the euro area and the sluggish recovery in the United States and other advancing economies pose significant risks to the global economic outlook.

Mr. Speaker, Sir, allow me now to turn to the domestic economy. As Members may recall, 2008 was a very difficult year, but after implementing appropriate and broad policies, we emerged strong with the real GDP expanding from a low of 1.7 per cent to 5.8 per cent in the year 2010. This broad based growth momentum was, however, slowed down to about 4.4 per cent by challenges related to high commodity prices in the year 2011.

Mr. Speaker, Sir, addressing the inflationary pressures and continued depreciation of the shilling exchange rate has been a challenge this year. However, following tightening of both

monetary and fiscal policies and the easing of food and international oil prices, these pressures, I am happy to report, have eased significantly. We, therefore, expect inflation to continue to decline, which should support lower interest rates and measures be put in place to ensure the stability of the shilling going forward.

Looking ahead, the economic prospects for the year 2012 are favourable, but risks remain. The real GDP is expected to grow by 5.2 per cent in the year 2012. Over the medium term, growth is expected to pick up to about 6.0 per cent, bolstered by continued expansion in agriculture, tourism, construction, transport and communication and ICT, while exports will continue to benefit from relatively strong growth in the sub-region and emerging economies of India, Brazil, China and Eastern Europe. New measures will have to be introduced to diversify and promote Kenya's exports globally, especially exports of services.

Mr. Speaker, Sir, whereas the projected growth is still below the target envisioned in Vision 2030, and below the rate needed to significantly reduce poverty and draw more youth to employment, we recognize that further upscaling would require mobilizing large amounts of resources, raising factor productivity and moving to a higher value added and more efficient production structure to increase export growth.

Mr. Speaker, Sir, given the limited public resources at our disposal, we rely on the private sector to meet the economy's resource requirements, while we provide the appropriate market environment to promote efficiency. To achieve this, the Government will sustain micro-economic stability, undertake further structural reforms to improve efficiency in the public service, enhance private sector access to credit through further reforms of the financial sector and increase private sector participation in infrastructure development under a robust private-public partnership (PPP) agenda.

Hon. Members will recall that we submitted the 2012 Budget Policy Statement in April this year. We had indicated that the baseline ceilings therein are not taking into account the additional spending proposals that were under consideration. The 2012/2013 Budget Estimates now include about Kshs50 billion as additional to the ceilings initially allocated to Ministries. These additional expenditures relate to:-

1. implementation of the Constitution covering proposals not accommodated within the baseline ceilings;
2. strategic intervention in areas of education and health, especially recruitment of teachers and nurses;
3. infrastructure covering urban commuter railway upgrade and rural and feeder roads;
4. security particularly recruitment of additional security personnel;
5. agriculture, especially irrigation programmes and other food security programmes;
6. specific consideration to job creation for the youth based on sound initiatives identified within and outside the normal Budget preparation;
7. interventions identified during the country stakeholders consultations for the 2012 Medium-Term Expenditure Framework (MTEF) Budget.

Mr. Speaker, Sir, to accommodate these additional expenditures we rationalized Ministerial proposals to realize savings, including using Kshs51.1 billion that had initially been set aside for the contribution to the Civil Service Pension Scheme, which is now expected to be effective beginning July 2013. In addition, we expect additional resources from the African Mission in Somalia (AMISOM) to accommodate increased expenditure of the defence budget. Finally, additional room arose with the firming up of the resource envelope.

Mr. Speaker, Sir, with these adjustments and Parliament's recommendations on the Budget Policy Statement, we prepared estimates of expenditure which we submitted to this House on 26th April this year in accordance with the Constitution.

Mr. Speaker, Sir, I wish to sincerely thank hon. Members, especially the Parliamentary Budget Committee for the comprehensive review of the Estimates, recommendations thereof and very insightful debate that took place in this House. I want to assure hon. Members that we shall review and consider these recommendations as we finalize the Appropriations Bill.

As I have already stated, the Government will facilitate the private sector as the key driver of growth and employment by, among other measures, safeguarding micro-economic stability, continuing with investment in infrastructure development, undertaking further financial sector reforms, enhancing investment in security, deepening structural reforms, including rationalization of the public service and expanding markets through regional integration.

Mr. Speaker, Sir, let me now turn to micro-economic stability. As I indicated earlier, despite the challenges of the year 2011, our economy has stabilized and inflation has declined steadily since November 2011. This follows co-ordinated monetary and fiscal policies actions taken by the Central Bank of Kenya (CBK) and the Ministry of Finance to contain inflation and exchange rate pressures. The economy is now set on a sustained path of higher growth in the medium term.

Going forward, we expect that the supply side driven pressures on prices and the exchange rate will subside in line with the gradual fall in the global oil prices and ample supply of food arising from the ongoing rains and expanded irrigation programmes. This should also reduce the demand pressure on imports and on our current account.

Mr. Speaker, Sir, the CBK's monetary policy will be geared towards bringing down inflation to single digit level within a few months time, and thereafter be kept stable at around 5 per cent over the medium term. In line with Section 4 of the CBK Act, I will shortly be writing to the CBK's Monetary Policy Committee to pursue the proposed inflation target of 5 per cent with an up of about 7 per cent by the end of June 2013.

