



**REPUBLIC OF KENYA**

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# **Budget Speech**

**For the**

**Fiscal Year 2010/2011**

**(1st July – 30th June)**

**by**

**Hon. UHURU MUIGAI KENYATTA, E.G.H., M.P.  
Deputy Prime Minister and Minister for Finance**

**10<sup>th</sup> June 2010**

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**SPEECH DELIVERED TO THE NATIONAL ASSEMBLY ON 10<sup>TH</sup> JUNE, 2010, BY HON. UHURU KENYATTA, E.G.H., M.P., DEPUTY PRIME MINISTER AND MINISTER FOR FINANCE, REPUBLIC OF KENYA, WHEN PRESENTING THE BUDGET FOR FISCAL YEAR 2010/2011**

**1<sup>ST</sup> JULY, 2010 TO 30<sup>TH</sup> JUNE, 2011**

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**Mr. Speaker Sir,**

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

## **1.0 INTRODUCTION**

**1. Mr. Speaker,** I am once again honoured to present to this August House the National Budget. The 2010 National Budget comes against the backdrop of improved economic environment both at the global and domestic levels. This is a strong indication that the measures undertaken at the global level as well as those that we resolved to implement ourselves are bearing fruit.

**2. Mr. Speaker,** we are today presenting this year's budget in a completely different setting. We have received above average rains since November last year that now puts us in a much stronger position in terms of water availability, cheaper electricity and food security. The recovery of the global economy is underway and this is good news for Kenya, although some challenges still remain as I will elaborate later.

**3. Mr. Speaker,** building on the renewed optimism, the Government commits in 2010 to take further steps to put our economy onto a high and permanent growth path, as envisioned in our Vision 2030. Recognising that high growth alone will not deliver all aspects of development as envisioned, the government will scale up programmes and projects that we started in 2009 so that every part of the country can benefit. The theme of this year's Budget is, therefore, **"Towards Inclusive and Sustainable Rapid Economic Growth"**.

## **2.0 RECENT ECONOMIC DEVELOPMENTS**

### **2.1 The Global Economy**

**4. Mr. Speaker,** it is important at the outset to take stock of the economic developments at the global scene, which may have direct bearing on our domestic economy going forward. Mr. Speaker, as I indicated earlier, the recovery of the world economy is now underway buoyed by increased confidence among consumers and businesses, as well as financial market players. The growth of global output is projected to reach 4.2 percent and 4.3 percent in 2010 and 2011, respectively, up from 0.6 percent in 2009.

**5.** The recovery of the global economy in 2010 is largely due to the stronger rebound in the economies of major industrial countries and resilience in key emerging and developing

economies. But it is important to note that the global financial and economic environment remains vulnerable as evidenced by the recent sovereign debt crisis in Europe.

6. **Mr. Speaker**, like the rest of the world, prospects for growth in the sub-Saharan Africa are also promising. Real GDP growth for the sub-Saharan Africa economies is projected at 4.7 percent in 2010 and 5.9 percent in 2011, up from 2.1 percent in 2009. Growth of Kenya's major trading partners in the East Africa Region, such as Uganda, Tanzania and Rwanda, is projected to remain strong, at around 5.7 percent in 2010. Drawing on lessons from the recent crisis, African countries must, as a priority, take full advantage of opportunities arising from increased activity in the global economy to put their economies back onto higher growth path.

## 2.2 The Domestic Economy

7. **Mr. Speaker**, the Kenyan economy also recovered, albeit modestly, from the recent global recession and other exogenous shocks, growing by 2.6 percent in 2009 from 1.6 percent in 2008. This recovery was driven mainly by growth in transport and communication, trade, and building and construction sectors. Equally important was the interventions, which, we, as a government, undertook in the context of the Kazi Kwa Vijana and the Economic Stimulus Programmes to address, in particular, the problem of youth unemployment and food security in the country. Underpinning our ability to proactively intervene was the prevailing sound fiscal position, including low public debt level and a stable banking system.

8. **Mr. Speaker**, our prudent management of fiscal and monetary policies has ensured price stability. Indeed, the overall inflation rate eased, falling from 14.6 percent in February 2009 to 5.3 percent in December 2009 and further to 3.9 percent in May 2010. Mr. Speaker, reduced prices of food items in the first half of 2010, which were the main driving force in 2009, complemented monetary policy to bring down inflation.

9. **Mr. Speaker**, interest rates also declined significantly in 2009/10 with the average 91-day Treasury bill rate easing from 8.5 percent in January 2009 to 5.2 percent by May 2010. This outcome was largely the result of prudent fiscal policy management.

10. **Mr. Speaker**, the external sector improved registering an overall surplus of US\$ 465 million in 2009 compared to a deficit of US\$ 513 million in 2008. Official foreign exchange reserves rose by over 30 percent to reach US\$ 3.8 billion by end-April 2010 compared with US\$ 2.9 billion in April 2009. The exchange rate remained relatively stable during the last one year, but it has weakened significantly since May 2010 largely as a result of the crisis in the Euro-zone.

11. **Mr. Speaker**, economic prospects for 2010 and the medium term are promising. Real GDP growth for 2010 and 2011 is projected at 4.5 percent and 5.7 percent, respectively or 5.1 percent growth for FY2010/11. Growth in this period will be driven mainly by increased investments in key sectors, including agriculture, services, infrastructure, health and education; and targeted strategic development interventions, which I will be outlining later in my speech. In addition, the good rains that started falling in November 2009, as well as the global economic recovery that is gaining momentum will help to expand agricultural output and drive this growth.

### 3.0 MOVING FORWARD: STRATEGIC FRAMEWORK FOR FASTER DEVELOPMENT

12. **Mr. Speaker**, as I have indicated above, economic prospects are promising. However, there are inherent risks that still prevail in the global financial and economic environment as evidenced by the current sovereign debt crisis in Europe. Moreover, we continue to face serious challenges associated with climate change; unemployment, particularly among our youth; and severe food poverty in certain parts of our country.

13. **Mr. Speaker**, these challenges underscore the importance of developing an economic framework that promotes productivity and builds the resilience to enable our economy to respond more effectively to the various shocks, while paying particular attention to our long term national objectives as outlined in Vision 2030.

14. This means, **Mr. Speaker**, focusing on key steps to strengthen the physical, human and institutional prerequisites for a strong and competitive private sector-led development. It also means focusing on policies and interventions that open up opportunities for upcoming entrepreneurs to start businesses and create employment, while ensuring food security and equitable regional development.

15. **Mr. Speaker**, despite the challenges that we continue to face, we are now in a better position to refocus our efforts towards our long term Vision as we consolidate the recovery that is now underway. The overriding policy thrust of 2010/11 Budget and the medium-term is, therefore, to consolidate the economic recovery and put the economy back onto a firm foundation of high and sustainable growth path. This will require steering the economy back to the 7 percent real GDP growth achieved in 2007 and thereafter accelerating the growth further to reach our Vision 2030 target of 10 percent in the course of the next five years. Thereafter, we must maintain the growth target at that level and ensure that the growth is broad-based and inclusive so that no single Kenyan is left in poverty.

16. **Mr. Speaker**, to attain the high level of growth, we will implement measures guided by our Strategic Framework for faster Development underpinned by a stable macroeconomic environment and structural reforms aimed at raising productivity and improving business climate. This is key to enhancing Kenya's competitiveness and accelerating private sector investment. Further, the Government will deepen its focus on removing all the constraints that prevent us from exploiting our full economic potential. In this regard, particular attention will be paid to further improving the business environment, increased investment in the key priority social and economic sectors such as health, education, agriculture and critical physical infrastructure, especially roads, rail, power, and port modernization.

17. **Mr. Speaker**, the Strategic Framework must also address the unemployment challenges that we face, particularly among our youth. In this regard, the Government will equip the youth with appropriate technical and entrepreneurial skills while at the same time putting in place measures to promote the Small and Medium Enterprises for employment and income generation. To complement the investment in social and economic sectors and to promote equitable regional development for national unity and social stability, the Government will scale up implementation of the socio-economic programmes for the marginalized areas, with resources dedicated for this programme, covering agriculture and livestock development, education, health, roads and water supply.

### 3.1 Entrenching Macroeconomic Stability

18. **Mr. Speaker**, the accommodative monetary policy adopted by the Central Bank to support economic recovery has facilitated a pickup in credit to the private sector. However, we recognize that inflationary risks may increase as the economy recovers and government spending accelerates. Therefore, going forward into the medium-term, Mr. Speaker, the Central Bank of Kenya will continue to pursue monetary policy targeted at low inflation of around 5 percent, while ensuring continued stability in long-term interest rates as well as maintaining a competitive exchange rate that will promote Kenya's exports.

19. **Mr. Speaker**, we shall also continue to maintain a prudent fiscal policy stance as a critical component of our effort to attain the 5.1 percent growth target for FY 2010/11 and expanding economic opportunities for Kenyans. The proposed fiscal strategy underpinning the 2010/11 Budget takes cognizance of the reality that available resources are scarce and that there is need to focus on national priority programmes that have high impact on our stated national objectives, but within a framework of a stable macroeconomic environment. To this end, Mr. Speaker, the overriding fiscal policy thrust will be to:

- i. First, maintain a strong revenue effort of about 22 – 24 percent of GDP, largely achievable through targeted tax reforms;
- ii. Secondly, contain growth of total expenditure, while shifting composition of expenditure from recurrent to capital expenditure and eliminating unproductive expenditures.
- iii. Third, within the development budget, prioritize infrastructural investments and enhance execution rate of both domestically and foreign financed development budget; and
- iv. Contain the stock of debt to a sustainable level of about 40 percent of GDP in the medium term so as to allow sufficient access to credit by the private sector, which is necessary for driving economic recovery.

### 3.2 Towards a Common Market for the East African Community

20. **Mr. Speaker**, Hon. Members are aware that the Common Market for the East African Community will come into force starting 1<sup>st</sup> July 2010. This is a very important milestone for all of us in the Community because it will create a single trading and investment environment in the region, which will be for the benefit of all of us. Mr. Speaker, let me, therefore, take this opportunity to make it absolutely clear that Kenya is prepared to fully implement the provisions of the Common Market Protocol from 1<sup>st</sup> July, 2010. I also call upon our brothers and sisters in the Community to do likewise because we all agree that it is for the benefit of our people.

#### *Deepening Tax Reforms*

21. **Mr. Speaker**, the Government will deepen tax reforms in order to improve compliance, broaden the tax net and increase revenue to finance our expenditure programmes that are geared towards economic recovery. During the 2009/10 fiscal year, the Kenya Revenue Authority took several measures to streamline revenue administration systems and improve efficiency in tax collection and taxpayer service. The Authority in FY 2009/10 implemented a range of online

services that enhanced its ability to monitor revenue more effectively without the need for tax payers to physically visit the Authority's premises. However, the Government is well aware that more needs to be done especially to reduce the cost of compliance to the tax payers while ensuring that the Authority meets the tax collection targets.

