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REPUBLIC OF KENYA

Budget Speech

for the

Fiscal Year 2000/2001

(1st July–30th June)

by

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Minister for Finance

SPEECH DELIVERED TO THE NATIONAL ASSEMBLY ON 15TH JUNE 2000, BY HON. CHRYSANTHUS BARNABAS OKEMO, EGH, MP, MINISTER FOR FINANCE, REPUBLIC OF KENYA, WHEN PRESENTING THE BUDGET FOR FISCAL YEAR 2000/2001

1ST JULY, 2000 TO 30TH JUNE, 2001

Mr. Speaker Sir,

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

Mr Speaker, over recent years our economy slowed down to an unacceptably low growth rate. This has led to increased unemployment and poverty. Recognising the need for bold steps to reverse the situation, H.E. President Daniel Arap Moi took action to introduce greater effectiveness in the management of the economic affairs of the country by announcing, in July 1999, major public sector reform initiatives. I wish to take this opportunity to sincerely congratulate and thank H.E. the President for that foresighted action which has started to bear fruit to which my Speech will bear testimony.

I also wish to thank all the Hon. Members of this House, the Cabinet and the Parliamentary Committees for their support which has facilitated my work over the past year.

INTRODUCTION

Mr. Speaker, the most critical economic challenge facing Kenya today is the achievement of a broad-based, sustainable improvement in the standard of living and welfare of all Kenyans. Today, about 52% of Kenyans live below the poverty line. Living conditions of a large proportion of Kenyans, both in rural as well as urban areas, have either stagnated or worsened. Many have no access to basic amenities such as clean water and adequate shelter. As a result of the economic decline in recent years, we have not been able to sustain gains achieved in the past decades in education, health and other social areas. Our problems have been compounded by the heavy toll taken by the HIV/AIDS epidemic. Economic decline and increased poverty have also become a source of rising social tension and escalating crime and insecurity. More recently these problems have been worsened by an emerging drought, which has decimated food supplies, caused water shortages, and drastically reduced our hydroelectricity supply. Clearly, this situation is not tenable and must be reversed as a matter of urgency. The Government is taking actions to deal effectively and comprehensively with the drought-related emergencies, while at the

same time implementing policy measures and programmes to initiate a sustainable economic recovery. The Government is putting in place the conditions needed to achieve sustainable rapid private-sector-led economic growth, which is essential to experience a significant reduction in poverty and unemployment.

Mr. Speaker, the theme of the budget this year is *Poverty Reduction through Sustainable Economic Growth*. It focusses on achieving sustainable improvements in the performance of the economy and in the quality of life of all Kenyans. To realise these objectives, we have adopted a longer term approach to our budget process that better links the budget to achieving our national development objectives.

MEDIUM TERM EXPENDITURE FRAMEWORK

Mr. Speaker, the 2000/01 Budget is the first prepared under the Medium Term Expenditure Framework (MTEF). This is a new approach to planning and budgeting. It emphasises full stakeholder participation in setting national priorities, expenditure prioritisation, and transparency and accountability in public expenditures with the goal of achieving enhanced service delivery. The MTEF will ensure that Government spends taxpayers' money well by radically changing the way it allocates and manages public resources. While revenue collection efforts have been efficient over the years, the delivery of services has deteriorated. The MTEF will restore credibility, predictability and effectiveness to the Budget and the actual delivery of the public services to Kenyans.

Mr Speaker, the objectives of the MTEF budgeting approach are:

1. to define a realistic three-year medium-term macroeconomic and fiscal framework to form the basis of forecasts of tax revenues and grants;
2. to set expenditure ceilings for each sector; to convert these sector ceilings into ministerial ceilings; and to prepare detailed budgets for ministries and departments using these *hard resource* ceilings, which had approval at the highest levels of Government at an early stage;
3. to allocate expenditures to agreed top priorities, identified as most likely to have the highest positive impact on economic growth and poverty reduction;
4. to link the three year budget program to the longer term objectives and plans;
5. to make funding for priority projects and programmes more predictable over a three year period; and

6. to formulate the budget in the context of a more consultative process involving all ministries, departments and other stakeholders in the economy in identifying the highest priorities to be funded to achieve our national objectives.

