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Budget Statement

For the

Fiscal Year 2012/2013

(1st July – 30th June)

by

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Minister for Finance

14th June 2012

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BUDGET STATEMENT DELIVERED TO THE NATIONAL ASSEMBLY ON 14TH JUNE, 2012, BY HON. ROBINSON NJERU GITHAE, EGH, M.P., MINISTER FOR FINANCE, REPUBLIC OF KENYA, WHEN PRESENTING THE BUDGET FOR FISCAL YEAR 2012/2013

1ST JULY, 2012 TO 30TH JUNE, 2013

Mr. Speaker Sir,

I rise to present the Budget Statement for the fiscal year 2012/13.

I: INTRODUCTION

1. **Mr. Speaker**, it is my privilege and honour to present to this August House my first Budget Statement since becoming the Minister for Finance. May I, at the onset, take this early opportunity to thank His Excellency the President for the trust he has bestowed on me to spearhead the management of economic policy of our beloved country. I am equally indebted to the Rt. Hon Prime Minister, the Vice President, Speaker, Cabinet colleagues and Hon Members of Parliament for their wise guidance and continued support to the Treasury.

2. **Mr. Speaker**, this FY2012/13 Budget is the last one that will be presented to this House during the tenure of Hon Mwai Kibaki as the President of the Republic of Kenya. It is, therefore, instructive to reflect very briefly on the achievements that the Government has made in delivering its priorities since 2003 when he assumed the leadership of this Nation. As outlined during His Excellency's State of Nation Address on 24th April 2012, President Kibaki's Administration over the 2003 – 2007 period and subsequently the Grand Coalition Government has implemented several bold economic policies and structural reforms that have significantly improved the welfare of Kenyans.

3. Let me highlight some of the key notable achievements. These include, among others:

- i. Economic recovery with real GDP growth rising from as low of 0.8 percent in 2002 to 7 percent in 2007. The domestic and external shocks of 2008 and 2009 adversely affected growth, but following return of peace in the country, our economy rebounded in 2010 and remained resilient in 2011 despite the challenges we went through. We now project a growth of 5.2 percent in 2012;
- ii. Increased the number of children going to school under the free primary education programme from 5.9 million in 2003 to 10 million;
- iii. Provided tuition fee for 2 million more in secondary schools and increased by three-fold the number of students in university;

- iv. Increased the number of people accessing ARV drugs to 350,000, up from just 10,000 in 2003; and distributed close to 20 million mosquito nets forestalling a malaria endemic;
- v. Tarmacked over 2,700 kilometres of roads, rehabilitated over 4,000 kilometres of road and connected to the electric grid 1.7 million Kenyans, up from 700,000 in 2002;
- vi. Disbursed over Ksh.100 billion under CDF, which financed construction of over 1,000 health centres, 10,000 classrooms, numerous roads, security posts as well as water and fish projects throughout the country;
- vii. Introduced the Women and Youth Enterprise Funds, SME Fund and Agri-Business Fund to provide affordable credit accessible to women, youth and other small business enterprises and expand employment; and
- viii. Revived and expanded irrigation projects throughout the ASAL areas to secure food security.

4. **Mr. Speaker**, with the foundation firmly laid, supported by a new constitutional dispensation providing for a devolved system of government, the President has given us the challenge to sustain the Vision of our country of attaining a higher income status by 2030. Going forward, we should strive to build on this legacy to transform and modernize our Nation, create jobs for our people and significantly reduce poverty. In this context, I have, therefore, chosen the theme of this year's budget as "**Deepening our Economic and Social Prosperity within a System of Devolved Government**".

5. **Mr. Speaker**, we have, without any doubt, achieved much progress but the journey has just begun, and there are challenges that lie ahead, which we must work together to deal with, both at domestic and global levels. We continue to face exogenous shocks associated with climate change and volatility in international oil and other commodity prices and worse still the global economic outlook, in the medium term, is expected to remain fragile. But, **Mr. Speaker**, we must rise to the challenge and courageously confront them - and we must confront them with bold and pragmatic policies.

6. **Mr. Speaker**, through this budget we are responding to these challenges by implementing a number of economic policies and structural reform measures. **First**, we are strengthening our financial systems by implementing further legislative and institutional reforms to keep the global crisis and uncertainty at bay. **Second**, we are scaling up infrastructure investments as the building blocks needed to achieve a more lasting and stable growth; and **third**, we are making growth and development more inclusive and equitable across counties by investing in our people. We are also renewing our commitment to progressively deliver on the constitutionally mandated economic and social rights, including implementing measures to ensure food security and protection of the vulnerable members of our society.

7. **Mr. Speaker**, we acknowledge that accelerating and sustain inclusive and equitable growth for prosperity requires tough choices, hard work, and determination by all Kenyans. It

goes beyond not just identifying hurdles to progress and proposing solutions, but also rolling up our sleeves and working together across the political divide to make painful decisions and implement sensible economic reforms. As Kenyans, we all shoulder the responsibility to build a better and prosperous Kenya in order to achieve a common future we all desire.

8. **Mr. Speaker**, through this budget we recognize that for us to engage the youth in gainful employment and put a meaningful dent on poverty we have to grow our economy uninterrupted for many years and it has to be inclusive growth. To do this, we have to continue investing in infrastructure; provide quality education and healthcare, deepen reforms in the public service to enhance efficiency and effectiveness; improve competitiveness by removing regulatory burdens on small businesses; and deepen regional integration.

9. So, **Mr. Speaker**, this year's Budget takes into account the principles of public finance as specified in the Constitution. The proposed budget is intended to continue stabilizing the economy and sustaining the growth momentum, going forward. Accordingly, it will be necessary to:

- i. accelerate growth even in the face of difficult domestic and global environment;
- ii. invest in infrastructure, especially in roads, energy, railways, and ports;
- iii. improve law and order to ensure security for our people and uphold property rights;
- iv. reform the public service to make it efficient and effective in service delivery and facilitate private sector growth;
- v. provide adequate resources for priority social programmes in education and health;
- vi. promote equitable rural development and invest in agriculture to assure food security;
- vii. provide adequate resources for implementation of the Constitution; and,
- viii. set aside adequate resources for the General Elections.

