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BUDGET STATEMENT

FY 2021/22

Theme: "Building Back Better: Strategy for Resilient and Sustainable Economic Recovery and Inclusive Growth"

STATEMENT DELIVERED TO THE NATIONAL ASSEMBLY ON 10TH JUNE, 2021 BY HON. (AMB.) UKUR YATANI, EGH, CABINET SECRETARY FOR THE NATIONAL TREASURY AND PLANNING, REPUBLIC OF KENYA, WHILE HIGHLIGHTING THE BUDGET POLICY AND REVENUE RAISING MEASURES FOR THE FINANCIAL YEAR 2021/22

1ST JULY 2021 TO 30TH JUNE, 2022

© Budget Statement 2021

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I. INTRODUCTION

Overview and Background

1. **Mr. Speaker**, it is once again a privilege for me to present to this **Honourable House and to the people of Kenya** highlights of the budget policy and the revenue raising measures for the financial year 2021/22. This Statement is in fulfillment of the requirements of **Section 40** of the Public Finance Management Act and the **Standing Order Number 241** of the National Assembly. I do this in performing my fiduciary duty to Kenyans.

2. Before I proceed with the rest of the Statement, **Mr. Speaker**, allow me to state that during the preparation of this Budget, I had very fruitful engagements with diverse stakeholders and received valuable feedback. The breadth of the stakeholders spanned from **Government Ministries, Departments and Agencies, County Governments, Committees of this House, Development Partners, Private Sector**

and Kenyans from all walks of life. I extend my sincere gratitude to them for their views and useful suggestions which informed the priorities of this Budget.

3. **Mr. Speaker,** pressing concerns raised by Kenyans during the consultation process revolved around the impact of COVID-19 and its containment measures. Kenyans were concerned about the **high cost of COVID-19 treatment and availability of vaccines** in addition to **food security, high cost of living** and **unemployment levels among the youth.** In addition, Kenyans raised concerns about the general levels of **poverty and inequality** as well as the **increased public debt.** **Mr. Speaker,** at the outset, I wish to assure Kenyans that these concerns have been considered and I will be elaborating specific interventions later in this Statement.

4. **Mr. Speaker,** as you recall, following the outbreak of the COVID-19 Pandemic in March last year, the Government instituted containment measures to curb the spread of the virus and save lives. To cushion

Kenyans and businesses, the Government rolled out specific fiscal interventions including reduction of Pay As You Earn and corporate tax rates from 30 to 25 percent, Value Added Tax from 16 to 14 percent, and turnover tax from 3 to 1 percent. The Government also offered 100 percent tax relief to Kenyans earning below Ksh 24,000 per month. In addition, the Government enhanced cash transfer allocations to the vulnerable segment of our society including the emerging urban vulnerable.

5. **Mr. Speaker,** the Government further implemented various monetary policy measures to enhance access to credit by the private sector. This included reduction of the Central Bank Rate from **8.25** to **7.0 percent** and lowering of the Cash Reserve Ratio from **5.25** to **4.25 percent** thereby injecting an additional **Ksh 35.0 billion** to the money market. Further, during this period, commercial banks were allowed flexibility with regard to the requirements for loan classification and provisioning.

6. **Mr. Speaker,** to spur economic activities in the country, the Government implemented a comprehensive Economic Stimulus Programme targeting activities in infrastructure, education, health, business liquidity, agriculture and food security, tourism, manufacturing, environment, water and sanitation.

7. **Mr. Speaker,** inspite of these interventions, a lot remains to be done in order to deal with the challenges of unemployment among our youth as well as high poverty and income inequality levels that have been aggravated by the COVID-19 Pandemic. Our rallying call in this year's budget is therefore, job creation through continued and sustained economic growth. To strengthen this position, we shall implement an comprehensive Economic Recovery Strategy that will expand economic activities and address these challenges.

8. **Mr. Speaker,** the private sector remains key to employment creation and poverty reduction in the country. In order to expand the scope and pace of policy

interventions and enhance access to credit by businesses, the Government established the Credit Guarantee Scheme to de-risk lending to the Micro, Small and Medium Enterprises.

9. **Mr. Speaker,** the plight of the vulnerable in our society, particularly the emerging urban vulnerable, remains a key concern for our Government. In order to cushion this particular group, the Government will enhance cash transfer allocations and institute other targeted interventions in this Budget.

10. **Mr. Speaker,** the COVID-19 Pandemic has triggered one of the worst health and economic crisis of our time. The Pandemic overstretched our health systems, and in line with the advisory of the World Health Organization, the Government implemented appropriate interventions to save lives. The response has undoubtedly strengthened our health care system through provision of necessary medical supplies, installation of modern equipment, and deployment of more health personnel.

11. In addition, in March 2021, the Government launched the National COVID-19 vaccination programme initially targeting the frontline workers and other highly vulnerable groups. As at end May, 2021, about **one million** persons had received the first COVID vaccine dose. In order to facilitate further roll-out of vaccines to create herd immunity, we propose to allocate **Ksh 14.3 billion** in the FY 2021/22. This is in addition to the **Ksh 7.6 billion** appropriated in the current Budget. **Mr. Speaker,** to enhance access to affordable medicine and equipment for management of COVID-19 and other chronic diseases, I will later in this Statement, be proposing tax relief measures on various pharmaceutical products and medical equipment.

12. **Mr. Speaker,** the containment measures instituted by the Government to stem the spread of the virus and save lives, adversely affected economic activities and revenue performance. To stimulate economic activities and enhance Government's ability to respond, we

prioritized health and social expenditures and formulated an economic recovery program targeted at:

- **First,** enhancing our ability to respond to the COVID-19 Pandemic;
- **Second,** reducing debt vulnerabilities through a revenue-driven fiscal consolidation with a view to stabilizing debt to GDP ratio over the medium term;
- **Third,** implementing targeted policy, legal and institutional reforms while at the same time addressing vulnerabilities in the State-Owned Enterprises worsened by the COVID-19 Pandemic; and,
- **Fourth,** strengthening the monetary policy framework and financial stability.

13. **Mr. Speaker,** under this Program, we plan to reduce the level of fiscal deficit from **8.7 percent of GDP** in the current Budget to **7.5 percent of GDP** in the FY 2021/22 and further to **3.6 percent of GDP** in the FY 2024/25. This will be a **5.1 percent** reduction in

fiscal deficit over the next 4 years, thereby slowing the annual growth of debt.

14. Upon our request, this economic recovery programme is supported by multilateral and bilateral development partners with the International Monetary Fund providing financial resources amounting to **US dollar 2.34 billion** over the next three years.

15. Further, **Mr. Speaker**, in response to the COVID-19 Pandemic, the G-20 countries extended support to developing countries by offering debt service suspension under the G-20 Debt Service Suspension Initiative Framework. The fiscal space created under this Initiative is to increase social, health and economic spending in response to the COVID-19 crisis. Kenya has benefited from this initiative through expansion of health and social services.

16. Additionally, **Mr. Speaker**, Kenya welcomes the initiatives under the recent French - African Summit that agreed to, among others, increase funding through the IMF's Special Drawing Rights to African States to support

economic recovery; extension of the G-20 debt service suspension and facilitate manufacture of vaccines in Africa.

17. **Mr. Speaker**, I will now highlight the economic policy context in which this Budget has been prepared.

II. ECONOMIC POLICY CONTEXT

Global Economy

18. **Mr. Speaker**, this year's Budget has been prepared against a background of projected global economic recovery. This is despite the emergence of COVID-19 variants occasioning re-introduction of containment measures to further stem spread of the virus.

19. The projected recovery reflects additional fiscal support in a few large economies and monetary easing that further uplifts the economic outlook. This outlook is further supported by the ongoing vaccinations which is expected to pick up in the second half of 2021. In this regard, **Mr. Speaker**, the global economy is projected

to grow by **6.0 percent** in 2021, from a contraction of **3.3 percent** in 2020.

20. **Mr. Speaker**, closer home, due to improved exports and commodity prices, economic growth in the sub-Saharan Africa region is projected to expand by **3.4 percent** in 2021 from a contraction of **1.9 percent** in 2020. This growth will also be supported by a recovery in both private consumption and investment as economies re-open.

Domestic Economy

21. **Mr. Speaker**, like the rest of the world, our economy was not spared from the adverse impact of the Pandemic. In addition, the Kenyan economy experienced two other shocks; **one**, the invasion of desert locusts that damaged crops, and **two**, floods that caused loss of lives and livelihoods, displacement of people and destruction of infrastructure.

22. Given the impact of these shocks, economic growth for 2020 declined to **0.6 percent** from 5.4 percent in

2019. **Mr. Speaker**, economic growth is expected to rebound to **6.6 percent** in 2021. This recovery reflects the lower base of 2020 when most service sectors were adversely affected by the closure of the economy recording negative growths. The outlook in 2021 will be reinforced by the prevailing stable macroeconomic environment and the ongoing implementation of the strategic priorities of the Government under the “Big Four” Agenda and Economic Recovery Strategy. Weather conditions are expected to be favourable supporting agricultural output. As a result, export of goods and services will expand as global demand normalises. Over the medium term, the economy is expected to remain resilient and grow at a rate above **6.1 percent**.

23. **Mr. Speaker**, this growth outlook is affirmed by recent surveys by the Monetary Policy Committee revealing a general optimism about economic growth prospects. In addition, the recent IMF Mission to Kenya noted that economic recovery is under way and

estimates economic growth consistent with our projections.

24. **Mr. Speaker,** to support this growth outlook, we shall continue to maintain macroeconomic stability. Inflation which stood at **5.9 percent** in May 2021, is expected to remain within target range of **5.0 percent** with a margin of 2.5 on either side, supported by prudent fiscal and monetary policies. Interest rates will be expected to remain low and stable supporting growth of private sector credit.

25. The balance of payments is also expected to be strong with the current account balance projected to remain at **5.2 percent of GDP**. Further, the rebound in horticulture and tea exports as well as increased inflows of remittances will support build-up of adequate levels of official foreign exchange reserves creating buffers against short-term shocks in the foreign exchange market.

26. **Mr. Speaker,** the aforementioned economic outlook may be affected by emerging domestic and

external risks. The emergence of new COVID-19 variants could lead to reinstatement of containment measures disrupting, among others, trade and tourism.

27. In addition, **Mr. Speaker**, adverse weather conditions could lead to lower agricultural output. Further, increased public expenditure pressures, particularly wage demands could put a strain to the fiscal space.

28. **Mr. Speaker**, the Government will continue to monitor these developments and take appropriate policy interventions to safeguard the economy were the risks to materialize.

