NATIONAL ASSEMBLY

OFFICIAL REPORT

Thursday, 14th June, 2007

The House met at 2.30 p.m.

[Mr. Speaker in the Chair]

PRAYERS

ARRIVAL OF HIS EXCELLENCY THE PRESIDENT

(Mr. Speaker announced the arrival of His Excellency the President, the hon. Mwai Kibaki, MP)

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

COMMITTEE OF WAYS AND MEANS

MOTION

THAT MR. SPEAKER DO NOW LEAVE THE CHAIR

The Minister for Finance (Mr. Kimunya): Mr. Speaker, Sir, I beg to move that Mr. Speaker do now leave the Chair.

Once again, I feel very honoured to present to this esteemed august House my second Budget as the Minister for Finance. As hon. Members are aware, this is the Fifth Budget of the Administration of His Excellency the President, hon. Mwai Kibaki. Hon. Members, this year's Budget is intended to lay a solid foundation for transforming our country into a globally competitive and prosperous nation with a high quality of life by the year 2030.

As we enter the fifth year of broad-based economic growth, accompanied by four years of successive increases in per capita income and a substantial reduction in poverty within a span of only five years, it is important to reflect back on some of the key economic promises we made to Kenyans at the beginning of the current Administration and the extent to which the Government has delivered on those promises.

Mr. Speaker, Sir, during the past four and a half years, we have implemented, with determination and consistency, bold economic and structural policies that are elaborated in the Economic Recovery Strategy that was launched by His Excellency the President in June, 2003. Our development agenda, as embedded in this strategy, whose implementation comes to an end in December, 2007, was anchored on three key pillars, namely:-

(i) The restoration of economic growth within the context of a stable macro-economic environment;

(ii) Enhanced equity and poverty reduction; and,

(iii) Improvement of governance.

These pillars were carefully chosen to pull our economy out of a recession and to commence the journey towards the broad-based economic recovery that we are now witnessing and which is touching on all sectors of our society.

Mr. Speaker, Sir, the score card of our efforts is now out and it is with great sense of pride and satisfaction that I beg to inform hon. Members, and my fellow Kenyans, that this Government has achieved a resounding success in all the three pillars. As a result, investor confidence has never been higher, our farmers are enjoying better returns on their investments and more of our rural people, especially those in the Arid and Semi-Arid Lands (ASALs) have access to clean water, electricity and affordable health care services. In addition, more children are now able to go to schools and our public sector is more efficient in delivering services and on its mandate of facilitating private sector development.

On the restoration of economic growth, it is gratifying to note that through continued hard work by fellow Kenyans, who have literally taken to heart His Excellency the President's clarion call on Madaraka Day of 2003 of building a "working nation", the growth of our economy has expanded from virtual stagnation in 2002 when it expanded by only 0.5 per cent, to a high and sustainable rate of 6.1 per cent in 2006.

The strong growth that we have witnessed has touched all sectors and benefited all hardworking Kenyans and, in particular, the agricultural sector has improved markedly from negative 3 per cent in 2002 to 5.4 per cent in 2006. The manufacturing sector output expanded by 6.9 per cent in 2006 up from 0.1 per cent in 2002. The hotel and restaurant sector has recovered strongly from a decline of 20.3 per cent in 2003 to a growth of 14.5 per cent in 2006, with an annual growth rate of an incredible 37 per cent in hotel occupancy.

With lower interest rates and increased remittances from Kenyans in the diaspora, construction has picked up substantially from negative 2 per cent in 2002 to 6.3 per cent in 2006. The transport and communications sector has also experienced a strong growth from a low of 3.5 per cent in 2003 to 10.8 per cent in 2006. The wholesale and retail trade sector has risen from negtive 2.5 per cent in 2002 to 10.9 per cent in 2006. Reflecting confidence in the economy, and increased profitability of companies, the Nairobi Stock Exchange index has increased by 314 per cent, reflecting an increase in market capitalisation; from just about Kshs112 billion to Kshs792 billion in 2006, a compounded annual increase of 63 per cent per annum.

Finally, total exports have almost doubled since 2002, underpinned by strong growth in coffee, tea and horticultural exports. Reflecting the improved exports and capital inflows, international reserves held by the Central Bank of Kenya have more than doubled since 2002, rising from US$1.2 billion in 2002, to the highest level ever recorded of US$2.5 billion in 2006.

Mr. Speaker, Sir, as a result of this sustained economic expansion, the growth in per capita income has rebounded strongly from a decline of 2.5 per cent in 2002 to an increase of 3.3 per cent in 2006. The result of this growth, as reported in the most recent Integrated Household Budget Survey, is that overall poverty has declined from 56.8 per cent in 2000 to 46 per cent in 2006, a remarkable reduction of about 20 per cent. Even more significant is the 35 per cent reduction in rural poverty; from 51.5 per cent in 2000 to 33.7 per cent in 2006.

The strong economic performance reflects the Government's pursuit, since 2003, of reforms as well as prudent monetary and fiscal policies aimed at ensuring a stable macro-economic environment, which is necessary to encourage the private sector investment growth and job creation. Arising from consistent implementation of these measures, inflation and exchange rates have stabilised while the average lending rate of commercial banks has declined from about 19 per cent in 2002 to about 13 per cent currently. Similarly, the ratio of domestic debt to the Gross Domestic Product (GDP) has declined from 22.9 per cent in 2002 to 18 per cent in 2006. This has provided room for non-inflationary expansion of credit to the private sector for productive activities.

Mr. Speaker, Sir, on the fiscal front, despite a reduction in the Value Added Tax (VAT) rate from 18 per cent to 16 per cent in 2003 and the lowering of the East African Community (EAC) Custom Tariffs, following the implementation of the East African Community Common External Tariff, revenue collection has been kept above 20 per cent of the GDP, which has enabled us to finance about 95 per cent of our Budget from our own resources. Indeed, one of the most remarkable achievements of this Administration has been the ability to sustain fiscal discipline in the absence of significance external budgetary support. This is, indeed, a significant achievement and we are committed to continue on this path to ensure that our budgetary framework is not subject to the unpredictability associated with the external budgetary financing. With strong revenue efforts and expenditure restraint, net domestic borrowing has largely been contained, falling from 3.6 per cent of the GDP in the 2002/2003 Financial Year to about 1.8 per cent of the GDP in 2006/2007 Financial Year.

Mr. Speaker, Sir, based on the structural reforms we have implemented so far, Kenya recently received some very positive ratings by independent international institutions. I will just cite three of these. From the Standard and Poor's (S&P) rating agency, we received a favourable initial sovereign credit rating of "B+" for foreign currency debt and "BB-", for local currency long-term sovereign debt. Within sub-Saharan Africa, only the mineral-rich countries such as Botswana, South Africa and Nigeria have a higher sovereign rating from S&P than this country.

Mr. Speaker, Sir, from the Global Integrity, which assesses the existence and the effectiveness of anti-corruption mechanisms that promote public integrity, we received a moderate rating along with such countries as Argentina and Brazil, among others. More recently, from the World Bank's Country Policy and Institutional Assessment (CPIA), Kenya's rating on policy implementation has improved significantly from the fifth and bottom quantum in 2002, to the second quantum by 2005, and we expect further improvements by the end of this year.

Mr. Speaker, Sir, turning to the second pillar on enhancing equity and poverty reduction, a key prerequisite in addressing these two issues is having rapidly expanding economy, which we have achieved. However, in order to ensure that the growth is shared among our fellow citizens, this Government has implemented a number of targeted fiscal interventions, structural reforms and regional development initiatives aimed at reducing poverty and inequality in our society. As all hon. Members and Kenyans are aware, this Government has done, at least, the following:-

(i) We have introduced the universal free primary education which has increased enrolment by over 1.5 million pupils since 2003, thereby assuring them of a secured future and relieving their parents of school fees burden. This, in turn, has helped the parents to increase their disposable income. As you are all aware, we have extended this further to secondary education starting with tuition fees effective January next year.

(ii) This Government has also increased the share of resources allocated towards priority development areas of agriculture and rural development, provision of infrastructure and human development, including the core poverty programmes, thereby underscoring the importance this Government attaches to laying a firm base for economic prosperity and reducing income inequalities.

(iii) We have implemented various structural reforms in the agricultural sector, including the dairy, sugar, coffee, tea, pyrethrum and the co-operative sectors, with a view to improving productivity and income earnings of Kenyans working in these sectors.

(iv) We will reform the public sector to improve efficiency and effectiveness, including removing the administrative barriers to trade, privatising and restructuring of key public entities and streamlining of licences aimed at reducing the cost of doing business. We will be doing more of that today.

We have also introduced performance contracting in the public sector and enhanced private sector participation in our economy so as to create more jobs.

(v) We have also increased resources targeted at promoting regional development and reduce poverty in rural and the urban areas. For instance, the Government has increased the Constituencies Development Fund (CDF) allocation more than eight-fold from the initial Kshs1.2 billion in 2003/2004 to Kshs10 billion this financial year and Kshs10 billion the financial year beginning July, 2007, while the budgetary allocation under Local Authorities Transfer Fund (LATF) has more than doubled from Kshs3 billion in 2002/2003 to Kshs6.5 billion in 2006/2007, and it is projected to rise to a record Kshs9.2 billion in the year 2007/2008.

(vi) We have facilitated construction of at least 1,000 dispensaries and deployed personnel and medical supplies to make these facilities operational basically to improve access to medical care.

