

REPUBLIC OF KENYA

Budget Statement

For the

Fiscal Year 2011/2012

(1st July – 30th June)

by

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

8th June 2011

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STATEMENT DELIVERED TO THE NATIONAL ASSEMBLY ON 8TH JUNE, 2011, BY HON. UHURU KENYATTA, E.G.H., M.P., DEPUTY PRIME MINISTER AND MINISTER FOR FINANCE, REPUBLIC OF KENYA, WHEN PRESENTING THE BUDGET FOR FISCAL YEAR 2011/2012

1ST JULY, 2011 TO 30TH JUNE, 2012

1. INTRODUCTION

1.1. Overview

1. Mr. Speaker, I am once again honoured to present to this August House my third consecutive budget since becoming the Minister for Finance. My first Budget in June 2009—dubbed "**Overcoming Today's Challenges for a Better Kenya Tomorrow"—**aimed at shoring up the economy following the multiple shocks we faced at that time. And truly, working hard and together as a Nation, we overcame those challenges.

2. By the time of reading the second Budget in June 2010, our economy was already showing strong signs of recovery. Indeed, our economy has now bounced back, expanding by 5.6 percent in 2010, up from 1.6 percent in 2008. Apart from the economic recovery, I am also presenting this budget under a new constitutional dispensation following its promulgation in August last year.

3. Mr. Speaker, we all know the tough times we are facing following the new challenges stemming from rising international commodity prices, including fuel and drought-related concerns on food security. The resilience we have demonstrated in the past will have to come handy again, but most important now is cushioning our people against these challenges. We have to face the future with courage and embark on a bold journey to create hope among our people. As part of this journey, we have to take drastic measures to reduce, on a sustainable basis, the cost of living and assure our people of food security and employment going forward.

4. This Budget, therefore, begins to address the problems that have confronted us over the years. In doing so, we will have to continue building resilience while supporting the broad-based economic growth that we have so far achieved in order to continue creating jobs for our youth, feeding our people and reducing poverty and inequality. It is for this reason and building on recent developments that I consider it appropriate to frame this year's budget around the theme of "**Building Resilience and Sustaining Inclusive Growth for a Prosperous Kenya"**

5. The journey for building resilience and sustaining inclusive growth for prosperity will not be easy, but I am sure that with the hard work and determination of all Kenyans we shall succeed. All Kenyans aspire to live a prosperous life that is secure and free from poverty, and with freedom to exploit individual talent to uniquely contribute to the development of this

beautiful country. But, **Mr. Speaker**, it must be appreciated that we all shoulder the responsibility to build a better and prosperous Kenya in which we cherish to live.

6. Mr. Speaker, in building resilience and aspiring for that prosperity, Kenyans may ask, "what does the Budget for 2011 offer?"

7. First, **Mr. Speaker**, I would like to assure Kenyans that in framing this year's Budget, we have ensured:

i. That we continue to nurture the growth momentum in the face of emerging domestic and global challenges;

ii. That priority social programme under education and health provision for all continue uninterrupted;

iii. That investment in infrastructure, especially in road, energy and railway is stepped up;

iv. That implementation of the new constitution remains a priority; and

v. Most importantly, continuing to maintain macroeconomic stability.

8. So, **Mr. Speaker**, in submitting the budget estimates for the Government on May 31, 2011, what is in store for Kenyans?

i. For the poor – we are providing funds to support education (free primary and secondary education) and health, most important now, expanding spending on safety nets to cushion the vulnerable from the current challenges of high food and fuel prices;

ii. For the youth – we are continuing to provide resources by supporting existing public works programmes that we started some two years, now commonly known as Economic Stimulus Programme (ESP) and Kazi Kwa Vijana (KKV), while scaling up programmes aimed at increasing labour absorption, skills training and enhancing the employability of the youth.

iii. For the farmers – we have set aside funds for the agribusiness in order to begin the journey of leveraging lending to agricultural sector and rural development, targeting 1.5 million smallholder farmers and over 10,000 agribusinesses throughout the country.

iv. For Nairobians – you will very soon enjoy services of commuter rail with Ksh. 2.9 billion set aside for the construction and expansion of urban commuter rail.

v. For rural and marginalised – decentralization is coming sooner than later with expanded funds to CDF to complete critical projects that benefit the poor and earmarked resources for basic services in the marginalised areas in the spirit of the Constitution on progressive equitable development.

vi. For businesses – continued investment in upgrading of infrastructure in roads, energy, airport and now Ksh. 3.25 billion for construction of standard gauge railway; supporting skill development and expansion of university education. For small scale businesses, a further Ksh. 1 billion SME fund, in addition to Ksh. 900 million earmarked in the current financial year, to boost business and further expansion of resources accessible through Youth Development Fund of Ksh.385 million and Women Enterprise Fund amounting to Ksh. 440 million; and

vii. For the Constitution implementation, we have allocated adequate resources to judiciary, parliament, electoral process and other constitution related activities.

9. In addition to this, **Mr. Speaker**, we are spending billions of shillings to expand and construct irrigation projects countrywide and transform agriculture into business to create employment, reduce poverty and assure food security—an issue that has eluded as for years! All these, **Mr. Speaker**, come at the time when we have to implement the new Constitution and still live within a sound fiscal framework.

1.2. Sustaining Inclusive Growth for Posterity

10. Mr. Speaker, countries that have managed to engage the youth in gainful employment and put a dent on poverty have grown their economies uninterrupted for many years. Recent examples in this regard include Brazil, Russia, India and China, now named as BRICs. These economies have been able to grow at an annual average rate of 10 percent we envisage under our Vision 2030. They have done this by mobilizing larger amounts of resources, raising factor productivity, and moving to a higher value-added and more efficient production structures. Because of limited public resources, they have relied on the private sector to meet their economy's resource requirements, while developing appropriate market environment to promote efficiency and productivity.

11. Surely, as a country, we can do these extraordinary things and give a sense of hope to our youth and secure the future of our country. When I see our youth staying late into the evening in town to acquire knowledge, I see the vision and hope they have on the future of this great Nation. And as politicians we have a duty and responsibility to give realism to that hope!

12. The current situation of high youth unemployment is unacceptable and if not addressed, will soon start to present challenges to our social stability. Let us, therefore, start to work together through this Budget to extend the frontier of economic opportunities for our youth in order to allow them access to gainful engagement and enable them to also contribute with dignity to the important task of nation building. This is the only way we can bequeath a brighter and prosperous future to the next generation.

13. But, Hon. Members, we can only create these opportunities if we expand our economy, and in a manner that covers all sectors. Sustaining inclusive growth requires us to continue building transparent, responsive, accountable, efficient and effective national and county

governments, as well as providing an appropriate environment for private sector (both large and small) businesses to thrive and avail more revenue for financing priority development.

14. Mr. Speaker, while these measures will secure growth, we also need to ensure that the gains from growth are widely distributed through sustainable employment in order to guarantee durable reduction in poverty. In addition, measures to address socio-economic inequalities, improving the country's human capital, and inculcating national cohesion are vital for long-term stability and prosperity. To this end, the Government will continue to implement the socio-economic priority programs articulated in the Vision 2030's first MTP, as well as increased devolution of resources for the development at the local levels in line with the Constitution.

1.3. Economic Outlook

15. Turning to economic outlook, we note the global recovery is gaining momentum supported by improvement in financial market conditions, buoyant activity in emerging and developing economies and growing confidence in advanced economies. The global output is projected to grow at about 4.5 percent in 2011 and 2012, down modestly from 5 percent in 2010. In advanced as well as emerging and developing economies, real GDP is expected to grow by about 2.5 percent and 6.5 percent, respectively.

16. Like the rest of the world, growth in the sub-Saharan Africa is projected to stay high, reflecting sustained strength in domestic demand and rising global demand for commodities. Real GDP growth for the sub-Saharan Africa economies is projected at 5.5 percent in 2011 and 5.9 percent in 2012, up from 5 percent in 2010. The growth of Kenya's major trading partners in the East Africa Region, such as Uganda, Tanzania and Rwanda, is projected to remain strong, in the range of 6 - 7 percent in 2011 and 2012. This is expected to boost our exports into the region and earn our economy foreign exchange.

17. On the domestic front, **Mr. Speaker,** the recently released Economic Survey for 2011 indicates that our economy expanded by 5.6 percent in 2010, up from 2.6 percent in 2009 and 1.5 percent in 2008. The growth was broad-based covering all sectors. Agriculture and forestry sector rebounded strongly posting a growth of 6.3 percent after depressed performance in the last two consecutive years. Increased investment in physical infrastructure by government further boosted activity in the building and construction sector. This recovery was against a backdrop of macroeconomic stability as reflected in low inflation and interest, and stable exchange rate. On the external front, the strong domestic demand and high oil prices raised our import bill and, as a result, weakened our external payment position with the current account deficit reaching 8.5 percent of GDP in 2010.

