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HARAMBEE

BUDGET STATEMENT

FY 2023/24

Theme: "Bottom-Up Economic Transformation and Climate Change Mitigation /Adaptation for Improved Livelihoods of Kenyans"

STATEMENT DELIVERED TO THE NATIONAL ASSEMBLY ON 15TH JUNE, 2023 BY PROF. NJUGUNA NDUNG'U, CBS, CABINET SECRETARY FOR THE NATIONAL TREASURY AND ECONOMIC PLANNING, REPUBLIC OF KENYA, WHILE PRESENTING THE BUDGET POLICY HIGHLIGHTS AND REVENUE RAISING MEASURES FOR THE FINANCIAL YEAR 2023/24 BUDGET

1ST JULY, 2023 TO 30TH JUNE, 2024

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I. INTRODUCTION

1. **Mr. Speaker,** it is a great honour and privilege for me to present to this august House and to the people of the Republic of Kenya, the First Budget of the Kenya Kwanza Administration under the leadership of His Excellency Honourable Dr. William Samoei Ruto, The President of the Republic of Kenya and Commander-in-Chief of the Defence Forces.

2. I do this in compliance with the Standing Order No. 241 of the National Assembly and Section 40 of the Public Finance Management Act, 2012 that requires the Cabinet Secretary for the National Treasury to make a public pronouncement of the budget policy highlights and revenue raising measures for the National Government.

3. This being the first budget following the conclusion of the General Elections held in August 2022, allow me to congratulate all the Honourable Members who were re-elected and those who are serving for the first time in this august House. I look forward to working closely with all of you as we implement the Bottom-Up Economic Transformation Agenda designed to achieve a

sustained economic recovery for improved livelihood of all Kenyans.

4. Before I proceed, **Mr. Speaker**, allow me to take this opportunity to express my deep appreciation to His Excellency, The President for appointing me as the Cabinet Secretary for the National Treasury and Economic Planning and entrusting me with the honour of overseeing the management of macroeconomic policy and the public financial management of this great Nation. I also wish to extend my sincere gratitude to His Excellency, the President for His wise counsel during the preparation of these budget policy highlights and revenue raising measures that will lay a strong foundation for our socio-economic transformation.

5. **Mr. Speaker,** the FY 2023/24 Budget has been prepared against a background of a challenging external and domestic environment. In addition to the COVID-19 Pandemic, Kenya has, over the past year, suffered a series of devastating negative and persistent shocks that include the worst drought in decades as well as the adverse spill overs from the conflict in Eastern Europe and tighter global financial market conditions. The combination of all

those negative and continuing shocks are what I describe as a perfect storm that has confronted the New Administration.

6. The extreme climate change events have emerged as key drivers of food insecurity and increased cost of living. Indeed, our people are currently confronted with increasingly higher prices of basic commodities, especially food, energy and transport. This calls for urgent and decisive interventions, especially on our supply side response.

7. **Mr. Speaker**, in fulfilment of the requirement under the Constitution on public participation, we accorded Kenyans the opportunity to share their views on issues that need to be addressed in this Budget. **Mr. Speaker,** we received from Kenyans many useful proposals and suggestions that have informed the priorities outlined in this Budget Statement. The key concerns raised by the public can be broadly clustered around five issues: **one**, the high cost of living; **two**, the high level of unemployment among the youth; **three**, high tax burden; **four,** wastage of public resources and **five,** high public debt burden.

8. **Mr. Speaker,** having listened carefully to concerns from the public and taking cognizance of the socio-economic and environmental challenges facing the country, this Budget Policy highlights seeks to provide solutions to the said concerns as we all work towards accelerating economic recovery.

9. Proactively, the Kenya Kwanza Government has begun the journey to bring down the cost of living and improve livelihoods, while at the same time fostering a sustainable inclusive economic transformation. The Government has taken the long-term sustainable approach of subsidizing production of goods instead of consumption to respond to the rising cost of living.

10. In this regard, the Government has instituted immediate interventions that are aimed at providing short-term solutions to the high cost of living while at the same time building a momentum for the long-term economic vibrancy and transformation. In particular, the Government has covered the following:

i) Through the e-voucher Fertilizer Subsidy Program, availed 6 million (50kg bags) of subsidized fertilizer worth Ksh 15 billion, retailing at a cost of Ksh 3,500 per bag, a reduction from the market price of Ksh 6,500 per bag, representing a subsidy of Ksh 3,000 per bag. So far, the Government has registered 5 million farmers nationwide and issued over 2.5 million e-vouchers to registered farmers. As a result, Kenyan farmers have been able to plant at least 200,000 additional acres of food this year and used 2 million more kilograms of seeds. This is expected to improve agricultural yields;

ii) Granted duty waiver for importation of key food products such as white maize, rice, yellow maize, soya beans, soya bean meal, assorted protein concentrate, and feed additives effective from 1st February to 6th August, 2023, in order to bridge the food stocks deficit as well as lower and stabilize food prices;

iii) As part of drought mitigation measures and the climate adaptation programme, the Government initiated a National Tree Planting Campaign that seeks to enhance our national tree cover to from 12 percent to 30 percent through a target of planting 15 billion trees by 2032. In addition, the Government has initiated new dam constructions to address drought concerns and ensure Kenya has enough harvested water to facilitate a water management strategy for irrigation for food production;

iv) Invested in biotechnology research and uptake of drought tolerant crops to promote food security, particularly in marginalized areas. In the current year, over 250 metric tonnes of assorted drought tolerant seeds valued at Ksh 50 million have been distributed in Embu, Meru, Makueni, Machakos, Tharaka Nithi, Murang'a, Nyeri, Siaya and Busia counties;

v) Reformed the National Health Insurance Fund to meet the urgent needs of Kenyans at the bottom of the socioeconomic structure by actualizing its purpose as a social medical insurance facility. In addition, the Government has committed to deliver Universal Health Coverage to ensure that every Kenyan attains dignified healthcare at a minimal subscription fee; and

vi) Reviewed the policy in the energy sector with the aim of developing and diversifying this market further by improving sourcing and supply of cooking gas that inevitably had resulted in high costs that also drive domestic inflation. This has allowed for additional players to be licensed to set up Liquefied Petroleum Gas (LPG) facilities. A common user bulk storage and handling facility for LPG will be constructed through a private sector participation framework to enhance market certainty and stability in the use of LPG. This will cut the cost of handling and evacuating gas from ships to the mainland hence allowing the dealers to pass through the cost reliefs to the consumers.

11. **Mr. Speaker,** in order to improve service delivery, support livelihood and businesses as well as strengthen governance institutions, the Kenya Kwanza Government has since assumption of office:

i) Established the Financial Inclusion Fund, or the Hustlers Fund in November 2022 to provide access to affordable credit to individuals and MSMEs and encourage savings. This is an intervention that will remain at the bottom of the pyramid. In order to access borrowing under the Fund, a customer only needs to register through his or her mobile phone. Since the launch of the first product, the Hustlers Fund Personal Loan Fund, the Government has invested a total of Ksh 11.0 billion. This money has been revolving within the Fund, providing low interest loans at 8 percent per annum to 16.07 million Kenyans, of which 7.1 million are repeat customers. So far, Ksh 30.8 billion has been borrowed from this revolving fund. In addition to borrowing, the Fund is designed to encourage savings. To date, Ksh 1.5 billion has been saved as mandatory savings, while Ksh 17 million has been saved on a voluntary basis. We have witnessed a phenomenal growth in the number of transactions that currently stand at 43.5 million. The largest number of times a single customer has borrowed from the Fund is about fifty times indicating strong traction to the Fund.

ii) To further empower MSMEs, the Government on 1st June, 2023, launched the second product of the Financial Inclusion Fund, that is aimed at facilitating Kenyans access funding through groups. This follows phenomenal success of the Personal Loan product under the initial phase. This will allow lending to groups such as chamas and saccos. The groups can now borrow loans of between Ksh 20,000 and Ksh 1.0 million;

iii) Redesigned the competence-based education curriculum to make it responsive to our education needs;

iv) Employed over 30,000 teachers in a historic and unprecedented drive to improve the national teacher - pupil ratio and enhance performance;

v) Introduced a new funding model for higher education that will make the universities and technical training fully inclusive, financially self-sufficient and capable of competing with their peers globally while contributing to our national socioeconomic transformation;

vi) Established the National Open University in order to make higher education inexpensive, affordable, accessible, inclusive and attainable to all. The University will receive its Charter before the end of June 2023;

vii) Launched several affordable housing projects across the country, translating to about 36,000 housing units in just eight months;

viii) Digitized and automated 3,570 of Government services through the e-Citizen platform that has enhanced access to Government services and brought greater convenience to citizens. The Government targets to bring onboard 5,000 services on the e-Citizen platform by the end of 2023;

ix) Launched a data protection registration system to provide digital identity to all Kenyans in order to facilitate transactions between the Government and its citizens;

x) Returned the port operations from Nairobi and Naivasha to Mombasa in order to revamp the coastal economy and give importers, especially the business community a choice on cargo clearance;

xi) Introduced a Government-to-Government arrangement for oil importation to provide a longer-term supply plan of fuel and ease the monthly demand for the US dollar in the country;

xii) Appointed four Court of Appeal judges and two judges of the Environment and Land courts, in line with the recommendation of the Judicial Service Commission, to strengthen the Judiciary. Further, the Government escalated the actualization of the Judiciary Fund that will increase allocation of resources towards enhancing access to justice; and

xiii) Enhanced independence of the National Police Service (NPS) by granting them financial autonomy as envisaged in our constitution.

12. **Mr. Speaker,** while we celebrate these achievements, we are aware that a lot remains to be done in order to decisively deal with the pressing socio-economic challenges **first,** to reverse the effects of the recent past negative shocks, and **second,** improve and accelerate the betterment of the livelihoods of Kenyans. It is for this reason that, the Government is implementing the Bottom-Up Economic Transformation Agenda popularly referred to as "BETA" geared towards economic turnaround and inclusive growth. Aligned to this agenda, the theme for this year's budget is: **"Bottom-Up Economic Transformation and Climate Change Mitigation/Adaptation for Improved Livelihoods of Kenyans"**.

13. Consistent with this goal, the Government will scale up implementation of policy priorities and structural reforms under the Bottom – Up Economic Transformation Agenda as detailed in the 2023 Budget Policy Statement and the Fourth Medium Term Plan (MTP IV) currently under development, that will guide attainment of these development objectives as well as the continuation of the Kenya Vision 2030 and the Sustainable Development Goals (SDGs).

14. The strategy will involve increasing investments in five strategic sectors that have the largest impact and linkages to the economy as well as on household welfare as the starting point. These include: Agricultural Transformation; Micro, Small and Medium Enterprise Economy; Housing and Settlement; Healthcare; and, Digital Superhighway and Creative Industry. Special focus will be placed on the interventions that: **reduce the cost of living; create jobs; achieve more equitable distribution of income; enhance social security, expand tax base for more revenues to finance development**; and **increase foreign exchange earnings.**

15. Mr. Speaker, we intend to implement the policy priorities within a sustainable fiscal framework. Overall, we have moderated our spending to ensure value for money and enhanced revenue mobilization efforts to ensure that our public debt remains on a sustainable path.

16. Prioritisation is critical because resources are scarce, thus limiting our capacity and desire to cover everything at once. In this regard, the budgeting process for the priority programmes under the Bottom-Up Economic Transformation Agenda will be managed through a value chain approach. This has ensured that resources are allocated to all the components along the value chain, thereby eliminating duplication of roles, removing any funding gaps and enhancing efficient use of available budgetary resources.

17. **Mr. Speaker,** it is now my privilege and honour to present the economic and fiscal policies underpinning the Government's Bottom-Up Economic Transformation Agenda for improved livelihoods of Kenyans. Thereafter, I will broadly outline the proposed resource allocations and revenue raising measures that the Government will implement in the FY 2023/24 budget.

18. But before I proceed to elaborate on programs, let me start by highlighting the economic context in which this budget has been prepared.

II. ECONOMIC POLICY CONTEXT

Global Economy

19. **Mr. Speaker**, the FY 2023/24 Budget has been prepared against a background of increased uncertainties in the global economic outlook, reflecting continuing geopolitical tensions particularly the ongoing conflict in Eastern Europe and the pace of monetary policy tightening amidst concerns about financial sector stability in the advanced economies. As a result, global economic growth is projected to slow down to 2.8 percent in 2023 from 3.4 percent in 2022. Economic prospects are also expected to slow down across regions and countries. Nevertheless, commodity prices in the global markets, particularly of oil and food, have been easing due to improved and functioning supply chains.

Domestic Economy

20. Mr. Speaker, on the domestic scene, the economic growth for 2022 slowed down to 4.8 percent from 7.6 percent in 2021 due to the adverse impact of the multiple shocks that affected the economy. Kenya's growth in 2022 was supported by growth in the services sectors while the agricultural sector contracted for the second consecutive year due to the prolonged drought effect that also contributed to a slowdown in growth in the manufacturing as well as that of the wholesale and retail trade sectors.

21. Mr. Speaker, the economy is expected to rebound and expand by 5.5 percent in 2023 up from 4.8 percent in 2022 and maintain that pace over the medium term. This growth will be supported by a broad-based private sector led growth, including continued strong performance of the services sector and recovery in the agriculture sector due to improved weather conditions during the March – May rain season.

22. This growth outlook will be reinforced by the interventions being implemented by the Government under the Bottom-Up Economic Transformation Agenda, including provision of subsidized fertilizer and seeds to farmers during the planting season. Further, economic activity is expected to improve and drive aggregate demand expansion as the international commodity prices ease coupled with improved exports and resilient private sector consumption as well as the ongoing public and private investment.

23. **Mr. Speaker,** the Government will continue to support economic recovery by pursuing prudent macroeconomic policies geared towards reducing debt vulnerabilities and supporting sustainable and inclusive development. Inflation rate has remained above the 7.5 percent upper bound target since June 2022, mainly due to high food and energy prices following adverse weather conditions and high global oil prices but also compounded by a pass-through effect from domestic currency depreciation. In order to anchor inflation expectations, the Central Bank of Kenya through the Monetary Policy Committee tightened monetary policy during the last one year by raising the Central Bank Rate to 9.5 percent in March 2023 from 7.5 percent in May 2022. This monetary policy action together with improved agricultural production occasioned by the long rains

and supported by the fertilizer subsidy program, and the ongoing importation of key food items particularly maize, cooking oil, rice and sugar under the duty-free window are expected to ease the domestic prices of basic food items.

24. Already, inflationary pressures are easing with inflation rate at 8.0 percent in May 2023 from the high of 9.6 percent in October 2022. Inflation rate is expected to return to the target range within the second quarter of the FY 2023/24. Credit to the private sector grew by 13.2 percent in the 12 months to April 2023, supporting economic activity. Most sectors of the economy continue to receive positive credit flows.

