



**REPUBLIC OF KENYA**

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# **Budget Statement**

**For the**

**Fiscal Year 2013/2014**

**(1st July – 30th June)**

**by**

**HENRY K. ROTICH**

**Cabinet Secretary for the National Treasury**

13<sup>th</sup> June 2013

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**STATEMENT DELIVERED TO THE BUDGET AND APPROPRIATION COMMITTEE OF THE NATIONAL ASSEMBLY ON 13<sup>TH</sup> JUNE, 2013, BY MR. HENRY K. ROTICH, CABINET SECRETARY FOR THE NATIONAL TREASURY, REPUBLIC OF KENYA, WHEN HIGHLIGHTING THE BUDGET POLICY AND REVENUE RAISING MEASURES FOR FISCAL YEAR 2013/2014**

**1<sup>ST</sup> JULY, 2013 TO 30<sup>TH</sup> JUNE, 2014**

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**1. INTRODUCTION**

**1.1. Overview**

1. **Hon Members**, it is a great honour and privilege to present the highlights of the first budget of the Administration of H.E the President, Hon Uhuru Kenyatta, in accordance with section 40 (1) and (2) of the Public Finance Management Act, 2012, and Standing Order No.241 of the National Assembly.

2. But before I proceed, **Hon Members**, allow me to take this early opportunity to express my sincere gratitude to His Excellency the President for appointing me as Cabinet Secretary for the National Treasury and entrusting me with the important task of spearheading our agenda of transforming and elevating our economy to a higher growth path.

3. **Hon Members**, let me also, at the onset, thank the Budget and Appropriation Committee, under the chairmanship of Hon Mutava Musyimi, for the constructive engagement during the parliamentary review of the Budget Estimates that we presented on 30<sup>th</sup> April 2013.

4. **Hon Members**, in the just concluded general elections, Kenyans showed the world that we have come of age and that we can conduct our business in a peaceful and civil manner. Thanks to our new Constitution and the institutions that we created under this legal instrument.

5. All Kenyans should be proud that we confounded our cynics who had to contend with the fact that we could successfully hold a robust political competition and yet find a shared understanding on matters of concern to all of us – that is, building a better Kenya for the current generation of Kenyans and for the generations to come.

6. **Hon Members**, we must now seize this opportunity to urgently address the main challenges that we continue to face, notably: elevating the economy to a higher and sustainable growth path, creating decent jobs, and significantly reducing poverty while preserving macroeconomic stability. As H.E the President pointed out in his address to

the joint session of Parliament on 16<sup>th</sup> April 2013, none of us can rest or sleep peacefully until every Kenyan can find a job easily, feed himself and his family and easily exploit available opportunities to improve their own lives.

7. The President has correctly challenged us to show results to Kenyans. We, therefore, need to re-examine our strategies, and to set a more comprehensive and focused plan of action. We also need to build a new common purpose so that we can use our skills and resources to deal with our economic and social challenges. The President has already shown the way.

8. He has restructured the government, by collapsing 44 ministries into 18 ministries and commenced the journey for organizational restructuring and rationalizing public agencies that is driven by the imperative of service delivery. The government is also forging a new engagement with the business sector and development partners through which we will mobilize our determination to build a better Kenya that meets the aspirations of our people.

9. **Hon Members**, despite the progress we have made over the past 50 years since independence, we still face various human development challenges. The majority of our youth have no work. Income inequality is high and about half our population still lives in abject poverty. Indeed, a large number of Kenyans are still food insecure and have low access to quality health services. As a consequence, we are confronted with several social and economic challenges, including unacceptably high rates of crime.

10. So we have to act now. We must strengthen the institutions to deliver public services effectively. We must transform the structure of our economy, so that all Kenyans can share in the opportunities that our country offers. We must in our own way demonstrate to the world that it is possible to transform our economy so as to deliver an inclusive and broad-based development. We must also ensure the system of devolved government succeeds.

11. **Hon Members**, the Government is ready to work tirelessly to build a future in which all Kenyans can take pride and equitably share the benefits. So the key message of this budget is, therefore, “**Transformation for Shared Prosperity**”

12. **Hon Members**, the Cabinet, under the leadership of H.E the President has agreed on a set of outcomes that will shape our policies and programmes for the years ahead. The key elements of this action plan, which informs this Budget, aim to lock in and secure a sustained higher and inclusive economic growth and development for our country.

13. My privilege today, Hon Members, is to present Kenya’s economic action plan, a plan for jobs, growth and long term prosperity. I will elaborate on some of the economic and fiscal policy measures the new Administration plans to implement, as well as to share with the Members of Parliament and all Kenyans the spending plans and tax revenue

measures and some of the projects and programmes that the government will undertake over the period ahead. But before I proceed to elaborate on programs, let me start by highlighting the economic context in which the budget has been prepared.

## **Economic Context**

**14. Hon Members**, the global economic recovery is taking shape but the road ahead is still bumpy. After growing by 3.2 percent in 2012, the world economy is now expected to grow by 3.3 percent and 4.0 percent in 2013 and 2014, respectively, driven largely by gradual recovery in advanced economies and continued growth in emerging economies.