Mr. Speaker, Sir, with the recent decline in interest rates, we do not expect further volatility to happen, but care will be taken to ensure credit support to productive economic activities remain available. We will also continue to maintain a flexible exchange rate system, with the CBK intervening only to smoothen out short-term erratic movements in the shilling exchange rate that do not reflect market fundamentals, and to achieve its international reserves target.

Mr. Speaker, Sir, accelerated development of high quality public investments such as roads, energy, rails, ports and water supplies is essential to sustain faster economic growth, open up economic opportunities for households and hasten regional economic convergence and equity.

Mr. Speaker, Sir, for this reason, the Government will continue to provide substantial resources towards infrastructure development. To this end, I have in this year's Budget a total of Kshs268.1 billion for various infrastructural projects including roads, energy, railways and ports.

For roads, we have continued to improve the general conditions of our highways, urban and rural areas. The overall Budget for the Ministry of Roads is Kshs123.6 billion up from Kshs104.3 billion in the previous year. For energy, for us to have reliable and affordable energy to sustain economic growth, the Ministry of Energy has been allocated Kshs79.9 billion up from Kshs57.5 billion in the previous year. For urban commuter railway system, we want to continue this programme so as to modernize commuter railway that was started two years ago. I have, therefore, allocated Kshs1.45 billion towards completion of the line linking the airport to the

Central Railway Station. This first phase of commuter upgrade project will enable our international guests and city residents commuting through Mombasa Road to access a faster and affordable and more comfortable commuter railway service.

Despite these resources dedicated towards the infrastructural projects, their implementation continues to face challenges. To overcome these past legacies, the Government will develop and institutionalize a framework for efficient and effective planning and management of public sector investment projects. We expect that with the new private public partnership legislation that will soon be coming to this House, private sector participation in the provision of infrastructure will increase thus resulting in improved infrastructure coverage and a reduction in cost of doing business.

Allow me now to turn to the financial sector reforms. Strengthening financial sector regulations and coordinated supervision within and across the border is critical to building effective firewalls necessary for achieving durable and stable growth

We need a stable and efficient financial sector that serves businesses and households by making credit available and at affordable interest rates in order to create the much needed jobs. To this end, we shall make the following interventions:

(i) Implement consolidated supervision to enhance oversight of the banks with cross border operations. This will hinge on information sharing and coordination between the Central Bank of Kenya (CBK) and other regulators particularly in the region where Kenyan banks are expanding their footprints.

(ii) Expand credit information sharing mechanism to include various providers beyond banks such as credit-only microfinance institutions and SACCOs. This will enhance credit risk management in banks and other credit providers.

(iii) Expand supervisory procedures to ensure full monitoring of financial businesses driven by bank agents under the newly introduced agency banking model and through the use of mobile banking.

(iv) Developing a robust legal frame for the supervision of development finance institutions such as the AFC, Kenya Industrial Estates (KIE), IDB, ICDC and KTDC. A new DFI Bill is currently being developed to facilitate reforms in this sector.

(v) Implement further reforms of the Proceeds of Crime and Anti-Money Laundering Act of 2009 to seal any loopholes and include transactions under other financial sector players especially those in the insurance and capital market.

Mr. Speaker, Sir, to further strengthen the supervisory capacity, safeguard stability and enhance efficiency of the financial sector regulators, the Government will shortly commence a process to establish a consolidated financial sector regulatory framework bringing together the Capital Markets Authority (CMA), the Insurance Regulatory Authority (IRA) and the Retirements Benefits Authority (RBA). Similarly, the banking supervision department will be re-established as an entity under a reviewed CBK Act with clear mechanisms for allowing coordinated and effective financial sector supervision.

Allow me now to turn to security. Security, effective enforcement of law and order and protection of property are crucial for stability, accelerated growth and employment. For this reason, I have enhanced the Budget allocation for the national security sector from Kshs78 billion in 2011/2012 to Kshs83.5 billion for this year to respond to both external and internal related security challenges. Internally, we are equally enhancing the policing capacity to stem any security threats. To this end, I have allocated Kshs65.9 billion to the Ministry of State for

Provincial Administration and Internal Security. This includes Kshs1.4 billion towards the purchase of motor vehicles so as to enhance police response and patrol.

(Applause)

I have further allocated Kshs2.5 billion for the recruitment of additional 3,500 police officers and also provided Kshs300 million for setting up the National Police Service Commission and the Independent Oversight Policing Authority in order to enhance efficiency, effectiveness and the capability of the police force.

Improving efficiency and increasing total factor productivity is critical to achieving high level competitiveness which is critical for sustainable growth and development in our country. Therefore, the Government through this Budget reiterates its commitment to deepening structural reforms in order to improve efficiency and effectiveness in the public service delivery. Partly to remove bureaucratic inefficiencies and functional overlaps in the public service, the Constitution limits the size of the Executive, Legislature, the Supreme Court, county governments, Commissions and Independent Offices. It also reconstitutes the Public and Parliamentary Service Commissions and establishes the Judicial Service Commission (JSC) among other initiatives in order to institutionalize high level of professionalism, performance and fairness in the public sector. I expect, therefore, in the spirit of fairness that these three Commissions working with the Salaries and Remuneration Commission (SRC) shall ensure equity in workload, remuneration, performance and accountability across the entire public sector.

