REPUBLIC OF KENYA

Budget Statement

For the

Fiscal Year 2015/2016

(1st July – 30th June)

by

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STATEMENT DELIVERED TO THE NATIONAL ASSEMBLY ON 11TH JUNE, 2015 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 2015/16

1ST JULY, 2015 TO 30TH JUNE, 2016

1. INTRODUCTION

1.1 Overview

1. **Mr. Speaker,** it is once again my honour to present to this August House the policy highlights of the third Budget of President Uhuru Kenyatta's Administration for the fiscal year 2015/16, in accordance with section 40 of the Public Finance Management Act, 2012 and Standing Order No. 241 of the National Assembly.

2. **Mr. Speaker,** before I proceed, I wish to take this early opportunity to express my sincere appreciation to the Budget and Appropriation Committee of the National Assembly under the wise and very able leadership of Hon Mutava Musyimi, and other Departmental Committees of Parliament for the constructive engagement with my team and for steering the review of the 2015/16 Budget Estimates.

3. In the same vein, **Mr. Speaker**, allow me also to register my utmost appreciation to all Kenyans who responded to my call for "Budget Submission" with very insightful suggestions on how to move our country forward. I would also like to thank all the Hon Members who actively participated in various Departmental Committee meetings to review the budget estimates and finally, **Mr. Speaker,** my gratitude goes to the entire staff at the National Treasury who have worked many hours, including on weekends, under the able leadership of the Principal Secretary, Dr. Kamau Thugge, to put together the budget documents.

4. Today, **Mr. Speaker,** I am addressing Kenyans to inform them of the Government's plan to strengthen our economy further, following the gains we have made so far. Of course, we would have done much better were it not for the myriad of challenges we have encountered; ranging from terrorist events in Nairobi, Lamu, Mandera and recently in Garissa. We have also had to deal with drought, low tourism, unfavourable tea prices and a weak global economy.

5. But **Mr. Speaker**, I want to say to Kenyans that the economic strategies that the Government is currently pursuing are helping us to deal with these headwinds. This can

be demonstrated by the fact that our economy continues to be among the fastest growing in the region while preserving macroeconomic stability.

6. So, today, **Mr. Speaker,** we are taking further steps to consolidate these gains within a framework of prudent management of public resources. That is why in this budget we are continuing to allocate resources to areas such as infrastructure, agriculture, security, health, education, social protection and youth empowerment, which will help boost growth and create jobs.

7. **Mr. Speaker**, the resilience of the economy and creation of about 800,000 jobs last year is by no means an accident. We have significantly improved the business environment; rolled out the biggest infrastructure in Kenya's history (the Standard Gauge Railway (SGR); completed key programmes in the roads and energy sectors; and brought down the cost of living – Kenyans today are paying less for their electricity and fuel.

8. **Mr. Speaker,** the Jubilee Government's economic agenda is working and things are getting better. The World has expressed growing confidence in Kenya's economic future and Kenyans' too share that optimism.

9. Therefore, **Mr. Speaker,** this Budget is the extension of our existing solid economic plan to take Kenya to the next level. We plan to continue to implement our plan to complete the new rail in the shortest time possible, complete existing roads projects, build new roads under a new approach known as Annuity, modernize security apparatus to make Kenya safe and secure, support our farmers to protect their incomes, invest in the future by unleashing the potential of Kenyan's and support devolution for effective delivery services. This way we will grow our economy, create jobs and reduce poverty.

10. **Mr. Speaker**, in framing this budget, we have taken into account developments both at the global and local fronts. The world economy is projected to grow by 3.5 percent and 3.8 percent in 2015 and 2016, respectively, up from 3.4 percent in 2014, buoyed by stronger growth in advanced economies mainly as a result of the lower oil prices. However, growth in emerging and developing countries remains subdued on account of weaker growth in some major oil exporters because of lower oil prices and diminished macroeconomic space.

11. In Sub Saharan Africa, **Mr. Speaker**, growth is projected to slow down to 4.5 percent in 2015, from 5.0 percent in 2014 largely due to lacklustre economic performance of Nigeria and South Africa. However, in 2016, the economy of the Sub Saharan region is expected to recover to 5.2 percent, due to the impact of lower oil prices and investment in infrastructure.

12. **Mr. Speaker**, on the domestic front, growth and employment prospects remain favourable. We have continued to implement prudent fiscal and monetary policies which

have resulted in low inflation, steadily declining interest rates, and a broadly stable exchange rate and a sustainable public debt position. Reflecting these efforts, **Mr. Speaker,** the economy expanded by 5.3 percent in 2014 supported by strong performance in most sectors of the economy which offset the contraction in the tourism sector. The economy, is expected to expand further by between 6.5 – 7.0 percent in 2015 and to maintain the same pace over the medium term, bolstered by lower oil prices, higher public and private investment, increased consumer confidence and higher total factor productivity reflecting continued implementation of structural reforms and increased investment in health and education.

13. In order to anchor our reform agenda and mitigate against shocks that could derail our development agenda, we have a precautionary Stand-by Arrangement and a Stand-by Credit arrangement with the IMF for an amount of SDR 488.52 million or US$ 688.3 million. We intend to draw on the facility only in the event of an exogenous domestic or external shock.

14. **Mr. Speaker,** our economy remains strong and its momentum is gaining pace. We have invested heavily in improving the business environment, improving security, enhancing the quality of transport infrastructure and access to affordable energy, reducing dependence on rain fed agriculture, improving the quality of health care and educational systems, and facilitating devolution. As a result, private sector activity is more dynamic and we are attracting more FDI flows. These efforts have contributed to the higher growth experienced in recent years.

15. We nevertheless, **Mr. Speaker**, recognize that challenges remain – challenges of high incidence of poverty and unemployment, frequent droughts and other weather related shocks, low agricultural and industrial productivity, insecurity in some parts of the country and fiscal inefficiencies and corruption.

16. **Mr. Speaker**, going forward, we must all arise and summon our collective will and commit to tackling these challenges so as to unlock the full potential of our economy and achieve prosperity for all Kenyans. Through this budget, therefore, **Mr. Speaker**, we are continuing to focus on implementing the six thematic areas critical to not only addressing the challenges I have just mentioned, but also driving our economy up the value chain to become a regional manufacturing hub on its way to achieving upper middle income status. Accordingly, **Mr. Speaker,** the FY 2015/16 budget will:

- **First,** prioritise addressing the security challenge which is critical to creating a friendly business environment for our private sector. This will be complimented by continued macroeconomic stability and continued efforts to reduce the cost of doing business so as to unleash the efficiency gains necessary for achieving prosperity for all;

- **Second**, we are committing more resources towards infrastructure development and adopting innovative ways to hasten delivery of better roads and other infrastructure necessary for reducing the cost of business and promoting competitiveness and the productivity of our economy;

- **Third**, we are putting in place measures to drive agricultural and industrial transformation so as to build resilience in our economy, ensure food security and lower food prices, increase quality and diversification of exports, accelerate inclusive growth, create jobs and reduce poverty;

- **Fourth**, we are also opening up opportunities to tap the latent talents and entrepreneurial capabilities of our youth, women and persons with disability so as to enable them actively participate in our economic transformation agenda;

- **Fifth**, we will continue to scale up resources and underpin reforms to enhance the quality of our education and health care systems with a view to building a healthy and productive human resource base that we need for driving economic growth while at the same time ensuring adequate social safety net for our vulnerable communities; and

- **Sixth, Mr. Speaker**, with devolution now taking root, the National Government commits through this budget to work very closely with the county governments and to facilitate them to build the capacity to better deliver services and development at the grassroots level.

17. **Mr. Speaker**, with this background, the rest of my speech will elaborate various measures we are introducing under each of the six strategic areas. Thereafter, I will share the fiscal outcomes for fiscal year 2014/15 and the fiscal forecasts for 2015/16 as well as outline the tax and other policy measures we are proposing to support growth of private sector and employment creation.

2. IMPROVING THE BUSINESS ENVIRONMENT

2.1 Addressing Insecurity Concerns for Business Expansion

18. **Mr. Speaker**, tackling insecurity decisively remains the top priority of the Government's strategy to sustain the growth momentum of the economy while creating jobs and reducing poverty on a sustainable basis. **Mr. Speaker**, without security for our Citizens, achieving our growth and development objectives will remain a mirage. **Mr. Speaker**, the recent terrorist attack in Garissa University College is a reminder of the kind of ruthless enemy that we face as a nation. These terrorist activities continue to undermine the

investment climate in the country and have contributed to the loss of jobs and declining activity in our tourism industry. To counter these security challenges, the Government is committed to significantly increase resources to the security sector for purchase of the necessary equipment to effectively address the terrorism menace.

19. **Mr. Speaker,** we have committed substantial resources to this sector over the last two years including: Increasing the number of police vehicles by 2,400 – more than has ever been provided since independence; Equipping our men and women in uniform to control insecurity and better deal with criminals; and recruiting over 15,000 additional security personnel to help secure our country and combat terrorism and crime. We are implementing these measures so as to safeguard the lives of our people while improving the business climate.

20. **Mr. Speaker,** to further underscore the importance the Government attaches to strengthening our National Security and to provide the best counter terrorism capabilities possible, in the FY 2015/16, I have proposed further allocations to the security organs of KSh 223.9 billion, which is KSh 27.1 billion higher than last year. Out of this amount, I propose to allocate KSh 112.5 billion to Defence and NIS and KSh 102.4 billion to the State Department of Interior.

