

# NATIONAL ASSEMBLY

## OFFICIAL REPORT

Thursday, 13<sup>th</sup> June, 2013

The House met at 2.30 p.m.

*[The Speaker (Hon. Muturi) in the Chair]*

### PRAYERS

### PETITION

**Hon. Speaker:** Hon. Irungu Kang'ata, M.P. Is Hon. Irungu not here? Where is Hon. Irungu Kang'ata? It seems Hon. Irungu is not here.

Well, the matter is deferred to next week.

*(Petition deferred)*

### STATEMENT

#### BUSINESS FOR THE WEEK COMMENCING 18<sup>TH</sup> TO 20<sup>TH</sup> JUNE 2013

**Hon. A.B. Duale:** Thank you, hon. Speaker. Pursuant to Standing Order 44 (1), on behalf of the House Business Committee, I rise to give a Statement regarding the business appearing before the House next week.

On Tuesday, 18<sup>th</sup> June 2013, the House will consider the Motion for Supplementary Estimates 2012/2013. We anticipate that the Budget and the Appropriations Committee will have finalized their report of the Supplementary Estimates.

On that day the House will continue debating Motions by hon. Members. This will also take place on Wednesday 19<sup>th</sup> June 2013, in the Morning Sitting. Just to inform the hon. Members, we have since commenced the budgeting process and in this regard, the following business related to the Budget process for 2013/2014 Financial Year will be introduced in the House next week:

(i) The Supplementary Appropriations Bill for 2012/2013 Supplementary Estimates

(ii) Commencement of the Committee of Supply for 2013/2014 Supplementary Estimates.

(iii) The Finance Bill, 2014 will also be introduced by the Departmental Committee on Finance, Planning and Trade.

(iv) The House will continue with debate on the ordinary Motions proposed by hon. Members.

(v) If need be, the House will consider a Motion for Vote on Account, pursuant to Standing Order 241. This should be done before Wednesday, 26<sup>th</sup> June 2013, which is the deadline.

Finally, the House Business Committee will meet on Tuesday, 18<sup>th</sup> June 2013, at the rise of the House to consider business for the rest of the week and prioritize the votes for the rest of the respective Ministries that will be considered under the Committee of Supply.

Hon. Speaker, I now wish to lay the Statement on the Table of the House.  
Thank you.

*(Hon. A.B. Duale laid the document on the Table)*

**Hon. Speaker:** Very well. Hon. Hassan Abdi Dukicha.

**Hon. Dukicha:** Thank you, hon. Speaker, Sir. I stand to request for a statement.

**Hon. Speaker:** No, this is not a request for statement, it is intervention. Is it a point of order?

**Hon. Dukicha:** No, I want to get a statement.

**Hon. Speaker:** No, it is not there. You pressed the wrong place. There is a point of order from Hon. Ng'ongo.

**Hon. Ng'ongo:** Thank you, hon. Speaker. I am rising on a point of order.

*(Hon. Irungu pressed the button)*

**Hon. Speaker:** Just a minute Hon. Ng'ongo. Hon. Irungu, once you are late for whatever reason, the matter is done. We must proceed; we cannot wait for people who want to take their sweet time talking to constituents at the expense of doing their constitutional functions in the House. So, that one is taken to next week, not today. It has not been dropped, but it has just been deferred to next week.

**Hon. Ng'ongo:** Hon. Speaker, Sir, Hon. Irungu was still busy trying to dissolve the Senate.

I rise on a point of order with regard to the Statement from the Leader of Majority Party. Even though the Leader of Majority Party has eloquently put it that the Finance Bill will be introduced by the Committee, which I have no problem with, but I just wanted to get a clarification from him because the Public Finance Management Act provides that we expect the Statement to be with Parliament today. It is very clear that the day that the Cabinet Secretary is reading Policy Statement, that Bill must be brought to the House. So, it is not next week.

So, I just needed that clarification and that will be done.

**Hon. A.B. Duale:** Yes, hon. Speaker, Sir. I confirm it will be introduced today once the Budget Statement begins to be read. That Finance Bill will be there.

**An hon. Member:** Are you sure?

**Hon. A.B. Duale:** I am sure because I am always sure.

*(Laughter)*

**Hon. Speaker:** A Member purported to make an intervention and he has again withdrawn. That is Hon. Mithika Linturi.

**Hon. Linturi:** Hon. Speaker, Sir, I really did not want to become repetitive because the matter I wanted to raise is what has just been raised by *Mheshimiwa* Mbadi and so we will just wait.

**Hon. Speaker:** Very well. Hon. Members, I know there are quite a number of you who have had their requests for Statements approved but given the nature of the business that this House is going to transact today, I want to first of all give this chance to the Chairman of the Constituencies Development Fund (CDF) Committee to make a statement which was sought by Hon. Dr. Wakhungu. Chair of the CDF Committee, if you are in the House, please do so. Hon. Lessonet.

## REQUESTS FOR STATEMENTS

### CRITERIA FOR DISBURSEMENT OF CDF FUNDS

**Hon. Lessonet:** Thank you, hon. Speaker, Sir. I stand to make a Statement in response to Hon. Dr. Chris Wamalwa's request on how we are going to distribute CDF funds. I want to confirm to this House that we met as a committee yesterday to look at and agree on that issue but yesterday when the Leader of the Majority Party tabled the Supplementary Estimates we noted something, and may the House should listen to that very carefully so that on Tuesday when you will be debating the Supplementary Estimates you will be able to actualise what we shall be proposing as the CDF Committee. The Cabinet Secretary for National Treasury through the Supplementary Estimates has proposed to reallocate Kshs5.4 billion of CDF funds for this Financial Year ending 30<sup>th</sup> June 2013. So, I do not know now whether it still makes sense for me to inform the House how we intend to distribute that Kshs5.4 billion while we know there is a proposal by the Ministry to reallocate those funds. That notwithstanding, and also I would really believe that this House will not allow that action to take place, we shall definitely be able to make an amendment on that Tuesday to decline or to refuse that action by the Ministry.

*(Applause)*

Hon. Speaker, Sir, going to the point of Hon. Dr. Chris Wamalwa, I want to confirm that when my committee sat yesterday together with the Chief Executive Officer(CEO) of the CDF Board, we agreed that there are a number of constituencies which do not have boundary issues – whose boundaries were not divided. Therefore, for these constituencies, we shall be working to make sure that immediately after Tuesday, you will be able to get your funds in your accounts.

Hon. Speaker, Sir, there are those constituencies which we estimate to be about 200 which were affected by boundaries and they have commenced an exercise to map every project to a constituency. Once they are through with that exercise of mapping projects to constituencies, we shall be able to take the summation of all the projects in each constituency and, therefore, send such projects money to the beneficiary

constituencies. We hope that the balance of the CDF funding for this financial year should actually go to the current 290 constituencies.

Thank you, hon. Speaker, Sir.

**Hon. Speaker:** Very well. Is Hon. Dr. Wakhungu in the Chamber who first of all sought the statement? I am used to seeing him in a particular corner but I can see he has taken advantage of---

**Hon. Wakhungu:** Thank you, hon. Speaker, Sir. I am seated this side because I am a member of the Budget and Appropriations Committee.

*(Laughter)*

**Hon. Speaker:** Very well. Hon. Wakhungu, you are free to sit anywhere in the Chamber.

**Hon. Wakhungu:** Hon. Speaker, Sir, it is not that I have defected to the Jubilee side.

Thank you, hon. Speaker, Sir. I am satisfied with the answer that *Mheshimiwa* Lessonet has given. Thank you.

**Hon. Linturi:** On a point of order, hon. Speaker, Sir. I rise to seek further clarification and give advice to the Chairman of the CDF Committee and take the opportunity first to remind him that when we vote money for purposes of public use, time is of essence. If there is a plan to give money to the constituencies that were not subdivided, I do not find it prudent to give money to the constituencies that border the others because in the last financial year, we proposed projects which are within the older constituencies. Giving an example of Igembe South Constituency which borders Igembe Central, these people gave us our money. I should sit with my colleague and if there are projects that were not funded but are in the other constituency, they should be provided with money. So, the idea of suggesting that we wait, in my view, is not proper. It is time wasting and this is the digital era when we must be doing things the right way and as fast as possible. We must make sure the *mwananchi* has money to do what is required within a given time.

