

NATIONAL ASSEMBLY

OFFICIAL REPORT

Thursday, 12th June, 2008

The House met at 2.55 p.m.

[Mr. Speaker in the Chair]

PRAYERS

ARRIVAL OF HIS EXCELLENCY THE PRESIDENT

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

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

POINT OF ORDER

SITTING ARRANGEMENT IN THE CHAMBER

Mr. Linturi: On a point of order, Mr. Speaker, Sir. Sometime back, I stood before this House and raised the issue of the sitting arrangement and an issue that touched on the Official Opposition. When I did this, the Deputy Speaker ruled that the only person who can sit on the left hand side of the Speaker is Mr. Jirongo, who is the only Opposition Member of KADU.

I realise that, today, the House has marked some seats "reserved for Members". It has been a tradition that the seats are for the hon. Members in the House. So, I am wondering whether these seats are reserved for strangers. Who are they reserved for? Is it in order for the Prime Minister to sit at the left hand side of the Speaker on the seat that is meant to be occupied by hon. Jirongo, who is a Member of the Opposition?

Mr. K. Kilonzo: On a point of order, Mr. Speaker, Sir.

CONSIDERED RULING

SITTING ARRANGEMENT IN THE CHAMBER

IS FREE: MEMBERS CAN SIT ON EITHER
SIDE OF THE CHAMBER

Mr. Speaker: There is already a point of order! Order, Mr. K. Kilonzo! The Standing Orders are clear that when an hon. Member rises on a point of order, that point of order is not interrupted or there is no intervening act until the Speaker rules. Hon. Members, my ruling on that matter is as follows:-

The practice and procedure of this House is expressly, explicitly and unequivocally covered

by the Standing Orders. Among other things, the Standing Orders provide that where there is no clear provision within the Standing Orders, then the discretion to decide on how the House will proceed lies with the Speaker. Secondly, and significantly, the Speaker previously has ruled more than once, that the sitting order in the House is free, so that the hon. Members can sit on either side of the House as they find seats.

(Applause)

Thirdly, the ruling by my able Deputy decided that the person entitled to sit in the Opposition is hon. Cyrus Jirongo, the hon. Member for Lugari. But that ruling fell short of deciding on what position hon. Cyrus Jirongo will sit in. He did not designate a particular seat for hon. Cyrus Jirongo.

Further, and significantly, that ruling did not decide in any manner and by any level of imagination, that hon. Cyrus Jirongo is the Leader of the Official Opposition, which he is not. This is because, for a party to constitute the Official Opposition, it must have not less than 30 Members of Parliament. In those circumstances, there is no seat to the left that is reserved for hon. Cyrus Jirongo, but he is entitled to sit to the left of the Speaker! In those circumstances, hon. Members, I find nothing out of order and I rule that the sitting arrangement, as it is now, is in order!

With regard to reserved seats, that has been done in accordance with the prerogative of the Chair. Thank you, hon. Members.

Mr. Minister, you may proceed!

POINT OF ORDER

PRESENTATION OF ALTERNATIVE BUDGET

Mr. K. Kilonzo: On a point of order, Mr. Speaker, Sir. I, indeed, do respect your ruling. This House represents the interests of the Kenyan people. We are, but agents of the Kenyan people. The Kenyan people met yesterday and presented the people's Budget, which they wanted the Government to look at alongside the Budget which is to be presented today.

Humbly, would I be in order to give the "people's Budget" to the Minister for Finance, so that he can look at it alongside his Budget?

CONSIDERED RULING

MEMBERS MUST FOLLOW PROCEDURE IN PETITIONING THE HOUSE

Mr. Speaker: Order, hon. Members! Indeed, the concern expressed by hon. K. Kilonzo is quite legitimate. It is true that, by constitutional underpinning, this Parliament represents the interests of the people of Kenya and among other things, has three roles, namely, legislative, oversight and representation. But as I have said in my last ruling, the practice and the procedure of this House; the manner in which this House transacts its business on behalf of Kenyans, is governed by the Standing Orders. Hon. K. Kilonzo, you have a right to petition this House and to lay Papers on the Table of this House, but you must follow the procedure. So, you are out of order for the moment!

Proceed, Mr. Minister!

COMMITTEE OF WAYS AND MEANS**MOTION**

THAT MR. SPEAKER DO NOW
LEAVE THE CHAIR

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

It is once again an honour for me to stand in front of this august House to present the 2008 Budget. This is the first Budget of the Grand Coalition Government and it comes hot on the heels of the launch of the harmonised First Medium-Term Plan of the Vision 2030.

Five years ago, the year 2003 ushered in political and economic optimism in our country that had not been witnessed in decades. Collectively, we began the hard task of rebuilding our then ailing economy in order to improve the living conditions of our people. We consistently implemented a package of both economic and structural reforms within the framework of the Economic Recovery Strategy, that has just ended. As hon. Members are aware, we made tremendous progress on many fronts. Economic growth accelerated from 0.5 per cent in 2002 to reach a peak of 7 per cent in 2007, and poverty index reduced sharply from 57 per cent in 2000 to 46 per cent in 2006. However, as we were preparing for the take-off stage to a higher level of development and prosperity, our nation came under a serious threat of disintegration following the disputed December, 2007, General Elections.

The unfortunate events that followed were painful and threatened to reverse the economic gains we had made over the previous five years. More importantly, those events also threatened the very fabric of our nationhood and are, indeed, a costly reminder of our vulnerability.

Mr. Speaker, Sir, it is, however, heartening to note that during the two long and traumatising months of the crisis Kenyans, in their diversity, remained resilient and unwavering in their demand for a return to peace and stability. This is a strong reminder of our collective determination to overcome adversity, pick up the pieces and move our country forward.

The signing of the Peace Accord on 28th February, 2008, by His Excellency the President and the Right Hon. Prime Minister, ushered in a new and the much anticipated dawn for peace and stability. At this point, let me, on behalf of the Kenyan Government and all Kenyans, salute the many friends of Kenya who invested their time and resources to save our nationhood.

Mr. Speaker, Sir, arising from these difficult times, we now can or very painfully comprehend our weaknesses as a nation and the challenges that we must confront as a people in order to build a solid foundation for our nation and make progress in improving the lives of our people. But more importantly, the crisis presented a historical turning point from which we have come out more focused and determined to stay on course so as to realise our collective vision of our competitive and prosperous nation; a new determination to achieve the goals and targets contained within our National Vision 2030 that was launched on Tuesday.

We now fully recognise that achieving the long-lasting peace and stability will only be possible through genuine national reconciliation, social cohesion and solidarity among our people and, above all, elimination of deep poverty. Moreover, we must squarely deal with the problem of inequality in incomes and assets which has compounded the poverty problem and youth unemployment in our country. These are challenges that we need to confront jointly with all the stakeholders and Kenyans at large.

Mr. Speaker, Sir, turning on to the recent economic developments, as we embark on this important journey of social economic reconstruction as well as transformation, we need to take into

account the global environment and its impact on our economy. Looking at the recent global developments, we know that although the world economy grew by an annual average of 5 per cent between 2003 and 2007, the expansion was associated with widening global imbalances. The recent turbulence in the USA housing market and Europe is expected to slow down economic expansion particularly in the advanced economies. Further, the continued higher oil prices have focused lower growth prospects worldwide and are, therefore, likely to weaken the demand for our exports.

On the other hand, growth prospects for the emerging and developing economies are expected to continue along a robust path and remain above the long-term trend. For example, growth prospect in sub-Saharan Africa, in China and India are focused to average about 6.8 per cent, 8 per cent and 9 per cent respectively during the 2007/2008 period. These levels of growth are expected to support the demand for our exports. The continued strong growth in China and India will, however, put further upward pressure on crude oil and food prices and thus continue to cause hardship among our people.

Mr. Speaker, Sir, our region is particularly experiencing stable growth which is good for our trade prospects. In order, therefore, to cushion our economy and our people from these challenges and to take advantage of the emerging opportunities, this Budget proposes various measures to expand production, create employment and improve Kenya's global competitiveness and diversify to cheaper energy sources.

Turning to the domestic front, I am happy to note that we made significant progress, for the last five years, and we intend to build on these gains as we move our economy back onto a higher level of growth and development. As I said, since 2003, our economy has expanded continuously, rising from virtual stagnation in 2002 when it registered a paltry 0.5 per cent growth to 7 per cent in 2007. This is the longest continuous growth registered in our country over the past 30 years. The growth is attributed to the successful implementation of sound fiscal and monetary policies, the deepening of structural reforms, as well as targeted and progressive investment in pro-poor programmes under the Economic Recovery Strategy (ERS).

Mr. Speaker, Sir, the favourable overall performance was replicated in virtually all the sectors of our economy. For instance, the growth of our manufacturing sector accelerated from 0.1 per cent in 2002 to 6.2 per cent in 2007. The wholesale and retail trade sector switched from a decline of 2.5 per cent to register a growth of 11.5 per cent over the same period. Our total exports almost doubled largely driven by strong growth in coffee, tea and horticultural exports. And supported by strong growth on remittances and capital inflows, our international reserves increased from US\$1.1 billion in 2002 to US\$3.6 billion by the end of 2007. For details on the economic performance under the ERS, honourable Members may wish to refer to the Budget Strategy Paper, 2008, which has already been circulated along with the other Budget documents.

Mr. Speaker, Sir, despite the progress that we made on the social and economic front over the recent past, we recognised the many challenges that we continue to confront in an effort to raise the living standards of our people. Some of these challenges include, the low levels of savings and investments, the low levels of productivity in agriculture and industrial sectors, unemployment particularly among our youth, the high incidence of poverty at 46 per cent and disparities in regional development.

These challenges were further exacerbated by the post-election crisis which negatively affected such sectors as agriculture, tourism, manufacturing and transport. The displacement of some Kenyans from their farms and the subsequent general insecurity and transport difficulties that were experienced during the crisis partly contributed towards the onward upward pressure on food prices. This has been further worsened by the additional inflationary pressures arising from higher international oil and food prices, all of which have diminished the purchasing power of the

ordinary *mwananchi*.

Mr. Speaker, Sir, to ameliorate the suffering of our people from the high prices of food, the Government will do all in its power to contain the current inflationary pressure as a key development priority. I will be spelling out shortly, the measures that we will be implementing.

This Budget, therefore, focuses on measures to address these challenges and initiates implementation of the programmes set out in our recently launched First Medium-Term Plan covering 2008 to 2012. To achieve these objectives, we must remain focused on the things required to raise long-term growth, expand employment opportunities, reduce poverty among our people and promote regional development. Accordingly, the 2008/2009 Budget focuses [The Minister for Finance]

on the four priority development areas of the Grand Coalition Government namely---

Dr. Khalwale: On a point of order, Mr. Speaker, Sir.

Mr. Speaker: What is it, Dr. Khalwale?