(vii) We have also deliberately targeted expenditures and development programmes to improve the quality of life in the Arid and Semi-Lands (ASALs), the only Government to do this since Independence. Other key initiatives implemented by the Government, include the sinking of boreholes and reviving and making operational the Kenya Co-operative Creameries (KCC), the Kenya Meat Commission (KMC) and several others to generate income-earning opportunities for livestock farmers, especially from the ASAL areas.

Mr. Speaker, Sir, other pro-poor programmes we have been implementing include the rural electrification in the entire country where we have spent over Kshs13.4 billion over the last four years; the Rural Access Roads Programme under the Roads 2000, rural health services where we have spent over Kshs18.3 billion over the last four years, and the very successful Youth Enterprise Development Fund that started in the current fiscal year aimed at empowering our youth for the future.

Mr. Speaker, Sir, as I mentioned earlier, as a result of all these deliberate and bold policy interventions, the incidence of poverty has declined from 56.8 in 2000 to 46 per cent currently. Indeed, more Kenyans living in the urban and rural areas are living generally a better life today than they did six years ago. The anti-poverty interventions we have implemented since 2003 have also reduced divergence in the incidence of poverty across the regions, thereby reducing inequality in development and income distribution. For example, the largest reductions in poverty incidence outside Nairobi were recorded in Nyanza, Eastern and Western provinces.

(Applause)

I think that is very good news!

Mr. Speaker: Order, hon. Members! We all know the phrase. That is an arguable argument. So, please, keep your argument until later!

(Laughter)

The Minister for Finance (Mr. Kimunya): Mr. Speaker, Sir, that was very good news. I will repeat it. The largest reductions in poverty incidence outside Nairobi were recorded Nyanza, Eastern and Western provinces, where the poverty incidence declined by 33 per cent for Nyanza Province, 23 per cent for Eastern Province and 21 per cent for Western Province.

(Applause)

Mr. Speaker, Sir, this is an indication that our policies have had a very positive impact in all corners of this country. Hon. Members, may wish to refer to the publication on *"Delivering Development To All Kenyans"* which has been circulated to hon. Members and has more information on the development programmes of the Government across the entire country.

Mr. Speaker, Sir, these milestones in our development have not come by accident, but from careful planning, focused reforms and effective economic management. They have also been accomplished through hard work and the palpable confidence of the Kenyan people; that their future is in safe hands under the dependable leadership of His Excellency the President, hon. Mwai Kibaki.

(Applause)

Mr. Speaker, Sir, in regard to the governance pillar, the Government has implemented a number of reforms since 2003 mainly the reduction in corruption, improving efficiency and ensuring effective service delivery in the public sector and creating an enabling environment for increased private sector participation in growth and poverty reduction. In particular, several reform measures aimed at improving governance in the areas of prevention, investigation and prosecution have been implemented, demonstrating the Government's commitment to fight against corruption. The Government fully believes that the legal framework to fight against corruption is now in place and the investigative bodies have been strengthened. If you doubt that, try any corruption today!

(Applause)

Mr. Speaker, Sir, to strengthen this prosecutorial capacity, initiatives are ongoing to increase the number of prosecutors, the magistrates and the judges of the High Court. Hon. Members may wish to refer to the Budget Strategy Paper of 2007 which has been circulated to hon. Members for more details on the Government's actions, especially in the areas of governance.

Mr. Speaker, Sir, with the continued support so generously extended to this Government by the hon. Members, the private sector players and Kenyans at large, we have found, over the last four and a half years, the strength and inspiration to improve the lives of our fellow Kenyans and to move forward towards achieving the Millennium Development Goals (MDGs). Thankfully, successive annual achievements have motivated us to strive to continue working harder in order to lock in this success which is so necessary for building a prosperous future for all Kenyans. I am, therefore, happy to report that this Government has now completed the task of laying a solid, socio-economic foundation complete with the building blocks for our future prosperity.

Mr. Speaker, Sir, in moving forward, the Government would like to further expand the opportunities available to Kenyans of all walks of life, so that they can participate in their own wealth creation, while at the same time, helping build a new and better Kenya. This is, indeed, the spirit of the National Vision 2030 whose formulation has involved consultation with many Kenyans involving some of the hon. Members and a whole broad spectrum of Kenyans both here and abroad. Like the Economic Recovery Strategy (ERS) before it, the Vision 2030 has three key pillars and these are namely:

(i) The economic pillar which basically aims to achieve a high and sustained non-inflationary economic growth steadily rising to 10 per cent by the year 2012 and being maintained at that rate thereafter.

(ii) A social pillar which aims at achieving a just and cohesive society enjoying equitable social development within a secure and clean environment.

(iii A political pillar which aims and seeks to achieve an issue-based, people-centred and an accountable democratic political system.

Mr. Speaker, Sir, this Budget which straddles the period of the ERS which ends this December and the start of the Vision 2030 in January 2008, is intended to define the path to facilitate and enhance the participation of all Kenyans in helping build a strong economy and thereby help us to achieve the Vision 2030 objectives. Accordingly, the theme of this year's Budget is: *"Vision 2030 - Working Together on the Path to Prosperity."*

Mr. Speaker, Sir, let us turn to an overview of laying of this foundation. Our country is now poised for accelerated development. With this in mind, the Vision 2030, though encompassing the objectives of the ERS, is much more ambitious and requires a radical transformation of the economic, social and political systems. In laying the foundation for the economic pillar of the Vision, we must build an enabling environment for the private sector in order to fully unlock its potential and to become-globally competitive.

Achieving this in the medium-term will require that we:-

(i) continue to maintain a stable macro-economic environment underpinned by prudent fiscal and monetary management, supported by key structural reforms;

(ii) accelerate the rehabilitation and expansion of our infrastructure and basic amenities;

(iii) develop quality human capital to raise our productivity and to enhance our global competitiveness;

(iv) maximise economic opportunities for all Kenyans and ensure that they continue to benefit from the fruits of high economic growth through targeted programmes to reduce inequality and poverty; and,

(v) encourage growth of business through improved governance and reduction in the cost of doing business.

Turning to the Medium-Term Macro-Fiscal Framework and structural reforms, the medium-term is bright, buoyed largely by consumer and investor confidence and continued strong growth in our trading partners' economies.

Hon. Members may wish to refer, again, to the Budget Strategy Paper for 2007 for more details. We expect to achieve a growth rate of between 6.5 per cent to 7 per cent in 2007, which should rise gradually to 10 per cent by the year 2012 as a result of the interventions we are planning to put in place.

Mr. Speaker, Sir, to achieve this level of growth, we will:-

(i) continue to maintain low inflation and stable positive real interest rates to facilitate adequate expansion of credit to the private sector to support increased economic activities;

(ii) increase the level of public and private sector investments by, at least, 10 percentage points of the Gross Domestic Product (GDP) over the next five years;

(iii) strengthen the financial sector by enhancing its efficiency and to help mobilise the required savings to finance the additional investments;

(iv) deepen the ongoing efforts to improve the investment climate through deduction in cost of doing business;

(v) accelerate infrastructure development to crowd-in private investments;

(vi) enhance efficiency in the financial sector; and,

(vii) increase the productivity of our labour and capital.

Mr. Speaker, Sir, turning briefly to the fiscal framework, we intend to implement our development programmes based on a fiscal framework which focuses on a number of things. The first one is maintaining a strong revenue effort underpinned by deepening tax administration reforms and modernisation of our tax system.

Secondly, we will contain the growth of our total expenditures, while creating fiscal space through expenditure rationalisation to shift resources from non-priority areas to the priority areas, including expenditure on the flagship projects critical to achieving Vision 2030.

Thirdly, we will contain the growth of our domestic debt to a sustainable level to encourage expansion of credit to the private sector for faster development.

Turning to the deepening of structural reforms for a competitive business environment, macro-economic stability must also be accompanied by deep structural reforms in order to maximise growth. Therefore, to consolidate the recent gains in the public sector, the Government will implement structural reforms to further improve efficiency in the use of public resources and ensure effective service delivery. We will focus on priority areas of public expenditure and financial management, public sector restructuring and privatisation, deepening of the financial intermediation and private sector competitiveness. The implementation of these measures is expected to improve business environment, encourage private sector investment, both domestic and foreign, and expand its capability to create more jobs and reduce poverty amongst our people.

Mr. Speaker, Sir, on further improvements on governance for achieving Vision 2030, the Government fully recognises that accelerating and deepening the reform agenda in the areas of governance and anti-corruption is critical for accelerating economic growth and sustained reduction in poverty. Therefore, the Government has developed the "Governance Strategy for Building a Prosperous Kenya and an Action Plan" which sets out time bound specific and prioritised anti-corruption interventions in the broad areas of prevention, investigation and recovery of corruptly-acquired assets, strengthening the prosecutorial capacity, as well as improving the governance in priority areas. The implementation of these measures will be expected to result in measurable improvement in the fight against corruption in the short-term and medium-term.

The Budget Strategy for Achieving Vision 2030, and the 2007/2008 Budget Framework that I am presenting to this august House is set against the background of medium-term macro-fiscal framework that I have just outlined. We envisage a continuation of the recent strong economic performance with real GDP expected to increase by 6.5 per cent to 7 per cent in 2007/2008, again, largely propelled by the continued strong performance across all sectors. Inflation will be expected to remain under control reflecting continued implementation of prudent fiscal and monetary policies and projected easing of food and oil prices. We also expect the gross international reserves to increase to the equivalent of 3.9 months of our projected import cover.