25. Mr. Speaker, to further anchor inflation expectations, the Central Bank of Kenya will continue to implement the reforms outlined in the White Paper on Modernization of the Monetary Policy Framework and Operations that are aimed at enhancing the effectiveness of monetary policy formulation and implementation to prevent monetary policy falling behind the curve. These reforms include refining macroeconomic forecasting frameworks in line with the changing structure of the economy, improving the functioning of the interbank market to strengthen monetary policy transmission and continued improvement of communication on monetary policy decisions.

26. Mr. Speaker, the fiscal policy stance over the medium term aims at supporting the Government's Bottom-Up Economic Transformation Agenda through a growth friendly fiscal consolidation plan designed to slow down the annual growth in public debt and implement an effective liability management strategy, without compromising service delivery to citizens. This will improve the country's debt sustainability position.

27. Mr. Speaker, I now expound on the policy priorities of the Government for fostering economic transformation and improved livelihoods.

III. POLICY PRIORITIES AND STRUCTURAL REFORMS FOR IMPROVED LIVELIHOODS

Bottom – Up Economic Transformation Agenda

28. Mr. Speaker, this year's budget places special emphasis on priorities under the Bottom-Up Economic Transformation Agenda which is detailed in the 2023 Budget Policy Statement that was approved by this House in March 2023. This Agenda is premised on the need to address the challenges that the economy is facing, stimulate economic recovery, bolster resilience while building on successes realized over time.

29. The strategy will involve increasing investments in at least five sectors envisaged to have the largest impact and linkages to the economy as well as on household welfare. The priority programmes are classified under two categories, namely, the core pillars and the enablers that aim at the creation of a conducive business environment for socio-economic transformation. **Mr. Speaker**, as indicated earlier in this Statement, these core pillars include: Agricultural Transformation; Micro, Small and Medium Enterprise (MSME) Economy; Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry.

30. In order to make these programmes feasible, the Government will implement strategic interventions under the following key enablers: Infrastructure; Manufacturing; Blue Economy; the Services Economy, Environment and Climate Change; Education and Training; Women Agenda; Youth

Empowerment and Development Agenda; Social Protection; Sports, Culture and Arts; and Governance.

31. Mr. Speaker, in order to realize the aspirations of the Bottom-Up Economic Transformation Agenda, the Government will:

i) Continue to maintain macroeconomic stability and enhance security to foster a secure and conducive business environment for all Kenyans and their investments;

ii) Intensify national infrastructure development and connectivity in roads, rail, port, energy and fibre optic infrastructure to lower the cost of movement of people and goods, lower the cost of doing business thereby enhancing profitability of businesses;

iii) Enhance investment in key economic sectors for broad based sustainable economic recovery by promoting: agricultural transformation, growth in manufacturing, environmental conservation and water supply, food security, climate change mitigation and adaptation, tourism recovery, and sustainable land use and management. Food security and climate change will also become a focal point for policy going forward;

iv) Expand access to quality social services in health, education and appropriate social safety nets for the vulnerable population; and

v) Support the youth, women and persons living with disability through Government-funded empowerment programs that leverage on partnerships with private sector organizations.

32. Mr. Speaker, the Government under the support of Development Partners is implementing a program that aims at boosting revenue mobilization and reduce total expenditure as a percentage of GDP thereby providing a growth friendly fiscal consolidation plan designed to slow down the annual growth in public debt and implement an effective liability management strategy, without compromising service delivery to citizens. This fiscal consolidation plan targets to gradually reduce fiscal deficit including grants from 6.2 percent of GDP in the FY 2021/22 to 5.8 percent of GDP in the FY 2022/23 to 4.4 percent of GDP in the FY 2023/24 and further to 3.6 percent in the FY 2025/26.

33. Mr. Speaker, we are truly grateful as a Nation to our Development Partners who have over the years provided financial resources to support implementation of Government programmes, policy and structural reforms. In particular, allow me to single out the multilateral institutions, specifically the World Bank, the International Monetary Fund (IMF), the European Union, the African Development Bank, and the many bilateral donors, institutions and Governments that have walked the journey of socio- economic transformation with Kenya.

34. Mr. Speaker, Kenya has continued to successfully implement the Extended Fund Facility and the Extended Credit Facility (EFF/ECF) arrangements supported by the IMF. We concluded the 5th Review of the Program in May 2023, and agreed on: **an augmentation of access** under the program of 75 percent of quota (SDR 407.1 million, about US$ 544.3 million); **an extension of the duration** of the EFF/ECF arrangements by 10 months to April 2025 to allow sufficient time for meeting the program objectives; and **on a new 20-month Resilience and Sustainability Facility** (RSF) arrangement with access of 75 percent of quota that will run in parallel with the EFF/ECF arrangements until April 2025.

35. Once approved by the IMF Executive Board in July 2023, Kenya will immediately access **SDR 306.7 million (about US$ 410 million),** including from the augmentation of access under the ECF/EFF. This will bring the cumulative IMF financial support disbursed under the EFF and ECF arrangements to **SDR 1,509 million (about US$ 2,017 million).**

36. The Government will also access an additional SDR 407.1 million, about US$ 544.3 million under the new 20-month Resilience and Sustainability Facility (RSF) arrangement upon successful next review. **Mr. Speaker,** when combined with the RSF support, the cumulative IMF commitment to Kenya will amount to **SDR 2.633 billion (about US$3.52 billion)** by April 2025.

37. Mr. Speaker, as a stop gap measure to ease pressure on the domestic supply of petroleum products as well as ease pressure on the Kenya Shilling arising due to the global shortage of US dollar in the domestic market, we have introduced an innovative new Government-to-Government arrangement for fuel importation through Legal Notice No. 3 of 2023 that allows for importation of petroleum products by the private sector through the current Open Tender System (OTS).

38. To date, the monthly importation of petroleum products is approximately seven hundred and forty thousand (740,000) Metric Tons of which 60 percent is consumed in the domestic market while 40 percent is for transit market in the region. This product is currently paid for using United States (US) dollars, which puts a strain on foreign exchange availability and pressure on nominal exchange rate and ensuing exchange rate volatility in the market on a monthly basis.

39. **Mr. Speaker,** to contain the pressure of US dollar availability in the market as well as the exchange rate volatility on a monthly basis, the Government entered into a Memorandum of Understanding with Governments of oil producing countries under which Framework Agreements have been signed with petroleum exporting companies for the supply of petroleum products on extended credit period of one hundred and eighty (180) days. The objective of this arrangement is: **first,** to ease the monthly demand for US dollars in the foreign exchange market that is driven by petroleum imports by extending time required to source for US dollars from the current five (5) days to one hundred and eighty days; **Second,** to allow space to activate the interbank foreign exchange market and thus stem currency speculation; **Third,** reduce the cost of petroleum products by leveraging on economies of scale that arise from having longer supply contracts of up to 270 days with potential suppliers; **Fourth,** avert supply disruption by safeguarding a longer-term supply of petroleum products; and, **finally,** allow a restructuring of the fuel pricing mechanism that will be dependent on market conditions. Currently, the pricing mechanism coordinates expectations of price revisions on the 15th of every month, a situation that does not reflect appropriate market conduct as well as encourage diverse market development paths in this sub-sector.

Climate Change Mitigation and Adaptation

40. Mr. Speaker, climate change has become a pressing issue globally, and like other economies, the Kenyan economy is vulnerable to its ravaging impacts. Indeed, we have just come out of the worst drought in 40 years which has claimed lives of people and livestock, while at the same time threatened livelihood of millions of Kenyans.

41. Given our vulnerability to climate change, it is imperative that we build a more climate resilient economy. For this reason, the Government has stepped up climate adaptation and mitigation efforts including green energy, smart agriculture, de-carbonized manufacturing, e-mobility and green building, all aimed at the attainment of zero carbon by 2050.

42. The Government has committed to secure our future and to achieve a cleaner and safer environment for all Kenyans by reducing greenhouse gas emissions, halting and reversing deforestation, biodiversity loss and land degradation. In this regard, issues of climate change mitigation and adaptation have been mainstreamed in all Government programmes and across all levels of Government.

43. As part of drought mitigation measures and the climate adaptation programme, the Government is implementing a National Tree Planting Campaign which is championed by His Excellency the President and seeks to enhance our national tree cover from 12 percent to 30 percent by 2032. This will entail planting at least 15 billion trees over the period.

44. Mr. Speaker, climate financing has emerged as an important means of implementation for climate change and for promoting sustainable development and financial sector development. To enhance financial flows from the Green Climate Fund (GCF), the Government will continue to implement the National Green Climate Fund Strategy, which provides an elaborate framework of coordinating and attracting resources from the Green Climate Fund. The Government will also implement the Financing Locally-led Climate Action (FLLoCA) Program in collaboration with County Governments and development partners to manage climate risks.

45. Further, to support our climate change efforts and catalyse additional climate finance from other official and private partners, we have agreed with the IMF on a new 20-month Resilience and Sustainability Facility (RSF) arrangement that will run in parallel with the current Program arrangements until April 2025.

46. Mr. Speaker, the Government last year committed to fast-track the enactment of the Disaster Risk Management Bill; and finalize the Public Finance Management (Disaster Risk Management Fund) Regulations. These are meant to strengthen disaster risk management in the country given that Kenya is predisposed to various disasters, some of which are exacerbated by the ravaging effects of climate change. These disasters often have a huge negative impact on the economy.

47. I wish to report that the relevant Departmental Committee of this House is in the process of considering a legislation on matters relating to Disaster Risk Management. I urge this House to prioritize this matter to enable Kenya have an overarching framework on Disaster Risk Management. I will later be submitting to this House for consideration the Public Finance Management (Disaster Risk Management Fund) Regulations, 2023 to enable establishment of the Disaster Risk Management Fund.

Policy, Legal and Institutional Reforms

48. Mr. Speaker, the Government's Bottom – Up Economic Transformation Agenda (BETA) will be underpinned by sound and appropriate policy, legal and institutional reforms, aimed at improving the business environment, increasing efficiency in public service delivery and strengthening accountability and transparency in public finance management. These reforms are outlined as follows:

Procurement Reforms

49. Mr. Speaker, on a continuous basis, the Government reviews the procurement policies and procedures to ensure that we achieve efficiency and transparency, enhance good governance and promote savings in the procurement process. This is one critical area that the Government can achieve efficiency and unlock savings given the limited financial resources and fiscal space.

50. With this in mind, **Mr. Speaker,** last year, the National Treasury committed to this House to roll out an end-to-end e-Government Procurement system (e-GP) with a pilot phase commencing in July 2022 and a target date for full roll-out to all Ministries, Departments and Agencies in January 2023. I wish to report to this House that the process is still in progress albeit with some delays. The system will be rolled out by December 2023 to both the National and County Governments. Once rolled out, all public procurement and asset disposal processes will be managed online through the system. The system will enhance efficiency and transparency in the procurement functions. The system will also ease cost of doing business with the Government and has capabilities of monitoring and tracking of all public procurement and asset disposal.

51. **Mr. Speaker,** the Government remains committed to facilitate access to Government procurement opportunities and empower MSMEs owned by Women, Youth and Persons with Disabilities. This remains a key priority of the Government under the Bottom-Up Economic Transformation Agenda. For this reason, the National Treasury has reengineered the Access to Government Procurement Opportunities (AGPO) portal to enable real-time registration and monitoring. The National Treasury has also directed all procuring entities to ensure prompt

payment of all contracts successfully implemented under the AGPO to enable businesses owned by the target groups access liquidity promptly.

State Corporations Reforms

52. Mr. Speaker, a large number of State Corporations rely on the exchequer funding to service their payroll and other expenses. Over the years, bloated payrolls have remained a large burden to the exchequer resulting in cumulated un-serviced statutory obligations and pension liabilities running into billions of Kenya Shillings. It has also been established that in most State Corporations, a huge proportion of the staff compliment comprises of support staff with a thin compliment of technical staff, gravely affects core service delivery. To address this challenge, the State Corporations Advisory Committee (SCAC) will immediately embark on an aggressive programme to rationalize staff establishment to keep them lean and strictly adhere to the **70:30 ratio** of Technical to Support staff. In addition, the National Treasury shall hence forth only approve budgets for hiring staff for only State Corporations that have received approvals from State Corporations Advisory Committee, the Public Service Commission (PSC) and Salary and Remuneration Commission (SRC). This requirement is in addition to confirmation of the requisite funding.

53. Mr. Speaker, to support restructuring of State Corporations, the Cabinet Approved the Privatization Bill, 2023, that seeks to repeal the Privatization Act, 2005, and streamline privatization processes and to in order to restructure State Owned Enterprises (SOEs). This was subsequently submitted to this House by the National Treasury in May 2023. The Bill, once enacted, will enable the selected State Owned Enterprises to achieve their full potential by entrenching commercial principles and reduce their reliance on exchequer funding. I urge the Honourable Members to support the Government in this endeavor.

54. Mr. Speaker, in the FY 2022/23, the Government initiated a number of reforms in Kenya Power and Lighting Company (KPLC) and Kenya Airways aimed at improving their efficiencies, reducing costs and increasing revenue. To further enhance KPLC's financial sustainability, the Government will restructure its balance sheet, mainly focusing on the huge loan balances, payables and receivables. This will in turn address the current huge liquidity gap at KPLC. Towards this end, the Government will implement a four-point action plan focusing on:

i) Transfer of all transmission assets/lines to Kenya Electricity Transmission Company (KETRACO);

ii) Settle the outstanding Rural Electrification Schemes (RES) operations and maintenance cost deficit of Ksh 19.4 billion as of June 2022 and ensure that KPLC and Rural Electrification and Renewable Energy Corporation (REREC) enter into a commercial contract for the future Rural Electrification Schemes maintenance cost;

iii) Develop and implement a turnaround strategy that includes the reduction of system losses from the current 22.4 percent to 14.4 percent by end-June 2025; and

iv) Establish a new governance structure at KPLC to give private shareholders fair representation, reflecting the company's shareholding structure.

55. With regard to Kenya Airways, the Government's policy stance is to turnaround the Airline and position is as a Pan-African carrier, ensure it is run with profitability and sustainability objectives eventually reducing the Airline's dependency on budgetary support.

Pending Bills for the National and County Governments

56. Mr. Speaker, the total outstanding National Government pending bills as at 31st March, 2023 amounted to Ksh 537.2 billion comprising of Ksh 450.2 billion for State Corporations, Semi-Autonomous Government Agencies and Ksh 79.3 billion for Ministries, Departments and Agencies. During the same reporting period, the County Governments reported pending bills of Ksh 159.7 billion.

57. The management of the pending bills challenge, in the public eye, will form an important benchmark upon which the overall integrity of the Government's style of financial management will be tested and judged. The delay in settling payments of pending bills has led to deterioration of financial positions of businesses in particular Micro, Small and Medium Enterprises, including businesses owned by Women, Youth and Persons with disabilities.

