NATIONAL ASSEMBLY

OFFICIAL REPORT

Wednesday, 8th June, 2005

The House met at 2.30.00 p.m.

[Mr. Speaker in the Chair]

PRAYERS

ARRIVAL OF HIS EXCELLENCY
THE PRESIDENT

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

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

COMMITTEE OF WAYS AND MEANS

MOTION

THAT MR. SPEAKER DO NOW
LEAVE THE CHAIR

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

Mr. Speaker, Sir, I am delighted this afternoon to present to this august House and the people of Kenya my Budget proposals for the financial year 2005/2006. As hon. Members are aware, after having stagnated for more than a decade, our economy is now experiencing a strong broad-based recovery with real Gross Domestic Product (GDP) recording a 4.3 per cent increase in 2004 compared to 2.8 per cent in 2003 and 0.4 per cent in 2002.

In this context, my Budget proposals are intended to consolidate and accelerate this economic recovery while ensuring that we address the needs of the poor.

(Applause)

Mr. Speaker, Sir, given the recent economic performance, I feel confident that the country is now back on the right track and that its future is more secure. However, major challenges still remain. Kenyans must, therefore, continue to work even harder to ensure poverty reduction, the principal goal of our social and economic policy is achieved.

To build on recent gains, the Government will implement measures as outlined in the Budget Strategy Paper, which includes appropriate macro-economic policies supported by structural reforms in areas such as public expenditure and financial management, the financial sector and the parastatal sector. Equally, high on our reform agenda is the strengthening of institutions for promoting good governance and the rule of law. The continued fight against corruption together with the reforms I will announce later on in my Speech including the reform of business licensing regime should create an enabling environment for private sector development.

(Applause)

Mr. Speaker, Sir, a recent Government evaluation of effectiveness of our budgetary process revealed some weaknesses in resource allocation and utilization. To address these weaknesses, this year's Budget focuses on, among other things:-

(i) re-orienting resource allocation towards the priority sectors identified in the Economic Recovery Strategy; and,

(ii) improving public expenditure and financial management to ensure that Kenyan taxpayers get value for money. This will ensure that the Constituency Development Fund (CDF), the Local Authority Transfer Fund (LATF) and the School Bursary Fund (SBF) achieve the intended development objectives. Because of the emphasis we are giving to the re-alignment of resource allocation, the theme of this year's Budget is: "Re-orienting Expenditure to Achieve Rapid Economic Growth and Poverty Reduction."

Mr. Speaker, Sir, allow me to give a brief summary of international economic developments during the year 2004. The global economy grew by 5 per cent led by strong economic growth in the USA and Japan, which grew at 4.4 and 4 per cent respectively. China and India continued their exceptionally rapid economic expansion of 9.2 and 7.3 per cent respectively. However, in the Euro area, recovery was relatively weak with real GDP growth of only 1.8 per cent as a strong Euro adversely affected export performance.

Mr. Speaker, Sir, in sub-Saharan Africa, the real GDP grew by 4.6 per cent in 2004 spurred by improved macro-economic stability, expansion in world trade, debt reductions under the Heavily Indebted Poor Countries (HIPIC) Initiative and improved market access in developed countries. The prospects for continued solid growth in Africa have improved with the signing of the peace deals in Sudan and Somalia brokered by Kenya. These deals have given a ray of hope and optimism to the end of conflicts that have bedeviled the two nations for a long time. The global growth momentum is expected to continue in 2005 with real GDP growth estimated at 4.3 per cent. The outlook for Africa is expected to be more favourable than it has been in a long time.

Let me now turn to the domestic economy. As I intend to be brief, I encourage hon. Members to read the Economic Survey for 2005 which contains a detailed discussion of recent economic developments. As I have already noted, our economy registered a real growth rate of 4.3 per cent in 2004. This growth was achieved against a background of unfavourable weather conditions and high oil prices which suggests that without these exogenous factors, growth could have been much higher.

Mr. Speaker, Sir, owing largely to drought, the agricultural sector registered a modest growth rate of only 1.4 per cent down from 2.6 per cent in 2003. However, this masked some exceptional growth performance in the tea, sugar-cane, horticulture and dairy sub-sectors. In contrast to the subdued performance of the agricultural sector, the manufacturing sector continued to grow at a brisk pace of 4.1 per cent led by increased output of cigarettes, cement, transport equipment, agro-processing industries and output from the Export Processing Zones (EPZ).

Similarly, the tourism sector registered a remarkable growth spurred by aggressive marketing, enhanced security associated with the strengthening of the Tourist Police Unit and the opening of direct flights to parts of Asia. As a result, earnings from tourism rose from Kshs25.8 billion in 2003 to Kshs39.2 billion in 2004. This is an increase of nearly 52 per cent.

Mr. Speaker, Sir, on the inflation front, we were not as successful. The 12-month overall rate of inflation rose from 5.9 per cent in mid 2004 to about 16 per cent in April, 2005, because of the adverse impact of drought on food prices, increase in oil prices and higher expansion in money supply. Money supply expanded by 13.2 per cent compared with a target of 8.9 per cent, mainly driven by a strong expansion
of credit to the private sector. To avoid inflation from spiralling out of control, monetary policy will need to be tightened in the financial year 2005/2006 so as to bring credit expansion to a more sustainable pace. On the exchange rate development, the Kenya Shilling remained relatively stable, ending the year at Kshs79 to the US Dollar in December, 2004, compared to Kshs76.1 to the US Dollar at the end of December, 2003.

Mr. Speaker, Sir, on the fiscal front, the good revenue performance, coupled with expenditure restraint resulted in a fiscal surplus which permitted the Government to reduce its net domestic debt by about Kshs3 billion. This good fiscal performance facilitated a return to stability in the Treasury Bills and Bonds market towards the end of the year after interest rates on the Government securities had trended up for most of the year.

Mr. Speaker, Sir, Kenya's imports grew faster than our exports of horticultural produce, coffee and tea put together. However, the resulting trade deficit was covered by substantial surpluses in the services sector, especially the tourism sector, and in the capital and financial accounts. As a result, by December, 2004, the gross foreign reserves of the Central Bank had reached the equivalent of over four months of imports of goods and services.

Mr. Speaker, Sir, despite the strong recovery witnessed in 2004, the economy continues to face a number of constraints. These include the high cost of energy, inadequate infrastructure and a low level of domestic savings and investments.

Let me take this opportunity to reassure hon. Members and all Kenyans that the Government is committed to addressing these challenges to ensure that the recovery momentum registered in 2004 is not only consolidated, but accelerated. It is only through rapid and sustainable economic growth that we can meaningfully tackle poverty on a sustainable basis and make progress towards achieving the Millennium Development Goals (MDGs).