In particular, the SRC will develop criteria which when applied, will ensure that salary remuneration reflects productivity and thus promote competitiveness. Every effort must be equally expended to rationalize, consolidate and possibly limit the size of State corporations, regulatory agencies and research and training institutions in order to transform them into more effective bodies to facilitate efficient service delivery. This way, we shall forestall tendencies by Government agencies to indirectly expand the public sector.

Mr. Speaker, Sir, in the continued recognition of the catalytic role of small and medium sized businesses, the Government will deepen business regulatory reforms, enhance access to credit, facilitate capacity building, extend preferential treatment in public tenders and simplify and modernize the regulatory regime for them, in order to amplify their multiplier effect on employment opportunities and accelerate growth. We are also strengthening the legislative framework to further create predictable and enabling business environments. In this regard, the Government will shortly be tabling all outstanding business enabling Bills. Therefore, I urge hon. members to accord these Bills priority when they are tabled in this House.

In addition to these reforms, we will implement measures to improve electronic filing of documents at the Lands Registry, the Companies Registry and other key agencies involved in business registration. All these efforts should reduce the cost of doing business and improve Kenya's rating on doing business index and thus position our country as a preferred investment destination.

Through this Budget, we re-affirm our commitment to implementing the single window platform to facilitate faster and efficient clearance of cargo. To complement these efforts, the Government will shortly commence a process to rationalize and consolidate all existing cargo related standard enforcement agencies into a single entity. This will reduce the bureaucratic inefficiency in cargo clearance. Further, the East African Community Common Market Protocol establishes a single Customs territory to facilitate free movement of goods in the region.

Therefore, to realign the operations of our Customs with this Protocol and to mainstream its critical role of trade facilitation and border controls, the Kenya Revenue Authority will be rationalized with a view to establishing the Customs Services as an autonomous entity on its own.

Kenya and the East African Community region can ill afford the high cost associate with delays occasioned by weigh bridges and road blocks along the northern corridor which serves our land locked neighbouring countries of Uganda, Rwanda and DRC. Accordingly, to facilitate trade and position Mombasa as a regional port, the Government will review relevant regulations and guidelines to ensure that by December 2012, all weigh bridges are relocated to the port of entry and all road blocks are either removed or reduced to a bare minimum.

While significance progress in integration has been achieved under the East African Community, there is much potential for expanded trade and investment in COMESA and the rest of Africa. The Government will finalize a Trade Promotion Strategy whose implementation will expand and diversify exports. In this regard, particular attention will be put on high value primary products such as macadamia and cashew nuts that have shown excellent prospects in the exports market. In addition, resources will be provided towards investment in infrastructure to facilitate export of services in the oil sector from the region, attract petroleum related industries and establishment of transshipment. I have also allocated resources to diversify and promote indigenous exports so as to bolster the source of livelihood of many of our Kenyans in various regions. Further, the Government will continue with the collaborative infrastructure investment and remove inefficient Customs procedures including complicated rules of origin and other non tariff barriers in line with the existing protocols.

Having outlined specific measures we are implementing through this Budget to facilitate private sector as the key driver of growth and employment, I now turn to the measures we plan to take to make growth inclusive, equitable and more durable. This means continued investment in people's education and health as well as rural development and food security. Therefore, the priority sectors such as education, health, social safety nets, agriculture and rural development, drought mitigation and management and disaster response, constitutional implementation and funding the general election will continue to receive adequate resources. Through this Budget, we are re-affirming this commitment.

Medium-Term priorities in education spending include catering for the expanded enrolment at all levels of education and training through increased infrastructure and teaching staff. This intervention will help improve access and ensure quality education. To this end, an additional Kshs19.2 billion has been allocated to the education sector in this financial year raising the total allocation by 9 per cent to reach a staggering Kshs233.1 billion. Key budgetary allocation to the sector include Kshs118.7 billion to cater for teachers salaries including recruitment of additional 10,000 teachers; Kshs8.1 billion for development of infrastructure and facilities in our public universities; Ksh480 million for purchase of computers for schools; Kshs1.6 billion for the support of early childhood development including employment of pre-primary teachers; Kshs1.9 billion for building classrooms and improving physical facilities in primary and secondary schools; Kshs8.3 billion for free primary education and Kshs19.7 billion for the free day secondary education.

Hon. Members are aware that we acted swiftly to put in place a safety net to cushion the poor households against further suffering during the 2011/2012 Budget. To continue with this support, we have allocated an additional Kshs1.1 billion for the bursary programme to cater for the bright orphans and children from poor households in secondary schools throughout the

country. I have also allocated Kshs300 million towards the provision of sanitary towels for girls from poor families in primary schools. Once again, I urge the Members and Kenyans at large to be fully involved to strictly ensure that only deserving orphans, poor and needy children benefit from these interventions.

Allow me now to turn to the provision of quality health care. Our goal in the medium-term is to provide equitable and affordable health care to all Kenyan citizens. While good progress has been made over the years in terms of reducing mortality rates, the sector still faces challenges which include inadequate infrastructure, qualified health personnel, medicines and medical supplies. To further expand access to quality health care services, an additional Kshs12.3 billion has been allocated to the health sector, raising the total allocation by 16.9 per cent to reach a staggering Kshs85 billion in this financial year. The additional resources will facilitate:-

(i) Employment of 5,200 health workers. This includes recruitment of 715 doctors who completed their internship in March this year and a further 200 doctors to be recruited from the market. I urge the concerned Ministries to ensure equitable deployment of these doctors across the country.

