

# NATIONAL ASSEMBLY

## OFFICIAL REPORT

Thursday, 10<sup>th</sup> June, 2010

The House met at 2.30 p.m.

*[Mr. Speaker in the Chair]*

PRAYERS

COMMITTEE OF WAYS AND MEANS

MOTION

THAT THE SPEAKER DO NOW  
LEAVE THE CHAIR

**The Speaker:** Order, hon. Members!

Proceed, Mr. Deputy Prime Minister and Minister for Finance!

**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, I am once again honoured to present to this august House the national Budget for 2010/2011, which comes against the backdrop of improved economic environment both at the global and domestic levels. There is a strong indication that the measures undertaken at the global level as well as those that we have resolved to implement ourselves are beginning to bear fruit. We are today presenting this year's Budget in a completely different setting. We have received above average rains since November of last year that now put us in a much stronger position in terms of water availability, cheaper electricity and food security. The recovery of the global economy is underway, and that is good news for Kenya, although some challenges still remain, as I will elaborate later.

Mr. Speaker, Sir, building on this renewed optimism, the Government commits in 2010 to take further steps to put our economy onto a higher and permanent growth path as envisioned in our Vision 2030. Recognizing that high growth alone will not alone deliver all aspects of our development as envisioned, the Government will upscale programmes and projects that we started in 2009 so that every part of our country can benefit. The theme of this year's Budget is, therefore, "Towards Inclusive and Sustainable Rapid Economic Growth".

Mr. Speaker, Sir, just to highlight recent economic developments with regard to the global economy, it is important at the outset to take stock of economic developments at the global scene, which may have direct bearing on our domestic economy going forward. As I indicated earlier, the recovery of the world economy is now underway, buoyed by increased confidence amongst consumers and businesses, as well as financial market players. The growth of global output is projected to reach 4.2 per cent and 4.3 per cent in 2010/2011 respectively, up from 0.6 per cent in 2009. The recovery of the global economy in 2010 is largely due to stronger rebound in the economies of major industrial countries and resilience in key emerging and

developing economies. But it is important to note that the global finance and economic environment remains vulnerable as evidenced by the recent sovereign debt crisis in Europe.

Mr. Speaker, Sir, like the rest of us, the prospects of growth in sub-Saharan Africa are also promising. Real GDP growth for sub-Saharan Africa economies is projected at 4.7 per cent in 2010 and 5.9 per cent in 2011, up from 2.1 per cent in 2009. Growth of Kenya's major trading partners in the east African region such as Uganda, Tanzania and Rwanda is projected to remain strong at about 5.7 per cent in 2010. Drawing on lessons from the recent crisis, African countries must, as a priority, take full advantage of opportunities arising from increased activity in the global economy to put their economies back onto higher growth trajectory.

Mr. Speaker, Sir, with regard to the domestic economy, the Kenyan economy also recovered, although modestly, from the recent global recession and other exogenous shocks, growing by 2.6 per cent in 2009, up from 1.6 per cent in 2008. The recovery was driven mainly by growth in transport and communication, trade and building and construction sectors. Equally important was the interventions which we, as the Government, undertook in the context of the *Kazi kwa Vijana* and the Economic Stimulus Programme to address, in particular the problem of youth unemployment and food security in the country. Underpinning our ability to proactively intervene was the prevailing sound fiscal position, including low public debt level and a stable banking system.

Mr. Speaker, Sir, our prudent management of fiscal and monetary policies has ensured price stability. Indeed, the overall inflation rate eared falling from 14.6 per cent in February of 2009, to 5.3 per cent in December 2009 and further to 3.9 per cent in May 2010. Reduced prices of food items in the first half of 2010, which was the main driving force in 2009, complemented monetary policy to bring down inflation.

Mr. Speaker, Sir, interest rates also declined significantly in 2009/2010, with the average 90-day Treasury Bill rate easing from 8.5 per cent in January 2009 to 5.2 per cent in May 2010. This outcome was largely the result of prudent fiscal policy management.

Mr. Speaker, Sir, the external sector improved, registering an overall surplus of US\$465 million in 2009 compared to a deficit of US\$513 million in 2008. Official foreign exchange reserves rose by over 30 per cent to reach US\$3.8 billion by the end of April, 2010, compared to US\$2.9 billion in April, 2009. The exchange rate remained relatively stable during the last one year but; indeed, it has weakened significantly since May, 2010, and this is largely as a result of the crisis in the Euro zone.

Mr. Speaker, Sir, economic prospects for 2010 and the medium-term are promising. Real GDP growth for 2010 and 2011 is projected at 4.5 per cent and 5.7 per cent respectively or 5.1 per cent growth for the financial Year 2010/2011. Growth in this period will be driven mainly by increased investments in key sectors, including agriculture, services, infrastructure, health and education and targeted strategic development interventions, which I will be outlining later in my speech. In addition, the good rains that started falling in December of 2009, as well as the global economic recovery that is gaining momentum, will help to expand agricultural output and drive this growth.

Mr. Speaker, Sir, as I have indicated above, economic prospects are promising. However, there are inherent risks that still prevail at the global financial and economic environment as evidenced by the current sovereign debt crisis in Europe. Moreover, we continue to face serious challenges associated with climate

change, unemployment, particularly amongst our youth, and severe food poverty in certain parts of our country.

Mr. Speaker, Sir, these challenges underscore the importance of developing an economic framework that promotes productivity and builds resilience to enable our economy to respond more effectively to the various shocks, while paying particular attention to our long-term national objectives as outlined in Vision 2030.

This means focussing on key steps to strengthen the physical, human and institutional prerequisites for a strong and competitive private sector-led development. It also means focusing on policies and interventions that open up opportunities for upcoming entrepreneurs to start businesses and create employment while ensuring food security and, indeed, equitable regional development.

Mr. Speaker, Sir, despite the challenges that we continue to face, we are now in a better position to refocus our efforts towards our long-term vision as we consolidate the recovery that is now underway. The overriding policy thrust of 2010/2011 Budget and medium-term is, therefore, to consolidate the economic recovery and put the economy back onto a firm foundation of high and sustainable growth path. This will require steering the economy back to the 7 per cent real GDP growth achieved in 2007, and thereafter accelerating the growth further to reach our Vision 2030 target of 10 per cent in the course of the next five years. Thereafter, we must maintain the growth path at that level and ensure that growth is broad-based and inclusive so that no single Kenyan is left in poverty.

Mr. Speaker, Sir, to attain the high level of growth, we will implement measure, guided by our Strategic Framework for Faster Development underpinned by a stable macro-economic environment structural reforms aimed at raising productivity and improving the business climate. This is key to enhancing Kenya's competitiveness and accelerating private sector investment.

Further, the Government will deepen its focus on removing all the constraints that prevent us from exploiting our full economic potential. In this regard, particular attention will be paid to further improving the business environment, increased investment in the key priority social and economic sectors such as health, education, agriculture and critical physical infrastructure, especially roads, rail, power and port modernisation.

Mr. Speaker, Sir, the Strategic Framework must also address the unemployment challenges that we face, particularly among our youth. In this regard, the Government will seek to equip the youth with appropriate technical and entrepreneurial skills, while at the same time putting in place measures to promote the Small and Medium Enterprises for employment and income generation.

To complement the investment in social and economic sector, and to promote equitable regional development for national unity and social stability, the Government will scale up implementation of the social-economic programmes for the marginalised areas, with resources dedicated for this programme covering agriculture and livestock development, education, health, roads and water supply.

Mr. Speaker, Sir, the accommodative monetary policy adopted by the Central Bank of Kenya to support economic recovery has facilitated a pick-up in credit to the private sector. However, we recognise that inflationary risks may increase as the economy recovers and Government spending accelerates. Therefore, going forward into the medium-term, the Central Bank of Kenya will continue to pursue monetary policy targeted low inflation of around 5 per cent, while ensuring continued stability in long-term interest rates as well as maintaining a competitive exchange rate that will promote Kenya's exports.

Mr. Speaker, Sir, we shall also continue to maintain a prudent fiscal policy stance as a critical component of our effort to attain the 5.1 per cent growth target for Financial Year 2010/2011, and expanding economic opportunities for Kenyans. The proposed fiscal strategy underpinning the 2010/2011 Budget takes cognizance of the reality that available resources are scarce and there is need to focus on national priority programmes that have high impact on our stated national objectives, but within a framework of a stable micro-economic environment.

To this end, the overriding fiscal policy thrust will be to. First, maintain a strong revenue effort of about 22-24 per cent of GDP, largely achievable through targeted tax reforms; secondly, to continue growth of total expenditure while shifting composition of expenditure from Recurrent to capital expenditure and eliminating unproductive expenditures; Thirdly, within the Development Budget, prioritise infrastructural investments and enhance execution rate of both domestically and foreign financed development budget, and fourthly, contain the stock of debt to a sustainable level of about 40 per cent of GDP in the medium-term, so as to allow sufficient access to credit by the private sector, which is necessary for driving economic recovery.

Mr. Speaker, Sir, towards a Common Market for the East African Community, hon. Members are aware that the Common Market for the East African Community will come in force starting 1<sup>st</sup> July, 2010. This is a very important milestone for all us in the Community, because it will create a single trading and investment environment in the region, which will be for the benefit of all of us. Therefore, let me take this opportunity to make it absolutely clear that Kenya is prepared to fully implement the provisions of the Common Market Protocol from 1<sup>st</sup> July, 2010. I also call upon our brothers and sisters in the Community to do likewise because, as we all agree, this is for the benefit of all our people.

Mr. Speaker, Sir, the Government will deepen tax reforms in order to improve compliance, broaden the tax net and increase revenue to finance our expenditure programmes that are geared towards economic recovery.

During the 2009/2010 fiscal year, the Kenya Revenue Authority took several measures to streamline revenue administration systems, and improve efficiency in tax collection and taxpayer service. The Authority, in 2009/2010, implemented a range of on-line services that enhanced its ability to monitor revenue more effectively without the need for taxpayers to physically visit the Authority's premises. However, the Government is well aware that more needs to be done, especially to reduce the cost of compliance to the taxpayers while ensuring that the Authority meets the tax collection targets.

