NATIONAL ASSEMBLY

OFFICIAL REPORT

Thursday, 11th June, 1998

The House met at 2.30 p.m.

[Mr. Speaker in the Chair]

PRAYERS

ARRIVAL OF HIS EXCELLENCY THE PRESIDENT

(Mr. Speaker announced the arrival of His Excellency the President, the Hon. Daniel Toroitich arap Moi, MP)

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

COMMITTEE OF WAYS AND MEANS

MOTION

THAT MR. SPEAKER DO NOW LEAVE THE CHAIR

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

PAPERS LAID

1998/99 Estimates of Revenue of the Government of Kenya for the year ending 30th June, 1999.

Financial Statement for 1998/99 (Budget)

(By the Minister for Finance)

(Mr. Orengo raised a point of order while walking)

Mr. Speaker: Order! Order, Mr. Orengo! Hon. Members, when a Member rises on a point of order, he does so in his place. He does not do it while walking all the way. That is disorderly. If you have a point of order, raise it in your place. That is the rule of the House. Do return to your place!

(Mr. Orengo sat down)

Mr. Orengo: On a point of order, Mr. Speaker, Sir. I shall be heard!

Mr. Speaker: Order, Mr. Orengo! You may be on a point of order but, first of all, I advise you to get a copy of your Standing Orders and look at Standing Order No.68. It says as follows:

(1) "Any Member may rise to a point of order at any time during the speech of another Member stating that he rises to a point of order. The Member who was speaking shall thereupon resume his seat and the Member rising to the point of order shall do likewise when he has concluded his submission. No other Member may, except by leave of Mr. Speaker, speak to the point of order.

(2) Mr. Speaker shall either give his decision on the point of order forthwith or announce that he defers the same for consideration after which the Member who was speaking at the time the point of order was raised may continue his speech."

Standing Order No.68 presumes that a Member is already speaking and maybe in the course of his speech he has breached the orders of the House. That is the plain meaning of the Standing Order, but in this case nobody has spoken.

Mr. Orengo: Mr. Speaker, Sir, according to the Standing Order---

Mr. Speaker: Who has given you the Floor? Order! You will not be heard unless I give you permission. The only reason why I am paid by Kenyans is to ensure that order is maintained in this House and that hon. Members follow the rules of the House. And I will not abdicate that role under any circumstances.

Proceed!

(Applause)

Mr. Orengo: Mr. Speaker, Sir,I am not afraid---

Mr. Speaker: Order! Order, Mr. Orengo! I am not here to impress any Member. I am here to discharge my duty as bestowed to me by this august House. I bring to your attention the provisions of Standing Order No.88, which I will read to you---

Mr. Orengo: I know what you want to do. I had been told earlier---

Mr. Speaker: Order! Order! Order, Mr. Orengo! You may have been told 1000 times, but what I am telling you now - hear from the horse's own mouth - is that you will not be allowed to breach the rules of this House with impunity, and that is my ruling! If you persist, I will consider your behaviour disorderly and I will ensure that under Standing Order No.88 you will leave this House.

Proceed Mr. Nyachae!

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

Mr. Speaker: Order, Mr. Orengo! Your persistent defiance of the Chair is gross misconduct. I now order that you are excluded from the proceedings of this House for the balance of the day. Will you now leave! You are a stranger!

(Mr. Orengo withdrew from the Chamber escorted by hon. Gatabaki)

(Loud consultations)

Mr. Speaker: Order! Any other Member who wants to follow Mr. Orengo may do so. Proceed!

The Minister for Finance (Mr. Nyachae): Mr. Speaker, Sir, before I embark on my formal speech---

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

Mr. Speaker: Order! It does appear that, Mr. Nyanja, you are again unreasonably persisting in causing disorder. Mr. Nyanja, you are warned by the Chair that any subsequent disorderly conduct by you will be dealt with accordingly by the Chair. Take note.

Proceed, Mr. Nyachae.

The Minister for Finance (Mr. Nyachae): Mr. Speaker, Sir, before I embark on my formal speech allow me to pay tribute to His Excellency the President, Daniel arap Moi---

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

Mr. Speaker: Order! Order! Mr. Nyanja, since you are unable to participate with your hon. colleagues in this very serious business of the Budget, I will oblige and order that you are disorderly. You will, therefore, be excluded from the proceedings of this House for the balance of the day. You must leave now.

(Mr. Nyanja withdrew from the Chamber)

Proceed, Mr. Nyachae.

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

Mr. Speaker: Order! Order, Mr. Ndicho! I think I am also a human being, I can see when there is disorder in the House. Right now, Mr. Ndicho, we are among the most orderly House this side of the world. So, we are totally orderly. Proceed, Mr. Nyachae.

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

Mr. Speaker: What is it?

Mr. Ndicho: Mr. Speaker, Sir, now that the Minister for Finance has started reading his Speech, we are rising on a very serious point of order to tell this House that what the Minister intends to present to this House is being presented in the absence of a very important committee called the Estimates Committee---

Mr. Speaker: Order! Order, Mr. Ndicho! If you understand the rules of the House, there is no issue before the House just now. First of all, the Minister must make a presentation and there must be a Seconder. If a question arises, then there would be something to talk about.

(Mr. Ndicho whispered to Dr. Kituyi)

Mr. Ndicho, you will not whisper and murmur there. If you want to follow your friends, you will do so.

Proceed, Mr. Nyachae.

Mr. Ndicho: Mr. Speaker, Sir, you are my friend---

(Laughter)

Mr. Speaker: Order! Order, hon. Members! Mr. Ndicho, the Chair is indeed a friend to all hon. Members, but that friendship must never come between my duties and my personal friendship. So, I discharge my duty first and friendship later. For now it is duty!

Proceed, Mr. Nyachae.

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

(Mr. Ndicho stood up in his place)

Mr. Speaker: Order! Mr. Ndicho, will you sit down and behave?

Proceed, Mr. Nyachae.

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

(Laughter)

Mr. Speaker: Order! Mr. Ndicho, under Standing Order No.88, I find your behaviour disorderly and I now order that you will be excluded from the business of the House for the balance of the day. Proceed to leave.

(Mr. Ndicho withdrew from the Chamber)

The Minister for Finance (Mr. Nyachae): Mr. Speaker, Sir---

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

Mr. Speaker: Order! Order! Mr. Kiunjuri, I think this is a serious place. This is Parliament, it is not a debating club. This is the National Assembly of Kenya and I will not accept people treating this House with indignity. If you persist, you will be out.

Proceed, Mr. Nyachae.

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

Mr. Speaker: Order! Mr. Kiunjuri, you are also disorderly. Leave the House.

(Mr. Kiunjuri withdrew from the Chamber)

Mr. Speaker: Proceed, Mr. Nyachae.

The Minister for Finance (Mr. Nyachae): Mr. Speaker, Sir, before I embark on my formal Speech, allow me to pay tribute to His Excellency the President, Daniel arap Moi, for his continued concern for the welfare and wellbeing of Kenyans. I also wish to take this opportunity to salute my predecessor, hon. Mudavadi, for facilitating my settling down in the Treasury. Besides the detailed hand-over notes, hon. Mudavadi has availed himself whenever I required to consult him on the difficulty issues of public finances.

Mr. Speaker, Sir, as we close 1997/98 Fiscal Year, the country faces difficult challenges. The slow-down in the economic growth which began in 1996 continued into 1997 and is likely to persist unless urgent measures are taken to tackle factors constraining growth. The excessively high interest rates, the poor state of our roads, power supply shortages, insecurity and the adverse weather conditions have all had their toll on investment and overall economic performance.

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

The Minister for Finance (Mr. Nyachae): Furthermore, the suspension by the International Monetary Fund (IMF) of the Enhanced Structural Adjustment Facility (ESAF) loan in August, 1997, also played a role in adversely affecting the investors' confidence. The situation was worsened further by persistence of corruption which led to loss of Government revenue.

Mr. Speaker, Sir, hon. Members should note that as a result of the slow down in economic growth, unemployment and poverty problems have worsened. Therefore---

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

Mr. Speaker: Order, Mr. Nyachae! I think Mr. Gatabaki is very lonely. I find it extremely difficult to send him out because I do not know who will escort him! So, would you sit down?

Proceed, Mr. Nyachae.

(Laughter)

The Minister for Finance (Mr. Nyachae): Mr. Speaker, Sir, as we examine the outlook for 1998/99 Fiscal Year and beyond, and what we need to do to restore investor confidence and turn the economy around, it will be necessary to bear in mind these factors and circumstances.

Mr. Speaker, Sir, Kenya's economic performance weakened further in the 1997/98 Fiscal Year. Being an election year, the highly charged political environment resulted in a further slow-down in investment and a considerable fall in economic growth to an estimated 2.3 per cent in 1997 compared with 4.6 per cent in 1996 against the original target of 5.3 per cent. This compares unfavourably with 4 per cent growth for the global economy and 3.8 per cent for the African continent. Deterioration in our infrastructural facilities, the persistent high interest rates and insecurity which had a major toll on tourism, account for this weaker economic performance. This situation was compounded by the vagaries of the weather, as the country experienced both drought and floods in the same calender year. This double disaster had severe adverse effects on agriculture which contributes a significant share of our gross domestic output. The lapse in the ESAF loan in 1997 also compromised our economic growth.

During the period immediately after the ESAF lapsed, external investors repatriated about US$250 leading to a 20 per cent depreciation in the Kenya shilling. Interest rates on Treasury Bills also shot up from 18 per cent to 27 per cent reflecting a substantial risk premium investors required in the face of lost confidence. The upward pressure on interest rates was compounded by the sharp increase in Government expenditure due to the huge salary awards to teachers and general election cost overruns. The wage bill did not only impact adversely on interest rates, it also made it difficult for the Government to fund adequately social services, operations and maintenance.

