REPUBLIC OF KENYA

Budget Statement

For the

Fiscal Year 2016/2017

(1st July – 30th June)

By

Mr. HENRY K. ROTICH, EGH

Cabinet Secretary for The National Treasury

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Theme:

"Consolidating Gains for a Prosperous Kenya"

STATEMENT DELIVERED TO THE NATIONAL ASSEMBLY ON 08TH JUNE, 2016 BY MR. HENRY K. ROTICH, CABINET SECRETARY FOR THE NATIONAL TREASURY, REPUBLIC OF KENYA, WHEN HIGHLIGHTING THE BUDGET POLICY AND REVENUE RAISING MEASURES FOR FISCAL YEAR 2016/17

1ST JULY, 2016 TO 30TH JUNE, 2017

1. Introduction

1. **Mr. Speaker,** once again, it is my singular honour to present the fourth Budget Statement under the Administration of His Excellency President Uhuru Kenyatta. This statement is being presented at a time when our economy is growing at a decent pace compared with other countries in the region and globally. In short, **Mr. Speaker,** our economy is performing quite well and the policy measures I intend to highlight this afternoon are intended to consolidate this momentum and lead to increased prosperity for all Kenyans. Accordingly, **Mr. Speaker,** the theme of this Budget is "***Consolidating Gains for a Prosperous Kenya."***

2. **Mr. Speaker,** this optimism is not misplaced. It is indeed based on our well demonstrated capacity for resilience and strong and prudent management of our economic affairs, even in the face of a difficult global environment. I will, **Mr. Speaker,** in a short while demonstrate the recent economic successes that we have made as a nation under very difficult circumstances. But before I do that, **Mr. Speaker,** allow me, at the outset, to thank you for allowing us to read the Budget Statement on a Wednesday – a break from the past where we read it on Thursdays. This is because our sisters and brothers in Uganda are celebrating the National Heroes Day tomorrow (Thursday) and therefore, in keeping with our tradition of presenting Budget Statements simultaneously in the EAC, this day was agreed upon by all EAC Partners.

3. **Mr. Speaker,** our economy is growing at a stronger pace than others because under the strong leadership of our President, we are confronting head on the challenges we face with determination and confidence. Kenyans want their children to go to quality schools and to get jobs, they want to live healthy lives, they want decent transport, affordable food and a decent shelter, and above all, they want to see progress in all aspects of our economy. Achieving all this requires bold leadership and all Kenyans working hard and playing their part to deliver a common vision for our country. In sum, we need to remain steadfast in pursuing our long term development agenda and focus less on short term fixes of issues.

4. **Mr. Speaker,** I believe wholeheartedly that Kenyans are up to the task. But it requires concerted efforts from all of us to aim high and remain focused on what needs to be done. With our vibrant democracy and great leadership from the President, I can confirm that the future of our nation is indeed bright.

5. **Mr. Speaker,** our plan for economic transformation which started in 2013 is working and delivering results. We just need to remain steadfast and continue to:

- Improve the business environment in order to lower the cost of doing business, improve competitiveness, and attract more investment for growth, employment generation, and poverty reduction;
- Safeguard macroeconomic stability;
- invest in security;
- Improve infrastructure (roads, railway, ports, energy and water) to encourage growth of competitive industries;
- Undertake various measures to drive agricultural and industrial transformation so as to ensure food security and lower food prices, increase quality and diversification of exports, accelerate inclusive growth, create jobs and reduce poverty;
- Prioritise investment in quality and accessible healthcare services as well as quality and relevant education;
- Ensure adequate support for the most vulnerable in our societies;
- Support devolution through funding and working closely with the county governments to build appropriate public financial management capacity to help them better deliver services to Wananchi; and
- Implement economic, financial and other reforms to boost our productivity and competitiveness.

6. In a nutshell, **Mr. Speaker,** this budget aims to consolidate the significant gains already made in these priority areas that I have just mentioned. And we will do this within a sustainable fiscal framework.

7. **Mr. Speaker,** working together under this plan, we shall achieve higher and sustainable growth, provide jobs to our youth, reduce poverty and inequality as a nation and position ourselves as an upper middle income country. This is the Kenya we all want.

8. **Mr. Speaker,** this House approved the 2016 Budget Policy Statement and the Division of Revenue Bill that was submitted to Parliament in February this year. This paved the way for the preparation of Budget Estimates for FY 2016/17 that were submitted to the National Assembly on 28th April 2016. The Estimates broadly reflect the priorities that I have just elaborated. In addition, I am now submitting the Finance Bill, 2016, which contains the taxation and financial proposals that will further help achieve our goals.

9. **Mr. Speaker,** we are now in the final stages of engagement with the Budget and Appropriations Committee on the review process and prepare the ground for the Appropriation Bill. It is my expectation that the final budget, which should be approved before the end of this month, will reinforce the basis of achieving our long term development goals and help us move steadily towards meeting the 2030 Development Agenda for Sustainable Development Goals (SDGs).

10. **Mr. Speaker,** while finalising this Statement, I asked Kenyans to give me their views on how we are faring with our taxation, social service delivery and how best to accelerate inclusive economic growth.

11. Allow me, **Mr. Speaker,** to sample just a few of the responses from well-wishing Kenyans who want to make positive contributions to our development agenda.

12. **Mr. Speaker,** I have received a very clear message that everybody must pay taxes, including the informal sector. For example, Mr. Kelvin Omweri has written to me and I quote: *"An economy like ours cannot be supported by 2 million tax payers in the formal economy. There are persons in the informal economy in this country who make millions that do not get taxed because they are the informal economy and professional tax evaders, yet we all want NHIF to expand and cover the majority, and better education, health care facilities and infrastructure. So we all must participate in some way in paying taxes and those in the informal economy must also pay tax on income and not just VAT."*

13. **Mr. Speaker,** I fully agree with Mr. Omweri. We must widen the tax net so that everyone eligible to pay tax, including the informal sector, pays tax. In this respect, I have asked the Kenya Revenue Authority to explore ways of taxing the informal sector and to redouble their efforts in netting tax evaders. Indeed, **Mr. Speaker**, if everybody pays their fair share of taxes, we would be in a better position to lower tax rates. As part of the review of the income tax, we are considering to introduce a presumptive tax for the hard-to-tax segment of our people including those in the informal sector.

14. **Mr. Speaker,** on social service delivery, one Kenyan in the Diaspora by the name Wanjiku told us and I quote: "*invest more in education, through this you instil national pride and in 20 years or less people will pay their taxes, public servants will serve with integrity and the systems will take care of the less fortunate."*

15. **Mr. Speaker,** we share the same conviction with Wanjiku and it is for this reason that we are heavily investing in education through the free primary education, the free day secondary education, the Digital Literacy Program (popularly known as Laptops) as well as expanding our Technical Training Institutes and our Universities. Of course, **Mr. Speaker,** we are well aware that in addition to investing in education, investing in health is equally important and working with the Counties, we have prioritized this sector in funding including introducing medical equipment leasing initiatives.

16. **Mr. Speaker,** on accelerating economic growth rate, a Mr. Gilbert Kiyeng from Elgeyo Marakwet wrote to me and said: *"Government should focus on improving and creating new factories*

to process agricultural products. He wonders why mangoes are left rotting in farms like in Kerio Valley and potatoes getting wasted during periods of high yields. The Government should create a factory to process and export dried mangoes and chips - it's a multi-billion business in the Philippines. If we can improve processing of agricultural products, we can create more jobs and expand our economy by more than 10% annually."

17. **Mr. Speaker,** this proposal is in line with our plan to transform the agricultural sector, improve productivity, efficiency and coordination throughout the entire value chain. Of course, **Mr. Speaker,** our main role is to facilitate the private sector to join hands with the government in creating value addition for agricultural produce in the country for both domestic and the export markets. That is why we are investing in small holder irrigation and ensuring affordable credit to farmers.

18. Finally, **Mr. Speaker,** Kenyans were very loud and clear that we should eliminate corruption and wastage. I will say more later on in this statement on what we are doing in this area. **Mr. Speaker,** I was delighted by the overwhelming constructive responses by Kenyans who have so far sent me over 285 suggestions and I would like to assure them that we will take these suggestions into account as we strive to implement our Economic Transformation Agenda.

2. Highlights of the FY 2016/17 Budget

19. This budget, **Mr. Speaker,** is guided by the Government's strategic interventions aimed at transforming our economy into a fully-fledged middle income country sooner rather than later. It is a budget that will reinforce the foundation that we set three years ago for a strong shared growth and for a sustained reduction in unemployment and poverty.

20. **Mr. Speaker,** in brief, we propose improving our revenue collection, including Appropriation-in-Aid (AiA) to KSh 1,500.6 billion (20.3 percent of GDP), up from the estimated KSh 1,295.4 billion (19.7 percent of GDP) in 2015/16. **Mr. Speaker,** we plan to enhance our efforts to broaden the tax base and improve revenue administration by the Kenya Revenue Authority. Already, we have adopted a simple and modern VAT legislation, while appeals have been consolidated into one legislation. **Mr. Speaker,** I thank this House for approving a modern and simplified Excise Duty Act and Tax Procedure Act, both of which are now being implemented. Already, these legislations are beginning to yield more revenues for the Government, judging from the performance in the recent four months.

21. **Mr. Speaker,** we will be proposing additional tax measures in the following areas:

a) Promoting Growth of Industries and Employment Creation;
b) Facilitating Infrastructure Development;
c) Enhancing Equity and Fairness in the Tax System and Tax Administration;
d) Cushioning Households' Budget to Ease the Cost of Living;
e) Strengthening Financial Sector Stability; and
f) Promoting Private Sector Growth.

22. **Mr. Speaker,** the Government will continue to rationalize and prioritize expenditures for maximum impact with limited resources. We will also enhance efficiency and ensure value for money. In FY 2016/17, overall expenditure and net lending are projected at KSh 2,264.8 billion (30.6 percent of GDP), up from the estimated KSh 1,842.7 billion (28.1 percent of GDP) in 2015/16. The expenditures in the FY 2016/17 includes externally funded development projects amounting to KSh 413.6 billion (5.6 percent of GDP).

23. **Mr. Speaker,** our expenditures are aimed at supporting growth while helping to crowd in the private sector to take up new opportunities. I will provide details of our expenditure plans shortly. Meanwhile, it is important to acknowledge the support from our Development Partners who have worked closely with us to align their funding with our National Development Agenda. I wish to salute all of them for this generous gesture which is a clear vote of confidence in our transformative economic agenda.