21. These monies will be used to build on the security measures we have put in place in the last two financial years. In particular, to enhance the capacity of our security forces to combat crime, I am proposing to allocate the following resources:

- KSh 7.7 billion for lease financing of Police/Prisons motor vehicles –This will bring the total number of Police vehicles under the leasing programme to 3,200 since the time it was started two years ago;
- KSh 15.0 billion for military modernization;
- KSh 10.0 billion Police Security Modernization;
- KSh 1.7 billion for Police Medical Insurance Scheme;
- KSh 1.3 billion for Police/APs Houses; and
- KSh 6.4 billion for AMISOM/Peace Keeping Missions.

22. **Mr. Speaker**, I have also allocated Ksh 1.4 billion to address poaching of our game animals in the national game parks and reserves. In addition **Mr. Speaker,** we also intend to complete shortly, the rolling out of a security surveillance system and command and control system in Nairobi and Mombasa that will enable us monitor, identify and track criminals. Moreover, we are rolling out our border protection programme aimed at controlling the flow of persons in the porous Kenya-Somalia border and also in our ports of entry. The enhanced allocations to these areas demonstrates, without doubt, our unwavering commitment to secure the lives and property of Kenyans.

23. **Mr. Speaker,** with this kind of investment, the response to terrorism attacks will be swift and uncompromising. These investments are essential for our Nation and it must work!

2.2 Maintaining Macroeconomic Stability for Growth and Employment

24. **Mr. Speaker,** even as we prioritize the security sector, maintaining macroeconomic stability remains paramount in sustaining long term investment, economic growth and development. It is for this very reason, that we aim to strike an appropriate balance between support for rapid and inclusive economic growth and continued fiscal discipline.

25. **Mr. Speaker,** the Kenya Shilling exchange rate , and indeed most currencies in the world, have recently been under pressure against the US dollar, largely due to the strengthening dollar in the global currency market as a result of strengthened US economy and the anticipation of a tightening of monetary policy by the U.S. Federal Reserve Bank. To avoid further pressures, which in part reflect, speculative behavior, the Central Bank of Kenya has tightened monetary policy by raising the Central Bank Rate to 10.0 percent from 8.5 percent. **Mr. Speaker,** this action combined with the significant level of foreign exchange reserves at the Central Bank which are in excess of US$ 7.0 billion, and our potential access to additional resources from the IMF should stabilize the shilling exchange rate against the U.S. dollar.

26. To ensure debt sustainability, we will endeavor to contain the overall fiscal deficit as well as put emphasis on efficiency and effectiveness in public spending while improving revenue performance. Specifically, fiscal policy will target revenue collection of 21.8 percent of GDP over the medium term and containing the growth of total expenditure. In addition, the policy aims at shifting more public resources from recurrent to capital investment so as to promote strong, sustainable and inclusive growth.

27. **Mr. Speaker,** we are also reforming the tax and revenue systems to enhance revenue yields, promote compliance and facilitate private sector growth and development. To this end, I will be outlining several tax measures in the later part of my statement.

2.3 Structural Reforms to Facilitate Business and Employment Growth

Improving Good Governance

28. **Mr. Speaker,** on governance, we will strengthen the institutions mandated to fight corruption by enhancing their capacity to fight the vice and by facilitating the development and implementation of a comprehensive program on corruption prevention and asset recovery. This should help spur efficiency, increase productivity and reduce the cost of doing business.

29. **Mr. Speaker,** we know very well corruption remains a challenge that continues to bedevil the nation by undermining the Government's development agenda. To confront this challenge, His Excellency The President demonstrated his resolve to deal firmly with corruption through his state of the nation address in April 2015. In addition, the President has launched a new Code of Governance for State Corporations called "Mwongozo" which is expected to address governance and management challenges in our Parastatals. To strengthen the governance institutions, I have allocated Ksh 2.6 billion to the Ethics and Anti-Corruption Commission (EACC) and Ksh 2.2 billion to the Department of Public Prosecutions (DPP) to enable them speed up investigations and prosecutions.

30. In addition, **Mr. Speaker**, we now require all MDAs to use the eProcurement module of the IFMIS so as to safeguard loss of public finances through corruption. Further, **Mr. Speaker,** beginning July 1, 2015 we shall be fully operationalizing the Kenya National Electronic Single Window System for use by all importers and exporters and other related stakeholders. This will enhance transparency, accountability, governance and competitiveness while at the same time improving revenue collection. This will further seal loop holes through which revenues to Government are misappropriated.

Efficiency and Effectiveness in Public Service Delivery

31. **Mr. Speaker**, an effective, efficient and accountable public service is essential to sustaining our developmental agenda and to moving our country towards upper Middle Income status. In this regard**, Mr. Speaker**, we are building on the on-going public finance management reforms to further strengthen PFM oversight, entrench efficiency in expenditure, ensure effective delivery of programs, reform the tax system and enhance revenue efforts, and promote good corporate governance in the state corporations.

32. **Mr. Speaker**, we can achieve a lot more with the resources we generate if only every ministry and departmental agency applies budgetary allocations prudently. Therefore, to assure value for money**; first**, we will roll out to all MDAs the eProcurement module, fully inbuilt with an active price reference to ensure Government does not procure any supplies above the market prices; **secondly**, we shall shortly publish ICT standards for all Government ICT consumables and enter into a negotiated framework agreement with established local dealers or assemblers at a discount; **third**, we will expand leasing to all MDAs in respect of depreciating assets and equipment; and **fourth,** only projects that have been appraised and found to be viable and whose cost is within reasonable margins of similar projects in the private sector shall commence implementation.

33. **Mr. Speaker,** as I stated in my last Budget Highlights, we are moving all payments to Government onto the digital platform. The objective of the Government Digital Program is to ensure that all payments to government are made electronically so as to significantly reduce administrative costs, minimize leakages and expand access to payment points. This has enabled Kenyans to pay for Government services wherever they are and using

payments channels of their choice, thus saving them costs associated with transport and queuing time.

34. To date, **Mr. Speaker**, over 400,000 Kenyans have registered on the eCitizen payment platform, www.eCitizen.go.ke, and with over 8,000 transactions so far, revenue collection is averaging about KSh 10 million daily. Going forward, **Mr. Speaker,** we have programmed to digitize at least 100 inbound payment service transactions by end of 2015 in order to hasten service delivery, reduce transaction cost and safeguard revenue. Priority areas include; payments for business registration, land transaction services, motor vehicle and additional services under the registration of persons, including, birth and death certificates.

35. **Mr. Speaker,** we are also moving Government services closer to Kenyans through two key initiatives: **first** the state of the art One-Stop-Shop Investment centre; and second, One-Stop-Shop Service centres, popularly known as Huduma Centres. These centres are now making it easier for investors to set up businesses and citizens to access pubic services. Through the Huduma Kenya Program we are delivering more than 35 services under one roof in twenty-three counties. By the end of this financial year, we will have rolled out an additional 23 centres, bringing the total number of Huduma Centres to 46. In FY 2015/16 we shall be expanding to reach all counties. We also intend to harmonise the services provided by eCitizen and by the Huduma Centres to ensure that there is no duplication of services provided to Mwananchi and thereby avoid wastage of scarce Government resources.

36. **Mr Speaker,** we have been implementing the Kenya National Electronic Single Window System –the Kenya Tradenet System—to facilitate international trade by reducing delays and attendant transaction costs relating to processing of imports and exports documentation while at the same time maintaining the requisite controls and ensuring efficient revenue collection. The declaration module has now been put in place and beginning the first of July 2015, all importers and exporters and other related stakeholders will be required to process their transactions through the system. This will enhance transparency, accountability, governance and competitiveness while at the same time improving revenue collection.

37. As a result of these various initiatives, Kenya continues to receive global recognition. In the medium term Kenya is projected by leading economists to be one of the fastest growing economies. Recently, the African Development Bank ranked Kenya as number six in Africa in terms of attracting Foreign Direct Investment (FDI) while the Ernst & Young's 2014 Attractiveness Survey indicated that investors see Kenya as one of three regional hub markets in Sub-Saharan Africa. In addition, our Huduma Centres recently won an award from the United Nations as the overall winner in improving the Delivery of Public Services category.

Ease of doing business

38. **Mr. Speaker,** reducing the cost of doing business and encouraging private sector innovation, entrepreneurship and business expansion is a key prerequisite to achieving strong and sustained economic growth and poverty reduction. As such starting March 2015, the Government has been implementing a Business Regulatory Reform Strategy to substantially raise Kenya's global ranking under the World Bank's Doing Business Indicators. This strategy will focus on measures to improve Kenya's ranking under specific indicators of interest to small businesses and ordinary Kenyans and of course domestic and foreign investors. In particular, just to highlight a few key reform areas, the Government intends to:

- Reduce procedures, time and cost of starting a business, getting electricity and registering property by at least 80 percent in 2016;
- Reduce procedures, time and cost of getting construction permits and paying taxes by 50 percent and 60 percent, respectively in 2016; and
- Make it easy to access credit and to trade across borders.

2.4 Deepening Financial Sector Reforms for Stability, Growth and Employment

39. **Mr. Speaker**, the objective of financial sector reforms remains as stated in the Budget Policy Statement - to create a robust, accessible, efficient, stable and a globally competitive financial sector that promotes mobilization of high levels of savings to finance priority development.

