NATIONAL ASSEMBLY

OFFICIAL REPORT

Thursday, 14th June, 2001

The House met at 2.55 p.m.

[Mr. Speaker in the Chair]

PRAYERS

(Mr. Mwenje and a few other hon. Members sat on the Opposition Front Bench)

Mr. Speaker: Order! Will you please take your respective places, Mr. Mwenje and company? The same applies on this side as well. Go and sit where you are supposed to sit. Sit according to your rank.

Dr. G. Galgalo: On a point of order, Mr. Speaker, Sir. In view of your ruling, is it in order for hon. Kirwa who is a Member of the KANU Back Bench to sit on the Opposition Front Bench?

Mr. Speaker: Order! We are not in business yet. So, sit tight!

Mr. Karume: Kwa jambo la nidhamu, Bw. Spika. Sisi sote hapa ni Wabunge wanaoheshimiwa. Tukiangalia upande huu wa Upinzani, bado haujajaa na huku umewapa Wabunge wengine katika upande wa Serikali "dining tables" wakalie. Jambo kama hili halijaonekana katika Bunge hili. Ingefaa warudi upande huu wa Upinzani.

(Laughter)

Mr. Speaker: Order! Mr. Karume, according to me, as long as the Members are not dining in the House, there is nothing wrong.

(Laughter)

Order! I am told too much of anything is poisonous and I think we have enjoyed ourselves too much already. Can we now reserve our energy for more serious enterprises that have brought us to this Chamber. We will now sit in an orderly fashion. Business has not commenced and you can enjoy yourselves chatting to your friend next door as long as your have a space to chat with him or her.

ARRIVAL OF HIS EXCELLENCY THE PRESIDENT

(Mr. Speaker announced the arrival of His Excellency the President, the hon. Daniel Toroitich arap Moi, M.P.)

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

PAPERS LAID

The following Papers were laid on the Table:-

2001/2002 Estimates of Revenue of the Government of Kenya for the year ending 30th June, 2002.
Financial Statement for 2001/2002 (Budget).

(By the Minister for Finance)

COMMITTEE OF WAYS AND MEANS

MOTION

THAT, MR. SPEAKER DO NOW LEAVE THE CHAIR

The Minister for Finance (Mr. Okemo): Mr. Speaker, Sir, I beg to move that Mr. Speaker do now leave the Chair. As we come to the end of the Fiscal Year 2000/2001, and as we usher in the Fiscal Year 2001/2002, we need to reflect on the fact that our economy recorded a decline of 0.3 per cent, the first negative growth since Independence. This dismal performance was caused by many factors, the main one being the effects of one of the severest droughts experienced in recent memory. All sectors of the economy were adversely affected. We are all keenly aware of the devastating effects, the suffering and hardship this has placed on our people. We should, however, feel encouraged by the undeniable fact that our economy remained reasonably resilient and we managed to weather negative consequences of the drought and other adverse economic shocks. We achieved this through the Government's timely intervention to deal effectively and comprehensively with the drought-related emergencies and the Government's continued implementation of prudent economic reform measures.

In this regard, I would like to pay tribute to His Excellency the President, hon. Daniel Toroitich arap Moi, for his personal involvement in mobilising domestic and international support which delivered needed relief to our affected citizens. I would also like to extend our thanks to His Excellency the President for his firm and steady stewardship of the nation and his unwavering commitment to the economic reform programme which enabled the economy to withstand this very serious drought and other difficult conditions. I would also like to thank my colleagues in the Cabinet, all hon. Members of this House and all Kenyans for their hard work and patriotic spirit. I would like to thank our development partners for their support and understanding during these difficult times.

Mr. Speaker, Sir, the last five years have been very challenging. During this period, Kenya has experienced extreme weather conditions with both the damaging *El Nino* rains in 1997 and the severe drought in 1999 and 2000. The *El Nino* rains damaged our road network and other infrastructure and caused serious food shortages. The drought drastically reduced our water supply, decimated our hydro-electricity supply by about 41 per cent and caused further and even more serious food shortages. This negative impact on physical infrastructure adversely affected productivity in all sectors of our economy but particularly in the agricultural and manufacturing sectors. Our economic performance was made worse by capital outflows from the country. Both overseas development assistance and foreign direct investment have been declining and negative on a net basis during that period. Our economy was also negatively affected by the stop-go relations with development partners who, as you know, suspended disbursement of committed funds in 1997 and once again in November, 2000.

High real interest rates in Kenya were also a major disincentive to the private sector, which was unable to access credit for investment in expansion projects and new businesses which would have created jobs and economic activity. Insecurity in our country, both clashes in the rural areas and the breakdown in law and order in urban areas undermined investor confidence and tarnished Kenya's image as a safe tourist destination. Poor management of public expenditure and corruption was also a cause of poor performance in the public sector. Low returns on public investment as a result of inflated costs in public projects and misappropriation of funds continue to deny us good service delivery. This is one of the main reasons the public sector has not provided the enabling infrastructure for our people and private sector enterprises to compete effectively with imports and to export to regional markets and the rest of the world.

Slow implementation of public sector projects even when funding was available added to the poor performance of the economy. Furthermore, increased consumption and declining public and private investment have resulted in declining capital formation over an extended period of time, including last year, when capital formation declined to 15.5 per cent of Gross Domestic Product (GDP) from 16.2 per cent in 1999. This compares negatively against the target gross investment ratio of 25 per cent of GDP on a sustained basis, which is needed if we have to accelerate economic growth to the desired 6 per cent and significantly reduce poverty. Equally, to finance this needed investment, gross national savings as a ratio of GDP must rise from the current dismal 5.9 per cent to about 20 per cent. These factors have had an adverse impact on economic growth, employment and poverty.

The overall growth of the economy in real terms declined from a high of 4.8 per cent in 1995 to negative 0.3 per cent in 2000 while the percentage of Kenyans living below the poverty line has been estimated to have grown from 52 per cent in 1997 to 56 per cent currently. It is clear that there is an urgent need to seriously address the challenges of revamping our economy. These urgent efforts must include the following:-

(i) Restoring our physical infrastructure, which enables economic activities to take place.

(ii) Maintaining stale macro-economic conditions, including low inflation, low and stable interest rates and stable exchange rates.

(iii) Restoring investor confidence in order to attract new investments and create jobs for our young population.

(iv) Restoring security, rule of law and delivery of prompt justice.

(v) Restoring our relationship with the International Monetary Fund (IMF) and other development partners in order to regain access to international capital, which we need to generate growth in our economy in order to reduce poverty.

The Government is committed to undertake measures to create the necessary and sufficient enabling conditions to put our economy on the highest sustainable growth path as quickly as possible. However, we are confronted with a situation where our investment needs far exceed the available resources. Progress in poverty reduction will, therefore, depend on, first, our success in mobilising resources, both domestic and international; secondly, how well we prioritise our expenditure and allocate the scarce resources; thirdly, how efficiently we use our resources and how well we actually implement selected policies, programmes and projects.

Mr. Speaker, Sir, this Budget, whose theme is "Effective Resource Allocation for Growth and Poverty Reduction" seeks to target allocation of available resources to areas that can accelerate economic growth through increased productivity and employment and which have a direct impact on reducing poverty.

I will now review, briefly, developments at the global level. The world economy, buoyed by positive developments in the United States (USA), Western Europe, Japan, Asia, Africa, the Middle East, Latin America and the Caribbean, registered stronger growth in 2000 when output grew by 4.8 per cent compared to 3.5 per cent in 1999. African economies accelerated by 3.0 per cent in 2000, up from 2.3 per cent in 1999. This expansion drew much impetus from favourable external factors, mainly higher oil prices, which boosted oil producing economies and continued growth in developed countries that represented the continent's major export market. However, the pattern of growth across major regional economies of the world remained uneven.

Mr. Speaker, Sir, in Africa, countries which are war-ravaged or experienced drought recorded weak performance. Those that are net exporters of oil and those that implemented sustained economic reforms recorded higher growth rates. In Eastern Africa, growth decelerated from 3.4 per cent in 1999 to 3.1 per cent in 2000 mainly due to the armed conflicts between Eritrea and Ethiopia, drought in Kenya and weak export prices.

With the growth in the global economy and the reduction in trade barriers, the volume of world trade grew considerably by 12.4 per cent in 2000 compared to 5.3 per cent in 1999. This expansion benefited all major regions of the world, including Africa whose export in US Dollars grew by 26 per cent while imports grew by 7 per cent. Consequently, Africa posted trade and current accounts surpluses of US$21.5 billion and US$1.3 billion respectively, thereby reversing past trends.

Intra-African trade also expanded by 18 per cent in 2000. International debt finance flows into the continent increased significantly. While these developments are commendable, it is important to note that intra-Africa trade is still hampered by trade barriers and lack of trade finance. Inflation in advanced economies increased from 1.4 per cent in 1999 to 2.3 per cent in 2000. As a result, short-term interest rates increased from 3.4 per cent to 4.5 per cent. In Africa, inflation increased to 13.5 per cent in 2000 from 11.5 per cent in 1999. In Sub-Saharan Africa, inflation was even higher at 17.4 per cent in 2000, up from 14.5 per cent in 1999.

