SPEECH DELIVERED TO THE NATIONAL ASSEMBLY ON 16TH JUNE, 1981 BY THE HON. MWAI KIBAKI, VICE-PRESIDENT AND MINISTER FOR FINANCE, REPUBLIC OF KENYA, WHEN PRESENTING THE BUDGET FOR FINANCIAL YEAR 1981/82 (1ST JULY, 1981 TO 30TH JUNE, 1982)

Mr. Speaker, Sir,

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

STATE OF THE ECONOMY

Mr. Speaker, the annual presentation of the budget is rightly regarded as the principal economic act of Government. But as Honourable Members very well understand, the economic well being of the nation owes far more to the vitality of its leadership, the spirit of its people, and the cohesiveness of its institutions, than to any single act of the Government, however important. Mr. Speaker, I am sure I speak for all Honourable Members, and indeed the nation, in paying tribute to that vitality of leadership that characterises His Excellency the President's unceasing concern for the well being of all Kenyans. By his personal example, and through the philosophy of Nyayo, he has taught us how to face and overcome the economic misfortunes of a world characterised by political and economic instability.

Through his example and inspiration, he has forged our political and economic institutions into a firm fabric. Mr. Speaker, I therefore speak with confidence when I say that though the economic environment and the outlook for the world economy might appear unpromising, we in Kenya have no doubt that under His Excellency's leadership, we shall prevail over our difficulties.

Mr. Speaker, Sir, since my Budget Speech last year the Government has, in addition to the Development Plan and Sessional Paper No. 4 on Economic Prospects and Policies, also published a Sessional Paper on Food Policy. This paper clearly articulates Government's objectives and strategies in this critical area, and I would urge all Honourable Members to study and comment on it thoroughly.

Again, as I did last year, I would like to reiterate that though external circumstances and the internal economic conditions have changed since the publication of the Development Plan, the goals and objectives outlined therein still remain valid. And so too is the medium term strategy outlined in the Sessional Paper No. 4 of 1980. I stress this, Mr. Speaker, because in dealing with the annual Government financial programme, we must never lose sight of the broader perspective of our economic problems and prospects. Indeed as we contemplate the magnitude of the problems and prospects facing us today, we must summon the will to succeed and the faith in our capacity to do so.

Mr. Speaker, Sir, it is my hope that Honourable Members will familiarise themselves with the recently issued 1981 Economic Survey as well as the Printed Estimates of Expenditure for the next financial year. In view of the detailed manner in which the economic situation has been described in these publications, I shall not spend much time enumerating all the economic circumstances that we face at the moment. Suffice it to say that, as I forecast during my last Budget Speech, the fiscal year 1980/81 has turned out to be a difficult one. The continued recession in developed countries, coupled with ever rising increases in price of crude petroleum, together with a deteriorating balance of payments, have interacted to limit our economic growth. Inflation has persisted, rising from 8.4 per cent in 1979 to 12.8 per cent in 1980; and our terms of trade have further worsened for the third consecutive year. As if all these setbacks were not enough impediments to our economic growth, drought for most part of the year has further compounded our problems, forcing us to import foodgrains to keep our people adequately fed in an extremely difficult foreign exchange situation. In short, Mr. Speaker, all these forces have resulted in a GDP rate of growth of only 2.4 per cent at constant prices compared to 4.1 per cent in 1979. Given our rate of population growth of about 3.4 per cent, this growth in GDP represents an actual decline in average per capita output, and by implication, falling per capita incomes.

But to put this in its proper perspective, we should bear in mind that earnings in wage employment increased much faster in 1980 than in previous years. However, our fast rate of population growth means that the burden on those few who work is increased disproportionately. It is for this reason, Mr. Speaker, that I would once more call on Kenyans to heed the advice of His Excellency the President to practice family planning.

Honourable Members are aware that agriculture is the backbone of our economy. It therefore exerts a pervasive influence on the performance of the rest of the economy. Last year, Mr. Speaker, output in agriculture declined by 1.3 per cent in real terms. Increases recorded in the outputs of coffee, sisal, cotton, sugarcane and pyrethrum were unfortunately more than offset by decreases in the production of maize and tea.

The manufacturing sector also registered a lower growth of 4.6 per cent compared to 7.1 per cent in 1979; largely on account of sluggish demand due to slower growth in incomes and shortages of electric power at the beginning of the year. Furthermore, activity in the building and construction industries also indicated decline in growth rate -- the sector grew by only 0.9 per cent in real terms compared to 7.5 per cent registered in 1979. A major factor for this reduced rate of growth was the comparatively tight credit situation obtaining for much of 1980.

The tourist industry in contrast, recorded a significant increase in activity. Both the number of visitors and the average length of stay increased. As a result, earnings from this sector amounted to K£82.5 million, compared to K£62 million for 1979 -- an increase of 33 per cent. In the field of energy, prices of crude continued to rise, but again as a result of the drought, consumption of petroleum products rose by 5.6 per cent due to the need to sustain thermal power generation during the drought. The cost of importing petroleum products took 36 per cent of our total export earnings (excluding exports of petroleum products).

Mr. Speaker, the picture on the external trade front was also grim. The level of imports rose sharply while exports increased only marginally, resulting in the largest trade deficit ever recorded -- some K£330 million. Exports covered only 55 per cent of imports. As indicated before, the main reasons for this unprecedented trade deficit were the soaring oil prices, the need to import food grain and the decline in tea and coffee receipts. The large deficit was covered by inflows of long-term capital, borrowings from the International Monetary Fund, and a reduction in our foreign exchange reserves.

Money Supply and Credit

A notable feature during 1980 was the absence of growth in the money supply. In fact it declined by slightly more than 1 per cent over the year -- a clear break with past trends. This was brought about largely by the unfavourable balance of payments and an associated K£66 million decline of net foreign assets of the banking system. As a result, the ratio of money supply to GDP declined from 41.4 per cent to 36.5 per cent between 1979 and 1980.

Total domestic credit provided by the banking system increased by 12.7 per cent during 1980, virtually the same rate as for 1979. Credit to the private sector grew by 14.6 per cent while credit to Government increased by only 6.4 per cent. The liquidity ratio of the commercial banks stood at 18.2 per cent at the end of 1980 (2 per cent above the 16 per cent legal minimum) as compared to 23.4 per cent a year earlier. The end-1980 ratio was the lowest for many years and indicated a major constraint on the ability of banks to expand lending in the absence of an infusion of additional liquidity.

