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REPUBLIC OF KENYA

Budget Speech

For the

Fiscal Year 2005/2006

(1st July – 30th June)

by

**Hon. DAVID MWIRARIA, E.G.H., M.P.
Minister for Finance**



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TABLE OF CONTENTS

1. INTRODUCTION	1
2. RECENT ECONOMIC DEVELOPMENTS	2
2.1 International Economic Developments.....	2
2.2 Domestic Economy	3
3. MACROECONOMIC FRAMEWORK FOR FY 2005/06.....	5
3.1 Fiscal Policy	5
3.2 Revenue.....	5
3.3 Expenditure.....	5
4. STRUCTURAL REFORMS.....	7
4.1 Governance and Rule of Law.....	7
4.2 Public Expenditure and Financial Management Reforms	8
4.3 Privatisation and Public Enterprise Reforms	8
4.4 Financial Sector Reforms.....	9
4.5 Local Government Reforms	9
4.6 Private Sector Development	10
5. RE-ORIENTING EXPENDITURE TO PRIORITY SECTORS	11
5.1 Health Sector Reforms.....	11
5.2 Education Reforms	12
5.3 Agriculture and Rural Development	13
5.4 Physical Infrastructure.....	14
6. OTHER SECTORAL PRIORITIES	18
7. FINANCIAL OUTTURN FOR FY 2004/2005	22
7.1 Revenue.....	22
7.2 Expenditure.....	22
8. PROJECTIONS FOR FY 2005/2006	22
8.1 Revenue.....	23
8.2 Recurrent Expenditure	23
8.3 Development Expenditure.....	23
8.4 External Grants	23
8.5 Deficit.....	23
9. TAXATION PROPOSALS	24
9.1 Customs and Excise Measures.....	24
9.2 VAT Measures	25
9.3 Income Tax Measures.....	27
9.4 Miscellaneous Measures.....	29
10. CONCLUSION.....	30



**SPEECH DELIVERED TO THE NATIONAL ASSEMBLY ON 8TH JUNE,
2005, BY HON. DAVID MWIRARIA, E.G.H., M.P., MINISTER FOR
FINANCE, REPUBLIC OF KENYA, WHEN PRESENTING THE BUDGET
FOR FISCAL YEAR 2005/2006**

1ST JULY, 2005 TO 30TH JUNE, 2006

Mr. Speaker Sir,

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

1. INTRODUCTION

- 1. Mr. Speaker,** I am delighted this afternoon to present to this august House and the people of Kenya my budget proposals for the financial year 2005/06. As Hon. Members are aware, after having stagnated for more than a decade, our economy is now experiencing a strong, broad based recovery with real GDP recording a 4.3% increase in 2004 compared with 2.8% in 2003 and 0.4% in 2002. In this context, **Mr. Speaker,** my budget proposals are intended to consolidate and accelerate this economic recovery while ensuring that we address the needs of the poor.
- 2. Mr. Speaker,** given the recent economic performance, I feel confident that the country is now back on the right track and that the future of our country is more secure. However, major challenges still remain. Kenyans must therefore continue to work even harder to ensure that poverty reduction, the principal goal of our social and economic policy, is achieved.
- 3. Mr. Speaker,** to build on the recent gains, the Government will implement measures as outlined in the Budget Strategy Paper, which includes appropriate macroeconomic policies supported by structural reforms in areas such as public expenditure and financial management, the financial sector, and the parastatal sector. Equally high on our reform agenda is the strengthening of institutions for promoting good governance and the rule of law. The continued fight against corruption, together with the reforms I will be announcing later in my speech, including reform of the business licensing regime, should create an enabling environment for private sector development.

This will provide an impetus for a strong, sustainable and equitable economic growth.

4. **Mr. Speaker**, a recent Government evaluation of the effectiveness of our budgetary process revealed some weaknesses in resource allocation and utilization. To address these weaknesses, this year's budget focuses on, among other things: (i) reorienting resource allocation towards the priority sectors identified in the Economic Recovery Strategy; and (ii) improving public expenditure and financial management to ensure taxpayers get value for money. This will ensure that the Constituency Development Fund, the Local Authority Transfer Fund, and the School Bursary Fund achieve their intended developmental objectives. Because of the emphasis we are giving to the re-alignment of resource allocation, the theme of this year's budget is, "*Reorienting Expenditure to Achieve Rapid Economic Growth and Poverty Reduction*".

2. RECENT ECONOMIC DEVELOPMENTS

2.1 International Economic Developments

5. **Mr. Speaker**, allow me to give a brief summary of international economic developments during 2004. The global economy grew by 5% led by strong economic growth in the USA and Japan, which grew by 4.4% and 4.0%, respectively. China and India continued with their exceptionally rapid economic expansion of 9.2% and 7.3%, respectively. However, in the Euro area, recovery was relatively weak with real GDP growth of only 1.8% as a strong Euro adversely affected export performance.
6. **Mr. Speaker**, in sub-Saharan Africa, real GDP grew by 4.6% in 2004, spurred by improved macroeconomic stability, expansion in world trade, debt reductions under the Heavily Indebted Poor Countries (HIPC) Initiative, and improved market access in developed countries. The prospects for continued solid growth in Africa have improved with the signing of the peace deals in Sudan and Somalia, brokered by Kenya. These deals have given a ray of hope and optimism to the end of conflicts that have bedevilled the two nations for a long time.
7. **Mr. Speaker**, the global growth momentum is expected to continue in 2005, with real GDP growth estimated at 4.3%. The outlook for Africa is expected to be more favourable than it has been for a long time.

2.2 Domestic Economy

8. **Mr. Speaker**, let me now turn to the domestic economy. As I intend to be brief, I encourage Hon. Members to read the Economic Survey for 2005, which contains a detailed discussion of recent economic developments. **Mr Speaker**, as I already noted, our economy registered a real growth rate of 4.3% in 2004. This growth was achieved against a background of unfavourable weather conditions and high oil prices, which suggest that, without these exogenous factors, growth could have been much higher. **Mr. Speaker**, owing largely to the drought, the agricultural sector registered a modest growth rate of only 1.4%, down from 2.6% in 2003. However, this masked some exceptional growth performance in the tea, sugarcane, horticulture and dairy products subsectors.
9. **Mr. Speaker**, in contrast to the subdued performance of the agricultural sector, the manufacturing sector continued to grow at a brisk pace of 4.1%, led by increased output of cigarettes, cement, transport equipment, agro processing industries, and output from Export Processing Zones (EPZ). Similarly, the tourism sector registered a remarkable growth spurred by aggressive marketing, enhanced security associated with the strengthening of the Tourist Police Unit, and the opening of direct flights to some parts of Asia. As a result, earnings from tourism rose from KShs.25.8 billion in 2003 to KShs.39.2 billion in 2004, an increase of 51.9%.
10. **Mr. Speaker**, on the inflation front, we were not as successful. The 12-month overall rate of inflation rose from 5.9% in mid 2004 to about 16% in April 2005, because of the adverse impact of drought on food prices, increase in oil prices and higher expansion in money supply. Money supply expanded by 13.2% compared with a target of 8.9%, mainly driven by a strong expansion of credit to the private sector. To avoid inflation from spiralling out of control, monetary policy will need to be tightened in FY 2005/06 so as to bring credit expansion to a more sustainable pace. On exchange rate developments, the Kenya shilling remained relatively stable, ending the year at KShs.79.0 to the US \$ in December 2004 compared with Kshs.76.1 to the US \$ in December 2003.
11. **Mr. Speaker**, on the fiscal front, the good revenue performance, coupled with expenditure restraint, resulted in a fiscal surplus which permitted government to reduce its net domestic debt by about Kshs.3 billion. This good fiscal performance facilitated a return to stability in the treasury bill and bond market toward the end of the year, after

interest rates on government securities had trended up for most of the year.

12. **Mr. Speaker**, Kenya's imports grew faster than our exports of horticultural produce, coffee and tea. However, the resulting trade deficit was covered by substantial surpluses in the services sector, especially in the tourism sector, and in the capital and financial account. As a result, by end-December 2004, the gross foreign reserves of the Central Bank had reached the equivalent of over 3-months of imports of goods and services.
13. **Mr. Speaker**, despite the strong recovery witnessed in 2004, the economy continues to face a number of constraints. These include: the high cost of energy, inadequate infrastructure, and the low level of domestic savings and investments. **Mr Speaker**, let me take this opportunity to reassure Hon. Members and all Kenyans that the Government is committed to addressing these challenges to ensure that the recovery momentum registered in 2004, is not only consolidated but accelerated. It is only through rapid and sustainable economic growth that we can meaningfully tackle poverty on a sustainable basis and make progress toward achieving the Millennium Development Goals (MDGs).
14. **Mr. Speaker**, the good economic performance we have experienced is the result of economic and structural reforms we have been implementing over the past two-and-a half years with the support of our development partners. In this regard, I am happy to report that our programme, supported by the IMF is on course, and consultations with the World Bank on a credit to support our Economic Recovery Strategy are ongoing. From our bilateral Development Partners, the Government continues to receive project grants and loans to fund programs for infrastructure, water provision, health and education.
15. **Mr. Speaker**, as I indicated during the launch of the Budget Strategy Paper, the FY 2005/06 Budget has deliberately not factored in budgetary support from bilateral Development Partners. This means that we will have to utilize our own scarce resources in the most efficient way. It is, therefore, imperative that we accelerate our reform agenda in such areas as procurement and privatization. In the event that the bilateral partners provide any budgetary support, I will use it to reduce government domestic borrowing and to upscale spending on core poverty programmes. Further, **Mr. Speaker**, to address the past challenges associated with absorbing donor project

funding, the Government is instituting coordination mechanisms among stakeholders to facilitate faster implementation of projects.

3. MACROECONOMIC FRAMEWORK FOR FY 2005/06

16. Mr. Speaker, as I mentioned earlier, consolidating and strengthening the recent economic recovery will be the government's top priority during FY 2005/06 and in the medium term. We are now forecasting a real growth rate of at least 5% in 2005 and 2006, mainly driven by private and public sector investments. **Mr. Speaker,** achieving this growth rate will require continued fiscal discipline, a sound monetary policy, and a deepening of structural reforms, especially in the area of governance. We expect this to lead to an increase in total factor productivity.

3.1 Fiscal Policy

17. Mr. Speaker, the fiscal policy for 2005/06 will continue to emphasize strong revenue collection based on improvements in tax administration while avoiding higher tax rates. The Government remains committed to containing the expansion of overall expenditures while at the same time effecting a significant shift in resources toward the social and economic sectors. In addition, **Mr. Speaker,** the Government will aim to contain the growth of domestic debt in order to reduce pressures on interest rates, reduce interest payments, and increase the availability of credit to the private sector.

3.2 Revenue

18. Mr. Speaker, a strong effort to collect revenues will be required in order to stabilize the ratio of domestic debt-to-GDP while protecting priority expenditures. Therefore, the FY 2005/06 Budget targets revenue collection of about 22.8% of GDP underpinned by: the successful implementation of tax administration reforms, including the roll out of electronic tax registers. In addition, tax collection in FY2005/06 is expected to benefit from the expansion of the tax base arising from the tax amnesty. While these measures will protect our revenue base, they will also make it possible for us to offer some tax relief to the ordinary *mwananchi* as I will report shortly.

3.3 Expenditure

19. Mr. Speaker, on the expenditure side, as indicated in the Budget Strategy Paper, the Government wage bill consumes upto 40% of our total ordinary revenues, or over 8% of GDP. The wage bill,

together with other non-discretionary expenditures such as debt service payments and pensions obligations, take up two-thirds of our revenues, leaving only a third to fund our priority areas. Therefore, the Government's expenditure policy in FY 2005/06 and the medium-term will aim to contain both the wage bill and domestic borrowing to more sustainable levels. Within the wage bill target for FY 2005/06, I have factored a wage award for civil servants of Kshs.2.1 billion and another Kshs.4.9 billion for teachers.

- 20. Mr. Speaker,** in line with this year's Budget theme of re-orienting allocation of resources toward social and economic programmes, and in the spirit of sharing the burden of fiscal discipline, the Government intends to reduce sharply expenditures on motor vehicle purchases and other transport related costs. As a first step, the number of cars at the disposal of senior government officials who are entitled to official transport, will be restricted to no more than two. In addition, the Government will reduce by 15% transfers to those parastatals that have the capacity to generate own resources, while requiring the others to strictly adhere to laid down financial regulations. We will also tighten expenditure controls on travel and accommodation, and telephone usage. With regard to telephone usage, the Government will in the coming fiscal year adopt prepaid services. In the course of the year, the Government will also issue clear guidelines on use of official transport.
- 21. Mr. Speaker,** the release of resources from these expenditure measures, will facilitate additional government expenditures on: (i) improving the road network, urban transportation, and access to water; (ii) core poverty programmes; and (iii) programmes to deal with recurrent droughts and food shortages, especially in the Arid and Semi-arid areas.

3.4 Monetary and Exchange Rate Policies

- 22. Mr. Speaker,** our monetary policy will continue to be geared toward achieving a low and stable rate of inflation, a comfortable level of international reserves, and sufficient credit to the private sector, consistent with the higher projected real GDP growth. Specifically, as indicated in the Budget Strategy Paper, monetary policy will target to (i) achieve a core inflation rate below 5%; (ii) contain growth of money supply at about 8%, while increasing credit to the private sector by about 12%; and (iii) maintain gross international reserves of the Central Bank at around 3 months of import cover.
- 23. Mr. Speaker,** in the area of exchange rate policy, the Government will continue to allow the exchange rate to be market-

determined. Therefore, Central Bank intervention in the foreign exchange market will be limited to achieving our international reserves target and smoothing out short-term fluctuations. Implementation of the monetary and exchange rate policies I have just outlined, together with an appropriate fiscal policy, should help to achieve low and sustainable interest rates, and therefore, help sustain the recent growth momentum.

4. STRUCTURAL REFORMS

24. **Mr. Speaker**, although macroeconomic stability is a necessary condition for sustaining our growth momentum and reducing poverty, it is by no means a sufficient condition. It needs to be supported by vigorous implementation of appropriate structural reforms. For this reason, the Government's structural reform agenda will focus on: (i) strengthening governance and the rule of law; (ii) improving public expenditure and financial management; (iii) privatisation and public enterprise reforms; and (iv) reforming the financial sector.

4.1 Governance and Rule of Law

25. **Mr. Speaker**, the Government recognizes that **bad governance has been a major constraint to investment and growth**. To reduce opportunities for corruption and to deter corrupt practices, the Government will continue to strengthen governance institutions, and enforce fully the anti-corruption laws and regulations. As Hon. Members will recall, during the Consultative Group meeting held in April this year, the Government presented an Action Plan for a comprehensive anti-corruption strategy.

26. The measures to be implemented under this Governance Action Plan include: (i) enhancing the effectiveness of anticorruption investigative agencies; (ii) building adequate prosecution capacity to handle corruption-related caseloads; (iii) making wealth declaration public in order to discourage abuse of public offices; and (iv) continuing to vigorously investigate economic crimes and to recover illegally acquired assets. In this context, **Mr. Speaker**, Government is ready to implement the recommendations of the Goldenberg Commission of Inquiry as soon as the report is completed. As Hon. Members are aware, the Government is already implementing the recommendations of the Presidential Commission on Illegal and Irregular Allocations of Public Land.

4.2 Public Expenditure and Financial Management Reforms

27. **Mr. Speaker, in the area of public expenditure and financial management**, our economy has suffered for many years because of misuse and misallocation of public resources. Therefore, making the use of public resources more transparent and accountable to our people is the basis of our expenditure reforms in FY 2005/06 and the Medium-term. To this end, the Government will continue to make the budget process increasingly transparent. On this point, **Mr. Speaker**, let me point out that more than any other time in the past, the budget process this year has been transparent and has benefited from wide consultations, involving the Kenyan public, parliamentarians, the private sector, civil society, and our development partners.
28. **Mr. Speaker**, to further enhance transparency and accountability of the management of the public finances, we will: (i) ensure that those responsible for financial management strictly adhere to the financial regulations including procurement guidelines, as outlined in the Financial Management Act; (ii) implement a cash management system to ensure timely release of resources to the line ministries; (iii) carry out Public Expenditure Tracking Surveys (PETS) to improve utilization of public resources; (iv) roll out the Integrated Financial Management Information System (IFMIS) to line ministries; and (v) introduce risk-based internal audit system.
29. **Mr. Speaker**, I cannot over emphasize the importance of enactment of the Public Procurement and Disposal Bill that is before this august House.