It is encouraging to note that future prospects look bright. Global growth in 2001 is expected to remain strong although at a slower pace of 3.2 per cent. Gross Domestic Product (GDP) growth in the United States (US) is expected to slow down to 1.5 per cent, the lowest level for a decade. Other major regions which are expected to slow down include Japan, emerging Asia and Latin America. Activity in Europe will nonetheless remain reasonably robust. Projections for African economies indicate that if countries continue implementing sound macro-economics and structural policies, and if there is a significant improvement in the security situation, growth will further accelerate to about 4.2 per cent.

Mr. Speaker, Sir, I now turn to the domestic economy. Kenya's economic performance weakened further in the Year 2000/2001. As I have already stated, overall growth in real terms slowed to negative 0.3 per cent in 2000 compared to 1.4 per cent in 1999, 1.8 per cent in 1998 and 2.3 per cent in 1997. This is significantly below the original growth target of 2.3 per cent. As a result, the per-capita income and employment opportunities have continued to decline and poverty has increased.

Although economic conditions have been very difficult, we managed to sustain a relatively slow but stable macro-economic environment. Although drought pushed up food and energy prices, we managed to achieve an annual average inflation rate only 6.2 per cent in 2000 compared to 3.5 per cent in 1999. It was a major achievement to keep inflation at a single digit level under the difficult conditions that prevailed.

The Shilling remained reasonably stable, depreciating by about 6 per cent to stand at Kshs78.7 to the US Dollar during December, 2000. Interest rates as measured by the 91-day Treasury Bill rate came down significantly and remained stable at a lower rate. This macro-economic stability is attributable to the prudent fiscal policies pursued by the Government. It is projected that the overall fiscal position on a commitment basis, including grants, will record a deficit of about 1.8 per cent as the ratio of the GDP in the Year 2000/2001, compared to a surplus of 0.6 per cent in the previous year.

Revenues performed better than had been anticipated, but this was largely due to improved receipts from Value Added Tax (VAT), Import Duty and Excise Duty. This is partly attributable to continued efforts by the Kenya Revenue Authority (KRA) to improve enforcement and administrative measures as part of the medium-term corporate strategy and to the tightening of policies and procedures for tax exemption. The suspension of disbursement by the International Monetary Fund (IMF) caused the Government to reduce expenditure, including drought-related expenditure and to increase domestic borrowing instead of adhering to the original target of reducing domestic debt by Kshs5.7 billion.

Mr. Speaker, Sir, turning to the external sector, the overall balance of payment recorded a deficit of US$43 million. Our trade deficit deteriorated because exports remained stagnant in 2000 as a result of depressed commodity prices, while imports grew by 13 per cent primarily due to additional food imports. The current account, however, remained stable at 2.9 per cent of GDP over 1999 to 2000. This was attributable to an increase of about 42 per cent in net services.

The capital account surplus declined by about 25 per cent to stand at US$234 million. Official foreign exchange reserves, however, remained adequate to cover 3.3 months of imports. As a ratio of GDP, public external debts remained stable at 51 per cent while domestic debt declined from 21 per cent in 1999 to 20 per cent in 2000.

Last year, I presented to this House a detailed economic programme for Kenya as spelt out in the Interim Poverty Reduction Strategy Paper (IPRSP). The IPRSP, which reflected a broad consensus on Kenya's development vision, national objectives, priority policies, programmes and projects formed the basis for allocation of budgetary resources. On the basis of that economic programme, we were able to re-open access to international capital finance by normalising our relationship with the international financial institutions. As a result, our development partners committed Kshs21.7 billion as programme finance to support the 2000/2001 Budget. However, we were able to access only Kshs7.5 billion composed of Kshs3.9 billion of programme loans and Kshs3.6 billion of programme grants.

Despite the setbacks, we implemented the programme outlined in the IPRSP and made significant progress in a number of areas. Details of the progress of implementation are contained in the PRSP, which forms part of the Budget document. Briefly, I would like to highlight that the Budget deficit has been kept at manageable levels. This reduced pressure on domestic interest rates, which were maintained at stable and relatively low levels compared to the previous year. The Central Bank of Kenya (CBK) maintained money supply growth within target levels to ensure price stability.

In agriculture, we increased the budgetary provision for rural water and implemented institutional reforms aimed at increasing ownership and control by farmers. In education, we revised both the primary and secondary schools curriculum to reduce the number of examinable subjects and the cost of education to parents. In the areas of trade, tourism and industry, we undertook a great initiative to promote Kenya and its products, and improve market access.

In the area of public administration, we completed Phase One of the Public Sector Reforms Programme, which saw a number of public servants retrenched as part of the implementation of the recommendations to streamline Government operations and improve service delivery. Progress has been made in preparing a number of enterprises for privatisation. We established the National AIDS Control Council (NACC) and mobilised over US$50 million to help combat this epidemic. AIDS control committees have been set up in all Ministries at all levels, including provinces and constituencies. This has strengthened our capacity in responding to the HIV/AIDS pandemic.

Mr. Speaker, Sir, in the area of governance, we implemented a large number of measures and we increased the Budgetary allocations to oversight institutions, including the Judiciary, which was able to accommodate commercial courts and increase the number of judges. We took steps to increase the independence of the Controller and Auditor-General's office and expand its capacity to present timely reports. In addition, the Cabinet approved updated and comprehensive procurement regulations for implementation in all public institutions. The Government has now gazetted regulations that re-define the procurement procedures and guidelines. Tendering procedures have been decentralised, by giving more powers and responsibilities to the Accounting Officers and making them fully accountable for all procurement decisions made. We have also streamlined District Treasuries by providing for the establishment of separate accounts for each line Ministry represented at the district. In order to strengthen the Budget, financial management and improved transparency, we have accelerated the development of an integrated financial management systems. We have also put in place procedures for disbursement, management and monitoring of the Local Authority Transfer Fund (LATF).

Mr. Speaker, Sir, hon. Members are aware that disbursement of funding by the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility, was suspended late last year, as a result of the non-completion of a number of measures agreed upon with the IMF and World Bank. These measures include: The privatisation of Telkom, the enactment of the Anti-Corruption and Economic Crimes Bill and the Code of Ethics for Public Servants Bill. In addition, the declaration by the High Court that the creation and existence of the Kenya Anti-Corruption Authority (KACA) was inconsistent with the Constitution and, therefore, illegal. It created an additional obstacle in relation with our development partners. This is because the programme that we agreed with them had expected a substantial strengthening of the KACA.

Mr. Speaker, Sir, the suspension of disbursement severely affected the implementation of reform programmes, since the Government was forced to cut down its expenditure in the second half of the year 2000/2001. Even where projects and programmes continue to receive donor funds, there were delays in disbursement of funds, which affected implementation. There was also slow disbursement of Government funds to priority activities due to the introduction of the new financial accounting systems.

Mr. Speaker, Sir, although commendable efforts were made to implement various measures identified in the IPRSP, the pace of implementation of identified strategies slowed down as a result of these adverse factors. The preliminary assessment of the first year of the implementation of the IPRSP shows that growth enhancement objectives were not met and poverty reduction results were less than satisfactory.

Mr. Speaker, Sir, in order to make progress in meeting its growth and poverty reduction objectives, the Government is strongly committed to implement prudent economic reform measures. The Government has intensified its dialogue with development partners and we have continued to hold constructive discussions at the highest level. Indeed, the joint IMF and the World Bank mission visited the country in May, 2001, to review our final Poverty Reduction Strategy Paper (PRSP) and to assess our economy's performance and economic programmes for 2001/2002 to 2003/2004. Another mission is planned for 10th June to early July, 2001. Based on our on-going discussions, we are now optimistic that the disbursement of the second tranche of the IMF programme will be released by August/September, 2001. With the concerted efforts of all Kenyans, there is no doubt that positive impact of our reform programme will be spelt out in the following year.

Mr. Speaker, Sir, last year, the Cabinet advised that we conduct more comprehensive and elaborate consultations down to the grassroot levels in preparing the final PRSP. The objectives of this consultation was to widen participation, inclusion and ownership of development programmes and projects, all the way to the community level. I am happy to inform this House that consultations have been carried out in all 70 districts of the Republic of Kenya and it include all the stakeholder category, such as the vulnerable groups, including women, youths, pastoralist groups, people with disabilities, civil societies and the private sector.

In addition, Participatory Poverty Assessments have been conducted in 10 districts. The consultations were a great success and the priorities contained in the PRSP reflect the aspirations of all Kenyans. Over all, these aspirations cut across all the communities and reflect strongly the need for them to have the capacity and ability to meet their basic needs. I wish to thank all those who have made an input into the PRSP and particularly hon. Members, who actually took time off to participate in the consultation, in their respective districts and at the national level. I believe you found these consultations to be an eye opener up and an humbling experience.

