



**REPUBLIC OF KENYA**

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# **Budget Speech**

**For the**

**Fiscal Year 2009/2010**

**(1st July – 30th June)**

**by**

**Hon. UHURU MUIGAI KENYATTA, EGH, MP.  
Deputy Prime Minister and Minister for Finance**

**11<sup>th</sup> June 2009**

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**SPEECH DELIVERED TO THE NATIONAL ASSEMBLY ON 11<sup>TH</sup> JUNE, 2009, BY HON. UHURU MUIGAI KENYATTA, EGH, M.P., DEPUTY PRIME MINISTER AND MINISTER FOR FINANCE, REPUBLIC OF KENYA, WHEN PRESENTING THE BUDGET FOR FISCAL YEAR 2009/2010**

**1<sup>ST</sup> JULY, 2009 TO 30<sup>TH</sup> JUNE, 2010**

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**Mr. Speaker, Sir,**

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

**1.0. INTRODUCTION AND RECENT DEVELOPMENTS**

**1.1 Introduction**

**1. Mr. Speaker,** it is indeed an honour for me to present to this August House the 2009 Budget. But before I proceed with my speech, let me take this early opportunity to express my sincere gratitude to His Excellency, President Mwai Kibaki, for appointing me to the position of the Minister for Finance. I also want to recognize my brother The Rt. Hon Prime Minister, Raila Odinga, with whom we have worked very closely since I took charge of the finance portfolio.

**2. Mr. Speaker,** the 2009 Budget is formulated at the backdrop of many challenges, both on the global and on the domestic front. The global economy is facing the worst recession since the Great Depression, a phenomenon that is adversely affecting the economies of developing countries, Kenya included. Industrial countries have taken huge supportive interventions to mitigate effects of the global financial crisis but the impact is yet to be felt, thus leaving the developing countries exposed and vulnerable.

**1.2 Global Economic Crisis and Outlook**

**3. Mr. Speaker,** as I have already mentioned, the world economy is facing serious recession and no country, small or big, developed or developing, has been spared the negative effects of this crisis. Overall, the global economy is now projected to decline by 1.3 percent in 2009, down from a growth of 3.3 percent in 2008, before recovering sluggishly to grow at 1.9 percent in 2010, despite the interventions taken by the major economies. The contraction of the global economy in 2009 is largely on account of the negative growth in the major industrial countries, which more than outweighs the growth in Asian economies including China and India.

**4. Mr. Speaker,** like the rest of the world, sub-Saharan Africa is also feeling the impact of the global economic crisis. Current projections indicate that the growth of the sub-Saharan Africa economy will most likely fall to 1.7 percent in 2009, from 5.5 percent in 2008. Indeed, the growth rate of the economies that are Kenya's major trading partners in the East Africa Region, such as Uganda, Tanzania and Rwanda, is projected, on average, to decelerate to 5.6 percent in 2009 from 9.4 percent in 2008. African countries must as a priority take appropriate measures to

contain the adverse effects of the crisis on their economies, while preserving the hard won gains in the recent years.

### **1.3 Domestic Economy: Recent Developments and Outlook**

**5. Mr. Speaker**, when the NARC Administration democratically took over the reigns of power at the end of December 2002, it inherited an economy that had been shattered into stagnation for several years. The consequence of the stagnation was reduced income per capita, escalation of unemployment and poverty problems, and dysfunctional national institutions. The new Administration set out an ambitious and comprehensive programme of economic renewal, that is, “Economic Recovery Strategy for Wealth and Employment Creation”, with policy and institutional reforms that won wide acceptance.

**6.** Focussed and consistent implementation of bold and appropriate economic and structural reforms embodied in this strategy and the resilience and hard work of our people led to a steady expansion of our economy from virtual stagnation of 0.5 percent in 2002 to a high of 7.1 percent in 2007. In addition, the Government provided more budgetary resources toward priority growth areas of agriculture and rural development, infrastructure, human capital development, and core poverty programmes, which helped reduce poverty significantly. As a matter of fact the number of people living below one US dollar declined from 57% of the total population in 2000 to 46% in 2006. Indeed, by the end of 2007 Kenya was poised for accelerated development.

**7. Mr. Speaker**, as Hon Members are by now well aware, most of the gains that had been painfully achieved between 2003 and 2007 were substantially reversed in 2008. The economy experienced a dramatic downturn in 2008, growing by a mere 1.7 percent, largely attributed to the adverse effects of the unfortunate events that followed the 2007 December General Elections. The problem was compounded by the sharp increase in the prices of oil and fertiliser in the international market, and the drought conditions following failed rains in the short-rain season. **Mr. Speaker**, the outlook for 2009 and 2010 is only slightly better, especially in the face of the ongoing global recession that has reduced demand for our exports, tourism earnings and remittances from Kenyans in the Diaspora. We now project a modest recovery, with the national cake growing by only 3 percent in 2009.

**8.** However, **Mr. Speaker**, I would like to reassure Hon. Members and Kenyans at large that despite these challenges the economic foundation laid during 2003-07 is still intact. Our infrastructure is much better than what it was in 2002, and, most importantly, we remain endowed with an enterprising human resource. What we now need is to gather courage, adopt a positive spirit, and commit ourselves to moving forward. We should not allow our “economic car” to be run on a reverse gear again as happened early last year. Indeed, in the midst of the gloom, we should see hope and opportunity. Above all we should find strength, unity of purpose and resolve to urgently and decisively confront the immediate challenges facing us, while at the same time focusing on our long term growth and development objectives in line with Vision 2030.

**9. Mr. Speaker**, it is only through our resolve and sustained commitment to tackling these challenges that we can restore our economy back to a higher and sustained growth path and eliminate poverty among our people. To achieve this, we must broaden economic opportunities for all Kenyans, measurably reduce youth unemployment and poverty, while comprehensively

dealing with regional inequality. We must also confront head-on the governance challenges that continue to constrain our growth and development prospects. And in doing this, we must realize that we have no option but to collectively rise above our perceived inadequacies and our limiting disposition, and, awaken our potentials with re-energized commitment and determination to move our economy up the ladder of prosperity. These challenges we must tackle now, **Mr. Speaker**, and we must do so urgently, recognizing that our economy and the people of Kenya can ill afford any delay.

**10. Mr. Speaker**, to effectively respond to these challenges, I have outlined bold and appropriate policy measures that are required to restore the economy to a higher growth path, expand economic opportunities, create employment, and strive to protect the livelihood of the poor and the vulnerable members of our society. I do this, **Mr. Speaker**, well aware that good ideas and innovations must be driven into existence by courageous patience.

#### **1.4 Theme: Overcoming Today's Challenges for A Better Kenya Tomorrow**

**11. Mr. Speaker**, the 2009 Budget is premised on the need to urgently overcome the immediate socio-economic challenges that we face today. This we must do in order to restore the confidence of Kenyans in their country and its institutions. As part of these initiatives we must strive to return the economy back to our long term growth path, while at the same time, providing impetus for building a cohesive and prosperous Kenya that we all desire. This Budget that I have the honour to table in this August House today, therefore, marks the first and bold step towards progressively building a better future for our people, consistent with our Vision 2030. In this regard, the measures I will be proposing throughout my speech are anchored on the Theme: ***"Overcoming Today's Challenges for a Better Kenya Tomorrow"***.

**12.** The objective of the 2009 Budget, **Mr. Speaker**, therefore, is to stimulate growth and protect jobs, reduce poverty, enhance food security and protect the poor. In framing this Budget, I have been guided by five underpinning principles, namely:

- **First**, maintaining a stable macroeconomic environment and creating an enabling environment for business;
- **Second**, developing key infrastructure facilities and public works countrywide to stimulate growth, create employment and reduce poverty;
- **Third**, promoting equitable regional and social development for stability;
- **Fourth**, investing in environment and food security; and
- **Fifth**, strengthening governance not because we have to, but rather, because it is the way forward in improving public service delivery.

**13. Mr. Speaker**, in response to the current challenges, and to avert a further slide in the expansion of our national cake, we plan to implement a fiscal stimulus package that focuses on sectors that will generate maximum benefit. **Mr. Speaker**, to address the existing imbalances in regional development, which have been a real source of social discontent, the stimulus programme is deliberately designed to cover all parts of the country. The programme has projects intended to expand irrigation-based agriculture with a view to ensure food security. We will, as part of this programme, construct wholesale and fresh-produce markets countrywide for the purpose of improving marketing and distribution of agricultural produce.

## 2.0 PRIORITY PRO-GROWTH AND PRO-POOR POLICY MEASURES

**14. Mr. Speaker**, underlying these principles is a two-pronged strategy that aims at focusing expenditures on priority areas that have higher impact on growth, such as infrastructure and public works, while at the same time, ensuring sufficient expenditures to cushion the poor and vulnerable. **Mr. Speaker**, the rest of my speech now elaborates specific policy measures I intend to take within the framework of the five principles I have outlined above to overcome the challenges we face today and build a stronger and prosperous Kenya.

