

NATIONAL ASSEMBLY

OFFICIAL REPORT

Thursday, 11th June, 2009

The House met at 2.45 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 THE SPEAKER DO NOW
LEAVE THE CHAIR

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

Mr. Speaker, Sir, it is, indeed, an honour for me to present to this august House, the 2009/2010 Budget. But before I proceed with my Speech, let me take this early opportunity to express my sincere gratitude to His Excellency President Mwai Kibaki, for appointing me to the position of the Minister for Finance. I also want to recognise my brother, the Right Hon. Prime Minister, Mr. Raila Odinga, with whom we have worked very closely since I took charge of the Finance portfolio.

The 2009/2010 Budget is formulated against the backdrop of many challenges, both on the global and on the domestic fronts. The global economy is facing the worst recession ever since the Great Depression, a phenomenon that is adversely affecting the economies of developing countries, Kenya included. Industrial countries have taken huge supportive interventions to mitigate the effects of the global financial crisis, but the impact is yet to be felt, thus leaving the developing countries exposed and vulnerable.

As I have already mentioned, the world economy is facing a serious recession and no country, small or big, developed or developing, has been spared the negative effects of that crisis. Overall, the global economy is now projected to decline by 1.3 per cent in 2009,

down from a growth of 3.3 per cent in 2008, before recovering sluggishly to grow at about 1.9 per cent in 2010. Despite the interventions taken by the major economies, the contraction of the global economy in 2009 is largely on account of the negative growth in the major industrial countries, which more than outweighs the growth in Asian economies, including China and India.

Mr. Speaker, Sir, like the rest of the world, Sub-Saharan Africa is also feeling the impact of the global economic crisis. Current projections indicate that the growth of the Sub-Saharan African economy will most likely fall to 1.7 per cent in 2009, from 5.5 per cent in 2008. Indeed, the growth rate of the economies that are Kenya's major trading partners in the East African region such as Uganda, Tanzania and Rwanda, is projected on average to decelerate to 5.6 per cent in 2009, from 9.4 per cent in 2008. African countries must, as a priority, take appropriate measures to contain the adverse effects of the crisis on their economies, while preserving the hard-earned gains of recent years.

Mr. Speaker, Sir, in background, when the NARC Administration democratically took over the reins of power at the end of December, 2002, it, indeed, inherited an economy that had been shuttered into stagnation for several years. The consequences of the stagnation were reduced income per capita, escalation of unemployment and poverty problems and, indeed, dysfunctional national institutions. The new administration set out on an ambitious and comprehensive programme of economic renewal, namely, the Economic Recovery Strategy for Wealth and Employment Creation and with policy and institutional reforms that were in wide acceptance. Focused and consistent implementation of broad and appropriate economic and structural reforms, embodied in this strategy and indeed, the resilience and hard work of our people, led to a steady expansion of our economy from a virtual stagnation of 0.5 per cent to a high of 7.1 per cent in 2007.

In addition, the Government provided more budgetary resources towards priority growth areas of agriculture, rural development, infrastructure, human capital development and core poverty programmes, which helped to reduce poverty significantly. As a matter of fact, the number of people living below US\$1 declined from 57 per cent of the total population in 2000 to 46 per cent in 2006. Indeed, by the end of 2007, Kenya was poised for accelerated development. As hon. Members are now well aware, most of the gains that had been painfully achieved between 2003 and 2007 were substantially reversed in 2008. The economy experienced a dramatic down turn in 2008, growing by a mere 1.7 per cent, largely attributed to the adverse effects of the unfortunate events that followed the December, 2007 General Elections. The problem was compounded by the sharp increase in the prices of oil and fertilizers in the international market and the drought conditions following failed rains in the short rains season.

Mr. Speaker, Sir, the outlook for 2009/2010 is only slightly better, especially in the face of the ongoing global recession that has reduced demand for our exports, tourism earnings and remittances from Kenyans in the diaspora. We now project a modest recovery with the national cake growing by only 3 per cent in 2009. However, I would like to assure the hon. Members, and Kenyans at large, that, despite those challenges, the economic foundation laid in 2003-2007 is still intact.

Mr. Speaker, Sir, our infrastructure is much better than what it was in 2002 and, most importantly, we remain endowed with an enterprising human resource. What we now need is to gather courage and adopt a positive spirit and commit ourselves to moving forward. We should not allow our "economic car" to overturn or to be run in reverse gear

again, as happened early last year. Indeed, in the midst of the gloom, we should see hope and opportunity. Above all, we should find strength, unity of purpose and the resolve to urgently and decisively confront the immediate challenges facing us while, at the same time, focussing on our long-term growth and development objectives in line with the Vision 2030. It is only through our resolve and sustained commitment to tackling those challenges that we can restore our economy back to a higher path and sustained growth path and eliminate poverty amongst our people. To achieve that, we must broaden the economic opportunities for all Kenyans, measurably reduce youth unemployment and poverty while comprehensively dealing with regional inequality.

We must also confront head-on the governance challenges that continue to constrain our growth and development prospects. In doing this, we must realise that we have no option, but to collectively rise above our perceived inadequacies and our limiting dispositions and awaken our potentials with re-energised commitment and determination to move our economy up the ladder of prosperity. These challenges, we must tackle them now and we must do so urgently, recognising that our economy and the people of Kenya can ill-afford to wait or any delay.

To effectively respond to these challenges, I have outlined bold and appropriate policy measures that are required to restore the economy to a higher growth path, expanding economic opportunities, create employment and strive to protect the livelihood of the poor and vulnerable members of our society. I do that well aware that good ideas and innovations must be driven into existence by courageous patience. The 2009 Budget is premised on the need to urgently overcome the immediate socio-economic challenges that we face today. We must do this in order to restore the confidence of Kenyans in their country and its institutions. As part of these initiatives, we must try to return the economy back to a long-term growth path but at the same time providing impetus for building a cohesive and prosperous Kenya that we all desire.

The Budget that I have the honour to table in this august House today, therefore, marks the first and bold step towards progressively building a better future for our people consistent with our Vision 2030. In this regard, the measures I will be proposing throughout my Speech are anchored on the theme of *Overcoming Today's Challenges for a Better Kenya Tomorrow*.

(Applause)

Mr. Speaker, Sir, the objective of the 2009 Budget, therefore, is to stimulate growth and protect jobs, reduce poverty, enhance food security and protect the poor. In framing this Budget, I have been guided by five underpinning principles namely: -

First, maintaining a stable macroeconomic environment and creating an enabling environment for business;

Second, developing key infrastructure facilities and public works countrywide to stimulate growth, create employment and reduce poverty;

Third, promoting equitable regional and social development for stability,

Fourth, investing in environment and food security; and,

Fifth, strengthening governance not because we have been told to do it, but because it is the way forward in improving service delivery.

In response to the current challenges and to avoid a further slide in the expansion of our national cake, we plan to implement a fiscal stimulus that focuses on sectors that will generate maximum benefits. To address the imbalances in regional development, which has been a real source of social discontent, the stimulus programme is deliberately designed to cover all parts of the country. The programme has projects intended to expand irrigation –based agriculture with a view to ensuring food security. We will, as part of this programme, construct wholesale and fresh produce markets countrywide for the purpose of improving marketing and distribution of agricultural produce.

(Applause)

Mr. Speaker, Sir, underlying this principle is a two-pronged strategy that aims at focusing expenditure on priority areas that have a higher impact on growth such as infrastructure and public works while at the same time ensuring sufficient expenditure to cushion the poor and vulnerable. The rest of my Speech now elaborates specific policy measures I intend to take within the framework of the five principles I have outlined above to overcome the challenges that we face today and build a stronger and more prosperous Kenya.

At this time of crisis, it is more critical that we uphold our commitment to maintaining a stable macroeconomic environment. In this regard, we will continue to pursue fiscal policy and structural reforms aimed at restoring our economy back to a high growth path but without undermining the objective of monetary policy to bring inflation down to the 5 per cent target we have set for ourselves. In managing monetary policy, the Central Bank of Kenya (CBK) will strive to ensure the availability of sufficient liquidity to support economic activity while also allowing for gradual rebuilding of our official foreign exchange reserve which has been eroded by the adverse impact of the exogenous shocks mentioned earlier.

Mr. Speaker, Sir, with respect to fiscal policy, let me say from the outset that it has not been easy to find room in our Budget for commitments to the national development objectives as outlined in Vision 2030 and to deal with the current challenges affecting the welfare of our people. As such, we have had to strike a balance between supporting growth and maintaining medium-term debt sustainability. Budgets are about priorities given the reality that financial resources are limited. Therefore, faced with the current economic challenges and bearing in mind that raising taxes is not a prudent option under the current circumstances, we as a Government, chose to partly accommodate the temporary financing shortfalls by savings arising from the rationalization of Government expenditure to remove waste and non-priority expenditure. I will shortly elaborate on the expenditures that we have rationalized. For the balance of the financing shortfall, we have adopted a programme of responsible borrowing.