4.3 Privatisation and Public Enterprise Reforms

30. **Mr. Speaker, in the area of public enterprise reforms**, the Government recognizes the crucial role that efficient enterprises can play in, promoting economic growth, poverty reduction, and eliminating contingent liabilities for the budget. Poor performance by key enterprises, especially in energy, telecommunications and transport, has undermined the competitiveness of Kenyan goods and services. They have also made Kenya less attractive to investors. It is this recognition that has informed the government's privatisation and public enterprises reform strategy.
31. **Mr. Speaker**, to address the problem of public enterprises, the Government has initiated various reforms, including introduction of private-public partnerships and performance contracts in the management of these enterprises. Special emphasis is being put on

key enterprises in the energy, water, transport and communications sectors. Therefore, speedy enactment of the Privatisation Bill, which is before this august House, is critical to the success of our reforms in this area.

4.4 Financial Sector Reforms

32. **Mr. Speaker, an efficient financial sector operating within a framework of sound fiscal and monetary policies,** is essential to achieve our economic growth and poverty reduction objectives. To consolidate the economic gains achieved thus far, the Government has prepared a comprehensive financial sector strategy aimed at improving efficiency in financial intermediation. As part of this strategy, state-owned banks will be restructured and privatized. We believe that these reforms will contribute to reducing the current large volume of non-performing loans, and lead to reduction in the cost of borrowing for everyone.

33. **Mr. Speaker,** micro-finance institutions and co-operative societies have continued to play an important role in mobilizing savings and providing credit to the small and medium enterprises in support of our development agenda. In order to ensure sound financial management in these institutions, a SACCO Bill is under preparation, and the Government will soon be tabling a Micro Finance Bill, to provide a legal and regulatory framework for these institutions.

4.5 Local Government Reforms

34. **Mr. Speaker,** local authorities, when efficiently run, can play a critical role in service delivery and creating the investment climate that would lead to poverty alleviation. To improve efficiency of local authorities will require deepening on-going reform efforts to improve their planning and financial management. In this regard, the local authorities will be expected to encourage greater partnership with their communities in identifying their priorities, and in designing, implementing and monitoring their social and economic programmes.

35. **Mr. Speaker,** to assist the local authorities meet their objectives, during the next financial year, the Government will disburse KShs.5.6 billion through the Local Authority Transfer Fund; Kshs.1.9 billion from the Road Maintenance Levy Fund for improving rural access and urban road network; and a further Kshs.0.8 billion for the School Bursary Fund. Together with the amounts for the Constituency Development Fund, estimated at Kshs.7.2 billion, the total amount of

resources that will go directly to the local level is estimated at an unprecedented Kshs.15.5 billion.

36. **Mr. Speaker**, this targeted financial intervention is a clear demonstration of the Government's commitment to reduce poverty and in-equality in our society, a key objective of the ERS. It also confirms our commitment to greater decentralization and to making the Local Authorities the focal points for service delivery. We expect these resources to significantly improve the breadth and depth of service delivery at the local level. I therefore, urge stakeholders at the local level to work closely with their councils and leaders to ensure that these funds are utilised in an efficient and accountable manner to meet their needs and priorities.

4.6 Private Sector Development

37. **Mr. Speaker**, as outlined in the Economic Recovery Strategy, the Government remains fully convinced that the private sector should play the leading role in our economic development. Therefore, in addition to privatization and public enterprise reforms, the Government will, among other things: (i) streamline the business licensing system; and (ii) review competition laws to bring them into line with regulatory best practices.
38. **Mr. Speaker**, the bureaucratic procedures associated with licence acquisition have increased the cost of doing business and contributed to making our private sector less competitive. Currently, there are about 600 licences in Kenya that directly affect trade and investments. Therefore, the Government will review these licences with a view to eliminating those that are not justified on grounds of health, environment and safety. Accordingly, as a first step in this direction, during FY 2005/06, I propose to eliminate 17 licences which no longer serve a useful purpose, and amend 30 others. These measures should help to make the private sector more competitive and contribute to economic growth and poverty alleviation.
39. **Mr. Speaker**, the high rate of inflation in Kenya relative to our trading partners has eroded our ability to compete and is encouraging imports at the expense of domestically produced goods. It is imperative, therefore, that in the coming fiscal year we reduce the rate of inflation not only to safeguard our competitiveness but to also stem the erosion of the purchasing power of the ordinary *mwananchi*, who is not able to hedge his earnings against inflation.

40. **Mr. Speaker**, I have listened carefully to complaints from the private sector regarding the delay in VAT refunds, and factored adequate funds to clear the backlog. I have also provided KRA with enough monthly resources to meet current refund claims and avoid a recurrence of this problem. I have instructed KRA to carry out an audit to ensure that only genuine claims are paid.

5. RE-ORIENTING EXPENDITURE TO PRIORITY SECTORS

41. **Mr. Speaker**, without rapid and sustainable economic growth, we will not achieve our objectives of reducing poverty on a sustainable basis. But even as the economy recovers and growth accelerates, a major challenge of the Government will be to ensure that the growth improves the welfare of the ordinary Kenyan. Therefore, as our revenues rise, we will allocate more resources to the social and economic sectors. As Hon. Members may have seen in the Budget Strategy Paper, the Government's medium-term expenditure framework shifts resources to the health, education, agriculture and the infrastructure sectors. Hon. Members will have noted from the Budget Strategy Paper that we are targeting to increase the share of our total expenditure going to these priority areas from about 56% in FY 2004/05 to 64% by FY 2007/08.

42. **Mr. Speaker**, as indicated in the Budget Strategy Paper, the new calendar for the budget process is intended to ensure that the annual budget is used effectively to achieve the Government's key strategic objectives as outlined in the Economic Recovery Strategy (ERS). With this in mind, allow me, to briefly outline the Government's plans in the key priority areas of Health, Education, Agriculture and Infrastructure.

5.1 Health Sector Reforms

43. **Mr. Speaker, in the health sector**, the Government is fully focused on attaining the Millennium Development Goals. Towards this end, the Government will raise spending on health care by 30% in FY 2005/06. This will increase the sector's share in total government expenditure from the current 8.6% to 9.9% in FY 2005/06. Over the next three years, the amount of resources going to this sector is programmed to increase from Kshs. 24.7 billion in FY 2004/05 to about Kshs. 43 billion by FY 2007/08, an increase of 74%. Consequently, the share of total government expenditure going to health will rise to about 11% by FY 2007/08.

44. Mr. Speaker, this level of funding will enable the Government to effectively address most of the challenges facing the health sector, including improving health facilities countrywide. It will also help achieve the core indicators identified in the Economic Recovery Strategy and in the Budget Strategy Paper. In this regard, the Government will in FY 2005/06 put in place measures to: (i) increase immunization coverage to about 75%; (ii) reduce child and mother mortality rate; (iii) reduce malaria in-patient mortality to 15% as a share of total patient mortality; (iv) put in place strategies to reduce HIV prevalence and improve access to affordable drugs; (v) improve health service delivery through decentralization of health care services; and (vi) increase expenditure on preventive and basic health services.

5.2 Education Reforms

45. Mr. Speaker, turning to education, our free primary school programme is now firmly on course. The future of **over one million children** who joined the programme in January 2003 is now secured. Indeed, it is only through education that our children will unlock future opportunities and improve their welfare. I wish, therefore, to request all stakeholders in the education sector to demand quality service given the huge investment the Government has made and continues to make in this vital sector. On its part, the Government will continue to allocate the bulk of its resources, amounting to over 28% of total government expenditures, to this sector.

46. Mr. Speaker, in the coming financial year, the Government will focus its attention on specific priorities, such as: (i) ensuring equitable access to education by targeting disadvantaged areas, particularly ASAL, and vulnerable groups, such as street children and the girl child; (ii) reviewing implementation of the bursary scheme to ensure only deserving children from poor households benefit; (iii) improving quality and internal efficiency through teacher training and redeployment; (iv) decentralizing decision-making to district and school-level administrators; (v) redefining the roles of local authorities; and (vi) reforming university education to promote its quality in order to ensure that we are globally competitive. We also need to prepare our Universities to become more self-reliant and to reduce their dependence on the Exchequer. These interventions, together with the on-going reforms in the sector, will contribute significantly to our long-term productivity for the benefit of all Kenyans.

5.3 Agriculture and Rural Development

47. **Mr. Speaker, let me now turn to agriculture** and rural development where majority of our people live. This sector remains the single most important vehicle for reducing poverty and eliminating hunger. In line with agricultural policy as articulated in the Economic Recovery Strategy, the Government has taken a number of measures to improve the performance of the agricultural sector. These include: injection of Kshs. 1.5 billion to the Agricultural Finance Corporation for provision of credit to farmers; and revival of farmers' institutions that are key to agricultural growth, such as the Kenya Farmers Association and the Kenya Cooperative Creameries. In addition, steps are being taken to strengthen agricultural research and extension systems through the implementation of the Kenya Agricultural Productivity Project, with support of the World Bank.
48. **Mr. Speaker,** although overall agricultural growth was subdued in 2004, some sub-sectors recorded significant growth of at least 10% for tea and sugarcane, and as much as 24.7% and 35% for horticulture and dairy products, respectively. These are clear signs that we are on the right path. To build on this success, the Government proposes to increase resources to this sector by about 74% over the next three years, or from, Kshs. 16 billion in FY 2004/05 to Kshs 27.8 billion by FY 2007/08. Therefore, the share of resources going to this sector will rise from 5.6% of total government expenditure in FY 2004/05 to almost 7% by FY 2007/08.
49. **Mr. Speaker,** to strengthen further the agricultural sector, the Government will, in the coming fiscal year, begin to implement in earnest, policies contained in the Strategy for Revitalization of Agriculture (SRA). This strategy aims at transforming agriculture into a profitable, commercially oriented and internationally competitive activity. As part of this strategy, the Government will undertake major reforms to improve productivity in the coffee, pyrethrum and cotton sub-sectors, with a view to increasing the share of final receipts that ultimately go to farmers.
50. **Mr. Speaker,** the Coffee Act, requires amendments to reflect current developments in this industry, particularly with regard to marketing. The reforms include: restructuring of the Coffee Board of Kenya to separate the non-regulatory functions, streamline licencing procedures, and allow direct sale of Coffee outside the auction.

51. **Mr. Speaker**, in the pyrethrum sub-sector, the Government plans to amend the Pyrethrum Act to separate regulatory and commercial roles of the Board. The Board will remain with only the regulatory function, while a separate company, owned by stakeholders, will be formed to deal with the commercial functions.
52. As Hon. Members are aware, under the Africa Growth Opportunity Act (AGOA), beneficiary countries are expected to create capacity to produce their own cotton. For this reason, the Government will support initiatives to promote cotton production. The revival of the cotton industry is key to poverty reduction in semi-Arid areas. I am, therefore, proposing to allocate Kshs.250 million to facilitate revival of this sector.
53. **Mr. Speaker**, livestock keeping is the lifeline of our people living in the Arid and Semi-Arid areas. Although not fully exploited, the sector has a high growth potential and is important to subsistence farmers and pastoralists alike. To harness this potential, the Government has initiated development of disease control programmes for the establishment of disease-free zones in strategic areas of the country. This will enhance our capacity to produce quality beef for export. The Government will also introduce a single permit system for cattle movement, review options for decentralized and privately owned slaughterhouses, expand access to water sources, and improve security.

5.4 Physical Infrastructure

54. **Mr. Speaker**, the Government accords priority to infrastructure sector to facilitate rapid economic growth. To consolidate the gains from the on-going economic recovery, we will address comprehensively the challenges facing this sector. These challenges include mobilizing resources for maintenance, rehabilitation of existing facilities, and expansion of the road network; curbing wastage; ensuring adherence to standards; and decongesting ports.
55. **Mr. Speaker**, as I noted earlier, if the private sector is to become competitive and play its rightful role in helping to develop our country, then it is absolutely critical that we improve our physical infrastructure. For this reason, the amount of resources I propose to allocate to this sector will increase by about 86% over the next three years, which is more than any other sector. During FY 2005/06 alone, I propose to increase resources allocated to this sector by over 36%. The increase

in resource allocation from Kshs. 44.6 billion in 2004/05 to Kshs. 82.8 billion in 2007/08 will raise the share of total government expenditure allocated to infrastructure from 15.6% to 20.5% during the same period.

56. Mr. Speaker, the NARC Government inherited many projects that had been started but not completed. In the current financial year, I allocated KShs. 1.0 billion for the completion of these projects. I am sure that Hon. Members have seen the work going on at the National Youth Service buildings on Thika road, the Nyanza Provincial Headquarters in Kisumu, and 251 dispensaries around the country, among others. For the coming year, I propose to allocate a further KShs. 2.0 billion, but only for projects that are 75% completed and that are consistent with our ERS priorities.

5.4.1 Road Transport

57. Mr. Speaker, no economy can grow and sustain a strong growth momentum without paying special attention to the condition of its road network. An efficient road system facilitates private sector development, promotes increased productivity and creates linkages between products and markets. To ensure our road network plays its role in accelerating our economic recovery, I propose a 44% increase in resource allocation for public works during FY 2005/06. Although steps have been taken to minimize bureaucratic delays at the Ministry of Roads and Public Works, more effort is required to fully streamline the procurement procedure in order to improve the sector's capacity to absorb these substantial resources. The Government will also continue to strictly enforce standards and quality specifications for all road maintenance and reconstruction works, in order to ensure durability of the road network and reduce maintenance costs.

58. Mr. Speaker, to improve rural road maintenance, the Government will implement the Roads 2000 programme in 34 districts, with the participation of local communities. The upgrading of a large number of rural roads to gravel standards will give a boost to productive activities in the rural areas. The challenge, however, is to roll out this programme countrywide and create more impetus for our economic recovery and poverty alleviation efforts. On behalf of the people of Kenya, I wish to extend our gratitude to all our Development Partners who are supporting this programme. On its part, the Government will strengthen the legal, institutional, and regulatory capacity of the agencies responsible for road development to encourage participation of the private sector in road sector development.

Rail, Air Transport and the Mombasa Port

- 59. Mr. Speaker,** as we continue with the reconstruction of our road network, it is equally important that we pay due attention to the development of our railway network to improve efficiency and reduce damage to our roads. To raise investment funds necessary to improve rail services, a joint process to concession the Kenya and Uganda Railways is ongoing and is expected to be completed by December 2005. In the meantime, the Government is committed to ensuring that the Kenya Railways Corporation is run efficiently. In addition, the Government will, in partnership with the private sector, explore the possibility of constructing railway links between Kenya and Sudan and between Kenya and Ethiopia in order to expand trade between our neighbouring countries.
- 60. Mr. Speaker,** as part of the Government's efforts to make Nairobi the regional hub for air transport and to facilitate trade and tourism, improvement of security and airport facilities will continue to be top on the reform agenda. In addition, a major modernization programme for Jomo Kenyatta International Airport is in progress. The Government is also exploring the potential for public-private partnership in the development and management of our international airports. In the next fiscal year, I propose to allocate KShs.2.0 billion for refurbishment and expansion of our international airports.
- 61. Mr. Speaker,** the Port of Mombasa is an important regional gateway. Therefore, to maintain the Port's competitive edge, we will accelerate reforms to convert it to a landlord port in line with the Authority's Master Plan for the Port. This will facilitate further private sector participation in such areas as container terminal, bulk handling and conventional cargo.

Energy Sector

- 62. Mr. Speaker,** while energy plays a critical role in our economy, electricity supplies have been largely inadequate, unreliable and expensive, thereby increasing the cost of production and making our products uncompetitive. This has arisen because of past weak and inefficient management of key utility institutions, wasteful procurement procedures, and lack of investment in system reinforcement. In addition, our hydro-electricity power resource base has been exhausted. In the future, the potential to generate additional capacity for electric power will come from other sources, principally geothermal.

63. **Mr. Speaker**, we are making efforts to ensure the geothermal power potential is fully developed and exploited in order to improve power supply and reliability. With regard to expanding generation capacity, Sondu Miriu hydro-power and Olkaria Geothermal extension projects, with an additional capacity of 95MW, are being implemented. Regarding distribution, a major investment is underway to expand and improve the grid and the distribution system.
64. **Mr. Speaker**, as part of the ongoing parastatal reforms, the Government will continue with the current restructuring of KPLC and KenGen. These reforms include contracting management to help turn around KPLC **and divesting 30% of Government shareholding in KenGen** through an Initial Public Offer (IPO). Following past successful IPOs, such as for Kenya Airways, the Kenya Commercial Bank, Mumias Sugar Company and TPS Serena, I would like to encourage Kenyans to take advantage of this opportunity to buy shares in KenGen.

Water and Sewerage Services

65. **Mr. Speaker**, provision of clean and safe water for all Kenyans is an important objective of the Government. With this in mind, the Government has implemented structural reforms to make water and sanitation services autonomous. As a result, Water Service Boards, Water Services Regulatory Board and the Water Services Trust Fund have been established under the Water Act, 2002 to effectively separate the functions of policy formulation, service delivery and regulation of the water and sanitation sector. During FY 2005/06, the Government will enter into partnerships with community-based organizations to expand services to the urban poor and rural communities.
66. **Mr. Speaker**, the Government is rehabilitating existing irrigation systems and building new ones to improve our food security. In addition, the Government will continue to sink boreholes, construct wells and water pans to increase water supply in ASAL areas. In flood prone areas, we will construct dams and rehabilitate dykes to protect our people. For these reasons, **I propose to spend Kshs.1.5 billion in FY 2005/06 Budget for construction of boreholes and dams.** These funds will enable every district in the ASAL areas to construct at least four boreholes in addition to rehabilitating existing ones.