### 2.1 Maintaining a Stable Macroeconomic Environment

**15. Mr. Speaker**, at this time of crisis, it is more critical that we uphold our commitment to maintaining a stable macroeconomic environment. In this regard, we will continue to pursue fiscal policy and structural reforms aimed at restoring our economy back to a high growth path but without undermining the objective of monetary policy to bring inflation down to the 5 percent target we have set for ourselves. In managing monetary policy, the Central Bank will strive to ensure availability of sufficient liquidity to support economic activity while also allowing for gradual rebuilding of official foreign exchange reserves, which have been eroded by the adverse impact of the exogenous shocks mentioned earlier.

**16. Mr. Speaker**, with respect to fiscal policy, let me say at the outset that it has not been easy to find room in the Budget for our commitments to national development objectives as outlined in Vision 2030, and to deal with the current challenges affecting the welfare of our people. As such, we have had to strike a balance between supporting growth and maintaining medium-term debt sustainability. **Mr. Speaker**, budgets are about priorities given the reality that financial resources are limited.

**17.** Therefore, **Mr. Speaker**, faced with the current economic challenges and bearing in mind that raising taxes is not a prudent option under the current circumstances, we as a Government, chose to partly accommodate the temporary financing shortfalls with savings arising from rationalization of government expenditures to remove waste and non-priority expenditure. I will shortly elaborate on the expenditures that we have rationalised. For the balance of the financing shortfall, we have adopted a programme of responsible borrowing.

**18.** Hon. Members, we consider the approach we have taken in terms of raising additional resources beyond the tax we expect to collect, not only appropriate but also prudent. This is a must if we have to safeguard jobs and bolster economic recovery. I am aware of the concerns that have been raised regarding the amount of money we intend to borrow from the domestic sources to finance the budget. I want, **Mr. Speaker**, to allay any fears Kenyans may have on this proposed borrowing. Our debt in relation to gross domestic product (GDP) is currently below 40 percent; thanks to the prudent manner in which we have managed our public debt in the past. Moreover, debt sustainability analysis done taking into account the planned new borrowing demonstrates that we face a low risk of debt distress. Therefore, we are in a position to comfortably borrow in the short term to finance the proposed fiscal stimulus package without compromising our macroeconomic objectives.

**19. Mr. Speaker**, under the proposed fiscal framework, our total public debt is projected to peak to 44.5 percent of GDP in 2009/10 before declining thereafter. It is, however, instructive to note that even at this level our debt position remains within tolerable levels and is much lower than that for some of the large industrial countries. Nonetheless, over the medium term, we intend to bring down the budget deficits in order to commensurately reduce the debt ratio. We are also seeking for additional concessional assistance from our development partners, which we intend to use to pay off part of the domestic borrowing that will be applied to finance the fiscal stimulus package.

## **2.2 Creating Fiscal Space Through Expenditure Rationalisation, Strengthened Tax Administration and Enhanced Absorption of External Resources**

**20. Mr. Speaker**, as I have already indicated, a major policy challenge we face today is how to push the frontiers of economic growth to a sustained higher level, create economic opportunities and reduce poverty. Implementing measures to achieve these objectives means the government budget for 2009/2010 will be expansionary. The overall balance is expected to be in deficit by about 6.6% of GDP.

**21. Mr. Speaker**, as I have already mentioned, we plan to accommodate our financing shortfall partly by rationalizing expenditures to remove waste and generate savings. As Hon. Members will recall, in the Supplementary Budget for 2008/09, I took measures to streamline government expenditures to generate savings without compromising delivery of public services. But **Mr. Speaker**, let me remind Hon. Members that these are difficult times. And difficult times require bold decisions. Indeed, this is what Kenyans expect of us. For this reason I am going a step further to institute more bold measures so that I can raise the resources we require to finance the priority pro-growth and pro-poor expenditures planned in this Budget.

**22.** To this end, **Mr. Speaker**, I have reduced from the ceilings of all ministries, the following non-priority expenditures that I believe will have no material impact on service delivery. These entail reductions as follows:

- 80 percent on furniture and fittings;
- 60 percent on advertisement and publicity;
- 40 percent on telephone expenses;
- 20 percent on hospitality supplies and services, which include, and I emphasize, include payments to various taskforces appointed by the government; and
- 10 percent on domestic and foreign travel and subsistence.

**23. Mr. Speaker**, government expenditure on transport has increased substantially over the years and unless checked, it will soon become unsustainable. In this regard, I will be requesting the cabinet to approve a new Transport Policy to address this problem early in this financial year. With this in mind, I have put a moratorium on purchase of new motor vehicles, except for security purposes. Any purchase of new vehicles will be allowed only under very exceptional circumstances. **Mr. Speaker**, we will also introduce use of fuel cards for the purchase of fuel for government vehicles because we believe this measure will significantly reduce the amount of money the government is spending on fuel.

**24. Mr. Speaker,** in the face of the difficult economic times we find ourselves today, and responding to the call by Kenyans to contain non-priority expenditures, it is about time we demonstrated in concrete terms that we are a government that listens to its people. In this regard and after consulting with The President and The Prime Minister, I am directing that all Cabinet Ministers, Permanent Secretaries, Provincial Commissioners and other senior public officials who are entitled to official vehicles, shall henceforth be allowed only one vehicle whose engine capacity should not exceed 1,800 cc.

**25. Mr. Speaker,** once the new vehicles are in place, I am also directing all Accounting Officers to ensure that vehicles at the disposal of public officials that exceed the engine capacity I have just specified, are withdrawn and surrendered to the Chief Mechanical and Transport Engineer who will arrange for their sale by end of September 2009. Proceeds thereof will be used to finance priority areas such as resettlement of Internally Displaced Persons.

**26. Mr. Speaker,** as I said earlier, no public official will be exempted from this policy. Therefore, I expect all Accounting Officers to strictly implement this measure to the letter. In this regard, I am pleased to report to this House that the Treasury, under my leadership, has fully complied with this directive starting today. **Mr. Speaker,** I have decided to lead by example. Therefore, effective from today, I am now using an official car that is compliant with this requirement.

**27. Mr. Speaker,** the austerity measures we have undertaken are only the first step toward rationalizing our budget going forward. We shall continue to scrutinize all votes of ministries in the course of this fiscal year with a view to identifying further areas of savings. To this end, I have instructed the Permanent Secretary to the Treasury to launch a comprehensive audit of the payrolls of all organization paid through the Exchequer. I expect the report of this audit to be ready by the end of October 2009.

**28. Mr. Speaker,** our utilization of donor funds has been low and this is unacceptable because it delays the development benefits to our people. In a sense, development delayed is development denied and Kenyans cannot afford this especially during these difficult times when it is not easy to obtain additional external financing. In this regard, part of the fiscal space will come from enhanced absorption of external funds from the current rate of about 50 percent to about 80 percent in FY 2009/10. I will establish a Unit at the Treasury to work with line ministries in monitoring project performance in order to unlock the constraints that are responsible for implementation delays. In due course I will be outlining guidelines specifying how these targets will be achieved.

**29.** We will also be introducing an Electronic Project Monitoring Information System (e-Promis) before the end of this year. Once operational, this system will enable Treasury to continuously monitor project performance at every stage. In order to ensure transparency and encourage public participation, the e-Promis portal will also be open to the public to enable wananchi to monitor the performance of projects of their interest. When fully operational, it will be possible to monitor all government projects including those funded through the Constituency Development Fund (CDF).



**30. Mr. Speaker**, on enhancing revenue collection, we recognize the need to further deepen the reforms, including implementing measures targeted at enhancing the operational efficiency of the Kenya Revenue Authority. Achieving these goals requires strengthening the institutional arrangements of KRA and holding all the officers to the highest standards of ethical and integrity behaviour in the conduct of business, while at the same time creating incentives for performance. In addition, sanctions for under-performance or actions leading to loss of revenue must be enforced across the entire spectrum of the organization.

### **3.0 FURTHER DEVELOPING KEY INFRASTRUCTURE FACILITIES AND PUBLIC WORKS COUNTRYWIDE TO STIMULATE GROWTH, CREATE EMPLOYMENT AND REDUCE POVERTY**

#### **3.1 Supporting Businesses and Enhancing Competitiveness**

##### *Promoting Conducive Business Environment*

**31. Mr. Speaker**, the Government recognizes the important contribution the private sector has made in the process of building our economy over the years. For this reason we have been instituting a number of reforms to ensure they even play a greater role. We have in this regard come along way in terms of improving the business environment, but, as we continue to be reminded by our private sector partners, these are not enough. In this regard, I will elaborate on some of the measures we are proposing to address some of these challenges while presenting the tax policy measures planned for FY 2009/10 later.

**32. Mr. Speaker**, for now I will address myself to the regulatory challenges that arise mainly from the failure to appreciate the cost of regulation to businesses. This is compounded by lack of an appropriate framework for consulting with other public entities and more important the private sector itself when introducing new regulatory procedures or levies. To address these challenges, we will in the course of this fiscal year: (i) submit to this House the Business Regulation Bill that will empower the Business Regulatory Unit legal power to vet and recommend to the Minister for Finance any proposed new levies; and (ii) make operational the e-Registry for business licences; and (iii) fast-track implementation of ongoing licensing reforms.