**22. Mr. Speaker,** in the area of Customs Services, KRA will introduce an Automated Valuation Database System to strengthen the customs valuation function for purposes of assessing and collecting international trade taxes. KRA will also roll out the Electronic Cargo Tracking System to enable effective monitoring of all transit goods in order to curb incidences of diversion of such goods into the local market. This system will eliminate the need for cargo escorts and thereby fast-track the movement of cargo across borders.

**23.** With respect to domestic taxation, **Mr. Speaker,** KRA will continue with the implementation of the Integrated Tax Management System, which will enable businesses to file their tax returns online thereby reducing compliance costs substantially. The system will also make it easier to process tax refunds, an issue that has been of major concern to the business community. I, therefore, want to urge our business community to voluntarily embrace the system instead of waiting to be required to do so.

**24. Mr. Speaker,** I would like to bring to the attention of all Kenyans that tax evasion is an economic crime that is punishable under the Anti-Corruption and Economic Crimes Act. Going forward, the Government's response to tax evasion will be robust and swift. **Mr. Speaker,** the Government is aware that some Forex Bureaux are aiding tax evasion through engagement in business activities that they are not licensed to undertake. To address this, I have directed the Central Bank of Kenya and the KRA to jointly undertake a comprehensive audit of the operations of the Forex Bureaux and submit their final report to my office by end-September 2010.

**25. Mr. Speaker,** the measures that I have outlined to streamline the tax administration are just part of the solution in terms of addressing the compliance burden to the business community. As I did commit in my budget last year, the Tax Harmonization Taskforce has completed its work and we have also benefited from international expertise on the next course of action to review, comprehensively, our tax system. Going forward, the Government will appoint a Tax Reform Commission to come up with a tax code which is simpler and consistent with our Vision 2030. As a first step in this direction, **Mr. Speaker,** I will fast-track a review and formulation of a new VAT legislation to be tabled for debate in the next Budget. When enacted, I expect the new VAT legislation to deal with most of the current challenges experienced by VAT taxpayers, including refunds.

#### *Public Financial Management Reforms*

**26. Mr. Speaker,** consistent with the Government policy stance for Vision 2030, we will deepen the public financial management reforms to reduce wastage, ensure efficiency and economy in the use of public resources. The implementation of these reforms will improve effectiveness in public service delivery and facilitate growth of private sector as the engine for growth. To this end, we will continue with the strategy of containing growth of total expenditure, while shifting the composition from recurrent to capital expenditure and eliminating unproductive expenditures. In particular, development expenditure will rise to 11.7 percent of GDP in 2010/11, up from 10.3 percent in 2009/10.

27. A critical component of our efforts to further entrench public financial management reforms includes institutionalizing and fully deploying the Integrated Financial Management Information System (IFMIS) on a single integrated platform. To this end, an Action Plan for the full roll-out of IFMIS will be ready for implementation by end-September 2010. Let me also add that effective implementation of IFMIS will require all the key players to embrace the technology. In this regard, all Accounting Officers will be required to be actively involved in its implementation as part of their performance contracts.

28. **Mr. Speaker**, as I emphasized during my budget speech last year, we can no longer afford to continue providing budgetary resources to ministries and departments that cannot fully spend and account for results to Kenyans. In my Budget Statement last year, we committed to enhance absorption of development budget. However, **Mr. Speaker**, while there has been some improvement in the current financial year compared to the previous year's, absorption rate, there is still room for further improvement.

29. **Mr. Speaker**, through this budget, we are committing once again but with additional actions, to enhance the execution rate of both domestically and foreign financed development budget. We will achieve this by ensuring that Accounting Officers commit in their performance contracts for 2010/11 to absorb at least 90 percent and 80 percent, respectively of all domestically and foreign financed development budgets. All Accounting Officers will be required to develop action plans for all their projects indicating specific timelines and benchmarks consistent with full disbursement. Specific emphasis will be placed on ensuring audits are carried out on time and all other accountability requirements are met.

#### *Prudent Management of Debt*

30. **Mr. Speaker**, consistent with Vision 2030 and Medium-Term Plan, the Government will contain the growth in public debt to a sustainable level in order to ensure the private sector is not crowded out. And we have demonstrated this commitment through this budget by reducing domestic borrowing significantly from 5.1 percent of GDP in 2009/10 Supplementary Budget, to as low as 3.8 percent in 2010/11. **Mr. Speaker**, as Kenyans are aware, the Government has maintained a sustainable overall debt position. However, we recognize that the high cost of servicing domestic debt comes at the expense of more pressing and priority development programs. In this respect and in pursuance of a process started in the FY 2009/10, the Government has developed the 2010 Medium Term Debt Management Strategy (MTDS) to provide operational guidance for debt financing at low cost, subject to prudent degree of risk and consistent with maintaining debt sustainability.

31. **Mr. Speaker**, the 2030 MTDS has considered the global economic environment, the macroeconomic and related variables and recommends maintaining the shift in both financing and composition of debt toward long term domestic over the medium term. To facilitate reduction in domestic debt, the Government aims to increase access to external concessional funds and use part of the proceeds to repay the domestic debt already acquired. The savings likely to arise from this debt management strategy will be used to finance critical and strategic priority development programmes.



## ***Deepening Financial Sector Reforms***

**32. Mr. Speaker**, while our financial sector continues to be strong, there will be need to undertake further reforms to address systemic vulnerabilities that have become apparent following the onset of the global economic and financial crisis. In addition to the legal reforms I have outlined, I will be introducing amendments to the Capital Markets Authority Act to facilitate the Demutualization of the Nairobi Stock Exchange during FY 2010/11.

### **3.3 Facilitating Business Development for Wealth and Employment Creation**

**33. Mr. Speaker**, in today's increasingly globalized world, enhancing our country's competitiveness is key to attaining our goal of becoming a middle income country by 2030. We, however, recognise that despite the reforms we have undertaken, our legal and regulatory framework continues to be an impediment to doing business. To attain our stated development goal, we require a business environment that is at par with international best practice so that we can attract the requisite private investment. In terms of our investment in physical infrastructure, we are making commendable progress. But our regulatory institutions are not keeping in tandem with the efforts to improve predictability and cost of doing business. Their mindset appears to be aimed at preventing and not facilitating business.

**34.** This Budget, therefore, proposes further measures to improve our regulatory framework supportive of private sector-led growth. Mr. Speaker, one key action in this direction will be the enactment of the proposed Business Regulation Bill, which is now ready for submission to this House. Once enacted, it will not be possible for our regulatory institutions and local authorities to arbitrarily and unilaterally introduce charges and fees. Mr. Speaker I will be counting on Hon. Members to support this important Bill. Hon. Members, we urge the Local Authorities to change their mindset and appreciate that their role is to facilitate business and not to stifle it. In addition, Mr. Speaker, Treasury will work with the relevant line ministries to review the policy and legal framework of the regulators and where necessary, introduce amendments to remove all charges and fees currently imposed. To finance their operations, funding will be done through the exchequer.

**35. Mr. Speaker**, we also recognize that our Regulatory Authorities are not in the business of generating income by imposing high regulatory charges and fees on businesses. To guard against over-regulation as barriers to business and to ensure surpluses realized by regulators are remitted to the exchequer to finance critical development, I propose to amend the Government Financial Management Act to require all regulatory authorities to retain only 10% of surplus funds realized at the end of each financial year and remit the rest to the Consolidated Fund.

**36. Mr. Speaker**, we are also taking the necessary steps to institutionalize and consolidate the country's business regulatory reforms and fast track the enactment of a number of Bills designed to significantly enhance our investment climate. Among the important business reform bills we intend to table soon include (i) the Companies Bill 2010; (ii) the Insolvency Bill 2010; (iii) the Partnership Bill 2010; (iv) the Limited Liability Partnership Bill 2010; (v) the Banking Bill 2009; (vi) the Deposit Protection Fund Bill 2010; and (vii) the National Payments Bill 2010. I urge Hon. Members to support these bills when they come before this House because they are critical to improving the business climate.

37. **Mr. Speaker**, an area of revenue administration deserving special mention is the area of VAT refunds. At various fora, businessmen have raised the issue of the need for speedy resolution to the VAT refunds problem. Even in the *Doing Business Surveys*, the time taken in meeting the registration, recording, filing and refunds management with respect to VAT has been identified as an impediment to a conducive-business environment. Therefore, streamlining VAT administration is an important component of our overall strategies to improve the business climate.

38. **Mr. Speaker**, to tackle this problem I will be putting in place several measures. **Firstly**, all outstanding refunds audited and firmed up as payable by the end of June 2010, will be cleared by the end of July 2010. **Secondly**, KRA will refund, with effect from 1<sup>st</sup> July 2010, all new claims that meet the low risk criteria will be paid within 120 days. And, **thirdly**, the most severe penalties available in law shall be imposed on those found participating in fraud whether they are officers of the Revenue Authority or members of the business community.

### 3.4 Targeted Investment in Security for Economic Recovery

39. **Mr. Speaker**, security must be our main concern, for without it, there would be no investments, which we need to accelerate economic growth, create more jobs and facilitate reduction of poverty. While we have made good progress in improving security, we are well aware that more still needs to be accomplished to provide a secure Kenya in which citizens, tourists and investors can invest and do business. The Government has prioritized security reforms through enhanced funding as part of the key reforms under Agenda Four of the National Accord. These reforms will further create a conducive business environment and more importantly, assure a secure Kenya for faster economic recovery.

40. **Mr. Speaker**, in addition to increased budgetary resources amounting to Ksh46.3 billion, I have allocated under the Ministry of State for Internal Security and Provincial Administration, an additional Ksh 2 billion toward implementing a high-impact targeted security intervention program covering investments in operations and maintenance, communication, crime profiling and intelligence analysis, all aimed at enhancing security in our urban centres and highways. I am confident that Kenyans will be able to see the results of these investments in a very short time.

### 4.0 INVESTING IN INFRASTRUCTURE FOR FASTER DEVELOPMENT

41. **Mr. Speaker**, an extensive and efficient infrastructure is an essential driver for growth, competitiveness and overall development of the country. And as Hon. Members are aware, a well developed infrastructure network reduces the distance between regions, resulting in a truly integrated national market. Indeed, an efficient transport network is a prerequisite for entrepreneurs and farmers to get their goods and produce to markets in a secure and timely manner, and to facilitate the affordable movement of workers. To hasten economic recovery and expand economic opportunities for all Kenyans, the Government will continue to scale-up investments in key infrastructure facilities covering road network, energy supply, transport system, and port services.

42. **Mr. Speaker**, we will do all these over the medium term guided by the strategic objectives we have set for ourselves. These include: (i) raising efficiency and quality of infrastructure projects; (ii) benchmarking infrastructure service provision against globally acceptable standards;

(iii) enhancing private sector participation in the sector; and (iv) up-scaling the implementation and completion of key infrastructure projects. Consistent with this strategy, **Mr. Speaker**, I have accordingly allocated in this budget Ksh 182 billion, which represents an increase of Ksh.30 billion or 20.1 percent over the amount allocated in 2009/10, toward financing prioritized infrastructure development countrywide.