(ii) Implementation of the second phase of allowances for health workers.

(iii) Construction of health centres and hospitals.

(iv) Purchase of essential medical supplies including ARVs, malaria and TB medicines and crucial medical equipment.

(v) Eradicating preventable diseases at constituency level.

In addition, we have given priority to scaling up the implementation of interventions aimed at enhancing the equitability of access to public health and sanitation services. Such measures will include:- Improving immunization coverage for children, ensuring that most deliveries are conducted under the care of skilled health attendants and reducing morbidity and mortality from malaria, HIV-AIDs, Tuberculosis and other non-communicable diseases.

I believe that it is about time we confront with resolve the economic and social challenges brought about by drug and alcohol abuse, especially among the youth.

Mr. Speaker, Sir, I believe that it is about time we confront and resolve the economic and social challenges brought about by drug and alcohol abuse, especially among the youth. If unchecked, we may not be able to achieve the development goals that we have set up under Vision 2030. In this regard, I have allocated a staggering Kshs billion to NACADA to fully enforce the provisions of the Alcohol Control Act famously known as the “Mututho Law”.

(Applause)

This is to ensure that those laws are actually enforced. Let me also remind Kenyans that the fight against drugs and alcohol abuse starts at home with parents engaging constructively with their children. Parents are, therefore, part and parcel of this effort. If we all put our efforts and energy in this endeavour, I expect to see significant reduction of that menace going forward.

Mr. Speaker, Sir, it is disturbing to note that some public hospitals often detain patients and even deceased persons for non-payment of requisite charges. Sometimes, they detain mothers and children. As a Government that cares for its people, the Treasury, working with the Ministry for healthcare, will shortly engage with key public hospitals with records of such experience so as to develop appropriate guidelines on how to cushion the very poor families by defraying such costs.

(Applause)

Mr. Speaker, Sir, the implementation of this initiative will not only assure the compliance with the requirement of our Constitution, but will also relieve poor families from the agony of such detention.

Mr. Speaker, Sir, allow me now to turn to social safety nets and Equalization Fund. As a Government that cares for its people, we have, once again, in the 2012/2013 Budget, allocated Kshs9.6 billion to continue cushioning the poor and the vulnerable members of our society, as we design a more comprehensive social protection policy and programmes that will increase coverage. Specifically, I have allocated Kshs4.4 billion that will go to orphans and vulnerable children, Kshs1.1 billion that will go to deserving elderly persons with each receiving, Kshs2,000 per month and Kshs2.1 billion which will go to the school feeding programme covering the arid and semi-arid areas. A sum of Kshs2 billion has been set aside for famine relief programmes while Kshs3.2 billion has been set aside as cash transfer to persons with severe disability. I repeat severe disability. A sum of Kshs929 million has been set aside for the urban poor cash transfers.

Mr. Speaker, Sir, in addition, equitable regional development of the marginalized areas will be enhanced in the allocations under the Equalization Fund covering the two fiscal years amounting to Kshs5.5 billion. The allocations for the year 2011/2012 of Kshs2.5 billion will be utilized on roads, water, health facilities and electricity as per the Constitution, while the allocation of Kshs3 billion for this financial year will be set aside awaiting the determination and publication of the criteria by which to identify marginalized areas by the Commission on Revenue Allocation.

Mr. Speaker, Sir, allow me now to turn to agriculture and rural development. In the area of agriculture, our aim is not only to attain food security, but also to create gainful employment opportunities for our people. To this end, and in order to scale up the ongoing irrigation programme and initiate new ones in this financial year, I have allocated an additional Kshs8 billion. To compliment these efforts, the National Irrigation Board will be expected to explore ways to shift to drip irrigation method as a more economical and efficient way of expanding irrigation coverage. I, therefore, urge investors to establish manufacturing plants for producing the necessary irrigations kits here in Kenya and avail them to farmers at affordable prices.

Mr. Speaker, Sir, I have also allocated Kshs1 billion for Agribusiness Fund. Given the agreements that we have with the banks to invest Kshs10 for every Kshs1 that the Government has invested towards risk sharing, this allocation will bring the total resources leveraged from commercial banks for Agribusiness Fund to Kshs10 billion. I expect that Fund to enhance investment in agriculture and transform it into a business venture, thus making it attractive to the private sector, and particularly to the youth.

Mr. Speaker, Sir, farmers across the country are over-burdened by debts, which arose from past mismanagement of farmers' production and marketing institutions. This has consequently had adverse effects on farm output and productivity as some farmers cannot access credit. To relieve our coffee, rice and sugar farmers, among others, from that burden, I have allocated Kshs1.5 billion towards the write-off of those debts.

Mr. Speaker, Sir, hon. Members will recall that the Government has made significant efforts to avail subsidized fertilizer to reduce the burden of high prices to farmers. In the long

run, I wish to challenge the private sector players to begin seriously to consider local production of fertilizers, so as to bring down our dependence on imports in that sector.

Mr. Speaker, Sir, now turning to drought mitigation and management, due to the risk posed by drought, we will continue to set aside funds for emergency responses. In this financial year, we have set aside Kshs1.6 billion for strategic grain reserves and Kshs2 billion for famine relief activities. In addition, we have increased the Contingency Fund from the usual Kshs2 billion to Kshs5 billion to cater for other urgent and unforeseen expenditures.