Mr. Speaker, Sir, the good economic performance we have experienced is the result of economic and structural reforms we have been implementing over the past two and half years with the support of our development partners. In this regard, I am happy to report that our programme, supported by the IMF, is on course and consultations with the World Bank on a credit to support economic recovery strategy are on-going.

From our bilateral development partners, the Government continues to receive project grants and loans to fund programmes of infrastructure, water provision, health and education.

Mr. Speaker, Sir, as I indicated, during the launch of the Budget Strategy Paper, the financial year 2005/2006 Budget has deliberately not factored in budgetary support from bilateral development partners. This means that we will have to utilise our own resources in the most efficient way.

(Applause)

It is, therefore, imperative that we accelerate our reform agenda in such areas as procurement and privatisation. In the event that the bilateral partners provide any budgetary support, I will use it to reduce Government domestic borrowing and to upscale spending on core poverty programmes. Further, to address the past challenges associated with absorbing donor project funding, the Government is instituting co-ordination mechanisms among stakeholders to facilitate faster implementation of projects.

Mr. Speaker, Sir, as I mentioned earlier, consolidating and strengthening the recent economic recovery will be the Government's top priority during the financial year 2005/2006 and in the medium term. We are now forecasting a real growth of at least, 5 per cent in this year and the year 2006, mainly driven by public and private sector investments. Achieving this growth rate will require continued fiscal discipline, a sound monetary policy and a deepening of structural reforms, especially in the area of governance. We expect this to lead to an increase in total factor productivity.

Mr. Speaker, Sir, the fiscal policy for 2005/2006 will continue to emphasise strong revenue collection based on improvement in the tax administration while avoiding higher tax rates. The Government remains committed to containing the expansion of overall expenditure while at the same time effecting a significant shift in resources towards the social and economic sectors. In addition, the Government will aim to contain the growth of domestic debt to reduce pressures on interest rates, reduce interest payments and increase availability of credit to the private sector.

(Applause)

Mr. Speaker, Sir, a strong effort to collect revenue will be required in order to stabilise the ratio of domestic debt to GDP while protecting priority expenditure. Therefore, the financial year 2005/2006 Budget targets revenue collection of about 22.8 per cent of the GDP, underpinned by the successful implementation of tax administration reforms, including the roll-out of the electronic tax registers.

In addition, tax collection in the financial year 2005/2006 is expected to benefit from the expansion of the tax base arising from the tax amnesty. While these measures will protect our revenue base, they will also make it possible for us to offer some tax relief to the ordinary *wananchi* as I will be reporting shortly.

Mr. Speaker, Sir, on the expenditure side, as indicated once again in the Budget Strategy Paper, the Government wage bill consumed up to 40 per cent of our total ordinary revenues or 8 per cent of the GDP. The wage bill, together with other non-discretionary expenditures such as debt service payments and pensions obligations, take up two-thirds of our revenue, leaving only on-third to fund out priority areas. Therefore, the Government expenditure policy in the year 2005/2006 and the medium-term will aim to contain both the wage bill and the domestic borrowing to more sustainable levels. Within the wage bill target of the Budget for the Financial Year 2005/2006, I have factored a wage award to civil servants of Kshs2.1 billion and another Kshs4.9 billion for teachers.

Mr. Speaker, Sir, in line with this year's Budget theme of re-orienting allocation of resources towards social and economic programmes, and in the spirit of sharing the burden of fiscal discipline, the Government intends to reduce sharply expenditures on motor vehicle purchases and other transport related costs. As a first step, the number of cars at the disposal of senior Government officials, who are entitled to official transport will be restricted to not more than two. In addition, the Government will reduce by 15 percent transfers to those parastatals that have the capacity to generate their own resources, while requiring the others to strictly adhere to laid-down financial regulations. We will also tighten expenditure controls on travel, accommodation and telephone use. With regard to telephone use, the Government will, in the coming fiscal year, adopt the system of prepaid services. In the course of the year, the Government will also issue clear guidelines on use of official transport.

Mr. Speaker, Sir, the release of resources from these expenditure measures will facilitate additional Government expenditures on improving the road network, urban transportation and access to water. Secondly, it will improve core poverty programmes, and programmes to deal with the recurrent drought and food shortages, especially in the arid and semi-arid areas.

Mr. Speaker, Sir, our monetary policy will continue to be geared towards achieving a low and stable rate of inflation, a comfortable level of international reserves and sufficient credit to the private sector, consistent with the higher projected real Gross Domestic

Product(GDP) growth. Specifically, as indicated in the Budget Strategy Paper, the monetary policy will target achieving a core inflation rate below 5 percent, contain growth of monetary supply at about 8 percent, while increasing credit to the private sector by about 12 per cent, and maintain gross international reserves of the Central Bank of Kenya at around three months of import cover.

Mr. Speaker, Sir, in the area of exchange rate policy, the Government will continue to allow the exchange rates to be market determined. Therefore, the Central Bank of Kenya intervention in the foreign policy market will be limited to achieving our international reserves target, and smoothing out short-term fluctuations. Implementation of the monetary and exchange rate policies I have just outlined, together with an appropriate fiscal policy, should help to achieve low and sustainable interest rates, and therefore, help to sustain the recent growth momentum.

Mr. Speaker, Sir, let me comment briefly on structural reforms. Although Macro-economic stability is a necessary condition for sustaining our growth momentum and reducing poverty, it is by no means a sufficient condition. It needs to be supported by vigorous implementation of appropriate structural reforms. For this reason, the Government's structural reform agenda will focus on strengthening governance and the rule of law, improving public expenditure and financial management, privatisation and public enterprise reforms and reforming the financial sector.

Mr. Speaker, Sir, the Government recognises that bad governance has been a major constraint to investment and growth. To reduce opportunities for corruption and deter corrupt practices, the Government will continue to strengthen governance institutions and enforce fully the anti-corruption laws and regulations. As hon. Members will recall, during the Consultative Group meeting held in April this year, the Government presented an action plan for a comprehensive anti-corruption strategy.

The measures to be implemented under this governance action plan include:- (i) Enhancing the effectiveness of anti-corruption investigative agencies. (ii) Building adequate prosecution capacity to handle corruption related case loads. (iii) Making wealth declaration public in order to discourage abuse of public offices. (iv) Continuing to vigorously investigate economic crimes and to recover illegally acquired assets. In this context, the Government is ready to implement recommendation of the Goldenberg Commission of Inquiry as soon as the report is ready. As hon. Members are aware, the Government is already implementing the recommendations of the Presidential Commission on Illegal and Irregular Allocations of Public Land.

In the area of public expenditure and financial management, our economy has suffered for many years because of misuse and misallocation of public resources. Therefore, making the use of public resources more transparent and accountable to our people is the basis of our expenditure reforms in the Financial Year 2005/2006 and the Medium-term. To this end, the Government will continue to make the Budget process increasingly transparent.