40. As a Government, we have been concerned by the high lending rates which inhibit credit uptake by the private sector. Therefore, to advise on how to increase lending to the private sector for economic growth and development, I constituted a high level Committee on the Cost of Credit and Constraints in Mortgage Finance. Some of the key recommendations arising from the Committee's work which we shall continue to implement include:

- **First**, requiring all Banks to use the Kenya Bankers Reference Rate (KBRR) as a basis for pricing credit. This has enabled borrowers to easily compare lending interest rates offered by different banks. Since the rollout of KBRR framework, the average lending rate for the banking sector has declined from 16.9 percent in July 2014 to 15.5 percent in March 2015 and the spread between the average lending rate and average deposit rate has also declined from 10.3 percent to 8.8 percent over the same period;
- **Second**, developing the Treasury Mobile Direct Programme, which we expect to launch in July 2015. The launch of M-Akiba bond will allow Kenyans to purchase Government Securities directly from the comfort of their mobile phones with a minimum investment of only KSh 3,000.00 compared to the current minimum of KSh 50,000.00. This will allow Kenyans to enjoy significantly higher interest rates

on government securities compared to bank deposits, through a convenient platform and with a low entry threshold;

- **Third**, fast tracking the modernization of the Lands and Companies Registries to facilitate quicker collateral process as well as development of an electronic registry for moveable assets; and
- **Fourth**, ensuring that Government borrowing does not crowd out private sector by containing the fiscal deficit and adopting alternative sources of funding the deficit such as the Euro Bond.

41. In addition, **Mr. Speaker,** the high interest rates on lending and the spread between lending and deposit rates also reflect limited competition in the banking sector. Although we have 44 banks, most are small and only a few banks account for the majority of assets and deposits in the industry. Therefore, in order to make the banking system more competitive locally and regionally, I will later be proposing measures that will strengthen the banks' capital base and increase competition.

42. **Mr. Speaker**, as required by the Constitution, I have submitted the Central Bank of Kenya Bill, 2015 to the Commission on Implementation of the Constitution for further inputs. This Bill gives us an opportunity to comprehensively review the Central Banking law and align it with international best practices. The Bill will later be submitted to the National Assembly and I hereby seek the support of this House in its enactment.

43. **Mr. Speaker**, the Government will also implement additional measures to further deepen and strengthen the financial sector. In particular, in 2015, the Nairobi International Financial Centre Authority will be made fully operational. Further, to safeguard Kenya's economy against financial instability, the CBK will strengthen the prudential oversight framework and effectively manage risks associated with rapid credit growth, rising cross-border operations and expansion of banks activities into holding groups. The Bank will also review and strictly implement the Prudential Guidelines on Risk Classification of Assets and Provisioning, and regularly report progress.

3. BETTER INFRASTRUCTURE FOR PRIVATE SECTOR GROWTH

44. **Mr. Speaker,** transforming Kenya's economy towards prosperity for all requires substantial investments in the development of an efficient, faster and affordable transport network as well as affordable energy and modern harbours and airports. These investments will, in turn, reduce the cost of transport, promote competitiveness, open up business opportunities for our people and facilitate faster and more inclusive growth for employment creation and poverty reduction.

45. **Mr. Speaker**, as such we are investing substantial resources to improve the conditions of our infrastructure network. I am pleased, **Mr. Speaker**, to inform Hon Members

and Kenyans at large that the construction of the Standard Gauge Railway is progressing well and is ahead of schedule. The construction of the railway started in early 2015 and is expected to be completed around mid-2017, and should significantly reduce the cost of transport, reduce fossil fuel consumption and save our environment. To facilitate the speedy implementation of this project, I have proposed additional allocation to the Kenya Railways Corporation as follows:

- KSh 118. 2 billion for Standard Gauge Railway financed by a loan from China; and
- KSh 25.7 billion to be funded from the Railway Development Levy Fund.

46. Through this project alone, **Mr. Speaker**, we expect to employ over 30,000 Kenyans at the peak of construction. In addition, **Mr. Speaker,** we have insisted on a 40 percent local content requirement that has further created business and employment opportunities for our businesses, industries, entrepreneurs and our women and youth.

47. **Mr. Speaker,** our commitment to generate 5,000 MW of power by 2017 is also on course, with over 280 MW delivered so far under the geothermal program. As a result, the cost of power has dropped by 30 percent, and will without doubt, reduce the cost of doing business, spur growth of enterprise development, encourage industrialization and help accelerate the achievement of our growth and development objective as stated in Vision 2030. In this regard, I have allocated KSh 13.2 billion for further Geothermal Power Development.

48. **Mr. Speaker,** the generation of new electricity is not sufficient to create economic growth unless demand exists to consume it. Therefore, to sustain demand, we program to connect at least one million Kenyans in 2015. The connection will be driven by the recent incentives unveiled by HE the President, including a reduction of connection charges from KSh 35,000 to Ksh 15,000. For those not able to raise the required connection charge, they will be allowed to amortize the charge through monthly payments which will be made together with the monthly electricity consumption bill. To further expand access to electricity in the country, **Mr. Speaker**, I propose to allocate:

- KSh 21.1 billion for Power Transmission;
- KSh 14.9 billion for the Rural Electrification Program;
- KSh 4.5 billion for Street lighting; and
- KSh 1.5 billion for the last mile connectivity

49. Further, **Mr. Speaker**, the modernization and expansion of the port of Mombasa at Kilindini as well as the construction of three Berths at Manda Bay in Lamu has commenced. We are now firming up alternative sources of financing to speed up implementation of the Lamu Port. We have also expanded container terminals and cargo handling capacity thus significantly reducing the time it takes to clear cargo. Similarly, under the program on airports improvement, we are making impressive progress.

50. **Mr. Speaker**, the continued expansion of our road network is critical for enhancing the productivity and competitiveness of our economy. To this end, **Mr. Speaker,** I have proposed the following allocations for expansion of our road network throughout the country:

- KSh 58.5 billion for on-going road construction;
- KSh 26.7 billion for road maintenance;
- KSh 42.0 billion for foreign financed roads; and
- KSh 5.0 billion for the Road Annuity Programme.

51. **Mr. Speaker,** as we invest in ports expansion and modernization, we are cognizant of the challenges faced by ferry users across Likoni. In this regard and in order to assure safety and efficient movement of people and cargo between Mombasa and the mainland, I have allocated KSh 1.3 billion for the purchase of ferries.

52. **Mr. Speaker,** the information and communication sector is one of the key sectors targeted in vision 2030 to help us achieve our growth and developmental objectives. Access to ICT will increase the country's productivity and raise the competitiveness of local businesses in a knowledge based economy. The government is therefore committed to investing resources as well as providing a conducive environment for the ICT sector to thrive. In order to leverage on Information, Communication and Technology, I have allocated KSh 1.9 billion for the continued roll out of IFMIS, KSh 0.8 billion for Konza Techno City, and KSh 0.25 billion for Digital Talent.

53. **Mr Speaker,** the available public sector resources are insufficient to close the existing infrastructure gap. In this context, **Mr. Speaker,** the Government has recognized the critical role that can be played by the private sector in mobilizing resources for infrastructure development and is using the PPP arrangement to accelerate infrastructure development, create jobs and provide efficient services to the people of Kenya.

54. **Mr Speaker,** the projects currently under the PPP programme include: the development of 10,000 kilometres of roads using the annuity approach; the generation of the 5,000MW of electricity; the construction of University hostels; the development of a seaport in Kisumu; the expansion of the Mombasa - Nairobi - Malaba Highway; the construction of the 2nd Nyali Bridge in Mombasa among others. Projects in other sectors of the economy will also be identified and implemented through PPPs.

4. AGRICULTURE AND INDUSTRIAL TRANSFORMATION

4.1 Food Security, Industrialization and Trade for Job Creation

55. **Mr. Speaker,** as Hon Members are aware, agriculture sustains not only our economy but also the livelihood of our people. As such, our strategy for economic transformation and prosperity will not be achieved without investing resources and efforts towards enhancing agricultural productivity. Furthermore, agricultural value addition has the potential to act as a catalyst for Kenya's industrial take-off. Indeed , **Mr. Speaker**, business agriculture is steadily gaining traction in our country and a number of Kenyans, including the youth have recently ventured into agri-business as a viable commercial venture.

56. **Mr. Speaker**, we are continuing to invest in irrigated agriculture, partly to build resilience in our economy and assure food security for our people throughout the year. To this end, I am pleased to note that we have made good progress in the implementation of various irrigation schemes we initiated throughout the country. Our people living in areas served by these schemes now live with dignity – away from the perennial exposure to severe hunger and malnutrition.

57. **Mr. Speaker**, we are also making good progress in the implementation of the 10,000 acres pilot phase of the Galana-Kulalu Irrigation project. The water off-take has been completed, maize planted in over 2,000 acres and shortly, vegetables and herbs, among other crops, will be planted. Upon successful completion of the pilot, and drawing on the lessons learnt, we shall immediately commence the rollout program covering at least 100,000 acres in Galana – Kulalu and other designated suitable schemes throughout the country under a viable business framework. **Mr. Speaker,** to fast track the implementation of the various irrigation projects in the country, I have allocated a total of KSh 13.8 billion, comprising of KSh 10.3 billion for the National Irrigation Board (NIB) and KSh 3.5 billion for the Galana Irrigation Project.