58. In view of the above, the National Treasury has prepared a Cabinet Memorandum requesting the Cabinet to approve the establishment of a Pending Bills Verification Committee to carry out a thorough analysis of the stock of all pending bills and advise on how the bills will be settled. Once the outstanding pending bills are cleared by the verification Committee, the National Treasury will direct all Entities to ensure strict adherence to Public Finance Management Act, 2012 and clear pending bills as a first charge on the budget of the concerned Entity in the subsequent financial year.

Financial Sector Stability and Development

59. Mr. Speaker, the banking sector remained stable and resilient in 2022. Deposits held by the sector increased by 12.3 percent while pre-tax profits increased by 22.0 percent. On the other hand, gross non-performing loans for the sector stood at 13.3 percent in December 2022, a decline from 14.7 percent in June 2022. The need to build resilience and to exploit emerging opportunities has led to increased consolidations as well as regional expansion through acquisitions. This has led to strong institutions supporting the stability of the banking sector. The sector is therefore, expected to remain sound and stable in 2023, building on the reform initiatives and buffers built over the recent years.

60. Mr. Speaker, in order to address consumer protection concerns arising from unregulated digital lenders, the Central Bank of Kenya introduced the Digital Credit Providers Regulations of 2022 that were approved in May 2022. They provide regulations and guidelines for the licensing and oversight of previously unregulated Digital Credit Providers (DCPs). I am happy to report that by the end of March 2023, 32 Digital Credit Providers had been licensed while others are at different approval stages. More importantly, CBK is working with other Agencies and Regulators including the Office of the Data Protection Commissioner to ensure all Digital Credit Providers are brought into the regulatory perimeter to protect consumers.

61. Mr. Speaker, in an effort to transform Kenya's financial markets, the Central Bank will soon launch the upgraded Central Securities Depository code named ***"DhowCSD"***. The upgraded Central Securities Depository will improve financial market liquidity, enhance operational efficiency in the domestic debt market, further promoting market deepening, broadening financial inclusion through expansion of digital access and position Kenya as the preferred financial hub in the region. The Central Securities Depository will also scale up services to the public, market participants and support our Diaspora investors via a versatile and highly scalable digital solution with capacity to deliver seamless investor experience and convenience.

62. Mr. Speaker, since the launch of the National Payments Strategy 2022 – 2025 in February 2022, the Central Bank has implemented major initiatives to improve quality, access, and affordability of payment services to Kenyans. These include implementation of mobile money interoperability, licensing of new payment service providers, and rollout of key standards that increase convenience of payment services in line with global best practice. Building on these gains, in the FY 2023/24, the Central Bank together with other stakeholders will:

i) undertake a comprehensive review of the National Payment System Act, 2011 and National Payment System Regulations, 2014, to modernize Kenya's payments legal and regulatory framework in line with emerging trends, innovations and enhance oversight for improved service delivery to Kenyans; and

ii) develop and implement an interoperable payments platform to unlock cost-effective, real-time, and retail payments across the banks, payment service providers, card schemes and other regulated financial institutions. This will further contribute to lowering the cost of these services, increase choice, competition, stability, and widespread adoption of digital payments among Kenyans.

63. **Mr. Speaker,** in order to reduce money laundering vulnerability, the Central Bank has reviewed and enhanced the banking sector Know Your Customer (KYC) and customer due diligence (CDD) processes. This will further strengthen the effectiveness of the banking sector anti-money laundering and combating the financing of terrorism and proliferation financing (AML/CFT/PF) risk based supervisory framework.

Deposit Insurance Reforms

64. Mr. Speaker, financial stability risks have increased rapidly as the resilience of the global financial system has been tested by high inflation and rising interest rates. In order to enhance protection of depositors, the Kenya Deposit Insurance Corporation is in the process of reviewing the current coverage limit of Ksh 500,000 with a view to ascertain its adequacy in protecting the Micro, Small and Medium Enterprises.

65. In addition, the Corporation has developed an Alternative Dispute Resolution (ADR) framework to address disputes between financial institutions that have been closed and their respective stakeholders, thereby fast-tracking release of available resources and winding up those banks under liquidation.

Capital Markets Developments

66. Mr. Speaker, the capital markets remain a critical catalyst in mobilization of savings and investments towards productive enterprise in Kenya. In order to support Micro, Small and Medium Enterprises (MSMEs) access financing via the capital markets, the Capital Markets Authority has developed the Capital

Markets (Public Offers and Disclosures) Regulations, 2023 that will enable MSMEs raise debt and equity capital via the Nairobi Securities Exchange. The Authority is also implementing the Capital Markets (Investment Based Crowdfunding) Regulations, 2022 to support Kenyan Start-ups to raise finance from both global and local investors.

67. Mr. Speaker, as part of these initiatives to support the real estate sector, the LAPTRUST IMARA Real Estate Investment Trusts (REIT) has been listed in the Nairobi Securities Exchange following the approval by the Capital Markets Authority. This will provide investors with a unique opportunity to invest in a diversified portfolio of income-generating real estate assets.

Pension Reforms

68. Mr. Speaker, pension coverage in Kenya currently stands at 22 percent of the working population leaving majority of Kenyans without a pension cover. This underscores the need to extend pension coverage to the informal sector, which constitutes the majority of our workforce. To this end, **Mr. Speaker,** the Government is working on a National Pensions Policy to address key concerns on coverage, portability of schemes, reciprocal arrangements to address concerns of Kenyans in the diaspora and mitigate the fragmentation in the sector. In furtherance of the ideals under the Bottom-Up Economic Transformation Agenda, the National Treasury has established an innovative scheme – the Kenya National Entrepreneurs Saving Trust (KNEST) with a focus on the population in the informal segment of our economy. In order to promote uptake of the scheme, we will deliberately form strategic partnerships to facilitate voluntary pension contributions for individuals in this sector and continue to explore options to provide diverse pension solutions for self-employed individuals.

69. Mr. Speaker, to effectively administer the public service pensions, the National Treasury will invest in modern technology and digital solutions to streamline pension processes and improve service delivery. In this regard, Public Service Schemes will develop user-friendly online platforms that allow pensioners to access their pension statements, make inquiries, and update their personal information conveniently. The Government continues to implement the Public Service Super annuation Scheme with the end goal of easing the burden of pension payment by Government.

Insurance Reforms

70. Mr. Speaker, in the past two years, the insurance sector has grown by Ksh 36 billion from a premium of Ksh 273 billion. The industry has also attracted investments from key multinational players. In order to further enhance growth of the sector; the Insurance Regulatory Authority has rolled out a Micro-insurance Framework that will contribute to increased penetration coverage for individuals with low income. The Authority will strengthen private insurance's role in the Universal Health Coverage, promote crop and livestock insurance and support insurance for MSMEs.

71. Mr. Speaker, there are no deterrent measures under the Insurance Act to motivate accountability and observance of directors' duties as well as senior managers' professional responsibilities. To address this short coming, I have submitted to this House Insurance (Amendment) Bill, 2023, to provide for offences relating to the management of an insurer. In addition, the Bill contains other amendments aimed at enhancing the efficiency of the Insurance Regulatory Authority in regulating the insurance industry.

SACCO Societies Reforms

72. Mr. Speaker, the Sacco industry is characterized by many small and medium size SACCOs that find it difficult to effectively compete in the deposit taking and credit market. To address this challenge, the Sacco Societies Regulatory Authority (SASRA) is working on amendments to the Sacco Societies Act, 2008, that will provide for licensing and supervision of Shared Sacco Services platform. This initiative will improve efficiency and competitiveness of SACCOs through establishment of cost-sharing digital platform to enable small SACCOs achieve economies of scale while at the same time mainstreaming regulatory compliance in a cost-effective manner.

73. Mr. Speaker, 12 years ago, the Government introduced prudential regulations to secure the financial stability of SACCOs and boost savings for members. However, there has been lack of a resolution mechanism for financially distressed SACCOs. In order to address this challenge, the SACCO Societies Regulatory Authority has proposed amendments of the SACCO Societies Act, 2008 to provide for a framework for appointment of trustees to the Deposit Guarantee Fund (DGF) for SACCOs in Kenya.

Unclaimed Financial Assets

74. Mr. Speaker, the Unclaimed Financial Assets Authority Act does not provide for claimants to designate a beneficiary of their assets or to a cause of their choice and therefore any claim must be paid to the claimant. To address this, I have proposed to amend the Unclaimed Financial Assets Authority Act so as to empower claimants to designate beneficiaries of their unclaimed assets or to a cause of their choice.

Ease Cost of Doing Business and Consumer Protection

75. Mr. Speaker, in order to ease the cost of doing business and minimise compliance costs for the Micro, Small and Medium Enterprise (MSME), the Competition Authority of Kenya will:

i) Exempt MSEs sector from merger notifications thus, enabling start-ups, digital businesses, among others. Further, the Authority will monitor and conduct surveillance audits specifically in the manufacturing and agro-processing sectors, so as to protect MSMEs from incidences of abuse of buyer power;

ii) Implement codes of practice to ensure that MSMEs in the retail and insurance sectors are protected from powerful buyers;

iii) Screen and investigate infractions such as suspected cartels or abuse of dominance conducts such as excessive pricing, price discrimination, predatory pricing and margin squeeze to ensure a level playing field; and

iv) Actualize the initiative earlier started with the National Assembly to address the issue of price fixing by professional services to make the fees competitive and improve quality of services.

76. On consumer protection, the Authority will monitor and investigate emerging consumer issues on the utility sector, pharmaceuticals, digital financial services, e-commerce, insurance, aviation and safety of basic commodities. In addition, the Authority will seek redress through replacement or refunds to consumers affected by dark commercial patterns, scams and fraud under the digital economy.

IV. FISCAL FRAMEWORK

77. Mr. Speaker, the Government fiscal policy for the **FY 2023/24** and the medium-term budget aims at undertaking a growth friendly fiscal consolidation plan to ensure debt sustainability. This will be achieved through improved revenue collection, primarily through broadening of the tax base, and containing overall expenditure to the target set, while prioritizing high impact social and investment expenditure.

78. Mr. Speaker, the fiscal policy targets to grow total revenues to **17.9 percent of GDP** in the FY 2023/24 and **above 18.3 percent of GDP** over the medium term. As part of the economic turnaround plan, the Government will scale up revenue collection efforts by the Kenya Revenue Authority (KRA) to **Ksh 4.0 trillion** over the medium term. In order to achieve this, the Government is undertaking a combination of both tax administrative measures and tax policy reforms.

79. Mr. Speaker, regarding tax policy, the Government will implement the National Tax Policy and finalize the Medium-Term Revenue Strategy (MTRS) for the period FY 2023/24 - 2026/27. The National Tax Policy, which is before this House, will enhance administrative efficiency of the tax system, provide consistency and certainty in tax legislations and management of tax expenditure. The Medium-Term Revenue Strategy comprises legal, administrative and policy measures to reform the tax system which is expected to boost tax revenues over the medium term.

80. On tax administration, the Kenya Revenue Authority (KRA) is implementing reforms to move towards seamless taxation by ensuring that its systems, taxpayers and businesses are integrated to allow for the automatic movement of data through machine-to-machine based processes, and where appropriate shift to real-time processing. This will enable KRA to monitor business transactions in real-time therefore sealing revenue leakages through tax avoidance and evasion.

81. On expenditure reforms, **Mr. Speaker**, the Government will sustain efforts to improve efficiency in public spending and ensure value for money by: eliminating non priority expenditures; retiring expensive and unsustainable consumption subsidies; reducing tax exemptions; scaling up the use of Public Private Partnerships financing for commercially viable projects; and rolling out an end-to-end e-procurement system.

82. Mr. Speaker, to address the challenges of perennial low absorption of development partners funds that have denied Kenyans the full benefit of this financing, the Government will put in place policies and administrative measures to minimize payment of unnecessary fees and charges.

Revenue Projections

83. Mr. Speaker, supported by tax policy reforms and administration measures highlighted above, we project total revenue collection, including appropriation-in-aid and grants for the FY 2023/24 budget to be **Ksh 2.96 trillion**, equivalent to **18.2 percent** of GDP. Of this, ordinary revenue is projected at **Ksh 2.57 trillion** equivalent to **15.8 percent** of **GDP**, Ministerial Appropriation-In-Aid is projected at **Ksh 348.7 billion** and grants are projected at **Ksh 42.2 billion**.

Expenditure Projections

84. On the other hand, **Mr. Speaker,** total expenditure in the FY 2023/24 budget is projected at **Ksh 3.7 trillion** equivalent to **22.6 percent** of **GDP**. Of this, recurrent expenditures will amount to **Ksh 2.53 trillion** equivalent to **15.6 percent** of **GDP.** Development expenditures, including allocations to domestic and foreign financed projects, Contingency Fund, Equalization Fund and conditional capital transfers to County Governments is **Ksh 743.5 billion** equivalent to **4.7 percent** of **GDP**. Equitable share to County Governments is projected at **Ksh 385.4 billion.**

Fiscal Balance

85. Mr. Speaker, given the projected revenue and grants against the projected expenditure, the fiscal deficit is projected to decline to **Ksh 718.0 billion** equivalent to **4.4 percent** of GDP in the FY 2023/24 from the projected **Ksh 840.9 billion** equivalent to **5.8 percent** of GDP in the FY 2022/23. The fiscal deficit will be financed through net external financing of **Ksh 131.5 billion** equivalent to **0.8 percent** of GDP and net domestic financing of **Ksh 586.5 billion** equivalent to **3.6 percent** of GDP.

86. Mr. Speaker, our medium-term fiscal consolidation policy targets to progressively reduce the level of fiscal deficit from the expected **5.8 percent** of GDP in the **FY 2022/23** to **3.6 percent** of GDP in the **FY 2026/27**.

Public Debt Management

87. Mr. Speaker, Kenya`s public debt remains sustainable but with elevated risks of debt distress due to persistent global shocks that adversely affected liquidity ratios. The depreciation of the Kenya Shilling against major currencies and rise in interest rates have elevated cost of debt service. Further, the depreciation of currency has increased the size of public debt stock as half of the public debt is denominated in foreign currency.

88. Although the debt burden has risen, Kenya has not accumulated debt service arrears and the Government is committed to honour all public debt obligations as they fall due. Over the medium term, the revenue driven fiscal consolidation policy stance is expected to improve further the country's debt sustainability ratios and debt carrying capacity.

89. Mr. Speaker, the current limit of public debt as approved in 2020 by this House, is Ksh 10 trillion. Guided by best practice, the Government intends to change the public debt ceiling from a numerical number to a Debt Anchor in form of a ratio of public debt to GDP in present value terms. The proposed change to the public debt ceiling provides an appropriate guide for optimal level of public debt based on the country's ability to pay. This is the debt carrying capacity that can be objectively assessed as well as provide directions on information on debt accumulation or reduction from time to time.