Mr. Speaker, this MTEF is a three-year rolling plan covering the fiscal years 2000/01 - 2002/03, based on a realistic assessment of resource availability. The first year of the planning period has been translated into the detailed annual estimates. With this new budgetary system, Government Ministries will be able to undertake their planned activities with greater predictability, while Permanent Secretaries will be given greater autonomy to manage their resources, but will also be expected to be directly accountable for performance and outputs of the various programmes while adhering to hard budget ceilings.

RECENT ECONOMIC DEVELOPMENTS

International Economic Environment

Mr Speaker, I now want to turn to the economic environment in which we are developing our budget framework. On the international front, there are some brighter prospects. The Asian and Latin American currency crises led to declining world commodity prices and slower growth in the world economy. Kenyan business was faced with severe international price competition and the economy experienced declining terms of trade in both 1998 and 1999. Today, prospects are generally positive for stronger growth in the OECD countries as well as many of the newly industrialised countries. Commodity prices are starting to recover. Pulp and paper prices, for example, are on a sharp increase as world demand has absorbed the excess supply of recent years. New opportunities are also presenting themselves. The passage of the US Trade and Development Act offers new trade options, particularly in sectors such as clothing and textiles which Kenya intends to pursue vigorously. The recent steep rise in world oil prices, however, has become a major burden for oil-importing countries such as Kenya. The impact in the coming year will be even more adverse as we will be forced to increase our oil product imports for power generation to make up the short fall in hydroelectricity supply.

The economic environment in Sub-Saharan Africa is a mixed one. Military conflicts and political instability are still disrupting economic development in our region and elsewhere. Drought has emerged as a major adverse factor in the near term in the EGAD region. On the bright side, the prospects for expanded trade and development within the COMESA and East African Co-operation still remain attractive.

Domestic Economic Environment

Mr. Speaker, turning to the domestic economy, at the end of last fiscal year in June 1999, virtually all macroeconomic indicators were on a declining trend. The economy had registered the lowest growth rate in six years. Per capita income in US dollars had dropped by about 1% and the balance of payments had worsened due to reduction in tourism earnings and slow growth in exports. Despite our efforts during this fiscal year, the economy has recorded declining growth for the fourth consecutive year. The overall growth of the economy in real terms stagnated at 1.4% in 1999 compared with 1.8% in 1998 and 2.3% in 1997. This is significantly below our population growth rate, currently estimated at 2.4%. This fall in per capita incomes has led to a deterioration in the social and economic welfare of our population, which is reflected in increased unemployment and worsening poverty. The poor performance of the economy is linked to low levels of investment. Gross fixed capital formation has dropped from 21.4% of GDP in 1995 to 15.1% in 1999. The decline in investment can be attributed mainly to: high domestic interest rates, poor physical infrastructure (particularly roads, telecommunications and electric power); adverse weather conditions; corruption and poor enforcement of the rule of law; escalating insecurity in the country; and increased oil prices.

Failure to realise revenue targets because of a slow growing economy and withdrawal of financial assistance from our major donors forced the Government to resort to domestic borrowing. This pushed up interest rates, which not only increased public debt service, but also increased investment costs and crowded out the private sector. Interest rates on Treasury Bills, which had declined from a high of 27% in April 1998 to 8.9% in March, 1999 rose again sharply to 20.3% by January 2000. Prudent economic management has brought them down again into the 10% to 12% range.

Mr. Speaker, the financial sector, which experienced turbulence in 1998, has stabilised as a result of timely introduction of reforms and improvement of banking supervision. Broad money supply (M3) increased by 2.8% in 1999 compared to 3.3% in 1998 reflecting a slow down of economic activity and tight fiscal and monetary policies pursued by Government. Inflation rates improved from 6.6% in 1998 to 3.5% in 1999, the lowest in the last four years.

