



REPUBLIC OF KENYA

Budget Speech

For the

Fiscal Year 2008/2009

(1st July – 30th June)

by

**Hon. AMOS KIMUNYA, E.G.H., M.P.
Minister for Finance**

12th June 2008

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SPEECH DELIVERED TO THE NATIONAL ASSEMBLY ON 12TH JUNE, 2008, BY HON. AMOS KIMUNYA, E.G.H., M.P., MINISTER FOR FINANCE, REPUBLIC OF KENYA, WHEN PRESENTING THE BUDGET FOR FISCAL YEAR 2008/2009

1ST JULY, 2008 TO 30TH JUNE, 2009

Mr. Speaker Sir,

I beg to move that Mr. Speaker do now leave the chair.

I INTRODUCTION

1. **Mr. Speaker**, it is once again an honour for me to stand in front of this August House to present the 2008 Budget. This is the first budget of the Grand Coalition Government, and comes hot on the heels of the launch of the harmonised 1st Medium-Term Plan of the Vision 2030.

2. **Mr. Speaker**, 5 years ago, the year 2003 ushered in political and economic optimism in our country that had not been witnessed in decades. Collectively, we began the hard task of rebuilding our then ailing economy in order to improve the living conditions of our people. We consistently implemented a package of bold economic and structural reforms within the framework of the Economic Recovery Strategy that has just ended. As Honourable Members are aware, we made tremendous progress in many fronts. Economic growth accelerated from 0.5% in 2002 to reach a peak of 7% in 2007, and poverty incidence reduced sharply from 57% in 2000 to 46% in 2006.

3. However, as we were preparing for the take off stage to a higher level of development and prosperity, our Nation came under a serious threat of disintegration following the disputed 2007 December General Elections. The unfortunate events that followed were painful and threatened to reverse the economic gains we had made over the previous five years. More importantly, those events also threatened the very fabric of our nationhood, and are indeed a costly reminder of our vulnerability.

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

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

6. **Mr. Speaker**, arising from these difficult times, we now can, albeit painfully, comprehend our weaknesses as a nation and the challenges that we must confront as a people in order to build a solid foundation for our nation and make progress in improving the lives of our people. But more importantly, the crisis presented a historical turning point from which we have

come out more focused and determined to stay on course so as to realize our collective vision of a competitive **and prosperous Nation**. A new determination to achieve the goals and targets contained within our National Vision 2030 that was launched on Tuesday.

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

II RECENT ECONOMIC DEVELOPMENTS

8. **Mr. Speaker**, as we embark on this important journey of social and economic reconstruction as well as transformation, we need to take into account the global environment and its impact on our economy. **Mr. Speaker**, looking at recent global developments, we note that although the world economy grew by an annual average of 5 percent from 2003 to 2007, the expansion was associated with widening global imbalances. The recent turbulence in the U.S housing market and in Europe is expected to slow down economic expansion particularly in advanced economies. Further, the continued higher oil prices are forecast to lower growth prospects worldwide and, are therefore, likely to weaken demand for our exports.

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

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

11. **Mr. Speaker**, turning to the domestic front, I am happy to note that we have made significant progress over the last five years, and we intend to build on these gains as we move our economy back onto a higher level of growth and development. Since 2003, our economy has expanded continuously, rising from virtual stagnation in 2002 when it registered a paltry 0.5 percent growth to 7 percent in 2007. This is the longest continuous growth registered in our country over the past thirty years. The growth is attributed to the successful implementation of sound fiscal and monetary policies, the deepening of structural reforms as well as targeted and progressive investments in pro-poor programmes under the Economic Recovery Strategy.

12. **Mr. Speaker**, the favourable overall performance was replicated in virtually all sectors of our economy. For instance; (i) growth of the manufacturing sector accelerated from 0.1 percent in 2002 to 6.2 percent in 2007; (ii) the wholesale and retail trade sector switched from a

decline of 2.5 percent to register growth of 11.5 percent over the same period; and (iii) our total exports almost doubled largely driven by strong growth in coffee, tea and horticultural exports, and, supported by strong growth on remittances and capital inflows, our international reserves increased from USD1.1 billion in 2002 to USD.3.6 billion by end of 2007. For details on economic performance under the ERS, Honourable Members may wish to refer to the Budget Strategy Paper 2008, which has already been circulated along with the other budget documents.

13. Mr. Speaker, despite the progress we have made on the social and economic front over the recent past, we recognize the many challenges we continue to confront in our effort to raise the living standards of our people. Some of these challenges include: (i) low levels of savings and investments; (ii) low levels of productivity in agriculture and industrial sectors; (iii) unemployment, particularly among the youth; (iv) high incidence of poverty; and (v) disparities in regional development.

14. Mr. Speaker, these challenges were further exacerbated by the post-election crisis, which negatively affected such sectors as agriculture, tourism, manufacturing and transport. The displacement of some Kenyans from their farms and the subsequent general insecurity and transport difficulties experienced, during the crisis partly contributed toward the on-going upward pressure on food prices. This has been further worsened by the additional inflationary pressures arising from higher international oil and food prices, all of which have diminished the purchasing power of the ordinary mwananchi. Mr. Speaker, to ameliorate the suffering of our people from the high prices of food, the Government will do all in its power to contain the current inflationary pressures as a key development priority. I will spell out shortly the measures we will be implementing.

15. Mr. Speaker, this Budget, therefore, focuses on measures to address these challenges and initiates implementation of the programs set out in our recently launched First Medium Term Plan, covering the period 2008 – 2012. To achieve these objectives, we must remain focused on the things required to raise long-term growth, expand employment opportunities, reduce poverty among our people and promote regional development. Accordingly, Mr. Speaker, the 2008/09 Budget focuses on the following four priority development areas of the Grand Coalition Government, namely:

- Restoring our economy to a higher broad-based long term growth path with expanded opportunities for all Kenyans;
- Creating employment opportunities for our youth for a more stable and cohesive society;
- Reducing poverty and inequality through accelerated regional development; and
- Deepening our human development efforts for higher productivity and economic prosperity.

16. Mr. Speaker, the 2008 Budget is, therefore, anchored on the premise that the corner stones of the next phase of our development agenda is to empower Kenyans by creating employment opportunities for the youth, promoting unity of purpose, and reducing regional imbalances in development. In this way, every Kenyan will feel he/she has a stake in this great nation of ours. The Budget that I am presenting today is intended to usher our **new thinking and**

vision for building this Nation. Therefore, Hon Members, the theme of this year's budget is ***"Working Together to Build a Cohesive, Equitable and Prosperous Kenya"***

17. **Mr. Speaker**, against this backdrop, the rest of my speech outlines sectoral policies as well as expenditure and tax measures that we will implement in 2008/09 in order to achieve the above-mentioned priorities.

A RESTORING OUR ECONOMY TO A HIGHER AND SUSTAINED BROAD-BASED ECONOMIC GROWTH PATH

Restoring the Economy Back on a Higher Growth Path

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

19. This vision, **Mr. Speaker**, is based on three pillars: **first**, the economic pillar that aims to accelerate annual real GDP growth to 10 percent by 2012 and thereafter sustaining it at this level with a view to making Kenya an upper-middle-income country by 2030; **second**, the social pillar that aims to achieve a cohesive society enjoying equitable social development; and **third**, the political pillar, that aims to build a democratic, issue-based and accountable democratic political system in our country. The bottom line is a higher quality of life for our people.

20. **Mr. Speaker**, we expect the impact on the adversely affected key sectors of our economy to be short-lived. We have peace and stability, and the recent over-subscription of Safaricom shares attests to the fact that investor confidence, both domestic and foreign, has indeed rebounded. We initially anticipated growth for 2008 at 7-8%, but we now expect real GDP to expand by between 4.5 – 6 percent in 2008 and by 7-8 percent in 2009 before progressively rising to 10% by 2012/13. This will require us to boost investments to drive long-term growth, which will further depend on increasing savings and expanding exports. To achieve this level of growth, I will be proposing several measures under the following sub-headings:

- (i) Sustaining macroeconomic stability and strengthening the financial sector to ensure low but stable interest rates, a low rate of inflation and a stable currency in order to foster rapid and sustainable growth and jobs creation;
- (ii) Expanding infrastructure capacity to enhance our regional and global competition and facilitate investment and growth;
- (iii) Improving the business environment by reducing the cost of doing business
- (iv) Ensuring an efficient and effective public sector and improving governance; and
- (v) Promoting industrial research, technology and innovation for higher productivity and expanded employment opportunities.