Mr. Speaker, Sir, in the area of Customs Service, KRA will introduce an Automated valuation data-base system to strengthen the customs valuation function for purposes of assessing and collecting international trade taxes. The KRA will also roll out the Electronic Cargo Tracking System to enable effective monitoring of all transit goods in order to curb incidences of diversion of such goods into the local market. This system will eliminate the need for cargo escorts and thereby fast-track the movement of cargo across borders.

With respect to domestic taxation, the KRA will continue with the implementation of the Integrated Tax Management System, which will enable businesses to file their tax returns online, thereby reducing compliance costs substantially. This system will also make it easier to process tax refunds, an issue that has been of major concern to the business community. I, therefore, want to urge our

business community to voluntarily embrace the system instead of waiting to be required to do so.

Mr. Speaker, Sir, I would like to bring to the attention of all Kenyans that tax evasion is, indeed, an economic crime that is punishable under the Anti-Corruption and Economic Crimes Act. Going forward, the Government's response to tax evasion will be robust and swift.

The Government is, indeed, aware that some forex bureaux are aiding tax evasion through engagement in business activities they are not licensed to undertake. To address this, I have directed the Central Bank of Kenya, and the Kenya Revenue Authority, to jointly undertake a comprehensive audit of the operations of all forex bureaux and submit their final report to my office by the end of September, 2010.

Mr. Speaker, Sir, the measures that I have outlined to streamline the tax administration are just part of the solution in terms of addressing compliance burden to the business community. As I did comment in my Budget Speech last year, the Tax Harmonisation Task Force has completed its work and we have also benefitted from international expertise on the next course of action to review, comprehensively, our tax system. Going forward, the Government will appoint a Tax Reform Commission to come up with a tax code which is simpler and consistent with our Vision 2030. As a first step in this direction, I will fast track the review and formulation of a new VAT legislation to be tabled for debate in the next Budget. When enacted I expect the new VAT legislation to deal with most of the current challenges experienced by VAT taxpayers, including refunds.

Consistent with the Government Policy stance for Vision 2030, we will deepen the public financial management reforms to reduce waste, ensure efficiency and economy in the use of public resources. The implementation of these reforms will improve effectiveness in public service delivery and facilitate growth of private sector as the engine for growth. To this end, we will continue with the strategy of containing growth of total expenditure, while shifting the composition from recurrent to capital expenditure and eliminating unproductive expenditures. In particular, Development Expenditure will rise to 11.7 per cent of the GDP in 2010/2011 up from 10.3 per cent in 2009/2010.

Mr. Speaker, Sir, a critical component of our efforts to further entrench public financial management reforms includes institutionalizing and fully deploying the Integrated Financial Management Information System (IFMIS) a single integrated platform. To this end, an action plan for the full roll out of IFMIS will be ready for implementation by the end of September, 2010. Let me also add that effective implementation of IFMIS will require all the key players to embrace the technology. In this regard, all Accounting Officers will be required to be actively involved in its implementation as part of their performance contracts.

As I emphasized during my Budget Speech last year, we can no longer afford to continue providing budgetary resources to Ministries and departments that cannot fully spend and account for the results to Kenyans. In my Budget Statement last year, we committed to enhance absorption of development budget. However, while there has, indeed, been some improvement in the current financial year compared to the previous year's absorption rate, there is still room for further improvement.

Mr. Speaker, Sir, through this Budget we are committing once again but with additional actions to enhance the execution rate of both domestically and foreign financed development budget. We will achieve this by ensuring that Accounting Officers commit in their performance contracts for 2010/2011 to absorb at least 90 per cent and 80 per cent respectively of all domestically and foreign financed

development budgets. All Accounting Officers will be required to develop action plans for all their projects indicating specific timelines and benchmarks consistent with full disbursement.

*(Applause)*

Mr. Speaker, Sir, specific emphasis will be placed on ensuring audits are carried out on time and all other accountability requirements are met.

Consistent with Vision 2030 and the medium-term plan, the Government will contain the growth in public debt to a sustainable level in order to ensure the private sector is not crowded out. We have demonstrated the commitment through this Budget by reducing domestic borrowing significantly from 5.1 per cent of the GDP in 2009/2010 Supplementary Budget to as low as of 3.8 per cent in 2010/2011.

As Kenyans are aware, the Government has maintained a sustainable overall debt position. However, we recognise that the high cost of servicing domestic debt comes at the expense of more pressing and priority development programmes. In this respect and in pursuant of a process started in the Financial Year 2009/2010, the Government has developed the 2010 Medium-Term Debts Management Strategy (MTDS) to provide operational guidance for debt financing at low cost, subject to prudent degree of risk and consistent with maintaining debt sustainability.

The 2030 MTDS has considered the global economic environment, the micro-economic and related variables and recommends maintaining the shift in both financing and composition of debt towards long-term domestic over the medium-term. To facilitate reduction in domestic debt, the Government aims to increase access to external concessional funds and to use part of these proceeds to repay the domestic debt already acquired. The savings likely to arise from this debt management strategy will be used to finance critical and strategic priority development programmes.

Mr. Speaker, Sir, while our financial sector continues to be strong, there will be need to undertake further reforms to address systemic vulnerabilities that have become apparent following the onset of the global economic and financial crisis. In addition to the legal reforms I have outlined, I will be introducing amendments to the Capital Markets Authority Act to facilitate the demutualization of the Nairobi Stock Exchange during the Financial Year 2010/2011.

Facilitating business development for wealth and employment creation: In today's increasingly globalized world, enhancing our country's competitiveness is key to attaining our goal of becoming a middle income country by 2030. We, however, recognise that despite reforms we have undertaken, our legal and regulatory framework continues to be an impediment to doing business. To attain our stated development objectives, we require a business environment that is at par with international best practice so that we can attract the requisite private investment. In terms of our investment in physical infrastructure, we are making commendable progress. But our regulatory institutions are not keeping in tandem with the efforts to improve predictability and cost of doing business.

This Budget, therefore, proposes further measures to improve our regulatory framework supportive of a private sector led growth. One key action in this direction will be the enactment of the proposed Business Regulation Bill which is now ready for submission to this House. Once enacted, it will not be possible for our regulatory institutions and, indeed, our authorities to arbitrarily or unilaterally introduce charges and fees. I will, indeed, be counting on hon. Members to support this important Bill. Hon. Members, we also urge our regulatory authorities and, indeed, local authorities

to change their mindset and appreciate that their role is to facilitate business and not to stifle it.

*(Applause)*

In addition, the Treasury will work with the relevant line Ministries to review the policy and legal framework of the regulators and where necessary, introduce amendments to remove all charges and fees currently imposed. To finance their operations, funding will be done through the Exchequer.

Mr. Speaker, Sir, we also recognise that our regulatory authorities are not in the business of generating income by imposing high regulatory charges and fees on businesses. To guard against over regulation as barriers to business and to ensure surpluses realized by our regulators are remitted to the Exchequer to finance critical development, I propose to amend the Government Financial Management Act to require all regulatory authorities to retain only 10 per cent of surplus funds realized at the end of each financial year and remit the rest to the Consolidated Fund.

We are also taking the necessary steps to institutionalize and consolidate the country's business regulatory reform and fast track the enactment of a number of Bills designed to significantly enhance our investment climate. Among the important business reform Bills we intend to table soon include; the Companies Bill, 2010; the Insolvency Bill, 2010; the Partnership Bill, 2010; the Limited Liability Partnership Bill, 2010; the Banking Bill, 2009; the Deposit Protection Bill, 2010 and the National Payments Bill, 2010. I urge hon. Members to support these Bills when they come before this House because they are, indeed, critical to improving the business climate in our country.

Mr. Speaker, Sir, an area of revenue administration deserving special mention is the area of VAT refunds. At various fora, businessmen have raised the issue of the need for speedy resolution to the VAT refund problem. Even in the Doing business Surveys, the time taken in meeting the registration, recording, filling and refunds management with respect to VAT has been identified as an impediment to a conducive business environment. Therefore, streamlining VAT administration is an important component of our overall strategies to improve the business climate. To tackle this problem, I will be putting in place several measures. Firstly, all outstanding refunds audited and firmed up as payable by the end of June, 2010, will be cleared by the end of July, 2010.

*(Applause)*

Secondly, Kenya Revenue Authority (KRA) will refund, with effect from 1<sup>st</sup> July, 2010, all new claims that meet the low risk criteria to be paid within 120 days. Thirdly, the most severe penalties available in law shall be imposed on those found to be participating in fraud, whether they are officers of KRA or members of our business community.

Mr. Speaker, Sir, targeted investment in security for our economic recovery: Security must be our main concern for without it, there would be no investments, which we need to achieve or accelerate economic growth, create more jobs and facilitate reduction of poverty. While we have made good progress in improving security, we are well aware that there is still more to be done and accomplished to provide a secure Kenya in which citizens, tourists and investors can invest and do business. The Government has prioritized security reforms through enhanced funding

as part of the key reforms under Agenda four of the National Accord. These reforms will further create a conducive business environment and, more importantly, assure a secure Kenya for faster economic recovery.

In addition to increased budgetary resources amounting to Kshs46.3 billion, I have allocated under the Ministry of State for Provincial Administration and Internal Security, an additional Kshs2 billion towards implementing a high impact targeted security intervention programme covering investments in operation and maintenance, communication, crime profiling and intelligence analysis; all aimed at enhancing security in our urban centres and highways. I am confident that Kenyans will be able to see the results of these investments in a very short time.

*(Applause)*

Mr. Speaker, Sir, an extensive and efficient infrastructure is an essential driver for growth, competitiveness and overall development of the country. As hon. Members are aware, a well developed infrastructure network reduces the distance between regions resulting in a truly integrated national market. Indeed, an efficient transport network is a prerequisite for entrepreneurs and farmers to get their goods and produce to markets in a secure and timely manner and to facilitate affordable movement of workers. To hasten economic recovery and expand economic opportunities for all Kenyans, the Government will continue to scale up investments in key infrastructure facilities covering road network, energy supply, transport system and port services. We will do all that over the medium-term, guided by the strategic objectives we have set for ourselves. These include:-

- (i) Raising efficiency and quality of infrastructure projects;
- (ii) Benchmarking infrastructure service provision against globally acceptable standards;
- (iii) Enhancing private sector participation in the sector; and
- (iv) Up scaling the implementation and completion of key infrastructure projects.