#### **4.1 Improving Road Network to Accelerate Growth, Employment and Poverty Reduction**

**43. Mr. Speaker**, as Hon Members are aware, we have and continue to invest heavily toward improvement of our road network, well aware that it is only through good and well maintained roads that we shall unlock the economic potential of our economy. In the 2009/10 FY, 715 kilometres of roads were constructed, 1,112 kilometres rehabilitated and 1,142 kilometres maintained. To continue with the on-going road construction work and to demonstrate our commitment to scaling-up investment in infrastructure so as to hasten economic recovery, I have allocated Ksh 78.6 billion to the sub-sector's development budget. This amount is Ksh 20 billion or 34 percent over and above the amount I allocated for roads under the budget ending June 2010.

**44. Mr. Speaker**, within the total development budget for road construction, Ksh 700 million will specifically be expended to initiate the rehabilitation and construction of Voi-Taveta road in order to open the area for commerce and trade, and in particular, to make it easier for our good neighbours in northern Tanzania to transport their imports and exports through the port of Mombasa. It also includes Ksh4.2 billion for roads to open up Isiolo as one of the Vision 2030 Resort Cities in the northern Kenya, and link our country with Ethiopia with a bituminous road. **Mr. Speaker**, recognizing the need to ensure our roads remain in motorable conditions to facilitate trade and commerce and expand economic opportunities, I have further allocated Ksh 23.5 billion for road maintenance. This is a significant budgetary provision, **Mr. Speaker**, that should have a visible impact on road maintenance to ensure our roads are improved to motorable condition.

#### **4.2 Diversifying Sources of Energy to Affordably Power Our Recovery**

**45. Mr. Speaker**, as we aim to lock in our economy into a higher growth path, we must also strive to provide adequate energy to meet the demand arising from the expanded production and economic activities. Our medium to long-term strategy is to focus on secure, least-cost and clean energy development underpinned by diversification to renewable affordable sources and improved efficiency in transmission systems. While the on-going rains have improved the hydro conditions and hence reducing the overall cost of power by about 40 percent since last September 2009, the Government remains fully committed to expanding investment in cheaper and reliable energy sources as the only way to assure affordable power.

**46.** The Government is, however, aware that as we strive to do this there is need to provide a predictable energy framework that enables our manufacturers to plan forward. There is, therefore, urgent need for the Government and all stakeholders to work together to ensure we contain the volatility in the cost of energy. In the event that energy costs rise significantly going forward, the Government will work with the business community and other stakeholders to ensure

that the cost of energy does not reach unaffordable levels. In addition, the Energy Regulatory Commission will review the current formula for determining electricity tariffs with a view to making movements in the cost of power predictable.

**47. Mr. Speaker**, the Government is also aware that there are many private investors who are keen to invest in the energy sector and especially in alternative and cheaper sources such as geothermal, wind, solar and other renewable sources. However, there are concerns that the procedures take too long. But this should never be allowed to happen because availability of affordable energy is matter of national priority. In this regard, Treasury commits to support the Ministry of Energy to ensure that we remove all procedural and licensing impediments so that private investment in the energy sector can be fast-tracked.

**48. Mr. Speaker**, with the generous support of our development partners and from our own resources, I have allocated Ksh 34.1 billion to fund development activities in the energy sector. The priority areas for intervention include: (i) Ksh 15.6 billion for the expansion of national transmission system; (ii) Ksh 11.6 billion toward geothermal development and to initiate exploitation of coal resources, with special emphasis placed on adding 280 MW of installed geothermal capacity by 2013; and Ksh 5.4 billion to fund Rural Electrification program. This will increase the number of public facilities in the rural areas connected to the national grid by 3,310.

**49.** In addition, **Mr. Speaker**, the Government will encourage through a Public Private Partnership (PPP) the development of about 500 MW additional geothermal power capacity over the next four years, encourage development of biomass power from municipality waste and carry out further reforms of the sector to deal with institutional efficiency. These initiatives, **Mr. Speaker**, are expected to add about 800 MW in total to our installed capacity by 2014.

#### **4.3 Improving Port Operations and Cheaper Freight Transport for Faster Development**

**50.** **Mr. Speaker**, inefficient port services have continued to hold our economy back from exploiting its full potential. For instance, delays due to lack of investment in the port of Mombasa and its operational inefficiencies add substantially to costs, which feed through the supply chain, thereby undermining our competitiveness. The Government, however, recognizes that related storage and mass freight infrastructure also requires to be addressed, as well as customs and inspection procedures.

**51. Mr. Speaker**, the Government remains fully committed to addressing these challenges and making our port system efficient. Working closely with stakeholders, the Government will accelerate the implementation of a Single Window Port Community-based System to facilitate faster, efficient and competitive clearance of cargo. This and other reforms, including dredging of the port to enable larger vessels to dock, are expected to position Mombasa as a preferred port of call and regional service hub.

**52.** In addition, **Mr. Speaker**, to facilitate faster cargo off-take at the port and mass freight transport, the Government has initiated the design of a Standard Gauge Double line Railway from Mombasa to Malaba. We expect the designs to be ready during the last quarter of 2010/11, and the Government shall immediately embark on construction of this important railway. **Mr. Speaker**,

the implementation of this project will be fast-tracked to accord Kenyans and our neighbours the earliest opportunity to enjoy cheaper, safer and faster alternative mode of transport.

**53. Mr. Speaker,** we are not just addressing transport along our highways, we are also concerned about the high economic losses associated with traffic jams in our urban centres, in addition to heavy financial burden our poor and middle income urban commuters have to bear everyday. As Hon. Members may recall, while presenting my Budget last year I indicated that the Government was in the process of contracting a consultancy firm to conduct a feasibility study, design and develop a project proposal for the upgrade of Nairobi Commuter Railway system.

**54.** I am happy to inform Hon. Members that we now have the design and during the Supplementary budget I allocated Ksh 600 million to initiate the process of upgrading key commuter backbone railway lines in Nairobi. I have in this budget allocated another Ksh 1.9 billion toward this important investment. When completed in the fourth quarter of 2010/11, this project will significantly provide relief; reduce cost of transport and traffic jams to airport commuters and passengers currently using Mombasa road and Jogoo road.

## **5.0 FURTHER ENHANCING HUMAN CAPITAL FOR FASTER DEVELOPMENT**

**55. Mr. Speaker,** our human resource development priorities over the medium term include: (i) enhancing access, equity, quality and relevance of education at all levels; (ii) ensuring equitable access to medical, public health and sanitation services with a focus on maternal health and health infrastructure; (iii) strengthening linkages between industry and research institutions to promote demand driven research and training.

### **5.1 Further Improving Access to Quality Education to Secure the Future of Our Children**

**56. Mr. Speaker,** our Government has always recognised that an educated labour force is critical to enhanced productivity and therefore our competitiveness. This is more so in today's globalized and technology-driven world. Indeed, as a country, we have invested a lot in education leading to substantial improvement in access, especially to primary as well as secondary education. Despite our success, we recognize that we must do more to ensure our people are appropriately skilled to be able to engage effectively in economically meaningful activities.

**57. Mr. Speaker,** in the year ending June 2010, we initiated a program that is currently ongoing to upgrade and expand educational facilities and improve quality of our educational standards throughout the country. This we did recognizing the heavy investments we have made thus far to enhance educational access through Free Primary Education and Free Tuition in Secondary schools. To take into account increased enrolment and general increase in prices, I have allocated additional Ksh 2 billion each toward Free Primary and Free secondary Tuition in 2010/11. In total, therefore, I have allocated Ksh 9.2 billion to support the Free Primary and Ksh 16.2 billion toward the Free Secondary Tuition program. In this regard **Mr. Speaker,** I would like to assure parents that the Free Primary education and the free Secondary Tuition are fully financed.

58. **Mr. Speaker**, our country has invested heavily in the ICT infrastructure and it is only prudent that we also invest in our educational system in order to exploit its potential to bridge the digital divide in our economy. With this in mind, I have allocated Ksh 1.3 billion toward purchase of 300 computers in each constituency and to make ICT a reality in our rural schools. These computers will provide a platform to expand the e-learning initiative and allow for equal access to quality lessons. The Government will source these computers from public institutions that have computer assembly facilities. We believe that this will also benefit our students undertaking ICT and computer engineering studies.

59. And, **Mr. Speaker**, last year I provided funds toward establishing tree nurseries in schools to introduce our pupils to environmental conservation at an early age. This year, I am going a step further to provide Ksh 30,000 each for 50 schools in every constituency toward the purchase of seedling for planting. This initiative will go along way in further empowering our school going children to actively participate in conservation of their environment in order to mitigate climate change and variability.

## 5.2 Promoting Preventive Healthcare Delivery for Higher Productivity

60. **Mr. Speaker**, as I indicated earlier, a healthy workforce is vital to a country's competitiveness and productivity. As Hon. Members are aware, in 2009/10 Budget I allocated funds under Economic Stimulus toward expanding healthcare facilities, recruitment of nurses and provision of medical kits in each constituency throughout the country. We did this well aware of the challenges our people face in accessing healthcare in the rural areas. Through this Budget, **Mr. Speaker**, we once again demonstrate Government's commitment to ensuring a healthy and productive citizenry, capable of pushing forward the frontier of social and economic opportunities. It is also through this budget that we will further demonstrate our commitment to tackle the curative and preventive healthcare challenges and enhance their access in every constituency.

61. First, **Mr. Speaker**, I have allocated Ksh 1 billion toward the recruitment of 15 additional nurses and 5 public health technicians in each constituency. To further enhance the coverage of preventive healthcare in the rural areas, I have allocated Ksh 265 million toward purchase of 5 additional motorcycles, operations and maintenance expenses, employment of 10 health community workers and provision of medical supplies in each constituency countrywide.

62. Secondly, **Mr. Speaker**, as Hon. Members are aware, last year we provided funds for construction and equipping of a maternal and child care ward in every constituency. I am happy to note that all the tenders were successfully awarded and construction is progressing well in most constituencies. **Mr. Speaker**, as part of the wider program to expand and upgrade our healthcare facilities, I am allocating another Ksh 5 million for each constituency toward expanding our health care facilities to include wards for children and adults.

63. Thirdly, **Mr. Speaker**, to ensure our critical patients receive timely medical attention throughout the country, I am going a step further to provide through this budget 300 ambulances for use in our healthcare facilities.

64. Fourthly, as a Government that cares for its people, we are not just putting more money to avail medicine in our healthcare facilities for curative purposes; we are also going a head to strengthen the management of medical supplies chain. To this end, I have allocated Ksh 4.4

billion for the purchase of drugs and another Ksh 900 million for ARVs to make these important life saving medicines available for our people in health facilities. And as part of our efforts to enhance efficiency in health service delivery, we will deepen reforms in the health sector, including strengthening KEMSA's procurement capacity and accountability, improving supply chain management of public health resources and strengthening the supervision of medical supplies to rural health facilities.