Ensuring Continued Macroeconomic Stability for Faster Growth

21. **Mr. Speaker**, this year's Budget is by far the most difficult one since I became the Minister for Finance in early 2006. This budget has to address many objectives including the following; (i) designing an economic recovery program to address the downturn of the economy following the post-election crisis; (ii) addressing the humanitarian crisis that followed the disputed elections, including the resettling of the IDPs; (iii) laying the foundation for returning to a higher growth path consistent with achieving the Vision 2030 growth target of 10% by 2012/13, which requires increased spending to fill the infrastructure gap and provide funding for the Vision 2030 flagship projects; (iv) providing relief to our farmers and strengthening the capacity of the NCPB to play a more effective role in stabilizing food prices; (v) providing for the free primary as well as free secondary school while ensuring spending on health is not adversely affected; (vi) addressing the issue of unemployment, especially for the youth; and finally (vii) dealing with the important issue of regional inequality.

22. **Mr. Speaker**, dealing with these issues under normal circumstances is difficult, but dealing with them when the revenue base has been eroded, is an arduous task. These are challenges that, if not handled carefully, could upset our macro-economic framework. Honourable Members will appreciate that raising taxes is not a viable option since the taxpayers are already facing high prices for consumer goods and cannot afford a further reduction in their disposable income. Similarly, a substantial increase in government borrowing risks raising interest rates, thus jeopardizing the fragile recovery of the private sector, which, after all, is the key to creating the jobs we need for our youth. Moreover, our debt service payments are already quite high and further increases would only result in crowding-out priority expenditures in the economic and social sectors. In addition, consistent with our financial independence strategy, we have not factored in uncommitted budget support.

23. **Mr. Speaker**, given this resource constraint, we have had to prioritize our expenditure to ensure only key programs and projects, which are consistent with our policy objectives, are funded. On balance, **Mr. Speaker**, I believe that this Budget has managed to address the key issues and challenges currently facing our economy. It deals with both the short-term and the medium-term needs of our economy in a way that supports a move to a more rapid and sustainable growth path as soon as possible but within the context of a stable macro-economic environment.

24. **Mr. Speaker**, this Budget, therefore, lays a firm foundation for achieving macro-economic stability, which is a pre-requisite to sustainable growth, employment creation and poverty reduction. To allow sufficient credit expansion to finance increased private sector activities, the Government will continue to contain the growth of its debt at a level that will not lead to an unsustainable spiral of debt accumulation. On the monetary side, the Central Bank will pursue an appropriate monetary policy stance aimed at achieving a low rate of inflation. **Mr. Speaker**, despite some external factors, which are beyond our control such as persistent high global fuel and food prices undermining our efforts to contain inflation, we are determined within our means to address all supply bottlenecks in the agricultural and energy sectors, which have exacerbated the problem. I will shortly outline measures to deal with the high food and fuel prices.

25. **Mr. Speaker**, the Government will continue to let the market determine the Kenya shilling exchange rate, and only intervene to smooth out short-term fluctuations. It is worth noting

that had the shilling been weaker than it is today, the cost of imported fuel and food would have been much higher, which would have led to even stronger inflationary pressures. We will of-course continue to monitor closely developments in the real exchange rate and other indicators of external competitiveness to ensure Kenya's exports remain competitive. Further, and in order to cushion our economy from exogenous shock, such as high oil prices and droughts, the Government will build up adequate foreign exchange reserves equivalent to 4-months of projected import cover.

Robust Financial Sector to Facilitate Investments

24. Mr. Speaker, we have made tremendous progress in implementing financial sector reforms covering the areas of micro finance, insurance, banking and the capital market. I am happy to report to this House that the Microfinance Act is now operational, following the issuance of supporting regulations. But, **Mr. Speaker**, we still need to deepen the reforms to make our financial sector more competitive and stronger. In this regard, I will be proposing, later in my speech, measures to increase the minimum capital requirements for banks over the next two years. The Government will also be tabling before this House, the SACCO Bills and the National Payment Systems Bill. The enactment of these bills will further strengthen our financial system and make it more competitive regionally. We will also strengthen the regulatory role of the CMA and address weaknesses in its regulatory framework including the introduction of risk based capital adequacy for the capital markets. Further reforms to improve performance of other sector players are being implemented, including the restructuring of the five Development Finance Institutions, and the Kenya Post Office Savings Bank, the privatization of the National Bank of Kenya following the completion of its financial restructuring; and allowing repayment of loans directly to the Agricultural Finance Corporation.

Expanding Infrastructure Capacity to Facilitate Investment and Faster Growth

25. Given the critical role of infrastructure in improving our country's competitiveness, we will need to invest substantially in key infrastructural facilities. However, financing of infrastructure continues to be a major challenge. To mitigate this challenge, we intend to tap more into the private sector financing. Limited cases of such partnership have been executed but wider scale partnership requires an adequate regulatory framework to guide and protect the interest of all partners. In this regard, the Government will issue under the Public Procurement and Disposal Act, 2005, guidelines on Public Private Partnerships (PPPs) early in the FY 08/09, after necessary consultation with stakeholders. The Government will also set up the institutional framework for coordinating and managing the PPPs.

26. Mr. Speaker, even as we await for the PPP framework we are determined more than ever before to improve the condition of our infrastructure as a key policy priority toward the realization of our Vision 2030 objectives. The implementation of various infrastructure projects in this Budget will reduce the cost of doing business and facilitate private sector expansion and employment opportunities. **Mr. Speaker**, in line with this commitment, I plan to issue a total of Kshs.52 billion in infrastructure bonds comprising KShs.33 billion through a debut international sovereign bond and Kshs.18 billion from issuance of long-term domestic bonds to finance rehabilitation and expansion of the road network, enhancement of energy and water supply capacities, and further rolling out of the ICT infrastructure.

27. **Mr. Speaker**, Hon Members will recall that we planned to issue a sovereign bond in the international capital markets during 2007/08 to provide funding for key infrastructure facilities and also to establish a benchmark for our private sector to borrow internationally. However, following the post-December 2007 election crisis, our initial favourable sovereign ratings from Standard and Poor's, which were later confirmed by FitchRating in 2007, were downgraded. Faced with these circumstances, it was prudent and wise to defer the issuance of this milestone sovereign bond as the reduced ratings impacted negatively on the pricing of the bond. **Mr. Speaker**, we are now gearing up for this year's ratings from the two ratings agencies, and our plan is to launch the bond at an appropriate time in the course of the financial year. Such external borrowing will ease pressure on the domestic market and help us maintain low and stable interest rates.

Improving Conditions of Road Network for Increased Investment and Business

28. **Mr. Speaker**, the condition of our road network continues to impose a heavy burden on road users, thus increasing the cost of doing business and making our products uncompetitive. As Hon Members are aware, we have accelerated road construction throughout the country, and measurable milestones have been achieved in form of actual kilometres paved. To further improve conditions of our road network and make motoring enjoyable to Kenyans, I have allocated Kshs.65 billion to finance new construction, rehabilitation and routine maintenance of various roads earmarked countrywide. Among others, construction work on the Athi River-Namanga road started recently and the Mau Summit-Kericho-Kisumu and Nairobi-Thika roads are slated to start shortly.

29. **Mr. Speaker**, I have continued to receive complaints from the public of shoddy works by some contractors. The reason for this problem is because the construction industry is not adequately regulated, giving rise to contractors of questionable qualifications. To address this problem, the Government will be putting to this House a Bill to provide for the establishment of a Contractors Registration Board, with full legal mandate to register all contractors and, engineers and regulate the industry. Effective regulation will bring order in the industry and ensure Kenyans get value for their money. In addition, to ensure our road network is better constructed and routinely maintained, the Government will make fully operational the Urban, Rural and National Highway Authorities that were legislated under the Roads Act.