Hon. Members, we considered the approach we have taken in terms of raising additional resources beyond the tax we expect to collect not only appropriate but also prudent. This is a must if we have to safeguard jobs and bolster economic recovery. I am aware of the concerns that have been raised regarding the amount of money that we intend to borrow from the domestic sources to finance the Budget. I want to allay any fears Kenyans may have on this proposed borrowing. Our debt, in relation to our Gross Domestic Product (GDP) is currently below 40 per cent thanks to the prudent manner in

which we have managed our public debt in the past. Moreover, debt sustainability analysis done taking into account the planned new borrowing demonstrates that we face a low of risk of debt stress. Therefore, we are in a position to comfortably borrow in the short-term to finance the proposed fiscal stimulus package without compromising on macroeconomic objectives.

Mr. Speaker, Sir, under the proposed fiscal framework, our total public debt is projected to pick at 44.5 per cent of the GDP in 2009/2010 before declining thereafter. It is, however, instructive to note that even at this level, our debt position remains within tolerable levels and is much lower than that of some of the large industrialized countries. Nevertheless, over the medium-term, we intend to bring down the Budget deficit in order to commensurately reduce the debt ratio. We are also seeking for additional concessional assistance from our development partners which we intend to use to pay off part of the domestic borrowing that will be applied to finance the fiscal stimulus package.

Mr. Speaker, Sir, as I have already indicated, the major policy challenge that we face today is how to push the frontiers of economic growth to a sustained higher level, create economic opportunities and reduce poverty. Implementing measures to achieve these objectives means that the Government Budget for 2009/2010 will be expansionary. The overall balance is expected to be in deficit by about 6.6 per cent of the GDP.

As I have already mentioned, we plan to accommodate our financing shortfall partly from rationalizing expenditures to remove wastes and generate savings. As hon. Members will recall, in the Supplementary Budget of 2008/2009, I took measures to streamline Government expenditure to generate savings without compromising delivery of public services. However, let me remind hon. Members that these are, indeed, difficult times and difficult times require bold decisions. Indeed, that is what Kenyans expect of us. For this reason, I am going a step further to institute more bold measures so that I can raise the resources we require to finance the priority pro-growth and pro-poor expenditure planned in this Budget.

To this end, I have reduced from the ceilings of all Ministries the following non-priority expenditure that I believe will have no material impact on service delivery. This entails reductions as follows; 80 per cent on furniture and fittings; 60 per cent on advertising and publicity; 40 per cent on telephone expenses; 20 per cent on hospitality, supplies and services which include – and I emphasise - payments to various task forces appointed by the Government and 10 per cent on domestic and foreign travel subsistence.

(Applause)

Mr. Speaker, Sir, Government expenditure on transport has increased substantially over the years and, unless checked, it will soon become unsustainable. In this regard, I will be requesting the Cabinet to approve a new transport policy to address this problem early in the financial year. With this in mind, I have put a moratorium on the purchase of new vehicles except for security purposes.

(Applause)

Any purchase of new vehicles will be allowed only under very exceptional circumstances.

Mr. Speaker, Sir, we will also introduce the use of fuel cards for the purchase of fuel for Government vehicles because we believe this measure will significantly reduce the amount of money the Government is spending on fuel.

In the face of difficult economic times we find ourselves in today, and responding to the call by Kenyans to contain non-priority expenditure, it is about time we demonstrated in concrete terms that we are a Government that listens to its people. In this regard and after consulting with the President and the Prime Minister, I am now directing that all Cabinet Ministers, Permanent Secretaries and other senior public officials who are entitled to official vehicles shall henceforth be allowed only one vehicle whose engine capacity shall not exceed, 1,800 cc.

(Applause)

Mr. Speaker, Sir, once the new vehicles are in place, I am also directing all Accounting Officers to ensure that vehicles at the disposal of public officials that exceed the engine capacity I have just specified are withdrawn and surrendered to the Chief Mechanical and Transport Engineer who will arrange for their sale by the end of September, 2009. Proceeds thereof, will be used to finance priority areas such as the resettlement of Internally Displaced Persons (IDPs).

As I said earlier, no public official will be exempted from this policy. Therefore, I expect all Accounting Officers to strictly implement this measure to the letter. In this regard, I am pleased to report to this House that the Treasury under my leadership has fully complied with this directive starting today. We have decided with my Assistant Minister to lead by example. Therefore, effective today, I am now using an official vehicle that is compliant with this requirement.

Mr. Speaker, Sir, the austerity measures that we have undertaken are only the first step towards rationalizing our Budget going forward. We shall continue to scrutinise all Votes of Ministries in the course of this fiscal year with a view to identifying further areas of savings. To this end, I have instructed the PS to the Treasury to launch a comprehensive audit of the payrolls of all organizations paid through the Exchequer. I expect the report of this audit to be ready by the end of October, 2009 and will ultimately be tabled before this very House.

Mr. Speaker, Sir, our utilization of donor funds has been low and this is unacceptable because it delays the development benefits to our people. In a sense, development delayed is development denied and Kenyans cannot afford this, especially during these difficult times when it is not easy to obtain additional external finances. In this regard, part of the fiscal space will come from enhanced absorption of external funds from the current rate of about 50 per cent to about 80 per cent in the Financial Year 2009/2010.

I will establish a unit at the Treasury to work with line Ministries in monitoring project performance in order to unlock the constraints that are responsible for the implementation delays. In due course, I will be outlining guidelines specifying how these targets will be achieved. We will also introduce an Electronic Project Monitoring Information System (e-Promis) before the end of this year. Once operational, this system will enable the Treasury to continuously monitor project performance at every stage.

In order to ensure transparency and encourage public participation, the e-Promis portal will also be open to the public to enable wananchi to monitor the performance of projects of their interest. When fully operational, it will be possible to monitor all Government projects, including those funded through the Constituencies Development Fund (CDF).

Mr. Speaker, Sir, on enhancing revenue collection, we recognize the need to further deepen the reforms, including implementing measures targeted at enhancing the operational efficiency of the Kenya Revenue Authority. Achieving these goals requires strengthening the institutional arrangements of the KRA and holding all the officers to the highest standards of ethical and integrity behaviour in the conduct of business, while at the same time, creating incentives for performance. In addition, sanctions for under-performance or actions leading to loss of revenue, must be enforced across the entire spectrum of the organization.

The Government recognizes the important contribution that the private sector has made in the process of building our economy over the years. For this reason, we have been instituting a number of reforms to ensure that they play even a greater role. We have, in this regard, come a long way in terms of improving the business environment. As we continue to be reminded by our private sector partners, these are not enough. In this regard, I will elaborate on some of the measures. We are proposing to address some of these challenges while presenting tax policy measures planned for the Financial Year 2009/2010.

For now, I will address myself to the regulatory challenges that arise mainly from the failure to appreciate the cost of regulation to business. This is compounded by lack of an appropriate framework for consulting with other public entities and more important the private sector itself when introducing new regulatory procedures or levies.

To address these challenges, we will, in the course of this fiscal, year submit to this House the Business Regulation Bill that will empower the Business Regulatory Unit legal power to vet and recommend to the Ministry for Finance any proposed new levies and to make operational the e-Registry for business licenses and to fast-track implementation of the ongoing licensing reform.

Mr. Speaker, Sir, under the National Accord, the Grand Coalition Government committed itself to facilitate far-reaching and coherent reforms in order to create the environment for a stable, democratic and prosperous country. This has popularly become known as Agenda Four. We recognize that without focusing on these reforms, our efforts to build a prosperous Kenya may not be realized. In this regard, the Treasury has allocated Kshs2 billion towards implementation of reforms under Agenda Four in addition to specific money provided for under respective Ministries and agencies.

Mr. Speaker, Sir, through this Budget, we are also fast-tracking reforms in the Judiciary to expedite service delivery, and in particular, to ensure faster disposal of commercial and civil cases in order to reduce the cost of doing business as well as decongesting our corrective facilities and courts. To this end, I have provided the Judiciary with Kshs3.1 billion of which Kshs250 million will be used to fund the pilot phase of the automation and modernization of our courts and employ 20 additional Commissioners Assize.

On successful completion of this first pilot phase, we will build on this experience and roll this programme countrywide. We remain fully committed to adequately

supporting the Judiciary in order to ensure prompt justice so that no more Kenyans languish in our corrective and remand facilities due to avoidable delays in our courts.