**Hon. Speaker:** Hon. Shakeel Shabbir.

**Hon. S.S. Ahmed:** Yes, Sir. Hon. Speaker, Sir, further to what my brother *Mheshimiwa* Linturi has said, the amount of 15 per cent relates to the Financial Year 2012/2013 and as such it is most appropriate that it goes to the constituencies that were there before. It is quite easy for the Member of Parliament of the old constituency to incorporate the Member from the new constituency and manage those funds together because up to now accounts have not been opened. So many procedures have not been done and we are all suffering just because of administrative hiccups. We can deal with this within the current structure that we have.

**Hon. Speaker:** Hon. Midiwo, you are on top of the list.

**Hon. Midiwo:** Yes. Thank you, hon. Speaker, Sir. The matter before the House is not a small matter. As hon. Shabbir has said, these monies were for the financial year ending in about 15 days. So, how did the Government intend to give these monies to the constituencies? Let me say something which went on, on the Floor of this House earlier this year before the majority of us were here. Hon. Robinson Githae stood on this podium

and lied to this nation that the Government had released 100 per cent of CDF funds. It was in December. It is in the HANSARD. So, there should not be any reason for the Government to lie to its nationals. We have projects which we had proposed.

Hon. Speaker, Sir, you know the country is now conflicted by people who are saying that these MPs should not control the CDF and there is nowhere in law where any Member of Parliament is controlling CDF.

Somebody somewhere is busy telling Kenyans wrong things about Members of Parliament. The Government is the one which is guilty because yesterday during debate on Supplementary Budget, which you rightfully ruled that we have to look at, the Constituencies Development Fund (CDF) was carefully removed. How would the Government be serious if they are asking for Supplementary Budget but they are removing the allocation in CDF? We need you, hon. Speaker, to save this country and order this Chairman or the Leader of Majority Party who keeps saying this is his Government, so that these Members of Parliament can have this money today.

*(Laughter)*

He keeps saying this is his Government, hon. Speaker.

**Hon. A.B. Duale:** On a point of order, hon. Speaker, Sir. By the opinion polls last year and early this year, Hon. Midiwo really wanted to be the Leader of Majority Party and represent the Government, but now he finds himself in the Opposition. I want this House to tell him that he shifts his mindset and accepts his place both in and outside the House.

**Hon. Speaker:** Order Members!

**Hon. A.B. Duale:** Hon. Speaker, in the Communication you made yesterday you confirmed that the emissary of the Government and the President is none other than the Leader of Majority Party. I want him to have that mindset and in the next election, we can help his coalition either to win the election or go distinct and die.

**Hon. Speaker:** hon. Members, I would ask you to desist from debating non-issues.

*(Loud consultations)*

**Hon. Midiwo:** Hon. Speaker, thank you for calling it a non-issue, because I know you as an intelligent person and the ruling you made yesterday said Hon. Duale can only issue the opinion of the Government. You never confirmed, and I want to inform my colleague that my Leader of Minority Party is Hon. Nyenze and I am his deputy but a very able member of this House. What I am saying, not as a Minority Party Leader or Majority Party Leader, but I want to go on record that today being the day the Budget Committee gives us its estimates, I am being very careful that the Government here today is an observer. This is a duty and function of Parliament. Please hon. Speaker, order these people that before we go on with the Budget, we want the balance of CDF in our accounts before this thing goes on.

Thank you.

**Hon. Speaker:** Of course, that is not a function of the Speaker.

*(Laughter)*

You, as a House, can make a resolution to that effect. Then it will be enforced, but the Speaker cannot make any such orders. Hon. Lessonet, you may wish to make some brief responses.

**Hon. Lessonet:** First, I really want to thank the hon. Members for the suggestions they have given and these suggestions of disbursing the money to 290 constituencies is really the easiest option for us and the Board. I wish also to note that the hon. Members who have spoken, most of them represent the old constituencies; the 210 Constituencies. There are equally other hon. Members like those of Nairobi County who wish their money to go to their independent 17 constituencies; the hon. Members from Nakuru County have made presentations to Constituencies Development Fund Committee that they want their money to go to their 11 constituencies, not their six. We shall be able to listen to all the views of the hon. Members and I can assure you that we shall use the shortest time possible to make sure that we get the money to your accounts.

The first task, like I mentioned - I am very sure the Government or the Executive or the Cabinet Secretary for the National Treasury did not properly inform the Leader of Majority Party that in the Supplementary Estimates there was Kshs.5.4 billion for CDF. I am sure the Leader of Majority Party would not have tabled that document if he knew Kshs.5.4 billion for CDF was being reversed. We are going to be unanimous in this House so that on Tuesday your actions will be the ones to guide us in terms of distributing that money.

Thank you, hon. Speaker, Sir.

**Hon. Speaker:** Hon. Members, you know that the Supplementary Estimates were referred to the Budget and Appropriations Committee. I am sure that before that Committee you can make a lot of representations that you are now trying to canvas around. I think that would be the appropriate forum; therefore, you are at liberty to attend the meetings of that Committee and make those representations. Of course, the Committee will make a report to the plenary and, again, you will have the chance to air whatever views you may have. But, of course, we bear in mind that it is not very easy to please everyone a 100 per cent. There will, obviously, be divergent views here and there as I can see. Some of the hon. Members who are in new constituencies are opposed to the proposal presented by the Hon. Linturi, while others are happy with it. Of course, it is you hon. Members, sitting in plenary who will make the final decision on that; certainly, not the Speaker.

Hon. Members, I have five requests for Statements from the following persons: Hon. Okoth, Hon. Dukicha, Hon. Mwadime, Hon. Mulu and Hon. Kanini Kega. Given the nature of the business you are about to begin transacting, it is for the convenience of the House that the Chair decides that these requests be made on Tuesday next week. They are, therefore, deferred and we move to the next Order.

*(Statements deferred)*

## MOTION

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## UPGRADING OF ROADS IN CONSTITUENCIES TO BITUMEN STANDARD

THAT, aware that the road network in the country currently stands at approximately 160,886 Km, out of which only approximately 11,189 Km are paved; noting that the extent of the unclassified rural and urban roads remains unknown, with most of such roads in bad condition; aware that good infrastructure facilitates trade, economic development and improvement in the quality of life, this House urges the Government, through the Kenya Rural Urban Authority (KeRRA), the Kenya National Highways Authority (KeNHA) and the Kenya Urban Roads Authority (KURA), to upgrade a minimum of twenty (20) kilometers, and a maximum of thirty (30) kilometres of roads to bitumen standards in every constituency across the country in every financial year to enhance the road network in the country and subsequently enhance agricultural productivity and job creation.

*(Hon. K.K. Kinyanjui on 6.6.2013)*

*(Resumption of Debate interrupted on 12.6.2013)*

**Hon. Okoth:** Hon. Speaker, Sir, thank very much for according me this time to continue with this Motion.

**Hon. Speaker:** Were you Moving?

**Hon. Okoth:** I had moved the Motion, it is only a continuation; that is what I wanted to say.

**Hon. Speaker:** Had it been seconded?

**Hon. Okoth:** Yes it had been seconded.

*(Laughter)*

**Hon. Speaker:** Then you have no right to contribute at this time. Any Member who may wish to contribute to this Motion by Hon. Kinyanjui? Not him; the Motion had been seconded. Yes, Hon. Angwenyi.

**Hon. (M) Otucho:** On a point of order, Hon. Speaker, Sir. I was contributing to that Motion when it was adjourned. I had a few minutes remaining.

**Hon. Speaker:** Then what you needed to do is to rise in your place and not Hon. Kinyanjui. You see, sometimes delay defeats equity. Proceed.