5.4.5 Information, Communication and Technology

67. **Mr. Speaker**, embracing Information and Communication Technology is critical to improve productivity and to access market information. In this regard, the Government will facilitate development of adequate ICT capacity in the country and encourage improved ICT usage. Efforts will also be made to complete implementation of e-government during FY 2005/06 to improve service delivery and promote accountability. This will enable citizens to access Government services and information efficiently through the use of internet and other channels of communication.

6. OTHER SECTORAL PRIORITIES

68. **Mr Speaker**, having covered the Government's objectives in the four key sectors highlighted in the BSP and in the ERS, allow me now to indicate the Government's objectives in the remaining sectors.

6.1 Public Administration

69. **Mr. Speaker, the public sector reforms** will focus on financial and human resources management and the delivery of core government functions. This will include: rationalizing the functional structure of the central government to contain costs; institutionalising results based management in the public service to improve efficiency and accountability; and contracting out non-core functions and services to enhance public service performance and capital investment.

6.2 Public Safety, the Police Force, and Prison Services

70. **Mr. Speaker, improving security** is not only important for the safety of our people, but it is also critical in establishing an enabling environment for private sector investment and economic growth. Towards this end, the Government will continue to implement reforms to ensure law and order is maintained. These reforms will include: (i) improving capacity for crime prevention, investigation and prosecution; (ii) rolling out community policing to other urban centres, and (iii) building housing facilities to improve the living conditions of police officers. In this regard, I propose to spend KShs.1.5 billion for police reforms, of which Ksh.750 million will go towards police housing. I also propose to spend Kshs. 500 million for Prison Warders houses. By the end of the FY 2005/06, I expect that at least 500 units of housing will have been completed for both the police and prison

warders. This will improve their working conditions and boost their morale.

6.3 Reforms Under the Judiciary

71. Mr. Speaker, as Hon. Members are aware, a majority of Kenyans are not able to access judicial services because the courts are inadequate and where they exist, the cost is prohibitive. To make judicial services accessible, especially to the poor, the Government will implement measures to facilitate speedy and efficient disposal of cases. Consequently, the Government will recruit more Magistrates and Kadhis to cope with the increased cases, train staff to improve efficiency, and automate court registries to enhance information flows. Plans are also underway to rehabilitate the law courts country-wide to facilitate access to justice.

6.4 Environment and Wildlife Conservation

72. Mr. Speaker, adequate management of environmental resources is key for long-term sustainable economic growth. Towards this end, the Government will complete the natural resource inventory and valuation, implement the Forestry Development Policy, and promote private sector participation in afforestation and management of forest plantations. As regards wildlife management, the Government is strengthening Kenya Wildlife Service to enhance its capacity to work with the local communities. It is also implementing measures to contain human-wildlife conflicts, and to improve benefit sharing.

73. Mr. Speaker, while still on the subject of the environment, allow me to take this opportunity to pay tribute to Hon. Prof. Wangari Mathai, for being awarded the Nobel Peace Prize. As the first lady in Africa to win this prize, she has done Kenya and Africa as a whole proud. We take pride in her achievements and commitment to environmental conservation and urge Kenyans to follow in her footsteps.

6.5 Trade, Industry, and Tourism

6.5.1 Manufacturing, Trade and Investment.

74. Mr. Speaker, the continued solid growth of the manufacturing sector suggests that policy reforms implemented over the past two years have begun to pay dividends. In order to lock-in this momentum, the Government intends to remove the barriers to investment. With regard to small and medium size enterprises, the Government is keenly aware of the important role they play in our

economic development. To encourage further growth in this critical sector, the Government, in partnership with the World Bank, is implementing the Micro, Small, and Medium Enterprises (MSMEs) Competitiveness Project. This project aims to improve access to finance, strengthen enterprise skills, and improve the business environment.

To ensure a more rapid expansion of exports, Kenya's external competitiveness will have to improve. It is therefore, important that we contain our wage costs, maintain an appropriate exchange rate policy, and most importantly, improve our infrastructure in order to enhance our regional and global competitiveness.

6.5.3 Regional Integration

75. **Mr. Speaker, regional integration** is critical for our economic recovery. The EAC region is our main export destination, after the European Union, accounting for about a quarter of Kenya's total exports. For this reason, the Government is working closely with our EAC partners to deepen our economic integration. As part of this process, the three EAC countries began implementing the Common External Tariff (CET) in January 2005. The creation of the Customs Union should facilitate increased trade between the three partner states, as well as attract an increased volume of foreign direct investments into the region. I, therefore, invite our private sector to take advantage of the new business opportunities created by the implementation of the customs union, as well as the new markets in Southern Sudan and Somalia.

76. **Mr. Speaker,** the EAC Partner States have recently agreed to harmonize the exemptions regime and eliminate discretionary exemptions granted by the Finance Ministers. The new system requires budgetary provision for the payment of duties in respect of goods donated to deserving Non-Governmental Organizations and Charitable Institutions in specified areas. These organizations will be encouraged to **cooperate and integrate their programmes with** the relevant Ministries. In the meantime, the Government is working on modalities to implement the new system. In addition, with regard to exemptions under other laws, the Government is developing criteria for granting various waivers in order to minimize the level of discretion. This is in line with the commitment of EAC States to harmonize fiscal policies and incentives.

6.5.4 Tourism

77. **Mr. Speaker**, as I noted earlier, growth in the tourism sector has been impressive. This growth reflected the success of marketing our tourist attractions and diversifying sources of tourists to Kenya. Other measures being implemented, to support the sectors include encouraging domestic tourism and facilitating local small-to-medium investments in the sector. In view of the importance of this sector, **I propose to allocate Kshs.2.3 billion to the sub-sector in FY2005/06.**

6.6 Labour and Employment

78. **Mr. Speaker**, Kenya's labour productivity has been low and declining since 2000, while real wages have been increasing, thus making our exports costly and less competitive. To address these challenges and to create employment, it will be important to ensure that wage increases in the future, whether in the private or public sector, are based on improvements in Productivity. To this end, the Productivity Centre of Kenya (PCK) will be revamped to enable it to develop appropriate sectoral productivity indices to be used in determining public sector wages. To avoid loss of jobs to our competitors, henceforth, the minimum wage will be adjusted once every two years in line with productivity increases. With these changes in the wage policy, Kenyan firms will become more competitive and create more business and employment opportunities.

6.7 Land, Shelter and Housing

79. **Mr. Speaker**, a majority of our population in urban areas live in deplorable conditions. Therefore, in line with the objectives of the Economic Recovery Strategy, the Government has started the implementation of slum upgrading in partnership with UN-HABITAT and other development partners at Kibera, which will result in the construction of 600 housing units. In this regard, the Government has established the Slum Upgrading and Low Cost Housing and Infrastructure Trust Fund to serve as a depository for funds mobilized for the program. I propose to allocate KShs.500 million during FY2005/06 for this important project. To encourage construction of more houses, the Government has recently reviewed the National Housing Policy and will submit to Parliament during FY 2005/06 a comprehensive Housing Bill.

7. FINANCIAL OUTTURN FOR FY 2004/2005

7.1 Revenue

80. **Mr. Speaker**, the total revenues (including LATF) were originally estimated at **KShs.258.8 billion** or 20.0% of GDP, which was composed of **KShs.233 billion** of ordinary revenue, and **KShs.25.8 billion** of Appropriations-In-Aid. This was, however, revised upwards in the course of the year to **KShs.277.8 billion**, comprising of **KShs.256.0 billion** and **KShs.21.8 billion** in ordinary revenue and Appropriations-In-Aid, respectively. **Mr. Speaker**, taking into account the tax amnesty, which resulted in **KShs.4.8 billion** additional revenue; administrative measures implemented by the Kenya Revenue Authority; and the annual nominal GDP, I now expect to collect a total of **KShs.293.4 billion** in revenue, or 22% of GDP, comprising of **KShs.267.5 billion** in ordinary revenue and **KShs.25.9 billion** in Appropriation-In-Aid by June 2005.

7.2 Expenditure

81. **Mr. Speaker**, the Supplementary Estimates recently approved by this House reflected an increase of **KShs.6 billion** in recurrent expenditures and a gross reduction of **KShs.14.8 billion** in development expenditures. Recurrent expenditures increased mainly on account of additional expenditure requirement for drought related expenses and wage adjustments for the civil service. Development budget was scaled down to reflect **trends in donor disbursement and progress in project implementation**.

82. **Mr. Speaker**, initially, gross recurrent expenditures were estimated to be **Kshs.221.1 billion**, including expenditures financed through Appropriations-In-Aid amounting to **KShs.23.9 billion**, while Consolidated Fund Services were estimated at **KShs.132.8 billion**. The gross development expenditures were initially estimated at **KShs.86.8 billion**, with approximately **KShs.32 billion** financed through Appropriations-In-Aid. The Supplementary Appropriation Bill adjusted these expenditures to **KShs.227.1 billion** and **KShs.72.0 billion** for recurrent and development expenditures, respectively.

8. PROJECTIONS FOR FY 2005/2006

83. **Mr. Speaker**, let me now turn to the FY 2005/2006 Budget.

8.1 Revenue

84. **Mr. Speaker**, the total revenue target for FY 2005/06 is **KShs.326.1 billion** or 22.8% of GDP. This is composed of **KShs.296.1 billion** of ordinary revenue, and **KShs.30.0 billion** of Appropriations-In-Aid.

8.2 Recurrent Expenditure

85. **Mr. Speaker**, as Hon. Members have already noted from their copies of the Printed Estimates, gross recurrent expenditures for FY 2005/2006 are estimated at **Kshs.404.3 billion**. This includes **KShs.27.1 billion** which will be financed through Appropriations-In-Aid. Ministerial expenditures are estimated at **KShs.257 billion**, while **KShs.147.3 billion** is for Consolidated Fund Services. The latter consists of **KShs.26.9 billion** for domestic interest; **KShs.9.0 billion** for foreign interest; **KShs.23.4 billion** for pensions, and gratuities; **KShs.5.3 billion** for salaries, allowances and operational expenses for constitutional offices; and, **KShs.133 million is for contributions to international organizations**. I also expect to finance debt redemptions amounting to **KShs.87.9 billion**.

8.3 Development Expenditure

86. **Mr. Speaker**, the gross development expenditures for FY 2005/2006 are estimated at **Kshs.104.2 billion**, inclusive of **KShs. 34.9 billion** financed by Appropriations – in – Aid. The Appropriations – in – Aid includes direct project financing of **KShs. 13.6 billion** in loans, **KShs.18.4 billion** in **project grant** commitment and **KShs. 2.9 billion** which will be realized from domestic sources. This means that I will finance net development expenditures to the tune of **KSh.69.3 billion** during the fiscal year.

8.4 External Grants

87. **Mr. Speaker**, I have received commitments amounting to **KShs. 27.9 billion** in project grants.

8.5 Deficit

88. **Mr. Speaker**, the fiscal deficit after grants will amount to **KShs.66.6 billion**. I am expecting net external financing from both bilateral and multilateral development partners of **Kshs.23.4 billion**, securitization of domestic arrears and bank restructuring costs **Kshs. 9.9 billion** (net), **KShs.8 billion** from privatization proceeds and

KShs.25.3 billion of domestic borrowing. This means, **Mr. Speaker**, that our fiscal program is fully funded and that there is no financing gap. For this reason, my tax proposals are broadly revenue neutral, yielding only Kshs.0.4 billion, and are mainly to improve efficiency of tax administration.

9. TAXATION PROPOSALS

89. Mr. Speaker, the rest of my speech outlines measures I intend to take to enhance efficiency of tax administration. These measures will result in additional revenue of Kshs.0.4 billion. I therefore, request that the remainder of my Speech be regarded as a Notice of a Motion to be moved before the Committee of Ways and Means.

9.1 Customs and Excise Measures

90. Mr. Speaker, let me start with the amendments proposed under the **Customs and Excise Act** aimed to improve administration of customs and excise duties.

9.1.1 Customs Measures

91. Mr. Speaker, let me start with measures under the **East African Customs Management Act**, that have direct revenue impact. The protocol establishing the East African Customs Union came into force in January, 2005. Since then I have received various representations from stakeholders to review the Common External Tariff.

92. Mr. Speaker, in consultation with the Ministers of Finance in Uganda and Tanzania, we agreed to take measures designed to improve the welfare of our people, reduce cost of production, and offer some protection to our infant industries as follows:- (i) that duty on used clothing be 45% or US 30 cents per kg, whichever is higher; (ii) remove import duty on pharmaceuticals, diapers and sanitary pads, and liquid petroleum gas (LPG); (iii) remove import duties imposed on coal, media containing computer software, safety belts, speed governors, crude palm stearin and splints for manufacture of matches; (iv) provide, under a special incentive scheme (duty remission schemes), paper for printing educational material, inputs for manufacture of agricultural equipment and for use in horticulture; and (v) exempt refrigerated trucks and hotel equipment from duty.

93. **Mr. Speaker**, these measures will result in additional **KShs.126 million** to the Exchequer and the proposed changes will take effect immediately after publication by the East African Legislative Assembly.

9.1.2 Excise Measures

94. **Mr. Speaker, let me now turn to excise measures.** Currently, excise duty on petroleum products is collected at various customs bonded facilities spread around the country. This system is administratively expensive and exposes revenue to risk. In order to address this problem and enhance accounting for revenue, I propose to change the tax point for all petroleum oil to the point of importation. **Mr. Speaker**, this measure is tax neutral and I do not expect petroleum dealers to use it as an excuse to increase prices.
95. **Second, Mr. Speaker**, we introduced specific taxes on beer in 2003 and since that time, we have not adjusted the bands for inflation. To safeguard the revenue base, I propose to adjust the excise duty by 10% to account for inflation. I also propose to make a similar 10% adjustment for cigarettes.
96. **Third, Mr. Speaker**, manufacturers of spirits are currently required to pay KShs.90 per proof litre in excise duty at the distillery and the balance of KShs.10 after compounding the spirits. In order to improve compliance, I propose to consolidate the excise duty on neutral spirits to **KShs.100 per proof litre at the distillery or point of importation.**
97. **Fourth, Mr. Speaker**, as Hon. Members may be aware, currently excise duty on motor vehicles ranges from 20% to 60%. However, duty collection at the higher rates has been characterised by undervaluation, and falsification resulting in revenue loss. To safeguard revenue and simplify the excise duty on motor vehicles, I propose to adopt a single rate of 20% on all excisable motor vehicles regardless of engine capacity.
98. **Mr. Speaker**, the excise measures I have proposed will generate an additional **KShs.1,942 million** to the Exchequer.

9.2 VAT Measures

99. **Mr. Speaker, let me turn to changes under the VAT Act.** First, in the interest of equity, I propose to amend Section 11 of the VAT Act by introducing a new Section 11B to enable registered persons who **acquire exempt goods** under Part II (i) of the Second Schedule as

goods in stock to deem the price at which they acquire them to be inclusive of VAT, for purposes of input tax deduction.

100. Second, Mr. Speaker, the VAT Act requires a registered person who ceases to make taxable supplies, to furnish the Commissioner with details of materials and other goods in stock. However, currently the law does not require such a person to declare other taxable assets for which he may have claimed input tax prior to ceasing to make taxable supplies. This has created a loophole for loss of revenue. Therefore, I propose to amend the law to provide that a registered person, who ceases to make taxable supplies, provides the Commissioner with a return giving details and value of his **taxable assets**.

101. Third, Mr. Speaker, the VAT Act requires a person who disposes off a business as a going concern to another registered person, to provide the Commissioner with details of the transactions thereof. Where the Commissioner does not notify the registered person of any risk to revenue **within seven days**, the registered person can transfer the business without payment of tax. The period of seven days has been found to be inadequate for the Commissioner to arrive at a conclusive decision. Therefore, I propose to increase the number of days to **fourteen**.

102. Fourthly, Mr. Speaker, following the introduction of the withholding tax system last year, some withholding agents have not complied with the regulations. To address this problem, I propose to introduce a penalty of **Kshs.10,000** or 10% of the tax due, whichever is higher, for appointed agents who fail to:- (i) withhold and remit tax; (ii) issue a withholding tax certificate; or (iii) submit a return.

103. Fifth, Mr. Speaker, there are persons who, not being appointed withholding tax agents, hold themselves as such and withhold VAT but do not remit the same to the Commissioner. To deter such practices, I propose to introduce a penalty of **Kshs.10,000** or 10% of the tax withheld, whichever is higher, on any person who acts as a tax withholding agent while he is not registered by the Commissioner.