3. Recent Economic Developments

3.1 Global Environment

24. **Mr. Speaker,** we have prepared the budget for FY 2016/17 against a backdrop of slower global growth and increased uncertainty. The pace of economic growth has slowed in many countries. The impact of lower commodity prices on commodity importers is less positive than expected and commodity exporters have to adjust their economies in a more difficult environment. World growth, therefore, slowed from 3.4 percent in 2014 to 3.1 percent in 2015 and is estimated at 3.2 percent in 2016.

25. Growth in sub-Saharan Africa weakened from 5.1 percent in 2014 to 3.4 percent in 2015 and is projected to decline further to 3.0 percent in 2016. The slowdown primarily reflects the decline in commodity prices as well as lower demand from China, the largest single trading partner of Sub-Saharan African countries. In addition, the region's frontier markets are adversely affected by tighter global financing conditions. Sub-Saharan African region growth is projected to pick up to 4.0 percent in 2017, driven by sustained infrastructure investment; buoyant services sectors, strong agricultural production, rebound in commodity prices and timely policy implementation.

3.2 Domestic Scene

26. **Mr. Speaker,** our economy remains resilient and registered relatively strong growth amidst the global economic slowdown, thanks to the ongoing infrastructural investment, increased investor and consumer confidence and improved agricultural production. Today, **Mr. Speaker,** Kenya's growth is relatively much stronger compared to our peers in Sub Saharan Africa. According to Bloomberg, **Mr. Speaker,** Kenya's economy is among the top fastest growing in the world. We are ranked as one of the 7 best countries for investments; and the second biggest market for retail

investors in Africa. These accolades are not coming from the Government, but from external objective observers of our economy and this, **Mr. Speaker,** should make us proud of our achievements.

27. Both the IMF and World Bank have lauded our growth of 5.6 percent in 2015, which was well above the Sub Saharan African average of 3.5 percent. Our economy generated 841,600 new jobs, up from 799,000 in 2014, according to the latest Economic Survey released by the Kenya National Bureau of Statistics.

28. Of course, **Mr. Speaker,** notwithstanding these achievements, a lot remains to be done in order to decisively deal with the challenges of unemployment, poverty and inequality. **Mr. Speaker,** our target to generate 1 million new jobs remains. In 2016, we target to grow our economy by 6.0 percent and by 7.0 percent in the medium term. This level of growth will continue generating new jobs and creating economic opportunities for our young men and women graduating from various institutions. The faster we grow above this level on a sustainable basis, the more chances we have of putting a dent on poverty because many more of our youth who are entering the labour market will be more easily absorbed.

29. **Mr. Speaker,** Kenya has established a strong track record of macroeconomic stability and this budget underscores our commitment to sustain this effort going forward. In this regard, we shall continue to implement prudent fiscal and monetary policies in the context of weakened global economy, lower commodity prices and pressures in our exchange rate as the United States continues to tighten monetary policy by raising interest rates. As a result of prudent fiscal and monetary policies, inflationary pressures were contained to 5.0 percent in May 2016, and there has been a steady decline in short term interest rates with the 91-day Treasury bill rate at only 7.5 percent in early June. We will continue to maintain low and stable interest rates going forward.

30. **Mr. Speaker,** the current account deficit has narrowed due to lower oil import bill, improved earnings from tea and horticulture exports, and strong diaspora remittances. The deficit was estimated at 6.8 percent of GDP in 2015, a reduction of 3 percentage points from 2014, and is expected to narrow further in 2016. The exchange rate to the US dollar has remained stable exchanging at about KSh 100. Our foreign exchange reserves at US dollar 7,688.3 million (equivalent to 5.0 months of import cover) should serve as a buffer to any potential external shocks.

31. But, **Mr. Speaker,** because we are living in a vulnerable world, we need further cushion to protect our economy against shocks as we implement our economic programmes. For this reason, the International Monetary Fund (IMF) approved, in March 2016, a two year precautionary programme for Kenya of SDR 1.06 billion (about US$1.5 billion). This support is a clear indication from the international community that we are doing the right things, and that they have confidence in the way we are managing our economy. These resources together with a strong foreign exchange reserves are readily available in the event that Kenya faces severe internal and/or external shocks. Therefore **Mr. Speaker,** we are well positioned to continue implementing our transformative economic agenda without any major risk of exogenous shocks because we are adequately insured.

4. Sectoral Policies and Expenditures

32. **Mr. Speaker**, the rest of my statement will cover the progress made in various strategic areas in our development plan and expenditure allocations, then the fiscal projections for the FY 2016/17, and finally conclude with tax and other policy measures contained in the Finance Bill that I have submitted today.

Modernizing Security

33. **Mr. Speaker,** we are part of the global community, and are susceptible to various security challenges including terrorism and the radicalisation of a few of our young men and women. We have done a lot in the area of security as a country and more will be done.

34. **Mr. Speaker,** the people of Nairobi and Coast may have by now noticed the surveillance cameras installed in strategic points and roads in Nairobi and Mombasa. This security surveillance system provides real time footage to the National Police Operations Centre enabling security agents to monitor and detect crime. We have also invested heavily in street lighting in major cities and towns. **Mr. Speaker,** we are beginning to reap significant dividends from our investments in this sector. A testimony of this development is a comment by Mr. Gichana from Nairobi who said that there would be: *"No more sending of Officers blindly to the scenes of incidents as specific locations will be identified using the GPS thus making work easier."*

35. **Mr. Speaker,** in addition to surveillance cameras, we have also established the command and control centre, expanded police training facilities, acquired police vehicles and motorbikes to enhance mobility across the country, enhanced connection of the Integrated Population Registration System (IPRS) to agencies and launched the e-passport. We have improved police welfare, continued construction of housing units, and recruitment of more police officers hence improving on police-population ratio among others.

36. **Mr. Speaker**, we are also prioritizing the provision of decent housing for our disciplined forces. To this end, I am pleased to report that we have already signed a Bilateral Framework Agreement between the Government of Kenya and Shelter Afrique and are negotiating a Financing Agreement with the African Development Bank and other partners that, in the first Phase, will see development of 20,000 new units of Police housing within 24 months. Construction will commence in October this year. Once Phase One is underway, we expect to concurrently launch additional Phases with a view to conclusively address the housing gap for police and other disciplined forces estimated at over 100,000 units.

37. **Mr. Speaker,** we have achieved much towards reducing incidences of insecurity in the country and we will not be complacent. Our security modernization programme will continue to fully assure both domestic and foreign investors and Kenyans in general of safety and security of their lives and investments. In addition, we will enhance security operations especially in areas prone to crimes; building capacity for effective and faster investigation and better coordination among security

agencies with stronger partnership with communities. Accordingly, **Mr. Speaker,** I have allocated KSh 124.04 billion to Defence and National Intelligence Service (NIS), and KSh 140.6 billion to the State Departments of Interior and Coordination of National Government. This significant increase in allocations will go towards: Military and Police Modernization; Lease financing of police motor vehicles; enhanced security operations; Police and Prison Officers Medical Insurance Scheme; Construction and Equipping of the National Forensic Laboratory; Construction of Police Stations and Housing; and to securing our borders, among others.

Improving Governance and Facilitating Business

38. **Mr. Speaker**, the Government is fully cognizant of the adverse effects that corruption poses to our economy including inefficiency, low productivity and high costs of doing business. **Mr. Speaker,** we shall continue strengthening the various institutions that are mandated to fight corruption in the Country particularly the Ethics and Anti-Corruption Commission (EACC), the Department of Public Prosecutions (DPP) and the Police. This will enhance their capacity to vigorously combat corruption and the recovery of corruptly acquired assets. Already, **Mr. Speaker**, we have seen the dividends of coordinated investigations among these agencies. Under the Multi-Agency Team (MAT) that brings together the Kenya Police Service (Directorate of Criminal Investigations), the Ethics and Anti-Corruption Commission, the Financial Reporting Centre, the Directorate of Public Prosecutions, the Kenya Revenue Authority and the Asset Recovery Agency, more than 360 corruption cases are now before the courts. The ball is now in the Judiciary's Court to expeditiously adjudicate these cases.

39. **Mr. Speaker,** on asset recovery, the Multi-Agency Team has traced, and is in the process of preparing to seize property and assets acquired using proceeds of corruption. We are also working with the United Kingdom Government to repatriate about KSh 52 million as proceeds of corruption from the Smith and Ouzman case. These monies will be used to procure 11 ambulances for various hospitals. We are also expecting another KSh 525 million from the Jersey Island Government being proceeds from the entity that was used to transfer illicit money from one of our Parastatals (KPLC) and are in the process of identifying projects that will be financed by these proceeds.

40. **Mr. Speaker,** to strengthen the work of the anti graft Multi-Agency Team, we have allocated KSh 2.8 billion to the Ethics and Anti-Corruption Commission (EACC), KSh 2.1 billion to the Department of Public Prosecutions (DPP), and KSh 300 million to the Financial Reporting Centre (FRC).

Public Finance Management and Resource Management

41. **Mr. Speaker**, we are improving our public finance management to pre-empt rent seeking opportunities and eliminate wastage. In particular, we have continued to build up capacity among institutions implementing public financial management reforms, and have rolled out the e-Procurement module under the IFMIS. Further, **Mr. Speaker,** I gazetted regulations for the Public Finance Management Act, 2012, in 2015 for both the National and County Governments. These

regulations seek to set a standardized financial management system to ensure accountability, transparency, effective, economic and efficient collection and utilization of public resources. **Mr. Speaker,** we now require all the Accounting Officers to strictly adhere to these regulations. And as way to dismantle entrenched interests in expenditure executing agencies, we have redeployed all Public Finance Officers (Accountants, Finance Officers, Internal Auditors and Procurement Officers) to serve in new stations for a maximum of three years. Those who will handle procurement will have to undergo vetting.

42. **Mr. Speaker,** the Government will continue to resource and strengthen the capacity of institutions that provide oversight on PFM, including the National Treasury, Office of the Controller of Budget, Office of the Auditor General and the Public Procurement Regulatory Authority. We now have in place a new procurement law and Public Audit Law. All public institutions are hereby required to familiarize themselves with these laws and strictly adhere to the requirements therein.

43. **Mr. Speaker,** during the FY 2015/16, we tightened the release of exchequer to MDA so as to ensure efficient use of public resources and reduce wastage. This policy will continue in FY 2016/17 and this will be complemented by full adoption of the Treasury Single Account (TSA) by September 2016, which will ensure efficient and effective cash management.