30. **Mr. Speaker**, this country can ill afford delays in road construction. In this regard, I expect those contractors awarded tenders to ensure they work round the clock to complete their projects in time. I also expect the engineers to effectively supervise road construction and ensure quality work is carried out. In particular, contractors who delay in completing road projects should not only expect to lose their contracts but they should also be blacklisted and barred from further Government work. We will, in addition to these measures, **Mr. Speaker**, introduce legislation touching on the Protection of Road reserves, Registration of Engineers and Architects as well as Quantity Surveyors.

Enhancing the Capacity of Railway System and Ports

31. **Mr. Speaker**, the Government is aware of the deteriorating quality of our rail services which is causing great concern to the business community. In line with the Concession Agreement, the Government is seeking an urgent remedial plan by the Concessionaire to turn around the

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

32. Mr. Speaker, in the medium term, to meet the needs of a growing economy, we will need to make significant investment in the expansion and modernisation of our railway infrastructure. This will be an investment in a standard gauge railway network linking Kenya to its neighbours.

33. Mr. Speaker, through the support of the Government of Japan, we plan to spend KShs.20 billion over the medium-term toward the modernization of the Port of Mombasa in order to make it efficient and competitive in serving Kenya and its hinterland. This will include dredging the Port of Mombasa to allow bigger ships to dock which will make it a preferred port of call. We have allocated KShs.430 million for starting the project, while a sessional paper for approval of the guarantee of the Japanese loan is before the House. **Mr. Speaker,** we expect the implementation of this project to significantly reduce the dwell time in handling port cargo and bring our port operations in line with international standards. This, and other reforms will also position the Port of Mombasa as a regional services hub and should generate increased trade and employment.

Nairobi Metropolitan

34. Mr. Speaker, the development of the Nairobi Metropolitan Area as a services hub for financial, health, education, agro-processing, and business process outsourcing sectors is a key development objective of this Coalition Government. But we recognize that this will only be possible through a drastic improvement in the infrastructure and services in Nairobi. Apart from improved provision of water and security services, we are prioritizing construction of by passes and modern interchanges to solve traffic congestion. And in consultation with stakeholders in the agricultural sector and the Nairobi City Council, we will also initiate the development of a modern, secure and accessible fresh produce wholesale market with auxiliary services to expand the food supply chains and reduce pressure on food prices in Nairobi. This wholesale market will be developed on the basis of Public-Private-Partnership and is expected to inform development of such markets in other major towns in the country. These initiatives are expected to improve measurably the living condition of Nairobians.

Expanding and Diversifying Sources of Energy for Faster Growth

35. Mr. Speaker, as the economy grows, the demand for energy also grows. Our long-term strategy is to focus on secure, least-cost and clean energy development, regional interconnections, diversification to renewable sources and locking in efficiency gains in the distribution system. The recent upsurge in the international oil prices now calls for the need to diversify into alternative sources of energy if we are to remain competitive and achieve our growth targets. Partly to deal with emerging challenges of high energy demand in our country, we will step-up reforms to improve efficiency, reliability and quality of our electricity supply. The electricity generation and transmission networks will further be developed. This is in addition to measure to stabilize oil prices through investment in N-O-C-K capacity, as well as National Oils reserve, modalities of which are under consideration.

36. Mr. Speaker, we are yet to fully exploit the huge energy supply potential that exist within the floor of our Rift valley. In this regard and consistent with our clean energy strategy, I have allocated KShs.4 billion for the expansion of geothermal energy output to diversify our sources of energy supply. We intend to use this allocation to leverage even more funding from our multilateral development partners. Further, we have initiated processes to tap into renewable energy sources. To this end, this Budget allocates another KShs.300 million for solar electricity generators to 74 public institutions and KShs.200 million toward wind powered generation. Addressing the energy challenges on a sustained basis, **Mr. Speaker**, calls for a joint approach, involving all stakeholders and Kenyans at large. I, therefore, would like to encourage Kenyans and individual institutions to diversify their sources of energy supplies to include biomas, wind and solar powers.

37. Mr. Speaker, conscious of the need to promote rural development to stem rural-urban migration, we aggressively implemented a comprehensive rural electrification programme in the last four years. Going forward, we are committed to intensifying the rural electrification programme countrywide by making fully operational the Rural Electrification Authority. I have, accordingly, allocated KShs.6.8 billion toward rural electrification, including the installation of mini-grids and grid extension covering trading centers, schools and health facilities.

Deepening the ICT Development for Faster Growth

38. Mr. Speaker, we have achieved tremendous progress on the ICT development front over the recent past. However, more will need to be done over the medium term to utilize the full potential of ICT to drive growth and create employment. As a first step toward exploiting the abundant economic and employment opportunities presented by ICT, I have in this Budget allocated KShs.900 million toward the establishment of a large Business Process Outsourcing park (BPO) in Nairobi, consistent with our Vision 2030 objectives. The operation of this BPO Park will ensure availability of accessible, efficient, reliable and affordable ICT services in Kenya, create over 10,000 employment opportunities, earn foreign exchange, and move this economy up the value chain. Plans are also underway to initiate a project that will facilitate our youth to venture into software development for local use and exports.

39. Mr. Speaker, as I indicated in my last year's speech, our involvement in the undersea cable project linking our country with the rest of the world is expected to improve significantly the quality of bandwidth available for global connectivity, reduce cost of telecommunication and position the BPO Park as an ICT regional service hub. To complete the laying of this cable and make it accessible, I have this year allocated KShs700 million. The private sector will provide the rest of the financing needed to complete the project. Further, **Mr. Speaker**, in order to provide universal access, close the digital divide between rural and urban areas, and open up all parts of the country for commerce and trade, the Government will continue implementing the National Fibre Optic Network, in partnership with the private sector.

Deepening Business Regulatory Reforms for Enhanced Competitiveness

40. Mr. Speaker, as the Hon Members are aware, Kenya embraces private sector as the engine of growth and sustainable development. We have on the structural side been taking steps to improve the investment climate. To this end, you will recall that the Government last year

eliminated 315 licenses and simplified another 379 out of the 1325 licenses that had been identified as hindering growth of small businesses. Last year we received numerous international accolades for our efforts in streamlining the system of licensing and improving regulatory decision making. The World Bank's Doing Business Indicators Report for 2008 ranked Kenya **eighth** among the **top ten reformers in the world** for improving the regulatory environment for doing business, and **second within Africa**.

41. Mr. Speaker, this year, a number of regulators have heeded our call to review their regulatory regimes and this has resulted in simplification, consolidation and harmonization of additional licenses. For instance, the Communication Commission of Kenya will reduce licenses required for setting up a business from 300 to only 16 with effect from 1st July 2008. Other reformers include the Ministry of Tourism from 25 to 2, Mines and Geology Department from 24 to 8, Betting Control and Licensing Board from 26 to 9, Kenya Forest Service from 15 to 11 among others. These have effectively reduced the number of licenses of these key regulators from 390 to 46. We will continue to liaise with the regulators to ensure that future regulations with respect to licensing impose minimum burden on businesses, while still ensuring the goals of public safety, security and health are preserved. We intend to further cut the time and procedures required by businesses while dealing with various Government agencies.

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

Ensuring Efficient and Effective Public Service for Growth

43. Mr. Speaker, we shall also continue to strengthen our public sector institutions in order to enhance our capacity to deliver services to Kenyans efficiently and effectively. This will involve deepening budgetary and public financial management reforms, and in particular: (i) working with Honourable Members, develop an organic budget law to mainstream results oriented budgeting in our development strategy (ii) strengthen our financial and debt management systems; and (iii) improve efficiency in public procurement through price referencing and cost benchmarking to ensure value for money.

44. Mr. Speaker, on our strategy to reduce insecurity, strengthen property rights and protect lives and property in order to facilitate private sector growth, this Budget allocates additional funds to the police force for purchase of modern crime fighting equipment, recruitment of additional officers and for upward salary adjustment. To further complement the efforts of police in fighting crime, we will also introduce to this House the Organized Crimes Bill to contain the emergence of organized gangs and militia, which bode ill for our society. We will also seek the support of the House for the passage of the Anti-Money Laundering Bill. The Internal Security of

our country is central to our social economic well-being. The government has over the last few years improved significantly the terms of the disciplined forces to ensure sustained high morale. However, provisions of adequate quality housing for our disciplined forces, especially the police force, administrative police and the prisons has been a serious challenge. To increase access to housing for our disciplined forces, we will spend in excess of KShs.2.0 billion on their housing projects.