Mr. Speaker, Sir, allow me to turn to youth employment and engagement. To increase labour absorption of our youth, we have carried forward the youth empowerment programmes initiated in the current financial year. The Kenya Youth Empowerment Project has been funded to the tune of Kshs491 million to cater for labour intensive works and social services, in addition to providing training and passing on the relevant work experience and enhancing the employability of youth working together with the private sector. I have also enhanced the Youth Enterprise Development Fund and the Women Enterprise Development Fund by Kshs550 million and Kshs450 million, respectively. I wish to call upon the youth of this country to take advantage of that Fund and borrow to start their own business ventures. I also urge the management of those Funds to enhance results. Given some of the recent challenges with the management of those Funds, the Government will undertake a comprehensive review of the existing framework to determine viability of alternative delivery mechanism, including transforming those enterprises into a bank of channelling such funds through commercial banks.

Mr. Speaker, Sir, let me now turn to the settlement of the Internally Displaced Persons (IDPs). The Government has, over the last four years, allocated funds to settle those fellow Kenyans, who were displaced during the post-election violence. I am happy to report that we are now on the last phase of that exercise. To bring closure to the issue of IDPs, I have allocated Kshs1.8 billion. This will bring the total amount spent on IDPs resettlement to Kshs15 billion since the year 2008. We now expect that the entire affected persons, having now secured their livelihoods, will join other Kenyans to contribute to nation building.

Mr. Speaker, Sir, with respect to the implementation of the Constitution, we have prioritized resources for setting up essential structures for the National Assembly and the Judiciary to operate under the new dispensation. In this connection, the National Assembly budget has been enhanced to Kshs17 billion. This is a 67.3 per cent increase over the previous year's Budget. While that of the Judiciary has been enhanced to Kshs15.4 billion, which is over 100 per cent increase from the allocation provided in the previous year.

Mr. Speaker, Sir, with respect to devolution, we have costed the devolved functions in readiness for the County Governments to perform their functions as soon as they are on board. These costs amount to about Kshs148 billion for this financial year. I have allocated Kshs3 billion towards other constitutional reforms, which include provision of county office facilities wherever necessary. This brings the total amount allocated to County Governments to 26 per cent of the most recent audited revenues, which I am sure hon. Members will note is well above the minimum 15 per cent set by the Constitution.

In addition, Mr. Speaker, Sir, and as I had indicated earlier, we have set aside resources for the equalization fund amounting to Kshs3 billion. Hon. Members will notice in the Printed Estimates that funds earmarked for devolved functions under each vote head have been provided, so that we can know what is in each county.

Mr. Speaker, Sir, during the transition period, the national Government will continue to provide services based on the costing of the devolved functions, but will ensure that the

resources are shifted to those counties that have been marginalized in order to effect equitable development throughout the country.

Mr. Speaker, Sir, allow me now to turn to the forthcoming general elections; 2012/2013 is an election year that will usher in a new administration and a devolved system of Government. We need to conduct the general elections successfully. Towards this end, I have allocated a total of Kshs17.5 billion to the Independent Electoral and Boundaries Commission (IEBC). I, therefore, challenge the IEBC to work smarter and prudently to conduct a transparent and credible election within this resource envelope.

(Applause)

Now, turning to the budget outturn for this year, due to the economic challenges experienced in 2011 and combined with the changes in the Value Added Tax (VAT) withholding mechanism, tax collection is suspected to be short of the budget estimate target by about Kshs25 billion. At the same time, the Government has absorbed duty elimination on kerosene, wheat and maize, with an annual revenue loss of about Kshs10 billion.

Mr. Speaker, Sir, on the expenditure side, the Government has incurred higher expenditure on salary awards, employment of teachers, security operations in Somalia, implementation of the Constitution and fertilizer subsidies to insulate farmers from the rising prices. In order to finance these emerging additional expenditure pressures in the face of financing constraints, the Government instituted austerity measures which took into account performance of expenditure so far and the absorption capacity in the remainder of the financial year. All these adjustments to the Budget were tabled in this House in April this year in the context of the Supplementary Estimates, which I thank hon. Members for their kind consideration and approval.

Mr. Speaker, Sir, despite the lower tax collection, the significant cuts in the expenditure resulted in a fiscal deficit of 6.9 per cent of the Gross Domestic Product (GDP) in the Revised Estimates for this year compared with 7.4 per cent of the GDP in the original Budget. So, we have done well.

Mr. Speaker, Sir, now turning to the Budget Estimates for 2012/2013, the total revenue estimates for the Fiscal Year 2012/2013 is Kshs956.9 billion, comprising of Kshs870 billion of ordinary revenue and Kshs84.8 billion in Appropriations-in-Aid (A-in-A) and Kshs1.3 billion in respect of Local Authorities Transfer Fund (LATF) adjustment. The total revenue estimate represents an increase of 20.8 per cent over the Budget Estimates and 18.9 per cent over the Revised Estimates for 2011/2012. As a percentage of GDP, budgeted revenues are at 24.7 per cent in 2012/2013, more or less as in the previous year.

Mr. Speaker, Sir, the targeted revenue is predicated on the projected economic growth, the ongoing reforms in the tax policy and administration as well as new tax measures that I will outline later in my Statement.