18. Looking ahead, the economic prospects for 2011 remain strong, but the impact of high fuel and commodity prices as well as delayed rains is a source of concern. We see continued strong credit to private sector, increasing Foreign Direct Investment (FDI), improved tourism and construction, and strong export growth with better prices and favourable shilling exchange rate helping to sustain growth, in spite of the shocks related to high fuel and food prices and delayed planting season. Overall, **Mr. Speaker,** we expect real GDP growth of 5.3

percent in 2011, rising steadily to 6.1 percent in 2012. This translates to 5.7 percent for FY 2011/12 or 0.4 percent lower than the projected growth of 6.1 percent at the time we prepared the 2011 Budget Policy Statement. The lower growth forecast is on account of the emerging evidence on the likely adverse impact of high fuel and food prices on the economy.

19. The projected growth is still, however, below the 10 percent growth envisioned in Vision 2030 needed to increase labour absorption and achieve more equitable distribution of income. As indicated earlier, further up scaling to 10 percent and sustaining it at that level would require mobilizing larger amounts of resources, raising factor productivity, and moving to a higher value-added and more efficient production structure. Given the limited public resources, we must rely on the private sector to meet the resource requirements. To this end, continued commercialization of public activities as well as improving the business environment is vital to attract FDI, and local investments, including small, medium size enterprises (MSMEs).

1.4. Deviation from 2011 BPS: Revision to Ceilings, Savings and Reprioritization

20. Hon. Members will recall that when we submitted the 2011 Budget Policy Statement in March 2011, we had indicated that the projected baseline ceilings had not taken into account the strategic spending proposals that were under consideration. The 2011/12 Budget Estimates have now factored an additional Ksh. 58 billion as strategic interventions to the ceilings initially allocated to the ministries. **Mr. Speaker**, to accommodate the these expenditures, we rationalized ministerial provisions to realize savings amounting to Ksh. 13.1 billion, comprising of Ksh. 5.0 billion which was reprioritised within ministerial budgets to meet existing commitments; and Ksh. 8.1 billion, which was in respect of spending cuts on slow moving projects in order to accommodate additional funding for emerging interventions.

21. The balance of the additions to expenditure to accommodate spending on implementation of the new constitution, intervention in irrigation, cushioning the vulnerable, job creation for the youth, as well as additional pro-poor spending in Arid and Semi Arid areas and social spending, especially in education, health, water, and infrastructure, arose with the firming up of the resource envelope.

2. FACILITATING PRIVATE SECTOR FOR GROWTH AND EMPLOYMENT

Let me now focus on measures to promote private investment:

2.1 Safeguarding Macroeconomic Stability

22. Prudent and sustainable macroeconomic policies that ensure low and stable inflation and interest rates as well as competitive exchange rate, must form the foundation of higher growth path. In this regard, our fiscal policy aims at gradually lowering our fiscal deficit in order to ensure debt sustainability, while at the same time taking care of the long-term development needs of the country as well as implementation of the Constitution.

23. Mr. Speaker, in response to high fuel and food prices, we have taken measures, in addition to the already announced set of interventions, to provide relief to the poor and shield them against the impact of high commodity prices. The budget also deepens the base for long-term sustainability of food security by allocating more resources to irrigation and agriculture.

24. Mr. Speaker, on the general price level, we expect upward pressures to subside with the rains in food producing regions and harvests under irrigation and the urban farming we are initiating in this budget. But to keep inflationary expectations under control, the CBK will continue to monitor closely monetary developments and adjust monetary policy as appropriate. We do not expect short-term interest rates to rise drastically but care will be taken to ensure credit to support productive economic activities remain available.

2.2 Continued Investment in Infrastructure

25. Mr. Speaker, effective and reliable infrastructure is essential in ensuring competitiveness of our products in the local, regional and international markets. For this reason, the Government will step up improvement and expansion of the infrastructure network throughout the country, while ensuring maintenance of the existing one. Consequently, I have enhanced the overall budget for physical infrastructure to Ksh.221.4 billion in FY 2011/12, up from Ksh.165.8 billion in FY 2010/11. Most of these resources have been allocated towards road, energy and transport development.

Scaling up Road Construction to Facilitate Trade and Commerce

26. Mr. Speaker, decent road network throughout the country is crucial for growth, investment, employment creation and poverty reduction. It facilitates trade and commerce and allows farmers to access markets for their products thereby promoting their welfare. Through this budget, we are continuing to improve the general conditions of our highways, urban and rural roads and initiate new critical road arteries, especially those that connect our country with the regional markets. To this end, I have allocated an overall budget of Ksh.100.9 billion to the Ministry of Roads, up from Ksh.90.2 billion in the previous fiscal year. With this allocation, the Ministry of Roads and the relevant road agencies will fast track implementation of these critical roads and allow Kenyans early opportunity to use them.

Investing in Energy to Support Growing Economy and Reducing Poverty

27. Mr. Speaker, reliable and affordable energy is necessary for sustained economic growth and poverty reduction. In view of this, the Ministry of Energy has been allocated about two-fold increased budget amounting Ksh.65.7 billion, up from Ksh.34.9 billion in 2010/11 fiscal year. Of this amount, geothermal development will receive Ksh.16.1 billion, which will be used to drill and assess the viability of producing 140 MW. Attention will also be given to the Rural Electrification Programme which will benefit from Ksh.5.6 billion to facilitate supply of power from national grid to 460 trading centres and 110 secondary schools, among other public facilities country wide. The expansion of power access to rural areas is one of the initiatives

to support rural enterprise development, create employment and improve the living conditions of our people.

28. Meanwhile, the Executive, just like the Parliament is concerned about the high cost of imported fuel, especially those costs associated with supply chain constraints around sourcing, discharge, refining, transportation and storage and distribution. To this end, under the leadership of His Excellency the President and the Rt. Hon. Prime Minister, a Task Force has been constituted to review and advise on the best reform options to address these challenges. We expect the Task Force also to explore options for long-term and affordable supply sources, especially from friendly bilateral partners.

Fast Tracking Construction of Railway for Faster and Affordable Transport

29. Hon. Members you may be aware we entered into a Bilateral Agreement with the Ugandan Government in 2008 to jointly fast track the development of a new Standard Gauge Railway (SGR) connecting Mombasa to Kampala with a branch line to Kisumu. The purpose of the project was to reduce the ever increasing cost of transport within the region, facilitate faster and cheaper movement of freight and passengers and enhance competitiveness, while saving on our newly rehabilitate road network. **Mr. Speaker**, it now costs about Ksh.100,000 to transport a 20 foot container from Mombasa to Nairobi and it takes a whole day. The same container would cost about Ksh.40,000 and delivered in just about four hours by a modern railway transport.

30. However, despite making available resources and securing approval of this House, in 2009/10 and 2010/11, this important project experienced some procurement related delays, which we expect will be resolved shortly. I now expect the Kenya Railways to proceed to conclude the design study by end of November 2011 to provide us with the estimated cost, routing and implementation arrangements. My ministry has initiated discussions with development partners to find resources to facilitate faster completion of this important project to our economy and people of Kenya. I have, in this regard, set aside Ksh.3.3 billion as mobilization fund to initiate its implementation. When completed, this project is expected to reduce cost of transportation and make our products competitive by at least 70 percent and demand for imported fuel oil by at least 30 percent thus cushioning our country against high international oil price shocks.

Upgrading Urban Commuter Rail System for Affordable and Faster Urban Transport

31. Mr. Speaker, the recent upward surge in the international oil prices has pushed cost of transport way out of reach of many urban workers thus reducing their disposal income. This is, however, not the case for the few who still afford to find space in the limited commuter urban train services. For instance, it costs a passenger just Ksh.25 to travel from Embakasi and Ksh.35 from Ruiru to the city. A similar journey by matatu now costs about Ksh.70 and Ksh.100, respectively, and takes much longer. It is for these reasons that we begun last year to modernize key commuter railway in order to accord Nairobians faster and affordable means of transport.

32. I have, in this regard, allocated an additional Ksh.1.9 billion in this 2011/12 budget toward construction of a new branch line from Embakasi Railway Station to Jomo Kenyatta International Airport (JKIA). The completion of this line will make commuting to and from the airport faster, comfortable and cheaper. This project will equally benefit our urban commuters living in Kitengela, Athi River, Embakasi, Pipeline, Imara Daima and others residing along Mombasa road. I have also allocated Ksh.1 billion to initiate upgrade for the Nairobi – Ruiru via Makadara, Dandora, Githurai and Kahawa railway line to expand passenger services by at least ten fold, thereby making it affordable to many Kenyans commuting daily to work in the city and reduce congestion in the City of Nairobi.

Enhanced Security for a 24 hour Economy

33. Mr. Speaker, the incidence of crime remains high and continues to act as a constraint to faster economic growth. To allow our people and the economy to work and create wealth 24 hours a day, it is imperative that we address the challenges of insecurity. During the last financial year, the Government increased the salaries for police and will continue to review their terms of services in line with changes in the economy.

