REPUBLIC OF KENYA

Budget Statement

For the

Fiscal Year 2014/2015

(1st July – 30th June)

by

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STATEMENT DELIVERED TO THE NATIONAL ASSEMBLY ON 12TH JUNE, 2014 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 2014/15

1ST JULY, 2014 TO 30TH JUNE, 2015

1. INTRODUCTION

1.1. Overview and Background

1. **Mr. Speaker,** it is once again my honour to present to Hon Members and to the people of Kenya, the policy highlights of the second Budget of President Uhuru Kenyatta's Administration. This Statement is in fulfillment of the requirements of section 40 of the Public Finance Management Act and Standing order No. 241 of the National Assembly.

2. Before I proceed, **Mr. Speaker,** allow me to record my deep appreciation to the Budget and Appropriation Committee, under the chairmanship of Hon Mutava Musyimi for constructively steering the review of the 2014/15 Budget Estimates. In the same vein, I wish to express my gratitude to my Principal Secretary and the staff of the National Treasury, for the excellent work done in the preparation of the 2014/15 Budget.

3. **Mr. Speaker,** we have framed the budget for 2014/15 against a backdrop of improving global economic prospects. The world economy is projected to grow by 3.6 percent in 2014, up from about 3 percent in 2013, buoyed by gradual strengthening of advanced economies. The growth of emerging markets and developing economies, however, continues to slow down due to new policy challenges.

4. In Sub-Saharan Africa, growth remained robust at about 5 percent in 2013, with the economies of the East African Community Partner States expected to grow at an average rate of about 6 percent in 2014.

5. **Mr. Speaker,** on the domestic front, growth prospects remain strong and resilient due to continued implementation of bold economic policies and structural reforms as well as sound economic management. Prudent economic policies have helped anchor the conditions for strong and stable growth.

6. Fiscal discipline has led to improvement in both the external and domestic debt positions. We have been able to anchor inflation expectations down and to maintain strong supervision over the financial sector for stability, efficiency and improved access to

financial services. As a demonstration of the resilience of our economy, overall economic activity expanded by 4.7 percent in 2013, despite the jitters and uncertainties of an election year, and challenges related to insecurity and transition to devolved governance.

7. The strong economic fundamentals, together with the renewed investor confidence, following peaceful elections of early 2013, bode well for accelerated broad-based and shared-economic growth and creation of more decent jobs for our youth.

8. Looking ahead, **Mr. Speaker**, and taking into account the on-going reforms and additional measures we are introducing through this budget, we forecast our economy to grow by 5.8 percent and 6.4 percent in 2014 and 2015, respectively. This translates to a growth of 6.1 percent for the fiscal year 2014/15, up from 5.3 percent in fiscal year 2013/14.

9. By responding to present challenges, while staying focused on the Transformation Agenda, **Mr. Speaker**, the foundation upon which to build a strong economic transformation is taking shape. As part of public participation, we accorded Kenyans the opportunity to share their views on how to address the remaining challenges to unlock growth and economic development.

10. Kenyans have responded to our call for Budget proposals, and they have requested me to address, through this budget, the issue of insecurity, the high cost of living, joblessness, protecting the poor and vulnerable and wastage in public expenditures across the entire Government. We have listened very carefully to these concerns and we intend to address them comprehensively.

11. As such, **Mr. Speaker**, through this budget, we are demonstrating our resolve and commitment to addressing the concerns raised by Kenyans, while also laying a firm foundation for accelerated growth and a shared prosperity. A shared prosperity in which we all enjoy peace and every Kenyan has access to a gainful social and economic opportunity.

12. **Mr. Speaker,** the rest of my statement**,** therefore, responds to the concerns raised by Kenyans and elaborates on the key policies, structural reform measures and various expenditure programs proposed to unlock our economic potential. The proposed measures are designed to facilitate the private sector take its rightful role as the engine of our economic transformation.

13. **Mr. Speaker**, allow me to build on the President's State of the Nation Address, by briefly summarizing the six critical thematic areas of the FY2014/15 budget that will address concerns raised by Kenyans as well as further fortify the platform for accelerated inclusive growth:

i. **First**, to enhance business environment for job creation, we must address vigorously the issue of insecurity. Equally important is the need to maintain macro-economic stability, and implement key structural reforms to reduce the cost of doing business. I will elaborate more about these measures, which are aimed at encouraging innovation, investment, growth and expansion of economic and employment opportunities;

ii. **Second,** to improve our productivity and competitiveness in the domestic and international markets, we are developing an elaborate and modern transport and logistic network. This will include construction of a standard gauge railway, an urban commuter railway, modernizing our seaports and airports, improving our road networks and expanding energy and water supplies. These measures are expected to boost economic growth and reduce unemployment;

iii. **Third**, to reduce the cost of living on a long-term basis, we are transforming agriculture in order to ensure food security. Increased food supply will drive down food prices and lower the cost of living for every Kenyan. In addition, the expansion of agro-processing will foster export growth and support other sectors such as manufacturing and tourism;

iv. **Fourth**, to protect the poor and vulnerable and to sustain long-term growth, we need to ensure the fruits of our growing economy are shared equitably. Accordingly, we are investing more resources to enhance the quality and accessibility of healthcare services and education. We will strengthen our social safety nets to ensure those less well off are also taken care of in order to reduce the financial burden on households;

v. **Fifth**, to reduce unemployment among our youth and women, it will be critical to provide access to affordable credit, while at the same time encouraging entrepreneurship and prioritizing skills development; and

vi. **Sixth** and finally, we shall endeavor to strengthen devolution so as to facilitate efficient delivery of services to our people and help counties become the centres of a shared growth as envisioned under Vision 2030.