104. Sixth, Mr. Speaker, Hon. Members will recall that the Finance Act, 2004 **exempted LPG and sanitary towels from VAT**. The exempt status, however, meant that the goods would not enjoy the input tax deduction. This dampened the impact on the price of these goods. To make these products affordable and within reach of many Kenyans, and remove any effects of inbuilt VAT into the prices of

these commodities, I propose to zero rate LPG and sanitary towels for VAT purposes.

105. Lastly, Mr. Speaker, maize flour, milk and kerosene are VAT exempt, which means they do not benefit from deduction of input tax. Therefore, an element of VAT is inbuilt into their selling price. To make these commodities affordable to Kenyans, I propose to zero-rate them to remove VAT altogether. Registered persons who sell such goods will be expected to reduce the prices of these basic commodities, failure to which, I will not hesitate to reverse this policy.

106. Mr. Speaker, the measures I have proposed under the VAT will cost the Exchequer KShs.650 million in revenue loss.

9.3 Income Tax Measures

107. Mr. Speaker, I now turn to Income Tax measures. I will first deal with measures that have no revenue implication.

108. First, Mr. Speaker, gazettelement of the Income Tax (Leasing) Rules, in the year 2002, has improved leasing activities in the country. However, the Income Tax Act is not clear on the treatment of motor vehicle benefit where such a vehicle is on hire or lease. I propose to amend the Income Tax Act to specifically provide that the benefit in case of hire or lease shall be, the higher of the cost of hiring/leasing or the prescribed rate of benefit.

109. Second, Mr. Speaker, the tax deductible limits for both registered pension or provident funds as well as registered individual retirement funds have remained at **Kshs.210,000/=** since the year 2000. In order to provide further incentives to retirement savings, I propose to increase the tax-deductible limits in both cases to **Kshs.240,000/=** per annum.

110. Third, Mr. Speaker, currently the income of a married woman living with her husband is assessed on the husband but a married woman may opt to file a separate return on certain sources of income. In order to reduce the overall household tax burden, I propose to amend the Income Tax Act to allow a married woman who opts to file a separate tax return to report all her sources of income without exception.

111. Fourth, Mr. Speaker, to improve tax administration and reduce the delay occasioned by prolonged dispute resolution process, I propose to reduce the period within which an objection to an

assessment should be filed with the Commissioner from the current "sixty days" to "thirty days".

112. **Ninth, Mr. Speaker,** to ensure that former students who have benefited from the university education loans repay so that others may also benefit, I propose to amend both the Income Tax Act and the Higher Education Loans Board Act to enable the Board to obtain addresses of borrowers or their employers from Kenya Revenue Authority to improve loan recoveries.
113. **Mr. Speaker,** I now turn to measures with direct revenue implications under Income Tax Act.
114. **First, Mr. Speaker,** currently a benefit, advantage or facility enjoyed in respect of employment or services rendered is taxable when the aggregate value is Kshs.24,000 or more in a year. In order to reduce the tax burden, I propose to increase the limit to Kshs.36,000 per annum.
115. **Second, Mr. Speaker,** in order to support our farmers and make our farm produce competitive in the International market, I propose to exempt from withholding tax, farm audit fees for analysis of Maximum Residue Limits (MRL) paid to non-resident laboratories and auditors.
116. **Third, Mr. Speaker,** as an incentive to encourage more investors at the Nairobi Stock Exchange, I propose that newly listed companies pay corporation tax at a lower rate of 20%, for a period of 5 years, provided these companies offer at least 40% of their shares to the Kenyan public.
117. **Fourth, Mr. Speaker,** securitization based on bankable assets and ability to generate cash has become a viable alternative in most emerging markets, particularly for institutions providing infrastructural services to raise long-term capital. In this regard, to encourage such institutions to set up Special Purpose Vehicles (SPVs) for purposes of issuing asset backed securities, I propose to exempt investment income of the SPVs from income tax.
118. **Fifth, Mr. Speaker,** provision of shelter and housing is a key ingredient of welfare. To encourage home ownership, I propose to increase mortgage interest relief from Kshs.100,000 to Kshs.150,000.
119. **Sixth, Mr. Speaker,** currently, the capital expenditure on private motor vehicles for purposes of computing wear and tear, for income tax purposes is deemed not to exceed Kshs 1 million. This limit was

last reviewed in 1998. I propose to increase the limit to Kshs.2 million to recognize the increase in the cost of motor vehicles.

120. Seventh, Mr. Speaker, currently, the value of any medical services provided by the employer to a full time employee and full time service directors of a company are not taxed as benefits while medical services provided to directors who own more than 5% of the share capital or voting power of the company, are taxed. To ensure equity in our tax system, I now propose that this benefit be extended to other directors subject to a maximum limit to be prescribed by the Minister.

121. Eighth, Mr. Speaker, in order to encourage planting of trees and to conserve our environment, I propose to declare Eucalyptus, Pine and Cypress as permanent crops so that capital expenditure incurred by the owner or tenant of agricultural land on clearing that land or clearing and planting such crops is, tax deductible.

122. Mr. Speaker, these measures will cost the Exchequer **Kshs.798 million** in revenue loss.

9.4 Miscellaneous Measures

123. Mr. Speaker, turning to miscellaneous measures, I am proposing the following changes:

124. First, Mr. Speaker the retirement benefit's sector has registered remarkable growth, which has made it an important participant in the mobilisation of long term savings. To sustain the growth momentum and address emerging challenges in the sector, there is need to improve the management of retirement benefit schemes. I, therefore, propose to:

- (a) require all internal and external scheme administrators to be registered;
- (b) address the cause of low benefits available to the employee upon retirement by locking the employers contribution to the retirement benefit scheme and making them available to the employee upon attaining the retirement age;
- (c) allow smaller schemes to pool and form one umbrella scheme for purposes of investment and compliance;
- (d) criminalize and introduce penalties for non-remittance of employee contributions to schemes by employers;

- (e) make performance of trustees much more effective by requiring defined contribution schemes to have a minimum of four trustees, where 50% of the trustees are nominated by scheme members;
- (f) gazette regulations to govern the process of conversion of schemes from one benefit scheme to another e.g defined benefit to defined contribution;
- (g) make appropriate amendments to the RBA Act to require that in the event that member's benefits have not been paid within ninety days of retirement, members would be entitled to continue earning interest on their dues.

125. Second, Mr. Speaker, to encourage technological development and improve efficiency in the banking sector, I propose to amend the Bills of Exchange Act on cheque transactions to provide for electronic cheque clearance through the cheque transaction system.

126. Third, Mr. Speaker, to enable proper functioning of the Policy Holders' Compensation Fund, I propose to amend Section 179 of the Insurance Act to enable the setting up of the Fund as a corporate body and empower the Fund to levy contributions.

127. Fourth, Mr. Speaker, to ensure consistency with International Accounting Standards and apply the law in accordance with prudential supervisory intentions, I propose to amend the section of the Banking Act that restricts the insider lending to include companies in which the insiders have shareholding in excess of 20%.

128. Fifth, Mr. Speaker, The multiplicity of licences has increased the cost of doing business. For this reason, I propose to abolish 17 licences including the following; (i) Trade licence; (ii) Stock traders Licence; (iii) Hides, skins and leather licence; (iv) Imports and Exports licences; and (v) Horticultural Crops Development Authority Order Licences.

129. Mr. Speaker, these measures will cost the exchequer Kshs.234 million in revenue loss.

10. CONCLUSION

130. Mr. Speaker, in conclusion, since coming to power two-and-a-half years ago, the NARC Government has returned the country back on a firm path of economic growth, restored discipline in the management

of public resources, strengthened institutions of governance and enhanced respect for individual freedoms.

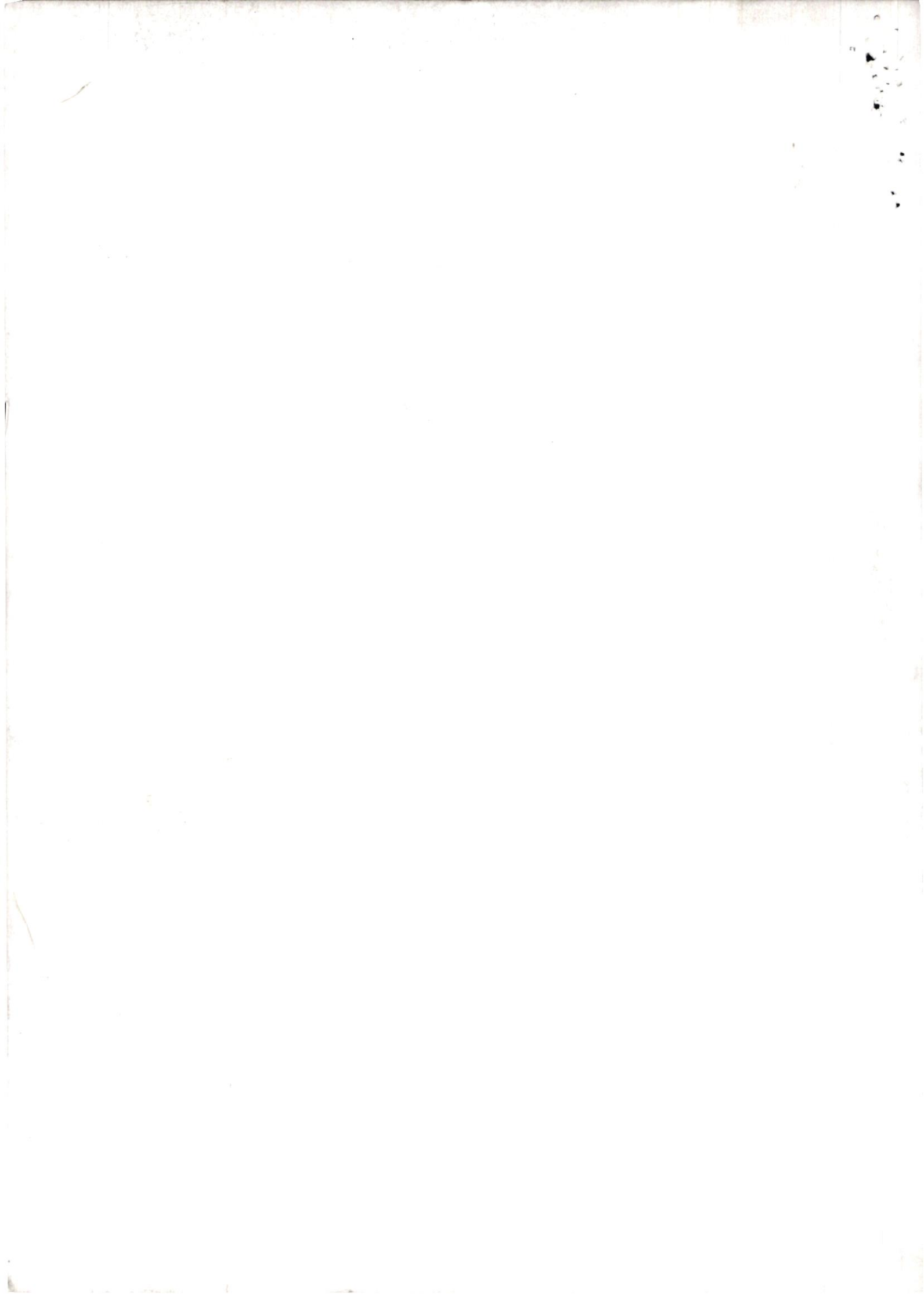
131. Mr. Speaker, The proposals I have outlined in my budget today are aimed at building on these achievements and accelerating the pace of the reforms set out in our Economic Recovery Strategy. To achieve the targets we have set for ourselves requires the active participation of all of us. I, therefore, call upon all Kenyans to heed our President's clarion call of a "**Working Nation**".

132. Mr. Speaker, our legislative agenda contains important Bills that are necessary to support our reforms. These include the Procurement and Privatization Bills and the Amendment to the Public Officer Ethics Act. I call upon Hon. Members to enact these bills at the earliest opportunity. May I also take this opportunity, **Mr. Speaker** to urge Hon. Members not to overly focus on the past but provide leadership in economic development bearing in mind the fact that our task now is not to continue blaming the past but to chart the course for the future. To quote the late President of the United States of America, John F. Kennedy;

*"Our task is not to fix blame for the past
but to fix the course for the future."*

Let us tone down our politics and get down to work.

Mr. Speaker, I beg to move.



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REPUBLIC OF KENYA

Budget Speech

For the

Fiscal Year 2007/2008

(1st July – 30th June)

by

HON. AMOS KIMUNYA, E.G.H., M.P.
Minister for Finance

14th June 2007

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SPEECH DELIVERED TO THE NATIONAL ASSEMBLY ON 14TH JUNE, 2007, BY HON. AMOS KIMUNYA, E.G.H., M.P., MINISTER FOR FINANCE, REPUBLIC OF KENYA, WHEN PRESENTING THE BUDGET FOR FISCAL YEAR 2007/2008

1ST JULY, 2007 TO 30TH JUNE, 2008

Mr. Speaker Sir,

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

Introduction

1. **Mr. Speaker**, once again I feel very honoured to present to this esteemed August House my second Budget as the Minister for Finance. As Hon. Members are aware this is the fifth budget of the Administration of H.E. The President, Hon. Kibaki. Hon. Members, this year's budget is intended to lay a solid foundation for transforming our country into a globally competitive and prosperous nation with a high quality of life by 2030. As we enter the fifth year of broad-based economic growth, accompanied by four years of successive increases in per capita income, and a substantial reduction in poverty within a span of only five years, it is important to reflect back on some of the key economic promises we made to Kenyans at the beginning of the current administration and the extent to which the Government has delivered on those promises.

Achievements Under the Economic Recovery Strategy (ERS): 2003 - 2007

2. **Mr. Speaker**, during the past 4½ years, we have implemented with determination and consistency, bold economic and structural policies that are elaborated in the Economic Recovery Strategy (ERS) launched by H.E The President in June 2003. Our development agenda as embedded in this strategy, whose implementation comes to an end in December 2007, was anchored on three key pillars, namely: (i) restoration of economic growth within the context of a stable macroeconomic environment; (ii) enhanced equity and poverty reduction; and (iii) improvement of governance. These pillars were carefully chosen to pull our economy out of a recession and to commence the journey toward the broad-based economic recovery that we are now witnessing and which is touching all sectors of our society.

3. **Mr. Speaker**, the score card of our efforts is now out and it is with a great sense of pride and satisfaction that I beg to inform Hon. Members and my fellow Kenyans that this Government has achieved a resounding success in all the three pillars. As a result,

investors' confidence has never been higher, our farmers are enjoying better returns on their investments and more of our rural people, especially those in arid and semi-arid areas, have access to clean water, electricity and affordable health care services. In addition, more children are now able to go to schools; and our public sector is more efficient in delivering services and on its mandate of facilitating private sector development.

4. Mr. Speaker, on the restoration of economic growth, it is gratifying to note that through continued hard work by fellow Kenyans who have literally taken to heart H.E. The President's clarion call of building "a working nation", the growth of our economy has expanded from virtual stagnation in 2002 when it expanded by only 0.5% to a high and sustainable rate of 6.1% in 2006.

The strong growth we have experienced has touched all sectors, and benefited all hard working Kenyans. In particular, **Mr. Speaker;**

- i. The agriculture sector growth has improved markedly from negative 3% in 2002 to 5.4% in 2006;
- ii. Manufacturing sector output expanded by 6.9% in 2006, up 0.1% in 2002;
- iii. Hotel and restaurant sector has recovered strongly from a decline of 20.3% in 2003 to a growth of 14.9% in 2006, with an annual growth rate of 37% in hotel occupancy;
- iv. With lower interest rates and increased remittances from Kenyans in the diaspora, construction has picked up substantially from negative 2% in 2002 to 6.3% in 2006;
- v. Transport and communication sector has also experienced a strong growth from the low of 3.5% in 2003 to 10.8% in 2006;
- vi. Wholesale and retail trade sector, has risen from negative 2.5% in 2002 to 10.9% in 2006;
- vii. And reflecting confidence in the economy and increased profitability of companies, the NSE Index has increased by 314%, reflecting an increase in market capitalization from KShs.112 billion in 2002 to KSh.792 billion in 2006, a compounded annual increase of 63%;
- viii. Finally, total exports have almost doubled since 2002 underpinned by strong growth in coffee, tea and horticultural exports. And reflecting the improved export and capital inflows, international reserves held by the Central Bank have more than doubled since 2002, rising from USD1.2 billion in 2002 to the highest level ever of USD.2.5 billion in 2006.

5. **Mr. Speaker**, as a result of this sustained economic expansion, the growth in per capita income has rebounded strongly from a decline of 2.5% in 2002 to an increase of 3.3% in 2006. The result of this growth, as reported in the most recent Integrated Household Budget Survey, is that overall poverty has declined from 56.8 percent in 2000 to 46 percent in 2006, a remarkable reduction of about 20 percent. Even more significant is the 35 percent reduction in rural poverty from 51.5 percent in 2000 to 33.7 percent in 2006.