Balance of Payments

An unusual feature of 1980 was the dramatic jump in imports from a total of K£620.2 million in 1979 to K£936.1 million, or by 51 per cent, largely as a result of build up in stocks in retail and wholesale trade, manufacturing and oil. Exports, on the other hand, grew less rapidly from K£412.8 million in 1979 to K£513.8 million last year, or by 24 per cent. Improved earnings from invisibles and tourism, however, reduced the overall balance of payments deficit to K£68.9 million, compared to a surplus of K£74.1 million in 1979. As I have pointed out earlier, the recessionary conditions in the industrial countries have affected our primary exports of coffee and tea, although the performance of horticulture has, in this regard, been encouraging.

We, in Kenya, as in almost all oil importing developing countries, have been going through a particularly difficult period in international trade and payments situation, but when all is said and done, Kenya has in fact come out much better than most developing countries. Although our balance of payments position worsened during the year, we managed to maintain a level of reserves on average of K£216.75 million per month over calendar year 1980. At the end of May this year, foreign exchange reserves stood at K£168.2 million, and every effort will therefore have to be made to restore this figure to a prudent level.

OUTLOOK FOR 1981

What then are the prospects for 1981? Mr. Speaker, as Hon. Members are aware, the essential duty of Government is to provide the framework for prudent management of the nation's resources. It is, furthermore, the particular duty of the Treasury to provide the financial framework for such management. That duty Mr. Speaker, must start from a sober and realistic assessment of the nation's economic prospects. Realism in turn demands that Hon. Members keep in perspective the international context within which we manage our economy.

First indications are that the sluggish economic forces facing the industrial countries will persist, and world trade will remain somewhat depressed. Demand for our primary products is therefore likely to stagnate. Due to the continued fall in the purchasing power of our exports, the growth in our imports in 1981 will have to be moderated. Difficult though the prospects of our balance of payments are, our concern in the coming year shall be to facilitate imports of essential goods on a scale which will support modest economic growth. I shall say more on this in the later part of my speech. In the meantime, it is my expectation that producers will continue to draw down on the accumulated stocks I have already referred to in order to sustain economic growth, without at the same time creating drastic demand on our foreign exchange reserves.

On the domestic front, I would expect that with more assured rainfall in 1981, we shall not be forced to import food grains to the same extent as in 1980. With improved rainfall, agriculture should recover, and with recovery of this sector, manufacturing prospects should improve. Similarly, I expect receipts from tourism to increase.

With regard to oil and petroleum products, we paid K£277.2 million in 1980 compared to K£145.7 million in 1979. As a result of the world recession and intensive conservation, there are indications that market prices are easing, but it is unlikely that we shall pay less for oil in 1981 or 1982 than we did in 1980. It is clear therefore that we cannot as a country continue to spend so much of our foreign exchange on one commodity, important as it may be. We therefore have to make great efforts to conserve our use of petroleum products and I shall announce one measure towards this end later on in my Speech.

All in all, Mr. Speaker, I expect on balance, a rate of growth of between 3 and 4 per cent in real terms. Compared with our performance last year, this will call for great efforts on the part of the Government and the private sector, and again, I shall dwell on the factors and measures I propose to bring this up-turn in the economy. But before I do that Mr. Speaker, let me turn briefly to a review of the financial out-turn for 1980/81.

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FINANCIAL OUT-TURN 1980/81

Recurrent Revenue

In my last Budget Speech, I estimated ordinary recurrent revenue of K£641 million plus Appropriations-in-Aid of K£32 million totalling K£674 million. This recurrent revenue was to comprise of K£209 million from Customs and Excise; K£185 million from Sales Tax, K£170 million from Income Tax and the balance of K£78 million coming from other sources of revenue. Mr. Speaker, I am glad to report that overall, this target will be achieved, although there will be a significant drop in expected revenues from sales tax arising out of the reintroduction of refunds of sales tax under Section 22(1)(b) of the Sales Tax Act following the enactment of the 1980 Finance Act (No.2) and generally poor performance of domestic manufacturing. Taken together with Appropriations-in-Aid, the gross revenue for 1980/81 will, therefore, be slightly above my prediction, i.e., K£675 million.

Recurrent Expenditure

Turning to expenditure, the 1980/81 Printed Estimates indicated gross Recurrent Expenditure of K£581 million. This figure, however, has had to be adjusted, with the authority of Parliament under the Supplementary Estimate (passed by Parliament last week) to take into account the costs of implementing the recommendations of the Report of the Civil Service Review Committee (Waruhiu Report); increased expenditure on internal security; famine relief, and the O.A.U. Summit due to open in Nairobi next week, all amounting to K£68 million. An additional sum of K£15 million was also required to meet increased commitments in public debt. Thus it is estimated that gross recurrent expenditure for 1980/81 will be K£665 million. Taking the revised revenue collections estimated at K£675 million into account, I expect to transfer a sum of K£10 million to Development Exchequer.

Development Expenditure

The 1980/81 Printed Development Estimates projected an expenditure of K£258 million and Appropriations-in-Aid of K£30 million, making a gross development expenditure of K£288 million. This figure was also adjusted during the Development Supplementary Estimate passed by Parliament last week. The revised development expenditure for 1980/81 is therefore expected to be K£244 million plus Appropriations-in-Aid of K£60 million, making gross development expenditure of K£304 million. In spite of this revision, it once again seems likely that we shall only spend K£197 million on development by the end of this year.

Mr. Speaker, I must draw the attention of Members to this persistent problem, namely, that in a year when Supplementary Estimates are large, there will nevertheless be underspending on the part of some Ministries. As Hon. Members are aware, supplementaries arise mainly for two reasons -- to finance essential expenditures which were not anticipated when the budget was prepared and to enable Ministries whose record of implementation of development projects has exceeded expectations to move development even further ahead.

Underspending might, however, arise at times when savings must be found for supplementary expenditures that are given a higher priority than something already in the budget. More usually, underspending results when budgeting has reflected over ambitious requests for funds or when bottlenecks occur and are not quickly corrected during the course of implementation, and when the monitoring of implementation is conducted in a casual or haphazard manner.

For whatever reason Mr. Speaker, underspending must be reduced. When excessive funds are allocated to one Ministry, expenditures by others are unnecessarily reduced thus denying to the Wananchi essential services and opportunities for development. I would like to assure the House that the budgeting process is being strengthened to ensure that allocations for development expenditures reflect feasible implementation schedules and that external funds available for projects in the budget are drawn upon promptly. Towards this end, efforts are being made by both the Treasury and the Ministry of Economic Planning and Development to strengthen procedures for monitoring implementation, and deficiencies in programming and other bottlenecks should henceforth be identified more quickly and corrective action taken on time.