During this period, revenue performance could not remain on target due to reduced economic activities and the lapses in revenue administration that led to the diversion of uncustomed goods such as petroleum products, electronic equipment and tyres into the domestic market. This, coupled with declining external receipts, made the Government---

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

Mr. Speaker: Order! Order, Mr. Nyachae! Mr. Gatabaki, I may have to concede now to your persistent request to send you out. I do now concede a nd you must leave.

Mr. Gatabaki: On a point of order, Mr. Speaker, Sir---

Mr. Speaker: Order! Order, Mr. Gatabaki! If you persist, I will order that you be removed by force. Before I do so---

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

Mr. Speaker: Order! Order! Mr. Gatabaki, I find it extremely difficult to deal with you. You have the least respect for the Chair. It does not matter that you contested against the Chair, the Chair remains the Chair. I give you one more chance to sit down and listen.

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

Mr. Speaker: Order! Order! Mr. Gatabaki, your behaviour is now disorderly. I order you to leave and I have given you a chance to leave now. If you do not, I will use all necessary force to remove you from this Chamber. Will you leave or not?

Mr. Gatabaki: Mr. Speaker, Sir, the Chair is intimidating---

Mr. Speaker: Order! Order! You are a stranger, you must leave now.

Proceed, Mr. Nyachae.

Mr. Gatabaki: You will regret this day!

(Mr. Gatabaki withdrew from the Chamber amid laughter from hon. Members)

The Minister for Finance (Mr. Nyachae): Mr. Speaker, Sir, during this period, revenue performance could not remain on target due to reduced economic activities and lapses in revenue administration that led to diversion of uncustomed goods, such as petroleum products, electronic goods and tyres, into the domestic market. This, coupled with declining external receipts, made the Government to result increasingly to short-term domestic borrowing to finance its expenditure. To contain its borrowing, the Government instituted, in early March 1998, several critical fiscal measures. These included expenditure cuts amounting to Kshs4.5 billion, and revenue measures which yielded Kshs5.4 billion.

Mr. Speaker, Sir, while these efforts have helped in tapering Government borrowing requirements, we must now aim at eliminating the budget deficit and eventually running surpluses, so that we can begin to repay the domestic debt, bring interest rates down and ensure private sector receives adequate credit without compromising monetary policy.

Mr. Speaker, Sir, turning to the balance of payments, the overall position in 1997 was weaker than targeted, because of net capital outflows that arose from marketing instability in the second half of 1997 and a larger than projected current account deficit, which increased from Kshs4.2 billion in 1996 to Kshs22.2 billion in 1997.

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

Mr. Speaker: Order! Mr. Mwenje, I do not think you take seriously what we are doing today. If I may just tell you one basic thing, Mr. Mwenje, the basic task of Parliament is:

(a) To approve taxation or disapprove it.

(b) To enact Laws and everything else comes second.

This is a basic thing about Parliament. I do not think Mr. Mwenje, you are capable of offering any informed opinion on finance.

Proceed!

The Minister for Finance (Mr. Nyachae): Mr. Speaker, Sir, this deterioration was mainly due to strong import growth, while exports stagnated. On the inflation front, I am happy to report that because of the tight monetary policy stance maintained by the Central Bank of Kenya during this period, we managed to contain the underlying inflation rate within the single digits rate.

Mr. Speaker, Sir, as hon. Members can now appreciate, we are faced with a daunting task of how to achieve faster economic growth, preferably in excess of seven per cent per annum which is necessary to create enough jobs for the growing labour force and reduce poverty on a lasting basis. To increase economic growth, there must be, among other things, an increase in private investments.

This will occur, only if we take strong measures to:

(a) Reduce domestic debts and interest rates.

(b) Improve physical infrastructure, particularly roads which in their current state, are a major constraint to growth.

(c) Improve the delivery of economic public services such as the telecommunications, power and water supply.

(d) Improve the efficiency of the civil service and make it more friendly to the business community.

(e) Improve public security and administration of justice.

(f) Reduce corruption and evasion of taxes.

(g) Improve relations with our development partners.

Mr. Speaker, Sir, this is a demanding task, which I hasten to emphasise, cannot be dealt with effectively, unless there is a concerted effort by all Kenyans, irrespective of their political party affiliations. In this context, I urge all the hon. Members, as the representatives of our people, to stop the endless political distractions, in preference to the pursuit of an economic agenda aimed at benefitting all Kenyans. We need to urgently build a national economic purpose around new ambitions for our country. If this is not done soon enough, those individual interests we seek to protect will be compromised. As has happened elsewhere, once the spiral of economic collapse starts, there is no way of knowing the direction it will take, when or where it will stop, and later on find a quick fix. Let us not be like the Biblical man who had eyes but could not see and had ears but could not hear.

Mr. Speaker, Sir, I am convinced that we have the capacity to realise our economic growth. Given our diversified highly productive base, strong entrepreneual endowment, well developed financial markets, liberalised economic system and favourable geographical locations, our economy can achieve high and sustainable growth, if only we can attend to those factors pulling it down. We are, in particular, blessed with a hardworking population that is not looking forward to handouts from the Government, but rather for greater access to primary education, public health services, water supply and better quality public service. They just need an enabling environment, within which they can find ways and means to earn an honest living.

Mr. Speaker, Sir, our new ambition is to achieve high quality and sustainable economic growth, with stability based on unshakable commitments to pursue consistently, prudent fiscal and monetary policies and good economic governance. We have to avoid the stop-go tendencies that create uncertainties for investors. We have also to ensure that people's money is managed efficiently and in a transparent manner; that the rule of law is effectively and fairly enforced, and that our people, both the general public and the business community, participate in decision making on economic issues that affect their lives. These are the salient features of good economic governance which should be the cornerstone of our economic management. It is in this regard that the Government plans to reactivate, in the course of the year, the Joint Industrial Consultative Council, to provide a channel of communication between the public and the private sectors.

Mr. Speaker, Sir, our relations with donors, especially multi-lateral agencies such as the IMF and the World Bank, is one of partnership. We are happy to work with them and benefit from their skills and world-wide experience. However, we should at all times, endeavour to implement only those economic programmes that we have designed ourselves and are in the interest of our country and people. We should, in designing our economic programmes, consult widely with all stakeholders in order to ensure that Kenyans own such programmes. While donors can and do provide useful assistance, the responsibility for creating the change we desire rests with us. However, it is in our best interests to collaborate and work, particularly with the Bretton Woods institutions because of their importance in the global economic relations. What makes their role critical is that, most donor countries and foreign investors require to know the rating by these two institutions, of a country seeking financial support and debt relief from them before they can sanction it.

Mr. Speaker, Sir, consequently, the snowballing effect when we disagree with them can be disastrous. An agreement with the two institutions opens many financial doors, including quick disbursement of funds and direct foreign investment.

Mr. Speaker, Sir, the Budget that I bring to Parliament and the country today, begins the difficult task of physical adjustment that seeks to:

(i) Achieve a balanced budget.

(ii) Reduce Government borrowing requirements and start to repay the current stock of short-term Treasury Bills.

(iii) Lengthen maturity of domestic debts by encouraging conversion of the bulk of the Treasury Bills to Treasury Bonds and,

(iv) Achieve a reduction in interest rates.

To achieve these objectives, we cannot avoid to implement painful measures that require reduction of expenditure to a level consistent with revenue receipts. In my view, this is the only way we can manage to reduce domestic debt and interest rates. In any case, given the current high tax ratio and the low level of the economic activity the country is experiencing, raising taxes will be counter-productive.

Mr. Speaker, Sir, the large short-term domestic debt continues to attract public attention and commentary. Externalization of this debt has become a popular suggestion. However, the reality is that before externalizing the debt, we need a stable and predictable macro-economic situation complemented by a positive rating or image on economic governance. Without these attributes, the debt can only be externalized at very high premiums which, when one considers the exchange risk, may be more expensive than what we are paying currently on the domestic debt. For these reasons, expenditure will bear most of the required adjustments.

Mr. Speaker, Sir, in this context, the Treasury, in consultation with the Ministry of Planning and National Development, has established the projects in the Public Investments Programme (PIP) that should be accorded priority, and accordingly reduce the number of projects to be funded in the 1998/99 Budget from 1,072 projects to 664 only. The objective is to reduce the project portfolio to what can be fully funded. For low priority on-going projects that are sellable, we will consider selling them and use the resources so realised to pay off the short-term debts. To ensure that the number of projects are only those within financial and administrative capacity of the Government, a mechanism for project selection and approval will be introduced. Before any project can be included in the PIP and the annual Budget, the design and the implementation timetable will require approval by the Cabinet Economic Sub-Committee.

Mr. Speaker, Sir, in order to effectively control expenditure commitment, it is important that we provide adequate and high-level technical and professional support to the Accounting Officers.

In this regard, under the powers vested in me by the Exchequer and Audit Act, I am creating a new position of Financial Controller in all Ministries and departments who will replace the Principal Finance and Establishment Officers in the Ministries. The Financial controllers will be responsible for improving the financial management and control in Ministries, especially the control of commitments which they will counter-sign with the Accounting Officer. Technically, the Financial Controllers will be under the control of the Permanent Secretary to the Treasury, while administratively they will be under the Accounting Officers of the Ministries in which they are based. Among other policy measures that are necessary in our quest for fiscal adjustment are:

(1) Enforcement of firm and impartial tax administration in which everybody pays his or her tax liability.

(2) Continue to improve and expand tax administration.

(3) Speeding up of privatisation.

(4) Implementation of economic measures on the use of Government vehicles, telephones and leasing of private residential accommodation.