Consistent with this strategy, I have, accordingly, allocated in this Budget, Kshs182 billion, which represents an increase of Kshs30 billion or 20.1 per cent over the amount allocated in 2009/2010 towards financing prioritized infrastructure development in the country.

*(Applause)*

As hon. Members are aware, we have and will continue to invest heavily towards improvement of our road network. We are all well aware that it is only through good and well maintained roads that we shall unlock the economic potential of our economy. In the 2009/2010 Financial Year, 715 kilometers of road were constructed, 1,112 kilometers rehabilitated and 1,142 kilometers maintained. To continue with the ongoing road construction work and to demonstrate our commitment to upscale investment in infrastructure so as to hasten economic recovery, I have allocated Kshs78.6 billion to the sub-sector's development budget. This amount is Kshs20 billion or 34 per cent over and above the amount I allocated for roads under the Budget ending June 2010.

*(Applause)*

Mr. Speaker, Sir, within the total development budget for road construction, Kshs700 million will specifically be expended to initiate the rehabilitation and

construction of the Voi-Taveta Road in order to open the area for commerce and trade and in, particular, to make it easier for our good neighbours in northern Tanzania to transport their imports and exports through the Port of Mombasa. It also includes Kshs4.2 billion for roads to open up Isiolo as one of the Vision 2030 resort cities in northern Kenya, and link our country with Ethiopia with a bituminous road. Recognizing the need to ensure our roads remain in motorable conditions to facilitate trade and commerce and expand economic opportunities, I have further allocated Kshs23.5 billion for road maintenance. This is a significant budgetary provision that should have a visible impact on road maintenance to ensure our roads are improved to motorable condition.

Mr. Speaker, Sir, with regard to energy, we aim to lock in our economy into a higher growth path. To do this, we must also strive to provide adequate energy to meet the demand arising from expanded production and economic activities. Our medium to long term strategy is to focus on secure least cost and clean energy development, underpinned by diversification to renewable affordable sources and improved efficiency in transmission systems. While the ongoing rains have improved the hydro conditions and hence reduced the cost of overall power by about 40 per cent since last September 2009, the Government remains fully committed to expanding investments in cheaper and reliable energy sources as the only way to assure affordable power.

The Government, is however, aware that as we strive to do this, there is, indeed, need to provide a predictable energy framework that enables our manufacturers to plan forward. There is, therefore, urgent need for the Government and all stakeholders to work together to ensure we contain the volatility in the cost of energy. Indeed, in the event that energy costs rise significantly going forward, the Government will work with the business community and other stakeholders to ensure that the cost of energy does not reach unaffordable levels. In addition, the Energy Regulatory Commission (ERC) will review the current formula for determining electricity tariffs with a view of making investment in the cost of power more predictable.

The Government is also aware that there are many private investors who are keen to invest in the energy sector and, especially, in alternative and cheaper sources such as geothermal, wind, solar and other renewable sources. However, there are concerns that the procedures take too long. But this should never be allowed to happen because availability of affordable energy is a matter of national priority. In this regard, the Treasury commits to support the Ministry of Energy to ensure that we remove all procedural and licensing impediments, so that private investment in the energy sector can be fast-tracked.

Mr. Speaker, Sir, with the generous support from our development partners and our resources, I have allocated Kshs34.1 billion to fund development activities in the energy sector. The priority areas for intervention include: Kshs15.6 billion for the expansion of national transmission system, Kshs11.6 billion towards geothermal development and to initiate exploitation of coal resources with special emphasis placed on adding 280 megawatts of installed geothermal capacity by 2013 and Kshs5.4 billion to fund the Rural Electrification Programme. This will increase the number of public facilities in the rural areas connected to the national grid by 3,310 megawatts. In addition, the Government will encourage through a Public Private Partnership (PPP) the development of about 500 megawatts of additional geothermal power capacity over the next four years, encourage development of biomass power from municipality waste and carry out further reforms of the sector to deal with

institutional efficiency. These initiatives are expected to add about 800 megawatts in total to our installed capacity by the year 2014.

Mr. Speaker, Sir, inefficient port services have continued to hold our economy back from exploiting its full potential. For instance, delays due to lack of investment in the Port of Mombasa and its operational inefficiencies add substantially to costs which feed through the supply chain, thereby undermining our competitiveness. The Government, however, recognizes that related storage and mass freight infrastructure also requires to be addressed, as well as customs and inspection procedures. The Government remains fully committed to addressing these challenges and making our port system efficient. Working closely with stakeholders, the Government will accelerate the implementation of a Single Window Port Community-based system to facilitate faster, efficient and competitive clearance of cargo. This and other reforms, including dredging of the port to enable larger vessels to dock, are expected to position Mombasa as a preferred port of call and a regional service hub.

In addition, to facilitate faster cargo off-take at the port and mass freight transport, the Government has initiated the design of a Standard-Gauge Double line railway from Mombasa to Malaba. We expect the designs to be ready during the last quarter of 2010-11 and the Government shall immediately embark on construction of this important railway. The implementation of this project will be fast-tracked to accord Kenya and, indeed, our neighbours the earliest opportunity to enjoy cheaper, safer and faster alternative mode of transport.

Mr. Speaker, Sir, we are not just addressing transport along our highways, we are also concerned about the high economic losses associated with traffic jams in our urban centres, in addition to heavy financial burden our poor and middle income urban communities have to bear on a daily basis. As hon. Members will recall, while presenting my Budget last year, I indicated that the Government was in the process of contracting a consultancy firm to conduct a feasibility study, design and develop a project proposal for the upgrade of the Nairobi commuter railway system. I am, indeed, happy to inform hon. Members that we now have the design and during the Supplementary Budget, I allocated Kshs600 million to initiate the process of upgrading key commuter backbone railway lines in Nairobi. I have in this Budget allocated another Kshs1.9 billion towards this important investment. When completed in the fourth quarter of 2010/11, this project will significantly provide relief, reduce cost of transport and traffic jams to airport commuters and passengers currently using the Mombasa Road and Jogoo Road, further enhancing our human capital for faster development.

Mr. Speaker, Sir, our human resource development priorities over the medium- term include:

- (i) Enhancing access, equity, quality and relevance of education at all Levels;
- (ii) Ensuring equitable access to medical, public health and sanitation services, with a focus on maternal and child health care as well as health infrastructure; and
- (iii) Strengthening linkages between industry and research institutions to promote demand driven research and training.

Furthering and improving access to quality education to secure the future of our children: Our Government has always recognized that an educated labour force is critical to enhancing productivity and, therefore, our competitiveness. This is more so in today's globalized and technology-driven world. Indeed, as a country, we have invested a lot in education, leading to substantial improvement in access, especially to primary as well as secondary education. Despite our successes, we recognize that we

must do more to ensure our people are appropriately skilled to be able to engage effectively in economically meaningful activities.

In the year ending June, 2010, we initiated a programme that is currently ongoing to upgrade and expand educational facilities and improve the quality of our educational standards throughout the country. This we did recognizing the heavy investments we have made so far to enhance educational access through free primary education and free tuition in secondary schools. To take into account increased enrolment and general increases in prices, I have allocated an additional Kshs2 billion each towards free primary education and free secondary tuition in 2010/11. In total, therefore, I have allocated Kshs9.2 billion to support the free primary education and Kshs16.2 billion towards the free secondary programme. In this regard, I would like to assure all hon. Members and parents that the free primary education and free secondary tuition are, indeed, fully financed.

*(Applause)*

Mr. Speaker, Sir, our country has invested heavily in the Information and Communication Technology (ICT) infrastructure and it is only prudent that we also invest in our educational system in order to exploit its potential to bridge the digital divide in our economy. With this in mind, I have allocated Kshs1.3 billion towards the purchase of 300 computers in each constituency to make ICT a reality in our rural schools. These computers will provide a platform to expand the e-learning initiative and allow for equal access to quality lessons. The Government will source these computers from public institutions that have computer assembly facilities. We believe that this will also benefit our students undertaking ICT and computer engineering studies.

Mr. Speaker, Sir, last year, I provided funds towards establishing tree nurseries in schools to introduce our pupils to environmental conservation at an early age. This year, I am going a step further to provide Kshs30,000 each to 50 schools in every constituency towards the purchase of seedlings for planting. This initiative will go a long way in further empowering our school going children to actively participate in conservation of the environment, in order to mitigate climate change and variability.

Promoting preventative health care delivery for higher productivity, as I indicated earlier, a healthy workforce is vital to a country's competitiveness and productivity. As hon. Members are aware, in 2009/10, I allocated funds under Economic Stimulus towards expanding health care facilities, recruitment of nurses and provision of medical kits in each constituency throughout the country. We did this while aware of the challenges that people face in accessing healthcare in the rural areas. Through this Budget, we once again demonstrate the Government's commitment to ensuring a healthy and productive citizenry capable of pushing forward the frontier of social and economic opportunities. It is also through this Budget that we further demonstrate our commitment to tackle the curative and preventative healthcare challenges and enhance their access in every area.

Mr. Speaker Sir, I have allocated Kshs.1 billion towards the recruitment of 15 additional nurses and 5 public health technicians in each constituency. To further enhance the coverage of preventative healthcare in rural areas, I have allocated Kshs265 million towards the purchase of an additional five motorcycles, operations

and maintenance expenses and the employment of an additional ten health community workers and provision of medical supplies in each constituency countrywide.

Secondly, Mr. Speaker, Sir, as hon. Members are aware, last year we provided funds for the construction and equipping of a maternal and child health care ward in every constituency. I am happy to note that all tenders were successfully awarded and construction is progressing well in most constituencies. As part of the wider programme to expand and upgrade our healthcare facilities, I have allocating another Kshs.5million for each constituency towards expanding our healthcare facilities to include wards for children and adults.

Thirdly, Mr. Speaker, Sir, to ensure our critical patients receive timely medical attention throughout the country, I am going a step further to provide in this Budget 300 ambulances for use in our healthcare facilities.