##### *Reforms under Agenda Four*

**33. Mr. Speaker**, under the National Accord, the Grand Coalition Government committed itself to facilitate far reaching and coherent reforms in order to create the environment for a stable democratic and prosperous country, popularly as known Agenda IV. We recognize that without focusing on these reforms, our efforts to build a prosperous Kenya may not be realized. In this regard, the Treasury has allocated Ksh. 2 billion toward implementation of reforms under Agenda Four, in addition to specific monies provided for under respective ministries and agencies.

**34. Mr. Speaker**, through this Budget, we are also fast-tracking reforms in the Judiciary to expedite service delivery and in particular to ensure faster disposal of commercial and civil cases in order to reduce the cost of doing business as well as congestion in our corrective facilities and Courts. To this end, I have provided the Judiciary Kshs.3.1 billion, of which Ksh 250 million will be used to fund the pilot phase of the automation and modernization of our courts and employ 20

additional Commissioners of Assis. On successful completion of the first pilot phase, we will build on this experience and roll this program countrywide. We remain fully committed to adequately supporting the Judiciary in order to ensure prompt justice so that no more Kenyans languish in our corrective and remand facilities due to avoidable delays in our courts.

#### *Maintaining Law and Order and Providing Security*

**35. Mr. Speaker**, we all know that adequate security is essential to achieving the objectives of our Vision 2030. For this reason, the Government will continue to fully support our security agencies in order to ensure that individuals, communities and investors are well secured. In this regard, the Government has decided to enhance community policing by engaging our youth to work under the guidance of the regular police force in collaboration with the chiefs to strengthen security at the constituency level. In this regard, I have allocated funds to support this initiative, including funds to purchase motorised bicycles for use by the local chiefs and youths engaged in community policing. We expect this initiative will inculcate a sense of responsibility and discipline in our youth, and as an incentive for those who are successful, the government encourages the recruitment units of our disciplined forces to give priority to these young men and women.

#### *Accelerating Infrastructure Investment*

**36. Mr. Speaker**, over the last six years or so, we have invested heavily in infrastructure. The ongoing construction works throughout the country clearly attest to this. We must thank our development partners, particularly the EU, the World Bank, the AfDB and China for the valuable support in the road and energy sector. As part of the Government's fiscal stimulus program, we will continue to allocate substantial amounts of financial resources to infrastructure projects in order to enhance competitiveness and stimulate higher growth for employment and wealth creation. In this Budget therefore, **Mr. Speaker**, I have allocated Kshs.140 billion for infrastructure spending and this will cover roads, rail, ports, broadband and energy.

**37. Mr Speaker**, while we have made significant progress in expanding the road net work in the rural areas, we still face serious challenges with respect to timely routine maintenance to ensure they are functional throughout the year. This is despite the fact that part of the fuel levy fund is available for this purpose. After consulting with my parliamentary colleagues, I propose to this House that the portion of the fuel levy meant for the rural roads be channelled through the Constituency Development Fund (CDF) for the maintenance of rural roads at the constituency level. I am confident that CDF mechanism will ensure timely and efficient utilization of these funds for the intended purposes.

#### *Positioning the Port of Mombasa as Regional Service Hub*

**38. Mr. Speaker**, the port of Mombasa plays an important and strategic role not only to Kenya's development but also to the development of the hinterland countries of Uganda, Rwanda, Democratic Republic of Congo (DRC), and Southern Sudan, that it serves. However, the current clearing system for cargo faces a number of challenges that compromise our country's ability to maximise on the benefits that accrue from international trade. Indeed, documentation procedures are largely manual, resource intensive and expensive. To position the port to continue playing its strategic role more effectively in an increasingly competitive

environment, there is need to urgently address these challenges. In this regard, the Government will establish in the course of the year a single window port community based system to facilitate faster, efficient and competitive clearance of cargo at the port of Mombasa. In addition, plans are underway to dredge the port and make it accessible for bigger ships, while the on-going work on the construction of a second container terminal will be accelerated.

**39. Mr. Speaker**, concurrent with the initiative we are taking to improve the efficiency of the port of Mombasa, we are also attending to the challenges in the railway system. In this regard, the Government of Kenya, working jointly with the Government of Uganda, has made decision to construct a new standard gauge railway line from Mombasa to Western Kenya and to Kampala in Uganda. The new railway line will not only reduce the cost of transport but also facilitate faster movement of freight and passengers, thereby enhancing competitiveness and improving the welfare of our people.

**40. Mr. Speaker**, considering that construction of the new railway will significantly reduce the maintenance costs of the Northern Corridor roads, it makes economic sense to use part of the road maintenance fund to invest in this railway. In this context, I will, in consultation with the Minister for Roads, be proposing an amendment to the Roads Maintenance Levy Act and the Kenya Roads Board Act to make road-bed for railway line development and maintenance eligible for funding. Meanwhile, I have allocated Ksh. 3 billion to initiate this important project. I expect the Ministries and Agencies responsible to expedite the process with a view to commencing construction by the last quarter of this financial year.

**41. Mr. Speaker**, the development of infrastructure in Nairobi Metropolitan Area is equally crucial to making Nairobi a competitive service hub. Apart from improving provision of water and security services, we are fast tracking the development of a light rail system in Nairobi and its suburbs, and construction of bypasses and modern interchanges to solve current traffic congestion. As a first decisive step, and in partnership with an infrastructure development company called InFraCo (a Private Infrastructure Development Group comprising of the World Bank, SIDA, DFID, Governments of Switzerland and Netherlands), we have commenced work toward the upgrade of the Nairobi Commuter railway system serving the heavily populated parts of Nairobi in order to reduce traffic jams and transport related costs currently hurting businesses as well as the poor urban dwellers.

#### *Expanding Access to Affordable Energy Supplies for all Kenyans*

**42. Mr. Speaker**, to enhance supply of environmentally friendly and affordable energy to our economy, the focus of our investments will be on development of renewable energy such as geothermal, wind, bio-fuel, biomass and use of solid waste. The Government will also continue to scale up investment in transmission while at the same time upgrading existing ones in order to stem systemic transmission losses that partly contribute to the high cost of energy. The Government will also continue to expand the rural electricity program covering all major trading centres countrywide. Toward this end, I have allocated Kshs 7 billion. In addition, the Government will encourage private sector participation in electric power generation from wind, biomass, and recycled waste within the Public Private Partnership (PPP) framework.

## *Leveraging Emerging ICT Opportunities*

**43. Mr. Speaker**, after three years of heavy investments in ICT infrastructure, our economy is about to be hooked onto the global digital grid through the undersea fibre optic cables. We must leverage on this affordable broadband connectivity to accelerate economic growth, expand economic opportunities so as to reduce poverty among our people. Appropriate utilization of this infrastructure would yield some savings as well as create efficiencies for a better and more productive economy thereby creating jobs and moving our economy up the value chain and reducing the cost of doing business.

**44. Mr. Speaker**, to further expand access to benefits presented and to ensure no Kenyan is left behind by the ICT revolution, I propose the following investments as part of the stimulus package:

- First, I have allocated Ksh1.3 billion to purchase Mobile Computer Laboratories for each constituency for use by our high schools. This initiative will serve as a pilot project since in the coming years we intend to expand the scope of the project to include primary schools.
- Second, we intend to support the roll out of the Digital Villages in partnership with the World Bank. These centres will create business hubs and expand economic opportunities in rural areas.
- Third, immediately launch a one million laptop/computer campaign countrywide in conjunction with Broadband providers by undertaking to underwrite part of the interest payments on funds borrowed to purchase these laptops and computers. **Mr. Speaker**, I trust that this campaign would benefit University Students, public servants as well as ordinary wananchi, thereby enabling them to take advantage of the cheaper broadband now available in our country.

### **3.2 Promoting Regional Development for Equity and Social Stability**

**45. Mr. Speaker**, the promotion of equitable regional and social development is a central objective of the Grand Coalition Government. The thrust of this Budget therefore is to ensure that the budgetary resources reach the people at the constituency level. . Since, our focus will be to stimulate economic activity at the constituency level, we will channel these resources as conditional grants through the respective ministries, using the existing Constituency Development Fund framework. This will facilitate local accountability, strengthen oversight to ensure all the funds allocated are strictly used for the planned purposes.

**46. Mr. Speaker**, during the ERS period, the Government established the Constituency Development Fund, and as a result, we have achieved tremendous progress in taking development to the people. To scale up the good work and ensure wananchi continues to benefit from this Fund, I am this year allocating Ksh.12 billion. With this amount, each constituency will now receive on average KShs.60 million to finance its various development projects. In addition, as I said earlier, I will be proposing amendments to the Roads Maintenance Levy Act and Kenya Roads Board Act to allow for 22 percent of the Road Maintenance fund to be used for the maintenance of constituency roads. I have also proposed appropriate amendments to allow this amount totalling Ksh. 4.7 billion to be channelled directly to constituencies through the Constituency Fund Board. With these amendments, I have increased significantly resources

channelled through CDF for development and road maintenance from KShs.10 billion in 2008/09 to about Kshs 18 billion or an average of Kshs 86 million per constituency, representing 80 percent increase over the year ending June 2009. I expect these bold and historical measures will go a long way to measurably improve the conditions of our rural roads, promote commerce and consequently improve the welfare of our people.