10. **Mr. Speaker**, to achieve all these objectives and still stay within a sound fiscal framework is not easy, but we must confront our challenges boldly and within our means. We have to do more with the limited resources at our disposal, and, therefore, we have to work smarter and harder, as well as capitalise on our resilience and opportunities to move our country forward to prosperity.

II: RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

Global Environment

11. **Mr. Speaker**, due to continued global challenges, the world economy is now projected to grow by 3.5 percent and 4.1 percent in 2012 and 2013, respectively. The advanced economies are projected to grow at a sluggish pace, averaging 1.7 percent over the same period, while the developing countries of Asia and sub-Saharan Africa are expected to continue with a robust growth, averaging 7.6 percent and 5.4 percent, respectively. The sovereign debt crisis in the Euro area and sluggish recovery in the US and other advanced economies pose significant risks to the global economic outlook

Domestic Economy

12. **Mr. Speaker**, as Hon Members may recall that 2008 was a difficult year but after implementing appropriate and bold policies, we emerged strong with the real GDP expanding from the low of 1.6 percent to 5.8 percent in 2010. This broad-based growth momentum was, however, slowed down to 4.4 percent by challenges related to high commodity prices in 2011.

13. **Mr. Speaker**, addressing the inflationary pressures and containing the depreciation of the shilling exchange rate has been a challenge this year. However, following a tightening of both monetary and fiscal policies and the easing of food and international oil prices, these pressures have eased significantly. We, therefore, expect inflation to continue to decline, which should support lower interest rates and measures will be put in place to ensure the stability of the shilling, going forward.

14. Looking ahead, **Mr. Speaker**, the economic prospects for 2012 are favourable, but risks remain. Real GDP is expected to grow by 5.2 percent in 2012. Over the medium term, growth is expected to pick up to about 6.0 percent, bolstered by continued expansion in agriculture, tourism, construction, transport and communication, and ICT. While exports will continue to benefit from the relatively strong growth in the sub region and emerging economies of India, Brazil, China and Eastern Europe, new measures will be introduced to diversify and promote Kenya's exports globally, especially export of services.

15. **Mr. Speaker**, whereas the projected growth is still below the target envisioned in Vision 2030 and below the rate needed to significantly reduce poverty and draw more youth to employment, we recognize that further up-scaling would require mobilizing larger amounts of resources, raising factor productivity, and moving to a higher value-added and more efficient production structure to increase export growth.

16. **Mr. Speaker**, given the limited public resources at our disposal, we will rely on the private sector to meet the economy's resource requirements while we provide the appropriate market environment to promote efficiency. To achieve this, the Government will sustain macroeconomic stability, undertake further structural reforms to improve efficiency in public service, enhance private sector access to credit through further reforms of the financial

sector, and increase private sector participation in infrastructure development under a robust private-public-partnership (PPP) agenda.

Deviation from 2012 BPS—Revision to Ceilings, Savings and Reprioritization

17. Hon. Members will recall that when we submitted the 2012 Budget Policy Statement in April this year, we had indicated that the baseline ceilings therein had not taken into account the additional spending proposals that were under consideration. The 2012/13 Budget Estimates now include about Ksh.50 billion as additional to the ceilings initially allocated to the ministries. These additional expenditures relate to:

- Implementation of the new Constitution covering proposals not accommodated within the baseline ceilings;
- Strategic intervention in the area of:
 - education and health, especially recruitment of teachers and nurses;
 - Infrastructure covering urban commuter railway upgrade and rural/feeder roads;
 - Security, particularly recruitment of additional security personnel; and
 - Agriculture, especially irrigation programmes and other food security programmes.
- Specific consideration to job creation for the youth based on sound initiatives identified within and outside the normal budget preparation; and
- Interventions identified during the county stakeholders consultation for 2012 MTEF budget.

18. **Mr. Speaker**, to accommodate these additional expenditures, we rationalized ministerial proposals to realize savings, including using Ksh.15.1 billion that had been set aside for the contribution to civil service pension scheme, which is now expected to be effective beginning July 2013. In addition, we expect additional resources from African Mission in Somalia (AMISOM) to accommodate increased expenditure of the Defence budget. And finally additional room arose with the firming up of the resource envelope.

19. **Mr. Speaker**, with these adjustments and the Parliament's recommendations on the Budget Policy Statement, we prepared Estimates of Expenditures which we submitted to this House on 26th April, 2012 in accordance with the Constitution. **Mr. speaker**, I wish to thank Hon Members and especially the Parliamentary Budget Committee for the comprehensive review of estimates, recommendations thereof and insightful debate. I want to assure Hon Members that we shall review and consider these recommendations as we finalize the Appropriation Bill.

III: FACILITATING THE PRIVATE SECTOR FOR SUSTAINED GROWTH AND EMPLOYMENT CREATION

20. **Mr. Speaker**, as I have already stated, the Government will facilitate the private sector as the key drive of growth and employment by, among other measures: (i) safeguarding macroeconomic stability; (ii) continuing with investment in infrastructure development; (iii) undertaking further financial sector reforms; (iv) enhancing investment in security; (v) deepening structural reforms, including rationalization of the public service; and (vi) expanding markets through regional integration.

Safeguarding Macroeconomic Stability

21. **Mr. Speaker**, as I had indicated earlier, despite challenges of 2011, our economy has stabilized and inflation has declined steadily since November 2011. This follows coordinated monetary and fiscal policies actions taken by the Central Bank and the Ministry of Finance to contain inflation and exchange rate pressures. The economy is now set on a sustained path of higher growth in the medium term.

22. Going forward, **Mr. Speaker**, we expect that the supply-side driven pressures on prices and the exchange rate will subside in line with the gradual fall in global oil prices and ample supply of food arising from the ongoing rains and expanded irrigation program. This should also reduce the demand pressure on imports and the current account.

23. The CBKs' monetary policy will be geared towards bringing down inflation to single digit level within a few months' time and thereafter be kept stable at around the 5 percent target over the medium term. **Mr. Speaker**, in line with Section 4 of the CBK Act, I will shortly be writing to the CBK's Monetary Policy Committee to pursue the proposed inflation target of 5 percent with an upper bound of 7 percent by end of June 2013.