With respect to tax administration, efforts to fight corruption on tax evasion will be intensified. Let me at this point, thank His Excellency the President for allowing the Kenya Revenue Authority to set up its own police unit. To complement this, the Government has decided to give the Kenya Revenue Authority greater operational autonomy to ensure strict revenue administration without fear or favour, particularly on administration and control of transit goods. The Authority is expected to perform these duties in a fair, efficient and transparent manner, free of any interference. It is in this spirit that I propose to amend the Kenya Revenue Authority Act to strengthen its Board by reducing the number of ex-officio members from five to two: Namely, the Permanent Secretary to the Treasury and the Attorney General. The two will be in the Board in an advisory capacity and will have no voting powers, while the private sector members will be increased from five to seven. These changes will distinctly separate functions of the tax policy and tax collection administration.

To restructure the maturity profile of our domestic debt, we will issue registered two-year Treasury Bonds that will qualify for income tax and VAT amnesty. Any person with income not previously disclosed for tax purposes will qualify for this amnesty, on condition that the money is invested in the Treasury Bonds with at least a two-year maturity period. Those seeking amnesty will need to buy amnesty bonds and declare their value to the respective commissioners. The amnesty bonds will be sold by the Central Bank of Kenya and commercial banks, and the sale will be open up to the 31st December, 1998. The interest accrued will be paid on a half yearly basis, with a final withholding tax of only 15 per cent.

Mr. Speaker, Sir, to ensure inflation remains within the single digit level, the Central Bank of Kenya will take steps to ensure the expansion in the money supply remains in line with a level required to support productive economic activities. I wish to emphasise that low and stable inflation is critical to investment and growth. It is for this reason that, the Government and the Central Bank are determined to meet the inflation targets. Broadly stated, monetary policy during 1998/99 will aim to:

(a) Contain growth in money supply to no more than 10 per cent.

(b) Contain expansion in loans and advances extended to the banking system including other public sectors to no more than 17.8 per cent.

(c) Ensure that gross Foreign Exchange Reserves held by the Central Bank are maintained at around the equivalent of 3.2 months of imports cover.

The Central Bank will use various tools of monetary policy to achieve this target, namely:

(1) Open market operations to regulate changes in the reserve money.

(2) Restrict its over-night lending to the commercial banks and use the facility, only as a last resort to bridge short term liquidity short-falls.

(3) Stay out of the foreign exchange market.

To help reduce interest rates, the Central Bank of Kenya has decided to adjust downwards, the cash ratio by about 3 per cent points in the close of the year. The reduction will be staggered in such a manner, as not to compromise the monetary policy objectives.

Mr. Speaker, Sir, hon. Members should know that the success of monetary policy will continue to be closely related to fiscal policy. Therefore, a solution to the short-term Government debt problem and its borrowing requirement will improve the environment for monetary policy. With this in view, we have programmes to reduce Government borrowing from the banking sector by at least 5 per cent.

Mr. Speaker, Sir, let me now touch on sectoral areas. I will indicate the position regarding Agriculture. I will start with the Agricultural Sector, which is the mainstay of our economy. In 1997, the sector suffered a major setback. Crop production declined by 30 per cent, with all cash and food crops registering substantial declines. This necessitated importation of large quantities of staple foods, especially maize and wheat, while food prices rose sharply. Factors which contributed and continue to affect productivity in this sector include bad weather conditions, high cost of inputs and finance, poor state of roads which have made collection and transportation of produce to markets both difficult and expensive, and a competition from imports. Besides, farmers have recently experienced difficulties getting good quality seed maize.

The Government plans to take several measures, both on tariff and expenditure sides to deal with this problem and improve prospects for farmers in 1998. First, we will review import and suspended duties on processed agricultural produce. Secondly, to help farmers during this difficult time, the presumptive income tax will be suspended. Thirdly, give farmers access to chemical fertilisers, together with a wider range of plastic sheeting for green houses free of customs duty. On the expenditure side, we have allocated more funds for road maintenance. In this connection, the Government has secured funding for a programme to provide matching funds to supplement cess collected from cash crops, for improvement of rural roads. This will boost road maintenance in rural areas. Besides, the fiscal adjustment programme which I present to the Parliament today is aimed at reducing interest rates and if it is adhered to throughout the Financial year, it will bring interest rates down to the benefit of these sectors also. In addition, in the course of the year, the Government will develop a scheme that will provide some financial support to small scale food producers, particularly maize and beans farmers. I expect this scheme to be operational by early 1999.

Mr. Speaker, Sir, let me take this opportunity to thank both the Kenya Breweries Limited and the British American Tobacco Company Limited for their continued support to barley and tobacco farmers through their contract farming programme. I appeal to the two companies to expand this programme. I would also like to urge all other processors of agricultural produce, especially wheat millers to initiate similar programmes. As I have indicated earlier, we can turn this economy around and realise our growth objective if we support each other to harness the available resources.

Mr. Speaker, Sir, the economic reforms we have so far implemented focused on the removal of controls on prices and imports, liberalization of marketing, and providing macro-economic stability that is necessary to spur private enterprise as the engine of economic growth. However, these reforms have not led to rapid growth rates, sufficient to create employment, raise income and alleviate poverty. The reason for this is mainly that, the public sector is still too large and inefficient to facilitate the desired high economic growth. It is now necessary to down-size the public sector in accordance with the changed roles and focus more on the core functions. This exercise should include Local Authorities which have also been under-performing in their responsibilities. To redress this situation, the Government is undertaking four parallel, but related programmes, namely:

(1) A new medium term public expenditure framework.

(2) Phase two of the Civil Service Reform Programme, along with parallel rationalisation of the teachers' service.

(3) Privatisation of commercial public enterprises and restructuring the utility sector.

(4) The Kenya Local Government Reform Programme.

Mr. Speaker, Sir, these programmes are critical to the achievement of the desired economic growth and fiscal targets. The aim is to achieve a lean, efficient and more effective Public Sector. To achieve this, the Government expenditure will be reduced from the current level of 28 per cent to below 25 per cent of the GDP, while revenues will be maintained at/or below 24 per cent of the GDP. This will yield a smaller debt burden, leading to lower interest rates which in turn, will release revenue to be spent on essential services and infrastructure. Currently, about 25 per cent of tax revenue goes to service the domestic debt, which crowds out expenditure on other essential services. I will now briefly deal with each of the four programmes.

Mr. Speaker, Sir, the medium term public expenditure framework is expected to be finalised by October, 1998, following inputs from all ministries after their ministerial public expenditure review. It will provide an efficient expenditure programme, consistent with the available resources. The medium term objective is to generate sufficient budgetary surpluses to reduce the stock of domestic debt from the current level of over 24 per cent, to below 15 per cent of the GDP. This is not just to reduce expenditure, but also improve quality. Funds will be allocated to core functions that include social sector, security, infrastructural development, operation and maintenance. Within this broad framework, Ministries will have more predictable funding levels and will be expected to take greater responsibility for prioritising and planning the use of their resources.

Mr. Speaker, Sir, under the Civil Service Reform Programme which started in 1993, we have reduced the Service by 54,000, or 20 per cent through the voluntary early retirement scheme and other means. Rationalisation reviews have also been carried out in 12 Ministries aimed at redefining the objectives, functions and organisation to achieve greater efficiency in service delivery. Phase two of this programme will focus on performance improvement in close co-ordination with medium term expenditure framework. This phase has four major components which will be implemented over the next three years. The first phase involves a review of the functions of the public sector to identify priorities and overlaps between various Departments of Government. All non-core functions will be divested or privatised while the core functions will be allocated to Ministries or Departments of Central Government or local authorities as appropriate. In addition, functions will be identified that are suitable for assignment to semi-autonomous agencies or contracting out to the private sector.

The second component involves a review of staffing and management of the expenditures on personnel. To meet the objectives of overall expenditure control, further staff reductions of 59,000 officers will be necessary to release funds in order to facilitate reduction in the wage gap between the Civil Service and the private sector. This will enable the Civil Service to attract, retain and motivate top quality officers. The reduction will be achieved through a combination of pay-roll cleansing, natural attrition, voluntary and mandatory early retirement together with strict limits on new recruitment. To handle the staff imbalances that will arise from the down sizing and reorganisation of the Service, the Department of Personnel Management will strengthen its redeployment services. Given the severe domestic debt problem, it will be necessary to freeze pay scale adjustments in the 1998/99 fiscal year for all categories of public service, except for normal annual increment of about four per cent.

The third component involves harmonisation of pay and benefits until the Budget is restructured and staff reductions achieved. Pay levels will be raised and the current complex and anomalous system of pay scales, allowances and benefits restructured and rationalised. Benefits will be monitored to get a clean and equitable wage structure. In addition, a system of rewarding managers and professionals will be developed based on productivity and performance. Furthermore, the public pension scheme will need to be adjusted and brought closer to pension standards in the private sector. Consideration will also be given to introducing contributions to fund pension benefits. In early 1998/99 fiscal year, amendments to the Pensions Act will be brought to Parliament to remove anomalies in the case of early retirement and rationalise the pension benefits in the public sector. Finally, a Permanent Civil Service Pay Review Board will be established to review the terms and conditions of public servants on a continuous basis. The fourth component involves training and capacity building in the public service. Government training institutions will be rationalised and a new code of ethics developed for the public service. Human resource management capacity will be strengthened and a performance appraisal system developed and implemented to assist promotions and training assessment.

Mr. Speaker, Sir, let me now touch on teachers salaries. Following the teachers' pay agreement of November 1997, annual expenditures on teachers' salaries and allowances now exceed those of civil servants by some Kshs4 billion. The overall agreement provided for pay increases of up to 200 per cent over five years, beginning in the Financial Year 1997/98. Continued implementation of this agreement will lead to teachers' pay absorbing some 37 per cent of expected total revenues of this nation. The problem of teachers' wage bill is compounded by the large teaching force, which is now close to 260,000 staff members. The combined public sector wage bill, assuming civil servants are given a similar increment, would absorb 67 per cent of total revenue. When debt service is added, wages and debt service would absorb more than 92 per cent of the total expected revenue, leaving less than eight per cent of Government revenue for operations, maintenance and development expenditure. Economic growth will not be attained under these circumstances. This is the scenario we must avoid. We cannot afford to continue borrowing to pay wages and service public debts only. If the economy is to recover, this situation must be reversed as soon as possible.