90. In order to anchor the debt ceiling in a statute, the National Treasury developed Public Finance Management (Amendment) Bill, 2023, which has been submitted to this august House for enactment. The Bill was subjected to public participation in line with the requirements of the Constitution of Kenya on transparency and accountability in public policy formulation. I urge the Honourable Members to prioritize and consider this Bill favourably.

91. Mr. Speaker, the external debt service is projected to increase to Ksh 475.6 billion in the FY 2023/24 from Ksh 242.1 billion in the FY 2022/23, mainly reflecting redemption of the US dollars 2.0 billion Eurobond (approximately Ksh 241.8 billion). In preparation for the redemption of this maturing bond, The National Treasury and Economic Planning issued an expression of interest to bring onboard a Lead Manager to advise the Government on liability management options towards the resolution of the Eurobond 2024.

92. Mr. Speaker, I wish to assure Kenyans and investors that our fiscal position remains strong and the Government remains committed to meet all maturing obligations, as and when they fall due, including the maturing Eurobond.

Public Private Partnerships Framework

93. Mr. Speaker, due to the limited fiscal space, the Government has strengthened the Public Private Partnerships (PPP) framework to leverage on private sector expertise to deliver projects that have strong economic, commercial and environmental benefits;

aligned to our national priorities with sustainability and climate change as key considerations.

94. To ensure the sustainability of PPP projects, the Project Facilitation Fund (PFF) has been operationalised. The Fund will support project preparation, provide viability gap funding to projects as well as a source of liquidity to meet fiscal commitments and contingent liabilities that may arise from PPP projects.

95. Mr. Speaker, with the Fund in place and a robust legal and regulatory regime, the private sector has the necessary confidence and security to invest in PPP projects. Indeed, in the last financial year, the National Treasury successfully mobilized Ksh 15 billion by achieving financial closure of two clusters of urban roads projects under the Roads Annuity Programme. The projects are currently in the construction phase. Additional projects that have closed, include two renewable energy projects with a combined installed capacity of 70 MW.

96. Further, to contribute towards the Government's agenda on bulk water supply and food security, several high impact projects have been appraised and approved to proceed to the project development phase under the PPP model. These projects will provide production of an additional 51,000 hectares to further strengthen the food security agenda, which is a high priority for the Kenya Kwanza administration. The bulk water will increase potable water supply by an estimated 200,000 cubic metres per day. The National Treasury and the Ministry of Water and Sanitation have developed a Water Purchase Agreement which will pave way for the private sector to develop projects in a sustainable way.

97. The National Treasury is in the process of developing a 10-year infrastructure plan that will be cross-cutting across various Ministries, to support delivery and prioritisation of projects.

98. **Mr. Speaker,** to build on this, the National Treasury plans to mobilise an estimated Ksh 100 billion in private sector capital through various priority sectors. The focus will be on priority investments and underlying key projects and programmes in each sector that deliver nationally significant infrastructure, drive growth and unlock private investment with the greatest potential benefit to the Kenyan people. These sectors will include airports, seaports, blue economy, water, agriculture, industrialization (SEZ), energy including transmission lines and digitalization among other key sectors in the economy.

99. Inclusion of local goods, works and services will be emphasized for each project, to contribute to overall economic growth by encouraging local investments in PPP projects. To also strengthen local investments, the National Treasury will be holding a series of round tables to build local capacity in the financial sector so as to increase local financing of PPP projects.

100. The National Treasury has embraced climate resilience and adaptation framework for all Public Private Partnerships projects. This is to ensure that infrastructure projects are aligned to the realities of climate change.

101. To achieve on the PPP mandate of scaling up private sector capital, the National Treasury will leverage on the continued support from Development Partners as well as other key institutions both in the public and private sector including capital markets, pension funds and commercial banks in scaling up private sector capital under the PPP framework.

Public Investment Management

102. Mr. Speaker, in 2022, this House approved the Public Investment Management (PIM) Regulations, 2022. The objective of the Regulations is to provide the National and County Governments and their entities with a standardized approach in project cycle management to enhance transparency, accountability, prudent use of public resources and public participation.

103. The Government will continue implementing the Regulations to enhance efficiency in identification and implementation of priority social and economic investment projects. This will further curtail runaway project costs, eliminate duplications and improve working synergy among implementation actors for timely delivery of development projects.

104. In the FY 2023/24, the National Treasury will develop and roll-out the Public Investment Management Information System (PIMIS) that automates the Public Investment Management process as outlined in the Regulations to ensure that only projects with the highest social - economic returns are undertaken and prioritized for completion.

V. RESOURCE ALLOCATIONS UNDER THE BOTTOM-UP ECONOMIC TRANSFORMATION AGENDA

105. Mr. Speaker, let me now turn to the highlights of budget allocations in the coming financial year. In recognition of the need to restrain borrowing and utilize the revenues and grants projected in the Fiscal Framework, the proposed **total programmed expenditures spending** for the **FY 2023/24** has been capped at **Ksh 3.68 trillion.**

Bottom – Up Economic Transformation Agenda

106. Mr. Speaker, as I mentioned earlier, the Government will be implementing strategic priorities under the Bottom-Up Economic Transformation Agenda that is geared towards economic turnaround and inclusive growth. The Agenda focuses on five sectors envisaged to have the largest impact and linkages to the economy as well as on household welfare. These include:

i) Agricultural Transformation;

ii) Micro, Small and Medium Enterprise Economy;

iii) Housing and Settlement;

iv) Healthcare; and

v) Digital Superhighway and Creative Industry.

107. Mr. Speaker, to ensure effectiveness and efficiency in the planned investments in the five sectors, Kenya Kwanza Administration has adopted the value chain approach to budgeting. In this regard, the Government has identified nine key value chain areas for implementation, namely: Leather, Cotton, Dairy, Edible Oils, Tea, Rice, Blue economy, Natural Resources (including Minerals and Forestry), and Building Materials.

108. This will ensure that there is no break in the cycle of resource allocations for a value chain and that adequate resources are allocated to the entities along the value chain. Of importance **Mr. Speaker,** this will eliminate duplication of both roles and budgeting for resources as well as gaps and thus ensure efficiency.

Agricultural Transformation and Inclusive Growth

109. Mr. Speaker, the Government will implement interventions to ensure food security in the country through climate change mitigation and adaptation, thereby reducing the cost of living. As part of the country's long-term food security plan, the Government, working with the private sector, will continue to subsidize fertilizer in order to make it available and improve productivity in counties.

110. This intervention is also aimed at creating jobs as agriculture has the highest employment multiplier effect owing to its strong forward and backward linkages to other sectors of the economy.

111. Mr. Speaker, in order to support our aspirations of attaining food and nutrition security, I propose to the National Assembly to effect budget allocations of **Ksh 49.9 billion** for relevant programs in this budget. Out of this, **Ksh 5.0 billion** is proposed for the Fertilizer Subsidy Programme; **Ksh 8.6 billion** for the National Agricultural Value Chain Development Project; **Ksh 2.7 billion** for the National Agricultural and Rural Inclusivity Project; **Ksh 2.1 billion** for the Kenya Cereal Enhancement Programme; **Ksh 2.8 billion** for Emergency Locust Response; **Ksh 1.4 billion** for Small Scale Irrigation and Value Addition Programme; **Ksh 1.3 billion** for Food Production and Nutrition Security Programme;

Ksh 500 million for Agricultural Sector Development Support Programme and **Ksh 596 million** for the Food Security and Crop Diversification Project.

112. **Mr. Speaker,** to improve livestock production, I propose to the National Assembly to effect budget allocations of **Ksh 3.7 billion** to De-Risking, Inclusion and Value Enhancement of Pastoral Economies Programme; **Ksh 2.1 billion** for Livestock Value Chain Support Project; **Ksh 1.5 billion** for Kenya Livestock Commercialization Programme and **Ksh 166 million** for the Embryo Transfer Project.

113. I also propose to the National Assembly to effect budget allocations of **Ksh 350 million** for the Development of the Leather Industrial Park at Kenanie; **Ksh 220 million** for Livestock Production; and **Ksh 132 million** for Leather Value Chain. To enhance animal diseases control, I propose to the National Assembly to effect budget allocations of **Ksh 130 million** for Sustainable Tsetse and Trypanosomiasis Free Areas in Kenya and **Ksh 135 million** for the Establishment of Liquid Nitrogen Plant.

114. Mr. Speaker, the realization of the food and nutrition security also relies heavily on the sustainable utilization of the blue economy resources. To promote this, I propose to the National Assembly to effect budget allocations of **Ksh 2.6 billion** for the Aquaculture Business Development Project; **Ksh 3.5 billion** for Kenya Marine Fisheries & Socio-Economic Development Project; **Ksh 1.2 billion** for Marine Fish Stock Assessment, **Ksh 580 million** for Capacity Building in Deep Sea Fishing; **Ksh 142 million** for rehabilitation of Fish Landing Sites in Lake Victoria; **Ksh 141.5 million** for Aquaculture Technology Development and Innovation Transfers; **Ksh 500.7 million** for Liwatoni Ultra-Modern Fish Hub; and **Ksh 88 million** for the Development of Blue Economy Initiatives.

115. Mr. Speaker, in order to increase agricultural productivity and enhance resilience to climate change risks in targeted smallholder farming and pastoral communities in Kenya, I propose to the National Assembly to effect budget allocations of Ksh **1.5 billion** for the Climate Smart Agricultural Productivity Project; **Ksh 625 million** to Enhance Drought Resilience and Sustainable Livelihood Programme; **Ksh 318 million** towards

Ending Drought Emergencies in Kenya Project. In addition, I propose to the National Assembly to effect budget allocations of **Ksh 300 million** for Crop Insurance Scheme to reduce the vulnerabilities of Kenyan farmers to diseases and natural disasters.

116. Mr. Speaker, to ensure legitimacy of land ownership, I propose to the National Assembly to effect budget allocation of **Ksh 1.2 billion** for Processing and Registration of Title deeds; **Ksh 2.6 billion** for Settlement of the Landless; **Ksh 755 million** for Digitization of Land Registries; and **Ksh 138.3 million** for Construction of Land Registries.

Transforming the Micro, Small and Medium Enterprise (MSME) Economy

117. Mr. Speaker, to tackle the key bottleneck in MSMEs on limited access to credit, the Government rolled out in November 2022, the Financial Inclusion Fund, popularly known as the Hustlers Fund with an initial target budget allocation of **Ksh 20 billion** in the current financial year, as an intervention to correct market failure problems at the bottom of the pyramid. This program aims to lift those at the bottom of the pyramid through structured products in personal finance that includes savings, credit, insurance and investment. This together with other affirmative action Funds like the Youth Enterprise fund, Women Enterprise Fund and UWEZO Fund and MSMEs Credit Guarantee Scheme will increase access to affordable credit to targeted persons and sectors and thereby increase their investments and allow for private sector led growth.

118. To further support MSMEs, Women and the Youth of this country, I propose to the National Assembly to effect an additional budget allocation of **Ksh 10 billion** towards the Hustlers Fund; **Ksh 300 million** to SMEs in the Manufacturing Sector, **KSh 182.8 million** for Women Enterprise Fund, **Ksh 175 million** for the Youth Enterprise Development Fund; **and Ksh 192 million** for UWEZO Fund. These allocations will inevitably guarantee access to affordable credit to the Hustlers, households and MSMEs, and therefore accord them opportunities to make their rightful contribution to nation building.

Housing and Settlement

119. Mr. Speaker, the cost of housing is a heavy burden to majority of Kenyans and is the main factor driving the proliferation of slums in the country. The Government's commitment is to turn the housing challenge into an economic opportunity to create quality jobs for over 100,000 young people graduating from TVETs every year directly in the construction sector and indirectly through the production of building products. This will be achieved through among other measures facilitating delivery of 250,000 houses per annum and enabling affordable housing mortgages.

120. To ensure success of this initiative, I propose to the National Assembly to effect budget allocations of **Ksh 35.2 billion** for the Housing Programme. This includes: **Ksh 7.3 billion** under the Kenya Urban Programme (KenUP); **Ksh 5.0 billion** to Kenya Mortgage Refinance Company for enhancement of the company's capital as well as for on lending to primary mortgage lenders; **Ksh 3.2 billion** for Construction of Affordable Housing Units as well as **Ksh 3.3 billion** for Construction of Social Housing Units.

121. Other key proposed allocations to the Housing, Urban Development and Public Works sector includes **Ksh 5.5 billion** for the Kenya Informal Settlement Improvement Project-Phase II; **Ksh 5.2 billion** for construction of markets; **Ksh 932 million** for maintenance of Government Pool Houses; **Ksh 1.1 billion** for the construction of Housing Units for the National Police and Kenya Prison; **Ksh 637 million** for the Kenya Municipal Programme; **Ksh 150 million** for construction of foot bridges and **Ksh 300 million** for the Development of Appropriate Building Technology.

Enhancing Quality and Affordable Healthcare

122. Mr. Speaker, the Kenya Kwanza Administration is committed and determined to realise the constitutional right to health in the shortest time possible by delivering a Universal Health Coverage (UHC) system. This entails promoting access to quality and affordable healthcare though the Universal Health Coverage programme.

123. Towards this end, **Mr. Speaker,** I propose to the National Assembly to effect budget allocation of **Ksh 141.2 billion** to the health sector to support various programmes aimed at supporting Universal Health Coverage. **Mr. Speaker,** specific proposed allocations for various activities and programmes include: **Ksh**

18.4 billion for Universal Health Coverage; **Ksh 3.7 billion** for the Kenya COVID-19 Emergency Response Project; **Ksh 4.1 billion** for Free Maternity Health Care; **Ksh 5.9 billion** for the Managed Equipment Services as well as **Ksh 1.7 billion** to provide medical cover for the elderly and severely disabled persons in our society. **Mr. Speaker,** to lower cases of HIV/AIDS, Malaria and Tuberculosis in the country, **Ksh 24.8 billion** is proposed under the Global Fund; and Ksh **4.6 billion** to enhance Vaccines and Immunizations Programme.

124. Mr. Speaker, to promote early diagnosis and management of cancer, and reduce the burden of treatment among Kenyans, I propose to the National Assembly to effect a budget allocation of **Ksh 1.9 billion** for Construction of a Cancer Centre at Kisii Level 5 Hospital; **Ksh 500 million** for strengthening of Cancer Centre Management at Kenyatta National Hospital; and an additional **Ksh 155.0 million** is proposed for the establishment of Regional Cancer Centres.