**Hon. (Ms.) Otucho:** Hon. Speaker, Sir, I was contributing to this Motion on road network and I was opposing it. I agree with the Mover that road network is important because it actually opens up unconnected regions to trade and investments. It is also important because our economic growth depends on the proper establishment of our road network.

However, I beg to oppose this Motion because of the terms: "A minimum of 20 kilometres and a maximum of 30 kilometres per constituency." Some constituencies will

be disadvantaged by this. We know there are counties that have well developed road networks, but we have other counties with constituencies without even a single kilometre of tarmac road. For instance we cannot compare Kiambu or Nairobi with Busia where we have no single tarmac road in Teso South. As much as we want to see our entire district headquarters connected, I would want to move from Amukura to Amagoro to Budalangi to Nambale and Busia. Stating that we have a maximum of 30 kilometres would be a disadvantage to some of our counties.

We need to develop our road network because it will go a long way in enhancing development and reducing the levels of poverty. This will be by facilitating trade and enhancing competitiveness and also integrating---

*(Loud consultations)*

**Hon. Speaker:** Order, hon. Members. You must allow Hon. Mary Emaase to be heard.

**Hon. (Ms.) Otucho:** Thank you, hon. Speaker Sir for protecting me. We need proper road networks and their maintenance. Each county's needs must be identified on an individual basis. Priority should be given to counties with less or no road network. I oppose this Motion unless it is actually amended. I propose for an amended so that we remove the term stating that we have a maximum of 30 kilometres.

**Hon. Angwenyi:** Hon. Speaker, Sir, I rise to support this Motion. This is because it promotes the development of infrastructure in our country. I want to tell my colleagues that it is these types of Motions that have developed this country. This type of Motion brought the CDF. This type of Motion brought rise to the Roads Fund. This Motion, if it goes through and we make sure it is implemented imagine that each year you will be getting a minimum of 20 kilometres of tarmac in your constituency. By the end of five years you will have got 100 kilometres. I can assure you that if you do not pass this Motion and expect the Government or the county government to do a road in your constituency, you will spend your five years here and you will not see one centimeter of tarmac road in your constituency.

Hon. Speaker, Sir, we know that infrastructure is the base for development. You have seen what former President Kibaki did in the last 10 years. He concentrated on infrastructure although it was not widespread throughout the country. He knew, as an economist, that no economy can develop without proper infrastructure. After we pass this Motion and implement it we need to venture into other sectors of the infrastructure, say, the railways, aerodromes and waterways.

I wish the Mover of this Motion was elected in the last Parliament or two Parliaments ago. This country would have tarmac roads all over. The retired President in 2001, when Eng. Karue brought a Motion in this Parliament about CDF and which was seconded by this person, said that he wished Kenyans had elected these two young men – then I was younger – to Parliament a few years ago. This country would have developed. Surely enough CDF – and it cannot be taken away from us; only over our dead bodies - has done tremendous work in this country. We all can attest to that.



Without much ado, we need to pass this Motion before the Budget is concluded in this House. We need to ensure that the 2013/2014 Budget includes some funding for the minimum 20 kilometres stipulated in the Motion and start with Kitutu Chache North.

I beg to support.

### MOTION FOR ADJOURNMENT UNDER S.O.31

#### PRESENTATION OF 2013/2014 BUDGET ESTIMATES

**Hon. A.B. Duale:** Hon. Speaker, Sir, I rise under Standing Order No.31 to move that the House do now adjourn.

Hon. Speaker, Sir, today the Budget and Appropriations Committee will want to listen to the Cabinet Secretary for National Treasury as he presents his budget estimates and the measures that he will use to raise revenue. This is in line with the new dispensation and governance structure that there is a clear separation of powers between the Executive, the Legislature and Judiciary.

This day is also in line with our obligations to the East African Community (EAC). All the EAC countries are reading their Budget Estimates and will also indicate measures to raise revenue.

This Motion gives this House and the Budget and Appropriations Committee chaired by Hon. Musyimi an opportunity to hear the first Cabinet Secretary for National Treasury under the new Constitution as he presents the 2013/2014 Budget Estimates.

I now ask Hon. Musyimi to second.

**Hon. Musyimi:** I second.

**Hon. Speaker:** Under Standing Order No. 31, it is clear that a Member may at any time, for reasons stated, seek leave to move "THAT, this House do now adjourn."

Sub-section (2) thereof provides that if the Speaker is of the opinion that such Motion for the adjournment of the House is frivolous, vexatious or an abuse of the proceedings of the House, the Speaker may forthwith put the Question thereon or decline to propose it. But for the convenience of the House, and for the reasons stated by the Mover, I propose the Question.

*(Question proposed)*

*(Question put and agreed to)*

The House rose at 3.15 p.m.

### THE BUDGET AND APPROPRIATIONS COMMITTEE

#### PRESENTATION OF 2013/2014 BUDGET ESTIMATES

*[The Chairman (Hon. Musyimi) in the Chair]*

**Hon. Chairman:** Members of the Budget and Appropriations Committee, please sit as near as possible to the front row to make it easier for the Chair to ascertain that we have quorum.

*(Hon. Members sat in their respective places)*

Hon. Members, allow me to call this meeting to order. We are about to begin a session of the Budget and Appropriations Committee of the National Assembly. This is a special meeting of the Budget and Appropriations Committee. We meet here to execute the stipulations of Standing Order No.241, which provides for the Cabinet Secretary, Treasury, to brief the Budget and Appropriations Committee on the Budget policy highlights and revenue raising measures. It is important to note that the Budget and Appropriations Committee has already examined the expenditure proposals by the three arms of Government, and the House has approved the report of the Committee on the same with some, I believe, positive amendments. The expenditure proposals are, therefore, not new to Parliament; there is a more in-depth view of the Budget as well as the rationale employed in the allocation of resources to the various programmes. This can only come from the Cabinet Secretary's perspective. We are, therefore, hoping to benefit from today's events, and hope that all the hon. Members of the National Assembly will take note of the pronouncement, ensuring that the various departments and Ministries in the Executive adhere to the principles spelt out throughout the financial year.

We also expect that the Cabinet Secretary, National Treasury, will lay legislative proposals setting out the revenue raising measures for the national Government for the Financial Year 2013/2014 before this Committee. I undertake to transmit this to the Committee on Finance, Trade and Planning for introduction to the House in line with Standing Order No.245. This is the first time that we, as a Committee, are holding this event. Hon. Members of the Committee have had the opportunity to raise issues and concerns with the Cabinet Secretary at another meeting. Therefore, I do not expect any points of order, filibuster Motions, questions or interventions as the Cabinet Secretary briefs this Committee.

Hon. Members, before I invite the Cabinet Secretary, I would like to introduce two guests, namely Abdi and Zainab Mohamed, who have come all the way from Isiolo, and are sitting in the Public Gallery. I invite you to welcome them in our usual manner.

*(Applause)*

Zainab could not complete her primary school education because her mother died when she was in Standard Six. She did not know her father. She has three children with Abdi. She sells paraffin and charcoal in Isiolo, making about Kshs100 a day, which she uses to buy food. Her husband, Abdi Mohamed, who is in his late 20s, is the founder of Kusanye Youth Group. He is the chairman of the street families in Isiolo. The group's name, "Kusanye" comes from the Swahili word "*kusanya*". The activities of the group are summarised in Abdi's own words: "*Sanya kidogo kidogo bila kudharau kile ulichopata kwa jasho lako, bila kuiba au kuomba*".

His group has 300 members, each of whom paid Kshs20 as joining fee. From that money, they are able to support education, payment of medical bills, organise sports activities, rehabilitation and meet funeral expenses. He has been the chairperson of that group for the last 15 years. He went to Waso Primary School. He has been on the streets. He suffered a huge disadvantage when Bishop Luigi Lokati, the Catholic Bishop of the Diocese of Isiolo, was shot dead. He was his benefactor. So, he went back to the streets. He has been a street child in Nairobi, Nanyuki, Meru and Isiolo.