Mr. Speaker, Sir, we all know that adequate security is essential in achieving the objectives of our Vision 2030. For this reason, the Government will continue to fully support our security agencies in order to ensure that individuals, communities and investors are well secured. In this regard, the Government has decided to enhance community policing by engaging our youth to work under the guidance of the regular police force in collaboration with chiefs to strengthen security at the constituency level. In this regard, I have allocated funds to support this initiative, including funds to purchase motorized bicycles for chiefs and our youth engaged in community policing.

We expect this initiative will inculcate a sense of responsibility and discipline in our youth. As an incentive for those who are successful, the Government encourages the recruitment units of our disciplined forces to give priority to these young men and women.

Mr. Speaker, Sir, over the last six years or so, we have invested heavily in infrastructure. The ongoing construction works throughout the country clearly attest to this. To this end, we must thank our development partners, particularly the European Union, the World Bank, the African Development Bank and the people of the Republic of China for their valuable support in the roads and energy sector.

As part of the Government's physical stimulus programme, we will continue to allocate substantial amounts of financial resources to infrastructure projects in order to enhance competitiveness and stimulate higher growth for employment and wealth creation.

Therefore, I have allocated Kshs140 billion for infrastructure spend that will cover road, rail, port, broadband and energy.

Mr. Speaker, Sir, while we have made significant progress in expanding the road network in the rural areas, we still face serious challenges with respect to timely routine maintenance to ensure that they are functional throughout the year. This is despite the fact that part of the Fuel Levy Fund is available for this purpose. After consulting with my Parliamentary colleagues, I propose to this House that the proportion of the Fuel Levy Fund meant for rural roads, be channeled through the Constituencies Development Fund (CDF) for maintenance of rural roads at the constituency level.

(Applause)

I am, indeed, confident that the CDF mechanism will ensure timely and efficient utilisation of these funds for the intended purpose.

Mr. Speaker, Sir, the Port of Mombasa plays an important strategic role not only to Kenya's development but also the development of the hinterland countries such as Uganda, Rwanda, the Democratic Republic of Congo and indeed, Southern Sudan. However, the current clearing system for cargo faces a number of challenges that compromise our country's ability to maximize on benefits that accrue from international trade.

(Loud consultations)

Mr. Speaker, Sir, my colleagues are consulting a little bit too loudly! Could I ask your indulgence?

(Laughter)

Mr. Speaker: Order, hon. Members! Shall we please keep the levels of our consultations low?

Mr. Minister, please, proceed!

The Deputy Prime Minister and Minister for Finance (Mr. Kenyatta): *Ahsante.*

Mr. Speaker, Sir, the current clearing system for cargo faces a number of challenges that compromise our country's ability to maximize on the benefits that accrue from international trade. Indeed, documentation procedures are largely manual, resource intensive and very expensive. To position the port to continue playing its strategic role more effectively, in an increasingly competitive environment, there is an urgent need to address these challenges. In this regard, the Government will establish in the course of the year, a single-window port community based system to facilitate faster, efficient and competitive clearance of cargo at the Port of Mombasa. In addition, plans are underway to dredge the Port and make it accessible for bigger ships while the ongoing work for the construction of a second container terminal will be accelerated.

Mr. Speaker, Sir, concurrent with the initiative we are taking to improve the efficiency of the Port of Mombasa, we are also attending to the challenges in the rail system. In this regard, the Government of Kenya working jointly with the Government of Uganda has made a decision to construct a new standard gauge railway line from Mombasa to western Kenya and on to Kampala in Uganda. The new railway line will not only reduce the cost of transport but also facilitate faster movement of freight and passengers, thereby enhancing competitiveness and improving the welfare of our people.

Mr. Speaker, Sir, considering the construction of a new railway line will significantly reduce the maintenance cost of the northern corridor roads, it indeed makes economic sense to use part of the Roads Maintenance Fund to invest in this railway. In this context, I will in consultation with the Minister for Roads, be proposing an amendment to the Roads Maintenance Levy Act and the Kenya Roads Board Act to make road made for railway development and maintenance eligible for funding. Meanwhile, I have allocated Kshs3 billion to initiate this important project. I expect the Ministries and agencies responsible to expedite the process with a view of commencing construction by the last quarter of this financial year.

Mr. Speaker, Sir, the development of infrastructure in Nairobi metropolitan area is equally crucial in making Nairobi a competitive service hub. Apart from improving provision of water and security services, we are fast tracking development of a light rail system in Nairobi and its suburbs and construction of bypasses and modern interchanges to solve the current traffic congestion. As a first step and in partnership with an infrastructure development company called Infraco, a private infrastructure develop group comprising of the World Bank, SIDA, DFID, the Governments of Switzerland and Netherlands, we have commenced work towards the upgrade of the Nairobi commuter system serving the heavily populated parts of Nairobi in order to reduce traffic jams and transport related costs currently hurting business as well as the poor urban dwellers.

Mr. Speaker, Sir, to enhance supply of environmentally friendly and affordable energy to our economy, the focus of our investments will be on development of renewable energy such as geothermal, wind, bio-fuel, bio-mass and use of solid waste. The Government will also continue to scale up investments in transmission while at the same time upgrading existing ones in order to stem systemic transmission losses that partially contribute to the high cost of energy in our country. The Government will also continue to expand the Rural Electrification Programme covering all major trading centres countrywide. To this end, we have allocated Kshs7 billion.

In addition, the Government will encourage private sector participation in electric power generation from wind, bio-mass, and recycled wastes, within the public-private partnership framework.

Mr. Speaker, Sir, after three years of heavy investment in ICT infrastructure, our economy is about to be hooked on to the Global Digital Grid and, indeed, His Excellency the President is expected in Mombasa tomorrow for the launch of the under sea fibre optic cable. We must leverage on this affordable broadband connectivity to accelerate economic growth and expand economic opportunities so as to reduce poverty amongst our people. Appropriate utilisation of this infrastructure would yield some savings as well as create efficiencies for better and more productive economies, creating jobs and moving our economy up the value chain and reducing the cost of doing business.

To further expand access to benefits presented and to ensure no Kenyan is left behind by the ICT revolution, I propose the following investments as part of the stimulus package. First, I have allocated Kshs1.3 billion for the purchase of mobile computer laboratories for each constituency for use by our high schools.

(Applause)

This initiative will serve as a pilot project since in the coming years we intend to expand the scope of the project to include primary schools.

Second, we intend to support the roll out of the digital villages in partnership with the World Bank. These centres will create business hubs and expand economic opportunities in rural areas.

Third, immediately launch a Kshs1 million laptop computer campaign countrywide in conjunction with broadband providers by undertaking to underwrite part of the interest payment on funds borrowed to purchase these laptops and computers. I trust this campaign will benefit university students, public servants as well as ordinary *wananchi* thereby enabling them to take advantage of the cheaper broadband soon to be available in our country.

Mr. Speaker, Sir, the promotion of equitable regional and social development is a central objective of the Grand Coalition Government. The main thrust of this Budget, therefore, is to ensure that the budgetary resources reach the people at the constituency level. Since our focus will be to stimulate economic activities at the constituency level, we will channel these resources as concessional grants through the respective ministries using existing Constituencies Development Fund framework. This will facilitate local accountability and strengthen oversight to ensure that all funds allocated are strictly used for the planned purpose.

Mr. Speaker, Sir, During the ERS period, the Government of Kenya established the Constituencies Development Fund. As a result, we have achieved tremendous progress in taking development to the people.

(Applause)

To scale up the good work and ensure that wananchi continue to benefit from this Fund, I am this year allocating resources permitting Kshs12 billion. With this amount, each constituency will now receive on average Kshs60 million to finance its various development projects. In addition, as I said earlier, I will be proposing amendments to the Roads Maintenance Levy and the Kenya Roads Act to allow for 22 per cent of the Road Maintenance Fund to be used for the maintenance of the Constituency Roads. I have also proposed appropriate amendments to allow this amount totalling to Kshs4.7 billion to be channelled directly to constituencies through the Constituencies Fund Board. With these amendments, I will have significantly increased resources channelled through the CDF for development and road maintenance from Kshs10 billion in the year 2008/2009 to approximately Kshs18 billion or an average of Kshs86 million per constituency, representing an 80 per cent increase over the year ending June 2009. I expect this bold and historic measures to go a long way to measurably to improve the conditions of our rural roads, promote commerce and consequently, improve the welfare of our people.
Tuelewane!