**65. Mr. Speaker,** these interventions together with the ones we initiated last year now brings to total 35 additional nurses, 5 public health officers, 10 community health workers, 10 motorcycles and 30 bicycles, expanded and upgraded healthcare facilities, ambulance and Ksh 5 million worth of medical kit in every constituency. I now expect the Ministry of Public Health and Sanitation to roll out preventive healthcare programs and demonstrate immediate and measurable results in improving the health status of our people.

## **6.0 PROMOTING EQUITABLE AND SUSTAINBLE REGIONAL DEVELOPMENT**

**66. Mr. Speaker,** as we strive to achieve the middle income status by 2030, we must ensure that everybody and every region is empowered to participate effectively in the development process. Therefore, going forward, our focus will be ensuring that we attain broad-based and sustainable growth. To achieve this, we must invest in rural infrastructure, and agriculture, particularly crop production, fish farming and livestock development. We must also invest in environmental conservation to ensure that this growth is sustainable,

### **6.1 Promoting Agriculture and Rural Development**

**67. Mr. Speaker,** the agricultural sector is central to our economy, providing 23 percent of our GDP, a source of livelihood for the majority of Kenyans and accounting for the bulk of our exports. Despite its importance and the reform progress made thus far, the sector continues to suffer from a considerable range of constraints. Some of these challenges, which are well known to Hon. Members, include: (i) inadequate extension services and credit; (ii) low application of modern technology; (iii) poor rural infrastructure in some areas; (iv) high costs and low application of inputs; and (v) excessive dependence on rain-fed agriculture.

**68. Mr. Speaker,** to tackle these constraints, the sector plan for agriculture provides a comprehensive strategy, which include, among others: improvement of agro-business, value addition and market access; strengthening research, extension services and training; improving land use and crop development, and enhancing accessibility of affordable inputs and credit. Funding these interventions will require considerable resources, which we are unable to afford at once. There is, therefore, need to prioritize implementation within the available resources.

**69. Mr. Speaker,** Hon. Members will recall that following our productive discussions, the Roads Act was amended leading the provision of about Ksh 4.6 billion in total or Ksh 23 million toward maintenance and improvement of critical rural roads in each constituency in the year ending June 2010. In 2010/11 and going forward, the amount earmarked for rural road maintenance will increase significantly as the economy picks up and the demand for imported oil increases. In this regard, **Mr. Speaker,** in this year's budget, I am providing Ksh.5.7 billion in total for maintenance of roads which translates to KShs 27 million for each constituency. Working closely with relevant stakeholders, we shall develop a framework to ensure faster, efficient and

effective delivery of rural roads funded by this fund in order to spur local economic activities and create employment.

**70. Mr. Speaker**, in the FY 2009/10 I allocated Ksh 12 billion toward financing of rural projects under the Constituency Development Fund (CDF). I am pleased to report to this August House that for the first time ever, we have disbursed fully all the CDF resources to the Board. I am, however, informed that there are on-going reconciliation between the Board and Ministry of Planning, which we hope will be completed before the end of this fiscal year. To further support the good work at the constituency levels, I am allocating in FY 2010/11 Ksh 14.3 billion for the Constituency Development Fund, which is intended to finance other critical development programs at the constituency level. **Mr. Speaker**, I wish to assure Hon. Members once again of my ministry's commitment to a timely release of these resources so as to make them available for financing various projects throughout the country.

## **6.2 Strategic Intervention for Rural Development-Ongoing ESP Interventions**

**71. Mr. Speaker**, last year I allocated Ksh 22 billion under Economic Stimulus Program (ESP) to fund various projects throughout the country in order to spur high impact economic activities, create employment and reduce poverty. As Hon. Members are aware, the implementation of various projects under ESP started late due to the need for consultations on implementation framework with various Parliamentary Departmental Committees and especially the CDF Committee. **Mr. Speaker**, having agreed on the framework in October last year, various projects were tendered and awarded and now implementation is progressing well in a number of constituencies countrywide. In those constituencies where implementation of specific projects might have delayed for one reason or the other, I wish to assure Hon. Members that all the funds which shall not have been committed under ESP by end of this fiscal shall all be revoted and provided to ensure such projects are fully implemented as planned.

**72. Mr. Speaker**, in this FY 2010/11, in addition to Ksh 9.6 billion I have allocated for strategic development under education and health whose specific projects I have already outlined, I am allocating another Ksh 11.4 billion toward expanding fish farming, irrigated agriculture and supporting livelihoods in ASAL areas.

## **6.3 Expanding Irrigated Agriculture for Food Security and Employment.**

**73. Mr. Speaker**, the on-going rains complemented by the interventions we made under the Economic Stimulus Program to expand irrigated agricultural production, have helped to improve the food situation and the welfare of many households in our country. Given our limited potential for rain-fed agriculture, we must increasingly focus on expanding irrigated agricultural production for domestic use as well as for exports. At the same time, we should also encourage agro-processing and value addition in order to maximize the sector's contribution to growth. It is only by doing this that we shall be able to reduce poverty, create sufficient productive jobs and decent work for our rapidly growing population.

**74. Mr. Speaker**, in the fiscal year ending June 2010 we expanded irrigated agriculture for maize and rice production by about 27,000 acres with an estimated two harvests totalling 1.6 million bags of rice and 500,000 bags of maize. **Mr. Speaker**, while we have made tremendous progress in this year to increase agricultural output, it is saddening to note that our farmers have



suffered post-harvest losses due to dampness and poor storage. I want to take this opportunity to assure the nation at large that the Government will empower our farmers to ensure that their hard work will not go to waste due to lack of appropriate storage facilities. To further reduce our reliance on rain-fed agriculture and to assure sustainable food security, I propose the following measures:

**75.** First, **Mr. Speaker**, in 2010/11 we shall not only expand the irrigation works in the areas we planted under Economic Stimulus Program but we shall diversify into new potential areas to provide many Kenyans the opportunity to grow crops throughout the year thus reducing their vulnerability to vagaries of weather, assuring food security and reducing poverty. As part of our deliberate effort to address regional inequality and reduce poverty, we plan to expand irrigation agriculture in new areas such as: (i) around Lake Challa in Taveta; (ii) Yatta and Makueni; (iii) Lower Tana; (iv) Turkana, (v) Marsabit; (vi) and Upper Tana and North Eastern covering Garissa to Mandera. To ensure effective delivery of this program, my ministry working with the Ministry of water and Irrigation and the Ministry of regional development will develop a framework, which will be ready for execution by mid July 2010.

**76.** **Mr. Speaker**, these interventions will not be realized without putting in place an effective capacity. To build the capacity of the Ministries of Agriculture, Irrigation and Water and Regional Development to effectively execute these projects, I have allocated funds for the recruitment of 6 extension officers on contract terms for every constituency countrywide. The Government will also avail 300 vehicles to enable these officers discharge and accomplish this important task of securing development.

**77.** Second, **Mr. Speaker**, our commitment is not only to expanding irrigation programmes but to address the agriculture supply chain. To deal with post-harvest management and reduce losses to our hard working farmers, I have allocated Ksh 400 million toward purchase of fixed maize driers to be installed in maize growing areas not currently served. I am allocating another Ksh 360 million to purchase 30 mobile maize driers to ensure as many farmers are facilitated accordingly to dry their maize in order to reduce post harvest losses.

**78.** Third, similarly **Mr. Speaker**, for our rice farmers, I have allocated Ksh.525 million to purchase and install 15 rice milling plants in rice growing areas. These interventions will be complemented by regular testing and awareness to empower farmers and improve post-harvest management. I expect the Ministry of Agriculture, working with National Irrigation Board, National Cereals and Produce Board and farmers' co-operative organizations, to develop appropriate governance framework for the management of these driers and rice mills in order to maximize their benefits to our farmers.

**79.** Fourth, **Mr. Speaker**, as a Government that is committed to assuring food security, we will do what it takes to not only expand investment in crop production, but also post-harvest crop management. In addition to measures I have already outlined targeted at reducing post-harvest losses, we are also developing a framework to introduce warehouse receipting in various National Cereals and Produce Board stores. When this program is fully operational, the depositor will have the convenience of using the warehouse receipt as collateral, selling their grain whenever they wish without necessarily moving around with it, having certified and known quality and quantity of grain that does not have to be physically seen by buyers before buying.

**80. Mr. Speaker**, we are also aware that such warehouse receipting works hand in hand with a Commodity Exchange where such receipts can be traded. The buyers of the receipts can then collect the grain from the warehouse or resell the receipts. **Mr. Speaker**, we shall, in the course of the year, develop institutional and legal framework to introduce Commodities Future Exchange, which will allow our farmers to trade their produce freely and at a time of their choice through warehouse receipts and future contracts.

#### **6.4 Expanding Fish Farming as a Source of Food Security and Employment**

**81. Mr. Speaker**, the Government has recognized that the fisheries sub-sector has considerable untapped potential for food security and enhancing the livelihoods of Kenyans. In this regard, the development of aquaculture is one of the core interventions we are implementing to enhance food security and provide employment for our youth.

**82. Mr. Speaker**, last year the Government initiated a Ksh 1.12 billion Fish Farming Enterprise Productivity program to construct 28,000 fish ponds in 140 constituencies countrywide. This initiative is expected to stimulate increased aquaculture production, promote rural enterprise development and strengthen food security.

**83. Mr. Speaker**, with the momentum for fish farming now building up, we recognize that Government's role in the medium term will largely be facilitative, with the private sector expected to be the prime mover of fish farming, seed and feed production and marketing of produce. In this regard, as part of phase two of Fish Farming Enterprise Productivity program, the Government will: first ensure all the 28,000 fish ponds are constructed and fully stocked with fingerlings; secondly invest in feed and seed production, while also encouraging private sector participation; and thirdly, build adequate capacity of the Ministry of Fisheries Development to deliver first class extension services and support our farmers as they expand their fish farming. To achieve these objectives, I have proposed, among other interventions, the following:

**84.** First, I have allocated Ksh 120 million to construct another 200 fish ponds in 20 additional constituencies that were not covered under phase one. And in order to encourage further fish farming and agro-forestry in the 160 mapped constituencies, I have allocated Ksh 360 million to construct 3 shallow wells in each constituency. To further avoid water slippage and ensure adequate water for fish, I have allocated Ksh 300 million to purchase sheet lining for use by farmers in ponds.

**85.** Second, **Mr. Speaker**, to ensure availability of adequate seeds and feeds even as we encourage private sector participation, I have allocated Ksh 340 million and Ksh 1.2 billion for the production of fish seeds and fish feeds, respectively, enough to take care of about 300 fish ponds in the 160 constituencies.

**86.** Third, **Mr. Speaker**, we recognize that these investments we are making together with ordinary Kenyans may not achieve their full economic potential unless we deal with the supply chain constraints. In this regard, **Mr. Speaker**, we are going a step further to establish 80 mini fish processing and cold storage facilities in key centres at a cost of Ksh 400 million. As farmers grow fish, store and process, there will be need for opening up opportunities for fish markets. I wish to encourage private sector players to seize the earliest opportunity and start to invest in marketing fish products both locally and internationally.