125. Further, to improve health service delivery, I propose to the National Assembly to effect budget allocations of **Ksh 21.6 billion**

for Kenyatta National Hospital; **Ksh 12.8 billion** for the Moi Teaching and Referral Hospital; **Ksh 8.8 billion** for the Kenya Medical Training Colleges; **Ksh 3.3 billion** for the Kenya Medical Research Institute; **Ksh 2.4 billion** for the construction of Kenya National Hospital Burns and Paediatrics Centre; **Ksh 1.4 billion** for the Equipping of Laboratories and Classroom at KMTC; **Ksh 1.1 billion** for the renovation of Kenyatta National Hospital; **Ksh 1.0 billion** for procurement of family planning & reproductive health commodities; **Ksh 1.0 billion** for procurement of equipment for the National Blood Transfusion Services; and **Ksh 352 million** for the Digital Health Platform.

Digital Superhighway and Creative Economy

126. Mr. Speaker, the digital superhighway will play a critical role in enabling the Government achieve the objectives of the Bottom-Up Economic Transformation Agenda as well as in enhancing revenue collection via automation of VAT systems. Digitization and automation will increase productivity and competitiveness through providing quick access to the market and reducing information assymetry as well as improving risk management. Promotion of music, theatre, graphic design, digital animation, fashion and craft, among others will increase employment for the youth.

127. **Mr. Speaker,** the implementation of these interventions is expected to stimulate economic recovery while at the same time securing sustainable and inclusive growth amidst emerging challenges. But more importantly improve the quality of growth from public sector investment led growth to a dynamic private sector led growth.

128. To achieve these aspirations, I propose to the National Assembly to effect budget allocations of **Ksh 15.1 billion** to fund initiatives in the Information, Communication and Technology sector. Specifically, this proposed allocation includes **Ksh 600 million** for Government Shared Services. To fast track the development of the Konza Technopolis City, I propose to the National Assembly to effect budget allocations of **Ksh 4.8 billion** for the Horizontal Infrastructure Phase I; **Ksh 1.2 billion** for Konza Data Centre and Smart City Facilities; and **Ksh 475 million** for construction of Konza Complex Phase 1B.

129. Mr. Speaker, other proposed allocations include: **Ksh 5.7 billion** for the Construction of Kenya Advanced Institute of Science and Technology (KAIST) at Konza Technopolis; **Ksh 1.3 billion** for maintenance and rehabilitation of the National Optic Fibre Backbone Phase II Expansion Cable; and **Ksh 583 million** for maintenance and rehabilitation of Last Mile County Connectivity Network.

130. Mr. Speaker, having highlighted expenditures under the five priority areas of the Bottom–Up Economic Transformation Agenda, I now turn to other proposed areas of expenditures in this budget that will support our path towards sustainable and resilient economic growth trajectory.

Investing in Critical Infrastructure

131. Mr. Speaker, the Government will continue to expand critical infrastructure in roads, railways, sea and airports to create an enabling environment for economic recovery and employment creation. Towards this end, I propose to the National Assembly to effect budget allocations of **Ksh 244.9**

billion, to support construction of roads and bridges as well as their rehabilitation and maintenance.

132. **Mr. Speaker,** to expand railway transport, I propose to the National Assembly to effect budget allocations of **Ksh 37.4 billion** for the Standard Gauge Railway; **Ksh 579 million** for Rehabilitation of Locomotives; and **Ksh 889 million** for the Development of Nairobi Railway City. To facilitate movement of goods and people, I propose to the National Assembly to allocate **Ksh 1.1 billion** for Nairobi Bus Rapid Transport Project; and **Ksh 300 million** for Acquisition of Ferries for Lake Victoria.

133. I have also proposed to the National Assembly to effect budget allocations of Ksh **727 million** for construction and expansion of airports and airstrips; **Ksh 500 million** for the Smart Driving Licence; and **Ksh 2.6 miilion** for Infrastructure Development in Dongo Kundu Special Economic Zone.

134. **Mr. Speaker,** to support production of reliable and affordable energy, I propose to the National Assembly to effect budget allocations of **Ksh 62.3 billion**. Out of this, **Ksh 33.8 billion** will cater for the National Grid System; **Ksh 12.1 billion** for Rural

Electrification; **Ksh 11.4 billion** for Development of Geothermal Energy; and **Ksh 3.2 billion** for Alternative Energy Technologies.

Improving Education Outcomes

135. Mr. Speaker, the ultimate means of ensuring an equitable society is through investment in education, as part of human capital development. For this reason, the Government will continue to address inequities in our education system so as to level the playing field for all children irrespective of their background.

136. Mr. Speaker, to improve education outcomes in the country, I propose to the National Assembly to effect budget allocations of Ksh **628.6 billion** to the Education Sector. Out of the proposed allocation, **Ksh 12.5 billion** will cater for Free Primary Education; **Ksh 65.4 billion** for Free Day Secondary Education including insurance under NHIF for secondary school students; **Ksh 25.5 billion** for Junior Secondary School Capitation; **Ksh 5.0 billion** to support examinations fee waiver; **Ksh 4.8 billion** for Recruitment of 20,000 Intern Teachers; **Ksh 1.0 billion** for promotion of teachers; **Ksh 4.9 billion** for the School Feeding Programme; **Ksh 940 million** for the provision of sanitary towels.

137. In addition, **Mr. Speaker,** I propose to the National Assembly to effect budget allocations of **Ksh 1.3 billion** for training of teachers on Competency Based Curriculum and **Ksh 400.0 million** for the Digital Literacy Programme and ICT Integration in our Secondary Schools. To support infrastructure development and ensure safe learning in our schools, I propose to the National Assembly to effect budget allocations of **Ksh 6.0 billion** for Primary and Secondary schools' infrastructure including classrooms for Junior Secondary Schools and **Ksh 1.9 billion** for construction and equipping of Technical Training Institutes and Vocational Training Centres. Further, **Ksh 1.8 billion** is proposed to increase access and improve the quality of Technical and Vocational Education and Training programs under the East Africa Skills Transformation and Regional Integration Project.

138. Mr. Speaker, I propose to the National Assembly to effect budget allocations to the education sector to include: **Ksh 316.7 billion** to Teachers Service Commission; **Ksh 97.5 billion** for

University Education; **Ksh 30.3 billion** to the Higher Education Loans Board; **Ksh 2.7 billion** for Kenya Secondary Education Quality Improvement Project and **Ksh 5.2 billion** Capitation for TVET students. **Mr. Speaker, Ksh 980 million** is proposed for Technical, Vocational Education Training and Entrepreneurship; **Ksh 1.5 billion** for promotion of Youth Employment and Vocational Training; and Ksh **749.0 million** for the Research, Science, Technology and Innovation.

Supporting Manufacturing for Job Creation

139. Mr. Speaker, in order to improve productivity in the manufacturing sector, as earlier indicated, the Government has adopted a value chain approach through the Bottom-Up Economic Transformation Agenda. This will address the bottlenecks that impede the growth of the manufacturing sector in order to create jobs and enhance the country's competitiveness.

140. To further promote local industries, I propose to the National Assembly to effect budget allocations of **Ksh 26.9 billion** under various implementing Ministries, Departments and

Agencies. Out of this, **Ksh 4.7 billion** will support Establishment of County Integrated Agro-Industrial Parks; **Ksh 3.0 billion** for construction of six Export Processing Zones flagship projects; **Ksh 3.1 billion** for Supporting Access to Finance & Enterprise Recovery (SAFER) Project; **Ksh 500 million** for the Development of SEZ Textile Park Naivasha and **Ksh 1.8 billion** for the construction of an Effluent Treatment Plant at Kenanie.

141. In addition, **Mr. Speaker,** in order to maximize the benefits from our cash crops, the Government will make further investments towards their revival and enhancement of output. In this respect, I propose to the National Assembly to effect budget allocations for the revitalization of the cash crops; **Ksh 120 million** for Cotton; **Ksh 62 million** for Coconut; **Ksh 35 million** for Cashewnut; and **Ksh 150 million** for Pyrethrum.

142. Mr. Speaker, I also propose to the National Assembly to effect budget allocations of **Ksh 100 million** for modernization of cooperative cotton ginneries; **Ksh 134 million** for National Edible Oil Crops Promotion Project; and **Ksh 270 million** for Sugar Reforms Support Project.

143. Mr. Speaker, to equip our youth with essential training and internship opportunities; I propose to the National Assembly to effect budget allocation of **Ksh 1.5 billion** for the Kenya Industry and Entrepreneurship Project; **Ksh 300 million** for the Kenya Youth Employment and Opportunities Project; **Ksh 332 million** for the Construction of Industrial Research Laboratories and **Ksh 182.9 million** for Constituency Industrial Development Centers.

Improving Security

144. Mr. Speaker, security is critical for creating a safe environment for investment and protection of our citizens and their property. For this reason, I propose to the National Assembly to effect budget allocation of **Ksh 338.2 billion** to support operations of the Kenya Defence Forces, National Police Service, the National Intelligence Service and Prison Services.

145. Mr. Speaker, the proposed allocations include: **Ksh 144.9 billion** for Kenya Defence Forces; **Ksh 98.6 billion** for National Police Service; **Ksh 44.3 billion** for the National Intelligence Service; and **Ksh 31.3 billion** for Prisons Services. I have also proposed **Ksh 8.8 billion** for leasing of police motor vehicles. **Mr.**

Speaker, to better equip the National Police Service, I have proposed an initial allocation of **Ksh 500 million** for the Police Modernization Programme.

146. Mr. Speaker, I will later be requesting this august House for enhanced funding approval once the ongoing discussion on a Comprehensive Police Modernization Programme is concluded. In addition, **Mr. Speaker,** to step up war on crime and enhance support to administration of justice, I propose to the National Assembly to effect budget allocation of **Ksh 856 million** to equip the National Forensic Laboratory.

147. Mr. Speaker, improvement of the welfare of our Disciplined Forces is at the centre of the Kenya Kwanza Administration. To improve housing accommodation for our Defence Forces, we shall fast track the delivery of staff houses through the Public Private Partnership Framework. We have already allowed Kenya Defence Forces to retain **Ksh 534 million** currently collected from rental income and apply it towards repayment of the houses once complete. In addition, **Mr. Speaker,** as you are aware His Excellency, The President appointed a Taskforce to review the terms and conditions of the Police, Prisons and National Youth Service, we shall be presenting a funding proposal to this House once the discussions are concluded and adopted within Government.

148. **Mr. Speaker,** other proposed allocations include **Ksh 2.9 billion** for Group Personal Insurance for Police and Prisons Services and **Ksh 5.8 billion** for Medical Insurance for Police and Prisons Services.

Protecting the Vulnerable Groups

149. **Mr. Speaker,** at the heart of the Government's development agenda, is the inclusion in society and employment opportunities for vulnerable members. In this regard, I propose to the National Assembly to effect budget allocations of **Ksh 38.2 billion** for social protection and affirmative actions in this budget. Out of this proposed allocation, **Ksh 18.0 billion** will cater for cash transfers to elderly persons, **Ksh 7.9 billion** for Orphans and Vulnerable Children and **Ksh 1.2 billion** for persons living with severe disabilities. **Mr. Speaker,** to ensure the elderly and other vulnerable groups under the Cash Transfer Programme do not

take long waiting for their cash, payment of the cash transfers shall be prioritized and paid alongside the monthly Government payroll as and when it is due.

150. Mr. Speaker, the proposed allocations to the vulnerable members of our society also includes **Ksh 5.6 billion** for the Kenya Hunger Safety Net Programme and **Ksh 3.3 billion** for the Kenya Social and Economic Inclusion Project. In addition, **Ksh 900 million** will go to the Child Welfare Society of Kenya; **Ksh 400 million** for the Presidential Bursary for the orphans and **Ksh 459 million** for National Development Fund for Persons living with Disabilities. These allocations shall remain "ring-fenced" from any budget rationalization, and will be fully funded in order to achieve the desires results.

Equity, Poverty Reduction, Women and Youth Empowerment

151. Mr. Speaker, the most pressing challenge in our country at the moment is lack of job opportunities for the youth. This has been exacerbated by the hard economic times following several negative shocks explained earlier in this Statement. In order to empower the youth and support businesses owned by youth and women, I propose to the National Assembly to effect budget allocations of **Ksh 81.9 billion** for these initiatives.

152. The proposed allocations include: **Ksh 13.1 billion** for the National Youth Service; **Ksh 602 million** for the Kenya Youth Empowerment and Opportunities Project; **Ksh 300 million** for establishment of Youth Empowerment Centers; and **Ksh 229.7 million** to implement the Vijana Vuka na Afya (VIVA) Youth Programme.

153. To support the film industry, I propose to the National Assembly to effect budget allocations of **Ksh 100 million** to strengthen the film industry in Kenya; **Ksh 49 million** for film location mapping and **Ksh 100 million** for the Kenya Film School.

154. Mr. Speaker, women participation in the key sectors of our economy is critical. For this reason, the Government will sustain increased incomes for women, through employment creation and supporting women led enterprises. We will further strengthen women participation in decision-making in our governance and political institutions as well as reduce sexual and gender-based violence provision and provision of affordable Health services.

To further empower our women, I propose to the National Assembly to effect budget allocations of **Ksh 245 million** for Strengthening Prevention and Response to Gender Based Violence in Kenya Project; and **Ksh 3.0 billion** for the National Government Affirmative Action Fund.

155. Mr. Speaker, to promote regional equity, reduce poverty and enhance social development, I propose to the National Assembly to effect budget allocations of **Ksh 53.5 billion** for the National Government Constituency Development Fund as well as **Ksh 10.9 billion** for the Equalization Fund to finance programmes in previously marginalized areas.

Stimulating Tourism growth, Sports, Culture, Recreation and Arts

156. Mr. Speaker, the Government has prioritized expanding the space for creativity, including freedom of expression and protection of intellectual property rights. We will also strengthen mainstreaming of arts and culture infrastructure and support cultural production and the creative economy. We are also cognizant of the brand value of Kenyans participating and excelling in international sports arena as of ultimate importance.

157. To support Tourism, Sports, Culture and recreation, I propose to the National Assembly to effect budget allocations of **Ksh 12.5 billion**. This includes an allocation of **Ksh 6.4 billion** under the Sports, Arts and Social Development Fund; **Ksh 4.1 billion** for the Tourism Fund and **Ksh 2.0 billion** for Tourism Promotion Fund.

Environmental Protection, Water and Natural Resources

158. Mr. Speaker, environmental conservation and response to the impacts of climate change are at the centre of the Government's socio-economic transformation agenda. To expand access to clean and adequate water for domestic and agricultural use, I propose to the National Assembly to effect budget allocations of **Ksh 43.3 billion** for Water and Sewerage Infrastructure Development; **Ksh 12.4 billion** for Water Resources Management; and **Ksh 1.6 billion** for Water Storage and Flood Control. In addition, I propose **Ksh 19.7 billion** for Irrigation and Land Reclamation and **Ksh 1.9 billion** for Water Harvesting and Storage for Irrigation.