Mr. Speaker, Sir, on this point, let me point out that more than any other time in the past, the Budget process this year has been transparent and has benefitted from wide consultations involving the Kenya public, Parliamentarians, the private sector, civil society and our development partners. To further enhance transparency and accountability of the management of the public finances, we will ensure that those responsible for financial management strictly adhere to the financial regulations, including procurement guidelines as outlined in the Financial Management Act. Mr. Speaker, Sir, secondly, we will implement a cash management system to ensure timely release of resources to the line Ministries.

Thirdly, we will carry out Public Expenditure Tracking Surveys (PETS) to improve the utilisation of public resources. Fourthly, we will roll out the Integrated Financial Management Information Systems (IFMIS) to line Ministries and fifthly, introduce risk based internal audit systems. I cannot over-emphasise the importance of the enactment of the Public Procurement and Disposal Bill that is before this august House. Mr. Speaker, Sir, in the area of the public enterprise reforms, the Government recognises the crucial role that efficient enterprises can play in promoting economic growth, poverty reduction and eliminating contingent liabilities for the Budget. Poor performance by key enterprises, especially in energy, telecommunications and transport has undermined the competitiveness of Kenyan goods and services. They have also made Kenya less attractive to investors. It is this recognition that has informed the Government's privatisation and public enterprises reform strategy.

To address the problem of public enterprises, the Government has initiated various reforms including the introduction of private-public partnerships and performance contracts in the management of these enterprises. Special emphasis is being put on key enterprises in the energy, transport and communications sectors. Therefore, speedy enactment of the Privatisation Bill, which is before this august House is critical to the success of our reform in this area.

Mr. Speaker, Sir, an efficient financial sector operating within a framework of sound fiscal and monetary policy is essential to achieve our economic growth and poverty reduction objectives. To consolidate the economic gains achieved thus far, the Government has prepared a comprehensive financial sector strategy, aimed at improving efficiency in financial inter-mediation. As part of this strategy, State owned banks will be restructured and privatised. We believe that these reforms will contribute to reducing the current large volume of non-performing loans and lead to reduction in the cost of borrowing for every one.

Micro-finance institutions and co-operative societies have continued to play an important role in mobilising savings and providing credit to the small and medium enterprises, in support of our development agenda. In order to ensure sound financial management in these institutions, a SACCO Bill is under preparation and the Government will soon be tabling a Micro-Finance Bill to provide for a legal and regulatory framework for these institutions.

Mr. Speaker, Sir, local authorities, when efficiently run, can play a critical role in service delivery and creating the investment climate that would lead to poverty alleviation. To improve efficiency of local authorities, we will require deepening the on-going reform efforts to improve their planning and financial management. In this regard, local authorities will be expected to encourage greater partnership with their communities in identifying their priorities and in designing, implementing and monitoring their social and economic programmes. To assist the local authorities to meet their objectives during the next financial year, the Government will disburse Kshs5.6 billion through the Local Authority Transfer Fund (LATF). It will also disburse Kshs1.9 billion from the Roads Maintenance Levy Fund for improving rural access roads and urban road network. It will disburse a further Kshs800 million to the School Bursary Fund. Together with the amounts of the Constituency Development Fund estimated for this year at Kshs7.2 billion, the total amount of resources that will go directly to the local level is estimated at an unprecedented Kshs15.5 billion.

Mr. Speaker, Sir, this targeted financial intervention is a clear demonstration of the Government's commitment to reduce poverty and inequality in our society, a key objective of the economic recovery strategy (ERS). It also confirms our commitment to greater decentralisation in our efforts to make the local authorities the focal points for service delivery. We expect these resources to be significantly improved and to also improve the breadth and the depth of service delivery at the local level.

As outlined in the economic recovery strategy, the Government remains fully convinced that the private sector should play the leading role in our economic development. Therefore, in addition to privatisation and public enterprise reforms, the Government will among other things, streamline the business licensing system and review competition laws to bring them into line with the regulatory best practices.

Mr. Speaker, Sir, the bureaucratic procedures associated with licence acquisition have increased the cost of doing business and contributed to making our private sector less competitive. Currently, there are about 600 licences in Kenya that directly affect trade and investments. Therefore, the Government will review these licences with a view to eliminating those that are not justified on grounds of health, environment and safety.

(Applause)

Accordingly, as a first step in this direction, during the coming financial year, I propose to eliminate 17 licences which no longer serve useful purpose, and amend 30 others. These measures should help to make the private sector more competitive and contribute to economic growth and poverty alleviation. The high rate of inflation in Kenya, relative to our trading partners, has eroded our ability to compete and is encouraging imports at the expense of domestically produced goods. It is imperative, therefore, that in the coming fiscal year, we reduce the rate of inflation, not only to safeguard our competitiveness but to also stem the erosion of the purchasing power of the ordinary *mwananchi*, who is not able to hedge his earnings against inflation.

Mr. Speaker, Sir, I have listened carefully to complaints from the private sector regarding the delay in VAT refunds, and factored adequate funds to clear the backlog. I have also provided the Kenya Revenue Authority (KRA) with enough monthly resources to meet current refund claims and avoid a recurrence of this problem in future. I have, however, instructed the KRA to carry out an audit to ensure that only genuine claims are paid.

(Applause)

Without rapid and sustainable economic growth, we will not achieve our objectives of reducing poverty on a sustainable basis. However, even as the economy recovers and growth accelerates, a major challenge of the Government will be to ensure that growth improves the welfare of the ordinary Kenyan. Therefore, as our revenues rise, we will allocate more resources to the social and economic sectors. As hon. Members may have seen in the Budget Strategy Paper (BSP), the Government's Medium-Term Expenditure Framework (MTEF) shifts resources to the health, education, agriculture and infrastructure sectors. Hon. Members will have noted from the BSP that we are targeting to increase the share of our total expenditure going to these priority areas from about 56 per cent in the financial year 2004/2005 to 64 per cent in the year 2007/2008.

Mr. Speaker, Sir, as indicated in the BSP, the new calendar for the Budget process is intended to ensure that the annual budget is used effectively to achieve the Government's key strategic objectives as outlined in the Economic Recovery Strategy (ERS). With this in mind, allow me to briefly outline the Government's plan in the key priority areas of health, education, agriculture and infrastructure.

Mr. Speaker, Sir, in the health sector, the Government is fully focused on attaining the Millennium Development Goals. Towards this end, the Government will raise spending on health care by 30 per cent in the coming financial year.