He appeared before us when we were doing public hearings in Isiolo, and I thought it was right that as we meet here today as Members of Parliament, we invite one of our own because these are the people for whom we make Budgets. These are the people we serve. I want to thank Abdi and Zainab for coming. We had a wonderful lunch with them today. They will go back to Isiolo tomorrow and we ask them to convey our greetings to Kusanya Youth Group.

*(Applause)*

Hon. Members, as the Chairman of the Budget and Appropriations Committee, it is now my pleasure to invite the Cabinet Secretary for National Treasury to give his public policy highlights and revenue raising measures for the National Government for the Financial Year 2013/2014, pursuant to Standing Order No. 241.

Cabinet Secretary, you are welcome.

*(Applause)*

THE BUDGET POLICY AND REVENUE RAISING  
MEASURES FOR FINANCIAL YEAR 2013/2014

**The Cabinet Secretary for the National Treasury** (Mr. Rotich): Hon. Chairman, Sir, I thank you very much for inviting me to this session.

It is a greater honour and privilege for me to present the highlights of the first Budget of the administration of His Excellency President Uhuru Kenyatta in accordance with Section 40(1) and (2) of the Public Financial Management Act, 2012, and Standing Order No.241 of the National Assembly Standing Orders.

Before I proceed, allow me to take this early opportunity to express my sincere gratitude to His Excellency the President for appointing me as the Cabinet Secretary for the National Treasury, and entrusting me with the important task of spearheading our agenda of transforming and elevating our economy to a higher growth span.

Let me also, at the outset, thank the Budget and Appropriations Committee, under the chairmanship of Hon. Mutava Musyimi, for the constructive engagement during the parliamentary review of the Budget Estimates that we presented on 30<sup>th</sup> April, 2013. In the just concluded general election, Kenyans showed the world that we have come of age, and that we can conduct our business in a peaceful and civil manner; thanks to our new Constitution and the institutions that we created under this legal instrument. All Kenyans should be proud that we confounded our cynics who had to contend with the fact that we could successfully hold a robust political competition and yet find a shared understanding

on matters of concern to all of us – that is building a better Kenya for the current generation of Kenyans and for the generations to come.

Hon. Members, we must now seize this opportunity to urgently address the main challenges that we continue to face, notably, elevating the economy to a higher and sustainable growth path, creating decent jobs and significantly reducing poverty while preserving macroeconomic stability. As His Excellency the President pointed out in his Address to the Joint Session of Parliament on 16<sup>th</sup> April 2013, none of us can rest, or sleep, peacefully until every Kenyan can find a job easily, feed himself and his family and easily exploit available opportunities to improve his own life. The President has correctly challenged us to show results to Kenyans. We, therefore, need to re-examine our strategies, and to set a more comprehensive and focused plan of action. We also need to build a new common purpose, so that we can use our skills and resources to deal with our economic and social challenges. The President has already shown the way. He has restructured the Government by collapsing 44 Ministries into 18 Ministries and commencing the journey to organizational restructuring and rationalizing public agencies, that is driven by the imperative of service delivery. The Government is also forging a new engagement with the business sector and development partners, through which we will mobilize our determination to build a better Kenya that meets the aspirations of our people.

Despite the progress we have made over the last 50 years since Independence, we still face various human development challenges. The majority of our youth have no work. Income inequality is high and about a half of our population still lives in abject poverty. Indeed, a large number of Kenyans are still food insecure, and have low access to quality health services. As a consequence, we are confronted with several social and economic challenges, including unacceptably high rates of crime. So we have to act now. We must strengthen institutions to deliver public services effectively. We must transform the structure of our economy, so that all Kenyans can share in the opportunities that our country offers. We must, in our own way, demonstrate to the world that it is possible to transform our economy, so as to deliver an inclusive and broad-based development. We must also ensure that the system of devolved government succeeds.

The Government is ready to work tirelessly to build a future in which all Kenyans can take pride, and equitably share the benefits. Therefore, the key message of this Budget is “Transformation for Shared Prosperity”.

The Cabinet, under the leadership of His Excellency the President, has agreed on a set of outcomes that will shape our policies and programmes for the year ahead. The key outcomes of this action plan, which informs this Budget, aim at locking in and securing a sustained higher and inclusive economic growth and development for our country. My privilege today is to present Kenya’s economic action plan, a plan for jobs, growth and long term prosperity. I will elaborate on some of the economic and fiscal policy measures that the new administration plans to implement, share with Members of Parliament and all Kenyans the spending plans and tax revenue measures and some of the projects and programmes that the Government will undertake over the period ahead.

Before I proceed to elaborate on the programmes, let me highlight the economic context in which this Budget has been prepared. Hon. Members, the global economic recovery is taking shape but the road ahead is still bumpy. After growing by 3.2 per cent

in 2012, the world economy is now expected to grow by 3.3 per cent and 4.0 per cent in 2013 and 2014 respectively, driven largely by gradual recovery in advanced economies and continued growth in emerging economies.

On the domestic front, our economy remains resilient, growing at 4.6 per cent in 2012, up from 4.4 per cent in 2011. Despite this outcome, low productivity in agriculture, weak manufacturing sector and weak transport system in the face of rising imports and stagnating exports, remain a major concern.

Hon. Members, the 2013 Budget Policy Statement tabled in this House in January and updated in April to reflect the development priorities of the new administration, provides details of the Government growth projections for this year and over the medium term. Our growth expectation for 2013 is now 5.8 per cent, rising to over 7 per cent in the medium term.

Hon. Members, the most recent employment data from the Kenya National Bureau of Statistics indicates that 659,400 jobs were created in 2012. The new administration is targeting creation of 1 million jobs annually. This is achievable but we must do more to address the hurdles to faster growth and poverty reduction.

Inflation has declined consistently over the past one year, and is expected to remain at around 5 to 7 per cent target over the period ahead. Interest rates and the exchange rate are fairly stable and we expect this stability to continue going forward with appropriate macroeconomic policies.

On the fiscal front, we have faced fiscal challenges with shortfall in revenue collection and mounting expenditure pressures. We have had to rationalize expenditures in the context of Supplementary Budget Estimates in order to live within the fiscal framework ending June, 2013. The residual gap was closed through additional borrowing.

Hon. Members, under these economic circumstances, what are the new administration's actions to promote growth and development? The broad development policies of the new administration, outlined during the President's Address to Parliament on 16<sup>th</sup> April, 2013, provide the Government with a clear and progressive approach to reinvigorate inclusive growth, and move the country to the next level of prosperity.

Therefore, this year's Budget outlines several aspects to achieve this as follows:

- accelerating growth through improving productivity and competitiveness, and opening up the economy to investment and trade opportunities to boost exports;
- supporting small and medium enterprises through targeted financial support, skills development and access to markets through a revamped public procurement system so as to expand business and reduce joblessness among our young people;
- continuing with public and private investment programmes that have the highest impact on growth, covering roads, railways, pipelines, ports, and energy;
- creating a business climate that encourages innovation, investment and growth;
- improving the quality of education and training through leveraging on ICT, starting with the primary school level;
- modernizing our police force to effectively and efficiently respond to crime;
- boosting food security by investing in agriculture, including opening up, at least, a million acres of new land through irrigation in order to end food insecurity;
- maintaining macroeconomic stability by keeping inflation low, and striving for a stable and competitive exchange rate, while enhancing our capacity to respond to

external shocks;

- sealing leakages in our revenue collection system and extending the tax base, while ensuring efficiency in public expenditure;

- supporting devolution through capacity building to effectively deliver public services, and ensuring county governments receive adequate resources to fund their functions; and,

- investing in our greatest capital resource - our people - and provision of what our Constitution demands – progressive social protection for every Kenyan.

Through these strategic interventions, we will create one million jobs per year, and thereby lift, at least, 10 million Kenyans out of poverty and expand social protection coverage to all vulnerable people.

Hon Members, in this Budget we are, therefore, taking care of the poor and the vulnerable, the youth and women as well as businesses and investments as the basis for achieving these development objectives.