34. Police numbers are also expected to increase with the recent recruitment of 7,000 new officers. The training curriculum is also improving in line with the ongoing police reforms that will culminate in the setting up of an independent police service under the new constitution. In this budget, we have enhanced the funding for operations and maintenance by Ksh.3.5 billion in order to improve police operations and fight crime more swiftly. We expect efficiency in operations to improve once the new legal and institutional reforms for police are in place.

Positioning Kenya as a Preferred Investment Destination

35. Hon. Members, if we are to grow faster, we must create an environment that is favourable to domestic and foreign investments. This calls for deepening business regulatory reforms and delivering quality public services. Some recent notable improvements include use of scanning and electronic filing of documents at Lands Registry, electronic name search at the Companies Registry and at the Nairobi Council, the Single Business Permit now takes only one day to process as opposed to 5 days previously. This we have achieved by decentralizing the licensing function to divisions and wards level in the city.

36. Despite these reforms, we recognize that more needs to be done to further improve business environment and improve Kenya's rating on Doing Business index, thus positioning our country as a preferred investment destination. I urge Hon. Members to prioritize debate for some critical bills such as the Companies Bill, the Insolvency Bill and the Partnership Bill currently before this House, which are aimed at strengthening business environment.

Controlling Recurrent Expenditure to Fund more Priority Development

37. Hon. Members, wage levels in Kenya are now among the highest in Africa thus posing a challenge for our competitiveness. For instance, in the public service, there are wage differentials between different cadres of officers with more or less same level of training. This

situation is occasioned by uncoordinated wage awards and reviews. Consequently, the overall wage bill in civil service, excluding the Defense and National Security and Intelligence Service, now stands at 7.2 percent of GDP, up from about 6.9 percent last year and it costs the Exchequer Ksh. 222.6 billion. Unless this level of wage bill is checked going forward, the Government will not be able to provide adequate resources for operations and maintenance, let alone fund critical development programs. For this reason, we urge the Hon. Members to fast track approval of the Bill establishing the Salaries and Remuneration Commission, which as per the Constitution will handle all salary reviews and awards in the civil service.

2.3 Financial Sector Reforms for Enhanced Access, Efficiency and Stability

38. Mr. Speaker, our reforms in the financial sector are aimed at increasing access to financial services, greater efficiency and improving the overall stability of the financial system. Over the recent past, financial access to Kenyans has improved, with about 40 percent of our people now having access to formal financial services, up from 25 percent five years ago. Innovative financial products and services are expanding financial access, helped by mobile banking and widespread penetration of mobile phones that now stands at almost one cell phone per adult.

39. Going forward, we will take measures to support the drive towards greater access to credit. These measures will include: continued licensing of microfinance institutions; encouraging the Agency banking model; and reviewing the legal, regulatory and supervisory frameworks for the financial sector to improve them further and ensure conformity to the new Constitution. In addition, we shall shortly be laying before this House the Kenya Deposit Insurance Corporation Bill and the National Payments System Bill.

40. Mr. Speaker, while we have made great strides to deepen our financial sector, commercial lending rates remain persistently high. In response to a directive from H.E the President, we are coordinating a number of measures to address the root causes of the problem and the constrains in the industry responsible for high lending rates. These include improving the interbank markets; increasing disclosures of information on bank ratings, performance and productivity; and aligning pricing of Government Bonds to reference rates used by banks. We are encouraging banks to share infrastructure to gain economies of scale; and to reduce overheads through increased use of ICT, Agency and mobile banking. We will extent credit referencing to sharing of positive information by banks to encourage competition for good borrowers.

41. Finally, we plan to introduce reforms to improve the legal, regulatory and administrative processes relating to collateral. These will include introduction of a unified framework for moveable and immovable collateral, streamlining the stamp duty regime and simplifying the registration processes. We are confident that these measures will go a long way towards increasing access to finance and positioning Kenya as the regional financial services hub.

42. Mr. Speaker, the Forex Bureau revised guidelines aimed at streamlining and strengthening corporate governance and financial position of the bureaus came into effect on 1st April 2011. In addition, the guidelines have been reviewed to align them to the provisions

of the existing laws like the Proceeds of Crime and Anti-Money Laundering Act 2009, which came into operation on 28 June, 2010.

Deepening Regional Trade and Expanding the Market for Private Sector

43. With regard to deepening regional trade and expanding market for our products, we will continue to position Kenya through appropriate economic policy and reforms to reap the benefits from regional integration with opportunities accorded by EAC Common Market Protocol and the wider COMESA market. We are fully committed to the implementation of the provisions of the Common Market Protocol and we are in support of the ongoing negotiations of the East African Monetary Union Protocol to ensure that the exercise comes to a logical conclusion for the benefit of the East African people.

2.4 Improving Governance through Implementation of Constitution

44. Mr. Speaker, our people approved the new constitution with expectations that we will achieve a lasting solution to our long-standing social and political challenges. The new constitutional dispensation will allow for strong institutions to provide checks and balances on the government, enhance governance, reform judiciary, and devolve resources to counties. This will increase the chances of us achieving Vision 2030 aspirations of substantially improving the lives of our people.

45. We have allocated Ksh. 20.8 billion towards the implementation of the new constitution, which include setting up constitutional offices; drafting of new laws; judicial reforms, expansion of Parliament facilities, and preparation of the next elections. To this end, we have provided Ksh. 1.5 billion for salaries for constitutional office holders and Ksh. 9.3 billion for judiciary to prioritize the implementation of the Constitution and continue to implement strategies that will lead to reduced case backlog, improved access to justices and modernize the court system.

46. The budget for National Assembly has been enhanced to Ksh. 8.1 billion to cater for additional physical facilities and infrastructure, including embracing ICT to fully realize live Court hearing broadcasts, and modernization of the existing facilities. The IIEC budget has been enhanced to Ksh. 12.1 billion to ensure smooth preparatory activities. In addition to this, we have set aside Ksh. 2 billion to cater for emerging requirements for constitution-related expenditures. I wish to call up our development partners to complement the government

3. PROMOTING HUMAN CAPITAL DEVELOPMENT

3.1 Investing in Healthcare to Promote a Healthy and Productive society

47. Hon. Members, access to healthcare services remains one of the key objectives of this Government. We shall continue to pursue health reforms to ensure effective healthcare delivery, especially at the local level to promote a healthy and productive population. The main focus of healthcare reform going forward is to restructure the health delivery system by

shifting emphasis from curative to preventive health care. In this regard, the Government has allocated a total of Ksh.64 billion for health services delivery plan. From this allocation, Ksh.903 million will be earmarked for purchase of ARVs, thus making these essential drugs available for our brothers and sisters suffering from HIV/AIDS, and Ksh.150 million for purchase of modern equipments for screening cervical and breast cancer.

48. I have also allocated from this amount Ksh.534 million toward finalization of rehabilitation of health facilities initiated under the economic stimulus programme, while Ksh.6.6 billion will be channelled toward enhanced immunization coverage throughout the country. We will also continue to support expansion of voluntary health insurance services in order to ensure more Kenyans access health services.

3.2 Continuing to Expand Quality Education for our Children

49. Provision of quality education is a lifelong investment we must continue to extend to our children, if we are to secure the future of our nation. To improve enrolment and transition rates, and equity in access to education, I have allocated Ksh.8.25 billion towards the provision of free primary education (FPE), Ksh.18.5 billion for free day secondary education (FDSE) and Ksh.1.67 billion for free school feeding programme, mainly in ASAL areas. I have also allocated Ksh.387.7 million for early childhood development. We are also responding to the rising demand for admission in national, provincial and district schools, and information technology. To this end, I have allocated additional Ksh.750 million for further upgrading of National Schools and another Ksh.680 million for purchase of computers for schools to enhance access to quality learning materials.

50. I have further allocated Ksh.780 million to improve infrastructure in schools. Out of this amount, Ksh.380 million will be used toward construction of low cost boarding schools in ASAL areas. We have programmed to spend Ksh.53.2 billion in tertiary education to further enhance access to higher education for our children.

School Bursary for the Vulnerable and Poor Households

51. Hon. Members, during these difficult economic times, we must act swiftly to cushion the poor households against further suffering. In this spirit, in addition to Ksh.500 million provided under 2010/11 budget, I have allocated additional Ksh.840 million under the Ministry of Education to scale up the bursary program in order to cater for a Ksh.20,000 annual bursary fees for additional 42,000 orphans and children from poor households in secondary schools throughout the country. This program will assure 200 school going needy children of this lifelong investment in each of the 210 constituency at a cost of Ksh.4 million each. I urge Hon. Members and their CDF committees to be fully involved to strictly ensure only deserving orphaned, poor and needy bright children benefit.