(Applause)

This will increase the sector's share in total Government expenditure from the current 8.6 per cent to 9.9 per cent. Over the next three years, the amount of resources going to this sector is programmed to increase from Kshs24.7 billion in the current financial year 2004/2005 to about Kshs43 billion in the financial year 2007/2008; an increase of 74 per cent. Consequently, the share of total Government expenditure going to health will rise to about 11 per cent by the financial year 2007/2008. This level of funding will enable the Government to effectively address most of the challenges facing the health sector including improving health facilities countrywide. It will also help achieve the core indicators identified in the ERS and in the BSP.

In this regard, the Government will in the financial year 2005/2006 put in place measures to increase immunization to 75 per cent, reduce child and mother mortality rates; reduce malaria in-patient mortality to 15 per cent as a share of total mortality; put in place strategies to reduce HIV/AIDS prevalence and improve access to affordable drugs. Finally, it will improve health service delivery through decentralization of health care services and increase expenditure on preventive and basic health services.

Mr. Speaker, Sir, turning to education, our free primary school programme is now firmly on course. The future of over one million children who joined the programme in January 2003 is now secure. Indeed, it is only through education that our children will unlock future opportunities and improve their welfare. I wish, therefore, to request all stakeholders in the education sector to demand quality service given the huge investment the Government has made and continues' to make in this vital sector. On its part, the Government will continue to allocate the bulk of its resources, amounting to over 28 per cent of total Government expenditures, to this sector.

In the coming financial year, the Government will focus its attention on top priorities, such as ensuring equitable access to education by targeting disadvantaged areas, particularly ASAL, and vulnerable groups such as street children and the girl-child.

(Applause)

We will also target reviewing implementation of the bursary scheme to ensure that only deserving children from poor households benefit. There will be need to improve quality and internal efficiency through teacher training and redeployment, decentralization of decision-making to the district and school-level administrators, redefining the roles of local authorities, and finally reforming university education to promote its quality in order to ensure that we are globally competitive. We also need to prepare our universities to become more self-reliant and to reduce dependence on the Exchequer. These interventions, together with on-going reforms in the sector, will contribute significantly to our long-term productivity for the benefit of all Kenyans.

Mr. Speaker, Sir, let me now turn to agriculture and rural development where majority of our people live. This sector remains the single most important vehicle for reducing poverty and eliminating hunger. In line with the agricultural policy as articulated in the ERS, the Government has taken a number of measures to improve the performance of the agricultural sector. These include: Provision of Kshs1.5 billion to the Agricultural Finance Corporation (AFC) for provision of credit to farmers and revival of farmers' institutions that are key to agricultural growth, such as the Kenya Co-operative Creameries (KCC) and the Kenya Farmers Association (KFA). In addition, steps are being taken to strengthen agricultural research and extension systems through implementation of the Kenya Agricultural Productivity Project with the support of the World Bank.

Mr. Speaker, Sir, although overall agricultural growth was subdued in 2004, some sub-sectors recorded significant growth of at least 10 per cent for tea and sugar-cane and as much as 24.7 per cent and 35 per cent for horticulture and dairy products respectively. These are clear signs that we are on the right path. To build on this success, the Government proposes to increase resources to this sector by about 74 per cent over the next three years or from Kshs16 billion in the financial year 2004/2005 to Kshs27.8 billion for the financial year 2007/2008. Therefore, the share of resources going into this sector will rise from 5.6 per cent of the total Government expenditure in financial year 2004/2005 to almost 7 per cent in financial year 2007/2008.

Mr. Speaker, Sir, the Coffee Act requires amendments to reflect current developments in this industry, particularly with regard to marketing. The reforms include: restructuring of the Coffee Board of Kenya to separate the non-regulatory function, streamline licensing procedures and allow direct sale of coffee outside the auction.

(Applause)

Mr. Speaker, Sir, in the pyrethrum sector, the Government plans to amend the Pyrethrum Act to separate the regulatory and commercial roles of the board. The board will remain with only the regulatory function, while a separate company, owned by stakeholders will be formed to deal with the commercial function.

Mr. Speaker, Sir, as hon. Members are aware, under the Africa Growth Opportunity Act (AGOA), beneficiary countries are expected to create capacity to produce their own cotton. For this reason, the Government will support initiatives to promote cotton production. The revival of the cotton industry is key to poverty reduction in semi-arid areas and I am therefore proposing to allocate Kshs250 million to facilitate the revival of this sector.

(Applause)

Mr. Speaker, Sir, livestock keeping is the lifeline of our people living in the arid and semi-arid areas. Although not fully exploited, the sector has a high growth potential and it is important to subsistence farmers and pastoralists alike. To harness this potential, the Government has initiated development of disease control programmes for the establishment of disease- free zones in strategic areas of the country. This will enhance our capacity to produce quality beef for export. The Government will also introduce a single permit system for cattle movement, review options for decentralised and privately-owned slaughterhouses, expand access to water sources and improve security.

Mr. Speaker, Sir, the Government accords priority to the infrastructure sector to facilitate rapid economic growth. To consolidate the gains from the on-going economic recovery, we will address comprehensively the challenges facing this sector. These challenges include mobilising resources for maintenance, rehabilitation of existing facilities and expansion of road network; curbing wastage; ensuring adherence to standards, and decongesting ports.

Mr. Speaker, Sir, as I noted earlier, if the private sector is to become competitive and play its rightful role in helping to develop our country, then it is absolutely critical that we improve our physical infrastructure. For this reason, the amount of resources I propose to allocate to this sector will increase by 86 per cent over the next three years which is more than any other sector.

Mr. Speaker, Sir, during financial year 2005/2006 alone, I propose to increase resources allocated to this sector by over 36 per cent. The increase in resource allocation from Kshs44.6 billion in the year 2004/2005 to Kshs82.8 billion in the year 2007/2008 will raise the share of total Government expenditure allocated to infrastructure from 15.6 per cent to 20.5 per cent during the same period.

Mr. Speaker, Sir, the NARC Government inherited many projects that had been started but not completed. In the current financial year, I allocated Kshs1 billion for completion of these projects. I am sure that hon. Members have seen the work going on at the National Youth Service buildings on Thika Road, the Nyanza Provincial Headquarters in Kisumu and 251 dispensaries countrywide.

Mr. Speaker, Sir, for the coming year, I propose to allocate a further Kshs2 billion but only for projects that are 75 per cent completed and that are consistent with our ERS priority.

(Applause)

Mr. Speaker, Sir, no economy can grow and sustain a strong growth momentum without paying special attention to the condition of its road network. An efficient road system facilitates private sector development, promotes increased productivity and creates linkages between products and markets. To ensure our road network plays its role in accelerating our economic recovery, I propose a 44 per cent increase in resource allocation for public works for the next financial year.