24. **Mr. Speaker**, with the recent decline in interest rates, we do not expect any further volatility to happen, but care will be taken to ensure credit to support productive economic activities remains available. We will also continue to maintain a flexible exchange rate system with the CBK intervening only to smoothen out short term erratic movements in the Shilling exchange rate that do not reflect market fundamentals and to achieve its international reserves target.

Continuing with Investment in Infrastructure

25. **Mr. Speaker**, accelerated development of high quality public investments such as roads, energy, railways, port and water supplies is essential to sustain faster economic growth, open up economic opportunities for households and hasten regional economic convergence and equity. For this reason the Government will continue to provide substantial resources toward infrastructure development. To this end, I have in this budget a total of Ksh 268.1 billion for various infrastructure projects, including roads, energy, rail, and ports:

- *Roads* -- we are continuing to improve the general conditions of our highways, urban and rural roads. The overall budget for the Ministry of Roads is Ksh.123.6 billion, up from Ksh.104.3 billion in FY 2011/12;
- *Energy* – for reliable and affordable energy to sustain economic growth, the Ministry of Energy has been allocated Ksh.79.9 billion, up from Ksh.57.5 billion in 2011/12;
- *Urban Commuter Rail System* – to continue with the programme to modernize commuter railway started two years ago, I have allocated Ksh.1.45 billion toward completion of the line linking the Airport to Central Railway Station. This first phase of our commuter rail upgrade project will enable our international guests and city residents commuting through Mombasa road to access a faster and affordable and more comfortable commuter rail services.

26. **Mr. Speaker**, despite huge resources dedicated toward infrastructure projects, their implementation continues to face challenges. To overcome these past legacies, the Government will develop and institutionalize a framework for efficient and effective planning and management of public sector investment projects.

27. **Mr. Speaker**, we expect that with the new Private-Public Partnerships legislation that will be shortly introduced before this House, private sector participation in provision of infrastructure will increase, thus resulting in improved infrastructure coverage and reduction in cost of doing business.

Financial Sector Reforms

28. **Mr. Speaker**, strengthening financial sector regulations and coordinated supervision within and across the border is critical to building effective firewalls necessary for achieving durable and stable growth. We need a stable and efficient financial sector that serves businesses and households by making credit available and at affordable interest rates in order to create the much needed jobs. To this end, we will make the following interventions, among other:

- **First**, implement consolidated supervision to enhance oversight of banks with cross border operations. This will hinge on information sharing and co-ordination between the CBK and other regulators, particularly in the region where Kenyan banks are expanding their footprints;
- **Second**, expand credit information sharing mechanism to include various credit providers beyond banks such as credit-only microfinance institutions and SACCOs. This will enhance credit risk management in banks and other credit providers;
- **Third**, expand supervisory procedures to ensure full monitoring of financial business driven by bank agents under the newly introduced agency-banking model and through the use of mobile banking

- **Fourth**, developing a robust legal framework for the supervision of Development Finance Institution (DFIs), such as the Agricultural Finance Corporation, Kenya Industrial Estates, IDB, ICDC, and KTDC. A new DFI Bill is currently being developed to facilitate reforms in this sub-sector; and
- **Fifth**, implement further reforms of the Proceeds of Crime and Anti-Money Laundering Act of 2009 to seal any loopholes and include transactions under other financial sector players, especially those in the insurance and capital market.

29. **Mr. Speaker**, to further strengthen the supervisory capacity, safeguard stability and enhance efficiency of the financial sector regulators, the Government will shortly commence a process to establish a consolidated financial sector regulatory framework bringing together the Capital Markets Authority, Insurance Regulatory Authority and Retirement Benefits Authority. Similarly, the Banking Supervision Department will be re-established as an entity under a reviewed CBK Act with a clear mechanism allowing for coordinated and effective financial sector supervision.

Improvement in Security

30. **Mr. Speaker**, security, effective enforcement of law and order and protection of property are crucial for stability, accelerated growth and employment. For this reason, I have enhanced the budget allocation for the National Security sector from Ksh.78 billion in 2011/12 to Ksh.83.5 billion in 2012/13 to respond to external related security challenges.

31. Internally, **Mr. Speaker**, we are equally enhancing the policing capacity to stem any security threats. To this end, I have allocated Ksh.65.9 billion to the Internal Security Ministry. This includes Ksh.1.4 billion toward purchase of motor vehicles to enhance police response and patrol. I have further, **Mr. Speaker**, allocated Ksh.2.5 billion for recruitment of additional 3,500 police officers and also provided Ksh.300 million for setting up the National Police Service Commission and the Independent Oversight Police Authority in order to enhance efficiency, effectiveness and accountability of the police force.

Improving Competitiveness and Removing Regulatory Burdens

32. **Mr. Speaker**, improving efficiency and increasing total factor productivity is critical to achieving a high level of competitiveness which is critical for sustainable growth and development in our country. Therefore, the government through this budget reiterates its commitment to deepening structural reforms in order to improve efficiency and effectiveness in public service delivery.

33. **Mr. Speaker**, partly to remove bureaucratic inefficiencies and functional overlaps in the public service, the Constitution limits the size of the Executive, Legislature, Supreme Court, County Government, Commissions and Independent offices. It also re-constitutes the Public and Parliamentary Service Commissions and establishes the Judicial Service Commission, among other initiatives in order to institutionalize high level of professionalism, performance and fairness in the public service.

34. **Mr. Speaker**, I expect, therefore, in the spirit of fairness, that these three Commissions working with the Salaries and Remuneration Commission (SRC) shall ensure equity in workload, remuneration, performance and accountability across the entire public sector. In particular the SRC will develop criteria, which, when applied will ensure salary remuneration reflect productivity and thus promote competitiveness.

35. **Mr. Speaker**, every effort must equally be expended to rationalize, consolidate and possibly limit the size of state corporations, regulatory agencies and research and training institutions in order to transform them into more effective bodies to facilitate efficient service delivery. This way, we shall forestall tendencies by government agencies to indirectly expand the public sector.

36. **Mr. Speaker**, in the continued recognition of the catalytic role of small and medium size businesses, the government will deepen business regulatory reforms, enhance access to credit, facilitate capacity building, extend preferential treatment in public tenders, and simplify and modernize the regulatory regime for them in order to amplify their multiplier effect on employment opportunities and accelerate growth.