58. **Mr. Speaker,** we will also continue to invest in water supply, put in place measures to control floods and harvest rain water as well as to protect and conserve the environment. Towards this end, therefore, I have allocated KSh 29.5 billion for water supply and sanitation and KSh 2.1 billion for water storage and flood control and KSh 12.6 billion for environmental protection conservation and management.

59. **Mr. Speaker**, to ensure food security and lower food prices as well as provide employment opportunities for our youth, I am going a step further to support the agricultural sector through the following interventions:

- KSh 3.0 billion for inputs subsidy;
- KSh 2.7 billion for the Strategic Grain Reserves;

- KSh 3.1 billion for fisheries development;
- KSh 0.6 billion for the revival of the Kenya Meat Commission;
- KSh 0.3 billion for the revival of the Pyrethrum sector;
- KSh 0.3 billion for Free Disease Zone;
- KSh 1.2 billion for compensation of farmers in the Mwea Irrigation Scheme;
- KSh 1.0 billion for coffee debt write off; and
- KSh 3.5 billion for Land titling.

60. **Mr. Speaker,** Going forward, as part of our agricultural transformation plan and to start preparing small scale farmers to move away from rain fed agriculture, we will, over the next few months and after discussions with farmers, introduce a raft of tax incentives for new investment in water facilities and small holder irrigation equipments.

4.2 Promoting Industrialization for Export, Growth and Employment

61. **Mr. Speaker,** industrialization is a key catalyst for moving agriculture up the value chain and diversifying and growing our export base for a sustained higher shared growth and jobs creation. The Ministry of Industrialization and Enterprise Development is finalizing an industrial transformation strategy which will optimize the prospects for Kenya's industrialization by supporting local companies based on our comparative advantage and creating conditions for attracting foreign anchor investors. The later will help us secure global markets for our products and enhance technological transfer to help boost our competitiveness. As part of the strategy, **Mr. Speaker,** the Government will continue to prioritize and facilitate the establishment of industrial and recreational parks and special economic zones. Therefore, through this budget, I am proposing to allocate KSh 3.0 billion for industrial development. Later in my speech, **Mr. Speaker,** I will be outlining some of the tax incentives to hasten development of industrial and recreational parks and Special Economic Zones (SEZs).

62. **Mr. Speaker**, Kenya has been recognized as a global leader on clean energy with over 80 percent of the energy mix being green. It is, therefore, imperative that we position our economy as a green industrial hub, leveraging cheaper and cleaner geothermal power, steam and water to competitively produce goods of high quality for the region as well as the global market.

63. **Mr. Speaker**, our industrialization strategy will give priority to assembly industries for motor vehicles, domestic appliances, computers and other parts where we have a comparative advantage. We will also target labour-intensive low technology industries such as textiles and leather in the first phase of this industrialization agenda to take advantage of the African Growth Opportunity Act (AGOA) and global markets. To sustain these industries, we intend to invest in industrial and enterprise skills. We are also initiating a targeted approach to identifying potential international investors for our priority industries.

64. **Mr. Speaker**, to safeguard our economy against cheap imports and to promote growth of local industries, as HE The President directed during Madaraka Day, I am putting on notice all those public entities that are yet to fully adhere to the requirements of Build-Kenya, Buy-Kenya. All MDAs are directed to strictly ensure that a minimum of 40 percent local content requirement is adhered to by the winning tenderers at the procurement and supply stage.

65. **Mr. Speaker**, this requirement covers all procurement in respect of road works, railway works, airports and other ports and harbours, works and materials for generation, transmission and distribution of energy and other construction materials made in Kenya. Similarly, as we expand leasing of equipment and assets in the public sector and commit more resources towards security, irrigation and eLearning, I expect Accounting Officers to ensure that suppliers establish manufacturing or assembly plants here locally so as to position Kenya as an industrial hub for the region.

Tourism Recovery

66. **Mr. Speaker,** the Tourism sector is a major employer of our youth and women as well as a major foreign exchange earner for this country. In recent years, the sector has been severely impacted by insecurity forcing most hoteliers to scale down their operations and rendering most of the workers jobless. In order to rehabilitate the industry, I am proposing to allocate in the budget for FY 2015/16, KSh 5.2 billion for Tourism recovery.

5. ENHANCING WOMEN AND YOUTH EMPOWERMENT

67. **Mr. Speaker,** the Government is cognisant of the fact that unless we invest in the potential of the youth and women, we will not achieve a real demographic and gender dividend in the future. Therefore, in line with the Jubilee Coalition commitment, we have revamped and restructured the NYS into a robust and dynamic institution to drive the youth transformation agenda.

68. **Mr. Speaker,** the National Youth Service is expanding both in terms of the scale of its operations and the number of youth engaged. Following the three recruitment cycles, the NYS contingent has grown from 6,000 to 31,000 in just slightly over one year. Another 10,935 recruits will be recruited in September 2015, to bring the total to about 42,000. The NYS servicemen and women will be engaged in national service programmes all over the country in areas such as building small dams and water pans, drilling water, agricultural activities, vector control, border control initiatives and other programmes aimed at building community assets and improving the environment and living standards.

69. Through national service, **Mr. Speaker,** NYS is building a new national psyche of nation building, patriotism, service culture, volunteerism, civic competence and social cohesion, not only amongst themselves, but also working with other young people within their communities. The servicemen and women will work alongside 220,000 youth within the communities in which they serve, working on projects all over the country. These community youth are engaged as casual labour, with the added advantage of receiving on-the-job training and mentorship from NYS.

70. **Mr. Speaker,** NYS will be the premier training institution on artisanal skills, crafts and technical training. Through the vocational training, the youth will be equipped with skills that will enable them contribute to economic development. The training is geared at responding to the needs of our national economic agenda and current economic opportunities. **Mr. Speaker**, the National Youth Service is aiming to become self-sustainable by establishing the National Construction Company for Kenya that can deliver on various infrastructure projects in the country and beyond. Through the NYS Construction Company, the cost of construction will go down by between 30% - 50%, due to the reduction in the cost of labour and machinery.

71. In the FY 2015/16, **Mr. Speaker,** to meet the commitments we have made to our Youth through the NYS, I am allocating KSh 25.0 billion towards youth employment and reengineering the NYS as a vehicle for transforming and empowering the Youth.

72. **Mr. Speaker,** every big company today started small. The Small and Micro Enterprises (SMEs) are a critical part of the private sector and are the best source of new products and innovations that will anchor our future growth. Their development is, unfortunately, hindered by lack of capital since they are considered by banks to be high risk investment targets. In addition, SMEs are constrained by limited market access, poor infrastructure, inadequate knowledge and skills, rapid technology changes, and unfavorable laws and regulations. These challenges have curtailed the growth of many SMEs, contributed to low export product diversification and undermined the national efforts towards graduating from commodities trade to high-end value added manufactured goods.

73. **Mr. Speaker,** to address these challenges, a variety of remedial measures are underway including:

- Supporting Small and Medium Enterprises to acquire small industrial plants for value addition of agricultural products currently produced under the Jua kali;
- Entrenching Buy-Kenya-Build-Kenya policy in all public procurement;
- Introducing legislation to require at least 40 percent local content in all public projects;
- Increasing allocation to Uwezo Fund and the Youth and Women Enterprise Fund;
- Boosting science, technology and innovation by increasing investment in research and development;

- Developing a framework to facilitate leasing by SME's as an alternate financning mechanism for capital expenditures; and,
- Developing a framework to nurture and commercialize inventions, innovations and end-products at the national and county levels.

74. **Mr. Speaker,** to empower youth and female entrepreneurs and ensure that they have access to affordable credit to start, grow and build businesses and enterprises, the Government will continue to increase the capitation of the Youth Enterprise Development Fund (YEDF), the Women Enterprise Fund and the Uwezo Fund. Therefore, in this budget, I am allocating KSh 0.85 billion for the Uwezo Fund, KSh 0.5 billion for the Women Enterprise Fund and KSh 0.3 billion for the Youth Enterprise Fund.

75. **Mr. Speaker,** although the law requires procuring entities to reserve at least 30 percent of their procurement to youth, women and persons with disability, about KSh 10.0 billion has been accessed by this group in the fiscal year 2014/15. This is below our target and as such, all Accounting Officers are instructed to strictly adhere to the requirements of the law so as to support the entrepreneurial growth of our youth, women and persons with disability. In this respect, starting July 1, 2015, I expect all Accounting Officers to submit quarterly reports to the National Treasury in regard to the 30 percent requirements for all procurements.

76. **Mr. Speaker,** we would like to close the chapter of the economic stimulus projects initiated in the last administration. Therefore, in this budget, I have allocated KSh 0.6 billion for upgrading of National Schools, KSh 0.32 billion for purchase of computers, KSh 0.3 billion for prototype fresh produce and wholesale markets, and KSh 0.23 billion for Jua kali sheds. Through these programs, we expect that the concerned MDAs will engage the youth and women in gainful economic activities.