POINT OF ORDER

DELAY IN TABLING ECONOMIC SURVEY

Dr. Khalwale: Mr. Speaker, Sir, the Minister has just concluded the Report on how the country performed economically arising from the Budget that he read to this House in the Ninth Parliament. I recall that when he read that Budget, the Ninth Parliament was so uncomfortable that they forced the Government to bring the Budget Bill. This Bill was dealt with up to the Second Reading only that it did not come out of the House Business Committee (HBC) for the Third Reading. In that reading, he has also talked about the performance of the economy which is covered in the Economic Survey that was tabled only yesterday.

Mr. Speaker: What is your point of order?

Dr. Khalwale: Mr. Speaker, Sir, my point of order is this: According to international standards of Parliamentary practice, Economic Surveys are normally tabled one month in advance so that by the time the Minister reads the Budget, hon. Members are not in the dark. Could the Chair rule on what we are going to do in respect of the issue of the Budget Office? This is because we are in the dark. Money keeps on being skewed in the allocation. Regions that have serious disparities are not benefiting from the Budget.

(Applause)

CONSIDERED RULING

THE ECONOMIC SURVEY WAS
TABLED TIMEOUSLY

Mr. Speaker: Dr. Khalwale, you are out of order! I have given you indulgence because I was very keen to just find out what your point of order is, so that you do not cry foul and say that you have been emasculated or muffled and we have allowed you your day to raise your point of order. Unfortunately, you have fallen short of the expectations of the Chair and for that matter, even the expectations of this House.

Dr. Khalwale, you are serving the second term and you seem to refer to business that was before the Ninth Parliament and did not see the light of day; a Bill that was debated and not passed. That, quite obviously, Dr. Khalwale has lapsed. It cannot now be the business of this House, the Tenth Parliament, unless it is properly brought before the Tenth Parliament.

On the second point that you raised, that international standards provide that Economic Survey estimates be tabled a month before, firstly, you have not cited which international standards in respect of what country and so if anything, your assertion is ambiguous. It has no substance in it. At the best, it is hollow. It is a mere assertion without premises. This House will be bound by its own practices, traditions and Standing Orders. The practice of this House, over the past 40 years or so, has been that the Economic Survey is tabled a day or so before, and this is what we have done even in the Tenth Parliament. Therefore, Dr. Khalwale, you are out of order and I so rule.

(Resumption of Budget Speech)

The Minister for Finance (Mr. Kimunya): Thank you, Mr. Speaker, Sir. As I was saying, the 2008/2009 Budget focuses on the following four priority development areas of our Grand Coalition Government:-

- (i) restoring our economy to a higher broad-based long-term growth at par with expanded opportunities for all Kenyans;
- (ii) creating employment opportunities for our youth for a more stable and cohesive society;
- (ii) reducing poverty and inequality through accelerated regional development; and,
- (iv) deepening our human development efforts for higher productivity and economic prosperity.

Mr. Speaker, Sir, the 2008/2009 Budget is, therefore, anchored on the premise that the cornerstone of the next phase of our development agenda is to empower Kenyans by creating employment opportunities for the youth, promoting unity of purpose and reducing regional imbalances in development. This way, every Kenyan will feel that he or she has a stake in this great nation of ours.

Mr. Speaker, Sir, the Budget that I am presenting today is intended to usher in a new thinking and vision for building this nation. Therefore, hon. Members, the theme of this year's Budget is "*Working Together to Build a Cohesive, Equitable and Prosperous Kenya*". Against this background, the rest of my speech outlines the sectoral policies as well as expenditure and tax measures that we will implement in the 2008/2009 Financial Year in order to achieve the above mentioned priorities, starting with restoring our economy to a higher and sustained broad-based economic growth.

Mr. Speaker, Sir, the Grand Coalition Government is committed to restoring the economy back onto a higher growth path consistent with our Medium-Term Plan and the Budget Strategy Paper, which are derived from the National Vision 2030.

Mr. Speaker, Sir, the Vision is based on three pillars: The economic pillar, which aims at accelerating the annual real GDP growth to 10 per cent by the year 2012 and thereafter sustaining it at this level with a view to making Kenya an upper-middle income country by the year 2030; the social pillar, which aims at achieving a cohesive society enjoying equitable social development, and the political pillar, which aims at building a democratic, issue-based and accountable democratic political system in our country. The bottom line in all this is a higher quality of life for our people.

We expect the impact on the adversely-affected key sectors of our economy to be short-lived. We have peace and stability. The recent over-subscription of the Safaricom shares IPO attests to the fact that investor confidence, both domestic and foreign, has, indeed, rebounded. We initially anticipated growth for 2008/2009 at 7 per cent to 8 per cent, but we now expect the real GDP to expand by between 4.5 per cent and 6 per cent in 2008/2009 and by 7 per cent to 8 per cent in 2009/2010 before progressively rising to 10 per cent by the year 2012/2013. This will require us to boost investment to drive long-term growth, which will further depend on increasing our savings

and expanding exports. To achieve this level of growth, I will be proposing several measures under the following sub-headings:-

(i) Sustaining micro-economic stability and strengthening the financial sector to ensure low, but stable interest rates, a low rate of inflation and stable currency in order to foster rapid and sustainable growth and jobs creation.

(ii) Expanding our infrastructure capacity to enhance regional and global competitiveness and facilitate investment and growth.

(iii) Improving the business environment by reducing the cost of doing business.

(iv) The fourth one is ensuring an efficient and effective public sector and improving on governance.

(v) promoting industrial research, technology and innovation for higher productivity and expanded employment opportunities.

Mr. Speaker, Sir, this year's Budget is by far the most difficult one since I became the Minister for Finance in early 2006. This Budget has to address many objectives, including the following:-

(i) designing an economic recovery programme to address the down-turn of the economy following the post-election crisis;

(ii) addressing the humanitarian crisis that followed the disputed elections, including the re-settling of the Internally Displaced Persons (IDPs);

(iii) Laying the foundation for returning to a higher growth path consistent with achieving the Vision 2030 growth target of 10 per cent by the 2012/2013 Financial Year. This requires increased spending to fill the infrastructure gap and provide funding for the Vision 2030 flagship projects.

(iv) providing relief to our farmers and strengthening the capacity of the National Cereals and Produce Board (NCPB) to play a more effective role in stabilizing food prices;

(v) Providing for the Free Primary Education and the Free Secondary Education Programmes while ensuring that spending on health is not adversely affected.

(vi) Addressing the issue of unemployment, especially of our youth.

(vii) Dealing with the important issue of regional inequality.

Mr. Speaker, Sir, dealing with these issues under normal circumstances is difficult enough, but dealing with them when the revenue base has been eroded is an arduous task. These are challenges that, if not handled carefully, could upset our macro-economic framework. Hon. Members will appreciate that raising taxes under the current inflationary environment, when taxpayers are already facing high prices of consumer goods and cannot afford a further reduction in their disposable income, is the least desirable option.

Similarly, a substantial increase in Government borrowing risks raising interest rates, thus jeopardising the fragile recovery of the private sector which, after all, is the key to creating the jobs we need for our youth. Moreover, our debts service payments are already quite high and further increases would only result in crowding-out priority expenditure in the economic and social sectors. In addition, and in consistence with our financial independence strategy, we, as a nation, have not factored in un-committed Budget support from our development partners. Given these resource constraints, we have had to prioritise our expenditure to ensure that only key programmes and projects, which are consistent with our policy objectives, are funded.

Mr. Speaker, Sir, on balance, I believe that this Budget has managed to address the key issues and challenges currently facing the economy. It will deal with both the short-term and medium-term needs of our economy in a way that supports a move to a more rapid and sustainable growth path as soon as possible, but within the context of a stable macro-economic environment. This Budget, therefore, lays a firm foundation for achieving macro-economic stability, which is a

pre-requisite for sustainable growth, employment creation and poverty reduction. Mr. Speaker, Sir, to allow sufficient credit expansion to finance increased private sector activities, the Government will continue to contain the growth of its debts at a level that will not lead to unsustainable spiral of debts accumulation. On the monetary side, the Central Bank of Kenya will pursue an appropriate monetary policy stance aimed at achieving a low rate of inflation.

Mr. Speaker, Sir, despite some external factors beyond our control - such as persistent high global fuel and food prices - undermining our efforts to contain inflation, we are determined within our means to address all supply bottlenecks in the agricultural and energy sectors, which have exacerbated the problem. I will shortly outline measures to deal with the high food and fuel prices.

POINT OF ORDER

FINANCE MINISTER'S FAILURE TO ACCOUNT FOR MONIES ALLOCATED IN PREVIOUS YEAR'S BUDGET

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

Mr. Speaker: What is it?

Mr. Ogindo: Mr. Speaker, Sir, the Minister is coming up very eloquently. I know he is just about to ask for billions of shillings from this House. Is he in order to continue asking for billions of shillings from this House without rendering an account of how he spent the money we gave him in the about to be concluded financial year?

(Applause)

CONSIDERED RULING

MEMBERS MUST ACCORD BUDGET DAY THE RESPECT IT DESERVES

Mr. Speaker: Order, hon. Members! That, indeed, may be quite a legitimate concern. But I am afraid that, that is a matter for debate. That is a matter that, perhaps, should come in your contribution, if you prepare yourself well and find it suitable! But at the moment, the manner in which you have put it, you are certainly out of order! You are seeking to pre-empt the Minister! You are also anticipating debate! Please, let the Minister have his day; let him read the Budget. You will have an opportunity to contribute and interrogate the Budget. You will have a number of options, because the power lies in your hands. The people of Kenya have bestowed this authority on you, to permit taxation and expenditure. What other power do you require beyond this? The ball is in your court!

Hon. Members, let us have some decency and decorum. This is an important national event. You must accord it the respect that it deserves!

Proceed, Mr. Minister!

(Applause)

(Resumption of Budget Speech)

The Minister for Finance (Mr. Kimunya): Thank you, Mr. Speaker, Sir.

The Government will continue to let the market determine the Kenya Shilling exchange rate and only intervene to smooth out short-term fluctuations. It is worth noting that had the shilling been weaker than it is today, the cost of imported fuel and food would have been much higher, which would have led to even stronger inflationary pressures. We will, of course, continue to closely monitor developments in the real exchange rate and other indicators of external competitiveness to ensure that Kenya's exports remain competitive. Further, and in order to cushion our economy from exogenous shocks such as oil prices and drought, the Government will build adequate foreign exchange reserves equivalent to four months of the projected import cover.

Mr. Speaker, Sir, we have made tremendous progress in implementing financial sector reforms covering the areas of micro-finance, insurance, banking and the capital markets. I am happy to report to this House that the Micro Finance Act is now operational, following the issuance of supporting regulations. But we still need to deepen reforms to make our financial sector more competitive and stronger. In this regard, I will be proposing, later in my Speech, measures to increase the minimum capital requirement for banks over the next two years. The Government will also be tabling before this House, the SACCO Bill, and the National Payment Systems Bill. The enactment of these Bills will further strengthen our financial system, and make it more competitive regionally. We will also strengthen the regulatory role of the Capital Markets Authority (CMA), and address weaknesses in its regulatory framework, including the introduction of risk-based capital adequacy for the capital markets.