Mr. Speaker, Sir, as in the previous year, the Government is committed to containing expenditures and re-orienting them towards growth and poverty-reducing programmes in the areas of infrastructure, health, education and other priority projects, which are expected to lay the foundation for achieving our Vision 2030. The Government further aims to maintain a stable and predictable level of domestic borrowing in order to sustain the relatively stable interest rates that we witnessed in 2006/2007 and to further boost private sector economic activities.

Turning on to revenue, the 2007/2008 Budget targets revenue collection of about 21 per of our GDP. As noted earlier, this performance will be underpinned by the ongoing reforms in tax administration. The streamlining of exemptions regime in line with other East African Community partner States is also expected to protect the revenue base. Total revenues, including Appropriations-in-Aid, are projected to increase by about 14 per cent bringing the total tax collection to about Kshs428.8 billion.

Mr. Speaker, Sir, revenue collection has been a major success under the Kibaki Administration. You will recall that revenue has increased from Kshs210 billion in 2002/2003 to the current level of Kshs376 billion, despite reductions in the Value Added Tax (VAT) and the duties that we had to give up mainly due to the efforts we put. I wish to thank all Kenyans for paying taxes and commend the Kenya Revenue Authority (KRA) for their dedication in revenue collection.

(Applause)

Turning to overall expenditures, the overall expenditures in 2007/2008, excluding amortisation payments and restructuring costs, will amount to Kshs580.4 billion, which is about 28.2 per cent of our GDP and an increase from Kshs427.6 billion last year, which was about 23.4 per cent of the GDP. Last year means the year we are currently in.

In line with the Government policy to shift resources from recurrent to capital Expenditures and core poverty programmes, the share of Recurrent Expenditure is projected to decline sharply from the level of 2006/2007 while domestically-financed capital expenditures are planned to increase from Kshs54.7 billion to Kshs85.1 billion; or from 3 per cent of GDP to 4.1 cent of GDP. Expenditures are, therefore, forecast to be development-oriented and with a special focus on improving the infrastructure in key priority sectors identified in Vision 2030, such as the road network, access to water, reliable and affordable energy and efficient and affordable telecommunications systems.

Mr. Speaker, Sir, the overall Budget deficit, including grants, in 2007/2008, will be Kshs109.8 billion, which is equivalent to 5.3 per of our GDP, largely reflecting the substantial increase in our Development Expenditure. The net external financing amounting to Kshs39.8 billion or 1.9 per cent of the GDP is expected to cover part of this Budget deficit leaving Kshs70 billion or 3.4 per of the GDP to be financed through domestic borrowing which is Kshs34 billion and net privatisation receipts of about Kshs36 billion. The net domestic borrowing requirement of 1.6 per of the GDP is well below that of the current financial year which is 1.8 per cent of the GDP; and is consistent with the medium-term target of 1.5 per cent of our GDP.

Mr. Speaker, Sir, allow me to emphasise that the proposed domestic borrowing of Kshs34 billion and the net privatisation proceeds of Kshs36 billion will all go toward financing our Development Budget which amounts to Kshs85 billion. That is to say, the proceeds raised will not be used at all to finance Recurrent Expenditure.

Mr. Speaker, Sir, turning to expenditure reform measures, in the recent past, implementation of Annual Budgets has experienced some challenges, including implementation delays, weak linkages between actual spending and policy priorities in some line Ministries and expenditure linkages and low absorption of funds under the Development Votes, among others. As a result of these challenges, our potential for more rapid economic growth and employment has been constrained. In order to address these challenges and to institutionalise the framework for effective Budget implementation, starting with 2007/2008, the Treasury will closely monitor the implementation of the development budgets of key line Ministries and we have already started doing that. We will coordinate the development of result-oriented Budget performance benchmarks; and identify areas of public resource leakages and develop strategies for creating fiscal space to release resources of financing the priority Vision 2030 projects. To sustain the high economic growth and further reduce poverty, the Government will accelerate reforms in the public financial management in order to improve efficiency, enhance transparency and accountability under a coordinated strategy to revitalise the Public Finance Management.

Mr. Speaker, Sir, to demonstrate our commitment to further deepen fiscal reforms, we have begun to entrench programme-based performance budgeting starting with the coming year. These measures are expected to ensure that budgetary allocations are based on programmes that are linked to clearlyspecified objectives and targets such as the Millennium Development Goals (MDGs) as well as the objectives of the Vision 2030.

Mr. Speaker, Sir, turning to the deepening of the financial sector reforms, we fully recognise the important role played by our financial sector towards the realisation of our development goals. We are also desirous in making Nairobi the financial services hub for the region. We will, therefore, continue with the targeted reforms for the sector. As part of these reforms, we will be tabling in the course of 2007/2008 the Savings and Credit Co-operatives (SACCOs) Bill, to regulate all SACCOs that take deposits from members. In addition, we will fully make operational the Insurance Regulatory Authority which is expected to strengthen the regulation of insurance companies and enhance the level of governance in the sector. We will also review the Capital Markets Authority (CMA) Act to strengthen the CMA supervisory capacity. Today, we will also be proposing some measures on the CMA.

On the banking sector, Mr. Speaker, Sir, I will also be introducing in this House a Modern Banking Bill that will benchmark banks' operations with international best practices.

In order for Nairobi to become the regional hub for financial services, it is important to strengthen the banking and insurance sectors so as to enhance the stability, efficiency and access of the overall financial sector. To achieve this objective, I will be proposing, later in my Speech, measures to increase the capital requirements for these two sectors over the next three years. I did earlier underscore the importance of containing inflation to low levels. In this regard, to strengthen the operational autonomy of the Central Bank of Kenya and enhance its capacity to effectively maintain a proper balance between the demand and supply of money to the economy, I will be introducing significant amendments to the Central Bank Kenya Act.

Mr. Speaker, Sir, on privatisation and public private partnership for economic efficiency, to institutionalise transparency and accountability in the privatisation process, we will make fully operational the Privatisation Commission before the end of this calender year. In addition, preparations for the sale of Telkom Kenya shares to a strategic partner has now been completed and requests for proposals will be released to prospective investors within the next few days. We will also float additional shares of KenGen when we are satisfied that the market price reflects the fundamentals of the company and that the taxpayer will get a fair return. In addition, we intend to sell part of the Government's shares in Safaricom through an Initial Public Offer (IPO) on the Nairobi Stock Exchange (NSE). We will also be selling part of the Government's and the National Social Security Fund (NSSF) shares in the National Bank of Kenya. We intend to attract more financial and management resources from the private sector, through privatisation. In this regard, we are putting
in place the necessary framework to allow active Government participation in the NSE to take advantage of favourable market conditions to offer shares in already listed companies without necessarily having to go through a second offer.

Mr. Speaker, Sir, to attract more financial and management resources to enhance our productive capacity, the Government is in the process of finalising the policy, legal and institutional framework for the implementation of Public Private Partnerships (PPP). This framework is intended to allow private sector participation in the provision of key infrastructural services such as water, energy, roads and other transport services and it is critical for the financing of the flagship projects identified under the Vision 2030. We will also create an institutional framework to assess the fiscal risks associated with the PPP Projects. Soon, the Government will be inviting private sector participation in the development and operation of a free port facilities once the legal framework which is currently under preparation is approved by this House.

Mr. Speaker, Sir, turning to sectoral priorities, I will begin with expanding the infrastructure for sustained development. In the Vision 2030, the Government, in consultation with a wide cross-section of Kenyans, has identified six priority sectors as having the highest potential for economic growth. These sectors are: tourism, agriculture, manufacturing, wholesale and retail trade, business processing outsourcing as well as financing. However, to exploit the gross potential from these sectors, it is important to improve the infrastructure in areas that best support these growth engines, in addition to implementing key reforms in the public sector.

Mr. Speaker, Sir, no country has achieved and sustained a high economic growth rate with poor infrastructure. We must, therefore, accelerate the expansion and rehabilitation of our infrastructure in order to enhance our efficiency and become globally competitive. The investments in infrastructure development are critical to the achievements of our MDGs. It is in this regard that we have allocated for main infrastructure development a total of Kshs166.8 billion in the year 2007/2008 which represents an increase of 113 per cent from Kshs78.3 billion in 2006/2007.

(Applause)

In addition to increased resource allocation, we will continue to focus on strengthening our capabilities to plan, implement and monitor all infrastructural programmes countrywide. Mr. Speaker, Sir, on accelerating expansion and rehabilitation of roads, on the road infrastructure development, we made notable progress, especially in the rehabilitation and construction of key road networks during 2006/2007. As I committed in last year's Budget, I am happy to report that we have been monitoring and have completed:-

(i) 228 kilometres of periodic road maintenance;

(ii) 287 kilometres of rehabilitated roads,

(iii) 116 kilometres of completely new sections;

(iv) 580 kilometres of routine road maintenance and,

(v) 572 kilometres of rural roads improvement under the Roads 2000 Programme.

Mr. Speaker, Sir, you will be receiving more statistics as we go by, not by the amount of money we have spent, but how many kilometres we have done.

Mr. Speaker, Sir, to lay the foundation for creating more jobs, we will accelerate the completion of the ongoing road networks and speed up the rehabilitation and construction of new road networks in 2007/2008. I have, accordingly, increased the budgetary allocation to roads from Kshs42.5 billion in 2006/2007 to Kshs62.1 billion in 2007/2008, which represents an increase of 46 per cent.