Accordingly, the Government has had to make a painful decision that the teachers' pay agreement be re-negotiated. At the same time the financial arrangements in the eduction and training sectors will be reviewed to come up with a more equitable and cost-effective arrangement. In the meantime, amendments to the Teachers Service Commission Act will soon be tabled before this august House.

Mr. Speaker, Sir, the number of teachers paid from the national Budget have been growing faster than the number of pupils. The pupil-teacher ratio has now dropped below what is optimal. This is already impacting negatively on the quality of education, in that emoluments to teachers account for over 83 per cent of budgetary allocations to the Ministry of Education and Human Resource Development. This leaves little to finance other inputs in education such as equipment, supplies, facilities and support services. To reform this cost-structure and make room for future pay increases, as with the Civil Service, the Government aims to reduce the number of publicly paid teachers by some 66,000 teachers over the next three years. This will be achieved through pay roll cleansing, natural attrition, voluntary and mandatory early retirement. There will also be a complete freeze on recruitment of teachers.

Mr. Speaker, Sir, the programme for privatising commercial public enterprises has continued during the current fiscal year. Arrangements for the privatisation of Mumias and Chemelil Sugar Companies and the Kenya Reinsurance Corporation are at an advanced stage, and sales will be effected by the end of 1998. An additional 11 public enterprises have been identified and approved for divesture in the 1998/99 Fiscal Year.

Kenyans are aware that Local Authorities are responsible for delivering many of the services closer to our homes and businesses. Clearly, there are major shortcomings in the performance of the local authorities. While several initiatives were included in the last Budget, progress has been less than satisfactory. Efforts to mobilise revenue, prepare and audit accounts need greater commitment than has been the case so far. Lack of accountability and transparency remain a major source of disappointment to residents of the local authorities. The slow progress in this area is also holding up establishment of a healthy inter-governmental fiscal relations. I, therefore, urge all those involved to move with speed to establish sound accounting and financial management systems in the local authorities. As promised in the 1997/98 Budget speech, we will proceed to establish the Local Authorities Transfer Fund which will be funded by a share of income tax once the legal and administrative machineries are in place. Disbursement out of funds will be conditional, largely on the targeted expenditure and revenue raising performances by the local authorities. Such expenditures and revenues will have to be substantiated by audited accounts. Moreover, given the resource constraints of the public sector, local authorities will be expected to rationalise their expenditures and staffing levels in a similar manner as is being done in the central Government. They will also need to prioritise their functions and contract out delivery of some of the services such as road maintenance, water supply, garbage collection and health services to the private sector.

One performance criterion that will be required of all local authorities from 1999 onwards will be to put in place a simplified and improved revenue collection system. All local authorities will be required to issue only one permit to a business enterprise. While this business permit will be issued automatically upon registration and payment of the fee, businesses will still be required to comply with a health, safety environment and other regulations.

To improve the inter-governmental fiscal relations and start addressing the problem of gross indebtedness, the central Government will start a system of direct payment of the contributions in lieu of rates from the Treasury. Where a local authority owes the Treasury any money, its share of contributions will be paid net of such outstanding claims. This arrangement will help clear mutual indebtedness between the two levels of Government and enhance financial discipline.

We can learn important lessons from the fiscal crisis in South East Asia that originated from weaknesses in the financial sectors, which were allowed to continue for too long. It is important that we learn from their mistakes and avoid a similar crisis in our financial sector. Of late, we have had indications which highlight the need to tighten the law on banking, enhance disclosures and strengthen banking supervision. Towards this end, the Central Bank of Kenya will be empowered to promptly invoke the provisions of the Banking Act, where the directors are found to be in breach of the law. With this in view, appropriate amendments to the Banking Act have been included in the Finance Bill which aim to foster a sound banking system and protect depositors' funds. In future, directors and senior management of banks and financial institutions will be required to ensure sound corporate governance is maintained in all their institutions. In other words, they must set a good example to the rest of their staff by ensuring that they practise accepted commercial and banking principles. If the directors, owners and managers remain prudent, accountable and transparent, it will be possible for market forces to enforce discipline in the sector. In particular, the asset quality of the bank will be scrutinised so that the problem of large non-performing assets, which **[The Minister for Finance]**
result from poor credit administration procedures, is effectively addressed. In addition, bank auditors will be required to ensure that adequate provisions are made for non-performing loans.

To enhance accountability, we will encourage independent rating of companies operating in the money and capital markets. As a start, the Capital Markets Authority and the Central Bank of Kenya will continue to exercise due diligence to ensure adequate disclosures and credit-worthiness of issuers of bank paper and corporate bonds. To enshrine and operationalise these principles, by the year 2000, no company will be allowed to issue public debts in form of commercial paper or corporate bonds unless it is rated by an independent rating agency.

Mr. Speaker, Sir, as part of our efforts to bring interest rates down, the Government will explore the possibility of introducing a low denomination bond with an attractive fixed interest rate and make it widely available to small savers. By increasing competition in the market for Government debt, this would be expected to have a downward pressure on interest rates. In a separate Bill published today, I have proposed various amendments to the Retirement Benefits Act which was passed by this House in August last year. Partial commencement of this Act has already started, facilitating the creation of the Retirement Benefits Authority. The Authority, which is in its formative stage, will monitor and help develop the retirement benefits sector, but will not control or administer individual retirement schemes or funds. The primary objective of the authority is to ensure sound management of retirement schemes to enhance contributor confidence. The Authority will only oversee the interest of both scheme members and their employers with a view to increasing long-term domestic savings which are necessary for investment. The success of these schemes will help to lower the interest rates.

Mr. Speaker, Sir, the transport and communications sector is critical to our economic development process. However, institutions in this sector continue to be of concern to stakeholders in the economy, principally because they have tended to impose additional costs on them. Efforts to reform the Mombasa Port have not been successful so far. In the coming fiscal year, the Government will take measures to improve performance of the following key institutions:

(i) The Kenya Ports Authority. The Government will privatise the container terminal through concession to private companies. As regards the other specialised berths, their management will be liberalised to get the private sector more involved in their operations.

(ii) The Kenya Posts and Telecommunications. The Kenya Communications Bill has already been tabled before this House. Essentially, the Bill provides for splitting of the Kenya Posts and Telecommunications Corporation into three separate entities. These are the Postal, Telecom Kenya and an independent regulator. I urge hon. Members to deal with this Bill urgently, first, because efficient telecommunications services are necessary for the development of information technology. Second, with globolization, local enterprises cannot access international markets unless telecommunications services are readily available at competitive costs. Third, liberalisation of telecommunications services will open a large segment of services sector leading to opportunities for creation of jobs and generation of wealth. Fourth, and perhaps most important, in the modern economy, services, which are transacted through telephone lines, constitute a large share of the world's trade; and finally, for the country to mobilise adequate financial resources and technology to provide services to the people already in the telephone waiting list, it will be necessary to attract private sector into telecommunications industry. Besides, Kenya is already behind in this sector and needs to catch up. The Government will, therefore, invite an international strategic partner into the telecommunication entity and also bring in public participation by part floatation through the Nairobi Stock Exchange.

Mr. Speaker, Sir, road safety remains a major concern to many Kenyans because of the pain and damage it causes to them. Hardly a day passes without a fatal accident on our roads. Most people believe that this is caused by many unroadworthy vehicles that pose great dangers to other road users and the public. Most of the secondhand motor vehicles imported into Kenya, only find their way into the country after they are condemned in the countries where they were registered last. These vehicles pose a greater threat through the environmental damage they cause through pollution. To address this problem, the Government will, with immediate effect, require all secondhand motor vehicles imported into Kenya, to meet the prescribed standards under the Traffic Act. To achieve this, the Pre-Shipment Inspection companies will be required to ensure that they do not issue clean reports or findings if these standards are not met. In addition, the Ministry of Transport and Communications will, in the course of the year, table a Traffic (Amendment) Bill, which will provide for regular inspection of all motor vehicles as a condition of Third Party Insurance. The proposed law will also authorise the Ministry of Transport and Communications to appoint competent private sector organisations as inspection agents. As these measures are expected to improve road safety,
insurance companies will be expected to reduce motor vehicle insurance premiums in line with the reduced risks as and when these measures become operational.

Mr. Speaker, Sir, turning to road transport, the Government recognises the poor state of disrepair of our roads in a critical and urgent concern. The Nairobi-Mombasa Road, the economic lifeline for Kenya as well as many of our neighbouring countries, is a major hindrance to our economic recovery. Regional and rural access roads which are vital to growth in agriculture and tourism sectors, are in poor state and are, therefore, causing excessive damages to vehicles and increasing shipping delays and transport costs. Overall, the poor state of our roads is adding unnecessary costs to doing business in all sectors of the economy. This problem is partly attributed to poor workmanship which arises either from incompetence of technical officers or their collusion with contractors to ignore agreed specifications for personal financial gain.

(Applause)

Re-starting rapid economic growth, to a large extent, depends on effective rehabilitation and maintenance of the road systems. To address this problem, the Government will take the following measures:

First, under the emergency programme established with the assistance of the donor agencies, a major effort to rehabilitate *El Nino* damaged roads, including the Nairobi-Mombasa Road, will be undertaken. Second, significant changes in the Road Maintenance Levy Fund have been introduced to increase the funding and improve its cost effectiveness. Third, collaborative efforts have been established through the East African Cooperation to coordinate maintenance of the regional road network which is critical to improved economic cooperation and trade within the region. Fourth, the Government will henceforth enforce the axle loads and also ensure full compliance with technical standards during road constructions.