**15. On** the domestic front, our economy remains resilient, growing at 4.6 per cent in 2012, up from 4.4 per cent in 2011. Despite this outcome, low productivity in agriculture, weak manufacturing sector and weak transport system in the face of rising imports and stagnating exports, remains a major concern. Hon Members, the 2013 Budget Policy Statement tabled in this House in January and updated in April to reflect the development priorities of the new Administration, provides details of the government growth projections for this year and over the medium term. Our growth expectation for 2013 is now 5.8 per cent, rising to over 7 per cent in the medium term.

**16. Hon Members**, the most recent employment data from the Kenya National Bureau of Statistics indicate that 659,400 jobs were created in 2012. The new Administration is targeting creation of 1 million jobs annually; this is achievable but we must do more to address the hurdles to faster growth and poverty reduction.

**17. Inflation** has declined consistently over the past one year, and is expected to remain around the 5 to 7 per cent target over the period ahead. Interest rates and the exchange rate are fairly stable and we expect this stability to continue going forward with appropriate macroeconomic policies.

On the fiscal front, we have faced fiscal challenges with shortfall in revenue and mounting expenditure pressures. We have had to rationalize expenditures in the context of Supplementary Budget Estimates in order to live within fiscal framework ending June 2013. The residual gap was closed through additional borrowing.

**18. So, Hon Members**, under these economic circumstances, what are the new Administration's actions to promote growth and development?

### **1.2. The New Administration's Action Plan**

**19. Hon Members**, the broad development policies of the new Administration, outlined during the President's address to Parliament on 16<sup>th</sup> April 2013, provides government with clear and progressive approach to reinvigorate inclusive growth and move the country to the next level of prosperity.

20. Therefore, this year's budget outlines several aspects to achieve this, as follows:

- Accelerating growth through improving productivity and competitiveness, and opening up the economy to investment and trade opportunities to boost exports;
- Support for small and medium enterprises through targeted financial support, skills development, and **access** to market through a revamped public procurement system so as to expand business and to reduce joblessness among our young people;
- Continuing with public and private investment programmes that have the highest impact to growth, covering roads, railways, pipelines, ports, and energy;
- Creating a business climate that encourages innovation, investment and growth;
- Improving the quality of education and training through leveraging on ICT, starting with the primary level;
- Modernizing our police force to effectively and efficiently respond to crime;
- Boosting food security by investing in agriculture including opening up at least 1 million acres of new land through irrigation in order to end food insecurity;
- Maintaining macroeconomic stability by keeping inflation low, and striving for a stable and competitive exchange rate, while enhancing our capacity to respond to external shocks;
- Sealing leakages in our revenue collection system and extending the tax base, while ensuring efficiency in public expenditure;
- Supporting devolution through capacity building to effectively deliver public services and ensuring county governments receive adequate resources to fund their functions;
- Investing in our greatest capital resource – our people and provision of what our Constitution demands – progressive social protection for every Kenyan.

21. Through these strategic interventions, Hon Members, we will create one million jobs per year and thereby lifting at least 10 million Kenyans out of poverty and expand social protection coverage to all vulnerable. Hon Members, in this Budget we are, therefore, taking care of the poor and the vulnerable, the youth and women as well as businesses and investments as the basis for achieving these development objectives.

22. **Hon Members**, I would not want to create the impression that we are swimming in unlimited resources. Relative to the many things we would want to do, we are facing a hard budget constraint. In the circumstances, difficult choices must be made to ensure that available resources are directed towards the above priority areas. The Government will also adopt innovative ways to better deliver public service, including leveraging on ICT

and leasing of assets and equipment; and through public private partnership. In addition, the Government will play a facilitative role by creating a conducive business environment to enable private sector to thrive, expand economic opportunities and create jobs.

### **Facilitating Private sector to Create Jobs**

**23. Hon Members,** Government alone cannot create prosperity. We have a very dynamic and engaging private sector that is ready to expand its business as long as the operating environment is improved. The investor confidence in our economy has improved further following the successful general elections. Some of the sectors where there have been increased confidence in the business outlook include construction, telecommunication, mining, renewable energy, and long-term infrastructure projects in rails and ports.

**24.** As a government, we want to support these investments in order to grow our economy. But for this to happen, the Government will play its facilitative role more effectively by improving the enabling business environment for private sector to thrive and prosper. In this regard and consistent with the commitment of the new Administration to improve the business environment, we have programmed to spend:

- Ksh 97.9 billion for continued road expansion, upgrading and rehabilitation throughout the country in order to improve the conditions of road network, promote commerce and expand economic opportunities for our people, both in urban and rural areas.
- Ksh 22 billion to commence the construction of a two-track standard gauge railway line from Mombasa to Kisumu to improve turn-round time and reduce significantly the cost of freight from Mombasa to Kisumu, by as much as 79 percent from about Ksh.140,000 to Ksh.30,000;
- Ksh 78.5 billion for scaling up investment in reliable and affordable energy, of which Ksh 12.5 billion will be for geothermal development and Ksh 23.8 billion for enhancing power transmission; and
- Ksh 3.7 billion for construction of the first three berths and associated infrastructure of the Lamu port under the LAPSET project.