87. And, finally, **Mr. Speaker**, once again demonstrating our commitment to seeing this program succeed by putting in place and effective capacity, I have allocated funds to purchase 100 motorcycles, avail 100 vehicles for use by extension officers and to recruit additional three fisheries officials for each of the 160 constituencies mapped for fish farming. I expect these investments to significantly enhance the uptake of this important pro-poor and pro-enterprise development initiatives aimed at transforming our rural areas.

## 6.5 Supporting Livelihoods in ASAL Areas

88. **Mr. Speaker**, despite the challenges that ASAL areas face, there is enough socio-economic potential, that can be exploited to uplift livelihoods and address regional disparities. The continued fight over scarce resources such as water and pasture as well as age-old practice of cattle rustling has increased insecurity thereby retarding overall development of the ASALs. While it may not be practical to deal with the many development challenges of ASAL areas and unleash their potential at once, through this budget, the Government commences a decisive journey of transformation and empowerment of the people of ASAL through comprehensive targeted interventions covering education and health, infrastructure development, security, agriculture and livestock development.

89. **Mr. Speaker**, as a Government that believes in inclusive growth and development, once again this year, we demonstrate our commitment to the development the Northern Kenya and other arid lands. To this end, I have allocated a total of Ksh 16 billion for financing various on-going and new development projects. Among the key projects earmarked **Mr. Speaker** are: (i) the expansion of water supply for which I have allocated Ksh 3.8 billion toward dam construction; (ii) construction of district hospitals and low cost boarding primary schools at a cost of Ksh 375 million and Ksh 450 million, respectively. In addition to funding the construction of on-going roads in this part of the country, I have allocated another Ksh 550 million toward provision of alternative sources of energy and in particular, solar power. **Mr. Speaker**, I have also through this budget proposed other targeted interventions aimed at further empowering our brothers and sisters and in particular the youth who live in the Northern Kenya and other arid lands.

### *Improving Security for Sustainable Development of ASAL*

90. First, **Mr. Speaker**, provision of a lasting solution to insecurity associated with cattle rustling is important in promoting sustainable development among the pastoralist communities living in ASALs. As part of this initiative, and in order to complement the on-going disarmament efforts, I have allocated Ksh 200 million toward implementation of an electronic based solution to aid in animal tagging for purpose of traceability and disease control. The implementation of this project will, among other benefits: (i) provide positive identification and recovery of stolen animals; (ii) provide database that will assist the livestock farmers to improve their livestock keeping practices; and (iii) allow livestock farmers to access export markets for their beef or animal products that have stringent requirements on traceability.

### *Improving Livelihoods in ASALs through Irrigation and Livestock Development*

91. **Mr. Speaker**, as Hon. Members are aware, ASAL areas occupy about 80 percent of our land and have huge potential for irrigated agriculture and livestock development. However, lack of adequate water is another major challenge that has prevented us from developing these areas so

as to reduce vulnerability and poverty. Through this budget, the Government commits to take the first decisive step of transforming the ASAL areas into productive source of our overall development.

**92.** First, **Mr. Speaker**, to enhance supply of water for crop irrigation and livestock, I have allocated Ksh 2 billion under the Ministry of Regional Development for the construction of about 25 medium size dams in arid parts of the country. I have also allocated Ksh 375 million toward constructing mini-flood control dams and disilting of water pans in northern Kenyan. This initiative will reduce the suffering of our people living in these areas from frequent floods.

**93.** Second, **Mr. Speaker**, aware of the potential of livestock farming in transforming the lives of our people in ASALs, we initiated construction of two slaughterhouses in Isiolo and Garissa last year and they are nearing completion. Encouraged by this progress, I am allocating another Ksh 150 million each to upscale the on-going work and construct four other modern and state of the art slaughterhouses in West Pokot, Wajir and Kajiado. These slaughterhouses will be operated and managed by farmers through their co-operatives and I expect their operationalization to promote exportation of beef, generate foreign exchange and incomes to our country.

**94.** Third, in recognition of the many challenges our livestock farmers continue to experience, I have in addition allocated Ksh 250 million to construct another 10 slaughterhouses for beef meant for domestic markets.

**95.** And, **Mr. Speaker**, to ensure our livestock farmers get value for their hides and skins, I have allocated Ksh 175 million toward construction of 5 mini leather processing factories to encourage growth of our leather industry.

**96.** Fourth, **Mr. Speaker**, we are going a step further to support the livestock farmers in ASALs by rehabilitating 10 selected ranches for beef production, establishing and making operational two feedlots of Disease Free Zone in the Coast, specifically to expand beef export. I have also allocated funds in this budget to provide strategic feed reserves and reseedling in ASAL areas. These interventions will cost the exchequer an additional Ksh 330 million.

**97.** Fifth, **Mr. Speaker**, we also know that for these interventions to work and achieve the intended objectives, we must build capacity of the Ministry of Livestock and the Ministry of Regional Development. To this end, I have provided for 100 additional veterinary officers, 20 in each of the ASAL districts and the Government will make available 180 motor vehicles for use by officers to facilitate their work.

## **6.6 Environmental Conservation for Sustainable Development**

**98.** **Mr. Speaker**, the past regrettable neglect of our environment is now manifested in severe degradation, depletion of natural resources, especially forests and water resources, as well as climate variability. In turn, our agriculture, food security, health, water resources, energy, infrastructure, industries, and biodiversity have been adversely affected. Recognizing that the restoration of our ecosystem provides the key to reducing poverty, creating employment and improving food security, the Government has developed National Climate Change Response

Strategy, which outlines mitigation measures to cope with climate change variability and extreme events. In this regard Mr. Speaker, I would like to take this opportunity to applaud the Ministry of Environment and Mineral Resources for the noble work it is doing in this area.

**99.** In addition, **Mr. Speaker**, the Government recognizes that efforts must be made through a comprehensive environmental conservation to forestall the adverse effects of climate change in order to reverse damages to our scarce arable land, water and biodiversity resources. To this end, **Mr. Speaker**, I have allocated a total of Ksh 51.5 billion under Environment, Water and Sanitation Sector. This amount represents Ksh 13.3 billion or 34.5 percent growth over the sector's budget allocation for 2009/10, demonstrating the importance we are attaching to environmental conservation going forward. I have in addition, allocated Ksh 2 billion toward implementation of specific high impact environmental conservation programs.

**100.** **Mr. Speaker**, in order to mainstream policies and strategies toward the financing of our conservation effort, my ministry, working with the relevant ministries, will develop a carbon credit investment framework. This framework will outline modalities of carbon credit registration, revenue sharing, accountability as well as conservation and identified development areas to be funded by resources generated. Further, **Mr. Speaker**, Kenya is better placed to emerge as a regional carbon emission trading hub. To this end, the Government will establish, in the course of FY 2010/11 a carbon Emission Trading Scheme (ETS) in Nairobi to pioneer the carbon market in Africa. My Ministry, together with the Ministry of Environment and Mineral Resources, will initiate the development of appropriate policy and regulatory framework necessary to facilitate the institutionalization of ETS in Kenya. When completed the ETS will significantly contribute to environmental conservation effort and facilitate mobilization of conservation resources.

## **7.0 EMPOWERING THE YOUTH TO SECURE THE FUTURE OF KENYA**

**101.** **Mr. Speaker**, Hon. Members will agree with me that youth unemployment remains a major challenge to our development and social stability. Indeed, the 2009 Kenya Inequality and Poverty assessment found that youth unemployment at 21 percent was twice as high compared to non-youth group. This does not include those youth currently studying. The key to a more prosperous Kenya lies in the hands of its younger generations. They will be the dynamic drivers for competitiveness, growth, and poverty reduction through innovation, entrepreneurship and hard work. Tapping into the creativity and knowledge of young people is therefore a crucial asset for boosting economic development. Going forward, we must, therefore, start to increasingly focus on young entrepreneurs and innovators as a viable pro-poor and employment creation development strategy, given that most new jobs are being created through small enterprises and self-employment.

**102.** **Mr. Speaker**, even as we strive to create employment for the youth, Hon. Members are aware that no country has developed on a sustainable basis without growing, and consistently so, its small and medium size enterprises. In Kenya, small and medium size enterprises continue to suffer the most from poor business environment. They face the biggest constraints in accessing markets, energy, transport, security, legal services and not least to investment finance. Existing entrepreneurs are often resilient and successful despite the myriad of constraints they face. But the obstacles are often too great for most would-be entrepreneurs, and many never get to translate their ideas and energy into actions, profits and jobs.

**103. Mr. Speaker**, through this budget we are determined to deal with the challenges facing SMEs and to develop a program to: (i) create enabling business environment; (ii) equip the youth with practical skills in order to create employment; (iii) make available through partnership with private sector credit for funding viable young entrepreneurs and innovators as key drivers of employment creation; and (iv) encourage growth of SMEs by creating strong linkages with major industries.

*Creating Enabling Business Environment for SMEs to Expand Employment*

**104. Mr. Speaker**, the Government has focused on improving selected indicators of interest to our small businesses. These include starting a business, dealing with construction permits, registering property, accessing credit, paying taxes and trading across borders. We have achieved substantial progress in the current financial year on these selected indicators. Toward this end, we digitized records at the Companies Registry, reduced the time taken to obtain a construction permit and number of days required to start a business and halved the time to pay taxes and statutory contributions. We have also licensed 4 microfinance banks, allowed for agency banking, and licensed the first credit reference bureau to facilitate sharing of credit information among Banks.

**105. Mr. Speaker**, Hon. Members will recall that I launched the first phase of the e-registry in August 2009. I expect to complete the final phase before the end of 2010/11 FY. When completed, the e-registry will enable our small businesses to apply and pay for all licenses online, including through the use of Kenya's innovative mobile payments platforms. We will also deepen other regulatory reforms to further remove administrative barriers to SMEs. In particular, we shall cascade business regulatory reforms to the local authorities where our SMEs are established to encourage their growth and drive our recovery thus allowing them to create employment to our youth.

*Enhancing Skills and Creating Employment for the Youth*

**106. Mr. Speaker**, as part of efforts to accelerate employment creation to the youth and allow them to contribute constructively toward our economic transformation, the Government will develop a comprehensive program to equip unemployed youth with practical technical and vocational skills, and consciously encouraging the development of high-end innovators. In this regard, I have proposed a number of strategic interventions whose implementation is expected to significantly expand sustainable economic opportunities to our youth.

**107.** First, I have allocated a total of Ksh 1 billion to initiate expansion of all the 26 Technical Training Institutes in the country. This upgrade will expand the facilities in these institutions thus allowing for increased admission of our youth for practical training in various fields of engineering trade, building trade, business and entrepreneurial skill, among others areas. Further, and in recognition of the critical role played by our youth polytechnics toward practical training to our young men and women in rural areas, I have allocated funds to recruit on contract terms 2,000 tutors to be deployed countrywide.