Theme for FY 2021/22 Budget

29. **Mr. Speaker**, having outlined the economic policy context for this Budget, we have carefully reflected on a theme that would resonate with our strategies to protect lives and livelihoods during this period of COVID-19, cushion the vulnerable and support economic recovery for employment creation and poverty reduction. In this

respect, we have framed the theme for this Budget as **“Building Back Better: Strategy for Resilient and Sustainable Economic Recovery and Inclusive Growth.”**

30. **Mr. Speaker**, the next section of my Statement will give highlights of the policy priorities of the Government and the strategy for economic recovery. I will later provide highlights of the fiscal framework underpinning this Budget, spending priorities and the proposed tax policy measures.

III.POLICY PRIORITIES OF THE GOVERNMENT AND STRATEGY FOR ECONOMIC RECOVERY

31. **Mr. Speaker**, the implementation of “Big Four” Agenda remains a high priority and critical to economic recovery. In this regard, the Government will **fast track** implementation of programs and projects under the “Big Four” Agenda to enhance food and nutrition security; achieve universal healthcare; provide affordable

housing; and support growth of manufacturing sector for job creation.

32. **Mr. Speaker**, the Government will also undertake the following targeted strategic interventions to achieve a resilient and sustainable economic recovery:

- **First, maintain macroeconomic stability** and **enhance security** to foster a secure and conducive business environment and security of Kenyans and their properties;
- **Second, scale up development of critical infrastructure** in the country such as roads, rail, energy and water to reduce the cost of doing business and ease movement of people and goods as well as promote competitiveness;
- **Third, enhance investment in key economic sectors** for broad based sustainable recovery by promoting agricultural transformation, growth in manufacturing, environmental conservation and water supply, stimulating tourism recovery, and sustainable land use and management;

- **Fourth**, expand access to quality social services in health, education and appropriate social safety nets for the vulnerable population;
- **Fifth, support the youth, women and persons living with disability** through Government funded empowerment programs that leverages on partnerships with private sector organizations;
- **Sixth, support County Governments** through transfer of sharable revenues to strengthen their systems and capacity in service delivery; and
- **Lastly**, implement various policy, legal and institutional reforms to enhance efficiency of public service delivery.

Economic Stimulus Programme

33. **Mr. Speaker**, following the outbreak of the Pandemic, we implemented the Economic Stimulus Programme to support economic activities and mitigate the adverse impact of the Pandemic on Kenyans and businesses. The achievements of the Programme include:

- **One**, creation of over 100,000 job opportunities for the youth under the “**Kazi Mtaani**” initiative and 5,500 community scouts in wildlife conservation areas across the 47 counties;
- **Two**, improvement of education outcome through construction of additional classrooms in secondary schools, procurement of locally fabricated desks for both primary and secondary schools and recruitment of 4,000 and 8,000 primary and secondary school intern teachers, respectively;
- **Three**, enhancement of healthcare system capacity by recruiting 5,000 diploma and certificate level healthcare workers for one year under the Universal Health Coverage;
- **Four**, enhancement of liquidity to businesses through payment of VAT refunds of **Ksh 10.0 billion** and clearance of pending bills of **Ksh 13.1 billion**;
- **Five**, de-risking of lending to Micro, Small and Medium Enterprises by providing **Ksh 3.0 billion** to the Credit Guarantee Scheme as a seed capital; and

- **Six**, cushioning the vulnerable particularly, the emerging urban vulnerable with an additional **Ksh 10.0 billion** to the cash transfer programme.

34. **Mr. Speaker**, building on the success of the aforementioned interventions, the Government is now set to implement an elaborate Economic Recovery Strategy that aims to reposition the economy on an inclusive and sustainable growth trajectory.

35. This Strategy seeks to enhance resource mobilization to ensure sustainable funding of our development programmes from diverse sources including Public Private Partnership and lease financing. The Strategy will also support the role of the private sector in the economy and further facilitate credit access by Micro, Small and Medium Enterprises through the Credit Guarantee Scheme.

36. Under the Strategy, the Government will upscale investment in ICT and digital infrastructure in order to facilitate e-commerce and efficient delivery of public services. The Government shall also promote local

production processes and domestic supply value chains and strengthen social-protection through targeted policy interventions and programmes.

37. **Mr. Speaker,** undoubtedly, successful implementation of this Strategy will enable us realize the aspired economic growth, create employment and narrow income inequalities. I will later in this Statement, propose budget allocations to the Government priority areas.

Socio-Economic Achievements

38. **Mr. Speaker,** besides the achievements under the Economic Stimulus Program, the on-going key strategic investments of Government as well as sustained policy reforms over the years have greatly transformed the economy and improved the welfare of Kenyans. **Mr. Speaker,** I will now highlight some of the key achievements realized from these investments and reforms:

Macroeconomic Policy Developments

39. **Mr. Speaker**, at the macroeconomic level, our prudent fiscal, monetary and financial policies have resulted into:

- **First, strong economic growth** that averaged 5.6 percent between 2013 and 2019. However, the onset of the COVID-19 Pandemic slowed growth in 2020. The GDP per capita increased by an impressive **80.4 percent** from **Ksh 113,000** in 2013 to **Ksh 204,000** in 2019. New jobs created by both the formal and informal sector increased by **12 percent** from **755,000** in 2013 to **846,000** in 2019;
- **Second, inflation rate** has remained within target range **averaging 6.1 percent**;
- **Third, interest rates** have declined while credit to the private sector increased. Lending rate declined from **17.3 percent** in 2013 to **12.0 percent** in 2020 while the Central Bank Rate declined from **8.5 percent** in 2013 to **7.0 percent** in 2020. As a

result, **credit to the private sector** increased from **Ksh 1.5 trillion** in 2013 to **Ksh 2.8 trillion** in 2020;

- **Fourth**, the **current account deficit** improved from **8.8 percent** of GDP in 2013 to **4.7 percent** of GDP in 2020 supporting the stability of the foreign exchange market; and
- **Fifth, revenue collection** including Appropriation-in-Aid **doubled** from **Ksh 900 billion** in the FY 2013/14 to an estimated **Ksh 1.8 trillion** in the FY 2020/21.

Expansion and Development of Infrastructure

40. **Mr. Speaker**, our investment in the expansion of road networks, railways, seaports, airports and energy has enhanced domestic and regional connectivity, boosted rural productivity and reduced urban congestion. These investments include:

- **One**, the Standard Gauge Railway and urban commuter rail in Nairobi; the on-going rehabilitation

of meter gauge railway lines along various routes including Nairobi-Nanyuki, and Nakuru-Kisumu-Butere;

- **Two,** the recently launched first berth in **Lamu Port** as a critical pillar of the LAPSSET corridor. Our current focus is to make Lamu a **free port** for both domestic and trans-shipment purposes. In addition, the Government is establishing a disease-free zone in Lamu to support export of live animals and processed meat;
- **Three,** the rehabilitation and subsequent use of Kisumu port will enhance efficiency in regional trade; and
- **Four,** expansion in energy generation and connectivity with over 7.5 million households today connected to electricity compared to 2.3 million households in 2013.

41. **Mr. Speaker,** the Government has provided various incentives at our ports including exempting the fuel supplied to the shipping lines from import and excise

duty, VAT as well as railway development levy and import declaration fees. To further attract more ships to our ports, particularly to the recently launched Lamu Port, the Government will review the arrangements on fuelling by vessels calling at the Kenya Ports with a view to allowing ship to ship refuelling and establishment of fuel bunker facilities.

Recent investments and reforms in the agricultural sector

42. **Mr. Speaker**, in addition to the various reforms in the agricultural sector, we focused on the livestock sector by reviving the Kenya Meat Commission. We shall set up a meat processing plant in Lamu to provide ready market for livestock, increase income to farmers and enhance the meat value chain.

43. **Mr. Speaker**, we also focused on increasing fish production by refurbishing Liwatoni Fishing complex and setting up a new fish processing plant in Lamu. This will promote exports and increase incomes for the local fishermen.

44. **Mr. Speaker**, in order to improve access to land as a factor for development, we have stepped up investment in the sector and rolled out ambitious national program of Land Titling and digitization of land records.

Tea and Coffee Sub-Sectors

45. **Mr. Speaker**, tea and coffee sub-sectors provide livelihoods to millions of Kenyans. Despite its contribution to foreign exchange earnings, the returns to farmers have been declining due to low productivity, high input costs, low levels of value addition and weak regulatory and institutional framework. Under the ongoing reforms in the coffee and tea sectors, I will be proposing further measures to enhance competitiveness of these sub-sectors.

Manufacturing Sector

46. With regard to manufacturing, **Mr. Speaker**, the Government has revived and transformed textile, leather and automobile industries, which have in turn created jobs for our youth. The full operationalization of

Special Economic Zones in Dongo Kundu, Naivasha and Kisumu will support local industrial activities and unlock additional employment opportunities.

Local Assembly of Motor vehicle and Motorcycles

47. **Mr. Speaker**, the Government over the years has supported local assembly of motor vehicles and motor cycles by providing various tax incentives. These include removal of excise duty on locally assembled motor vehicles, duty-free importation of Completely Knocked Down kits and reduced corporate tax from 30 to 15 percent for the first five years of operation. I am pleased to note that the industry has responded positively to these interventions and to date, we have approved **thirteen** motor vehicle and **seventeen** motor cycle assemblers. These local assemblers have created employment opportunities while also saving the country substantial foreign exchange.

48. **Mr. Speaker**, whereas, assembly of commercial vehicles have registered tremendous growth, the

passenger category of motor vehicles remains underdeveloped. This category is still dominated by imported used vehicles comprising over 70 percent of passenger vehicles, which is largely attributed to the high cost of assembly. In this regard, the Government is working on a framework to support the assembly of affordable passenger vehicles.

49. Further, the Government in consultations with stakeholders is in the final stages of instituting comprehensive policy and administrative reforms to fully entrench local assembly of motor vehicles and motor cycles.

Policy, Legal and Institutional Reforms

50. **Mr. Speaker,** while we have made tremendous progress as a nation, we remain alive to structural constraints that impede the pace of economic development. Aware that a resilient and sustainable economic recovery is indeed predicated on timely implementation of appropriate policy, legal and institutional reforms, I propose the following

interventions to improve the business environment, increase efficiency in public service delivery and strengthen accountability and transparency in public finance management.

Procurement Reforms

51. On procurement, **Mr. Speaker**, this House approved the Public Procurement and Asset Disposal Regulations 2020, that came into effect in July 2020. With these Regulations, it is now easier for procuring entities to meet the specified requirements of bilateral and multilateral agreements on technology and knowledge transfer, local content and employment quotas among others. For smooth implementation of the Regulations, we have conducted capacity building in all 47 counties. I therefore direct all Procuring Entities to fully comply with these Regulations.