Mr. Speaker, Sir, a critical and important part of our poverty reduction efforts is the identification of the national priorities, which conform to the aspirations of Kenyans at the community level. The PRSP, which forms the basis for this Budget identified national priorities by blending those emerging from the consultations at the national and community level. All the districts identified core priorities that must be tackled as a matter of urgency. Overall, Agriculture and Rural Development emerged as the highest ranked priority sector followed by Human Resource Development, Physical Infrastructure, Trade, Tourism and Industry; Public Safety, Law and Order, Public Administration and Information Technology. This budget attempts to allocate resources to sectors according to this priority ranking. Ministries or departments have been allocated as resources, based on the priority ranking system established under the PRSP. The PRSP also identified issues which cut across all sectors. These include, among others, HIV/AIDS, bad governance, gender imbalances, problems affecting the youths and pastoral communities, problems affecting people with disabilities, poor infrastructure, poor enabling environment for private sector, poor access to financial services and security.

Mr. Speaker, Sir, agriculture is critical to accelerating growth and achieving a positive impact on poverty alleviation. Last year, this sector declined by 2.4 per cent compared with a growth of 1.2 per cent of 1999. In order to effectively improve the lives of the majority of Kenyans, we have to invest more resources in the rural areas and in agriculture. We must implement specific measures to increase crop and livestock production and improve supportive infrastructure in rural areas, including access to credit and market. Our priority for crop development will be on building effective and efficient participatory extension systems. Accordingly, the Government will increase the Budgetary allocations for extension services. The Government will also spend about 40 per cent of the road maintenance levy, equivalent to about Kshs3.2 billion to maintain and upgrade rural access road.

Mr. Speaker, Sir, community involvement in road maintenance will also be encouraged. To facilitate the establishment of efficient rural finance systems, the Government will support micro-finance schemes by putting in place the appropriate institutional and policy arrangements. The medium term objectives is to facilitate the creation of national, rural agricultural credit facility and additional micro-finance institutions. The co-operatives remain viable mechanisms for small-holder producers to access inputs and markets. In this regard, improving governance of the co-operative sector will be addressed in the on-going review of the Co-operatives Act. Profiteering by co-operative leadership is a vice that should be combated by us all.

Mr. Speaker, Sir, the Government will provide additional resources in the next fiscal year to help alleviate water problems of rural communities. These activities will include, sinking additional boreholes, constructing dams, promoting afforestation and protecting water catchment areas. Initiatives to promote rain harvesting and sufficient utilisation of resources in the production of crops and for the livestock will receive greater emphasis.

Initiatives to promote rain harvesting and its efficient utilisation in the production of crops and for livestock will receive greater emphasis. Livestock production is important for people living in ASAL areas. The Government will intensify the mechanisms to control and eradicate livestock diseases and to promote livestock extension services. The Government will also explore options for viable marketing systems. Food security will be improved by maintaining national and strategic reserves. The Government has set aside Kshs1.5 billion for this purpose. In order to strengthen its capacity to deal with disasters, the Government will facilitate the implementation of an early warning system. It is expected that the Commission of Inquiry appointed to examine the land law system will complete its work during the next financial year. Once this is done, the Government will strive to implement the necessary recommendations. Other priority areas include environmental management and conservation through the development and enforcement of environmental standards and creation of awareness.

Mr. Speaker, Sir, I would like to inform this House that the Government is developing a Rural Development Strategy which will provide a coherent framework for effective co-ordination of investment in rural areas. The Kenya Rural Development Strategy which is a long term plan aims at implementing broad based interventions on the basis of stakeholder participation and empowerment. The major thrust of the strategy will be to promote an all-inclusive decentralisation process involving the delegation of development management to the community level. Deliberate effort to identify opportunities that support income generation in the rural areas will enhance poverty reduction. It is estimated that the above measures will revamp the agricultural sector which will grow by upto 3 per cent in the next year and contribute significantly to poverty reduction and growth.

Mr. Speaker, Sir, education empowers people to improve their welfare and participate actively in national development. As we move towards the goal of universal primary education, re-orienting education to make it more relevant to the needs of the economy remains a critical challenge. During the 2001/2002 Financial Year, the highest priority in this sub-sector will be to improve access to basic education, including special education, retention and the quality of education. This will be achieved through collaboration with other stakeholders in enhancing the provision of textbooks and other teaching and learning materials. The Government has, in this regard, increased budgetary allocation for textbooks by 20 per cent. The management and provision of bursaries to the poor and the vulnerable such as the girl child and people with disabilities will also be enhanced. About Kshs600 million has been set aside in the next fiscal year for secondary schools bursaries, grants to schools for the handicapped and other school activities. The provision of grants to secondary schools in poor areas will also be a priority and the Government has increased the budgetary allocation for this purpose. The development budget for the School Feeding Programme, the Early Childhood Programme and Curriculum Support Services has been increased significantly.

Mr. Speaker, Sir, various stakeholders including NGOs, the private sector and other co-operating partners will be mobilised to provide additional educational facilities, while the review of the curriculum will continue at all levels to ensure flexibility, affordability, quality and relevance. Resources to institutions catering for children with special needs will be enhanced while the School Feeding Programme will be intensified.

Mr. Speaker, Sir, the declining health standards and re-emergence of diseases, the high cost of health care and the HIV/AIDS pandemic are areas of great concern and need immediate action by all. In order to guarantee availability, accessibility and affordability to those most in need, the Government will collaborate with relevant stakeholders to increase funding to preventive healthcare, promotive services and rural health services. Indeed, the non-wage Recurrent and Development budgetary allocation to rural health centres and dispensaries has been increased by about 40 per cent to Kshs2.6 billion. To facilitate access to healthcare services, the Government will continue to waive fees for the treatment of certain categories of people and diseases and improve enforcement of the waiver system. The maintenance of health equipment and facilities will also be improved.

Mr. Speaker, Sir, the capacity to respond to the HIV/AIDS pandemic will be strengthened through increased funding, training, sensitization and creation of awareness. A total of Kshs146 million has been set aside in the next financial year to support the activities of the National AIDS Council and the National AIDS Control Programme.

Mr. Speaker, Sir, the provision of an appropriate road network to support economic activity remains a major challenge for the Government. In this fiscal year, a total of Kshs7.6 billion has been raised through the fuel levy and was used to maintain roads, both under the central and local governments. In the next financial year, the Government expects to collect about Kshs8 billion for this purpose. To ensure effective utilisation of these resources, the Kenya Roads Board (KRB) which will oversee the maintenance and rehabilitation of all major roads and the District Roads Committees (DRCs) which will oversee the maintenance of roads in rural areas will be fully operationalized.

Hon. Members: Shame!

The Minister for Finance (Mr. Okemo): This will enable the channelling of resources to the districts and facilitate the upgrading and maintenance of rural access roads. Axle load limits will be strictly enforced while community participation and involvement in road maintenance will also be emphasized.

Mr. Speaker, Sir, the performance of our electric power sub-sector in the 1990s was to say the least very unsatisfactory because 36 per cent of the planned addition in new generation capacity was not met. Between 1991 and 2000, some 590 Megawatts of new generating capacity should have come on stream, as opposed to 378 Megawatts. Because of this investment deficit coupled with occasional severe droughts in our hydro-power catchment areas, our domestic power supply has become inadequate and unreliable. The massive power rationing experienced in the country during the second half of the last year attests to the inadequacy of our electric power supply. The reforms which have taken place since 1994 including tariff adjustments and liberalisation of power generation to broaden financial resource base for power generation through private sector participation have had the short-term effect of making our electricity tariffs higher than those of COMESA member countries, thus impacting negatively on the competitiveness of our manufacturers. Despite these reforms, there has been limited private sector interest in power generation and the high tariff level demanded by the private sector investors, popularly known as Independent Power Producers (IPPs) has had the effect of raising our retail tariffs. Therefore, we must address the issue of enhancing private sector participation at generation tariffs which are competitive with those of our trading partners in COMESA and elsewhere.

Mr. Speaker, Sir, our immediate priority in the next three to four years will be to ensure that the power generation projects currently under implementation do not slip further from their scheduled commissioning dates. These include the two 64 Megawatts geo-thermal power plant at Ol Karia, one by an IPP and the other by KENGEN; and the 60 Megawatts Sondu-Miriu Hydro-Power facility by KENGEN.

(Applause)

I am happy to note that a 75 Megawatts diesel power plant at Kipevu will be commissioned by the end of August 2001 by an IPP, Tsavo Power(K) Ltd. To ensure that the country benefits from reliable and competitively priced power supply, the Government has been participating in multilateral discussions with the Governments of Tanzania and Zambia for inter-grid connection, which when implemented will enable us to access cheap power from these two countries and also from the South African Power Pool. This inter-connection will enable us to take advantage of power supply at competitive prices and access power during periods of prolonged droughts in Kenya. As a first step, a feasibility study on a 220 KV transmission line between Nairobi and Arusha will commence soon since a consultant has already been competitively identified. The Government also hopes to shortly conclude a long-term arrangement with Uganda for enhanced power imports from the current level of about 30 Megawatts of competitive tariffs. An East African Community least cost power development plan will also be prepared within the next two years and when completed, will help to identify candidate power projects for development on the basis of their capacity to supply the lowest cost electricity to the three countries.

Mr. Speaker, Sir, the majority of Kenyans do not have access to safe and clean water and sanitation. Even those living in areas covered by existing water and sewerage systems lack access because of poor management. The Government will take steps to encourage private sector involvement in rehabilitation and management of existing water and sewerage systems.