Mr. Speaker, Sir, on road maintenance, during the Fiscal Year 1997/98, we provided over Kshs5.2 billion, most of which was from the Road Maintenance Levy, and the remainder from the ordinary revenues. Next year, road maintenance funding will rise significantly to over Kshs6.5 billion, with some Kshs5.3 billion going to classified roads and, the remaining Kshs1.2 billion, for roads maintained in local authorities. During the Fiscal Year 1998/999, road maintenance will be financed 100 per cent from the road levy and transit tolls. To simplify accounting and financial controls, improve transparency and reporting on use of these funds, the levy will be collected and deposited in a Fund in the Treasury. All disbursements will be made on the basis of approved road maintenance expenditure plans. Proposals to amend the Road Maintenance Levy Fund Act, to allow the issuance of rules to improve the financial management and efficiency use of these resources, are included in the Finance Bill. Such rules will preclude conflict of interest between Fund managers and contractors, and also require the use of consulting contract managers and financial and technical audits on all projects. They will also require regular publication of planned and actual use of these funds. Any contractor who fails to meet the required technical standards will be expunged from future contracts under the Fund. Similarly, any officer who fails to ensure proper work or is involved in any irregularity, will be severely disciplined.

Mr. Speaker, Sir, to institutionalise road maintenance to get quality roads, the Government will establish an Executive Roads Board to plan and manage the national road network and to further improve professionalism and efficient use of these resources.

(Applause)

Legislation will be brought to this House in the course of the year to establish this agency. In the meantime, and to gain greater input from the major stakeholders, an Advisory Committee will be established shortly with representation from the public and private sectors to advise on the best use of road maintenance funds.

Mr. Speaker, Sir, as concerns the energy sector, the country did not, in the past, devote adequate resources to expand power generation capacity or modernise the national grid. Consequently, the electricity demand now exceeds supply and transmission is not efficient. To address the frequent power rationing and outages, several initiatives are planned in the 1998/99 Fiscal Year. First, we expect construction to start on two more independent power producing units, namely Kipevu II, a 75 MW power plant, and Olkaria III, a 64 MW geothermal power plant. Power purchase agreements are expected to be signed during the early part of 1998/99 Financial Year. Two additional independent power producer units, 55 MW each, are expected to start operations in the second half of 1999, one in Eldoret and the other in Nakuru. The two have been selected on the basis of least-cost criteria.

Tourism is one of the growth sectors of our economy. In 1996, the sector contributed 11.2 per cent of Gross Domestic Product (GDP) and 18 per cent foreign exchange earnings. However, in 1997 the sector performed very poorly mainly due to insecurity in the country which scared away the tourists. Continued deterioration of physical infrastructure arising from the heavy floods, outbreak of epidemics, inflammatory political statements made 1997 one of the worst years for tourism. Indeed, this has been a major disaster for the regions where tourism is the main economic activity and which, for now, do not have other viable economic alternatives. As a result, anything that hurts tourism leads to further marginalisation of these regions. Needless to say, tourism is essential to uplifting the levels of their incomes together with opening up those areas. To address this problem, the Government will take the following measures:

1. Repair the damaged road infrastructure
2. Provide more resources for marketing and promotion
3. Ensure peace and harmony in the affected areas
4. Allocate more resources to security oriented services
5. Finalise arrangements with the European Union for the establishment of an endowment Fund for the Kenya Tourism Board which will provide a stable source of funding for the Board.
6. Finally allow zero-rating under the VAT for locally financed tourist hotel development and refurbishment.

Mr. Speaker, Sir, export led manufacturing is a major pillar of sustainable development strategy. Therefore, with the declining external receipts, our balance of payments position can only be secured through increased exports which includes enhanced tourism performance. Unfortunately, in 1997, our export trade was adversely affected by a ban on fish and fish products by the European Union who also threatened to ban export of horticultural produce. It is now necessary to reverse the export decline which occurred in 1997/98 Fiscal year. Towards this end, the Government will take measures to bring interest rates down and repair the roads in order to facilitate transportation. On its part, the private sector must exercise diligence to comply with quality and health certifications of the importing countries. Any concerns raised by our buyers must be addressed immediately and effectively.

Mr. Speaker, Sir, let me now briefly deal with the regional co-operation. During this year, Kenya continued to play a leading role in the regional organisations to which we belong. We will continue to fulfil our obligations to these regional organisations and I appeal to our regional partners to do the same. The process to create a single trade and investment area in the East African Region has been set in Motion and an appropriate trade regime is under discussion. We have made good progress towards harmonising economic policies with our two sister countries, Tanzania and Uganda. I note with satisfaction that today the three countries are delivering their Budget Statements. We have also agreed to implement the following: (i) harmonise pre-shipment inspection threshold at the level of US£5,000 (ii) adopt zero-tariffs for intra-co-operation trade (iii) use a single customs declaration document. With regard to zero-tariffs, the necessary legal provision is already in place. A maximum surcharge of 10 per cent on specific goods has been agreed on for revenue purposes and the protection of infant industries. We will gazette the zero-tariff rate for intra-co-operation trade as soon as the items for surcharge are finalised. The three Investment Promotions Authorities have been instructed to work on the harmonisation of investment incentive procedures.

Mr. Speaker, Sir, provisions relating to anti-dumping were approved by this House last year. However, some aspects of the provisions are inconsistent with the World Trade Organization to which Kenya is a Member. We have now proposed amendments which will make these provisions consistent with the World Trade Organization and also specify the procedures for appointment of an investigation committee. These proposals seek to ensure legitimate protection to local producers so that underpriced or subsidised imports do not cause damage to our industries. The measures will not over-protect local industries from competing imports which would benefit consumers. Indeed, any measures we take, to protect domestic goods from unfair trading practises must be seen to be fair to our trading partners.

Mr. Speaker, Sir, last year, measures were introduced to deal with the diversion of transit goods. Although some progress has been made, the problem remains especially with regard to Sugar, tyres and petroleum products. To effectively deal with this problem, we require the co-operation of all law enforcement agents, industry operators and the support of courts. Those netted with uncustomed goods should be dealt with severely and not allowed to get away with minor fines.

Today, I have proposed amendments to the Customs and Excise Act which will tighten controls on transit cargo and provide heavier penalties. The Commissioner will have authority to deny licenses to individuals who have been involved in Customs irregularities. Finally, tighter provisions have been made with regard to Customs Bonds. I will come to that later.

Mr. Speaker, Sir, as indicated in the KANU election Manifesto, the philosophy of the ruling party on education is that every Kenyan has a right to education. It also emphasizes that in the process of economic transformation, people are our greatest assets. To realise this potential, we need quality education. As promised in the KANU election Manifesto, a Commission to review our education and manpower development strategy has already been set up in---

Hon. Members: That is not part of the Financial Statement! Even the Opposition parties have that in their manifestos!

Mr. Speaker: Order, hon. Members! You just listen to the Speech and note what the Minister is saying. I will avail time to all of you who are really hit by what he is saying. So, can you listen?

The Minister for Finance (Mr. Nyachae): Mr. Speaker, Sir, a Commission to review our education and manpower development strategies has already been set up. It is now upto all Kenyans to come forward and give views and ideas to the Commission and help it to achieve the noble objectives which we so earnestly desire.

Mr. Speaker, Sir, I shall now briefly comment on the financial out-turn for 1997/98 fiscal year which ends at the end of this month. The challenges that the Government faced in 1997/98 financial year had their inevitable impact on our fiscal performance.

(i) The lapse of Enhanced Structural Adjustment Facility (ESAF) programme led to a dramatic increase in interest rates on Treasury Bills from 18 per cent to 27 per cent and as a result, interest payments increased by 45 per cent or Kshs485 million compared to the Budget Estimates.

(ii) Following this suspension, the World Bank and African Development Bank also withheld their Budget Support programme loans amounting to US$300 million.

(iii) Substantial additional expenditures were incurred during the first half of the financial year on account of unplanned salary increases for teachers and, to a lesser extend, to civil servants. Cost overruns occurred on the elections and *El Nino* related expenditures on relief together with additional security costs.

(iv) As economic activities slowed down, Government revenue fell short of targets. However, some of the short fall was made good by the additional revenue measures taken in March, 1998 together with strong administrative improvements which the Kenya Revenue Authority has put in place.

Mr. Speaker, Sir, let me now review the performance of Re-current Expenditure. As hon. Members will re-collect, the Supplementary Appropriation Bill for this year approved by this House involved an additional Recurrent Expenditure of K£870.9 million. Part of this requirement, K£389.8 million was re-allocated from other areas within the Recurrent Budget resulting in a net increase of K£481.1 million. I also expect domestic interest payments to increase by K£485.6 million from K£1,085.9 million in the Printed Estimates for the year to about K£1,571.5 million.

Mr. Speaker, Sir, net Development Expenditures are expected to fall by K£241.9 million comprising of an increase of K£39.4 million to finance Supplementary Expenditure and a reduction from the approved provisions of K£281.3 million. Therefore, the projected net Development Expenditure is likely to be K£752.2 million compared to K£994.1 million in the Printed Estimates.

Mr. Speaker, Sir, through further expenditure control measures put in place in March, 1998, this year's net Recurrent Expenditure is likely to be about K£5,410.7 million and the net Development Expenditure will be about K£752.2 million. The cumulative effect of these development will be to increase the Budget Deficit on a commitment basis in 1997/98 to 2.7 per cent of Gross Domestic Product compared to the original target of 1.7 per cent of Gross Domestic Product.

Mr. Speaker, Sir, I now turn to my focus outturn for 1998/99 Fiscal Year. The 1998/99 Budget which I am presenting to this House reflects two principles that can be summarized in a few words - Fiscal Constraints and a balanced Budget. In planning these expenditure levels for the next year, I have taken into account two very important features of our present fiscal situation. First is the problem of the domestic debt and interest rates to which I have already alluded. Second is the slow down in economic activity, which will limit the growth of revenues available to finance expenditures. We have already noticed a substantial drop in corporate profits this year and the situation is expected to continue in 1998.