Development of Sports, Culture, and Arts

77. **Mr. Speaker,** development and support of sports, culture and heritage remains a key priority of Government so as to nurture talent of our youth and safeguard our National Heritage. As you well know, Kenya is known throughout the world for her undisputed command of athletics. Our Athletes continue to do Kenya proud and we aim to develop a pool of such sports men and women. In partnership with the private sector, we shall invest in sports development, including expansion and modernization of sports facilities so that we become a sports hub for regional and international sports. As a start, I have allocated Ksh 1.8 billion to construct a major Stadium in each of the following cities: Nairobi; Mombasa; and Eldoret. This will help to encourage growth of youth talents in sports and nurture them as catalyst for growth and development. We expect the Ministry of Sports, Culture and the Arts to utilize this allocation efficiently by employing modern technologies of construction to deliver on this service.

78. Further, **Mr. Speaker,** we shall aim to develop, preserve and protect our culture and National Heritage. Towards this end, I have proposed to allocate Ksh 1.1 billion for cultural programmes.

6. INVESTMENT IN HEALTH, EDUCATION AND SOCIAL PROTECTION FOR OUR PEOPLE

6.1 Investment in Quality Education

79. **Mr. Speaker,** we have made tremendous progress over the recent past on educational access, largely due to increased enrolment following the introduction of free primary education in 2003 and free tuition in secondary schools in 2006. However, there are still concerns on the quality and relevance of education and the high number of pupils dropping out of school with no clear alternative access to acquisition of lifelong skills to enable them find jobs.

80. To improve the quality of basic education in our country, and to lessen the burden of parents, I am proposing to increase capitation to KSh 32.7 billion for free day secondary education and KSh 14.1 billion for free primary education. This will take us a step closer to making Free Primary and Secondary Education truly free. In addition, **Mr. Speaker,** I am allocating KSh 0.4 billion for Sanitary towels for girls in school and KSh 1.0 billion for the School feeding program to ensure that no child misses school. Similarly, I am proposing to allocate KSh 3.0 billion for technical training institutes, KSh 52.9 billion for University Education and KSh 7.5 billion for Higher Education Loans Board to increase the quality as well as access to tertiary institutions.

81. To further support the demand for increased enrollment, I am proposing to allocate KSh 2.3 billion for recruiting an additional 5,000 teachers, and KSh 2.2 billion for promotion of teachers.

82. **Mr. Speaker,** improving the quality of our educational system and making it accessible to all school going children through a comprehensive e-learning program remains a priority of this Administration. As such, through this budget, we are once again allocating a total of KSh 17.58 billion for deployment of ICT learning devices to schools, development of digital content, building the capacity of teachers and rolling out computer laboratory for class 4 to class 8 in all schools throughout the country. I am confident, **Mr. Speaker,** that this time round this key Jubilee Government project will finally take off.

6.2 Equity, Poverty Reduction and Social Protection for Vulnerable Groups

83. **Mr. Speaker,** as a Government that deeply cares for its most vulnerable members of society, we have set aside resources for affirmative action interventions and social safety nets so as to empower these Kenyans and enable them actively participate in our economic development agenda. Accordingly, I have set aside:

- KSh 2.1 billion for Affirmative Action, Social Development Fund;
- KSh 9.0 billion for orphans and vulnerable children;
- KSh 7.4 billion for elder persons;
- KSh 1.2 billion for those with extreme disability;
- KSh 0.3 billion for other disabled persons under coverage of cash transfer;
- KSh 0.3 billion for street families;
- KSh 0.5 billion for insurance cover for persons under the social safety net program through NHIF;
- KSh 0.8 billion for the Children Welfare Society;
- KSh 0.4 billion for the Presidential Secondary School Bursary Scheme for orphan; poor and bright students;
- KSh 2.2 billion for Resettling the IDPs;
- KSh 1.3 billion for hunger safety net;
- KSh 1.3 billion for slum upgrading; and
- KSh 1.0 billion seed capital for the National Fund for Restorative Justice.

Mr. Speaker, to improve the efficiency and effectiveness of targeting of the safety net programmes, we shall move all the transfer payments to beneficiaries to a digital platform which should improve transparency, accountability and reduce costs.

84. **Quality and Accessible Health Care Services for all Kenyans**

85. **Mr. Speaker**, the Government recognizes that investment in quality healthcare services is essential in developing a healthy population with higher productivity for sustained economic growth. Therefore, in partnership with County Governments, we have commenced a program of upgrading healthcare infrastructure and modernizing equipments. The recently launched Managed Equipment Services project will ensure that every County in Kenya has two hospitals fully equipped with the state of the art health care facilities. **Mr. Speaker,** I welcome the fact that the Governors have now accepted to partner with the National Government towards improving health services for Wananchi.

86. **Mr. Speaker, t**his essential project will provide each of the selected hospitals with modern theatre equipment, surgical and sterilization equipment, laboratory equipment, kidney dialysis equipment, ICU facilities, digital X-ray machines, ultrasound and imaging equipment. **Mr. Speaker,** I have, therefore, proposed an allocation of KSh 4.5

billion for the lease financing of health care equipment for this program in the fiscal year 2015/16.

87. **Mr. Speaker,** consistent with our policy objective of preventive health care program, notable progress has been registered in our effort towards eradicating infant as well as maternal mortality. Since the introduction of the free maternal service, cases of maternal deaths in the country have reduced from over 500 per 100,000 live births to 488 deaths for every 100,000 live births annually at a time when the number of women giving birth in hospitals rose to 70 percent, up from 44 percent. To further support this program, I have allocated KSh 4.3 billion in FY 2015/16.

88. **Mr. Speaker,** I have also provided for the following interventions in the health sector:

- KSh 3.5 billion for Kenya Medical Training Centers;
- KSh 9.3 billion for the Kenyatta National Hospital;
- KSh 5.8 billion for the Moi Teaching and Referral Hospital;
- KSh 1.9 billion for Kenya Medical Research Institute;
- KSh 3.0 billion for doctors/clinical officers/nurses internship program;
- KSh 0.9billion for the National Aids Control Council;
- KSh 0.9 billion for free access to all health centers and dispensaries;
- KSh 1.0 billion for slum health care program; and
- KSh 19.7 billion for HIV/AIDS, Malaria and TB (Global Funds).

7. STRENGTHENING DEVOLUTION AND REGIONAL DEVELOPMENT

89. **Mr. Speaker,** the decentralization of service delivery and resources through devolution has had a profound effect on lives of our people at the grass roots level. As witnessed across the country in the past two years of devolution, local development is gaining traction as Counties are becoming the new centres of economic activity. To lock-in and sustain these gains, we will continue to support County Governments through increased allocation of shareable revenues so as to ensure that devolution achieves the objectives of better service delivery and rapid local economic development as well as jobs creation in line with our Vision 2030.

90. Therefore, **Mr. Speaker,** Parliament has allocated to County Governments KSh 259.7 billion as Sharable revenues following consultations with Inter-Governmental Budget and Economic Council comprising the Council of Governors, the Commission on Revenue Authority (CRA), the Commission for the Implementation of the Constitution (CIC), and the Parliament Service Commission. In addition, to further support implementation of the

devolved system of Government, KSh 27.3 billion has been set aside as additional conditional allocations to Counties in the FY 2015/16 Budget as follows:

- KSh 4.3 billion as conditional grant for Free Maternal Health Care;
- KSh 4.5 billion as conditional grant for Leasing medical equipment;
- KSh 3.6 billion as conditional grant for level-5 hospitals;
- KSh 0.9 billion as conditional grant to compensate county health facilities for user fees forgone;
- KSh 3.3 billion as conditional grant for maintenance of roads from the Road Maintenance Fuel Levy Fund; and
- KSh 10.7 billion as conditional allocations from Development Partners' loans and grants.

91. **Mr. Speaker,** this brings the total allocation to County Governments to Ksh 287.0 billion which is equivalent to 37.0 percent of the most recent audited revenues approved by the National Assembly which amounted to Ksh 776.6 billion in FY 2012/13. This is more than twice the mandated Constitutional threshold of not less than 15 percent.

92. **Mr. Speaker,** in addition, I have allocated Ksh 35.2 billion to the Constituency Development Fund (CDF) kitty to fund only National Government functions (such as education and security) at the Constituency level.

93. **Mr. Speaker,** in addition, I have allocated Ksh 6.0 billion for the Equalization Fund to cater for the back log and allocation for FY 2015/16. I urge the two Houses to approve the Equalization Fund regulations speedily so as to facilitate the operationalization of the Fund.

94. **Mr. Speaker,** since their establishment in 2013, County Governments have sought to introduce various new fees or service charges, or to raise existing ones. **Mr. Speaker,** if left unchecked, this situation can have detrimental effects on county revenues in the medium term, particularly if they drive away business and investment. In order to promote a conducive business environment and ensure compliance with Article 209 (5) of the Constitution, a clearer response is needed, as well as better coordination and a well-defined framework for regulating business activity throughout the country.

95. **Mr. Speaker,** towards this end, the National Treasury has issued Guidelines for Drafting County Finance Acts (Issue No. 1/15). I urge counties to adhere to these guidelines. To complement these guidelines, the National Treasury will begin consultations with all key actors with a view to introducing legislation aimed at coordinating the manner in which business activity is regulated throughout the country. In addition, there is an urgent need to review some business regulatory laws that impact negatively on businesses, such as the Environment Management and Coordination Act and the National Construction

Authority Act with a view to repealing or restructuring them. I look forward to receiving the support of all concerned agencies in these reforms.

96. **Mr. Speaker,** before I move to the revenue measures to finance the planned expenditures, I wish to express our gratitude to Parliament for approving the Estimates of Expenditure submitted to this House. We have prepared the FY 2015/16 Appropriation Bills on the basis of the Certificate issued by the National Assembly. However **Mr. Speaker,** we will be engaging the House with a view of making necessary amendments to address afew emerging issues.