Fourthly, as a Government that cares for its people, we are not just putting more money to avail medicine in our healthcare for curative purposes; we will also going ahead to strengthen the management of the medical supplies chain. To this end, I have allocated Kshs4.4 billion for the purchase of drugs and another Kshs900 million for ARVs to make this important life saving medicines available for our people in health facilities.

As part of our efforts to enhance efficiency in healthcare service delivery, we will deepen reforms in the healthcare sector, including strengthening KEMSA's procurement capacity and accountability, improving supply chain management of public health resources and strengthening the supervision of medical supplies to rural health facilities. These interventions together with the ones we initiated last year now brings to total 35 additional nurses, five public health officers, ten community health workers, ten motorcycles and 30 bicycles expanded and upgraded health care facilities, ambulances and Kshs.5million worth of medical kits in every constituency. I now fully expect the Ministry of Public Health and Sanitation to roll out preventative healthcare programmes and demonstrate immediate and measurable results in improving the health status of our people.

Mr. Speaker, Sir, as we strive to achieve the middle income status by 2030, we must ensure that everybody and every region is empowered to participate effectively in the development process. Therefore, going forward, our focus will be ensuring that we attain broad based and sustainable growth. To achieve this, we must invest in rural infrastructure, agriculture, particularly crop production, fish farming and livestock development. We must also invest in environmental conservation to ensure that this growth is sustainable.

The agricultural sector is central to our economy providing 23 per cent of our GDP and a source of livelihood for the majority of Kenyans and accounting for the bulk of our exports. Despite the importance and the reform progress made this far, the sector continues to suffer from a considerable range of constraints. Some of these challenges which are well known to hon. Members include; inadequate extension services and credit; low application of modern technology; poor rural infrastructure in some areas; high costs and low application of inputs, and excessive dependence on rainfed agriculture.

Mr. Speaker, Sir, to tackle these constraints the sector plan for agriculture provides a comprehensive strategy which includes, amongst others, improvement of agro business, value addition, market access, strengthening research; extension services and training, improving land use and crop development and enhancing accessibility of affordable inputs and credit. Funding these interventions will require

considerable resources which we are unable to afford all at once. There is, therefore, need to prioritise implementation within the available resources.

Hon. Members will recall that following our productive discussions, the Roads Act was amended leading to the provision of about Kshs4.6 billion in total or Kshs23 million towards maintenance and improvement of our critical roads in each constituency in the year ending 2010. In 2010/2011 and going forward, the amount earmarked for rural road maintenance will increase significantly as the economy picks up and the demand for imported oil increases. In this regard, in this year's budget, I am providing Kshs5.7 billion in total for the maintenance of roads which translates to approximately Kshs27 million for each constituency. Working closely with relevant stakeholders, we shall develop a framework to ensure faster efficient and effective delivery of rural roads funded by this Fund in order to spur local economic activities and create employment.

In the Financial Year 2009/10, I allocated Kshs12 billion towards financing our rural projects under the Constituencies Development Fund (CDF). I am pleased to report to this august House that for the first time, we have disbursed the bulk of CDF resources to the Board. I am, however, informed that there is an ongoing reconciliation between the Board and the Ministry of State for Planning, National Development and Vision 2030 which we hope will be completed before the end of this financial year in order to ensure a full disbursement of CDF resources to the Board.

To further support the good work at the constituency level, in Financial Year 2010/11, I am allocating Kshs14.3 billion for the CDF which is intended to finance other critical development programmes at the constituency level. I wish to assure hon. Members once again of my Ministry's commitment to a timely release of these resources so as to make them available for financing various projects throughout the country.

Mr. Speaker, Sir, last year, I allocated Kshs22 billion under the Economic Stimulus Programme to fund various projects throughout the country in order to spur high impact economic activities, create employment and reduce poverty. As hon. Members are aware, the implementation of various projects under ESP started late due to the need for consultations on implementation framework with various Parliamentary departmental Committees especially the CDF Committee. Having agreed on the framework in October last year, various projects were tendered and awarded and now implementation is progressing in a number of constituencies countrywide. I wish to take this opportunity to assure hon. Members that all funds which have not been committed under the ESP by the end of this fiscal year shall be revoted and provided to ensure such projects are fully implemented as we originally planned.

*(Applause)*

Mr. Speaker, Sir, in the Financial Year 2010/11, in addition to the Kshs9.6 billion I have allocated to strategic development, education and health whose specific projects I have already outlined, I have allocated another Kshs11.4 billion towards expanding fish farming, irrigated agriculture and supporting livelihoods in ASAL areas.

Mr. Speaker, Sir, the ongoing rains complemented by various interventions we made and the Economic Stimulus Programme to expand irrigated agriculture production have helped to improve the food situation and the welfare of many

households in the country. Given our limited potential for rain-fed agriculture, we must increasingly focus on expanding irrigated agricultural production for domestic use as well as for exports. At the same time, we should also encourage agro-processing and value addition in order to maximize the sector's contribution to growth. It is only by doing this that we shall be able to reduce poverty, create sufficient productive jobs and decent work for our rapidly growing population.

In the fiscal year ending June, 2010, we expanded irrigated agriculture for maize and rice production by about 27,00 acres with an estimated two harvests totaling 1.6 million bags of rice and 500,00 bags of maize. While we have made tremendous progress in this year to increase agricultural output, it is indeed saddening to note that our farmers have suffered post-harvest losses due to dampness and poor storage. I want to take this opportunity to assure the nation at large that the Government will, indeed, empower our farmers to ensure that their hard work will not go to waste due to lack of appropriate storage facilities.

To further reduce our reliance on rain-fed agriculture and to ensure sustainable food security, I propose the following measures:

First, in 2010/2011 we shall not only expand the irrigation works in the areas we planted under Economic Stimulus Programme (ESP) but we shall diversify into new potential areas to provide many Kenyans the opportunity to grow crops throughout the year thus reducing their vulnerability to vagaries of weather, assuring food security and reducing poverty. As part of our deliberate effort to address regional inequality and reduce poverty, we plan to expand irrigation agriculture in new areas such as:

- (i) Around Lake Challa in Taveta,
- (ii) Yatta and Makueni,
- (iii) Lower Tana,
- (iv) Turkana,
- (v) Marsabit, and
- (vi) Upper Tana and North Eastern covering Garissa to Mandera.

To ensure effective delivery of this programme, my Ministry working with the Ministry of Water and Irrigation and the Ministry of Regional Development Authorities will develop a framework, which will be ready for execution by mid July 2010.

Mr. Speaker, Sir, these interventions will not be realized without putting in place an effective capacity. To build the capacity of the Ministries of Agriculture, Irrigation and Water and Regional Development Authorities to effectively execute these projects, I have allocated funds for the recruitment of six extension officers on contract terms for every constituency countrywide. The Government will also avail 300 vehicles to enable these officers discharge and accomplish this important task of securing development.

Second, our commitment is not only to expand irrigation programmes but to address the agriculture supply chain. To deal with post-harvest management and reduce losses to our hard working farmers, I have allocated Kshs400 million towards purchase of fixed maize driers to be installed in maize growing areas not currently served. I am allocating another Kshs360 million to purchase 30 mobile maize driers to ensure as many farmers are facilitated accordingly to dry their maize in order to reduce post harvest losses.

Third, similarly, for our rice farmers, I have allocated Kshs525 million to purchase and install 15 rice milling plants in rice-growing areas. These interventions will be complemented by regular testing and awareness to empower farmers and

improve post-harvest management. I expect the Ministry of Agriculture, working with the National Irrigation Board (NIB), National Cereals and Produce Board (NCPB) and farmers' co-operative organizations, to develop appropriate governance framework for the management of these driers and rice mills in order to maximize their benefits to our farmers.

Fourth, as a Government that is committed to assuring food security, we will do what it takes to not only expand investment in crop production, but also post-harvest crop management. In addition to measures I have already outlined targeted at reducing post-harvest losses, we are also developing a framework to introduce warehouse receipting in various NCPB's stores. When this programme is fully operational, the depositor will have the convenience of using the warehouse receipt as collateral, selling their grain whenever they wish without necessarily moving around with it, having certified and known quality and quantity of grain that does not have to be physically seen by buyers before buying.

Mr. Speaker, Sir, we are also aware that such warehouse receipting works hand in hand with a Commodity Exchange where such receipts can be traded. The buyers of the receipts can then collect the grain from the warehouse or resell the receipts. We shall, in the course of the year, develop institutional and legal framework to introduce Commodities Future Exchange, which will allow our farmers to trade their produce freely and at a time of their choice through warehouse receipts and future contracts.

Expanding Fish Farming as a Source of Food Security and Employment:

Mr. Speaker, Sir, the Government has recognized that the fisheries sub-sector has considerable untapped potential for food security and enhancing the livelihoods of Kenyans. In this regard, the development of aquaculture is one of the core interventions we are implementing to enhance food security and provide employment for our youth.

Last year, the Government initiated a Kshs1.12 billion Fish Farming Enterprise Productivity Programme to construct 28,000 fish ponds in 140 constituencies countrywide. This initiative is expected to stimulate increased aquaculture production, promote rural enterprise development and strengthen food security.

Mr. Speaker, Sir, with the momentum for fish farming now building up, we recognize that Government's role in the medium-term will be largely facilitative, with the private sector expected to be the prime mover of fish farming, seed and feed production and marketing of produce. In this regard, as part of phase II of Fish Farming Enterprise Productivity Programme, the Government will: First ensure all the 28,000 fish ponds are constructed and fully stocked with fingerlings; secondly invest in feed and seed production, while also encouraging private sector participation; and thirdly, build adequate capacity of the Ministry of Fisheries Development to deliver first class extension services and support our farmers as they expand their fish farming. To achieve these objectives, I have proposed among other interventions, the following:

First, I have allocated Kshs120 million to construct another 200 fish ponds in 20 additional constituencies that were not covered under phase one. And in order to encourage further fish farming and agro-forestry in the 160 mapped constituencies, I have allocated Kshs360 million to construct three shallow wells in each constituency. To further avoid water slippage and ensure adequate water for fish, I have allocated Kshs300 million to purchase sheet lining for use by farmers in ponds.