**47. Mr. Speaker**, even after allocating about Kshs 90 million to each constituency for development, we are going a step further through this budget to make it possible for every Kenyan to participate in restoring their economy back on to a higher growth path, working together to expand economic opportunities and creating employment. In this regard, I have allocated additional Kshs 22 billion, an equivalent of Ksh. 105 million per constituency as conditional Economic Stimulus or Resilience Package toward financing infrastructure development covering education and healthcare, and other development projects. The funding for these interventions is provided under the respective ministry's votes and will be released through the CDF Framework to those specific projects under strict guidelines to be developed by the Treasury.

*Public Procurement to Promote disadvantaged Groups, micro, small and medium enterprises*

**48. Mr Speaker**, in an effort to boost the welfare of disadvantaged groups, micro, small and medium enterprises, I direct the Public Procurement Oversight Authority to make appropriate regulations that will enable these groups to participate effectively in Government tenders. These regulations should ensure that contracts awarded through the CDF, LATF and other development funds are reserved for tenderers who are located and operate in those regions except where such local capacity is not available.

**49.** This initiative, which demonstrates the Government's commitment to local-level budgeting, marks a departure from the past, and building on the experience of this first piloting phase, it will be scaled up to ensure we ultimately achieve in a constructive manner equitable development in our country. And through these initiatives Hon Members, Kenyans will emerge with strength when the global economy recovers, and enhance their capabilities and competitiveness for the long term.

*Expanding Economic Opportunities in Rural Areas for Employment Creation*

**50. Mr. Speaker**, as a decisive step toward equitable regional development, this year's budget also focuses on rural development by creating income and employment opportunities to our people. In this regard, I have proposed a number of local-level initiatives.

- First, I have allocated a total of Ksh 1.8 billion or Kshs 10 million per constituency for the construction of fresh-produce and wholesale markets in countrywide to address the missing markets and facilitate commerce, trade and rural enterprise development.
- Second, I have also allocated Ksh. 1.1 billion or Kshs 8 million per constituency for the construction of 200 fish-farming ponds covering 140 constituencies countrywide to improve nutrition and create over 120,000 employment and income opportunities to our people.
- Third, I have allocated Ksh. 525 million or Ksh. 2.5 million per constituency for the construction of jua-kali sheds and another Ksh 210 million or Ksh. 1 million per constituency

to equip these sheds with appropriate tools and equipment in order to empower our youth directly benefit from the massive construction works we have initiated at the local levels.

- Fourth, I have further allocated additional Ksh. 500 million to Youth Development Fund and another Ksh. 500 to boost the Women Enterprise Fund kitty in order to extend credit for business start-up and expansion throughout the country. Going forward, I expect these Funds will also be devolved to equitably benefit youth and women at the constituency level.

#### *Resettlement of IDPs*

**51. Mr. Speaker**, the post election crisis displaced many people from their homes. While resettlement efforts have progressed well, a number of the IDPs continue to live in makeshift camps. To deal with the problem once and for all, I have allocated KShs. 2.2 billion to support the resettlement of IDPs. A further KShs. 500 million has been set aside to assist them rebuild their destroyed businesses. In addition to this, **Mr. Speaker**, through the assistance from the African Development Bank, the Ministry of State for Special Programmes will be implementing “The Restoration of Farm Infrastructure and Rural Livelihoods” project intended to resettle and empower communities affected by post election violence in the two Districts of Uasin Gishu and Molo. The project components will include reconstruction of 19,000 low-cost, 3-room farm houses, including produce storage space for returning farm households, with priority given to female headed households; and the Purchase of Agricultural inputs comprising of maize seeds and fertilizer through the National Accelerated Agricultural Input Access Programme (NAAIAP).

#### *Northern Kenya and Arid and Semi Arid Lands*

**52. Mr Speaker**, with regard to the development of Northern Kenya and other Arid lands, we plan to undertake numerous interventions in the region. Key projects include the Isiolo–Modogashe–Garrisa–Wajir road at a cost of 1.2 billion; development of water infrastructure at KShs 4.4 billion; installation of solar panels in secondary schools in ASAL areas at KShs 200 million; and construction of abattoirs costing Kshs 130 million in isiolo and Garissa. In addition, resources for Arid Lands Resource Management Programme will be enhanced to KShs 2.5 billion in 2009/10.

#### *Promoting Growth of Tourism and Export Sector*

**53. Mr. Speaker**, following the post election violence, our tourism sector suffered major losses with a decline of about 60 percent in the first quarter. With the sector expected to play a key role in achievement of Vision 2030 objectives, strong actions are required to be taken for the sector to withstand the current challenges and return to its impressive performance that was witnessed prior to post election disturbances. As a step towards this direction, I have allocated Ksh 800 million to be channelled through the Kenya Tourist Development Corporation (KTDC) to be lent to business enterprises in this sector in order to protect jobs. In addition, **Mr. Speaker**, I have allocated another KSh 400 million for tourism marketing, targeting the high-end market.

**54. Mr. Speaker**, as I have already alluded, the current global economic recession has adversely affected our export sector, especially the horticulture industry. In order to cushion this vital sector and enable players to continue employing our people, I will be outlining later in my speech tax proposals to improve cash flow.

**Mr. Speaker**, we recognize that these measures may not be enough to fully mitigate the challenges facing these sectors. In this regard, we are planning to introduce additional measures in the course of this fiscal year to further safeguard and stabilize our exports and tourism against exogenous shocks. But in these challenges, we see opportunities. In this regard, I want to encourage sector players to now focus on value addition and diversification of their products to reduce possible risks in the future.

*Making Quality Healthcare Accessible to all Kenyans*

**55. Mr. Speaker**, as we strive to overcome the current challenges, we must recognize that building a better Kenya requires a healthy population. To achieve this objective, we plan to provide an efficient health infrastructure covering all parts of our country, and raise the quality of health care to our people. In this regard, we are initiating a comprehensive program of healthcare reforms covering infrastructure development, promotion of preventive healthcare and devolved management of facilities.

**56. Mr. Speaker**, in addition to direct funding to the two ministries of Health to finance on-going programs, I have allocated a total of Ksh 4 billion or Kshs 20 million per constituency under the Ministry of Public Health and Sanitation for the construction and equipping of a health centre in every constituency. This is the first step in our 3-year journey towards achieving a countrywide healthcare facility upgrade programme. **Mr. Speaker**, as a Government that cares and listens to its people, we are going a step further, consistent with our policy to promote preventive healthcare, to employ on contract terms and at the local level, additional 4,200 nurses or 20 nurses per constituency countrywide. To this end, I have allocated a total of Kshs.655 million, which translates to Kshs 3.1 million for each constituency.

**57. Mr. Speaker**, to ensure effective delivery of both preventive and curative healthcare in our health facilities countrywide, I have allocated additional KShs.500,000 for the purchase of 5 motor cycles for health workers and another 30 bicycles for community health workers in every constituency. I have also allocated Kshs 5 million as additional funding toward constituency medical supplies kit. This is in addition to the funding I have allocated through the two ministries of Health to KEMSA for the purchase of medicine and other medical supplies. And to ensure efficiency in drug supply chain, storage and inventory control, I expect the two Ministries of Health, through KEMSA, to ensure an appropriate procurement system is put in place.

*Improving Infrastructure and Quality Education Countrywide*

**58. Mr. Speaker**, having put pupils back to class through Free Primary education and Free Tuition in Secondary Schools, our focus is now on how to improve quality of education throughout the country. In addition to the annual allocation towards payment of teachers and running of schools, I have allocated an additional KShs.1 billion each to Free Primary and Free Secondary Tuition to take care of increased cost of goods and services.

**59. Mr. Speaker**, through this budget, we are also initiating a countrywide program to upgrade infrastructure and quality of education in order to give our children a better foundation consistent with the requirements of the modern labour market. To this end, I propose to:

- Allocate Ksh 1.5 billion or Kshs 7 million per constituency for the up grading of two primary schools, and equipping them with water harvesting and under ground water storage facilities;
- For far too long, we have made reference to a few schools as centres of excellence. Time has now come when such schools should be available in all parts of our country. I have therefore allocated Ksh 6 billion or Kshs 30 million per constituency for the construction of one secondary school as a centre of excellence. I expect the completion of this school upgrade program will provide equal life-long opportunities to all our pupils throughout the country;
- Allocate Ksh 1.3 billion or Kshs 6 million per constituency for recruiting additional 10,500 primary school teachers on contract or 50 primary school teachers per constituency to improve the quality of educational service. I also propose to allocate Ksh 353 million or about Ksh 2 million per constituency to recruit additional 2,100 secondary school teachers on contract terms, or 10 teachers per constituency as a first step; and
- Recognizing the need to hook our schools to the ICT grid and promote e-learning, I propose to allocate Ksh 1.3 billion or Kshs 6 million per constituency toward the purchase of a digital laboratory bus.