Telephone services in Kenya are expensive compared to those in other parts of the world. Those who have them and for those who do not have them, a large number of Kenyans have had a problem with the current cost structure. In order to address the challenges of providing modern telecommunications services at an affordable rate, the Government will invite investment by the private sector. The number of mobile phone subscribers has increased substantially in the last year and it is hoped that, that will be accompanied by a reduction in the cost of both the equipment and service. Modernisation of the fixed line service will be facilitated by the privatisation of the Telkom Kenya Limited and by inviting more private sector participation in the sector.

Railway freight services recorded improved performance in the year 2000, while passenger services remained depressed. The Kenya Railways Corporation earned Kshs5.2 billion through transportation of freight, compared to Kshs4.5 billion in 1999. The rise in volume of cargo was the result of major increases in cargo destined for neighbouring countries and reduced transit time. However, the railway system must overcome a number of challenges before attending optimality. Some of these problems will be addressed by the privatisation of the Kenya Railways Corporation through a unitary concession. To date, bids for procurement of transaction advisory services have been evaluated. The Government will strive to set aside funds for these services and accelerate that process. Efforts to modernise locomotives, railway lines and other equipment will also be hastened.

Mr. Speaker, Sir, marine transport offers cheap and suitable means of transport for heavy and bulky goods. However, this service has been affected by the limited capacity of the container terminal, poor and outdated equipment and lack of maintenance. In order to improve service delivery, the Government will hasten the process of concessioning the container terminal and converting the Kenya Ports Authority to a landlord authority. A request for submission of proposals/bids has already been made. The management and operations of the Port will also be strengthened while modernising its equipment and facilities.

Trade, tourism and industry contribute significantly, to improving the quality of life of all Kenyans. However, the growth of the sector remains inhibited due to high input costs, ineffective export promotion and marketing, challenges of globalisation, inappropriate legal framework and poor supportive infrastructure. Creating an enabling environment for the private sector to play its role as the engine of growth will remain the primary objective of the Government.

The Government recognises that promotion of micro-finance is an important element in its strategy to reduce poverty. According to the National Baseline Survey of 1999/2000, there are about 1.3 million Micro and Small Enterprises (MSESs) employing nearly 2.3 million persons, or 29 per cent of the country's total labour force and contributing to 18 per cent of the Gross Domestic Product. Yet, despite their important contribution to the national economy, only 10.4 per cent of the MSEs receive credit and other financial services from the formal banking sector, which regards them as risky and not commercially viable. The Government's priority has been to develop an appropriate legislative framework to support the further development of micro-finance. A micro finance unit is fully operational at the Central Bank of Kenya and has been working with all the stakeholders such as the Association of Micro Finance institutions. Accordingly, a Micro Finance Bill will be tabled before this House soon.

Efforts to develop a comprehensive trade system and network have been intended to facilitate growth in both traditional and non-traditional exports. Key actions to be taken in this sector include export promotion and marketing, through participation at the international fairs; facilitating access to the US market through the African Growth and Opportunity Act initiatives; participation in multilateral trading system to enhance development opportunities; facilitating access to the European markets through the African Caribbean and Pacific/European Union Partnership Agreement and the Post Lome arrangements; facilitating access to the regional markets through integration, particularly implementation of COMESA and East African Community treaties and improving the regulatory framework.

Mr. Speaker, Sir, the tourism sector plays a major role in our development through creation of employment and in indirect linkages with other sectors of the economy. The sector continued to improve in the year 2000, albeit at a slower pace than in 1999. The number of visitors grew by 6.9 per cent compared to 8.4 per cent in 1999 while there was a significant improvement in bed occupancy. The improvement is attributable to renewed vigour in tourism promotion by a number of stakeholders. For the sector to thrive further, we must address the problems of insecurity, poor supporting infrastructure and environmental degradation of parks and beaches and to sustain our promotion and marketing activities. The Government has, therefore, set aside adequate budgetary provisions to the undertaking of major promotion and marketing activities and the rehabilitation of tourist facilities. The Government will intensify efforts to get communities to benefit directly from the tourism and diversify the sector through developing eco-tourism and domestic tourism. The **[The Minister for Finance]** above measures are likely to see an increase in tourists visiting Kenya of up to about 10 per cent during the year.

The small-scale sector industries is very critical in addressing poverty challenges but is hindered from playing an effective role by lack of access to credit as I already mentioned and also because of lack of cost of infrastructure for small-scale industry and poor marketing. The policy actions to address this sector are cross-cutting and include many interventions which will be undertaken in other sectors. The key interventions will be to facilitate access to credit and finance, to improve market access, and to provide supporting infrastructure.

The manufacturing sector which contributes 13.2 per cent of the GDP continues to suffer a substantial decline as a result of increases in the cost of doing business. The sector declined by 1.5 per cent in the year 2000 compared with the growth of 1 per cent in 1999. The decline is associated with the power rationing and high electricity cost, inefficient telecommunications, rail and port services and high transport costs due to poor roads.

Consequently, there was reduced plant capacity utilisation leading to lower output, loss of jobs and increased product prices. The improvement of this sector will entail creating an enabling environment for industries to perform better. The Government will therefore review the legal and regulatory framework in order to make it more supportive. The Kenya Bureau of Standards (KEBS) will be strengthened to ensure quality standards and to protect domestic manufacturers from the inflow of counterfeit and substandard goods. Specifically, the Standards Act will soon be amended to confer the KEBS with powers to seize counterfeit goods.

Mr. Speaker, Sir, a number of domestic industries have suffered from the impact of importation of cheap secondhand goods. These include, among others, manufacturers of motor vehicles, textiles and leather products. In order to find a lasting solution to the problems afflicting these industries, the Government will undertake a detailed review of the taxation and cost structures facing the industries with a view to implementing appropriate taxation policies to encourage domestic production and competitiveness.

Mr. Speaker, Sir, I will now go to regional integration. During the fiscal year, Kenya continued to play an active role in the regional organisations to which it belongs. On October 31st, 2000, Kenya along with nine other countries joined the COMESA Free Trade Area(CFTA). The Government recognises that whereas the CFTA and the planned Customs Union will bring about benefits, there is the possibility that the elimination of our tariffs may threaten the competitiveness of some industries. In order to cushion the manufacturing sector from the impact of the CFTA and ensure that its competitiveness is safeguarded, customs duties on a large number of raw materials have been either reduced or eliminated altogether. The Government is also aware that there are member countries of the COMESA region which are subsidising production or engaging in unfair trade practices, such as circumvention of the rules of origin and transhipment of products. The Government is discussing with COMESA Secretariat the modalities of invoking provisions of the COMESA Treaty which is to allow safeguard measures to be taken if it can be demonstrated that injury to the economy has resulted from unfair trade practices.

Mr. Speaker, Sir, implementing the East Africa Community (EAC) and COMESA tariff reduction programme will entail a substantial loss of revenue which could jeopardise the implementation of some important projects that are critical to poverty reduction. The Government is consequently planning to hold a consultative forum with our development partners to discuss the possibility of assistance in financing programmes which may be threatened as a result of the tariff reform.

Mr. Speaker, Sir, another important development that took place in the fiscal year was the establishment of the African Trade Insurance Agency to implement a Regional Trade Facilitation Project. This will greatly increase availability of trade finance and provide risk cover for exports and imports within the region. I, therefore, wish to encourage the private sector to take early advantage of the services offered.

Mr. Speaker, Sir, the general deterioration of service delivery in the public safety, law and order sector has greatly contributed to the decline of investments and, consequently, increased the incidence of poverty. To address the situation, appropriate action will be taken in a number of areas. The Government together with other stakeholders will institute a regulatory framework for legal services and promote public awareness of their legal rights and encourage the culture of seeking legal redress whenever appropriate. Other areas will include training paralegals, employing additional legal draftsmen and promoting civil education.

In internal security, the Government will employ more police officers in order to increase the police/population ratio to international standards. Adequate budgetary provisions have been made for acquisition of modern security and communication equipment including vehicles and fuel. Other measures to be undertaken during the next financial year include training of security personnel in diverse skills, developing and administering entrance/upgrading examinations for security personnel and promoting public awareness, including community policing. The terms and conditions of service for security personnel will also be improved alongside those of other civil servants in order to increase their motivation and professionalism.

Mr. Speaker, Sir, in recognition of the vital role the provincial administration plays in social, economic and political development of the country, the Government, in collaboration with stakeholders, will address the constraints faced by this sector. The recruitment of appropriate staff will be streamlined. The terms and conditions of service for the provincial administration staff will be improved and equipment provided to facilitate speedy delivery of quality services. Public awareness will also be promoted while the role of provincial administration in national development will be redefined to make it more relevant to current needs. These measures will make the provincial administration more focused and able to deliver services to the people more efficiently and effectively.

Mr. Speaker, Sir, as a result of the increase in crime and the constraints in the judicial system, there is congestion and poor facilities in prisons and other penal institutions countrywide. To address the problem, the system of community service that favours community service punishments as opposed to imprisonment and rehabilitation of prisoners in penal institutions through skills training and counselling will be strengthened.