Second, to ensure availability of adequate seeds and feeds even as we encourage private sector participation, I have allocated Kshs340 million and Kshs1.2 billion for the production of fish seeds and fish feeds, respectively, enough to take care of about 300 fish ponds in the 160 constituencies.

Third, we recognize that these investments we are making together with ordinary Kenyans may not achieve their full economic potential unless we deal with the supply chain constraints. In this regard, we are going a step further to establish 80 mini-fish processing and cold storage facilities in key centres at a cost of Kshs400 million. As farmers grow fish, store and process, there will be need for opening up opportunities for fish markets. I wish to encourage private sector players to seize the earliest opportunity and start to invest in marketing fish products both locally and internationally.

Mr. Speaker, Sir, finally, once again demonstrating our commitment to seeing this programme succeed by putting in place effective capacity, I have allocated funds to purchase 100 motorcycles, avail 100 vehicles for use by extension officers and to recruit additional three fisheries officials for each of the 160 constituencies mapped for fish farming. I expect these investments to significantly enhance the uptake of this important pro-poor and pro-enterprise development initiatives aimed at transforming our rural areas.

Mr. Speaker, Sir, with regard to supporting livelihoods in ASAL areas, despite the challenges that the ASAL areas face, there is enough socio-economic potential that can be exploited to uplift livelihoods and address regional disparities. The continued fight over scarce resources such as water and pasture as well as age-old practice of cattle rustling has increased insecurity thereby retarding overall development of the ASALs. While it may not be practical to deal with the many challenges of ASAL areas and unleash their potential at once, through this budget, the Government commences a decisive journey of transformation and empowerment of the people of ASAL through comprehensive targeted interventions covering education and health, infrastructure development, security, agriculture and livestock development.

As a Government that believes in inclusive growth and development, once again this year, we demonstrate our commitment to the development of the northern Kenya and other arid lands. To this end, I have allocated a total of Kshs16 billion for financing various on-going and new development projects. Among the key projects earmarked are:

- (i) The expansion of water supply for which I have allocated Kshs3.8 billion towards dam construction;
- (ii) Construction of district hospitals and low cost boarding primary schools at a cost of Kshs375 million and Kshs450 million respectively.

In addition to funding the construction of on-going roads in this part of the country, I have allocated another Kshs550 million towards provision of alternative sources of energy and in particular, solar power.

Mr. Speaker, Sir, I have also, through this Budget, proposed other targeted interventions aimed at further empowering our brothers and sisters and in particular the youth who live in the northern parts of Kenya and other arid lands.

On improving Security for Sustainable Development of ASAL, provision of a lasting solution to insecurity associated with cattle rustling is important in promoting sustainable development among the pastoralist communities living in ASALs. As part of this initiative, and in order to complement the on-going disarmament efforts, I have

allocated Kshs200 million towards implementation of an electronic-based solution to aid in animal tagging for the purpose of traceability and issue control.

Mr. Speaker, Sir, as hon. Members are aware, ASAL areas occupy about 80 per cent of our land and have huge potential for irrigated agriculture and livestock development. However, lack of adequate water is another major challenge that has prevented us from developing these areas so as to reduce vulnerability and poverty. Through this Budget, the Government commits to take the first decisive step of transforming the ASAL areas into productive source of our overall development.

To enhance supply of water for crop irrigation and livestock, I have allocated Kshs2 billion under the Ministry of Regional Development Authorities for the construction of about 25 medium size dams in parts of the country. I have also allocated Kshs375 million toward construction of mini-flood dams and disilting of water pans in Northern Kenya. This initiative will reduce the suffering of our people living in these areas from frequent floods.

Mr. Speaker, Sir, aware of the potential livestock farming in transforming the lives of our people in ASAL areas, we initiated construction of two slaughter houses in Isiolo and Garissa last year and they are nearing completion. Encouraged by this progress, I am allocating another Ksh150 million each to upscale the on-going work by constructing four other modern and state of the art slaughterhouses in West Pokot, Wajir and Kajiado. These slaughter houses will be operated and managed by farmers through their co-operatives. I expect their operationalisation to promote exportation of beef, generate foreign exchange and incomes to our country.

Mr. Speaker, Sir, in recognition of the many challenges our livestock farmers continue to experience, I have in addition allocated Kshs250 million to construct another 10 slaughter houses for beef meant for domestic markets.

To ensure livestock farmers get value for their hides and skins, I have allocated Kshs175 million toward construction of five mini leather processing factories to encourage growth of our leather industry.

Mr. Speaker, Sir, we are going a step further to support livestock farmers in ASAL areas by rehabilitating 10 selected ranches for beef production, establishing and making operational two feedlots of Disease Free Zones in Coast Province, specifically to expand beef export. I have allocated funds in this Budget to provide strategic feed reserves and reseedling in ASAL areas. These interventions will cost the Exchequer an additional Kshs330 million.

Mr. Speaker, Sir, we also know that for these interventions to work and achieve intended objectives, we must build capacity of the Ministry of Livestock and the Ministry of Regional Development Authorities. To this end, I have provided for 100 additional veterinary officers, 20 in each of the ASAL districts. The Government will make available 180 motor vehicles for use by officers to facilitate their work.

Mr. Speaker, Sir, the past regrettable neglect of our environment is now manifested in severe degradation, depletion of natural resources, especially forests and water resources, as well as climate variability. In turn, our agriculture, food security, health, water resources, energy, infrastructure, industries, and biodiversity have been adversely affected. Recognizing that the restoration of our ecosystem provides the key to reducing poverty, creating employment and improving food security, the Government has developed a National Climate Change Response Strategy, which outlines mitigation measures to cope with climate change variability and extreme events. In this regard, I would like to take this opportunity to applaud the Ministry of Environment and Mineral Resources for the noble work it is doing in this area.

In addition, the Government recognizes that efforts must be made through a comprehensive environmental conservation to forestall the adverse effects of climate change in order to reverse damages to our scarce arable land, water and biodiversity resources. To this end, I have allocated a total of Kshs51.5 billion under environment, water and sanitation sector. This amount represents Kshs13.3 billion or 34.5 per cent growth over the sector's budget allocation for 2009/2010, demonstrating the importance we are attaching to environmental conservation going forward. I have in addition allocated Kshs2 billion toward implementation of specific high impact environmental conservation programmes.

Mr. Speaker, Sir, in order to mainstream policies and strategies toward the financing of our conservation effort, my Ministry, working with the relevant Ministries, will develop a carbon credit investment framework. This framework will outline modalities of carbon credit registration, revenue sharing, accountability as well as conservation and identified development areas to be funded by resources generated. Further, Kenya is better placed to emerge as a regional carbon emission trading hub. To this end, the Government will establish in the course of the Financial Year 2010/2011, a carbon Emission Trading Scheme (ETS) in Nairobi to pioneer the carbon market in Africa. My Ministry, together with the Ministry of Environment and Mineral Resources, will initiate the development of appropriate policy and regulatory framework necessary to facilitate the institutionalization of ETS in Kenya. When completed, the ETS will significantly contribute to environmental conservation effort and facilitate mobilization of conservation resources.

Mr. Speaker, Sir, hon. Members will agree with me that youth unemployment remains a major challenge to our development and social stability. Indeed, the 2009 Inequality and Poverty Assessment found that youth unemployment at 21 per cent was twice as high compared to the non-youth group. This does not include youth currently studying. The key to a more prosperous Kenya lies in the hands of its younger generations. They will be the dynamic drivers for competitiveness, growth, and poverty reduction through innovation, entrepreneurship and hard work. Tapping into the creativity and knowledge of young people is, therefore, a crucial asset for boosting economic development. Going forward, we must, therefore, start increasing focus on young entrepreneurs and innovators as viable pro-poor and employment creation development strategy, given that most new jobs are being created through small enterprises and self-employment.

Mr. Speaker, Sir, even as we strive to create employment for the youth, hon. Members are aware that no country has developed on a sustainable basis without growing, and consistently so, its small and medium size enterprises. In Kenya, small and medium size enterprises continue to suffer the most from poor business environment. They face the biggest constraints in accessing markets, energy, transport, security, legal services and not least, investment finance. Existing entrepreneurs are often resilient and successful despite the myriad of constraints they face. But the obstacles are often too great for most would-be entrepreneurs, and many never get to translate their ideas and energy into actions, profits and jobs.

Mr. Speaker, Sir, through this Budget we are determined to deal with the challenges facing SMEs and to develop a programme to:-

- (i) create enabling business environment;
- (ii) equip the youth with practical skills in order to create employment;
- (iii) make available through partnership with the private sector credit funding viable for young entrepreneurs and innovators as key drivers of employment creation; and,

(iv) encourage growth of SMEs by creating strong linkages with major industries.

Mr. Speaker, Sir, the Government has focused on improving selected indicators of interest to our small businesses. These include starting a business, dealing with construction permits, registering property, accessing credit, paying taxes and trading across borders. We have achieved substantial progress in the current financial year on these selected indicators. Toward this end, we digitized records at the Companies Registry, reduced the time taken to obtain a construction permit and number of days required to start a business and halved the time to pay taxes and statutory contributions. We have also licensed 4 microfinance banks, allowed for agency banking and licensed first credit reference bureau to facilitate sharing of credit information among banks.

Mr. Speaker, Sir, hon. Members will recall that I launched the first phase of the e-registry in August, 2009. I expect to complete the final phase before the end of 2010/2011 Financial Year. When completed, the e-registry will enable our small businesses to apply and pay for licenses online, including through use of innovative mobile payment platforms. We will also deepen our regulatory reforms to further remove administrative barriers to SMEs. In particular, we shall cascade business regulatory reforms to the local authorities where our SMEs are established to encourage their growth and drive our recovery, thus allowing them to create employment to our youth.

Mr. Speaker, Sir, as part of efforts to accelerate employment creation to the youth and allow them to contribute constructively toward economic transformation, the Government will develop a comprehensive programme to equip unemployed youth with practical technical and vocational skills, and consciously encourage the development of high-end innovators. In this regard, I have proposed a number of strategic interventions whose implementations is expected to significantly expand sustainable economic opportunities to our youth.