44. **Mr. Speaker,** to further strengthen governance, we have issued a notice directing all public entities, that is, the National Government (Ministries, Departments and Agencies); the National Government State Corporations and Semi-Autonomous Government Agencies and all the 47 County Governments to establish Internal Audit Committees with effect from 1st July, 2016. The Audit Committees will be responsible for advising the Accounting Officers regarding suitability and robustness of the Institution’s internal control systems and procedures. **Mr. Speaker,** members of the Committees shall be sourced competitively and I encourage qualified Kenyans who meet the requirements to apply for these positions when the respective public entities that currently do not comply advertise.

Efficiency and Effectiveness in Public Service Delivery

State Owned Enterprises

45. **Mr. Speaker**, to further improve effective use of our scarce resources, the Government is committed to implement parastatals reforms. In this regard, the Government Owned Entities Bill is currently before Cabinet on its way to Parliament**.**

46. **Mr. Speaker**, regarding strategic Government investments that have faced challenges recently, allow me to report as follows:

i. We are working to ensure Kenya Airways turns around its financial position and is able to play its role in our economy especially as a key asset supporting our tourism and transport sectors;

ii. On Telkom, I am happy to report that significant progress has been made in which Orange East Africa will sell its shares to a strategic investor. Through this transaction, **Mr. Speaker**, GOK will increase its shareholding from the current 30% to 40%. We expect the new investors to turn around the fortunes of the company so that it can be a sustainable business capable of competing effectively in the telecommunications sector; and finally
iii. The Government recognises the importance of a financially strong Mumias Sugar Company to the economy of Western Kenya. Consequently, the Government allocated Ksh 2.0 billion in this financial year in order to support the revival of the company and we believe we have now laid a strong foundation for its recovery.

Use of ICT to Enhance Efficiency

47. **Mr. Speaker**, access to Information Communication and Technology (ICT) is critical for the country's productivity and competitiveness in a knowledge based economy. The government is therefore committed to investing resources as well as providing a conducive environment for the ICT sector to thrive. This will not only improve service delivery but also cut transaction costs and safeguard Government revenue.

48. Much progress has been made including digitalizing Land transaction services, e-registry, business registration, motor vehicle and driver's license services and services under the registration of persons, including passport, work permits and visa application.

49. **Mr. Speaker,** as I stated in my last Budget Statement, we are moving all payments to Government onto the digital platform. The objective of the Government Digital Program is to ensure that all payments to Government are made electronically so as to significantly reduce administrative costs, minimize leakages and expand access to payment points. This has enabled Kenyans to pay for Government services wherever they are and using payments channels of their choice, thus saving them costs associated with transport and queuing time.

50. To date, **Mr. Speaker**, over 1.7 million Kenyans have registered on the eCitizen payment platform, where they are able to access 115 services from different government agencies including some from County Governments. To date the platform has processed over 2.4 million application and collected KSh 4.2 billion in Government revenue. Some of the additional services we shall be bringing on board include assessment and payment of stamp duty, application for Identity Cards, and inspection of Company files. **Mr. Speaker,** to assure ourselves that the system is robust and not subject to manipulation, we have instituted an audit whose finding will be used to review the payments architecture. We will work closely with the ICT Ministry on this.

51. **Mr. Speaker,** the Government has made strides in enhancing access to and delivery of government services to all Kenyans through the One-Stop-Shop Service centres popularly known as Huduma centres. By January 2016, we had 40 Huduma Centres across the country and the target is that each of the 47 counties in the country will have a Huduma centre by the end of the financial year 2016/17. This one-stop shop service delivery programme provides channels for different

integrated government services to the public including the physical centres, online portal , mobile phone services to citizens and a unified and integrated payment gateway (Huduma card) to facilitate payment for government services. All these developments and innovations, **Mr. Speaker,** go a long way in reducing transaction costs to the Mwananchi, in addition to improving government revenue collection by sealing loopholes.

52. **Mr Speaker,** implementation of the Kenya National Electronic Single Window System (the Kenya Tradenet System) is on course and 17 modules are now operational while the remaining 3 will be completed in the next six months. We are beginning to see the benefits of this investment with the time taken to process documents declining by 50 percent, while the number of times a client needs to visit a Government agency coming down to zero. At the same time, there is increased uptake by government agencies processing their permits through the system. This has therefore contributed to enhanced efficiency, transparency, accountability, governance and competitiveness while at the same time improving revenue collection.

53. **Mr Speaker,** the government has put in place initiatives such as the presidential digital talent initiative, digital literacy programme, Kenya Transparency and Communication Infrastructure programme, County Connectivity Project, Enterprise Kenya, Digital migration and NOFBI phase II that will improve the delivery of Government services.

54. In addition, **Mr. Speaker,** Kenya identified Konza Techno City as one of the national flagship projects to position Kenya as a sustainable world class ICT Hub in the region. In this subsector, I am proposing to allocate a total of KSh 6.1 billion for Single Window Support Project, Research Development Fund, Roll out of IFMIS, Development at Konza Technopolis, Digital Migration (KBC), and for the Presidential Digital Talent Programme.

Business Regulatory Reforms and Private Sector Development

55. **Mr. Speaker**, as highlighted during last year's budget statement, the Government is committed to reducing the cost of doing business and encouraging private sector innovation, entrepreneurship and business expansion in order to have a strong and sustainable high economic growth and reduction in the poverty levels. An Inter-Agency Business Environment Delivery Unit has been constituted and tasked with the mandate of coordinating the business processes re-engineering for 6 out of 10 World Bank Doing Business Indicators.

56. These reforms that we are undertaking, **Mr. Speaker,** are expected to further improve our business environment and our overall ranking in the World Bank's Ease of Doing Business Report which improved significantly from position 129 in 2015 to position 108 out of 189 economies.

57. **Mr. Speaker,** building on the progress achieved thus far, the Government has further made it easier to register a company through the overhaul of the Companies Act. We have cut to a minimum the old stringent rules that once made it difficult for sole business owners to register as limited liability companies. The Government will continue to simplify and modernize business regulatory regimes, rationalize regulatory fees and other charges, and eliminate regulatory and other hurdles that

discourage investment. Further, we shall establish an institutional and legal framework for the management of regulatory charges, including those imposed by county governments.

58. **Mr. Speaker,** allow me to thank Members of Parliament for taking time to review and pass the necessary pieces of legislation to enable many of these reforms to be implemented. I would also want to ask for your support to prioritize debate and the passage of other pieces of legislation which are aimed at strengthening the business environment.

Financial Sector Stability and Development

59. **Mr. Speaker,** Kenya's financial sector development continues to support economic growth through mobilisation of large savings to finance investment needs. In the 2015/16 World Economic Forum Global Competiveness Report, Kenya ranked number 42 in the world out of 140 countries for Financial Market Development. In 2015, our capital market industry was voted the most innovative in Africa by Africa Investor, thus placing our capital markets in line for a Global Financial Centre ranking, and solidifying our position as the regional financial hub.

60. Kenya's banking sector continues to expand locally and across the Sub Saharan Africa region with innovations driving financial inclusion. In the 2016 FinAccess survey, Kenyans access to financial services improved to 75.3 percent, up from 66.7 percent in 2013. In 2015, Kenya was ranked position 1 in the world for leveraging technology to drive inclusion by Brookings Financial and Digital Inclusion Project (FDIP).

61. In this context, **Mr. Speaker**, I want to assure my fellow Kenyans that our financial sector remains strong and stable. The recent placing under receivership of three banks was due to specific factors related to these banks and not to the whole banking sector. Nevertheless, in order to prevent similar occurrences in the future the following measures are being implemented:

- **First,** I will be presenting shortly to Parliament, the Central Bank Bill which has already been approved by the Cabinet.
- **Second,** we are enhancing oversight of commercial banks IT systems while at the same time improving the skills of Central Bank supervisory staff on ICT and forensic audits. In addition, the Central Bank is in the process of recruiting skilled IT staff to strengthen its technical capacity;
- **Third,** we are also strengthening Central Bank supervision function in terms of numbers and competences;
- **Fourth,** we are insisting on strengthening corporate governance practices in banks;
- **Fifth,** we are reviewing the quantum of penalties for regulatory violations;
- **Six,** CBK is also considering publication of its enforcement actions against institutions;
- **Seventh,** working with relevant agencies to duly investigate and prosecute cases of financial fraud promptly; and
- **Eighth,** we intend to strengthen the bank resolution process under the Banking Act as well as the Kenya Deposit Insurance Corporation Act.

62. **Mr. Speaker**, the Government continues to implement measures to address the high cost of credit and to expand access to credit in the economy. We have developed the Movable Property Security Rights Bill, 2016 which provides for borrowing using movable assets as collateral, for enforcement of security rights by lenders and protection of borrowers using such collateral. In addition, we are developing the electronic collateral registry where lenders will be able to lodge their security rights on specific collateral through an online platform.

63. **Mr. Speaker**, this year I will be putting special focus on enabling the financial sector to play its role in enabling Kenyans access affordable housing. In this regard, on the demand side, I have gazetted a legal notice to provide a window for the National Social Security Fund to invest in prescribed financing vehicles for development of affordable housing. In addition, we are working with our development partners to put in place a Mortgage Liquidity Facility which will provide long term funding to financial institutions, including SACCOs, to enable them provide longer tenure mortgages to the public. We have also developed a raft of measures aimed at smoothening the land titling and collateralisation process including the ongoing digitisation of land registries. On the supply side, we shall operationalise incentives to facilitate developers of low cost housing for them to provide infrastructure, which would otherwise have been provided by the county or national government.

64. **Mr. Speaker,** to cement progress made thus far, and in the spirit of consolidating Kenya's position as the financial hub in the region, I have already exposed for public comments the Nairobi International Financial Centre (NIFC) Bill, which has already undergone extensive stakeholder consultations. The Bill provides a framework to strengthen Kenya's position as the financial hub of choice in the region through incentives, addressing bottlenecks and putting in place necessary market infrastructure and market development. I will also be tabling the Financial Services Authority (FSA) Bill, which provides for much more than a simple merger of the existing non-banking regulators by encompassing issues of market conduct, financial services, consumer protection and addressing existing regulatory gaps such as regulation of credit provision.

65. **Mr Speaker**, we are also moving to strengthen both the Primary and Secondary markets for Government Securities which constitute a major component of our capital markets. This will include: introducing electronic bond auctions which will spare investors from the current manual process of submitting paper bids; separating the retail and wholesale components of the market, introducing primary dealers and market makers; and establishing an efficient horizontal repo market. In addition, with volatility in interest rates having been tamed, we shall now proceed with the M-Akiba Government Bond, the world's first purely mobile phone based Government security.