Mr. Speaker, Sir, although steps have been taken to minimise bureaucratic delay at the

Ministry of Roads and Public Works, more effort is required to fully streamline the procurement procedure in order to improve the sector's capacity to absorb these substantial resources. The Government will also continue to strictly enforce standards and quality specifications for all road maintenance and reconstruction works, in order to ensure durability of the road network and reduce maintenance costs.

To improve rural road maintenance, the Government will implement the Roads 2000 Programme in 34 districts with the participation of the local community. The upgrading of a large number of rural roads to gravel standards will give a boost to productive activities in the rural areas. The challenge however is to roll out this programme countrywide and create more impetus for our economic recovery and poverty alleviation efforts.

Mr. Speaker, Sir, on behalf of the people of Kenya, I wish to extend our gratitude to all our development partners who are supporting this programme. On its part, the Government will strengthen the legal, institutional and regulatory capacity of the agencies responsible for road development to encourage participation of the private sector in the road sector development.

Mr. Speaker, Sir, as we continue with the reconstruction of our road network, it is equally important that we pay due attention to the development of our railway network to improve efficiency and reduce damage to our roads. To raise investment funds necessary to improve rail services, a joint process to concession the Kenya and Uganda Railway is ongoing and is expected to be completed by December this year. In the meantime, the Government is committed to ensuring that Kenya Railways Corporation is run efficiently.

In addition, the Government will, in partnership with the private sector, explore the possibility of constructing railway links between Kenya and Sudan and Kenya and Ethiopia, in order to expand trade between our neighbouring countries.

Mr. Speaker, Sir, as part of the Government's efforts to make Nairobi the regional hub for air transport and to facilitate trade and tourism, improvement of security and airport facilities will continue to be top on the reform agenda in this area. In addition, a major modernisation programme for major Jomo Kenyatta International Airport is in progress. The Government is also exploring the potential for public-private partnership in the development and management of our international airports. In this context, in the next fiscal year, I propose to allocate Kshs2 billion for refurbishment and expansion of all our international airports.

The Port of Mombasa is an important regional gateway. Therefore, to maintain the port's competitive edge, we will accelerate reforms to convert it to a land lord port in line with the authorities master-plan for the port. This will facilitate further private sector participation in such areas as the container terminal, bulk handling and conventional cargo.

Mr. Speaker, Sir, while energy plays a critical role in our economy, electricity supplies have been largely inadequate, unreliable and expensive, thereby increasing the cost of production and making our products uncompetitive. This has arisen because of past weak and inefficient management of key utility institutions, wasteful procurement procedures and lack of investment in system reinforcement.

In addition, our hydro-electricity power resource base has been exhausted. In the future, the potential to generate additional capacity for electric power will come from other sources, principally geothermal. We are making efforts to ensure that geothermal power potential is fully developed and exploited in order to improve power supply and reliability. With regard to expanding generation capacity, Sondu Miriu Hydro-power project and Ol Karia Geothermal Extension Project with an additional capacity of 95 megawatts, are being implemented. Regarding distribution, a major investment is underway to expand and improve the grid and distribution system.

As part of the ongoing parastatal reforms the Government will continue the current restructuring of KPLC and KenGen. These reforms include contracting management to help turn around the KPLC and divesting 30 per cent of Government shareholding in KenGen through an Initial

Public Offer (IPO). Following past successful IPOs such as for Kenya Airways, the Kenya Commercial Bank, Mumias Sugar Company and TPS Serena, I would like to take advantage of this opportunity to buy shares in KenGen.

Mr. Speaker, Sir, provision of clean and safe water for all Kenyans is an important objective of the Government. With this in mind, the Government has implemented structural reforms to make water and sanitation services autonomous. As a result, the Water Service Boards, Water Services Regulatory Board and the Water Services Trust Fund have been established under the Water Act, 2002, to effectively separate the functions of policy formulation, service delivery and regulation of the water and sanitation sector.

During the financial year 2005/2006, the Government will enter into partnership with community-based organisations to expand services to the urban poor and rural communities. The Government is rehabilitating existing irrigation systems and building new ones to improve our food security. In addition, the Government will continue to sink boreholes, construct wells and water pans to increase water supply in ASAL areas. In flood-prone areas, we will construct dams and rehabilitate dykes to protect our people. For these reasons, I propose to spend Kshs1.5 billion in financial year 2005/2006 Budget for construction of boreholes and dams. These funds will enable every district in the ASAL areas to construct at least four boreholes in addition to rehabilitating all existing ones.

Mr. Speaker, Sir, embracing Information Communication Technology is critical to improve productivity and to access market information. In this regard, the Government will facilitate development of adequate ICT capacity in the country and encourage improved ICT use. Efforts will also be made to complete implementation of E-Government during the year 2005/2006 to improve service delivery and accountability. This will enable citizens to access Government services and information efficiently through the use of internet and other channels of communication.

The public sector reforms will focus on financial and human resources management and the delivery of core Government functions. This will include: rationalizing the functional structure of the central Government to contain costs; institutionalising results-based management in public service to improve efficiency and accountability; and contracting our non-core functions and services to enhance public service performance and capital investment

Mr. Speaker, Sir as hon. Members are aware, a majority of Kenyans are not able to access judicial services because the courts are inadequate and where they exist, the cost is prohibitive. To make judicial services accessible, especially to the poor, the Government will implement measures to facilitate speedy and efficient disposed of cases. Consequently, the Government will recruit more magistrates and *Kadhis* to cope with the increased cases, train staff to improve efficiency and automate court registries to enhance information flow. Plans are also underway to rehabilitate the law courts countrywide and to facilitate access to justice.

Mr. Speaker, Sir, adequate management of the environmental resources is key to long-term sustainable economic growth. Towards this end, the Government will complete the natural resource inventory and valuation, implement the Forestry Development Policy and promote private sector participation in afforestation and management of forest plantations.

As regards wildlife management, the Government is strengthening the Kenya Wildlife Service to enhance its capacity to work with the local communities. It is also implementing measures to contain human-wildlife conflicts and improve benefit sharing. While still on the subject of environment, allow me to take this opportunity to pay tribute to hon. Prof. Wangari Maathai, for being awarded the Nobel Peace Prize.

(Applause)

As the first lady in Africa to win this prize, she has done Kenyans and Africa as a whole proud. We take pride in her achievements and commitment to environmental conservation and urge Kenyans to follow in her footsteps.

Mr. Speaker, Sir, the continued solid growth of the manufacturing sector suggests that policy reforms implemented over the past two years have begun to pay dividends. In order to lock-in this momentum, the Government intends to remove the barriers to investment.

With regard to small and medium size enterprises, the Government is keenly aware of the important role that they play in our economic development. To encourage further growth in this critical sector, the Government in partnership with World Bank is implementing the Micro, Small and Medium Enterprises (MSMEs) Competitiveness Project. This project will improve access to finance, strengthen enterprise skills and improve business environment.