(Applause)

To enhance our capacity to provide road networks and effectively supervise road projects, we will make operational the three roads authorities currently being debated by this House. I am glad that the support has been overwhelming. We will also increase the participation of the private sector players in road financing, construction and maintenance. The use of labour-intensive Road 2000 Programme will be expanded to continue generating employment opportunities for our youth. To hasten the construction and completion of infrastructure projects in a timely manner, we will roll out the current framework for monitoring implementation of road projects to cover the implementation of energy, water and other key infrastructural sectors. We expect this framework, which reviews quarterly implementation on the basis of agreed delivery benchmarks, will ensure timely completion of all these projects.

Mr. Speaker, Sir, turning to energy, as you are aware, reliable supply of electricity is critical to our growth efforts and in particular to the manufacturing sector. Building on the success of the current Rural Electrification Programme, the Government will further expand this programme in 2007/2008 in order to make power accessible to all Kenyans. To this end, an additional 460 market centres, 110 secondary schools, 38 health centres, 17 water projects and a number of townships will, by May 2008, be connected with electric power.

(Applause)

In the large towns, which are far away from the national grid, the Government will provide diesel-fired isolated mini-grids. And to enhance capacity of power generation and distribution to sustain the economic expansion which is currently ongoing, I have allocated Kshs8 billion in the Budget of 2007/2008, which should avert any shortage of power supply that could impact negatively on our manufacturing sector. I also expect the recently enacted energy law to open up a participation in electricity generation to private investors and reduce the direct fiscal burden.

Mr. Speaker, Sir, as a result of increased economic activities, demand for petroleum products has increased significantly. The pipeline through-put volume now stands at 3.6 billion litres, a level we cannot sustain with the current operations. The Government will fast-track installation of booster pump stations to double the capacity of the pipeline. In order to serve the growing petroleum demand in Uganda and the Great Lakes Region, we are, in partnership with the Uganda Government, fast-tracking the extension of the oil pipeline from Eldoret to Kampala. When completed by the end of 2008, that pipeline will lower the tariff for transporting petroleum fuel and reduce, among others, the road maintenance costs, accidents and environmental pollution from all those trucks on the road. The Government has also undertaken to modernise the oil refinery. I am including in this Budget part of our contribution for that.

Mr. Speaker, Sir, on measures to promote science, technology and innovation for higher productivity, the Government recognises the important role science, technology and innovation plays in promoting efficiency, productivity and competitiveness, which are fundamental for economic transformation. The Ministry of Science and Technology, working together with the private sector players, will implement a comprehensive science and technology strategy to promote efficiency and productivity in the key priority areas of: agriculture development, expansion of infrastructure, health-care and education delivery, security and crime management, public administration and industrial production.

Mr. Speaker, Sir, to demonstrate our commitment to that important area, I have allocated Kshs200 million as start-up capital in the year 2007/2008 for the establishment of an endowment fund for innovation and research.

(Applause)

Mr. Speaker, Sir, I wish, therefore, to appeal to all private sector players who would be the ultimate beneficiaries of that research, whose access by our talented scientists and researchers is expected to strengthen our capacity to use knowledge, to come forward and support that fund.

Mr. Speaker, Sir, as I noted earlier, the Business Processing Outsourcing (BPO) sector is one of the priority sectors in the Vision 2030. The Government intends to make our country a preferred investment destination for ICT related activities that will create more wealth and employment opportunities. To achieve that goal, the Government will develop and support an efficient ICT infrastructure that provides easy access to international and national networks; establish the legislative and regulatory framework for ICT development; and promote and ensure quality ICT education to provide a pool of world class professionals to meet the needs of both local and global markets.

Mr. Speaker, Sir, starting in 2007/2008, the Government will facilitate the completion of the on-going ICT infrastructure expansion in order to improve the broad-band connections. That will be achieved through investment in an undersea fibre optic cable and the development of a national fibre optic network. Accordingly, I have allocated Kshs1 billion towards the East African Marine System (TEAMS) project, whose completion by mid next year is expected to provide cheaper and faster internet connection with the rest of the world. That project is also expected to reduce significantly the cost of making both local and international telephone calls. As earlier indicated, plans are underway to restructure fully and privatise Telkom Kenya before the end of financial year 2007/2008 in order to improve its operational efficiency and reduce further, the cost of telephony in our country.

Mr. Speaker, Sir, on human capital development sector, although the Government has improved access to education and health-care services, much more needs to be done to ensure Kenyans enjoy good health and are appropriately skilled for our envisaged transformation to a globally competitive economy. In this regard, and in addition to measures that we have already initiated, the Government will go a step further in 2007/2008 to deepen reforms aimed at improving efficiency, effectiveness and access to education and health services country-wide.

Mr. Speaker, Sir, let me begin with education. The new world of globalization demands that we develop a world class pool of brilliant and talented scholars, doctors, scientists, engineers, ICT experts, accountants, economists and other professionals, if we are to compete and succeed on the new world stage. Now, that pool of talent will come from all corners of Kenya; from rural and urban areas, and from rich and poor Kenyans who will be nurtured by the fair and equitable education system that we are systematically putting in place. In recognition of the important role played by quality education towards the development of talents of our Kenyans and towards economic growth and expansion of employment opportunities, I have increased the budgetary allocation to the education sector by 11 per cent from Ksh108.3 billion in 2006/2007 to Kshs119.5 billion in 2007/2008.

(Applause)

Mr. Speaker, Sir, in addition to that allocation, the Government will ensure efficiency in the use of funds to improve quality and access to primary, secondary and university education, and re-orient our education system to make it more relevant to the needs of the economy. In this regard, and to demonstrate our commitment to enhance access to quality education, I have allocated Kshs8.1 billion for free primary education to cater for recurrent and capital expenses, and another Kshs7.3 billion for teachers' salary adjustments as part of the final phase of the agreement between the Government and the Kenya National Union of Teachers (KNUT). That amount will total to Kshs53.4 billion that has been paid to teachers by this Government since 2003.

(Applause)

Mr. Speaker, Sir, we are going a step further. I will be allocating an extra Kshs1.5 billion to recruit an additional 7,000 teachers countrywide to replace those that have retired through attrition. In addition, I have allocated an extra Kshs1 billion to recruit an additional 4,000 new teachers, bringing the total number of teachers to be employed in 2007/2008 to 11,000 teachers.

(Applause)

Mr. Speaker, Sir, we hope to continue recruiting more teachers in the medium term to increase the teacher-pupil ratio to internationally accepted standards. I expect the additional teachers will go a long way in improving the quality of teaching in our school systems.

Mr. Speaker, Sir, to further improve the transition rates in our schooling system and reduce the households burden of financing secondary education, the Government will, with effect from January 2008 remove, as a first step, all tuition fees for secondary schools countrywide.

(Applause)

I have, therefore, allocated Kshs2.9 billion to cater for the tuition expenses for the period January, 2008 to June, 2008, within this financial year. And to ensure poor and orphaned but bright students do not miss school because of other non-tuition related expenses, we are also allocated an extra Kshs800 million in this financial year towards bursary funds to assist them to cater for such expenses.

(Applause)

Mr. Speaker, Sir, that is over and above the amount available within the Constituencies Development Fund (CDF) money.

Mr. Speaker, Sir, this level of funding, together with the ongoing reforms in the education sector are aimed at ensuring efficiency is expected to release additional resources to rehabilitate and develop village polytechnics and vocational training centres.

(Loud consultations)

Mr. Speaker: Order! Order, over there!

The Minister for Finance (Mr. Kimunya): The savings generated through expenditure rationalization are also expected to support free tuition for secondary education and enhance bursary funding for university education in the medium term.

Mr. Speaker, Sir, turning to healthcare, the Government has implemented various reforms in the health sector, which are aimed at improving the quality and access to healthcare services. As a result of these reforms, as I mentioned earlier, over 1,000 additional dispensaries have been built countrywide, budgetary allocation for drugs has increased by 72 per cent and over 4,080 additional health personnel have been deployed to rural and needy areas to scale up health services. In addition, the Government has improved referral services by increasing the number of ambulances and has also implemented financial management reforms to improve efficiency and service delivery countrywide.

Mr. Speaker, Sir, to facilitate completion and sustaining of the ongoing reforms in the health sector, I have allocated Kshs34.4 billion in the year 2007/2008. Efficient use of these funds is expected to enhance quality of healthcare and access in line with our Vision 2030. The Government will also continue to shift focus from curative to preventive healthcare, help to expand immunization coverage, improve reproductive health needs and allocate additional resources to facilitate an effective multi-sectoral response to epidemics such as HIV/AIDS and malaria.

Mr. Speaker, Sir, the Government is aware of the low absorption of budgetary resources attributed to bureaucracy in financial and other logistical management systems within the health sector. The Government, therefore, intends to streamline and enhance community participation and ownership in the management of health resources at the local level, through a review of the legal and administrative framework. This could well see the direct submission of grants to the health centre levels.

(Applause)

Mr. Speaker, Sir, the Government will also strengthen the Kenya Medical Supplies Agency's (KEMSA's) procurement capacity. The specific reforms will include; improving supply chain management of public health resources, establishing capacity within the Ministry of Health to monitor KEMSA's procurement function and, strengthening the supervision of medical supplies to rural health facilities.