37. **Mr. Speaker**, we are also strengthening the legislative framework to further create predictable and enabling business environment. In this regard, the government will be tabling shortly all outstanding business enabling bills. Therefore, I urge the Hon Members to accord these bills priority when they are tabled before the House.

38. In addition to these reforms, **Mr. Speaker**, we will implement measures to improve electronic filing of documents at the Lands Registry, the Companies Registry and other key agencies involved in business registration. All these efforts should reduce the cost of doing business and improve Kenya's Rating on Doing Business index, thus positioning our country as a preferred investment destination.

39. **Mr. Speaker**, through this budget we reaffirm our commitment to implementing the single window platform to facilitate faster and efficient clearance of cargo. To complement these efforts, the Government will shortly commence a process to rationalize and consolidate all existing cargo related standard enforcement agencies into one single entity. This will reduce bureaucratic inefficiency in cargo clearance.

40. Further, **Mr. Speaker**, the East African Community Common Market Protocol establishes a single customs territory to facilitate free movement of goods in the region. Therefore, **Mr. Speaker**, to realign the operations of our Customs with this Protocol and to mainstream its critical role of trade facilitation and border controls, the Kenya Revenue Authority will be rationalized with a view to establishing the Customs Services as an autonomous entity on its own.

Deepening Regional Integration and Export Promotion

41. **Mr. Speaker**, Kenya and the EAC region can ill afford the high costs associated with delays occasioned by weighbridges and road blocks along the northern corridor, which serves our landlocked neighbouring countries of Uganda, Rwanda and DRC. Accordingly, and to facilitate trade and position Mombasa as a regional port, the Government will review relevant regulations and guidelines to ensure that by December 2012 all weighbridges are relocated to ports of entry and all road blocks are either removed or reduced to a bare minimum.

42. **Mr. Speaker**, while significant progress in integration has been achieved under the East Africa Community, there is much potential for expanded trade and investment in the COMESA and the rest of Africa. The Government will finalize a Trade Promotion Strategy whose implementation will expand and diversify exports. In this regard, particular attention will be put on high value primary products such as macadamia and cashew nuts that have shown excellent prospects in the export markets.

43. In addition, **Mr. Speaker**, resources will be provided toward investment in infrastructure to facilitate export of services in the oil sector from the region, attract petroleum related industries and establishment of transshipment. I have also allocated resources to diversify and promote indigenous exports so as to bolster the source of livelihood of many Kenyans in various regions.

44. Further, **Mr. Speaker**, the Government will continue with the collaborative infrastructure investment, and remove inefficient customs procedures including complicated rules of origin and other non-tariff barriers, in line with the existing Protocols.

IV: INVESTING IN PEOPLE AND SUSTAINING LONG TERM DEVELOPMENT

45. **Mr. Speaker**, having outlined specific measures we are implementing through this budget to facilitate the private sector as the key driver of growth and employment, I now turn to measures we plan to take to make growth inclusive, equitable, and more durable. This means continued investment in people's education and health as well as rural development and food security. Therefore, **Mr. Speaker**, the priority sectors, such as education, health, social safety nets, agriculture and rural development, drought mitigation and management and disaster response, Constitutional implementation, and funding the general election, will continue to receive adequate resources. And through this budget we are reaffirming this commitment.

Continuing with Investment in Education

46. **Mr. Speaker**, medium-term priorities in education spending include catering for expanded enrolment at all levels of education and training through increased infrastructure and teaching staff. This intervention will help improve access and ensure quality education. **Mr. Speaker**, to this end, an additional Ksh.19.2 billion has been allocated to education in FY

2012/13, raising the total allocation by 9 percent to reach Ksh.233.1 billion in FY 2012/13. Key budgetary allocations to the sector include:

- Ksh.118.7 billion to cater for teachers salaries including recruitment of additional 10,000 teachers in the next financial year;
- Ksh.8.1 billion for development of infrastructure and facilities in public universities;
- Ksh.480 million for purchase of computers for schools;
- Ksh.1.6 billion for support to Early Childhood Development, including employment of pre-primary teachers;
- Ksh.1.9 billion for building classrooms and improving physical facilities in primary and secondary schools;
- Ksh.8.3 billion for free primary education; and
- Ksh.19.7 billion for free day secondary education.

47. Hon. Members are aware that we acted swiftly to put in place a safety net to cushion the poor households against further suffering during the 2011/12 budget. To continue with this support, we have allocated an additional Ksh.1.1 billion for the bursary program to cater for bright orphans and children from poor households in secondary schools throughout the country. I have also allocated Ksh.300 million toward provision of sanitary towels for girls from poor families in primary schools. Once again I urge Hon. Members and Kenyans at large to be fully involved to strictly ensure only deserving orphaned, poor and needy children benefit from these interventions.

Provision of Quality Health Care

48. **Mr. Speaker**, our goal in the medium-term is to provide equitable and affordable health care to all Kenyan citizens. While good progress has been made over the years in terms of reduced mortality rates, the sector still faces challenges, which include inadequate infrastructure, qualified health personnel, and medicines and medical supplies. **Mr. Speaker**, to further expand access to quality health care services, an additional Ksh.12.3 billion has been allocated, raising the total allocation by 16.9 percent to reach Ksh.85 billion in FY 2012/13. The additional resources will facilitate:

- Employment of 5,200 health workers. This includes the recruitment of 715 doctors who completed their internship in March this year and a further 200 doctors to be recruited from the market. I urge the concerned ministries to ensure equitable deployment of these doctors across the county;
- Implementation of the second phase of allowances for health workers;
- Construction of health centres and hospitals;

- Purchase of essential medical supplies, including ARV's, malaria and TB medicines and crucial medical equipments; and
- Eradicating preventable diseases at constituency level.

49. In addition, **Mr. Speaker**, we have given priority to scaling up the implementation of interventions aimed at enhancing the equitability of access to public health and sanitation services. Such measures will include: improving immunization coverage for children, ensuring that most deliveries are conducted under the care of skilled health attendants, and reducing morbidity and mortality from malaria, HIV/AIDS, tuberculosis and non-communicable diseases.