**108.** Second, I have further allocated Ksh 640 million to expand training facilities in the 8 National Polytechnics and university colleges in order to allow for more admission of youth to undergo practical skill and technical training under TIVET.

**109.** Third, in order to start full exploitation of the heavy investment we have made on ICT and in view of large pool of ICT talents and the potential employment opportunities we can create in the ICT sector, I have also allocated Ksh 560 million to upgrade all the 14 public Information, Science and Technology Colleges. And through the generous support from the Royal Government of Netherlands, we will also be able to upgrade the Kenya Science Technical College and 9 other regional Centres of Excellence countrywide. The implementation of this measure will allow us to develop adequate quantum of relevant ICT related skills thereby enabling our economy to fully reap the benefits of ICT. **Mr. Speaker**, the youth who graduate from these colleges will be able to apply their knowledge and find employment in the assembly and repair of the 63,000 computers we shall be distributing to schools throughout the country, as well as take advantage of the huge investments that Government of Kenya continues to make in ICT infrastructure.

*Establishing a Revolving Fund to Empower Young Entrepreneurs*

**110. Mr. Speaker**, access to credit has often emerged as a top constraint to the growth of SMEs. Through this budget, we are introducing an innovative approach leveraging on existing framework and ICT platforms to expand access to credit for the majority of our hard working young brothers and sisters. **Mr. Speaker**, we have about 8.3 Million of our people working in the informal sector, of whom 2 million are in the jua kali industry and 5 million are **kiosk owners, hawkers, mama mboga** and those in the **informal transport sector**. Empowering this group through access to financial services that allows them to make bank deposits, to save and to earn interest on their savings, to have access to credit that would enable them to start and expand their businesses has the potential to reduce significantly the twin problem of unemployment and poverty.

**111. Mr. Speaker**, as a bold step toward addressing youth unemployment and encouraging growth of SMEs as a key driver of growth and development, I propose to establish a revolving fund of **Kshs 3.8 Billion** through which the Government will enter into a Credit Facility Agreement with select banks to support SMEs. Out of this amount, **Kshs 3 Billion** will be advanced to Banks/FIs in the form of credit for onward lending to SMEs through their Agencies. The balance of **Kshs 0.8 billion** will be earmarked for capacity building to ensure effectiveness of the institutions and Agencies involved the program and the training of beneficiaries to effectively manage their businesses. **Mr. Speaker**, this is a framework that has proven successful and we believe that we can leverage on ICT to scale it up for the benefit of many Kenyans and especially the youth.

**112.** Also **Mr. Speaker**, a number of banks have expressed willingness to partner with Government in this noble initiative. I expect, through this partnership, that the banks will match Ksh 5 for every Ksh 1 invested by the Government thus expanding the Fund five-fold to Ksh 15 billion, which will be available for lending to youth and enterprises through banks.

**113. Mr. Speaker**, the establishment of this Fund recognizes that commerce and trade are lubricants that oil the wheels of the economy, and for a country to progress in its endeavour to reduce poverty, create jobs and spur inclusive and sustainable growth, it must provide all players, formal or informal, an enabling environment to make their contribution toward nation building. The Fund, will, among others things, be used to build, nurture and fund youth talents and viable

entrepreneurial initiatives with the highest impact to create employment and reduce poverty. It will also allow many more informal traders to take loans for their businesses. And for those our hard working brothers and sisters in the informal business, and who often suffer the wrath of city askaris, it will enable them to access loans and construct modern and standard kiosks in designated areas in order to earn decent living and improve their households' welfare through selling their wares.

**114. Mr. Speaker**, to ensure affective and faster disbursements of the funds to as many youth and business people, we shall leverage on ICT and M-Banking to target about 11 million Kenyans currently using money transfers. This will be rolled to cover many of the 18 or more million Kenyans with mobile telephones as part of efforts to broaden financial outreach and access. When all these people are included in our financial system, **Mr. Speaker**, it will be possible to introduce and expand through the M-banking such financial products as **micro insurance, pension payments, tax payments and other social payments** targeting the low income groups to ensure it is affordable. **Mr. Speaker**, through this initiative, we shall be able to generate immediate and direct employment to **over 100,000** mostly youth and many more through the backward and forward linkages created thus significantly addressing the problem of unemployment

#### *Creating Linkages with Industries to Sustain SMEs Growth and Employment*

**115. Mr. Speaker**, we must begin as part of the economic recovery to encourage our manufacturing sector to expand investment in order to venture into newer areas of value addition for export. This way we shall be able to create strong backward and forward linkages between the manufacturing sector and SMEs. But to do this effectively, **Mr. Speaker**, we will not only deepen structural reforms to improve business environment but also as a country take bold steps, as is the case in other nations, to start buying Kenyan products to promote Kenya. Without collective resolve and full commitment by all Kenyans, public or private together, to buy Kenya and build Kenya, we shall never industrialize and emerge as a regional giant in manufacturing. And With the high level of unemployment and poverty challenges we still need to confront, we can ill afford to export our employment opportunities by taxing Kenyans to pay for imports by public sector, especially on goods that are locally available such as canned beef, textile, furniture, to mention a few. This also includes taking full advantage of our Vehicle Assembly Plants.

**116. Mr. Speaker**, , the procurement law gives discretion to the Procuring Entities to apply preferences and reservations in public procurement and disposal in consideration of economic and social development factors. This has led to limited participation by the local industries in the procurement process even where economic and social development factors would justify otherwise. In order to promote participation of our industry in driving growth, creating more decent jobs and diversifying our export I propose to amend the Public Procurement and Disposal Act to make these preferences and reservations requirements mandatory to Public Entities and mandate the Public Procurement Oversight Authority to be monitoring and evaluating application of the same. I further propose to accord exclusive preferences to local firms that manufacture, assemble, grow, extract or mine goods in priority areas such as textiles, furniture, motor vehicles and foodstuffs through promulgation of regulations under the Public Procurement and Disposal Act by 1<sup>st</sup> July, 2010.



**117. Mr. Speaker**, leasing remains a powerful and viable vehicle toward promoting business growth and facilitating Government to effectively provide services. While we have made progress in encouraging leasing in our country, we recognize more still needs to be done to promote leasing for faster growth and employment. To further enhance the use of leased assets and promote lease financing, I propose to remove withholding tax imposed on lease rentals paid to lessors, including payments made for leased aircraft engines. The proposed measures will improve the cash flow position of the lessors and lessees and facilitate growth of business. And as a Government we are going to take a strong lead in jump-starting this process and be a major player in the leasing industry. Starting FY2010/11, the Government will adopt leasing and mortgage as a vehicle for providing cheaper access to assets necessary for enhancing service delivery. And through this process, the Government would be able to unlock resources to frontload financing of critical public services and development, especially provision of housing and vehicles to the disciplined forces.

#### *Strengthening Governance for Sustainable Development*

**118. Mr. Speaker**, the Government recognizes that good governance is the foundation upon which we can be assured of sustainable development. This is the reason why we have invested heavily in strengthening our governance and corruption prevention/investigative institutions in order to ensure that we have a solid institutional governance framework. On the political front, following the signing of the National Accord in 2008, the Government has expended a lot of exchequer resource to implement agreed reform actions, including setting various institutions intended to enhance accountability and constitutional democracy in this country. Constitution making process, a part of Agenda IV, has progressed well and we are now in the final leg. This year we have spent our own exchequer resource in excess of Kshs.8 billion and the following year we have provided about Kshs.7 billion, largely for the civic education and the referendum. Hon. Members, our investment in this area is informed by the fact that the gains in good governance will not only facilitate the achievements of our stated development goals, but also make our country competitive and attractive to investors.

### **8.0 FINANCIAL OUTTURN FOR 2009/10**

**119. Mr. Speaker**, the implementation of FY 2009/10 Budget was faced with numerous challenges. These include difficulties in achieving the revenue targets due to slowdown in economic growth and administrative challenges; prolonged drought whose effects were more severe than earlier envisaged and required substantial additional resources to mitigate; el Nino type rains in late 2009 and early 2010 which damaged infrastructure; negative impacts of the global financial crisis. **Mr. Speaker**, with this background in mind, I wish to take this opportunity to briefly appraise Hon. Members on the financial outturn for 2009/10.

#### **8.1 Revenues**

**120. Mr. Speaker**, in the last Budget Speech, it was estimated that total revenues (including fees and duties collected and applied at source) would amount to KShs.568.9 billion comprising of KShs.522.8 billion in ordinary revenue and KShs.46.1 billion in Appropriations-in-Aid. Due to the slowdown in economic activities and other challenges already mentioned, total revenues are now estimated to under perform by about KShs.5.0 billion. However, increased receipts of

investment income from parastatals and state corporations are expected to more than offset this shortfall and by the close of this financial year revenues will reach KShs.586.4 billion.

**121. Mr. Speaker**, as Hon. Members may recall, the 2009/10 budget had factored privatization receipts amounting to KShs.6.0 billion from sale of government shares in SONY Sugar Company and the National Bank of Kenya. It is now evident that the privatization process will not be complete before the close of the financial year, thus reducing the expected resource envelope by Kshs. 6.0 billion.

## **8.2 Expenditures**

**122. Mr. Speaker**, regarding the expenditures, the 2009/10 Printed Estimates reflected Ministerial Recurrent Expenditure amounting to KShs.419.2 billion, including KShs.41.8 billion which was to be financed through Appropriations-in-Aid. The Consolidated Fund Services took KShs.187.5 billion while Development Expenditure had a provision of KShs.258.9 billion.

**123. Mr. Speaker**, in order to deal with additional expenditures owing to unforeseen commitments which required huge funding, I recently requested Parliament to authorize additional expenditures under the Supplementary Estimates. Hon. Members will recall that the Supplementary Estimates for financial year 2009/10 which was recently approved by this House only reflected a net increase of KShs.27.2 billion for the Recurrent Budget while the Development Votes reflected a net reduction of KShs.5.8 billion.

**124. Mr. Speaker**, overall, the approved gross recurrent expenditures for the current financial year is now estimated at KShs.443.2 billion, with KShs.42.8 billion being financed through Appropriations-in-Aid. Non-discretionary expenditures which are financed directly from the Consolidated Fund Services amount to KShs.190.8 billion while the approved gross development expenditures amount to KShs.253.1 billion with KShs.71.7 billion being financed through Appropriations-in-Aid while the remainder of KShs.181.4 billion being financed from the Exchequer.

## **9. FINANCIAL PROJECTIONS FOR 2010/11**

**Mr. Speaker** let me now turn to the financial projections for 2010/11 budget.

### **9.1 Revenue**

**125. Mr. Speaker**, the total revenue target for fiscal year 2010/11 is KShs.688.5 billion (or 24.9% of GDP) comprising of KShs.609.6 billion of ordinary revenue and KShs.78.9 billion of appropriations-in aid. The targeted revenue is predicated on the on-going reforms in tax and customs administration and additional Appropriation-in-aid from public universities which were previously not captured in budget.