66. **Mr. Speaker**, the retirement benefits sector has continued to experience significant growth. The Government is, however, concerned about confusion, duplication and unhelpful competition that has characterized the retirement arrangements for workers under county governments since the enactment of the new constitution. There remains a compelling need for a framework that will ensure maximisation of the benefits of pooling staff pension assets, facilitate mobility of staff across county governments and between national and county governments and bring on board universal norms and standards benchmarked with international best practice. This framework should cover all county

government workers including those initially seconded from the National Government, those from the defunct local authorities and those employed by County Public Service Boards and County Assembly Service Boards.

67. In this regard, **Mr Speaker**, the National Treasury as the Ministry charged with pension policy will be working with all parties to rapidly put in place a comprehensive solution once and for all. I urge all stakeholders, including the National Assembly, the Senate and the Council of Governors, to cooperate with us on this matter to allow for the best long term and sustainable solution in the interest of the county workers.

68. Further, **Mr. Speaker**, and in order to support the insurance industry in Kenya, Section 20 of the Insurance Act expressly prohibits placement of “Kenyan Business” with non-Kenyan or foreign insurance markets except under certain circumstances. Despite the existence of the law, imports into Kenya continue to be on a Cost, Insurance and Freight basis instead of Cost and Freight basis. In effect **Mr. Speaker,** this denies insurance companies registered in Kenya huge business that could substantially benefit the industry and the economy as well. To address this **Mr. Speaker**, I am directing the Kenya Revenue Authority to work with the relevant stakeholders to ensure that this part of the law is implemented. **Mr. Speaker**, this will also be beneficial to Kenyan importers who under the current practice have limited recourse if anything happens to their imports before they arrive in the country.

Infrastructure Development and Growth

69. **Mr. Speaker,** in order to achieve our objective of having in place world class infrastructure, the Government will continue with the on-going public investments in roads, rail, ports, energy and water supplies in order to propel Kenya’s economy towards prosperity. Much progress, **Mr. Speaker,** has been achieved in the implementation of road rehabilitation and construction programme and a number of key projects in the road sector have been completed. We will also step up road transport safety and regulation that is aimed at developing and implementing road transport policies for an efficient, effective, safe and decongested transport system.

70. **Mr. Speaker,** some of the major on-going projects include the Northern Corridor Transport Improvement Project (NCTIP), decongestion and improvement of roads in Cities and Urban Areas, rehabilitation of access roads, and the LAPSSET project. The Government will continue to enhance road network connectivity across the country with the aim of enhancing trade, commerce, agricultural productivity and regional trade. To this effect, **Mr. Speaker,** the government has earmarked for construction 3,800km of low volume seal roads across the length and breadth of the country to open up rural areas and farmlands.

71. **Mr. Speaker,** to decongest the major urban centres, the Government will continue with the expansion of major roads. Currently, dualling of Outering road in Nairobi is progressing well, and the dualling of Ngong Road to Adams Arcade has started and is expected to be completed in the next two years. Further, **Mr. Speaker,** the Government in partnership with the Nairobi City County will be

fast tracking the realisation of the Nairobi Metropolitan Mass Rapid Transport System and implementation of the Nairobi Metropolitan Transport Authority Bill.

72. **Mr. Speaker,** the construction of the Standard Gauge Railway (SGR) from Mombasa to Nairobi, has also progressed well and is now over 80 percent complete and expected to be launched by June 2017 by His Excellency the President. **Mr. Speaker,** this rail will significantly reduce the cost of transport, facilitate faster and cheaper movement of freight and passengers and enhance competitiveness of the economy thereby positioning Kenya as a regional business hub. In this budget, **Mr. Speaker,** I have further allocated KSh 154.4 billion for the SGR of which KSh 118.2 billion is external financing from China and KSh 36.2 billion is the GOK's contribution. Regarding Phase II of the SGR that will run from Nairobi to Naivasha, we have already concluded discussions on funding and we expect construction to start in the FY 2016/17.

73. **Mr. Speaker,** with the completion of the new rail, there will be developments of industrial parks along the SGR line at Dongo Kundu in Mombasa, Voi, Mtito Andei, Nairobi and Naivasha which will help boost our manufacturing sector and its contribution to GDP and help create jobs for our Youth.

74. **Mr. Speaker,** the Government has made good progress on reforms and modernization of the port of Mombasa especially in expansion of container terminals. This together with the ongoing integration of the Single Window System and other related systems will facilitate faster, efficient and competitive clearance of cargo, positioning the port of Mombasa as a preferred hub in Eastern and Central Africa. In air transport, **Mr. Speaker,** the screening yard and security toll gate at Jomo Kenyatta International Airport (JKIA) have been completed while rehabilitation work at the five airstrips (Nanyuki, Ikanga, Lodwar, Embu and Malindi) and expansion and modernisation of Isiolo and Kisumu airports are ongoing. Going forward, **Mr. Speaker,** we will scale up the on-going airports expansion and modernization, commission the new terminal 1E and commence work on the second runway at the JKIA expected to be completed by the end of 2018. We also plan to commence the expansion of the Eldoret International Airport to enable large cargo planes to land and position it as a transport hub.

75. **Mr. Speaker**, to realise some of the interventions I have highlighted above, I have allocated (including external financing) a total of KSh 117.6 billion and KSh 30 billion for low volume seal roads. Of this, KSh 23.8 billion will be through the normal ministerial roads budget while KSh 6.7 billion will be from the Equalization Fund specifically for the marginalised areas.

76. For the ports, **Mr. Speaker,** I have allocated KSh 0.8 billion for on-going upgrading of Malindi Airport, Isiolo Airport, Suneka Airstrip and Lokichogio Airport; KSh 0.5 billion for Acquisition of 2 Ferries for the Likoni Channel; KSh 5.5 billion for Mombasa Port Development Project financed by Development Partners and KSh 10 billion for the LAPSSET project.

77. In order to boost regional trade **Mr. Speaker,** the Government will prioritize the construction of the East Africa Road Network (Voi-Mwatate-Wundanyi and Malindi-Mombasa-Lunga Lunga road

sections), the construction of Kisumu-Kakamega road under the Kenya Transport Sector Support Programme and the construction of the 600 KM South Sudan link road.

78. **Mr. Speaker,** our commitment to provide affordable and competitive electrical energy remains on course. Significant progress has been made towards generation of 5000 MW of power. To date, 615 MW of power have been added to the National grid and this has significantly reduced the cost of power. **Mr. Speaker,** we will continue to exploit the vast geothermal resources that Kenya is endowed with for creating a conducive environment for investors to invest including providing a competitive power purchase agreement (PPA), letters of support and risk guarantees arrangements.

79. Further, **Mr. Speaker,** we expect to produce 300 MW of power from wind in the next one year with the ongoing works at Lake Turkana Wind Project. These resources are expected to increase our clean energy mix cementing Kenya's position as a World Leader in renewable energy. The additional power supplies, **Mr. Speaker,** will significantly reduce the cost of doing business, spur growth of enterprises and industries, and accelerate the creation of jobs in the industrial and other sectors.

80. **Mr. Speaker,** we are implementing a programme to connect at least 70 percent of Kenyan households to electricity by 2017 and subsequently reduce the connection cost and time by at least 60 percent in the medium term. Already about 5 million households, 14,950 public primary schools and 980 public facilities have been connected to electricity under this program.

81. **Mr. Speaker,** to fund specific interventions in the energy sector. We have allocated KSh 120.2 billion of which KSh 81.6 billion is from our development partners and KSh 38.5 billion is GOK in FY 2016/17. This will cater for: Geothermal Development; Power Transmission; Rural Electrification Programme; Last Mile Connectivity; National Street lighting Programme; Electrification of Public Facilities; Exploration and Distribution of Oil and Gas; Installation of Transformers in Constituencies; Connectivity Subsidy, and LPG Distribution and Infrastructure Programme.

Public Private Partnership (PPP) Projects

82. **Mr. Speaker,** since 1996, Kenya has continued to attract private investments into the infrastructure sectors including in sectors such as telecommunications, energy, transport, water and sewerage. **Mr Speaker,** available public sector resources are limited to finance competing and critical infrastructure needs. In this context, **Mr. Speaker,** the Government has recognized the critical role that can be played by the private sector in mobilizing resources for infrastructure development and is using the PPP arrangement to accelerate infrastructure development, including the development of 500 kilometres of roads using the annuity approach; the ongoing development of geothermal power; the construction of Kenyatta University hostels; the planned development of a seaport in Kisumu; the expansion of the Mombasa - Nairobi - Malaba Highway; and the construction of the 2nd Nyali Bridge in Mombasa among others. Specifically, on the road annuity programme, we expect to commence the construction of the first batch of roads with funding from the Annuity Fund which currently has received over KSh 9.5 billion.

Agricultural Transformation for Food Security

83. **Mr. Speaker,** we have made significant progress in reducing our dependence on rain fed agriculture. In order to realize our goals in this area, we shall continue investing in irrigated agriculture to build resilience in the economy and also improve our food security. We are pleased **Mr. Speaker,** by the progress made in the implementation of the 10,000 acres pilot phase in Galana-Kulalu. Drawing from the lessons learned from this pilot phase, we shall roll out a programme covering at least 100,000 acres in Galana-Kulalu and other designated suitable schemes throughout the country under a viable business framework that involves the private sector.

84. **Mr. Speaker,** to implement the ongoing programmes under this sector, I have allocated KSh 20.8 billion for on-going irrigation projects countrywide including the Galana-Kulalu Irrigation Project; interventions to transform agriculture from subsistence to productive commercial farming; Mwea Irrigation Project and the National Expanded Irrigation Programme.

85. **Mr. Speaker,** in order to improve yield and output for our farmers, I have set aside KSh 4.9 billion to subsidize fertilizer and seeds. Further, **Mr. Speaker,** to enable the country maintain adequate food reserves, I have allocated KSh 1.6 billion for Strategic Food Reserves. I have also allocated a total of KSh 8.4 billion for acquisition of the Offshore Patrol Vessel for the fisheries sub sector; the modernization of the Kenya Meat Commission; the revival of the pyrethrum sector; Livestock & Crop Insurance Scheme; Livestock value chain support; and the mechanization of Agriculture. I have also set aside KSh 1 billion for Crop Diversification Programme in the Meru region for the Miraa Farmers and KSh 2.4 billion for Coffee Debt Waiver & STABEX.