52. **Mr. Speaker**, in order to ensure efficiency in the procurement process and facilitate access by Micro, Small and Medium Enterprises, the Government has reviewed the consolidation policy on the procurement of

ICT equipment and related services. In this regard, procurement of ICT equipment and related services will be decentralized to various Ministries, Departments and Agencies with effect from 1st July, 2021.

E- Government Procurement

53. **Mr. Speaker,** last year, we began the process of automating public procurement through an end-to-end electronic procurement system. So far, we have developed an implementation strategy that re-engineers all public procurement processes, including functional and technical requirements. In order to actualize this initiative, 31st December, 2021 will be the final date for rolling out the electronic Government procurement system and discontinuation of the manual procurement processes. In this regard, the Government will realize savings as a result of greater efficiency, reduced operational costs, enhanced transparency and accountability through increased bidder participation.

Framework Contracting

54. **Mr. Speaker,** to support our local contractors undertake construction of infrastructural projects, we have proposed changes to the contracting framework through the Public Procurement and Asset Disposal (Amendment) Bill, 2020. The Bill before this House, proposes among others, to allow award of a contract to multiple bidders. This will indeed support local firms and accelerate the delivery of services.

State Corporations Reforms

55. **Mr. Speaker,** given the prevailing business environment due to the adverse impact of COVID-19 Pandemic, there's an urgent need to evaluate the financial position and governance of key State Corporations and institutions. It is in this respect that the Government is exploring targeted reforms to strengthen these institutions, including Public Universities.

56. **Mr. Speaker,** in the interim, the Government provided financial support to strategic institutions

including Kenya Airways; Kenya Power and Lighting Company and Postal Corporation of Kenya, which were in dire need of cash to meet critical obligations.

57. **Mr. Speaker,** we have developed a robust Information Management System to strengthen the statutory role of the National Treasury in financial and operational oversight as well as financial risk analysis for State Corporations.

58. **Mr. Speaker,** you may recall that, the Government introduced cost sharing in public universities in the year 1991. At that time, Government funding to public universities per year was set at Ksh 120,000 per student. Of this, Government capitation per student was Ksh 70,000 while students contributed Ksh 50,000 through loan funding from Higher Education Loans Board out of which Ksh 16,000 catered for tuition fees. This is less than half of tuition fees paid currently by students in various colleges of Technical, and Vocational Education and Training institutions. The ideal cost of training a student in a university has increased from Ksh

120,000 to about Ksh 200,000 per year and therefore the prevailing funding arrangement introduced in 1991, is unsustainable. Under the current arrangement, Universities have not only experienced financial constraints but have also been unable to continuously honour their statutory obligations. **Mr. Speaker**, in order to ensure sustainability and self-reliance of public universities, the Ministry of Education is expected to engage stakeholders beginning July 2021 with a view to addressing the matter.

Pending Bills

59. **Mr. Speaker**, delays in payment of pending bills to businesses who provide services to both National and County Governments has affected liquidity and operations of these entities. In a number of cases, this has led to closure of businesses and affected livelihoods of the suppliers. Though progress was made in settlement of these bills by the National Government, we still have challenges with the County Governments that still owe various suppliers huge amounts. In this regard,

I direct Government Ministries, Departments and Agencies and the County Governments to clear all their pending bills by 30th June, 2021.

60. **Mr. Speaker,** I urge this House to support our efforts towards enforcing compliance in payment of all verified pending bills by County Governments by backing our proposal under Article 225 of the Constitution of Kenya to temporarily stop transfers to County Governments that persistently fail to comply with the directive to clear pending bills.

Financial Sector Stability and Development

61. **Mr. Speaker,** the financial sector has remained stable and continue to make significant contributions to economic growth. Our commercial banks continue to expand their businesses to the neighbouring markets, including recent acquisitions in the Democratic Republic of Congo and the Republic of Uganda. The continued regional expansion will leverage on the trade and investment opportunities under the Africa Continental Free Trade Area.

62. **Mr. Speaker,** in 2020, the Kenyan banking sector continued on its transformation journey that commenced five years ago where the key pillar of the journey has been the strengthening of banks' business models, governance frameworks and entrenching customer centricity in their operations.

63. **Mr. Speaker,** at the onset of the COVID-19 Pandemic in March 2020, the banking sector moved quickly to mitigate the impact of the Pandemic on staff, customers and the public and instituted emergency measures to support business continuity, use of digital channels to mitigate COVID-19 infection risk, enhanced liquidity to businesses as well as facilitate compliance with health and safety protocols. As a result, banks continued to provide uninterrupted banking services to customers mainly through digital channels.

64. **Mr. Speaker,** over the last one year, more than 54 percent of the bank loans, equivalent to **Ksh 1.7 trillion** were restructured to enable borrowers navigate through the hard time due the pandemic. As we move to the

recovery phase, the banking sector will be expected to play a pivotal role in supporting the recovery of enterprises.

65. **Mr. Speaker**, to spur economic recovery, additional capital and investments are required. In this regard, the recently established Nairobi International Financial Centre Authority will play an important role and is expected to publish, before end of December, 2021, a framework for attracting investments and innovative financial services into our economy and the region.

Support to Affordable Housing

66. **Mr. Speaker**, the high cost of mortgages, land acquisition and housing units has limited access to affordable housing. Nevertheless, Government interventions are beginning to yield the desired results for affordable housing. Significant progress has been made to enhance efficiency, transparency and certainty in land matters by re-engineering the land registration processes, digitization of land records and implementation of the Sectional Properties Act. The

Government is also in the process of streamlining and simplifying the legal and regulatory process governing the housing sector and providing basic infrastructure services to developers.

67. Further, the Kenya Mortgage Refinance Company is supporting the growth of residential housing market in Kenya by providing long-term funding to the mortgage lenders in order to increase affordability of mortgage loans to Kenyans. As of December 2020, Kenya Mortgage Refinance Company had refinanced **1,400 affordable housing loans** worth **Ksh 2.75 billion**.

68. **Mr. Speaker**, the Kenya Mortgage Refinance Company is scheduled to issue an infrastructure bond by October 2021 to raise additional financing for its affordable housing finance objectives. Subsequently, the Company plans to issue Green Bonds to finance climate friendly housing projects.

Credit Support to Micro, Small and Medium Enterprises

69. **Mr. Speaker**, during the current fiscal year, the Government operationalized the Credit Guarantee Scheme by providing seed capital of **Ksh 3.0 billion** to de-risk lending to Micro, Small and Medium Enterprises. To this effect, the National Treasury signed Credit Guarantee Agreements with seven commercial banks who have now rolled out credit to Micro, Small and Medium Enterprises. **Mr. Speaker**, to further promote access to affordable credit by Micro, Small and Medium Enterprises, the Government has committed to progressively raise the capital to **Ksh 10.0 billion**. In this budget, I propose to allocate an additional **Ksh 2.0 billion** to the Scheme.

70. **Mr. Speaker**, alongside the Credit Guarantee Scheme, on account of improved business environment, the private sector has rolled out other innovative credit products targeting Micro, Small and Medium Enterprises. Through these innovations the banking sector, had disbursed over **Ksh 20.8 billion** to Micro, Small and

Medium Enterprises, equivalent to **0.7 percent** of total gross loans by end of April 2021. **Mr. Speaker**, in order to unlock the full potential of digital lenders, the Government has through the Central Bank of Kenya (Amendment), Bill, 2021, proposed to provide for licensing of digital credit service providers. This Bill has been submitted to this House for consideration and approval.

Capital Markets

71. **Mr. Speaker**, capital markets play a critical role of channelling national savings and foreign capital inflows into the productive sectors. In order to enhance inclusivity and access to the investment opportunities in the capital markets, I propose to amend the Central Depositories Act, to allow for opening of omnibus investment accounts by persons investing on behalf of others in the securities market. This will allow investments by individuals as well as collective investment by groups.

72. Further, to improve efficiency in our capital markets and ensure fair administrative actions by the Capital Markets Authority, I propose to amend the Capital Markets Act to enable the Capital Markets Tribunal to hear and determine any appeal within 90 days.

73. **Mr. Speaker**, working with the Kenya Bankers Association and other industry players we shall establish an electronic Over-The-Counter secondary market platform for Government securities. This platform will help in deepening our domestic debt market, improve pricing efficiency and transparency in securities trading thereby lowering yields and cost of credit in the economy. We expect the operations of the Over-The-Counter to be in place by June 2022.

Pension Reforms

74. **Mr. Speaker**, the defined benefit pension scheme for civil servants, teachers and disciplined forces has constrained growth of pension savings and also exerted fiscal pressure on Government. In order to address these twin problems, the Government, on 1st of

January,2021, rolled out the much-awaited Public Service Superannuation Scheme that covers civil servants, teachers and the disciplined forces aged below 45 years at the commencement of the Scheme with an option for those over 45 years to join if they elect to do so. As of April 2021, a total of **340,318** public servants had indeed joined the Scheme.

75. **Mr. Speaker,** in the past, the processing and payment of pension benefits to retired public servants has neither been efficient nor timely, thus denying senior citizens regular incomes. To address this, National Treasury has carried out targeted reforms including systems re-engineering and the provision of real-time pension services in all the Huduma Centres countrywide. I am pleased to note that as a result of these interventions, the cumulative pension payments and pension files processed increased by 40 percent by 31st May, 2021 compared to the previous year. We expect further improvement with the planned implementation

of Pensions Management Information System later in the year.

76. **Mr. Speaker,** given the disparities in the design of the various existing pension schemes and the attendant laws, it has become necessary that these laws be harmonised, hence the need for establishment of one National Retirement Policy. The policy currently under development seeks to achieve comprehensive pension coverage across formal and informal sector so as to protect the interests of beneficiaries and rights of pension contributors. In this regard, **Mr. Speaker,** I shall be publishing this policy by December 2021.

77. **Mr. Speaker,** further, to enhance good governance and improve accountability and transparency in the management of retirement benefits schemes, I propose to amend the Retirement Benefits Act to provide for the registration and regulation of corporate trustees that provide services to pension schemes.

78. **Mr. Speaker,** our retired citizens have continued to experience challenges in accessing medical care. For this

reason, we have developed post-retirement medical regulations to allow members to make additional voluntary contributions to a medical fund. This will enable retirees access the funds at retirement or transfer a portion of it to a medical insurance provider. However, the existing regulations exclude post-retirement medical funds established under irrevocable trust by employers and service providers outside a retirement benefits scheme popularly known as “Stand-Alone Post-Retirement Medical Funds”. These funds have remained unregulated thus adversely exposing members’ funds. As such, I propose to amend the Retirement Benefits Act to provide for regulation of these funds.