Mr. Speaker, Sir, to resuscitate the economy, it is important to bring the interest rates down. The Budget that I am presenting today is a balanced Budget and seeks to no new borrowing from the domestic sources in 1998/99 Fiscal Year in order to facilitate reduction of interest rates.

(Applause)

It also reflects major improvements in the allocation of the available resources. First, I plan to reduce the ratio of salaries and allowances to total expenditures in order to release resources for operations and maintenance in accordance with the Medium-Term Strategy for Civil Service Reform. Therefore, total expenditure on salaries and allowances to civil servants and teachers will drop marginally from K£3.10 billion this year to K£3.05 billion in the 1998/99 Fiscal Year. The ratio of salaries to the ordinary revenues from 38 per cent this year to about 35 per cent, in the 1998/99 Fiscal Year. The Budget also includes an initial K£75 million for financing a new voluntary retirement scheme. With the expected rapid implementation of the Medium-Term Civil Service Reform starting during the next Fiscal Year, I hope to have some further saving in the wage bill, which when realised, will be utilised to finance additional allocations for the new voluntary retirement scheme.

In the Recurrent Budget, I propose to increase allocations for operations and maintenance by 51 per cent, or K£200 million from K£410 million this year, to K£620 million in 1998/99 Fiscal Year. To achieve a balanced Budget, requires very strong expenditure controls, especially in the areas that will not improve delivery of services to wananchi. I, therefore, plan to take several cost-saving measures.

Firstly, the Government has a large fleet of vehicles which cost a substantial amount of money to maintain. Consequently, purchase of new motor vehicles will be strictly controlled. In this connection, the Government will not purchase passenger motor cars with engine capacity exceeding 2000 cc. Only security and specialized agencies will be allowed to buy vehicles in excess of this limit. In addition, a large number of officers use free Government transport. This situation must be stopped. Therefore, with immediate effect, only officers of Job Group "R" and above will be allowed this privilege, but they too will be entitled to no more than two vehicles.

Hon. Members: No! Why!

The Minister for Finance (Mr. Nyachae): One of which, where necessary, will be specifically for field work. Extra vehicles should be surrendered to the Accounting Officer in charge of the Ministry. Any officer found misusing Government vehicles will be severely disciplined. I expect this measure to release a large number of vehicles from within the Government for re-allocation to needy areas. The Government will also quickly dispose of the large numbers of boarded vehicles lying in various yards of Ministries. However, in so doing, necessary diligence must be exercised to realise maximum value from those vehicles. Secondly, in the recent years, Government expenditure on telephones has been increasing at an alarming rate, mainly due to three reasons:

The liberal use of direct telephones; a large increase in level nine connections in offices having switch boards and; an increase in the number of mobile telephones. Apart from draining the Exchequer, this constrains the economy as it denies additional telephone lines to the private sector. Therefore, with immediate effect, I am restricting the use of direct telephone lines and level nine connections to officers of the rank of Undersecretary and above while restricting the use of mobile telephones to Ministers, Permanent Secretaries and approved security personnel. Expenditure on mobile phones by eligible users will be limited to Kshs10,000 per month. Any expenditure in excess of the specified limit will be met by the official concerned from his own resources.

Mr. Speaker, Sir, one of the key principles of Civil Service Reform is the rationalization of salaries and benefits. This calls for monetization of all benefits into the salary structure in order to enhance equity and transparency in the compensation paid to civil servants. In keeping with this principle, it has become necessary to review the practice of leasing private residential accommodation for use by Government officers, including executives of State Corporations and other bodies such as regional development authorities, research institutions, universities and autonomous bodies. In view of the very high costs and inequities involved in this practice, renting of private residential accommodation will no longer be allowed. Instead, house allowances for such officers will be reviewed along with others, and increased to ensure adequate compensation. The existing leases for rented premises will not be renewed, where the rent paid exceeds 30 per cent of the salary of the employee. These restrictions will, however, not apply to constitutional office holders. I expect to make substantial savings from these measures.

Full details of these cost-saving measures are contained in a Treasury Circular issued today. The Government has also instituted a physical count of all Government owned and leased property to find out who occupies those Houses and where they work. I would like to appeal to my colleagues in the Cabinet to ensure that these measures are strictly enforced in their Ministries, so that we can release scarce financial resources for more productive use.

Mr. Speaker, Sir, I have already referred to the project rationalization exercise that was completed recently. The 1998/99 Budget reflects the results of this exercise. The purpose of this process is to ensure only projects that are consistent with the national priorities are implemented. The Treasury, working closely with the Ministry of Planning and National Development, has put in place a new project selection and approval system to vet new projects before they are included in the Public Investment Programme and ultimately, in the Annual Budget. This will prevent uncoordinated growth of projects beyond Government's fiscal and administrative capacity. It will also ensure that all new projects are properly appraised and that, only the viable ones are selected.

Mr. Speaker, Sir, arising from the massive damage to our physical infrastructure, particulary the road network, the 1998/99 Budget gives the highest priority to the allocation of resources for improving the road network. Financial resources for road maintenance and improvement has been increased by 19 per cent, from K£274 million this year to K£326 million in 1998/99 Fiscal Year. Of this, K£61 million will be devoted exclusively for improving the physical infrastructure under local authorities. As indicated earlier, road maintenance in 1998/99 Fiscal Year will be funded exclusively out of the Road Maintenance Fund. The Budget also reflects substantial donor contributions to the emergency programme for the rehabilitation of infrastructure that will be coordinated by the Office of the President and which has been allocated K£197.5 million.

Under the Ministry of Public Works and Housing, K£87.5 million has been allocated for the rehabilitation of the road network. This amount has been co-financed by a large number of donors. An additional K£33 million has been earmarked for the Nairobi-Mombasa Road.

Mr. Speaker, Sir, to boost power supply, with particular emphasis to rural areas, which have great potential for increasing employment opportunities, the Budget provides K£134.1 million for rural electrification under various projects.

(Applause)

A further K£60 million is allocated under the Energy Sector Reform and Power Development Programme, while K£3 million has been allocated for the Olkaria Two Geothermal Project. These provisions will provide a substantial boost to overall economic performance.

Mr. Speaker, Sir, to help rebuild tourism, arrangements are in place to support the Kenya Tourism Board in 1998/99. The Government will provide a grant of K£2 million to the Board and K£11 million has been granted by the European Union for tourism promotion. In addition, the Government will continue to assist the Kenya Wildlife Service to boost its limited resources.

Mr. Speaker, Sir, in the social sectors, including education and health, we have provided K£22 million for secondary school bursaries, K£11 million for the School Equipment Programme and K£5 million for the School Feeding Programme. These are in addition to K£11 million for food assistance to primary and pre-primary schools which is supported by the World Food Programme.

In the health sector, K£25 million has been provided for drugs and other operating expenses in the Recurrent Budget. Several other programmes in the area of rural health services, family planning assistance services and education on AIDS, have been funded with participation of a large number of donors in the Development Budget. In total, K£187.1 million has been provided by donor agencies under the Ministry of Health.

Mr. Speaker, Sir, to assist and encourage *Jua Kali* enterprises and to create new employment opportunities, K£33 million has been allocated. These programmes target the poor members of our society.

Mr. Speaker, Sir, from the Printed Estimates, honourable Members will note that Gross Recurrent Expenditure will be K£5,746.6 million, out of which, K£639.7 million is financed by Appropriations-in-Aid. Consolidated Funds Services are estimated to cost K£4,422.2 million of which K£2,301.5 is for internal and external loan redemptions. Domestic interest payments are expected to take K£1,367.4 million, while foreign interest payments will take K£422 million. Thus, the total Recurrent Expenditure will amount to K£10,168.8 million.

Mr. Speaker, Sir, Development Estimates in 1998/99 Fiscal Year are projected at K£1,913.3 million of which K£1,347.6 million will be financed by Appropriations-in-Aid, leaving a net expenditure of K£565.7 million. Thus, a total expenditure of K£12,087.1 million have to be financed in 1998/99 Fiscal Year.

Mr. Speaker, Sir, I shall now briefly go into how I propose to finance this expenditure. I am not assuming any programme finance for budget support during 1998/99 Fiscal Year. Although some programme grants and loans may materialise during the course of the year, if and when such additional resources materialise, I will use them for reducing outstanding domestic debts and extend it to development. During 1998/99 Fiscal Year, I expect to receive project grants amounting to K£650.9 million from both multilateral and bilateral donors to finance projects included in the development budget. In addition, I also expect disbursement of K£869.1 million in form of project loans during the year. Therefore, from external resources, I expect a total of K£1,520 million.

Mr. Speaker, Sir, to finance the planned expenditure programmes for 1998/99 Fiscal Year, I will need to raise K£8,659.3 million in ordinary revenue, and K£769.7 million in Appropriations-in-Aid. At the current tax rate, I expect to raise K£8,842.9 million in ordinary revenue and K£670.1 million, in Appropriations-in-Aid. Therefore, to meet this expenditure target and give the economy a measure of support, and bearing in mind the very constrained budgetary situation, I plan to reduce total revenue by K£84.2 million. The rest of my speech will outline the amendments to taxes, to reduce the burden on the tax payer.