50. **Mr. Speaker**, I believe it is about time we confront with resolve the economic and social challenges brought about by drug and alcohol abuse, especially among the youth. If unchecked, we may not be able to achieve the development goals we have set under Vision 2030. In this regard, I have allocated Ksh.1 billion to facilitate NACADA to fully enforce provisions of the Alcohol Act , -- "the famous Mututho Law. But let me also remind Kenyans that the fight against drug and alcohol abuse starts at home with parents engaging constructively with their children. Parents are, therefore, part and parcel of this effort. If we all put our effort and energy in this endeavour, I expect to see significant reduction in this menace going forward.

51. **Mr. Speaker**, it is disturbing to note that some public hospitals often detain patients and even deceased persons for non payment of requisite charges. Sometimes, **Mr. Speaker**, they detain mothers and children. As a Government that cares for its people, the Treasury, working with the ministry responsible for health care, will shortly engage with key public hospitals with records of such experiences to develop appropriate guidelines on how to cushion the very poor families by defraying such costs.

52. **Mr. Speaker**, the implementation of this initiative will not only assure compliance with the requirement of our Constitution but will also relieve poor families of the agony of such detention.

Social Safety Nets and Equalization Fund

53. **Mr. Speaker**, as a Government that cares for its people, we have once again in the 2012/2013 budget allocated Ksh.9.6 billion to continue cushioning the poor and vulnerable members of our society as we design a more comprehensive social protection policy and programme that will increase coverage. Specifically:

- Ksh.4.4 billion will go to orphans and vulnerable children (OVC);
- Ksh.1.0 billion will go to the deserving elderly persons with each receiving Ksh.2,000 per month;
- Ksh.2.1 billion will go to the school feeding programme covering the arid and semi-arid areas;

- Ksh.2 billion has been set aside for famine relief programme;
- Ksh.342 million as cash transfer to persons with severe disability; and
- Ksh.925 million for urban poor cash transfer.

54. In addition, **Mr. Speaker**, equitable regional development of the marginalised areas will be enhanced with the allocations under the Equalization Fund covering the two fiscal years amounting to Ksh.5.5 billion. The allocation for FY 2011/12 of Ksh.2.5 billion will be utilized on water, roads, health facilities, and electricity as per the Constitution, while the allocation of Ksh.3 billion for the FY 2012/13 will be set aside, awaiting the determination and publication of the criteria by which to identify marginalized areas by the Commission on Revenue Allocation (CRA).

Agriculture and Rural Development

55. **Mr. Speaker**, in the area of agriculture, our aim is not only to attain food security but also to create gainful employment opportunities for our people. To this end and in order to scale up the on-going irrigation program and initiate new ones in FY2012/13, I have allocated an additional Ksh.8.0 billion. To complement these efforts, the National Irrigation Board will explore ways to shift to drip irrigation method as a more economical and efficient way of expanding irrigation coverage. I, therefore, urge investors to establish manufacturing plants for producing irrigation kits here in Kenya and avail them to farmers at affordable price.

56. **Mr. Speaker**, I have also allocated Ksh.1.0 billion for Agribusiness Fund. Given the agreement with banks to invest ten shilling for every one shilling of Government invested toward risk sharing, this allocation will bring the total resources leveraged from commercial banks for Agribusiness Fund to Ksh.10 billion. I expect this Fund to enhance investment in agriculture and transform it into a business venture, making it attractive to our private sector, particularly the youth.

57. **Mr. Speaker**, farmers across the country are overburdened by debts, which arose from past mismanagement of farmers' production and marketing institutions. This has consequently had adverse effects on farm output and productivity as some farmers cannot access credit. To relieve our coffee, rice and sugar farmers, among others from this burden, I have allocated Ksh.1.5 billion toward write-off of these debts.

58. **Mr. Speaker**, Hon Members will recall that the Government has made significant efforts to avail subsidized fertilizer to reduce the burden of high prices to farmers. In the long run, **Mr. Speaker**, I wish to challenge the private sector players to begin to seriously consider local production of fertilizer so as to bring down our dependence on imports in this sector.

Drought Mitigation and Management

59. **Mr. Speaker**, due to the risks posed by drought, we will continue to set aside funds for emergency responses. In FY 2012/13, we have set aside Ksh.1.6 billion for Strategic Grain Reserves, and Ksh.2.0 billion for famine relief activities. In addition, we have increased the

contingency fund from the usual Ksh.2 billion to Ksh.5 billion to cater for other urgent and unforeseen expenditures.

Youth Employment and Engagement

60. **Mr. Speaker**, to increase labour absorption of our youth, we have carried forward the youth empowerment programs initiated in the current financial year. The Kenya Youth Empowerment Project (KYEP) has been funded to the tune of Ksh.491 million to cater for labour-intensive works and social services, in addition to providing training and passing on the relevant work experience and enhancing the employability of youth working together with the private sector.

61. **Mr. Speaker**, I have also enhanced the Youth Enterprise Development Fund and the Women Enterprise Fund by Ksh.550 million and Ksh.440 million, respectively. I wish to call upon the youth of this country to take advantage of this Fund and borrow money to start their own business ventures. I also urge the management of these funds to enhance results. **Mr. Speaker**, given some of the recent challenges in the management of these Funds, the Government will undertake a comprehensive review of the existing framework to determine viability of alternative delivery mechanisms, including transforming them into a bank of channelling such funds through commercial banks.

Settlement of Internally Displaced Persons

62. **Mr. Speaker**, the Government has over the last four years allocated funds to settle those fellow Kenyans who were displaced during the post election violence. I am happy to report that we are now on the last phase of this exercise. To bring to closure the issue of IDP, I have allocated Ksh.1.8 billion. This will bring the total amount spent on IDP resettlement to Ksh.15 billion since 2008. We now expect that the entire affected persons, having now secured their livelihood, will join other Kenyans to contribute to nation building.

Constitution Implementation

63. **Mr. Speaker**, with respect to the implementation of the Constitution, we have prioritized resources for setting up essential structures for the National Assembly and Judiciary to operate under the new dispensation. In this connection, the National Assembly budget has been enhanced to Ksh.17 billion. This is 67.3 percent over the budget for FY 2011/12, while that of the Judiciary to Ksh.15.4 billion, which is over 100 percent increase from allocation provided in FY2011/12.