6. **Mr. Speaker**, the strong economic performance reflects the Government's pursuit, since 2003, of reforms as well as prudent monetary and fiscal policies aimed at ensuring a stable macroeconomic environment, which is necessary to encourage private sector investment, growth and job creation. Arising from consistent implementation of these measures, inflation and exchange rates have stabilized, while the average lending rate of commercial banks has declined from about 19% in 2002 to about 13% currently. Similarly, the ratio of domestic debt to GDP has declined from 22.9% in 2002 to 18.0% in 2006 and this has provided room for non-inflationary expansion of credit to the private sector for productive activities.

7. **Mr. Speaker**, on the fiscal front, despite a reduction in the VAT rate from 18% to 16% in 2003 and the lowering of EAC customs tariffs following the implementation of the EAC common external tariff (CET), revenue collection has been kept above 20% of GDP, which has enabled us finance about 95% of our budget from our own resources. Indeed, **Mr. Speaker**, one of the most remarkable achievements of this administration has been the ability to sustain fiscal discipline in the absence of significant external budgetary support. This is indeed a significant achievement, and we are committed to continue on this path to ensure that our budgetary framework is not subject to the unpredictability associated with external budgetary financing. With strong revenue effort and expenditure restraint, net domestic borrowing has largely been contained, falling from 3.6% of GDP in 2002/03 to about 1.8% of GDP in 2006/07.

8. **Mr. Speaker**, based on the structural reforms we have implemented so far, Kenya recently received positive ratings by independent international institutions.

i. From the Standard and Poor's (S&P) rating agency, we received a favourable initial sovereign credit rating of "B+" for foreign currency debt and "BB-" for local currency long-term sovereign debt. Within sub-Saharan Africa, only mineral-rich countries such as Botswana, South Africa and Nigeria have a higher sovereign rating from S&P;

ii. From the Global Integrity , which assesses the existence and effectiveness of anti-corruption mechanisms that promote public integrity, we received a moderate rating along with such countries as Argentina and Brazil, among others; and

iii. From the World Bank's Country Policy and Institutional Assessment (CPIA), Kenya's rating on policy implementation has improved significantly, from 5th and bottom Quintile in 2002 to 2nd Quintile by 2005. And we expect further improvements by the end of this year.

9. Mr. Speaker, turning to the second pillar, on enhancing equity and poverty reduction, a key pre-requisite in addressing these twin issues is having a rapidly expanding economy, which we have achieved. However, in order to ensure that the growth is shared among our fellow citizens, this Government has implemented a number of targeted fiscal interventions, structural reforms and regional development initiatives aimed at reducing poverty and inequality in our society. And as all Hon Members and Kenyans are aware, this government has:

- i. Introduced Universal Free Primary Education, which has increased enrolment by over 1.5 million pupils since 2003, thereby assuring them of a secured future and relieving their parents of school fees burden. This in turn has helped parents increase their disposable income.
- ii. It has also increased the share of resources allocated towards priority development areas of agriculture and rural development, provision of infrastructure and human development, including core poverty programs, thereby underscoring the importance this Government attaches to laying a firm base for economic prosperity and reducing income inequality;
- iii. Implemented various structural reforms in the agriculture sector, including the dairy, sugar, coffee, tea, pyrethrum, and the co-operative sectors, with a view to improving productivity and income earnings of Kenyans working in these sectors;
- iv. Reformed the public sector to improve efficiency and effectiveness, including removing administrative barriers to trade, privatizing and restructuring of key public entities, and streamlining of licences aimed at reducing the cost of doing business. We have also introduced performance contracting in the public sector. and enhance private sector participation in our economy so as to create more jobs;
- v. Increased resources targeted at promoting regional development and reducing poverty in rural and urban areas. For instance, the Government has increased the Constituency Development Fund allocation more than

eight-fold from KShs.1.2 billion in 2003/04 to KShs.10.0 billion in 2006/07 and 2007/08, while budgetary allocation under LATF more than doubled from KShs.3.0 billion in 2002/03 to KShs.6.5 billion in 2006/07 and is projected to rise to KShs.9.2 billion in 2007/08;

- vi. Facilitated construction of more than 1,000 dispensaries and deployed personnel and medical supplies to make these facilities operational and improve access to medical care; and
- vii. We have deliberately targeted expenditures and development programmes to improve the quality of life in Arid and Semi Arid lands (ASALs), the only Government to do this since independence. Other key initiatives implemented by the Government include: sinking of boreholes and reviving and making operational the Kenya Creameries Cooperative and Kenya Meat Commission to generate income earning opportunities for livestock farmers.

10. Mr. Speaker other pro-poor programmes we have been implementing include rural electrification in the entire country (Kshs 13.4 billion over the last four years), rural access roads under the road 2000 programme, Rural health services (Kshs 18.3 billion over the last four years) and the Youth Fund that started in the current fiscal year aimed at empowering our youth for the future.

11. Mr. Speaker, as I mentioned earlier, as a result of these deliberate and bold policy interventions, the incidence of poverty has declined from 56.8% in 2000 to 46% currently. Indeed, more Kenyans living in urban and rural areas are living generally a better life today than they did six years ago. The anti-poverty interventions we have implemented since 2003 have also reduced divergence in the incidence of poverty across regions thereby reducing inequality in development and income distribution. For example, the largest reductions in poverty incidence outside Nairobi was recorded in Nyanza, Eastern and Western provinces where the poverty incidence declined by 33%, 23% and 21%, respectively. This is an indication that our policies have had a positive impact in all corners of Kenya. Hon. Members may wish to refer to the publication "on Delivering Development To All Kenyans" which has been circulated to all members and has more information on development programmes of the government.

12. Mr. Speaker, these milestones in our development front have not come by accident but from careful planning, focused reforms and effective economic management. They have also been accomplished through hard work and the palpable confidence of the Kenyan people that their future is in safe hands under the dependable leadership of H.E. The President, Hon. Mwai Kibaki.

Reforms in Governance

13. **Mr. Speaker**, In regard to the governance pillar, the Government has implemented a number of reforms since 2003 mainly to: (i) reduce corruption, improve efficiency and ensure effective service delivery in public sector; and (ii) create an enabling environment for increased private sector participation in growth and poverty reduction. In particular, several reform measures aimed at improving governance in the areas of prevention, investigation and prosecution have been implemented demonstrating the Government's commitment to fight against corruption. The Government firmly believes that the legal framework to fight against corruption is now in place and the investigative bodies have been strengthened. To strengthen the prosecutorial capacity, initiatives are ongoing to increase the number of prosecutors, magistrates and judges of the High Court. Hon. Members may wish to refer to the Budget Strategy Paper (BSP) 2007, which has been circulated to members for more details on the government's actions in the area of governance.

14. **Mr. Speaker**, with the continued support so generously extended to this Government by Hon. Members, private sector players and Kenyans at large, we have found over the last four and half years, the strength and inspiration to improve the lives of our fellow Kenyans and to move toward achieving the Millennium Development Goals. Thankfully, **Mr. Speaker**, successive annual achievements have motivated us to strive to continue working harder in order to lock in this success which is so necessary for building a prosperous future for all Kenyans. I am, therefore, happy to report that this Government has now completed the task of laying a solid socio-economic foundation, complete with the building blocks for our future prosperity.

15. **Mr. Speaker**, in moving forward, the Government would like to further expand the opportunities available to Kenyans of all walks of life so that they can participate in their own wealth creation while at the same time helping build the new and better Kenya. This is indeed the spirit of the National Vision 2030 whose formulation has involved consultations with many Kenyans, including Hon. Members. Like the ERS before it, the Vision 2030 has three key pillars, namely;

- i. The Economic pillar which aims to achieve a high and sustained non-inflationary, economic growth, steadily rising to 10% by 2012 and maintaining that rate thereafter;
- ii. A social pillar which aims at achieving a just and cohesive society enjoying equitable social development; and
- iii. A political pillar which seeks to achieve an issue-based, people-entered, and accountable democratic political system.

16. This budget which straddles the period of the ERS, which ends this December, and the start of the Vision 2030 in January 2008, is intended to define the path to facilitate and harness the participation of all Kenyans in helping build a strong economy and thereby help us achieve the Vision 2030 objectives.

Accordingly, **Mr. Speaker**, the theme of this year's budget is "**Vision 2030 -- Working Together, on the Path to Prosperity**".

LAYING THE FOUNDATION FOR ACHIEVING VISION 2030

Overview

17. **Mr. Speaker**, our country is now poised for accelerated development. With this in mind, the Vision 2030, though encompassing the objectives of the ERS, is much more ambitious and requires a radical transformation of our economic, social, and political systems. In laying the foundation for the economic pillar of the Vision, we must build an enabling environment for the private sector in order to fully unlock its potential and to become globally competitive. Achieving this in the medium term will require that we:

- i. Continue to maintain a stable macroeconomic environment underpinned by prudent fiscal and monetary management, supported by key structural reforms;
- ii. Accelerate the rehabilitation and expansion of our infrastructure and basic amenities;
- iii. Develop quality human capital to raise our productivity and to enhance our global competitiveness ;
- iv. Maximize economic opportunities for all Kenyans and ensure that they continue to benefit from the fruits of higher economic growth through targeted programs to reduce inequality and poverty; and
- v. Encourage growth of business through improved governance and reduce the cost of doing business.

Medium Term Macro-Fiscal Framework and Structural Reforms

18. **Mr. Speaker**, the economic outlook for the medium term is bright, buoyed largely by consumer and investor confidence and continued strong growth in our trading partners' economies. Hon. Members may wish to refer to the 2007 Budget Strategy Paper for more details. We expect to achieve a growth rate of 6.5 – 7% in 2007, which should rise gradually to 10% by 2012 as a result of the interventions we are planning to put in place.

19. **Mr. Speaker**, to achieve this level of growth, we will: (i) continue to maintain low inflation and stable positive real interest rates to facilitate adequate expansion of credit to private sector to support increased economic activities; (ii) increase the level of public and private sector investments by at least 10 percentage points of GDP over the next five years; (iii) strengthen the financial sector by enhancing its efficiency and to help mobilize the required savings to finance the additional investments; (iv) deepen the on-going efforts to improve the investment climate through reduction in cost of doing business; (v) accelerate infrastructure development to crowd-in private investments; (vi) enhance efficiency in the financial sector; and (vii) increase the productivity of our labour and capital.

Fiscal Framework

20. **Mr. Speaker**, fiscal discipline will be key to achieving these objectives. As was the case in 2006/07, we will continue to implement our development programs based on a fiscal framework which focuses on: (i) maintaining a strong revenue effort underpinned by deepening tax administration reforms and modernization of our tax system; (ii) containing growth of total expenditures, while creating fiscal space through expenditure rationalization to shift resources from non-priority to priority areas, including expenditures on the flagship projects critical to achieving Vision 2030; and (iii) containing the growth of domestic debt to a sustainable level to encourage expansion of credit to private sector for faster development.

Deepening Structural Reforms for a Competitive Business Environment

21. **Mr. Speaker**, macro economic stability must also be accompanied by deep structural reforms in order to maximize growth. Therefore, to consolidate the recent gains in the public sector, the Government will implement structural reforms to further improve efficiency in the use of public resources and ensure effective service delivery. We will focus on priority areas of: (i) public expenditure and financial management; (ii) public sector restructuring and privatization; (iii) deepening financial intermediation; and (iv) private sector competitiveness. The implementation of these measures is expected to improve business environment, encourage private sector investment – both domestic and foreign and expand its capability to create more jobs and reduce poverty amongst our people.

Further Improving Governance for Achieving Vision 2030

22. **Mr. Speaker**, the Government fully recognizes that accelerating and deepening the reform agenda in the areas of governance and anti-corruption is critical for accelerating economic growth and sustained reduction in poverty. Therefore, the Government has developed a Governance Strategy for Building a Prosperous Kenya and an Action Plan, which sets out time-bound specific and prioritized anti-corruption interventions in the broad areas of: (i) prevention; (ii) investigation and recovery of corruptly acquired assets; (iii) strengthening the prosecutorial capacity; and (iv) improving governance in priority sectors. The implementation of these measures is expected to result in a measurable improvement in the fight against corruption in the short - and medium- term.

THE 2007/08 BUDGET STRATEGY FOR ACHIEVING VISION 2030

23. **Mr. Speaker**, the 2007/08 budget framework I am presenting to this August House is set against the background of the medium-term macro-fiscal framework I have just outlined. We envisage a continuation of the recent strong economic performance, with real GDP expected to increase by 6.5 – 7.0% in 2007/08, largely propelled by continued strong performance across all sectors. Inflation is expected to remain under control reflecting continued implementation of prudent fiscal and monetary policies and projected easing of food and oil prices. We also expect gross international reserves to increase to the equivalent of 3.9 months of our projected import cover.

24. **Mr. Speaker**, as in the previous year, the Government is committed to containing expenditures and re-orienting them towards growth and poverty-reducing programs in the areas of infrastructure, health, education and other priority projects, which are expected to lay the foundation for achieving Vision 2030. The Government further aims to maintain a stable and predictable level of domestic borrowing in order to sustain the relatively stable interest rates witnessed in 2006/07 and to further boost private sector economic activities.

Revenue Projections

25. **Mr. Speaker**, the 2007/08 budget targets revenue collection of about 21% of GDP. As noted earlier, this performance will be underpinned by the on-going reforms in tax administration. The streamlining of the exemptions regime in line with other East African Community Partner States is also expected to protect the revenue base. Total revenues, including appropriations-in-aid, are projected to increase by about 14 percent, bringing the total tax collection to about Ksh.428.8 billion.

26. **Mr. Speaker**, the revenue collection has been a major success under the Kibaki administration. Revenue has increased from Kshs.210 billion in 2002/03 to the current

level of Kshs 376 billion, against which the 2007/08 projections are made. I wish to thank the Kenyans for paying taxes, and our KRA for their dedication in revenue collection.

Expenditure Forecasts

27. Overall expenditures in 2007/08, excluding amortization payments and restructuring costs, will amount to Ksh.580.4 billion, about 28.2% of GDP, up from KShs.427.6 billion or 23.4 percent of GDP in 2006/07. In line with Government policy to shift resources from recurrent to capital expenditures and core-poverty programs, the share of recurrent expenditure is projected to decline sharply from the level of 2006/07, while domestically financed capital expenditures are planned to increase from KSh.54.7 billion to KSh.85.1 billion or from 3.0% of GDP to 4.1% of GDP. Expenditures are therefore forecast to be more development oriented, and with a special focus on improving the infrastructure in the key priorities sectors identified in Vision 2030, such as the road network, access to water, reliable and affordable energy, and efficient telecommunications system.

28. **Mr. Speaker**, the overall budget deficit (including grants) in 2007/08 will be KShs.109.8 billion, equivalent to 5.3% of GDP, largely reflecting the substantial increase in development expenditure. Net external financing amounting to KShs.39.8 billion or 1.9% of GDP, is expected to cover part of this budget deficit, leaving KShs.70 billion or 3.4% of GDP, to be financed through domestic borrowing (Kshs.34 billion) and net privatization receipts of about KShs.36 billion. The net domestic borrowing requirement of 1.6% of GDP in 2007/08 is well below that of the current financial year of 1.8% of GDP, and is consistent with the medium-term target of 1.5 percent of GDP.

29. **Mr. Speaker**, allow me to emphasize that the proposed domestic borrowing of Ksh.34 billion and the net privatization proceeds of Ksh.36 billion will all go toward financing our development budget which amounts to Kshs.85 billion. That is to say, the proceeds raised will not be used to fund recurrent expenditure.

Expenditure Reform Measures

30. **Mr. Speaker**, in the recent past, implementation of annual budgets has experienced some challenges, including implementation delays, weak links between actual spending and policy priority in some line ministries, expenditure leakages and low absorption of funds under the development votes, among others. As a result of these challenges, our potential for more rapid economic growth and employment is constrained.

31. **Mr. Speaker**, in order to address these challenges and to institutionalize a framework for effective budget implementation, starting with 2007/08, Treasury will: (i) closely monitor the implementation of the development budgets of key line ministries; (ii)

coordinate the development of result-oriented budget performance benchmarks; and (iii) identify areas of public resource leakages and develop strategies for creating fiscal space to release resources for financing priority Vision 2030 projects. And to sustain high economic growth and further reduce poverty, the Government will accelerate reforms in public financial management in order to improve efficiency, enhance transparency and accountability under a coordinated strategy to revitalize Public Finance Management.

32. Mr. Speaker, to demonstrate our commitment to further deepen fiscal reforms, we have, began to entrench programme based performance budgeting starting in 2007/08. These measures are expected to ensure that budgetary allocations are based on programmes that are linked to clearly specified objectives and targets such as the Millennium Development Goals (MDGs) as well as the objectives of the Vision 2030.