Hon. Members, I would not want to create the impression that we are swimming in unlimited resources. Relative to the many things we would want to do, we are facing a hard Budget constraint. In the circumstances, difficult choices must be made to ensure that available resources are directed towards the above priority areas. The Government will also adopt innovative ways to better deliver public service, including leveraging on ICT and leasing of assets and equipment, and through public private partnership.

In addition, the Government will play a facilitative role by creating a conducive business environment to enable private sector to thrive, expand economic opportunities and create jobs.

Hon. Members, the Government alone cannot create prosperity. We have a very dynamic and encouraging private sector that is ready to expand its business as long as the operating environment is improved. The investor confidence in our economy has improved further following the successful general election. Some of the sectors where there have been increased confidence in the business outlook include construction, telecommunication, mining, renewable energy, and long-term infrastructure projects in rail and ports.

As a government, we want to support these investments in order to grow our economy. But for this to happen, the Government will play its facilitative role more effectively by improving the enabling business environment for private sector to thrive and prosper. In this regard and consistent with the commitment of the new administration to improve the business environment, we have programmed to spend Kshs97.9 billion for continued road expansion, upgrading and rehabilitation throughout the country in order to improve the conditions of road network, promote commerce and expand economic opportunities for our people, both in urban and rural areas.

We have set aside Kshs22 billion to commence the construction of a two-track standard gauge railway line from Mombasa to Kisumu to improve turn-around time and reduce significantly the cost of freight from Mombasa to Kisumu by as much as 250 per cent. We have also set aside Kshs78.5 billion for scaling up investment in reliable and affordable energy, of which Kshs12.5 billion will be for geothermal development and Kshs23.8 billion is for enhancing power transmission. We have also set aside Kshs3.7

billion for construction of the first three berths and associated infrastructure of the Lamu Port under the Lamu Port-South Sudan-Ethiopia Transport (LAPSSET) Corridor project.

Hon. Members, His Excellency the President has reminded us that the sub-region offers us the best opportunity to forge ahead. The East African Community (EAC) and the neighbouring region have a huge untapped market, which is growing at a faster rate. The sub-region now accounts for over 50 per cent of our exports, with significant amounts constituting light manufactures. We have made significant progress in integration under the East Africa Community, but there is much potential for expanded trade and investment in the COMESA region and the rest of Africa. The Government will continue to reform the common external tariff structure in order to facilitate trade and reduce distortion.

Hon. Members, during the last consultative meeting of the Finance Ministers of EAC, Uganda agreed to reduce the so called “Uganda list” from 138 to 49. I am sure our manufacturers have a reason to smile. They can now compete much favourably in the region unlike before. Also, we are working towards removing inefficient customs procedures, including complicated rules of origin and other non-tariff barriers, in line with the existing EAC Protocol.

In addition, hon Members, we are continuing with collaborative infrastructure investment in the region. We are expanding road networks linking our countries to create opportunities for businesses, and to expand trade across the region. The African Development Bank, the World Bank and the European Union are financing a number of projects in infrastructure with regional dimension. As part of our strategy to reduce energy cost, we are investing in several regional generation and transmission projects to tap power from Ethiopia and the Democratic Republic of Congo.

Hon. Speaker, Sir, you will agree with me that security is the cornerstone of sustained growth and development. The maintenance of law and order for the safety and security of our citizens and protection of property is a key factor in determining economic stability, encouraging investment, accelerating growth and in turn creating employment, especially for our youth. We must, therefore, do everything possible to ensure security prevails in all parts of the country, and that our economy is not held back from achieving its full potential. The Government is committed to ensuring that our citizens live and work in a secure environment. Therefore, we are putting in place measures to strengthen the police service, including equipping police units in order to increase effectiveness and rapid response to incidents of crime. We will also work towards ensuring that police welfare is protected.

In this Budget, we are beginning a bold journey to modernize our security with an allocation of Kshs67 billion to the National Police Service Commission (NPSC). This will include Kshs4 billion for the purchase of security equipment, Kshs4.5 billion for an enhanced security operations throughout the country, Kshs1.5 billion for enhanced crime research and investigations to understand crime dynamics and enable the law enforcers to come up with appropriate strategies for crime prevention. Kshs3 billion is for leasing 1,200 motor vehicles annually to motorize the police force and make police patrol visible to respond to any reported crime much more efficiently. Also Kshs1.2 billion is for a rapid development of 2,000 housing units through the National Housing Corporation (NHC).

So far, the institutional framework built on the foundation of our new Constitution has proven resilient and capable of mediating the challenges that arise from competition from political power. We have just come through a successful general election that was conducted peacefully and differences resolved constitutionally. Therefore, the Government will continue with the institutional transformation as entrenched in our Constitution. Towards this end, we have allocated Kshs16.1 billion for the Judiciary to continue with its transformation programmes, so as to expand access to justice throughout the country. At the same time we have allocated Kshs19 billion to Parliament to complete its expansion programmes, given the introduction of bicameral system and expanded representation.

*(Applause)*

Going forward, the President has laid a sound legislative agenda aimed at speedily completing the unfinished business of implementing the Constitution. As such, a number of pieces of legislation aimed at entrenching civil liberties for supporting county governments, enabling public participation in decision making and ensuring diversity and gender balance will shortly be submitted to Parliament.

Hon. Chairman, Sir, while the Budget and the Appropriations Committee did not consider favourably our proposal to set aside Kshs4 billion for constitutional reform, we will engage further with the National Assembly to ensure that we continue with reforms because this is what the Constitution requires us to do.

Hon. Members, the budget-making process, in both national and county governments has been strengthened, with the implementation of the new public financial management law enacted in 2012. The law provides for transparent formulation of budgets and prudent management of public resources, in addition to enhancing the contribution of Parliament to public finance management. Building on this legal framework, the National Treasury will shortly be submitting to Parliament financial regulations to ensure effective implementation of the PFM Act.

Hon. Members, majority of our people are still food insecure and living in abject poverty, especially in rural and slum areas of urban cities. Further, food takes up about 70 per cent of the household budgets. When food prices rise, they create agitation for high wages which in turn weakens our competitiveness. The low productivity of agriculture is caused by use of inappropriate technology, inaccessible farm inputs, weak extension support services and overreliance on rain-fed agriculture. To deal with the challenges of food insecurity, and to reduce the cost of living associated with the high food prices, the Cabinet Secretary for Agriculture, Livestock and Fisheries will implement a comprehensive agricultural revitalization programme aimed at expanding, enhancing productivity and transforming agriculture into a business venture.

In this regard, we have allocated Kshs8 billion to implement the on-going irrigation projects spread throughout the country. Kshs2 billion is set aside for agri-business fund to de-risk and leverage commercial banks lending to small-holder and commercial farmers throughout the country. We plan to scale this fund to Kshs20 billion by the fourth year to expand its access to many Kenyans who venture into farming as a business. Kshs3.6 billion has been set aside to implement the first phase of the Kshs1



million per acre irrigation and food security project in Galana; the project will cover completing the detailed study, developing an implementation framework and business plan, administrative support, monitoring, reporting and sinking of water points. This project is expected to, among other things, produce adequate food for the country and supply some to the market at an affordable price. It will create, at least, 3 million jobs along the agricultural value-chain including multiplier effect, and this will transform the Galana Ranch, and by extension the Coastal region, into an economic hub for production, agro-processing, packaging, distribution, exporting and tourism.

Hon. Members, working together with the Ministry of East African Community, Commerce and Tourism and the Ministry of Foreign Affairs, we will secure international and regional markets for our agricultural products. We will strive to fast-track establishment and making operational a commodity exchange market for agricultural produce and through the Capital Markets Authority (CMA), license commodity features exchange.