64. **Mr. Speaker**, with respect to devolution, we have costed the devolved functions in readiness for the county governments to perform their functions as soon as they are on board. These costs amount to about Ksh.148 billion in FY 2012/13. Further, I have allocated Ksh.3 billion toward other constitutional reforms, which includes provision of county office facilities wherever necessary. This brings the total amount allocated to the country governments to 26 percent of the most recent audited revenues—well above the 15 percent Constitutional minimum. In addition, and as indicated earlier, we have set aside resources for

the Equalization Fund amounting to Ksh.3 billion. Hon. Members will notice in the Printed Estimates that funds earmarked for devolved functions under each vote have been provided.

65. **Mr. Speaker**, during the transition period, the national government will continue to provide services based on the costing of devolved functions, but will ensure that resources are shifted towards those counties that have been marginalised in order to effect equitable development throughout the country.

Funding the Forthcoming General Elections

66. **Mr. Speaker**, 2012/13 is an election year that will usher in a new Administration and a devolved system of government. We need to conduct the general elections successfully. Towards this end, I have allocated a total of Ksh.17.5 billion to the Independent Electoral and Boundaries Commission (IEBC). I, therefore, challenge the IEBC to work smarter and prudently to conduct a transparent and credible election within this resource envelop.

V: BUDGET OUTTURN FOR 2011/12

67. Due to economic challenges experienced in 2011, **Mr. Speaker**, and combined with changes in VAT withholding mechanism, tax collection is expected to be short of the budget estimates target by about Ksh.25 billion. At the same time, the Government absorbed duty elimination on kerosene, wheat and maize with annual revenue loss of about Ksh.10 billion.

68. On the expenditure side, **Mr. Speaker**, the Government had to incur higher expenditure on salary awards, employment of teachers, security operations in Somalia, implementation of the Constitution, and fertiliser subsidy to insulate the farmers from the rising prices.

69. **Mr. Speaker**, in order to finance these emerging additional expenditure pressures in the face of financing constraints, the Government instituted austerity measures, which took into account performance of expenditure so far and absorption capacity in the remainder of the financial year. All these adjustments to the budget, **Mr. Speaker**, were tabled in this House in April 2012 in the context of the Supplementary Estimates, which I thank the Honourable Members for their kind consideration and approval.

70. **Mr. Speaker**, despite the lower tax collection, the significant cuts in expenditure resulted in a fiscal deficit to 6.9 percent of GDP in the Revised Estimates for 2011/12 compared with 7.4 percent of GDP in the Original Budget.

VI: BUDGET ESTIMATES FOR 2012/13

Mr. Speaker let me now turn to the financial projections for 2012/13 budget.

71. **Mr. Speaker**, the total revenue estimates for fiscal year 2012/13 is Ksh.956.9 billion, comprising of Ksh.870.5 billion of ordinary revenue, and Ksh.84.8 billion of appropriations-in-aid and Ksh.1.3 billion in respect of LATF adjustment. The total revenue estimate represents an increase of 20.8 percent over the Budget Estimates and 18.9 percent over the Revised Estimates for 2011/12. As a percentage of GDP, budgeted revenues are estimated at 24.7 percent in 2012/13, more or less the same level as in 2011/12.

72. **Mr. Speaker**, the targeted revenue is predicated on projected economic growth, the on-going reforms in tax policy and administration, as well as new tax measures that I will outline later in my Statement.

73. **Mr. Speaker**, with respect to expenditure, a total of Ksh.1,459.9 billion including contingency provision is budgeted for 2012/13. Of this, gross recurrent expenditure is estimated at Ksh.1,003.2 billion. This includes Ksh.81.4 billion, which will be financed through Appropriations-in-Aid, and Ksh.346 billion, financed directly from the Consolidated Fund Services. The balance of Ksh 575.8 billion represents discretionary recurrent expenditures.

74. **Mr. Speaker**, the Consolidated Fund Services comprise Ksh.94.5 billion for domestic interest payments; Ksh.11.3 billion for foreign interest payments; Ksh.37.8 billion for pensions; Ksh.3.2 billion for salaries and allowances of constitutional office holders; and Ksh.1.3 billion for other non-discretionally expenditures. In addition, I expect to finance external redemptions amounting to Ksh.26.2 billion and domestic redemptions amounting to Ksh.171.6 billion.

75. **Mr. Speaker**, gross development expenditures for 2012/13 is estimated at Ksh.451.7 billion. Out of this amount, Ksh.178.2 billion will be financed through Appropriations-in-Aid, comprising of direct project financing of KSh. 41.5 billion in form of grants, Ksh.131.9 billion in form of loans, and Ksh.4.8 billion in form of Local Appropriations-in-Aid.

76. **Mr. Speaker**, taking the above into account, I expect to finance net development expenditure amounting to Ksh.273.5 billion from the Exchequer. This comprises of Ksh.14.7 billion in form of grants revenue; Ksh.37.4 billion in form of loans revenue; and Ksh.221.4 billion domestically financed.

77. **Mr. Speaker**, total committed external grants from development partners' amount to Ksh.56.2 billion. Details of the donors and projects being financed are included in the Development Estimates. I wish to sincerely thank our development partners for their continued support.

78. **Mr. Speaker**, with total expenditure of Ksh.1,459.8 billion (inclusive of domestic and external debt redemption as well as contingency provisions), and total expected receipts of

Ksh.1,180.8 billion (including loans and grants), the overall deficit amounts to Ksh.279.0 billion as indicated in the Financial Statement circulated to Hon. Members.

However, **Mr. Speaker**, excluding the domestic debt rollover of Ksh.170.5 billion from expenditures and reflecting external debt redemption of Ksh.26.2 billion as a financing item, while at the same time reflecting loan external financing in a more acceptable international standard practice, total expenditure would amount to Ksh.1,263.2 billion, thus giving rise to an overall fiscal deficit of Ksh.250.3 billion (6.5 percent of GDP) after taking into account grants and LATF adjustment. This will be financed by net foreign financing of Ksh.143.6 billion and Ksh.106.7 billion net borrowing from domestic market.

79. **Mr. Speaker**, this means that the fiscal framework for 2012/13 is fully financed and there is no financing gap.

VII: TAXATION AND OTHER MEASURES

Overview of the Proposed Taxation Measures

80. **Mr. Speaker**, the rest of my statement outlines various tax measures and miscellaneous amendments that I intend to introduce through the Finance Bill 2012 to be tabled in this House. I, therefore, **Mr. Speaker**, request that the remainder of my statement be regarded as a Notice of Motion to be moved before the Committee of Ways and Means.