Before I turn to the review of the projected budget out-turn for 1981/82, I want to depart from tradition and dwell at some length on the economic and sectoral policies which we intend to pursue in the coming financial year. It is important to do this in order to place into proper context the measures I shall be outlining on that part of my speech that relates to taxation.

PROSPECTS FOR FINANCIAL YEAR 1981/82

The Economic Framework

Mr. Speaker, the Balance of Payments, the rate of interest, money and credit, the level of savings and investment as well as the size of the Government budget deficit are all economic aggregates which affect the performance of the economy. Of these, the balance of payments and the size of the budget deficit are of critical concern to our prospects for growth in the coming financial year. Mr. Speaker, as we enter fiscal year 1981/82, I feel optimistic that the economy will pick up momentum for two reasons. Firstly, because there is now general recognition within Government of the need to contain expenditure to manageable levels; and secondly, because of our determination to restructure our economy through tariffs and an import and trade policy aimed at promotion of export led industrialization and less reliance on quantitative restrictions.

As we do so, however, we face two over-riding constraints in the short and medium term. Firstly, the continued increase in the budget deficit and secondly, the continued weak balance of payments situation. I shall deal with each of these constraints to highlight what action Government intends to take to ameliorate the situation.

Government Expenditure

Mr. Speaker, because Government revenues have been growing less rapidly compared to expenditure, the budget deficit has been increasing over the last few years. The budget deficit Mr. Speaker, represents the gap between Government revenues and the amount the Government would wish to spend in any current year. The larger the gap between these two, the more resources are siphoned off from the rest of the economy, and the more inflationary the financing arrangements for the gap are likely to be. Prudent economic management therefore demands that the size of the budget is maintained at sustainable levels. In this connection, Mr. Speaker, I am glad to report to the House, that the Government has taken decisive action and has issued clear directives to Ministries to contain expenditure. Our expenditure programme for the next financial year will therefore involve severe economy measures.

An Economy Commission shall be established within Government to look into the present structure of assignments of responsibilities with a view to streamlining functions and eliminating duplications. The Government has also decided that there shall be greater and strict control on the expansion of the civil service. A larger proportion of staff requirements shall be met from redeployment of existing staff and increases in productivity. Wananchi have a justified expectation that after the considerable improvements in emoluments as a result of the Waruhiu Report, civil servants should improve their efficiency and deliver goods to the Wananchi. As a part of these economy measures within Government, we intend to drastically curtail foreign travel by Ministers and civil servants.

Similarly, we shall limit the purchase of new vehicles or major equipment by the Government during the next fiscal year. We must instead, rely on our existing stock of motor vehicles whose repair and maintenance must also be greatly improved.

Finally, Mr. Speaker, I must emphasize that Ministries must confine themselves to the provisions contained in Printed Estimates of their votes by planning actual disbursements in a rational manner over the whole financial year and not expect any supplementary estimates. Over-commitment of funds by Ministries in the first part of the fiscal year in expectation of supplementary votes the following March will, I am afraid, be mere fanciful thinking on the part of Accounting Officers.

Mr. Speaker, over the next fiscal year, I intend to introduce more stringent monitoring of the budget performance within Treasury, and, should trends indicate that we risk exceeding our authorised estimates, I shall not hesitate to seek the authority of this House to freeze the expenditure of the concerned Ministry.

Mr. Speaker, let me say a few words about the role of parastatals in this context. Just as the Government intends to control the expenditure of Ministries, we shall take an even more stringent view on the expenditure programmes of parastatals. Hon. Members will agree with me that the degree of financial responsibility in certain parastatals leaves a lot to be desired. Despite the recommendations of the Report of the Review Committee on Statutory Boards (Philip Ndegwa Report), management of some parastatals remains ineffective, public accountability is often lacking, and one perceives an over dependence on the Treasury even in circumstances where operations are potentially commercially viable. Mr. Speaker, the commitment of resources to non-growth projects and reliance on subsidies by parastatals must stop. Towards this end, therefore, the Government intends to impose strict financial discipline within parastatals by imposing severe sanctions on those managers who deviate from laid down policy guidelines. In doing this, Mr. Speaker, I know we shall have the support of all Honourable Members.

Balance of Payments

Mr. Speaker, I have already remarked that we start the 1981/82 Financial year from a weak balance of payments situation. However, if our growth and finance targets are achieved, our balance of payments should improve marginally in the next three years. For the moment, we must do all we can to strengthen our balance of payments because a weak balance of payments position limits our scope for growth to the extent that it denies our manufacturers and the economy in general sufficient imports of essential raw materials and capital goods, thus reducing employment and incomes. A weak balance of payments position also constraints our growth by limiting our room for manoeuvre with regard to structural changes in our manufacturing sector which are essential if we are to move away from import substitution to export led industrialization.

I, therefore, now Mr. Speaker, want to briefly highlight some of the action which is necessary to bolster our balance of payments.

First, we must reduce the level of our imports. Last year, during the Budget Speech, I announced a 10 per cent increase in all customs duties, and this measure made imports more expensive and thus helped to conserve our foreign exchange. Some of the measures I shall announce in the later part of my speech should also help in conserving foreign exchange. To show our seriousness of purpose in this matter, Mr. Speaker, instructions have been issued to Ministry of Works and the Central Tender Board to give preference to those tenders which have less foreign exchange implications. It is my hope that the private sector will show the same concern and responsibility in this area.

Secondly, we must increase exports. During my Budget Speech last year, I introduced certain measures which were designed to give strong incentives to our exporters. More specifically, we doubled the rate of export compensation from 10 per cent to 20 per cent and later on in the fiscal year, there was a further exchange rate adjustment in favour of exporters. Taken together, these two measures give, in our view, very generous compensation to exporters, and I would urge our exporters to take advantage of these considerable incentives.

Thirdly, we should increase the share of grants and concessionary loans in our financing of the budget. This, Mr. Speaker, we are pursuing vigorously while at the same time making contingent plans to avail ourselves of special credits from bilateral and multilateral donors consistent with both our balance of payments and deficit financing of the budget.