(Laughter)

Mr. Speaker, Sir, even after allocating approximately Kshs90 million to each constituency for development, we are going a step further in this Budget to make it possible for every Kenyan to participate in restoring their economy on to a higher growth path, working together to expand economic opportunities and creating employment. In this regard, I have allocated an additional Kshs22 billion, an equivalent of Kshs105 million per constituency as conditional economic stimulus or resilience package towards financing infrastructure development covering education and healthcare and other developments projects.

(Applause)

The funding for these interventions is to be provided under the respective Ministry's Votes and will be released through the CDF framework and specific projects under strict guidelines to be developed by the Treasury. In an effort to boost the welfare of disadvantaged groups, micro, small and medium enterprises, I direct the Public Procurement Oversight Authority to make appropriate regulations that will enable these groups to participate effectively in Government tenders. These regulations should ensure that contracts awarded through the CDF and LAFT and other development funds are reserved for tenderers that are located and operate in those regions, except where such local capacities are not available.

Mr. Speaker, Sir this initiative, which demonstrates the Government's commitment to local level budgeting, marks a departure from the past, and building on

the experience of this first piloting phase, it will be scaled up to ensure that we ultimately achieve in a constructive manner, equitable development in our country. Through this initiative, Kenyans will emerge with strength when the global economy recovers, and enhance their capabilities and competitiveness for the long term.

Let me turn to the issue of expanding opportunities in rural areas for employment creation. As a decisive step towards equitable regional development, this year's Budget also focuses on rural development by creating income and employment opportunities to our people. In this regard, I have proposed a number of local rural initiatives. First, I have allocated a total of Kshs1.8 billion or Kshs10 million per constituency for the construction of fresh produce and wholesale markets countrywide to address the missing markets and facilitate commerce and trade, and rural enterprise development.

Second, I have also allocated Kshs1.1 billion or Kshs8 million per constituency for 140 constituencies for the construction of fish farming ponds in those constituencies. This should go a long way to improve nutrition and to create over 120,000 employment opportunities and income opportunities for our people.

Third, I have allocated Kshs525 million or Kshs2.5 million per constituency for the construction of *Jua Kali* sheds and another Kshs210 million or the equivalent of Kshs1 million per constituency to equip these sheds with appropriate tools and equipment in order to empower our youth so that they can directly benefit from the massive construction works we have initiated at the local level.

Fourth, Mr. Speaker, Sir, I have further allocated an additional Kshs500 million to the Youth Enterprise Development Fund and another Kshs500 million to boost the Women Enterprise Development Fund kitty. This is in order to extend credit for business start-up and expansion throughout the country. Going forward, I expect that these funds will be devolved to equitably benefit youth and women in every constituency in our Republic.

Mr. Speaker, Sir, the post-election crisis displaced many people from their homes. While resettlement efforts have progressed well, a number of IDPs have continued to live in makeshift camps. To deal with this problem, once and for all, I have allocated Kshs2.2 billion to support the resettlement of IDPs. A further Kshs500 million has been set aside to assist them rebuild their destroyed businesses. In addition to this, through the assistance of the African Development Bank (ADB), the Ministry of State for Special Programme will be implementing the restoration of farms, infrastructure and rural livelihoods projects intended to resettle and empower communities affected by post-election violence in the two districts of Uasin Gishu and Molo. The project components will include construction of 19,000 low cost 3 roomed farm houses, including produce storage space for returning farm households, with priority being given to female headed households; and the purchase of agricultural inputs comprising of maize seed and fertilizer through the National Accelerated Agricultural Input Access Programme (NAAIAP).

Mr. Speaker, Sir, with regard to the development of northern Kenya and other arid lands, we plan to undertake numerous interventions in this region. Key projects include the Isiolo-Madogashe-Garissa-Wajir Road at a cost of Kshs1.2 billion, development of water infrastructure at Kshs4.4 billion, installation of solar panels in secondary schools in Arid and Semi-Arid Lands (ASALs) at Kshs200 million, construction of abattoirs costing Kshs130 million in Isiolo and Garissa, in addition to resources for the Arid Lands

Resource Management Programme which will be enhanced to Kshs2.5 billion in the year 2009/2010.

Mr. Speaker, Sir, following the post-election violence, our tourism sector has suffered major losses, with a decline of about 60 per cent in the first quarter. With the sector expected to play a key role in the achievement of our Vision 2030 objectives, strong actions are required to be taken for this sector to withstand the current challenges and return it to its impressive former performance that was witnessed prior to the post-election disturbance. As a step towards this direction, I have allocated Kshs800 million to be channeled through the Kenya Tourist Development Corporation, to be lent to business enterprises in this sector, in order to protect jobs. In addition, we have allocated a further Kshs400 million for tourism marketing, targeting the high-end market.

Mr. Speaker, Sir, as I have already alluded, the current global economic recession has adversely affected our export sector, especially the horticultural industry. In order to cushion this sector and enable players to continue employing our people, I will be outlining later in my Speech tax proposals to improve cash flow. We recognise that these measures may not be enough to fully mitigate the challenges facing our tourism and export sectors. In this regard, we are planning to introduce additional measures in the course of this Fiscal Year, to further safeguard and stabilize our exports and tourism against exogenous shocks. But in these challenges, we see opportunities. In this regard, I would encourage sector players to now focus on value addition and diversification of their products to reduce possible risks in the future.

Mr. Speaker, Sir, as we strive to overcome the current challenges, we must recognize that building a better Kenya requires a healthy population. To achieve this objective, we plan to provide an efficient health infrastructure covering all parts of our country and raise the quality of healthcare to our people. In this regard, we are initiating a comprehensive programme of health care reform, covering infrastructure development, promotion of preventative healthcare and devolved management of facilities.

Mr. Speaker, Sir, in addition to direct funding to the two Ministries of Health to finance on-going programmes, I have allocated a total of an additional Kshs4 billion or Kshs20 million per constituency under the Ministry of Public Health and Sanitation for the construction and equipping of a health centre in every constituency. This is the first step in our three-year journey towards achieving a countrywide Health Care Facility Upgrade Programme.

(Applause)

Mr. Speaker, Sir, as a Government that cares and listens to its people, we are going a step further. Consistent with our policy to promote preventive healthcare, we intend to employ on contract - and I repeat, on contract terms at the local level an additional 4,200 nurses, which is the equivalent of approximately 20 nurses per constituency countrywide. To this end, I have allocated a total of Kshs655 million which translates to Kshs3.1 million for each constituency.

(Applause)

Mr. Speaker, Sir, to ensure effective delivery of both preventive and curative healthcare in our facilities countrywide, I have allocated an additional Kshs500,000 for the purchase of five motorcycles for health workers, and 30 bicycles for community health workers in every constituency. I have also allocated a further Kshs5 million as additional funding towards Constituency Medical Supplies kits. This is in addition to the funding I have already allocated to the two Ministries of Health through the Kenya Medical Supplies Agency (KEMSA) for the purchase of medicine and medical supplies. To ensure efficiency in the drugs supply chain, storage and inventory control, I expect the two Ministries of Health, through KEMSA, to ensure an appropriate procurement system is put in place.

Mr. Speaker, Sir, having put our pupils back to class through free primary education and free tuition in secondary schools, our focus is now on how to improve the quality of education throughout the country. In addition to the annual allocation towards payment of teachers and running of schools, I have allocated an additional Kshs1 billion each for free primary education and free secondary tuition to take care of increased cost of goods and services.

Mr. Speaker, Sir, through this Budget, we are also initiating a countrywide programme to upgrade infrastructure and quality of education in order to give our children a better foundation, consistent with the requirements of the modern labour market. To this end, I propose to allocate Kshs1.5 billion or Kshs7 million per constituency for the upgrading of two primary schools and equipping them with water harvesting and underground water storage.

(Applause)

Mr. Speaker, Sir, for far too long, we have made reference to a few schools as centres of excellence. Time has now come when such schools should be available in all parts of our country. I have, therefore, allocated Kshs6 billion or Kshs30 million per constituency for the construction of one secondary school as a centre of excellence. I expect that the completion of this schools upgrade programme will provide equal life-long opportunities to our pupils throughout the country.

(Applause)

Mr. Speaker, Sir, I intend to allocate Kshs1.3 billion or the equivalent of Kshs6 million per constituency for recruiting an additional 10,500 primary school teachers on contract or approximately 50 primary school teachers per constituency to improve the quality of our education. I also propose to allocate Kshs353 million or about Kshs2 million per constituency to recruit an additional 2,100 secondary school teachers on contractual terms or ten teachers per constituency as a first step.

Mr. Speaker, Sir, recognising the need to hook up our schools to the Information and Communication Technology (ICT) grid and promote E-learning, I propose to allocate Kshs1.3 billion or Kshs6 million per constituency towards the purchase of a digital laboratory bus.