Mr. Speaker, Sir, regional integration is critical to our economic recovery. The East African Community (EAC) region is our main export destination after the European Union (EU) accounting for about one-quarter of Kenya's total export. For this reason, the Government is working closely with our EAC partners to deepen our economic integration. As part of this process, the three EAC countries began implementing the Common External Tariff (CET) in January 2005.

The creation of the Customs Union should facilitate increased trade between the three partner States as well as attract an increased volume of foreign direct investments into the region. I, therefore, invite our private sector to take advantage of the new business opportunities created by implementation of the Customs Union as well as the new market in Southern Sudan and Somalia.

Mr. Speaker, Sir, the EAC partner States have recently agreed to harmonise the exemptions regime and eliminate discretionary exemption granted by the Ministers for Finance. The new system requires budgetary provision for the payment of duties in respect of goods donated to deserving Non-Governmental Organisations (NGOs) and charitable institutions in specified areas. These organisations will be encouraged to co-operate and integrate their programmes with the relevant Ministries. In the meantime, the Government is working on modalities to implement the new system. In addition, with regard to exemptions under the laws, the Government is developing criteria for granting various waivers in order to minimise the level of discretion. This is in line with the commitment of the EAC States to harmonise critical policies and incentives.

Mr. Speaker, Sir, Kenya's labour productivity has been low and declining since the year 2000 while the real wages have been increased thus making our exports costly and less competitive. To address this challenge and create employment, it will be important to ensure that wage increases in the future, whether in the private or public sector, are based on improvement in productivity. To this end, the Productivity Centre of Kenya (PCK) will be revamped to enable it develop appropriate sectoral productivity to be used in determining public sector wages.

Mr. Speaker, Sir, to avoid loss of jobs to our competitors, henceforth, the minimum wage will be adjusted once every two years in line with productivity increases. With these changes in wage policy, Kenyan firms will become more competitive and create more business and employment opportunities.

Mr. Speaker, Sir, a majority of our population in the urban areas live in deplorable conditions. Therefore, in line with objectives of the Economic Recovery Strategy (ERS), the Government has started the implementation of slums upgrading in partnership with UN-Habitat and other development partners at Kibera which will result in the construction of 600 housing units. In this regard, the Government has established the Slum Upgrading and Low Cost Housing and Infrastructure Trust Fund to serve as a depository for funds mobilised for this programme. I propose to allocate Kshs500 million during the Financial Year 2005/2006 for this important project. To encourage construction of more houses, the Government has recently reviewed the National Housing Policy and it will submit to Parliament during the Financial Year 2005/2006 a comprehensive Housing Bill.

Mr. Speaker, Sir, let me now turn to the financial out-turn for the current financial year. The total revenues including the Local Authorities Transfer Fund (LATF) were originally estimated at Kshs258.8 billion or 20 per cent GDP, which was composed of Kshs233 billion of ordinary revenue and Kshs25.8 billion of Appropriations-in-Aid. This was however, revised upwards in the course of the year to Kshs277.8 billion comprising of Kshs256 billion and Kshs21.8 billion in ordinary revenue and Appropriations-in-Aid respectively.

Mr. Speaker, Sir, taking into account the tax amnesty which resulted in Kshs4.8 billion additional revenue; administrative measures implemented by the Kenya Revenue Authority (KRA); and the annual nominal Gross Domestic Product (GDP), I now expect to collect Kshs293.4 in revenue or 22 per cent of the GDP comprising of Kshs267.5 billion in ordinary revenue and Kshs25.9 billion in Appropriation-in-Aid by June this year.

Mr. Speaker, Sir, on expenditure, the Supplementary Estimates recently approved by the House reflected an increase of Kshs6 billion in Recurrent Expenditures and a gross reduction of Kshs14.8 billion in Development Expenditures. The Recurrent expenditures increased mainly on account of additional expenditure requirement for drought-related expenses and wage adjustments to the Civil Service. Development budget was scaled down to reflect trends in donor disbursement and progress in project implementation.

Mr. Speaker, Sir, initially, gross Recurrent Expenditures were estimated to be Kshs221.1 billion, including expenditures financed through Appropriations-in-Aid amounting to Kshs23.9 billion while Consolidated Fund Services were estimated to Kshs132.8 billion. The Gross Development Expenditures were initially estimated at Kshs86.8 billion with approximately Kshs32 billion financed through Appropriations-in-Aid (A-i-A). The Supplementary Appropriation Bill adjusted these expenditures to Kshs227.1 billion and Kshs72 billion for Recurrent and Development expenditures respectively.

Mr. Speaker, Sir, let me now turn to the coming financial year's Budget. The total revenue target for the Financial Year 2005/2006 is Kshs326.1 billion or 22.8 per cent of the GDP. This is composed of Kshs296.1 billion of ordinary revenue and Kshs30 billion in A-i-A.

Hon. Members have already noted from their copies of Printed Estimates that Gross Recurrent Expenditures for the Financial Year 2005/2006 are estimated at Kshs404.3 billion. This includes Kshs27.1 billion which will be financed through A-i-A. Ministerial expenditures are expected to be around Kshs257 billion, while Kshs147.3 billion is for Consolidated Fund Services. The latter consists of Kshs26.9 billion for domestic interest; Kshs9 billion for foreign interest; Kshs23.4 billion for pension and gratuities; Kshs5.3 billion for salaries, allowances and operational expenses for constitutional offices and Kshs133 million for contribution to international organisations. I also expect to finance debt redemptions amounting to Kshs87.9 billion.

Mr. Speaker, Sir, the Gross Development Expenditures for the coming financial year are estimated at Kshs104.2 billion inclusive of Kshs34.9 billion financed by A-i-A. The A-i-A include direct project financing of Kshs13.6 billion in loans, Kshs18.4 billion in project grant commitment and Kshs2.9 billion which will be realised from domestic sources. This means that I will finance net development expenditures to the tune of Kshs69.3 billion during the coming fiscal year. I have received commitments amounting to Kshs27.9 billion in project grants.

Mr. Speaker, Sir, the fiscal year deficit after grants will amount to Kshs66.6 billion. I am expecting net external financing from both bilateral and multilateral development partners, of 23.4 billion, securitization of domestic arrears and bank restructuring costs of Kshs9.9 billion net, Kshs8 billion from privatisation proceeds and Kshs25.3 billion from domestic borrowing. This means that our fiscal programme is fully funded and that there is no financing gap. For this reason, my tax proposals are broadly revenue-neutral; yielding only Kshs400 million and are mainly to improve efficiency of tax administration.