2.0: CREATING A CONDUCIVE BUSINESS ENVIRONMENT FOR MORE JOBS

2.1: Responding to the Concerns of Kenyans on Insecurity

14. **Mr. Speaker**, with that summary, allow me now to provide more details on the Government's agenda for the forthcoming fiscal year.

15. At the top of our **first thematic area** is improving the business environment, **Mr. Speaker**, is enhancing security. Without security, the economy will not grow and our

objective of creating jobs for every one will remain elusive. Therefore, through this budget, we have continued to prioritize the strengthening of our security system.

16. **Mr. Speaker,** in the current Budget ending June 30th this year, we initiated a security modernization program and allocated substantial resources to the National Police Service and Kenya Defense Forces for infrastructure development, acquisition of armory, communication equipment, lease of 1,200 motor vehicles and for capacity building. I am pleased to report that implementation of these measures has progressed well.

17. In the 2014/15 budget we are building on the measures already initiated in the current financial year. Accordingly, I have proposed to allocate Ksh 66.2 billion for policing services, Ksh 71.3 billion for Kenya Defence Forces and Ksh 17.4 for the National Security Intelligence. Among the key interventions under the security are as follows:

- KSh.6.7 billion for leasing of 2,700 motor vehicles and aircrafts for security to enhance ground and aerial crime patrol and response;
- KSh.3.3 billion for enhanced security operations;
- KSh.2.9 billion for recruitment and training of additional 10,000 National Police officers;
- KSh.3.5 billion for security equipment upgrade and modernization;
- KSh.1.6 billion for Police Medical Insurance Scheme;
- KSh.1.8 billion for Control and Command Centre to enhance policing;
- KSh.1.3 billion for National Police Service officers' housing and development of additional housing units under a PPP framework – empowering officers to live in dignity;
- KSh 1.8 billion to deter poaching and save our heritage;
- KSh.1.3 billion for enhancing security at the Jomo Kenyatta International Airport (JKIA); and,
- We are also rolling out surveillance system throughout the country to deter criminals and terrorists.

18. **Mr. Speaker**, these measures, together with enhanced efforts of our security personnel, should go along way to address the concerns raised by Kenyans regarding their safety and should offer a peaceful and conducive environment for business activities.

2.2: Creating Employment through Macroeconomic Stability

19. **Mr. Speaker**, the importance of macro economic stability in sustaining long term investment, economic growth and development cannot be over-emphasized. As such the Government will continue to pursue prudent fiscal and monetary policies that are supportive of low inflation, low and stable interest rates, and stable exchange rates, all of which are key to accelerated inclusive growth and development.

20. On the fiscal front, we are focusing not only on the priority programs with the highest impact on our development objectives, but within a framework of sustainable debt and stable macro-economic environment. Accordingly, we are strengthening revenue collection efforts, containing the growth of total expenditure and eliminating unproductive expenditures while gradually shifting composition of expenditures from recurrent to capital expenditure and.

21. To reduce wastage in government spending and entrench efficiency, effectiveness and accountability in public finances, we intend to take the following measures:

- **First,** we are going to rationalize our expenditures and assure efficiency and value for money. To this end, we will roll-out e-Procurement by making operational the Procure-to-Pay module of the Integrated Financial Management System (IFMIS). Henceforth, all government procurement will be done electronically, and the days of inflated prices will be a thing of the past. To entrench accountability, a new Procurement law will shortly be submitted to this House;

- **Second,** we are implementing a Digital Government Payment Gateway to efficiently link Government payments and service delivery. This will not only make it easier for Kenyans to pay for services delivered, but will also seal loopholes and raise more revenues;

- **Third,** we will operationalise the Treasury Single Account and an institutional framework for effective cash-flow management established at the National Treasury to assure prudence and economy in the use of public resources as well as timeliness in Government financial transactions;

- **Fourth,** we will develop and enforce cost benchmarks for all projects and consumables to assure value for money. At the same time, we are strengthening capacity of budget performance and setting a performance benchmark for absorption of development budget of at least 80 percent. Similarly, we will undertake expenditure tracking and value for money audits to ensure accountability and efficiency and effectiveness in the use of public resources at both levels of Governments.

- As part of efforts to combat waste, the budget allocations for consultancy services, travel and hospitality have been curtailed, which will contribute to savings going forward; and,

- **Fifth, and finally,** we are also providing resources and strengthening the institutional capacity of the public finance management oversight agencies, namely, the National Treasury, offices of Controller of Budget and Auditor General as well as the Public Procurement Oversight Authority, to further

enhance efficiency, effectiveness, transparency and accountability in the use of public resources.

22. **Mr. Speaker,** on the revenue side, we are aware of the need to mobilize more domestic resources for our transformation agenda. Therefore, we will strengthen revenue collection effort by bringing into the tax net all potential taxpayers. This entails implementing reforms to enhance revenue administration capacity; simplifying and modernizing tax legislations; and leveraging ICT to enhance tax compliance.

23. Further, as directed by His Excellency the President during the 2013 Taxpayer Day, we have finalized the Draft Inland Revenue Agency Bill and Customs and Border Services Bill, and we shall shortly submit them to this House. The enactment of these two Bills and subsequent re-organization of Kenya Revenue Authority will, ultimately, enhance capacity of our tax administration.