Mr. Speaker, Sir, I have allocated a total of Kshs1 billion to initiate expansion of all 26 technical training institutes in the country. This upgrade will expand the facilities in these institutions, thus allowing for increased admission of our youth for practical training in various fields of engineering, trade, building and entrepreneurial skills, among other areas. Further, in recognition of the critical role played by youth polytechnics towards practical training of our young men and women in the rural areas, I have allocated funds to recruit on contract terms 2,000 tutors to be deployed countrywide for our village polytechnics. I have further allocated Kshs640 million to expand training facilities in the eight national polytechnics and university colleges in order to allow for more admission of youth to undergo practical skill and training under the TIVET Programme.

Third, in order to start full exploitation of the heavy investment we have made on ICT, and in view of the large pool of ICT talents and the potential employment opportunities we can create in the ICT sector, I have also allocated Kshs560 million to upgrade all the 14 public information, science and technology colleges throughout the country.

Mr. Speaker, Sir, through the generous support of the Royal Government of the Netherlands, we will also be able to upgrade the Kenya Science Technical College and nine other regional centres of excellence countrywide. The implementation of these measures will allow us to develop adequate quantum of relevant ICT related skills and trained personnel thereby enabling our economy to reap the benefits of ICT. The youths who graduate from the colleges will be able to apply their knowledge and find employment in the assembly and repair of the 63,000 computers which we shall

be distributing to schools throughout the country, as well as to take advantage of the huge investment that the Government of Kenya continues to make in ICT infrastructure.

Mr. Speaker, Sir, access to credit has often emerged as a top constraint to the growth of SMEs. Through this Budget, we are introducing an innovative approach leveraging on existing frameworks and ICT platforms to expand access to credit for the majority of our hard working young brothers and sisters.

Mr. Speaker, Sir, as a country we have about 8.3 million of our people working in the informal sector of whom two million are in the *Jua Kali* industry, about five million are kiosk owners, hawkers, *mama mbogas* and those in the informal transport sector. Empowering this group to access financial services that allows them to make bank deposits, to save and to earn interest on their savings, to have access to credit that could enable them to start and expand their businesses has the potential to significantly reduce the twin problem of unemployment and poverty.

As a bold step towards addressing youth unemployment and encouraging the growth of SMEs, as a key driver of growth of development, I propose to establish a revolving fund of Kshs3.8 billion through which the Government will enter into a credit facility agreement with selected banks to support Small and Medium Term Enterprises (SMEs). Out of this amount, Kshs3 billion will be advanced to banks in the form of credit for onward lending to SMEs through their agencies. The balance of Kshs800 million will be earmarked for capacity building to ensure effectiveness of the institutions and agencies involved in the programme and the training of beneficiaries to effectively manage their businesses. This is a framework that has proven successful and we believe that we can leverage on ICT to scale it up for the benefit of many Kenyans and especially our youth.

Mr. Speaker, Sir, a number of microfinance institutions have also expressed willingness to partner with the Government in this noble endeavour. I expect, through this partnership, that banks will match Kshs5 for every Kshs1 invested by the Government, thus expanding the Fund five fold to at least Kshs15 billion which will be available for lending to youth and enterprises through our financial institutions. The establishment of this Fund recognises that commerce and trade are the lubricants that oil the wheels of the economy. For a country to progress in its endeavours to reduce poverty and create jobs and spur inclusive and sustainable growth, it must provide all players, formal and informal, an enabling environment to make their contribution towards nation building.

This Fund will, among other things, be used to build, nurture and fund youth talents and viable entrepreneurship with the highest impact to create employment and reduce poverty. It will also allow for many informal traders to take loans for their businesses and for those of our hard working brothers and sisters in the informal sector, it will enable them to access loans to construct modern and standard kiosks in designated areas in order to earn a decent living and improve their household welfare through selling of their wares.

Mr. Speaker, Sir, to ensure effective and faster disbursement of funds to as many youth and business people as possible, we shall leverage on ICT and M-Banking to target 11 million Kenyans currently using money transfers. This will be rolled out to cover many of the 18 million or more Kenyans with mobile telephones as part of our efforts to broaden financial outreach and access. When all these people are included in our financial system it will be possible to introduce an expansion through M-Banking such products as micro insurance, pension payments, tax payments, and

other social payments targeting our low income groups in order to assure and to ensure it is affordable.

Mr. Speaker, Sir through this initiative, we shall be able to generate immediate and direct employment to over 100,000 youths.

Mr. Speaker, Sir, we must begin as part of the economic recovery to encourage our manufacturing sector to expand investment in order to venture into new areas of value addition for export. This way, we shall be able to create strong backward and forward linkages between the manufacturing sector and SMEs. But to do this effectively, we will not only deepen structural reforms to improve business environment, but will also, as a country, take bold steps, as is the case in other nations, to start buying Kenyan products to promote Kenya. Without collective resolve and full commitment by all Kenyans, public or private together, to buy Kenya and build Kenya, we shall never industrialize and emerge as a regional giant in manufacturing. And with the high level of unemployment and poverty challenges we still need to confront, we can ill afford to continue to export our employment opportunities by taxing Kenyans to pay for imports by the public sector, especially on goods that are locally available such as beef, textiles and furniture, to mention but just a few. This also includes taking full advantage of our vehicle assembly plants.

Mr. Speaker, Sir, the procurement law gives discretion to the procuring entities to apply preferences and reservations in public procurement and disposal in consideration of economic and social development factors. This has led to limited participation by local industries in the procurement process, even when economic and social development factors would justify otherwise. In order to promote participation of our industries in driving growth, creating more decent jobs and diversifying our exports, I propose to amend the Public Procurement and Disposal Act to make these preferences and reservations requirements mandatory to public entities and mandate the Public Procurement Oversight Authority to be monitoring and evaluating application of the same. I further propose to accord exclusive preference to local firms that manufacture, assemble, grow, extract or mine goods in priority areas such as textiles, furniture, motor vehicles and food stuffs through promulgation of regulations under the Public Procurement and Disposal Act by 1<sup>st</sup> July, 2010.

Mr. Speaker, Sir, leasing remains a powerful and viable vehicle to promoting business growth and facilitating Government to effectively provide services. While we have made progress in encouraging leasing in our country, we recognize that more still needs to be done to promote leasing for faster growth and employment. To further enhance the use of leased assets and to promote lease financing, I propose to remove withholding tax imposed on lease rentals paid to lessors, including payments made to leased aircraft engines. The proposed measures will improve the cash flow position of the lessors and the lessees and facilitate growth of this business.

Mr. Speaker, Sir, as a Government, we are going to take a strong lead in jump starting this process and be a major player in the leasing industry. Starting the financial year 2010/2011, the Government will adopt leasing and mortgage as a vehicle for providing cheaper access to assets necessary for enhancing service delivery, and through this process the Government will be able to unlock resources to front-load financing of critical public services and development, especially provision of housing and vehicles for our disciplined services.

Mr. Speaker, Sir, the Government recognizes that good governance is a foundation upon which we can be assured of sustainable development. This is the reason we have invested heavily in strengthening our governance and corruption prevention investigative institutions in order to ensure that we have a solid

institutional governance framework. On the political front, following the signing of the National Accord in 2008, the Government has expended a lot of Exchequer resources on implementing agreed reform actions, including setting up various institutions intended to enhance accountability and constitutional democracy in this country. The constitution making process is a part of Agenda Four, and has progressed well, and we are now in the final leg. This year, we would have spent Exchequer resources in excess of Kshs8 billion and in the following year, we have provided approximately Kshs7 billion, largely for civic education and the referendum. Our investment in this area is informed by the fact that the gains in good governance will not only facilitate the achievement of our stated development goals but will also make our country competitive and attractive to investors.

Mr. Speaker, Sir, turning to the financial outturn of 2009/2010, the implementation of the Financial Year 2009/2010 Budget was faced with numerous challenges. These included difficulties in achieving revenue targets due to slowdown in economic growth and administrative challenges; prolonged drought whose effects were more severe than earlier envisioned and required substantial additional resources to mitigate.

Mr. Speaker, Sir, with this background in mind, I wish to take the opportunity to briefly appraise hon. Member on the financial outturns of the year 2009/2010. Revenues; in the last Budget, it was estimated that the total revenues, including fees and duties collected and applied at source, would amount to Kshs568.9 billion, comprising of Kshs522.8 billion in ordinary revenue and Kshs46.1 billion in Appropriations-in-Aid. Due to the slowdown in economic activities and other challenges already mentioned, total revenues are now estimated to underperform by Kshs5 billion. However, increased receipts of investment income from parastatals and state corporations are expected to more than offset this shortfall and by the close of this financial year, revenues will be reaching Kshs586.4 billion.

Mr. Speaker, Sir, as hon. Members may recall, the 2009/2010 Budget had factored privatization receipts amounting to Kshs6 billion from the sale of Government shares in SONY Sugar and the National Bank of Kenya. It is now evident that the privatization process will not be complete before the close of the financial year, thus reducing the expected resource envelope by Kshs6 billion.

With regard to expenditure, Mr. Speaker, Sir, the 2009/2010 Printed Estimates reflect Ministerial recurrent expenditure amounting to Kshs419.2 billion, including Kshs41.8 billion which was to be financed through A-i-A. The Consolidated Fund Services took KShs.187.5 billion, while Development Expenditure had a provision of KShs.258.9 billion.

Mr. Speaker, Sir, in order to deal with additional expenditures 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 2009/2010, which were recently approved by this House only reflected a net increase of Kshs27.2 billion for the Recurrent Expenditure while the Development Vote reflected a net reduction of Kshs5.8 billion. Overall, the approved gross recurrent expenditures for the current financial year is now estimated at Kshs443.2 billion, with Kshs42.8 billion being financed through A-I-A. Non-discretionary expenditures, which are financed directly from the Consolidated Fund Services amount to Kshs190.8 billion, while the approved gross development expenditure amount to Kshs253.1 billion, with Kshs71.7 billion being financed through A-I-A, while the remaining Kshs181.4 billion is to be financed from the Exchequer.