Mr. Speaker, Sir, further reforms to improve performance of other sector players are being implemented, including the restructuring of five development finance institutions and the Kenya Post Office Savings Bank (KPOSB), the privatisation of the National Bank of Kenya (NBK) following the completion of its financial restructuring, and allowing payment of loans directly to the Agricultural Finance Corporation (AFC).

Mr. Speaker, Sir, given the critical role of infrastructure in improving our country's competitiveness, we will need to invest substantially in key infrastructural facilities. However, financing of infrastructure continues to be a major challenge. To mitigate the challenge, we intend to tap more into the private sector financing. Limited cases of such partnerships have been executed, but wider scale partnerships require an adequate regulatory framework to guide and protect the interests of all the partners. In this regard, the Government will issue, under the Public Procurement and Disposal Act of 2005, guidelines on Public-Private Partnerships (PPPs) early in the next financial year, after the necessary consultations with stakeholders, which are ongoing. The Government will also set up the institutional framework for co-ordinating and managing the PPPs.

Mr. Speaker, Sir, even as we await the PPPs framework, we are determined, more than ever before, to improve the condition of our infrastructure as a key policy priority towards the realisation of Vision 2030 objectives. The implementation of various infrastructure projects in this Budget will reduce the cost of doing business and facilitate private sector expansion and employment opportunities. In line with this commitment, I plan to issue a total of Kshs52 billion in infrastructure bonds, comprising of Kshs33 billion through a debut international sovereign Bond, and Kshs18 billion from the issuance of long-term domestic Bonds to finance the rehabilitation and expansion of the road network, enhancement of energy and water supply capacities and the further rolling out of the ICT infrastructure.

Mr. Speaker, Sir, hon. Members will recall that we planned to issue a sovereign Bond in the international capital market during the 2007/2008 Financial Year to provide funding for key infrastructure facilities, and also to establish a benchmark for the private sector to borrow internationally. However, following the post December, 2007 election crisis our initial favourable

sovereign ratings by Standard and Poor's, and which had been later confirmed by Fisch Rating in 2007, were downgraded. Faced with these circumstances, it was prudent and wise to defer the issuance of these milestone sovereign Bonds, as the reduced ratings impacted negatively on the pricing of the bond. We are now gearing up for this year's ratings from the two rating agencies. Our plan is to launch the Bond at an appropriate time in the course of the new financial year. Such external borrowing will ease pressure on the domestic market and help us maintain low and stable interest rates.

Mr. Speaker, Sir, the condition of our road network continues to impose a heavy burden on road users, thus increasing the cost of doing business and making our products uncompetitive. As hon. Members are aware, we have accelerated road construction throughout the country, and measurable milestones have been achieved in form of actual kilometres paved. To further improve conditions of our road network, and make motoring enjoyable to Kenyans, I have allocated Kshs65 billion to finance new construction, rehabilitation and routine maintenance of various roads earmarked countrywide.

(Applause)

Among others, construction work on the key roads like Athi River to Namanga Road has already started. The Mau Summit-Kericho-Kisumu Road, as well as Nairobi-Thika Road, are slated to start shortly.

Mr. Speaker, Sir, I have continued to receive complaints from the public of the shoddy work by some contractors. The reason for this problem is because the construction industry is not adequately regulated, giving rise to contractors of questionable qualifications. To address this problem, the Government will be putting before this House a Bill to provide for the establishment of a Contractors Registration Board, with full legal mandate to register all contractors and engineers and regulate the industry.

(Applause)

Effective regulation will bring order in the industry, and ensure that Kenyans get value for their money. In addition to ensuring that our road network is better constructed and routinely maintained, the Government will make fully operational the urban, rural and the national highway authorities that were legislated for by the Roads Act.

Mr. Speaker, Sir, this country can ill afford delays in road construction. In this regard, I expect those contractors awarded tenders to ensure that they work round the clock to complete their projects in time. I also expect the engineers to effectively supervise road construction, and ensure that quality work is carried out. In particular, contracts who delay in completing road projects should not only expect to lose their contracts, but they should also be blacklisted and barred from further Government work.

(Applause)

We will, in addition to these measures, introduce legislation touching on the protection of road reserves, registration of engineers and architects, as well as quantity surveyors.

Mr. Speaker, Sir, the Government is aware of the deteriorating quality of our rail services, which is causing great concern to the business community. In line with the Concession Agreement, the Government is seeking an urgent remedial plan by the Concessionaire to turn around the performance of the railway line and ensure the achievement of the concessioning objectives. We

are aware that this remedial plan is at an advanced stage of being finalised. We expect this plan to articulate detailed actions to improve the quality of the track, increase locomotive and wagon capacity and substantially increase the cargo throughput.

Mr. Speaker, Sir, in the medium-term, to meet the needs of a growing economy, we need to make significant investments in the expansion and modernisation of our railway infrastructure. This will be an investment in a standard gauge railway network linking Kenya to its neighbours. Modalities of this, are being worked out.

Mr. Speaker, Sir, through the support of the Government of Japan, we plan to spend Kshs20 billion over the medium-term towards the modernisation of the Port of Mombasa in order to make it efficient and competitive in serving Kenya and its hinterland.

(Applause)

This will include dredging the Port of Mombasa to allow the bigger Panama ships to dock which will make it a preferred port of call. We have allocated Kshs430 million for starting on this project, while a Sessional Paper for the approval of the guarantee of the Japanese loan is before this House.

We expect the implementation of this project to significantly reduce the dwell time in handling port cargo and bring our port operations in line with international standards. This, and other reforms, will also position the Port of Mombasa as a regional services hub and should generate increased trade and employment. I will be saying much more on this later.

Mr. Speaker, Sir, turning on to Nairobi, the development of the Nairobi Metropolitan area as a services hub for financial, health, educational, agro-processing and business process outsourcing sectors is a key development objective of this Coalition Government. But we recognize that this will only be possible through a drastic improvement in infrastructure and services in Nairobi. Apart from the improved provision of water and security services, we are prioritising construction of bypasses and modern interchanges to solve traffic congestion. Also, in consultation with stakeholders in the agricultural sector and the Nairobi City Council, we will also initiate the development of a modern, secure and accessible fresh produce wholesale market with auxiliary services to expand the food supply chains and reduce pressure on food prices in Nairobi.

(Applause)

This wholesale market will be developed on the basis of Public-Private-Partnerships and is expected to inform development of such markets in other major towns in the country. These initiatives are expected to improve measurably the living conditions of Nairobians.

Mr. Speaker, Sir, on measures to expand and diversify the source of energy, as the economy grows, the demand for energy also grows. Our long-term strategy is to focus on secure, least-cost and clean energy development, regional interconnections, diversification to renewable sources and locking in efficiency gains in the distribution system. The recent upsurge in the international oil prices now calls for the need to diversify into alternative sources of energy if we are to remain competitive and achieve our growth targets. Partly to deal with the emerging challenges of high energy demands in our country, we will step up reforms to improve efficiency, reliability and quality of our electricity supply. The electricity generation and transmission networks will further be developed. This is in addition to measures to stabilise oil prices through investments in our National Oil Corporation of Kenya (NOCK) capacity, as well as national oil reserves, modalities of which, are under consideration.

Mr. Speaker, Sir, we are yet to exploit the full energy supply potential that exists within the

floor of our Rift Valley and in this regard, and consistent with our clean energy strategy, I have allocated an extra Kshs4 billion for the expansion of geothermal energy output to diversify our source of energy supply. We intend to use this allocation of Kshs4 billion to leverage even more funding from our multilateral development partners and work on that is progressing. Further, we have initiated processes to tap into renewable energy sources. To this end, this Budget allocates a further Kshs300 million for solar electricity generators to 74 public institutions and Kshs200 million towards wind power generation. Addressing the energy challenges on a sustainable basis calls for a joint approach involving all stakeholders and Kenyans at large. I, therefore, would like to encourage Kenyans and individual institutions to diversify their sources of energy supplies to include biomass, wind and solar power.

Mr. Speaker, Sir, conscious of the need to promote rural development to stem rural urban migration, we have progressively implemented a comprehensive rural electrification programme in the last four years. Going forward, we are committed to intensifying the Rural Electrification Programme (REP) countrywide by making fully operational the Rural Electrification Authority. I have accordingly allocated Kshs6.8 billion towards rural electrification, which includes the installation of mini-grids and grid extension covering trading centres, schools and health centres.

(Applause)

Mr. Speaker, Sir, turning to Information Communication and Technology (ICT) development, we have achieved tremendous progress on this front over the recent past. However, more will need to be done over the medium-term to utilise the full potential of ICT to drive growth and create employment. As a first step towards exploiting the abundant economic and employment opportunities presented by ICT, I have in this Budget allocated Kshs900 million, that is Kshs0.9 billion towards the establishment of a large Business Process Outsourcing (BPO) Park in Nairobi consistent with our Vision 2030 objectives.

(Applause)

Mr. Speaker, Sir, the operations of this BPO Park will ensure availability of accessible, efficient, reliable and affordable ICT services in Kenya which is expected to create over 10,000 employment opportunities, earn foreign exchange, and move this economy up the value chain. Plans are also underway to initiate a project that will facilitate our youth to venture into software development for local use and exports.

Mr. Speaker, Sir, as I indicated in my last year's Speech, our involvement in the undersea cable project linking our country with the rest of the world is expected to improve significantly the quality of bandwidth available for global connectivity, reduce the cost of telecommunication and position the BPO Park as an ICT regional service hub. To complete the laying of this cable and make it accessible, I have this year allocated a further Kshs700 million in addition to what Members approved during the Supplementary Estimates. The private sector will provide the rest of the financing to complete the project and this should be done before the end of this calendar year. Further, in order to provide universal access, close the digital divide between the rural and urban areas and to open up all parts of the country for commerce and trade, the Government will continue implementing the national fibre optic network in partnership with the private sector.

Mr. Speaker, Sir, on deepening the business regulatory reforms for enhanced competitiveness, as hon. Members are aware, Kenya embraces the private sector as the engine of growth and sustainable development. We have, on the structural side, been taking steps to improve the investment climate. To this end, you will recall that the Government, last year, eliminated 315 licences and simplified a further 379 out of the 1,325 licences that had been identified as aq

hinderance to growth of the small businesses. Last year, we received numerous international accolades for our efforts in streamlining the system of licensing and improving regulatory decision-making. The World Bank's doing business indicators report for 2008 ranked Kenya the eighth, among the top ten reformers on a global basis, for improving the regulatory environment for doing business, and second, within Africa.

(Applause)

Mr. Speaker, Sir, this year, a number of regulators have heeded our call to review their regulatory regimes and this has resulted in simplification, consolidation and harmonization of additional licences. Just to mention a few, the Communications Commission of Kenya (CCK) will reduce the licences that are required for setting up a business from 300 to only 16 with effect from 1st of July, 2008.