Hon. Members, our economy has potential to grow and create jobs if we tap into the reservoir of talents and skill available among our women and youth, who are the majority. To do this, the Government, through this Budget and into the medium term, is addressing the challenges along the business value-chain faced by this group, which include, among others, lack of access to markets, expensive and inadequate energy, costly transport, insecurity, lack of legal services and access to credit challenges. Similarly, women and the youth suffer inadequate skills and lack of business knowledge.

Hon. Members, as committed by the new administration, we are addressing these challenges to expand economic opportunities for women, youth and persons with disability as follows: First, we are putting on top gear our business regulatory reform, including making it easier and faster to register business.

Second, we will work with the county governments; we will ensure that obtaining construction and business permit in any part of the country takes a shorter time. We will digitize and payment made at the comfort of your home through your forms or on-line banking services.

Third, we are reforming the tax system to make paying taxes and trading across borders much easier. All Government regulatory agencies are urged to ensure this commitment becomes a reality in the shortest time possible.

Fourth, through the enactment of the Biashara Kenya Bill, now under formulation, we shall provide a one-stop shop solution to all small and medium size enterprises (SMEs) covering the entire business chain aspects such as skill and business development, production, standardization and branding, access to credit, business incubation services and market access.

In the same breath, and in addition to existing SME and agri-business fund, Kshs6 billion has been set aside to ensure that the youth engage in income-generating programmes, including making funds easily available to citizens under better delivery mechanism modeled along the lines of the Constituencies Development Fund (CDF). Success in this approach will form the basis for consolidating and rationalizing existing youth and women funds.

In response to the employer's reluctance to hire inexperienced job seekers, initiatives are underway to improve information services to help young people access

jobs and training opportunities. Also, the Government will develop a subsidy programme to employers that will lower the cost of hiring young people without work experience within the shortest time possible. Under consideration is a tax rebate to tax-compliant businesses and NGOs who hire inexperienced youth graduating from our educational institutions.

Hon. Members, the new administration intends to make the public procurement process play a leading role in driving growth, creating quality jobs and reducing poverty in our economy. Under the new administration, we are reforming the public procurement to reduce the turnaround time to complete a procurement process and make it less cumbersome, more transparent and supportive to our economic transformation agenda. In this regard, I have proposed amendments to the procurement law:

First, to enhance the preference and reservation for youth, women and persons with disability, from 10 percent to 30 percent; second, to accord exclusive preferences to local firms that manufacture, assemble, grow, extract or mine goods in priority areas such as construction materials and related supplies, furniture, motor vehicles and foodstuffs in a programme called *Buy Kenya, Build Kenya*; and third, to reduce the time it takes to initiate and award a tender to no more than 30 days.

I expect these measures to be strictly observed by procuring entities and in particular State corporations, national Government and county governments in order to give momentum to economic growth and employment creation.

Hon. Members, education, health and social protection play an important role in our development effort. In line with the new administration's priorities in this sector, I have allocated sufficient resources to finance various interventions.

We are, under the guidance of Secretary for Education, improving the quality and transforming our educational system for knowledge-based economy. In view of this, we have allocated Kshs10.3 billion towards Free Primary Education(FPE) and Kshs2.6 billion for school feeding programmes, Kshs20.9 billion for Free Day Secondary Education (FDSE) and Kshs1.17 billion for secondary schools bursary. I have also set aside Kshs800 million to upgrade the national schools and another Kshs4.9 billion has been allocated for higher education loans and Kshs826 million for youth polytechnics.

Further, the Government has prioritised transforming the educational system to e-teaching and e-learning. When fully implemented the policy will reduce the cost of buying and replacing text books, and improve access to information, communication and technology in schools and households. We have in the medium term allocated a total of Kshs53.2 billion for deployment of 1.35 million laptops to class one pupils, development of digital content, and building capacity of teachers and rolling out computer laboratory for Class Four to Class Eight in all schools throughout the country. This translates to Kshs17.4 billion each financial year starting this coming Financial Year 2013/14.

Hon. Members, building a prosperous Kenya demands substantial investment in a healthy and productive population. In this regard, the national Government, working hand-in-hand with county governments, is committed to ensuring the highest attainable standards of health. Under the able leadership of Secretary for Health, we will achieve this objective by; among other interventions:

- (i) improving our health care infrastructure throughout the country;

(ii) restructuring and transforming the Kenya Medical Supplies Agency (KEMSA) into a robust institution with effective devolved distribution network to avail medical supplies to health care facilities; and,

(iii) re-deploying existing health care personnel, while at the same time recruiting additional personnel to make access to quality health care a reality in our country.

I have in this regard, hon Members, allocated an additional Kshs31.6 billion over the Medium Term Expenditure Framework (MTEF) period. Starting next Financial Year 2013/14, a total of Kshs10.6 billion has been proposed, of which Kshs3.8 billion is for free access to maternal health and Kshs700 million for free access to all health centres and dispensaries. I have allocated a further Kshs3.1 billion and Kshs522 million for recruitment of 30 community nurses and 10 community health workers, respectively per constituency to provide quality health care services to Kenyans. Access to health care would not be complete without available and accessible personnel. Accordingly, I have allocated another Kshs1.2 billion for provision of 1,500 affordable housing units to health care workers to enable them respond and attend to patients in a timely manner.

Hon. Members, we are not just making health care services accessible to Kenyans in rural and urban areas, we are also extending this critical service to our brothers and sisters living in slum areas in our major cities and urban areas. To this end, I have allocated Kshs200 million for the construction of health care facilities in slum areas of Nairobi, Kisumu and Mombasa.

Poverty and vulnerability pose significant risk to the wellbeing of some members of our society. With over 50 per cent of Kenyans living below the poverty line, we have prioritised cushioning those less fortunate, poor, elderly and persons with disability in our communities. We have in this regard allocated a total of Kshs13.4 billion as follows:

(i) Kshs8.0 billion is for doubling the number of orphans and vulnerable children under the cash transfer programme from 155,000 households to 310,000 households;

(ii) We have set aside Kshs3.2 billion for increasing two-fold the number of elderly persons under cash transfer from 59,000 to 118,000;

(iii) Kshs770 million for doubling coverage of those with extreme disability from 14,700 to 29,400 households,

(iv) Kshs452 million for doubling the number of other disabled persons under coverage of cash transfer; and,

(v) Kshs400 million for Presidential Secondary School Bursary Scheme for orphans, poor and bright students.

(vi) Kshs356 million for urban food subsidy and,

(vii) Kshs100 million for Albinos.

Hon. Members, let me now turn to the financial projections for 2013/14 Budget. Hon Members, the total revenue estimates for fiscal year 2013/14 is Kshs1,027.2 billion, comprising of Ksh961.3 billion of ordinary revenue, and Kshs 67.0 billion of Appropriations-in-Aid (AIA). The total revenue estimate represents an increase of 7.5 per cent over the Budget Estimates for 2012/13. As a percentage of Gross Domestic Product (GDP), budgeted revenues are estimated at 24.7 percent in 2013/14.

Hon. Members, the targeted revenue is predicated on projected economic growth, but takes into account the challenges we have had in the past two years especially with

collection of Valued Added Tax (VAT). We, therefore, expect to scale up the ongoing reforms in tax policy and administrative measures, to seal loopholes and ensure sustainability in domestic resource mobilisation. In addition, the estimates of revenue take into account the new tax measures that I will outline later in this Statement.

Hon. Members, with respect to expenditure, a total of Kshs1,640.9 billion including contingency provision, county transfer of Kssh210.0 billion and allocation to the Judiciary and Parliament amounting to Kshs16.1 billion and Kshs19.0 billion respectively has been allocated. Of this, gross recurrent expenditure for the National Government is estimated at Kshs955.5 billion. This includes Kshs67.3 billion, which will be financed through Appropriations-in-Aid, and Kshs380.3 billion financed directly from the Consolidated Fund Services. The balance of Kshs507.9 billion represents discretionary recurrent expenditures.