2.3: Structural Reforms to Facilitate Business and Employment Growth

24. **Mr. Speaker,** we are also deepening structural reforms through this budget in order to improve efficiency and total factor productivity in order to facilitate private sector growth for more jobs to our youth.

- **First,** we are deepening financial sector reforms to create a vibrant, accessible, efficient and globally competitive financial sector that promotes high levels of savings to finance our transformation agenda. One of our key objective in this regard will be to operationalize the Nairobi International Financial Centre;

- **Second,** we shall submit to this House in 2014, a new Central Bank of Kenya Bill, the Financial Services Authority Bill and subsequently, all the financial sector regulatory Bills. Thereafter, we shall seek to establish a broader framework including the National Treasury, Financial Services Authority and Central Bank of Kenya to coordinate overall financial stability in the economy. These measures, together with other measures proposed by the Committee on Interest Rates that were recently announced, including introducing the Kenya Bank Reference Rate (KBRR) and the transparent disclosure of bank charges through the Annual Percentage Rate (APR), are expected to drive average interest rates downwards, thus making credit affordable and accessible to as many Kenyans as soon as possible.

- **Third,** we are committed to making it easier for all small scale businesses to; start business, acquire trade permits, register property, access credit, file and pay taxes and trade across counties and countries so as to position them as creators of new jobs and new products. In this regard, the e-Registry will be

made fully operational in fiscal year 2014/15 to enable small scale businesses to apply, pay for and acquire licenses for their businesses with ease.

- **Fourth,** we will also rationalize all regulatory fees and other charges and establish an institutional framework for the management of their imposition and variation. This will safeguard and encourage growth of investments and businesses throughout the country. Further, we have made provision for the establishment of a state of the art one-stop-investment-shop and expansion of the one-stop public service centres, popularly known as Huduma Centres, to make it easier for all investors to set up businesses; and finally,

- **Fifth**, we are taking the war against corruption a notch higher. The institutional capacity of the Ethics and Anti-Corruption Commission and the Office of the Public Prosecutor will be strengthened in order to enhance economic crime investigation, prosecutorial and recovery of corruptly acquired assets. Reducing corruption will lower the cost of doing business and help create jobs.

2.4: Transport, Logistics and Energy for Inclusive Growth and Employment

25. Mr. Speaker, regarding the **second theme** on infrastructure, as I have already stated, we are investing in a first class transport and logistic network to reduce the cost of doing business, improve productivity and enhance our overall competitiveness as a country. In this context:

- **First**, the construction of a standard gauge railway line from Mombasa to Nairobi has begun and is scheduled for completion and commissioning in 2017. For this, I have allocated KSh.22.9 billion to be raised through the Railway Development Levy (RDL) in 2014/15 budget. This is, in addition, to the amounts already collected under the RDL Fund and loans from the Peoples Republic of China;
- **Second**, we will also shortly work out modalities for financing the Nairobi to Malaba section with a branch line to the shore of Lake Victoria, to link the port of Mombasa with the hinterland, provide efficient connectivity with our regional neighbours and position it as a preferred port of choice;
- **Third,** we are also finalizing modalities for the financing of the JKIA commuter rail to hasten movement of passengers to and from the airport;
- **Fourth**, we shall shortly commission terminal 4 and commence work on the Greenfield project for completion by 2017 so as to position Nairobi JKIA as a regional aviation hub. In addition, **Mr. Speaker,** we are also expanding other airports in the country, In this connection, I have allocated KSh.1.65 billion for

on-going upgrading of Kisumu and Isiolo Airports, and construction of 3 new Airports in Mandera, Malindi, and Suneka.

- **Fifth**, through a Private Public Partnership, we are investing in a regional crude oil pipeline as part of the strategic positioning for the oil transportation business. We will, also under PPP framework, develop the transport components of the Lamu Port and Southern Sudan-Ethiopia Transport (LAPSSET) Corridor Project.

- **Sixth**, we are also continuing to expand our road network to ease movement of goods and passengers and encourage growth of commerce across the country. In this regard, I have allocated:
    - KSh.41 billion for completion of the on-going roads throughout the country;
    - KSh.22.4 billion for roads maintenance to ensure our roads are usable throughout the year;
    - KSh.42.3 billion for other major road construction, especially those connecting Kenya with neighboring countries to facilitate trade;
    - KSh.1.0 billion towards decongestion of road junctions in Nairobi for faster flow of traffic;
    - KSh.10 billion for other new roads we plan to construct beginning fiscal year 2014/15 under an Annuity financing approach; and,
- **Seventh**, to further expand energy production and lower energy prices for industries and households, I have allocated:
    - KSh.10 billion for development of cleaner and affordable geothermal energy;
    - KSh.23 billion towards investment in power transmission to reduce technical losses; and
    - KSh.10.6 billion to expand access to power in the rural areas so as to spur growth of enterprises and employment.

3.0: EASING COST OF LIVING AND IMPROVING WELFARE OF KENYANS

3.1: Investing in Agriculture to Reduce the Cost of Living and Create Jobs

26. Mr. Speaker, without a deliberate and strategic determination to address the productivity challenges in the agricultural sector, and reverse the decline in our exports through value addition, our **third thematic** goal of accelerating inclusive growth for

economic transformation will not be achieved. A sustainable economic transformation strategy must, at the initial stage, embrace sectors in which the majority of our people derive their livelihoods.