(Applause)

Mr. Speaker, Sir, other reformers on licences, include the Ministry of Tourism which is reducing the licences from 25 to two; the Mines and Geology Department is reducing from 24 to eight; the Betting Control and Licensing Board is reducing the licences from 26 to nine; the Kenya Forest Service (KFS) from 15 to 11, among others. These have effectively reduced the number of licenses of these key regulators from 390 to 46. We will continue to liaise with the regulators to ensure that future regulations with respect to licensing impose minimum burden on businesses, while still ensuring that the goals of public safety, security and health are preserved. We intend to further cut the time and procedure required by businesses while dealing with various Government agencies.

Mr. Speaker, Sir, those reforms towards improving business environment have earned our country international recognition and we must build on that momentum. We are determined to continue with those reform efforts in order to further improve Kenya's business regulatory environment and remain among the top reformers. In line with our Vision 2030 and the Private Sector Development Strategy, a new Regulatory Reform Strategy will set a stage for a more transparent, fair and less burdensome business regulatory regime. In addition, we have now taken appropriate measures, including the establishment of the Business Regulatory Reform Unit to ensure that those reforms are not eroded by creeping re-regulation. An e-Registry has been established at the Ministry of Finance to ensure scrutiny and transparency of the licence requirement. A task force has been established to fast-track the implementation of the regulatory reforms.

On measures to ensure efficiency and effective public service for growth, we shall continue to strengthen our public sector institutions in order to enhance our capacity to deliver services to Kenyans efficiently and effectively. That will involve deepening budgetary and public financial management reforms and, in particular, working with hon. Members to develop and organic budget law to mainstream results-oriented budgeting in our development strategy, which I believe hon. Members were asking for.

(Applause)

We will also strengthen our financial and debt management system and improve efficiency in public procurement through price-referencing and cost-benchmarking to ensure value for money.

On our strategy to reduce insecurity, to strengthen property rights and protect the lives and

property in order to facilitate private sector growth, this Budget allocates additional funds to the Police Force for purchase of modern crime fighting equipment, recruitment of additional officers and for upward salary adjustments. To further compliment the efforts of police in fighting crime, we will also introduce to this House the Organized Crimes Bill to contain the emergence of organised groups, gangs and militia which bode ill for our society. We will also be seeking the support of the House for the passage of the Anti-Money Laundering Bill. The internal security of our country is central to our social economic wellbeing. Last year, the Government improved significantly the terms of the disciplined forces to ensure sustained high morale. However, provisions of adequate quality housing for our disciplined forces, especially the police force, Administration Police and the Prisons Department has been a serious challenge. To increase access to housing for disciplined forces, we will spend in excess of Kshs2 billion on their housing project this year.

Mr. Speaker, Sir, accelerating and deepening governance reforms is critical for consolidating the gains we have registered in the recent past and, especially, in creating an enabling environment for the private sector to play a leading role towards achieving Vision 2030 objectives. In this regard, we propose to implement various governance reforms within the framework of governance strategy for growth, poverty reduction and equity. Several milestones will continue to be targeted under the priority measures set out in the annual governance action plan. Those targets include further strengthening of governance and anti-corruption institutions, enhancing the capacity to prosecute, faster disposal of cases and providing a framework for disposal of the recovered assets. It also includes facilitating transparency and public access to information and deepening privatisation programmes to further scale down the role of Government in economic activities that can be efficiently and effectively performed by the private sector.

On measures to promote science, technology and innovation, increasing the productivity of our capital and labour will be a key element in realising our global objectives. Therefore, in line with our Vision 2030, science, technology and innovation will play an important role in driving our growth through promotion of efficiency, productivity and competitiveness. To entrench a culture of science, technology and innovation in our society, the Coalition Government will table in this House several proposals including, among others, a National Policy for Science, Technology and Innovation, a Bill to upgrade the National Council of Science and Technology to the National Commission of Science and Technology and the creation of the National Science Foundation and National Innovation Agency.

Mr. Speaker, Sir, the Government also fully recognises the critical role that Small and Medium Enterprises (SMEs) can play as catalysts for our economic transformation and industrialisation. To this end, we will develop appropriate industrial technologies to facilitate small micro-enterprises growth, expand business incubation services to support over 100 additional enterprises and create 100 software development enterprises. To demonstrate our commitment to facilitating participation of all Kenyans, both small and big, in expanding the economic opportunities, I have allocated an amount of Kshs300 million towards industrial innovation and piloting programme covering the following areas:-

- (i) A fish-leather processing pilot project in Kisumu, Homa Bay and Migori.

(Applause)

- (ii) A mango processing project in Malindi, Kerio Valley and Murang'a.

- (iii) Mini-leather processing in Garissa, Pokot, Migori and Bungoma.

- (iv) Honey processing in Eldama Ravine, Kajiado and within the Tana and Athi River Development Authority (TARDA) region.

(v) Cashewnut and palm wine processing in Kwale and Malindi.

(vi) Fruit processing within the Meru/Tharaka Nithi and also in Kendu Bay.

(vii) Rehabilitation and upgrading of technology for a leather development centre in Nairobi to encourage creation of small and medium enterprises along the leather chains.

Mr. Speaker, Sir, I expect the roll-out and commercialisation of those technologies to positively improve regional development and welfare of our people in areas across the whole country, starting from North Eastern, Nyanza, Rift Valley, Coast and the Western Provinces, among others. We will also expand the on-going training under the Enterprise Development Centre at Jomo Kenyatta University of Agriculture and Technology (JKUAT) to cover upcoming entrepreneurs from other parts of the country. I would also wish to urge the private sector to support research in areas of more significance for development in Kenya. This will help to supplement the public resources and increase the amount of resources dedicated to research as in the case in the developed countries.

Turning now to the important issue of creating employment opportunities to empower our youth, I want to start by looking at the economic opportunities for the youth. The second broad theme of this Budget is expanding economic opportunities for our youth. The high rate of unemployment, particularly among the youth, remains the source of instability and is a great economic challenge which we must confront as a nation. We need, therefore, to intensify our collective efforts to increasing employment for the youth. Among the many initiatives to expand employment opportunities, we will introduce amendments to the Armed Forces Act to enable the youth trained at the National Youth Service to be absorbed in the armed forces.

(Applause)

Mr. Speaker, Sir, although we made some good progress towards creating youth employment in the recent past, there are reports that many income-generating projects financed through the Youth Enterprise Fund were negatively affected by the post-election violence. We expect the ongoing peace and stability to enable the youth groups to recover from those losses and expand their operations. To demonstrate our commitment to making the Youth Enterprise Fund accessible to the many enterprising youths in our country, I have once again increased the Fund by a further Kshs500 million in 2008/2009. Immediately the absorption level increases on this, we will be happy to continue increasing the Fund. I have further allocated an extra Kshs250 million towards the Youth Employment Centres countrywide to provide support, information and guidance to the various youth organizations on entrepreneurial ventures and management. In addition, efforts will be made to enhance access to the Youth Enterprise Fund, and to ensure that it achieves its intended objective of empowering the youth, and that the money does not just remain in banks while the youths could be utilizing it.

Mr. Speaker, Sir, this Budget further recognises that enhanced access to education is critical for broadening employment opportunities and reducing poverty. For Kenya to develop and create productive opportunities for our youth, primary and secondary education alone will not be enough. There is, therefore, the additional need for tertiary and vocational education, and to upgrade our science and technology base. To this end, the Government will initiate support for middle level technical colleges in order to equip the youth with life-long skills in such areas as building and engineering trades, craftsmanship, science and technology and entrepreneurial capabilities. In this regard, Kshs465 million has been allocated to cater for free tuition in accredited technical training and vocational colleges countrywide, starting from January 2009. I have been told that this time will be required to vet all the colleges and determine the ones that can be accredited to provide this education. I expect all the youth to take advantage of this offer, acquire practical skills and contribute towards our national building. I would like to appeal to the hon. Members to also

identify the various technical and vocational training centres within their constituencies, and to help them improve through the Constituencies Development Fund (CDF) to a level where they could be accredited to start providing that training to our youth at a subsidised cost.

Mr. Speaker, Sir, through sports, we are able to mobilize the youth for environmental conservation and other income-generating activities. In this regard, starting 2008/2009, and continuing over the medium-term, the Government will expand and improve accessibility to recreational sporting facilities for Kenyans. We will also initiate and make operational a national football competition countrywide in every constituency, which will act as a mechanism to productively mobilize the youth towards environmental and economic activities. To this end, I have allocated a sum of Kshs1 million to each constituency for purchase of sporting kits, including balls and uniforms, to initiate community soccer competitions. I also would like to urge our private sector players to take more interest in community sports, and to support this initiative by sponsoring more of the local tournaments to make sure that our youths are continuously and positively engaged.

Mr. Speaker, Sir, labour-intensive road construction and other works have been used to create employment opportunities not only in our country but also in a number of other developing countries. Through this Budget, we have allocated Kshs4 billion to expand and make motorable various rural road networks under the labour-intensive methods. I have also allocated, specifically, Kshs900 million, as a first step, to the construction of Garissa-Hola Road, which will be constructed exclusively by the National Youth Service (NYS). The NYS will also be contracted to construct several dams, and other water works, across the country, which will also involve the local youth in those project areas. The implementation of those projects is expected to create thousands of jobs for youths, facilitate commerce and trade and improve the overall wellbeing of the rural people. In addition, the Government will facilitate the establishment of youth eco-villages, where the young person will participate in projects covering bee-keeping, tree-planting for fuel and timber, supply of renewable energy and recycling of solid waste in urban areas. To make these projects operational, we will, in consultation with stakeholders, propose a framework for funding of such initiatives.

Mr. Speaker, Sir, I now turn to measures to create youth employment through expanded trade. We are yet to exploit fully Kenya's geographical endowment such as the Port of Mombasa and its hinterland. In addition to the reforms aimed at improving efficiency and competitiveness of our port that I mentioned earlier, the Government, in the year 2008/2009, review the current guidelines on licensing of container freight stations, and initiate a process of establishing a Free Port at Dongo Kundu in Mombasa. This free port, which will be developed in partnership with the private sector, is expected to attract a large number of commercial tourists, thereby generating downstream benefits, including employment opportunities for our youths in the hospitality industry. The free port should also facilitate the expansion of businesses by making readily available raw materials and inputs. I believe that when it is ready, there will be no need of travelling to Dubai to do shopping when we can do it in Mombasa.

Mr. Speaker, Sir, I now turn to measures to promote regional development and reduce poverty. The third broad theme of this Budget is on reducing poverty and addressing the regional inequalities. The recent crisis brought to our attention the many lessons concerning the underlying challenges we face as a country. The Grand Coalition Government now recognises that allowing inequality to persist can negatively impact on growth, threaten national unity and affect social stability. Part of our strategy to safeguard the prevailing peace and stability will involve narrowing the rural-urban and regional income gaps, as well as disparities in employment, incomes and assets through interventions, some of which I have already mentioned under the growth and employment section.

Mr. Speaker, Sir, although the CDF was intended to ensure equitable development in all parts of our country, some regions are yet to benefit from this devolved Fund due to governance related challenges. To improve the effectiveness of devolved funds in achieving regional development, the Government will institute accountability measures and guidelines to reduce duplication and mainstream these funds to the national development priorities. We will also follow up more closely on the funds that are channelled to the local authorities, like Local Authorities Transfer Fund (LATF), to ensure that they improve the lives of *wananchi* at the local level.