Mr. Speaker, Sir, with respect to expenditure, a total of Kshs1,489.9 billion, including contingency provision, budgeted for 2012/2013. Of this, gross recurrent expenditure is estimated at Kshs1,003.2 billion. This includes Kshs81.4 billion which will be financed through A-i-A and Kshs346 billion financed directly from the Consolidated Fund Services. The balance of Kshs575.8 billion represents discretionary recurrent expenditures.

Mr. Speaker, Sir, the Consolidated Fund Services comprise of Kshs94.5 billion for the domestic interest payments, Kshs11.3 billion for foreign interest payments and Kshs37.8 billion

for pensions; Kshs3.2 billion for salaries and allowances for constitutional office holders and Kshs1.3 billion for other non-discretionary expenditure. In addition, I expect to finance external redemptions amounting to Kshs26.2 billion and domestic redemptions amounting to Kshs171.6 billion.

Mr. Speaker, Sir, gross development expenditure for this Financial Year, 2012/2013, is estimated at Kshs451.7 billion. Out of this amount, Kshs178.2 billion will be financed through A-in-A comprising of direct project financing of Kshs41.5 billion in the form of grants, Kshs131.9 billion in the form of loans and Kshs4.8 billion in the form of local A-in-A.

Mr. Speaker, Sir, taking the above into account, I expect to finance net development expenditures amounting to Kshs273.5 billion from the Exchequer. This comprises of Kshs48.7 billion in the form of grants revenue, Kshs37.4 billion in the form of loans revenue and Kshs221.4 billion domestically financed.

Mr. Speaker, Sir, total committed external grants from development partners amount to Kshs56.2 billion. Details of the donors and projects being financed are included in the Development Estimates. I wish to sincerely thank our development partners for their continued support.

Mr. Speaker, Sir, with a total expenditure of Kshs1,459.8 billion, inclusive of domestic and external debt redemption as well as contingency provisions, the total expected receipts will be 1,180.8 billion, including loans and grants. The overall deficit amounts to Kshs279 billion as indicated in the Financial Statement circulated to hon. Members.

However, Mr. Speaker, Sir, excluding the domestic debt rollover of Kshs170.5 billion from expenditures and reflecting external debt redemptions of Kshs26.2 billion as a financing item, while at the same time reflecting loan external financing in a more acceptable international standard

practice, the total expenditure would amount to Kshs1,263.2 billion, giving rise to an overall fiscal deficit of Kshs250.3 billion which is 6.5 per cent of the GDP after taking into account grants and LATF adjustments.

This will be financed by net foreign financing of Kshs143.6 billion and Kshs106.7 billion net borrowing from the domestic market. This means that the fiscal framework for 2012/2013 Budget is fully financed and there is no financing gap.

(Applause)

Mr. Speaker, Sir, let me now turn to taxation and other measures. The rest of my Statement outlines various tax measures and miscellaneous amendments that I intend to introduce through the Finance Bill 2012 to be tabled in this House. I, therefore, request that the remainder of my Statement be regarded as Notice of Motion, to be moved before the Committee of Ways and Means.

Mr. Speaker, Sir, over the recent past, the Government has maintained levels of tax rates, especially under the Income Tax and Value Added Tax (VAT), while import duties have declined over the last eight years. This notwithstanding, expenditures have risen over the same period. We have been able to sustain this level of expenditure through enhanced administrative measures and tax reforms. We, nevertheless, recognize that more needs to be done to achieve optimality in our tax system.

Mr. Speaker, Sir, the tax measures and other miscellaneous amendments that I intend to propose hereunder are categorized into five broad priority areas, which complement the broad policies that I have already outlined in the earlier part of my Statement. These are:-

- (i) Facilitating private sector growth for employment;
- (ii) Investing in people and supporting rural development;
- (iii) Promoting equity and fairness in the tax systems;
- (iv) Further reforming the tax system for efficiency and effectiveness; and,
- (v) Strengthening financial sector stability for growth and employment.

Mr. Speaker, Sir, as I have earlier stated, the private sector plays an important role in generating growth and creating employment for our economy. For this reason, I have proposed additional measures under the taxation to further support its expansion. Our manufacturing subsector has been going through tough times due to various challenges, especially unfair competition from cheap imports from the Far East. In this regard, and in order to cushion our iron and steel manufacturers from this undesirable practice, I propose to increase import duty on galvanized wire from zero per cent to ten per cent. This will protect our local industries.

Mr. Speaker, Sir, as all hon. Members may be aware, the entire world is targeting the year 2015 as the deadline to migrate from analog to digital television signals. To make the set-top boxes which form an integral part of this migration available to Kenyans at affordable price, I propose to remove duty on the importation of these gadgets.

Mr. Speaker, Sir, the telecommunication and Information and Communication Technology (ICT) subsectors have continued to play a critical role in the entire economy. In order to continue supporting these critical subsectors and further spur economic growth, I propose to remove duty on all imported software to make it cheaper for our people and further attract foreign investors in the industry.

Mr. Speaker, Sir, investing in our people and assuring them of means of livelihood in the rural areas is the only vehicle through which we can secure a durable and stable pro-poor growth and development. In this regard, I have proposed further measures under our tax system as follows. A healthy society is essential for durable growth and development. In order to ensure that Kenyans access affordable healthcare, I propose to exempt inputs for use in the manufacture of medical diagnostic kits. I further propose to grant duty remission to producers of food supplements for use by infants and HIV/AIDS infected persons.