Promoting Industrialization for Export, Growth and Employment

86. **Mr. Speaker,** the manufacturing sector is a key driver to economic growth particularly in the agricultural sector through growth of exports and job creation. For this reason, **Mr. Speaker,** the Government is keen to establish industrial and technology parks to catalyse innovation and value addition. The Government will also establish green industrial parks under the Special Economic Zones along the SGR line from Mombasa to Western Kenya (including the shores of Lake Victoria) and within the proximity of geothermal wells to provide cheaper and faster transport and logistics, access to near free steam and water, cheaper geothermal power and leverage other by-products for industrial, livestock and agricultural development.

87. **Mr. Speaker,** as members are aware, Pan Paper Mills, was sold under receivership. The new owners have promised to make the necessary investments to revive the company and revitalize the economy of its host community. We will monitor developments very closely to ensure that the undertakings provided by the new owner are indeed implemented.

88. **Mr. Speaker,** in order to promote the development of industries and extractive sectors of the economy, we have allocated a total of KSh 7.7 billion for the National Airborne Geo-Physical Survey,

the leather industrial park development; textile development; ease of doing business; modernization of Rivatex and; ongoing modernization and debt for the New KCC.

Empowering the Youth

89. **Mr. Speaker,** the Government is cognisant of the fact that unless we invest in the potential of the youth, we will not achieve a real demographic dividend in the future. **Mr. Speaker,** two years ago we revamped the National Youth Service as a vehicle for recruiting our young men and women into national service. This programme helped in inculcating the culture of patriotism, service, volunteerism, civic competence and social cohesion, not only amongst the trainees, but also with other young people within their communities. This programme created a lot of hope to our youth by preparing them for the job market and other income generating activities while at the same time providing them with opportunities to serve our country. **Mr. Speaker,** we shall continue supporting this programme for the benefit of our youth who acquire artisanal skills, crafts and technical training. The skills gained will enable the youth to contribute to our national economic development.

90. In the FY 2016/17, **Mr. Speaker,** to meet the commitments we have made to our Youth through the NYS, I am allocating KSh 21.1 billion towards Gender and Youth Empowerment Programmes. In addition, to further address the issue of Youth unemployment, we shall be implementing the Youth Empowerment Programme funded by the World Bank. This programme targets to increase access to youth-targeted employment programmes and improve their employability.

91. **Mr. Speaker,** last year I proposed to introduce a tax rebate scheme for employers who employ and train at least ten fresh graduates for a period of six to twelve months. **Mr. Speaker,** we have now developed the regulations and I will be proposing to gazette them under the tax measures. This is to make our young graduates employable by preparing them for the job market and contribute to nation building.

Support to the Small and Micro Enterprises for Youth and Women

92. **Mr. Speaker,** The Government recognises the role of Small and Micro Enterprises (SMEs) as a source of employment. As noted in my Statement last year, growth of this segment continues to be hindered by inadequate capital. In addition, limited market access, poor infrastructure, inadequate knowledge and skills, rapid changes in technology and sometimes unfriendly laws and regulations continue to hamper the growth of SMEs in Kenya. **Mr. Speaker**, to address these challenges we will continue:

- Entrenching Buy-Kenya-Build-Kenya policy in all public procurement;
- Enforcing the legislation on preferences and reservations that requires at least 40 percent local content in all public projects;
- Continuing to increase allocations to Uwezo Fund and the Youth and Women Enterprise Fund by KSh 1.6 billion in 2016/17;

- Supporting Small and Medium Enterprises to acquire small industrial plants for value addition of agricultural products currently produced under the Jua kali; and
- Supporting research and development to boost science, technology and innovation.

93. **Mr. Speaker**, some of the economic stimulus projects that were initiated a while ago, remain incomplete. In order to complete these projects, I have allocated a total of KSh 1.6 billion for upgrading of national schools, purchase of computers, aquaculture development and for prototype fresh produce and wholesale markets.

Tourism Recovery, Sports, Culture and Arts

94. **Mr. Speaker,** cultural diversity, Sports and Arts foster inclusion in addition to being central to our tourism strategy. The tourism sector is well on its way to recovery owing largely to the improvement in security which has resulted in the withdrawal of travel advisories by key tourist source countries. The Government will continue focusing on improving security in the country as well as strengthening visitor experience, packaging tourism sector incentives and revamping the tourism communication strategy in order to ensure the sector recovers fully. To this end we have allocated KSh 4.5 billion for tourism promotion activities, in addition to some tax incentives that I will be announcing shortly.

95. **Mr. Speaker,** the Government has established the Anti-doping agency and initiated the process of improving sports facilities in Eldoret, Mombasa, Kisumu and Nairobi in order to strengthen our sports and arts. Further, **Mr. Speaker,** we have acquired and preserved 63,878 heritage collections for posterity, restored 19 sites and monuments; acquired 34,409 public records for preservation; and digitized 1,898,130 public records and archives. Going forward, **Mr. Speaker,** the government in partnership with key stakeholders, will continue to promote and develop tourism, sports and conserve national heritage and enhance integration, cohesion and patriotism, and promote a vibrant arts culture. To develop, preserve and protect our culture and National Heritage, I have proposed to allocate KSh 1.9 billion for sports, culture and art programmes. In the area of Film and Music, **Mr. Speaker,** to ensure that Kenya reclaims its position as a leading destination, the Government in consultation with the relevant stakeholders will roll out the required incentive packages.

Quality and Relevant Education for all Kenyans

96. **Mr. Speaker,** to further enhance access and transformation of the educational system through e-teaching and e-learning, we have set aside a total of KSh 13.4 billion for the Digital Literacy Programme (School Laptop Project) to schools, development of digital content, building capacity of teachers and rolling out computer laboratories for primary schools throughout the country.

97. **Mr. Speaker,** as we speak, the laptop idea has already become a reality for 11,500 pupils across the country. We sampled some of the reactions after the initial roll out of the laptops to our schools: *A 10-year-old boy by the name Maina from Roysambu Primary School said:* "*I can't wait to*

learn new things and play educative games on the laptops". Further, his Head Teacher, a Ms. Sarah Nyota added, " *It is not only the pupils who are enthusiastic at Roysambu, parents are giving it their full backing and are donating laptops to help expand the pool of computers so all 1,700 students get a chance to use them. Some parents even helped build the storage facility and charging units for the laptops. The world out there is moving fast and we cannot, as a country, afford to remain behind in terms of technology."*

98. **Mr. Speaker,** *a standard 6 pupil in Kakamega Primary School, Belinda Mwonja, was overjoyed with her new acquisition and said and I quote, "I have never used a laptop but I am sure after being taught, I will master it fast".*

99. Therefore, **Mr. Speaker,** the impact, excitement and expectations are clearly self-evident. We shall ensure the remaining schools get their lap tops in the FY 2016/17.

100. To further support the on-going programmes within the education sector**, Mr. Speaker,** I have made the following allocations: KSh 32.4 billion for Free Day Secondary Education; KSh 14.7 billion for Free Primary Education; KSh 4.5 billion for recruitment and promotion of teachers; KSh 2.8 billion for the second phase of the Teachers House Allowance; KSh 2.5 billion for Technical Training Institutes; KSh 0.4 billion for Sanitary towels for girls in school; KSh 2.6 billion for the School Feeding Programme; KSh 3.2 billion for Subsidy to KNEC for examinations fee waiver; KSh 9.1 billion for Higher Education Loans Board; and KSh 57.8 billion for University Education.

Equity, Poverty Reduction and Social Protection for Vulnerable Groups

101. **Mr. Speaker,** the Government's support for social safety net programmes has grown significantly over the years and we will continue to set aside resources for affirmative action interventions. Further, **Mr. Speaker**, we have set up a single registry for the National Safety Net Programme in order to improve transparency, accountability and reduce costs. Going forward, we will empower persons with disabilities for self-reliance through training and decentralize the Single registry for the National Safety Net Programme to Counties.

102. Accordingly, **Mr. Speaker,** in order to address the plight of the less disadvantaged in society, combat poverty, and promote equity, the social protection safety net in form of cash transfers has been enhanced as follows: KSh 34.5 billion for National Government Constituency Development Fund; KSh 2.1 billion for Affirmative Action for Social Development; KSh 6 billion for the Equalization Fund; KSh 7.9 billion for Orphans and Vulnerable Children (OVC); KSh 7.3 billion for elderly persons; KSh 1.5 billion for those with disabilities; KSh 0.4 billion for street families rehabilitation; KSh 0.4 billion for Children Welfare Society; and KSh 0.4 billion for the Presidential Secondary School Bursary Scheme.

103. Further, **Mr. Speaker,** I have set aside KSh 6.0 billion for the final phase of resettling the internally displaced persons (IDPs) and for Restorative Justice.

Quality and Accessible Health Care Services for all Kenyans

104. **Mr. Speaker**, the Government recognizes that investment in quality healthcare services is essential in developing a healthy population with higher productivity for sustained economic growth. In partnership with County Governments, we have equipped most hospitals in the Country with specialised state of the art health care equipment through leasing. These include modern theatre equipment, surgical and sterilization equipment, laboratory equipment, kidney dialysis equipment, ICU facilities, digital X-ray machines, and ultrasound and imaging equipment.

105. In addition, **Mr. Speaker,** our policy objective of preventive health care programme, aimed at eradicating infant maternal mortality, has achieved significant progress. The free maternal service has been a success with the number of deaths of children under the age of 5 years declining from 100,000 in 2013 to 70,000 currently while mortality for mothers giving birth has declined from 6,000 in 2013 to 4,300 currently. One health care worker in a public hospital noted: *"Overall, I can say that free maternity service is doing a good thing. For example, we used to have so many mothers crowded in the maternity ward because they were waiting to clear the bills but nowadays, they deliver and go home depending on the mode of deliver, if normal delivery they stay in the facility for 24 hrs, if caesarean section we discharge them on the 3 rd post-operative day, so we never have mothers overcrowded in the department like we used to. This has eased the pressure on the health care workers."*

106. Again, **Mr. Speaker,** as Dr. Kimuu noted *"Before the programme, many mothers would be detained at health facilities because they were unable to raise the maternity fees being charged at public institutions, but this has now changed."* These are some of the glowing tributes to the free maternal programme.