### **Deepening Regional Integration**

**25. Hon Members,** His Excellency the President has reminded us that the sub-region offers us the best opportunity to forge ahead. The EAC and the neighbouring region have a huge untapped market, which is growing at a faster rate. The sub-region now accounts for over 50 percent of our exports, with significant amounts constituting light manufactures.

**26.** We have made significant progress in integration under the East Africa Community, but there is much potential for expanded trade and investment in the COMESA region and the rest of Africa. The Government will continue to reform the common external tariff structure in order to facilitate trade and reduce distortion.

**27. Hon Members,** during the last consultative meeting of the Finance Ministers from EAC, Uganda agreed to reduce the so called “Uganda list” from 138 to 49. I am sure our manufacturers have a reason to smile. They can now compete much favourably in the region unlike before. Also, we are working towards removing inefficient customs procedures including complicated rules of origin and other non-tariff barriers, in line with the existing EAC Protocols.

**28.** In addition, **Hon Members,** we are continuing with collaborative infrastructure investment in the region:

- We are expanding road networks linking our countries to create opportunities for businesses to expand trade across the region
- The African Development Bank, the World Bank and the European Union are financing a number of projects in infrastructure with regional dimension; and
- As part of our strategy to reduce energy cost, we are investing in several regional generation and transmission projects to tap power from Ethiopia and Democratic Republic Congo.

### **Investing in Security**

**29. Hon Members,** you will agree with me that security is the corner stone of sustained growth and development. The maintenance of law and order for the safety and security of our citizens and protection of property is a key factor in determining economic stability, encouraging investments, accelerating growth and in turn creating employment, especially for our youth. We must therefore do everything possible to ensure security prevails in all parts of the country and that our economy is not held back from achieving its full potential.

**30.** The Government is committed to ensuring that our citizens live and work in a secure environment. Therefore, we are putting in place measures that will strengthen the police service including equipping police units in order to increase effectiveness and rapid response to incidents of crime. We will also work towards ensuring that the police welfare is protected.

**31.** In this budget, we are beginning a bold journey to modernize our security with an allocation of Ksh 67 billion for the National Police Services covering:

- Ksh 4 billion for purchase of security equipment;

- Ksh 4.5 billion for enhanced security operations throughout the country;
- Ksh 1.5 billion for enhanced crime research and investigation to understand crime dynamics and enable the law enforcers to come up with appropriate strategies for crime prevention;
- Ksh 3 billion for leasing 1,200 motor vehicles annually to motorize police force and make police patrol visible everywhere to respond to any reported crime much more efficiently; and
- Ksh 1.2 billion for a rapid development of 2,000 housing units through the National Housing Corporation.

### **Deepening Institutional Reforms**

**32.** So far, the institutional framework built on the foundation of our new Constitution has proven resilient and capable of mediating the challenges that arise from competition for political power. We have just come through successful general elections that were conducted peacefully and differences resolved constitutionally.

**33.** As such, the Government will continue with the institutional transformation as entrenched in our Constitution. Towards this end, we have allocated Ksh 16.1 billion for the Judiciary to continue with its transformation programmes so as to expand access to justice throughout the country. At the same time, we have allocated Ksh 19 billion to Parliament to complete its expansion programmes given the introduction of the bi-cameral system and expanded representation.

**34.** Going forward, the President has laid a sound legislative agenda aimed at speedily completing the unfinished business of implementing the Constitution. As such, a number of legislations aimed at entrenching civil liberties, supporting county governments, enabling public participation in decision making, and ensuring diversity and gender balance, will shortly be submitted to Parliament. While the Budget and Appropriation Committee did not consider favourably our proposal to set aside Ksh 4 billion for constitutional reforms, we will engage further with the National Assembly to ensure that we continue with these reforms, because this is what the Constitution requires us to do.

**35. Hon Members,** the budget making process, in both national and county governments, has been strengthened with the implementation of the new Public Finance Management (PFM) law, enacted in 2012. The law provides for transparent formulation of budgets and prudent management of public resources, in addition to enhancing the contribution of Parliament to public finance management. Building on this legal framework, the National Treasury will shortly be submitting to Parliament the financial regulations to ensure effective implementation of the PFM Act.

## Achieving Food Security

**36. Hon Members,** majority of our people are still food insecure and live in abject poverty, especially in rural and slum areas of urban cities. Further, food takes up about 70 percent of the household budget such that when food prices rise it creates agitation for higher wages, which in turn weakens our competitiveness. The low productivity of agriculture is caused by use of inappropriate technology, inaccessible farm inputs, weak extension support services, and over reliance on rain-fed agriculture. To deal with the perennial challenges of food insecurity and to reduce cost of living associated with high food prices, the Cabinet Secretary for Agriculture will implement a comprehensive agricultural revitalization program aimed at expanding, enhancing productivity and transforming agriculture into a business venture. In this regard:

- Ksh 8 billion has been allocated to implement the on-going irrigation projects spread throughout the country;
- Ksh 2 billion is set aside for Agri-Business Fund to de-risk and leverage commercial bank lending to smallholder and commercial farmers throughout the country. We plan to scale this Fund to Ksh 20 billion by the 4<sup>th</sup> year to expand its access to as many Kenyans who venture in farming as a business
- Ksh 3.6 billion to implement the first Phase of the 1 million acre irrigation and food security project in Galana covering completing the detailed study, developing an implementation framework and business plan, administrative support, monitoring and reporting; sinking of water points. This project, is expected to, among others:
  - Producing adequate food for the country and supplying to the market at affordable price
  - Creating at least 3 million jobs along the agriculture value-chain, including multiplier effects;
  - Transforming the Galana ranch and, by extension the coastal region, into an economic hub for production, agro-processing, packaging, distribution, exporting and tourism.