Mr. Speaker, our domestic exports of goods declined from 16.5% of GDP in 1998 to 15.4% in 1999. This was the result of a decline in export prices for coffee compounded by reduced exports in the region. Nonetheless, the current account of the balance of payments showed an improvement from a deficit in 1998 to a surplus position in 1999 as a result of a decline in goods imports from 29.1% of GDP in 1998 to 27.3% in 1999 and increases in private transfers and tourism receipts. Overall, our net balance of payments position remained in surplus, but declined by Kshs 335

million to Kshs 4.2 billion in 1999. The latter was due to a decline in performance of the capital account and financial movements which more than offset the improvement in the current account. Gross official reserves as at the end of 1999 were enough to cover 3.2 months worth of imports.

Our exchange rate depreciated by 20% from 61.8 Kshs/US\$ in December 1998 to 73.9 in December 1999, and further to over 76 Kshs/US\$ in recent weeks, partly due to the decline in earnings from commodity exports, and partly due to net out flows of capital. The depreciation of the shilling, however, has helped our local industries competing with imports and increased the earnings of our export industries.

Mr Speaker, the most significant factor in the domestic economy has only emerged over recent weeks as it became evident that the long rains were failing to materialise and Kenya was facing a serious drought situation. This drought will have major impacts on the agricultural sector output, food, water and hydroelectricity supply. The Government is putting together a comprehensive response to this emergency in cooperation with our development partners and NGOs. As already mentioned, the planning and preparation of this Budget started back in late 1999 and was virtually completed by the time the full extent of the drought became evident. Nevertheless, some measures to respond to this crisis have already been included in this Budget Statement. Already, H.E. The President has declared the drought situation a national disaster and the duties on imported maize have been reduced to facilitate private and donor sponsored imports to alleviate the food shortage. Even as I present this Statement, work is underway with the assistance of our development partners to assess the full extent of this emergency, design appropriate responses and arrange the financing that will be needed for food relief and emergency power supply. Estimates of the ultimate impact on the economy will depend upon the effectiveness of the responses we put in place and on the generosity of the support we can mobilise from our development partners. The Government will keep the public informed on a regular basis of actions being taken to combat the adverse effects of the drought and electricity shortage.

MACROECONOMIC FRAMEWORK, 2000/01 - 2002/03

Mr. Speaker, faster economic growth requires increased investment and higher productivity. The MTEF for the three year period, 2000/01 - 2002/03, therefore addresses both the need to provide stable and consistent macroeconomic management and to improve the effectiveness and efficiency with which public resources are used. The macroeconomic framework for the MTEF period aims to progressively increase real per capita GDP growth to at least 3% a year on a sustainable basis. In order to achieve this, we need:

1. to create a stable and efficient macroeconomic environment which attracts both foreign and domestic investment; and
2. to improve public sector performance by concentrating public resources on a focussed range of high priority activities which contribute to a poverty-reducing growth strategy.

Prudent fiscal and monetary policy will therefore guide the attainment of these goals. This involves several related policies: **First**, the share of total government expenditure relative to GDP will be reduced from 27.5% in 1998/99 to 24% in 2002/03, while ensuring that expenditure is properly targeted at national development objectives, and that those objectives are achieved in an efficient manner. **Second**, total government revenue will be maintained at a maximum of 24% of GDP. **Third**, domestic debt will be reduced systematically by ensuring that government runs a surplus of current revenue over current expenditure, and by rescheduling foreign debts to defer debt service and utilising the proceeds from the privatisation of public enterprises such that by the end of this MTEF period fiscal surpluses will be generated. **Fourth**, sound monetary policy will be followed to keep inflation at or below 5%. **Fifth**, foreign exchange reserves will be increased gradually to provide 4 months of import cover, and maintain the current account deficit at sustainable levels to minimise speculation in the foreign exchange markets.

Mr. Speaker, I expect interest rates to decline and stabilise at lower levels over the next year as a result of the ongoing reforms, the resumption of financial assistance by our development partners, and increased investor confidence. This will help the economy to recover and grow at higher and sustainable growth rates over the MTEF period. The macroeconomic framework has been based on forecast real growth of 2.65% in 2000/01; 3.5% in 2001/02; and 5% in 2002/03. It is recognised that the current drought and electricity crisis will have a negative impact on the growth rate over the coming year, depending upon the structure and financing of the emergency programme currently being devised. In the medium term, however, the combination of the fiscal restructuring and enhanced governance and service delivery will provide a sound platform for a solid economic recovery.