The extreme floods and droughts, incidences of vector and water-borne diseases--

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(Loud consultations)

Mr. Speaker, Sir, my colleagues are continuing to consult widely and loudly.

Mr. Speaker: Order, hon. Members! The Deputy Prime Minister and Minister for Finance will have to be heard. The purveyor of good news must be listened to!

Mr. Speaker, Sir, the extreme floods and droughts, incidences of vector and water-borne diseases, famine and malnutrition are some of the indicators of climate change. Recognising the importance of our environment for sustainable development, the Government remains fully committed to addressing the deterioration in the forest cover and quality of the urban environment. Efforts to rehabilitate the five water towers have been initiated, while a master plan for the restoration and rehabilitation of the Nairobi River Basin has been developed to guide our conservation efforts. We are doing this because we want to ensure we do not bequeath our mistakes to the next generation.

Mr. Speaker, Sir, our children should know and appreciate the value of a clean environment and learn to protect mother-nature. In this regard, I have allocated Kshs1.2 million for a tree planting programme to cover 20 primary schools in each constituency. This programme is expected to contribute towards conservation of our environment and give our children a practical opportunity to participate in the conservation of their environment.

Countries are going green in their quest to generate clean energy and Kenya must not be left behind. In order to move forward in transforming Kenya into a green economy, we will establish a green energy facility to offer interest free long-term loans to firms that opt to replace conventional high cost energy generation with low cost green energy alternatives. The facility will be funded by the Government and managed by a consortium of selected banks. This is aimed at lowering our energy cost and reducing consumption of power from the national grid. The Government will also adopt energy saving methods, including replacement of all the conventional bulbs with energy saving bulbs produced locally. As part of this greening programme, we shall also fast-track completion of five power generation projects that have, indeed, been identified.

Mr. Speaker, Sir, to operationalise this initiative, I have earmarked, as Government contribution, Kshs500 million. I expect to elicit donor support to this initiative to scale up its operation. In addition, I have also allocated an additional Kshs400 million for the installation of solar technologies in the arid and semi arid regions.

(Applause)

Mr. Speaker, Sir, agriculture remains the mainstay of our economy. However, our dependence on rain-fed agriculture has continued to expose our nation to famine. Through this Budget, we are initiating a programme intended to reduce our reliance on rain-fed agriculture and thereby substantially enhancing our food production. This we are committed to do in order to ensure that we begin our journey to a food secure Kenya, so that Kenyans never go hungry again. To this end, the Government, through the co-ordination of relevant Ministries and departments, is working out an implementation strategy over the medium term focusing on mechanisation, irrigation, use of hybrid seeds,

water harvesting, providing a mixture of chemical and green crop nutrients, efficient storage and marketing systems and application of scientific farming methods.

As a first step to ensuring our country is food secure in the medium term, I have allocated substantial resources to respective Ministries responsible for agriculture, irrigation and regional development. In addition, we have allocated Kshs3 billion towards the rehabilitation and expansion of irrigable land under Bura, Hola, TARDA, Weiwei and Kerio Valley. From these investments, we expect to harvest about one million bags of rice and maize by the end of December, 2009. As we scale up resources towards irrigable agriculture, we are confident that this great nation will emerge as a net food exporter by 2012.

(Applause)

Mr. Speaker, Sir, with the current economic challenges, the need to protect the livelihoods of the poor and vulnerable groups in our society has become even more urgent. While some existing programmes have worked well and their coverage is limited. In particular, the urban poor have not been reached. It is for this reason that the Government is in the process of developing a national social protection policy aimed at targeting deserving members in our society. In this regard, the Government has formed a taskforce to spearhead the development of a well-targeted food subsidy scheme to ensure food security and improve the welfare of the vulnerable groups. To support this programme and to ensure its roll out in the course of the year, I have earmarked Kshs1 billion out of the Kshs2 billion set aside for drought relief in the Budget.

This social protection programme will supplement initiatives that I have outlined under the economic stimulus package which are aimed at expanding economic opportunities in both rural and urban areas for employment creation, social stability and equitable development.

Mr. Speaker, Sir, we, as a society, must care for those amongst us who are either elderly, physically or mentally challenged, recognising that disability is not inability. In this Budget, I have allocated Kshs200 million as interest free revolving fund towards financing business ventures by our brothers and sisters who are physically challenged. Through this Budget, I am going a step further to gazette regulations allowing disabled persons, employed or self employed, tax free income of up to Kshs150,000 and further allow for additional deduction to their taxable incomes of up to Kshs50,000 to cushion them against expenses on drugs, purchase of disability related devices, home care services and treatments.

Mr. Speaker, Sir, we have in the past taken measures and steps to improve the welfare of our senior citizens through our tax system. This time round, I have allocated Kshs200 million as a cash transfer to elderly persons of over 65 and those that are mentally challenged. Modalities for ensuring effective and timely transfer of such funds on a monthly basis will be developed before the end of this year. We recognise that such a programme is not complete without taking into account those physically and mentally challenged in special institutions of learning and care. To this end, I have also allocated Kshs100 million for purchasing specialised equipment and other requirements to meet the needs of these members of our society.

Mr. Speaker, Sir, we recognise the importance of good governance for sustainable development. In this context, the Government is committed to enhancing its programme for better service delivery. This will ensure an efficient and effective public service that will provide an enabling environment for sustainable business growth and development. The treasury, on its part, will continue to strive to ensure that public resources are used efficiently and effectively for their intended purposes. We will intensify our commitment to working with other Ministries, departments and agencies in the Government to enhance financial integrity and advance good governance.

To ensure value for money to taxpayers and enhance accountability, the Government will in the first quarter of the fiscal year develop and enforce sector specific public work benchmarks covering such areas as construction of roads, bridges, dams and boreholes.

It has become clear that public entities are paying extremely highly inflated prices for items that are easily available in the market. Going forward, procurement for common user items shall only be allowed within the established price reference. To address the problems encountered in procurement, including so called urgent purchases at the closure of the financial year, we shall also henceforth ensure that proper annual procurement plans are prepared and all procurements are implemented within the agreed plan. We will also introduce strict ethical and integrity code of behaviour for all officers working on public financial management; procurement officers, finance officers, accountants, CDF officers, budget supply officers and internal auditors.

We are optimistic that these measures, implemented within the framework of Governance Strategy for Equity and Poverty Reduction, will enhance financial integrity in the Public Service by making the misuse of public resources difficult to commit, likely to be detected, and, certain to be punished. We re-affirm our commitment to restoring the much needed trust and the confidence of the Kenyan people in their Government and, indeed, that of investors in the Kenyan economy.

(Applause)

Mr. Speaker, Sir, the implementation of the Financial Year 2008/2009 Budget was faced by numerous challenges. Those included difficulties in achieving the revenue targets due to a slow down in the economic growth, substantial additional requirements for the importation of food, fertilizer and expenses on drought and famine and the negative impacts of the global financial crisis.

Mr. Speaker, Sir, with this backdrop in mind, I wish to take this opportunity to briefly apprise hon. Members on the financial outturn for the Year 2008/2009. In the last Budget, it was estimated that total revenues including fees and duties collected and applied at source would amount to Kshs512.7 billion, comprising of Kshs467.9 billion in ordinary revenue and Kshs44.8 billion in Appropriations-in-Aid (A-in-A). However, due to the slowdown in economic activities and other challenges, total revenues are now estimated to reach Kshs501.9 billion by the closure of this Financial Year.

Mr. Speaker, Sir, regarding the expenditures, the 2008/2009 Printed Estimates reflected Ministerial Recurrent Expenditure amounting to Kshs388.9 billion, including Kshs39.7 billion which was to be financed through A-in-A, the Consolidated Fund

Services took Kshs174.6 billion, while Development Expenditure had a provision of Kshs196.2 billion.

Mr. Speaker, Sir, owing to unforeseen commitments which required huge funding, I recently requested Parliament to authorize additional expenditures under the Supplementary Estimates. Hon. Members will recall that the Supplementary Estimates for Financial Year 2008/2009, which was recently approved by this House, only reflected a net increase of Kshs722.1 million for the Recurrent Budget, while the Development Vote reflected a net reduction of Kshs1.8 billion.

Mr. Speaker, Sir, faced with the challenges of low revenues, I instituted austerity measures and rationalized expenditure by making reallocations within the Budget to provide funding for strategic interventions such as importing food and fertilizers – thereby making them affordable at subsidized prices to the *mwananchi*. In addition, we also had to reprioritize expenditures and direct some resources to the *Kazi kwa Vijana* Program. That program was officially launched by His Excellency the President and the Right Honorable Prime Minister, and it is intended to provide productive employment to our youth.