27. Agriculture is best positioned to open up opportunities across the country and sustain equitable development and prosperity. This will largely depend on unlocking the potential of the sector through active participation of the private sector along the value chain. The expansion of agricultural output will also increase food supplies, reduce food prices and bring down the cost of living, create employment and promote overall rural development.

28. Through this budget, we are rolling out a model farm covering 10,000 acres, as part of the one million acre irrigation project at Galana Ranch. Concurrently, we are engaging with financial institutions and development partners to establish an Agri-Business Fund, which the private sector can access in order to fast track implementation of the one million acre irrigation project and agricultural transformation ventures throughout the country. The Financial Institutions have indicated willingness to leverage Government's seed capital by a scale of one-to-ten.

29. **Mr. Speaker**, to ensure full realization of food security and lower food prices, I am allocating KSh. 9.5 billion towards the on-going irrigation projects. This will include KSh.3.5 billion allocation to the Galana Irrigation Project; KSh.3 billion for inputs subsidy including fertilizer; KSh.2.7 billion for Strategic Grain Reserves; KSh.1.0 billion for fisheries development; KSh.0.7 billion for the revival of the Kenya Meat Commission.

30. In order to create more employment opportunities in the sector, I have allocated KSh.0.3 billion for the revival of the Pyrethrum sector; and another KSh.0.3 billion for establishment of Free Disease Zone.

31. **Mr. Speaker**, considering the challenges of drought and floods we continue to face as a country, we have once again prioritized flood control and water harvesting. In this regard, therefore, I have allocated KSh.8.2 billion for construction of water pans and dams, KSh.4.1 billion for water supply and sanitation and KSh.1.5 billion for environmental protection conservation and management. I have also provided KSh.0.5 billion for completion of multi-purpose dams that were started under the economic stimulus programme.

3.2: Reducing Households Financial Burden through investment in Quality Education

32. Mr. Speaker, under the **fourth thematic area** of sharing growth, the Government has made tremendous progress in providing universal access to education. But there are concerns on the quality 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 to find jobs. Through this budget, I have proposed measures to enhance the quality of education and build skills as follows:

- **First,** to improve quality of our education and ease the financial burden on the shoulders of many households with school going children, I have increased allocation for free tuition in secondary schools by 33 percent to KSh.28.2 billion. I have also increased by 33 percent allocation for free primary education to KSh.13.5 billion. This will make primary schooling and secondary education truly free within the next three years. I have also provided KSh.2.3 billion for the school feeding programme and KSh.400m for sanitary towels to ensure that no child misses out on school due to poverty;

- **Second,** we recognize that as enrolment increases each year, supportive facilities and resources including teachers will also need to be increased proportionately. We have therefore, allocated KSh.0.6 billion for upgrading of National schools that started under the economic stimulus projects and another KSh.2.3 billion for recruitment of an additional 5,000 teachers. I have also proposed allocations of KSh.2.0 billion and KSh.5.5 billion for promotion of teachers and implementation of the second phase of commuter allowance, respectively; and,

- **Third**, improving quality and making our educational system accessible to all school going children through a comprehensive e-learning program remains a priority to this Administration. As such, through this budget, we are once again allocating a total of KSh.17.4 billion for e-learning, including laptops for our children, building capacity of teachers and rolling out computer laboratory for class 4 to class 8 in all schools throughout the country. This will be in addition to KSh.320 million I have provided for the purchase of computers.

3.3: Further Investing in Quality and Accessible Health Care

33. Mr. Speaker, we have achieved notable progress in health care, but maternal and infant mortality, together with new health challenges are putting pressure on our health care system. As His Excellency the President has committed, we are empowering mothers and infants to enjoy the right to live. Working with county governments we are

extending this empowerment to every Kenyan by investing in access to modern and well-equipped health facilities and well trained and motivated health care workers.

34. Mr. Speaker, in consultation with County Governments, we are developing a program for health care infrastructure upgrade and equipment modernization, recruitment of more health workers, especially community extension health care, expansion of training facilities, development of systems to support and expand health care services and sanitation at community level, as an integral part of our health care policy.

35. Mr. Speaker, we have allocated KSh.0.7 billion for free access to basic health care in health centres and dispensaries across the country, and to further support universal maternal health care, we have allocated KSh. 4.0 billion for free access to maternal health care by our mothers.

36. Mr. Speaker, we have also provided for the following interventions in the health sector:

- KSh.3.0 billion for lease financing of health care equipment to enhance service delivery;
- KSh. 3.0 billion for Kenya Medical Training Centres;
- KSh. 8.4 billion for Kenyatta National Hospital;
- KSh. 5.2 billion for Moi Teaching and Referral Hospital;
- KSh. 1.7 billion for Kenya Medical Research Institute;
- KSh. 2.4 billion for doctors/clinical officers/nurses internship programme; and
- KSh. 0.3 billion for informal settlement health care programme.

37. Mr. Speaker, to forestall any leakages in the health care supply chain, an efficient, effective and accountable framework for the management of public resources and medical supplies at the facility levels will be put in place.