107. In the FY 2016/17 budget, to further support the programme, I have allocated KSh 4.3 billion for Free Maternal Healthcare. To further support the Managed Equipment Services and scale-up the supply of specialised medical equipments to hospitals, I have allocated KSh 4.5 billion for Lease of medical equipment. Other allocations that I have proposed in this sector include KSh 8.8 billion for Kenyatta National Hospital; KSh 5.8 billion for Moi Teaching and Referral Hospital; KSh 1.7 billion for Kenya Medical Research Institute; KSh 3.0 billion for Doctors/Clinical Officers/Nurses internship programme; KSh 0.6 billion for the National Aids Control Council; KSh 0.9 billion for Free Primary HealthCare (Removal of 10-20 Policy); KSh 0.7 billion for the Slum Clinics Upgrading Programme (Portable Clinics); KSh 0.5 billion for Health Insurance Subsidy Programme (Elderly & Disabled); KSh 1.3 billion for the rollout of universal health coverage; and KSh 3.5 billion for Kenya Medical Training College (KMTC).

Environmental Conservation and Making Water Accessible

108. **Mr. Speaker,** access to clean and affordable water is indispensable for eliminating the burden of disease. For this reason, the Government will continue to invest in clean water supply and

put in place measures to control floods and harvest rain water as well as protect and conserve the environment thus connecting over one million additional Kenyans to safe drinking water.

109. In order to mitigate the impact of climate change, **Mr. Speaker,** the Government will continue to mainstream climate change measures into its projects and programmes. We shall therefore enhance our tree planting and re-forestation, water harvesting, smart agriculture, technologies that reduce pollution levels, investments in green energy, construction of mini dams, water pans and rehabilitation of existing dams and water pans.

110. **Mr. Speaker,** the Constitution of Kenya and the Vision 2030, and in line with the Sustainable Development Goals (SDG 6), promises universal access of safe water and sanitation for all by 2030. It is with this in mind that the Embassy of Netherlands came up with Kenya Innovative Financing Facility for water that will establish a Kenya Pooled Water Fund (KPWF) to facilitate financing of the water sector infrastructure by issuing longer term bonds in the local capital market. This will be lent to credit worthy Water Service Providers (WSPs) to build water and sanitation infrastructure. This programme will leverage the existing Ministry of Water and Irrigation budget by raising a minimum of KSh 3 billion in infrastructure bonds on an annual basis.

Facilitating Free and Fair Elections

111. As you are aware, **Mr. Speaker**, Kenya will go into elections in August 2017. The Government is committed to a free and fair General Election. Towards this end, we have allocated the Independent Electoral and Boundaries Commission (IEBC), KSh 19.7 billion for them to adequately prepare and conduct the General Elections. We have also allocated to Parliamentary Service Commission and to the Judiciary Ksh 28.4 billion and Ksh 15.8 billion, respectively.

Strengthening Devolution for Enhanced Service Delivery

112. **Mr. Speaker,** since the FY 2013/14, the National Government has supported devolution as stipulated in the Constitution and the PFM Act 2012. As evidence of this commitment, **Mr. Speaker,** significant financial resources have been channelled to Counties to determine and finance their own priority programmes in line with the National Development Agenda.

113. **Mr. Speaker,** over the last three Financial Years since devolution was introduced, the National Government has allocated more than KSh 710 billion to the counties. Much of this allocation -- some KSh 676 billion -- was transferred in the form of counties' equitable share of nationally-raised revenue. During the just-ended three-year transition period, annual aggregate fiscal allocations to the counties -- that is, including additional conditional allocations -- increased from KSh 195 billion in 2013/14 to KSh 288.0 billion in 2015/16, representing a growth of more than 42 percent. **Mr. Speaker,** I want to say that since July 2013 (when devolution took root), we have disbursed every single penny due to counties in every financial year. Indeed, as at today, **Mr. Speaker,** we have disbursed all equitable share funds for the eleven months to May in this current financial year 2015/16. We are now preparing to disburse the last batch for the month of June.

114. **Mr. Speaker,** in the Financial Year 2016/17 FY, Parliament has approved allocations to County Governments amounting to KSh 280.3 billion as the equitable share of revenue raised nationally. This allocation guarantees County Governments of a KSh 20.5 billion increase over and above the equitable share allocation in the Financial Year 2015/16. Furthermore, this allocation is more than double the constitutional minimum of 15 percent of the latest audited revenues.

115. **Mr. Speaker,** we have also provided additional conditional allocations to County Governments, amounting to KSh 23.9 billion that include: Conditional grant for Level-5 Hospitals of KSh 4.0 billion; Special Purpose Grant of KSh 200.0 million to support emergency medical services in two counties (Lamu and Tana River) which are vulnerable to terror attacks; Grant for free maternal healthcare of KSh 4.1 billion; KSh 900 million conditional grant to compensate County Governments for foregone user fees (which was abolished); KSh 4.5 billion for financing the leasing of medical equipment; KSh 4.3 billion for the Road Maintenance Fuel Levy Fund; Ksh 605 million for construction of county headquarters in five counties and KSh 5.3 billion conditional loans and grants from the World Bank, Denmanrk.

116. **Mr. Speaker,** this brings the total allocation to County Governments to KSh 304.2 billion which is equivalent to 33 percent of the most recently audited revenues approved by the National Assembly. Cumulatively, **Mr. Speaker,** at the end of the FY 2016/17, the amounts transferred to County Governments since the roll out of the devolved system of Government in Kenya, will be in excess of KSh 1 trillion, a remarkable support to service delivery, and a clear demonstration of the Government's commitment to ensure that devolution succeeds.

Supporting County Own-Source Revenue Enhancement

117. **Mr. Speaker,** since the establishment of County Governments in 2013, we have continued to receive complaints from citizens and business enterprises on the haphazard manner in which user fees, service charges and property rates are being levied at the county level without participation by Key Stakeholders or public consultations. We have witnessed a number of counties introducing multiple regulations, forcing businesses to pay for numerous licenses and permits, especially between jurisdictions. Such regulatory practices are clearly contributing to an unfriendly business environment, with adverse implications for investment, employment and economic growth.

118. **Mr. Speaker,** at the same time, certain county revenue instruments -- such as cess may be in violation of the Constitution, while others -- such as the Single Business Permit may have a weak basis, under the current legal environment.

119. Towards this end, **Mr. Speaker,** the National Treasury, jointly with all the relevant state agencies as well as the Council of Governors, has commenced a process to develop a National Policy and Legal Framework to guide County Governments' revenue raising measures particularly on own-source revenue. This exercise is specifically intended to promote a conducive business environment and ensure compliance with Article 209 (5) of the Constitution, as well as better coordination and a well-defined mechanism for regulating business activity country-wide. The

exercise is also intended to support efforts by County Governments to enhance their own-source revenues, reduce the tax gap and improve the alignment between county budgets and policy priorities.

120. **Mr. Speaker,** allow me to emphasize that all Organs of Government ought to abide by the resolutions of the Fifth National and County Government Co-ordinating Summit held in Sagana in February 2016. This summit adopted a policy of austerity, aimed at eliminating wastage so as to release more resources from recurrent expenditure to development expenditure.

Equalization Fund

121. **Mr. Speaker,** I have allocated KSh 6 billion from the Equalization Fund to be distributed among 14 counties as recommended in the policy on marginalized areas. **Mr. Speaker,** we expect that the Equalization Fund allocation for FY 2016/17 as well as previous allocations currently being held in the Equalization Fund account at the Central Bank of Kenya (CBK), amounting to KSh 6.4 billion will be fully disbursed in the budget year, following Parliament's approval of the Fund's Guidelines, and the Fund's official launch by His Excellency The President, on March 11th 2016.

122. **Mr. Speaker,** the Equalization Fund allocation for the Financial Year 2016/17 represents approximately 0.6 percent of the last-audited revenues approved by the National Assembly, which exceeds the constitutionally-prescribed minimum of 0.5 percent. The allocations from the Fund will be used to finance identified projects in 14 marginalised Counties. The resources will be appropriated and channelled through the relevant Ministries.

123. **Mr. Speaker,** before I move to the revenue measures to finance the planned expenditures, let me note that we are in the final stages of getting Parliamentary approval for the Estimates of Expenditure submitted to this House in April 28, 2016 for us to prepare the Appropriation Bill. We will be providing comments to the report of the Budget and Appropriation Committee on the Estimates shortly.

5. Budget Estimates for FY 2016/17

124. **Mr. Speaker,** allow me to first provide an overview on the implementation of the 2015/16 budget. During the course of the year, we witnessed revenue shortfalls in the FY 2015/16 and increased expenditure requirements to cater for security, among others. Arising from the revenue shortfalls in the FY 2015/16, we instituted various measures aimed at aligning the expenditures with the revised resource envelope. These included measures to curb non priority expenditures and to free resources for more productive purposes as well as expenditures cuts on slow and delayed projects.

125. **Mr. Speaker,** these measures were rationalised through a supplementary budget that we tabled in Parliament recently. **Mr. Speaker,** we estimate revenue collection including Appropriation-

in-Aid (AiA) of KSh 1,295.4 billion (19.7 percent of GDP) by end of this month. Of this, ordinary revenue is projected at KSh 1,184.4 billion (18.0 percent of GDP).

126. **Mr. Speaker,** overall expenditure and net lending are projected at KSh 1,842.7 billion (28.1 percent of GDP) by end of this month. We expect a fiscal deficit excluding spending related to the Standard Gauge Railway (SGR) of KSh 398.1 billion (6.1 percent of GDP).

127. **Mr. Speaker,** allow me now to turn to the financial projections for FY 2016/17 budget.

128. **Mr. Speaker,** first, the budget policy framework for FY 2016/17 and the medium term is in line with the commitment that we made three years ago and aims at striking a balance between supporting rapid and inclusive economic growth and continued fiscal discipline. The Government will continue to reduce the overall fiscal deficit and put emphasis on efficiency and effectiveness of public spending and improve revenue performance. Specifically, the fiscal policy aims at raising revenue effort to above 21.0 percent of GDP over the medium term and containing growth of total expenditure.

129. **Mr. Speaker,** for FY 2016/17, the budget targets revenue collection including Appropriation-in-Aid (AiA) of KSh 1,500.6 billion (20.3 percent of GDP). Of this, ordinary revenue is projected at KSh 1,376.4 billion (18.6 percent of GDP).

130. **Mr. Speaker,** this year, we have witnessed revenue shortfalls and arising out of this, Kenya Revenue Authority has instituted various measures to seal revenue leakages in customs administration particularly by use of Certificate of Conformity (CoC) while valuing imported goods for payments of duty. Other measures include: expansion of withholding VAT agents for suppliers to County Governments; targeting nil and non-filers; Rental Income Programme and operationalisation of the Tax Appeals Tribunal. Further, a reputable consulting firm has been engaged to deep-dive into KRA business processes and systems to identify any gaps and weaknesses and propose requisite adjustments needed to ensure the 2016/17 revenue targets are met. This together with other measures I will be proposing shortly will provide a stronger basis for achieving the set revenue target.