45. Mr Speaker, accelerating and deepening governance reforms is critical for consolidating the gains we have registered in the recent past and especially in creating an enabling environment for the private sector to play a leading role toward achieving Vision 2030 objectives. In this regard, we propose to implement various governance reforms within the framework of Governance Strategy for Growth, Poverty Reduction and Equity. Several milestones will continue to be targeted under the priority measures set out in the annual Governance Action Plan. These targets include: (i) further strengthening governance and anti-corruption institutions; (ii) enhancing capacity to prosecute, faster disposal of cases and providing a framework for disposal of the recovered assets; (iii) facilitating transparency and public access to information; and (iv) deepening Privatization Programme to further scale down the role of government in economic activities efficiently performed by the private sector.

Promoting Science, Technology and Innovation for Growth and Employment

46. Mr. Speaker, increasing the productivity of our capital and labour will be a key element in realizing our growth objectives. Therefore, in line with our Vision 2030, science, technology and innovation will play an important role in driving our growth through promotion of efficiency, productivity and competitiveness. To entrench a culture of science, technology and innovation in our society, the Coalition Government will table in this House several proposals, including:

- A National Policy for Science, technology and Innovation;
- A Bill to upgrade the National Council of Science and technology, to the National Commission of Science and technology; and
- Creation of the National Science Foundation and National Innovation Agency.

47. Mr. Speaker, the Government also fully recognizes the critical role that SMEs can play as catalysts for our economic transformation and industrialization. To this end, we will develop appropriate industrial technologies to facilitate SMEs growth, expand business incubation services to support over 100 additional enterprises and create 100 software development enterprises. To demonstrate our commitment to facilitating participation of all Kenyans, big or small in expanding economic opportunities, I have allocated KShs.300 million toward industrial innovation and piloting program covering the following areas:

- Fish leather processing in Kisumu, Homa-Bay and Migori
- Mango processing in Malindi, Kerio valley and Muranga
- Mini-leather processing in Garissa, Pokot, Migori and Bungoma
- Honey processing in Eldama Ravine, Kajiado and TARDA regions
- Cashew nut and palm wine processing in Kwale and Malindi
- Fruit processing in Meru/Tharaka Nithi and Kendu-Bay

- Rehabilitation and upgrading of technology for leather development centre in Nairobi to encourage creation of SMEs along the leather-chains.

48. Mr. Speaker, I expect the roll out and commercialization of these technologies to positively improve regional development and welfare of our people in areas such as North Eastern, Nyanza, Rift Valley, Coast and Western provinces, among others. We will also expand the on-going training under the Enterprise Development Centre in JKUAT to cover up-coming entrepreneurs from other parts of the country. I would also wish to urge the private sector to support research in areas of most significance for development in Kenya. This will help to supplement public resources and increase the amount of resources dedicated to research, as is the case in the developed countries.

B. CREATING EMPLOYMENT OPPORTUNITIES TO EMPOWER THE YOUTH

Expanding Economic Opportunities for the Youth

49. Mr. Speaker, the second broad theme of this Budget is expanding economic opportunities for the youth. The high rate of unemployment, particularly among the youth, remains a source of instability and is a great economic challenge, which we must confront as a Nation. We need, therefore, to intensify our collective efforts to increasing employment for the youth. Among the many initiatives to expand employment opportunity, we will introduce amendments to the Armed Forces Act to enable the youth trained in National Youth Service to be absorbed in the armed forces. We will also table a bill to provide for the creation of a National Youth Council. **Mr. Speaker,** although we made some good progress toward creating youth employment in the recent past, there are reports that many income generating projects financed through the Youth Enterprise Fund were negatively affected by the post-election violence.

50. Mr. Speaker, We expect the on-going peace and stability to enable the youth groups to recover from these loses and expand their operations. Demonstrating our commitment to making the Youth Enterprise Fund accessible to the many enterprising youth in our country, I have once again increased the Youth Enterprise Fund by KShs.500 million in 2008/09. I have further allocated KShs.250 million toward the youth empowerment centres countrywide to provide support, information and guidance to various youth organizations on entrepreneurial ventures and management. In addition, efforts will be made to enhance access to the Youth Fund and ensure it achieves its intended objective of empowering the youth.

51. Mr. Speaker, this Budget further recognizes that enhanced access to education is critical for broadening employment opportunities and reducing poverty. For Kenya to develop and create productive opportunities for our youth, primary and secondary education alone will not be enough. There is, therefore, the additional need for tertiary and vocational education and to upgrade our science and technology base. To this end, the Government will initiate support for middle level technical colleges in order to equip the youth with lifelong skills in such areas as building and engineering trade, craftsmanship, science and technology and entrepreneurial capabilities. In this regard, KShs.465 million has been allocated to cater for free tuition in accredited technical training and vocational colleges countrywide, starting January 2009. I expect all the youths to take advantage of this offer, acquire practical skills and contribute toward our nation building.

52. Mr. Speaker, through sports we are able to mobilize the youth for environmental conservation and other income generating activities. In this regard, starting 2008/09 and continuing over the medium term, the Government will expand and improve the accessibility of recreational sporting facilities to Kenyans. We will also initiate and make operational a national football competition countrywide in every Constituency, which will act as a mechanism to productively mobilize youth toward environmental and economic activities. I have, to this end, allocated KShs.1 million for each constituency for the purchase of sporting kits, including balls and uniforms to initiate community soccer competition. I also would like to urge private sector players to take more interest in community sports and support this initiative by sponsoring local tournaments.

53. Mr. Speaker, labour-intensive road construction and other works have been used to create employment opportunities not only in our country but also in a number of other developing countries. Through this Budget, we have allocated KShs4 billion to expand and make motorable various rural road networks under the labour-intensive methods. I have also allocated Ksh.900 million for the construction of the Garissa-Hola road to be constructed by the National Youth Service. The NYS will also be contracted to construct several dams and other waterworks across the country, which will also involve the local youth in the project areas. The implementation of these projects is expected to create thousands of jobs for youth, facilitate commerce and trade and improve the overall wellbeing of the rural people. The Government will, in addition, facilitate the establishment of youth eco-villages where young persons will participate in projects covering bee-keeping, tree planting for fuel and timber, supply of renewable energy and recycling of solid waste in urban areas. To make these projects operational, we will, in consultation with key stakeholders, propose a framework of funding such activities.

Creating Youth Employment through Expanded Trade

54. Mr. Speaker, we are yet to exploit fully Kenya's geographical endowments such as the port of Mombasa and its hinterland. In addition to reforms aimed at improving efficiency and competitiveness of our port, the Government will, in 2008/09, review the current guidelines on licensing of Container Freight Stations and initiate a process of establishing a Free Port at Dongo Kundu in Mombasa. The Free Port, which will be developed in partnership with the private sector, is expected to attract a large number of commercial tourists thereby generating downstream benefits, including employment opportunities in the hospitality industry. The Free Port should also facilitate the expansion of businesses by making readily available raw materials and inputs.

C. PROMOTING REGIONAL DEVELOPMENT AND REDUCING POVERTY

Reducing Poverty and Promoting Equitable Regional Development

55. Mr. Speaker, the third broad theme of this budget is on reducing poverty and addressing regional inequalities. The recent crisis brought to our attention many lessons concerning the underlying challenges we face as a country. This Grand Coalition Government now recognizes that allowing inequality to persist can negatively impact growth, threaten national unity and affect social stability. Part of our strategy to safeguard the prevailing peace and stability will involve narrowing the rural-urban and regional income gaps as well as disparities in employment,

incomes and productive assets through interventions, some of which I have already mentioned under the growth and employment sections.