Informal Sector Pension Scheme

79. **Mr. Speaker,** majority of Kenyans in the informal sector are not covered by any pension scheme making them vulnerable during old age. To address this, I undertook last year to establish a National Informal Sector Pension scheme with a sustainable model that

combines long-term savings with short-term needs targeting the more than 15 million informal sector workers who have been excluded from the current pensions arrangement.

80. To this effect, I wish to report that necessary instruments to operationalize the scheme including, the Trust Deed & Rules, Business plan, and Investment Policy have been prepared. We intend to roll out this scheme in the next financial year.

81. **Mr. Speaker**, to reinforce realisation of affordable housing, last year, we amended the Retirement Benefits Act and mortgage regulations to allow members use part of their accumulated benefits to purchase residential houses. This was to support members of retirement benefit schemes to **own homes**. In this budget, I propose to amend the mortgage regulations to allow members utilize up to **40 percent** or **maximum of Ksh 7.0 million** of their accrued benefits to purchase a house under a tenant purchase basis by their pension scheme.

Insurance Reforms

82. **Mr. Speaker,** currently, foreign insurance brokers are excluded from the definition of brokers under the Insurance Act, thereby making them operate in the country without any controls, thus putting insurers and policyholders at a risk. To address this, I propose to amend the Insurance Act to provide for the regulation of foreign insurance brokers.

83. **Mr. Speaker,** classes of long-term insurance business were amended in 2009 to align with modern classification and bring into perspective the industry's current size. However, the permitted maximum management expenditure was not updated to match the new classification which causes insurers to either overestimate or underestimate the management expenses impacting negatively on policyholders. I, therefore, propose to amend the Insurance Regulations to provide for the maximum permitted expenditure for each category.

Disaster Risk Management Framework

84. **Mr. Speaker,** to effectively manage disaster response in a more coordinated manner, the Government has developed a Disaster Risk Management Bill, 2021. The objective of the Bill is to better prepare and coordinate for disasters response, mitigation and recovery as well as build resilience at both national and county level. Given the urgency to provide a framework for disaster management at both levels of Government, I appeal to this House to prioritize consideration of this Bill.

Building Resilience against Climate Change

85. **Mr. Speaker,** climate change remains a key concern globally given its adverse impacts on economies. In this regard, Government will strengthen capacity of National and County Governments to plan, budget, implement and monitor climate resilience investments. The Government has partnered with development partners in the implementation of the proposed **Financing Locally Led Climate Action**

Program and already mobilized funding of over **Ksh 18 billion** to support the initiative over the next five years. Through this program, we shall strengthen National and County Governments' capacities to manage climate risk through support to the County climate change units, establishment of County Climate Change Fund and development of climate change laws.

86. **Mr. Speaker**, the Government has also developed and approved the Sovereign Green Bond Framework, identified a portfolio of projects for consideration under the framework and is prepared to issue the first Sovereign Green Bond to raise capital to finance green projects under the economic recovery strategy.

Trade and Investment Facilitation

87. **Mr. Speaker**, as part of **Ease of Doing Business Reforms** to facilitate trade, we have finalized the development of Maritime Single Window System under the TradeNet System. This will provide a harmonized and simplified ship to shore clearance procedures to maritime stakeholders. The Maritime Single Window

System will allow shipping agents in Kenya to electronically submit vessel pre-arrival and pre-departure declarations to Government Agencies. The Maritime Single Window System is expected to replace the current system that is manual, decentralized, with unnecessary lengthy processes that affect the ship turnaround time and increase costs at the port of Mombasa. I am pleased to note that this Maritime Single Window System went live on 2nd June, 2021.

IV. FISCAL FRAMEWORK FOR FY 2021/22 BUDGET

88. **Mr. Speaker**, the fiscal policy supporting the FY 2021/22 and the medium-term budget is designed to support economic recovery and reduce fiscal deficit. The policy aims to mobilize revenues through the ongoing reforms in tax policy and administration. On the expenditure side, the focus will be to rationalize non-priority expenditures from the budget and align the resources to the “Big Four” Agenda and the Economic Recovery Strategy.

89. **Mr. Speaker**, the execution of the budget for FY 2020/21 has progressed well albeit with revenue underperformance and elevated expenditures associated with the adverse impact of COVID-19 Pandemic. The shortfalls in revenues reflect weaker business environment and the impact of containment measures adopted in March 2020 following the outbreak of the Pandemic. The Government then, responded to the Pandemic by among others implementing tax reliefs measures in April 2020. These measures resulted in reduced collection of revenues adversely impacting the implementation of the budget. Arising from this, the Government in January 2021, made reversal of some of the relief measures resulting in improvement in revenue collection. However, in March 2021, containment measures were re-introduced as a result of the third wave of the COVID-19. These measures lasted for only one month.

90. **Mr. Speaker**, we remain committed to reducing the level of tax exemptions to create parity of treatment

while also raising more revenues to fund social programmes and reducing the fiscal deficit. In this budget, I will be proposing selected measures to expand the revenue base.

91. **Mr Speaker**, our tax policies are spread across various tax statutes which are amended every year during the budget process creating uncertainty in tax legislation. In this regard, **Mr Speaker**, I have initiated a process of developing a National Tax Policy Framework that will not only enhance administrative efficiency of the tax system but provide consistency and certainty in tax legislation and management of tax expenditure. A draft National Tax Policy is now ready and will be shared with stakeholders and members of the public in line with the dictates of our constitution before forwarding to this House for consideration and approval.

Revenue Projections for the FY 2021/22

92. **Mr. Speaker**, total revenue including Appropriations-in-Aid and grants for the FY 2021/22 budget is projected at **Ksh 2.1 trillion**, equivalent to

17.0 percent of GDP. Of this, total revenue is projected at **Ksh 2.04 trillion**, equivalent to **16.4 percent** of GDP, an increase in nominal terms from **Ksh 1.84 trillion** in the FY 2020/21. Ordinary revenue in the budget is projected at **Ksh 1.78 trillion**, equivalent to **14.3 percent of GDP**.

Expenditure Projections for the FY 2021/22

93. **Mr. Speaker**, total expenditures in the FY 2021/22 budget are projected at **Ksh 3.03 trillion** equivalent to **24.5 percent** of GDP from **Ksh 2.89 trillion** equivalent to **25.8 percent** of GDP in the FY 2020/21 budget. Recurrent expenditures will amount to **Ksh 2.0 trillion** or **16.2 percent** of GDP. On the other hand, development expenditures including foreign financed projects, allocation to Contingencies Fund and conditional transfers to County Governments are projected at **Ksh 669.6 billion**. This funding is expected to accelerate completion of ongoing critical infrastructure projects in the country.

94. **Mr. Speaker,** the expenditures I have outlined in this budget are consistent with those approved in the 2021 Budget Policy Statement. Given the performance of revenue and the available level of funding from our Development Partners, it is necessary that we strictly adhere to the expenditure ceilings as presented so as to manage and stabilise public debt.

Fiscal Balance for the FY 2021/22

95. **Mr. Speaker,** given the projected revenues and grants against the projected expenditures, the fiscal deficit for the FY 2021/22 budget is projected at **Ksh 929.7 billion** equivalent to **7.5 percent** of GDP. This fiscal deficit is lower than the **Ksh 976.2 billion** equivalent to **8.7 percent of GDP** in the financial year 2020/21 budget. The fiscal deficit in FY 2021/22 budget will be financed through net external financing of **Ksh 271.2 billion** equivalent to **2.2 percent of GDP** and net domestic financing of **Ksh 658.5 billion** equivalent to **5.3 percent of GDP**.

96. **Mr. Speaker,** our medium-term consolidation policy aims at reducing fiscal deficit progressively to **Ksh 613.8 billion** equivalent to **3.6 percent of GDP by FY 2024/25**. In this respect, we shall closely monitor the impact of COVID-19 to the economy and accordingly adjust the fiscal plan including tax measures to ensure that our development agenda remains sustainably funded.

97. We shall carefully do this while limiting in-year adjustments of the budget for new projects except those of emergency nature. This will enhance certainty in the budget process and improve implementation of Government programmes and projects while adhering to the fiscal consolidation plan.

Strengthening Public Debt Management

98. **Mr. Speaker,** Kenya's public debt remains sustainable but the debt carrying capacity has however declined. Financing of the fiscal deficit will continue to be strictly guided by the Debt and Borrowing Policy and the annual Medium-Term Debt Strategy.

99. **Mr. Speaker**, the Government is implementing reforms to strengthen the institutional arrangement of public debt management by aligning the operations of the Public Debt Management Office to the PFM Act. In this respect, decisions on the day-to-day management and operations of public debt management shall be undertaken by the Public Debt Management Office to enhance efficiency, strengthen accountability and transparency.

100. In addition, **Mr. Speaker**, during this calendar year we have scheduled a set of debt management operations to lower cost and risk in our public debt portfolio to improve on the country's debt sustainability indicators and sovereign credit rating. I look forward for support of the august House for the amendment of public debt ceiling set in the Public Finance Management Act to enable implementation of debt management operations including financing of the fiscal deficit.

Public Private Partnerships Framework

101. **Mr. Speaker,** with the desire to meet our development objectives, the gap between development needs and available resources has been expanding, underscoring the need for alternative financing mechanisms. Last year, I highlighted the importance of Public Private Partnerships as an option for closing the financing gap. The current Public Private Partnership Act impedes expeditious financial closure of Public Private Partnership projects. To this effect, I undertook to transform the Public Private Partnerships framework, which included review of legal, operational and institutional structures. In this regard, I submitted the Public Private Partnership Bill, 2021 to this House for consideration and approval.

V. SPENDING PRIORITIES

102. **Mr. Speaker,** let me now turn to the highlights of the Government spending priorities in the coming financial year. In light of revenue challenges and

significant expenditure demands, spending in the FY 2021/22 will focus on critical areas with the highest impact on the well-being of Kenyans and support economic recovery. Therefore, the total programmed spending for the FY 2021/22 excluding redemptions amounts to **Ksh 3.03 trillion**.

Economic Stimulus Programme

103. **Mr. Speaker**, the Government will continue with the implementation of the Economic Stimulus Programme in the FY 2021/22, which targets to cushion vulnerable citizens and businesses particularly those affected by the COVID-19 Pandemic. We have in this regard set aside, **Ksh 23.1 billion** in the FY 2021/22 budget for continuation of this Programme.