Mr. Speaker, Sir, turning to agriculture and agricultural productivity, agriculture is key to the realization of a hunger-free society, which is one of the Millennium Development Goals (MDGs). In this context and also being one of the growth engines for Vision 2030, the Government will continue to implement a wide range of structural reforms aimed at improving efficiency and productivity in the sector. These reforms will be targeted towards encouraging value-addition in agro-processing and making agriculture the catalyst for our economic transformation and prosperity. To achieve this broad objective, we will, in the medium term:-

(i) transform key agricultural institutions into complementary and high performing entities that facilitate private sector agricultural productivity and output expansion.

(ii) we will also facilitate access to input services for farmers and pastoralists in Kenya to achieve world class benchmarks in productivity, including access to affordable fertilizer by our farmers; a project that is currently ongoing.

(iii) further, we will develop irrigable areas of Arid and Semi-Arid Lands (ASALs) for both crops and intensified livestock.

(iv) we will improve market access for small holder farmers by facilitating the establishment of aggregators, processing, packaging and branding of our agricultural export product.

Mr. Speaker, Sir, as an initial step towards transformation of our agriculture, I have increased budgetary allocation to the sector by 20 per cent, from Kshs24.9 billion in 2006/2007 to Kshs29.8 billion in 2007/2008. These resources will be deployed mainly to:-

(i) expand disease-free zones and control of vectors to improve quality of livestock;

(ii) roll out, in consultation with local farmers, a more practical and cost effective extension service methodology; and lastly,

(iii) spearhead biotechnology research to increase food productivity and self reliance.

Mr. Speaker, Sir, in addition to increased resources to the sector, the Government will deepen reforms under the co-operative sector to improve governance and encourage its growth to support farmers; and the National Cereals and Produce Board (NCPB) as well as the Strategic Grain Reserve to improve their management so that they can play more effectively their strategic role of guided intervention in food crisis situations. In addition, post landing losses suffered by fishermen will be reduced by promoting of storage and processing. Surveillance effort against illegal fishing and conservation of fisheries resources will be enhances as well.

Mr. Speaker, Sir, over the last four years, the Government has paid most of the arrears that were owed to farmers arising from past governance challenges. This year, we are going a step further to relieve the pyrethrum farmers of their long suffering by allocating an additional Kshs664 million to clear the remaining arrears.

(Applause)

We are also allocating Kshs641 million towards payment of debts owed by the Coffee Board of Kenya to the farmers.

(Applause)

In both instances, however, we will follow up on the culprits that occasioned these losses as per the law.

Mr. Speaker, Sir, turning to the internally displaced persons, as we have done in the past, we will, in the coming fiscal year, once again deal with the problem of squatters and internally displaced persons. In this regard, I have allocated Kshs1.3 billion to acquire land for settling some of our fellow Kenyans who are internally displaced.

(Applause)

I am confident that with the allocation of these parcels of land, those affected will improve their living standards, increase food safety and be able to share in the growth of our country.

Mr. Speaker, Sir, against that background, it becomes very clear that the largest beneficiaries of this first term of the Kibaki Administration are the farmers, through increased production, higher quality produce and sustained high prices. We are committed to improve further on this in the years to come.

Mr. Speaker, Sir, turning to the economic services sector strategy, I will start with manufacturing. Arising from the various reforms we have implemented and supported by the hard work and resilience of private sector players, growth in the manufacturing sector has accelerated from 0 per cent in 2002 to 6.9 per cent in 2006. The ongoing efforts of deepening of regional integration under both the East African Community (EAC) and the Common Markets for Eastern and Southern Africa (COMESA) have also contributed to boosting the demands for Kenya's manufactured products in those markets. Continued expansion in COMESA as well as the forthcoming Economic Partnership Agreements (EPAs) means that Kenya will continue to enhance the efficiency of its manufacturing sector in order to remain competitive.

Mr. Speaker, Sir, to accelerate and diversify the recent growth momentum of the sector, we must effectively facilitate our industry players to overcome remaining challenges. These include:-

(i) continued high cost of doing business

(ii) low productivity and slow adoption of new technologies; and,

(iii) inadequate start up capital for Small and Medium Enterprises (SMEs).

On its part, the Government will:-

(i) maintain a stable macroeconomic environment;

(ii) deepen reforms to enhance private sector competitiveness by reducing the cost of doing business; and,

(iii) continue to provide the one-stop investment shop to encourage domestic and foreign investments and attract modern technology in our country. In the coming financial year, we will also be studying the feasibility of establishing special economic clusters such as agro-industries zones to help stimulate the manufacturing sector in line with initiatives under Vision 2030.

Mr. Speaker, Sir, counterfeits and trade in contraband products poses a threat to the future of manufacturing and the trade sectors in our country. To safeguard the sector against unfair competition from these cheap and low quality counterfeit substitute goods, the Government will, in 2007/2008, introduce stringent administrative as well as legislative measures against trading in counterfeit and substandard goods. In this regard, I will be introducing shortly before this august House a Counterfeit Bill to stump out dumping of counterfeit and substandard goods to safeguard our industrial and revenue base.

Mr. Speaker, Sir, let me turn to the issue of promoting growth of SMEs and facilitating their formalisation. Encouraging growth of the SMEs remains top on Government priority as a vehicle for economic empowerment of our people. To this end, we will accelerate the ongoing reforms aimed at reducing the cost of doing business and formalise activities of the sector through introduction of wholesale and retail hubs countrywide in line with Vision 2030. The Government will also build platforms for enterprise start-ups and incubation that will create a pool of new and innovative SMEs.

In addition, I have allocated an additional Kshs400 million for the ongoing construction of a hawkers market in Nairobi, whose completion is expected to provide a secure and decent business environment to over 10,000 small traders.

Mr. Speaker, Sir, turning to our youth, in recognition of the role that our youth can play in our economic development and to create job opportunities for them, last year, I allocated Kshs 1 billion to the Youth Enterprise Development Fund. As His Excellency the President indicated during the inaugural launch of the Fund, we are going a step further to enhance this Fund to, eventually, Kshs2 billion. This year, I am allocating an initial Kshs250 million thus bringing the total money allocated to the Fund so far to Kshs1.25 billion. More funding will be allocated as the demand increases, and as the disbursements take place and lessons from the initial grants are factored in the Fund's operation.

(Applause)

Mr. Speaker, Sir, turning to our women, in the same spirit, and in recognition of the immense role played by our women in developing our economy, the Government will establish a Kshs2 billion Women Enterprise Development Fund with an initial injection of Kshs1 billion in 2007/2008. I wish, therefore, to encourage our corporate entities to assist the Government in this noble initiative aimed at empowering our women and youth by contributing towards the two Funds established by the Government. Mr. Speaker, Sir, I would just like to explain to hon. Members that our Kshs1.25 billion contribution will reflect the Government's contribution. We expect some extra donations that we we will factor in and bring them to the House in order to regularise as soon as we sign up the commitment.

Mr. Speaker, Sir, in terms of further deepening of the tourism sector, reflecting the international confidence accorded to Kenya as a premier tourist destination, the number of tourists has risen from about 1 million in 2002 to 1.6 million last year. As anticipated in the ERS, we expect to hit the 2 million mark this year and the Vision 2030 anticipates this number to increase to, at least, 3 million visitors by 2012. As a result of more visitors, the hotel occupancy rate has also increased sharply. Tourism earnings have also risen almost threefold from Kshs22 billion in 2002 to Kshs56.2 billion in 2006. The strong performance in the tourism sector continues to have a positive knock-on effect on the growth of the air transport sector, hotel industry and other related sectors of the economy. We, therefore, welcome the recent entry of Virgin Atlantic into our market.

Mr. Speaker, Sir, to further consolidate the gains and accelerate the sector's growth, more efforts will be directed towards expanding and diversifying tourism and providing the infrastructure and ancillary services to boost the sector into becoming one of the top ten long haul destinations, offering a high-end, diverse, and distinctive visitor experience. To this end, the Government will pay particular attention to improving tourist circuit roads. In this regard and in addition to the increased resources to infrastructures sector, I have allocated Kshs300 million specifically for improving conditions of roads in our national parks and game reserves.

(Applause)

Mr. Speaker, Sir, more resources will also be channelled towards improving the quality and breadth of Kenya's product offering, revamping the business visitor offering, and marketing of Kenyan brands abroad.

Mr. Speaker, Sir, over the medium-term, the Vision 2030 envisages aggressively facilitating the development of the under developed coast segment by increasing bed capacity, upscaling premium safari parks, high-value niche products such as eco and lake tourism, and the business tourism. Resort cities are also contemplated in Mombasa, Turkana and Isiolo which should serve to broaden the participation by all Kenyans in generating income and helping to make Vision 2030 a reality. These will be facilitated by the private sector, as is currently the case with tourism in the country.

Mr. Speaker, Sir, turning to Enhancing Public Safety Law and Order, protection of all Kenyans and the security of their property remains top on our priority agenda. Building on the recent reforms to enhance the capacity of our police force to deal with crimes, we will, from 2007/2008, focus our attention on modernising the security systems to cope with new crime-related challenges. Resources will be channelled towards modern equipment to assist the force in crime investigation, surveillance and intelligence gathering. In addition, we will continue to provide more housing to the force, recruit additional police officers - I believe the number is about 25,000 extra - to deal with any emerging crimes and provide more police equipment and vehicles to ensure security of all Kenyans.