Assuring Girl Child Education throughout the Month

52. Hon. Members, we all need to appreciate when we educate a girl child we in turn educate the whole society. For this reason, we must do everything within our powers to ensure that girls are facilitated to attend schooling throughout the month just like boys. Through this budget, we are responding to their basic needs by allocating Ksh.300 million under the Ministry of Education to provide sanitary towels to all needy primary school going girls. This is a token to demonstrate we are a caring Government. I urge other organizations, including non-governmental organizations to complement this noble initiative.

4. PROMOTING RURAL DEVELOPMENT, FOOD SECURITY AND EMPLOYMENT

4.1 Rural Development for Employment and Poverty Reduction

53. Mr. Speaker, Kenyans will agree with me that the Constituency Development Fund (CDF) has since its introduction achieved tremendous progress in transforming our rural economies by bringing development to our people at the local level. This could not have been possible without the exemplary leadership and patriotism demonstrated by Hon. Members of this House. I, therefore, wish to commend all Hon. Members for ensuring various priority projects initiated are implemented in a timely manner.

54. Mr. Speaker, in recognition of the positive contribution by Hon. Members toward our development agenda, the Government in 2009 continued to devolve resources toward local level service delivery improvement by introducing an Economic Stimulus Program of Ksh.22 billion or Ksh.105 million per constituency for initiating various infrastructure projects under health, education, markets, industrial centres and fish enterprise development as well as recruitment of nurses and teachers per constituency to improve quality of health care and education as well as develop our rural economies.

55. In addition, **Mr. Speaker**, we introduced changes to the Roads Act for the first time ever to earmark 22 percent of Road maintenance Levy for road maintenance at constituency level, thus effectively transferring another Ksh.19 million per constituency for that purpose. These allocations were in addition to a Ksh.12 billion, which was channelled directly to CDF Board for various projects initiated at constituencies by Hon. Members.

56. Mr. Speaker, devolving these resources for rural development was not a one-off initiative – we went further in 2010/11 budget and allocated more resources, first to ensure all on-going ESP projects were completed and secondly to initiate new interventions under health, education, fish enterprise development, agriculture, irrigation, youth employment and support for ASAL. To implement these much needed initiatives, I provided Ksh.21 billion, in addition to Ksh.14.5 billion allocation directly under the CDF. We did this well aware of the need to start to address on a sustainable manner the high level of under development and challenges facing our people at the local level. In this Budget, we have once again made adequate provisions to ensure all on-going ESP-related projects are fully completed throughout the country, as well as introduce new interventionist projects at the constituency

level to assure regional equity and lay a foundation for rapid rural development, consistent with the spirit of the Constitution.

57. While we are doing this, we take cognisant of the fact that the Constitution devolves certain functions to the County governments to be funded by at least 15 percent of the most recently audited revenue collected. **Mr. Speaker**, cognisant of the important role the CDF has played in our rural development and having taken into account disbursements to LATF and KRA, which are a charge on the same ordinary revenue base, I have allocated Ksh.17.2 billion for CDF in 2011/12, up from Ksh.14.5 billion in the previous fiscal year, a 19 percent growth.

58. This high level of funding to CDF represents a two-fold or about 100 percent increase in CDF allocation since 2008/09 budget, excluding other generous amounts I have devolved under ESP and strategic intervention consistently since taking over as the Minister for Finance. Hon. Members, achieving this level of funding for rural development would not have been possible, if indeed the technocrats at the Treasury were as insensitive as implied by some quarters.

59. Mr. Speaker, as agreed with the Hon. Members, I have allocated another Ksh.1.8 billion as arrears owed to the CDF, bringing the total allocation to CDF to Ksh.19 billion, which translates to about Ksh.90.5 million on average per constituency countrywide. **Mr. Speaker**, considering the need to complete the many projects initiated by Hon. Members to assure the improvement of wellbeing of their people, I consider it appropriate that I extend a conditional grant to the CDF Board amounting to Ksh.3.7 billion or Ksh.17.8 million per constituency toward completion of the on-going projects under education, health, water and sanitation, in readiness for handing over to the new country government.

60. This is the highest ever direct allocation to CDF, amounting to Ksh.108.3 million per constituency on average. I am confident, Hon. Members, will do splendid job with these resources to further the devolved development agenda. This amount does not, however, include other resources I am channelling directly to constituencies under this Budget such as the Ksh.28.3 million toward constituency roads, Ksh.6.4 million toward water provision in each of the 170 constituencies and Ksh.30 million for water in the 35 constituencies in the Arid and Semi Arid Areas and other decentralized resources targeted toward bursary, youth sports and youth labour-intensive empowerment, among others as I will elaborate below. These resources we have devolved for grass root level development do not, however, include the KShs.40 billion I have disbursed under LATF of KShs.10.4 billion in 2009/10, KShs.12.3 billion in 2010/11 and allocation of KShs.17.3 billion proposed in this FY2011/12.

4.2 Water, Environment and Agricultural Development

61. Hon. Members, agricultural development remains a top priority towards addressing rural poverty, unemployment and food insecurity. Through agricultural development we shall also promote agro processing and value addition that will drive our export led growth and create employment for our people. **Mr. Speaker**, I wish to correct some misrepresentations often made about funding to agricultural sector. In assessing whether adequate resources are

allocated to this sector, it is important also to consider allocations under complementing services such as water and irrigation, environmental conservation, livestock, fisheries development as well as special policies targeted at small scale and traditional farmers in rural as per the definition of Maputo Declaration. Demonstrating the importance we attach to this sector in driving our development agenda, if we take the above definition, our total allocation to agricultural sector as per Maputo Declaration amounts to about Ksh.100 billion, which is about 11 percent of total ministerial expenditures. **Mr. Speaker**, this is above the 10 percent commitment we made under the Maputo Declaration, putting Kenya among the community of nations that have met this condition.

62. Mr. Speaker, there is no doubt, absolutely, that the current high level of commodity prices have adversely affected our people, especially the low income households. I nevertheless, strongly believe that we need to be focused on how to further address these challenges. Requests have been made by various Kenyans for Treasury to urgently implement tax reduction measures in the areas of fuel, maize and wheat in order to cushion our people against the effect of high commodity prices.

63. Further, we expected to respond to many demands, including expanding the safety net coverage, enhancing relief interventions and increasing the level of Strategic Grain Reserve. As can be seen from the foregoing, part of the requirements weakens our fiscal position, while the other increases demand for additional funding. These are conflicts we must weigh carefully in order to arrive at a framework that still cushions the vulnerable and poor, but lays emphasis on finding a lasting solution.

64. Mr. Speaker, over the medium term, our focus on water harvesting, storage and irrigation in various parts of the country, in addition to many interventions I have proposed to reduce cost of doing business are, therefore, intended to expand our ability to feed ourselves, generate surplus food for export and present going forward real possibilities of defeating hunger. But we are conscious of the fact that our fight against hunger will not succeed if we do not pull our efforts together.

Water Harvesting and Storage for Sustainable Agricultural Development

65. Mr. Speaker, water harvesting and storage for domestic, animal and irrigation is central to food security, livestock production and improved health of our people. For this reason and as a decisive step toward provision of adequate water for all Kenyans, as mentioned earlier I have allocated Ksh.6.4 million under the Ministry of Agriculture for provision of water in 170 constituencies. The implementation of this important measure will cost the exchequer Ksh.1.1 billion and provide water for domestic use and farming, thereby enhancing food security and moving our country toward achieving the Millennium Development Goals. I call upon Hon. Members and Kenyans at large to ensure that these projects are implemented fully and in time.

66. We are also extending access to water in to areas most needy. Accordingly, I have allocated Ksh.1.1 billion, which translates to Ksh.30 million per constituency for 20 water pans of 100,000 cubic metres in all the 35 needy constituencies. I am confident that with this timely

and much needed intervention we will be able to improve, in a measurable way, the living conditions of brothers and sisters who reside in these areas and make water accessible for their livestock.

67. This Budget also takes care of livestock farmers by establishing a Ksh.400 million Livestock Fund and providing Ksh.492 million for on-going and additional slaughter houses in ASAL areas. Hon. Members of Parliament from these regions should note that these allocations are intended to scale up the projects initiated in the 2010/11 budget under the Ministry of Livestock Development.

68. Hon. Members, given the perennial water scarcity in our country, we must start to inculcate in our school children the virtue of water conservation. I have, therefore, allocated Ksh.475 million as a conditional grant under the Ministry of Education for 1,900 schools countrywide or Ksh.250,000 per school for 10 primary schools per constituency covering 190 rural based constituencies. This initiative is expected to expand access to clean drinking water thereby improving the health of our children.