Mr. Speaker, Sir, the Government is very much aware of the hardships Kenyans, and especially the poor are experiencing as a result of higher food prices and which have raised the possibility of us moving away from achieving the Millennium Development Goal of halving income poverty by 2015. Many of the causes behind the high food prices are beyond the control of the Government and include the global climate change, which has affected global food production, intensified use of bio-fuel by advanced countries in response to the high fuel prices, increasing the cost of fertiliser and fuel and the increase in incomes in the emerging markets such as China and India which have changed their eating habits and translated to increased demand for food on a global basis.

Mr. Speaker, Sir, cognisant of the importance of food security for Kenyans, the Government has in the recent past made the agricultural sector one of the key sectors for development, along with physical infrastructure, education and health. In addition, in order to make food items affordable to *wananchi*, the Government has in the past zero-rated Value Added Tax (VAT) on wheat flour, milk and maize flour. To further cushion the poor against the rising cost of living, I will be proposing to zero-rate VAT on bread and rice to reduce the import duty on wheat from 35 per cent to 10 per cent. In addition, maize imports for the Strategic Grain Reserve would be imported duty free and this should help dampen the pressure on maize prices. I expect the suppliers of these goods to pass the benefits to the consumers immediately we remove the VAT. Furthermore, some of the recent actions the Government has undertaken should help ease the supply constraints. This, as hon. Members are aware, include restoring peace and the resettling of the Internally Displaced Persons (IDPs) back on their farms, provide the farm inputs such as seeds and fertiliser and enhancing the Strategic Grain Reserve by an extra two million bags to increase the supply of grains.

Mr. Speaker, Sir, the Government intends to increase the level of the Strategic Grain Reserve from the current four million bags to six million bags in the next fiscal year and by another two million bags in the next fiscal year to a total of eight million bags. The National Cereals and Produce Board (NCPB) will also play a proactive role in sourcing fertiliser at competitive international prices to help stabilise domestic prices. The good news is that we are in consultation with Uganda and Tanzania on setting up a regional fertiliser factory to ensure long time sustainable supply of this commodity.

(Applause)

Mr. Speaker, Sir, as Members would be aware, the raw material for fertiliser is available in Uganda and Tanzania and the demand is available in Kenya. So, we are sorting out where exactly we would be placing that factory. In addition, resources have been allocated for various sectors such as agriculture, water and irrigation, infrastructure and security to reduce supply constraints, improve food production and reduce the distribution cost. It is expected that with measures to increase agricultural productivity, our farmers will take advantage of the high food prices to increase their production and thereby enhance our food security.

Mr. Speaker, Sir, we have also set aside a total of Kshs4 billion for Civil Contingency

Fund, drought relief and budget reserve to be used in case of emergencies. The Government is also aware that in order to increase farm production and enhance food supply in our country, we have to improve farm productivity, reduce and manage the cost of inputs such as fertiliser and seeds to levels that are affordable to majority of our farmers. Among the key initiatives that we have taken is the provision of affordable credit to farmers. For instance, by the end of last year, a total of 25,000 farmers were awarded loans totalling over Kshs3 billion under the Seasonal Loan Credit Scheme. A further Kshs2 billion was disbursed under the Enterprise Loans Scheme.

Mr. Speaker, Sir, a new Government initiative that is geared towards eradicating hunger and raising farm level productivity is the National Accelerated Agriculture Input Programme (NAAFAP). This programme has already yielded positive results leading to 36,000 farmers getting inputs in the form of fertiliser and seed. These farmers, and this is a good success story, have subsequently managed to increase their maize production sevenfold from producing four bags per acre to 30 bags per acre and substantially improving household food security. In 2008/2009, the Government will further expand the programme to target an extra 29,000 farmers and bring the total to 65,000 farmers.

In addition the Government has and will continue to strengthen the capacity of the agricultural extension services by employing extra technical staff and providing them with transport and other facilities so that they can reach more farmers. In this regard, I have allocated an extra Kshs744 million for agricultural extension services and research. The Ministry of Agriculture has initiated a process of making fertiliser available to farmers at affordable prices. The Kenya Seed Company will further make seeds accessible to farmers at reasonable prices. To improve the welfare of the rural farmers, the Government in collaboration with local authorities will expand the wholesale fresh produce marketing infrastructure in Nairobi, as I said earlier, Mombasa, Kisumu and other major urban centres. In the medium-term, wholesale and retail markets will be established in all district headquarters countrywide to further promote business and encourage growth of agriculture.

Mr. Speaker, Sir, the arid and semi-arid region (ASAL) has lagged behind in development since independence despite its potential in such areas as agriculture, fisheries, livestock, mining, energy sources and tourism.

These piecemeal approaches to ASAL development have contributed to increased poverty and insecurity, high dependency on relief, deterioration of infrastructure and inadequate social services in the region.

Mr. Speaker, Sir, demonstrating the resolve of this Coalition Government to address the unique challenges of the northern part of our country, the Ministry of Development of Northern Kenya and Other Arid Lands has been established as a first step towards mainstreaming the aspiration of the people of that region into a national development agenda. In going forward, we have identified a number of interventions which will be implemented to improve the living conditions of the ASAL areas. These interventions which will be executed by the respective Ministries but co-ordinated by the Ministry of Development of Northern Kenya and Other Arid Lands include rehabilitation and construction of roads, expanding the supply of clean drinking water, establishing abattoirs and mini-tanneries, school feeding programmes, rural electrification and livestock support through mobile extension services. In the year 2008/2009, Kshs2.4 billion has been allocated under the respective Ministries to finance these critical programmes within Northern Kenya. In addition to the funds that I have allocated under the various boards, this Budget allocates a further Kshs900 million towards the various projects in Northern Kenya and Kshs900 million towards the construction of the Garissa-Garsen- Hola Road that I talked about and another Kshs200 million for the improvement of Marsabit and Maralal water supplies. We are in the process of also identifying and negotiating funding for other programmes within that area. We

will come to you when that comes to a point where it can be committed.

Mr. Speaker, Sir, touching on promoting development of affordable housing especially for the urban poor; most of the urban poor cannot afford decent housing due to high cost of housing in our urban areas. In order to facilitate faster development of affordable housing in Kenya, the Government will introduce in this House the Housing Bill and the Landlord and Tenant Bill. We are also committed to making housing accessible and affordable to Kenyans. In this regard, the Government, in collaboration with private sector players, will over the medium term construct about 200,000 low cost housing units annually using appropriate building technologies. The allocation of Kshs350 million in this Budget for the construction of low cost housing using appropriate technology, from the Government's perspective, demonstrates the importance this Government attaches to the welfare of its low income urban citizens. I have also allocated an additional Kshs500 million for the installation of physical and social infrastructure in the slums in 20 urban areas spread throughout the country. Effort will also be made through the local authorities to expand access to low cost affordable housing countrywide in order to allow Kenyans to own their own houses.

On measures to expand the access to water and promoting the use of irrigation, we have in the past, grossly underutilised our irrigation potential and we need to address this to bring to an end the frequent food shortages and reduce pressure on food prices. The Government will, therefore, put additional investment in small holder and large irrigation schemes and systems, to measurably increase the amount of land under irrigation and expand agricultural output. To this end, we have set aside Kshs1 billion to start the development of multi-purpose water dams which I have said will also be constructed by our National Youth Service so that we achieve the twin objective of utilising our youth and also enhancing our water capacity.

The Government will also, in the course of the year, table for debate the National Water Harvesting and Storage Policy to facilitate harnessing and harvesting of flood waters as well as the National Shared Water Resource Policy to promote equitable development of water resources nationally.

Mr. Speaker, Sir, water shortage in urban areas and rural households is an issue of great concern and the Government remains fully committed to making water accessible to Kenyans. We will embark on an ambitious programme aimed at lifting water off the women's backs into the pipes countrywide, to facilitate access to clean drinking water.

(Applause)

This initiative, besides reducing time and energy wasted in fetching water, will also avail water resources for productive agriculture and other uses. The Water Resources Board will also move quickly to invest more in water and sanitation systems including devising ways to harness rain water and expand water supplies. The Government will also initiate the development of the second Mzima Springs Project, to ensure sufficient water supply to Mombasa and its surroundings. Towards this end, this Budget has increased the allocations to the Ministry of Water and Irrigation by 26 per cent, for water and irrigation services which should see improvement in water access to all Kenyans.

On environment, recently, we celebrated the World Environment Day and the initiative to clean up the Nairobi River by the Ministry of Environment and the National Environment Management Authority in partnership with stakeholders. As hon. Members are aware, environment conservation is crucial for sustained growth and development. To sustain our growth and development efforts, we must deal with the many environmental related challenges such as destruction of water catchment areas, pollution of environment and rivers and disposal of solid

waste. I wish also to urge hon. Members and Kenyans at large, to take a leading role in environmental conservation.

Mr. Speaker, Sir, the tourism sector was adversely affected by the recent crisis. Promotion efforts by the Government are bearing fruit and need to be sustained. It has the potential to support a broad range of actors from hoteliers, transport, farmers and our youth. I have accordingly allocated a further Kshs600 million towards promotion of tourism by the Kenya Tourism Board in this Budget. Overall, compared to last year, the Budget for the Ministry of Tourism is expected to increase by over 26 per cent in the Financial Year 2008/2009.

Mr. Speaker, Sir, I will now look at investing in Kenyans for equity and higher productivity. An educated and healthy workforce is a prerequisite for any meaningful development. No country can develop to an upper middle income level without serious investment in its people through education and health. Building on the progress we made in the Free Primary Education, the Government went a step further early this year to introduce Free Secondary Education to improve transition rates by making education accessible to children especially from the poor families. To ensure that increased transition rates to secondary schools do not lead to congestion and lower quality education, I have allocated an extra Kshs280 million to build and equip new secondary schools countrywide. This is in addition to the planned construction works financed through CDF countrywide and for which we are very grateful to the Members for identifying education as a key area for financing.

(Applause)

Further, we will continue to promote expansion of day schools and ensure that they offer quality education. I have also allocated an extra Kshs1.56 billion towards the recruitment of additional teachers for both primary and secondary schools. The Government will also work out the modalities of a teaching internship programme to utilise the graduates of teaching colleges before they are absorbed by the Teachers Service Commission. The Ministry of Education will be bringing us more details on how we will incorporate all those people into our schools to ensure that we have quality education while they are getting utilised and getting practical teaching experience.

Mr. Speaker, Sir, we will continue to take steps to streamline the implementation of the Free Education Programme based on experiences learnt so far in order to ensure that the country derives the maximum benefits from this investment.