(Applause)

Mr. Speaker, Sir, let me turn to the issue of creating a competitive environment for business growth and expansion. To attract investment and to remain competitive in the global economy, Kenya must have an efficient and predictable regulatory business environment. This is an area where we have important challenges ahead of us, but it is also an area where the Government's sustained efforts are beginning to bear fruit. The comprehensive review of all business licences in Kenya, which started in 2005, is now coming to an end with specific action designed to reduce the licensing burden on businesses.

Mr. Speaker, Sir, for the first time ever, we have a comprehensive overview for the number of business licences in Kenya - they total 1,325. Out of these licences, the Government has already eliminated, over the last two years, 110 and simplified eight. Today, I propose to eliminate another 205, and to simplify another 371 licences. As announced in last year's Budget Speech, we are also putting in place mechanisms to ensure the quality of new regulations and licences.

Mr. Speaker, Sir, a good business environment requires a sustained and systematic Government effort. Building on the positive results of the Business Licensing Reform, the Government is working on a Regulatory Reform Strategy. This strategy will provide a blueprint for future efforts to streamline and improve the broader regulatory business environment. It will build regulatory reform capacities within Government agencies and within other key stakeholders. One key aim of the strategy will be to cut Government red tape in priority areas by 25 per cent over the next three years. It is a strategy we are referring to as "moving from red tape to red carpet for our people".

Turning to the financial out-turn for 2006/2007, as hon. Members will recall, the total revenues (including LATF), were originally estimated at Kshs375.9 billion comprising of Kshs336.8 billion in ordinary revenue and Kshs38.9 billion in Appropriations-In-Aid. I am pleased to report that despite some challenges faced in collection of taxes, especially in Excise Duty on petroleum, total revenues are on target and are now estimated at Kshs376.1 billion, thanks to the additional enforcement steps taken by KRA and the co-operation of the Kenyan taxpayers. Of this total, Kshs338.5 billion is ordinary revenue and Kshs37.6 billion is Appropriations-In-Aid.

On expenditures, the 2006/2007 Printed Estimates indicated Recurrent Expenditure, including those financed through Appropriations-In-Aid of Kshs283.4 billion. The Consolidated Fund Services took another Kshs129.1 billion while Development Expenditures took a total of Kshs137.6 billion. Owing to unforeseen commitments, we recently requested Parliament, and it so granted, to authorise additional expenditures under the Supplementary Appropriation Bill amounting to Kshs26.9 billion. This increased total expenditures to Kshs577 billion, basically comprising of Kshs293.9 billion in Recurrent, Kshs142.4 billion in Development and Kshs140.7 for non-discretionary or Consolidated Fund Services.

Mr. Speaker, Sir, the Consolidated Fund Services for 2006/2007 consisted of Kshs36.4 billion for domestic interest; Kshs5.7 billion for foreign interest; Kshs23.3 billion for pensions, gratuities and other non-discretionary expenditure. In addition, Kshs57.2 billion and Kshs16.7 billion were provided to finance domestic and external redemptions respectively. Enough of the past, I am turning to the projections for 2007/2008, the financial out-turn.

Mr. Speaker, Sir, let me now turn to the 2007/2008 Budget. The total revenue target for the fiscal year 2007/2008 is, as I said, Kshs428.9 billion, representing 20.8 per cent of our GDP. This will comprise of Kshs389.2 billion in ordinary revenue and Kshs39.6 billion in Appropriations-In-Aid. The targeted revenue is predicated on the on-going reforms in tax modernisation, customs administration and simplification of taxation for the small enterprises.

On expenditure forecast, as hon. Members have noted from their copies of the Printed Estimates, gross Recurrent Expenditures for 2007/2008 are estimated at Kshs491.9 billion. This includes Kshs38.2 billion to be financed through Appropriations-In-Aid, and payments for Consolidated Fund Services amounting to Kshs154.2 billion. The discretionary Recurrent Expenditure amounts to Kshs337.8 billion.

On Development Expenditure, the gross Development Expenditures for 2007/2008 are estimated at Kshs201.7 billion. Out of this amount, Kshs52.2 billion will be financed through Appropriations-In-Aid, which consist of direct project financing amounting to Kshs21.2 billion in loans, Kshs27.9 billion in grants and Kshs3 billion in local Appropriations-In-Aid. Consequently, I expect to finance net Development Expenditures amounting to Kshs149.4 billion from the Exchequer, comprising of Kshs15.2 billion in grants, Kshs17.3 billion in loans and a net of Kshs116.9 billion from the Government of Kenya own resources.

Mr. Speaker, Sir, the proposed composition of expenditure is consistent with the Government's objective of gradually increasing the share of Development Expenditure. Indeed, with the proposed sharp increase in capital spending in 2007/2008, the share of Recurrent Expenditure will have declined from 83.6 per cent of total expenditure in 2002/2003 to only 70 per cent in 2007/2008 conversely, the share of Development Expenditure will have risen obviously from 17 per cent to 30 per cent.

On external grants, I have received commitments amounting to Kshs36.5 billion and Kshs45.3 billion in loans to finance projects. Details of the donors and the projects financed are included in the Development Estimates, and I would like to record our thanks for our partners' coming to support us.

Mr. Speaker, Sir, the overall fiscal deficit, having taken into account those grants, will amount to Kshs109.8 billion, mainly on account of a higher Development Expenditure. After taking into account expected net foreign financing of projects that amount to Kshs39.8 billion, the deficit to be financed domestically will amount to Kshs70 billion. I plan to finance this deficit through net privatisation receipts amounting to Kshs36.1 billion and domestic borrowing of Kshs34 billion. This means that the fiscal framework for the year 2007/2008 is fully financed and there are no financing gaps.

(Applause)

Mr. Speaker, Sir, I now turn to taxation proposals. The rest of my speech outlines the various tax policies and administrative measures that I intend to propose through the Finance Bill, and other regulations to be tabled in this House. I, therefore, request that the remainder of my speech be regarded as a notice of a Motion to be moved before the Committee of Ways and Means.

As was the case last year, these measures are grouped on the basis of their intended objectives. Overall the measures I am proposing are targeted, not at raising net revenue, but at doing the following: One, is to promote business competitiveness and making imports affordable. The second set of measures is to deepen our East African Community regional integration. The third set of measures is to promote equity and enhance access to medical care and higher education. The fourth set of measures is to promote agricultural development and environmental conservation. The fifth is to promote housing development. The sixth is to encourage development of the capital market. The seventh is to deepen reforms for the retirement benefits, and the eighth is to ensure safety on our roads.

Mr. Speaker, Sir, on business competitiveness, the Government remains fully committed to creating an enabling environment for private sector growth and development. The following measures that I am proposing here are, therefore, aimed at facilitating the growth of business and expanding employment opportunities, while making domestic and imported goods affordable to Kenyans.

Mr. Speaker, Sir, battery recycling plants in our country have been experiencing shortages in supply of used batteries, a key input in their manufacturing process. These shortages, which have been occasioned by increasing exports of used batteries, have consequently forced some industry players to scale-down their operations resulting in job losses. To discourage the exportation of used batteries and to protect jobs in the battery recycling plants, I propose to impose an export duty of 20 per cent or Kshs10 per kilo on used lead acid batteries.

(Applause)

Mr. Speaker, Sir, the imposition of the Sugar Development Levy (SDL) on industrial sugar has continued to limit the growth and expansion of industries that use such sugar as their raw material for manufacturing goods. In addition to reducing the cost of importation and to encourage expansion of these industries, I propose to remove the SDL on all imported sugar for industrial use.

(Applause)

Mr. Speaker: Order, hon. Members!

The Minister for Finance (Mr. Kimunya): Mr. Speaker, Sir, for the benefit of the hon. Members, it is only Kenya that charges SDL on the industrial sugar used by her industries. As a result, our products are more expensive in the region. Therefore, we have decided to remove SDL for specific industries that use that sugar. It is not for everybody. So, we are fine.

(Applause)

Mr. Speaker, Sir, partly to reduce the cost of doing business and to encourage the expansion of economic activities, I propose to remove Public Service Vehicle Licence (PSV) for passenger carrying vehicles for commercial purposes. In addition, I propose to remove classes "B" and "C" licences for the goods carrying vehicles. Henceforth, the net effect of that, is that there will be no more Transport Licensing Board (TLB) licences required for non-passenger commercial vehicles. For the passenger vehicles, they will only need to fulfil the inspection requirements and get a road service licence which tells them the route where they will be operating.

(Applause)

Mr. Speaker, Sir, laying the foundation for achieving our Vision 2030 will require adopting new technologies and deployment of costing measures---

(Loud consultations)

Mr. Speaker: Order, Members! It is critical that you listen so that you comment later!

Proceed, Mr. Minister!

The Minister for Finance (Mr. Kimunya): Mr. Speaker, Sir, laying the foundation for achieving our Vision 2030 will require adopting new technologies and deployment of cost-saving measures in order to be globally competitive. It is, therefore, imperative that the leasing sector be encouraged in order to provide avenues for businesses to acquire financing of new technologies. I propose, in this regard, to amend the Eighth Schedule to the Value Added Tax (VAT) Act to zero-rate leasing of some equipment.

Mr. Speaker, Sir, the withholding VAT system has brought administrative challenges, both for taxpayers and the Kenya Revenue Authority (KRA). I will be reviewing this system soon in order to bring our VAT system in line with the best practice. In the meantime, I propose to give the Commissioner the powers to exempt some of the taxable supplies, including lease financing from withholding system requirements as well as to deregister any person from being a withholding VAT agent.