Mr. Speaker, Sir, let me turn to the financial projections of 2010/2011 Budget. With regard to revenue, the total revenue for fiscal year 2010/2011 is Kshs688.5 billion or 24.9 per cent of GDP, comprising of Kshs609.6 billion of ordinary revenue and Kshs78.9 billion of A-I-A. The targeted revenue is predicated on the ongoing reforms in tax and customs administration and additional A-I-A from public universities, which were previously not captured in the Budget.

Mr. Speaker, Sir, as hon. Members may have noted from their copies of the Printed Estimates, the Gross Recurrent Expenditure for 2010/2011 is estimated at Kshs675.6 billion. This includes Kshs71 billion, which will be financed through Appropriations-In-Aid (A-In-A), and expenditures financed directly from the Consolidated Fund Services, amounting to Kshs187.7 billion, thus leaving a net of Kshs416.9 billion for discretionary Recurrent Expenditure.

The Consolidated Fund Services comprises of Kshs67.9 billion for domestic interest, Kshs7 billion for foreign interest, Kshs26.7 billion for pensions, Kshs1.9 billion for salaries and allowances for Constitutional Office Holders, and Kshs1.2 billion for other non-discretionary expenditures. In addition, I expect to finance external redemptions amounting to Kshs20.5 billion and domestic redemptions amounting to Kshs62.6 billion.

Mr. Speaker, Sir, the Development Expenditure for 2010/2011 is estimated at Kshs321 billion, out of which Kshs98.6 billion will be financed through A-In-A comprising of direct project financing of Kshs22.9 billion in the form of grants, Kshs67.8 billion in the form of loans, and Kshs7.9 billion in the form of local A-In-A. Taking the above into account, I expect to finance a net Development Expenditure amounting to Kshs222.6 billion from the Exchequer. This comprises of Kshs17.4 billion in the form of grants revenue, Kshs35 billion in the form of loans revenue, and Kshs172.2 billion from the Government of Kenya.

On external grants, I have received commitments amounting to Kshs40.4 billion to finance development projects. Details of the donors and projects to be financed are included in the Development Estimates. I wish to sincerely thank the development partners, who have pledged and confirmed their support.

Mr. Speaker, Sir, after providing for Kshs2 billion Contingency Fund, the overall expenditure in Financial Year 2010/2011 amounts to Kshs998.8 billion, inclusive of domestic debt redemption of Kshs62.5 billion and external debt redemption of Kshs20.5 billion, with total expected receipts of Kshs831.6 billion, including loans and grants.

The overall deficit amounts to Kshs167.2 billion as indicated in the Financial Statement circulated to hon. Members. However, excluding the domestic debt rollover and external redemptions of Kshs61.4 billion and Kshs20.5 billion, respectively, while at the same time reflecting external financing in a more acceptable international standard practice, the total expenditure will amount to Kshs916, giving rise to an overall deficit of Kshs188 billion or 6.8 per cent of GDP. This will be financed by net foreign financing of Kshs82.7 billion and Kshs105.3 billion borrowing from the domestic market. This means that the Fiscal Framework for 2010/2011 is fully financed and, indeed, there is no financing gap.

Mr. Speaker, Sir, the rest of my speech outlines various tax measures I intend to introduce through the Finance Bill, 2010, and other regulations to be tabled in this House toward accelerating economic recovery, job creation and poverty reduction. Therefore, I request that the remainder of this speech be regarded as a Notice of Motion to be moved before the Committee of Ways and Means.

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

Mr. Speaker, Sir, in view of the important role played by agriculture towards our rural development, I propose additional measures to complement measures that I have already outlined. Our capacity in the region to produce wheat and rice is still limited. In order to enable our millers to import wheat grains to supplement local production, I propose to lower the rate of Duty on wheat grain from 35 to 10 per cent for a period of one year. I have also lowered Duty on all imported rice from 75 per cent or US\$200 per ton, whichever is higher, to 35 per cent for a period of one year for the same reasons, while at the same time we address the challenges of improving our production capacity in the region.

Mr. Speaker, Sir, secondly, our poultry farmers are closing shop in spite of the fact that many Kenyans have wanted to participate in this industry. In order to promote growth of the poultry industry, I have exempted parent stock for chicken breeding from Import Duty.

Thirdly, in the past years, a number of investors have been granted tax incentives in order to promote investment and encourage employment. In order to harmonise these with other incentives, I propose to enhance the deduction given for capital expenditure incurred by farmers on farm works from the current 50 per cent per annum to 100 per cent.

I have alluded to our economic recovery and said that this is dependent on sustained growth of our industries. In this regard, I have proposed a number of tax measures aimed at facilitating the growth of this sector.

Mr. Speaker, Sir, aluminium conductors and cables are key materials in the ongoing electrification programme in the country. Considering that the products are produced locally in sufficient quantities, I have increased the Import Duty on the products from 10 to 25 per cent to encourage our contractors to source them locally and also protect and promote our local manufacturers of the products.

The raw products of iron and non-alloy steel coated or plated with tin are key intermediate products in the iron and steel industry. Considering that these products are not available in the region, I have removed Import Duty on the products in order to make them cheaper and available to our local iron and steel industries, I have further removed Import Duty on flat rolled products of iron and non-alloy steel, which are used for the manufacture of filters and bottle tops.

Mr. Speaker, Sir, the construction sub-sector achieved significant growth last year. In order to further encourage growth in this important sector, I have removed Import Duty on petroleum coal, which is the raw material used in the production of cement. I have further removed Import Duty on prepared driers and pigments which are used for the manufacture of paints.

One of the key drivers of the regional integration is building a strong industrial base, which ultimately will make our products competitive, hence support the East African Community's Industrialisation Policy. In order to promote growth of our industries and make them competitive in the region, I have granted Duty remission on all industrial inputs used in the manufacture of goods which are Duty-free.

Mr. Speaker, Sir, hon. Members will recall the recent adverse effects of the drought on our power generation capacity. While we continue to upscale investment in power generation, we shall also invest in energy saving devices to enable energy consumers to save, thereby reducing their financial burden while at the same time

availing additional power into the national grid. To this end, I remove Import Duty on lamps and bulbs using Light Emitting Diode (LED) technology.

I have also proposed a number of measures to promote growth of the property sub-sector and encourage business transaction. First, the Stamp Duty Act provides that every instrument be stamped with proper "Stamp Duty Paid" within 30 days from the date it is first executed, failure to which penalty is charged. The current rate of penalty is 25 per cent for every three months, which translates to Kshs5 for every Kshs20, which is too high, hence a burden to the public. In order to reduce the penalty burden on new property owners, and also to encourage others who have not been able to effect transfers within the stipulated period to come forward, I propose to reduce the rates of penalty from 25 per cent to 5 per cent, and also to cut the penalty to the principal amount of the Duty.

Second, the current stamp duty fee of Kshs2 for every Kshs1, 000 on mortgages, charges and debentures is, indeed, very high and discourages investors from the said assets. In order to encourage investors in line with our Vision 2030, I propose to amend the Stamp Duty Act to reduce stamp duty fees on mortgages, charges and debentures from 0.2 per cent to 0.1 per cent, that is from Kshs2 to Kshs1 for every Kshs1,000.

Third, the Government Lands Act provides for a penalty of 2 per cent per month on any outstanding land rent. The said penalty is too high and hence makes land owners reluctant to pay outstanding land rents. It also discourages new investors and financial sector players. In order to encourage more Kenyans to invest in land, I propose to initially reduce the penalty rate from 2 per cent to 1per cent and provide for amnesty on land rent penalties accumulated up to and including 30<sup>th</sup> June, 2010. Going forward, I further propose to cap the land rent penalty to the principle amount of the land rent owed.

Fourth, provision of adequate housing facilities to our growing population is a critical development agenda for the Government. We have in the past availed fiscal incentives for this important sector to boost construction of more houses. However, we still have a huge deficit. In this regard, I propose to amend the Banking Act to allow mortgage finance companies to operate current accounts so as to attract lower cost customer deposits that will allow them to increase mortgage lending capacity and expand their operations. In the same spirit, I further propose to amend the Banking Act to raise the threshold of core capital that banks are allowed to invest in mortgage finance from 25 per cent to 40 per cent.

Mr. Speaker, Sir, in addition to policy and expenditure measures I have outlined targeted at improving the overall wellbeing of our people, I have proposed additional measures under tax to further enhance equity and fairness in the tax system. The Government introduced payment of advance tax by public service vehicles drivers and conductors before they are issued with their PSV badges by the Registrar of Motor Vehicles. The objective of this requirement was to assist in streamlining regulation of operations of this category of employees. It was, also intended to bring to them within the tax bracket. It has, however, been noted that PSV drivers and conductors, especially those who are yet to secure employment, have experienced challenges in trying to comply with this requirement. As a measure to widen the opportunity of securing employment in the road transport sector, it has been found prudent that payment of advance tax by public service drivers and conductors before obtaining necessary licenses is unfair. In this regard, I propose to amend the law to abolish payment of advance tax by PSV drivers and conductors.

(Applause)

I expect and strongly urge that savings from this will be used for insurance and pension schemes as well as familiarizing themselves with the Highway Code.

Mr. Speaker, Sir, in the past years, payments made to retirees have continued to be enhanced by removing tax on pension paid to senior citizens, increasing the tax free amount for pensioners whose income is subject to tax and taxing pensions under withholding tax system instead of Pay As You Earn (PAYE) tax band. To extend this benefit to those working on contract, employers who set up retirement benefit schemes and pay gratuity to such schemes will be allowed a reduction for tax purposes and the employees who accept to have their gratuity paid into the scheme will not be taxed on the same. This proposed measure shall enhance the financial security of such employees when they retire.

As we take care of our retirees, we must equally take care of those of us who find pleasure and dignity in having a drink. Indeed, over the years, consumers of beer have felt that they are the victims of every Budget Speech. To demonstrate that this perception is not well founded, the Government has maintained the same rate of Excise Duty on beer since 2005. During this long and much deserved break, the prices of these product have, however, been adjusted annually upwards by manufacturers for various reasons ranging from the rise in cost of production and inflationary factors.

Mr. Speaker, Sir, due to the fact that Excise Duty on these products is specific rather than *advalorem*, duty has tended to lag behind the price adjustments. To bridge the gap and to take care of the inflation factor, I propose a modest increase of Excise Duty on malt beer from the current rate of Kshs54 per litre to Kshs65 per litre and that of non-malt beer from Kshs45 per litre to Kshs55 per litre. This measure is expected to give the Ex-chequer an additional Kshs2.5 billion.