External Borrowing

Mr. Speaker, I know that Hon. Members are often rightly concerned about the prospect of over reliance on external borrowing, particularly on commercial terms. The Government is not excessively burdened at present by external debt. But we must never forget that present borrowing must be financed out of future production and a judicious balance must always be maintained between the benefits of such current borrowings and the future repayment costs. At present, our debt servicing ratio -- the amount of export earnings which goes to repay our external debt as a proportion of total export earnings -- stands at 15 per cent, compared to 12 per cent in 1979. It is expected that this will rise to 17 per cent in calendar year 1981, and given our present weak balance of payments and tight budgetary circumstances, all efforts must be made to contain this figure. Towards this end, the Government is in the process of working out a detailed external borrowing plan within which all Government external borrowing will be monitored and supervised. This plan, Mr. Speaker, will also encompass borrowing by parastatals as well as commitments by private sector undertakings for which the Government may be called upon to give guarantees.

Money and Credit

On the monetary front, the Government reduced the liquidity ratio required of commercial banks from 16 per cent to 15 per cent in March, 1981 in order to enable banks to advance more credit to the private sector. The increase in interest rates provided for in the last budget, together with a more flexible interest rate policy to be pursued in the coming year, should ensure that domestic credit goes to those who use it more productively, and to reward those who save. The Government also intends to pursue an upward interest rate policy which should make it more attractive to hold Government stocks and Treasury Bills as well as diminishing the differential between domestic and foreign interest rates in order to retain domestic savings within our economy. To this end, bank deposit and lending rates will be increased by 2 percentage points so that these rates will now be 8 and 13 per cent respectively.

Savings and Investment

I now want to outline further measures which are designed to reinforce these policies in the form of incentives for savings and investments.

Save As You Earn

Mr. Speaker, besides pursuing a flexible interest rate policy, we intend also to introduce a Save As You Earn Scheme through the Kenya Post Office Savings Bank. Through this scheme, savers will voluntarily enter into a contractual agreement with the Post Office Savings Bank to save a fixed amount of one's monthly salary, (not more than 10 per cent), or a fixed monthly remittance on the part of self employed persons for a fixed period of not less than 24 months. After this period, 10 per cent of the normal interest earned shall be paid to the saver as a bonus, thus bringing the overall rate of interest to at least 9 per cent per annum. As in the case of all interest income from the Kenya Post Office Savings Bank, this income shall be tax exempt. Where there are many employees willing to enter into the scheme the Kenya Post Office Savings Bank will enter into an agreement with the employers to deduct the savings and remit the same to the Savings Bank directly.

The Savings Bank has undertaken research on the scheme in the past few months, and I am assured that the scheme has substantial support among employees, employers and Trade Unions. Arrangements are, therefore, in hand to make the scheme operational as of 1st October, 1981, and it is my hope that all employers will give the scheme their maximum support. This, together with the Bank's other activities in mobilization of savings, particularly in rural areas should contribute significantly to our capacity to fund investment projects.

Housing Bonds

Mr. Speaker, Hon. Members have often spoken in this House on the need to provide adequate and reasonably priced housing for the Wananchi. Housing prices have continued to rise to such levels that many Wananchi cannot contemplate the prospect of owning a house. One way to encourage the supply of housing is to give incentives to house developers and housing finance institutions as well as prospective house owners by way of increased funds for housing development. I, therefore, propose to create Housing Bonds to be held by an individual saver or institution with the Housing Finance Company of Kenya or the Savings and Loan Kenya Ltd., upto a maximum of half a million shillings whose interest, once again shall be tax exempt. The two housing finance institutions play a very important role in this sector and it is my hope, once again, that individuals and companies will place their savings with these institutions in order to increase the stock of housing and employment.

All in all, Mr. Speaker, the economic framework I have just outlined is designed to create the climate for growth. By relying more on policy instruments rather than administrative directives, the Government hopes that the private sector will take up the challenge of growth by undertaking measures which complement the Government's efforts to strengthen our balance of payments and the restoration of growth to the economy.

SECTORAL POLICIES

In addition to the measures I have outlined under the rubric of the economic framework, I also want to highlight some sectoral policies which are central to our immediate strategy of reviving the economy.

Import Policies

During my Budget Speech last year, I laid out the direction of our new import policy by abolishing quantitative restrictions. However, because of our tight foreign exchange position, we have had to work out our priorities in imports more selectively in the last year. Mr. Speaker, it is important that traders and manufacturers understand the rationale underlying our new import policy, and I might be excused for repeating this to the House and urging our industrialists to be supportive of our objectives in this area.

An import policy based on quantitative restrictions Mr. Speaker, would have been justifiable during the early stage of our industrialization. Furthermore, such a policy would have been excusable if its administration had been rational and consistent with the economic objective of creating an efficient industrial sector. However, as all those who are familiar with the history of our import policy would readily admit, the system had by last year evolved into a series of ad hoc measures affording arbitrary levels of excessive protection and sheltering industries which were clearly grossly inefficient. The result was a stunted, inward oriented industrial sector, unprepared to take on competition or risk entering export markets. By its focus on protection, it stifled the growth of new industries by imposing high cost raw materials and goods on the captive domestic market, and forestalled the development of a capital goods industry. Because the system was also not properly synchronized with customs and tariffs classifications, a series of tariff anomalies and distortions crept in, leading to substantial loss of revenue to the Exchequer.

In addition to these structural deficiencies arising out of our past import policy, the foreign exchange burden which this pattern of industrialization has imposed on the economy has further weakened our balance of payments through excessively high import content of most domestic manufacturing. Mr. Speaker, I said last year, and I think it bears repeating, that the opportunities for further industrialization lie not in import substitution but in manufacturing for exports. It is now also becoming clear that we must encourage domestic production of capital goods.

For these reasons, we still believe that the direction we took last year was the correct one. Since then however, a great deal of analysis has gone into the whole import licensing system, and I now wish to appraise the House of the proposed changes in this area.

All import commodities have been classified into three schedules -- Schedule I, Schedule IIA and Schedule IIB.

Schedule I : will consist of essential priority imports such as raw materials, capital goods, spare parts, medicines, and agricultural equipment. These goods will be freely importable, following automatic licensing by Ministry of Commerce and expeditious issue of foreign exchange by the Central Bank.

Schedule IIA: will comprise of other priority items for use by industry or agriculture, as well as petroleum products, for which specific allocations on a regular basis will be made. The total foreign exchange available to these items might be less than for Schedule I, but efforts will be made to ensure that genuine manufacturers and assemblers using goods in this category do not go without the necessary imports.