### **9.2 Recurrent Expenditure**

**126. Mr. Speaker**, as Hon. Members may have noted from their copies of the Printed Estimates, the gross recurrent expenditure for 2010/11 is estimated at KShs.675.6 billion. This includes KShs.71 billion which will be financed through Appropriations-in-Aid, and expenditures

financed directly from the Consolidated Fund Services, amounting to KShs.187.7 billion, thus leaving a net of KShs.416.9 billion for discretionary recurrent expenditures.

**127.** The Consolidated Fund Services comprise KShs.67.9 billion for domestic interest; KShs.7.0 billion for foreign interest; KShs.26.7 billion for pensions, KShs.1.9 billion for salaries and allowances of constitutional office holders; and KShs.1.2 billion for other non-discretionally expenditures. In addition, I expect to finance external redemptions amounting to KShs.20.5 billion and domestic redemptions amounting to KShs.62.6 billion.

### **9.3 Development Expenditure**

**128. Mr. Speaker,** gross development expenditures for 2010/11 is estimated at KShs.321.2 billion. Out of this amount, KShs.98.6 billion will be financed through Appropriations-in-Aid, comprising of direct project financing of KShs.22.9 billion in form of grants, KShs.67.8 billion in form of loans and KShs.7.9 billion in form of Local Appropriations-in-Aid.

**129. Mr. Speaker,** taking the above into account, I expect to finance net development expenditure amounting to KShs.222.6 billion from the Exchequer. This comprises of KShs.17.4 billion in form of grants revenue; KShs.35.0 billion in form of loans revenue; and KShs.170.2 billion from Government of Kenya.

### **9.4 External Grants**

**130. Mr. Speaker,** on external grants, I have received commitments amounting to KShs.40.4 billion to finance development projects. Details of the donors and projects being financed are included in the Development Estimates. I wish to sincerely thank the development partners who have pledged and confirmed their support.

### **9.5 Overall Deficit and Financing**

**131. Mr. Speaker,** after providing for Ksh 2.0 billion Contingency Fund, the overall expenditures in FY 2010/11 amounts to Ksh 998.8 billion, inclusive of domestic debt redemption of Ksh 62.5 billion and external debt redemption of Ksh 20.5 billion. With total expected receipts of Ksh 831.6 billion (including loans and grants), the overall deficit amounts to Ksh 167.2 billion as indicated in the Financial Statement circulated to Hon. Members.

**132.** However, excluding the domestic debt rollover and external debt redemption of Ksh 61.4 billion and Ksh 20.5 billion, respectively, while at the same time reflecting external financing in a more acceptable international standard practice, total expenditure would amount to Ksh 916.9 billion giving rise to an overall fiscal deficit of Ksh 188 billion or 6.8 percent of GDP. This will be financed by net foreign financing of Ksh 82.7 billion and Ksh 105.3 billion borrowing from domestic market. **Mr. Speaker,** this means that the fiscal framework for 2010/11 is fully financed and there is no financing gap.

## 10.0 TAXATION AND OTHER MEASURES

### 10.1 Overview of the Proposed Tax Measures

133. **Mr. Speaker**, the rest of my speech outlines various tax measures I intend to introduce through the Finance Bill 2010, and other regulations to be tabled in this house, toward accelerating economic recovery, job creation and poverty reduction. I, therefore **Mr. Speaker**, request that the remainder of my speech be regarded as a Notice of Motion to be moved before the Committee of Ways and Means.

134. **Mr. Speaker**, the tax measures and other miscellaneous amendments I intend to propose hereunder are broadly categorised into six priority areas, which complements the various policies I have already outlined in the earlier part of my speech.

- i. Promoting Agriculture, Food Security and Rural Development
- ii. Encouraging Growth of Industries for Faster Development
- iii. Promoting Development of Property Market and Enterprise
- iv. Further Ensuring Equity and Fairness in our Tax System
- v. Deepening Tax Reforms and Enhancing Governance; and
- vi. Strengthening Financial Systems for Sustainable Development

### 10.2 Promoting Agriculture, Food Security and Rural Development

135. **Mr. Speaker**, in view of the important role played by agricultural toward rural development, I have proposed additional measures to complement measures I have already outlined.

136. First, **Mr. Speaker**, our capacity in the region to produce wheat and rice is limited. In order to enable our Millers to import wheat grain to supplement local production, I have proposed to lower the rate of duty on wheat grain from 35% to 10%, for a period of one year. Similarly, **Mr. Speaker**, I have also lowered the rate of duty on all imported rice from 75% or US\$200 per tonne whichever is higher, to 35% for a period of one year for the same reasons as we address the challenges of improving our production capacity in the region.

137. Second, **Mr. Speaker**, our poultry farmers are closing shop in spite of the fact that most Kenyans are turning to white meat for health considerations. In order to promote growth of the poultry industry, I have exempted parent stock for chicken breeding from import duty.

138. Third, **Mr. Speaker**, in the past years, a number of investors have been granted tax incentives in order to promote investment and encourage employment. In order to harmonize these with other incentives, I propose to enhance the deduction given for capital expenditure incurred by farmers on farm works from the current fifty percent per annum to a hundred percent.

## 10.2 Encouraging Growth of Industries for Faster Development

139. **Mr. Speaker**, as I have alluded to, our economic recovery is dependent upon sustained growth of our industries. In this regard, **Mr. Speaker**, I have proposed a number of tax measures aimed at further facilitating growth of the sector.

140. First, **Mr. Speaker**, Aluminium Conductors and Cables are key materials in the ongoing electrification program in the country and considering that the products are produced locally in sufficient quantities, I have increased the import duty on the products from 10% to 25% to encourage our contractors to source them locally and also protect and promote our local manufacturers of the products.

141. Second, **Mr. Speaker**, flat rolled products of iron or non alloy steel coated or plated with tin are key intermediate inputs in the iron and steel industries. Considering that the products are not available in the region, I have removed import duty on the products in order to make them cheaper and available to our local iron and steel industries. I have further removed import duty on flat rolled products of iron or non alloy steel which are used for the manufacture of filters and bottle tops.

142. Third, **Mr. Speaker**, the construction sub-sector achieved significant growth last year. In order to further encourage growth in this important sector, I have removed import duty on petroleum coke which is a raw material used in the production of cement. I have further removed import duty on prepared driers and pigments which are used for the manufacture of paints.

143. Fourth, **Mr. Speaker**, one of the key drivers of the regional integration is building a strong industrial base which ultimately will make our products competitive hence supports the EAC Industrialization Policy. In order to promote growth of our industries and make them competitive in the region, I have granted duty remission on all industrial inputs used in the manufacture of goods which are duty free.

144. Sixth, **Mr. Speaker**, Hon. Members will recall the recent adverse effects of drought on our power generation capacity. While we continue to upscale investment in power generation, we shall also invest in energy saving devices to enable energy consumers to save thereby reducing their financial burden while at the same time availing additional power into the national grid. To this end, I have therefore removed import duty on lamps and bulbs using Light Emitting Diode (LED) technology.

## 10.3 Promoting Development of Property Market and Enterprise

145. **Mr. Speaker**, I have also proposed a number of measures to promote growth of property sub-sector and encourage business transaction.

146. First, **Mr. Speaker**, the Stamp Duty Act provides that every instrument be stamped with proper duty paid within thirty (30) days from the date it is first executed, failure to which penalty is charged. The current rate of penalty is charged at 25% for every three (3) months, which translates to Kshs.5 for every Kshs.20 is too high hence a burden to the public. In order to

reduce the penalty burden on new property owners and also encourage others who have not been able to effect transfers within the stipulated period to come forward, I propose to reduce the rate of penalty from 25% to 5% and also cap the penalty to the principal amount of duty.

**147. Second, Mr. Speaker,** the current Stamp Duty fees of Kshs.2 for every Kshs.1,000 on mortgages, charges and debentures is very high hence discourages investors from the said assets. In order to encourage investors in line with our Vision 2030, I propose to amend the Stamp Duty Act to reduce the Stamp duty fees on mortgages, charges and debentures from 0.2% to 0.1% that is, from Kshs.2 to Kshs.1 for every Kshs.1,000.

**148. Third, Mr. Speaker,** the Government Lands Act provides for a penalty of 2% per month on any outstanding land rent. The said penalty is too high and hence makes many land owners reluctant to pay outstanding land rent, which is relatively high and hence discourages land owners to pay outstanding land rents. It also discourages new investors and financial sector players. In order to encourage more Kenyans to invest in land, I propose to reduce the penalty rate from 2% to 1% per month and provide for an amnesty on land rent penalties accumulated up to and including 30<sup>th</sup> June 2010. Going forward, I further propose to cap the land rent penalty to the principle amount of land rent owed.

**149. Fourth, Mr. Speaker,** provision of adequate housing facilities to our growing population is a critical development agenda of the Government. We have in the recent past availed fiscal incentives to this important sector to boost construction of more houses. However, we still have a huge deficit. In this regard, I propose to amend the banking Act to allow mortgage finance companies to operate current accounts so as to attract lower cost customer deposits that would allow them to increase mortgage lending capacity and expand their operations. In the same spirit, I further propose to amend the Banking Act to raise the threshold of core capital that banks are allowed to invest in mortgage finance from 25% to 40%.

#### **10.4 Further Ensuring Equity and Fairness in our Tax System**

**150. Mr. Speaker,** in addition policy and expenditure measures I have outlined targeted at improving the overall wellbeing of our people, I have proposed additional measures under the tax to further enhance equity and fairness in the tax system.

**151. First, Mr. Speaker,** in 2006/2007 the Government introduced payment of Advance Tax by public service vehicle drivers and conductors before they are issued with PSV badges by the Registrar of Motor Vehicles. The objective of this requirement was to assist in streamlining regulation of operations of this category of employees. It was also intended to bring them within the tax bracket. It has, however, been noted that PSV drivers and conductors, especially those who are yet to secure employment, have experienced challenges in trying to comply with this requirement.

**152. Mr. Speaker,** As a measure to widen the opportunities of securing employment in the road transport sub-sector, it has been found prudent that payment of Advance Tax by public service vehicle drivers and conductors before obtaining necessary licenses is unfair. In this regard, I propose to amend the law to abolish payment of advance tax by PSV drivers and conductors. I expect and strongly urge that savings from this will be used for insurance pensions schemes as well as familiarising themselves with the Highway Code.

**153.** Second, **Mr. Speaker**, in the past years, payments made to retirees have continued to be enhanced by removing tax on pension paid to senior citizens, increasing the tax free amount for pensioners whose income is subject to tax and taxing pension under withholding tax system instead of Pay As You Earn (PAYE) tax bands. To extend these benefits to those working on contract, employers who set up retirement benefits schemes and pay gratuity into such schemes will be allowed a deduction for tax purposes and the employees who accept to have their gratuity paid into the scheme will not be taxed on the same. This proposed measure shall enhance the financial security of such employees when they retire.