56. Mr. Speaker, although the Constituency Development Fund was intended to ensure equitable development in all parts of our country, some regions are yet to benefit from these devolved funds due to governance related challenges. To improve effectiveness of devolved funds in achieving regional development, the Government will institute accountability measures and guidelines to reduce duplication and mainstream these funds to national development priorities. We will also follow up more closely on the funds channelled through the local authorities to ensure they improve on the lives of Wananchi at the local level.

Reducing General Prices to Improve Household Welfare

57. Mr. Speaker, the Government is very aware of the hardship Kenyans and especially the poor are experiencing as a result of higher food prices and which have raised the possibility of moving us away from the achieving the Millennium Development Goal of halving income poverty by 20015. **Mr. Speaker,** many of the causes behind the high food prices are beyond the control of the government and include: global climate change which has affected global food production; the intensified use of bio-fuel by advanced countries in response to the high price of fossil fuel; increasing cost of fertilizer and fuel, and the increase in incomes in emerging markets such as China and India, which have translated to increased demand for food worldwide.

58. Mr. Speaker, cognizant of the importance of food security for Kenyans, the Government has in the past few years made the agricultural sector one of the key sectors for development along with physical infrastructure, education and health. In addition, **Mr. Speaker,** in order to make food items affordable to wananchi, the Government has zero-rated VAT on wheat flour, milk and maize flour. To further cushion the poor against the rising cost of living, I will be proposing to zero rate VAT on bread and rice, and to reduce the import duty on wheat from 35% to 10%. In addition, maize imports for the SGR will be imported duty free and this should help dampen the pressure on maize prices. I expect the suppliers of those goods to pass the benefit to the consumers.

59. Furthermore, Mr. Speaker, some of the recent actions the government has undertaken should help ease the supply constraints. These, as Honourable Members are aware, include: (i) restoring peace and re-settling the internally displaced persons back into their farms; (ii) providing farm inputs such as seeds and fertilizers; and (iii) enhancing the Strategic Grain Reserve (SGR) by two million bags to increase supply of grain. The Government intends to increase the level of SGR from 4 million bags to 6 million bags in the next fiscal year and to 8 million bags over the next two years in order to enhance food security. The National Cereal and Produce Board will also play a pro-active role in sourcing fertilizer at competitive international price to help stabilize domestic prices. We are also in consultation with Uganda and Tanzania on setting up a regional fertilizer factory to ensure long-term sustainable supplies. In addition, resources have been allocated for various sectors such as agriculture, water and irrigation, infrastructures and security to reduce supply constraints, improve food production, and reduce distribution costs. It is expected that with measures to increase agricultural productivity, our farmers will take advantage of the high food prices to increase their production and thereby enhance our food security. Finally, **Mr. Speaker,** we have also set aside a total of Ksh.4 billion for the Civil Contingency Fund, drought relief and budget reserve to be used in case of emergencies.

60. Mr. Speaker, the Government is also aware that in order to increase farm production and enhance food supply in our country, we have to improve farm productivity, reduce and manage the cost of inputs such as fertilizer, and seeds to levels that are affordable to a majority of our farmers. Among the key initiatives we have taken is the provision of affordable credit to farmers. For instance, by the end of last year, a total of 25,000 farmers were awarded loans totalling over KShs.3 billion under the seasonal credit loans scheme. A further KShs.2 billion was disbursed under the enterprise loans scheme.

61. Mr. Speaker, a new Government initiative geared towards eradicating hunger and raising farm level productivity is the National Accelerated Agricultural Input Program or NAAFAP. This program has already yielded positive results leading to 36,000 farmers getting inputs in the form of fertilizer and seed. These farmers have subsequently managed to increase their maize productivity seven fold, from 4 bags per acre to 30 bags per acre, substantially improving household food security. In 2008/09, the Government will further expand the program to target 65,000 farmers...

62. In addition, **Mr. Speaker**, the Government has and will continue to strengthen the capacity of the agricultural extension services by employing extra technical staff and providing them with transport and other facilities so that they can reach more farmers. In this regard, I have allocated Ksh.744 million for agricultural extension services and research. The ministry of agriculture has initiated a process of making fertilizer available to farmers at affordable prices and the Kenya Seed Company will make seeds accessible to farmers at reasonable prices. To improve the welfare of rural farmers, the Government in collaboration with the local authorities will expand the wholesale fresh produce marketing infrastructure in Nairobi, Mombasa, Kisumu and Nakuru and other major urban centres. In the medium term, wholesale and retail markets will be established in all district headquarters countrywide to further promote business and encourage growth of agriculture.

Uplifting the Living Standards of People of Northern Kenya

63. Mr. Speaker, the ASAL region has lagged behind in development since independence despite its potential in such areas as agriculture, fisheries, livestock, mining, energy sources and tourism. As a result of the piece-meal approaches to ASAL development, the region has experienced increased poverty and insecurity, high dependency on relief, deterioration of infrastructure, and inadequate social services. **Mr. Speaker**, demonstrating the resolve of this Coalition Government to address the unique challenges of the northern part of our country, the Ministry of Northern Kenya has been established as a first step toward mainstreaming the aspiration of the people of this region into our national development agenda.

64. In going forward, **Mr. Speaker**, we have identified a number of interventions, which will be implemented to improve the living conditions the ASAL areas. These interventions, which will be executed by respective ministries but coordinated by the Ministry of Northern Kenya, include; rehabilitation and construction of roads, expanding supply of clean drinking water, establishing abattoirs and mini-tanneries, school feeding programs, rural electrification, and livestock support through mobile extension services. In 2008/09, KShs.2.4 billion has been allocated under respective ministries to finance these critical programs in northern Kenya. In addition to funds I have allocated under various votes, this Budget allocates KShs.900 million toward various

projects in Northern Kenya; KShs.900 million toward the construction of Garissa – Garsen – Hola Road, and another Kshs.200 million for the improvement of Marsabit and Maral water supply.

Promoting Development of Affordable Housing for Urban Poor

65. Mr. Speaker, most of the urban poor cannot afford descent housing due to high cost of housing in our urban areas. In order to facilitate faster development of affordable housing in Kenya, Government will introduce in this House the Housing Bill and a Landlord and Tenant Bill. We are also committed to making housing accessible and affordable to Kenyans. In this regard, the Government, in collaboration with private sector players will over the medium term construct about 200,000 low cost housing units annually using appropriate building technologies. The allocation of KShs.350 million in this Budget for the construction of low-cost housing using appropriate technology demonstrates the importance this Government attaches to the welfare of its low-income urban citizens. I have also allocated an additional KShs.500 million for the installation of physical and social infrastructure in slums in 20 urban areas spread throughout the country. **Mr. Speaker,** effort will also be made through the local authorities to expand access to low cost affordable housing countrywide in order to allow Kenyans to own their own houses.

Expanding Access to Water and Promoting Use of Irrigation

66. Mr, Speaker we have in the past grossly underutilised our irrigation potential and we need to address this to bring to an end the frequent food shortages and reduce pressure on food prices. The Government will therefore put additional investment in smallholder and large irrigation systems to measurably increase the amount of land under irrigation and expand agricultural output. To this end, Kshs.1 billion has been set aside to start the development of multi-purpose water dams. The Government will also in the course of the year table for debate the National Water Harvesting and Storage Policy to facilitate harnessing and storage of recurrent floodwaters as well as the National Shared Water Resources Policy to promote equitable development of water resources nationally.

67. Mr. Speaker, water shortage in urban areas and rural households is an issue of great concern and the Government remains fully committed to making water accessible to Kenyans. We will embark on an ambitious program aimed at lifting water off the women's back into the pipes countrywide to facilitate access to clean drinking water. This initiative, besides reducing time and energy wasted in fetching water, will also avail water resources for productive agriculture and other uses. The Water Resources Boards will also move quickly to invest more in water and sanitation systems including devising ways to harness rainwater and expand water supplies. The Government will also initiate the development of the 2nd Mzima Springs project to ensure sufficient water supply to Mombasa and its surroundings. To this end, this Budget, has increased allocations to the Ministry of Water and Irrigation by 26 percent for water and irrigation services, which will see improvements in water access to all Kenyans.