3.4: Cushioning the Poor and Vulnerable through Social Safety Nets

38. Mr. Speaker, as the economy is transformed, we recognize that while some sectors will thrive, others may suffer welfare loses arising from the transformation. It is for this reason that last year we allocated KSh 13.4 billion to cushion these vulnerable groups. In this budget, I am going a step further to propose additional resources to cover more vulnerable persons such as orphans and vulnerable children, elderly persons, extreme poor in urban areas and persons with disability. Accordingly, I have set a side:

- KSh. 7.2 billion for orphans and vulnerable children;

- KSh. 4.9 billion for older persons;
- KSh. 0.8 billion for those with extreme disability;
- KSh. 0.3 billion for other persons with disability under coverage of cash transfer;
- KSh. 0.3 billion for the rehabilitation of street families;
- KSh. 0.5 billion for insurance cover for persons under the social safety net programme;
- KSh. 0.8 billion for the Child Welfare Society;
- KSh. 0.4 billion for the Presidential Secondary School Bursary Scheme for orphans, poor and bright students; and,
- KSh. 0.6 billion for Resettling the Internally Displaced Persons (IDPs).

39. **Mr. Speaker**, in short, by expanding agricultural output, subsidizing fertilizer, investing in infrastructure to reduce cost of doing business, reducing the out of pocket expenses for education and health care, and by significantly expanding the social safety nets for the poor and deserving Kenyans, we have responded to those Kenyans who pleaded that we address the high cost of living and protect the vulnerable.

4.0: EXPANDING EMPLOYMENT OPPORTUNITIES TO THE YOUTH AND WOMEN

4.1: Focusing on Manufacturing to Foster Higher Growth and Employment

40. **Mr. Speaker**, our **fifth thematic area** is on employment of our youth and women. Kenya is endowed with agricultural and natural resources, a prerequisite for industrialization. Facilitating growth of the manufacturing sector will move our agriculture and natural resources up the value chain and grow and diversify our exports. In particular, our program on agriculture lays the foundation for industrial take-off as we facilitate the private sector to actively participate in agro-processing and manufacturing inputs such as equipment, machinery and parts.

41. As we construct the railway line from Mombasa to western Kenya, we will also develop industrial parks at strategic locations along the railway line. These industrial clusters will be centres for driving value addition and innovation. But even as we await their completion, I have proposed an allocation of KSh.3.0 billion and introduced reform measures to revive and make operational, at higher capacity, industries in the textile and leather sub-sectors. We are also going to revamp the Numerical Machines Limited to make it a regional hub for railway parts and maintenance service.

42. **Mr. Speaker**, I have noted with concern that a number of public agencies continue to purchase goods from outside the country, even in cases where such goods are manufactured locally. This is despite the mandatory requirement in the Public Procurement Disposal Regulations of 2013, which compels all international suppliers/contractors to source at least 40 percent of the tender requirement from local firms. This practice is unacceptable and must stop forthwith. Public resources, whether sourced domestically or externally, must be applied optimally to promote local content and spur industrialization. In the same vein, I call upon the private sector players to also demonstrate their patriotism by buying Kenya's products in order to facilitate expansion of our industrial base and create more jobs locally.

4.2: Empowering the Youth and Women to Create More Jobs

43. **Mr. Speaker,** unemployment, especially among the youth and women remains a major challenge to our development and social stability. Through this budget, we are building on the on-going youth and women support initiatives to further encourage entrepreneurship, innovation and creativity of the young people. Skills development and access to credit will be given priority to enable this group to be the dynamic drivers of growth and employment creation.

44. **Mr. Speaker**, as a Government that cares deeply for the youth and women, we are facilitating expansion of credit access so as to afford the financial capability to pursue entrepreneurial opportunities and scale up their small businesses. The Uwezo Fund, Youth Enterprise Development Fund and Women Enterprise Fund will be rationalized into an efficient and well capitalized Fund to sustain the ever growing demands of our youth and women. In the meantime, I have allocated KSh.300 million to the Youth Enterprise Fund, KSh.200 million for operations of the already established KSh. 6 billion, Uwezo Fund and KSh.200 million for the Women Enterprise Fund.

45. To further empower the women and youth through this budget, I have allocated KSh.8.1 billion for the recruitment and training of 21,870 youth to the National Youth Service so as to catalyze a transformative youth empowerment program in Kenya. Through this transformative program, we will inculcate civic competence and impart specialized skills to uplift the unemployed and disenfranchised youth of this country. We expect the 21,870 youth to work in community development projects, which will recruit, train and supervise another 227,670 youth in various National Youth Service initiatives such as dam construction.

46. To ensure that our children remain in institutions of learning to gain knowledge and skills for a better tomorrow, I have allocated KSh 6.4 billion for technical training institutes, KSh 5.7 billion for higher education loans and KSh 55 billion for university education. In addition, I have provided KSh 540 million for instructors of village

polytechnics, which should go a long way to complement the work being done by county governments.

5.0: STRENGTHENING DEVOLUTION FOR FASTER EQUITABLE DEVELOPMENT

47. **Mr. Speaker**, as we devolve more resources to the counties, it is imperative that these resources are utilized prudently to optimize their impact on service delivery and the welfare of our people. In this regard, under the **sixth thematic** focus on ensuring success of devolution, we will work closely with the county governments and coordinate the implementation of our development program. We will also facilitate the counties in strengthening their public financial management systems in order for them to realize value for money in the use of public resources.

48. **Mr. Speaker**, to empower counties in the performance of devolved functions and to facilitate economic development in counties, a total of KSh.226.7 billion has been allocated to county governments in the FY 2014/15 as shareable revenue. This translates to 43 percent of the most recent audited revenues approved by Parliament and is well above the 15 percent minimum mandated by the Constitution.

49. **Mr. Speaker**, the KSh 3.4 billion equalization fund in 2014/15 will be used to provide basic services including water, roads, health facilities and electricity to marginal areas in order to bring these services in these areas to national standards in line with our constitutional requirement. This fund will be shared by 14 marginalized counties which were identified by the Commission on Revenue Allocation (CRA).