159. Mr. Speaker, in order to support environment and water conservation and respond to climate change, I propose to the National Assembly to effect budget allocations of **Ksh 14.4 billion** for forests and water towers conservation; **Ksh 3.8 billion** for environment management and protection; **Ksh 3.6 billion** for the Kenya Financing Locally Led Climate Action Project; **Ksh 1.5 billion** for Meteorological Services. In addition, I have proposed an allocation of **Ksh 1.1 billion** for Human Wildlife Conflict Compensation; **Ksh 800 million** for Wildlife Insurance; **Ksh 400 million** for Maintenance of Access Roads and Airstrips in Parks; **Ksh 319 million** for drilling of boreholes in protected areas for provision of water for wildlife and **Ksh 226 million** for Wildlife Research Facilities.

Improving Governance and Sustaining the Fight against Corruption

160. Mr. Speaker, the Government is committed to scale up the implementation of the provisions of the 2010 Constitution, strengthen the rule of law, increase access to justice and ensure respect for human rights.

161. **Mr. Speaker,** to enhance good governance and scale up fight against corruption, I propose to the National Assembly to effect budget allocations of **Ksh 3.9 billion** for the Ethics and Anti-Corruption Commission; **Ksh 3.6 billion** for the Office of the Director of Public Prosecutions; **Ksh 8.0 billion** for the Criminal Investigations Services; and **Ksh 8.0 billion** for the Office of the Auditor General.

162. Additionally, to enhance the oversight and legislative role of Parliament and access to justice, I propose to the National Assembly to effect budget allocations of **Ksh 41.0 billion** for Parliament; and **Ksh 23.2 billion** for the Judiciary.

Completion of Planned Projects

163. **Mr. Speaker,** to ensure that value for money and timely realization of benefits accruing from budgetary allocations and implementation of planned projects, Ministries, Departments and Agencies have identified projects for completion in the course of the financial year. The projects will be fast tracked and protected from any adjustments. The National Assembly is requested to

support this endeavour, as this is consistent with the resolution of this House.

Transfers from the National Government to County Governments

164. Mr. Speaker, the County Governments will receive a proposed allocation of **Ksh 385.4 billion** as equitable share in the FY 2023/24. This is 23 percent of the FY 2019/20 shareable revenue, which is the most recent audited and approved revenue by the National Assembly. This is above the minimum threshold required under Article 203(2) of the Constitution.

165. In addition to County equitable share, the County Governments will receive additional conditional and unconditional allocations amounting to **Ksh 56.7 billion.** This brings the total allocation to the County Governments in the FY 2023/24 to **Ksh 442.1 billion**. Part of this include **Ksh 425 million** for the Transfer of Library Services being a devolved function; **Ksh 2.9 billion** as outstanding mineral royalties share to 32 County Governments as stipulated in the Mining Act, 2016; a Conditional Grant of **Ksh 100 million** per county for the Aggregated Industrial

Parks Programme, which is meant to assist the farmers in value addition and market access for their products.

Equalization Fund

166. Mr. Speaker, in line with Article 204(1) of the Constitution of Kenya, **Ksh 7.9 billion** has been allocated under the Equalization Fund in the financial year 2023/24. This represents **0.5 percent** of the FY 2019/20 revenue which is the most recent audited and approved revenue by the National Assembly. **Mr. Speaker,** in addition to this, we have allocated **Ksh 3 billion** to cater for part arrears from the previous years bringing the total allocations under Equalization Fund to **Ksh 10.9 billion.**

Transfer of Functions between National Government and County Governments

167. Mr. Speaker, the National Treasury and Economic Planning in collaboration with the Council of Governors and other institutions, developed a draft legislation to operationalize Articles 187 and 189 of the Constitution on Transfer of Functions and Cooperation between the National and the County Governments and amongst County Governments. The proposed legislation has gone through Public Participation with County Government Executives, County Assemblies, Development Partners among others. **Mr. Speaker,** I will shortly submit the Bill for Cabinet approval and onward transmission to Parliament.

Measures to Enhance County Governments' Own Source Revenue

168. Mr. Speaker, the National Treasury and Economic Planning; State Departments of Lands, Council of Governors and other stakeholders have developed the National Rating Bill, 2022 which went through the first reading on 8th March, 2023 in the National Assembly and thereafter was submitted to the National Assembly Committee on Lands. The Bill provides for among others, standards in the way Rating and Valuation is conducted in the country; how to deal with properties cross-cutting in more than one county government; procedure for claiming and payment of Contribution in Lieu of Rates (CILOR); and timely updating of valuation rolls by the county governments. More importantly, the Bill will repeal the outdated Valuation for Rating Act, Cap 266 and Rating Act, Cap 267 and align property rating legal regime with the devolved system of governance. Our appeal to this House is to consider and fast track this Bill to unlock revenue potential to the County Governments from property taxation as envisage in Article 203(3).

Sharing of Mineral Royalty Revenues

169. Mr. Speaker, Mining Act, 2016 assigns 70 percent of mineral royalties collected from Mining companies to the National Government; 20 percent to county governments; and, 10 percent to communities. Since 2016, county governments and communities have not received their share of these royalties. To address this matter, I have submitted a framework for sharing **Ksh 2.9 billion** among 32 County Governments for mineral royalties outstanding as at 30th June, 2022 for consideration and approval by Parliament.

170. Mr. Speaker, during the Intergovernmental Budget and Economic Council (IBEC) 17th Ordinary Session held on 31st May, 2022, IBEC considered and adopted a report and a framework for sharing of funds arising from the contravention of County Government legislation. In the next Financial Year, the National

Treasury has proposed **Ksh 108 million** to be shared among the beneficiary County Governments.

171. Mr. Speaker, enhancement of County Governments has had its own challenges. One of such challenges is multiplicity of fees and charges imposed by the County Governments that increases the cost of doing business and negatively impacts on our competitiveness as a Country. Some County Governments have imposed charges in a way that prejudices national economic policies, economic activities across County boundaries or the national mobility of goods, services, capital or Labour. As a result, the National Treasury and Economic Planning has been receiving a lot of complaints from the Ministries, Departments, State Agencies, and the private sector relating to the uncoordinated manner in which Counties are imposing multiple fees and charges.

172. Mr. Speaker, some neighbouring countries have complained that some of the charges imposed by the County Governments are against the East African Community (EAC) Customs Management Act and the EAC Common Market Protocol and may result in retaliatory measures and trade disruptions between

Kenya and other Partner States in the EAC. To address these issues, the National Treasury and Economic Planning has resubmitted the County Governments' (Revenue Raising Process) Bill, 2023 to Parliament for consideration and enactment. I urge this House to expedite the enactment of this Bill in order to promote the competitiveness of our country in doing business and open up the country for investment.

VI. TAXATION MEASURES

173. Mr. Speaker, I will now turn to tax policy measures aimed at generating revenue to finance the FY 2023/24 budget. I will begin by highlighting the key measures on custom duty as agreed by the Ministers responsible for Finance and Economic Affairs in the East African Community during the Pre-Budget consultations meeting held in Arusha in May 2023.

174. Mr. Speaker, during the EAC Pre-Budget consultations meeting, the Ministers noted the significant contribution of manufacturing sector to job creation and economic growth in the region. The Ministers therefore agreed on measures to prevent the proliferation of cheap imports into the region so as to protect local manufacturers from unfair competition and enable them access raw materials and inputs at affordable price.

175. Mr. Speaker, the agreed custom measures shall become effective from 1st July, 2023.

176. Mr. Speaker, one of the success stories of the East African Community is the establishment of the EAC Customs Union as a single customs territory. In order to streamline importation of goods into the customs territory, the EAC region completed the comprehensive review of the Common External Tariff (CET) and this has been under implementation from 1st July 2022. The revised Tariff has a four-tariff band structure compared with the earlier three-tariff band structure. In the new structure, raw materials/inputs and capital goods are imported duty free; intermediate goods at the rate of 10 percent while finished goods which are not available in the region at 25 percent. Finally, **Mr. Speaker,** all finished goods which are available in the region in sufficient quantities, attract a CET rate of 35 percent. The revised tariff bands are meant to cater for goods with long value chain which require differentiated rates to promote investments.

177. Mr. Speaker, despite rice and wheat being among the staple food items in our homes, Kenya's production of these food items does not meet the domestic demand. In order to meet domestic demand, Kenya will import rice at a rate of 35 percent, instead of 75 percent under the EAC Common External Tariff. Further, in order to ensure that there is enough wheat to meet local demand, while at the same time protecting wheat farmers from unfair competition from imported wheat, Kenya will import wheat under the EAC Duty Remission Scheme at 10 percent instead of 35 percent. The importation of wheat will be undertaken upon the recommendation by the Ministry of Agriculture who will ensure wheat millers, as a priority, purchase local wheat before they are allowed to import.

178. Mr. Speaker, in order to support local automotive assembly in the region, the EAC Partner States agreed to continue with the importation of raw materials for manufacture of parts used in the assembly of motor vehicles especially leaf springs, radiators and wiring harness under duty remission. In addition, the region agreed to extend importation of Completely Knocked Down (CKDs) kits for assembly of motor cycles at 10 percent under duty remission, as the region awaits the finalization of the EAC Assembly Regulations.

179. Mr. Speaker, Kenya has sufficient capacity to manufacture various products in the metal and allied sub sector thus providing employment opportunities to many Kenyans. In order to continue safeguarding this sub-sector, the EAC Ministers agreed that imported iron and steel products, shall continue attracting a duty rate of 35 percent with the corresponding specific rates for a further one year.

180. Mr. Speaker, our hardworking farmers are capable of producing enough food to satisfy domestic demand. in particular, local demand for most vegetable products has been adequately served by our farm produce over the years. To protect these farmers from cheap imports, Kenya has been allowed to extend the import duty rate of 35 percent in addition to the specific import duty rates on vegetable products for a further one year.

181. Mr. Speaker, high cost of inputs of animal feeds coupled with other factors like unfavourable weather conditions make the locally manufactured animal feeds expensive hence contribute to food inflation. In order to promote the local manufacturing and make animal feeds affordable to farmers, Kenyans will import inputs for manufacture of animal feed duty-free under the EAC Duty Remission Scheme for one year.

182. Mr. Speaker, last year we allowed manufacturers of baby diapers to access inputs for manufacture of baby diapers duty free. This was meant to lower the cost of manufacturing these essential products. I am happy to note that many companies have responded to this incentive by increasing production. In order to continue making these products affordable for our babies, the EAC Minsters allowed Kenya to extend the duty-free importation of inputs for manufacture of baby diapers for a further one year. Moreover, to protect these manufacturers from competition from imported products, the region allowed Kenya to extend charging imported baby diapers at the rate of 35 percent for a further one year.

183. Mr. Speaker, leather industry is one of the priority value chain under the Bottom - Up Economic Transformation Agenda. In order to support local value addition and protect the industry from unfair competition, the EAC Partner States agreed to retain the import duty on imported leather and footwear products at a rate of 35 percent. In addition, Kenya was allowed to extend the duty-free importation of raw materials and inputs for manufacture of footwear products.

184. **Mr. Speaker,** Kenya has adequate capacity to meet local demand for roofing tiles. In order to facilitate access to Kenyan made roofing tiles at affordable prices, Kenya was granted extension of duty-free window for importing inputs for the manufacture of roofing tiles for a further one year.

185. **Mr. Speaker,** in order to protect the Kenyan producers of paper and paper products from the proliferation of cheap imports, Kenya was allowed to import these goods at a rate of 35 percent for the next one year.

186. **Mr. Speaker,** in order to protect local production of safety matches, particleboards, plywood, among other goods of timber, Kenya was allowed to extend charging of specific rates of import duty in addition to ad valorem duty ranging from USD 120 per Metric Tonne to USD 200 per Metric Tonne on these goods. This

is also meant to curb undervaluation of the goods and safeguard revenues. Further, Kenya was allowed to charge a rate of 45 percent on imported furniture in order to protect local manufacturers and producers.

187. Mr. Speaker, Kenya has sufficient capacity to manufacture plastic and rubber products to supply both the domestic and regional market. In order to protect local manufacturers, Kenya was allowed to impose import duty rate of 35 percent on these goods for one year instead of 25 percent.

188. Mr. Speaker, in order to protect local assembly of smartphones and other mobile phones, Kenya was allowed to extend the import duty rate of 25 percent on smartphones and other telephones for cellular networks or for other wireless networks for one year. Further, Kenya was allowed to extend duty free importation of inputs for assembly of smartphones and other cellular phones.

189. Mr. Speaker, Kenya has capacity to produce billets for manufacture of wire rods and other similar products to meet the local demand. In order to protect the local manufacturers of these goods, Kenya was allowed to charge an import duty of 10 percent on billets.

190. Mr. Speaker, I now turn to the tax measures proposed in the Finance Bill, 2023.

Amendments to the Value Added Tax Act, 2013

191. Mr. Speaker, I now embark on measures proposed under the Value Added Tax Act, 2013.

192. Mr. Speaker, the high cost of Liquefied Petroleum Gas (LPG) contributes to the escalating cost of living and continued use of firewood and charcoal which negatively affects our forest cover. In order to make LPG affordable and promote its uptake as well as encourage the use of clean sources of energy, I am proposing to the National Assembly to zero rate VAT on LPG.

193. Mr. Speaker, currently, exported services are subject to VAT at the rate of 16 percent. This has caused an increase in the cost of exported services hence affecting the competitiveness of our services in the global market. In order to increase competitiveness and encourage exportation of taxable services, I propose to the National Assembly to remove VAT on exported taxable services.

194. Mr. Speaker, currently, tea purchased for local value addition, either from the factories or tea auctions centres is vatable, affecting the cash flows of tea exporters. In order to encourage local value addition of our tea, I propose to the National Assembly to remove VAT on tea purchased from factories or tea auction centres for value addition and subsequent export. This will improve cash flows for tea exporters involved in local value addition.

195. Mr. Speaker, currently helicopters, aeroplanes and other aircrafts of unladen weight not exceeding 2,000 kgs are subject to VAT. Further, some spare parts of tariff number 8803 are expressly exempt from VAT. However, VAT exemption on any other aircraft spare parts imported by aircraft operators or persons engaged in the business of aircraft maintenance is contingent upon recommendation by the competent authority responsible for civil aviation. This process creates administrative burden on the taxpayer to comply with the requirements. **Mr. Speaker,** we have also noted that the cost of aircraft maintenance and training activities has been high prompting airlines to prefer undertaking these activities in other jurisdictions. In order to ease the process of VAT exemption of aircrafts spare parts and encourage investment in this area, I propose to the National Assembly to remove VAT on all aircrafts, simulators for training our pilots and aircraft spare parts. This proposal to expressly exempt from VAT all aircraft and spare parts of Chapter 88 will spur the growth in the aviation sector and reduce administrative burden of accessing its VAT exemption.