104. **Mr. Speaker**, out of this, **Ksh 3.0 billion** is earmarked for youth empowerment and employment creation under the ***Kazi Mtaani Programme***, **Ksh 2.6 billion** will go towards enhancing liquidity to businesses; **Ksh 6.4 billion** for improving education outcomes; **Ksh 6.9 billion** for improving environment, water and

sanitation facilities; **Ksh 1.97 billion** for improving agriculture and food security as well as **Ksh 1.2 billion** for recruitment of health workers. **Mr. Speaker**, I have also set aside **Ksh 1.0 billion** for Kenya Wildlife Services to employ Community Scouts.

Fulfilling the “Big Four” Agenda

105. **Mr. Speaker**, implementation of priority programs under the “Big Four” Agenda is a critical path to supporting sustainable economic recovery and accelerating employment creation. To realize this, **Mr. Speaker**, I have set aside **Ksh 142.1 billion** to support the implementation of the “Big Four” Agenda, for both Drivers and Enablers projects.

Universal Health Coverage

106. **Mr. Speaker**, the outbreak and rapid spread of the COVID-19 Pandemic necessitated an urgent need to upscale implementation of Universal Health Coverage to all our counties.

107. Towards this end, **Mr. Speaker**, I have proposed an allocation of **Ksh 121.1 billion** to the

health sector to support the various programmes aimed at improving health outcomes.

108. **Mr. Speaker**, of this amount **Ksh 47.7 billion** will fund activities and programmes for the attainment of Universal Health Coverage. **Mr. Speaker**, specific allocations for various activities and programmes include: **Ksh 8.7 billion** for the Kenya COVID-19 Emergency Response Project; **Ksh 4.1 billion** for Free Maternity Health Care; **Ksh 7.2 billion** for the Managed Equipment Services as well as **Ksh 1.8 billion** to provide medical cover for the elderly and severely disabled persons in our society. To lower cases of HIV/AIDS, Malaria and tuberculosis in the country, **Ksh 5.8 billion** has been set aside. To enhance vaccines and immunizations programme, we have set aside **Ksh 3.9 billion**. Further, **Mr. Speaker**, we propose an additional **Ksh 14.3 billion** for purchase of COVID-19 vaccines and related expenditures in the course of FY 2021/22.

109. **Mr. Speaker**, to enhance early diagnosis and management of cancer, and reduce the burden of

treatment among Kenyans, I have proposed an allocation of **Ksh 450 million** for procurement of Cyber Knife Radiotherapy Equipment for Kenyatta University Teaching, Referral and Research Hospital. A further **Ksh 350 million** has been set aside for the establishment of two cancer centres in Meru and Kakamega.

110. Further, to improve health service delivery, **Ksh 15.2 billion** has been set aside for the Kenyatta National Hospital; **Ksh 11.5 billion** for the Moi Teaching and Referral Hospital; **Ksh 7.3 billion** for the Kenya Medical Training Centres; **Ksh 2.8 billion** for the Kenya Medical Research Institute; **Ksh 1.3 billion** for the construction of Kenya National Hospital Burns and Paediatrics Centre; **Ksh 863.0 million** for procurement of family planning & reproductive health commodities; and **Ksh 600.0 million** for procurement of equipment at the National Blood Transfusion Services.

Affordable Housing

111. **Mr. Speaker**, Affordable Housing Programme is a pragmatic approach to addressing the housing

problem especially in the urban centres. To ensure success of this initiative, I have proposed an allocation of **Ksh 13.9 billion** for the Affordable Housing Programme. The proposed allocation includes: **Ksh 3.5 billion** to Kenya Mortgage Refinance Company for enhancement of the company's capital as well as for on-lending to primary mortgage lenders; **Ksh 8.2 billion** for construction of Affordable Housing Units as well as **Ksh 500.0 million** for construction of Social Housing Units.

112. **Mr. Speaker**, to support the Nairobi Metropolitan Services in reversing urban indignity in Nairobi City County, **Ksh 100.0 million** has been set aside for the Nairobi Metropolitan Services Improvement Project and **Ksh 111.2 million** for construction of foot bridges.

113. Other key allocations to the Housing, Urban Development and Public Works sector includes **Ksh 3.5 billion** for the Kenya Informal Settlement Improvement Project-Phase II; **Ksh 1.0 billion** for construction of

markets; **Ksh 1.0 billion** for maintenance of Government Pool Houses; **Ksh 750 million** for the construction of Housing Units for the National Police and Kenya Prison; **Ksh 700.0 million** for the Kenya Urban Programme; **Ksh 200.0 million** for the Africities Summit; and **Ksh 45.6 million** for the construction and completion of stalled Government buildings. In addition, **Mr. Speaker**, I have proposed an allocation of **Ksh 700.0 million** to support the Nairobi Bus Rapid Transport Project to offer an efficient and time saving public transport.

Supporting Manufacturing for Job Creation

114. **Mr. Speaker**, the Government continues to scale up reforms to encourage investment in the manufacturing sector to support and protect local industries. Despite the challenges brought about by COVID-19 Pandemic, the fiscal and monetary policy measures that the Government implemented, significantly cushioned the sector.

115. **Mr. Speaker,** to further promote local industries, I have proposed an allocation of **Ksh 20.5 billion** under various implementing Ministries, Departments and Agencies. Out of this, **Ksh 2.0 billion** will go to the Credit Guarantee Scheme to enhance access to affordable credit by Micro, Small and Medium Enterprises in the manufacturing sector; **Ksh 500 million** will support development of various Micro, Small and Medium Enterprises in Kenya; and **Ksh 600 million** for provision of finances to Micro, Small and Medium Enterprises through the Kenya Industrial Estate.

116. In addition, **Mr. Speaker,** I have set aside **Ksh 8.3 billion** for Dongo Kundu Special Economic Zone; **Ksh 350 million** for the development of the Special Economic Zone Textile Park in Naivasha, Kenanie Leather Industrial Park and Athi River Textile Hub; **Ksh 90 million** for the Freeport and Industrial Park Special Economic Zone in Mombasa. Other proposed allocations include; **Ksh 130.2 million** for the modernization of

RIVATEX and **Ksh 800 million** for access roads to industrial park facilities.

117. **Mr. Speaker**, in order to maximize the benefits from our cash crops, the Government will make further investments towards their revival and enhancement of output. In this respect, **Mr. Speaker**, I have proposed **Ksh 210.4 million** for coffee industry revitalization; **Ksh 59.2 million** for modernization of cooperative cotton ginneries and **Ksh 50 million** for the Cotton Development as subsidy and extension support.

118. **Mr. Speaker**, to equip our youth with essential training and internship opportunities; I have proposed an allocation of **Ksh 1.4 billion** for the Kenya Industry and Entrepreneurship Project; **Ksh 800 million** for the Kenya Youth Employment and Opportunities Project; **Ksh 448 million** for Industrial Research Laboratories; **Ksh 199.5 million** for Constituency Industrial Development Centers.

Enhancing Food and Nutrition Security

119. **Mr. Speaker,** in order to support our aspirations of attaining 100 percent food and nutrition security, I have set aside **Ksh 60.0 billion** for relevant programs in this budget.

120. Out of this, **Ksh 7.0 billion** will go to the National Agricultural and Rural Inclusivity Project; **Ksh 2.7 billion** for the Kenya Cereal Enhancement Programme; **Ksh 1.8 billion** has been proposed for the Emergency Locusts Response; **Ksh 1.5 billion** for the National Value Chain Support Programme; **Ksh 1.5 billion** for the Agricultural Sector Development Support Programme II; **Ksh 1.5 billion** for the Small Scale Irrigation and Value Addition Project; and **Ksh 620 million** for Food Security and Crop Diversification Project.

121. **Mr. Speaker,** to improve livestock production, I propose **Ksh 3.0 billion** for Free Disease Holding Ground in Lamu. I have also proposed **Ksh 488.1 million** for the Regional Pastoral Livelihood Resilience

Project; **Ksh 455.0 million** for the Kenya Livestock Commercialization Programme; **Ksh 163.0 million** for the Livestock Value Chain Support Project; and **Ksh 156.2 million** for Livestock Production under “Big Four” initiative. To enhance animal diseases control, I have set aside **Ksh 180.0 million** for Sustainable Tsetse and Trypanosomiasis Free Areas in Kenya; **Ksh 131.4 million** for the Disease-Free Zones Program; and **Ksh 60.0 million** for modernization of the Foot and Mouth Disease Laboratory and related activities.

122. **Mr. Speaker,** the realization of the food and nutrition security also relies heavily on the sustainable utilization of the blue economy resources. To promote this, I have proposed an allocation of **Ksh 3.2 billion** for the Aquaculture Business Development Project; **Ksh 3.4 billion** for Kenya Marine Fisheries & Socio-Economic Development Project; **Ksh 2.1 billion** for Exploitation of Living Resources under the Blue Economy; **Ksh 1.0 billion** for construction of Fish Processing Plant in Lamu; **Ksh 290.0 million** for Coastal Fisheries Infrastructure

Development; **Ksh 326.6 million** for rehabilitation of Fish Landing Sites in Lake Victoria; **Ksh 150.0 million** for Aquaculture Technology Development and Innovation Transfers; and **Ksh 195.3 million** for Development of Blue Economy Initiatives.

123. **Mr. Speaker**, in order to increase agricultural productivity and enhance resilience to climate change risks in targeted smallholder farming and pastoral communities in Kenya, I have set aside **Ksh 8.9 billion** for the Climate Smart Agricultural Productivity Project; **Ksh 1.1 billion** to enhance drought resilience and sustainable livelihood; **Ksh 178.0 million** towards Ending Drought Emergencies in Kenya and in addition, I have proposed an allocation of **Ksh 529.5 million** for the Livestock and Crop Insurance Scheme to reduce the vulnerabilities of Kenyan farmers to diseases and natural disasters.

124. **Mr. Speaker**, to ensure legitimacy of land ownership, I have set aside **Ksh 1.5 billion** for Processing and Registration of Title deeds; **Ksh 600**

million for Digitization of Land Registries and **Ksh 105 million** for Construction of Land Registries.

125. **Mr. Speaker,** other proposed allocations include: **Ksh 100.0 million** for Revitalization of Cotton Industry; **Ksh 300 million** for mitigation of Fall Army Worms; **Ksh 150 million** for establishment of Liquid Nitrogen Plant; **Ksh 200 million** towards the Embryo Transfer Project and **Ksh 65 million** for construction and refurbishment of the Leather Science Institute.