Deepening the Financial Sector Reforms for Faster Economic Growth

33. Mr. Speaker, we fully recognize the important role played by the financial sector towards the realization of our development goals. We are also desirous in making Nairobi the financial services hub for the region. We will therefore continue with targeted reforms for the sector.

34. Mr. Speaker, as part of these reforms, Government will be tabling in the course of 2007/08 the SACCO bill to regulate all SACCOs that take deposits from members. In addition, we will fully make operational the Insurance Regulatory Authority, which is expected to strengthen the regulation of the insurance companies and enhance the level of governance in the sector. We will also review the Capital Market Authority Act to strengthen the CMA's supervisory capacity. On the banking sector, I will also be introducing in this House a modern Banking Bill that will benchmark banks' operations with international best practices.

35. Mr. Speaker, in order for Nairobi to become the regional hub for financial services, it is important to strengthen the banking and insurance sectors, so as to enhance the stability, efficiency and access of the overall financial sector. Toward this objective, I will be proposing later in my speech measures to increase the capital requirements for these two sectors over the next three years.

36. Mr. Speaker, I did earlier underscore the importance of containing inflation to low levels. In this regard, to strengthen the operational autonomy of the Central Bank of Kenya and enhance its capacity to effectively maintain a proper balance between the demand and the supply of money in the economy, I will be introducing significant amendments to the Central Bank Act.

Privatization and Public Private Partnership for Economic Efficiency

37. **Mr. Speaker**, to institutionalize transparency and accountability in the privatization process, we will make fully operational the Privatization Commission before end 2007. In addition, preparations for the sale of the Telkom Kenya shares to a strategic partner, has now been completed and Request for Proposals will be released to the prospective investors within the next few days. We will also float additional shares of KENGEN when we are satisfied that the market price reflects the fundamentals of the company and that the taxpayer will get fair return. In addition, **Mr. Speaker**, we intend to sell part of Government shares in Safaricom through an Initial Public Offer (IPO) on the Nairobi Stock Exchange. We will also sell part of the Government's and NSSF's shares in NBK.

38. We intend to attract more financial and management resources from the private sector, through privatization. In this regard, we are putting in place the necessary framework to allow active Government participation in the stock exchange to take advantage of favourable market conditions to offer shares in already listed companies without necessarily having to go through a second offer.

39. **Mr. Speaker**, to attract more financial and management resources to enhance our productive capacity, the Government is in the process of finalizing the policy, legal and institutional framework for the implementation of Public Private Partnerships. This framework is intended to allow private sector participation in the provision of key infrastructural services such as water, energy, road and other transport services and is critical for the financing of the flagship projects under Vision 2030. We will also create an institutional framework to assess the fiscal risks associated with these PPP projects.

40. Soon, the Government will be inviting private sector participation in the development and operation of free port facilities once the legal framework which is currently under preparation is approved by this House.

SECTORAL PRIORITIES FOR ACHIEVING VISION 2030

Expanding Quality Infrastructure for Sustained Development

41. **Mr. Speaker**, in the Vision 2030, the Government, in consultation with a wide cross-section of Kenyans, has identified six priority sectors as having the highest potential for economic growth. These sectors are: tourism, agriculture, manufacturing, wholesale and retail trade, business processing outsourcing and financial services. However, to exploit the growth potential from these sectors, it is necessary to improve the infrastructure in areas that best support these growth engines, in addition to implementing key reforms in the public sector.

42. **Mr. Speaker**, no country has achieved and sustained a high economic growth rate with poor infrastructure. We must, therefore, accelerate the expansion and rehabilitation of our infrastructure in order to enhance our efficiency and become globally competitive. The investments in infrastructure development are also critical to the achievement of MDGs. It is in this regard that we have allocated for infrastructure development a total of KSh.166.8 billion in 2007/08, up by 113% from KSh.78.3 billion in 2006/07. In addition to increased resource allocation, we will continue to focus on strengthening our capabilities to plan, implement and monitor all infrastructural programs countrywide.

Accelerating Expansion and Rehabilitation of Roads

43. **Mr. Speaker**, on road infrastructure development, we have made notable progress, especially in the rehabilitation and construction of key road networks during 2006/07. As I committed in last year's budget, I am happy to report that we have now completed: (i) 228 Km of periodic road maintenance; (ii) 287 Km of rehabilitated roads; (iii) 116 Km of completely new sections; (iv) 580 Km of routine road maintenance; and (v) about 572 Km of rural roads improvement under the Roads 2000 program.

44. **Mr. Speaker**, to lay the foundation for creating more jobs, we will accelerate the completion of the on-going road networks and speed up the rehabilitation and construction of new road networks in 2007/08, I have, accordingly, increased the budgetary allocation to roads from KShs.42.5 billion in 2006/07 to KShs.62.1 billion in 2007/08, an increase of 46%. To enhance our capacity to provide road networks and effectively supervise road projects, we will make operational the three roads authorities currently being debated by this house. We will also increase the participation of private sector players in road financing, construction and maintenance. The use of labour-intensive Road 2000 program will be expanded to continue generating employment opportunities to our youth.

45. **Mr. Speaker**, to hasten construction and completion of infrastructure projects in a timely manner we will roll-out the current framework for monitoring implementation of road projects to cover implementation of water, energy and other key infrastructural sectors. We expect this framework, which reviews quarterly implementation on the basis of agreed delivery benchmarks, will ensure timely completion of these projects.

Ensuring Reliability in Energy Supply

46. **Mr. Speaker**, reliable supply of electricity is critical to our growth efforts and in particular to the manufacturing sector. Building on the success of current rural electrification programme, the Government will further expand this Program in 2007/08 in order to make power accessible to all Kenyans. To this end, an additional 460 market centres, 110 secondary schools, 38 health centres and 17 water projects, will by May 2008

be connected with electric power. In large towns, which are far away from the national grid, the Government will provide diesel-fired isolated mini grids. And to enhance capacity of power generation and distribution to sustain the on-going economic expansion, I have allocated KShs.8 billion in the budget for 2007/08 which should avert any shortage of power supply that could impact negatively on our manufacturing sector. I also expect the recently enacted Energy Law to open up participation in electricity generation to private investors and reduce the direct fiscal burden.

47. **Mr. Speaker**, as a result of increased economic activities, demand for petroleum products has increased significantly. The pipeline throughput volume now stands at 3.6 billion litres, a level we cannot sustain. The Government will fast-track the installation of booster pump stations to double the capacity of the pipeline. And in order to serve the growing petroleum demand in Uganda and the Great lakes regions, we are, in partnership with the Uganda Government, fast-tracking the extension of the oil pipeline from Eldoret to Kampala. When completed by end of 2008, this pipeline will lower the tariff for transporting petroleum fuels, and reduce, among others, the road maintenance costs, accidents and environmental pollutions. The government has also undertaken to modernise the oil refinery, and I am including in this budget part of our contribution.

Promoting Science, Technology and Innovation for Higher Productivity

48. **Mr. Speaker**, the Government recognizes the important role science, technology and innovation plays in promoting efficiency, productivity and competitiveness, which are fundamental for economic transformation. The Ministry of Science and Technology, working together with the private sector players, will implement a comprehensive science and technology strategy to promote efficiency and productivity in the key priority areas of: (i) agriculture development; (ii) expansion of infrastructure; (iii) healthcare and education delivery; (iv) security and crime management; (v) public administration; and (v) industrial production.

49. **Mr. Speaker**, to demonstrate our commitment to this important area, I have allocated KShs.200 million as start up capital in 2007/08 for the establishment of an Endowment Fund for innovation and research. **Mr. Speaker**, I wish, therefore, to appeal to all private sector players to contribute towards this Fund whose access by our talented scientists and researchers is expected to strengthen our capacity to use knowledge and technology in supporting a productivity and knowledge driven economy.

Further Deepening Efficiency and Productivity through ICT Development

50. **Mr. Speaker**, as I noted earlier, the Business Processing Outsourcing (BPO) sector is one of the priority sectors in the Vision 2030. This Government intends to make our country a preferred investment destination for ICT related activities that will create

more wealth and employment opportunities. To achieve this goal, the Government will develop and support an efficient ICT infrastructure that provides easy access to international and national network; establish legislative and regulatory framework for ICT development; and promote and ensure quality ICT education to provide a pool of world class professionals to meet the needs of local and global markets.

51. **Mr. Speaker**, starting in 2007/08, the Government will facilitate the completion of the ongoing ICT infrastructure expansion in order to improve broadband connections. This will be achieved through investment in an undersea fibre optic cable and the development of a National Fibre Optic Network. Accordingly, I have allocated KShs.1.0 billion towards The East African Marine System (TEAMS) project, whose completion by mid next year is expected to provide cheaper and faster internet connection with the rest of the world. This project is also expected to reduce significantly the cost of making both local and international telephone calls. **Mr. Speaker**, as earlier indicated, plans are underway to restructure fully and privatize Telkom Kenya before the end of 2007/08 in order to improve its operational efficiency and reduce further the cost of telephony in our economy.

Human Capital Development Sector

52. **Mr. Speaker**, although the Government has improved access to education and healthcare services, much more needs to be done to ensure Kenyans enjoy good health and are appropriately skilled for our envisaged transformation to a globally competitive economy. In this regard, and in addition to measures we have already initiated, the Government will go a step further in 2007/08 to deepen reforms aimed at improving efficiency, effectiveness and access to education and health services countrywide.

Further Improving Quality and Access to Education for Achieving Vision 2030

53. **Mr. Speaker**, the new world of globalization demands that we develop a world class pool of brilliant and talented scholars, doctors, scientist, engineers, ICT experts, accountants, economists and other professional if we are to compete and succeed on the new world stage. This pool of talent will come from all corners of Kenya; from rural and urban areas, and from rich and poor Kenyans who will be nurtured by the fair and equitable education system we are systematically putting in place. In recognition of the important role played by quality education towards economic growth and expansion of employment opportunities, I have increased budgetary allocation to the education sector by 11% from KSh.108.3 billion in 2006/07 to KSh.119.5 billion in 2007/08.

54. **Mr. Speaker**, the Government will ensure efficiency in the use of funds, improve quality and access to primary, secondary and university education and re-orient our educational system to make it more relevant to the needs of the economy. In this regard,

and to demonstrate our commitment to enhance access to quality education, I have allocated KSh.8.1 billion for free primary education to cater for recurrent and capital expenses and another KSh.7.3 billion for teachers' salary adjustment as the final phase of the agreement between the Government and the Kenyan National Union of Teachers (KNUT). This amount now brings to KSh.53.4 billion paid by this Government to teachers since 2003.

55. Mr. Speaker, we are going a step further to allocate KSh.1.5 billion to recruit an additional 7,000 teachers countrywide to replace those we have lost through attrition. In addition, I have allocated another KSh.1.0 billion to recruit an additional 4,000 new teachers, bringing the total number of teachers to be employed in 2007/08 to 11,000 and we will continue recruiting more in the medium term to increase the teacher-pupil ratio to internationally accepted standards. I expect the additional teachers will go along way in improving quality of teaching in our school systems.

56. Mr. Speaker, to further improve the transition rate in our schooling system and reduce the households' burden of financing secondary school education, the Government will, with effect from January 2008, remove as a first step all tuition fees for secondary schools countrywide. I have, therefore, allocated KSh.2.9 billion to cater for these tuition expenses. And to ensure poor and orphaned but bright students do not miss attending school, because of other non-tuition related expenses, we are allocating KSh.800 million in 2007/08 towards bursary funds to assist them cater for such expenses.

This level of funding, together with the on-going reforms in the educational sector aimed at ensuring efficiency, is expected to release additional resources to rehabilitate and develop village polytechnics and vocational training centres. The savings generated through expenditure rationalization are also expected to support free tuition for secondary education and enhance bursary funding for university education in the medium term.

Deepening Reforms to Improve Healthcare Delivery to all Kenyans

57. Mr. Speaker, the Government has implemented various reforms in the health sector, which are aimed at improving quality and access to healthcare services. As a result of these reforms, over 1,000 additional dispensaries have been built countrywide, budgetary allocation for drugs increased by 72% and over 4,080 additional health personnel have been deployed to rural and needy areas to scale up health services. In addition, the Government has improved referral services by increasing the number of ambulances and has also implemented financial management reforms to improve efficiency and service delivery countrywide.

58. **Mr. Speaker**, to facilitate completion of the on-going reforms in the health sector, I have allocated KShs.34.4 billion in 2007/08. Efficient use of these funds is expected to enhance quality of health care and access in line with Vision 2030. The Government will also continue to shift focus from curative to preventive care, help to expand immunization coverage, improve reproductive health needs and allocate additional resources to facilitate an effective multi-sectoral response to epidemics such as HIV/AIDS and malaria.

59. **Mr. Speaker**, the Government is aware of the low absorption of budgetary resources attributed to bureaucracy in financial and other logistical management systems within the Health Sector. The Government therefore, intends to streamline and enhance community participation and ownership in the management of health resources at the local level, through a review of the legal and administrative framework.

60. **Mr. Speaker**, the Government will also strengthen KEMSA's procurement capacity. The specific reforms will include; improving supply chain management of public health resources, establishing capacity within MOH to monitor KEMSA's procurement function, and strengthening the supervision of medical supplies to rural health facilities.

Promoting Agricultural Productivity and Rural Development for Poverty Reduction

61. **Mr. Speaker**, agriculture is key to the realization of a hunger free society, one of the MDGs. In this context and also being one of the growth engines for the Vision 2030, the Government will continue to implement a wide range of structural reforms aimed at improving efficiency and productivity in the sector. These reforms will be targeted towards encouraging value-addition in agro-processing and making agriculture the catalyst for our economic transformation and prosperity. To achieve this broad objective, we will in the medium term:

- i. Transform key agricultural institutions into complementary and high performing entities that facilitate private sector agricultural productivity and output expansion;
- ii. Facilitate access to input services for farmers and pastoralists in Kenya to achieve world class benchmarks in productivity, including access to affordable fertilizer.
- iii. Further develop irrigable areas of arid and semi-arid lands (ASAL) for both crops and intensified livestock; and
- iv. Improve market access for small holder farmers by facilitating the establishment of aggregators, processing, packaging and branding of our agricultural export product;

62. **Mr. Speaker**, as an initial step towards the transformation of our agriculture, I have increased budgetary allocation to the sector by 20% from KSh.24.9 billion in 2006/07 to KSh.29.8 billion. These resources will be deployed to:

- i. Expand disease free zones and control of vectors to improve quality of livestock;
- ii. Roll out, in consultation with local farmers, a more practical and cost effective extension service methodology; and
- iii. Spearhead biotechnology research to increase food productivity and self reliance.

63. **Mr. Speaker**, in addition to increased resources to the sector, the Government will deepen reforms under: (i) the co-operative sector to improve governance and encourage its growth to support farmers; and (ii) the National Cereals and Produce Board and Strategic Grain Reserve to improve their management so that they can play more effectively their strategic role of guided intervention in food crisis situations. In addition, post landing losses suffered by fishermen will be reduced by promoting of storage and processing. Surveillance effort against illegal fishing and conservation of fisheries resources will be enhanced as well.

64. **Mr. Speaker**, over the last four years, this Government has paid most of the arrears owed to farmers arising from past governance challenges. This year, we are going a step further to relieve the pyrethrum farmers of their long suffering by allocating an additional KShs.664 million to clear the remaining arrears. We are also allocating Shs.641 million towards payment of debts owed by Coffee Board of Kenya to farmers. In both instances however, we will follow up on the culprits occasioning the loss of funds as per the law.

Empowering the Internally Displaced through Settlement

65. **Mr. Speaker**, as we have done in the past, we will, in the coming fiscal year, once again deal with the problem of squatters and internally displaced persons. In this regard, I have allocated KShs.1.3 billion to acquire land for settling some of our fellow Kenyans who are internally displaced. I am confident that with the allocation of these parcels of land, those affected will improve their living standard, increase food safety and be able to share in the growth of our country.

66. **Mr. Speaker**, the largest beneficiaries of this first term of the Kibaki administration are the farmers though increased production, higher quality produce, and sustained high prices. We are committed to improve further on this in the years to come.

Economic Services Sector Strategy

Manufacturing and Trade

67. **Mr. Speaker**, arising from various reforms we have implemented and supported by the hard work and resilience of private sector players, growth in the manufacturing sector accelerated from zero percent in 2002 to 6.9% in 2006. The on-going efforts of deepening regional integration under both the East African Community (EAC) and COMESA have also contributed to boosting the demand for Kenya's manufactured products in those markets. Continued expansion in the COMESA as well as the forthcoming Economic Partnership Agreements (EPAs) means that Kenya will have to continually enhance the efficiency of its manufacturing sector in order to remain competitive.