Environmental Conservation for Sustainable Development

68. Mr. speaker, recently we celebrated the World Environmental Day and the initiative to clean up Nairobi River by the Ministry of Environment and NEMA in partnership with stakeholders. As Hon Members are aware, environmental conservation is crucial for sustained growth and

development. To sustain our growth and development efforts, we must deal with the many environment related challenges such as destruction of water catchment areas, pollution of environment and rivers, and disposal of solid waste. I wish also to urge Hon Members and Kenyans at large to take a leading role on environmental conservation.

Promotion of Tourism

69. Mr. Speaker, the tourism sector was adversely affected by the recent crises. Promotion efforts by the Government are bearing fruits, and need to be sustained. It has the potential to support a broad range of actors, from hoteliers, transport, farmers, and our youth. I have accordingly allocated a further KShs.600 million towards tourism promotion by KTB in this budget. Overall, the budget for tourism is expected to increase by over 26% in FY 2008/09.

D. INVESTING IN KENYANS FOR EQUITY AND HIGHER PRODUCTIVITY

Improving Quality and Access to Education for all Schooling Children

70. Mr. Speaker, an educated and healthy workforce is a pre-requisite for any meaningful development. No country can develop to an upper middle-income level without serious investment in its people through education and health. Building on the progress we have made under the Free Primary Education, the Government went a step further early this year, to introduce a Free Secondary Education program to improve transition rate by making education accessible to children from poor families. To ensure that increased transition rates to secondary schools do not lead to congestion and lower quality education. This is an addition to the planned construction works finance through CDF countrywide. I have allocated KShs.280 million to build and equip new secondary schools countrywide. Further, we will continue to promote expansion of day schools and ensure that they offer quality education. I have also allocated KShs.1.56 billion toward the recruitment of additional teachers for both primary and secondary schools. The government will also work out the modalities of a teaching internship program, to utilize graduates of teaching colleges, before they are absorbed by the Teachers Service Commission. **Mr. Speaker**, we will continue to take steps to streamline the implementation of our free education programs based on experiences learned so far, in order to ensure the country derives maximum benefits from this investment.

Improving Access to Healthcare Services for all Kenyans

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

72. Mr. Speaker, despite the progress we have achieved in the health sector, we recognize that more needs to be done to further improve quality of these services in order to improve the health and productivity of our people. In this regard, the Government will review the Public Health Act so as to consolidate 23 different public health laws into a single Act of Parliament. We will also table in this House policy papers on Health Care Financing, Health Services Commission and Decentralized Funding of Health facilities. In addition to the reforms lined up for implementation in the sector, we will absorb the 600 nursing personnel currently in contract services under various donor supported health projects. We shall also employ through competitive recruitment, an additional 1,000 nurses, bringing the total number of nurses to be employed in 2008 to 1,600. **Mr. Speaker,** I expect the deployment of these nurses will improve considerably the services being provided in our healthcare facilities countrywide. In regard to improvement of medical supplies, the Government is currently fast-tracking procurement reforms under Kenya Medical Supplies Agency with a view to improving supplies of drugs and other medical supplies to facilities countrywide. An internship program for health staff is under consideration, to utilize the qualified staff who are yet to be absorbed into full time employment.

Reducing Vulnerability among Kenyans

73. Mr. Speaker, the Government established a KShs.1 billion Fund early this year to enable the internally displaced persons fully re-integrate into productive life. It is indeed very encouraging to note that Kenyans, and a few of our Development Partners heeded His Excellency's call and have supported this initiative by providing direct support in form of cash donations, seeds, fertilizers and farm implements, among others. Together with other interventions in agriculture, employment and security, we have allocated a further Kshs.0.5 billion to the Fund to help in the re-building and reconstruction efforts. This is in addition to other funding being channelled through relief agencies by our partners, details of which we will eventually table before this House.

74. Mr. Speaker, the 2008/09 Budget also takes care of the weak and vulnerable among us. Children under five, pregnant mothers and patients suffering HIV/AIDS, TB, and Malaria continue to receive free treatment and drugs in all our health facilities. We also now have a program that provides financial support to guardians of HIV/AIDS affected orphans. This initiative is expected to grow from 12,500 participating households to more than 30,000 this fiscal year. This Budget goes a step further, to allocate KShs.550 million toward the orphans and vulnerable children and elderly persons. With regard to the protection of the family and children, we shall introduce to this House further amendments to the Children's Act for better implementation.

III. FINANCIAL OUTTURN FOR 2007/08

75. Mr. Speaker, let me briefly update the Hon. Members on the financial outturn for 2007/08.

Revenues Outturn

76. Mr. Speaker, in the last budget for 2007/08, Hon. Members will recall that I estimated the total revenues (including LATF) at Ksh.428.9 billion comprising Ksh.389.2 billion in Ordinary Revenue and Ksh.39.6 billion in Appropriations-In-Aid. I am pleased to report that, despite the post-election challenges our country faced early this year, revenue growth remained robust and we now expect to exceed this target by KShs.19.9 billion. Arising from the strong performance

under the income taxes, we have revised the likely revenue outturn to KShs.448.8 billion, of which KShs.402.7 billion is ordinary revenue and KShs.46.1 billion is Appropriation-In-Aid.

77. I wish to thank the Kenyan taxpayers for their hard work in generating the revenue, and more importantly, their patriotism in paying their taxes.

Expenditure Outturn

78. **Mr. Speaker**, turning now to expenditures, the 2007/08 Printed Estimates indicated total Expenditure of KShs.693.6 billion including those financed through Appropriations-in-Aid. This consisted of KShs.154.2 billion for Consolidated Fund Services; KShs.337.8 billion for Ministerial Recurrent and KShs.201.7 billion for Development Expenditures.

79. **Mr. Speaker**, owing to unforeseen commitments and huge expenditure requirements on relief supplies, security, free secondary education, post elections related expenditures, among others, I recently requested Parliament to authorize additional expenditures under the 2007/08 Supplementary Estimates.

80. Hon. Members will recall that the Supplementary Estimates for financial year 2007/08 which they recently approved indicated a net increase of KShs.14.1 billion and KShs.7.5 billion for recurrent and development expenditures in that order.

Recurrent Expenditures

81. **Mr. Speaker**, the gross recurrent expenditures amounted to KShs.512.0 billion, of which KShs.43.0 billion was financed through user fees and duties collected and applied at source (Appropriations-in-Aid). Non-discretionary expenditures, which are financed directly from the Consolidated Fund Services, took a total of KShs.154.6 billion, while the discretionary recurrent expenditures took the remaining KShs. 357.4 billion.

82. **Mr. Speaker**, the revised allocation for Consolidated Fund Services for the fiscal year 2007/08 therefore consisted of KShs.41.6 billion for domestic interest; KShs.6.1 billion for foreign interest; KShs.25.6 billion for pensions, gratuities and other CFS payments. In addition, the revised Consolidated Fund Services also included KShs.64.6 billion and KShs.16.8 billion for financing external and domestic debt redemptions, respectively.

Development Expenditures

83. **Mr. Speaker**, the Supplementary Estimates for fiscal year 2007/08 indicated gross development expenditures amounting to KShs.209.2 billion, with KShs.39.7 billion being financed through loans; KShs.32.5 billion through grants and KShs.4.0 billion through local A-in-A. This left KShs.133.0 billion, which was to be financed directly through the Exchequer.

IV. FINANCIAL PROJECTIONS FOR 2008/09

84. **Mr. Speaker** let me now turn to the financial projections for forthcoming 2008/09 financial year. This Budget is the product of a lengthy, participatory and consultative process involving government, the public and other stakeholders. The process included the Sector Working Groups, which included the private sector and our development partners, and budget

submissions from Kenyans of all walks of life. I wish to thank all those who contributed to the process.

Revenue Forecast

85. Mr. Speaker, the total revenue target for fiscal year 2008/09 is KShs.512.8 billion or 21.4% of GDP, comprising of KSh.467.9 billion of Ordinary Revenue and KSh.44.8 billion of Appropriations-In-Aid. Revenues are thus projected to grow by KShs.63.9 billion, including growth in ordinary revenues of KShs.65.2 billion. The growth in projected ordinary revenue of 16.2 percent is based on the continuing successful implementation of reforms by the Kenya Revenue Authority and additional tax measures that I will be proposing today.