Hon. Members, the Consolidated Fund Services comprise Kshs110.2 billion for domestic interest payments; Kshs11.2 billion for foreign interest payments; Kshs38.2 billion for pensions; Kshs3.4 billion for salaries and allowances of constitutional office holders and Kshs1.4 billion for guaranteed debt payments and other non-discretionally expenditures. In addition, I expect to finance external redemptions amounting to Kshs.88.6 billion and domestic redemptions amounting to Kshs.127.3 billion.

Hon. Members, gross development expenditure for 2013/14 is estimated at Kshs447.9 billion. Out of this amount, Kshs 201.1 billion will be financed through Appropriations-in-Aid, comprising of direct project financing of Kshs55.9 billion in form of grants, Kshs 140.5 billion in form of loans and Kshs4.8 billion in form of local Appropriations-in-Aid.

Hon. Members, taking the above into account, I expect to finance net development expenditure amounting to Kshs246.8 billion from the Exchequer. This comprises of Kshs 11.5 billion in form of grants revenue; Kshs 47.1 billion in form of loans revenue and Kshs188.2 billion domestically financed. Hon. Members, these domestically financed development expenditures include Kshs3.4 billion, Equalization Fund, which will be used to provide basic services including water, roads, health facilities and electricity to marginal areas in order to bring them to national standards in line with our constitutional requirement.

Hon. Members, total committed external grants from development partners amount to Kshs 67.4 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.

Hon. Members, with total expenditure of Kshs1,640.9 billion (inclusive of domestic and external debt redemption as well as contingency provisions) and total expected receipts of Kshs1,284.0 billion (including loans and grants), the overall deficit amounts to Kshs356.9 billion. However, excluding the domestic debt rollover of Kshs126.1 billion from expenditures and reflecting external debt redemption of Kshs 88.6 billion as a financing item, while at the same time reflecting loan external financing in a more acceptable international standard practice, total expenditure would amount to Kshs 1,424.8 billion, thus giving rise to an overall fiscal deficit of Kshs 329.7 billion (7.9 per cent of GDP). This will be financed by net foreign financing of Kshs.223.0 billion

and Kshs106.7 billion net borrowing from domestic market. Hon Members, this means that the fiscal framework for 2013/14 is fully financed.

In terms of allocation to county governments, hon. Members, the total allocation to county governments is Kshs 210 billion, of which Kshs 190 billion in equitable share, and conditional grant of Kshs 20 billion. The equitable division of revenue takes into account the functions assigned to the counties as outlined in the Constitution and the factors listed in Article 203 of the Constitution. The Transition Authority has gazetted all the county functions to be performed by county governments, starting 1<sup>st</sup> July 2013. They have also assessed the capacity of the county governments to provide the services assigned to them. Those counties, which will not be in a position to perform any of the transferred functions, may request the national Government to assist as their capacities are being developed.

Hon. Members, the rest of my highlights outline various tax measures I intend to introduce through the Finance Bill 2013, which I have already submitted to the Budget and Appropriations Committee, and other regulations I have tabled in this House. This is towards accelerating broad-based economic growth, job creation and poverty reduction.

The tax measures and other miscellaneous amendments I intend to propose hereunder are broadly categorized into five priority areas, which complement the various policies I have already outlined in the earlier part of my statement. These are:

- i Facilitating infrastructure development for a competitive economy;
- ii. Encouraging growth of industries for faster development
- iii. Further ensuring equity and fairness in our tax system
- iv. Deepening tax reforms and enhancing tax administration; and
- v. Further strengthening financial systems for sustainable development

Hon members, I have proposed tax measures aimed at facilitating development of infrastructure facilities such as railway and energy in order to reduce the cost of transport and energy and make our economy competitive.

Hon Members, rail transport is the most economical mode of transportation for freight and passenger. However, our railway facilities have not received much incentives compared to other transportation infrastructure. In this regard, I propose to exempt Import Duty on importations of items used to facilitate railway operations in order to support the expansion and development of the railway network in the region.

I have, in addition, proposed amendment to the Customs and Excise Act to introduce a Railway Development Levy of 1.5 percent on all imported goods, in order to mobilize additional Kshs15 billion to fund construction of a standard gauge railway line from Mombasa to Kisumu. This project, as I have already stated, when completed in three years' time, will reduce significantly the cost of freight, thereby saving businesses huge resources.

Hon Members, biogas energy is gaining prominence as an alternative source of renewable energy for cooking and electricity generation in the rural areas. In addition, the residue arising from this process is used as fertilizer. In order to encourage usage of this renewable energy I propose exemption for plastic bag bio-gas digesters.

Hon Members, to encourage growth of our industries as a key driver of higher economic growth and development, I propose to increase Import Duty on welding electrodes from 10 per cent to 25 per cent, millstones and grindstones from 0 per cent to

25 per cent and plastic tubes for packing of toothpaste, cosmetics and similar products from 10 per cent to 25 per cent. I expect this measure will cushion the local manufacturers from cheap imports.

Hon. Member, I have noted the challenges faced by employers regarding insurance premiums paid on behalf of employees for group life and group personal accident policy covers. I propose to exempt premiums for such covers where they do not confer a benefit to the employees.

Hon. Members, persons with disabilities have this year concluded their first phase of the three year tax exemption status. I propose to extend the exemption period to five years.

Hon. Members, I propose to amend the Income Tax Act so as to impose Withholding Tax on winnings from gaming and betting. This measure should make the winners to equally contribute towards the Exchequer.

Hon. Members, the Government has initiated a review of the Capital Gains Tax under the Income Tax Act with a view to formulating modalities for its effective enforcement. This will allow wealthier members of our society to also make a token contribution towards our national development agenda.

Hon. Members, I propose to table a number of legislative amendments in the revenue statutes in order to align them with the Constitution. This will ensure that the Excise, VAT and Income Tax legislations are in harmony with the Constitution.

I also intend to put in place an enabling tax, legal and regulatory framework to streamline the entire Income Tax exemption management process in line with the Constitution.

Hon. Members, unlike under the other tax statutes, KRA is currently not compounding tax offences under the Income Tax Act. I propose to improve the compounding framework for Income Tax which should encourage taxpayers with tax offences to engage KRA and sort out their tax cases outside the courts.

Hon. Members, Sir, I propose to amend the Income Tax Act so as to empower the Commissioner to access books of accounts and where tax evasion is proved in court, collect Corporate Tax from officers of corporate bodies where they are convicted of tax fraud. These rare but bold measures are intended to deter tax cheats and enhance tax compliance.

Some importers have turned the Port into a storage area thus contributing to congestion of cargo. In order to address this undesirable practice, I propose to amend the customs law to introduce customs warehouse rent for entered goods which remain at the port of discharge for a period exceeding 21 days from the date of commencement of discharge of the carrier.

Hon. Members, in the Budget for Financial Year 2012/13, the Minister for Finance introduced a tax management system to minimize tendencies for mis-declaration and under-valuation by excisable firms. In line with this, the Kenya Revenue Authority (KRA) has rolled out a comprehensive excisable goods management system, which enjoins all players in the supply chain. In order to ensure effective implementation of the system, I have issued a new Gazette Notice "Excisable Goods Management System 2013", which prescribes procedures and guidelines for its operations.

In 2004, the Government introduced an excise tax remission on Senator Keg Beer to discourage consumption of illicit and dangerous brews. However, it has been difficult to administratively differentiate between various beer products and Senator Keg, thereby posing a threat to revenue collection. In order to safeguard the original intention of this policy, I have amended the said regulation to reduce the remission by 50 per cent, from 100 per cent; and to grant it only in respect of beer made of millet, sorghum and cassava. The Senator Keg will, however, continue to enjoy a remission at this new level on a transitional basis for a period of three years. I expect this measure to stimulate agricultural activity in the regions where these products are grown. This measure will generate additional Kshs6.2 billion to the Exchequer.