196. Mr. Speaker, the international best practice is to charge VAT on all goods and services and especially those that have undergone some form of processing. This is not the case in our VAT regime as some goods that have undergone some processing are exempt from VAT while others are zero-rated. This has impacted on the tax expenditures. In order to bring down the tax expenditure and also align with the international best practice, I propose to the National Assembly to rationalize goods and services in the First and Second Schedule of the VAT Act by transferring some goods and services from zero rating to exempt status and from exempt status to taxable at the standard rate.

197. Mr. Speaker, over the years, petroleum products have received preferential tax treatment gradually transitioning from exempt status in 2013-2018 and 8 percent from 2019 to-date. This is irrespective of the fact that suppliers of petroleum products claim other input tax at the general rate of 16 percent, which means the Government has been sharing the burden of the input tax with the businesses by subsidizing the difference of the general rate of 16 percent and the preferential rate of 8 percent. As a result of these practices and outcomes, the oil markers have been in perpetual credit position and not paying VAT to the Exchequer. This practice is discriminatory as businesses in other sectors of the economy bear the input tax by recovering the same from output VAT charged on the final consumer.

198. Mr. Speaker, on reviewing the VAT rate on petroleum products to the standard rate, such businesses would at the onset recover the VAT credits that they have been carrying forward over the years and Government would end up collecting VAT after some time. **Mr. Speaker,** if the anomaly is not corrected at the earliest, the build-up of credits will continue to increase and should the Government seek to charge VAT at the standard rate in the future, it would take years for the Government to collect the much-needed revenues from this sector since the credits have to be exhausted before the businesses start paying VAT.

199. The continued practice by Government to subsidize the cost of fuel by levying a preferential rate of 8 percent distorts the market, yet the economy should be operating on the principles of demand and supply. **Mr. Speaker,** in this respect, I propose to the National Assembly to amend the VAT Act to remove the preferential rate on the petroleum products so that the product will be subject to the standard VAT rate of 16 percent.

200. Mr. Speaker, the blue economy remains largely untapped despite its huge potential. This is particularly due to low investments in maritime activities over the years. In order to spur investment and attract international sea freight in this sector, I propose to the National Assembly to zero rate inbound international sea freight offered by registered persons. The Government will continue exploring ways of providing more incentives to promote investment in this sector.

201. Mr. Speaker, currently, machinery used by pharmaceutical companies are exempt from VAT on importation. This is meant to compliment Government's efforts to ensure that all Kenyans have access to affordable healthcare. However, we have received numerous petitions to extend the exemption to locally purchased machinery to further boost access to healthcare services. In this regard, I propose to the National Assembly to amend the VAT Act to extend the exemption to machinery and equipment purchased locally for use in the manufacture of pharmaceuticals.

202. Mr. Speaker, in order to address the escalation of tax expenditures and foster prudent utilization of fiscal resources, I propose to the National Assembly to remove VAT exemption in respect of: taxable services supplied for construction of specialized hospitals; goods and services for the construction of tourist facilities; goods worth more than Ksh 2.0 billion purchased by manufacturers; as well as plant, machinery and equipment used in the construction of plastic recycling plants.

203. Mr. Speaker, currently transfer of business as a going concern is subject to VAT at standard rate. Taxpayers have raised concern that this discourages business reorganization and sale of business. In this regard, I propose to the National Assembly to amend the VAT Act to exempt transfer of business as a going concern. This is expected to encourage mergers and acquisitions hence boost growth of businesses as well as efficiency.

Amendments to the Excise Duty Act, 2015

204. Mr. Speaker, I will now highlight the tax measures proposed under the Excise Duty Act.

205. The Excise Duty Act provides for remittance of excise duty to the Kenya Revenue Authority (KRA) by 20th day of the following month. In this era of technology, there is no justifiable reason for waiting for twenty days to report transactions to the KRA. In order to cure the delay, I propose to the National Assembly to amend the Act to provide for remittance of the excise duty on betting and gaming activities within 24 hours after closure of transactions by the betting and gaming companies.

206. Mr. Speaker, betting, gaming, prize competition and lotteries are addictive in nature and have negative socio-economic effects to the society. To discourage participation in these activities by Kenyans and especially school going children, I propose to the National Assembly to increase the rate of excise duty on betting, gaming, prize competition and lotteries from the current rate of 7.5 percent to 12.5 percent.

207. Mr. Speaker, there has been an increase in importation of fish into the country which has negatively affected the local fish industry. To promote and protect local fish industry which provides livelihood to many Kenyans, I propose to the National Assembly to introduce excise duty on imported fish at Ksh 100,000 per metric tonne or 10 percent of the excisable value, whichever is higher.

208. Mr. Speaker, the Government charges specific excise duty on juices per litre. However, there has been an increase in supply of juices in powder form and based on the current tax regime on juices, powdered juice is not subject to excise duty, creating unfairness in taxation of juices. In order to cure this problem and create a level playing field, I propose to the National Assembly to introduce excise duty on powdered juice at a rate of Ksh 25 per kilogram.

209. Mr. Speaker, currently, specific rates of excise duty are subject to annual adjustment for inflation. However, taxpayers are concerned with frequent changes in the specific rates of excise duty through annual adjustment creating uncertainty in prices and distorting the market. Therefore, in order to create certainty in excise tax regime, I propose to the National Assembly to repeal the provision for annual adjustment for inflation.

210. Mr. Speaker, consumption of sugar has been associated with various ailments such as diabetes which has become common in many families. To discourage consumption of sugar, I propose to the National Assembly to introduce excise duty on imported sugar at the rate of Ksh 5.0 per kilogram excluding the sugar imported or purchased locally by registered pharmaceutical manufacturers for use in the manufacture of pharmaceutical products.

211. Mr. Speaker, consumption of alcohol, betting, gaming, lottery and prize competition are extremely addictive and result to harmful repercussions in our society especially to the youth and families. In order to discourage these activities and consumption of alcoholic beverages, I propose to the National Assembly to introduce excise duty at the rate of 15 percent of the excisable value on fees charged on the advertisements by all televisions, print media, billboards, and radio stations in promotion of alcohol, betting, gaming, lottery and prize competition.

212. Mr. Speaker, to promote financial inclusion and enhance access to internet data services, I propose to the National Assembly to reduce excise duty from 20 percent to 15 percent in respect of fees charged for telephone and internet data services and fees charged for money transfer services by banks, money transfer agencies, and other financial service providers. **Mr, Speaker**, in the same spirit, I propose to the National Assembly to reduce excise duty from 12 percent to 10 percent of the excisable value on fees charged for money transfer services by cellular phone service providers or payment service providers licensed under National Payment System. This will encourage retail transactions at a more affordable rate and promote economic activity at MSMEs level.

213. Mr. Speaker, locally produced cement has been facing stiff competition from imported cement. To protect them from unfair competition and promote this industry, I propose to the National Assembly to introduce excise duty on imported cement at a rate of 10 percent of the excisable value or Ksh 1.50 per kilogram whichever is higher.

214. Mr. Speaker, there has been an increase in the importation of furniture, especially office furniture. This has negatively affected the local carpenters and artisans considering that there is enough local capacity to make furniture. In order to protect local carpenters and artisans, I propose to the National Assembly to impose excise duty on imported furniture at the rate of 30 percent of the customs value excluding the furniture originating from EAC countries.

215. Mr. Speaker, Kenya has sufficient local capacity to produce paints, varnishes and lacquers. However, proliferation of cheap imports has reduced competitiveness of locally produced paints, varnishes and lacquers. To protect the local paint manufacturers, I propose to the National Assembly to introduce excise duty at the rate of 15 percent of the excisable value on imported paints, varnishes, and lacquers.

Amendments to the Income Tax Act

216. Mr. Speaker, I will now highlight the changes proposed under the Income Tax Act.

217. The current interest deduction restriction based on earnings before interest, taxes, depreciation and amortization, was introduced in 2021 to discourage tax planning. This restriction currently applies to both local and foreign financial institutions. **Mr. Speaker,** I have received proposals from taxpayers who borrow loans from local financial institutions indicating that the restriction discourages their access to credit. To address this concern, I propose to the National Assembly to exclude interest on loans borrowed from local financial institutions from interest deduction restriction.

218. In addition, **Mr. Speaker,** where interest on loans borrowed from non-residents is disallowed, I propose to the National Assembly to allow businesses to carry forward that interest for deductions in the next five subsequent years. This will align with the international best practice.

219. Mr. Speaker, in 2016, the Government introduced a simplified tax regime that requires landlords to pay tax on residential rental income at the rate of 10 percent per month. In order to enhance compliance and encourage more landlords to pay tax under this regime, I propose to the National Assembly to reduce the tax rate for this regime from 10 percent to 7.5 percent per month.

220. Mr. Speaker, in order to support start-up companies, I propose to the National Assembly to amend the Income Tax Act to defer the taxation of gains on shares offered to employees in lieu of their salaries in a start-up company for five years or till the date employment ceases or till the date of sale of the shares, whichever is earlier.

221. Mr. Speaker, upon retirement, most senior citizens have no access to medical cover and spend their little savings on healthcare services. In order to encourage employees, save for their post-retirement medical needs, I propose to the National Assembly to provide tax relief of 15 percent of the contributions to a Post-Retirement Medical Fund or Ksh 5,000 per month, whichever is lower.

222. In addition, **Mr. Speaker,** I propose to the National Assembly to exempt from income tax the investment income earned by Post-Retirement Medical Fund. This will reduce pressure on the Government expenditure on medical care and accord the retirees access to dignified healthcare.

223. Mr. Speaker, we have noted that family members have been using exemption from capital gain tax on transfers of property between related persons as an avenue to reduce their tax liability. In order to remedy the situation, I propose to the National Assembly to change the base of capital gain tax from the sale of property to be the original cost before the transfer to the family members in instances where a property is transferred to a third party within a period of less than 5 years.

224. Mr. Speaker, despite the advantages brought about by digital platforms, the transactions usually conducted under the platforms are not in the tax net. I propose to the National

Assembly to introduce a digital asset tax at the rate of 3 percent on the value of digital asset transferred or exchanged. **Mr. Speaker,** to further create equity and fairness, I propose to the National Assembly to introduce withholding tax at the rate of 5 percent on the gross payment in respect to digital content monetisation. This will apply to incomes generated through media and digital platforms.

225. Mr. Speaker, currently non-residents pay withholding tax on payments in respect to sales promotion, marketing and advertising services. In order to harmonize taxation treatment for residents and non-residents and ensure equity, I propose to the National Assembly to introduce withholding tax on the same services to residents at the rate of 5 percent of the gross amount.

226. Mr. Speaker, resident companies currently pay 30 percent corporate tax while non-residents with permanent establishments pay 37.5 percent of their gains or profit. This creates an impression that Kenya discriminates between residents and non-residents. In order to harmonise taxation treatment for residents and non-residents companies, I propose to the National Assembly to reduce the corporate tax rate for non-residents from 37.5 percent to 30 percent. Further, in order to ensure that there is level playing field, I propose to the National Assembly to introduce tax on repatriated profits at a rate of 15 percent which is equal to the rate charged on dividend paid to non-residents.

227. Mr. Speaker, businesses deduct diminution value of implements, utensils or similar articles used in the production process over a period of three years, in determination of taxable profits. In order to increase working capital to businesses, I propose to the National Assembly to amend the Income Tax Act to provide for 100 percent investment deduction of the value of these items in the first year of use.

228. Mr. Speaker, in 2020, the Government implemented various measures to cushion business from the adverse effects of the COVID-19 Pandemic including providing tax incentives during the period. With the easing of COVID-19 Pandemic and recovery of businesses, I propose to the National Assembly to lower the upper threshold for turnover tax from Ksh 50.0 million to Ksh 25 million and retain the lower threshold at Ksh 1.0 million. In addition, I propose to the National Assembly that the turnover tax rate for this sector to be 3.0 percent.

229. Mr. Speaker, last year, the Government provided various tax incentives to promote local manufacturing of human vaccine. In order to further support these manufacturers, I propose to the National Assembly to exempt the manufacturers in this sector from withholding tax on interest and royalties paid to non-residents.

230. Mr. Speaker, the current PAYE tax structure has three rates and bands applicable to 3.3 million employees. The bands are as follows: 10 percent is applied to incomes up to Ksh 24,000 per month; 25 percent is applied to the next Ksh 8,333 per month while 30 percent is applied to incomes above Ksh 32,333.

231. Mr. Speaker, employees who fall under the first category and who constitute 42.5 percent of total employed workers earn a maximum of Ksh 24,000 per month implying they don't pay any tax to Government as the tax computed from this income is equal to relief of Ksh 2,400 per month under the Act. The second category of employees who constitute 37.2 percent and earn incomes of between Ksh 24,000 and Ksh 32,333 per month, pay tax at a rate of 25 percent. The third category of employees that form 20.4 percent of total employees earn incomes above Ksh 32,333 per month and pay tax at the highest rate of 30 percent.

232. The tax structure for PAYE, **Mr. Speaker,** means that the tax burden falls on 57.6 percent of total employed workers. The tax structure is therefore regressive as an individual employee earning incomes above Ksh 32,333 per month falls within the upper tax band at the rate of 30 percent leaving no significant gap between employees who do not pay tax as a result of tax relief and those earning higher incomes. In this respect, we have to embark on the review of this taxation structure to make the tax bands more progressive sharing the tax burden more uniformly across income groups.

233. Mr. Speaker, as a start on this journey, I propose to the National Assembly to introduce two additional tax bands: a fourth band that will be applicable to employees earning incomes between Ksh 500,000 and Ksh 800,000 per month at the rate of 32.5 percent; and a fifth band that will be applicable to employees earning incomes above Ksh 800,000 per month at the rate of 35 percent.

234. As a result of this change, the employees who will pay tax at 30 percent will be 19.5 percent while the two new tax bands will affect 26,676 employees who constitute 0.8 percent of total employed workers. **Mr. Speaker,** we shall continue to review that PAYE structure to make it more progressive.

Measures to Enhance Tax Administration

Amendments to the Tax Procedures Act, 2015

235. Mr. Speaker, currently, Kenya Revenue Authority has no visibility on the transactions of Trust largely due to lack of requirement to report to the KRA by Trustees. This makes it difficult to ascertain the tax payable on the income paid to beneficiaries of Trusts. In this regard, I propose to the National Assembly to amend the Tax Procedures Act to require all trustees administering trusts in Kenya to maintain and avail records required by the Authority.

236. Mr. Speaker, in order to enhance tax compliance by use of technology, I propose to the National Assembly to amend the

Tax Procedures Act to require taxpayers to issue electronically generated tax invoices which can be tracked and traced through an Electronic Tax Invoice Management System (eTIMS).

237. Mr. Speaker, in order to streamline the tax administration and remove pressure to abandon taxes and grant waivers of tax, I propose to the National Assembly to amend Tax Procedures Act to remove powers to abandon tax as well as waivers on penalties and interest that currently exist in the Act.