Schedule IIB: this will comprise of those goods which are currently produced domestically or whose substitutes are equally available from domestic industry, as well as luxury items. This category of imports will receive the residual foreign exchange after satisfying the needs of importers of Schedules I and IIA goods.

Mechanisms to monitor the trend of imports will also be instituted to ensure that there is proper co-ordination between the Ministry of Commerce and the Central Bank who will be largely responsible for administering the new system. We intend that the Schedules will be used experimentally for some time before printed copies are made available to the public so that we can have proper feedback on the classification of items in the various schedules and operational procedures.

In addition to these administrative changes, the restructuring of tariffs, with which I shall deal shortly, is also designed to reflect this scheme of priorities. It is my hope that given this new system of import licensing, which should make raw materials more readily available, together with the investment incentives I shall soon announce, manufacturers will seize the opportunities created for new industrial investment.

Agricultural Policy

No review of our sectoral policies would be complete without mentioning agricultural policies, no matter how briefly. In this sector, we need to boost our food production to restore national self-sufficiency once more. Measures towards that end, Mr. Speaker, are very well articulated in the recently published Sessional Paper on Food Policy. In that Paper a cogent case for improved agricultural planning is made, and so too is the need to improve rural infrastructure including rural access roads, marketing of agricultural products and inputs, agricultural credit, agricultural extension services and prices. To do this, we need to review the pricing structure of agricultural commodities, and I would hope that Honourable Members will continue to support the Government's policy of passing on the full cost of production of agricultural products to the consumers when this becomes necessary. Thus the annual agricultural price review must be undertaken on a timely basis so that farmers can know well in advance the prospective prices of their outputs in order to prepare their land accordingly.

From a fiscal perspective, however, the central role of agriculture in our economy is recognized by the low or nil duties imposed on most raw materials, capital goods and imports intended for use by agriculture. In addition, the Government continues to bear a large proportion of the cost of credit to farmers, not to mentione the elements of subsidy inherent in food importation. For the information of Hon. Members, last year we spent K£35 million in foreign exchange for food importation -- an amount which could have considerably boosted our industrial investment, and thus raised our capacity for future production.

Insurance

Mr. Speaker, another area where we intend to introduce some reforms is in the insurance industry. The insurance law of Kenya is based, as Hon. Members are aware, largely on the United Kingdom statutes which reflect, in many ways, the concerns of a net exporter of insurance. Kenya, like many developing countries, is an importer of insurance services and our law must therefore reflect this concern, as well as create the basis for a truly Kenyan insurance industry. The insurance industry plays a very significant role in the mobilisation of savings and the creation of investments, not to mention its impact on our balance of payments through remittances of fees, etc. It is important therefore that the industry as a whole reflects our concerns in development and it is my intention to introduce, during this session of Parliament, an Insurance Bill which responds to our needs in this area.

Mr. Speaker, one could go on and outline measures for nearly every sector of the economy. But that clearly is not the purpose of the Budget. What I have done in the last few minutes is to remind Hon. Members of some of our immediate concerns in the field of economic and financial management.

PROJECTED OUT-TURN 1981/82

Expenditure 1981/82

Mr. Speaker, I would now like to turn to the expenditure estimates for 1981/82. As Hon. Members will no doubt have seen from their copies of the Printed Estimates, Gross Recurrent Expenditure of Ministries is estimated at K£702 million comprising of net expenditure of K£667 million and Appropriations-in-Aid of K£35 million. In addition to this, there is a carry-over of a sum of K£58 million of Excess Votes and Under Issues from previous years which constitutes a financing commitment as reflected in the Financial Statement for the year. Thus the Estimated issues from the Recurrent Exchequer are expected to be K£760 million. Considering the rate of domestic inflation, and the annual increase of salaries and wages of Civil Servants, the proposed recurrent expenditure for next financial year is in real terms, less than this year's. This is in line with our determination to increase efficiency and control of Government expenditure. Ministries will therefore have to exercise strict economy in their expenditures if they are going to provide the same level of services as this year.

Mr. Speaker, as I have already noted, our revenues are no longer so buoyant but despite this, Ministries have maintained an independent spending momentum quite unrelated to our capacity to finance all the commitments. We have, therefore on occasion been forced to borrow, often at high interest rates to finance Government expenditure. Sooner than later therefore, our capacity to service previous borrowings will be seriously over-stretched. For the moment, Mr. Speaker, we have been forced, because of a hostile regional atmosphere to increase our expenditure on defence to guard our territorial integrity. Interest and debt repayment from the Consolidated Fund Services will therefore rise to K£156 million in the next financial year. Development Estimates for 1981/82 call for an expenditure of K£254 million, excluding Appropriations-in-Aid of K£28 million and Excess Votes and Under Issues from previous years of K£35 million. Thus total issues from Development Exchequer are estimated to be K£317 million.

I do not intend to analyse further the details of either recurrent or development expenditure for now. Suffice it to say that I expect to finance a total expenditure of K£1077 million. The rest of my Speech will outline how I intend to do this.

External Revenue

Mr. Speaker, during the last few years, a number of friendly donor countries and institutions have not only increased their aid to Kenya but have also converted project specific loans and grants to balance of payments support programmes in order to ease our balance of payments problem. May I Mr. Speaker, take this occasion to thank all these donors. I am sure Hon. Members join me in expressing our thanks to all those who have come and continue to come to our assistance in our development effort. Allow me also Mr. Speaker, to extend my own personal appreciation and indeed the appreciation of the Kenya Government to Mr. Robert McNamara, the retiring President of the World Bank, for his persistent support to our cause and that of all developing countries over the 13 years he was President of the Bank. He has been a source of inspiration in the important sphere of development to all us over this time. Many of his ideas and his humanitarian commitment to uplifting the standards of living of the developing countries shall long live after his retirement from the World Bank; and we in Kenya shall miss his presence at the Bank greatly. On behalf of the Government and the people of Kenya, I wish him success in his future career. We also look forward to continued co-operation from his successor Mr. A. W. Clausen.

In the next financial year, I estimate that we shall draw some K£167 million from external sources, in the form of cash grants, concessionary loans and other external assistance from bilateral and multilateral sources. Thus, I expect to finance 15 per cent of K£1,077 million from external sources. I am therefore left to raise K£910 million locally.

Internal Revenue

I estimate that ordinary revenue, including local Appropriations-in-Aid should provide some K£744 million at current rates of taxation. Government Stock Issues should provide another K£50 million from the non-bank sector, making a total of K£794 million. I therefore have a gap of K£116 million to finance.