4.3 Securing Food Security and Rural Development through Expanded Irrigation

69. Mr. Speaker, the frequent adverse effects of climate change on agriculture poses a great threat to food security situation in our country. There is, therefore, need to start, in a decisive manner, to shift into irrigation based farming methods. Building on the progress achieved under ESP Irrigation program, we are initiating a comprehensive countrywide irrigation expansion program intended to gradually cover the 1.7 million acres of potential irrigable land in order to transform our country into a food secured and net exporter of food. **Mr. Speaker**, we are doing this in order to kick hunger out of Kenya, once and for all. As a first bold step in this journey, I have allocated an ambitious Ksh.10.2 billion, comprising of Ksh.8.6 billion under the Ministry of Finance for direct transfer to the National Irrigation Board for various irrigation projects countrywide, Ksh.1.2 billion to initiate a large irrigation project in Nyanza under the Ministry of Regional Development and another Ksh.400 million under the Ministry of Water and Irrigation to continue expanding small holder irrigation projects throughout the country. **Mr. Speaker**, these allocations represent the highest ever, to expand and initiate various irrigation projects spread countrywide.

70. I know some Hon. Members may be wondering why I have allocated the funds for irrigation and other critical interventions under the Ministry of Finance. **Mr. Speaker**, Hon. Members will agree with me that when there is a famine in the country, the ministries often rush to Cabinet to secure approval for additional funds without bothering to know where such funds would come from. For instance, we spent huge sums of money in the past, especially in 2008 and 2009 to mitigate effects of drought by importing maize to build up strategic grain reserve and undertake drought relief interventions throughout the country. This we did in recognition of the need to assure food security and reduce such unplanned expenditures that we introduced irrigation in 2009 under the ESP.

71. Last year, I went ahead to allocate more resources to the concerned ministries to expand irrigation projects, including allocating Ksh.400 million and Ksh.360 million toward the purchase of fixed and mobile maize driers, respectively to reduce post-harvest losses by our farmers but progress has been limited. Taking into account the lessons we have learnt. I have decided to hold in the Ministry of Finance funds for use by the National Irrigation Board toward the implementation of critical irrigation projects spread throughout the country. We will work with NIB and all relevant ministries to ensure we have in place a better framework for implementation. Our intention, Hon. Members, is to adopt the ESP framework for implementation and monitoring.

72. With this background, **Mr. Speaker** and in order to fast track completion of on-going irrigation countrywide, I have, in this budget allocated Ksh.2.3 billion for the following projects: (i) Rapsu in Isiolo; (ii) Bura and Hola in Tana river; (iii) Kibwezi in Makweni; (iv) Mitunguu and Muringa Banana in North Meru; (v) Mwea in Kirinyaga; and (vi) Kaagari Gaturi in Embu. With the implementation of these projects, we shall bring under irrigation a total of 36,100 acres of agricultural land, an equivalent of 27 percent of the planned 135,750 acres intended to benefit about 560,000 households.

73. We are also initiating new irrigation projects throughout the country to address hunger and poverty. To this end, I have allocated a total of Ksh.3.5 billion to initiate these project in order to bring under irrigation about 16,000 acres, in the first year, out of 70,000 acres we plan to complete in the medium term. When completed, I expect these projects to benefit and improve the lives of about 300,000 Kenyans.

74. Our fellow Kenyans who live in northern Kenya have continued to suffer from conflict, hunger and famine, especially due to drought. To start a journey of building resilience and instituting a permanent source of livelihood, I have allocated Ksh.1 billion to be shared equally to initiate: (i) a 1,500 acres of irrigation at Rahole in Garissa; (ii) 2,000 acres at Abasweni in Wajir; and (iii) 2,075 acres of irrigation at Daua clusters in Mandera. When completed, these projects will benefit a total of 34,000 people of North Eastern who live in those areas.

75. In addition, I have allocated Ksh.250 million to expand the on-going irrigation project at Katilu in order to empower our Turkana people to produce and feed themselves. We intend to fast track expansion of this project from the current size of 650 acres to 12,500 acres in the medium term in order to benefit about 50,000 households who live in this area.

76. We are also in this Budget initiating new irrigation projects to enable as many people, especially in Turkana to escape hunger and famine. To this end, I have allocated another Ksh.950 million to start implementing a three-year 2,700 acres irrigation program targeted to benefit about 11,000 people in Turkana. I am also allocating another Ksh.130 million to fast track completion of irrigation project designs covering strategic intervention in such areas as Kalemunyan, Nakamane, Morulem, Naoros and Napak. I urge the National Irrigation Board to fast track completion of these designs in order to have them ready for funding during the Supplementary Budget so as to allow our people in this region to enjoy the benefit of adequate food supply early.

77. Hon. Members may appreciate that the recent and on-going investments in water dams and irrigation in the lower Eastern have started to pay off as we no longer see faces of hunger as was the case in the past. Through this Budget, I am allocating funding for initiating two more irrigation projects at Usueni in Kitui and Iviani in Makueni at a cost of Ksh.300 million and Ksh.250 million, respectively. The completion of these projects will improve the lives of about 8,000 of our people in Ukambani.

78. We are also initiating similar projects in other areas to assure regional equity. Accordingly, I have allocated resources as follows: (i) Ksh.150 million for a 500 acre irrigation at Endalala targeting 2,000 beneficiaries; (ii) Ksh.700 million to initiate a 17,500 acres irrigation at lower Kuja in Migori intended to benefit 70,000 household members; (iii) Ksh.700 million to start implementing a 12,500 acres irrigation project at Lower Sio in Busia which will benefit 50,000 households when completed; (iv) Ksh.600 million to initiate a targeted expansion of 11,250 ares at Ahero and West Kano targeting about 45,000 beneficiaries; and finally (v) Ksh.150 million for South West Kano Phase II project of about 7,500 acres covering 30,000 beneficiaries.

79. Mr. Speaker, I have also allocated another Ksh.470 million to complete designs of another 30 irrigation projects spread throughout the country covering about 85,000 acres of land intended to benefit about 375,000 households. Finally, **Mr. Speaker**, I have allocated Ksh.1.2 billion as counterpart fund toward the expansion of Mwea Irrigation project being funded by JICA to the tune of Ksh.16 billion and to be implemented over a period of five years. The allocation I have referred to is going toward resettlement of residents who now occupy the 1,200 acres of land targeted to be covered by the project expansion.

4.4 Transforming Agriculture into Business for Food Security and Employment

80. Mr. Speaker, current global food shortages present immense opportunities for our agricultural development. For Kenya to be a net global supplier of food, we must start to facilitate growth and expansion of agribusiness by providing a sustainable access to a broad range of financial services through value chain approach in order to facilitate increase in productivity, add value through transformation, processing, marketing and finally to consumers. Building on our encouraging experience in implementing "Kilimo Biashara" project, the International Fund for Agricultural Development (IFAD) has extended a generous support of USD.10 million as a Risk Sharing Facility to leverage commercial banks to lend about Ksh.10 billion to rural and agriculture development targeting 700,000 households. This project is also intended to build capacity of rural groups with limited business experience and facilitate the vulnerable women and youth to acquire financial graduation through skills training and asset creation.

81. Hon. Members, we are expanding this project by establishing a Ksh.5 billion Impact Investment Fund under the Kenya Incentive Based Risk Sharing Agricultural Lending (KIRSAL) to be implemented over a four year period in order to leverage Ksh.50 billion

lending to agricultural sector and rural development targeting another 1.5 million smallholder farmers and over 10,000 agribusinesses throughout the country. To this end, I have allocated Ksh.1 billion as an initial Government contribution to this Fund. The implementation of this program will empower and position the private sector players in the agricultural sector to deliver pro-poor economic growth, reduce poverty, expand employment opportunities, especially for our youth and diversify our export.

Youth Employment and Engagement

82. Mr. Speaker, one of the greatest assets that our country has been blessed with is the vibrancy of our youth. According to the 2009 Census, the youth constitute a significant majority in the country. As such, the youth must be viewed as key stakeholders in the economy of this country and indeed the stewards of vision 2030. The youth of Kenya are highly talented, energetic and have shown great enthusiasm for entrepreneurship. Indeed, our youth have pioneered innovations in the ICT sector, especially in mobile technology that has given our country international recognition. We must, therefore, take measures to tap this pool of resources for them to push our economy up the technology value chain.

83. For this reason, the Government will continue to scale up youth empowerment programs in order to ensure that our young people can look forward to decent employment. To this end, we have scaled up the Kenya Youth Empowerment Project (KYEP) by Ksh. 210 million to go towards labour-intensive works and social services, bringing the total expenditure for KYEP to Ksh.1.8 billion in 2011/12. This will reduce the vulnerability of unemployed youth through expansion and enhancement of the Kazi kwa Vijana initiatives. The additional amount of money will enhance the coverage of the programme and target youths aged between 18-35 years under the KKV. It aims to put money into our youths pocket while at the same time enhancing community access to social and economic infrastructure.

Hon. Members, one of the challenges that face our youth as they seek formal employment is the requirement for prior experience by formal employers. This is despite the fact that many of these young people are not able to secure internship position to gain these experiences and sharpen their skills. To address this challenge, I will be consulting with private sector players on the best ways to extend tax breaks for firms offering internship and training placement for youth, training and passing on the relevant work experience and enhancing the employability of youth. I, therefore, wish to urge our hard working private firms under the leadership of KEPSA and KAM to reciprocate and avail opportunities for internship while also harnessing on the potential of the Kenyan youth.