Hon. Members, taxpayers have been filing their tax disputes to several tax tribunals. This has caused a serious challenge to the appellants. I propose to table before Parliament a Tax Appeals Tribunal Bill, which will establish a single tax appeals body. This measure will improve the dispute resolution framework; instil professionalism and fast-track conclusion of tax cases, in compliance with the Constitution. The Government remains committed to making it less costly to comply with tax laws. In this regard, I will re-table the VAT Bill, which aims at simplifying, modernizing and reducing the cost of compliance. The enactment of the Bill will raise at least additional Kshs10 billion to the Exchequer. On the same token, we have begun the process of developing a new excise bill, which will be simple and modern, and benchmarked to the best international practices. In addition, as outlined by my predecessor, we have initiated a process of reviewing the organization of the Kenya Revenue Authority with a view to refocusing customs services to its primary mandate of trade facilitation and effective border control.

Last year, the Minister for Finance directed the KRA to ensure that all landlords, who earn rental incomes, pay their due share of taxes to the Exchequer. For equity and fairness, and in order to ensure that these privileged Kenyans pay taxes, I have once again directed the KRA to leverage on technology and map out all rental property in urban areas and put in place a robust institutional framework for bringing all the landlords into our tax net by December, 2013.

In order to support the implementation of the East African Community Common Market Protocol, I propose to amend the Insurance Act to open up the ownership of insurance companies and brokerage firms to other citizens of the EAC. In order to encourage our multinational banks to conduct banc assurance and deepen insurance penetrations, I propose to amend the law to remove restrictions of foreign ownership for insurance agents. In order to shield policy holders from the lengthy resolution mechanisms that tend to delay compensation, I propose to amend the law to require the Insurance Regulatory Authority (IRA), while intervening in the management of an insurer, to appoint a competent person familiar with the business of the insurer. In the same spirit, I further propose to amend the law to expand the mandate of the Policy Holders Compensation Fund to include participation in the liquidation process of insurance companies.

Hon. Members, the insurance sector has experienced some challenges over the years, especially with regard to third party risk insurers. In order to strengthen the regulatory framework and ensure a stable and growing insurance sector, I direct the IRA to initiate an overhaul of the Insurance Act to align it with the best international practices

and our Constitution. I expect this assignment to be completed and drafts ready by the end of September, 2013. The review should target having two legislations, one for establishment of the authority and the other covering regulatory issues of the market. In the same spirit, I direct the Retirement Benefits Authority (RBA) to carry out a similar exercise and have drafts ready by the end December, 2013.

In order to strengthen the regulatory framework of the Kenya Deposit Insurance Corporation (KDIC) and ensure adequate protection to depositors, I have proposed amendments to the Kenya Deposit Insurance Act to expand the corporation's mandate and enhance its corporate governance. In order to provide adequate housing for our people, I propose to amend the law to encourage pooling of resources through real estate investment trusts for the sole purpose of real estate development. I further propose to amend the law to provide a conducive environment for a dynamic capital market that will facilitate introduction of new capital market products and services on an accelerated basis.

In order to support full implementation of some key requirements under the Common Market Protocol and fast-track the EAC integration agenda, I propose to amend the Capital Markets Act to provide for the issuance of regional fixed income securities. This will allow for raising of funds from across the regional capital markets by treating persons licensed by any of the other EAC capital markets regulators on equal terms, as if they were licensed by the Capital Markets Authority. Insider trading and market manipulation continue to pose a threat to the stability and growth of the capital market. In order to address these challenges and safeguard the integrity of our capital market, I propose to amend the Capital Markets Act to redefine the offence of insider trading as an offence of strict liability, and further propose to specifically identify a range of the most common market manipulation offences to guide the courts and the investing public on the nature of these offences.

Hon. Members, recent developments in the banking sector have resulted into accelerated business activities, some of which have been found to be unethical or illegal and thus violating provisions of the Banking Act. In order to deter institutions from violating the law, I propose to amend the Banking Act to enhance the penalties provided for such offences. I further propose to amend the Microfinance Act to foster prompt corrective action where problems in institutions are identified early and dealt with in a timely and progressive manner. This will go a long way to forestall threats to the stability of the institutions.

In conclusion, I wish to thank His Excellency the President and the Deputy President for their guidance and support. I also wish to thank my Cabinet colleagues for their support and understanding. My sincere appreciation goes to the Leader of the Majority Party in the National Assembly, Hon. Adan Duale, for the excellent working relationship during the legislative approval process of the Budget; the Budget and Appropriations Committee, led by Hon. Mutava Musyimi, the Parliamentary Budget Office, for their constructive engagement and navigating the review process of the Budget Estimates under very tight timelines; and all hon. Members of the various Departmental Committees and, in particular, the Committee on Finance, Planning and Trade, chaired by Hon. Benjamin Langat, for their commitment and diligent review of the Budget under a very limited time period.



My appreciation also goes to the Chair of the Council of Governors, Hon Isaack Ruto, for the constructive engagement on the budget allocations for county governments.

Appreciation also goes to the board, management and staff of Kenya Revenue Authority for their contribution to revenue mobilization – I look forward to better times in the year ahead. Appreciation also goes to the board, management and staff of Central Bank of Kenya for their management of monetary policy.

I thank the Commission on Revenue Allocation and its chairperson for their contributions; the management and staff of the National Treasury, their selflessness dedication to duty and for working behind the scenes for a better Kenya. In particular, I must pay special tribute to the Permanent Secretary to the National Treasury, Mr. Joseph Kinyua, for his unrivaled dedication to public service, spanning over two decades.

And finally, I must express sincere gratitude to Kenyans from all parts of the country who offered words of congratulations and support following my appointment to this challenging task of spearheading the economic management of this great nation.

In summary the message in this budget is as follows:

- Global economic recovery is taking shape but the road ahead is still bumpy.
- We must grow our economy faster to draw more youth to employment and meaningfully reduce poverty. To do this, we need to support business to thrive and take up more opportunities.

- The second Medium Term Plan of Vision 2030 (currently under preparation) and the priorities of the new administration will be implemented and budgets will be aligned to it.

- We will continue to invest in infrastructure (particularly rail and ports) and in our great resource - the people of Kenya - while taking bold steps to create opportunities for young people.

- We will modernize agriculture including opening up at least 1 million acres of new land through irrigation in order to end food insecurity.

- We will invest in security and modernize our police force to eliminate crime.

- We will seal leakages in our revenue collection system by leveraging on ICT while extending the tax base.

- We will engage more youth in business through our revised public procurement regulations and a new framework of delivering financial support.

- We will deepen regional integration for our businesses to seize trade opportunities in the region.

- Following up on our VAT reform, we are committed to reviewing and assessing our tax policy framework and its role in supporting the objectives of inclusive growth, employment, development and fiscal sustainability.

- Facilitate devolution as the new formula for equitable distribution of resources among the 47 counties takes effect.

Hon Members, I submit these budget highlights and tax revenue measures in the hope that we will all work together to build a future in which all Kenyans can take pride and share in the benefits, as already said by His Excellency the President.

I thank you.

**Hon. Chairman:** Hon. Members may I, on behalf of the Budget and Appropriations Committee, on my own behalf and on behalf of all hon. Members here

present, thank the Cabinet Secretary for National Treasury, Mr. Rotich, for his consummate exposition of public policy highlights and revenue raising measures for the national Government for the year 2013/2014. May I also take this opportunity again to thank all of you for finding time to come to Parliament. You did not have to be here except of course for the Budget and Appropriations Committee but you chose to come, so please, accept our appreciation.

Let me take this opportunity to invite our guest and his colleague, Cabinet Secretary for Devolution and Planning, Ms. Waiguru and other guests who are here, the PS, Treasury, Mr. Kinyua, Mr. Abdi and Zainab Mohamed to join us for a cocktail hosted by this Committee at the Parliament's front courtyard. I got a note that some Members want to send Abdi back to Isiolo in the usual Kenyan way, if you wish to do so, please see me at the courtyard and I will be very grateful.

I, therefore, now wish to adjourn the Budget and Appropriations Committee until Tuesday, 18<sup>th</sup> June, 2013, at 9.00 a.m. The meeting will be held at the small dining hall, Parliament Buildings.

Thank you.

*(The Committee adjourned at 4.25 p.m.)*