81. **Mr. Speaker**, over the recent past, the Government has maintained levels of tax rates, especially under the Income Tax and VAT, while import duties have declined over the last eight years. This notwithstanding, expenditures have risen over the same period. **Mr. Speaker**, we have been able to sustain this level of expenditure through enhanced administrative measures and tax reforms. We, nevertheless, recognize that more needs to be done to achieve optimality in our tax system.

82. **Mr. Speaker**, the tax measures and other miscellaneous amendments I intend to propose hereunder are categorized into five broad priority areas, which complement the broad policies I have already outlined in the earlier part of the Statement.

- i. Facilitating private sector for growth and employment;
- ii. Investing in people and supporting rural development;
- iii. Promoting equity and fairness in the tax system;
- iv. Further reforming the tax system for efficiency and effectiveness; and
- v. Strengthening financial sector stability for growth and employment.

Facilitating Private Sector for Growth and Employment

83. **Mr. Speaker**, as I have earlier stated, private sector plays an important role in generating growth and creating employment for our economy. For this reason, I have proposed additional measures under the taxation to further support its expansion

84. **Mr. Speaker**, our manufacturing sub-sector has been going through tough times due to various challenges especially unfair competition from cheap imports from the Far East. In this regard and in order to cushion our iron and steel manufacturers from this undesirable practice, I propose to increase import duty on galvanized wire from 0% to 10%.

85. **Mr. Speaker**, as the Hon Members may be aware, the entire world is targeting year 2015 as the deadline to migrate from analogue to digital television signals. To make the set top boxes which form an integral part of this migration available to Kenyans at affordable price, I propose to remove duty on the importation of these gadgets.

86. **Mr. Speaker**, the Telecommunication and the ICT sub-sectors have continued to play a critical role in the entire economy. In order to continue supporting these critical sub-sectors and further spur economic growth, I propose to remove duty on all imported software to make it cheaper to our people and further attract foreign investors in this industry.

Further Investing in People and Encouraging Rural Development

87. **Mr. Speaker**, investing in our people and assuring them of means of livelihood in rural area is the only vehicle through which we can secure a durable and stable pro-poor growth and development. In this regard, I have proposed further measures under our tax system.

88. **Mr. Speaker**, a healthy society is essential for durable growth and development. In order to ensure most Kenyans access affordable health care, I propose to exempt inputs for use in the manufacture of medical diagnostic kits. I further propose to grant duty remission to producers of food supplements for use by infants and HIV/AIDS infected persons.

89. **Mr. Speaker**, in an effort to address nutritional problems affecting our people, I propose to further reduce the rate of duty on food supplements from 10% to 0%. This measure is expected to make imported food supplements affordable thus helping to improve the health of our people.

90. **Mr. speaker**, bee-keeping has become a major source of livelihood in most parts of our rural areas. To promote beekeeping as an economic activity, I propose to exempt from duty imported inputs so as to encourage many farmers to take it up. This is exempted to promote employment in the country and alleviate poverty.

Promoting Equity and Fairness in our Tax System

91. **Mr. Speaker**, over the recent past, many patriotic Kenyans have invested heavily in real estate thereby promoting access to housing for our people. To ensure fairness and also allow this class of citizen to contribute toward our nation building, the Kenya Revenue Authority will shortly embark on mapping out all residential and commercial areas and implement a comprehensive strategy to ensure that all landlords are effectively brought into the tax net and all rental income taxes due are paid.

92. **Mr. Speaker**, collection of excise taxes has faced challenges in the recent past. To safeguard the revenue base and ensure equity, the Kenya Revenue Authority will institute an effective excise tax management system to ensure that all products produced by licensed manufacturer are fully accounted for by type and quantity. I expect the first phase of this system to be fully operational in the course of the fiscal year.

93. **Mr. Speaker**, the taxation of non-resident taxpayers who engage in the business of transmission of messages with a base in Kenya has posed challenges to taxpayers and KRA. In order to address this, I propose to amend the Income Tax Act to align their taxation with that of other non-resident taxpayers who engage in other businesses and whose base is in Kenya.

94. **Mr. Speaker**, the recent upward review by KRA of the minimum tax payable on imported second hand cloths from Ksh.1.1 million to Ksh.1.9 million per 20 Foot has forced dealers to reduce imports significantly. Consequently, businesses have closed down and millions of our people dependent on this sector as a source of livelihood, especially the youth, are now poor and vulnerable. In order to prevent further loss of business and employment that support millions of our people, I have instructed KRA to immediately revert back to initial valuation method.

Further Reforming the Tax System for Efficiency and Effectiveness

95. **Mr. Speaker**, in accordance with the Constitution, I have proposed a number of tax reform measures aimed at ensuring efficiency and effectiveness in the tax system.

96. **Mr. speaker**, our Constitution specifically prohibits the exemption of state officers from payment of taxes. To this end, I propose to amend the Customs and Excise Act to ensure that no person enjoys tax exemption by the virtue of holding a state office.

97. **Mr. Speaker**, the Constitution also requires very high standards of service to the people of this great nation. To this end, I propose to amend the Customs and Excise Act to ensure fast processing of applications for renewal of excise licenses.

98. **Mr. Speaker**, it has come to my attention that Kenya Revenue Authority is facing challenges in determining the institutions that qualify for exemption while engaging in charitable activities. To address this problem I propose to amend the Income Tax Act to empower the Minister to make rules for purposes of administering the exemption of Trusts, Churches and NGOs.

99. **Mr. Speaker**, there is need to enhance the tax dispute resolution mechanism to instil professionalism and equity in the administration of tax cases. To this end, I propose to amend the Income Tax Act to provide for qualifications for Local Committee and Tribunal members and specify the period the Commissioner is required to file his statement of facts to the Local Committee.

100. **Mr. Speaker**, effective dispute resolution mechanism allows for a faster and efficient settlement of tax disputes. **Mr. Speaker**, there have been instances where the tribunal has not performed optimally due to failure by some members to perform their duties. In order to ensure effective and uninterrupted service to taxpayers, I am proposing to amend the Act to provide for additional circumstances under which members of the tribunal may cease to hold office.