84. Hon. Members, I have also enhanced the Youth Enterprise Development Fund and the Women Enterprise Fund by Ksh.385 million and Ksh.440 million, respectively. I now wish to challenge the management of these funds to show results for Kenyans.

85. Mr. Speaker, last year I proposed the establishment of a revolving fund for onward lending through select banks to support micro and small enterprises. The fund has not yet been operationalised due to challenges posed by misrepresentation by some unscrupulous

persons who took advantage of my announcement to solicit for funds and registration fees from members of the public under the guise of facilitating them to get credit from select banks participating in the program. As a result we are reviewing the process of implementing the Fund to ensure that we meet the original intended objectives and to protect potential borrowers under the Fund. In the meantime, I have set aside Ksh. 1 billion for FY 2011/12 to boost this SME Fund and I expect the uptake to increase once logistical problems are sorted out.

86. Mr. Speaker, apart from engaging the youth in these activities, I would also like to encourage them to nurture their talents in the realm of sports. Time and time again, our young people have made this country proud by their exemplary performance in international tournaments in various disciplines. I believe that a clear investment in sports, backed by proper management, can turn this activity, which attracts thousands of our young people, into a sustainable employer. Our youth should be able to follow their dreams and establish careers in sports. To his end, I have allocated Ksh. 210 million (Ksh. 1 million per constituency) towards competitive sports for youth countrywide. This will be used for purchase of trophies, monetary award to competing teams and compensation for officials overseeing this initiative. I urge the private companies under their Corporate Social Responsibility (CSR) budgets to match this amount, at least on a shilling for shilling basis.

5. CUSHIONING THE VULNERABLE MEMBERS OF OUR SOCIETY

5.1 Social Safety Net for the Vulnerable

87. Mr. Speaker, we recognize the hardship our people are going through, more so the vulnerable groups such as the elderly, the physically challenged and orphaned children. These are the times we must be seen to care for this group of persons. In expressing Government's deep care, I have allocated under the Ministry of Gender, Children and Social Development an additional Ksh.385 million, bring to total Ksh.667 million for the disabled persons; Ksh.2.8 billion to bring under program additional 100,000 orphaned and vulnerable children; and finally additional Ksh.470 million, which scales up the allocation to Ksh.1 billion for the elderly persons. This amount, which include upward adjustments of the monthly transfer to Ksh.2,000 as directed by this House, will enable us to increase the current coverage by two-fold from 10 households to 20 households per constituency throughout the country.

88. Mr. Speaker, we also have our brothers and sisters who were displaced when the teachers pay award agreed between the Kenya National Union of Teachers (KNUT) and Government was under implementation. This group of senior citizens need to be cushioned too from the current economic challenges. I have, therefore, allocated Ksh.3.3 billion as first disbursement of an enhanced retirement entitlement towards social protection for this vulnerable group. This will increase the monthly pension payable to our retired teachers and thereby improve their welfare.

89. Mr. Speaker, we are going further by extending similar care to the vulnerable urban poor who are equally experiencing hardship arising from high commodity prices. Through this budget, we want to build on a successfully piloted organic sack gardening program launched in 2008 by GoK, EC and AFD to improve urban food security situation. To this end, I have, therefore, allocated under the Ministry of Gender and Children Services Ksh.845 million to expand this program ten fold by providing two empty sacks, soil, pebble stones, manure and seedling of any vegetables to each household. The project is planned to cover 80,000 households in five urban slums in Nairobi, 50,000 households in three selected slums in Mombasa and 50,000 households in two slums in Kisumu.

90. Hon. Members, through this project, we target to positively transform the lives of 650,000 households into food secured urban farmers. In the meantime, **Mr. Speaker**, the Government is in the process of developing a comprehensive National Social Protection Policy that will provide a framework for better targeting all categories of needy and vulnerable members of our society countywide.

5.2 Settlement of Internally Displaced Persons

91. Mr. Speaker, some of our brothers and sisters who were displaced from their homes due to post election violence and the need to initiate conservation of our water towers, especially around Mau, have continued to suffer. This situation must be brought to a closure to enable the remaining genuine displaced persons to be settled in order to enable them to live in a dignified manner. It is worth noting that a lot of money, amounting to Ksh.9.8 billion has already been provided in the past to sort out this problem but the implementation has proved wanting. To implement the final phase of IDP resettlement program under an appropriate framework to be developed by the Government, I have allocated another Ksh.4.2 billion, bringing the total amount spent on IDP resettlement to Ksh.14 billon, which could have been shared to every Kenyan at Ksh.360 each. I expect the Ministries concerned to involve communities, civil society organization with experience in this matter and our Development Partners in this final phase to allow for closure of the issue of IDPs once and for all.

6. FISCAL OUTTURN FOR 2010/11

92. Mr. Speaker, the implementation of FY 2010/11 Budget was satisfactory but with some challenges. These included difficulties in achieving the revenue targets in the first nine months of the year due to VAT withholding challenges; competition in the mobile telephony sector, oil supply constraints that weakened tax collection, and changes in taxation of cigarettes in the Finance Act, 2010. On the expenditure side, the ongoing implementation activities of the new Constitution, together with interventions to address the drought and beef up security along our porous borders put huge demand for additional funding. **Mr. Speaker**, with this background in mind, I wish to take this opportunity to briefly appraise Hon. Members on the financial outturn for FY 2010/11

6.1 Revenues

93. Mr. Speaker, in the last Budget Speech, it was estimated that total revenues (including fees and duties collected and applied at source) would amount to Ksh.689.6 billion comprising Ksh.609.6 billion in ordinary revenue and Ksh.80.0 billion in Appropriations-in-Aid. Due to the challenges already mentioned, total revenues are now estimated to under perform by about Ksh.3.2 billion, and, therefore, we expect to close this financial year with revenues including A-i-A of Ksh.686.4 billion.

6.2 Expenditures

94. Mr. Speaker, regarding the expenditures, the 2010/11 Printed Estimates reflected Gross Recurrent Expenditure amounting to Ksh.675.6 billion, including Ksh.71 billion which was be to financed through Appropriations-in-Aid. The Consolidated Fund Services took Ksh.187.7 billion while Development Expenditure had a provision of Ksh.321.2 billion.

95. Mr. Speaker, overall, the approved gross recurrent expenditures for the current financial year is now estimated at Ksh.695.5 billion, with Ksh.70.7 billion being financed through Appropriations–in–Aid. Non-discretionary expenditures which are financed directly from the Consolidated Fund Services amount to Ksh.187.4 billion while the approved gross development expenditures amount to Ksh.303.8 billion with Ksh.9.2 billion being financed through Appropriations–in–Aid while the remainder will be financed from the Exchequer.

7. FISCAL PROJECTION FOR 2011/12

96. Mr. Speaker, let me now turn to the financial projections for 2011/12 budget.

7.1 Revenue

97. Mr. Speaker, the total revenue target for fiscal year 2011/12 is Ksh.787.6 billion (or 24.7% of GDP) comprising of Ksh.713.6 billion of ordinary revenue and Ksh.75.9 billion of appropriations-in aid. The ordinary revenues are inclusive of Ksh.9.2 billion normally collected as Appropriation-in-Aid applied at source which now has been converted to exchequer receipts. The targeted revenue is predicated on projected economic growth, the on-going reforms in tax and customs administration, and new tax measures that I will outlined later in my speech. The Appropriation-in-aid now include fee collected by public universities which were previously not captured in the budget.

7.2 Recurrent Expenditure

98. Mr. Speaker, as Hon. Members may have noted from the copies of the Printed Estimates, the gross recurrent expenditure for 2011/12 is estimated at Ksh.754.4 billion. This includes Ksh.70.7 billion, which will be financed through Appropriations–in–Aid, and expenditures financed directly from the Consolidated Fund Services, amounting to Ksh.209.5 billion, thus leaving a net of Ksh.474.2 billion for discretionary recurrent expenditures.

99. The Consolidated Fund Services comprise Ksh.76.6 billion for domestic interest payments; Ksh.7.5 billion for foreign interest payments; Ksh.31.8 billion for pensions, and Ksh.3.0 billion for salaries and allowances of constitutional office holders and other non-discretionally expenditures. In addition, I expect to finance external redemptions amounting to Ksh.25.8 billion and domestic redemptions amounting to Ksh.63.4 billion.

7.3 Development Expenditure

100. Mr. Speaker, gross development expenditures for 2011/12 is estimated at Ksh.398.6 billion. Out of this amount, Ksh.136.1 billion will be financed through Appropriations–in–Aid, comprising of direct project financing of Ksh.28.4 billion in form of grants, Ksh.102.5 billion in form of loans and Ksh.5.2 billion in form of Local Appropriations-in-Aid.