8. BUDGET ESTIMATES FOR 2015/16

97. **Mr. Speaker,** allow me now to turn to the financial projections for the FY 2015/16 budget. We are targeting revenue collection of KSh 1,358.0 billion, equivalent to 20.8 percent of GDP and comprising ordinary revenues of KSh 1,254.9 billion (19.2 percent of GDP), and Ksh 103.2 billion of Appropriations in Aid.

98. **Mr. Speaker**, This performance will be underpinned by on - going reforms in tax policy and revenue administration. The KRA is expected to institute measures to expand the revenue base and eliminate tax leakages. At the moment, KRA and Government is automating and digitizing most of the services and this will enhance collection and reduce revenue leakages.

99. **Mr. Speaker,** the expenditures in FY 2015/16 are guided by the Medium Term Plan II (2013-2017) of Vision 2030 and the Jubilee Administration Strategic Priorities. In FY 2015/16, overall expenditure and net lending are projected at KSh 2,001.6 billion (30.7 percent of GDP). This includes Ministerial recurrent and development expenditures of KSh 784.2 billion (12.0 percent of GDP) and KSh 721.3 billion, respectively; KSh 264.2 billion for County Governments (including allocations for Level 5 and funding from DANIDA); KSh 185.3 billion for interest payments, Ksh 43.4 billion for pensions and Ksh 3.2 billion for other Consolidated Fund Services (CFS).

100. **Mr. Speaker,** in the FY 2015/16, the Government has made it a priority to shift more resources from recurrent expenditure to development expenditure as required by the PFM Act, 2012. As a result, recurrent expenditures are projected to decline from the estimated figure of 16.4 percent of GDP in FY 2014/15 to 15.5 percent of GDP in 2015/16.

101. The ceiling for development expenditures including foreign financed projects (excluding net lending) amounts to KSh 716.3 billion in the FY 2015/16 including Parliament and Judiciary. Most of the outlays are expected to support critical on-going infrastructure development in roads, Standard Gauge Railway, ports, energy, and security among others.

Part of this development budget will be funded by project loans and grants, (Ksh 349.3 billion) from development partners, while the balance (Ksh 370.2 billion) will be financed from domestic resources.

102. **Mr. Speaker,** reflecting the projected expenditures and revenues, the overall fiscal balance including grants (amounting to Ksh 73.4 billion), is projected at KSh 570.2 billion (equivalent to 8.7 percent of GDP) in FY 2015/16. Excluding expenditures related to the SGR, the overall deficit would decline to Ksh426.3 billion equivalent to 6.5 percent of GDP.

103. The fiscal deficit in FY 2015/16, will be financed by net external financing of KSh 340.5 billion (5.2 percent of GDP and KSh 229.7 billion (3.5 percent of GDP) of domestic financing. Thus the overall fiscal deficit is fully financed.

104. **Mr. Speaker,** the Government's borrowing plans remain anchored in the Medium-Term Debt Strategy Paper which aims at ensuring public debt sustainability. The strategy envisages continued borrowing from domestic and external sources with the latter being largely on concessional terms. While external financing will be largely on concessional terms, the Government will continue to diversify financing sources by continuing to access commercial sources of financing in the international financial market.

105. **Mr. Speaker,** as Hon Members will recall, last year our debut Sovereign Euro bond was received with a lot of enthusiasm by foreign investors, once again underscoring the confidence foreign investors have in our economy. Going forward, we intend to continue sourcing these type of funds, including from export credit agencies and syndicated loans.

106. **Mr. Speaker,** I would like to assure Hon Members that non-concessional external borrowing will be undertaken in a cautious manner and limited to bankable projects and will broadly be within the ceilings in the Medium-Term Debt Strategy Paper. This will ensure that our total public debt will remain sustainable over the medium term. In addition, the Government will ensure that the level of domestic borrowing does not crowd out the private sector given the need to increase private investment and accelerate economic expansion. A cautious approach will also be adopted in the issuance of external Government loan guarantees and the use of the Public Private Partnership framework for funding infrastructure, in order to minimize the level of contingent liabilities.

9. TAX MEASURES AND MISCELLANEOUS AMENDMENTS

9.1: Overview of the Proposed Tax and Miscellaneous Measures

107. **Mr. Speaker**, the rest of my Statement highlights the various tax measures I intend to introduce through the Finance Bill, 2015, and other miscellaneous amendments I have tabled in this House which are intended to accelerate growth, create employment and ease the cost of living for Kenyans.

108. **Mr. Speaker**, the tax and miscellaneous measures I have proposed are categorized under the following broad areas:

- Facilitating Private Sector Growth to accelerate industrialization and the creation of Jobs;
- Promoting Equity and fairness;
- Deepening Tax Administration Reforms to Ease Compliance and reduce the cost of doing business; and
- Encouraging Growth and Stability of the Financial Sector

Facilitating Private Enterprise Growth for Job Creation

109. **Mr. Speaker,** last year I committed to introduce measures to encourage corporate entities to engage fresh graduates in acquiring relevant experience and skills through internship and apprenticeship programs. Therefore, in this budget, I propose to introduce a tax rebate scheme for employers who shall engage and train at least ten fresh graduates for a period of six months to twelve months. I urge employers and business community to take up this opportunity and help us build a resource base of skilled manpower. In addition, all training levies which are currently being charged will be consolidated into a National Job Fund to benefit the youth initiatives such as on the Job training and attachments in order to enhance skills development.

110. **Mr. Speaker,** the growth of the film industry has a huge potential to attract and nurture Kenyans' talents and position this sector as a key driver of economic growth and employment creation. To enable this latent industry to attain a competitive advantage like the rest of the leading film production destinations and create jobs for our youth, I propose to exempt from withholding tax all payments made by foreign film producers to actors and crew members. In addition, VAT in respect of goods and services purchased for use in the film making will be exempt. Over and above this **Mr. Speaker**, I propose to set up a fund for rebating of expenses by producers in this industry. The modalities for implementing this measure will be worked out shortly.

111. **Mr. Speaker,** as we promote fishing and aquaculture, the demand for fishing nets is on the increase. Therefore, to encourage local manufacturers of fishing nets. I have

provided for importation of nylon yarn and synthetic twine used in the manufacture of fishing nets under the duty remission scheme at a rate of 0% instead of 10%. In addition, imports of made up fishing nets will attract duty at a rate of 25% instead of 10% to protect local manufacturers of fishing nets.

112. **Mr. Speaker,** most of our sugar factories are on the verge of closing down due to competition from cheap imported sugar. In order to protect our sugar industry, I have increased the specific duty rate on imported sugar from USD 200 to USD 460 per metric tonne. The advalorem rate remains 100% of the customs value. This measure will cushion the sugar sector from unfair competition and enable our local factories to break even and pay the farmers promptly.

113. **Mr. Speaker,** paper and paper board products have have been subject to a stay of application of the Common External Tariff (CET) at the rate of 25%. This has made paper and paperboard products more expensive for the packing industries and other users of the products. In order to lower cost of paper and paperboard products, I propose to withdraw the stay of application of CET on paper and paperboard products and make them subject to duty at 10% according to the Common External Tariff.

114. **Mr. Speaker,** as Hon Members are aware, the EAC Partner States apply different export duty rates for raw hides and skins thereby encouraging smuggling of these goods. In order to deter these smuggling activities, the Ministers for Finance have agreed to harmonize the export duty rate on hides and skins at 80% of FOB value or 0.52 USD per kg, whichever is higher. The harmonized rate will be implemented during the 2015/16 financial year.

115. **Mr. Speaker,** Kenya is the sole manufacturer of plastic tubes for packing tooth paste and cosmetics in the region. In this regard, I have negotiated for an increase in the import duty rate on plastic tubes for packing toothpaste and cosmetics from 10% to 25% in order to protect our local manufacturers. It is expected that local manufacturers will increase the production of plastic tubes while at the same time maintaining quality.

116. **Mr. Speaker,** pasta is a popular foodstuff increasingly being consumed by many families in the region. Surprisingly, this basic food item is not manufactured locally. Therefore, to encourage investors to produce pasta locally and reduce over-dependence on imports, I have provided for importation of SEMOLINA, the raw material for making pasta, under the EAC duty remission scheme at a rate of 0% instead of 25% for gazetted manufacturers of pasta.

117. **Mr. Speaker,** the consumption of illicit brew has become a serious social problem in the country. However, there exists potential for the manufacture of safe drinks using locally available agricultural products. This will have the twin benefit of providing safe alcoholic drinks as well as promoting agricultural products for our farmers. In this regard,

the proposed Excise Bill grants the Cabinet Secretary, National Treasury to grant remission of excise duty in respect of beer or wine made from sorghum, millet or cassava or any other agricultural products (excluding barley) that is grown in Kenya. I therefore, urge our farmers and the beer manufacturers to take advantage of this incentive not only to create wealth but also to contribute to a healthy nation.

118. **Mr. Speaker,** Kenya is the leading manufacturer of aluminum milk cans in the region. Currently, imported aluminium milk cans are taxed at 10%. In order to encourage increased local production, we negotiated to import aluminum milk cans at 25% instead of 10% to cushion our local manufacturers against cheap imports.