The Government has continued to improve both the quality and access to healthcare services countrywide and has made significant progress in a number of areas. In particular, we have expanded the treatment and prevention of HIV/AIDS which has resulted in the HIV/AIDS prevalence dropping from a high of 13 per cent to just about 5 per cent, with improved access to maternal health with over 2.6 million women accessing family planning services and enhanced immunization coverage now standing at over 75 per cent. We have also reduced malaria burden by providing for free, over 3.4 million treated mosquito nets to protect children and pregnant women. The Government has, in addition to these reforms, continued to expand the healthcare infrastructure with over 600 dispensaries that were constructed through CDF having been registered and 300 of them having been made fully operational.

Mr. Speaker, Sir, despite the progress we have achieved in the health sector, we recognise that more needs to be done to further improve quality of these services in order to improve the health and productivity of our people. In this regard, the Government will review the Public Health Act, so as to consolidate the 23 different public health laws into a single Act of Parliament. We will also table in this House policy papers on healthcare financing, Health Services Commission and decentralised funding for health care facilities. In addition to the reforms lined up for

implementation in the sector, we will absorb the 600 nursing staff currently on contract services under the various donor supported health projects.

(Applause)

We shall also employ, through competitive recruitment an additional 1,000 nurses bringing the total number of nurses to be employed in the year 2008 to 1,600. I expect that the deployment of these nurses will improve considerably the services being provided in our healthcare facilities countrywide and reduce the pressure in our referral units.

Mr. Speaker, Sir, with regard to improvement of medical supplies, the Government is currently fast-tracking procurement reforms under the Kenya Medical Supplies Agency (KEMSA) with a view to improving supplies of drugs and other medical supplies for the facilities countrywide. Just like the internship programme for teachers, an internship programme for health staff is under consideration to utilise once again the qualified staff who are yet to be absorbed into full time employment between their training and the time they actually get employed by the Ministry of Health.

Mr. Speaker, Sir, turning on to reduction of vulnerability among Kenyans, the Government established a Kshs1 billion fund early this year to enable the internally displaced persons (IDPs) to fully integrate into productive life. It is, indeed, very encouraging to note that Kenyans and a few development partners heeded the call by His Excellency the President and have supported this initiative by providing direct support in form of cash donations, seeds, fertilisers and farm implements among others. Together with other interventions in agriculture, employment and security, we have allocated a further Kshs500 million to the Fund, to help in the rebuilding and the reconstruction efforts. This is in addition to other funding that is being channelled directly through relief agencies by our partners, details of which we will eventually table before this House.

Mr. Speaker, Sir, the 2008/2009 Budget also takes care of the weak and vulnerable among us. Children under five years, pregnant mothers and patients suffering from HIV/AIDS, Tuberculosis (TB) and Malaria continue to receive free treatment and drugs in all our health facilities. We now have a programme that provides financial support to the guardians of HIV/AIDS affected orphans. This initiative is expected to grow from 12,500 participating households to more than 30,000 participating households in this fiscal year. This Budget goes a step further to allocate Kshs550 million towards the orphans, vulnerable children and elderly persons under that programme. With regard to the protection of the family and children, we shall also be introducing to this House further amendments to the Children Act for better implementation.

Mr. Speaker, Sir, I wish now to turn to the financial out-turn. I want to begin with the financial out-turn for the year 2007/2008. Let me briefly update hon. Members on the out-turn for the year which is just about to end. In terms of revenue, in the last budget, hon. Members will recall that I estimated that the total revenue, including the Local Authority Transfer Fund (LATF), would be at Kshs428.9 billion, comprising Kshs389.2 billion in ordinary revenue and Kshs39.6 billion in Appropriations-in-Aid (A-in-A). I am pleased to report that despite the post-election challenges that our country faced early this year, revenue growth has remained robust. We now expect to exceed that target by Kshs19.9 billion.

(Applause)

Arising from the strong performance under the income taxes, we have revised the likely revenue out-turn to Kshs448.8 billion, of which Kshs402.7 billion is ordinary revenue and

Kshs46.1 billion is A-in-A. I wish to thank the Kenyan taxpayers for their hard work in generating the revenue and, more importantly, their patriotism in paying their taxes.

On expenditure, the 2007/2008 Printed Estimates indicated total expenditure of Kshs693.6 billion including those financed through A-in-A. That consisted of Kshs154.2 billion for Consolidated Fund services, Kshs337.8 billion for Ministerial Recurrent and Kshs201.7 billion for Development Expenditures. Owing to the unforeseen commitments and huge expenditure requirements on relief supplies, security, free secondary education, the post-election related expenditures among others, I recently requested Parliament to authorise additional expenditures under the 2007/2008 Supplementary Estimates. Hon. Members will recall that the Supplementary Estimates for the Financial Year 2007/2008, which they recently approved, indicated a net increase of Kshs14.1 billion and Kshs7.1 billion for Recurrent and Development Expenditure in that order.

On the Recurrent Expenditure, the gross Recurrent Expenditures amounted to Kshs512 billion, of which Kshs43 billion was financed through user fees and duties collected and applied at source - in other words, A-in-A. The non-discretionary expenditures which are financed directly from the Consolidated Fund Services took a total of Kshs154.6 billion, while the discretionary Recurrent Expenditures took the remaining Kshs357.4 billion.

The revised allocation for Consolidated Fund Services for the fiscal year 2007/2008, therefore, consisted of Kshs41.6 billion for domestic interest, Kshs6.1 billion for foreign interest payments, Kshs25.6 billion for pension, gratuities and other CFS payments. In addition, the revised Consolidated Fund Services also included Kshs64.6 billion and Kshs16.8 billion for financing our external and domestic debts redemptions, respectively.

On development, the Supplementary Estimates for the Fiscal Year 2007/2008 indicated gross Development Expenditures amounting to Kshs209.2 billion, with Kshs39.7 billion being financed through loans, Kshs32.5 billion through grants and Kshs4 billion through local A-in-A. That left Kshs133 billion which was to be financed directly through the Exchequer.

Turning now to the projections for the 2008/2009 Financial Year, this Budget that I am presenting today is a product of a lengthy, participatory and consultative process that has involved the Government, the public and other stakeholders. The process included the sector working groups, which included the private sector, our development partners and budget submissions by Kenyans of all walks of life. I wish at this point to thank all those who really contributed to this process.

On revenue, the total revenue target for the Fiscal Year 2008/2009 is Kshs512.8 billion, which is the equivalent of 21.4 per cent of our projected Gross Domestic Product (GDP). That comprises Kshs467.9 billion of ordinary revenue and Kshs44.8 billion of A-in-A. Revenues are, thus, projected to grow by Kshs63.9 billion, including growth in ordinary revenues of Kshs65.2 billion. The growth that is projected on the revenue of 16.2 per cent is based, again, on the continuing successful implementation of reforms by the Kenya Revenue Authority (KRA) and additional tax measures that I will be proposing today. At this point, I wish to pay tribute to the efforts of our KRA for expanding the tax base and collecting all this money which has helped us to reduce our dependence on aid.

On Recurrent Expenditure, hon. Members will note from the copies of the Printed Estimates that were tabled yesterday, that the gross Recurrent Expenditure for 2008/2009 is estimated at Kshs563.6 billion. That includes Kshs39.7 billion to be financed through A-in-A and Kshs174.6 billion to be financed directly from the Consolidated Fund Services, thereby, leaving a net of Kshs388.9 billion for discretionary expenditure. The Consolidated Fund Services comprise Kshs48.7 billion for domestic interest, Kshs7.2 billion for foreign interest, Kshs28.2 billion for pension, gratuities and other CFS appropriations. In addition, I expect to finance internal and external redemptions amounting to Kshs67.9 billion and Kshs22.7 billion, respectively.

On development, the gross Development Expenditure for 2008/2009 is estimated at Kshs196.2 billion. Out of that amount, Kshs52.6 billion will be financed through A-in-A, comprising of direct project financing of Kshs30.9 billion in loans and Kshs4.7 billion in total A-in-A. Consequently, I expect to finance net Development Expenditures amounting to Kshs143.6 billion from the Exchequer. That comprises of Kshs16.7 billion in grants, Kshs16.5 billion in loans and Kshs110.3 billion from the Government of Kenya.

Mr. Speaker, Sir, on external financing, the external grants and loans have received confirmed commitments amounting to Kshs33.8 billion in grants and Kshs47.4 billion in loans that we have contracted to finance development projects. Details of the donors and the projects that are being financed are included in your copy of Development Estimates. I wish to sincerely thank those development partners who have pledged their support for our development efforts.

Mr. Speaker, Sir, looking at the revenue and expenditure, the overall fiscal deficit, including grants, in the year 2008/2009, is projected to be Kshs127 billion, which is the equivalent of 5.3 per cent of GDP. The net external financing amounting to Kshs25.2 billion or 1.1 per cent of GDP is expected to cover part of that Budget deficit, leaving Kshs101.8 billion or 4.3 per cent of GDP to be financed through several initiatives which include privatisation proceeds that are estimated at Kshs8 billion. I believe we will be working with the Privatisation Commission to identify more shares to bring to Kenyans. We will also, like I said, issue infrastructure bonds amounting to Kshs52.1 billion out of which Kshs33.6 billion will be issued through a sovereign bond externally and Kshs18.5 billion will be raised through domestic long-term bonds, leaving us with a gap that we will meet from net domestic borrowing of Kshs36 billion. This means that our fiscal framework for 2008/2009 is fully financed with no financing gap.

(Applause)

Mr. Speaker, Sir, we have managed to balance the Budget without excessive borrowing by deliberately cutting non-productive expenditures and focusing only on the priority programmes. To generate more savings, we will be asking the Ministries to identify further areas for expenditure savings through value-for-money procurement and reduction of wasteful expenditure.

The rest of my Speech outlines the various tax measures that I intend to propose through the Finance Bill, 2008 and other regulations to be tabled in this House towards the realisation of our development objectives. I, therefore, request that the remainder of my Speech be regarded as a Notice of Motion to be moved before the Committee of Ways and Means.

Mr. Speaker, Sir, the measures I intend to introduce hereunder, are broadly grouped into four priority areas. The first one is restoring growth and expanding economic opportunities. The second broad area is, further reducing poverty and promoting equity and tax compliance. The third is, deepening reforms in the financial sector to make it more efficient in mobilising savings for investments and lastly and very importantly, measures to enhance contribution to national development.

On the first broad area of restoring growth and expanding economic opportunities, the specific measures I am proposing under this action are intended to complement the various initiatives that I have already introduced in other parts of my Speech. They are intended to facilitate private sector growth by promoting growth of transport, tourism, manufacturing and construction sectors as well as ICT development in our country.

Mr. Speaker, Sir, despite its important role in promoting tourism and regional trade, our national carrier, Kenya Airways, has continued to face stiff competition within the region and internationally. While most countries zero-rate international air travel, in Kenya, international air travel is exempt and, therefore, the import tax is a cost to the airline. In line with international best

practice and in recognition of the increased cost of air travel, I propose to zero-rate VAT on the supply of international air travel in Kenya.

(Applause)

As a result of high international oil prices and rising cost of transport, most *wananchi* in the rural areas have now resorted to using motorcycles as an alternative mode of transport. This mode of transport, in addition to making it possible for our *boda boda* operators to graduate to a faster and comfortable means, has the potential to create wealth and employment opportunities for our youth in the rural areas. Therefore, to encourage the wide use of these motorcycles, I propose to zero-rate VAT on motorcycles with engine capacity of up to 250 cc.