**37.** Working together with the Ministry of EAC, Commerce and Tourism and Ministry of Foreign Affairs, we will secure international and regional markets for our agricultural products. We will strive to, fast track establishment and making operational a Commodity Exchange Market for agricultural produce and, through the Capital Market Authority, license a Commodity Features Exchange.

## **Harnessing the Talents of Youth and Women to Grow the Economy and Create Jobs**

**38. Hon Members**, our economy has potential to grow and create jobs if we tap into the reservoir of talents and skills available amongst our women and youth, who are the majority. And to do this, the Government, through this Budget and into the medium term is addressing the challenges along the business value chain faced by this group, which include, among others: lack of access to market, expensive and inadequate energy, costly transport, insecurity, lack of legal services and access to credit challenges. Similarly women and youth suffer inadequate skills and lack of business knowledge.

**39.** As committed by the Jubilee Administration, Hon Members, we are addressing these challenges to expand economic opportunities for women, youth and persons with disability as follows:

- First, we are putting on top gear our business regulatory reforms, including making it easy and faster to register a business
- Second, working with the County Governments, we will ensure that obtaining construction and business permit in any part of the country takes a shorter time, digitized and payment made at the comfort of your home through your phones or online banking services
- Third, we are reforming the tax system to make paying taxes and trading across border much easier. All government regulatory agencies are urged to ensure this commitment becomes a reality in the shortest time possible;
- Fourth, through the enactment of Biashara Kenya Bill now under formulation, we shall provide a one-stop shop solution to all small and medium size enterprises covering the entire business chain – such as skill and business development, product standardization and branding, access to credit, business incubation services, and market access

**40.** In the same breath, and in addition to existing SMEs and AGRIBUSINESS Fund, Ksh 6 billion has been set aside to ensure that the youth engage in income generating programmes including making funds easily accessible to citizens in all parts of the country under a better delivery mechanism modelled along the lines of the CDF. Success in this approach will form the basis for consolidating and rationalizing existing youth and women's funds.

**41.** In response to the employers' reluctance to hire inexperienced job-seekers, initiatives are underway to improve information services to help young people access jobs and training opportunities. Also, the Government will develop a subsidy programme to employers that will lower the cost of hiring young people without work experience within the shortest time possible. Under consideration is a tax rebate to tax-compliant

businesses and NGOs who hire inexperienced youth graduating from our educational institutions.

### **Reforming the Procurement Law to Create Business and Employment**

**42. Hon Members**, the new Administration intends to make the Public procurement process play a leading role in driving growth, creating quality jobs and reducing poverty in our economy. Under the Jubilee Administration, we are reforming the public procurement to reduce the turnaround time to complete a procurement process and make it less cumbersome, more transparent and supportive to our economic transformation agenda. In this regard, I have proposed amendments to the Procurement law:

- First, to enhance the preference and reservation for youth, women and persons with disability, from 10 percent to 30 percent;
- Second, to accord exclusive preferences to local firms that manufacture, assemble, grow, extract or mine goods in priority areas such as construction materials and related supplies, furniture, motor vehicles and foodstuffs – buy Kenya, build Kenya; and
- Third, to reduce the time it takes to initiate and award a tender to no more than 30 days.

**43.** I expect these measures to be strictly observed by procuring entities and in particular state corporations, National Government and County Governments in order to give momentum to economic growth and employment creation.

### **Further Building Human Capital for Long Term Development**

**44. Hon Members**, education, health and social protection play an important role in our development effort. In line with the new Administration priorities in this sector, I have allocated sufficient resources to finance various interventions.

### ***Transforming our Educational System for Knowledge-based Economy***

**45.** We are, under the guidance of Secretary for Education, improving quality and transforming our educational system for a knowledge-based economy. In view of this, we have allocated Ksh 10.3 billion towards free Primary Education and Ksh 2.6 billion for school feeding programme, Ksh 20.9 billion for free Day Secondary Education and Ksh 1.17 billion for Secondary Schools Bursary. I have also set aside Ksh 800 million to upgrade the National Schools and another Ksh 4.9 billion has been allocated for Higher Education Loan and Ksh 826 million for Youth Polytechnics.