Mr. Speaker, Sir, during last year's Budget, I proposed amendments to the Insurance Act to provide for cash and carry in respect of fire and motor vehicle insurance cover. In view of the success of this initiative, and the positive impact of this measure on the industry and in order to further streamline the industry and bring down the cost of insurance, I propose to extend cash and carry to all classes of business.

Mr. Speaker, Sir, while on the VAT subject, I wish to acknowledge complaints I continue to receive from the business community regarding the persistent delays in the refund of VAT and its impact on their business operations. This is despite the fact that last year, I enhanced funds for VAT refunds to Kshs900 million per month. Being a Government that listens to its citizens, the Government will look into ways of fast-tracking VAT refunds, including the possibility of automatic refunding of the claims without audit before payment can be made, especially those who have a proven track record.

Mr. Speaker, Sir, last year, in consultation with my counterparts from Uganda and Tanzania, we agreed to reduce the import duty on several goods to encourage growth of our industries. To further consolidate the growth of our manufacturing sector and expand opportunities for Kenyans to find jobs, we have agreed on a couple of things.

(i) Reduce import duty rate from 25 per cent to 10 per cent on felt materials that are used for the manufacture of oil and air filters for the motor vehicles.

(ii) Remove the import duty rates on textile fabrics and felt that are needed in the manufacturing process of paper. Further, import duties on millstones and grindstones for milling, grinding or pulping have been removed.

Mr. Speaker, Sir, our importers have continued to incur higher import costs arising from the Import Declaration Fee (IDF). In order to reduce the cost of importation and make such imported goods affordable to Kenyans, I propose to reduce the IDF fee from 2.75 per cent to 2.25 per cent for all goods imported from outside the East African Community (EAC) countries and no fee will be charged on goods imported from within the East Africa partner states.

(Applause)

Mr. Speaker, Sir, on measures to encourage regional integration, as a demonstration of our commitment to the EAC regional integration in accordance with the East African Community Protocol, I propose to do the following:

(i) Treat all citizens of the EAC partner states who invest within the Nairobi Stock Exchange and earn a dividend income as residents and they will only pay withholding tax at the rate of 5 per cent just like Kenyans.

(ii) I am also proposing to amend the Capital Markets Act to increase the percentage of Initial Public Offers (IPOs) that are reserved for Kenyans from 25 per cent to 40 per cent and extend this to the other East African partner state members who will invest with us as local investors.

(Applause)

Mr. Speaker, Sir, on measures to promote equity and enhance access to medicare and education, I have received various representations from Kenyans proposing a reduction in personal income tax. However, given the various projects we intend to finance and the targeted intervention by the Government to reduce poverty, it will not be desirable to address this issue in this Budget. We consider rationalisation of the tax brackets as a priority policy and I have accordingly instructed my officers to conduct comprehensive simulations and propose possible options for consideration in the next fiscal year. In the meantime, our analysis shows that the intervention that I have proposed in this Budget will go a long way in increasing the disposable incomes for the majority of Kenyans, especially in the lower income tax brackets who will not be beneficiaries of a review of the brackets, anyway. These interventions which are intended to reduce the financial burden of Kenyans, include among others, the funding for tuition fee in secondary schools, the increased medical supplies to the health facilities, the support for the orphaned children through the bursaries, the settlement of the landless, the construction of hawkers' markets, the acceleration and expansion of the rehabilitation of the road network and the reforms in the telephone sector to reduce the cost of making calls among others.

Mr. Speaker, Sir, to make medical care affordable and accessible to Kenyans, I propose to exempt from import duty medical equipment imported by licensed hospitals. I urge all managers of medical facilities, especially those under the private sector to review downwards their charges accordingly.

(Applause)

Mr. Speaker, Sir, on education, establishment of private universities has continued to play a vital role in enhancing knowledge and skills development amongst our youth in this country. In order to encourage the expansion of these institutions, I propose to zero-rate taxable goods and services supplied by registered persons for use in the construction or expansion of private universities, excluding student hostels and staff housing which are already covered by a different regime.

Mr. Speaker, Sir, to further promote equity in our Excise tax systems and to enhance tax administration, I propose to introduce the following simplifications:-

On cigarettes, I propose to re-categorise the existing cigarette brands to be based purely on the cigarette characteristics, which basically comprise of length, package and whether it has a filter or not!

(Laughter)

This measure is intended to harmonise the Excise regime for domestically produced as well as imported cigarettes and to enhance our tax administration. This measure will also deal with any trade in counterfeit and contraband cigarettes. In addition, I also propose to adjust the rates by a modest increase in Excise Tax on cigarettes falling within category "B", "C" and "D" by a modest Kshs1.70 per packet in "B", Kshs4.20 per packet in "C" and Kshs6.20 per packet in "D".

(Applause)

I have deliberately left out category "A" for the non-filter cigarettes to save the people in that category!

(Laughter)

I expect this modest contribution by smokers will assist the Government in financing health care provision and other development priorities.

Mr. Speaker, Sir, the next simplification I propose is to convert the current complex taxation of spirits, which is currently at Kshs120 per proof-litre or 65 per cent of its equivalent. The equivalent works out to Kshs200.40 per litre or 65 per cent. I want to simplify this in line with internationally accepted World Customs Organisation (WCO) Nomenclature, which basically provides a litre as the unit of measure rather than the proof litre. I further propose to also adjust upwards the Excise Tax on portable spirits from the current Kshs200.40 per litre or 65 per cent to Kshs280 per litre or 65 per cent, whichever is higher; and that of wine from Kshs54 per litre or 65 per cent to Kshs85 per litre or 65 per cent, whichever is higher. I would like to mention here that despite the high consumption of these items by members at the higher levels of our society, their contribution to revenue has been rather insignificant. It is time that what these people consume is also added to the national kitty.

(Laughter)

In addition to the above, I also propose some moderate increase in Excise Tax on malt beer by Kshs2 per litre basically to bring the Kshs48 to a rounded figure of Kshs50 per litre.

(Applause)

I have talked about simplifications. This modest increase will make a token contribution, again, towards the financing of the tuition fees in secondary schools.

Mr. Speaker, Sir, on these sets of simplifications, I also wish to introduce a specific Excise Tax on mineral water at Kshs6 per litre besides the current *ad valorem* of 10 per cent per litre. It basically translates to the same but we now want to capture it in both specific as well as *ad valorem* to avoid the cheating and the under-declarations that we have been witnessing. As usual, these Excise measures are effective from mid-night tonight.

On measures to promote agricultural development and environmental conservation, in order to reduce loses to our milk farmers and to encourage growth of our dairy sub-sector, I propose to zero-rate milk powder for VAT purposes to encourage processing of excess milk into powder. This measure is expected to make powder milk affordable to all Kenyans.

(Applause)

I also propose to zero-rate pyrethrum extracts in order to encourage the manufacture of insecticides using local pyrethrum extracts and also to bring it in line with other imported raw materials for insecticides which are currently zero-rated.

Mr. Speaker, Sir, last year, I reviewed the Export Duty on local hides and skins upwards to 20 per cent or Kshs10 per kilo in order to encourage local value-addition and ensure availability of raw materials for the local tanneries and to create employment. In order to give further impetus to value-addition in this important sector and to encourage the now evident growth and return of the tanneries, I am proposing to increase the Export Duty on raw hides and skins to 40 per cent or to Kshs20 per kilogramme.

Environmental conservation is a central pillar of sustainable development. Partly to protect the environment from further degradation, I propose to impose an Excise Duty of 120 per cent on plastic bags.

(Applause)

I further propose to impose a ban on the very thin plastic bags, specifications of which will be contained within the notice. These measures are expected to encourage the industry players to devise environmentally friendlier, and hopefully, recyclable bags for our shops.

(Applause)

Mr. Speaker, Sir, on measures to promote housing development, the current housing and shelter is still inadequate to meet the demands of Kenyans. Last year, I exempted interest earned on deposits for home ownership savings plans of up to Kshs3 million. To further encourage development of housing and provision of affordable housing to Kenyans, I propose to:-

(i) give industrial building allowance to persons constructing residential buildings for rental purposes for the low income earners; and,

(ii) zero-rate the taxable goods and taxable services supplied to specific projects for the construction of a minimum of 20 units of houses situated in planned development schemes for the low income earners.

(Applause)

Mr. Speaker, Sir, in order to encourage more people, again, to own houses, I also propose to amend the Retirement Benefits Act to provide for assignment of the pension benefits as security for accessing housing loans, subject to the development of appropriate regulations to ensure the spirit of pension benefits is not eroded; and also to ensure that not all the pensions benefits amount is used for security of the housing loan. The long and short of this is that somebody will be allowed to use their pension as security to borrow a loan to buy their house that they are going to retire to and enjoy the pension.

Mr. Speaker, Sir, to encourage further expansion of commercial buildings in line with increased economic activities, I propose to remove non-residential buildings from the VAT-exempt category and to allow input tax deduction on commercial property development. The flip side of this is that I also propose to impose VAT on rental of non-residential buildings. This measure will not affect - I will need to add here - rental of buildings for residential purposes which will remain exempt. In addition, the small-scale landlords will be left out of the tax since the law will only apply to those landlords fineable for VAT who must be earning in excess of Kshs5 million per annum in rent.