Mr. Speaker, Sir, the overall approved Gross Recurrent Expenditures for the current financial year is now estimated at Kshs390.6 billion, with Kshs40.6 billion being financed through A-in-A. Non-discretionary expenditures which are financed directly from the Consolidated Fund Services amount to Kshs167.6 billion, while the approved Gross Development Expenditure amount to Kshs203 billion, with Kshs61.5 billion being financed through A-in-A while the remainder of Kshs141.8 billion being financed from the Exchequer.

Mr. Speaker, Sir, let me now turn to the financial projections for the year 2009/2010. The total revenue target for the Fiscal Year 2009/2010 is Kshs569 billion or 22.4 per cent of the Gross Domestic Product (GDP), comprising of Kshs522.8 billion of ordinary revenue and Kshs46.8 billion of A-in-A. The targeted revenue is predicated on the ongoing reforms in the tax and customs administration.

Mr. Speaker, Sir, as hon. Members may have noted from their copies of the Printed Estimates, the Gross Recurrent Expenditure for 2009/2010 is estimated at Kshs606.7 billion. This includes 41.8 billion which will be financed through A-in-A, and expenditures financed directly from the Consolidated Fund Services amounting to Kshs187.5 billion, thus leaving a net of Kshs377.4 billion for discretionary Recurrent Expenditure.

The Consolidated Fund Services comprise of Kshs58 billion for domestic interest, Kshs6.3 billion for foreign interest, Kshs24.3 billion for pensions, Kshs1.2 billion for salaries and allowances for constitutional office holders and Kshs1.3 billion for other non-discretionary expenditures. In addition, I expect to finance external redemptions amounting to Kshs18.7 billion and domestic redemptions amounting to Kshs77.6 billion.

Mr. Speaker, Sir, Gross Development Expenditures for 2009/2010 is estimated at Kshs258.9 billion. Out of that amount, Kshs68.6 billion will be financed through A-in-A, comprising of direct project financing of Kshs20.2 billion in form of grants, Kshs44.1 billion in form of loans and Kshs4.4 billion in form of local A-in-A. Taking the above into account, I expect to finance net Development Expenditures amounting to Kshs190.3 billion from the Exchequer. That comprises of Kshs15.1 billion in form of grants

revenue, Kshs24.4 billion in the form of loans revenue and Kshs150.8 billion from the Kenya Government.

On external grants, Mr. Speaker, Sir, I have received commitments amounting to Kshs35.3 billion to finance development projects. Details of the donors and projects being financed are included in the Development Estimates. I wish to sincerely thank the development partners who have pledged and confirmed their support.

(Applause)

Mr. Speaker, Sir, the overall fiscal deficit, after grants, amounts to Kshs168.2 billion. After taking into account expected net foreign financing of projects amounting to Kshs50.2 billion, projected privatization receipts amounting to Kshs6 billion and a refinancing of Kshs2.5 billion, that would leave a financing requirement of Kshs109.5 billion to be financed through domestic borrowing.

Mr. Speaker, Sir, the rest of my Speech outlines various tax policies and administrative measures 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 Motion to be moved before the Committee of Ways and Means.

Mr. Speaker, Sir, allow me first to acknowledge the many individuals and organizations that took their time to make insightful Budget proposals to the Minister for Finance for consideration during the 2009 Budget. I have reviewed these proposals, taking into account past experiences where the Treasury lowered taxes on certain basic commodities such as kerosene, bread, rice and maize meal only for traders and business entities to convert such tax relief into expanding their profits, leaving poor Kenyans to continue suffering the high and unaffordable commodity prices.

(Applause)

In this Budget, therefore, we shall not confer, through tax measures, benefits to only a few Kenyans. For this reason, I have incorporated most of the tax proposals I have received within the framework of expanding economic opportunities to all Kenyans. For those whose submissions have not been considered, the good news is that my Ministry has established a tax harmonisation task force to review and propose appropriate recommendations on how best to reform our tax system to better serve taxpayers and to facilitate achievement of Vision2030. To date, this Committee has received numerous presentations from individuals and private sector players and, indeed, borrowing from international-based practices. This will form the basis of developing a business friendly tax regime in Kenya and it is, indeed, my hope that this task force will have completed its work before the next financial year in order for those proposals to be incorporated in the financial statement 2010/2011.

Mr. Speaker, Sir, as we go through these reforms, I expect the tax system we shall be developing will go a long way in complementing Government efforts towards addressing the aspirations of our people and facilitate the growth of the economy. As was the case last year and consistent with the earlier parts of my Speech, the tax measures I have proposed are grouped on the basis of their intended objectives. Overall, the

measures I am proposing are targeted at promoting growth of our industries to make them competitive, promoting tourism and film-making industry for employment, encouraging growth of ICT and infrastructure development, promoting oil and energy exploration and power generation, encouraging growth in agricultural sector, promoting equity and protecting the poor and vulnerable, enhancing compliance with tax laws, strengthening financial systems for sustainable development and promoting road safety on our roads.

Mr. Speaker, Sir, at this difficult economic time, we must be seen to care by supporting our industries to continue in business. In this regard, I have proposed a number of tax measures to promote growth of our industries and make them more competitive.

First, to lower the cost of production for those manufacturers who use industrial sugar, I propose to remove the Sugar Development Levy on refined industrial sugar imported by gazetted manufacturers under the Duty Remission Scheme. I expect this measure to be passed on to the consumer by way of lower prices in order to make our products competitive locally and in the regional market.

Secondly, industrial development in the country holds the key to our economic development. To encourage industrial growth and reduce the cost of manufacturing, I propose to grant exemption of import duty on all industrial spare parts which will be managed through the Duty Remission Scheme.

Thirdly, I propose to remit all import duty on raw materials for the manufacture of sanitary towels to make them cheaper and available locally considering that imported sanitary towels are already duty free.

Fourth, as you may be aware, our leading paper mills have been experiencing operational challenges in the recent past, originating from imported cheap and subsidized paper and paper board products. In order to cushion the mills and to enable them compete with these imports, I propose to grant a remission of duty on imports for use by paper and paper board mills.

Fifth, in the recent past, we have witnessed an upsurge on accidents on our roads, leading to the loss of innocent Kenyans not to mention the other incidental costs to the economy occasioned by these accidents. To safeguard against this situation and also to promote our local manufacturers, I propose to remove import duty on asbestos fibres used in the manufacture of brake linings and pads.

Sixth, our textile industry has huge and untapped potential which need to be exploited to cloth our people, create employment and export to earn foreign exchange. In addition to the on-going efforts by the Government to implement measures to revive the cotton industry, I propose to reduce import duty on all synthetic yarns, acrylic yarn, polyester yarn and high tenacity yarn that will be mixed with our cotton from the current rate of 10 per cent to 0 per cent. Further, in order to encourage the expansion of cotton sector, I propose to zero rate VAT on locally produced and ginned cotton.

Mr. Speaker, Sir, I will now go to Promoting Tourism and Film Industry for Employment Creation. First, as Hon Members are already aware, our tourism sector was adversely affected by last year's post election violence. This was compounded later in the year by the on-going global economic recession. In order to revive and promote growth of this important sector, I propose to grant an exemption of import duty on all four wheel drive motor vehicles, specially designed and built for tourist purposes.

Second, our film industry has lagged behind other destinations such as

South Africa, Egypt and Nigeria. To encourage growth of this industry that has the potential to create employment to our youth, generate income and promote the entertainment industry, I propose to remove the current import duty of 25 percent and VAT of 16 percent on television cameras, digital cameras and video camera recorders.

Thirdly, Kenyans are also a leisure-loving people who enjoy watching television programs but unfortunately, the many programmes available to them are foreign programmes and movies. Many film makers find Kenya expensive and yet an attractive destination for shooting and making movies. To promote the film industry in Kenya and also attract foreign film makers so as to profile Kenya as a film making destination of choice, I propose to zero rate for VAT taxable goods and services offered to film producers.

Fourthly, the Government fully recognises the pool of talents we have in our country and the need to provide appropriate incentives to this upcoming industry in order to create employment opportunities for the youth. In this regard, I also propose to grant a 100 per cent investment deduction on capital expenditure incurred by a film producer on purchase of any film-making equipment.