### 3.3 Investing in Environment and Food Security

#### *Environment and Climate Change*

**60. Mr. Speaker,** the extreme floods and droughts, incidences of vector and water-borne diseases, famine and malnutrition are some of the indicators of climate change. Recognizing the importance of our environment for sustainable development, the Government remains fully committed to addressing the deterioration in the forest cover and quality of the urban environment. Efforts to rehabilitate the five water towers have been initiated, while a master plan for the restoration and rehabilitation of Nairobi River Basin has been developed to guide our conservation efforts. We are doing this because we want to ensure we do not bequeath our mistakes to the next generation.

**61. Mr. Speaker,** our children should know and appreciate the value of a clean environment and learn how to protect mother-nature. In this regard, I have allocated Kshs 1.2 million for tree planting programs in 20 primary schools in each constituency. This program is expected to contribute toward conservation of our environment and give our children a practical opportunity to participate in the conservation of their environment.

**62. Mr. Speaker,** countries are going green in their quest to generate clean energy and Kenya must not be left behind. In order to move forward in transforming Kenya into a green economy, we will establish a Green Energy Facility to offer interest free long-term loans to firms that opt to replace conventional high cost energy generation with low cost green energy alternatives. The facility will be funded by the government and managed by a consortium of selected banks. This is aimed at lowering energy costs and reducing consumption of power from the national grid. The government will also adopt energy saving methods including replacement of all conventional bulbs with energy saving bulbs produced locally. As part of this greening programme, we shall also fast track completion of five power generation projects that have been identified.



**63. Mr. Speaker,** to operationalise this initiative, I have earmarked, as government contribution, Kshs 500 million. I expect to elicit donor support through this initiative to scale up its operation. In addition, **Mr. Speaker,** I have allocated an addition Kshs 400 million for the installation of solar technologies in the Arid and Semi-Arid regions.

*Ensuring Food Security*

**64. Mr. Speaker,** agriculture remains the mainstay of our economy. However, our dependence on rain-fed agriculture has continued to expose our nation to famine. Through this budget we are initiating a programme intended to reduce our reliance on rain-fed agriculture and thereby substantially enhance our food production. This, we are committed to do in order to ensure that we begin our journey to a food-secure Kenya so that Kenyans never go hungry again. To this end, the government through the coordination of relevant ministries and departments is working out an implementation strategy over the medium term focusing on mechanization, irrigation, use of hybrid seeds, water harvesting, providing mixture of chemical and green crop nutrients, efficient storage and marketing systems and application of scientific farming methods.

**65.** As a first step to ensuring our country is food secure in the medium term, I have allocated substantial resources to respective ministries responsible for agriculture and irrigation and regional development. In addition we have allocated Ksh. 3 billion toward rehabilitation and expansion of irrigable land under Bura, Hola, Tarda, Wei Wei and Kerio Valley. From these investments we expect to harvest about 1 million bags of rice and maize by the end of December 2009. As we scale up resources toward irrigable agriculture, we are confident that this great Nation will emerge as a net exporter of food by 2012.

*Taking Care of the Vulnerable Members of Our Society*

**66. Mr. Speaker,** with the current economic challenges, the need to protect the livelihoods of the poor and vulnerable groups in our society has become even more urgent. While some existing programmes have worked well, their coverage is limited. In particular, the urban poor have not been reached. It is for this reason that the government is in the process of developing a national social protection policy, aimed at target in all the deserving members of our society. In this regard, the Government has formed a Taskforce to spearhead the development of a well-targeted food subsidy scheme to ensure food security and improve the welfare of the vulnerable groups. To support this programme and to ensure its roll-out in the course of the year, I have earmarked KSh 1 billion out of the KSh 2 billion set aside for drought relief in the budget.

**67. Mr. Speaker,** this social protection programme will supplement the initiatives I have outlined under the economic stimulus package, which are aimed at expanding economic opportunities in both rural and urban areas for employment creation, social stability and equitable development.

**68. Mr. Speaker,** as a society we must care for those amongst us who are either elderly, physically or mentally challenged, recognising that disability is not inability. In this budget, I have allocated Kshs 200 million interest-free revolving fund toward financing business ventures by our brothers and sisters who are physically challenged. Through this budget, **Mr. Speaker,** I am going a step further to gazette regulations allowing disabled persons, employed or self-employed

tax free income up to Kshs 150,000 per month, and further allow for additional deduction to their taxable income of up to Kshs 50, 000 to cushion them against expenses on drugs, purchase of disability related devices, home care services and treatment.

**69. Mr Speaker,** We have in the past taken steps to improve the welfare of our senior citizens through our tax system. This time round, I have allocated Kshs 200 million as a cash transfer to elderly persons of over 65 years and those mentally challenged. Modalities for ensuring effective and timely transfer of such funds on a monthly basis will be developed before the end of this year. **Mr. Speaker,** we recognize that such a program is not complete without taking into account those physically and mentally challenged in special institutions of learning and care. To this end, I have also allocated Kshs 100 million for purchasing specialized equipments and other requirements to meet the needs of these members our society.

### **3.4 Strengthening Governance for Sustainable Development**

**70. Mr. Speaker,** we recognize the importance of good governance for sustainable development and, in this context, the government is committed to enhancing its governance programme for better service delivery. This will ensure an efficient and effective public service that will provide an enabling environment for sustainable business growth and development.

**71. Mr. Speaker,** the Treasury on its part, will continue to strive to ensure that public resources are used efficiently and effectively for their intended purposes. We will intensify our commitment to working with other Ministries, Departments and Agencies in the government, to enhance financial integrity, and advance good governance.

**72. Mr. Speaker,** to ensure value for money to taxpayers and enhance accountability, the Government will in the first quarter of fiscal year 2009/10 develop and enforce sector specific public work benchmarks covering such areas as the construction of roads, bridges, dams and boreholes.

**73. Mr. Speaker,** it has become clear that public entities are paying extremely highly inflated prices for items that are easily available in the market. Going forward, procurement for all common user items shall only be allowed within the established price reference. To address the problems encountered in procurement including urgent purchases at the closure of the financial year, we shall also henceforth ensure that proper annual procurement plans are prepared and all procurements are implemented within the agreed plans. We will also introduce strict ethical and integrity code of behaviour for all officers working on public financial management – procurement officers, finance officers, accountants, CDF officers, budget supplies officers and internal auditors

**74. Mr. Speaker,** we are optimistic that these measures implemented within the framework of the Governance Strategy for Equity and Poverty Reduction will enhance Financial Integrity in the Public Service by making the misuse of public resources difficult to commit, likely to be detected, and, certain to be punished. We reaffirm our full commitment to restoring the much needed trust, and the confidence of the Kenyan people in the Government, and that of investors in the Kenyan economy.

#### 4.0 FINANCIAL OUTTURN FOR 2008/09

**75. Mr. Speaker**, the implementation of FY 2008/09 Budget was faced with numerous challenges. These include difficulties in achieving the revenue targets due to slow down in economic growth; substantial additional requirements for importation of food, fertilizers and expenses on drought and famine relief; and negative impacts of the global financial crisis. **Mr. Speaker**, with this background in mind, I wish to take this opportunity to briefly appraise Hon. Members on the financial outturn for 2008/09.

##### 4.1 Revenues

**76. Mr. Speaker**, in the last Budget Speech, it was estimated that total revenues (including fees and duties collected and applied at source) would amount to KShs.512.7 billion comprising of KShs.467.9 billion in ordinary revenue and KShs.44.8 billion in Appropriations-in-Aid. However, due to the slowdown in economic activities and other challenges, total revenues are now estimated to reach KShs.501.9 billion by the closure of this financial year.

##### 4.2 Expenditures

**77. Mr. Speaker**, regarding the expenditures, the 2008/09 Printed Estimates reflected Ministerial Recurrent Expenditure amounting to KShs.388.9 billion, including KShs.39.7 billion which was to be financed through Appropriations-in-Aid. The Consolidated Fund Services took KShs.174.6 billion while Development Expenditure had a provision of KShs.196.2 billion.

**78. Mr. Speaker**, owing to unforeseen commitments which required huge funding, I recently requested Parliament to authorize additional expenditures under the Supplementary Estimates. Honourable Members will recall that the Supplementary Estimates for financial year 2008/09 which was recently approved by this House only reflected a net increase of KShs.722.1 million for the Recurrent Budget while the Development Votes reflected a net reduction of KShs.1.8 billion.

**79. Mr. Speaker**, faced with the challenges of lower revenues, I instituted austerity measures and rationalized expenditures by making reallocations within the budget to provide funding for strategic interventions, such as importing food and fertilizers and therefore making them affordable at subsidized prices to the mwananchi. In addition, we also had to reprioritize expenditures and direct some resources to the "Kazi Kwa Vijana" Programme. This programme which was officially launched by His Excellency the President is intended to provide productive employment to the youth.