68. **Mr. Speaker**, to accelerate and diversify the recent growth momentum of the sector, we must effectively facilitate our industry players to overcome remaining challenges. These include: (i) continued high cost of doing business; (ii) low productivity and slow adoption of new technologies; and (iii) inadequate start up capital for small and medium enterprises. On its part, the Government will: (i) maintain a stable macroeconomic environment; (ii) deepen reforms to enhance private sector competitiveness by reducing cost of doing business; and (iii) continue to provide the one-stop investment shop to encourage domestic and foreign investments and attract modern technology in our country. In the coming financial year, we will also be studying the feasibility of establishing special economic clusters such as agro-industries zones to help stimulate the manufacturing sector in line with initiatives under Vision 2030.

69. **Mr. Speaker**, counterfeits and trade in contraband products poses a threat to the future of manufacturing and the trade sector in our country. To safeguard the sector against unfair competition from cheap and low quality counterfeit substitute goods, the Government will in 2007/08 introduce stringent administrative and legislative measures against trading in counterfeit and substandard goods. In this regard, I will be introducing shortly before this August House a Counterfeit Bill to stomp out dumping of counterfeit and substandard goods to safeguard our industrial and revenue base.

Promoting Growth of SMEs and Facilitating their Formalization

70. **Mr. Speaker**, encouraging growth of Small and Medium Enterprises remains top on Government priority as a vehicle for economic empowerment of our people. To this end, we will accelerate the on-going reforms aimed at reducing cost of doing business and formalize activities of the sector through introduction of wholesales and retail hubs countrywide in line with Vision 2030. The Government will also build platforms for enterprise start-ups and incubation that will create the pool of new and innovative SMEs.

In addition, **Mr. Speaker**, I have allocated an additional KShs.400 million for the ongoing construction of a hawkers market in Nairobi, whose completion is expected to provide a secured and decent business environment to over 10,000 small traders.

Empowering Our Youth

71. **Mr. Speaker**, in recognition of the role that our youth can play in our economic development and to create job opportunities for them, last year I allocated Ksh.1 billion to the Youth Enterprise Fund. As H.E The President indicated during the inaugural launch of the Fund, we are going a step further to enhance this Fund by allocating an additional KShs.250 million. This amount now brings the total money allocated to the Fund to KShs.1.25 billion. More funding will be allocated as the demand increases, and lessons from the initial grants are factored in the funds operation.

Empower Our Women

72. **Mr. Speaker**, in the same spirit, and in recognition of the immense role played by our women in developing our economy, the Government will establish a KShs.2.0 billion Women Enterprise Development Fund, with an initial injection of KShs.1.0 billion in 2007/08. I wish, therefore, to encourage corporate entities to assist the Government in this noble initiative aimed at empowering women and youth by contributing towards the two Funds established by the Government.

Further Deepening Tourism Sector Growth

73. **Mr. Speaker**, reflecting the international confidence accorded to Kenya as a premier tourist destination, the number of tourists has risen from about 1 million in 2002 to 1.6 million last year. And as anticipated in the ERS, we expect to hit the 2 million mark this year and the Vision 2030 anticipates this number to increase to at least 3 million visitors by 2012. As a result of more visitors, the hotel occupancy rate has also increased sharply. Tourism earnings have risen almost three fold from KShs.22 billion in 2002 to KShs.56.2 billion in 2006. The strong performance in the tourism sector continues to have a positive knock on effect on the growth of the air transport sector, hotel industry, and other related sectors of the economy. We, therefore, welcome the recent entry of Virgin Atlantic into our market.

74. **Mr. Speaker**, to further consolidate the gains and accelerate the sector's growth, more effort will be directed towards expanding and diversifying tourism and providing the infrastructure and ancillary services to boost the sector into becoming one of the top 10

long haul destinations, offering a high-end, diverse, and distinctive visitor experience. To this end, the Government will pay particular attention to improving tourist circuit roads. In this regard and in addition to increased resources to infrastructures sector, I have allocated KShs.300 million specifically for improving conditions of roads in national parks and game reserves. More resources will also be channelled towards improving the quality and breadth of Kenya's product offering, revamping the business visitor offering, and marketing of Kenyan brands abroad.

75. Mr. Speaker, over the medium-term the Vision 2030 envisages aggressively facilitating the development of the underdeveloped coast segment by increasing bed capacity, up scaling premium safari parks, high value niche products such as eco and lake tourism, and the business tourism. Resort cities are also contemplated in Mombasa, Turkana, and Isiolo which should serve to broaden the participation by all Kenyans in generating income and helping to make Vision 2030 a reality. These will be facilitated by the private sector, as is currently the case with tourism in the country.

Enhancing Public Safety Law and Order

76. Mr. Speaker, protection of all Kenyans and the security of their property remains top on our priority agenda. Building on the recent reforms to enhance the capacity of our police force to deal with crimes, we will, from 2007/08, focus our attention on modernizing the security systems to cope with new crime related challenges. Resources will be channelled towards modern equipment to assist the force in crime investigations, surveillance and intelligence gathering. In addition, we will continue to provide more housing to the force, recruit additional police officers to deal with any emerging crimes and provide more police equipment and vehicles to ensure security of all Kenyans.

Creating a Competitive Environment for Business Growth and Expansion

77. Mr. Speaker, to attract investment and to remain competitive in the global economy, Kenya must have an efficient and predictable regulatory business environment. This is an area where we still have important challenges ahead of us. But it is also an area where the government's sustained efforts are beginning to bear fruit. The comprehensive review of all business licenses in Kenya which started in 2005 is now coming to an end with specific actions designed to reduce the licensing burden on businesses.

78. Mr. Speaker, for the first time ever we have a comprehensive overview of the number of business licenses in Kenya – they total 1,325. Out of these licenses the government has already eliminated 110 and simplified 8. Today, I propose to eliminate another 205, and to simplify another 371. As announced in last year's Budget Speech, we

are also putting in place mechanisms to ensure the quality of new regulations and licenses.

79. Mr. Speaker, a good business environment requires a sustained and systematic government effort. Building on the positive results of the Business Licensing Reform, the government is working on a Regulatory Reform Strategy. The Strategy will provide a blue print for future efforts to streamline and improve the broader regulatory business environment, and it will build regulatory reform capacities within government agencies and within other key stakeholders. One key aim of the strategy will be to cut government "red tape" in priority areas by 25% over the next three years.

FINANCIAL OUTTURN FOR 2006/07

Revenues

80. Mr. Speaker, turning to the budget outturn for 2006/07, Hon. Members will recall that the total revenues (including LATF) were originally estimated at Ksh.375.9 billion comprising Ksh.336.8 billion in ordinary revenue and Ksh.38.9 billion in appropriations-in-aid. I am pleased to report that, despite some challenges faced in collection of excise taxes on petroleum, total revenues are on target and are now estimated at KSh.376.1 billion thanks to additional enforcement steps taken by KRA. Of this total, KSh.338.5 billion is ordinary revenue and KSh.37.6 billion is appropriations-in aid.

Expenditures

81. Mr. Speaker, turning now to expenditures, the 2006/07 Printed Estimates indicated Recurrent Expenditure including those financed through Appropriations-in-Aid of KShs.283.4 billion. The Consolidated Fund Services took another KShs.129.1 billion while Development Expenditures took a total of KShs.137.6 billion.

82. Mr. Speaker, Owing to unforeseen commitments, we recently requested Parliament to authorize additional expenditures under the Supplementary Appropriation Bill amounting to KShs.26.9 billion. This increased total expenditures to KShs.577.0 billion comprising of ~~KShs.293.9 billion for discretionary recurrent expenditures, KShs.142.4 billion for development expenditures and KShs.140.7 billion for non-discretionary expenditures (Consolidated Fund Services)~~

83. Mr. Speaker, the Consolidated Fund Services for the 2006/07 financial year consist of KShs.36.4 billion for domestic interest; KShs.5.7 billion for foreign interest; KShs.23.3 billion for pensions, gratuities and other nondiscretionary expenditures. In addition,

KShs.57.2 billion and KShs.16.7 billion were provided to finance domestic and external redemptions, respectively.

FINANCIAL PROJECTIONS FOR 2007/08

84. **Mr. Speaker** let me now turn to the 2007/08 budget.

Revenue Forecast

85. **Mr. Speaker**, the total revenue target for fiscal year 2007/08 is KSh.428.9 billion (20.8% of GDP) comprising of KSh.389.2 billion of ordinary revenue and KSh.39.6 billion of appropriations-in-aid. The targeted revenue is predicated on the on-going reforms in tax modernization, customs administration and simplification of taxation for small enterprises.

Expenditure Forecast

Recurrent Expenditure

86. **Mr. Speaker**, as Hon. Members have noted from their copies of the Printed Estimates gross recurrent expenditures for 2007/08 are estimated at KSh.491.9 billion. This includes KSh.38.2 billion to be financed through appropriations-in-aid, and payments for the Consolidated Fund Services, amounting to KSh.154.2 billion. The discretionary recurrent expenditure amounts to KSh.337.8 billion.

Development Expenditure

87. **Mr. Speaker**, gross development expenditures for 2007/08 are estimated at KSh.201.7 billion. Out of this amount, KSh.52.2 billion will be financed through Appropriations-in-Aid, which consists of direct project financing amounting to KSh.21.2 billion in loans, KSh.27.9 billion in grants and KSh.3.0 billion in local Appropriations-in-Aid. Consequently, I expect to finance net development expenditures amounting to KSh.149.4 billion from the Exchequer, comprising of KSh.15.2 billion in grants, KSh.17.3 billion in loans and a net of KSh.116.9 billion from Government of Kenya own resources.

88. **Mr. Speaker**, the proposed composition of expenditure is consistent with the government's objective of gradually increasing the share of development expenditure. Indeed, with the proposed sharp increase in capital spending in 2007/08, the share of recurrent expenditure will have declined from 83.6% of total expenditures in 2002/03 to

70.3% in 2007/08—conversely the share of development expenditure will have risen by about 10 percentage points.

External Grants

89. Mr. Speaker, on external grants, I have received commitments amounting to KSh.36.5 billion, and KSh.45.3 billion in loans to finance projects. Details of the donors and projects financed are included in the Development Estimates.

Deficit

90. Mr. Speaker, the overall fiscal deficit, after grants, will amount to Ksh.109.8 billion mainly on account of higher development expenditure. After taking into account expected net foreign financing of projects, amounting to Ksh.39.8 billion, the deficit to be financed domestically will amount to KShs.70 billion. I plan to finance this deficit through net privatization receipts amounting to Ksh.36.1 billion, and domestic borrowing Ksh.34 billion. **Mr. Speaker**, this means that the fiscal framework for 2007/08 is fully financed and there are no financing gaps.

TAXATION PROPOSALS

Overview of the Proposed Tax Policy Measures

91. Mr. Speaker, the rest of my speech outlines various tax policy and administrative measures I intend to propose through the Finance Bill, and other regulation to be tabled in this house. I therefore, request that the remainder of my speech be regarded as a notice of a motion to be moved before the committee of ways and means. As was the case last year, these measures are grouped on the basis of their intended objectives. Overall, Mr. Speaker, the measures I am proposing are targeted at:

- i. Promoting Business Competitiveness and Making Imports Affordable
- ii. Deepening the EAC Regional Integration
- iii. Promoting Equity and Enhancing Access to Medical Care and Higher Education
- iv. Promoting Agricultural Development and Environmental Conservation
- v. Promoting Housing Development
- vi. Encouraging Development of the Capital Market;
- vii. Deepening Reforms for Retirement Benefits; and
- viii. Ensuring Safety on our Roads

Promoting Business Competitiveness and Making Imports Affordable

92. **Mr. speaker**, the Government remains fully committed to creating an enabling environment for private sector growth and development. The following measures I am proposing are, therefore, aimed at facilitating the growth of business and expanding employment opportunities, while making domestic and imported goods affordable to Kenyans.

93. **Mr. Speaker**, battery recycling plants in our country have been experiencing shortages in the supply of used batteries, a key input in their manufacturing process. These shortages, which have been occasioned by increasing exports of used batteries, have consequently forced some industry players to scale-down their operations, resulting in job losses. To discourage exportation of used batteries and to protect jobs in the battery recycling plants, I propose to impose an export duty of 20% or KShs.10 per kilo on used lead acid batteries.

94. **Mr. Speaker**, the imposition of the Sugar Development Levy on industrial sugar has continued to limit the growth and expansion of industries that use such sugar as their raw material for manufacturing goods. In order to reduce cost of importation and encourage expansion of these industries, I propose to remove the Sugar Development Levy on all imported sugar for industrial use.

95. **Mr. Speaker**, partly to reduce cost of doing business and to encourage expansion of economic activities, I propose to remove the Public Service Vehicle Licence (PSV) for passenger carrying vehicles for commercial purposes. In addition I propose to remove classes 'B' and 'C' licences for goods carrying vehicles. Henceforth, there will be no more TLB licence required for non-passenger commercial vehicles.

96. **Mr. Speaker**, laying the foundation for achieving Vision 2030 will require adopting new technologies and deployment of cost-saving measures in order to be globally competitive. It is, therefore, imperative that the leasing sector be encouraged in order to provide avenues for businesses to acquire financing of new technologies. I propose, in this regard, to amend the Eighth Schedule to the VAT Act to zero rate leasing of some equipment.

97. **Mr. Speaker**, the withholding VAT system has brought administrative challenges both to the taxpayers and KRA. I will be reviewing this system soon in order to bring our VAT system in line with best practice. In the meantime, I propose to give the Commissioner the powers to exempt some taxable supplies, including lease financing from the withholding system requirements as well as to deregister any person from being a withholding VAT Agent.

98. Mr. Speaker, during last year's budget, I proposed amendments to the Insurance Act to provide for cash and carry in respect of fire and motor vehicle insurance cover. In view of the positive impact of this measure on the industry and in order to further streamline the industry, I propose to extend cash and carry to all classes of business.

99. Mr. Speaker, while on the VAT subject, I wish to acknowledge complaints I continue to receive from the business community regarding the persistent delays in the refund of VAT and its impact on their business operations.

100. This is despite the fact that last year I enhanced funds for VAT refunds to Kshs 900 million, per month. Being a government that listens to its citizens, the Government will look into ways of fast tracking VAT refunds, including the possibility of automatic refunding of the claims without audit before payment can be made.

101. Mr. Speaker, last year, in consultation with my counterparts from Uganda and Tanzania, we agreed to reduce import duty on several goods to encourage growth of our industries. To further consolidate the growth of our manufacturing sector and expand opportunities for Kenyans to find jobs, we have agreed to:

- i. Reduce import duty rate from 25% to 10% on felt material that are used for the manufacture of oil and air filters for motor vehicles.
- ii. Remove import duty rates on textile fabrics and felt that are needed in the manufacturing process of paper. Further, import duties on millstones and grindstones for milling, grinding or pulping are removed.

102. Mr. Speaker, our importers have continued to incur higher import costs arising from the Import Declaration Fee (IDF). In order to reduce the cost of importation and make such imported goods affordable to Kenyans, I propose to reduce the IDF from 2.75% to 2.25% for all goods imported from outside the EAC countries, while no IDF will be charged on goods imported from EAC Partner States.

Encouraging Regional Integration

103. Mr. Speaker, as a demonstration of our commitment to the EAC regional integration in accordance with the East African Community Protocol, I propose to:

- i. Treat all citizens of the East African Community Partner States who invest in the Nairobi Stock Exchange and earn dividend income as residents and will pay withholding tax at the rate of 5% just like Kenyans.
- ii. I am also proposing to amend the Capital Markets Act to increase the percentage of IPOs reserved for Kenyans from 25% to 40% and treat citizens of other East African Partner States as local investors.

Promoting Equity and Enhancing Access to Medical Care and Education

104. Mr. Speaker, I received various representations from Kenyans proposing a reduction in personal income tax. However, given the various projects we intend to finance, and the targeted intervention by government to reduce poverty, it will not be desirable to address this issue in this budget. We consider rationalization of the tax brackets as a priority policy and I have accordingly instructed my officers to conduct comprehensive simulations and propose possible options for consideration in the next fiscal year. In the meantime, our analysis shows that the interventions I have proposed in this budget will go along way in increasing the disposable incomes of majority of Kenyans, especially in the lower income brackets. These interventions which are intended to reduce the financial burden on Kenyans, include among others, funding for: tuition fee in secondary schools; increased medical supplies to health facilities; support for orphaned children; settlement of landless; construction of hawkers' market; accelerated and expansion of rehabilitation of road network; and reforms in the telephony sector to reduce cost of making calls, among others.

105. Mr. Speaker, to make medical care affordable and accessible to Kenyans, I propose to exempt from import duty medical equipment imported by licensed hospitals. I urge all managers of medical facilities, especially those under the private sector, to review downwards their charges accordingly.

106. Mr. Speaker, establishment of Private Universities has continued to play a vital role in enhancing knowledge and skills development amongst the youth of this country. In order to encourage expansion of these institutions, I propose to zero rate taxable goods, and taxable services supplied by a registered person for use in the construction or expansion of Private Universities, excluding student hostels and staff housing.