Expenditure Forecast

Recurrent Expenditure

86. Mr. Speaker, now turning to expenditures, Honourable Members will note from their copies of the Printed Estimates that gross recurrent expenditures for 2008/2009 are estimated at KShs.563.6 billion. This includes KShs.39.7 billion to be financed through Appropriations-In-Aid, and KShs.174.6 billion to be financed directly from the Consolidated Fund Services, thereby leaving a net of KShs.388.9 billion for discretionary expenditures. The Consolidated Fund Services comprise KShs.48.7 billion for domestic interest; KShs.7.2 billion for foreign interest; KShs.28.2 billion for pensions, gratuities and other CFS appropriations. In addition, I expect to finance internal and external redemptions amounting to KShs.67.9 billion and KShs.22.7 billion respectively.

Development Expenditure

87. Mr. Speaker, gross development expenditures for 2008/2009 is estimated at Kshs.196.2 billion. Out of this amount, KShs.52.6 billion will be financed through Appropriations-In-Aid, comprising of direct project financing of KShs.30.9 billion in loans and KShs.4.7 billion in local Appropriations-In-Aid. Consequently, I expect to finance net development expenditures amounting to KShs.143.6 billion from the Exchequer and this comprises of KShs.16.7 billion in grants, KShs.16.5 billion in loans and KShs.110.3 billion from Government of Kenya.

External Financing

88. Mr. Speaker, on external grants and loans, I have received confirmed commitments amounting to KShs.33.8 billion in grants and KShs.47.4 billion in loans to finance development projects. Details of the donors and projects being financed are included in your copy of the Development Estimates. I wish to sincerely thank those development partners who have pledged their support to our development efforts.

Deficit

89. Mr. Speaker, the overall fiscal deficit (including grants) in 2008/09 is projected to be KShs.127.0 billion (or 5.3 percent of GDP). Net external financing amounting to KShs.25.2 billion (or 1.1 percent of GDP) is expected to cover part of this budget deficit, leaving KShs.101.8 billion

(or 4.3 percent of GDP) to be financed through privatization proceeds estimated at KShs.8 billion (or 0.3 percent of GDP), the issuance of infrastructure bonds amounting to KShs.52.1 billion (with KShs.33.6 billion raised from sovereign bond and KShs.18.5 billion raised from domestic long-term bonds), and a net domestic borrowing of KShs.36 billion. **Mr. Speaker**, this means that the fiscal framework for 2008/09 is fully financed with no financing gap.

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

V. TAXATION AND OTHER MEASURES

Overview of the Proposed Tax Measures

91. Mr. Speaker, the rest of my speech outlines various tax measures I intend to propose through the Finance Bill 2008, and other regulations to be tabled in this House, toward the realization of our development objectives. I, therefore, **Mr. Speaker**, request that the remainder of my speech be regarded as a notice of a motion to be moved before the committee of ways and means.

The measures I intend to introduce hereunder are broadly grouped into four priority areas:

- Restoring growth and expanding economic opportunities;
- Further reducing poverty, and promoting equity and tax compliance; and
- Deepening reforms in the financial sector to make it more efficient in mobilizing savings for investments.
- Contribution to national development.

Restoring Growth and Expanding Economic Opportunities

92. Mr. Speaker, the specific measures I am proposing under this section are intended to complement the various initiatives I have already introduced in other parts of my speech. They are intended to facilitate private sector growth by promoting growth of transport, tourism, manufacturing and construction sectors as well as ICT development in our country.

93. Mr. Speaker, despite its important role in promoting tourism and regional trade, our national carrier, Kenya Airways has continued to face stiff competition within the region and internationally. While most countries zero-rate international air travel, in Kenya, international air travel is exempt and therefore the input tax is a cost to the airline. In line with international best practice and in recognition of the increased cost of air travel, I propose to zero rate VAT on the supply of international air travel in Kenya.

94. Mr. Speaker, as a result of high international oil prices and rising cost of transport, most wananchi in the rural areas have now resorted to using motorcycles as alternative modes of transport. This mode of transport, in addition to making it possible for our boda boda operators to graduate to a faster and comfortable means, has the potential to create wealth and employment

opportunities for our youth in rural areas. Therefore, to encourage wide use of these motorcycles, I propose to zero-rate VAT on motorcycles with engine capacity of up to 250 cc.

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

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

97. Mr. Speaker, in order to encourage growth of our industries to expand job opportunities, and make local goods affordable, I propose to reduce import duty on easy opening ends for cans used for food packing from 25% to 10%.

98. Mr. Speaker, to promote the growth of our building industry and to increase use of locally manufactured goods, I propose to impose a duty rate of 10% on: (i) Sodium Sulphate, which is manufactured from soda ash; (ii) Aluminium Sulphate, which is locally manufactured and used mostly in treatment of water; and (iii) epoxide resin used in paint and shoe industry.

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

100. Mr. Speaker, the ICT sector has emerged as a key driver of our growth and employment. To encourage investment in modern telecommunication equipment, enhance penetration levels, improve efficiency in our telecommunication network and reduce the cost of telecommunication, I further propose to remove import duty on telecommunication equipment.

101. Mr. Speaker, in line with our ICT strategy and in order to promote the development of the ICT industry, I propose to remove import duty on all printers, which are specifically used together with computers.

102. Mr. Speaker, under the Vision 2030 we commit to achieve a higher growth under a clean environment. To promote environmental conservation and improve cleanliness in our cities and towns, I propose to exempt import duty on trucks specially designed for garbage collection.

Reducing Poverty and Promoting Equity

103. Mr. Speaker, the Government recognizes fully the need to address high incidence of poverty and improve supply of basic foodstuff.

104. Mr. Speaker, as I mentioned earlier, Hon Members will recall that in the last two budgets, I zero-rated VAT on wheat flour, milk and maize flour, among other measures to reduce cost of living. In addition to these measures, I am going a step further to zero rate VAT on bread and

rice. **Mr. Speaker**, I expect the suppliers of these goods to also appreciate the hardship we are all facing and pass this benefit on to the consumers.

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

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

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

108. Mr. Speaker, last year I exempted from tax any monthly pension paid to senior citizens of 65 years and above. This positive gesture however, left out those senior citizens who may receive pensions in lump sum or at intervals other than monthly. To further make life comfortable to these important persons in our society, I propose to once again exempt lump sum pension paid to our senior citizens.

109. Mr. Speaker, the National Housing Corporation (NHC) has embarked on an ambitious program of putting up low cost housing to make houses affordable and accessible by the poor segment of the society. The targeted beneficiaries of this tenant purchase scheme, however, are not entitled to mortgage relief unlike other mortgage arrangements. To ensure equity and to encourage low income Kenyans to take advantage of the NHC scheme, I propose to provide for relief of interest on mortgage facilities provided by NHC up to a maximum of Kshs.150,000 per annum.

110. Mr. Speaker, we continue to recognize the need to allow married women to declare their own income separately from sources such as employment and professional services. In order to further grant women their own right as taxpayers, I propose to allow such women to also declare income they have earned from sources such as interest and rent, which previously had to be declared by their husbands.

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

112. Mr. Speaker, presently an employer can lodge a dispute only on penalties and interest arising from failure to adhere to the PAYE regulation. An employer, however, cannot lodge dispute on the principal tax assessed. To address this inequity and create a cost-effective avenue for redress, I propose to allow employer, who is aggrieved by any decision of the Commissioner regarding the operations of PAYE, to lodge an appeal with the Local Committee.

113. Mr. Speaker, a large proportion of the current debt portfolio owed to KRA comprises of interest and penalties. In order to arrest further escalation of these debts and create certainty in our tax system, consistent with the in duplum rule in the banking sector, I propose to restrict interest and penalties to no more than one hundred per cent of the principal tax due.

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

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

Enhancing Financial Sector Reforms

Strengthening the Banking Sector to Mobilize Savings for Development

116. Mr. Speaker, In order to widen the scope of monetary policy instruments for regulating the liquidity in the money markets, I propose to allow Central Bank to issue Bank Bills and take time deposit placements by commercial banks. These new instruments, together with the existing Repurchase Agreement (REPO) will give the Central Bank the flexibility and the muscle to deal with the current inflationary pressures through better management of liquidity in the economy.