INTERIM POVERTY REDUCTION STRATEGY PAPER

Mr. Speaker, while sound macroeconomic management is one essential pre-condition for faster economic growth and poverty reduction, it is equally important that Government sets clear development goals, targets priority activities and improves the efficiency in the use of scarce national resources. We have therefore prepared, following broad consultation with various stakeholders within and outside the Government, an *Interim Poverty Reduction Strategy Paper* (IPRSP) which incorporates a broad consensus on Kenya's development vision, national objectives,

priority policies, programmes and projects. This Paper has formed the basis of our negotiations with the Bretton Woods Institutions on the new Poverty Reduction and Growth Facility. These two institutions and our other development partners have reviewed the paper and concurred with our strategy. I wish to thank all those who made an input into the preparation of Kenya's IPRSP. Our next aim is to ensure that a final comprehensive *Poverty Reduction Strategy Paper* is completed and issued by May 2001. The intervening period will be used for conducting more comprehensive and elaborate consultations down to the grass roots levels to ensure that our national programmes have full ownership by all stakeholders. We invite all Kenyans to participate in these consultations.

Copies of the *Interim Poverty Reduction Strategy Paper* have been provided to members of this House. The Paper contains three important annexes. One contains the *Governance Measures* that the Government shall be implementing over the next three years; the second is the *Implementation Matrix* that gives a work plan of all the key sectoral reforms including the objectives, strategies and activities to be undertaken; and the third is the *Participation Plan* that will be adopted to obtain broad-based stakeholder input into the final Poverty Reduction Strategy Paper over the next ten months.

RELATIONS WITH DEVELOPMENT PARTNERS

Mr. Speaker, I am pleased to report that relations with our development partners have improved tremendously in the last financial year. We have continued to hold constructive discussions with the World Bank, IMF, and other development partners over the performance and prospects of economic growth in the country. I am happy to note that our development partners are now solidly behind us in our efforts to meet the challenges of our country. A joint World Bank/IMF Mission visited the country in April/May to: (i) review our economic performance; (ii) assess our progress in preparation of the IPRSP; and (iii) negotiate resumption of financial support. Following this visit, we now have strong indications that a new IMF programme under the Poverty Reduction and Growth Facility will be in place by July 2000 together with a new programme loan from the World Bank. In addition, discussions have already commenced with the World Bank and other donors on modalities of assessing and mobilising assistance to deal with the drought and electrical power crisis.

TRANSPARENCY, ACCOUNTABILITY AND INTEGRITY

Mr Speaker, corruption has in the past deterred investment and undermined the rule of law. I am pleased to inform the House that we are making good progress in our fight against corruption. The Kenya Anti-Corruption Authority (KACA) is now fully operational and a number of cases have been brought before the courts for

prosecution and many more are currently under investigation. Unfortunately, people have tended to be sceptical about the performance of KACA. It must be recognised that, given the extent to which corruption had become entrenched in our society, uprooting it is likely to be a difficult and gradual process. We are taking a multi-disciplinary approach in tackling corruption. This involves: sensitising the public about the disastrous effect it has on the economy and the need for zero tolerance for corruption; making the briber just as accountable as the bribed person; and making sanctions so punitive as to discourage potential participants completely. During fiscal year 2000/01, the Government will strengthen KACA by providing it additional resources to enable the recruitment of additional staff and enhancement of systems. The powers of KACA will also be broadened to enable it to investigate and prosecute effectively. In order to enhance good governance and accountability, this House will during this session of Parliament debate and enact the Anti-Corruption and Economic Crimes Bill which has been drafted by the Parliamentary Select Committee on Corruption in consultation with KACA. It will also debate a bill on the code of conduct of for all public officers, including a proposal for declaration of assets and liabilities by such officers.