119. **Mr. Speaker,** the importance of infrastructure in the attainment of our development strategy cannot be over emphasized. As Hon members have noticed, the Government has heavily invested in the infrastructure development particularly the road network. In order to further scale up the existing road network, I propose to increase the Road Maintenance Levy by Ksh 3 per litre to be collected and paid into the Road Annuity Fund.

120. **Mr. Speaker,** during the pre-budget consultative meeting held in Arusha on 11th April, 2015, the Ministers for Finance agreed to remove gas cylinders from the exemption regime. In exchange, the import duty rate for the cylinders was reduced from 25% to 0%. Considering that Kenya is the only manufacturer of gas cylinders in the EAC region, I negotiated to import gas cylinders at a rate of 25% instead of 0% to protect our local manufacturers.

121. **Mr. Speaker**, our people in rural areas suffer serious indoor pollution and associated respiratory diseases occasioned by fossil fuel and firewood for domestic cooking. To encourage use of clean and affordable biogas energy system for cooking and lighting to rural households I propose to exempt VAT on plastic bag biogas digesters for use in the sector.

122. **Mr. Speaker**, through the Finance Act 2014, services to goods in transit were exempted from the VAT. The change affected the case of cross-border transport services provided by Kenyan transporters in the regional market, making Kenyan transporters less competitive. In order to encourage and sustain growth in this sector and also to harmonize the treatment of these services across the region, I propose to zero rate services in respect of goods in transit.

123. **Mr. Speaker,** these measures are intended to offer increased incentives to our manufacturers and should result in more jobs for our youth. However, I must urge our manufacturers that these measures should not be an excuse to lower the quality of their products. Therefore, Kenyans will be expecting high quality products at reasonable prices.

124. **Mr. Speaker,** as part of our industrialization strategy and Vision 2030, the Government has prioritized the development of industrial parks targeting the small and medium size enterprises in five selected locations of; Nairobi, Nakuru, Kisumu, Mombasa and Eldoret to provide infrastructure facilities to our investors. I, therefore, propose to exempt from VAT taxable goods and services for use in the construction of infrastructure works in industrial and recreational parks of 100 acres or more. This measure is expected to make it attractive for both foreign and local investors to set up these parks in Kenya and create jobs for our people.

125. **Mr. Speaker,** the use of ICT in schools remains a key priority of the Government that is meant to enhance Primary school education. In order to encourage investments in local assembling of the electronic devices, I propose that inputs imported or purchased locally for the assembly of these devises be exempted from VAT.

126. **Mr. Speaker,** I have continued to receive representations from the private sector on the need to introduce measures to make it cheaper and competitive for them to conduct business in East Africa. I have, therefore, lowered the Import Declaration Fee (IDF) from the rate of 2.25 percent to 2.0 percent as a demonstration of the Government's commitment towards harmonization of IDF in the EAC region.

Promoting Equity and Fairness

127. **Mr. Speaker,** to equip our prisons and ensure criminals are secured away from society, we agreed to include prison authorities in the exemption Schedule to enable them import for their official use, duty free goods, materials, equipment and other supplies. This inclusion will enable our prisons to enjoy similar exemption status as the Kenya Defence Forces and Police.

128. **Mr. Speaker**, the law provides for zero-rating of passenger and personal effects including one motor vehicle to a returning resident of Kenya who is changing residence. Given that Kenya operates right hand motor vehicles, returning Kenyan residents with left hand motor vehicles cannot enjoy this and hence it is perceived to be unfair, inequitable and discriminative. Accordingly, I propose to amend the VAT law to allow such returning residents who have owned the left hand drive motor vehicle for at least twelve months to sell the motor vehicle and import VAT and duty free a right hand motor vehicle of equivalent value subject to specified conditions.

129. **Mr. Speaker,** over the recent past, residential and rental business has witnessed substantial growth. On the contrary, rental income from the same has not grown commensurately. **Mr. Speaker,** I propose to simplify the taxation regime for landlords owning residential property by taxing their gross rental income at 12 percent for gross rental income below Ksh 10 million per year. In addition, **Mr. Speaker**, I propose to introduce a

tax amnesty for land lords who have not fully declared rent or are outside the tax net. In this respect, the land lords with tax arrears are advised to prepare to engage the Kenya Revenue Authority (KRA) to clean their tax records.

130. **Mr. Speaker,** the potential of our gaming industry to create gainful employment and generate revenue for the government and private sector remains untapped in our country. To promote growth of this sector and enable it to play its role in encouraging innovation, creating employment and driving growth, I propose to re-introduce a simplifying gaming tax, which shall be a direct charge on the gross gaming revenue. I also propose to tax public lotteries at 5 percent of the lottery turnover, and tax bookmakers at 7.5 percent of the gross betting revenues.

131. Similarly, **Mr. Speaker,** all prize competition whose costs of entry are premium shall be taxable at 15 percent of the total gross revenue. I will also introduce amendments requiring the appointment of technology providers as withholding agents for purposes of remitting 15 percent of revenue raised through lottery into a Fund to be established under the Public Finance Management Act, 2002 in furtherance of the objectives of the concerned sector.

Deepening Tax Administration Reforms to Ease Compliance

132. **Mr. Speaker,** after our Customs Law became part of the East African Community Customs Management Act in 2004, the Excise duty legislation remained under the Customs and Excise Law. This change necessitated the introduction of a simple and modern stand-alone Excise Bill incorporating International best practices. I can confirm that this Bill is being tabled in this House after under-going public participation as required by the Constitution and Statutory Instruments Act.

133. **Mr. Speaker,** in this simplified and modern Bill, we are imposing excise duty to compensate for harmful effects caused by production, supply, consumption or use of goods and services, which costs are not directly reflected in their prices. Therefore, **Mr. Speaker,** through this Bill, we are introducing a new tax based on units of quantity only. As such the Bill imposes a charge on: (i) sticks of harmful cigarettes and tobacco; (ii) volumes of harmful alcoholic beverage and sugar sweetened beverage consumed; (iii) volume of polluting fossil fuels and age of motor vehicles purchased; and (iv) weight of environmentally damaging plastic bags.

134. **Mr. Speaker,** Hon Members will note that based on the above principles and objectives, all classes of fossil fuels will be taxable upon enactment of this law to safeguard the environment, reduce tendencies for adulteration and assure equity. We are complementing this measure by investing heavily in extending electricity connection to every households, and providing incentives for use of cheaper, safer and cleaner bio-fuels

in cooking stoves. In the same vein, I have proposed a marginal increase of excise duty rate on alcoholic beverages to reflect the current effective rates after adjusting for inflation.

135. I have, in addition, **Mr. Speaker,** converted the current hybrid tax regime for cigarettes into a specific one and changed the taxation of motor vehicles and motorcycles into a regime based on classes of age, in accordance with the principles and objective of the Bill. And to address the challenges of environmental degradation caused by careless disposal of plastic bags, I have enhanced the excise duty on non biodegrable plastic to KShs.120 per kilogram.

136. However, **Mr. Speaker,** I am pleased to inform Kenyans that all bottled water will, upon enactment of this law, not be taxable. Similarly, all other goods that have no harmful effects, hereto taxable under the Customs and Excise Act, will not be taxable under the new law.

137. **Mr. Speaker**, I expect to raise additional revenue amounting to about KSh 25 billion from the various measures underpinning the new Excise Duty law. I, therefore urge Hon Members to consider prioritizing this Bill for debate along with other Bills I am tabling before this House today.

138. **Mr. Speaker,** current tax procedures are contained separately in each tax law. The best practice world-wide is to have all procedures which are general and applicable to all tax laws under one law. In the spirit of tax modernization in Kenya, I propose to introduce the Tax Procedure Bill which will contain uniform procedures across the three tax legislations – Value Added Tax, Excise Duty and Income Tax. The Bill is aimed at simplifying tax administration, which at the same time will reduce the cost of compliance.

139. **Mr. Speaker**, as I committed in last year's Budget Statement, we have now commenced the review of and modernization of the Income Tax Act, which we expect to complete by end of September 2015. The finalization and subsequent enactment of this law will mark the end of our review and modernization of the various tax legislations which began in 2011.

140. **Mr. Speaker**, the VAT Act, 2013 provides for payment of refund in cases where the input tax exceeds output tax and the Commissioner is satisfied such excess arises from making zero rating supplies. The Act however, does not provide timeline within which a taxpayer entitled to such a refund may lodge the claim. I have proposed an amendment to the law to provide that the claim for such refunds shall be made within twelve months from the date the tax became due and payable.

141. **Mr. Speaker,** last year we reviewed the taxation of the extractive industries. However, the review, provided for separate tax treatment for training services and

contractual fees for Petroleum and the Mining sectors bringing disharmony in taxation of the sector. In addition, the review also introduced different tax treatment with regard to withholding tax on training services and contractual fees. **Mr. Speaker,** I propose to amend the Income Tax Act to harmonise the tax treatment in this industry at the withholding tax rate of 12.5 percent and 5.6 percent for training and contractual services, respectively.

142. We also reinstated **Mr. Speaker,** the Capital Gains Tax last year so as to allow property and share owners to make their fair contribution to the exchequer. However, the implementation of the law has faced some challenges in some sectors of the economy. In order to address these challenges and ensure enforceability and compliance, I propose to remove the 5 percent tax on capital gains arising from sale of shares and introduce a 0.3 percent withholding tax on the transaction value of the shares.