**154.** Third, **Mr. Speaker**, as we take care of our retirees, we must equally be seen to care for our brothers and sisters who find pleasure and dignity in drinking. Indeed, over the years consumers of beer have felt that they are the victims of every budget speech. To demonstrate that this perception is not well founded, the Government has maintained the same rate of excise duty on beer since 2008. During this long and much deserved break, the prices of these products have however been adjusted annually upwards by the manufacturers for various reasons ranging from rise in cost of production and inflationary factors.

**155.** **Mr. Speaker**, due to the fact that excise duties on these products are specific rather than *advalorem*, duty has tended to lag behind the price adjustments. To bridge the gap and take care of the inflation factor, I propose a modest increase on excise duty on malt beer from the current rate of Ksh.54 per litre to Kshs.65 per litre and that of non-malt beer from Kshs.45 per litre to Kshs.55 per litre. This measure is expected to give the exchequer an additional Ksh.2.5 billion.

#### **10.5 Deepening Tax Reforms and Enhancing Governance**

**156.** **Mr. Speaker**, I have already outlined specific steps we are taking to deepen the overall tax reforms in our country. In the short-term, however, I propose some tax administration measures under various legislations to improve tax administration.

**157.** **Mr. Speaker** the Kenya Revenue Authority has invested heavily in information technology, with online services for taxpayer registration and return filing now available. However, the uptake of this efficient system has remained low. To encourage the usage of this system, I am proposing to amend the law to require the Commissioner to Gazette those tax procedures or formalities which should be done online and to further specify those who should carry them online.

**158.** **Mr. Speaker** our construction sub-sector player's cash-flow position has continued to be constrained by the withholding of VAT at 16 percent and slow pace of VAT refund. To address this problem in order to improve their cash-flow position and allow them to expand their capacity, I propose to reduce the tax withheld by the Ministry of Roads which is the major withholding agent, from 16% to 8% percent.

**159.** **Mr. Speaker** I intend to overhaul the Value Added Tax to come up with modern tax legislation in line with best practice. In this regard, I intend to form a task force to come up with the new VAT Act which I expect to table in this House by June 2011.

**160.** **Mr. Speaker**, Kenyans in the diaspora have, through their continued remittances of huge amounts back home, demonstrated their desire to invest in their motherland. However, due to requirements under our tax system for declaration and filing of returns, a number of these

Kenyans have shied remitting funds for investments. In order to encourage such remittances as a source of investment to facilitate economic recovery, I propose to amend the law to grant amnesty for income of this class of Kenyans for the period prior to 2010. **Mr. Speaker**, I wish, therefore, to urge all Kenyans in the diaspora to take advantage of this amnesty and bring back their income for high return investments here at home.

**161. Mr. Speaker**, in order to enhance the PAYE collection mechanism, I propose to amend the law to improve on the PAYE dispute resolution system, enhance online filing of PAYE returns and provide certainty to the PAYE penalty structure. These proposed measures should encourage employers to utilize the online facilities provided by KRA, which should lead to enhanced compliance.

**162. Mr. Speaker**, tax planning remains a key feature of our landscape. Maintaining a line between legitimate tax planning and planning designed to avoid taxes payable under the law, remains a challenge for us all.

**163.** As part of our effort to address these anti-avoidance schemes, Hon. Members will recall that last year, I restricted the period within which business losses may be claimed for tax purposes, to five years. This year, **Mr. Speaker**, I am proposing additional measures to deal with tax planning schemes involving interest-free loans advanced to local businesses by their non-resident associates.

**164.** At the same time, **Mr. Speaker**, we are enhancing the capacity of Kenya Revenue Authority in terms of staff skills in the area of transfer pricing in order, not only to keep abreast of the emerging tax planning trends but also to ensure that adequate mitigating measures are put in place to address the same whenever it arises.

**165.** Further I intend to supplement these efforts by extending our double tax treaty network. This year, **Mr. Speaker**, negotiations were concluded with EAC Partner States, Mauritius, Iran and Kuwait. Modalities are already underway to operationalise these treaties. We have also put, as our priority, the signing of as many treaties as possible in the coming fiscal year, which will, in fullness of time shield our investors from any double taxation and also enable exchange of valuable tax information with our treaty partners.

**166. Mr. Speaker**, while the law mandates KACC to recover public resources lost to corrupt public officials, it does not provide how the Commission should deal with such assets. To facilitate the fight against corruption, I propose to change the law to enable KACC to remit all public resources recovered to the Consolidated Fund or the Permanent Secretary/Treasury as may be appropriate. This measure, **Mr. Speaker**, will go a long way to ensure that assets recovered are protected.

**167. Mr. Speaker**, the Director-General of Public Procurement and Oversight Authority (PPOA) does not get information from law enforcement institutions with investigative mandate for consideration to debar firms that get involved in fraudulent public procurement practices. In order to address this gap and deepen the war against corruption, I propose to amend the Public Procurement and Disposal Act to require the Director General to consider recommendations from institutions such as KACC, CID, and the Controller and Auditor General, for debarment.



## 10.6 Strengthening Financial Systems for Sustainable Development

**Mr. Speaker**, we have implemented several measures to strengthen our financial system and capital market to facilitate financial intermediation for faster development. Through this budget, we are again proposing some measures to deepen these reforms.

**168. Mr. Speaker**, the Policy Holders Compensation Fund (PHCF) was created to protect policyholders against insolvency of insurance companies by compensating policy holders in the event of their insurer being declared insolvent. However, the Insurance Act requires the Fund to terminate the cover of policyholders of an insurer which has not remitted the requisite contributions which is unfair to the policy holders. In order to address this anomaly, I propose to amend the Insurance Act to require directors of insurance companies which default in remitting statutory contributions to be severally and jointly liable for the payment of the outstanding contributions together with the applicable interest.

**169. Mr. Speaker**, in the year 2006, third party injury claims were capped at Kshs.3 million per person per claim with the aim of ensuring stability in the insurance sector. However, there still exists disparities in the manner in which an injury or death claim is settled and thus rendering the capping of no meaningful effect. In order to address this problem I propose to amend the insurance (Motor Vehicles Third Party Risks) Act to introduce a structured compensation scheme similar to the one under the Work Injury Benefits Act.

**170. Mr. Speaker**, the Insurance Act limits insurance agency business to Kenya citizens or a partnership or company wholly owned by Kenyans. Given the move to have one EAC region with one people, I propose to amend the Insurance Act to expand the ownership of insurance agency business to the East African Community citizens. This will allow citizens from other EAC Partner States to act as insurance agents in Kenya.

**171. Mr. Speaker**, the Deposit Protection Fund Board (DPFB) is currently liquidating twenty (20) institutions. However, most of the securities held by the Fund comprise of rural homesteads and irregularly acquired land that are unrealizable in the medium term due to their locality thus making it difficult for the DPFB to finalize the liquidation process. In order to enable the DPFB finalize liquidation process within a reasonable period, I propose to amend the Banking Act to give powers to the DPFB to hold and sell unrealizable securities after winding up an institution.

**172. Mr. Speaker**, the recent global financial crisis has called for enhanced supervision by financial sector regulators. To stem such crisis, it is imperative that regulators have an array of measures at their disposal to forestall threats to the stability of institutions. To this end, I propose to amend the Banking Act to provide for prompt corrective action so as to avail more teeth to the Central Bank of Kenya to enhance banking sector stability.

**173. Mr. Speaker**, last year I amended the Banking Act to introduce agency banking, the objective of which was to increase the outreach of the banking sector to the vast under banked and un-banked Kenyan populace. In order to deepen the use of agency banking, I propose to amend the Microfinance Act to facilitate use of third party agents by Deposit Taking Microfinance Institutions.

**174. Mr. Speaker**, the Central Bank of Kenya is restricted from sharing information obtained from surveillance of foreign exchange bureaus and other authorized agents particularly where the information relates to frauds, tax evasion, criminal activity or matters of public interest. To this end, I propose to amend the Central Bank of Kenya Act to allow the Central Bank to share or disclose information obtained from surveillance of authorized dealers with the aforementioned agencies.

**175. Mr. Speaker**, the introduction of Islamic banking in the country has posed some challenges to the Central Bank since shariah compliant transactions prohibit the payment of interest which is considered to be unfair or “Haramu”. There is therefore need to amend the law to accommodate Islamic banking products by introducing the concept of a return as opposed to interest. In this regard, I propose to amend the Central Bank of Kenya Act to facilitate Islamic transactions in the management of liquidity in the banking sector.

**176. Mr. Speaker**, investor confidence in the Capital Markets has in the recent past gone down to worrying levels as a result of the collapse of four brokerage firms with investors’ funds. The reason for the collapse has largely been attributed to poor corporate governance within the Nairobi Stock Exchange as a self regulatory organization. In order to address this problem and improve investor confidence in the Capital Markets, I propose to amend the law to allow for the demutualization of the Nairobi Stock Exchange. The planned demutualization will culminate with the listing of the stock exchange to allow the public to own stake in the exchange.

**177. Mr. Speaker**, pension benefits serve a very important role in the life of a pensioner and should be paid as soon as possible on an officer’s retirement. Currently, pension schemes are allowed a maximum of 60 days to determine and pay benefits after a member has retired. Pension schemes should be able to determine and pay pension benefits within a shorter period. In this regard, I propose to amend the law to reduce the maximum period allowed from 60 days to 30 days.

## **11.0 CONCLUSION**

**178. Mr. Speaker** Sir, when I presented my first budget last year, I outlined bold and comprehensive measures that were aimed at getting us out of a very difficult situation. Despite the initial implementation challenges that I mentioned earlier, I think it is fair to say that we have done well in the circumstances. **Mr. Speaker**, I was personally very touched by the strong endorsement of the proposals by Kenyans and this gave me the confidence that we are on the right path, but we can even do better. It is with this in mind that I have laid out this Budget that outlines our strategic framework for faster growth and development.

**179. Mr. Speaker**, building on the successes and lessons of the last one year, the Budget I have presented to this August House and to the Nation at large today will help us to propel our economic recovery further and put us in a position to set our eyes firmly on the higher national objectives we have set for ourselves.

**180. Mr. Speaker**, many of the proposals I have outlined today focus on transforming the potential of our youth into growth and development. I, therefore, urge the youth to be actively engaged in our collective drive toward economic empowerment for competitiveness, growth and poverty reduction. I also urge them, **Mr. Speaker**, to see the challenges we face as a source of

opportunities and not despair, bearing in mind that the key to a prosperous Kenya lies in their hands, through their knowledge, creativity and hardwork.

**181. Mr. Speaker**, last year, I also emphasized the critical importance of a strong moral and ethical foundation; the need to inculcate a mindset and attitude towards ethics, performance and excellence. And that we are always at our best when we set aside our differences and work together as one people, to confront our common enemies that is poverty, hunger and unemployment. **Mr. Speaker**, Hon. Members, these values are still relevant today and will continue to be relevant even after 2030. We cannot therefore let our guard down at any one moment.

Thank You all and God Bless Kenya

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