**80. Mr. Speaker**, overall, the approved gross recurrent expenditures for the current financial year is now estimated at KShs.390.6 billion, with KShs.40.6 billion being financed through Appropriations-in-Aid. Non-discretionary expenditures which are financed directly from the Consolidated Fund Services amount to KShs.167.6 billion while the approved gross development expenditures amount to KShs.203.3 billion with KShs.61.5 billion being financed through Appropriations-in-Aid while the remainder of KShs.141.8 billion being financed from the Exchequer.

## **5.0 FINANCIAL PROJECTIONS FOR 2009/10**

**81. Mr. Speaker** let me now turn to the financial projections for 2009/10 budget.

### **5.1 Revenue**

**82. Mr. Speaker**, the total revenue target for fiscal year 2009/10 is KShs.569.6 billion (or 22.4% of GDP) comprising of KShs.522.8 billion of ordinary revenue and KShs.46.8 billion of appropriations-in aid. The targeted revenue is predicated on the on-going reforms in tax and customs administration.

### **5.2 Recurrent Expenditure**

**83. Mr. Speaker**, as Honourable Members may have noted from their copies of the Printed Estimates, the gross recurrent expenditure for 2009/10 is estimated at KShs.606.7 billion. This includes KShs.41.8 billion which will be financed through Appropriations-in-Aid, and expenditures financed directly from the Consolidated Fund Services, amounting to KShs.187.5 billion, thus leaving a net of KShs.377.4 billion for discretionary recurrent expenditures.

**84.** The Consolidated Fund Services comprise KShs.58.0 billion for domestic interest; KShs.6.3 billion for foreign interest; KShs.24.3 billion for pensions, KShs.1.2 billion for salaries and allowances of constitutional office holders; and KShs.1.3 billion for other non-discretionally expenditures. In addition, I expect to finance external redemptions amounting to KShs.18.7 billion and domestic redemptions amounting to KShs.77.6 billion.

### **5.3 Development Expenditure**

**85. Mr. Speaker**, gross development expenditures for 2009/10 is estimated at KShs.258.9 billion. Out of this amount, KShs.68.6 billion will be financed through Appropriations-in-Aid, comprising of direct project financing of KShs.20.2 billion in form of grants, KShs.44.1 billion in form of loans and KShs.4.4 billion in form of Local Appropriations-in-Aid.

**86. Mr. Speaker**, taking the above into account, I expect to finance net development expenditure amounting to KShs.190.3 billion from the Exchequer. This comprises of KShs.15.1 billion in form of grants revenue; KShs.24.4 billion in form of loans revenue; and KShs.150.8 billion from Government of Kenya.

### **5.4 External Grants**

**87. Mr. Speaker**, on external grants, I have received commitments amounting to KShs.35.3 billion to finance development projects. Details of the donors and projects being financed are included in the Development Estimates. I wish to sincerely thank the development partners who have pledged and confirmed their support.

## 5.5 Overall Deficit and Financing

**88. Mr. Speaker**, the overall fiscal deficit, after grants, amounts to KShs168.2 billion. After taking into account expected net foreign financing of projects, amounting to KShs.50.2 billion, projected privatization receipts amounting to KShs.6 billion, and a refinancing of Kshs.2.5 billion, this would leave a financing requirement of KShs.109.5 billion to be financed through domestic borrowing. **Mr. Speaker**, this means that the fiscal framework for 2009/10 is fully financed and there is no financing gap.

## 6.0 TAXATION PROPOSALS

### 6.1 Overview of the Proposed Tax Policy Measures

**89. Mr. Speaker**, the rest of my speech outlines various tax policy and administrative measures I intend to propose through the Finance Bill, and other regulation to be tabled in this house. I therefore, 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.

**90. Mr. Speaker**, allow me first to acknowledge the many individuals and organizations who took their time to make insightful budget proposals to the Minister for Finance for consideration during 2009 Budget. I have reviewed these proposals, **Mr. Speaker**, taking into account past experiences where the Treasury lowered taxes on certain basic commodities such as kerosene, bread, rice and maize meal, only for traders and business entities to convert such tax relief into expanding their profits, leaving poor Kenyans to continue suffering the high and unaffordable commodity prices.

**91.** In this budget we shall not confer through tax measures, benefits to only a few Kenyans. For this reason, I have incorporated most of the tax proposals I received within the framework of expanding economic opportunities to all Kenyans.

**92. Mr. Speaker**, for those whose submissions have not been considered, the good news is that there is another opportunity. My Ministry has established a Tax Harmonization Taskforce to review and propose appropriate recommendations on how best to reform our tax system to better serve taxpayers and facilitate achievement of Vision 2030. To date this Committee has received numerous representations from individuals and private sector players, which will form the basis of developing a business friendly tax regime in Kenya.

**93. Mr. Speaker**, as we go through these reforms, I expect the tax system we shall develop will go a long way in complementing Government's efforts towards addressing the aspirations of our people and facilitate growth of the economy.

**94. Mr. Speaker**, as was the case last year and consistent with the earlier parts of my speech, the tax measures I have proposed are grouped on the basis of their intended objectives. Overall, **Mr. Speaker**, the measures I am proposing are targeted at:

- i. Promoting growth of our industries to make them competitive
- ii. Promoting tourism and film making industry for employment

- iii. Encouraging Growth of ICT and Infrastructure Development
- iv. Promoting Oil and Energy Exploration and Power Generation
- v. Encouraging Growth of Agricultural Sector
- vi. Promoting Equity and Protecting the Poor and Vulnerable
- vii. Enhancing Compliance with the Tax laws
- viii. Strengthening Financial Systems for Sustainable Development
- ix. Promoting Road Safety on Our Roads

## **6.2 Promoting Growth of Our Industries to Make them Competitive**

**95. Mr. Speaker**, at this difficult economic time, we must be seen to care by supporting our industries to continue in business. In this regard, I have proposed a number of tax measures to promote growth of our industries and make them competitive.

**96. First**, to lower the cost of production for those manufacturers who use industrial sugar, I propose to remove the Sugar Development Levy on refined industrial sugar imported by gazetted manufacturers under the duty remission scheme. I expect this measure to be passed on to consumers by way of lower prices in order to make our products competitive both locally and in the regional market.

**97. Second, Mr. Speaker**, industrial development in the country holds the key to our economic development. To encourage industrial growth and reduce the cost of manufacturing, I propose to grant exemption of import duty on all industrial spare parts which will be managed through the duty remission scheme.

**98. Third**, I further propose to remit all import duty on raw materials for the manufacture of sanitary towels to make them cheaper and available locally, considering that imported sanitary towels and tampons are already duty free.

**99. Fourth, Mr. Speaker**, as you may be aware, our leading paper mills have been experiencing operational challenges in the recent past originating from imported cheap and subsidized paper and paperboard products. In order to cushion the mills and to enable them compete with these imports, I propose to grant a remission of duty on inputs for use by paper and paperboard mills.

**100. Fifth, Mr. Speaker**, in the recent past we have witnessed an upsurge in accidents on our roads leading to loss of innocent Kenyans, not to mention the other incidental costs to the economy occasioned by these accidents. To safeguard against this situation, and also to promote our local manufacturers I propose to remove import duty on asbestos fibres used in the manufacture of brake linings and pads.

**101. Sixth, Mr. Speaker**, our textile industry has huge and untapped potential which need to be exploited to cloth our people, create employment and export to earn foreign exchange. In addition to the on-going efforts by the Government to implement measures to revive the cotton industry, I propose to reduce import duty on all synthetic yarns, acrylic yarn, polyester yarn and high ferocity yarn from the current rate of 10% to 0%. Further, **Mr. Speaker**, in order to encourage the expansion of cotton sector, I propose to zero rate VAT on locally produced and ginned cotton.

### 6.3 Promoting Tourism and Film Industry for Employment Creation

**102.** First, **Mr. Speaker**, as Hon Members are already aware, our tourism sector was adversely affected by last year's post election violence. This was compounded later in the year by the ongoing global economic recession. In order to revive and promote growth of this important sector, I propose to grant an exemption of import duty on all four wheel drive motor vehicles specially designed and built for tourist purposes.

**103.** Second, **Mr. Speaker**, our film industry has lagged behind other destinations such as South Africa, Egypt, and Nigeria. To encourage growth of this industry that has the potential to create employment to our youth, generate income and promote entertainment industry, I propose to remove the current import duty of 25 percent and VAT of 16 percent on television cameras, digital cameras and video camera recorders.

**104.** Third, **Mr. Speaker**, Kenyans are leisure-loving people who enjoy watching Television Programs, but unfortunately the many programmes available to them are foreign programmes and movies. Many film makers find Kenya expensive yet an attractive destination for shooting and making movies. To promote the film industry in Kenya and also attract foreign film makers so as to profile Kenya as a film making destination of choice, I propose to zero rate for VAT taxable goods and services offered to film producers.

**105.** Fourth, **Mr. Speaker**, the Government fully recognizes the pool of talents we have in our country and the need to provide appropriate incentives to this upcoming industry to create employment opportunities for the youth. In this regard, **Mr. Speaker**, I also propose to grant a one hundred (100%) per cent investment deduction on capital expenditure incurred by a film producer on purchase of any filming equipment.