Mr. Speaker, Sir, in an effort to address nutritional problems affecting our people, I propose to further reduce the rate of duty on food supplements from ten per cent to zero. This measure is expected to make imported food supplements affordable, thus helping improve the health of our people.

Mr. Speaker, Sir, beekeeping has become a major source of livelihood in most parts of our rural areas. To promote beekeeping as an economic activity, I propose to exempt from duty imported inputs, so as to encourage many farmers to take it up. This is expected to promote employment in the country and alleviate poverty.

Mr. Speaker, Sir, over the recent parts, many patriotic Kenyans have invested heavily in real estate, thereby promoting access to housing for our people. To ensure fairness and also allow this class of citizens to contribute to our nation building, the Kenya Revenue Authority (KRA) will shortly embark on mapping of all residential and commercial areas, and implement a comprehensive strategy, to ensure that all landlords are effectively brought in the tax net and all rental income taxes are paid.

(Applause)

Mr. Speaker, Sir, collection of excise duties has faced challenges in the recent past. To safeguard the revenue base and ensure equity, the KRA will institute an effective excise duty management system to ensure that all products produced by licensed manufacturers are fully accounted for by type and quantity. I expect the first phase of this system to be fully operational in the course of this fiscal year.

Mr. Speaker, Sir, the taxation of non-resident taxpayers who engage in business of transmission of messages with a base in Kenya has posed challenges to taxpayers and KRA. In order to address this, I propose to amend the Income Tax to align their taxation with that of the other non-resident taxpayers, who engage in other businesses and whose tax base is in Kenya.

Mr. Speaker, Sir, the recent upward review by KRA of the minimum tax payable on imported secondhand clothes from Kshs1.1 million to Kshs1.9 million per 20-foot container has forced dealers to reduce imports significantly. Consequently, businesses have closed down and thousands of our people who depended on this sector as a source of livelihood, especially the youth, are now poor and vulnerable. In order to prevent further loss of business and employment that supports millions of our people, I have instructed KRA to immediately revert back to the initial valuation method, to make *mitumbaa* affordable.

Mr. Speaker, Sir, in accordance with the Constitution, I propose a number of tax measures aimed at ensuring efficiency and effectiveness in the tax system. Our Constitution specifically prohibits the exemption of State officers from payment of taxes. To this end, I propose to amend the Customs and Excise Act to ensure that no person enjoys tax exemption by virtue of holding a State office.

(Applause)

Mr. Speaker, Sir, the Constitution also requires very high standards of service to the people of this great nation. To this end, I propose to amend the Customs and Excise Act to ensure fact processing of applications for renewal of excise licenses.

Mr. Speaker, Sir, it has come to my attention that KRA is facing challenges in determining the institutions that qualify for exemption, while engaging in charitable activities. To address this problem, I propose to amend the Income Tax to empower the Minister to make rules for the purposes of administering exemptions of trusts, churches and Non-Governmental Organizations (NGOs).

Mr. Speaker, Sir, there is need to enhance tax dispute resolution mechanisms to instill professionalism and equity in the administration of tax cases. To this end, I propose to amend the Income Tax Act to provide for qualifications for local committee and tribunal members, and specify the period that the Commissioner is required to file a statement of facts to the local committee.

Mr. Speaker, Sir, effective dispute resolution mechanism allows for a faster and efficient settlement of tax disputes. There will be instances where the tribunal has not performed optimally due to failure by some members to perform their duties. In order to ensure effective and uninterrupted service to the taxpayers, I am proposing to amend the Act to provide for additional circumstances under which members of the tribunal may cease to hold office.

There is need to provide oversight over the operations of tax agents to encourage professionalism. I, therefore, propose to amend the KRA Act to empower the Minister to make

regulations for persons authorized to act as tax agents. This measure will enhance tax compliance.

Mr. Speaker, Sir, as promised by my predecessor last year, my Ministry has now finalized the review of the VAT law to align it to the Constitution by making it simpler and modern, based on international best practices. After extensive consultations with key stakeholders, including relevant Departmental Committees of Parliament, the Draft Bill was discussed and approved by the Cabinet. I am, therefore, pleased through this Budget, to table the VAT Bill, 2012, for debate and approval by this House.

Similarly, Mr. Speaker, Sir, we committed to review all other taxes in order to simplify and modernize them. Accordingly, my Ministry has commenced work towards a review of the Income Tax and Customs and Excise Tax Act. I expect this assignment to be completed by the end of this financial year. As I have already alluded to, we shall also undertake a holistic review of the administrative structure of the KRA to give effect to the objective of these reforms.

Our country sits on a large reservoir of mineral resources. To avoid crisis often associated with the exploitation of such resources, it is imperative that we swiftly institutionalize a comprehensive policy and legislative framework covering licensing, revenue sharing, taxation and sustainable use of revenues generated from such resources. To this end, my Ministry, working with relevant line Ministries will shortly organize a workshop to deliberate and draw up a conceptual framework on how to move this process forward in an inclusive manner.

Mr. Speaker, Sir, Individual Retirement Benefits Schemes are important vehicles through which increased coverage of savings for retirement can be achieved. To strengthen governance and encourage their growth, I propose to amend the law to bar Individual Retirement Benefits Schemes from appointing corporate trustees related with their sponsors. This will go a long way to remove conflict of interest in the administration of these important schemes and safeguard the interest of Kenyans who save through these schemes.