Mr. Speaker, Sir, the rest of my Speech outlines measures I intend to take to enhance efficiency of tax administration. These measures will result in additional revenue of Kshs0.4 billion. I, therefore, request that the remainder of my Speech be regarded as Notice of a Motion to be moved before the Committee of Ways and Means.

Mr. Speaker, Sir, let me start with the amendments proposed under the Customs and Excise Act aimed to improve administration of Customs and Excise duties.

Let me start with measures under the East African Customs Management Act that has direct revenue impact. The protocol established in the East African Customs Union came into force in January, 2005. Since then, I have received various representations from stakeholders to review the Common External Tariff (CET).

In consultation with Ministers of Finance in Uganda and Tanzania, we have uagreed to take measures designed to improve the welfare of our people, reduce cost of production and offer some protection to infant industries as follow:

(i) That duty on used clothing be 45 per cent or US$30 cents per kilogramme, whichever is higher. Hon. Members will recall that when the common external tariff came into force, the duty was 75 per cent or US$60 cents, whichever is higher. So, we have really come down.

(ii) We have also agreed to remove import duty on all pharmaceuticals, diapers, sanitary pads and Liquefied Petroleum Gas (LPG).

(iii) We have also agreed to remove import duty imposed on coal, media containing computer software, safety belts, speed governors, crude palm stearin and splints for the manufacture of matches.

(Applause)

(iv) We will provide, under a special incentive, a duty remission scheme, paper for printing educational material, inputs for manufacture of agricultural equipment and for use in horticulture.

(iv) We will also exempt refrigerated trucks and hotel equipment from duty.

These measures will result in additional Kshs126 million to the Exchequer. The proposed changes will take effect immediately after the publication of the Bill by the East African Legislative Assembly.

Mr. Speaker, Sir, let me now turn to excise measures here in Kenya. Currently, Excise Duty on petroleum products is collected at various Customs bonded facilities spread around the country. This system is administratively expensive and exposes revenue to risk. In order to address this problem and enhance accounting for revenue, I propose to change the tax point for all petroleum products to the point of importation. This measure is tax-neutral and I do not expect petroleum dealers to use it as an excuse to increase prices. Secondly, we introduced specific taxes on beer in 2003 and since that time, we have not adjusted the bands for inflation. To safeguard the revenue base, I propose to adjust the excise duty by 10 per cent to account for inflation. I also propose to make a similar 10 per cent adjustment for cigarettes.

Thirdly, manufacturers of spirits are currently required to pay Kshs90 per proof litre in excise duty at the distillers and the balance of Kshs10 after compounding the spirits. In order to improve compliance, I propose to consolidate excise duty on neutral spirits to Kshs100 per proof litre at the distillery or point of importation.

Fourthly, hon. Members may be aware that currently, excise duty on motor vehicles ranges from 20 to 60 per cent. However, duty collection at the higher rate has been characterised by under-valuation and falsification, resulting in revenue loss. To safeguard revenue and simplify the excise duty on motor vehicles, I propose to adopt a single rate of 20 per cent on all excisable motor vehicles, regardless of the engine capacity. The excise measures I have proposed will generate an additional Kshs1.942 billion to the Exchequer.

Let me turn to changes under the VAT Act. Firstly, in the interest of equity, I propose to amend Section 11 of the VAT Act by introducing a new Section 11(b) to enable registered persons to acquire exempt goods under part II(i) of the Second Schedule as goods in stock to deem the price at which they acquire them to be inclusive of the VAT, for purposes of input tax deduction.

Secondly, the VAT Act requires a registered person who ceases to make taxable supplies, to

furnish the Commissioner with details of materials and other goods in stock. However, currently the law does not require such a person to declare other taxable assets for which he may have claimed input tax prior to ceasing to make taxable supplies. This has created a loophole for loss of revenue. Therefore, I propose to amend the law to provide that a
registered person who ceases to make taxable supplies, provides the Commissioner with a return giving details and value of his taxable assets.

Thirdly, the VAT Act requires a person who disposes of a business as a going concern to another registered person, to provide the Commissioner with details of the transaction thereof. Where the Commissioner does not notify the registered person of any risk to revenue within seven days, the registered person can transfer the business without payment of tax. The period of seven days has been found to be inadequate for the Commissioner to arrive at a conclusive decision. Therefore, I propose to increase the number of days to 14.

Fourthly, following the introduction of withholding tax system last year, some withholding agents have not complied with the regulations. To address this problem, I propose to introduce a penalty of Kshs10,000 or 10 per cent of the tax due, whichever is the higher, for appointed agents who fail to withhold and remit tax, issue a withholding tax certificate or submit a return.

Fifth, there are persons who, not being appointed withholding tax agents, hold themselves as such and withhold VAT but do not remit the same to the Commissioner. To deter such practices, I propose to introduce a penalty of Kshs10,000 or 10 per cent of the tax withheld, whichever is higher, for any person who acts as a tax withholding agent while he is not registered by the Commissioner.

Sixth, hon. Members will recall that the Finance Act of 2004 exempted LPG and sanitary towels from VAT. The exempt status, however, meant that the goods would not enjoy the input tax deduction. This dampened the impact on the price of these goods. To make these products affordable and within reach of many wananchi, and remove any effects of inbuilt VAT into the prices of these commodities, I propose to zero-rate LPG and sanitary towels for VAT purposes. Lastly, maize flour, milk and kerosene are VAT exempt and so are many other food items, which means that they do not benefit from deduction of input tax. Therefore, an element of VAT is in-built into their selling price. To make these commodities affordable to Kenyans, I propose to zero-rate them and remove VAT altogether. The registered persons who sell such goods will be expected to reduce the prices of these basic commodities. If they fail to do so, I will not hesitate to reverse the policy. The measures I have proposed under the VAT will cost the Exchequer Kshs650 million in revenue loss.

Mr. Speaker, Sir, let me now turn to Income Tax measures. First, I want to deal with measures which have no revenue implications. First, the gazettement of the Income Tax (Leasing) Rules (2002) has improved leasing activities in the country. However, the Income Tax Act is not clear on the treatment of motor vehicle benefit where such a vehicle is on hire or lease. I propose to amend the Income Tax Act to specifically provide that the benefit in case of hire or lease shall be, the higher of the cost of hiring, leasing or the prescribed rate of benefit.

Secondly, the tax deductible limits for both registered pension or provident funds as well as registered individual retirement benefit funds have remained at Kshs210,000 since the year 2000. In order to provide further incentives to retirement savings, I propose to increase the tax-deductible limits in both cases to Kshs240,000 per annum.

Mr. Speaker, Sir, the third point is that, currently, the income of a married woman living with her husband is assessed on the husband. But a married woman may opt to file a separate return on certain sources of income.

In order to reduce the overall household tax burden, I propose to amend the Income Tax Act to allow a married woman who opts to file a separate tax return to report all her sources of income without exemption.