**46.** Further the Government has prioritized transforming the educational system to e-teaching and e-Learning. When fully implemented the policy will reduce the cost of buying

and replacing text books, and improve access to information, communication and technology in schools and households. We have in the medium term allocated a total of Ksh 53.2 billion for deployment of 1.35 million laptops to class one pupils, development of digital content, and building capacity of teachers and rolling out computer laboratory for class 4 to class 8 in all schools throughout the country. This translates to Ksh 17.4 billion each financial year starting from FY 2013/14.

### ***Enhancing Access to Quality Health care Services for all***

**47. Hon Members**, building a prosperous Kenya demands substantial investment in a healthy and productive population. In this regard, the National Government, working hand-in-hand with county governments, is committed to ensuring the highest attainable standard of health. Under the able leadership of Secretary for Health, we will achieve this objective by; among other interventions: (i) improving our health care infrastructure throughout the country; (ii) restructuring and transforming KEMSA into a robust institution with effective devolved distribution network to avail medical supplies to health care facilities; and (iii) re-deploying existing health care personnel, while at the same time recruiting additional personnel to make access to quality health care a reality in our country.

**48.** I have in this regard, Hon Members, allocated an additional Ksh 31.6 billion over the MTEF period. Starting FY2013/14, a total of Ksh 10.6 billion has been proposed, of which Ksh 3.8 billion is for free access to maternal health; and Ksh 700 million for free access to all health centres and dispensaries. I have allocated a further Ksh 3.1 billion and Ksh 522 million for recruitment of 30 community nurses and 10 community health workers, respectively per constituency to provide quality health care services to Kenyans. Access to health care would not be complete without available and accessible personnel. Accordingly, I have allocated another Ksh 1.2 billion for provision of 1,500 affordable housing units to health care workers to enable them respond and attend to patients in a timely manner.

**49. Hon Members**, we are not just making health care services accessible to Kenyans in rural and urban areas, we are also extending this critical service to our brothers and sisters living in slum areas in our major cities and urban areas. To this end, I have allocated Ksh 200 million for the construction of health care facility in slum areas of Nairobi, Kisumu and Mombasa.

### ***Cushioning the Poor and Vulnerable through Social Protection***

**50.** Poverty and vulnerability pose significant risk to the wellbeing of some members of our society. With over 50 per cent of Kenyans living below the poverty line, we have prioritized cushioning those less fortunate, poor, elderly and persons with disability in our communities. We have in this regard allocated a total of Ksh 13.4 billion as follows:

- Ksh 8.0 billion is for doubling the number of orphans and vulnerable children under the cash transfer programme from 155,000 households to 310,000 households;
- Ksh 3.2 billion for increasing two-fold number of elder persons under cash transfer from 59,000 to 118,000;
- Ksh 770 million for doubling coverage of those with extreme disability from 14,700 to 29,400 households,
- Ksh 452 million for doubling the number of other disabled persons under coverage of cash transfer; and
- Ksh 400 million for Presidential Secondary School Bursary Scheme for orphans, poor and bright students.
- Ksh. 356 million for urban food subsidy
- KSh. 100 million for Albino

## **BUDGET ESTIMATES FOR 2013/14**

**51. Hon Members** let me now turn to the financial projections for 2013/14 budget.

**52. Hon Members,** the total revenue estimates for fiscal year 2013/14 is Ksh1,027.2 billion, comprising of Ksh961.3 billion of ordinary revenue, and Ksh 67.0 billion of appropriations-in aid. The total revenue estimate represents an increase of 7.5 percent over the Budget Estimates for 2012/13. As a percentage of GDP, budgeted revenues are estimated at 24.7 percent in 2013/14.

**53. Hon Members,** the targeted revenue is predicated on projected economic growth, but takes into account the challenges we have had in the past two years especially with collection of VAT. We, therefore, expect to scale up the ongoing reforms in tax policy and administrative measures, to seal out loopholes and ensure sustainability in domestic resource mobilization. In addition, the estimates of revenue take in to account the new tax measures that I will outline later in this Statement.

**54. Hon Members,** with respect to expenditure, a total of Ksh1,640.9 billion including contingency provision, county transfer of Ksh210.0 billion and allocation for the Judiciary and Parliament amounting to Ksh 16.1 billion and Ksh 19.0 billion respectively. Of this, gross recurrent expenditure for the National Government is estimated at Ksh955.5 billion. This includes Ksh 67.3 billion, which will be financed through Appropriations-in-Aid, and Ksh 380.3 billion, financed directly from the Consolidated Fund Services. The balance of Ksh507.9 billion represents discretionary recurrent expenditures.

**55. Hon Members,** the Consolidated Fund Services comprise Ksh 110.2 billion for domestic interest payments; Ksh 11.2 billion for foreign interest payments; Ksh 38.2 billion for pensions; Ksh 3.4 billion for salaries and allowances of constitutional office holders; and Ksh 1.4 billion for guaranteed debt payments and other non-discretionally expenditures. In addition, I expect to finance external redemptions amounting to Ksh 88.6 billion and domestic redemptions amounting to Ksh 127.3 billion. **Hon Members,** gross development expenditures for 2013/14 is estimated at Ksh 447.9 billion. Out of this amount, Ksh 201.1 billion will be financed through Appropriations-in-Aid, comprising of direct project financing of Ksh 55.9 billion in form of grants, Ksh 140.5 billion in form of loans, and Ksh 4.8 billion in form of Local Appropriations-in-Aid.