Our commercial banks have continued to extend their presence in the region. However, the activities of their subsidiaries have a direct impact on the safety and stability of our banks. There is need, therefore, to focus more on the transactions of their related parties. To this end, I propose to amend the Banking Act to provide for a robust, effective and comprehensive consolidated supervision framework to enable the Central Bank of Kenya (CBK) to adequately supervise banks and their subsidiaries.

Mr. Speaker, Sir, the trend globally is towards convergence of the financial services where banking, insurance and stock brokerage are being offered under one roof. In order to facilitate a “one stop shop” financial services solution, I propose to amend the Banking Act to expand the scope of banking business to include incidental financial services that can be offered by banks, subject to review and approval by the CBK to ensure adequate risk mitigation.

Mr. Speaker, Sir, in the recent past, we amended the law for banks to subcontract agents to provide basic banking services on their behalf. However, we did not require the banks to be liable for the acts and omissions of their agents, hence exposing their customers who use these services. In order to correct this anomaly, I propose to amend the Banking Act to expressly make banks liable for the acts and omissions of their agents in relation to banking business.

(Applause)

Mr. Speaker, Sir, for a long time, the Nairobi Securities Exchange (NSE) has been used by fairly large companies to access capital among other things. The high threshold in law has

denied the small and medium enterprises (SMEs) the opportunity to access long-term and relatively cheap capital as well as raising their profiles through participation in the Central Depositories and Settlement Corporation (CDSC). In order to address this problem, I propose to amend the law to create a framework for growth, enterprise market segment within the NSE targeting SMEs.

We have two different securities settlement infrastructures. One is based at the CDSC and the other at the CBK. However, international best practice points to a single and efficient security settlement infrastructure for both fixed income and equity securities. In order to facilitate the settlement and making operational a single CDSC, I propose to amend the Central Depositories Act to include Government Securities as part of eligible security for purposes of clearing and settlement.

Mr. Speaker, Sir, scrap metal dealers who buy stolen and vandalized cables, wires, rail guards, road signage and transformers, among others, are economic criminals who deserve to live in jails

(Applause)

To this end, I propose to amend the law to empower the Minister for Internal Security to issue regulations requiring identification and traceability of all scrap metal handled by dealers. I propose to further introduce a penalty of Kshs1 million or imprisonment for a term not exceeding three years for anyone who breaks this law. With these measures in place, I wish to put on notice these unscrupulous scrap metal dealers that their days are now numbered.

In conclusion, in this Budget, I have outlined broad policies and structural reform measures geared towards building further resilience of our economy. First, we are continuing to sustain micro-economic stability necessary for long-term investment and growth.

Secondly, we are strengthening our financial systems and encouraging diversification of our export markets to keep the global markets uncertainty at bay.

Thirdly, through this Budget, we are scaling up infrastructure investments as the building blocks needed to achieve a more lasting growth and stable economy.

Fourthly, we are deliberately making growth and development more inclusive and equitable by investing in our people and by making resources available at the county level to improve service delivery. We also renewing our commitment through this Budget to progressively deliver on the constitutionally mandated economic and social rights, including implementing measures to ensure food security and protect the vulnerable members of our society. The spending plans under the 2012/2013 MTEF Budget are, therefore, consistent with our national strategic objectives of securing stability, durable inclusive growth and equitable development. The attainment of these goals defines the Kenya we all aspire to and for which we must all work hard to build.

Finally, the framing of this Budget would not have been a reality without the unwavering commitment by my Permanent Secretary and staff of the Ministry of Finance. I, therefore, wish to thank them together with all the other officers in the line Ministries for their dedication to this very important civic duty.

Mr. Speaker, Sir, I beg to move.

The Vice-President and Minister for Home Affairs (Mr. Musyoka) seconded.

Mr. Speaker: Order, Mr. Minister! Perhaps you want to proceed and table that Financial Statement and secondly, give the appropriate Notice of Motion.

The Minister for Finance: (Mr. Githae): Mr. Speaker, Sir, I am sure that the Treasury can afford another file.

PAPER LAID

The following Paper was laid on the Table :-

The Estimates of Revenue for the Financial Year 2012/2013

(By the Minister for Finance (Mr. Githae))

NOTICE OF MOTION

FINANCIAL STATEMENT FOR THE FISCAL YEAR 2012/2013

The Minister for Finance: (Mr. Githae): Mr. Speaker, Sir, Mr. Speaker, Sir, I beg to give notice of the following Motion.

THAT, the Financial Statement and all other documents exclusive of the Bills tabled today, Thursday, 14th June, 2012, for the Fiscal Year 2012/2013 be referred to the Budget Committee.

Mr. Speaker: Order, hon. Members! Just like we did last year at this point in time, in conformity with the precedent and practice of the House, hon. Members have notice of the Motion as given by the Minister for Finance.

DEPARTURE OF HIS EXCELLENCY THE PRESIDENT

Mr. Speaker: Hon. Members, it is the pleasure of His Excellency the President to take his leave. As the President leaves, you are all invited together with other guests to have a cup of tea in the gardens proximal to the Press Centre.

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

ADJOURNMENT

Mr. Speaker: Hon. Members, that brings us to the end of business for today. The House, therefore, stands adjourned until Tuesday, 19th June, 2012, at 2.30 p.m.

The House rose at 4.30 p.m.