238. Mr. speaker, to encourage taxpayers to pay outstanding tax debts, I propose to the National Assembly to introduce a one-year tax amnesty on penalties and interest on the accrued tax debts up to 31st December 2022. In order to benefit from the amnesty, taxpayers will be expected to clear principal taxes between 1st September, 2023 and 30th June 2024. I urge taxpayers to take advantage of the one-year amnesty to clean their tax ledgers by paying all tax arrears.

239. Mr. Speaker, in order to enhance the power of the Commissioner General to collect taxes from non-compliant taxpayers using Agency Notices, I propose to the National

Assembly to amend Tax Procedures Act to expand the scope of Agency Notices to cover default in payment of instalment taxes and in situations where a taxpayer has made a self-assessment and submitted tax returns but has failed to pay the tax on due date.

240. Mr. Speaker, submission of manual tax information to the Commissioner General poses administrative challenges and delays decision making. I therefore propose to the National Assembly to amend the Tax Procedures Act to require the Commissioner General to provide a data management and reporting system that will allow taxpayers to electronically submit standardized transactional data on real-time basis.

241. Mr. Speaker, impersonation of Kenya Revenue Authority officers is an offence under the Penal Code and poses revenue risks. We have witnessed increased cases for impersonation of Kenya Revenue Authority officers. In order to curb this vice, I propose to the National Assembly to amend the Tax Procedures Act to provide for offences and sanctions relating to impersonation of Kenya Revenue Authority officers.

242. Mr. Speaker, in order to enhance efficiency in administration of tax refunds and boost cash-flow of businesses, I propose to the National Assembly to amend the Tax Procedures Act to allow taxpayers who overpay taxes to utilize overpaid tax to offset both outstanding tax debts and future tax liabilities. In addition, I propose to the National Assembly to amend the Tax Procedures Act to provide an additional 30 days for the determination of complex tax cases. This will provide more time for the Commissioner General to complete audit and investigation process for complex tax refunds cases.

243. Further, **Mr. Speaker,** I propose to the National Assembly to amend the Tax Procedures Act to require Kenya Revenue Authority to pay approved refunds within 6 months. In instances where approved refunds are not paid within this period, I propose to the National Assembly to further amend the Tax Procedures Act to provide for automatic offset of the approved refunds against outstanding tax liabilities in other tax heads or future tax liabilities.

Amendments to the Miscellaneous Fees and Levies Act, 2016

244. Mr. Speaker, let me now turn to the proposed amendments to the Miscellaneous Fees and Levies Act.

245. Mr. Speaker, as I had earlier stated, the Government is committed to lower the cost of Liquefied Petroleum Gas. In addition to removal of VAT on LPG, I propose to the National Assembly to remove Import Declaration Fees (IDF) and Railway Development Levy (RDL) on LPG.

246. Mr. Speaker, the Kenya Defence Forces and the National Police Service are exempted from Import Declaration Fees and Railway Development Levy in respect of equipment, machinery and motor vehicles for their official use. However, this does not extend to other goods for official use such as material supplies. In this regard, I propose to the National Assembly to extend the exemption to all goods purchased or imported for official use by the Kenya Defence Forces and the National Police Service.

247. Mr. Speaker, the aviation sector is critical in supporting tourism and transportation of passengers and cargo. Currently, some aircrafts and parts of the aircraft are exempt from Import

Declaration Fees (IDF) and Railway Development Levy (RDL). To further support this industry, I propose to the National Assembly to extend the exemption to cover all aircrafts, helicopters, aircraft engines and aircraft spare parts.

248. Mr. Speaker, currently, imported goods are subject to Import Declaration Fee at the rate of 3.5 percent and Railway Development Levy at the rate of 2 percent. On the other hand, raw materials and inputs imported by registered manufacturers are subjected to a lower rate of 1.5 percent for both Import Declaration Fee and Railway Development Levy. These differential rates pose administrative challenges and are avenues for revenue loss. In order to address these challenges, I propose to the National Assembly to harmonize these rates at 2.5 percent for Import Declaration Fee and 1.5 percent for Railway Development Levy applicable to all goods imported into the country.

Amendments to the Betting, Gaming and Lotteries Act, Cap. 131

249. Mr. Speaker, currently, the Kenya Revenue Authority is not able to enforce tax collection from betting, gaming, prize competition and lotteries activities due to lack of an enforcement provision in the Betting, Gaming and Lotteries Act. In this regard, I propose to the National Assembly to amend this Act to allow KRA to apply the provisions of Tax Procedures Act in enforcing tax collection.

Amendments to the Employment Act

250. Mr. Speaker, in order to provide funds for development of affordable housing and associated social and physical infrastructure as well as the provision of affordable home financing strategy, I propose to the National Assembly to introduce an Affordable Housing Levy through an amendment to the Employment Act, 2007 to provide for a monthly levy payable by the employer and employee at one point five percent (1.5%) per month of an employee's gross monthly salary.

251. Mr. Speaker, given that construction is labour-intensive, we expect every housing unit constructed to create new jobs, both direct and indirect among the Professionals, Youth and MSMEs in general along the production value chain of affordable housing.

Support to Enterprises and Businesses operating in the Special Economic and Export Zones

252. Mr. Speaker, through Government support, the Special Economic Zones and the Export Processing Zones continue to position our manufacturing sector as pace setters in the region through exports of manufactured goods. Presently, **Mr. Speaker,** the goods sold from these zones to the domestic market are subjected to import duty and other applicable taxes similar to goods imported from outside the EAC region. This taxation does not differentiate whether the inputs or raw materials used to produce such goods originate from the Customs Territory or from outside the Customs Territory. In order to enhance market access, I propose to the National Assembly to amend the Export Processing Zones Act and the Special Economic Zones Act to exempt from import duty goods produced from the Special Economic Zones and Export Processing Zones that uses inputs or raw materials originating from the Customs Territory when sold into the domestic market. This will encourage enterprises operating in the zones to purchase raw materials or inputs from the domestic markets.

VII. CONCLUSION

253. In conclusion, **Mr. Speaker,** it is clear that we face many socio-economic challenges. The global recovery may take a long time before output gaps are closed. To address these challenges, the Government has initiated policy, legal and institutional reforms.

254. His Excellency the President has already led the way. Under his leadership, we have already laid a firm foundation for the Bottom - Up Economic Transformation Agenda. The policies spelt out in this budget builds a momentum for the envisaged transformation that will lead to improved livelihoods for all Kenyans. I therefore urge all Kenyans to join hands in making this transformation journey a reality.

255. Thankfully, our country is endowed with the necessary resources and human capital to confront the contemporary economic and social challenges and create a momentum for not only a higher and sustainable but also inclusive growth path, create decent jobs, reduce poverty significantly.

256. Mr. Speaker, this budget underpins the Government's resolve and commitment to fulfill its social contract to Kenyans by progressively improving their welfare.

257. At this point, **Mr. Speaker,** allow me to express my sincere gratitude to His Excellency Honourable Dr. William Samoei Ruto, The President of the Republic of Kenya and Commander-in-Chief of the Defence Forces and His Excellency the Deputy President Honurable Rigathi Gachagua for their counsel, guidance and support during the entire process of laying the foundation for the Bottom-Up Economic Transformation Agenda and in finalizing this Budget.

258. I also thank Her Excellency, Mrs. Rachael Ruto, The First Lady of the Republic of Kenya and Her Excellency, Pastor Dr. Dorcas Gachagua, the Second Lady of the Republic of Kenya for their support and contributions to the implementation of Government initiatives especially on environment and climate action, financial inclusion and women empowerment.

259. My special appreciation goes to the Prime Cabinet Secretary, the Attorney General, my fellow Cabinet Secretaries, respective

Principal Secretaries and Accounting Officers, and staff in all Government, Ministries, Departments and Agencies for their support and contributions to the FY 2023/24 budget making process.

260. I also extend my gratitude to the Chairman, of the Presidential Council of Economic Advisors, Dr. David Ndii and all the Economic Advisors under the Council for their critical inputs and guidance in supporting the Bottom-Up Economic Transformation Agenda. This is one team that used their diverse frontier knowledge and worked closely in developing the Kenya Kwanza Administration manifesto (The Plan) in the run up to the August 2022 General Elections under the guidance of His Excellency, The President and his team. More specifically, I gained a lot on fiscal matters from Dr. Kamau Thugge, Senior Adviser and Head of Fiscal Affairs and Budget Policy at the Executive Office of the President and currently the Governor Designate for the Central Bank of Kenya.

261. My sincere appreciation also goes:

- **First,** to you, **Honourable Speaker** of the National Assembly and your counterpart in the Senate, the Majority and Minority Leaders and the entire House Leadership including respective Clerks for overseeing the approval process of the budget estimates for FY 2023/24 and the related documents;
- **Second,** to Honourable Chairs and Members of the both the Budget and Appropriations Committee and the Finance and National Planning Committee and all the other Departmental Committees of this House as well as the staff of the Parliamentary Budget Office, for their constructive inputs during the approval process of this budget;
- **Third,** I recognize and appreciate the management and staff of the National Treasury and Economic Planning, who have worked tirelessly for long hours including weekends to ensure that this budget and supporting documents meet the legal deadlines;
- **Fourth,** the Kenya Revenue Authority; Central Bank of Kenya; Attorney General's Office, Commission on Revenue Allocation; Financial Sector Regulators and the various

Agencies under the National Treasury and Economic Planning for their contributions and advice during the budget process;

- **Fifth,** my gratitude goes to our Multilateral and Bilateral Development Partners for their continued technical and financial support. Further, I thank the private sector for its sustained contribution to the growth of our economy; and

- **Sixth,** I wish to appreciate the Media and non-state actors for their active engagement and participation in the FY 2023/24 budget process.

262. Mr. Speaker, I remain immensely grateful to my family for their support and inspiration as I execute my duties at the National Treasury and Economic Planning since my appointment to this docket last year.

263. Finally, **Mr. Speaker,** my utmost gratitude goes to all Kenyans for their contributions, proposals and suggestions received during the finalization of the budget proposals.

Thank You and May God Bless Kenya.

Pause

264. Mr. Speaker, before I resume my seat, you will recall that I have already submitted to this House the budget estimates and the Finance Bill, 2023, together with the accompanying documents as required by the Public Finance Management Act, 2012. Today, I further submit the following documents to this august House and request that you graciously receive them:

i) Budget Statement for the FY 2023/24;
ii) The 2023 Budget Policy Statement;
iii) Estimates of Revenue, Grants and Loans for the FY 2023/24 Budget;
iv) Financial Statement for the FY 2023/24 Budget;
v) Medium Term Debt Management Strategy 2023;
vi) Budget Highlights – The "Mwananchi" Guide for the FY 2023/24 Budget; and
vii) Statistical Annex to the Budget Statement for the FY 2023/24.

THANK YOU, HONOURABLE SPEAKER

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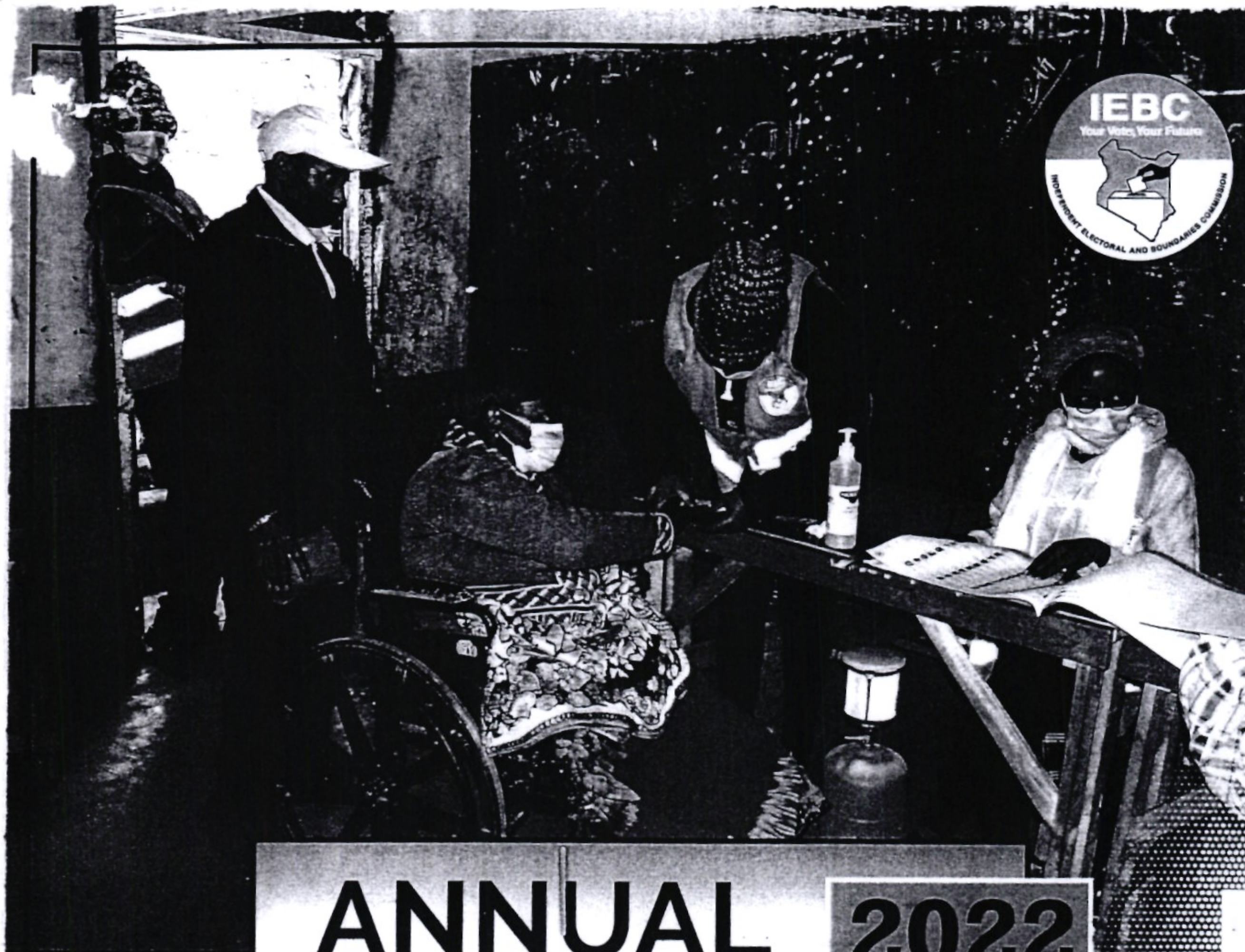
THE NATIONAL TREASURY AND ECONOMIC PLANNING
JUNE 15, 2023

The statement is available on: www.treasury.go.ke



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12/10/2023
Hon Owen Baya, MP
Deputy Leader majority party
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