101. Mr. Speaker, taking the above into account, I expect to finance net development expenditure amounting to Ksh.262.5 billion from the Exchequer. This comprises of Ksh.12.3 billion in form of grants revenue; Ksh.39.5 billion in form of loans revenue; and Ksh.210.3 billion from Government of Kenya.

7.4 External Grants

102. Mr. Speaker, on external grants, I have received commitments amounting to Ksh.41.1 billion to finance development projects. Details of the donors and projects being financed are included in the Development Estimates. I wish to sincerely thank the development partners who have pledged and confirmed their support.

7.5 Overall Deficit and Financing

103. Mr. Speaker, after providing for Ksh.2.0 billion Contingency Fund, the overall expenditures in FY 2011/12 amounts to Ksh.1,154.9 billion, inclusive of domestic debt redemption of Ksh.63.4 billion and external debt redemption of Ksh.25.8 billion. With total expected receipts of Ksh.970.7 billion (including loans and grants), the overall deficit amounts to Ksh.184.3 billion as indicated in the Financial Statement circulated to Hon. Members.

104. However, excluding the domestic debt rollover of Ksh.62.3 billion from expenditures and reflecting external debt redemption of Ksh.25.8 billion as a financing item, while at the same time reflecting external financing in a more acceptable international standard practice, total expenditure would amount to Ksh.1,066.8 billion giving rise to an overall fiscal deficit of Ksh.236.2 billion or 7.4 percent of GDP. This will be financed by net foreign financing of Ksh.116.7 billion and Ksh. 119.5 billion borrowing from domestic market. **Mr. Speaker**, this means that the fiscal framework for 2011/12 is fully financed and there is no financing gap.

8. TAXATION MEASURES FOR 2011/12

8.1 Overview of the Proposed Measures

105. Mr. Speaker, in your direction, the Minister for Finance is expected to outline tax proposals and others measures to finance the Budget and thereafter lay the necessary documents on the table of the House on a motion that the measures be referred to the Budget Committee. **Mr. Speaker**, in your wise counsel in page 11 of your ruling, you have stated that,

> "*in invoking section 7 of the Sixth Schedule to the Constitution, it is clear that it is possible and necessary to use the existing laws, including the Fiscal Management Act, 2009 and existing Government Financial Regulations and procedures to navigate the budget process*".

106. Accordingly, under Section 2 of the Provisional Collection of Taxes and Duties Act, Cap 415, the Minister for Finance is empowered to make an order through a Legal Notice to the effect that all or any specified provisions of the Finance Bill, 2011 relating to taxes or duties shall have effect as if the Bill were passed into law. Therefore, **Mr. Speaker**, all measures I am proposing herein and for which their effective date is immediate shall come in effect midnight tonight.

107. Mr. Speaker, the rest of my statement outlines various tax measures that I intend to introduce through the Finance Bill, 2011 to be tabled in this house. These measures are intended to promote economic growth, expand employment opportunities, reduce poverty, cushion our people against high commodity prices and simplify the tax system. I, therefore, **Mr. Speaker**, request that the remainder of my speech be regarded as a Notice of Motion to be moved before the Departmental Committee on Finance, Planning and Trade for consideration and necessary action.

108. Mr. Speaker, the tax measures and other miscellaneous amendments I intend to propose hereunder are broadly categorized into four priority areas, which complement the various expenditure policies I have already outlined in the earlier part of my speech. These include:

i. Facilitating private sector growth and development;
ii. Cushioning the economy and our people against high commodity prices
iii. Ensuring equity and fairness in our tax system; and
iv. Enhancing tax administration.

8.2 Facilitating Private Sector as Key Driver of Growth and Employment

109. Mr. Speaker, in view of the critical role played by the private sector in wealth and employment creation for the prosperity of our nation, I have proposed additional measures to complement those I have already outlined.

Promoting Agriculture for Food Security and Employment

110. Mr. Speaker, as an alternative to producing traditional crops, farmers have diversified and embraced fruit farming to mitigate the now frequent rain failures. We therefore need to promote value added linkages by supporting our fruit farmers to enhance their competitiveness. In this regard, aseptic plastic bags used to store fruit extracts shall be granted duty remission and imported at the rate of 10% instead of a Common External Tariff (CET) rate of 25%.

111. Mr. Speaker, we are reputed to have a robust dairy and poultry sub sector in the region. The high cost of premixes used in the manufacture of animal and poultry feeds continues to impact negatively on these critical inputs. In order to further support the gains made in this important sub sector, I have reduced import duty from 10% to 0%.

Encouraging Use of Green Energy

112. Mr. Speaker, we have abundant clean energy potential which remains untapped and in the recent past we have provided incentives to support production of clean energy. Imported Solar panels are duty free while the imported raw materials for the manufacture of the same attract duty at 25% and 10% which in effect makes local manufacture unattractive. To encourage local manufacturing, I propose to grant duty remission on inputs for the production of solar panels.

113. Further **Mr. Speaker** we need to encourage usage of environmentally friendly vehicles to reduce carbon emission and noise pollution. In this regard, battery operated vehicles will be duty exempt.

Positioning Kenya as Aviation Hub

114. Mr. Speaker, passenger traffic in our airports continues to post a positive growth. This calls for measures to further support our international airports to enhance their competitiveness, service delivery and also mitigate matters of security and safety. To promote quality airport services, I propose to exempt from paying import duty apron buses used at the airside.

Further Supporting Security for Faster Development

115. Mr. Speaker, assuring protection of property rights, security for life and property is central to investment. Indeed, as we continue to expand our infrastructure, enhancing

security will be a critical factor in positioning Kenya as the regional investment destination of choice. In this regard **Mr. Speaker** vehicles and equipment imported by Kenya police shall be exempt from import duty.

116. Mr. Speaker, security equipment such as hand held metal detectors, CCTV cameras, bomb detectors, under carriage walk through metal detectors and under carriage mirrors will also enjoy duty exemption. This will make it cheaper for other security providers to provide this critical service in the wake of global terrorism and security threats.

117. Mr. Speaker, in the recent past, His Excellency the President issued a directive to have all simcards in use registered for security purposes. To this end, I propose to amend the law to make it mandatory for issuers of simcards to ensure registration before activation for use by their subscribers.

Promoting Banking Efficiency and Stability

118. Mr. Speaker, the world today has become a global village. In order to enable local banks to provide banking services to their customers while abroad without having to open subsidiaries, I propose to amend the Banking Act to require the Central Bank to formulate guidelines to allow banks to enter into arrangements with banks outside Kenya to offer limited banking services to Kenyans while abroad.

119. Mr. Speaker, sharing of credit information among lenders is very critical to decision making for new lines of credit. With the recent introduction of deposit-taking Microfinance institutions, there is need to broaden the sharing of credit information to cover these new institutions. To this end, I propose to amend both the Banking and Microfinance Acts to allow for credit information sharing by institutions licensed under the two Acts.

120. Mr. Speaker, mobilization of deposits from the public is only allowed to financial institutions regulated under the law. However, some unscrupulous persons have been found to engage in deposit taking business without a license particularly in the microfinance sector, with the aim of fleecing Kenyans. In order to address this problem, I propose to amend the Microfinance Act to prohibit deposit taking business by un-licensed entities.

121. I further propose to amend the Microfinance Act to prohibit institutions which obtain approval from the Registrar of Companies to use the words “Deposit Taking Microfinance” in their business name from commencing deposit taking business before being issued with a deposit taking license by the Central Bank

Further Deepening the Capital Market for Faster Growth and Employment

122. Mr. Speaker, pension schemes are required to appoint fund managers to professionally invest scheme funds irrespective of their size and class of investments. This requirement has put unnecessary administration cost on pension schemes that invest all their funds in

guaranteed funds. In order to lower the administration costs for these pension schemes and help them to grow their asset base, I propose to amend the law to remove these requirement for appointing fund managers by schemes that invest all their funds in guaranteed fund.

123. Mr. Speaker, the Government has to date initiated critical reforms that have positively impacted on the Capital Markets leading to substantial growth in the securities segment. In order to further deepen the Capital Markets, I propose to amend the Capital Markets Act to facilitate introduction of an Over the Counter Market for bonds. This measure, **Mr. Speaker,** will go a long way to facilitate issuance of bonds by small and medium enterprises.

124. Mr. Speaker, in my last year's budget speech, I announced measures to be taken to facilitate futures trading in commodities. One of the measures was the establishment of a futures exchange to serve as a platform for trading futures contracts of multi-asset classes such as currency, mineral and energy derivatives. In this regard, I propose to amend the Capital Markets Act to allow for the introduction of a regulated commodity futures market.

Further Reforms to assuring Insurance Sector Stability

125. Mr. Speaker, we have had experience of insurance companies collapsing and exposing policyholders particularly when they dispose off their assets upon experiencing financial problems. In order to address this problem, I propose to amend the Insurance Act to empower the Insurance Regulatory Authority to assume control over the assets of a financially troubled insurer.