**56. Hon Members,** taking the above into account, I expect to finance net development expenditure amounting to Ksh 246.8 billion from the Exchequer. This comprises of Ksh 11.5 billion in form of grants revenue; Ksh 47.1 billion in form of loans revenue; and Ksh 188.2 billion domestically financed. **Hon Members,** these domestically financed development expenditures include Ksh3.4 billion equalization fund, which will be used to provide basic services including water, roads, health facilities and electricity to marginal areas in order to bring these services in the marginal areas to national standards in line with our constitutional requirement.

**57. Hon Members,** total committed external grants from development partners' amount to Ksh 67.4 billion. Details of the donors and projects being financed are included in the Development Estimates. I wish to sincerely thank our development partners for their continued support.

**58. Hon Members,** with total expenditure of Ksh1,640.9 billion (inclusive of domestic and external debt redemption as well as contingency provisions), and total expected receipts of Ksh1,284.0 billion (including loans and grants), the overall deficit amounts to Ksh356.9 billion. However, **Hon Members,** excluding the domestic debt rollover of Ksh 126.1 billion from expenditures and reflecting external debt redemption of Ksh 88.6 billion as a financing item, while at the same time reflecting loan external financing in a more acceptable international standard practice, total expenditure would amount to Ksh 1,424.8 billion, thus giving rise to an overall fiscal deficit of Ksh 329.7 billion (7.9 percent of GDP). This will be financed by net foreign financing of Ksh.223.0 billion and Ksh106.7 billion net borrowing from domestic market.

**59. Hon Members,** this means that the fiscal framework for 2013/14 is fully financed.

### **Allocation to County Governments**

**60. Hon Members,** the total allocation to county governments is Ksh 210 billion, of which Ksh 190 billion in equitable share, and conditional grant of Ksh 20 billion. The equitable division of revenue takes into account the functions assigned to the counties as outlined in the Constitution and the factors listed in Article 203 of the Constitution. The

Transitional Authority has gazetted all the county functions to be performed by County Governments, starting July 1<sup>st</sup> 2013. They have also assessed the capacity of the County Governments to provide the services assigned to them. Those counties, which will not be in a position to perform any of the transferred functions may request the National Government to assist as their capacities are being developed.

#### **IV: TAX MEASURES AND MISCELALNEOUS AMENDMENTS**

##### **Overview of the Proposed Tax Measures**

**61. Hon Members**, the rest of my highlights outlines various tax measures I intend to introduce through the Finance Bill 2013, and other regulations I have tabled in this house, toward accelerating broad-based economic growth, job creation and poverty reduction.

**62.** The tax measures and other miscellaneous amendments I intend to propose hereunder are broadly categorised into five priority areas, which complements the various policies I have already outlined in the earlier part of my statement:

- i. Facilitating infrastructure development for a competitive economy;
- ii. Encouraging Growth of Industries for Faster Development
- iii. Further Ensuring Equity and Fairness in our Tax System
- iv. Deepening Tax Reforms and Enhancing Tax Administration; and
- v. Further Strengthening Financial Systems for Sustainable Development

##### **Facilitating Infrastructure Development for a Competitive Economy**

**63. Hon members**, I have proposed tax measures aimed at facilitating development of infrastructure facilities such as railway and energy in order to reduce the cost of transport and energy and make our economy competitive.

**64. Hon Members**, rail transport is the most economical mode of transportation for freight and passenger. However, our railway facilities have not received much incentives compared to other transportation infrastructure. In this regard, I propose to exempt import duty on importations of items used to facilitate railway operations in order to support the expansion and development of the railway network in the region.

**65.** I have, in addition, proposed amendment to the Customs and Excise Act to introduce a Railway Development Levy of 1.5 percent on all imported goods, in order to mobilize additional Ksh 15 billion to fund construction of a standard gauge railway line from Mombasa to Kisumu. This project, as I have already stated, when completed in three years' time, will reduce significantly the cost of freight, thereby saving businesses huge resources.

**66. Hon Members,** biogas energy is gaining prominence as an alternative source of renewable energy for cooking and electricity generation in the rural areas. In addition, the residue arising from this process is used as fertilizer. In order to encourage usage of this renewable energy I propose for exemption plastic bag bio-gas digesters.

### **Encouraging growth of Industries for Faster Growth and Employment**

**67. Hon Members,** to encourage growth of our industries as a key driver of higher economic growth and development, I propose to increase import duty on welding electrodes from 10% to 25%, millstones and grindstones from 0% to 25% and plastic tubes for packing of toothpaste, cosmetics and similar products from 10% to 25%. I expect this measure will cushion the local manufacturers from cheap imports.

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

**68. Hon Member,** I have noted the challenges faced by employers regarding insurance premiums paid on behalf of employees for Group Life and Group Personal Accident policy covers. I propose to exempt premiums for such covers where they do not confer a benefit to the employees.

**69. Hon Members,** Persons with Disabilities have this year concluded their first phase of the three year tax exemption status. I propose to extend the exemption period to five years.