126. **Mr. Speaker,** having highlighted expenditures under the Economic Stimulus Programme and the “Big Four” Agenda initiatives, allow me to turn to other proposed areas of expenditures in this budget that will support our path to sustainable and resilient economic recovery.

Investing in Critical Infrastructure

127. **Mr. Speaker,** the Government continues to expand critical infrastructure in roads, railways, sea and airports to create an enabling environment for economic recovery and employment creation. Towards this end, I

have proposed an allocation of **Ksh 182.5 billion**, excluding the provisions I have set aside for the Economic Stimulus Programme and “Big Four” Agenda, to support construction of roads and bridges as well as their rehabilitation and maintenance.

128. **Mr. Speaker**, the rehabilitation of the meter gauge railway has improved interconnectivity and reduced traffic congestion on our roads. To continue improving public transport within the Nairobi Metropolitan Area, I have set aside **Ksh 1.3 billion** for Railways Metro Lines. Further, **Mr. Speaker**, to expand railway transport to the rest of the country, I have set aside **Ksh 27.2 billion** for Phase II of the Standard Gauge Railway; **Ksh 2.0 billion** for construction and rehabilitation of Naivasha Inland Container Depot – Malaba Line; **Ksh 2.0 billion** for construction and rehabilitation of Riruta/Lenana – Ngong Railway; **Ksh 1.1 billion** to complete rehabilitation of the Nairobi-Nanyuki Meter Gauge Railway Line; and **Ksh 700 million** to complete rehabilitation of the Nakuru-Kisumu

Meter Gauge Railway. I have also set aside **Ksh 2.0 billion** for Kenya National Ship Yard.

129. **Mr. Speaker**, to support development of our ports, I have proposed an allocation of **Ksh 7.5 billion** for the construction of the Mombasa Port Development Project; and **Ksh 7.5 billion** for the LAPSSET Project. Further, I have set aside **Ksh 128.0 million** for insurance of ferries for the Likoni channel; **Ksh 149.0 million** for maintenance of ferries and jetties headquarters and **Ksh 603.0 million** for construction and expansion of airports and airstrips.

130. **Mr. Speaker**, to support production of reliable and affordable energy, I have set aside a total of **Ksh 71.9 billion** excluding the provisions set aside under the “Big Four” Initiatives. Out of this, **Ksh 50.1 billion** will cater for transmission and distribution of power; **Ksh 11.3 billion** for development of geothermal energy; **Ksh 6.4 billion** for electrification of public facilities and **Ksh 1.3 billion** for development of nuclear energy as well as exploration and mining of coal.

Improving Security

131. **Mr. Speaker,** enhanced national security will create an enabling environment for business to thrive while aiding faster economic recovery. In this regard, I have proposed an allocation of **Ksh 294.5 billion** to support operations of the National Police Service, Defence and the National Intelligence Service.

132. **Mr. Speaker,** the proposed allocations include **Ksh 119.8 billion** for Defence; **Ksh 42.5 billion** for the National Intelligence Service; **Ksh 110.6 billion** for Policing and Prisons Services; **Ksh 10.7 billion** for leasing of police motor vehicles and **Ksh 1.0 billion** for Police Modernization Programme. **Mr. Speaker,** to step up war on crime and enhance support to administration of justice, I have set aside **Ksh 1.5 billion** for the National Communication and Surveillance System; and **Ksh 335.0 million** to equip the National Forensic Laboratory.

133. **Mr. Speaker,** other allocations include **Ksh 4.8 billion** for medical insurance for the National Police

Service and Prisons; **Ksh 2.3 billion** for the group personal insurance for National Police Service and Prisons as well as **Ksh 1.0 billion** for the National Integrated Identity Management System.

Enhancing Quality and Relevant Education

134. **Mr. Speaker**, the outbreak of Covid-19 Pandemic last year disrupted in-person learning leading to closure of schools for nine months. The Government is determined to recover the lost time while ensuring safe learning in our schools, colleges and universities. In this respect, I have set aside a total of **Ksh 202.8 billion** to support programmes in the education sector.

135. **Mr. Speaker**, out of the proposed allocation, **Ksh 12.0 billion** will cater for Free Primary Education; **Ksh 2.5 billion** for recruitment of teachers; **Ksh 62.2 billion** for Free Day Secondary Education including insurance under NHIF for secondary school students; **Ksh 4.0 billion** for examinations fee waiver for all class eight and form four candidates; and **Ksh 1.8 billion** for the School Feeding Programme.

136. In addition, **Mr Speaker**, I have proposed an allocation of **Ksh 1.0 billion** for the Competency Based Curriculum and **Ksh 420.0 million** for the Digital Literacy Programme and ICT Integration in our Secondary Schools.

137. **Mr. Speaker**, to support infrastructure development and ensure safe learning in our schools, I have proposed an allocation of **Ksh 4.2 billion** for Primary and Secondary schools' infrastructure and **Ksh 1.8 billion** for construction and equipping of Technical Training Institutes and Vocational Training Centres. Further, **Ksh 1.1 billion** has been set aside to increase access and improve the quality of Technical and Vocational Education and Training programs under the East Africa Skills Transformation and Regional Integration Project.

138. **Mr. Speaker**, other proposed allocations to the education sector include: **Ksh 281.7 billion** to Teachers Service Commission; **Ksh 76.3 billion** for University Education; **Ksh 15.8 billion** to the Higher Education

Loans Board; **Ksh 5.8 billion** for Kenya Secondary Education Quality Improvement Project; and **Ksh 5.2 billion** capitation for TVET students. Further, **Ksh 745.0 million** has been set aside for Technical, Vocational Education Training and Entrepreneurship; **Ksh 633.0 million** for promotion of Youth Employment and Vocational Training; and **Ksh 323.0 million** for the National Research Fund.

Protecting the Vulnerable Groups

139. **Mr. Speaker**, when Covid-19 Pandemic struck last year, we injected additional resources to the traditional cash transfer programme to cushion the vulnerable in our society. To continue protecting this vulnerable segment, I have proposed an allocation of **Ksh 37.8 billion** for social protection and affirmative actions in this budget.

140. **Mr. Speaker**, out of this allocation, **Ksh 16.7 billion** will cater for cash transfers to elderly persons, **Ksh 7.9 billion** for Orphans and Vulnerable Children

and **Ksh 1.2 billion** for persons living with severe disabilities.

141. **Mr. Speaker**, the proposed allocation also includes **Ksh 4.1 billion** for the Kenya Hunger Safety Net Programme; **Ksh 3.7 billion** for the Kenya Development Response to Displacement Impact Project; and **Ksh 2.7 billion** for the Kenya Social and Economic Inclusion Project. In addition, **Ksh 933.8 million** will go to the Child Welfare Society of Kenya; **Ksh 400 million** for the Presidential Bursary for the orphans; and **Ksh 200 million** for National Development Fund for Persons living with Disabilities.

Equity, Poverty Reduction, Women and Youth Empowerment

142. **Mr. Speaker**, the most pressing challenge in our country at the moment is lack of job opportunities for the youth. This has been exacerbated by the hard economic times following the adverse impact of COVID-19 Pandemic. In order to empower the youth and support businesses owned by youth, women and

persons living with disabilities; I have set aside **Ksh 10.0 billion** for the National Youth Service; **Ksh 4.2 billion** for the Kenya Youth Empowerment and Opportunities Project; **Ksh 454.1 million** for the Youth Enterprise Development Fund; **Ksh 120.0 million** for the Women Enterprise Fund; and **Ksh 62.0 million** for the Youth Employment and Enterprise Fund.

143. **Mr. Speaker**, to promote regional equity, reduce poverty and enhance social development, I have set aside **Ksh 41.7 billion** for the National Government Constituency Development Fund; **Ksh 2.1 billion** for the National Government Affirmative Action Fund; as well as **Ksh 6.8 billion** for the Equalization Fund to finance programmes in previously marginalized areas.

Digitalizing our Economy

144. **Mr. Speaker**, the rapid technological advancements portend great potential to catalyse economic recovery, create jobs and improve lives and livelihoods of Kenyans.

145. To leverage on these technological gains, I have proposed an allocation of **Ksh 20.9 billion** to fund initiatives in the Information, Communication and Technology sector. Specifically, this allocation includes **Ksh 1.0 billion** for Government Shared Services; **Ksh 670 million** for the Digital Literacy Programme.

146. Further, to fast track the development of the Konza Technopolis City, I have proposed an allocation of **Ksh 12.0 billion** for the Horizontal Infrastructure Phase I; **Ksh 3.6 billion** for Konza Data Centre and Smart City Facilities; **Ksh 400 million** for construction of Konza Complex Phase 1 B; and **Ksh 200 million** for development of Konza Technopolis Masterplan.

147. **Mr. Speaker**, other proposed allocations include: **Ksh 1.2 billion** for maintenance and rehabilitation of the National Optic Fibre Backbone Phase II Expansion Cable; **Ksh 1.1 billion** for installation and commissioning of Eldoret-Nadapal Fibre Optic Cable; and **Ksh 463.0 million** for maintenance and rehabilitation of Last Mile County Connectivity Network.

Stimulating Tourism Recovery, Sports, Culture, Recreation and Arts

148. **Mr. Speaker,** the outbreak of the COVID-19 Pandemic and the ensuing containment measures significantly affected tourism, sports, culture, and arts sectors. To support recovery of these sectors, I have proposed an allocation of **Ksh 15.0 billion** for the Sports, Arts and Social Development Fund; **Ksh 1.7 billion** for the Tourism Fund; **Ksh 643.0 million** for Tourism Promotion Fund; and **Ksh 90.0 million** for refurbishment of the regional stadia.

Environmental Protection, Water and Natural Resources

149. **Mr. Speaker,** to expand access to clean and adequate water for domestic and agricultural use, I have proposed an allocation of **Ksh 38.0 billion** for water and sewerage infrastructure development; **Ksh 16.4 billion** for water resources management; and **Ksh 10.8 billion** for water storage and flood control. In addition, I have set aside **Ksh 10.5 billion** for irrigation and land

reclamation and **Ksh 1.6 billion** for water harvesting and storage for irrigation.

150. **Mr. Speaker**, in order to support environment and water conservation, I have set aside **Ksh 9.6 billion** for forests and water towers conservation; **Ksh 3.3 billion** for environment management and protection; **Ksh 1.4 billion** for Meteorological Service; and **Ksh 8.2 billion** for wildlife conservation and management.

Improving Governance and Sustaining the Fight against Corruption

151. **Mr. Speaker**, to enhance good governance and scale up fight against corruption, I have set aside **Ksh 3.3 billion** for the Ethics and Anti-Corruption Commission; **Ksh 3.2 billion** for the Office of the Director of Public Prosecutions; **Ksh 7.6 billion** for the Criminal Investigations Services; and **Ksh 5.9 billion** for the Office of the Auditor General.