### 6.4 Encouraging Growth of ICT and Deepening Infrastructure Development

**106.** First, **Mr. Speaker**, The East African Marine System Ltd (Teams) and Seacom Kenya Ltd have invested heavily in under sea fibre optic cables, whose completion and full deployment is expected to reduce significantly the cost of communication in our country. In addition to other measures which the Government has so far taken to encourage such investment and to further encourage the uptake of this facility by the internet service providers and other intermediaries, I propose:

- (i) To allow the internet service providers to offset against their taxable income the cost incurred in acquiring the right to use the fibre optic cable over a period of twenty years;
- (ii) To increase wear and tear on telecommunication equipment including the fibre optic cable from 12.5% to 20%;
- (iii) To provide tax deduction of 5% on computer software.

**107.** Second, **Mr. Speaker**, since 2000 when only about 200,000 Kenyans had the privilege to own a mobile handset, the mobile telephony industry has grown tremendously, now estimated at about 17.5 million subscribers. Mobile telephones have, therefore, become essential aspect of our daily communication and transaction system. To make the telephone sets more affordable to wananchi and expand the subscription base, I propose to exempt from VAT, all telephones, for

cellular networks or other wireless networks. I do hope the dealers in these products will pass this benefit to ordinary wananchi by lowering prices.

**108.** Third, **Mr. Speaker**, several policy measures have been taken in the past to decongest our major urban centres by encouraging investors to locate their investments outside the major central business districts. While the response to some of these measures has been positive, a number of investors still prefer to invest only within the urban centres. To further encourage dispersion of investment outside the central business districts, I propose a very generous investment allowance of one hundred and fifty (150%) per cent to any person who makes substantial investment in any satellite town around the major cities of Nairobi, Mombasa and Kisumu.

**109.** And fourth, **Mr. Speaker**, as part of our effort to promote local and foreign investors, I propose to include construction of training institutions in the list of building, which qualify for capital deduction. This measure will allow investors to put up such training facilities and claim capital deduction at the rate of 50 percent per annum, thereby allowing them to recover cost of construction within two years and reinvest in expansion to profile our country as a training hub in the region.

#### **6.5 Promoting Oil and Energy Exploration and Power Generation**

**110.** First, **Mr Speaker**, our country is currently undertaking exploration for oils, gas and geothermal energy. To reduce the cost and encourage other private sector players to conduct oil exploration activities in Kenya, I propose to grant import duty exemption on equipment and inputs excluding motor vehicles imported by a licensed company for direct and exclusive use in oil, gas or geothermal exploration and development.

**111.** Second, **Mr. Speaker**, KPLC and Telkom Kenya have been experiencing serious challenges through vandalism of their copper wires and other equipment. To address this vice and protect the equipment of KPLC and Telkom Kenya, I have imposed a ban on exportation of scrap aluminum, steel and copper wires and cables. This measure is expected to enable KPLC and Telkom Kenya to continue providing Kenyans with these essential services.

**112.** And third, **Mr. Speaker**, in order to make power available to our homes and industries, I propose to zero rate VAT on power generators and generating sets

#### **6.6 Encourage Growth of Agricultural Sector**

**113.** First, **Mr. Speaker**, we have witnessed an improvement in wheat production in the country and also a fall of wheat prices in the international market in the last one year. In order to promote our agricultural sector and protect wheat farmers from cheap imports, I propose to raise the current import duty rate on wheat from 10% or 50 US\$ whichever is higher to a rate of 25%.

**114.** Second, to also support our dairy farming sub-sector through further incentives, I propose to grant an exemption of import duty and to zero rate for VAT, heat insulated milk tanks, to help dairy farmers in preserving their milk.



**115.** Third, **Mr. Speaker**, ensuring food security remains Government's top priority as already mentioned in the earlier part of my speech. As we enhance the national food reserves, we need to encourage individuals and groups to store their produce. In this regard, I propose to zero rate for VAT taxable supplies for the construction of grain silos.

**116.** And fourth, I further propose to zero rate for VAT, refrigerated trucks and parts for agricultural, horticultural and forestry machinery.

### **6.7 Promoting Equity and Protecting the Poor and Vulnerable**

**117.** First, **Mr. Speaker**, as I have already stated the on-going global economic recession has compounded our socio-economic challenges thus making it difficult for ordinary Kenyan to make ends meet. In order to allow those amongst us who cannot afford expensive clothing during this difficult time, I propose to reduce the current import duty on second hand clothing (mitumba) from the current rate of US\$0.3 per kg or 45% whichever is higher to US\$0.20 per kg or 35% whichever is higher.

**118.** Second, **Mr. Speaker**, in the year 2008/2009 the Minister for Finance zero rated motor cycles of between 50cc and 250cc. Since then the number of motor cycles (boda bodas) on our roads have increased significantly, creating employment for our young people. However most of these bicycles, which are taxed under VAT at the rate of 16%. To make these bicycles affordable to wananchi in order to ease transport in many parts of the country, I propose to zero-rate them.

**119.** Third, **Mr. Speaker**, in the recognition of the fact that beautiful women are the face of a healthy society, I propose to reduce excise duty on cosmetics and skin care products from ten per cent to five per cent. Further I propose to remove excise duty on jewellery products. These measures would make these products not only affordable, but also accessible to majority of our Kenyan women and even men.

**120.** Fourth, **Mr. Speaker**, there has been an outcry over the retail prices of soft drinks, juices and water. I do recognize that manufacturers of these products rely on sales volumes due to the small profit margin, which are very sensitive to price variation. Towards this end, I propose to reduce excise duty on water from 10% to 5%, and that on carbonated soft drinks and juices from 10% to 7%. I do therefore expect the manufacturers and retailers of these commodities to adjust their prices downwards accordingly so as to pass the benefit to the consumer.

**121.** Fifth, **Mr. Speaker**, the current excise tax rate disparity across our borders remains a major source of smuggling and tax evasion of spirit and wine products. To mitigate against these risks and encourage use of locally produced hygienic products, I propose to change the excise duty regime from alcohol by volume to a hybrid type of specific and ad valorem as was the case before.

**122.** In this regard, I propose to change the excise duty on spirit from Ksh 7/= per 1% of alcohol per litre to Ksh 120 or 65% whichever is higher, and that of wines from Ksh 7/= per 1% of alcohol per litre to Ksh 70 or 50% whichever is higher. **Mr. Speaker**, I expect this measure to reduce the prices of portable spirits and wines thereby making them affordable to our people in order to reduce consumption of unhygienic and dangerous illicit spirit.

**123.** Sixth, **Mr. Speaker**, in addition to measures we have taken in the past and building on those I have already mentioned to care for the elderly and senior members of our society to live and retire in dignity, I am going a step further to recognise the important role these members of our society play in our country. In this regard, I propose to increase the tax exempt limit for monthly pension from fifteen thousand shillings to twenty five thousand shillings, thereby exempting from tax all those in receipt of monthly pension of twenty five thousand and below.

**124.** Seventh, **Mr. Speaker**, the work done by the Kenya Committee of Red Cross in this country when disaster and other natural calamities occur is critical and much needed by those in distress. In order to support the initiatives of Kenya Red Cross Committee, I propose to exempt goods including materials, supplies, equipment and motor vehicles for official use in the provision of relief services imported by the Kenya Red Cross Organization.

**125.** Eighth, **Mr. Speaker**, in further recognition of the Kenya Red Cross role toward social development, including improvement of health and prevention of disease among other services, I propose to zero rate taxable goods and taxable services supplied to the Kenya Red Cross.

## **6.8 Enhancing Compliance with the Tax Laws**

**126.** **Mr. Speaker**, VAT withholding was introduced with a view to assisting the government recover tax from taxpayers who were not previously paying the tax. The taxpayers are in turn provided with VAT withholding certificate, which will enable them offset the VAT withheld. However there have been complaints of delayed withholding certificates from the withholding agents. To put an end to this, I am proposing an amendment to the law to require VAT withholding agents to issue a VAT withholding certificate to their supplier, at the time of making payment.

**127.** **Mr. Speaker**, upon registration of taxpayers for VAT purposes the law allows the taxpayer to apply for claim for relief of tax paid on the goods in stock, within thirty days. Taxpayers have complained that the thirty days are too short. I am proposing to extend this period from thirty days to six months.

**128.** **Mr. Speaker**, the administration of VAT refunds has continued to be a challenge and has indeed caused cash flow problems to our businesses and investors. I am reviewing the refund position to come up with a lasting position. In the meantime, I propose to gazette known exporters who will qualify for zero rated supplies get supplies zero-rated. This measure is expected to greatly assist our horticultural and floricultural exporters, in turn improving their cash flow position.