**70. Hon Members,** I propose to amend the Income Tax Act so as to impose withholding tax on winnings from gaming and betting. This measure should make the winners to equally contribute towards the exchequer.

**71. Hon Members,** the Government has initiated a review of the Capital gains tax under the Income Tax Act with a view to formulating modalities for its effective enforcement. This will allow wealthier members of our society to also make a token contribution toward our national development agenda.

### **Deepening Tax Reforms and Enhancing Tax Administration**

**72. Hon Members,** I propose to table a number of legislative amendments in the revenue statutes in order to align them with the Constitution. This will ensure that the Excise, VAT and Income Tax legislations are in harmony with the Constitution.

**73.** I also intend to put in place an enabling tax, legal and regulatory framework to streamline the entire Income Tax Exemption management process in line with the Constitution.

**74. Hon Members,** unlike under the other tax statutes, KRA is currently not compounding tax offences under the Income Tax Act. I propose to improve the compounding framework for income tax which should encourage taxpayers with tax offences to engage KRA and sort out their tax cases outside the Courts.

**75. Hon Members,** I propose to amend the Income Tax Act so as to empower the Commissioner to access books of accounts and where tax evasion is proved in Court, collect corporate tax from officers of corporate bodies where they are convicted of tax frauds. These rare but bold measures are intended to deter tax cheats and enhance tax compliance.

**76. Hon Members,** some importers have turned the Port into a storage area thus contributing toward congestion of cargo. To address this undesirable practice, I propose to amend the customs law to introduce Customs warehouse rent for entered goods which remain at the port of discharge for a period exceeding 21 days from the date of commencement of discharge of the carrier.

**77. Hon Members,** in the Budget for FY2012/13 the Minister for Finance introduced a tax management system to minimize tendencies for mis-declaration and under-valuation by excisable firms. In line with this, Kenya Revenue Authority has rolled out a comprehensive excisable goods management system, which enjoins all players in the supply chain. In order to ensure effective implementation of the system, I have issued a new gazette notice "Excisable goods Management system 2013", which prescribes procedures and guidelines for its operations.

**78. Hon Members,** in 2004 the Government introduced an excise tax remission on senator keg beer to discourage consumption of illicit and dangerous brews. However, it has been difficult administratively to differentiate between various beer products and senator keg, thereby posing a threat to revenue collection. To safeguard the original intention of this policy, I have amended the said regulation to reduce the remission by 50 percent and to grant it only in respect of beer made of millet, sorghum and cassava. The senator keg will, however, continue to enjoy a remission at this new level, on a transitional basis, for a period of three years. I expect this measure to stimulate agricultural activity in these regions where these products are grown. Hon Members, this measure will generate an additional Ksh 6.2 billion to the exchequer.

**79. Hon Members,** taxpayers have been filing their tax disputes to several tax tribunals. This causes a serious challenge to the appellants. I propose to table before the Parliament a Tax Appeals Tribunal Bill that will establish a single tax appeals body. This measure will improve the dispute resolution framework, instill professionalism and fast track conclusion of tax cases in compliance with the Constitution.

**80. Hon Members,** the Government remains committed to making it less costly to comply with taxes. In this regard, I will re-table the VAT Bill, which aims to simplify, modernize and reduce cost of compliance. The enactment of this bill will raise at least an additional Ksh 10 billion to the exchequer. In the same token, we have begun the process of developing a new excise bill. The new bill will be simple and modern, benchmarked to the best international practices. In addition, as outlined by my predecessor, we have initiated a process to review the organization of Kenya Revenue Authority with a view to refocusing Customs Services to its primary mandate of trade facilitation and effective border control.

**81. Hon Members,** last year the Minister for Finance directed Kenya Revenue Authority to ensure all landlords earning rental incomes pay their due share of taxes to the exchequer. For equity and fairness and to ensure that these privileged Kenyans pay taxes, I have once again directed KRA to leverage on technology, map out all rental property in urban areas and put in place a robust institutional framework for bringing all these landlords into our tax net by December, 2013.

### **Further Strengthening Financial Systems for Sustainable Development**

**82. Hon Members,** in order to support the implementation of the EAC Common Market protocol, I propose to amend the Insurance Act to open up the ownership of insurance companies and brokerage firms to other citizens of the EAC Community.

**83.** In order to encourage our multinational banks to conduct bancassurance and deepen insurance penetrations, I propose to amend the law to remove restriction of foreign ownership for insurance agents.

**84. Hon Members,** in order to shield policyholders from the lengthy resolution mechanisms that tend to delay compensation, I propose to amend the law to require the Insurance Regulatory Authority, while intervening in the management of an insurer to appoint a competent person familiar with the business of the insurer.

**85.** In the same spirit, I further propose to amend the law to expand the mandate of the Policyholders Compensation Fund to include participation in the liquidation process of insurance companies.

**86. Hon Members,** The insurance sector has experienced some challenges over the years especially with regard to third party risk insurers. To strengthen the regulatory framework and ensure a stable and growing insurance sector, I direct the Insurance Regulatory Authority to initiate an overhaul of the Insurance Act to align it with best international practices and our Constitution. I expect this assignment to be completed and drafts ready by end of September 2013. The review should target having two legislations, one for the establishment of the Authority and the other covering regulatory issues of the market.