50. In addition, to support development and create jobs at the local level, we have allocated. KSh. 28 billion for Constituency Development Fund (CDF) and another KSh.2.03 billion for affirmative actions for social development. These together translate to an average of Kshs 100 million per constituency for various projects that impact directly the lives of our people.

51. As before, I expect the Hon Members to provide effective oversight of these resources so that we can achieve faster and equitable regional progress.

6.0: RECOMMENDATIONS OF THE BUDGET AND APPROPRIATIONS COMMITTEE

52. Mr**. Speaker,** I am aware that the recommendations of the Budget and Appropriations Committee laid before this house on the 4th June 2014, proposed realigned of the Budget submitted by the 3 Arms of Government. Key among these recommendations are:

- Enhancement of the allocation to CDF by KSh 5 billion bringing the total allocation to KSh 33 billion;
- Additional KSh 5 billion to cater for strategic interventions arising from the public consultation of the budget;
- Allocation of KSh 1.2 billion for construction of the Ronald Ngala Utalii College
- Allocation of KSh 1 billion towards the completion of the Chemosusu, Kiserian and Umaa Dams;
- Allocation of KSh 1 billion for upgrading the Narok- Sekenani- Masai Road to bitumen standard;
- Allocation of KSh 600 million for the special economic zones; and
- Allocation of KSh 460 million for Konza Technopolis Development Authority; and
- Allocation of KSh 300 million to the Office of the Auditor General.

53. Mr**. Speaker,** the adoption of these additional expenditures leaves a financing gap of KSh.10 billion. In this regard, I will shortly be seeking the Cabinet's guidance on measures to close this gap as we reflect the changes in the Appropriation Bill for FY 2014/15.

7.0: BUDGET ESTIMATES FOR 2014/15

54. Mr. Speaker, allow me now to turn to the financial projections for 2014/15 budget. Our development agenda and the fulfillment of our aspirations is anchored on our ability to mobilize own resources. I therefore, salute our faithful tax payers who, in FY 2014/15, are going to mobilize 83.6 percent of our resources**.**

55. Mr. Speaker, we project to increase our revenue collection by 15.5 percent to KSh. 1, 180.8 billion, equivalent to 25.5 percent of GDP. This comprises of KSh 1,086.6 billion in ordinary revenue, and KSh 94.1 billion in Appropriations-In-Aid.

56. Mr. Speaker, although this level of revenue is predicated on projected economic growth, we are going to step up the ongoing reforms in tax and customs administration. The KRA is expected to institute measures to expand the revenue base and eliminate tax leakages. Further, the Government will continue to modernize the tax laws in line with international best practice so as to simplify tax collection and enhance the revenue yield.

57. Mr. Speaker, the total expenditure net of domestic debt rollover is estimated to reach KSh 1,581.0 billion. This includes National Government ministerial expenditures of KSh 654.1 billion and KSh 476.4 billion for recurrent and development, respectively;

county allocation of KSh 226.7 billion and allocation for the Parliament and the Judiciary of KSh 19.2 billion and KSh 18.5 billion, respectively. The expenditures also include interest payments of KSh 147.4 billion and pensions and other Consolidated Fund Services (CFS) of KSh 36.6 billion and net lending of KSh 2.1 billion.

58. **Mr. Speaker**, you will notice that the recurrent expenditures are declining from the estimated figure of 20.4 percent of GDP in FY 2013/14 to 18.7 percent of GDP in 2014/15, on account of a slowdown in expenditures following the implementation of austerity measures. To minimize the growth of recurrent expenditures and uphold the fiscal responsibility principles, transfers to parastatals and semi-autonomous government agencies will be contained at the 2013/14 nominal value in order to provide fiscal space for priority expenditures.

59. **Mr. Speaker**, gross ministerial development expenditures, including net lending for 2014/15 is estimated at KSh 486.9 billion. This comprises KSh 289.2 billion to be funded from domestic resources, and KSh 187.2 billion funded from project loans and grants from external sources, and KSh 2.1 billion for net lending. This expenditure is consistent with the objective of allocating an increasing share of resources towards development outlays.

60. Most of the outlays are expected to support critical infrastructure that will crowd in private sector investment as well as facilitate critical interventions to remove binding constraints to growth. **Mr. Speaker**, in formulating this budget the National Government has adhered to the fiscal responsibility principle requiring that a minimum of 30 percent of the National Budget to be allocated to the development expenditure.

61. **Mr. Speaker**, total committed external grants from development partners' amount to KSh 57.9 billion. Details of the donors and projects being financed are included in the Development Estimates. I wish to sincerely thank our development partners for their continued support.

62. **Mr. Speaker**, with total expenditures of KSh 1,581.0 billion (exclusive of domestic redemptions), and total expected revenues of KSh 1,238.6 billion (including and grants), the overall budget deficit (including grants) in 2014/15 is projected to be about KSh 342.4 billion. However, after taking into account net external financing of KSh. 149.6 billion (3.2 percent of GDP and loan repayment receipts of Ksh 2 billion, this will leave a deficit of KSh 190.8 billion (equivalent to 4.1 percent of GDP), which would be financed by net borrowing from the domestic market.

63. **Mr. Speaker**, this means that the fiscal framework for 2014/15 is fully financed.