152. Additionally, **Mr. Speaker**, to enhance the oversight and legislative role of Parliament and access

to justice, I propose to set aside **Ksh 37.9 billion** for Parliament; and **Ksh 17.9 billion** for the Judiciary.

Transfers to County Governments

153. **Mr. Speaker,** acknowledging the place of devolution in our country, the County Governments will receive **Ksh 370.0 billion** as equitable share representing **27.3 percent** of the most recent audited and approved revenue raised nationally in line with Article 203 (2) of the Constitution.

154. In addition, the County Governments will receive **Ksh 7.5 billion as conditional allocations** from the National Government share of revenue and **Ksh 32.3 billion from development partners**, bringing the total allocation to the County Governments for the FY 2021/22 to **Ksh 409.9 billion. Indeed, this** marks a substantial increase compared to **Ksh 353.2 billion** allocation in the FY 2020/21, a clear testimony of the Government's commitment to supporting devolution.

155. **Mr. Speaker,** in line with the High Court ruling on Petition No. 252 of 2016 directing that conditional and

unconditional grants to County Governments should not be provided for under the Division of Revenue Act, the National Treasury in consultation with other stakeholders is developing an appropriate legal instrument to be used to disburse additional conditional grants from the National Government's share of revenue as well as from proceeds of loans and grants to County Governments.

Transfer of Functions from Nairobi City County to the National Government

156. **Mr. Speaker**, in February 2020, the National Government and the Nairobi City County Government entered into a mutual agreement in line with Article 187 of the Constitution, through which the Nairobi City County transferred some of its functions to the National Government. To ensure that the process of such a transfer of functions is fully re-enforced in law, the National Treasury is developing a legislation to operationalize Articles 187 and 189 of the Constitution

on Transfer of Functions and Cooperation between the National and the County Governments.

157. **Mr. Speaker,** to facilitate performance of the transferred functions, by the Nairobi Metropolitan Services, I propose to allocate **Ksh 27.2 billion** which will comprise **Ksh 18.0 billion** for recurrent expenditure and **Ksh 9.2 billion** for development expenditure.

Measures to Enhance County Governments' Own Source Revenue

158. **Mr. Speaker,** to support County Governments capacities to enhance their own source revenue and reduce over-reliance on equitable share, the National Treasury rolled out a nation-wide capacity building exercise for the County Governments on interventions contained in the National Policy to Support Enhancement of County Governments' Own-Source Revenue.

159. **Mr. Speaker,** the Policy, proposes broadening of the revenue bases while enhancing counties revenue administrative capacities. The policy further proposes legal framework to ensure that County Governments

comply with Article 209(5) of the Constitution of Kenya when formulating their revenue raising measures. In this regard, we re-submitted the County Governments (Revenue Raising Process) Bill, 2020 to this August House in early 2020 for consideration. It is my hope that this bill will get necessary priority and approval.

160. Further, **Mr. Speaker**, the Government through a multi-agency taskforce has reviewed existing revenue management systems with a view to deploying one Integrated County Revenue Management System for use by all the 47 County Governments. The taskforce has completed its work and made appropriate recommendations for consideration by the two levels of Government.

Equalization Fund

161. **Mr. Speaker**, in order to provide basic services to previously marginalized areas as envisaged under the Constitution of Kenya, the concerned County Governments have been allocated **Ksh 6.8 billion** under the Equalization Fund in the financial year 2021/22.

162. **Mr. Speaker,** arising from the High Court ruling declaring the Equalization Fund Guidelines unconstitutional, the National Treasury has developed the Public Finance Management (Equalization Fund) Regulations, 2021, which is now before this House for consideration and approval.

VI. TAXATION POLICY MEASURES

163. **Mr. Speaker,** I will now turn to taxation policy measures, for the FY 2021/22 budget. I will begin by highlighting some of the key measures on custom duty as agreed during the EAC Partner States Pre-Budget consultations in May, 2021. I will then highlight some of the proposed amendments in the various tax laws relating to tax administration. These amendments are contained in the Finance Bill 2021 that I submitted to this House in April 2021 for consideration and approval.

164. **Mr. Speaker,** the custom measures agreed by the EAC Partner States and the proposed amendments in the Finance Bill, 2021 are expected to generate an

additional **Ksh 8.7 billion** to the exchequer for the FY 2021/22 budget.

Custom Duties

165. On custom duties, **Mr. Speaker**, during the EAC Pre-Budget meeting, the Ministers noted with concern the proliferation of cheap imports into the region and agreed on measures to protect locally manufactured products from unfair competition. The agreed measures under customs shall become effective from **1st July, 2021**.

166. **Mr. Speaker**, to sustain the fight against the COVID-19 Pandemic, EAC Partner States have agreed to extend the duty-free importation window for raw materials and inputs for manufacture of masks, sanitizers, ventilators and personal protective equipment remission for a further one year.

167. **Mr. Speaker**, over the years, we have developed sufficient capacity for local manufacturing in the metal and allied subsector. This has generated job opportunities for our youth. However, the local

manufacturers in this sub-sector continue to face stiff competition from cheaper imports. In this regard, and in order to continue protecting this sub sector, the EAC Partner States agreed that imported iron and steel products, shall continue attracting a duty rate of 25 percent with the corresponding specific rates for a further one year.

168. **Mr. Speaker,** our farmers have been working hard to produce enough food to satisfy demand in the region. In particular, the sector has been meeting local demands for vegetable products including potatoes, peas, and tomatoes among others.

169. To protect these farmers and the sector from cheap imports, the EAC Partner States agreed that vegetable products including potatoes, peas, tomatoes among others shall attract a duty rate of 30 percent for one year as we await the finalization of the review of the EAC Common External Tariff.

170. **Mr. Speaker,** baby diapers are essential products and there is need to supply them at affordable

prices. In this regard, last year, we allowed manufacturers to access inputs for manufacture of baby diapers duty free, under Duty Remission Scheme. This was meant to support Kenya's capacity to manufacture these products locally and create jobs. I am happy to note that many companies have responded to this incentive by increasing production. In order to nurture the growth of this industry, and to continue sustaining the smiles of babies, we have agreed to extend the duty-free importation of inputs for manufacture of baby diapers for a further one year.

171. **Mr. Speaker,** Kenya has sufficient raw materials for manufacture of leather and footwear products. In support of this sector, the Government imposed a duty of 25 percent on imported products for manufacture of leather and footwear products. However, the sector continues to face competition from imported products due to undervaluation, thereby discouraging investments in the sector. To this effect and in order to enhance incomes of our farmers, the EAC Partner States

have agreed to retain the import duty on imported products for manufacture of leather and footwear products at 25 percent and introduce a further specific duty rate to guard against undervaluation.

172. **Mr. Speaker,** our Micro, Small and Medium Enterprises that operate in the jua kali sector have continued to thrive, creating jobs and incomes to millions of families. Of particular interest is the furniture industry, that has continued to attract local artisans who have been able to provide high quality products. However, the industry continues to face stiff competition from imported finished products sometimes of low quality. In this regard, the EAC Partner States agreed to extend the applicable import duty on furniture at the rate of 35 percent for a further one year.

173. **Mr. Speaker,** to give impetus to the affordable Housing Programme and facilitate availability of locally made roofing tiles at affordable prices, EAC Partner States agreed to extend, for a further one year, the duty-free window for importing inputs for the

manufacture of roofing tiles under the Duty Remission Scheme.

Income Tax Act

174. **Mr. Speaker,** I now turn to the proposed amendments to the Income Tax Act. **Mr. Speaker,** to ensure equity and fairness in taxation, I have proposed to align, the Income Tax Act with international best practice, through introduction of provisions to prevent tax base erosion and profit shifting as well as restrict treaty benefits to curb tax evasion and avoidance. In this respect, I propose to amend the Income Tax Act to expand the definition of the term “**Permanent Establishment**” so as to align the Income Tax Act with the international best practice.

175. **Mr. Speaker,** the Finance Act, 2020, introduced the digital service tax on income earned through the digital market place. However, the current tax provisions do not cover all traders who use the digital service platform to transact their businesses. In this regard, I propose to expand the scope of the digital

service tax to include income derived through internet and electronic network.

176. Further, I propose to amend the Income Tax Act to align the rate of withholding tax on service fees in the extractive industry with that withheld in respect of management and professional services under the same sector. This will remove ambiguity and manipulation that result in leakage of tax revenue through re-characterization of income.

177. **Mr. Speaker,** private contributions made to insurance companies enjoy tax relief. However, the contributions to the National Health Insurance Fund do not enjoy this relief despite the Fund being the largest medical cover for majority of Kenyans under the Universal Healthcare. In order to support the contributors and encourage more non-registered persons to join the Fund, I propose to amend the Income Tax Act to allow contributions to the National Health Insurance Fund qualify for tax relief at the rate of 15 percent of the contributed amount.

178. **Mr. Speaker,** the Income Tax Act provides for a tax rebate to employers who offer internship to a minimum of 10 university graduates for a period of one year. These employers are allowed to deduct, from their taxable income, an extra fifty percent out of the cost of the apprentice emoluments. In order to encourage employers to provide similar opportunities to TVET graduates, I propose an amendment to the Income Tax Act to include graduates of TVET institutions under the programme. Accordingly, employers who engage a minimum of ten graduates from both Universities and TVET institutions will be allowed to deduct, from their taxable income, an extra fifty percent (50%) out of the cost of the apprentice emoluments. It's my hope that employers will take advantage of this incentive and give our young graduates from the TVET institutions opportunities to gain practical experience so as to expand their employability.

179. **Mr. Speaker,** last year, we revised the investment allowance regime under the Second

Schedule to the Income Tax Act to introduce a new regime and retain the reducing balance method of deduction. However, under this method, deductions rarely get exhausted. In order to cure this problem, I propose to amend the Income Tax Act to replace the reducing balance method with the straight-line method which provides definite timeline for the deductions. This will provide certainty in taxation, ease tax administration and enhance compliance.

180. **Mr. Speaker,** we have noted that the current provisions on deductibility of interest allow some taxpayers to manipulate their balance sheets to reduce their tax liabilities. I therefore propose to replace the current thin capitalization rule that is based on debt-to-equity ratio with interest restrictions based on a ratio of earnings before interest, taxes, depreciation and amortization. Accordingly, any interest paid in excess of 30 percent of a company's earnings before interest, taxes, depreciation and amortization will be disallowed in determination of taxable income. **Mr. Speaker,** in

addition to being an international best practice, this measure has been found to be a better indicator of the economic performance of businesses hence appropriate for determining the deductibility of interest on loans. This will guard against tax planning.