87. In the same spirit, **Hon members**, I also direct the Retirement Benefits Authority to carry out a similar exercise and have drafts ready by end December 2013.

88. **Hon Members**, in order to strengthen the regulatory framework of the Kenya Deposit Insurance Corporation and ensure adequate protection to depositors, I have proposed amendments to the Kenya Deposit Insurance Act to expand the Corporation's mandate and enhance its corporate governance.

89. **Hon Members**, to provide adequate housing for our people, I propose to amend the law to encourage pooling of resources through real estate investment trusts for the sole purpose of real estate development. I further propose to amend the law to provide a conducive environment for a dynamic capital markets that will facilitate introduction of new capital markets products and services on an accelerated basis.

90. **Hon Members**, in order to support full implementation of some key requirements under the Common Market Protocol and fast-track the EAC integration agenda, I propose to amend the Capital Markets Act to provide for the issuance of regional fixed income securities. This will allow for the raising of funds from across the regional capital markets by treating persons licensed by any of the other EAC capital markets regulators on equal terms, as if they were licensed by the Capital Markets Authority.

91. **Hon Members**, insider trading and market manipulation continue to pose threat to the stability and growth of capital market. To address these challenges and safeguard the integrity of our capital market, I propose to amend the Capital Markets Act to redefine the offence of insider trading as an offence of strict liability and further propose to specifically identify a range of the most common market manipulation offences to guide the courts and the investing public on the nature of these offences.

92. **Hon Members**, recent developments in the banking sector have resulted into accelerated business activities some of which have been found to be unethical or illegal and thus violate provisions of the Banking Act. In order to deter institutions from violation of the law, I propose to amend the Banking Act to enhance the penalties provided for such offences.

93. I further propose to amend the Microfinance Act to foster prompt corrective action where problems in institutions are identified early and dealt with in a timely and progressive manner. This, **Hon Members**, will go a long way to forestall threats to the stability of the institutions.

## CONCLUSION

94. **Hon Members**, in conclusion, I wish to thank H.E. the President and Deputy President for their guidance and support. I also wish to thank my Cabinet colleagues for their support and understanding. My sincere appreciation goes to:

- Majority Leader of the National Assembly Hon Aden Dualla for the excellent working relationship during the legislative approval process of the budget
- Members of the Budget and Appropriation Committee led by Hon Motiva Musyimi and the Parliamentary Budget Office for the constructive engagements and navigating the review process of the budget estimates under tight timelines
- All Hon Members of the various Departmental Committees and, in particular, the Committee on Finance, Planning and Trade chaired by Hon Benjamin Langat, for their commitment and diligent review of the budget under a very limited time period
- Chair of Council of Governor, Hon Isack Ruto for the constructive engagement on the budget allocations to county governments
- The Board, Management and Staff of Kenya Revenue Authority for their contribution to revenue mobilization – I look forward to better times in the year ahead
- The Board, Management and Staff of Central Bank of Kenya for their management of monetary policy;
- The Commission on Revenue Allocation and its Chairperson, for their contributions;
- The management and staff of the National Treasury, their selfless dedication to duty and for working behind the scenes for a better Kenya. In particular, I must pay special tribute to the Permanent Secretary to the National Treasury, Mr. Joseph Kinyua for his unrivaled dedication to public service, spanning over two decades.

**95.** And finally, I must express sincere gratitude to Kenyans from all parts of the country who offered words of congratulations and support following my appointment to this challenging task of spearheading the economic management of this great Nation.

**96.** In sum, **Hon Members**, the message in this budget is as follows:

- Global economic recovery is taking shape but the road ahead is still bumpy.
- We must grow our economy faster to draw more youth to employment and meaningfully reduce poverty. To do this, we need to support business to thrive and take up more opportunities.
- The Second Medium Term Plan of Vision 2030 (currently under preparation) and the priorities of the new Administration will be implemented and budgets will be aligned to it.

- We will continue to invest in infrastructure (particularly rail and ports) and in our great resource—the people of Kenya—while taking bold steps to create opportunities for young people.
- We will modernize agriculture including opening up at least 1 million acres of new land through irrigation in order to end food insecurity.
- We will invest in security and modernize our police force to eliminate crime.
- We will seal leakages in our revenue collection system by leveraging on ICT while extending the tax base.
- We will engage more youth in business through our revised public procurement regulations and a new framework of delivering financial support.
- We will deepen regional integration for our businesses to seize trade opportunities in the region.
- Following up on our VAT reform, we are committed to reviewing and assessing our tax policy framework and its role in supporting the objectives of inclusive growth, employment, development and fiscal sustainability.
- Facilitate devolution as the new formula for equitable distribution of resources among the 47 counties takes effect.

**97. Hon Members,** I submit these budget highlights and tax revenue measures in the hope that we will all work together to build a future in which all Kenyans can take pride and share in the benefits, as already said by H.E. the President.

**I thank you.**