Mr. Speaker, Sir, tourism is among the key sectors that were adversely affected during the post election unrest. Although most equipment in our hotel industry is imported duty-free, I propose to further exempt import duty on all the gymnasium equipment for use in the hotel industry. I expect this measure to accelerate recovery of the tourism industry by boosting hotel occupancy.

Although we manufacture steel products locally, hot rolled steel sections which are used in heavy construction and particularly of bridges, dams and high rise buildings are not manufactured in our country. To further reduce the cost of construction and accelerate infrastructure development, I propose to reduce the import duty on hot rolled sections from 10 per cent to 0 per cent.

(Applause)

In order to encourage growth of our industries, to expand job opportunities and to make local goods affordable, I propose to reduce the import duty on easy opening ends of cans used for food packing from 25 per cent to 10 per cent.

To promote the growth of our building industry and to increase the use of locally manufactured goods, I propose to impose a duty rate of 10 per cent on sodium sulphate which is manufactured from soda ash which is available locally, aluminium sulphate which is locally manufactured and used mostly in the treatment of water, and epoxide resin that is used in paint and shoe industries. This will protect our local production by imposing a higher cost on the cheaper imports that are being brought in to compete with these.

Mr. Speaker, Sir, to further consolidate the growth of our construction industry and to accelerate the ongoing infrastructure development in our country, I propose to reduce the import duty on cement from 40 per cent to 25 per cent to make this product available to the users. This will help to reduce the supply side constraints while the local capacity is being enhanced.

(Applause)

The ICT sector has emerged as a key driver of our growth and employment. To encourage investment in modern telecommunication equipment, enhance the penetration levels, improve efficiency in our telecommunication network and reduce the cost of telecommunication, I further propose to remove import duty on telecommunication equipment altogether. You may recall that we removed duty on computers and in line with our ICT strategy and in order to promote the development of the ICT industry, I propose to remove the import duty on all printers which are specifically used together with the computers.

Mr. Speaker, Sir, under the Vision 2030, we commit to achieve a higher growth under a

clean environment. To promote environmental conservation and improve cleanliness in our cities and towns, I propose to exempt import duty on trucks that are specifically designed for garbage collection.

I now turn to measures to reduce poverty and promote equity. The Government recognises fully the need to address the high incidence of poverty and improve supply of basic foodstuff. As I mentioned earlier, hon. Members will recall that in the last two Budgets, I zero-rated VAT on wheat flour, milk and maize flour among other measures to reduce the cost of living. In addition to these measures, I am going a step further to zero-rate VAT on bread and rice. Like I said, the suppliers of these goods should also appreciate the hardship we are facing and pass these benefits on to the consumers.

Mr. Speaker, Sir, like I said, our local capacity to produce certain grains has been adversely affected by erratic weather which has caused our stocks to decline especially maize, rice and wheat. In order, therefore, to enable the millers to import wheat grains to supplement local production, I propose to lower the duty rate of wheat from 35 per cent to either 10 per cent or US\$50 per tonne, whichever is higher, for a period of one year. Similarly, I have further removed duty on insulated tankers for conveyance of milk in order to promote and encourage safe handling and transportation of milk from the farms to the processing plants.

(Applause)

Mr. Speaker, Sir, last year, I imposed an Excise Duty of 120 per cent on plastic bags in line with our East African Community partner States to discourage environmental degradation. I have received presentations from the industry players on the effect this duty has had on the sector and consumers of basic foodstuffs packed in plastic bags. To remove the adverse effects it imposes on the sector and consumers, I am proposing to amend the law to allow for refund of any Excise Duty paid on plastic bags used for packaging by local manufacturers. I expect the traders to pass on the benefits arising from this measure by reducing the prices of basic commodities. This facility will only be available upon application to the Commissioner by a manufacturer.

To complement and encourage the efforts of the various educational institutions that provide assistance to their employees by way of subsidising the fee payable, or exempting them from paying fees in respect of their dependants, I propose to provide that where an employer who is an educational institution, grants his employee's dependants free or subsidised education, such an arrangement shall neither constitute a taxable benefit on the employee nor an income chargeable on the employer.

Mr. Speaker, Sir, last year, I exempted from tax any monthly pension paid to senior citizens of 65 years and above. This positive gesture, however, left out those senior citizens who may receive pensions in lumpsum or at intervals other than monthly. To further make life comfortable for these important senior citizens in our society, I propose to, once again, exempt lumpsum pension paid to our senior citizens. I believe, this will encourage some of us who are not there yet, to live longer.

The National Housing Corporation (NHC) has embarked on an ambitious programme of putting up low-cost housing to make houses affordable and accessible by the poor segment of society. The targeted beneficiaries of this tenant-purchase scheme, however, have not, in the past, been entitled to mortgage relief, unlike other mortgage arrangements. To ensure equity and encourage low-income Kenyans to take advantage of the National Housing Scheme, I propose to provide for relief of interest on mortgage facilities provided by the NHC up to a maximum of Kshs150,000 per annum, in line with other mortgage schemes.

Mr. Speaker, Sir, we continue to recognise the need to allow married women to declare

their income separately from sources such as employment and professional services. Now, in order to further grant our women their own right as taxpayers, I propose to allow such women to also declare income they have earned from sources such as interest and rent, which currently is being declared by their husbands.

Our Kenyan artists and sportsmen have put this country on the world map through their achievements on the global stage. However, they are required to pay tax in the countries where they perform, and at the same time, they are liable to tax in Kenya. To remove this double-taxation that might arise, I propose to allow for any tax paid abroad by any of our artists and sportsmen to be available for offset against the tax payable in Kenya, provided that the person furnishes evidence of payment of such tax in the other country and thus reduce their tax burden.

(Applause)

Mr. Speaker, Sir, presently, an employer can lodge a dispute only on penalties and interests arising from failure to adhere to the Pay-As-You Earn (PAYE) regulation. An employer, however, cannot lodge dispute on the principal tax assessed. To address this inequity and create a cost-effective avenue for redress, I propose to allow any employer who is aggrieved by any decision of the Commissioner regarding the operations of the PAYE regulation, to lodge an appeal with the local committee.

A large proportion of the current debt portfolio owed to the Kenya Revenue Authority (KRA) comprises of interest and penalties, which, as you know, are rather punitive. In order to arrest the further escalation of these debts and create certainty in our tax system and be consistent with the In Duplum Rule that we passed in the banking sector, I propose to restrict interest and penalties to no more than 100 per cent of the principal tax due.

(Applause)

That does not mean that the principal is not payable in time. The Commissioner has other leverage to ensure that it is actually paid when it is due.

Mr. Speaker, Sir, I have also continued to receive complaints of transit vehicles being diverted into the local markets and thus posing security and revenue risk to our country. In order to avoid such transit vehicles being diverted, all imported vehicles for home use will be registered before Customs release, while commercial vehicles will be registered within 14 days of the vehicle's inspection. This will also ensure that ownership of vehicles is properly registered to enable Kenyans use their vehicles as collateral to secure loans for personal development. That way, we can distinguish a vehicle awaiting registration from one which is on transit.

Mr. Speaker, Sir, currently, our excise taxes are administered under the old Customs and Excise Act, whose Customs Sections were replaced by the East African Community Customs Management Act. To ensure that Excise taxation is appropriately covered in a modern legal framework, I propose to replace the existing legislation with a formal Excise Bill. I intend to table that Bill in this august House before the end of this calendar year.

Mr. Speaker, Sir, on measures to enhance the financial sector reforms, can I start with the strengthening of our banking sector? In order to widen the scope of monetary policy instruments for regulating liquidity in the money markets, I propose to allow the Central Bank of Kenya (CBK) to issue Bank Bills and take time deposit placements by commercial banks. These new instruments, together with the existing Repurchase Agreement, popularly known as "REPOS", will give the CBK the flexibility and the muscle to deal with the current inflationary pressure through better management of liquidity in the economy.

Mr. Speaker, Sir, some foreign exchange bureaus, although licensed by the Central Bank of Kenya (CBK), breach the Central Bank Act, or the foreign bureaus exchange guidelines. In order to give the CBK an additional instrument to deal with the errant foreign exchange bureaus, I propose to empower the Bank to prescribe penalties to be paid by authorised dealers who fail or refuse to comply with any statutory guidelines issued by it.

Mr. Speaker, Sir, Vision 2030 envisages a vibrant and globally competitive financial sector, driving high levels of savings and financing our investment needs. To achieve these measures, it is necessary to carry out a number of reforms, including reforming the banking sector to facilitate the transformation of the large number of small banks in our economy to fewer but larger and stronger banks. To this end, I propose to amend the Banking Act to raise the minimum core capital requirement for banks and mortgage financial institutions from the current Kshs250 million and Kshs200 million respectively to Kshs1 billion over a period of two years. Over 90 per cent of the banks are already in this range.

Mr. Speaker, Sir, the Banking Act restricts institutions from paying out dividends until provision is made for bad and doubtful debts in addition to restricting the paying of dividends until provision is made for normal loans, in addition to other assets. In view of this, I propose to restrict institutions from paying dividends on their shares, or making any form of distribution to their shareholders until adequate provision is made for loan advances and other assets in accordance with the guidelines prescribed by the CBK.

Mr. Speaker, Sir, institutions licensed under the Banking Act do from time to time accumulate funds, or other financial assets, which for one reason or another have not been claimed by their customers or depositors, or the depositors are not even known. The funds, or assets, remain within the institutions while the beneficiaries continue to suffer. In order to address these challenges, I have constituted a task force, consisting of stakeholders in the financial sector, to look into the matter with a view to establishing the magnitude of the unclaimed financial assets currently being held by these institutions, and to propose the way forward, including the amendment of the relevant laws, to ensure these unclaimed financial assets are in safe hands and the beneficiaries are paid when they resurface. I intend to bring those measures within a comprehensive Banking Act review later in the year.

Mr. Speaker, Sir, on strengthening of our insurance industry, the Insurance Act restricts the amount an insurance company can invest in the shares, debentures or loans of any one company to five per cent, for both long term as well as general insurance business. Several insurance companies have in the recent past made presentations to the Commissioner of Insurance to have this requirement removed, arguing that shares quoted on the stock exchange are secure and provide good returns on investments. In order to address the concern raised by the insurance industry, I propose to increase the level of investments by insurance companies in shares or debentures, corporate bonds or financial institutions from five per cent to 10 per cent.

Mr. Speaker, Sir, some insurance companies also take too long to pay, or in some cases do not pay claims submitted by the insured persons, even when we pass a law to say so, or when the court has ruled in favour of the insured. To take action on such insurance companies, I propose to empower the Commissioner of Insurance to levy a penalty of five per cent of the amount awarded by the court, if a claim is not paid after 90 days.

(Applause)

To further deter the habit of failure to honour such claims, I propose to give more powers to the Commissioner to initiate the process of winding up of such insurance companies in the event that a company fails to pay both the awarded amount and the penalty within the stipulated period.