Mr. Speaker, Sir, I have already appraised the House on the general economic and fiscal situation that we face. I have emphasised that in view of the current high domestic debt, high interest rates and economic stagnation, expenditure reduction is the way forward to restarting the economy. This adjustment will need to be sustained for more than one fiscal year. The coming year will be the most difficult. But, if we do not stray, we will soon reach easier grounds ahead. In the medium term, we will follow the following strategy: Ordinary revenue, mainly from taxes will be maintained at below 24 per cent of GDP, while every effort will be made to improve efficiency and fairness in revenue collection. The Kenya Revenue Authority will continue to strengthen, to gain greater efficiency to revenue collection and to improve tax payers' services. In particular, more efforts will be directed to expansion of tax coverage, verification of transit cargo, together with goods destined for export. Procedures have been put in place for co-ordination and collaboration between the revenue authorities of the three countries of Kenya, Uganda and Tanzania. To boost this effort, Kenya Revenue Authority has started a police unit.

Mr. Speaker, Sir, in keeping with the tradition, I now request the rest of my speech be regarded as Notice of Motion to be moved before the Committee of Ways and Means.

Let me now turn to amendments to Customs and Excise Act that have no direct revenue implications. First, the diversion of transit and export goods, particularly petroleum products, sugar, tires and electronics into the domestic market, has continued to challenge customs adminstration. I propose to amend the law to enhance and expand coverage of penalties associated with these economic menaces. Any person in possession, selling, storing or transporting uncustomed goods will be liable to an enhanced fine of three times the value of such goods or up to five years of imprisonment or both. A new penalty of up to Kshs1 million will now apply to property owners who allow use of such premises for selling or storage of uncustomed goods. These penalties are in addition to the already existing provisions which provide for seizure and forfeiture of uncustomed goods and vehicles used for their transportation.

Mr. Speaker, Sir, secondly, to increase control over transit goods, transporters of such goods will be required to institute a bond of Kshs1 million. In the past, persons who give customs bonds on transit goods have rushed to court to institute injunctions every time the Commissioner has called for payment. To discourage these delaying tactics and to protect both revenues and local producers, I propose to require such persons to deposit full details as demanded by the Commissioner, before filing a suit with the court.

Mr. Speaker, Sir, to improve control of export and minimise risk of diversion, I propose to restrict the period within which such goods should be exported and accounted for, to 30 days. The Commissioner may extend this period to one extension of 30 days, but only under special circumstances. I propose to introduce amendments to the anti-dumping legislation that will bring the anti-dumping provisions in line with the WTO Agreement, to which Kenya is a signatory.

In the past four years, there has been an explosion of NGOs. While some of them are genuine, many are suspect. To ensure only genuine NGOs get duty and tax assistance as charities, I propose to require all charitable NGOs to be registered with the Commissioner for income tax, before they can qualify for duty and exemption.

Mr. Speaker, Sir, to encourage more genuine bidding at customs auction, I propose to require payment of non refundable fee of 25 per cent of the value, at the fall of the hammer, and the balance within 48 hours.

As regards the pre-shipment inspections, I propose to make a number of changes. First, as agreed by the three Ministers of Finance of East African Co-operation, the threshold for PSI inspection will be harmonised at US$5,000 threshold. To counter import splits, an import auditing programme has been put in place. This audit will include random checks of shipments below US$5,000. Secondly, to avoid splitting of shipments to circumvent pre-shipment inspection, the Commissioner will be empowered to consolidate split shipments and require local inspection, subject to enhanced penalties.

Thirdly, I propose to remove discretionary waiver of IDF fees, except for items specifically listed. Finally, to discourage local inspection, I propose to raise the penalty for more than two inspections for one importer from 20 to 25 per cent for motor vehicles, and from 10 to 15 per cent for all other goods.

Mr. Speaker, Sir, to further enhance customs procedures within the East African Co-operation, I propose to adopt a single goods declaration document effective from 1st January, 1999.

To be consistent with liberalization, I propose to remove restrictions on re-export of motor vehicle spares and medicaments. Similarly, the administrative prohibitions on importation of Waragi and Conyagi from Uganda and Tanzania respectively, will be removed. A number of other technical amendments included in the Finance Bill are proposed to enhance customs administration.

Mr. Speaker, Sir, I will now turn to customs measures with direct revenue implications. As hon. Members will recall, over the last 10 years, we have implemented a programme of duty rationalisation and reduction of tariffs raised to lower the cost of doing business in Kenya and improve economic efficiency. However, given the current state of the economy and revenue needs, the high cost of utilities and a relatively strong Shilling, together with measured devaluations in South East Asia and South Africa, I am calling a temporary halt to this process. Kenyan producers are now faced with very stiff competition which leaves little room for lowering duty rates. Indeed, some selected sectors need protection until the economy improves. It is against this background that I propose to take a number of measures.

Mr. Speaker, Sir, first, I propose to raise the duty rates on a selected range of processed agricultural produce and their substitutes, cement, grinding wheels and gas cylinders from 15 to 25 per cent, and from five to 15 per cent on Kaolin. I also propose to impose added suspended duties of five per cent on imported fruits, vegetables and their products, paper and paper products, clothing, aluminium tubes, lamps and electric cables.

Mr. Speaker, Sir, with trade liberalization, availability of affordable motor vehicles has increased. Unfortunately, this has allowed importation of many old vehicles which now pose a serious threat to both safety and the environment. Consequently, pre-shipment inspection companies will be required to ensure imported used vehicles meet quality and emission standards before issuing them with clean reports of finding. In addition, depreciation allowances provided under the Customs and Excise Act will be modified to discourage importation of very old vehicles. For direct imports which are over five years old, the existing 20 per cent surcharged, will be subject to a minimum of Kshs30,000. For vehicles over eight years old, the minimum surcharge will be Kshs60,000. In all cases, the Second-hand Motor Vehicle Purchase Tax will be collected by the customs at the point of entry. To assist horticultural producers, I propose to allow olyvinyl chloride and polyethylene sheeting for green houses to be imported duty free.

Similarly, a number of chemical fertilizers, not previously allowed duty free will now qualify, provided they are recommended by the Director of Agriculture.

(4) I propose to exempt from duty hygienic bags for use by patients.

(5) Kenya has a large fleet of aircraft operating from Wilson Airport. Unfortunately, many of them are serviced outside the country due to high costs of spare parts. To encourage local servicing of the aircraft, I propose to remove duties and taxes on spares for aircraft operators and maintenance companies recommended by the Director of Civil Aviation.

(6) Jet kerosene used by aircraft is duty and tax free in accordance with the international air services agreements. It has now come to my attention that this product is being used for other purposes. To prevent this diversion, I propose to tax this product at the same rate as illuminating kerosene, but provide for exemption to those who are entitled under the Third Schedule of the Customs and Excise Act.

(7) I have received a wide range of requests for duty reductions on various inputs from the manufacturing industry. I found it difficult to accommodate those requests. However, as a compromise, I propose to reduce duty on residual fuel oil by Ksh1 per litre. This will assist a number of major industries such as electricity and paper producers, and will also help moderate the prices of a wide range of other products in the country.

(8) Certain people in the public sector are legally allowed to import duty free, passenger motor vehicles. This also applies to non-governmental organisations (NGOs). Unfortunately, this facility has been grossly abused. Many of the large passenger cars cleared duty and VAT free have been assigned to businessmen, who pay peanuts to the persons entitled to this privilege. More importantly, at a time when the economy is in a bad shape, Government Budget is over-stretched and avenues to increase taxes is limited, everyone of us must contribute to revenues. For this reason, I propose to restrict duty and VAT waiver to passenger cars with engine capacities of 2000 cubic litres and below for all privileged persons. Those wishing to buy bigger cars should do so on a duty-paid basis. However, I propose to make an allowance for four wheel drive vehicles for those operating in remote areas. This also applies to hon. Members of Parliament to enable them reach their constituencies.

(Applause)

In this case the duty waiver will be for vehicles of up to 2000 cubic litres. As I explained earlier, this 2000 cubic litres limit will also apply to purchase of motor vehicles by the Kenya Government. This waiver will only apply to individuals and organisations specifically allowed by the law. All the others will be required to pay duty. These measures will generate additional revenue to the exchequer, amounting to K£10.9 million. They will come into effect from midnight tonight.

Mr. Speaker, Sir, I now turn to my proposed amendments to the VAT Act.

(1) During the course of this fiscal year, the standard VAT rate was raised twice to help finance unexpected expenditure increases. With budgeted expenditures for next year significantly reduced, I propose to reduce the standard VAT rate from 17 per cent to 16 per cent. This will lighten the tax burden on the average Kenyan consumer. I also expect it to improve the willingness of traders to comply with the VAT.

(2) A few years ago, newsprint was zero-rated to save refunds to the newspaper companies. However, newsprint is now widely substituted for other types of taxable paper, causing a major loss of revenues. Given the improvement in refund processing, I propose to return newsprint to the standard VAT rate, while newspapers will remain zero-rated.

(3) I propose to clarify taxation of advertising services to include non-commercial notices placed in any media for a fee, but exclude death notices. I also propose to make it clear that secretarial services include electronic mail and telephone bureau services.

(4) To assist the tourism sector, I propose to extend the zero-rating provision for construction of tourist hotels to include both locally-financed costs and hotel refurbishment.

(5) To bring the VAT in line with other revenue Acts, I propose to make any compensation paid for the loss of taxable goods or services taxable where such compensation is paid under an insurance policy.

(6) To simplify the VAT treatment of tea sold at Mombasa Tea Auction, I propose to zero-rate tea supplied to the auction for export.

(7) With VAT system now well established, I propose to require that all VAT-registered persons maintain prescribed VAT Accounts which would make it easier for accountants and the Kenya Revenue Authority (KRA) officials to audit compliance.

(8) Since November, 1997, refund claims for amounts in excess of Kshs1 million are required to be certified by an auditor. To ensure full compliance, I propose to make it an offence for an auditor to issue a false refund certificate.