Mr. Speaker, Sir, with regard to the growth of ICT and deepening infrastructure development, The East African Marine System Ltd (Teams) and Seacom Kenya Ltd have invested heavily in under sea fibre optic cables, whose completion and full deployment is expected to reduce significantly, the cost of communication in our country. In addition to other measures which the Government has so far taken to encourage such investment and to further

encourage the uptake of this facility by the internet service providers and other intermediaries, I propose:

(i) to allow the internet service providers to offset against their taxable income the cost incurred in acquiring the right to use the fibre optic cable over a period of twenty years;

(ii) to increase wear and tear on telecommunication equipment including the fibre optic cable from 12.5 per cent to 20 per cent and,

(iii) to provide tax deduction of 5% on computer software.

Secondly, since 2000 when only about 200,000 Kenyans had the privilege to own a mobile handset, the mobile telephony industry has grown tremendously, now estimated at about 17.5 million subscribers. Mobile telephones have, therefore, become an essential aspect of our daily communication and transaction system. To make the telephone sets more affordable to wananchi and expand the subscription base, I propose to exempt from VAT, all telephones, for cellular networks or other wireless networks. I do hope the dealers in these products will pass this benefit to ordinary wananchi by lowering prices.

Thirdly, several policy measures have been taken in the past to decongest our major urban centres by encouraging investors to locate their investments outside the major central business districts. While the response to some of these measures has been positive, a number of investors still prefer to invest only within the urban centres. To further encourage

dispersion of investment outside the central business districts, I propose a very generous investment allowance of 150 per cent to any person who makes substantial investment in any satellite town outside Nairobi, Mombasa and Kisumu.

As part of our efforts to promote local and foreign investors, I propose to include construction of training institutions in the list of buildings which qualify for capital deductions. These measures will allow investors to put up such training facilities and claim capital deductions at the rate of 50 per cent per annum, thereby allowing them to recover costs of construction within a two-year period and to re-invest in expansion to profile our country as a training hub in the region.

Mr. Speaker, Sir, our country is currently undertaking exploration of oil, gas and geothermal energy. To reduce the cost and encourage other private sector players to conduct oil exploration activities in Kenya, I propose to grant import duty exemption on equipment and imports, excluding motor vehicles Imported by a licensed company for direct and exclusive views in oil, gas or geothermal exploration and development.

Secondly, the Government has invested heavily in KPLC and Telkom Kenya. However, these entities have been experiencing serious challenges through vandalism of their copper wires and other equipment. To address this vice and to protect the equipment of the KPLC and Telkom Kenya, I have imposed a ban on the exportation of scrap, aluminum, steel, copper wires and cables. This measure is expected to enable the KPLC and Telkom Kenya to continue providing Kenyans with these essential services.

Third, in order to make power available to our homes and industries, I propose to zero-rate VAT on power generators and generating sets.

With regard to agriculture, we have witnessed an improvement in wheat production in the country and also a fall in wheat prices in the international markets in the last one year. In order to promote our agricultural sector and protect wheat farmers from cheap imports, I propose to raise the current import duty rate on wheat from 10 per cent or US\$50 whichever is higher, to a rate of 25 per cent.

Mr. Speaker, Sir, second in also supporting our dairy farming sub-sectors to further initiatives, I propose to grant exemption on import duty and to zero-rate for VAT heat insulated milk tanks, to help dairy farmers in preserving their milk.

Third, ensuring food security remains the Government's top priority. As already mentioned in the earlier part of my speech, as we enhance the national food reserves, we need to encourage individuals and groups to store their produce. In this regard, I propose to zero-rate for VAT, taxable supplies for the construction of grain silos.

Mr. Speaker, Sir, further, I propose to zero-rate for VAT, refrigerated trucks and parts of agricultural, horticultural and forestry machinery.

Measures will also be taken to promote equity and protect our poor and vulnerable. As I have already stated, the ongoing global recession has compounded our socio-economic challenges, thus making it difficult for ordinary Kenyans to make ends meet. In order to allow those amongst us who cannot afford expensive clothing during this difficult time, I propose to reduce the current import duty on second-hand clothing from the current rate of US3 per kilogramme or 45 per cent, whichever is higher, to US20 per kilogramme or 35 per cent, whichever is higher.

Secondly, for the Financial Year 2008/09, the Minister for Finance zero-rated motor cycles of between 50 and 250 ccs. Since then the number of motor cycles *boda boda* on our roads have increased significantly, creating employment for our young people. However, most also use bicycles are taxed under VAT at the rate of 16 per cent. To make these bicycles affordable to *wananchi*, we intend to zero-rate bicycles in the same manner that we did with the motor cycles.

Third, in recognition of the fact that beautiful women are the face of a healthy society, I propose to reduce excise duty on cosmetics and skin care products from 10 per cent to five per cent. Further, I propose to remove duty on jewelry products. These measures will make these products not only affordable but also accessible to the majority of our Kenyan women and even men.

Fourth, there has been an outcry over the retail prices of soft drinks, juices and water. I do recognize that manufacturers of these products rely on sales volumes due to the small profit margin which are very sensitive to price variation. Towards this end, I propose to reduce duty on water from 10 per cent to five per cent, and that on carbonated soft drinks and juices, from 10 per cent to seven per cent. I, therefore, expect the manufacturers and retailers of these commodities to adjust their prices downwards accordingly, so as to pass the benefit to the consumer.

Fifth, the current excise duty rate disparity across our borders remains a major source of smuggling and tax evasion of spirits and wines. To mitigate against these risks and to encourage the use of locally produced hygienic products, I propose to change the excise duty regime from alcohol by volume to a hybrid type of specific and ad valorem as was the case before.

In this regard, I propose to change the excise duty on spirits from Kshs7 per one per cent of alcohol per litre to Kshs120 or 65 per cent, whichever is higher, and that of wines from Kshs7 per one per cent of alcohol per litre to Kshs70 or 50 per cent, whichever is higher. I expect this measure to reduce the prices of portable spirits and wines, thereby making them affordable to our people in order to reduce consumption of unhygienic, dangerous illicit spirits.

In addition to the measures we have taken in the past and building on those I have already mentioned to care for the elderly and senior members of our society to live and retire in dignity, I am going a step further to recognize the important role these members of our society play in our country. In this regard, I propose to increase the tax exempt limits for monthly pensions from Kshs15,000 to Kshs25,000, thereby exempting from tax, all those in receipt of monthly pensions of Kshs25,000 and below.

Seventh, hon. Members, will appreciate that the work done by the Kenya Committee of the Red Cross in this country when disasters and other natural calamities occur, is critical and much needed by those in distress. In order to support the initiative of the Kenya Red Cross Committee, I propose to exempt goods, including materials, supplies, equipment and motor vehicles for official use in the provision of relief services imported by the Kenya Red Cross Organisation.

8. In further recognition of the Kenya Red Cross' role towards social development including development of health and prevention of diseases amongst other things, I propose to zero-rate taxable goods and taxable services supplied to the Kenya Red Cross.

Mr. Speaker, Sir, in enhancing compliance with the tax laws, the Value Added Tax (VAT) withholding was introduced with a view to assisting the Government to recover tax from taxpayers who were not previously paying tax. The taxpayers were in turn provided with VAT withholding certificates which would enable them offset the VAT withheld. However, there have been complaints of delayed withholding certificates by the withholding agents. To put an end to this, I am proposing an amendment to the law to require VAT withholding agents to issue a VAT withholding certificate to their supplier at the time of making payment.

Mr. Speaker, Sir, upon registration of taxpayers for VAT purpose, the law allows the taxpayer to claim for relief for tax paid on goods in stock within 30 days. Taxpayers have been complaining that the 30 days are too short. I am proposing, therefore, to extend this period from 30 days to six months.

Mr. Speaker, Sir, the administration of VAT refunds has continued to be a challenge and has indeed, caused cash flow problems to our businesses and investors. I am reviewing the refund position to come up with a lasting position. In the meantime, I propose to gazette non-exporters who will qualify for zero-rated supplies to get supplies zero-rated. This measure is expected to greatly assist our horticultural and floricultural exporters in turn, by improving their cash flow positions.

Mr. Speaker, Sir, in spite of the progress made in the banking front, many Kenyans remain un-banked due to the limited outreach by deposit taking institutions. One of the ways of reaching this objective is to increase the outreach of the banking sector to the vast under-banked and un-banked Kenyan populace. In this regard, I propose to amend the Banking Act to allow for branchless banking. This will allow banks to extend their footprints through agencies with wide distribution networks.

Secondly, the current mandate of Post Bank is rather restrictive and has worked negatively on its profitability, particularly in the face of stiff competition in the banking sector. Post Bank receives over US\$100 million on an annual basis through remittances from the diaspora. Unfortunately, due to its restrictive mandate, it cannot trade with these funds. I am therefore, proposing to amend the Kenya Post Office Savings Act to expressly allow Post Bank to transact in foreign exchange business in accordance with the Central Bank of Kenya (CBK) rules and regulations.