(Applause)

Mr. Speaker, Sir, the local annuities market is not very competitive due to lack of adequate information, thus making it difficult for retirees to identify good annuity providers. In addition, in order to increase the competition for the annuity market, I propose to provide for pension schemes to have an income draw-down as an alternative to annuities, subject to a minimum draw-down period of 10 years. I further propose to introduce a requirement on annuity providers to publish, on a quarterly basis, information on annuity products and rates in the print media. This will go a long way in helping retirees to choose an annuity provider with better returns.

Mr. Speaker, Sir, the retirement benefits regulations require the actuary to provide for annual pension increases during an actuarial valuation, or a defined benefits scheme, and to determine a rate of increase to apply until the next actuarial valuation. However, there is no equivalent provision for increasing pension for members in deferment, who have not reached retirement age. In order to address this omission, I propose to introduce a requirement for the actuary to provide for annual increments in deferred pensions for members of a defined benefits scheme during an actuarial valuation, and require trustees to implement the same.

The current requirement of fully paid up share capital of Kshs10 million for the corporate trustee of an individual retirement benefits scheme has so far proved to be a hinderance to the establishment of these schemes. In order to encourage the establishment of individual retirement benefits schemes, which serve a key role in increasing coverage, especially in the informal and self-employed sectors, I propose to allow for a paid up share capital of Kshs10 million to be inclusive of unimpaired reserves, as is the case for fund managers and administrators.

Mr. Speaker, Sir, on measures to deal with the deepening of capital market development, in the recent past we amended the Capital Markets Authority Act, the Stamp Duty Act and introduced asset-backed securities, among other measures, in connection with the issuance of asset-backed securities to a special purpose vehicle. Unfortunately, the said securities have not yet appeared in our market. In order to deepen capital market development, I have taken a further step to gazette asset-backed securities regulations to guide the issuance of these instruments. To this end, I wish to encourage public enterprises that have long-term financial needs, and a credible record to consider the option of issuing asset-backed securities in the market.

Mr. Speaker, Sir, in order to strengthen corporate governance, and safeguard public interest in our capital markets industry, I intend to introduce greater professionalism and accountability for fiduciary obligations imposed on directors and senior managers of stock brokers, investment banks and fund managers. To this end, I propose to bar any person who controls directly or indirectly 25 per cent of issued share capital, among other things, from holding a management position in that company. In that spirit, I propose further to introduce a 25 per cent minimum cap shareholding and control of the specified licence persons with a three year transition period for the existing licensees to comply. This will bring them at par with the banking industry which is also holding monies in public trust, so that nobody will hold more than 25 per cent and control the company. I believe the sad issues of Francis Thuo and Nyaga stockbrokers will be things of the past in our country.

Mr. Speaker, Sir, the recent mismanagement of public funds by some stock brokerage firms in the capital markets industry has raised serious concerns about the powers of the Capital Markets Authority (CMA) to protect investors. In this regard, I propose to strengthen the Authority's powers to trace and freeze assets upon reasonable suspicion of a person's involvement in fraudulent activities. I expect this measure to ensure prompt and effective responses by the Authority on reported cases of malpractice by any of its licensees to safeguard investors money.

Mr. Speaker, Sir, currently, the paid up share capital for stockbrokers and investment banks is Kshs5 million and Kshs30 million, respectively. You will recall that the Safaricom IPO has seen

these houses handle amounts to the tune of Kshs236 billion. To adequately capitalise these institutions to reflect their turnover levels in a stock exchange where market capitalization is now over and above Kshs1 trillion, I propose to increase the paid up share capital requirement to Kshs50 million for the stockbrokers and Kshs250 million for the investment banks within three years.

(Applause)

Mr. Speaker, Sir, all capital market dealers who deal directly with clients and are involved in trading activities on behalf of clients owe those clients a fiduciary duty in carrying out those responsibilities. The market and investors should therefore, not be exposed to the losses arising from the breach of these fiduciary duties through negligence, omissions, misrepresentations or malpractices. In this regard, I propose to introduce a requirement of stockbrokers, investment banks and fund managers to have in place mandatory professional indemnity insurance cover for the failure of their employees.

(Applause)

Mr. Speaker, Sir, last year, I exempted from stamp duty the transfer of a family property to a limited liability company whose shares are wholly owned by a family to encourage consolidation of family property and to encourage families to register all their land in institutional structures rather than one person in the family hiding the title deed. This year, I am going a step further to exempt from stamp duty the instruments that are used for the transfer of property to a listed property investment vehicle. This measure is expected to further encourage voluntary land consolidation and discourage non-productive use of land. Mr. Speaker, Sir, to amplify this further, we have people in this country who have several pieces of land across the country and cannot use any of them productively, but can now, under this, transfer them into a collective investment vehicle and could even use them to sell shares or even list them. I am sure that we will tap into the potential of that land without physically keeping on moving to each of those titles.

Mr. Speaker, Sir, in order to facilitate a more cost-effective means in which listed companies can communicate with their shareholders and drawing on the experience of the KenGen shareholders and the Safaricom shareholders where the numbers have increased substantially, I propose an amendment of the Companies Act in order to provide listed companies the option to publish in at least two of the local dailies and on at least two days, the notice calling the annual general meeting, a summary of the annual statement and the auditors report. This amendment will also allow for publication and circulation of information in electronic form when calling for annual general meetings.

Mr. Speaker, Sir, I now move to measures on contribution to national development. Last year, I proposed changes to our cigarette excise regime from a Retail Selling Price or RSP-based to product characteristic in order to bring into the tax net all the imported cigarettes for which we can all determine as selling price until they are actually on the shelves. In view of the current inflationary pressures, the RSP-based regime has been challenged by the increase in the prices moving way above the brackets and is actually restricting free adjustment of prices by containing people within certain brackets. I am aware of the challenges that were brought before the House in terms of absorbing the change. In order to address the challenges and to bring into the net the imported cigarettes, and to move the current price-based practice to one that is based on product characteristics practice, I propose in the interim to introduce a hybrid of RSP-based and characteristic-based excise regime for cigarettes. Now, this will enable the industry players to make

the necessary adjustments to eventually move to the characteristic-based regime when they realise the two amount to the same thing.

Mr. Speaker, Sir, in addition and in support of the priority programmes that we plan to implement, I propose to allow the cigarette smokers to be proud Kenyans by making additional token contributions averaging about Kshs7 per packet towards development.

(Applause)

In this regard, the new rates that will be applicable for the categories "a", "b", "c" and "d" will be Kshs700. For "b", Kshs1,200. In "c", Kshs1,500 and in "d", Kshs2,500 per 1,000 cigarettes, respectively. Through this token contribution, I expect to collect an additional Kshs1 billion from these Kenyans.

(Applause)

Mr. Speaker, Sir, hon. Members will recall that last year I increased the excise tax payable on malt beer by only Kshs2 per litre from Kshs48 to Kshs50 on equivalent of Kshs1 per bottle. Now, following this insignificant adjustment, the industry immediately advertised a price adjustment of Kshs5 per bottle which translated to a net gain to the industry of Kshs4 per bottle. Now, to recoup part of this gain that went to the industry, and to finance the priority programmes in this Budget, I propose that we split that Kshs4 gain by increasing the excise tax on malt beer by a modest amount of Kshs4 per bottle which will bring the rate on these beers in line with the rates currently applicable on the stouts.

Further, Mr. Speaker, Sir, to ensure equity in the beer taxation and to avoid the down-trading as people move from malt beer to the non-malt beer because it has a lower tax, I propose to increase, as a first step, the Excise Tax rate on the non-malt beer by Kshs10 per litre from the current Kshs26 to Kshs36 per litre, which is Kshs5 per half-litre bottle. However, to mitigate the effects of reduced supplies of locally produced barley, I am also in consultation with my colleagues in the East Africa Community, proposing to reduce the duty rates applicable to imported barley which is necessary to produce that beer, so that *wananchi* can enjoy and contribute to the tax kitty. I expect the Excise Tax on this two measures to generate an additional Kshs1.1 billion to the Exchequer.

In line with the international best practice and to ensure there is simplicity and equity in the Excise taxation of portable spirits and wines, I propose to introduce a regime that is based on alcohol strength by volume popularly referred to as ABV. That regime translates the current rates applicable on portable wines and spirits to Kshs7 per 1 per cent of alcohol. For instance, if a bottle of whisky is currently labelled 40 per cent of alcohol and it is one litre, the tax payable on it has been Kshs280. It will remain at Kshs280 because it is $Kshs7 \times 40 \times \text{one litre}$. I think that will now make it simpler for the different alcohol strengths to be assessed by the Excise Department. These measures will take effect from midnight tonight!

I am not through yet with the national development. The tough times that our country is facing, and what we have gone through, calls for extra sacrifice by all Kenyans of good will. While I must salute the majority of our citizens who, in spite of their meagre resources, continue to support the country by paying their fair share of taxes, we, as leaders, need to go an extra mile to demonstrate leadership by example.

(Applause)

Indeed, a running theme of this Budget is reducing inequality among Kenyans. To this end, I am

proposing to amend the law to make allowances paid to Members of the august House and Constitutional Office holders taxable.

(Applause)

Thank you, hon. Members, for that concurrence that we need to set the pace.

As I conclude my Budget Statement, I would like my fellow hon. Members and all Kenyans at large to appreciate that the issue of poverty and inequality in our country is a serious social and political problem that we can no longer afford to ignore. Measures to reduce poverty and inequality are essential for peaceful development of Kenya. The Vision 2030 that His Excellency the President launched on 10th June, 2008, provides a clear road map to conquer poverty in this country. To actualize Vision 2030 and the Medium-Term Plan, the Budget that I have presented today provides the first bold steps in transforming Kenya into a high middle income country with a high quality of life for our people.

To realise our dream, we must foster unity of purpose and be proud of being Kenyans. We must appreciate our ethnic diversity as a valuable asset and not a liability. We must embrace hard work as a basis for sustainable wealth creation. Above all, and in line with the theme of this Budget, we must work together to build this beautiful country of ours into a cohesive, equitable and prosperous country.

Mr. Speaker, Sir, as I mentioned when I was relating the history from where we have come in five years, we have proved to ourselves that we can turn around our economy. The underlying fundamentals are still strong. We have now found peace and, with our joint resolve to move forward together under the Grand Coalition Government, we can ensure stability of our country. I believe that we can recover and return to the high growth momentum we have registered in the last years. We must do that for the sake of our country, region and our posterity.

With those few remarks, I beg to move.

(Applause)

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

(Question proposed)

DEPARTURE OF HIS EXCELLENCY THE PRESIDENT

Mr. Speaker: Order, hon. Members! It is now the pleasure of His Excellency the President to take his leave. Will all kindly arise?

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

ADJOURNMENT

Mr. Speaker: Order, hon. Members! It is now time for the interruption of business. The House is, therefore, adjourned until Tuesday, 19th June, 2008, at 2.30 p.m.

The House rose at 5.25 p.m.