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NEW TAXATION PROPOSALS

Mr. Speaker, I have appraised the House on general economic policies which I think we should pursue in the context of the prevailing economic situation. I have also indicated that I have a financing gap of K£116 million. I have, as on previous occasions, warned the nation of the dangers inherent in trying to finance such deficits from the banking system. I shall therefore have no alternative but to introduce further taxation measures, and as usual I would ask that the rest of my speech shall be regarded as being Notice of a Motion to be moved before the Committee of Ways and Means.

CUSTOMS AND EXCISE

The 1981 Finance Bill, contains several amendments to the Customs and Excise Act necessary for restructuring our industrial sector and increasing Government revenue. I would first like to deal with some two amendments which have no direct revenue implications.

Firstly, Section 177(1)(a) of the Act allows the proper officer who receives information on uncustomed goods to require the owner of such goods to produce documents relating to the goods only if the proper officer has received information "in writing and on oath". Mr. Speaker, as all of us are aware, information is not necessarily given in "writing and on oath" and may be obtained from any source -- including sources outside Kenya -- from informers who normally seek anonymity. It is therefore proposed to amend the Act by deleting the words "in writing and on oath". This will not give the Commissioner any additional powers in view of the fact that he has powers of entry and search already conferred to him by Section 174 of the Act.

Secondly, goods which are the subject of court cases, particularly cases taken to court by Police, are often disposed of without payment of duty and taxes after being condemned by the court. The police occasionally dispose of these goods without reference to the Customs Department.

I am therefore proposing amendments to the law to provide that, where such goods are liable to duty, then they can only be released or otherwise disposed of after duty has been paid, and, in cases where duty cannot be paid, then such goods shall be handed over to the Customs Department for disposal under the provisions of the Customs and Excise Act.

Mr. Speaker, I would now like to turn to those amendments which have revenue implications. In making these tariff changes, I have been primarily concerned with the need to rationalize our tariffs and import policies, as well as the traditional purposes for raising revenue and protecting local industries. I have also lowered duties on some items to promote exports and to reduce excessive protection in certain industries where the effective rate of protection is in some cases as high as 300 per cent.

Mr. Speaker, in the light of the above principles, I would now like to summarise briefly the tariff changes contained in the Bill. I have consistently requested Kenyans to reduce consumption of imported luxury items in order to conserve precious foreign exchange and promote local industries. I regret to observe, Mr. Speaker, that most of us still do not respond to this call and it has therefore been deemed necessary to increase duty on some luxury consumer goods. Consequently, duty on spa and aerated waters and other flavoured beverages, all of which could be easily manufactured in Kenya, will be raised from 50 per cent to 80 per cent.

Likewise, duty on imported cigars, cigarillos, and cigarettes will be raised by 30 per cent. Duty on imported soap, washing preparations and shampoos will be raised from 50 per cent to 70 per cent.

Duties on wooden items, glass and glassware as well as other finished products of iron and steel will be raised from an average of 30 per cent to 40 per cent.

Duty on unassembled colour T.Vs., unassembled video recorders, and other luxury items outlined in the Second Schedule of the Finance Bill which currently attract duty at 30 per cent will have their duties raised to 50 per cent.

In the area of textiles, duty on silk, silk yarn and some artificial fibres will be raised from between 10 and 20 per cent to 30 and 40 per cent.

Whereas our Customs Officers have always done their best to verify the classification and duty payable on various imports, some importers have recently tended to declare their imports under the lowest duty chargeable in the particular class. While such misdeclaration is illegal, it has not always been easy for the Customs Department to verify whether such imports are for the purposes declared by the importer. For example, it is not easy to verify whether items declared as "drying machines, industrial" or "refrigeration equipment, industrial" are for industrial or domestic purposes.

This has not only resulted in loss of revenue but has also made the work of the Department much more difficult. To close this loophole, duty on items which are difficult to differentiate will be made uniform at the higher level of the duty involved.

It has been our policy to promote small scale industries and industries whose products are mainly exported. In pursuance of this policy, I propose to reduce duty on raw materials for these industries.

Accordingly, duty on waste paper and paperboard used mainly to make packaging materials, will be reduced from 50 per cent to 20 per cent. Duty on skins and other parts of birds used in the fishing fly industry for export markets will be reduced from 20 to 10 per cent.

Duty on fibre glass will be reduced from 20 to 10 per cent in order to encourage local boat making industry.

Further, in order to encourage use of coal where it can be substituted for oil, I am proposing to reduce duty on this product from 20 per cent to 10 per cent.

I also propose to raise duty on a number of items which are manufactured domestically in order to give more protection to local industries. The details of these changes in duties are outlined in the Finance Bill 1981.

Mr. Speaker, no customs tariffs can ever be a 100 per cent correct at any time. It has therefore been necessary to make amendments to rectify previous typographical errors and omissions and to streamline and harmonize tariff numbers and descriptions. This has been so particularly in the area of raw materials and certain intermediate inputs. We have also made amendments to remove tariff anomalies which have been pointed out to us by manufacturers.

In addition, in order to implement the changes I propose in sales tax, I intend to raise duty on very capital intensive goods which are currently taxed at 10 to 20 per cent. Mr. Speaker, Hon. Members are aware of the many problems that we are experiencing in the industrial sector due to excessive escalation of costs of machinery as a result of over invoicing. Given the present rate of duty on plant and equipment of 10 per cent, the incentive to over-invoice is great. With the new rate of 20 per cent, this incentive is considerably reduced, and where it occurs, it will now be taxed.

In addition to these changes, Mr.Speaker, I also want to briefly dwell on some administrative measures which should improve the collection of customs as well as eliminate smuggling.

Hon. Members may have observed the considerable increase in container traffic in the last few years. Containers by their nature are difficult to inspect, and I am afraid to say, it has come to our notice that some operators of container traffic are using this handicap to smuggle goods meant for neighbouring countries into our domestic market. To close this loophole, we intend to institute more strict regulation and supervision of the operation of container terminals to ensure that they do not breach customs regulations. To this end, I intend to introduce a small "destuffing" charge on all containers to cover the cost of physical examination of containers.