131. **Mr. Speaker,** overall expenditure and net lending are projected at KSh 2,264.8 billion (30.6 percent of GDP). The expenditures reflect support to ongoing infrastructure projects in roads, Standard Gauge Railway, ports, energy and security, among others. Part of this development budget will be funded by project loans and grants from development partners, while the balance will be financed from domestic resources. I wish at this stage to thank all the Development Partners for the commitment and support for our development agenda.

132. **Mr. Speaker,** in line with the constitution and the PFM Act 2012, a contingency provision of KSh 5.0 billion has been provided for in the FY 2016/17 budget to cater for unforeseen expenditures. Further, **Mr. Speaker,** as indicated earlier, the Equalization Fund has been allocated KSh 6.0 billion to cater for critical development expenditure in water, roads, health, and energy in marginalized areas to improve services in those areas to the standards similar in other areas. This, together with the accumulated deposits of KSh 6.4 billion, brings the total available resources in the Equalization Fund

to KSh 12.4 billion. The National Treasury has proposed utilization of these funds as per the recommendations of the Commission on Revenue Allocation.

133. **Mr. Speaker,** the expenditure create a financing gap of KSh 691.5 billion, but excluding the Standard Gauge Railway (SGR) which is fully funded by China, the deficit is KSh 603.2 billion. The overall gap will be financed by net domestic borrowing of KSh 225.3 billion (3.0 percent of GDP) and KSh 462.3 billion (6.3 percent of GDP) net external borrowing and other domestic financing of Ksh 4.0 billion (0.1 percent of GDP).

134. Going forward, **Mr. Speaker,** we remain committed to bringing the fiscal deficit down gradually to below 4.0 percent of GDP in the medium term. This reduction should strengthen our debt sustainability position. In this context, **Mr. Speaker,** allow me to assure this honourable House that Kenya's public debt remains sustainable. We have been careful to maintain our external and domestic debt well within our capacity to service the same. A recent Debt sustainability Analysis conducted jointly by the GOK, the IMF and the World Bank concluded that Kenya continues to face low risk of debt distress, with the net present value of our public debt to GDP being below 50 percent. As our debt is principally focused on the development of infrastructure it is significantly beneficial to Kenyans.

6. Tax Measures and Miscellaneous Amendments

Overview of the Proposed Tax Measures

135. **Mr. Speaker,** the rest of my statement outlines various tax measures and miscellaneous amendments that I intend to introduce through the Finance Bill, 2016 and regulations.

136. **Mr. Speaker,** the tax measures and miscellaneous amendments I intend to propose hereunder are broadly categorized into six priority areas, which complement the broad policies I have outlined in the earlier part of my statement. These include:

1. Promoting Growth of Industries and Employment Creation;
2. Facilitating Infrastructure Development;
3. Enhancing Equity and Fairness in the Tax System and Tax Administration;
4. Cushioning Households' Budget to Ease the Cost of Living;
5. Strengthening Financial Sector Stability;
6. Promoting Private Sector Growth.

Promoting Growth of Industries and Employment Creation

137. **Mr. Speaker,** our iron and steel mills are closing down due to unfair competition from cheaper imported iron and steel products. In order to protect and create more jobs for our youth in the iron and steel sector, I have introduced a specific duty rate of USD 200 per Metric Ton on a wide range of iron and steel products which are available in the region to cushion our local manufacturers from unfair competition.

138. **Mr. Speaker,** plates and sheets of aluminium alloys are the major raw materials used in the manufacture of aluminium cans. These raw materials are not available in the region. In order to attract investments in the can manufacturing sector, I have remitted the import duty on aluminium plates and sheets to allow manufacturers of aluminium cans in the country to import the inputs under the duty remission scheme at a rate of 0% instead of 25%. In addition, I have increased the rate of import duty on aluminium cans from 10% to 25% to protect local manufacturers of the cans.

139. **Mr. Speaker**, the World Health Organization requires manufacturers of pharmaceutical products to install specialized Air Conditioning Equipment commonly known as Heating, Ventilation, and Air Conditioners (HVAC) in order to comply with good manufacturing practices. In this regard, I have exempted the HVAC Air Conditioners from payment of duty in order to make them affordable to the manufacturers of pharmaceutical products.

140. **Mr. Speaker,** the Export Processing Zones Scheme has continued to play a significant role in the growth of our economy. However, its role has been curtailed by trade restrictions and duty free imports from COMESA countries. In order to enhance the role of the Scheme in growing our

economy and creating employment, I have stayed the application of import duty and propose to exempt from VAT made up garments and leather footwear procured from the Export Processing Zones to enable Kenyans to acquire new clothes and shoes at affordable prices.

141. **Mr. Speaker,** while animal feeds are exempt from VAT, some of the raw materials used in their manufacture are taxable. This treatment has led to high prices of animal feeds. In order to make animal feeds affordable to farmers and attract more manufacturers to invest in the sector, I propose to exempt raw materials used in the manufacture of animal feeds from payment of VAT.

142. **Mr. Speaker**, last year I introduced a tax incentive for employers who engage apprentices. I propose to gazette the regulations that will facilitate employers in the implementation of this incentive. Employers who engage at least ten graduates will be allowed an extra fifty percent (50%) cost of the apprentice emoluments in addition to the normal allowable emoluments. Employers are therefore requested to take up this opportunity and empower the graduates leaving our universities.

143. **Mr. Speaker**, the removal of excise duty on kerosene in 2011 was intended to cushion low income earners against high prices of this petroleum product. However, the removal of the tax has since resulted in increased adulteration of fuel in the country. This has denied the oil marketers business in the neighbouring countries in addition to giving them a bad reputation. In addition, adulteration negatively impacts car engines and increases their maintenance costs. In order to discourage this harmful practice, I propose to introduce excise duty on kerosene at KSh 7,205 per 1000 litres.

144. **Mr. Speaker,** tourism is one of the leading sectors in foreign exchange earning in Kenya. However, in the recent past, the sector has been adversely affected by negative travel advisories consequently reducing the number of tourists visiting Kenya. In order to boost the sector and encourage local tourism, I propose to:

a) Exempt entry fees charged into the National parks from payment of VAT;
b) Exempt commissions earned by tour operators from VAT; and
c) Increase the Air Passenger Service Charges for external travel from USD forty (40) to USD fifty (50) and for internal travel from five (500) hundred Kenya shillings to six (600) hundred Kenya shillings. The revenue realised from the increase will be used exclusively for the promotion of tourism. In this regard, the National Treasury and the Ministry of Tourism will develop a Special Tourism Promotion Fund for this purpose.

Facilitating Infrastructure Development

145. **Mr. Speaker**, with the growing population of youthful entrepreneurs, the demand for decent low cost housing is steadily growing particularly in the urban centres. Currently demand for housing is estimated at about 200,000 units annually with only 50,000 new units constructed every year thereby occasioning a shortage of 150, 000 units annually. To bridge this gap and also ensure decent low cost housing, I have introduced an incentive to encourage investors to enter into this sector by

reducing the corporate rate of tax from 30% to 20% for developers who construct at least 1000 units per year.

146. **Mr. Speaker,** transport is a key service to all sectors of the economy. With the increasing expansion of our road network, there is a corresponding increase in the cost of maintaining our roads. **Mr. Speaker,** in order to maintain the expanded road network, I propose to increase the Road Maintenance Levy from KSh 12 per litre to KSh 18 per litre. In the meantime, the transition period for the imposition of VAT on petroleum products which was to expire in September 2016 has been extended by one year.

Enhancing Equity and Fairness in the Tax System and Tax Administration

147. **Mr. Speaker,** last year I introduced excise duty on motor vehicles based on the age of the vehicles at a specific rate. This has been perceived to be unfair, inequitable and punitive to importers of vehicles commonly imported by low income earners but beneficial to importers of luxurious vehicles. In order to address the situation, I propose to amend the Excise Duty Act, 2015 to remove specific rate of duty and introduce advalorem rate of 20% based on the value of the vehicle.

148. **Mr. Speaker,** Cosmetics and beauty products are not currently subject to the excise duty. These products are subject to excise duty in some Countries in the East African Community**.** In order to help to move towards the harmonization of the excise duty regime in the EAC, I propose to introduce excise duty on cosmetics and beauty products at the rate of 10%. I also expect that other excise duties take effect beginning July 1, 2016 as provided for by the law.

149. **Mr. Speaker,** last year, I introduced measures meant to enhance compliance amongst landlords by enacting a simplified taxation regime based on taxing ten percent of the gross rent for taxpayer earning less than ten million shillings per year. I propose to gazette rules to facilitate in the implementation of this law, introduce a minimum taxable rent income of shs.12,000 per month and empower the Commissioner to appoint withholding tax agents for rental taxation. These measures are meant to encourage landlords to do a full and true declaration of their rental income.

150. **Mr. Speaker**, the Government is committed to providing an environment that enhances the investment climate and tax compliance. The Government is aware that there are taxpayers who own assets and businesses outside the country and would be willing to reinvest back home provided that there is a conducive environment to facilitate such reinvestments. Consequently, I propose to declare tax amnesty for such taxpayers provided that they submit their return and accounts for the year of income, 2016 between 1st January, 2017 and 31st December, 2017. **Mr. Speaker**, taxpayers who take up this amnesty shall have all principal taxes, interests and penalties for the year of income, 2016 and the prior years automatically remitted in total. In addition, the Government shall not follow up on the sources of such income and assets declared.

151. **Mr. Speaker**, Kenya Revenue Authority has been working towards simplifying and reducing the time taken to file tax returns by taxpayers and also enable the Authority to flag out the non-

compliant taxpayers to ensure that every person pays his fair share of taxes. In order to make it easier for taxpayers to submit their tax returns in the *i*-Tax System, I propose to amend the Tax Procedure Act to grant Kenya Revenue Authority powers to collect information in advance from identified persons for purposes of pre populating the information in the *i*-Tax System.

152. **Mr. Speaker,** Kenya continues to face increasing threats from terrorism, drug trafficking and related cross-border criminal activities. The country also faces the challenge of increased inflow of contraband goods, a practice which undermines genuine trade besides leading to loss of Government revenue. In order to strengthen controls on the import supply chain, I propose to introduce, later in the year, legislation that will streamline the training, licensing and regulation of Kenyan clearing agents, pending agreement at EAC level of a harmonized approach on the issue.