Fourth, to improve tax administration and reduce the delay occasioned by prolonged dispute resolution process, I propose to reduce the period within which an objection to an assessment should be filed with the Commissioner from the current 60 days to 30 days.

Fifth, to ensure that former students who have benefited from the university education loans repay so that others may also benefit, I propose to amend both the Income Tax Act and Higher Education Loans Board Act to enable the Board to obtain addresses of borrowers or their employers from the Kenya Revenue Authority (KRA) to improve loan recoveries.

(Applause)

Mr. Speaker, Sir, I now turn to measures with direct revenue implications under the Income Tax Act. First, currently, a benefit, advantage or facility enjoyed in respect of employment and all services rendered is taxable when the aggregate value is Kshs24,000 or more per annum. In order to reduce the tax burden, I propose to increase the limit to Kshs36,000 per annum.

Secondly, in order to support our farmers and make our farm produce competitive in the international market, I propose to exempt from withholding tax, farm audit fees for analysis of Maximum Residue Limits (MRL) paid to non-resident laboratories and auditors.

Thirdly, as an incentive to encourage more investors at the Nairobi Stock Exchange, I propose that newly listed companies pay Corporation Tax at a lower rate of 20 per cent for a period of five years, provided that those companies offer, at least, 40 per cent of their shares to the Kenyan public.

Fourth, securitization based on bankable assets and ability to generate cash has become a viable alternative in most emerging markets, particularly for institutions providing infrastractural services to raise long-term capital. In that regard, to encourage such institutions to set Special Purpose Vehicles (SPVs) for purposes of issuing asset backed securities, I propose to exempt investment income of the SPVs from income tax.

Fifth, provision of shelter and housing is a key ingredient of human welfare. To encourage more home ownership, I propose to increase mortgage interest relief from Kshs100,000 per annum to Kshs150,000 per annum.

Sixth, currently, the capital expenditure on private motor vehicles for purposes of computing wear and tear for income tax purposes is deemed not to exceed Kshs1 million. That limit was last reviewed in 1998. I, therefore, propose to increase the limit to Kshs2 million to recognise the increase in the cost of motor vehicles.

Mr. Speaker, Sir, seventh, currently, the value of any medical services provided by the employer to a full-time employee and to a full-time service director of a company are not taxed as benefits, while medical services provided to directors who own more than 5 per cent of the share capital of the voting power of the company are taxed. To ensure equity in our tax system, I now propose that, this benefit be extended to other directors, even for those who own 5 per cent of equity in the company, subject to a maximum limit to be prescribed by the Minister.

Eighth, in order to encourage planting of trees to conserve the environment, I propose to declare eucalyptus, pine and cypress as permanent crops, so that capital expenditure incurred by the owner or tenant of agricultural land on clearing that land or planting such crops is tax deductible. These measures will cost
the Exchequer Kshs790 million in revenue loss.

Mr. Speaker, Sir, turning to miscellaneous measures, I propose the following changes. First, the retirement benefits sector has registered remarkable growth which has made it an important participant in the mobilisation of long-term savings.

To sustain the growth momentum and address emerging challenges in the sector, there is need to improve the management of retirement benefit schemes. I, therefore, propose:-

(a) To require all internal and external scheme administrators to be registered.

(b) To address the cause of low benefits available to employee upon retirement by locking the employers contribution to the retirement benefit scheme and making them available to the employee upon reaching retiring age.

(c) To allow smaller schemes to pool and form one umbrella scheme for purposes of investment and compliance.

(d) To criminalise and introduce penalties for non-remittance of employee contributions to the schemes by employers.

(e) To make performance of trustees much more effective by requiring defined contribution schemes to have a minimum of four trustees, where 50 per cent of the trustees are nominated by the scheme members.

(f) To gazette regulations to govern the process of conversion of schemes from one benefit scheme to another; for example, define benefits to defined contributions.

(g) To make appropriate amendments to the Retirement Benefits Authority (RBA) Act to require that, in the event that members' benefits have not been paid within 90 days of retirement, members will be entitled to continue earning interest on their dues.

Mr. Speaker, Sir, secondly, to encourage technological development and improve efficiency in the banking sector, I propose to amend the Bills of Exchange Act in cheque transactions to provide for electronic cheque clearance through the cheque transaction system.

Third, to enable proper functioning of the Policy Holders Compensation Fund, I propose to amend Section 179 of the Insurance Act to enable the setting up of the Fund as a corporate body and empower the Fund to levy contributions.

Fourth, to ensure consistency with international accounting standards and apply the law in accordance with prudential supervisory intentions, I propose to amend the section of the Banking Act that restricts the insider lending to include companies in which the insiders have shareholding in excess of 20 per cent.

Mr. Speaker, Sir, fifth, the multiplicity of licences has increased the cost of doing business in Kenya. For this reason, I propose to abolish 17 licences including the following: Trade Licence; Stock Traders Licence, Hides and Skins and Leather Licence, Import and Export Licence and Horticultural Crops Development Authority Order Licence. These measures will cost the Exchequer a total of Kshs234 million in revenue loss.

Mr. Speaker, Sir, in conclusion, since coming to power two-and-a-half years ago, the NARC Government has turned the country back on a firm path of economic growth. It has also restored discipline in the management of public resources, strengthened institutions of governance and enhanced respect for individual freedom.

(Applause)

Mr. Speaker, Sir, the proposals I have outlined in my Budget today are aimed at building on these achievements and accelerating the pace of the reforms set out in our Economic Recovery Strategy. To achieve the targets, we have set ourselves requires the active participation of all of us. I, therefore, call upon all Kenyans to heed our President's clarion call of turning Kenya into a "working nation."

Mr. Speaker, Sir, our legislative agenda contains important Bills that are necessary to support our reforms. These include the Procurement and Privatization Bill and the Amendment to the Public Officer Ethics Act. I call upon hon. Members to enact these Bills at the earliest opportunity.

Mr. Speaker, Sir, may I also take this opportunity to urge hon. Members not to overly focus on the past, but to provide leadership on economic development, bearing in mind the fact that our task now is not to continue blaming the past, but to chart the course for the future. To quote the late President of the United States of America, John F. Kennedy;

"Our task is not to fix blame for the past, but to fix the course for the future."

Mr. Speaker, Sir, and hon. Members, let us tone down our politics and get down to work.

Mr. Speaker, Sir, I beg to move.

(Applause)

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

(Question proposed)

DEPARTURE OF HIS EXCELLENCY THE PRESIDENT

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

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

ADJOURNMENT

Mr. Speaker: Order, hon. Members! That concludes our business for today and the House is, therefore, adjourned until tomorrow, Thursday, 9th June, 2005, at 2.30 p.m.

The House rose at 4.45 p.m.