Mr. Speaker, Sir, in the administration of justice, various constraints are encountered including inadequate funding, mismatch of personnel and responsibilities both in terms of skills and numbers, lack of motivation due to inappropriate training and unattractive terms and conditions of service, use of outdated laws and corruption. To improve administration of justice, the Government will computerise and automate departments of immigration, civil registration, National Registration Bureau and Attorney-General's Chambers. The Government will appoint more judges and intensify anti-corruption measures by involving all stakeholders.

Mr. Speaker, Sir, the deterioration in the performance and quality of service delivery by the public administration sector has, to a considerable extent, contributed to the rapid decline in economic growth and high poverty levels being experienced today. To address the situation, appropriate action will be taken in a number of areas.

Mr. Speaker, Sir, during the rationalisation exercise in the year 1999/2000, Ministries/Departments redefined their mandates and determined their core functions and optimum staffing levels determined. As a result, the Government was able to identify a large number of posts that were in excess of those required to operate core functions and could be abolished. In 2000/2001 recommendations of the rationalisation exercise were implemented and, as a result, a total of 27,724 public servants were retrenched. Of these, 20,526 were from the Civil Service, 188 from the Catering Levy Trustees, 884 from Kenya Revenue Authority, 3,204 from public universities and 3,922 from other public bodies. For this purpose, the Government spent Kshs7.65 billion with Kshs6.86 billion coming from development partners. I wish to emphasise that, although this retrenchment exercise was hard, it was absolutely essential as a first step in the process of equipping Kenya with a service that delivers high quality services and value for money. The Government, therefore, is committed to continuing the right-sizing exercise till effective and efficient delivery of services is attained.

Mr. Speaker, Sir, the Government recognises the significant economic and social consequences of disparities and the poor terms and conditions of service in the Civil Service. It is in this regard that His Excellency the President recently appointed a Task Force to review the recommendations of the Kipkulei Harmonisation Commission on Terms and Conditions of Service for public servants, and to prepare a framework for it's implementation. I would like to note that the Task Force has done a commendable job. It is in this regard that His Excellency the President announced substantial increases in house allowances for civil servants and teachers on Madaraka Day.

(Applause)

These increases are predicated upon wage savings. The Government will, therefore, deepen the rationalisation exercise. During the 2001/2002 Financial Year, an additional 11,230 public servants are expected to be retrenched of whom 8,900 will be from the Civil Service, 1,400 from public universities and 930 from other public bodies. This is estimated to cost the Government Kshs2.9 billion.

Mr. Speaker, Sir, the Government will divest from providing subsidised housing to civil servants by 1st July, 2001, when it implements the house allowance increase proposals. The new rates will enable civil servants to acquire reasonable accommodation in lieu of Government houses. As a cost saving measure, the Government will also surrender all leased houses back to their owners by the end of the fiscal year.

Mr. Speaker, Sir, the Government will shift the emphasise of the Public Service Reform Programme from "cost containment" to that of "performance improvement". In this regard, a number of renovations will be introduced to improve performance, such as the adoption of result oriented management approaches. All Ministries will be required to establish service delivery benchmarks and service charters which will define and publicise the levels of services they will achieve and against which performance can be measured. In future, budget allocations will reflect success in achieving performance targets. Improved staff appraisal systems will be introduced and current regulations will be reviewed to link annual increments to a satisfactory appraisal. In addition, effective training programmes will be introduced throughout the service.

Mr. Speaker, the Government is committed to developing and implementing a medium term Pay and Benefits Policy to increase real incomes for public servants within an affordable wage bill while eradicating pay discrepancies across the public service.

On the local Government reforms, strengthening of service delivery capacity of local governments has been recognised as an important element of the Poverty Reduction Strategy. Effective delivery of local public services such as water, sewerage, public health and local roads is key to poverty alleviation and to creating an attractive investment environment for the private sector. The performance of local authorities depends critically on the legislative and regulatory framework within which they operate. The Ministry of Local Government is in the process of conducting a wide ranging review of the Local Government Act based on countrywide consultations with the stakeholders. Reforming the laws and regulations under which local authorities operate will improve their service delivery capacity and make them more responsive to the needs of local residents. This legislative review will also cover provisions for Financial Management Control Boards to direct the recovery of local authorities experiencing chronic financial distress. Already, the Government has appointed an Interim Oversight Board to start dealing with the deteriorating fiscal and service delivery conditions of the Nairobi City Council. More precise legal provisions under the Local Government Act will strengthen the ability of the Board to direct this process so that Nairobi is restored to its rightful place as the leading business centre in the region and proud capital of our nation. An amendment Bill that consolidates all the proposed reforms in the Local Government Act will be presented to this House in September, this year. The objectives of the amendment to the Local Government Act are to develop a decentralised legal framework that emphasise devolution of powers to the local authorities and create Local Government structures that enable democratic participation of all stakeholders in decision making.

Mr. Speaker, Sir, the Government will continue to disburse funds to local authorities under the LATF. Through this mechanism, the Government will distribute Kshs3 billion in the fiscal year 2001/2002. This represents a 30 per cent increase from last year when local authorities received only Kshs2.3 billion. These funds have been distributed in an objective, transparent and accountable manner. Indeed, the administration of LATF has resulted in enormous improvement in the information available on the financial performance of local authorities as evidenced in their annual reports of LATF Advisory Committee. These funds are critically important to enable local authorities improve service delivery, financial management and debt resolution. Access to LATF disbursements will continue to be subject to local authorities meeting performance conditions and inspection teams will continue to monitor their compliance. The Government has allocated funds to ensure monitoring is institutionalised and conducted on a continuous basis. Local authorities should now work with the citizens in utilising these funds to target those investments and services most needed at the local level. Local citizen stakeholders must be involved in identifying priority needs, implementing the projects and the services, and monitoring the use of these funds. It is only through a joint partnership of the public and private sector, with full citizen participation that these resources will be successful in meeting the ultimate objectives.

Mr. Speaker, Sir, poverty reduction and economic growth will be achieved only if we raise both the level of investment and the productivity of capital. Public enterprises have tended to utilise resources below optimal levels and impact negatively on our fiscal sustainability and growth. The privatisation of public enterprises therefore, continues to be an essential policy of the Government. In the Financial Year 2001/2002, efforts to finalise the sale of a 49 equity stake in Telkom will be intensified with a view to completing the sale. We also expect to offer about 50 per cent shareholding in Mumias Sugar Company to the public through an initial public offering on the Nairobi Stock Exchange. Out of the 50 per cent, at least, 20 per cent will be a preferential offer to farmers and 5 per cent to the company's employees. It is anticipated that the farmers will save money to purchase a further 10 per cent from the Government to bring their shareholding to 30 per cent as promised by His Excellency the President.

(Applause)

Mr. Speaker, Sir, the Government is also at an advanced stage of preparing to offer its shareholding in the Kenya Reinsurance Corporation Ltd. through a strategic sale to potential investors. **[The Minister for Finance]**
The remaining 35 per cent Government shareholding in the Kenya Commercial Bank will also be divested.

In the key area of seeking private participation in the utilities sector, the Government has commissioned studies to determine private sector participation options in the power sector and in the delivery of water supply and sewerage services in Nairobi. These studies are expected to be completed by December, 2001, following which the

Government will proceed to implement the preferred options. The Government is also seeking funding for advisory services to concession the operations of the Kenya Railways, the Kenya Ports Authority container terminal and to consider options for Mombasa Water. In addition, to streamline and accelerate the privatisation programme, the Government has drafted a Privatisation Bill which will be brought before this House very shortly. This Bill will provide for the objectives and scope of the programme, the institutional framework, operational procedures and the use of privatisation proceeds.

Mr. Speaker, Sir, the Government is fully committed to foster good governance which it recognises a prerequisite for faster economic growth and poverty reduction. During the next financial year, the emphasis will be on ensuring that the necessary legislative framework for oversight bodies is implemented. Specifically, the Anti-corruption and Economic Crimes Bill and the Code of Ethics for Public Servants Bill will be tabled in Parliament. This will lead to the re-establishment of the Kenya Anti-Corruption Authority. With the support of all Parliamentarians, it is hoped that these Bills will be enacted into law before the end of the year.

Mr. Speaker, Sir, we have over the years modified Government's accounting and financial reporting systems in order to make them more responsive to present needs. As part of the on-going reforms, the Government will, effective from 1st July, 2001 operate one Exchequer account. All funds required for Ministries' operations, irrespective of whether the activities fall under the Recurrent or Development budget shall be drawn from this account.

(Applause)

It should be emphasised that there is no law specifically requiring the Government to operate separate Exchequer account although this has been the practise for many years.

Mr. Speaker, Sir, in the next financial year, the Government will continue to deepen the Medium Term Expenditure Framework in order to improve the efficiency and effectiveness of the Budget. Key changes will be undertaken in Budget planning, execution and monitoring so that emphasise is placed on the distinction between input, output and outcome which is essential to achieve the best value from public expenditures.

Mr. Speaker, Sir, it is now widely recognised that Information Technology (IT) is a key driver to economic development and growth. Indeed, around the world, IT-led growth is creating jobs, raising productivity and incomes and opening many opportunities for increased trade and human development. In Kenya, our ability to participate fully in the digital economy has hitherto faced many barriers including inadequate and costly telecommunication and computer systems, lack of electricity and a high level of computer illiteracy. Since Government resources are limited, the active involvement of all key players in the public and the private sectors is essential to ensure that the benefits of the info-economy flow to all citizens.