126. Mr. Speaker, over the years, the insurance industry has been using the table of the U.K. Mortality experience for the period 1949 – 1952 to determine the pricing of life insurance contracts, on the assumption that it reflects the Kenyan mortality rate. In order to address the anomaly, I propose to amend the Insurance Act to adopt a mortality table reflective of the Kenya experience.

8.3 Further Caring and Cushioning our People against High Commodity Prices

127. Mr. Speaker, in addition to policy and expenditure measures I have earlier mentioned which are aimed at improving the welfare of our people, I have proposed additional tax measures to cushion our economy and the people of Kenyan against high commodity prices.

128. Mr. Speaker, in April this year, the Government reduced excise duty on kerosene by 30 percent last month in order to stem the impact of rising fuel prices on households. However, the cost of living has continued to increase due to rising international oil prices. In order to further cushion Kenyans from the effects of high cost of living and make kerosene prices more affordable to common Mwananchi, I propose to remove the excise duty on kerosene all together.

129. Mr. Speaker, the EAC Ministers for Finance during their Pre Budget Consultations of 7th May 2011 held in Kampala, Uganda, also agreed on a number of measures to cushion majority of the poor against the high cost of food. First **Mr. Speaker**, due to limited local and regional rice production capacity, I have extended stay of CET application to allow the importation of all types of rice at the rate of 35% instead of 75% for a period of one year.

130. Second, **Mr. Speaker**, our capacity in the region to produce wheat grain to meet local demand is limited. In order to enable our millers import wheat grain to supplement local production, I am allowing the importation of wheat grain under the duty remission by gazetted millers at the rate of 0%, instead of 10% granted last financial year, for a period of one year.

131. Third, **Mr. Speaker,** even though maize grain is produced in the region, the level of production has fallen drastically due to poor weather occasioning shortages for this basic foodstuff. I propose to grant remission of duty for a period of six months on maize grain imported by gazetted maize millers at a duty rate of 0% instead of 50% as per the EAC CET.

8.4 Ensuring Equity and Fairness in Our Tax System

132. Mr. Speaker, food supplements have become a necessity in our daily lives. They provide support to the body in order to reduce nutritional deficiencies. Although they are not curative, they prolong life and are sometimes administered for very long periods. In order to make them more affordable, I propose to reduce import duty from 25% to 10%.

133. Mr. Speaker, Kenyans are known to be innovative and hard working. We have recently seen three wheeled distribution pickups powered by motor cycle engines. There is an emerging technology of motor cycle ambulances suitable for use in the rural areas. Just like motor vehicle ambulances which are duty free in the CET, I propose to remove import duty on motor cycle ambulances to provide this critical service to our rural population.

134. Mr. Speaker, I have noted that some employees work for more than one employer and end up getting multiple reliefs. I propose to amend the PAYE rules to provide that an employee shall only qualify for one personal relief.

135. Mr. Speaker, the Government is concerned about the housing shortage prevailing and would like to address this using investment vehicles such as Real Estate Investment Trusts (REITs). To this end, I propose to amend the Income Tax Act to exempt REITs from corporation tax in addition to exempting investors who receive dividends from REITs from payment of withholding tax.

136. Mr. Speaker, it is the obligation for every person to pay his or her fair share of tax. However, it has been noted that some professionals are not paying taxes in accordance with their income. I, therefore, propose to increase the withholding tax in respect of payments made to such professionals from 5% to 10%.

137. Mr. Speaker, the global trend is for simplification of excise tax systems. Our current excise tax structure for tobacco products has been criticized as being complex. In order to

address these concerns, I propose to harmonize the excise duty regime for cigarettes at Ksh.1,200 per mille or 35 percent of the retail selling price (RSP), whichever is higher. The proposed regime will reduce incentives for substitution among different brands, in line with the public health objective of reducing tobacco consumption.

138. Mr. Speaker, just like in the case for cigarettes, the reform measure in beer taxation is also aimed at meeting the simplicity principle and discouraging abuse of beer. I propose to introduce a similar reform measure to harmonize the rates for beer at Ksh.70 per litre or 40 percent of the retail selling price (RSP), whichever is higher. This will also address administrative challenges emanating from misclassification to reduce tax liability.

8.5 Enhancing Tax Administration

139. Mr. Speaker, following recent financial crisis, it is important that countries safeguard their revenue base through sharing and coordination of tax information to avoid tax evasion and transfer pricing. I am through this budget proposing to amend the law to allow the Government to enter into Tax Information Exchange Agreements, which are faster to conclude with other tax jurisdictions in order to facilitate exchange of information that will assist in taming tax evasion and ensuring all potential taxpayers pay their due taxes.

140. Mr. Speaker, the government has noted that there are many taxpayers who file Income Tax returns yet all their Pay As You Earn (PAYE) taxes have been paid promptly by their employers on a monthly basis. In order to reduce unnecessary filing of tax returns, I propose to abolish the filing of returns by employees who have no other income and their PAYE has been paid to the exchequer by their employers.

141. Mr. Speaker, there are taxpayers who refuse to apply for Personal Identification Number (PIN), thereby frustrating KRA's efforts to register and recruit tax payers. Consequently, I propose to amend the Income Tax Act to give the Commissioner express powers to register such taxpayers.

142. Mr. Speaker, in my budget speech last financial year 2010/2011, I highlighted the challenges facing the administration of Value Added Tax (VAT), especially the complexities in its administration and the ever increasing VAT refund backlog. I undertook to review the VAT Act, with a view to making it simpler and easier to administer. **Mr. Speaker**, I have kept my promise and wish to report to this House that the Task Force I constituted has finalized the review and produced a Draft VAT Legislation Bill. Consistent with spirit of our Constitution, I intend to upload this Draft VAT Bill on our Treasury website shortly for the public to make their comments and then submit a revised version to a stakeholders workshop scheduled for end of August 2011.

143. Thereafter, **Mr. Speaker**, I shall incorporate comments received before finally submitting the final Draft to the Cabinet for consideration and approval allowing for publication by the Attorney General and tabling to this House. I wish to call upon this House to fast track debate on this critical bill when submitted and pass it into law to accord our taxpayers the earliest opportunity to comply with a simpler, modern and new VAT law.

9. CONCLUSION

144. In conclusion, **Mr. Speaker,** this 2011/12 budget reflects our collective desire and commitment to responding to the most pressing challenges our economy and our people are facing currently and it builds resilience going forward. It focuses on continued maintenance of macroeconomic stability, scaling investment in infrastructure, security and business regulatory reforms to reduce cost of doing business and make our economy competitive. This budget also marks the first bold step toward addressing, once and for all, the related challenges of hunger and famine through a comprehensive food security program while at the same time put in place enhanced measures to cushion the vulnerable groups in our midst. These are the issues raised by many Kenyans who have walked with us on this long journey of budget preparation, either directly under the democratic MTEF Sector Hearing process or through written and e-mail submissions we received and for which we have acted on and presented as part of the measures in this budget.

145. For those many Kenyan who made their representations, I would like to acknowledge them for agreeing to play their part in the budget making process with utmost patriotism. In addition to the public hearings held by my Ministry, many took the initiative to send in letters and memoranda to the Ministry on the same. Furthermore, we were able to include the growing number of technology savvy Kenyans who are active on social media through an online suggestion form and a Facebook and Twitter campaign on my official pages. Through these tweets, Facebook wall posts, emails and blogs, we received more than 3,000 submissions from Kenyans both locally and in the diaspora which have contributed greatly to our ability to craft a budget that is tailored to the needs of the Kenyan people.

146. It is important to note that 50% of these submissions were received from Kenyans between the ages of 18 and 30 and I would like to specifically commend this group of young Kenyans who have taken it upon themselves to embrace technology and engage with the government through IT and social media, which I believe is the new frontier of public engagement. **Mr. Speaker**, I would also like to encourage you and members of the house who are not yet on these forums to join Facebook and Twitter and other similar platforms through which you can directly and constructively engage with Kenyans in real time.

147. Hon. Members, as we are all aware, the Constitution was the desire of all Kenyans. Those of us who are privileged to be charged with the responsibility of implementing it should appreciate that history has bestowed upon us this unique opportunity and we should therefore be cautious during this implementation phase and ensure that we read the letter and spirit of the Constitution. Let us appreciate that the Constitution will outlive us, ours is to lay a firm Constitutional foundation for serving the generations to come and place our country to a on the path of durable social stability and prosperity.

148. Mr. Speaker as I conclude, I wish to thank His Excellency the President, the Rt. Hon Prime Minister, my Cabinet colleagues and the relevant Committees of Parliament for the

support they have accorded my Ministry and I in the process of crafting this budget. Finally, **Mr. Speaker** allow me to thank my Permanent Secretary and staff of the Ministry of Finance for the many hours of dedication and commitment to this process.

Thank You all and God Bless Kenya

Mr. Speaker, I beg to move