(9) To recognise the rights of a VAT payer, I propose to allow aggrieved VAT payers to take their cases to court, if they are dissatisfied with the rulings of the VAT tribunal. However, before taking the case to court, the tax payer will be required to deposit the tax in dispute with the Commissioner for VAT. I also propose to increase

the size of the VAT tribunal from three to five member to speed up the business of the Tribunal by ensuring that a quorum of three people is always available. To ease costs of travelling for VAT appeals, I propose to establish VAT tribunals at the regional level. These VAT measures will cost the Exchequer £104.6 million in revenue, while the VAT rate changes will come into effect from midnight tonight.

I now turn to measures under the Income Tax Act.

(1) I need to protect Kenyans with low incomes from entering the income tax net. I therefore, propose to increase the personal relief by 10 per cent, from Kshs7,920 to Kshs8,712. This will raise the minimum monthly taxable income from Kshs6,600 to Kshs7,260 per month. In addition, to contain inflation-induced bracket creep, I propose to widen the income tax bracket by five per cent.

(2) There has been considerable and, unfortunately, often misleading public discussion on the issue of the taxation of benefits arising from the employer-provided low interest rate loans. Ironically, there has been no dispute that these benefits of employment are taxable under the general principles of the Kenya income tax, or generally under the income taxes world-wide. Clearly, it would be grossly inequitable to all Kenyans who pay taxes on all their other benefits of employment. Indeed, if this category of benefit was to be exempted from tax, I would be forced to raise the tax rates to make up for the foregone revenues. The core problem, however, is that the few employees benefiting from these loans receive such large benefits relative to their cash incomes that they get into cash flow problems when all benefits are taxed.

To deal with this problem and to maintain the integrity and fairness of the tax system, I propose to add a new fringe benefit tax in the Income Tax Act. On selected employer-provided benefits, the value of fringe benefits will be calculated and taxed separately, and not included with employment income. Tax on these fringe benefits will be paid directly by the employer at the corporate rate of tax. Low interest rate loans will come under this new fringe benefit tax. To phase in the fringe benefit tax, I propose to continue taxing existing loans under "Pay As You Earn(PAYE)," but to freeze the prescribed interest rate at its current rate of 15 per cent. This will leave the employees' current PAYE tax situation unchanged. For the benefits arising from new low interest rate loans, and for any amount of benefit in excess of the amount taxable as employee emoluments under PAYE, such benefit amounts will become taxable under the new fringe benefit tax. This will be paid on a monthly basis by the employer.

(3) To further improve the tax compliance by owners of matatus and other public service vehicles, I propose to raise the advance taxes on goods transporting vehicles to Kshs1,000 per tonne of load capacity per year, or Kshs2,000 per vehicle, whichever is higher. For passenger carrying vehicles, the amount will be Kshs480 per passenger capacity per year, or Kshs2,000 per vehicle, whichever is higher. Advanced taxes can be offset against the annual income tax liability of the business when a tax return for the year is filed.

(4) Given the damage caused by the *El Nino* rains, the farming community is now making losses. To assist the farmer during this difficult time, I propose to suspend Presumptive Tax effective from January 1st, 1999. However, farmers will continue to be liable to tax and will be expected to submit their income tax returns and pay taxes in 1999.

(5) As privatisation and commercialisation of parastatals proceed, these corporations will start competing with taxable private sector companies. Therefore, they should face the same tax regime. Therefore, I propose to withdraw exemption on the Kenya Power Company Limited and the Kenya Tea Development Authority (KTDA), effective from January 1st, 1999.

(6) To improve the fairness of the administration of the PAYE tax system, I propose to amend the law to allow objections and appeals where an employer disagrees with the Commissioner of Income Tax on a question of law. However, before filing an appeal, the employer will be required to deposit the tax in dispute with the Commissioner.

Eighth, to further encourage tax compliance, I am proposing a limited tax amnesty. To the extent that a person purchases Government bonds of two year maturity, the Income Tax's penalties and interests on undeclared income from prior tax year will be forgiven up to the amount of bonds purchased. An amnesty will also be given on VAT. Interests and penalties on VAT undeclared and not charged on supply goods and services related to undeclared incomes qualifying for income tax amnesty.

Ninth, to encourage the purchase of long-term Government Bonds, the Government will issue bearer bonds of two-year duration withholding tax of 15 per cent. The withholding tax rate on all other bearer bonds certificates will be raised to 25 per cent.

Tenth, last year, both the time to file a self assessment return along with the final balance of tax payment, and the time to file final audited accounts were extended from the fourth month to the 20th day of the sixth month after the end of the Financial Year for the business. The amendment was contrary to our efforts to move payment of Income Tax to the current year.

It is, therefore, proposed that the final payment and filing date be returned to its original time of four months. But to assist accountants in implementing the auditing of accounts, the extended period of six months will remain for submitting audited accounts. These income tax measures will decrease the estimated revenues going to the Exchequer by K£5.5 million.

Mr. Speaker, Sir, to deal with other proposals of miscellaneous categories, first as I explained earlier, the Kenya Revenue Authority will be strengthened in order to effectively administer revenue collection with greater impartiality, responsibility and accountability.

To achieve this objective, I propose to amend the Kenya Revenue Authority Act to distance the policy and administration functions. To further confine Kenya Revenue Authority to revenue collection functions, the First Schedule to the Kenya Revenue Authority Act will be amended to restrict Kenya Revenue Authority involvement in the Traffic Act, Transport Licensing Act and Second-Hand Motor Vehicle Purchase Act, to revenue collection only. Policy functions in these Acts will be left to their respective Ministries. In addition, Kenya Revenue Authority will be responsible to collect and account for revenues under the Widows' and Children's Pensions Act, the Members of Parliament Pension Act and the Aviation Act. This will simplify the administration of collecting these funds.

In the course of the year, possibilities will be explored for the Kenya Revenue Authority to collect the stamp duties, Catering Levy and the Betting and Casino taxes in order to cut both administration and compliance costs.

Currently, Kenya Revenue Authority spends no more than 1.5 per cent of the revenue it collects, while other collecting agencies are spending 15 to 20 per cent.

Secondly, various amendments have been proposed under the Banking Act, particularly as regards to credit administration and transparency and accountability in the management of banks. In future, directors' loans will be at commercial tax and disclosed in the audited accounts. The amendments also seek to simplify operations of the Deposit Protection Fund.

Thirdly, amendments are proposed to the Insurance Act to reflect the privatisation of the Kenya Reinsurance Corporation Limited. In addition, to encourage the development of the long-term bond market, the Investments Portfolio requirement for long-term insurance funds will be amended to require insurance companies to hold at least 20 per cent of their investments in the Government securities of which, at least, half will have to be in bonds with maturities of at least two years.

Fourthly, as hon. Members are aware, investors continue to complain of multiple licences issued by local authorities, which make business operations expensive and cumbersome. To make the business environment more friendly, I propose to amend the Local Government Act to require local authorities to issue only one business permit, automatically to a business enterprise. This will de-link the regulatory functions from the revenue collection functions.

Fifth, as discussed earlier, legislation will be introduced to establish the Local Authorities Transfer Fund to provide local authorities with a more stable funding base, subject to their meeting expenditure, revenue accounting and performance standards.

Sixth, local producers continue to complain of unfair competition by firms operating in export processing zones, which are dumping goods into the domestic markets. These companies are expected to focus on the external market. To discourage this practice, I propose to amend the Export Processing Zone Act to restrict entry into EPZ of such goods like tires, spare parts for vehicles and fuels.

Seventh, as discussed earlier, to increase funding for road maintenance and bring financing of all road maintenance under one Vote, I propose to re-allocate Kshs1.50 per litre from the Excise Duty on petrol and automotive diesel to Road Maintenance Levy. This will increase the Road Maintenance Levy Fund from K£104 million to K£326 million. At the same time, to ensure that these funds are properly spent, I shall be issuing a new set of contracting rules.

Eighth, various fees under the Aviation Act have not changed since 1936. To bring these charges close to their administration and processing costs, these have been adjusted by 50 per cent upwards.

Ninth, various immigration fees will be increased by an average of 25 per cent.

Tenth, under the Airport Passenger Service Charge, to simply collection, I am proposing amendment to have the charge collected at the time of issuing airline tickets by airlines or their agents, effective from 1st September, 1998. These other revenue measures will decrease revenue by K£84.5 million, but increase the estimated receipts of Appropriations-in-Aid by K£94 million.

In conclusion, I would like to emphasise that the major changes facing us today is how to move our economy to a high growth path, which is a must if we are to eliminate unemployment and poverty. We can achieve the desired growth if only there is a substantial increase in private investment. This will occur only if bold measures are urgently taken to reduce the high domestic debt and interest rates, improve infrastructure and delivery of public services, improve efficiency of the public sector, improve public security and administration of justice, improve economic governance and reduce corruption.

The proposals that I have presented to this House are aimed at addressing these critical issues. In particular, I am asking all of you to tighten your belts, so that we can achieve a balanced Budget this year, and thereafter, achieve surpluses. This is the only viable option we have to reduce our domestic debts and interest rates. The measures that I have prescribed towards these objectives are painful and will require all Kenyans to be ready to pull together, if we are to succeed. As I said earlier, we need to urgently build a national economic purpose around new ambitions for our country. We have done it in the past when we were struggling to gain our Independence. I am confident that we can do it again now, against our common enemy, that is unemployment and poverty.

Mr. Speaker, Sir, I would like to appeal to all hon. Members and Kenyans; as our National Anthem beseeches us all, "let one and all arise in common bond united, build this our nation together". If we have the will, we can turn the economy around within the next two years.

With those remarks, I beg to move.

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

Mr. Speaker: Order, hon. Mwenje! What is wrong with you!

(Question proposed)

DEPARTURE OF HIS EXCELLENCY THE PRESIDENT

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

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

ADJOURNMENT

Mr. Speaker: Hon. Members, it is now time for the interruption of business. The House is, therefore, adjourned until Tuesday, the 16th of June, 1998, at 2.30 p.m.

The House rose at 5.30 p.m.