The Government is therefore, committed to partnerships that will encourage entrepreneurs to invest nationally as a strategy for a national information infrastructure. In doing this, priority will be given to improving access to IT encouraging in under-served rural populations through establishments of telecentres, digital villages and info-kiosks. The Government will strengthen IT capacity in all Ministries and Departments in order to support their core mission activities. In addition, the Government will, in consultation with all stakeholders, develop a digital transactions policy, regulatory and legal framework for electronic signatures, contracts, electronic authentication, security and cyber crime.

Mr. Speaker, Sir, I now want to go on to the macro-economic framework. As a result of the continued implementation of prudent fiscal and monetary policies, real economic growth is projected to turn around to follow a gradual recovery path, rising to 2 per cent in 2001, and then averaging 3.2 per cent over 2002-2004. Overall, growth is projected to average 2.9 per cent a year over the medium term, thereby reversing the declining per capita income trend of 1997-2000. In addition, it is projected that the implementation of the sectoral priority policies will reduce the current level of poverty by, at least, three percentage points in three years. Although this is a modest achievement, it marks the beginning of the attainment of poverty reduction goal contained in the National Poverty Eradication Plan, and will enhance the quality of life of Kenyans.

Mr. Speaker, Sir, the Government's fiscal strategy aims at increasing the level of economic activity through enhancing the role of the private sector as the lead sector in wealth creation. The strategy is built around four key objectives and constraints: First, to achieve a sustainable reduction in the level of public expenditure to the GDP ratio, which will enable the private sector to play a larger role in the economy; second, to achieve a relative reduction in the level of domestic debts to GDP ration; third, to change the composition of Government expenditure to focus more on efficient public investment and operations and maintenance in the long run, and fourth, to adopt sectoral allocation criteria that reflect the priorities of the population and reward the efficient sectors.

Mr. Speaker, Sir, the fiscal strategy aims at reducing the ratio of the Government revenue and expenditure to GDP from 23.2 per cent and 27.9 per cent respectively, in 2000/2001, to 22.1 in 2003/2004, and thus attaining a balanced Budget by that year. During the same period, net privatisation proceeds will be used to reduce domestic debts. Consequently, the domestic debt is expected to decline from 20 per cent to 15 per cent of GDP. Over the same period, external debt will decline from 51 per cent to 44 per cent of the GDP.

Coming to monetary policy and the financial sector reform, let me now address the monetary policy and the financial sector reforms which we plan to undertake in the course of the financial year. It is generally agreed that high stability is the precondition for a stable and well functioning system of payments. This in turn, is key to the promotion of financial savings and investments, and therefore, to the achievement of rapid economic growth and poverty reduction. Price stability with, therefore, continue to be the principal goal of the Government's monetary policy. In this regard, the Central Bank of Kenya will aim to maintain the rate of the underlying inflation within the single digit range, consistent with the Government's economic objectives contained in the macro economic framework, 2001/2001 to 2003/2004. To achieve the price stability objective consistent with the projected growth in the real GDP, monetary policy during the financial year 2001/2002 will aim to: (i) Contain the expansion in the money supply to no more than eight per cent. (ii) Contain increase in credit to the private sector and other public sectors to 10 per cent, and, (iii) Ensure gross foreign exchange reserve holdings of the CKB are maintained at the equivalent of three months of import cover. Meanwhile the Government plans to focus on limiting domestic borrowing in 2001/2001 to equal redemption.

Mr. Speaker, Sir, the Government will take further measures towards reduction and restructuring of her domestic debt. The net stocks of domestic debt currently stands at about Kshs170 billion, of which Kshs117 billion is in the form of 91-day and 182-day Treasury Bills. The balance is in 1 to two-2 year Treasury Bonds. The Government has relaunched the 5-year Treasury Bonds and is in the processing of launching 3 year Treasury Bonds as a way of restructuring the maturity of the Government debts. The results of the recent 5-year Treasury Bond were encouraging and the Government is putting in place additional measures to ensure that future sales succeed. The objective is to reduce pressure on borrowing requirements in line with our economic objectives and lower interest rates. The debt management capacity of the CBK and the Treasury will also be strengthened by rationalising existing structures.

Mr. Speaker, Sir, equally important to investment and growth is the existence of a robust and vibrant banking system that functions efficiently. In recognition of this, the Government over the last several years, has implemented a wide range of reforms designed to strengthen the health of the financial sector. While significant progress has been made in this direction, we are concerned about the large number of small and unstable banks and the increasing portfolio of non-performing loans, which threatens the stability of the banking sector.

Mr. Speaker, Sir, it is therefore, necessary to take further institutional and regulatory measures to improve the soundness of this sector. In addressing the problem of non-performing loans, I am proposing that the Banking Act be amended to provide for a legal framework to allow for the sharing of debtor information between the Central Bank and the banks. This will enhance the ability of banks to accurately assess the creditworthiness of potential borrowers, thus improving the quality of their lending decisions and reducing the incidence of non-performing loans. Confidentiality of customers' accounts will be safeguarded within the existing legal framework and will not be compromised.

Mr. Speaker, Sir, the mortgage finance companies as they operate today, are restricted by law to finance mortgages on securities of land. This is contrary to our stated policy of universal banking. But, more importantly, it denies them flexibility to grant other types of loans, to accept other securities or to engage in other profitable investments. I intend to correct that anomaly by amending the Banking Act to allow mortgage finance companies to engage in other prudent investment activities, and to grant other types of credit facilities against securities other than land.

Mr. Speaker, Sir, hon. Members will recall that this House has in the past allowed me to delegate to the Central Bank, powers to license and supervise building societies, since they carry out banking business, similar to other financial institutions. However, the powers of dissolution are still delegated to the Registrar of Building Societies. That arrangement has inhibited the Central Bank particularly, when it endeavours to resolve cases of

[The Minister for Finance]

distressed building societies. Therefore, to allow for effective supervision of building societies, I am proposing amendments to the Banking and Building Societies Act to allow the process of intervention in distressed building societies to be harmonised with that of other institutions licensed under the Banking Act.

Mr. Speaker, Sir, I am proposing a number of measures to strengthen the operations of the Deposit Protection Fund (DPF). The DPF Board will be allowed to acquire or lease property of institutions under liquidation, when the property market is depressed. I am also proposing that on payment of protected deposits by the DPF, the DPF be given priority in its subrogated claims. The period in which claims by depositors and creditors may be made will also be limited in order to reduce monies held as uncollected deposits.

Mr. Speaker, Sir, an efficient insurance industry is an essential component of a healthy financial system. The Insurance Act will, therefore, be reviewed comprehensively by July, 2001, with a view to proposing a number of amendments to the Act. The amendments will seek to enhance the supervisory role of the Commissioner of Insurance while, at the same time, liberalising the investment environment and also protecting the interests of the policy holders.

Mr. Speaker, Sir, let me review the financial outturn for the 2000/2001 Fiscal Year. Despite the slow-down in economic activities and the suspension of disbursement by the International Monetary Fund (IMF), we have managed to keep the Budget deficit on a commitment basis and before grants, to 1.8 per cent of the Gross Domestic Product (GDP); or Kshs15.1 billion. This compares unfavourably with the surplus of 0.6 per cent of GDP in 1999/2000.

Mr. Speaker, Sir, total revenues including the Local Authorities Transfer Fund (LATF) were originally estimated at Kshs203.3 billion, comprising of Kshs182.3 billion in ordinary revenues and Kshs20.9 billion in Appropriations-in-Aid (A-in-A). Due to the lower than unexpected economic growth, ordinary revenues are now estimated to be 2 per cent below target. I now expect a total of Kshs178.2 billion in ordinary revenues, and Kshs20.6 billion in A-in-A.

Mr. Speaker, Sir, as indicated in the Supplementary Estimates recently approved by this House, expenditures for the year had to be adjusted upwards to cater for drought-related expenses. As a result, total expenditures for the year increased by Kshs21.4 billion. Initially, gross recurrent expenditures for the year were projected at Kshs267.6 billion, including A-in-A of Kshs16.8 billion, and Consolidated Fund Services (CFS) of Kshs116.3 billion. Total gross development expenditures were projected at Kshs38.4 billion, of which Kshs23.1 billion was A-in-A. The Supplementary Appropriations Bill adjusted expenditures upwards as follows: Total gross recurrent expenditure increased by Kshs2.4 billion from Kshs151.4 billion to Kshs153.8 billion, while development expenditures increased by Kshs19 billion, from Kshs38.4 billion to Kshs57.4 billion.

Mr. Speaker, Sir, let me now turn to the 2001/2002 Budget. The total revenue target for fiscal year, 2001/2002, is Kshs218.6 billion, or nearly 23.1 per cent of GDP. That is comprised of Kshs194.8 billion in ordinary revenues, and Kshs23.9 billion in A-in-A.