I have already outlined specific steps we are taking to deepen the overall tax reform in our country. In the short time, however, I propose some tax administration measures under various legislations to improve tax administration.

Mr. Speaker, Sir, the Kenya Revenue Authority (KRA) has invested heavily in information technology with online services for tax payers registration and return filling now available. However, the uptake of this efficient system has remained low. To encourage the usage of this system, I am proposing to amend the law to require the Commissioner to gazette those tax procedures or formalities which should be done online and to further specify those who should carry them online.

Our construction sub-sector players' cash flow position has continued to be constrained by the withholding of VAT at 16 per cent and the slow pace of VAT refunds. To address this problem and in order to improve their cash flow positions and to allow them to expand their capacity, I propose to reduce the tax withheld by the Ministry of Roads which is the major withholding agent from 16 per cent to 18 per cent.

Mr. Speaker, Sir, I intend to overhaul the VAT and come up with a modern tax legislation in line with best practice. In this regard, I intend to form a task force to come up with the new VAT Act which I expect to table in this House by June, 2011.

Kenyans in the Diaspora have, through their continued remittances of huge amounts back home, demonstrated their desire to invest in their mother land. However, due to the requirement under our taxes system for declaration and filling of returns, a number of these Kenyans have shied away from remitting funds for investment. In order to encourage such remittances as a source of investment and to facilitate economic recovery in our country, I propose to amend the law to give

amnesty for income of this class of Kenyans for the period to June, 2011. I wish, therefore, to urge all Kenyans in the Diaspora to take advantage of this amnesty and bring back their income for higher returns here at home.

*(Applause)*

Mr. Speaker, Sir, in order to enhance the PAYE collection mechanism, I propose to amend the law to improve on the PAYE dispute resolution system, enhance online filing of PAYE returns and provide certainty to the PAYE penalty structure. These proposed measures should encourage employees to utilise the online services and facilities provided by KRA which should lead to enhanced compliance.

Tax planning remains a key feature of our landscape. Maintaining a line between legitimate tax planning and planning designed to avoid taxes payable under the law remains a challenge for all of us. As part of our efforts to address anti-avoidance schemes, hon. Members will recall that last year I restricted the period within which business losses can be claimed for tax purposes to five years. This year I am proposing additional measures to deal with tax planning schemes involving interest-free loans advanced to local businesses by their non-resident associates. At the same time, we are enhancing the capacity of the KRA in terms of staff skills in the area of transfer pricing in order to ensure that they are not only kept abreast of the emerging tax planning trends but also to ensure that adequate mitigating measures are put in place to address the same whenever it arises.

Further, I intend to supplement those efforts by extending our double taxation treaty network. This year, negotiations were concluded with all our EAC partners, Mauritius, Iran and Kuwait. Modalities are already in place to operationalize those treaties. We have also put, as a priority, the signing of as many treaties as possible in the current fiscal year which will, in fullness of time, shield our investors from any double taxation and also encourage exchanges of variable tax information with our treaty partners.

Mr. Speaker, Sir, while the law mandates Kenya Anti-Corruption Commission (KACC) to recover resources lost to corrupt public officials, it does not provide how the Commission should deal with such assets. To facilitate the fight against corruption, I propose to amend the law to enable KACC to remit all public resources recovered to the Consolidated Fund or to the Permanent Secretary, Treasury, as may be appropriate. This measure will go a long way to ensure that assets recovered are protected. The Director-General of the Public Procurement and Oversight Authority (PPOA) does not get information from law enforcement institutions with investigative mandate for consideration to debar firms that get involved in fraudulent public procurement practices. In order to address this and to deepen the war against corruption, I propose to amend the Public Procurement and Disposal Act to require that the Director-General to consider recommendations from institutions such as KACC, CID and the Controller and Auditor-General for debarment.

We have implemented several measures to strengthen our financial system and capital markets to facilitate financial inter-mediation for faster development. Through this Budget, we are again proposing some measures to deepen those reforms. The Policy Holders Compensation Fund (PHCF) was created to protect policy holders against insolvency of insurance companies by compensating policy holders in the event of the insurer being declared insolvent. However, the Insurance Act requires the Fund to terminate the cover of policy holders of an insurer who has not remitted the requisite contributions, which is unfair to the policy holders. In order to address this

anomaly, I propose to amend the Insurance Act to require directors of insurance companies which default in remitting statutory contributions to be severally and jointly liable for the payment of the outstanding contributions, together with the applicable interests.

*(Applause)*

Mr. Speaker, Sir, in the year 2006, third party insurance claims were capped at Kshs3 million per person per claim with the aim of ensuring stability in the insurance sector. However, there still exist disparities in the manner in which an injury or death is settled, thus rendering the capping of no meaningful effect. In order to address this problem, I propose to amend the Insurance (Motor Vehicle Third Party Risks) Act to introduce a structured compensation scheme similar to the one under the Work Injuries Benefits Act. The Insurance Act limits insurance agency, business to Kenyan citizens or a partnership or company wholly owned by Kenyans. Given the move to have one East African region with one people, I propose to amend the Insurance Act to expand the ownership of insurance agency business to East African Community citizens. This will allow citizens from other EAC partner states to act as insurance agents in Kenya and we hope the same will be reciprocated.

Mr. Speaker, Sir, the Deposit Protection Fund Board (DPFB) is currently liquidating 20 institutions. However, most of the securities held by the Fund comprise of rural homes and irregularly acquired land that are unrealizable in the medium term due to their locality, thus making it difficult for the DPFB to finalise the liquidation process. In order to enable the DPFB finalize liquidation process within a reasonable period, I propose to amend the Banking Act to give powers to the DPFB to hold and sell unrealizable securities after winding up an institution.

The recent global financial crisis has called for enhanced supervision by financial sector regulators. To stem such crises, it is imperative that regulators have an array of measures at their disposal to forestall threats to the stability of institutions. To this end, I propose to amend the Banking Act to prompt corrective action, as well as to avail more teeth to the Central Bank of Kenya (CBK), to enhance banking sector stability. Last year, I amended the Banking Act to introduce agency banking, the object of which was to increase the outreach of the banking sector to the vast unbanked Kenyan populace. In order to deepen the use of agency banking, I propose to amend the Micro-Finance Act to facilitate the use of third party agents by deposit-taking micro-finance institutions.

The CBK is restricted from sharing information obtained from surveillance of foreign exchange bureaus and other authorized agents, particularly where the information relates to fraud, tax evasion, criminal activity or matters of public interest. To this end, I propose to amend the CBK Act to allow the CBK to share or disclose information obtained from surveillance of authorized dealers with the aforementioned agencies.

Mr. Speaker, Sir, the introduction of Islamic banking in this country has posed some challenges to CBK, since Sharia compliant transactions prohibit the payment of interest which is considered unfair. There is, therefore, need to amend the law to accommodate Islamic banking products by introducing the concept of return as opposed to interest. In this regard, I propose to amend the CBK Act to facilitate Islamic transactions in the management of liquidity in the banking sector.

Mr. Speaker, Sir, investor confidence in our capital markets has, in the recent past, gone down to worrying levels as a result of the collapse of four brokerage firms

with investors' funds. The reason for the collapse has largely been attributed to poor corporate governance within the Nairobi Stock Exchange (NSE) as a self regulatory organization. In order to address this problem and to improve investor confidence in the capital markets, I propose to amend the law to allow for the de-mutualization of the NSE. The planned de-mutualization will culminate with a listing of the stock exchange to allow members of the public to own a stake in the exchange.

Mr. Speaker, Sir, pension benefits serve a very important role in the life of a pensioner and should be able to be paid as soon as possible when an officer retires. Currently, pension schemes are allowed a maximum of 60 days to determine and to pay benefits after a member has retired. Pension schemes should be able to determine and to pay pension benefits within a shorter period. In this regard, I am proposing to amend the law to reduce the maximum period allowed from 60 days to 30 days.

Mr. Speaker, Sir, in conclusion, when I presented my first Budget last year, I outlined bold and comprehensive measures that were aimed at getting us out of a very difficult situation. Despite the initial implementation challenges that I mentioned earlier, I think it is fair to say that we have done reasonably well under the circumstances.

I was personally very touched by the strong endorsement of the proposals by Kenyans, and this has given us the confidence that we are, indeed, on the right path, but we can even do better. It is with this in mind that I have laid out this Budget that outlines a strategic framework for faster growth and development.

Mr. Speaker, Sir, building on the successes and lessons of the last one year, the Budget I have presented to this august House and to the nation at large today, will help us to propel our economic recovery further, and to put us in a position to set our eyes firmly on the higher national objectives that we have set for ourselves. Many of the proposals that I have outlined today focus on transforming the potential of our youth into growth and development. I, therefore, urge our youth to be actively engaged in our collective drive towards economic empowerment for competitiveness, growth and poverty reduction. I also urge them to see the challenges that we face as a nation as sources of opportunity and not despair, bearing in mind that the key to a prosperous Kenya does, indeed, lie in their hands through their knowledge, creativity and hard work.

Mr. Speaker, Sir, as I said last year, I emphasized the critical importance of a strong moral and ethical foundation and the need to inculcate a mind-set and attitude towards ethics performance and excellence; and that we are always at our best when we set aside our differences and work together as one people to confront our common enemies, that is, poverty, hunger and unemployment. These values are relevant today and will continue to be relevant even after 2030. We cannot, therefore, let our guard down for any one single moment.

Mr. Speaker, Sir, with those few remarks, I beg to move.

*(Applause)*

**The Prime Minister** (Mr. Raila) seconded.

*(Question proposed)*

**ADJOURNMENT**

**Mr. Speaker:** Hon. Members, that brings us to the end of business this afternoon. All hon. Members and our invited guests are welcome to a party in our gardens, hosted by the Deputy Prime Minister and Minister for Finance.

The House is, therefore, adjourned until Tuesday, 15<sup>th</sup> June, 2010, at 2.30 p.m.

The House rose at 4.40 p.m.