In the public sector, we have continued to implement measures which improve transparency and reduce the opportunity for corruption, by cutting back on discretionary authorities and by involving the private sector and civil society in public sector operations. The following measures have been taken:

1. The Central Tender Board is now chaired by a reputable representative of the private sector and includes two additional private sector members. Tenders and awards are now widely published and a private sector-led Procurement Appeals Board for aggrieved parties is in place. The Procurement Reform Project was completed early this year with the assistance of the World Bank and will be implemented with effect from July. Procurement regulations will be promulgated for universal application within the central government, local authorities, statutory authorities and parastatals. They will provide stringent sanctions for non compliance on both the officers of the procuring institution and the suppliers or contractors.
2. A Roads Board has been legislated to oversee the road network in Kenya and co-ordinate its development, rehabilitation and maintenance. The Board will be the principal advisor to the Government in all matters related to roads, and will also administer funds derived from the fuel levy and any other funds that may be secured by the Board effective July 2000. Apart from a number of Permanent Secretaries, the Roads Board will have eight members from private sector organisations. This will no

doubt improve transparency and accountability in a sector which has been riddled with corruption.

3. The Local Authority Transfer Fund is now being overseen by a Board comprising private and public sector representatives. This Board reviews the disbursement criteria for allocation of funds to local authorities as well as the performance of the Fund in terms of its legal obligations.

Mr. Speaker, a task force has been established to review the Exchequer and Audit Act and other financial regulations and procedures with a view to improving timely flow of funds to the district level. A task force has also been set up to implement Asset Register Systems in Government. Asset Management Units will be established in all Ministries to control and manage Government assets. They will ensure full accountability and that unreported losses and wastage of Government assets, inefficiency in assets record keeping and unauthorised disposals are minimised or eliminated. In addition, Ministerial Audit Committees will be established and charged with the mandate of following up and acting upon audit reports and Public Accounts Committee recommendations. In the next 18 months, the Government will introduce an Integrated Financial Management Information System in all ministries and districts. The system will provide timely and accurate information on disbursements, payments and commitments and will control over-expenditures, unauthorised payments and pending bills. It will be used to monitor implementation to ensure that funds are applied only to the sectors and activities in the budget.

A more complete description of the *Governance Measures* that will be implemented by the Government is contained in an annex to the Interim Poverty Reduction Strategy Paper which I referred to earlier.

Mr. Speaker, corruption cannot be eliminated by one agency alone. It requires a multi-dimensional approach with the public and private sectors, playing their role in fighting corruption. In this regard, I would like to call upon Honourable Members of Parliament and indeed all Kenyans to support this crusade to rid our country of the evil of corruption.

SECTORAL PRIORITIES AND POLICIES

Mr. Speaker, I would now like to comment on the sectoral policies and programmes which the Government intends to implement in the first year of the MTEF period. It should be noted that, even though the Budget is being presented on the basis of Ministerial portfolio allocations, these comments relate to the six sectors which have been adopted under the MTEF approach.

Mr. Speaker, the top budget priorities are expenditures that support economic growth and reduce poverty. The MTEF process and consultations on the PSRP over the next year will help intensify the focus on these priorities and strengthen the delivery of benefits to the poor. In this Budget, significant increases have been made in the allocations to the non-wage expenditures on primary health and education through provisions for items such as school text books and equipment and basic drugs. In the 2001/02 Budget and beyond, to satisfy the need to deliver basic preventative health, primary education and other basic social services to the poor, expenditure allocations to these areas will receive top priority and an increasing share of the budget.

1. Public Safety, Law and Order

Mr. Speaker, public safety is a fundamental concern that impacts directly on economic growth and poverty. Breakdown of security leads to breakdown of law and order, making it impossible or costly to undertake any meaningful economic activity. Africa, unfortunately, contains too many examples of the disastrous economic and social consequences of national and civil insecurity. The rise in insecurity in Kenya has, therefore, become a disturbing development in our society today. The escalation of crime on our streets and incidences of ethnic tension has eroded investor confidence and reduced economic activities, increased unemployment and the cost of doing business. Organised crime targeted against business establishments like banks is an especially disturbing development.