Mr. Speaker, Sir, as hon. Members have already noted from their copies of the Printed Estimates, gross recurrent expenditures for 2001/2002, will be Kshs264.9 billion. That includes Kshs19.2 billion financed through A-in-A. Payments for CFS will take Kshs107.4 billion, leaving Kshs157.4 billion for discretionally expenditures. The CFS payments include Kshs26.6 billion for domestic interests, Kshs7.9 billion for foreign interests, Kshs1.6 billion for guaranteed loans, Kshs9.4 billion for pensions and gratuities, Kshs235.2 million for Constitutional Offices and Kshs132.6 million for contributions to international organisations. In addition, I am expecting to finance domestic redemptions amounting to Kshs38.5 billion and external redemptions amounting to Kshs23.1 billion.

Mr. Speaker, Sir, gross domestic expenditures for 2001/2002 will amount to Kshs41.6 billion. Of that, Kshs26.2 billion will be financed from external sources, while Kshs15.4 billion will be financed from domestic sources. I shall now briefly explain how I propose to finance those expenditures. I will start with external financing.

Mr. Speaker, Sir, I have received donor commitments totalling Kshs26.2 billion from both multi-lateral and bi-lateral development partners to finance development expenditures. Out of those funds, Kshs18.8 billion will be A-in-A, including Kshs9.6 billion committed as project loans and Kshs9.2 billion committed as project grants. The balance of Kshs7.4 billion will be revenue from project loans and grants.

Mr. Speaker, Sir, we expect to access the balance of commitments by international finance institutions made in 2000/2001 and 2001/2002 fiscal years. Those balances consist of a total of Kshs14.3 billion, Kshs10.9 of which is in loans, while Kshs3.3 billion is in programme grants. Those funds will come from the World Bank, African Development Bank, European Commission and Department for International Development.

Mr. Speaker, Sir, as already mentioned, total revenue requirement is Kshs218.6 billion. However, based on the targets set in the macro-economic framework and the current aggression structures, a total of Kshs214 billion will be realised, leaving gap of Kshs4.6 billion. Various requests from Kenyans for reductions in tax rates have increased this gap by a further Kshs8.3 billion. The rest of my speech outlines the tax measures I intend to take to raise the revenue to bridge this gap.

Mr. Speaker, Sir, a number of constraints face an attempt to raise revenues to bridge the revenue gap. These include, among others, the slow growth of our economy, the need to reduce the tax burden for Kenyans, but more specifically for the poor and the need to provide additional incentives for investments and to enhance the competitiveness of local industries. To the maximum extent possible, revenue enhancement measures will avoid any tax increases that will adversely affect the poor people and investments. But rather, will concentrate in three areas: First, selected specific taxes will be adjusted marginally upwards in line with inflation. This means that the taxes will be maintained in constant real terms. Secondly, the Kenya Revenue Authority (KRA) will meet some burden of enhanced revenue collection, through improved administrative measures. Target areas will include: Tighter and selective audit intensified tax payer recruitment, security printing for licences and intensified use for the Personal Identification Number, PIN. Thirdly, the expansion of the VAT base will be continued to cover more services and by designating more goods.

Mr. Speaker, Sir, I now request that the rest of my Speech be regarded as a notice of Motion to be moved before the Committee of Ways and Means.

I will start with Customs measures that have no direct revenue implications. First, I propose to increase penalties under the Customs and Excise Act. This will enable the Commissioner of Customs to take more punitive measures against non-compliant importers. Secondly, diversion of goods imported on temporary basis for exhibitions has been a major concern. To discourage this practice, I propose to reduce the period of temporary importation from 12 months to the actual period consistent with the purpose for which the goods are being imported. Thirdly, to control the diversion of industrial sugar and prevent the leakage of revenue, I propose to gazette manufacturers who may import industrial sugar for use as raw material for manufacture of goods.

(Applause)

Mr. Speaker, Sir, I now turn to measures with direct revenue implication. First, the Government recognises the strain on the manufacturing sector which has been caused by, among other things, poor roads, high cost of electricity, high interest rates and importation of cheaper and at times subsidised goods from COMESA countries. To alleviate this strain, I propose to lower further import duties on raw materials and inputs used in the manufacturing sector. All primary raw materials which hitherto have been in the 2.5 per cent tariff band, will now be lowered to zero rate. In addition, a number of materials and capital goods, currently taxable at 5 per cent, will now be taxed at 3 per cent. Further, a number of inputs which have hitherto been in 15 per cent tariff band will be lowered to 5 per cent. These measures are an initial step towards finally lowering duties on these goods to zero rate. These are far-reaching measures which will give local manufacturers a great relief and make their goods even more competitive in the local market. It is the expectation of the Government, therefore, that the relief will be shared with the final consumers.

Secondly, hon. Members will recall that, during my Budget Speech last year, I announced that Kenya will be moving towards harmonizing its tariff structures with those of COMESA and East African Community trading partners in order to establish a common external tariff by the year 2004. Accordingly, I propose to lower the top tariff band from 40 per cent to 35 per cent.

Thirdly, hon. Members are aware that the textile sector has undergone difficulties in the recent past. In order to help rejuvenate growth in the sector, I propose to rationalise the tariff structure for the industry. Duties on the basic raw material fibre will be reduced to zero per cent while duties on the intermediate product, yarn, will be reduced from 2.5 per cent to 20 per cent. To cushion local manufacturers, duties on fabrics will be increased from 25 and 30 per cent to 35 per cent.

Fourthly, hitherto the Minister for Finance has not been able to grant more 50 per cent waiver of duty on imported goods making it difficult to accommodate duty waiver needs of charitable institutions or other deserving cases. To address this problem, I propose to enhance the Ministers powers to waive up to 100 per cent of duty.

Fifthly, to reduce discriminatory exemptions and at the same cut down administrative costs, I propose to delete the exemptions of duty granted to lecturers and civil servants and provide for these benefits through budgetary allocation. In order to enhance revenue, I propose to delete a number of exemptions provide for under both the Customs and Excise Duty and the VAT Act. In addition, in order to guard against the possible loss of revenue through abuse, I propose to limit the exemption from payment of duty on protective apparel to hospitals, clinic and fire fighting departments of local authorities.

Sixth, hon. Members are aware that the rural folk rely on bicycles for the transportation of goods and people. In order to enable increased access to bicycles by these folks, I propose to remove duty payable on imported bicycles completely.

(Applause)

Seventh, to encourage manufacturers to use locally manufactured goods as inputs in production of goods and especially those goods which are duty free when imported, I propose to include indirect manufacturers, among those manufacturers who will benefit from the Essential Goods Production Support Programme.

Eighth, to bolster export growth, I propose to waive the Import Declaration Form fees applicable on raw materials imported to manufacturers for export under the EPPO programme. Furthermore, Export Processing Zones operators will now benefit on my proposal to allow business located in the zones to access duty-free fuel to be expended in their production and operations.

Ninth, concerns have been expressed on the ecological damage being done to our forest through massive logging activities, which are not coupled with reafforestation. In order to reverse this trend and ease off pressure on our forests, I propose to make imported timber duty free.

Tenth, to cushion the agricultural sector, I propose to increase duty on imported foodstuffs which are currently produced in Kenya to 35 per cent. These foodstuffs include meat and meat products, dairy products, poultry and poultry products.

Eleventh, to promote intra-African trade and facilitate movement of people, I propose to remove overtime fees payable for customs clearance services by vehicles registered in Kenya, Uganda and Tanzania, when they cross after official working hours.

Twelfth, hitherto, importers who have cleared goods through Customs on a provisional basis are required to pay a deposit. However, an anomaly has arisen in that when they finally perfect the entry, they are required to pay full duty payable and then thereafter claim for the refund for the deposit. In order to remove this anomaly, I propose to allow importers who have made a deposit to the Commissioner of Customs to use that deposit to pay duties while perfecting entries. The above measures shall cost the Government Kshs124 million in forgone revenues.

Mr. Speaker, Sir, with regard to excise measures, first, under Excise Duty, I propose to improve enforcement of the requirement for the excise terms by enhancing the penalty for failure to affix excise stamps on cigarettes packets to Kshs1.5 million. Secondly, oil duties have not been increased for the last two years. This means that inflation adjusted value of these taxes has fallen by about 12 per cent. I, therefore, propose to increase duty by Kshs2 on petrol. Oil companies are expected to absorb this increase and not pass it on to consumers since the world oil prices have moderated significantly during the year 2001 and are expected to fall during the coming year. Oil companies are expected to absorb this increase and not pass it on to consumers since world oil prices have been moderated significantly during the year 2001 and they are expected to fall over the coming year.

(Applause)

Third, to enhance control over the issuance of excise licences, I propose to increase annual excise factory licence fees to Kshs50,000 per annum for breweries, wineries, distillers, denatures and compounders, rectifiers, tobacco and cigarette manufacturers. I further propose to increase other excise licences to Kshs25,000. These measures will raise an additional Kshs1.5 billion in revenue.

On VAT, I now turn to proposed amendments under the VAT Act that have no direct revenue implications.

First, in line with the poverty alleviation strategy, I propose zero-rate the consumption of electricity of 200 units and below used by domestic households. This will reduce the cost of electricity to low income earners. However, those who consume more than 200 units will be charged VAT on the full amount consumed.

Second, to encourage local production of cheaper animal feeds, I am proposing that VAT on seed cakes and maize germ, which are inputs into manufacture of the feeds, be reduced from 18 per cent to zero per cent.