101. **Mr. Speaker**, there is need to provide oversight over the operations of tax agents to encourage professionalism. I, therefore, propose to amend the KRA Act to empower the Minister to make regulations for persons authorized to act as tax agents. This measure will enhance tax compliance.

102. **Mr. Speaker**, as promised by my predecessor last year, my ministry has now finalized the review of the VAT law to align it to the Constitution by making it simpler and modern, based on international best practice. After extensive consultations with key stakeholders, including relevant Departmental Committee of Parliament, the draft bill was discussed and approved by the Cabinet. I am, therefore, pleased through this budget, to table the VAT Bill 2012 for debate and approval by this House.

103. Similarly, **Mr. Speaker**, we committed to review all other taxes in order to simplify and modernize them. Accordingly, my ministry has commenced work toward the review of the Income Tax Act and Customs and Excise Tax Act. I expect this assignment to be completed by end of FY 2012/13. **Mr. Speaker**, as I have already alluded to, we shall also undertake a holistic review of the administrative structure of KRA to give effect to the objective of these reforms.

104. **Mr. Speaker**, our country sits on a large reservoir of mineral resources. To avoid crisis often associated with exploitation of such resources, it is imperative that we swiftly institutionalize a comprehensive policy and legislative framework covering licensing, revenue sharing, taxation and sustainable use of revenues generated from such resources. **Mr. Speaker**, to this end, my ministry, working with relevant line ministries, will shortly organize a workshop to deliberate and draw a conceptual framework on how to take this process forward in an inclusive manner.

Strengthening Financial Sector Stability for Growth and Employment

105. **Mr. Speaker**, individual Retirement Benefits Schemes are important vehicle through which increased coverage of savings for retirement can be achieved. To strengthen governance and encourage their growth, I propose to amend the law to bar individual Retirement Benefits Schemes from appointing corporate trustees related with their sponsors. This will go a long way to remove conflict of interest in the administration of these important schemes and safeguard the interests of Kenyans who save through these schemes.

106. **Mr. Speaker**, our commercial banks have continued to extend their presence in the region. However, the activities of their subsidiaries have a direct impact on the safety and stability of our banks. There is need, therefore, to focus more on the transactions of their

related parties. To this end, I propose to amend the Banking Act to provide for a robust, effective and comprehensive consolidated supervision framework to enable the Central Bank to adequately supervise banks and their subsidiaries.

107. **Mr. Speaker**, the trend globally is towards convergence of financial services where banking, insurance and stock brokerage are being offered under one roof. In order to facilitate a "one stop shop" financial services solution, I propose to amend the Banking Act to expand the scope of banking business to include incidental financial services that can be offered by banks subject to review and approval by the Central Bank to ensure adequate risk mitigation.

108. **Mr. Speaker**, in the recent past, we amended the law to allow banks to sub-contract agents to provide basic banking services on their behalf. However, we did not require banks to be liable for the acts and omissions of their agents hence exposing their customers who use these services. In order to correct this anomaly, I propose to amend the Banking Act to expressly make banks liable for the acts and omissions of their agents in relation to banking business.

109. **Mr. Speaker**, for a long time, the Nairobi Securities Exchange (NSE) has been used by fairly large companies to access capital among other things. The high threshold in the law has denied SMEs the opportunity to access to long-term and relatively cheap capital as well as raising their profiles through participation in the NSE. In order to address this problem, I propose to amend the law to create a framework for Growth Enterprise Market Segment within the NSE targeting small and medium Enterprises.

110. **Mr Speaker**, we have two different securities settlement infrastructures. One is housed at the Central Depositories and Settlement Corporation (CDSC) and the other at the Central Bank of Kenya. However, international best practice points to a single and efficient securities settlement infrastructure for both fixed income and equity securities. In order to facilitate the setting up and making operational a single CSD, I propose to amend the Central Depositories Act to include government securities as part of eligible security for purposes of clearing and settlement.

111. **Mr. Speaker**, scrap metal dealers who buy stolen and vandalized cables, wires, rail guards, signage and transformers, among others, are economic criminals who deserve to live in jails. To this end, I propose to amend the law to empower the Minister for Internal Security to issue regulations requiring identification and traceability of all scrap metals handled by dealers. I propose to further introduce a penalty of Ksh.1 million or imprisonment for a term not exceeding three years for anyone who breaks the law. With these measures in place, I wish, **Mr. Speaker**, to put on notice these unscrupulous scrap metal dealers that their days are now numbered.

112. **Mr. Speaker**, the recent removal of requirement of road license has posed challenges to establishment of actual number of motor vehicles on the road at anytime, record of their registration details, and ownership identification. To address these challenges, I propose to reinstate motor vehicle road license where the motor vehicle owner will be required to apply

for the annual license from the Registrar of Motor vehicle with the original registration certificate. This time, **Mr. Speaker**, the license will be provided at no cost. I expect the new measure to facilitate the law enforcement agencies to monitor and ensure only vehicles that are legitimately owned by the owners are allowed on the road at any one time.

VIII: CONCLUSION

113. In conclusion, **Mr. Speaker**, in this budget, I have outlined broad policies and structural reform measures geared towards building further resilience of our economy. **First**, we are continuing to sustain macroeconomic stability necessary for long term investment and growth; **second**, we are strengthening our financial systems and encouraging diversification of our export markets to keep the global crisis and uncertainty at bay; **third**, through this budget we are scaling up infrastructure investments as the building blocks needed to achieve a more lasting growth and stable economy; and fourth, **Mr. Speaker**, we are deliberately making growth and development more inclusive and equitable by investing in our people and making resources available at the county level to improve service delivery.

114. But we are also, **Mr. Speaker**, renewing our commitment through this budget to progressively deliver on the constitutionally mandated economic and social rights, including implementing measures to ensure food security and protect the vulnerable members of our society. The spending plans under the 2012/13 MTEF budget are, therefore, consistent with our national strategic objectives of securing stability, durable inclusive growth and equitable development. The attainment of these goals define the Kenya we all aspire for, and which we must all work hard to build.

115. Finally, **Mr. Speaker**, the framing of this budget would not have been a reality without the unwavering commitment by my Permanent Secretary and staff of the Ministry of Finance. I, therefore, thank them, together with other officers in line ministries, for their dedication to this important civic duty.

Mr. Speaker, I beg to move.