107. Mr. Speaker, to further promote equity in our excise tax systems and to enhance tax administration, I propose to introduce the following simplification:-

- i. Re-categorize the existing cigarette bands to be based purely on cigarette characteristics comprising of length, package and whether the cigarette is

filter or non-filter. This measure is intended to harmonize excise regime for domestically produced and imported cigarettes and to enhance our tax administration. This will also effectively deal with any trade in counterfeit and contraband cigarettes. I also propose to increase excise tax on cigarettes falling in categories "B", "C" and "D" by KShs.1.70 per pack, KShs.4.20 per pack and KShs.6.20 per pack, respectively. I expect this modest contribution by smokers will assist the Government in financing healthcare provision and other development priorities.

- ii. Convert the current complex taxation of spirits at KShs.120 per proof litre or 65% to its equivalent of KShs.200.40 per litre or 65% in line with the internationally accepted World Customs Organization (WCO) Nomenclature, which provides "litre" as the unit of measure. I propose to adjust upward the excise tax on portable spirits from KShs.200.40 per litre or 65% to KShs.280.00 per litre or 65%, whichever is higher; and that of wine, from KShs.54.00 per litre or 65% to KShs.85.00 or 65%, whichever is higher.
- iii. In addition to the above, I propose to:-
 - a. Increase the excise tax on malt beer by KShs.2.00 per litre, from KShs.48.00 per litre to KShs.50.00 per litre. This modest increase will make a token contribution towards financing tuition fee in secondary schools
 - b. Introduce a specific excise tax at KShs.6.00 per litre on bottled mineral water, besides the current ad valorem excise tax of 10%;

Mr. Speaker, These excise measures are effective from Midnight, today.

Promoting Agriculture Development and Environmental Conservation

108. Mr. Speaker, in order to reduce losses to our milk farmers and encourage growth of our dairy sub-sector, I propose to zero-rate milk powder for VAT purposes to encourage processing of excess milk into powder. This measure is expected to make powder milk affordable to all Kenyans.

109. Mr. Speaker, I also propose to zero-rate pyrethrum extract in order to encourage the manufacture of insecticides using local pyrethrum extract and also bring it in line with all other imported raw materials for insecticides which are currently zero-rated.

110. Mr. Speaker, last year I reviewed the export duty on local hides and skins upwards to 20% or KShs.10 per kilo in order to encourage local value-addition and ensure availability of raw materials for the local tanneries and to create employment. In order to give further impetus to value addition in this important sector, I am proposing to increase the export duty on raw hides and skins to 40% or Kshs.20 per kilo.

111. Mr. Speaker, environmental conservation is a central pillar of sustainable development. Partly to protect our environment from further degradation, I propose to impose an excise duty of 120% on plastic bags. I further propose to impose a ban on very thin plastic bags. These measures are expected to encourage industry players to devise environmentally friendlier bags for shoppers.

Promotion of Housing Development

112. Mr. Speaker, the current housing and shelter is still inadequate to meet the demand of Kenyans. Last year I exempted interest earned on deposits for home ownership savings plan of up to Kenya Shillings three million. To further encourage development of housing and provision of affordable shelter to Kenyans. I propose to:

- i. Give industrial building allowance to persons constructing residential buildings for rental purposes to the Low Income Earners.
- ii. Zero-rate taxable goods and taxable services supplied to specific projects for the constructions of a minimum of 20 units of houses situated in planned development schemes for the benefit of low income earners.

113. Mr. Speaker, in order to encourage more people to own houses, I propose to amend the Retirement Benefits Act to provide for assignment of pension benefits as security for accessing housing loans subject to the development of appropriate Regulations to ensure the spirit of pension benefits is not eroded and also to ensure that not all the pension benefits amount is used for security for the housing loan.

114. Mr. Speaker, to encourage further expansion of commercial buildings in line with increased economic activities, I propose to remove non-residential buildings from the VAT exempt category and allow input tax deduction on commercial property development. I also propose to impose VAT on rental of non-residential buildings. This measure will not affect rental of buildings for residential purposes which remain exempt. In addition small scale landlords will be left out of the tax since the law will only apply to those landlords who earn in excess of Kshs.5 million per annum in rent.

Strengthening the Financial Sector

115. Mr. Speaker, our banking sector is currently characterised by many small unviable institutions incapable of investing in modern technology and critical mass of competency required to provide modern and efficient banking services to Kenyans. This has led to dominance of local banking sector by foreign owned institutions. In order to encourage the merging of small local banks so as to enable them to expand and compete with foreign owned banks, in terms of resources, technology and services, I propose to raise the minimum capital for bank from the current KShs.250 million to KShs.1 billion over a period of three years. This will prepare our banking industry players to consolidate their services and ensure efficiency in order to take advantage of the emerging regional opportunities.

116. Mr. Speaker, we have in the past witnessed the collapse of a number of insurance companies largely attributed to inadequate legislative and regulatory framework and subsequently a weak financial base. In order to improve the financial strength of insurance companies, I propose to increase paid up capital for: (i). long-term insurance business from Kshs.50m to Ksh.150m; (ii). general insurance business from Ksh.100 million to Ksh.300m; and (iii). Composite insurance business from Ksh. 150 million to Ksh.450 million. The insurance companies will be required to comply with this new paid up capital requirement in three years.

Deepening Capital Market Development

117. Mr. Speaker, the Government is conscious of the need to protect the integrity of the stock exchange and to protect the small investors from unscrupulous market players. Therefore, in order to empower the Capital Markets Authority to effectively regulate the Capital Markets, I propose amendments to the Capital Markets Act to give the Authority power to levy financial penalties among other penalties depending on the nature and magnitude of offences. The penalties have also been enhanced to make them more deterrent.

118. Mr. Speaker, as I alluded to in my last year's Budget Speech, there is need for further reforms to deepen the money and capital markets. However, this can only happen if legal impediments caused by the Internal Loans Act are addressed. The said Act does not recognize dematerialized/paperless securities, thus keeping the government bond market behind technological developments. In this regard, I propose to make necessary amendments to the Internal Loans Act. This will go along way to facilitate implementation of a primary dealership system in the Capital Markets.

Deepening Reforms for Retirement Benefits

119. **Mr. Speaker**, in recognition of the invaluable contribution our senior citizens have given in the development of this country, I propose to exempt the monthly pension granted to these important persons from tax.

120. **Mr. Speaker**, in order to expand coverage by NSSF, I propose to amend the NSSF Act to allow individuals to contribute voluntarily to NSSF as is the case with NHIF. I further propose an amendment to the NSSF Act to provide that the monthly 5 per cent of total wages of casual workers paid to NSSF by employers be declared as surplus benefits whenever an actuarial valuation of the Fund is carried out and used to augment the benefits of voluntary individual accounts. This will now allow casuals and the self employed to voluntarily join and benefit from the NSSF.

121. **Mr. Speaker**, due to delays that have been witnessed in the past in relation to payment of benefits of a deceased person to survivors, I propose to amend the Retirement Benefits Act to provide that benefits arising by reason of death of a scheme member do not form part of a deceased person's estate and shall be paid by the trustees in accordance with the scheme rules.

122. **Mr. Speaker**, I propose amendments to the Retirement Benefits Act to provide for establishment of a Trust Fund within the Retirement Benefits Authority for receiving pension funds together with the accrued investment earnings of the pension benefits of scheme members that cannot be traced when the schemes are wound-up. This will safeguard the benefits of the scheme members that are eroded over time by liquidation costs since the liquidators are unable to discharge their duty until the amounts are completely depleted or the member turns up.

Ensuring Safety on Roads

123. **Mr. Speaker**, recent road accidents are partly caused by continued importation of used motor vehicle spare parts. In order to discourage importation of such spare parts and to enhance safety of Kenyans on our roads, I propose to impose a 20% excise duty rate on all imported used motor vehicle spares.

124. **Mr. Speaker**, in the 2006/07 budget I removed the requirement for road license for all motor vehicles. To further ensure safety and security of our motor vehicles, I propose to change the law to require that Vehicle Registration book(s) and Number Plates of all vehicles that have been written-off be returned to the Registrar of Motor Vehicles for proper keeping of records.

Mr. Speaker, I have highlighted only a few of the changes. The details are contained in the Finance Bill.

CONCLUSION

125. Mr. Speaker, while making my concluding remarks, allow me to commend all those Kenyans; (i) individuals and corporate entities; (ii) young Kenyan and senior citizens; (iii) business people and working class; as well as (iv) scientists and NGO players who participated in this year's budget. **Mr. Speaker**, for the first time in our history, the preparation of this budget benefited immensely from a very constructive interaction with Kenyan people some of whom wrote directly to us while others sent us proposals through our e-mail address at the treasury budget2007@treasury.go.ke.

126. Mr. Speaker, among many more contributions I received, allow me to cite one outstanding representation. This particular one was unique both in terms of its content and the writer – a 13-year old young Trevor Kibet Langat of Brook House School. In his submission for consideration in the 2007/08 budget, Trevor writes:

"I have been watching the economy grow from 0.3% to 6%. But sometimes I ask myself why Kenya can't be like Singapore or South Africa. I went for Young People Conference in South Africa in February and I was amazed by the infrastructure. Is Kenya ever going to build such roads? Kenya definitely has the potential to become a world class economy. I watch CNBC (Cable Network Business Channel). When I am of age, I will create a business Channel that will engage politicians to talk about business and economic activities of the people of Kenya. I think it is time that we have professional political leaders. We could make Kenya not only a huge economic country but also make Kenya a business centre. Kenya will one time be a huge economy and I will support the Government, but I will not just simply talk of how bad or good the Government is, I will take action and build Kenya even in the smallest way possible. I think it is time for me to take action and it is also time for all Kenyans to take actions. I have taken risk to write to you. I believe the biggest risk is not to take risk"

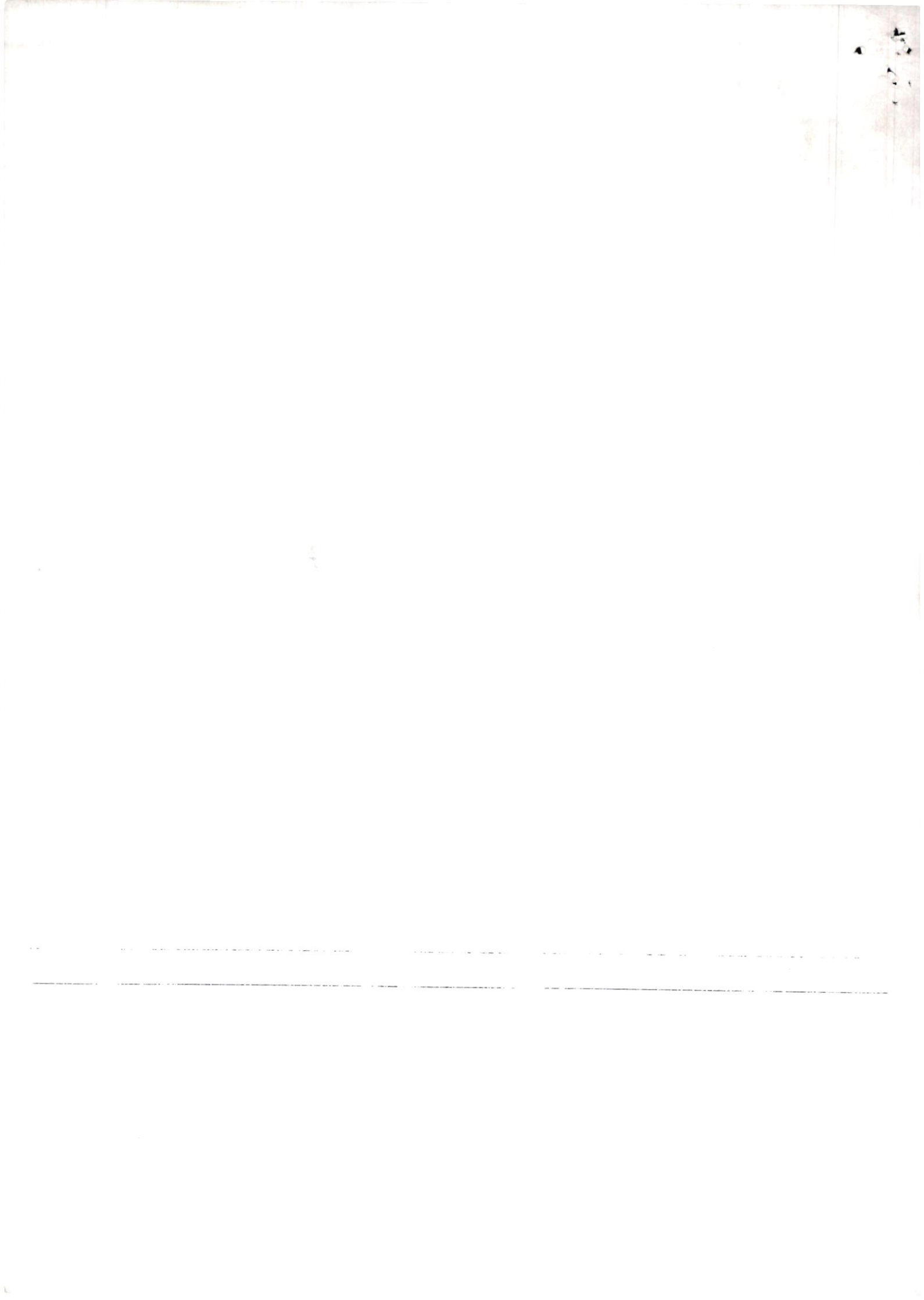
127. Mr. Speaker, Trevor is calling on all of us to take actions and join hands to build our country. The time is now for each one of us to take actions towards making our country prosperous. The budget I have presented to day for 2007/08, is therefore intended to consolidate and accelerate our recent achievements and to broaden opportunities for all Kenyans to participate in building a brighter future that Trevor and other Kenyans yearn for. This young Kenyan is challenging us all to have a positive outlook to life, love ourselves and our motherland and most importantly focus on economic development agenda. He is calling us to join hands to build our country.

128. **Mr. Speaker**, the success we have achieved on the economic front over the past four and half years can be directly attributed to our working together, in close partnership and collaboration with Kenyans of all walks of life. On the part of Government, this partnership has meant listening very closely to the people's wishes and then delivering on agreed policies and programs. The result is that Kenya has been ushered onto a new economic platform which facilitates the process of transforming it to a middle income country in the next 15 – 20 years or so, as envisaged in Vision 2030, but within a framework of good governance and the rule of law, respect of human and property rights, private sector development and prudent economic management.

129. **Mr. Speaker**, the budget I have presented to day for 2007/08, is intended to consolidate and accelerate our recent achievements and to broaden opportunities for all Kenyans to participate in building a more prosperous nation and to bring a better quality of life for all Kenyans. In pursuit of this noble goal, we as a people must unite and rally around a single Vision, that is, Vision 2030 which will engender high productivity and growth with a sense of social responsibility and equity. Let us all rededicate ourselves and work hard towards achieving this Vision.

130. **Mr. Speaker**, I therefore wish to urge my fellow Kenyans, not to allow themselves to be distracted from this successful partnership that has worked so well. With determination from all of us, and with God's help, we shall succeed beyond our wildest dreams, working together on the path to prosperity!

Mr. Speaker, I beg to move



Eighth, various fees under the Aviation Act have not been changed since 1996. To bring these charges close to their administration and processing costs, these will be adjusted by 50%.

Ninth, various immigration fees will be increased by an average of 25%.

Tenth, under the Airport Passenger Service Charge, to simplify collections, I am proposing amendments to have the charge collected at the time of issuing airline tickets by the airlines or their agents, effective from 1st September, 1998.

These other measures will decrease revenues by K£84.5 million, but increase the estimated receipts of appropriations-in-aid by K£99.5 million.

CONCLUSION

Mr. Speaker, the major challenge facing our nation today is how to move our economy to a high growth path, which is a must if we are to eliminate unemployment and poverty. We can achieve the desired growth only if there is a substantial increase in private investments. This will occur only if bold measures are urgently taken to reduce the high domestic debt and interest rates, improve infrastructure and delivery of public services, improve efficiency of the public sector, improve public security and administration of justice, improve economic governance and reduce corruption. The proposals I have presented to the House are aimed at addressing these critical issues. In particular, I am asking all of you to tighten your belts so that we can achieve a balanced budget this year and thereafter achieve surpluses. This is the only viable option we have to reduce domestic debt and interest rates. The measures I have prescribed towards this objective are painful and will require all Kenyans to be ready to pull together if we are to succeed. As I said earlier, we need to urgently build a national economic purpose around new ambitions for our country. We have done it in the past when we were struggling to gain our Independence. I am confident we can do it again now against our common enemy, unemployment and poverty.

Mr. Speaker, I would like to appeal to all the Honourable Members, and all Kenyans, as our National Anthem beseeches us "Let one and all arise, In common bond united, Build this our nation together." If we have the will, we can turn this economy around within the next two years.

Mr. Speaker, I beg to move.