64. **Mr. Speaker**, the Government's borrowing plans remains anchored in the medium term debt management strategy which aims at ensuring public debt sustainability. While external financing will be largely on concessional terms, we will continue to diversify our financing sources through access to commercial sources of financing, including issuance of Eurobond and international financing instruments. The Government will ensure that the level of domestic borrowing does not crowd out the private sector given the need to increase private investment to accelerate economic expansion.

8.0: TAX MEASURES AND MISCELANEOUS AMENDMENTS

8.1: Overview of the Proposed Tax and Miscellaneous Measures

65. **Mr. Speaker**, the rest of my policy highlights outlines various tax measures I intend to introduce through the Finance Bill, 2014, and other miscellaneous amendments I have tabled in this House towards accelerating growth, creating employment and easing the cost of living amongst Kenyans.

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

i. Facilitating Private Enterprise Growth to Create Jobs
ii. Reducing Households' Budget to Ease the Cost of Living
iii. Deepening Tax Administration Reforms to Ease Compliance
iv. Encouraging Growth and Stability of the Financial Sector

8.2: Facilitating Private Enterprise Growth and Employment

67. **Mr. Speaker**, our steel mills are closing down due to unfair competition from cheaper imported iron and steel products. To protect and create more jobs for our youth in the iron and steel industries, I have increased duty rates on a wide range of iron and steel products, which are available locally, from 0% and 10% to 25%, in order to cushion our local industries from cheap imports. **Mr. Speaker**, these measures will raise additional KSh 2.6 billion to the exchequer.

68. **Mr. Speaker**, our industries potential to expand and create jobs is held back by a number of administrative barriers. Currently gazetted manufacturers and millers under the Duty Remission Scheme are required to execute a security bond equivalent to taxes payable. To encourage industrial expansion for more jobs, I have directed Kenya Revenue Authority to stop, with immediate effect, requirement for customs bonds by the importers of refined industrial sugar and wheat.

69. **Mr. Speaker**, affordable and adequate clean and safe energy is a prerequisite for industrial development. To support wider use of solar energy, I have removed import duty on machinery, spares and inputs for direct and exclusive use in the development and generation of Solar and Wind energy.

70. **Mr. Speaker**, the hospitality sector has faced challenges in the past year as a result of decreased number of foreign tourists. To mitigate against these challenges, I propose to amend the Income Tax Act to allow deduction of expenditure paid by the employers on vacation trips made within Kenya for a period of 12 months.

71. Through this measure, we are directly giving at least 300,000 additional Kenyan guests a chance to go for a week's vacation in our hotels throughout the country at the expense of their employers. This measure will be effective for 12 months, effective tonight. **Mr. Speaker**, this measure will cost the exchequer KSh 2.4 billion in revenue loss.

72. **Mr. Speaker**, as Hon Members are aware, there is heightened interest in the oil, gas and mineral exploration in our country. To safeguard the fiscal challenges often associated with discovery of such natural resources, the Government has initiated various institutional and legal reforms for the extractive industry sector. To streamline industry's tax regime, I have proposed to replace the current withholding tax with income tax on assignment of rights, (farmouts) based on net gain in line with international practice. This will address the inherent challenges and promote mining, gas as well as oil exploration and extraction operations.

8.3: Reducing Households' Budget to Ease Cost of Living

73. **Mr. Speaker**, increased agricultural productivity is essential to our industrial take-off, tackling the challenges of food security and reducing cost of living. In order to make farm inputs cheap and affordable to our farmers, I have exempted all imported inputs used in the processing and preservation of seeds for planting.

8.4: Deepening Tax Administration Reforms to Ease Compliance

74. **Mr. Speaker**, in 2004, Customs law became part of the East African Community Customs Management Act and the Excise duty legislation remained under the Customs and Excise Law. This change has necessitated the introduction of a stand alone Excise Bill which will shortly be before this House. The new Excise Duty Bill will be a simple and modern Bill, incorporating international best practices. The Bill will be tabled in Parliament after going through public participation as required by the Constitution and Statutory Instruments Act.

75. **Mr. Speaker**, as part of deepening tax reforms and enhancing tax administration, Parliament in 2012 enacted a new VAT Law. This new law has made it easier for taxpayers to comply and reduced significantly the monthly claims for the VAT refunds. To facilitate the implementation of the new VAT law, the National Treasury has prepared VAT regulations. The Regulations provide clarification and interpretation of key areas of the Law to facilitate consistent operationization and enforcement of the provisions. Regarding the issue of VAT refunds backlog, we recognize the burden our affected private sector face, and we intend to develop a long lasting solution within the next few months.

76. **Mr. Speaker**, the Income Tax Act provides for adjustment of related party transaction to deal with transfer pricing which are common with multinationals. Such transactions deny the exchequer revenue. To further deter use of transfer pricing scheme, I have proposed an amendment on the definition of permanent establishment to restrict transactions between related parties and their local establishment at an arms length for tax purposes.

77. **Mr. Speaker**, I further propose to amend the law to require both local and foreign taxpayers to provide the Commissioner with up to date information on the changes in business and corporate structure. These measures are meant to enhance transparency and tax compliance.

78. **Mr. Speaker,** to sustain the momentum of tax reform and modernization, we will review the Income Tax Act from July this year. During this review, we shall consider the many submissions presented by stakeholders, in addition to benchmarking the new Bill to the international best practices. In this regard, I wish to thank the Institute of Public Accountants of Kenya (ICPAK) and other tax experts for their contributions.