Cushioning Households' Budget to Ease the Cost of Living

153. **Mr. Speaker,** in order to encourage the use of energy efficient stoves that support conservation of our environment, I have reduced the import duty on stoves from 25% to 10%. The duty reduction will also align the energy efficient stoves with similar stoves and cookers that use gas, electricity and other fuels that attract import duty at 10%.

154. **Mr. Speaker,** the use of wood and charcoal by many Kenyans exposes them to premature deaths as well as denying them access to clean, safe and efficient household energy. I propose to amend the VAT Act in order to exempt liquefied petroleum gas from payment of VAT. This will give Kenyans access to clean, safe and efficient household energy, protect forest cover and reduce premature deaths.

155. **Mr. Speaker**, tea and sugar cane farmers in the agriculture sector have been experiencing declines in income due to many factors including an ad valorem levy on tea and the sugar development levy. In order to improve the earnings of the farmers, I propose to remove these levies. The institutions that were hitherto funded from these levies will now be funded from the exchequer. In addition, **Mr Speaker,** I also intend to remove all other levies including levies charged by National Environmental Management Authority and National Construction Authority in order to reduce the cost of doing business.

156. **Mr. Speaker**, our economy grew by 5.6% in 2015 and is expected to rise to about 6% this year. On the other hand, the world economy grew by 3.1% while the sub Saharan economies grew by about 3.4%. This good news allows us to share the good performance of the economy as widely as possible. Consequently, I propose to exempt from tax; bonuses, overtime and retirement benefits paid to workers who fall under the lowest income tax band. In addition, I propose to expand the tax bands and increase personal relief by 10%. These measures are meant to cushion the workers from high cost of living and demonstrates our commitments to sharing the growth of our economy.

157. **Mr. Speaker,** the Government appreciates that it has received numerous income tax proposals from various stakeholders which are meant to facilitate in the taxation reform agenda. In connection with this, some of these proposals will be considered when reviewing the Income Tax Act, Cap 470 which is currently ongoing. I intend to table the Bill in this House in the next financial year.

Strengthening Financial Sector Stability

158. **Mr. Speaker,** as I did mention earlier, we shall be introducing three landmark financial sector legislations namely the Financial Services Authority Bill, the Nairobi International Financial Centre Bill and the Moveable Property Security Rights Bill. In addition to these major reforms, I am proposing a number of other changes in order to facilitate growth and stability of the sector.

159. In banking, **Mr. Speaker,** last year, I did table in this House specific measures to increase the capitalization of banks in order to ensure we have a strong and stable banking system but our efforts were not successful. **Mr. Speaker**, I am seeking to reintroduce the proposals and I am hopeful that members will look at them more favourably in light of the recent developments in our banking sector.

160. In addition, **Mr. Speaker**, the current monetary penalty for violation of the Banking Act or the Prudential Guidelines is capped at KSh 5.0 million. This amount has proved to be too little compared to the seriousness of some of the violations institutions have committed. I am therefore proposing to increase the maximum penalty to KSh 20.0 million and to allow for additional penalties for each day that the violation continues.

161. **Mr. Speaker**, The Credit Information Sharing (CIS) framework in Kenya has continued to develop and increase its coverage as a result of facilitative reforms that we have put in place over the years. Indeed, the expansion of the CIS framework was one of the key factors behind the improvement in Kenya's ranking in the World Bank Ease of Doing Business indicators this year. Apart from the obvious benefits to the borrowers who maintain good credit history and to lenders who are able to get information on potential borrowers, the CIS regime is important to the economy as a whole in terms of increasing access to credit, reducing transaction costs, enhancing efficiency in financial intermediation and fostering financial sector stability through reduction in non-performing loans. To maximise on these benefits, I am today proposing additional amendments to the Banking Act as well as the Sacco Societies Act to facilitate cross border information sharing and to allow Saccos and Utility Companies to more effectively participate in the CIS framework.

162. **Mr. Speaker**, with the increasing number of SACCOs invariably using the name "SACCO" or "SACCO Society", it has become difficult to know the differences between a Cooperative Society, a SACCO Society, a deposit taking SACCO Society (DTS) and a non-depositing taking SACCO Society (non-DTS). The emergence and exponential growth of "Matatu or PSV SACCOs" have further fuelled the confusion. Therefore, I propose to amend the SACCO Society Act to provide that only SACCOs that are licensed for deposit taking can use the acronyms deposit taking SACCO

Society (DTS) or DT-SACCO to differentiate them from the other SACCOs and also to provide legal restrictions for the usage of these acronyms by other non-deposit taking SACCOs.

163. **Mr. Speaker**, Kenya has witnessed growing interest in online trading of foreign currency particularly among the youth. There is currently no regulatory framework to guide online forex trading in Kenya, where it is estimated that over 50,000 investors are participating through foreign registered brokers who link through the internet to access the highly liquid currency clearing centers in the USA, Europe, Japan and other countries. Providing a legal framework for the online trading of foreign currency goes hand in hand with making Nairobi an International Financial Hub. In this regard, I am proposing facilitative amendments to the Capital Markets Authority Act following which I will be gazetting relevant regulations for effective and secure online forex trading by Kenyans.

164. **Mr. Speaker**, last year I did remove the requirement for annual licensing of banks and instead empowered the Central Bank of Kenya to issue non-renewable perpetual licences. This year, I propose to extend a similar perpetual licences framework to institutions licensed by the Retirement Benefits Authority. In addition, I propose to further review the Investment Guidelines for retirement benefits schemes to facilitate their investment in new products approved by the Capital Markets Authority including exchange-traded derivatives and listed Real Estate Investment Trusts.

165. **Mr. Speaker,** medical expenses constitute one of the biggest categories of expenditure for our senior citizens. Many workers who have employer-provided medical cover during their working life find themselves without any cover the day they retire. An innovative solution to this challenge is for retirement schemes to establish separate medical funds into which members can contribute during their working life and the same be used to purchase medical cover at retirement. I am, therefore, proposing facilitative amendments to the Retirement Benefits Occupational and Individual Regulations to allow schemes to put in place such arrangements.

166. **Mr. Speaker**, last year I did amend the Insurance Act to facilitate the industry to move to risk based solvency framework and a more principle based investment framework. To further anchor this risk based approach, I am proposing additional amendments in particular expanding the allowable forms of capital and reflecting the new gross premium valuation methodology across different classes of business. In addition, to protect insurance policy holders from long delays in settlement of their claims, I am proposing to reduce the maximum time in which a claim should be settled from 90 days to 30 days. With the rapid growth of interest we have experienced in Sharia compliant or Takaful insurance products, I am proposing amendments to anchor this form of insurance in the Insurance Act and also facilitate the issuance of regulations to govern Takaful Insurance.

Promoting Private Sector Growth

167. **Mr. Speaker,** the enactment of the new Constitution has seen the Government devolve various functions to the County Governments. In view of this, the County Governments are expected to contract for the provision of services. Like the National Government, the County Governments are faced with financial constraints to undertake projects within their jurisdiction. The National

Government enacted the Public Private Partnership Act to allow participation of private sector in the implementation of projects and especially that require huge funds. However, the provisions in the Act do not recognize the County Government as a procuring entity for the public private partnership projects. In order to affirm the Government's commitment and support for devolution, I propose to amend the Public Private Partnership Act to recognize the County Government as an independent procuring entity for the public private partnership projects.

168. **Mr. Speaker,** the mandate of the Competition Authority is to conduct market enquiries. The Authority experiences challenges when seeking information from stakeholders, who sometimes withhold vital information on grounds that it is not mandatory for them to provide the information. In order to enable the Authority to realise its mandate as envisaged by the law, I propose to amend the Competition Act to make it obligatory for stakeholders to provide information to the Authority when requested to do so.

169. **Mr. Speaker,** the Competition Authority further experiences challenges in imposing financial penalties after a company engages in restrictive trade practices. The Authority uses a 10% maximum of the gross annual turnover based on international best practices in calculation of penalties. In order to create certainty in determination of penalty, I propose to amend the Competition Act to specify the financial penalty to be a maximum of 10% of the gross annual turnover which is in line with the international best practices and also with regional competition agencies.

170. **Mr. Speaker,** in addition, the Authority receives various applications for mergers which have no effect on competition on restrictive trade practices. I propose to amend the Competition Act to set a threshold in order to exclude mergers whose effect has no great impact on competition on restrictive trade practices from the provisions of the Act. This will also reduce the administrative burden on the Authority, and facilitate investment.

7. Conclusion

171. **Mr. Speaker,** three years ago, we set ourselves a goal of implementing an Economic Transformation Agenda, one that was to strengthen our economy, deliver prosperity to Kenyans and propel Kenya to the middle income status level in line with the aspirations of the Vision 2030. **Mr. Speaker,** this dream was realised when Kenya was classified as a lower-middle income country with a Gross National Income (GNI) per capita of US dollar 1,245. **Mr. Speaker**, despite this notable progress, we are still not satisfied because we believe we can do more to uplift the livelihoods of all Kenyans and bring the country to upper middle income status.

172. As I conclude, Mr. Speaker, allow me to express my gratitude to my fellow Cabinet Secretaries and their Principal Secretaries for their support and contributions throughout this budget process.

173. I am sincerely grateful to:

- His Excellency The President and His Excellency the Deputy President for their unwavering leadership, guidance and support during the budget process and in particular during the budget retreat held in Naivasha in April 2016, which involved all Cabinet Secretaries and Principal Secretaries;
- Speakers of the National Assembly and Senate and their respective Clerks for overseeing the approvals of submissions on the budget estimates for the Fiscal Year 2016/17;
- Members of the Liaison Committee, the Budget and Appropriations Committee, of this House and the other Departmental Committees of Parliament for the comprehensive and constructive engagement in reviewing the budget estimates for the Fiscal Year 2016/17;
- Majority Leader of the National Assembly, Hon Aden Duale, for his relentless support to get most of the legislative proposals on finance matters pass through the house;
- All members of the National Assembly and Senate for their cooperation and support;
- Management and Staff of the National Treasury under the able leadership of the Principal Secretary, Dr. Kamau Thugge who have tirelessly worked long hours, including most weekends to ensure that this budget and supporting documents meet the legal deadlines;
- Management and Staff of the KRA and CBK for their contributions;
- Staff from the Attorney General's Office;
- Staff of the Parliamentary Budget Office for providing support on the budget process;
- Our bilateral and multilateral development partners, as well as private foundations for their contribution to our development agenda through their technical and financial support.

174. Finally, Mr. Speaker, I thank all Kenyans from all walks of life for their contributions, proposals and suggestions received during the finalization of this budget.

I Thank You, and

God Bless You, God Bless Kenya

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