(Applause)

Mr. Speaker, Sir, our banking sector is currently characterised by small and unviable institutions incapable of investing in modern technology and critical mass of competency required to provide modern and efficient banking services to Kenyans. This has led to dominance of the local banking sector by foreign-owned institutions. In order to encourage the merging of small local banks so as to enable them to expand and compete with foreign-owned banks in terms of resources, technology and services, I propose to raise the minimum capital for banks from the current Kshs250 million to Kshs1 billion to be accumulated over the next three years. Statistics show that most of our banks are already over Kshs700 million in capital and the three years should not be any difficult for them to raise the Kshs1 billion so that we can have a stable banking sector. This will prepare our banking sector players to consolidate their services and ensure efficiency in order to take advantage of the emerging regional opportunities and be able to lend to a bigger clientele.

Mr. Speaker, Sir, we have also in the past witnessed the collapse of a number of insurance companies largely attributed to inadequate legislative and legal framework and subsequently, a weak financial base. In order to improve the financial strength of insurance companies, I propose to increase the minimum paid up capital for:-

(i) long-term insurance businesses from Kshs50 million to Kshs150 million;

(ii) general insurance business from Kshs100 million to Kshs300 million; and,

(iii) composite insurance business from Kshs150 million to Kshs450 million. The insurance companies will be required to comply with this new paid up capital requirement in three years' time.

Mr. Speaker, Sir, on measures to deepen our capital market development, the Government is conscious of the need to protect the integrity of the Nairobi Stock Exchange (NSE) and to protect the small investors from unscrupulous market players. Therefore, in order to empower the Capital Markets Authority (CMA) to effectively regulate the Capital Markets, I propose amendments to the Capital Markets Act to give the Authority power to levy financial penalties, among other penalties, depending on the nature and magnitude of offences. The penalties have also been enhanced to make them more deterrent and details of this will be in the relevant Bill.

Mr. Speaker, Sir, as I also alluded to in my last year's Budget Speech, there is need for further reforms to deepen the money and capital markets. However, this can only happen if the legal impediments caused by the Internal Loans Act are addressed. The said Act does not recognise dematerialised/paperless securities, thus keeping the Government Bond Market behind technological developments. In this regard, I propose to make necessary amendments to the Internal Loans Act and this will go a long way to facilitate the implementation of primary dealership system in the capital markets.

Mr. Speaker, Sir, on measures to reform the retirement benefits, in recognition of the invaluable contribution our senior citizens have given in the development of this country, I propose to exempt the monthly pension that is granted to these important persons from tax.

(Applause)

Mr. Speaker, Sir, in order to expand the coverage by the National Social Security Fund (NSSF), I also propose to amend the NSSF Act to allow individuals to contribute voluntarily to the

Fund as in the case of NHIF. Here, we are looking at individuals who are currently locked out because they are employed by an employer who is not eligible; who has less than five employees or those who are in the Jua Kali sector who want to contribute to the NSSF, but currently cannot do it. I further propose an amendment to the NSSF Act to provide that the monthly 5 per cent of total wages of casual workers that is paid to NSSF by employers to be declared as surplus benefits whenever an actuarial valuation of the Fund is carried out. This money will be used to augment the benefits of the voluntary individual accounts. This will now allow the casuals and the self-employed people to voluntarily join and benefit from the Fund just like all the employees who are in the regular employment.

Mr. Speaker, Sir, due to the delays that have been witnessed in the past in relation to payment of benefits of a deceased person to survivors, I propose to amend the Retirement Benefits Act to provide that benefits arising by reason of death of a scheme member do not form part of a deceased persons's estate and shall be paid by the trustees in accordance with the scheme rules.

(Applause)

Mr. Speaker, Sir, I also propose amendments to the Retirement Benefits Act to provide for the establishment of a Trust Fund within the Retirement Benefits Authority (RBA) for receiving the pension funds, together with the accrued investment earnings of the pension benefits of scheme members that cannot be traced when the schemes are wound up. This will safeguard the benefits of the scheme members that are eroded over time by liquidation costs since the liquidators are unable to discharge their duty until the amounts are completely depleted or a member turns up.

Mr. Speaker, Sir, on measures to improve safety on our roads, recent road accidents are partly caused by continued importation of used motor vehicles, which is compounded further by fitting those vehicles with used motor vehicles spare parts. In order to discourage the importation of such used spare parts and to enhance the safety of Kenyans on our roads, I propose to impose a 20 per cent Excise Duty rate on all imported used motor vehicle spares. This is also in accordance with what is happening within the East African Community.

Mr. Speaker, Sir, in the 2006/2007 Budget, I also removed the requirement for road licenses for motor vehicles. To further ensure the safety and security of our motor vehicles and to discourage those who think they can steal them and then change their registration numbers, I propose to change the law to require that the vehicle registration books and the number plates of all vehicles that have been written-off must be returned to the Registrar of Motor Vehicles for proper keeping of records.

Mr. Speaker, Sir, I have only highlighted a few of the changes. The details are contained in the Finance Bill.

As I come to the conclusion, Mr. Speaker, Sir, after making those remarks, allow me to commend all the Kenyans, individuals and corporate entities, young Kenyans and other senior citizens, the business people and the working class as well as our Non- Governmental Organisations (NGO) players and scientists who participated in this year's Budget. Allow me also to commend the staff at the Treasury who worked very tirelessly to produce this Budget. For the first time in our history, the preparation of this Budget benefited immensely from a very constructive interaction with Kenyan people, some of whom wrote directly to us while others sent us proposals, some from the diaspora through our electronic mail address at the Treasury.

Among the very many contributions that I received, allow me to cite one outstanding representation. This particular one was both unique in its contents and the writer. A 13-year old boy, Trevor Kibet Langat of Brookhouse School, on his 13th birthday wrote, and I wish to quote just a few sections of his Budget submission to us.

"I have been watching the economy grow from 0.3 per cent to 6 per cent. But sometimes---"

(Loud consultations)

Mr. Speaker: Order! Order, hon. Members! You have not even heard the beginning of the story.

Proceed, Mr. Minister.

The Minister for Finance (Mr. Kimunya): Mr. Speaker, Sir, I have taken the liberty of inviting the young Kibet into the House for the benefit of interacting with Members, hereafter.

(Applause)

Mr. Speaker, Sir, young Trevor Kibet wrote as follows:-

" I have been watching the economy grow from 0.3 per cent to 6 per cent. But, sometimes, I ask myself why Kenya cannot be like Singapore or South Africa. I went for Young People Conference in South Africa in February and I was amazed by the infrastructure. Is Kenya ever going to build such roads? Kenya, definitely, has potential to become a world class economy. I watch Cable Network Business Channel (CNBC). When I am of age, I will create a business channel that will encourage politicians to talk about business and economic activities of the people of Kenya.

(Applause)

I think it is time that we have professional political leaders. We could make Kenya not only a huge economic country, but also make Kenya a business centre. Kenya will, one time, be a huge economy. I will support the Government. I will not just simply talk of how bad or good the Government is. I will take action and build Kenya even in the smallest way possible. I think it is time for me to take action. It is also time for all Kenyans to take action. I have taken the risk to write to you. I believe the biggest risk is not to take risk."

That is young Kibet.

(Applause)

Mr. Speaker, Sir, young Trevor Kibet is calling upon us to take action and join hands to build our country. The time is now for each one of us to take action towards making our country prosperous. The Budget I have presented today for 2007/2008 is, therefore, intended to consolidate and accelerate our recent achievements, and to broaden opportunities for all Kenyans to participate in building a brighter future that Trevor and other Kenyans yearn for. That young Kenyan is challenging us to have a positive outlook to life, love ourselves and our motherland and, most importantly, focus on economic development agenda. He is calling us to join hands to build our country.

Mr. Speaker, Sir, the success we have achieved on the economic front over the past four and half years can be directly attributed to our working together, in close partnership and collaboration with Kenyans of all walks of life. On the part of the Government, that partnership has meant listening very closely to the peoples'
wishes, and then delivering on agreed policies and programmes. The result is that Kenyans and

Kenya has now been ushered onto a new economic platform which facilitates the process of transforming it from poverty into a middle income country in the next 15 to 20 years or so, as envisaged within our Vision 2030, but within a framework of good governance and the rule of law, respect for human and property rights, private sector development and prudent economic management.

Mr. Speaker, Sir, the Budget I have presented this afternoon is intended to consolidate and accelerate all those recent achievements, and to broaden the opportunities for all Kenyans to participate in building a more prosperous nation and to bring a better quality of life for all Kenyans. In pursuit of that noble goal, we, as a people, must unite and rally around a single vision, that is Vision 2030 which will engender higher productivity and growth with a sense of social responsibility and equity.

Mr. Speaker, Sir, let us all re-dedicate ourselves and work hard towards achieving this vision. I wish, therefore, to urge my fellow Kenyans not to allow themselves to be distracted from that successful partnership that has worked so well. With determination from all of us, and with God's help, we shall succeed beyond our wildest dreams, working together on the path to prosperity!

Mr. Speaker, Sir, I beg to move.

(Applause)

Mr. Speaker: Does anybody want to second formally?

The Minister for Justice and Constitutional Affairs (Ms. Karua): seconded.

(Question proposed)

DEPARTURE OF HIS EXCELLENCY
THE PRESIDENT

Mr. Speaker: Hon. Members, it is now the pleasure of His Excellency the President to take his leave. Will all arise?

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

ADJOURNMENT

Mr. Speaker: Order, hon. Members! That concludes our business today. The House is, therefore, adjourned until Tuesday, 19th June, 2007, at 2.30 p.m.

The House rose at 4.45 p.m.