79. **Mr. Speaker**, currently tax procedures are contained in each tax law. The current world practice is to have all the procedures that are general and applicable to all the tax laws contained in one law. In order to ensure Kenya is not left behind in tax modernization, I propose to introduce the Tax Procedures Bill that will contain uniform procedures across three tax legislations – Value Added Tax, Excise Duty and Income Tax. The Bill is aimed at making tax administration easier, while at the same time, reducing the cost of compliance.

8.5: Encouraging Growth and Stability of Financial Sector

80. **Mr. Speaker**, the newly enacted NSSF Act has created some inconsistencies with the RBA Act which is the law regulating the sector. In order to ensure smooth regulation and supervision of the industry, I propose to amend the NSSF Act to restrict the power to prescribe the qualifications of an Actuary and making of regulations on payment of benefits to the RBA Act.

81. I also propose to harmonize the period for remittance of contributions from 30 to 10 days and preparation of fund accounts from six to three months in line with the provisions under the RBA Act.

82. **Mr. Speaker**, the demutualization of the Nairobi Securities Exchange which has been long overdue is now nearing completion. In order to ensure finalization of this important exercise, I propose to amend the law to set the minimum shareholding of the exchange at five (5) by the Government and Investor Compensation Fund, respectively. Going forward, I have also directed the Capital Markets Authority to provide policy proposals, including institutional reforms to improve competitiveness of the capital market in Kenya, consistent with the Capital Market Master Plan that was recently launched.

83. **Mr. Speaker**, the insurance industry has come along way despite a lot of challenges, particularly with the general business. In order to safeguard funds contributed from different classes of insurance and to eliminate the risk of utilizing contributions from one class to pay for the liabilities arising from another class, I propose to amend the law to allow the Policyholders Compensation Funds to operate separate funds for long term and for general business. This will go along way to facilitate determination of different contribution and compensation rates based on the risks associated with each of the classes. Meanwhile, a new Insurance Bill will be tabled in the National Assembly shortly.

84. **Mr. Speaker**, as you are aware, the Presidential Taskforce on Parastatal Reforms has made key policy recommendations to consolidate some regulatory and development agencies, including those in the financial services sector. Towards this end, I will shortly be tabling the new bills for the regulatory and supervisory aspects of the financial services sub-sector and the administrative Bill for the establishment of the Financial Services Authority for your consideration and enactment. The enactment of these Bills will go along way to enhancing efficiency and effectiveness of regulation and supervision of the financial sector institutions, this enhancing stability.

85. **Mr. Speaker**, the restrictive trade practices law has now been in operations for the past two years. It has, however, posed some enforcement challenges due to lack of appropriate provisions to ensure international best practices that facilitate low regulatory and transaction costs. In this regard, I propose to amend the Competition Act to create predictability and transparency in its enforcement.

9.0: CONCLUSION

86. **In conclusion, Mr. Speaker**, the Government, under the leadership of His Excellency President Uhuru Kenyatta, has succeeded in steering the country through a difficult period of domestic challenges. We have emerged resilient again. The economy continues to grow and we are putting in place the foundation for a faster and more inclusive growth in the years ahead. This is, therefore, a budget for the people. It is a

budget that responds to the concerns of Kenyans – the high cost of living, insecurity, unemployment and poverty. But equally importantly, it a budget that also lays a firm foundation for accelerated inclusive growth for a shared prosperity. 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.

87. Building a prosperous Kenya will require our collective renewal and rededication as a people of Kenya. It also requires an optimal exploitation of our talents and unlocking the potential of our great Nation. It requires all Kenyans to inculcate a culture of patriotism, hard work and above all, cohesiveness and social care.

88. **Finally, Mr. Speaker,** achieving a prosperous Kenya also requires leadership and support of every Kenyan. For this, I wish to thank His Excellency the President and Deputy President for their continued wise guidance and leadership.

89. I wish also to thank my Cabinet colleagues who collectively own this budget and the programmes to be implemented.

90. My sincere appreciation also goes to:

- Majority Leader of the National Assembly, Hon Aden Dualle, 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;
- 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;
- 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.

91. I must also express my gratitude to Kenyans from all walks of life for their contributions and messages of goodwill and encouragement.

92. In summary, **Mr. Speaker**, the take away messages in this budget are as follows:

- The world economy is recovering but we are not out of the woods yet;
- We must confront our present challenges collectively and build on our resilience to grow our economy faster, create jobs, and reduce poverty. The policies outlined in Medium Term Plan II and those outlined in this budget need to be implemented with zeal to get us there;
- We will modernize our security system to combat crime and ensure Kenyans live peacefully;
- We will continue to create a conducive business environment for the private sector to flourish and create jobs for our youth;
- We will continue to invest in infrastructure to strengthen our competitiveness and transform our economy to middle class sooner than later;
- We will commercialize agriculture to attract the youth in to the sector while at the same time opening new areas to expand food supplies to feed our people;
- We will invest in our people through quality education and health care services;
- We will protect the poor and the vulnerable through expanded social safety nets;
- We will improve revenue collections through simplified and modernized tax laws and procedures;
- We will cut waste through procurement reforms and curtailing expenditures in non-productive areas; and finally,
- We will work with Counties to realign development agenda for faster and equitable social progress at a regional level.

93. **Mr. Speaker**, the programme for the Government to uplift Kenyans is clearly cut out. Our task now is to implement these priorities urgently in order to transform the lives of Kenyans for the better. All what we need is to act together to move Kenya forward.

God Bless You, God Bless Kenya

I Thank You

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