## **6.9 Strengthening Financial Systems for Sustainable Development**

**129.** First, **Mr. Speaker**, in spite of the progress we have made in the banking front, many Kenyans remain unbanked due to the limited outreach by deposit taking institutions. One of the ways of reaching this objective is to increase the outreach of the banking sector to the vast under banked and unbanked Kenyan populace. In this regard, I propose to amend the Banking Act to allow for branchless banking. This, **Mr. Speaker**, will allow banks to extend their footprint through agencies with wide distribution networks.

**130.** Second, **Mr. Speaker**, the current mandate of Postbank is rather restrictive and has worked negatively on its profitability, particularly in the face of stiff competition in the banking sector. **Mr. Speaker**, Postbank receives over USD 100 million on an annual basis through remittances from the Diaspora. Unfortunately, due to its restrictive mandate, it can not trade these dollars. I therefore, propose to amend the Kenya post Office Savings Bank Act to expressly allow Postbank to transact in foreign exchange business in accordance with the CBK rules and regulations. This will boost the profitability for the Postbank and assert its existence in the future.

**131.** Third, **Mr. Speaker**, in the recent past, innocent Kenyans suffered huge financial losses after being lured to invest in illegal pyramid schemes which were promoted as superior alternatives to traditional banking. The economic and political influence of such criminal organizations can weaken the social fabric of the society, collective ethical standards and ultimately the democratic institutions of the society. In order to stop these evil schemes from defrauding Kenyans in the future, I propose to amend the penal code to outlaw the operations of pyramid schemes including non-genuine multi-level marketing operations.

**132.** Fourth, **Mr. Speaker**, as you may be aware, the Government has in the past taken some key policy decisions to reform the Capital Markets industry and ensure safety of investors' wealth. In this regard and in order to give full effect to the reforms adopted recently, I propose to amend the Capital Markets Regulations to increase the share capital for stockbrokers and investment Banks from Kshs.5 million and Kshs.30 million to Kshs.50 million and Kshs.250 million respectively in order to adequately capitalize them to reflect their turnover levels.

**133.** Fifth, I further propose to amend the Capital Markets Regulations to require entities under the Capital Markets that collect money from the public to secure professional indemnity insurance to cover losses that may arise from their default or negligence to ensure investors are adequately protected. These policy measures, **Mr. Speaker**, are aimed at restoring investor confidence in the Capital Markets.

**134.** Sixth, **Mr. Speaker**, currently, financial services, offered by banks or financial institutions are exempted from VAT. However, financial services offered by non banking and non financial institutions are taxable. To create a level playing ground, I propose to list and exempt financial services from VAT, irrespective of the institution offering them.

**135.** Seventh, **Mr. Speaker**, long-term financing especially for the development of our infrastructure remains a major challenge. In this regard I propose first to reduce withholding tax from 15 per cent to 10 per cent on interest arising from long term bonds of ten years maturity and above, and secondly, to grant capital deduction to any person entering into a concessioning arrangement with the Government. Such an investor would be able to recover, the cost incurred in the purchase or substantial improvement of any machinery over the period of the concession.

**136.** Eighth, **Mr. Speaker**, the Government has in the past availed numerous fiscal incentives to attract listings in the Nairobi Stock Exchange. Unfortunately, this has not improved the situation as anticipated since only five (5) companies have so far taken advantage of the incentives. **Mr. Speaker**, One of the arguments from the market players is that the listing process is long and attracts a very high listing fee at the rate of 0.3% of the value of the issue without a

Cap. In this regard and in order to deepen the Capital Markets development, I propose to amend the relevant law to reduce the listing fee by 50 percent, that is, from 0.3% to 0.15% for new public offers of equity. This, **Mr. Speaker** is expected to facilitate raising of additional capital for expansion and growth of interested companies as well as availing the opportunity for more Kenyans to own local companies.

**137.** Ninth, **Mr. Speaker**, the Government established the Retirement Benefits Authority in order to regulate and streamline pensions' sector in the country and guarantee better income to the scheme members after retirement. However, we have witnessed in the past imprudent investments made by a category of pension schemes in total disregard of the RBA rules and regulations, leading to huge losses of members' hard earned savings. In order to address this problem and ensure that members' contributions are safe and prudently invested, I propose to amend the Retirement Benefits Act to require that new investments by pension schemes that receive statutory contributions be put in Government Securities and infrastructure bonds issued by public institutions only.

**138.** This, **Mr. Speaker**, will go a long way to guarantee a steady rate of return thereby increasing confidence for Members' returns. It will also seal the abuse by the aforementioned schemes to sink members' funds in dubious investments.

**139.** Tenth, **Mr. Speaker**, Defined Benefit Schemes are required under the law to undertake actuarial valuations every three years in order to establish their liabilities and funding levels. The minimum funding level allowed under the law is 80% of the value of accrued liabilities. Although schemes have continued to be valued, it has been noted that schemes which are being discontinued have had difficulties meeting their liabilities especially where the scheme funding level is below 100 per cent. In order to ensure that schemes are able to meet their liabilities as and when they fall due, I propose to amend the Retirement Benefits Act to increase the minimum funding level from 80 percent to 100 percent for all defined benefits schemes both on going basis and discontinuance basis.

**140.** Eleventh, **Mr. Speaker**, the current provisions of the Insurance Act allow shareholders of insurance companies to hold unlimited number of shares. This has given rise to corporate governance challenges especially where a single shareholder has majority control of the company and makes imprudent decisions relating to the operations of the business I propose to amend the insurance Act to restrict shareholding of insurance companies by a single person either directly or indirectly to 25%.

**141.** I further propose to amend the Insurance Act to bar any person who directly or indirectly owns, controls, or is beneficially entitled to more than twenty percent (20%) of the shares of an insurance company from participating in the day to day management of the company. These measures, **Mr. Speaker**, will go a long way to reduce the possibility of control by related parties and will facilitate the practice of good corporate governance and ensure stability in the insurance industry.

## 6.10 Promoting Safety on Our Roads

**142. First, Mr. Speaker,** In the past few years, the Government has undertaken a number of reforms in the Road Transport Sector which include the issuing of new generation logbook. In order to enhance these reforms I propose to amend the law that deals with the registration of new owners of vehicles where a transfer has taken place as well as the law on registration of imported commercial vehicles.

**143.** Second, the proposed amendments should encourage vehicle owners to migrate from the old generation logbook to the new generation logbook which is issued electronically and has more security features. The replacement will be free for those who hand in the old generation logbook.

**144.** Third, in addition, **Mr. Speaker,** it has been noted that some importers of commercial vehicles are using them without having registered with the Road Transport Department. I propose to amend the law to require importers of commercial vehicles to have them inspected and registered within 30 days of release by Customs Office. The proposed measure should discourage the use of unregistered commercial vehicles on our roads.

**145.** And Fourth, **Mr. Speaker Sir,** it has been noted that some vehicle owners and drivers waste many productive hours between our roads, police stations and the courts for being involved in minor traffic offences which can be sorted out in a more convenient way. To address this concern, I propose to amend the Traffic Act to allow minor traffic offenders who have pleaded guilty before the traffic policeman to be fined on the spot and allowed to proceed with their journey.

## 7.0 CONCLUSION

**146. Mr. Speaker,** in this budget, I have outlined bold and comprehensive measures that I believe will enable us to address the short term challenges that we face while at the same time staying focused on implementing our priorities under Vision 2030. I would like to assure Hon Members, and more important, all Kenyans that we fully understand the enormity of the task that lies ahead. However, we believe that we have what it takes to confront the challenges that may hold us back from our quest to turn this nation into a middle income country over the next 22 years.

**147.** Time and again **Mr. Speaker,** Kenyans have demonstrated that even when confronted by the most serious challenges, they have the capacity and resolve to put their differences aside, to rise to the occasion, and overcome their problems. I therefore urge all Kenyans to join together in the work of rebuilding this nation the only way it can be done – all of us united and working together towards one vision. The vision of steering our economy along the path of prosperity as enshrined in our Vision 2030. Let us resist the temptation to fall back to partisan politics and alliances that have reversed the gains we had worked so hard to build. Let us summon our sense of patriotism and determine as Kenyans to bridge the divides that have held back our progress.

**148.** Further **Mr Speaker,** this country will not prosper without a strong ethical foundation. We need as a country to foster higher standards of integrity. Nothing less than a determination to

transform is required of us. I would therefore like to urge all Kenyans to play their part in fostering a society with strong moral and ethical values.

**149. Mr Speaker,** in this budget, I have also gone a step further to announce new and bold measures designed to address inequality and to ensure that ordinary mwananchi can feel and appreciate our genuine desire to spread development to all parts of our beloved country. If we continue along this path, I believe that in the near future, we shall begin to reap the benefits of our efforts. We should not be despondent, but optimistic. Kenyans are known for excelling in long distance races. Those who complete these races never do so because they perceive the race as being too long or the incline too steep.

**150. Mr. Speaker,** In conclusion, and with humility, let me call upon all Kenyans who we know as determined and hard working, to ensure that we, just like our long distant runners, complete what we have started. And to all the Hon Members under whose leadership we have trusted the huge resources, let us work together to confront our challenges and build equitable and united Kenya.

God bless you, God bless Kenya.

**Mr. Speaker, I beg to move.**