143. **Mr. Speaker,** in order to incentivise the shipping sector, I hereby propose to reduce the ships qualifying for investment deduction from 495 tons to 125 tons and to increase the rate of investment deduction from forty to one hundred percent.

144. **Mr. Speaker,** investors are allowed to carry forward losses without Treasury's approval upto the fifth year. I propose to extend this period to ten years considering that there is heavy investment expenditure by some power producers, manufacturers and hotel operators.

145. **Mr. Speaker,** after Customs Law become part of the East African Community Customs Management Act in 2004, and coming up with a stand-alone Excise Bill, it was found necessary to have a Miscellaneous Fee and Charges Bill to cater for levies which were anchored in the Customs and Excise Act, Cap 472 yet to be repealed.

146. **Mr. Speaker,** for continuity in collection of the Railway Development Levy, Import Declaration Fees and Export levies imposed on hides and skins, it is imperative to introduce the Miscellaneous Bill, which will be the legal instrument to empower the Commissioner of Customs to collect the aforesaid levies.

9.2: Encouraging Growth and Stability of the Financial Sector

147. **Mr. Speaker,** Vision 2030 targets the creation of an international financial centre able to attract international investments and participants in the financial services arena. In addition, Kenya needs to have strong well capitalized financial institutions which are not only able to participate in financing the large projects envisaged in the Vision but that are also well capitalized to withstand financial shocks and crisis.

148. In this regard, I am proposing to increase the minimum core capital requirement for banks, mortgage finance companies and insurance companies. For banks, I propose to

increase the minimum core capital progressively from the current KSh 1.0 billion to Ksh 5.0 billion by December 2018. For insurance companies, I propose to increase the minimum capital to KSh 600 million for general insurance, and KSh 400 million for long term insurance business by June 2018.

149. **Mr. Speaker**, our financial sector regulators have all adopted the risk based supervision model in line with best international practice. To facilitate compliance with this supervisory model, I propose to remove the requirement for annual licensing of banks and instead empower the Central Bank of Kenya to issue non-renewable perpetual licences. The Central Bank will continue to monitor banks using the risk based approach and to carry out inspections on periodic basis while retaining powers to withdraw the license at any time. This will eliminate the need for repetitive annual application procedures while still safeguarding financial stability.

150. Similarly, **Mr. Speaker,** for the insurance industry, in addition to increasing the minimum capital requirements, I propose to introduce risk based capital requirements to be determined by the specific risk profile of the company.

151. **Mr. Speaker**, the investment provisions in the Insurance Act are rules based and are not in compliance with international core principles of insurance supervision. I am therefore proposing to move to a more principle based investment framework where insurance companies will be required to prepare and submit investment policies and will be subject to broad prescribed investment guidelines. This investment framework will bring the insurance industry in harmony with the framework already pertaining in the retirement benefits and collective investment sectors.

152. **Mr. Speaker**, whereas over 25,000 agents have qualified for award of Certificate of Proficiency (COP) which is a requirement for licensing as an insurance agent, we only have 5,000 agents licensed by the Insurance Regulatory Authority (IRA). This is partly as a result of an oppressive requirement that agents must be recommended by an insurance company before they can be licensed. In order to expand insurance penetration, I propose to remove this requirement and allow IRA to license agents so long as they have attained the COP and met other licensing requirements.

153. **Mr. Speaker**, Real Estate Investment Trusts (REITs) and Asset Backed Securities (ABS) are investment vehicles that offer companies alternative sources of raising capital. In order to ensure tax neutrality with other forms of debt, I propose to exempt asset transfers and other transactions related to the transfer of assets into REITs and ABS from stamp duty.

154. **Mr. Speaker,** retirement benefits schemes should be able to diversify their investments into new emerging investment vehicles in the capital markets in order to optimize returns to members. I therefore propose to create a new category in the Retirement

Benefits Investment guidelines to allow schemes to invest upto 10 percent of their assets in private equity funds and venture capital funds licensed by the Capital Markets Authority. I, however, propose to introduce in all classes of assets, except government securities, a per issue limit of 15 percent of assets and per issuer limit of 15 percent of issue in order to mitigate potential risks.

155. **Mr. Speaker,** the distribution of surplus in defined benefits schemes is often a contentious matter and scheme members often do not benefit from the surplus, which only accrues to the employer. I therefore propose to amend the retirement benefits regulations to provide clear provisions as to treatment of the surplus, whereby, the employer will enjoy a contribution holiday in cases of on-going schemes, but in case of winding-up or scheme conversion, the surplus is to be shared equally between members and employers.

156. **Mr. Speaker,** to improve governance of retirement benefits schemes, I propose to introduce term limits such that trustees can only serve a maximum of two terms of three years and I also propose to reduce the period for preparation of annual audited accounts for retirement benefits schemes from 6 months to 3 months to ensure expeditious accountability to members.

157. **Mr. Speaker**, to strengthen the supervision of deposit taking Sacco societies by the Sacco Societies Regulatory Authority (SASRA), I am proposing to amend the Sacco Societies Act to allow SASRA to undertake vetting of directors and key officers of these Sacco's. In addition, **Mr Speaker**, I propose to extend the current information sharing framework for Sacco's from the current inter-Sacco sharing of negative information, to also allow sharing of positive information as well as sharing with other financial institutions.

158. In order to strengthen the fight against terrorism and money laundering, **Mr. Speaker,** I am proposing amendments to the Proceeds of Crime and Anti-Money Laundering Act, in order to clarify the objectives of the Financial Reporting Centre (FRC) and strengthen its supervisory role. These changes are in line with the recommendations of the Financial Action Task Force (FATF) and will help improve our international rating following our removal from the FATF watch list in June 2014.

159. **Mr. Speaker,** the Government is aware that some Kenyans hold their wealth outside the country. To encourage these Kenyans bring back their wealth we are working on a mechanism to facilitate them bring back their money to support their investment activities in Kenya to help build the nation. **Mr. Speaker**, specific details on this initiative will be worked out shortly.

160. **Mr. Speaker**, it has come to our attention that the Consumer Protection Act, No. 46 of 2012 is posing challenges with respect to the interpretations of its applicability to loan agreements between public entities and our Development Partners. In order to address this

challenge, I propose to amend the Consumer Protection Act to exempt Credit Agreements between public entities and our Development Partners from the provisions of the Act.

161. **Mr. Speaker,** the scrutiny by this House, through the Committee on Delegated Legislation, of statutory instruments issued by the Executive and regulatory bodies is very welcome as it is meant to ensure that such instruments serve the interests of the Kenyan people. However, it is my considered view that such scrutiny should not extend to routine administrative actions such as guidelines, orders, directions, and forms. I am therefore proposing an amendment to the Statutory Instruments Act to limit the definition of statutory instruments to be laid before the House to regulations, rules, by-laws and tariffs. This will relieve this House from the scrutiny of administrative issues.

10. CONCLUSION

162. **Mr. Speaker**, this budget demonstrates our resolve and concerted efforts to create a prosperous and inclusive country for all Kenyans. It focuses on implementing key development priorities outlined in our economic transformation agenda.

163. **Mr. Speaker**, the budget aims to secure the lives and property of citizens of this great country from the emerging ever evolving insecurity facing us. This budget allocates enormous resources to the security organs and for both Police and Military modernization. Tourism recovery remains our key objective given its potential to create jobs and employment of our youth and women. We target to improve on efficiency and roll out systems that will enable us to save public resources so that Kenyans get value for their money.

164. **Mr. Speaker**, we are firmly behind the efforts by His Excellency The President to deal decisively with corruption that benefits a few individuals instead of the country. In preparing the budget we consulted Kenyans as demanded by the constitution and the Public Finance Management Act, 2012 and I wish to assure Kenyans that through this budget, we intend to address all the concerns raised during the consultative forums. The focus of this budget is on pro-poor growth and sustainable development guided by Vision 2030 so as to generate jobs and wealth for our citizens.

165. **Mr. Speaker,** the implementation of this budget requires the collective effort of all Kenyans. I, therefore, urge Hon Members and all Kenyans at large to join us in building the Kenya we want. A prosperous Kenya – a Kenya in which we all aspire to live in.

166. I wish to thank my Cabinet colleagues and their Principal Secretaries who collectively own this budget and the programmes to be implemented.

167. My sincere appreciation also goes to:

- His Excellency The President and His Excellency the Deputy President for their guidance and support during the budget process
- Majority Leader of the National Assembly, Hon Aden Duale, for his relentless support to get most of the legislative proposals on finance matters pass through the house;
- Members of the Budget and Appropriation Committee as well as the Finance, Planning and Trade Committee led by Hon Mutava Musyimi and Hon Benjamin Langat, respectively, for the constructive engagements throughout the year on Budget and Finance matters;
- The Departmental Committees of Parliaments and the Senate for the valuable inputs into this budget;
- Members of the Intergovernmental Budget and Economic Council (IBEC) and Senate Committee on Finance and Economic Affairs for vibrant discussions on budget allocations to counties;
- Management and Staff of the National Treasury for commitment to excellence in the public service and the long hours they have put to ensure that this budget and supporting documents meet the Constitutional deadlines;
- Management and Staff of the CBK and KRA for their contributions; and,
- All members of the National Assembly and Senate for their cooperation and support.

168. My gratitude goes to Kenyans from all walks of life for their contributions and encouragement.

God Bless You, God Bless Kenya

I Thank You

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