(Applause)

This will boost the profitability for the Post Bank and assert its existence in the future.

Third, in the recent past, innocent Kenyans suffered huge financial losses after being lured to invest in illegal pyramid schemes which were promoted as superior alternatives to traditional banking. The economic and political influence of such criminal organisations can weaken the social fabric of the society, collective ethical standards and ultimately, the democratic institutions of the society. In order to stop these evil schemes from defrauding Kenyans in the future, I propose to amend the Penal Code to outlaw the operation of pyramid schemes, including non-genuine multi-level marketing operations.

Fourth, as you may be aware, the Government has in the past taken some key policy decisions to reform the Capital Markets Industry and to ensure safety of investor's wealth. In this regard and in order to give full effect to the reforms adopted recently, I propose to amend the capital markets regulations to increase the share capital for stockbrokers and investment banks from Kshs5 million and Kshs30 million to Kshs50 million and Kshs250 million respectively, in order to adequately capitalise them to reflect their turnover levels.

Mr. Speaker, Sir, further, I propose to amend the Capital Markets regulation to require entities under the Capital Markets that collect money from the public, to secure professional indemnity insurance to cover losses that may arise from their default

negligence to ensure investors are adequately protected. These policy measures are aimed at restoring investor confidence in the Capital Markets.

Sixth, currently financial services offered by banks or financial institutions are exempted from VAT. However, financial services offered by non-banking and non-financial institutions are taxable. To create a level playing ground, I propose to list and exempt financial services from VAT, irrespective of the institution offering it.

Seventh, long term financing, especially for the development of our infrastructure remains a major challenge. In this regard, I propose first to reduce withholding tax from 15 per cent to 10 per cent on interest arriving from long term bonds of ten years maturity and above. Secondly, to grant capital deductions to any person entering into a concessioning arrangement with the Government. Such an investor would be able to recover the cost incurred in the purchase of substantial improvement of any machinery over the period of the concession.

Eighth, Mr. Speaker, Sir, the Government has in the past availed numerous fiscal incentives to attract listings in the Nairobi Stock Exchange. Unfortunately, this has not improved the situation as anticipated, since only five companies have so far taken advantage of the incentive.

Mr. Speaker, Sir, one of the arguments from the market players is that the listing process is long and attracts a very high listing fee at the rate of 0.3 per cent of the value of the issuance without a curb. In this regard and in order to deepen the Capital Markets development, I propose to amend the relevant law to reduce the listing fee by 50 per cent. That is from 0.3 per cent to 0.15 per cent for new public offers of equity. This is expected to facilitate raising of additional capital for expansion and growth of interested companies as well as availing the opportunity to more Kenyans to own local companies.

Ninth, the Government established a Retirements Benefits Authority (RBA) in order to regulate and streamline the pension schemes in the country and guarantee better incomes to the scheme members after retirement. However, in the past, we have witnessed imprudent investments made by a category of pension schemes in total disregard of the RBA rules and regulations, leading to huge losses of member's hard-earned savings. In order to address this problem and to ensure that member's contributions are safe and prudently invested, I propose to amend the Retirement Benefits Act to require that new investments by pension schemes that receive statutory contributions be put in Government securities and infrastructure bonds used by public institutions only. This will go a long way to guarantee a steady rate of return, thereby increasing confidence for Members' returns. It will also seal the abuse by the aforementioned schemes to sink members' funds into dubious investments.

Tenth, Mr. Speaker, Sir, Defined Benefits Schemes are required under the law to undertake actuarial valuations every three years in order to establish their liabilities and funding levels. The minimum funding level allowed under the law is 80 per cent of the value of the accrued liabilities. Although schemes have continued to be valued, it has been noted that schemes which are being discontinued have had difficulties meeting their liabilities, especially where the scheme's funding level is below 100 per cent. In order to ensure that schemes are able to meet their liabilities as and of when they fall due, I propose to amend the Retirement Benefits Act to increase the minimum funding level from 80 per cent to 100 per cent for all defined benefits schemes both on an ongoing and discontinuance basis.

Eleventh, the current provisions of the Insurance Act allow shareholders of insurance companies to hold unlimited number of shares. This has given rise to corporate governance challenges, especially where a single shareholder has majority control of the company and makes imprudent decisions relating to the operations of the business. I propose, therefore, to amend the Insurance Act to restrict shareholding of Insurance Companies by a single person to 25 per cent. I further propose to amend the Insurance Act to bar any person who directly or indirectly controls or is beneficially entitled to more than 20 per cent of the shares of the insurance company from participating in the day to day management of the company. These measures will go a long way to reduce the possibility of control by related parties and will facilitate the practice of good corporate governance and ensure stability in the insurance industry.

With regard to promoting safety on our roads, in the past two years, the Government has undertaken a number of reforms in the road transport sector which include the issuing of new generation log book. In order to enhance these reforms, I propose to amend the law that deals with the registration of new owner vehicles when a transfer takes place as well as the law on registration of imported commercial vehicles.

Second, the proposed amendments should encourage vehicle owners to migrate from the old generation log book to the new generation log book which is issued electronically and has more security features. The replacements will be free for those who hand in their old generational log books.

Third, in addition, it has been noted that some importers of commercial vehicles are using them without having them registered with the Road Transport Department. I propose to amend the law to require importers of commercial vehicles to have them inspected and registered within 30 days of release by Customs Office. The proposed measure should discourage the use of unregistered commercial vehicles on our roads.

Mr. Speaker, Sir, fourth, it has been noted that some vehicle owners and drivers waste many productive hours between our roads, police stations and courts for being involved in minor traffic offences which can be sorted out in a more convenient way. To address this concern, I propose to amend the Traffic Act to allow minor traffic offenders who have pleaded guilty before the traffic policeman to be fined on the spot and to be allowed to proceed with their journey.

In this Budget, I have outlined bold and comprehensive measures that I believe will enable us to address the short-terms challenges that we face while at the same time, staying focused on implementing our priorities under Vision 2030. I would like to assure hon. Members and more importantly, to assure all Kenyans that we fully understand the enormity of the task that lies ahead. However, we believe that we have what it takes to confront these challenges and those that may hold us back from our quest to turn this nation into a middle income country over the next 22 years.

Time and again, Mr. Speaker, Sir, Kenyans have demonstrated that even when confronted by the most serious challenges, that they have the capacity and resolve to put their difference aside, to rise to the occasion and to overcome their problem. I, therefore, urge all Kenyans to join together in the work of rebuilding this nation. The only way it can be done is by all of us united and working towards one vision; the vision of steering our economy along the path of posterity, having enshrined by our Vision 2030. Let us resist, hon. Members, the temptation to fall back to partisan politics and alliances that have reversed the gains we have worked so hard to build.

(Applause)

Let us summon our sense of patriotism and determine as Kenyans, to bridge the divides that have held back our progress. Further, this country will not prosper without a strong ethical foundation. We need, as a country, to foster higher standards of integrity, nothing less than the determination to transform is required of us. I would, therefore, like to urge all Kenyans to play their part in fostering a society with strong morals and ethical values.

Mr. Speaker, Sir, in this Budget, I have also gone a step further to announce new and bold measures designed to address inequality and to ensure that ordinary *mwananchi* can feel and appreciate our genuine desire to spread development to all parts of our beloved country.

(Applause)

If we continue along this path, I believe that in the near future, we shall begin to reap the benefits of our efforts. We should not be despondent but rather optimistic. Kenyans are known for excelling in long distance races. Those who compete in these races do not do so because they perceive the race to be too long or the incline too steep.

As I come to conclusion, and again with humility, let me call upon all Kenyans, who we know are determined and hard working, to ensure that we, just like our long distance runners, complete what we have started. To all hon. Members, under whose leadership we have entrusted huge resources, let us work together to confront our challenges and build an equitable and, indeed, united Kenya.

Mr. Speaker, Sir, before I conclude, I cannot end without thanking the entire team at the Treasury led by the Permanent Secretary Treasury, Mr. Joseph Kinyua and his entire team for the long hours and hard work they have put in over the last few months. I believe that they have given me the inspiration of the adage that if we are determined, there is nothing that we cannot achieve as a nation.

With those few remarks, God bless you, God bless Kenya.
I beg to move.

(Applause)

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

DEPARTURE OF HIS EXCELLENCY THE PRESIDENT

Mr. Speaker: Order! Hon. Members, it is now the pleasure of His Excellency the President to take his leave.

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

ADJOURNMENT

Mr. Speaker: Order, hon. Members! That concludes our business for today and the House is, therefore, adjourned until Tuesday, 16th June, 2009 at 2.30 p.m.

The House rose at 4.53 p.m