117. Mr. Speaker, some foreign exchange bureaux, although licensed by the Central Bank, breach the Central Bank Act or the foreign bureaux exchange guidelines. In order to give the Central Bank an additional instrument for dealing with errant foreign exchange bureaux, I propose to empower the Bank to prescribe penalties to be paid by authorized dealers who fail or refuse to comply with any of its statutory guidelines issued by it.

118. Mr. Speaker, the Vision 2030 envisages a vibrant and globally competitive financial sector, driving high levels of savings and financing our investment needs. To achieve these measures, it is necessary to carry out a number of reforms including reforming the banking sector to facilitate the transformation of the large number of small banks in our economy to fewer, larger and stronger banks. To this end, I propose to amend the Banking Act to raise the minimum core capital requirement for banks and mortgage financial institutions from the current Kshs.250 million and Kshs.200 million respectively to Kshs.1 billion over a period of two years.

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

120. Mr. Speaker, institutions licensed under the Banking Act, do from time to time, accumulate funds or other financial assets, which for one reason or another, have not been claimed by their customers or depositors. The funds or assets finally remain with the institutions while the beneficiary continues to suffer. In order to address these challenges, I have constituted a taskforce consisting of stakeholders in the financial sector to look into the matter with a view to establishing the magnitude of the unclaimed financial assets currently being held by these institutions, and propose the way forward including the amendment of relevant laws to ensure these unclaimed financial assets are in safe hands and the beneficiaries are paid when they resurface.

Strengthening the Insurance Industry to Support Growth

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

122. Mr. Speaker, some insurance companies take too long to pay or in some cases do not pay claims submitted by the insured person even when the Court has ruled in favour of the insured. To take action on such insurance companies, I propose to empower the Commissioner of Insurance to levy a penalty of 5% of the amount awarded by the court if the claim is not paid after ninety days. To further deter the habit of failure to honour such claims, I propose to give more powers to the Commissioner to initiate the process of winding up of such insurance company in the event that the company fails to pay both the awarded amount and the penalty within the stipulated period.

123. Mr. Speaker, the local annuities Market is not very competitive due to lack of adequate information, thus making it difficult for retirees to identify good annuity providers. In order to increase competition for the annuity market, I propose to provide for pension schemes to have an

income draw down as an alternative to annuities subject to a minimum draw down period of 10 years. I further propose to introduce a requirement on annuity providers to publish on quarterly basis information on annuity products and rates in the print media. This will go a long way in helping retirees to choose an annuity provider with better returns.

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

125. Mr. Speaker, the current requirement for fully paid up share capital of Kshs.10 million for the corporate trustee of an individual retirement benefits scheme has so far proved to be a hindrance to the establishment of these schemes. In order to encourage the establishment of individual retirement benefits schemes, which serve a key role in increasing coverage, especially in the informal and self-employed sectors, I propose to allow for a paid up Share Capital of Kshs.10 million, inclusive of unimpaired reserves, as is the case for fund managers and administrators.

Deepening Capital Market Development for Faster Growth

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

127. Mr. Speaker, in order to strengthen corporate governance and safeguard public interests in the Capital Markets industry, I intend to introduce greater professionalism and accountability for fiduciary obligations imposed on directors and senior managers of stock brokers, investment banks and fund managers. To this end, I propose to bar any person who controls directly or indirectly 25% of issued share capital among other things, from holding a management position in that company. In the same spirit, **Mr. Speaker,** I propose further to introduce a 25% maximum cap shareholding and control of the specified licensed persons with a three (3) years transition period for existing licensees to comply.

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

129. Mr. Speaker, currently, the paid up Share Capital for Stockbrokers and Investment Banks is Kshs.5 million and Kshs.30 million, respectively. To adequately capitalize these institutions to

reflect their turnover levels, I propose to increase the paid up Share Capital requirement to Kshs.50 million and Kshs.250 million for stockbrokers and investment banks, respectively, within three years.

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

131. Mr. Speaker, last year I exempted from stamp duty on the transfer of a family property to a limited liability company whose shares are wholly owned by the family to encourage consolidation of family property. This year, **Mr. Speaker**, I am going a step further to exempt from stamp duty the instruments used for the transfer of property to a listed property investment vehicle. This measure is expected to further encourage voluntary land consolidation and encourage non-productive use of land.

132. Mr. Speaker, in order to facilitate a more cost effective means by which listed companies can communicate with their shareholders, I propose the amendment of the Company Act in order to provide listed companies the option to publish in at least two of the local dailies and on at least two days, the notice calling the Annual General Meeting, a summary of the Annual Statement and auditors report. The amendment will also allow for publication and circulation of information in electronic form when calling for Annual General Meetings.

Contribution to National Development

133. Mr. Speaker, last year I proposed changes to our cigarette excise regime from Retail Selling Price (RSP-based) to product characteristics in order to bring into the tax net all imported cigarettes. In view of the current inflationary pressures, the RSP-based regime restricts free adjustments of prices. In order to address the challenges associated with imported cigarettes and to move the current price-based practice to one based on product characteristics practice, I propose to introduce a hybrid of RSP-based and characteristics-based excise regime for cigarettes. This will enable the industry players to make the necessary adjustments to eventually move to the characteristic based regime.

134. In addition, Mr. Speaker, in support of the priority programs we plan to implement, I propose to allow cigarette smokers to be proud Kenyans by making additional token contribution, averaging only KShs.7 per packet toward development. In this regard, the new rates applicable for categories, A, B, C and D will be KShs.700; KShs.1,200; KShs1,500 and KShs.2,500 per mile, respectively. **Mr. Speaker**, I expect to collect an additional KShs.1 billion from this adjustment.

135. Mr. Speaker, Hon members will recall that last year, I increased the excise tax payable on malt-beer by only KShs.2 per litre, or an equivalent of KShs.1 per bottle of beer. Following this insignificant adjustment, the industry immediately advertised a price adjustment of KShs.5 per bottle, translating to a net gain to the industry of Ksh.4 per bottle. To recoup part of this gain made by the industry to finance priority program in this budget, I propose to increase the excise

tax on malt beer by a modest amount of Ksh.4 per litre, which will bring the rate on these beers in line with rates applicable on stouts.

136. Further, Mr. Speaker, to ensure equity in the beer taxation and avoid down-trading to non-malt beer, I propose to increase, as a first step, the excise rate on non-malt beer by KShs.10 per litre, from KShs.26 per litre to KShs.36 per litre. However, to mitigate the effects of reduced supplies of locally produced barley, I am in consultation with my colleagues in EAC to reduce the duty rate applicable to imported barley. I expect the excise tax to generate additional KShs1.1 billion to the Exchequer.

137. Mr. Speaker, in line with best international practices and to ensure simplicity and equity in the excise taxation of portable spirits and wines, I propose to introduce a regime based on alcohol strength by volume, popularly referred to as abv. This regime translates the current rates applicable on portable wines and spirits to KShs.7 per 1% alcohol. For instance, **Mr. Speaker,** if a bottle of whisky is labeled 40% alcohol, and its quantity measures 1 litre, tax payable will now be KShs.7 x 40 x 1, which amounts to KShs.280.

The excise measures will take effect from midnight today.

138. Mr. Speaker, the tough time the country is facing calls for extra sacrifice by all Kenyans of goodwill. While I must salute majority of our citizens who, in spite of their meagre resources, continue to support the country by paying their fair share of taxes, we as leaders need to go an extra mile to demonstrate leadership by example. Indeed, a running theme of this Budget is reducing inequality among Kenyans. To this end, **Mr. Speaker,** I propose to amend the law to make allowances paid to members of the August House and the constitutional office holders, taxable.

VI CONCLUSION

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

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

Mr. Speaker, we have proved to ourselves that we can turn around our economy. The underlying fundamentals are still strong. We have now found peace, and with our joint resolve to move forward together under The Grand Coalition Government, we can ensure stability of our

country. I believe that we can recover and return to the high growth momentum we have registered in the last few years. This we must do for the sake of our country, our region, and our posterity.

Mr. Speaker, I beg to move.