Third, currently, condoms are only zero-rated when consigned to the Ministry of Health and Family Planning of Association of Kenya or any other agency approved by the Minister for Finance for family planning activity. The goods are taxable at 18 per cent currently if imported by anybody else. In order to encourage the use of condoms and family planning activities and to make the fight against sexually transmitted diseases effective, I propose to zero-rate condoms, so as to make them more affordable at retail outlets.

(Laughter)

Fourth, the rate of VAT penalty is currently 3 per cent per month which is very high and has been punitive to taxpayers. In addition, when this rate is compounded, it amounts to about 43 per cent per annum, which is far above the bank rates. I am, therefore, proposing that this penalty rate of 3 per cent be reduced to 2 per cent compounded.

Fifth, there are a number of cases where individual donors have provided funds for putting up essential facilities such as schools, churches, hospitals and so on, but the Minister has not been able to reciprocate their good gestures in the form of tax remissions because the law does not provide for that. I am, therefore, proposing that an amendment be made to provide for the Minister to grant remission to projects funded from donations to non-profit making organisations on recommendation by the Commissioner.

Sixth, currently, there are no provisions for a taxpayer to object to the Commissioner's decision on any matter arising under the provisions of the VAT Act. In order to accord the taxpayer a fair hearing, I propose to introduce a provision in the VAT Act to allow for objections.

Seventh, for a taxpayer's appeal against an assessment to be accepted, he has to pay 50 per cent of the assessed tax. This requirement has denied taxpayers their right to appeal especially where the amounts are substantial. In addition, it forces taxpayers to resort to court injunctions which unnecessarily delay resolutions of such cases. I am, therefore, proposing that an amendment be made in the VAT Act to allow the taxpayer to file an appeal after paying the amount he has not disputed or such part of that amount which the Commissioner may allow.

Eighth, last year, a negative list specifying services that are not subject of VAT was introduced. I propose to refine this list further by redefining some of the existing services and also adding more services that were not included in the list.

Ninth, deduction of input tax incurred in purchase of passenger motor vehicles by taxpayers for use in their business is not allowed. However, there are a number of cases where such vehicles are designed or modified for specific taxable services. I am, therefore, proposing to allow input tax deduction on such vehicles subject to approval by the Commissioner.

Tenth, many taxpayers are evading tax by not keeping stock records. I am proposing an amendment to the VAT regulations to make it compulsory for taxpayers to keep stock records.

Mr. Speaker, Sir, I now turn to VAT measures with direct revenue consequences.

First, in order to expand the VAT base further, I propose that some prepared and preserved food items which are already taxable at the manufacturing level be made taxable all the way upto the retail level. However, some basic food items which include cooking fat and oil, tea, coffee, margarine, jam, tomato sauces and biscuits will remain taxable only at the manufacturing level.

Second, currently, chartering of aeroplanes and hiring of buses of carrying capacity of 26 passengers and more are not taxable. However, hiring of vehicles of carrying capacity of less than 26 passengers is taxable. For the law to be equitable, I am proposing that chartering of aeroplanes and hiring of buses be made taxable. This does not affect public transport.

Third, I am proposing to introduce VAT on rental of commercial buildings for business purpose. This measure will not affect rental of buildings for residential purposes which remain exempt. In addition, small-scale landlords will be left out of the tax net since the law will only apply to those landlords who earn in excess of Kshs3.6 million in rent. This measure will further broaden the VAT base and enhance compliance.

Mr. Speaker, Sir, the above measures will raise an additional Kshs1.1 billion in revenue. Now, I move to Income Tax measures.

Mr. Speaker, Sir, as in the past, my principle aim will remain to cushion the low income employees from bearing an unfair share of the tax burden. I, therefore, propose to raise the personal relief by 10 per cent. This will increase the monthly taxable income from Kshs9,440 to Kshs10,267 and consequently remove a very large number of employees from the tax roll. In addition, to cushion the low income workers from any inflation induced "bracket creep" the lowest tax bracket will be increased by 6 per cent.

Second, to further relief the low income earners, I intend to increase the minimum aggregate taxable value of benefit from Kshs2,400 per annum to Kshs12,000 per annum.

Third, in order not to disadvantage Kenyan residents working abroad, I propose to give them credit on foreign tax paid on the salaries earned in those countries.

Fourth, to encourage investment in the power sector and make the cost of power more affordable, I am proposing to introduce investment allowance for power generation for purposes of supply of power to the national grid.

Fifth, I propose to give farmers the option of filing Income Tax Returns or paying Presumptive Income Tax. The option is there. This will ease the cost of preparation and filing returns considerably.

Sixth, to boost growth of the capital market and encourage more companies to list on the Stock Exchange, I propose to reduce the corporation rate of tax for newly listed companies to 27 per cent, following the date of listing for a period of three years. However, the listed capital should not be less than 20 per cent of the paid-up capital. In addition, the companies that apply and get listed shall get an amnesty on the past omitted profits, subject to making a full disclosure of their incomes and their assets and liabilities during the year of income, commencing after the date of listing.

Seven, to encourage more NGOs to be involved in projects which will be beneficial to Kenyans, I propose to exempt the institutions that have their regional headquarters in Kenya and whose income is expended for purposes which would have economic and social benefits to Kenyans. These measures will raise an additional Kshs1.4 billion.

With regard to other miscellaneous measures, previously, I endeavoured to transfer the responsibility for the collection of the catering and training levy to the Kenya Revenue Authority. This, however, was rendered unsuccessful due to inadequate financial provisions and safety net considerations that were necessary to facilitate staff cuts at the CLT. Given that the first phase of the public sector retrenchment was successfully and credibly concluded, I propose to transfer the responsibility for the collection of the 2 per cent, catering and training levy to the KRA. The revenue body has a better efficiency level and operational machinery to undertake the collection at a cost of 1.5 per cent of the revenue, compared to the current collection cost of 25 per cent. That measure will release more funds to the CLT to enable it to undertake its tasks.

Second, I propose to improve the revenue collection policy by transferring the responsibility for the collection of the National Hospital Insurance Fund (NHIF) to the KRA which will now do the collection on behalf of the NHIF. The efficacy of that measure cannot be over-emphasised, given that the KRA is also already collecting PAYE and has an established database which will similarly apply in the case of the NHIF.

Third, proliferation of counterfeit goods has become a source of discontent with genuine manufacturers. To counteract the damaging consequences posed by these goods, a task force is looking into this problem and will revert with necessary recommendations. In the meantime, I propose to strengthen the Standards Act by reviewing penalties for infringing Kenyan standards and raising penalties under Trade Descriptions Act. Fourth, the recent re-introduction of VISA requirements did not go down well with some players in the tourism industry. To mitigate any gains which could have been reversed by the measure, I propose to reduce Air Passenger Service Charge from US$40 to US$20 with effect from 1st July, 2001.

(Applause)

Fifth, when presenting his Budget for the fiscal year 1999/2000, the then Minister for Finance undertook to improve the stability, health and integrity of our financial institutions through a number of measures. One such measure was through amendments to the Banking Act to raise minimum core capital to Kshs500 million for banks and mortgage finance companies. The existing institutions were given three years to comply. However, in view of the difficult times, I wish to give room for the economy to grow and also to give room to the banks to adjust. I, therefore, propose to set the minimum core capital requirement at Kshs300 million for now, up to a period of two years without escalation. This will be raised thereafter to the desired levels.

Mr. Speaker, Sir, in conclusion, Kenya's poverty reduction and economic growth strategy will require the concerted effort of all Kenyans if we are ever to succeed. For the sake of the future generation, we must come together as one nation in the fight against our common enemy, unemployment and poverty. We must remain patriotic to our nation and support all initiatives necessary to bring our economy back to good health, otherwise our economy will continue to deteriorate while other neighbouring countries prosper.

Today, I have presented to this House, a comprehensive economic programme which reflects the aspirations of all Kenyans. This Budget has addressed the challenges facing Kenyans. It has attempted to allocate resources more efficiently for maximum impact. Resources have been earmarked for a number of core poverty programmes and will be ring-faced. A number of measures have been proposed to enhance the competitiveness of industry and to improve the enabling environment for the private sector to operate. That programme is realistic and its implementation will significantly alleviate the suffering of our people. We will accelerate discussions with our development partners, with a view to re-opening access to international finance. We are, however, aware that such discussions do take time and may drag on longer than we anticipate. We will, therefore, aggressively pursue the privatisation of public enterprises and also dialogue with all friends of our nation who are willing and ready to lend a helping hand.

As a nation, we should guard against anything that might threaten the political and economic stability that has taken us years to nurture and a lot of sacrifice to achieve. Those of you who attended the consultation process will attest to the fact that the suffering of our people must be stopped now. I appeal to Members of this House to endorse this programme and fully support it in its implementation.

Mr. Speaker, Sir, as last year, we will be unable to host a post-budget party. I think the figures that have been given bear testimony to the fact that we cannot afford it. We will, therefore, have some soft drinks at Gardens of Parliament, while digesting my Budget Speech.

(Laughter)

Mr. Speaker, Sir, I beg to move.
Thank you.

(Applause)

The Vice-President and Minister for Home Affairs (Prof. Saitoti) 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. All rise.

(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, 2001 at 2.30 p.m.

The House rose at 4.45 p.m.