Mr. Speaker, under Sections 160 and 161 of the Customs and Excise Act, the Commissioner is empowered to require security for goods under bond or in transit to cover the revenue due from Customs and Sales Tax. At present, however, carriers of goods in transit or for warehousing have no incentive to comply with Customs regulations, as they act according to instructions from owners or agents of the goods. Since they have no liability, they may readily comply with instructions for illegal delivery. It is therefore proposed that the Commissioner will require transporters to post sufficient bond for them to have self interest in effecting proper delivery in accordance with Customs regulations.

In order to strengthen the control of smuggling, the preventive staff of Customs shall be strengthened and administrative measures to improve efficiency in the Department will also be undertaken.

I estimate that, considered together, the revenue measures I have announced on customs duty, all of which take effect from midnight tonight, will provide an additional K£25 million to the Exchequer.

EXCISE

As Hon. Members are aware, inflation has not only affected profits made by B.A.T. (Kenya) Ltd., but has also seriously reduced the profit margins of dealers and traders of cigarettes and tobacco. The Government has also been impressed by the commendable efforts of the BAT in promoting local production of leaf tobacco and reafforestation by providing tree nurseries and encouraging tree-planting in tobacco growing areas of this Republic. By the same token, we would like to take this opportunity to thank all those industries which have undertaken significant programmes in promoting production of raw materials such as barley, wheat and oil seeds. Furthermore, I would urge the textile industry to take a keener interest in the production of cotton to ensure self sufficiency in this important sector. In order therefore to compensate those engaged in the tobacco industry for eroded trading margins and to provide additional revenue to the Exchequer, I propose to make a small change in the excise tariff on tobacco. The rates of excise duty on cigarettes and tobacco will remain unchanged but the levels at which these rates become effective will be raised by an average of 19 per cent. This measure will raise the price of some popular brands of cigarettes such as Sportsman by 70 cents per packet, Embassy by 50 cents per packet, Nyota by 50 cents per packet, and the more expensive brands of Rex and State Express by Shs. 1/- per packet. Out of the increased receipts occasioned by this measure, the company will receive 30 per cent, traders 26 per cent and the balance of 44 per cent will go to the Exchequer as revenue.

Finally on excise duty, Mr. Speaker, I propose to raise the rate of excise duty on spirits from Shs. 45/- per proof litre to Shs. 47/50 per proof litre.

These measures, which take effect from midnight, will provide the Exchequer with an additional K£1 million in revenue.

SALES TAX

I would now like to turn to Sales Tax. The Government has for some time now been aware of the difficulties experienced by importers of capital equipment who have often found it highly expensive to pay sales tax on the equipment after paying the appropriate import duty. I therefore propose to abolish sales tax on imported capital equipment with effect from midnight in order to provide a net reduction in cost to importers and manufacturers. Since we are all agreed that there is a limit to the extent to which labour can be substituted for capital, this gesture should not be construed as encouraging capital intensive industries.

Taken together with the changes in rates of Customs duty I have just outlined, this change will mean that even after the increase in duty on plant and equipment from 10 to 20 per cent, industrialists will benefit by a net reduction in effective taxation of between 8 per cent and 21 per cent. More specifically, for those importers of capital goods currently dutiable at 10 per cent, the reduction in tax shall be 8 per cent, at 15 per cent the reduction will be 15.75 per cent, at 20 per cent the reduction will be 19.5 per cent and at 30 per cent the reduction in taxation will be 21 per cent. These reductions Mr. Speaker, are in keeping with our objective of promoting increasing industrial investments and hence employment.

Mr. Speaker, it is clear that the elimination of sales tax on capital goods will cost the Exchequer a substantial amount of revenue. I estimate a loss of K£10 million. In order to reduce this loss, I propose to increase the rate of sales tax on a number of products.

Firstly, the rate of sales tax on beer and stout will be raised by 10 cents per litre. Similarly, the rate of tax on cider will be raised by 50 cents per litre. Hon. Members will remember that it is now two years since I allowed an increase to the manufacturers of beer and stout. During this period, inflation has not only seriously affected their profits but also that of their distributors and retailers. Accordingly therefore, there will be an additional increase of 45 cents and 65 cents per bottle of beer and stout respectively.

With these changes, the current price of a bottle of Tusker, Pilsner or Whitecap shall go up by 50 cents with pro-rata increases in the prices of other beers and stouts.

Secondly, the rate of tax on mineral waters, cameras, television and radio recorders and receivers will be raised from the present 25 per cent to 40 per cent. Cinematographic films and gramophone records will now attract tax at specific rates.

Finally on sales tax, Mr. Speaker, I have already drawn the attention of the House to the serious threat posed to our balance of payments by increasing consumption of petroleum products. To supplement other measures aimed at reducing oil consumption, I today propose to raise the rate of tax on petrol and petroleum products by 20 cents per litre. The retail price of premium in Nairobi will, therefore, be Shs. 6.35 per litre, regular Shs. 5.91 per litre and diesel Shs. 4.13 per litre. There will, however, be no increase either in the tax or price of kerosene.

Considered together, I estimate that these measures, which come into effect from midnight tonight, will provide the Exchequer with an additional K£7 million in revenue.

INCOME TAX

Mr. Speaker, I would now like to turn to income tax. As we are all aware, the rate of inflation has risen considerably during the last few years, thus eroding the real income of wage earners. This reduction in people's incomes is of considerable concern to a Government concerned with social welfare like ours. It is therefore timely to make some adjustment in income tax in order to increase the disposable income of tax-payers. It is in the light of this that the law was amended last year to provide that wife's employment income shall not be added to the husband's income in assessing the tax payable by the husband.

This change was also occasioned by the recognition of the Government of the increasing financial responsibility of women in our society. Notwithstanding the vehement demands of certain women groups, it is regretted, however, that complete separation of income between husband and wife could not be extended to other types of incomes as this would have opened a major loophole in the tax law. Nevertheless, the present separation of wives employment incomes represents a very substantial relief to employed persons and especially to the low income tax-payers. This measure, Mr. Speaker, will cost the Exchequer some K£5 million.

The Finance Bill published today contains further amendments to the Income Tax Act intended to tackle other areas of tax relief. I would like to deal with these tax concessions individually.

Firstly, it has been our practice in the past to review tax payable by individuals in order to reduce the tax burden on people with fixed incomes together with those whose incomes do not increase as fast as the rate of domestic inflation. The last time that we did this was in 1978. In pursuit of this practice, I am proposing to widen tax brackets by K£300 while leaving the rates of tax unchanged. This will have the effect of reducing personal tax payable by individuals such that those at the lower income tax brackets will have their tax reduced by about 25 per cent, while those at the upper income tax brackets will have a tax relief of 15 per cent.