Value Added Tax

181. **Mr. Speaker,** I now turn to the proposed amendments under the Value Added Tax Act. In order to strengthen our healthcare system, make the cost of medicines affordable for Kenyans, and step up the fight against COVID-19 Pandemic, I propose to introduce VAT exemption on medicaments used in our health facilities including decongestants and food supplements.

182. Further, I propose to provide VAT exemption to diagnostic and laboratory reagents, artificial respirators including therapeutic respiration apparatus, breathing appliances, gas masks as well as medical equipment and technologies used in the provision of medical services. It is my hope that the suppliers of these medicaments and

medical equipment will reciprocate by making their prices affordable.

183. **Mr. Speaker,** in order to promote local manufacturing of pharmaceutical products, I also propose to introduce VAT exemption on inputs used in the manufacture of medical ventilators and breathing appliances. This will enhance access to these products that are essential in management of the COVID-19 complications.

184. **Mr. Speaker,** despite the huge potential for mineral and petroleum resources in this country, exploration and mining sector remains underdeveloped due to huge capital outlay requirements. In order to promote exploration and mining activities in the country, I propose to exempt from VAT goods for exclusive use in geothermal or oil exploration and mining prospecting.

185. **Mr. Speaker,** to boost Kenya's effort on green energy, I propose to exempt from VAT equipment for generation of solar and wind energy.

186. **Mr. Speaker,** to provide a transition clause to allow companies that had already signed power purchase agreements with Government, I propose to amend the Value Added Tax Act, to provide for a transition for the projects that had been signed before April 2020, to enable them continue benefiting from the VAT exemption in respect of taxable goods used in the projects. This transition will expire upon completion of the said projects.

187. **Mr. Speaker,** in order to entrench the benefit of affordable housing including specialised facilities like student hostels, it is imperative to develop innovative financing alternatives. In this regard, I propose to exempt from VAT asset transfer into the Real Estate Investment Trusts and Asset Backed Securities. This will deepen our Capital Markets by encouraging investors to participate in Real Estate Investment Trusts.

Excise Duty Act

188. **Mr. Speaker,** as I turn to the proposed amendments to the Excise Duty, Act., The Finance Act

2020 removed excise duty on betting. The removal of this tax generated a lot of public debate considering that betting has become widespread in our society resulting in negative social effects. In this regard, I propose to re-introduce excise duty on betting at the rate of 20 percent of the amount wagered.

189. **Mr. Speaker,** innovations in the tobacco industry have led to introduction of new products such as nicotine pouches. These new products do not fall in the classification of tobacco products existing in the Excise Duty Act and are therefore currently not subject to taxation. In this regard, I propose to introduce excise duty on products containing nicotine or nicotine substitutes at a specific rate of **Ksh 5.0** per gram. This rate of excise duty is equivalent to the duty applicable to similar products under the Act.

190. **Mr. Speaker,** to support the growth of service industry particularly e-commerce, I propose to amend the Excise Duty Act so as to provide a rebate on the

excise duty paid on internet data by a person who purchases the data in bulk for resale.

Enhancing Tax Administration Procedures

191. **Mr. Speaker,** on the proposals to ease tax administration. **Mr. Speaker,** Kenya ratified and deposited the Multilateral Convention for Mutual Administrative Assistance in Tax Matters (MAC) with the Global Forum on Transparency and Exchange of Information on Tax Matters in July 2020. This Convention is meant to facilitate automatic exchange of tax information between the Kenya Revenue Authority and other jurisdictions. In this regard, I have proposed amendments to the Tax Procedures Act, 2015 to facilitate the implementation of the Convention. The convention will also enhance tax compliance by foreign taxpayers and act as deterrence to tax evasion and illicit financial flows.

192. In addition, I propose to amend the Tax Procedures Act to empower the Kenya Revenue

Authority seek intervention of other Agencies to facilitate compliance with the provisions of the digital service tax.

193. **Mr. Speaker,** there are various ways that some unpatriotic individuals are using to evade payment of their tax liabilities. For example, we have noted in our *i*-tax system: perennial non-compliant tax payers; defaulters; payment returns without payment; non-filers; nil filers; credit filers; stop filers and decliners. In addition, there are traders and merchants who are not registered at all for tax purposes.

194. **Mr. Speaker,** to gather information on tax malpractices, last year, we introduced the ***i*Whistle**, a platform that enables members of the public to volunteer information. As at end April 2021, the *i*Whistle platform had received a total of 502 whistles and we thank the public for volunteering useful information.

195. Considering the complexities and changing dynamics on intelligence gathering and to empower the Kenya Revenue Authority curb tax malpractices, I propose to amend the Kenya Revenue Authority Act to

increase the maximum **reward** to a person who provides information leading to the identification of un-assessed taxes from **Ksh 100,000** to **Ksh 500,000**. Further, I propose to **increase** the **reward** to a person who provides information leading to recovery from maximum of **Ksh 2.0 million** to **Ksh 5.0 million**. This will encourage receipt of voluntary information to Kenya Revenue Authority thereby bolstering tax compliance and revenue collection.

196. **Mr. Speaker**, the Tax Appeals Tribunal has been hearing tax disputes and providing judgements at a very slow pace as the Tribunal sits on a part time basis. This has led to huge backlog of pending cases before the Tribunal. Currently, there are **549** pending cases with a revenue implication of **Ksh 107.4 billion**. In order to strengthen the Tribunal and allow members to expeditiously hear and conclude cases, I have proposed various amendments to the Act through the Tax Appeals Tribunal (Amendment) Bill, 2021 which I have submitted to this House for consideration. I urge the House to

prioritise this Bill so as to facilitate faster disposal of tax appeals and boost revenue collection.

Automation of Duty Remission and Tax Exemptions

197. **Mr. Speaker,** the processing of applications under the EAC Duty Remission Scheme has been manual, time consuming and inefficient. In order to improve administration of the Scheme, the Government automated the process, under the Single Window System, and successfully rolled out in September 2020.

198. **Mr. Speaker,** to strengthen the administration of tax exemption process for Official Aid Funded projects, we have embarked on automation of the application and approval under the Single Window System and target to roll out in the next financial year.

VII. CONCLUSION

199. **Mr. Speaker,** in conclusion, I must state that, the preparation of this budget required a lot of balancing. It has not been an easy process considering

the prevailing weak business environment. I am confident that the plans I have laid in this budget will be realized to achieve the envisaged economic recovery that will lead to improvement of the welfare of Kenyans.

200. **Mr. Speaker,** it's worthy to note that, our President has steered our economy through one of the most difficult periods occasioned by the COVID-19 Pandemic. His leadership and commitment to protection of lives and livelihoods through implementation of host of measures have not only reduced the fatalities caused by COVID-19 but also supported economic activities.

201. **Mr. Speaker,** the budget I have presented today has articulated additional measures that the Government plans to undertake to further boost economic recovery. In light of the challenges in mobilisation of additional revenue and rising expenditure demands, spending in the next year's budget will focus on critical areas with the highest impact on the well-being of Kenyans.

202. In this regard, **Mr. Speaker**, I sincerely thank His Excellency, President Uhuru Kenyatta for his wise counsel, unfailing support and guidance not only during the budget preparation process, but also in the stewardship of the economy.

203. I also thank my fellow Cabinet Secretaries, the various Accounting Officers and Staff for their contributions to the FY 2021/22 budget process.

204. **Mr. Speaker**, I also express deep gratitude to Kenyans for their insightful contributions, proposals and suggestions that helped us to finalize this budget.

205. In addition, my appreciation also goes:

- **First**, to Honorable Speakers of the National Assembly and the Senate, the Majority and Minority Leaders as well as other House Leadership and the respective Clerks for overseeing the approval of the budget estimates for the FY 2021/22 and the related documents;
- **Second**, to Honorable Members of the Budget and Appropriations Committee, the Finance and National

Planning Committee and all other Departmental Committees of this house as well as the staff of the Parliamentary Budget Office, for their constructive inputs during the approval process of the budget;

- **Third,** in a special way, I give tribute to my incredible, selfless team at the National Treasury and Planning who have worked tirelessly for very long hours to ensure that this budget and supporting documents were prepared in time as per the legal requirements;
- **Fourth,** the Management and Staff of: Kenya Revenue Authority; Central Bank of Kenya; Attorney General Office, Commission on Revenue Allocation; Financial Sector Regulators and the various Agencies under the National Treasury and Planning for their contributions and advice during the budget process;
- **Fifth,** our Multilateral Development Partners, especially the International Monetary Fund, the World Bank, the African Development Bank, and all

our Bilateral Development Partners for their contribution to our development agenda through various technical and financial support. Further, I thank the private sector for their resilience and continued contribution to the economic development; and

- **Sixth**, my appreciation goes to the Fourth Estate for their active reporting on economic and financial developments as well as engagements on the FY 2021/22 budget process.

206. Lastly, **Mr. Speaker**, I remain grateful to my family for their unflinching support, regular encouragement and understanding as I steer my responsibilities at the National Treasury and Planning at critical time like this.

I Thank You All and May God bless Kenya.

Pause

Mr. Speaker, before I resume my seat, you will recall in April 2021, I submitted to this House the budget estimates and the Finance Bill, 2021, together with the

accompanying documents as required by the Public Finance Management Act, 2012. Today, I further submit the following documents to this august House and request that you graciously receive them:

1. Budget Statement for the FY 2021/22;
2. Budget Policy Statement 2021
3. Estimates of Revenue, Grants and Loans for the FY 2021/22 Budget;
4. Financial Statement for the FY 2021/22 Budget;
5. Medium Term Debt Management Strategy 2021;
6. Budget Highlights – The “Mwananchi” Guide for the FY 2021/22 Budget; and
7. Statistical Annex to the Budget Statement for the FY 2021/22.

THANK YOU, HONOURABLE SPEAKER

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**THE NATIONAL TREASURY AND PLANNING
JUNE 10, 2021**

STATEMENT DELIVERED TO THE NATIONAL ASSEMBLY ON 10TH JUNE, 2021 BY HON. (AMB.) UKUR YATANI, EGH, CABINET SECRETARY FOR THE NATIONAL TREASURY AND PLANNING, REPUBLIC OF KENYA, WHILE HIGHLIGHTING THE BUDGET POLICY AND REVENUE RAISING MEASURES FOR THE FINANCIAL YEAR 2021/22

1ST JULY 2021 TO 30TH JUNE, 2022

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