Secondly, I propose to change the threshold, i.e., the point at which individuals start paying Income Tax. I shall effect this change by increasing the Personal Reliefs to all categories of individuals by Shs. 120 per year. Thus a married man will not become liable to income taxation until his income reaches Shs. 18,000 per year or Shs, 1,500 per month. The single person will enter the tax net at Shs. 7,200 per annum or Shs. 600 per month and for that category of tax payers known as Special Single because they are single persons supporting a child, the threshold is raised to Shs. 8,400 per annum or Shs. 700 per month. Although these changes sound small they have the effect of eliminating a significant number of eligible tax-payers from taxation while giving substantial relief to those who are left in the tax net.

Thirdly, in view of the rising cost of insurance premiums, and as a measure to boost savings, I propose to increase the statutory maximum insurance premium claimable from the present Shs. 4,800 per annum to Shs. 7,200 per annum. For similar reasons, and as I have already mentioned, interest earned on Housing Bonds shall be exempt from tax.

Fourthly, I propose to make some changes in capital gains tax as it affects individuals and companies. Firstly, I propose to reduce tax payable by companies by half. Only 50 per cent of the net gains will from now on be subjected to Corporation Tax. At the current corporate tax rate of 45 per cent, only 22½ per cent of net gains will therefore be paid as tax by companies. Secondly, taxation of gains accruing to individuals will be subjected to a lower but progressive rate of tax starting at 10 per cent upto a maximum of 35 per cent. Since, as in the case of companies, the first 50 per cent of the gains will not be taxable, this means that individuals will not pay more than 17½ per cent of the net gains realized on sale of property. Thirdly, in view of the reduced rates at which gains will be taxed, it would be unreasonable to withhold too much money from the transferor. I am, therefore, proposing to reduce the rate of withholding tax on gross consideration from 10 per cent to 5 per cent. Finally, on capital gains, Mr. Speaker, and in order to boost our Stock Exchange, the withholding tax on investment shares will be reduced from 35 per cent to 15 per cent.

My last amendment Mr. Speaker, refers to private vehicles employed in business. Paragraph 15 of the Second Schedule to Income Tax Act limits to Shs. 30,000 the amount of capital expenditure that is subject to allowable wear and tear deductions on private motor vehicles employed in a business. By private vehicle, I mean to distinguish this type of a vehicle from the ordinary commercial vehicles used in the business. Commercial vehicles are of course subject to the normal wear and tear deductions but the private vehicle is limited to a cost of Shs. 30,000 regardless of the amount paid in the purchase. When compared to the current prices of cars, this limit is obviously too low and I propose to raise it to Shs. 75,000. While this amount may look small to some of us, I am compelled to limit it to this figure in order to discourage use of big luxury cars at a time when rising petroleum costs constitute our biggest constraint to economic recovery.

Before concluding my remarks on private cars employed in business, I would like to make one other point. While recognizing that cars are necessary to run businesses successfully and that their costs have risen considerably, it is an open secret that senior business executives and other senior employees use these cars for private purposes and indeed this has become recognized as one of the most popular business perks. I am, therefore, requesting the Commissioner of Income Tax to look into these benefits and see to it that these executives are taxed fully on this benefit in the interest of equity.

Mr. Speaker, it is well known that many prosperous farmers and businessmen escape tax altogether. In order to make those eligible to pay tax to come into the tax net, we are instituting tax measures to eliminate tax evasion. We also intend to open an Income Tax Office at Eldoret, in addition to the existing regional offices at Mombasa, Nyeri, Thika, Nakuru and Kisumu.

At the moment, Tax Reserve Certificates are issued by the Accounts Controller Treasury; but it is clear that many tax-payers do not know of this scheme. In order to bring the scheme closer to tax-payers, the issuance of Tax Reserve Certificates will now be administered by the Income Tax Department. I would urge businessmen to take advantage of this scheme for, while doing so, they will be earning themselves tax free interest.

I have today proposed tax measures aimed at lightening the tax burden on individuals. I have also announced measures intended to provide incentives to investors with the view to improving the tax base for future taxation. All of us should therefore be ready to face our fiscal responsibilities if we cherish stability and social justice.

Mr. Speaker, the measures I have announced today on income tax changes, the effective dates of which are spelt out in the Finance Bill, will cost the Exchequer approximately K£13 million.

LOCAL MANUFACTURERS EXPORT COMPENSATION ACT

Mr. Speaker, the proposed changes to the Sales Tax Act also necessitate changes to the Local Manufacturers Export Compensation Act as outlined in the Finance Bill. On the whole, these changes are purely procedural and will have no net revenue effect.

MISCELLANEOUS TAXES AND FEES

The Finance Bill also includes a proposal of a minor amendment to the Entertainment Tax Act to exempt stage plays from the operation of the tax. This proposal, Mr. Speaker, is designed to encourage local drama and culture. This measure will cost the Exchequer a small price of K£25,000 every year -- a very small sum indeed for the promotion of arts and culture.

Other Legal Notices have also been simultaneously published with the Finance Bill to effect changes in fees for petroleum pumps; wholesale and retail licenses for liquors and spirits; stock trading and court brokers. Taken together, these measures will bring an extra K£20,000 to the Exchequer.

CONCLUSION

Taken as a whole, the new taxation measures introduced today will bring a net addition of revenue of K£20 million. I shall, therefore, be left with a residual deficit of some K£96 million to finance from short term borrowing. It should, however, be noted that of this amount only K£3 million is attributable to fiscal year 1981/82 operations; the balance of K£93 million represents Excess Votes and Under Issues carried over from previous years extending back to fiscal year 1977/78. The financing for these carry-overs will need to be regularized in the coming financial year and it is anticipated that authorization will be received from Parliament for disposing of most if not all of these items during the coming year. It is our intention to achieve this regularization of financing for these carry-overs in a manner which will not have adverse monetary consequences nor limit the availability of banking system credit to the private sector.

In effect Mr. Speaker, my proposals today are aimed at giving new impetus to the investment process by maintaining a better balance between public and the private sector; by creating incentives for savings; by lowering the cost of machinery and facilitating rational utilization of our limited foreign exchange through restructuring of tariffs; by encouraging housing development, and finally, but by no means the least, by providing substantial tax relief to Wananchi. I hope that Kenyans will take advantage of these incentives to seize the challenge of revitalizing our economy by further investments and creation of employment.

Mr. Speaker, I beg to move.