Mr. Speaker, it is imperative that we use every means at our disposal to rid society of insecurity and crime. Some of the actions that will be implemented to enhance the capacity of the disciplined forces to combat crime will include improving the terms and conditions of service, including appropriate training, housing and upgrading their facilities and equipment, including motor vehicles and higher budgetary provisions to enhance their mobility and improve their response time to tackling crime. Since security problems will only be solved through concerted efforts by all stakeholders in the society, it is the responsibility of all citizens to join hands with security agencies in the fight against crime.

Members will notice in the printed estimates a substantially higher allocation to this sector, including the National Defence and Intelligence services. This is a deliberate effort by the Government to provide a secure enabling environment for the effective delivery of public service and for private sector business activity. Given the current state of deteriorating security, these expenditures on security will assist the effectiveness of social spending, and should not be viewed as detracting from our social programme spending. In the context of developing the final PRSP, however, careful consideration will be given to the relative importance of different security programme elements to supporting the social programme. In addition, over the

medium term, incremental expenditures funded out of the savings from the retrenchment of excess staff will be targetted at the social and core poverty programmes.

Mr. Speaker, economic growth and poverty alleviation will not take place unless there is impartiality in the administration of justice and the rule of law. The Government will, therefore, take a number of reform actions aimed at increasing transparency in, and accessibility to the dispensing of justice and ensuring that the rule of the law is upheld. These include accelerating the on-going comprehensive reform process for the legal sector, and specifically the implementation of the recommendations of the 1998 Committee on the Administration of Justice which examined the problems confronting the judicial service. In this regard additional funds have been set aside for restructuring the High Court by creating specialist divisions and creation of arbitration and other alternative dispute settlement mechanisms. Penal code procedures will also be revised for speedier delivery of justice while measures to improve access to legal aid, particularly by the disadvantaged groups, will be put in place. There are also additional budgetary allocations for infrastructure for the judiciary including courtrooms and storage facilities. Additional resources have also been afforded to the Office of the Attorney-General to enable the strengthening of their capacity to support the administration of justice.

2. **Physical Infrastructure**

Mr. Speaker, the deteriorating physical infrastructure in the country has been a major factor leading to the decline in investment and economic activity. Our war against poverty eradication and unemployment can not be won unless we improve infrastructure in a very effective way. During this fiscal year, the restoration and development of physical infrastructure will constitute a primary objective. Appropriate measures will be taken to address the problem as follows:

Roads

The Government will implement the roads strategic plan and give priority to the routine maintenance of main trunk roads, as well as improvements in feeder roads that have not been bitumenised. In this fiscal year, Kshs7.8 billion has been raised through the fuel levy and was used to rehabilitate roads both under the Central and Local Government. However, compared to the massive damage caused by *El Nino* rains, estimated at Kshs 48 billion, the rehabilitation process has not proceeded with the necessary speed. The Government recognises that factors contributing to the poor road network include corruption in awarding of contracts, construction of poor quality roads, and lack of routine maintenance. The Government is determined to root out these malpractices, and stern measures will be taken against corrupt contractors and

Government officials who compromise on the quality and standard of work. Already, we have blacklisted a number of contractors who have done shoddy jobs. Measures are being undertaken to restore transparency, professionalism and accountability in undertaking road works by enforcing professional standards and eliminating corruption in procurement of contractor services. Use of economic project appraisal methods will be strictly enforced, while auditing and accounting for road maintenance funds will be improved. Blacklisting of defaulters and non-performing contractors will also be stepped up. Steps have been taken to limit the number of projects a single contractor can handle at any given time. The provisions of the Kenya Roads Board Act, which was enacted by Parliament in February 2000, will be operationalised to enable the Board co-ordinate and oversee the management of the entire national road network from July 2000. Forty percent of the funds under the Roads Board will go to the Districts and will be administered by Districts Road Committees chaired by elected leaders. The positive impacts of these measures should be seen through improved agricultural activity as rural access roads are rehabilitated.

Ports

The Port of Mombasa is important not only as the main gateway for goods in this country, but also as a transit point for goods destined to our neighbouring countries. The port, however, has suffered from inefficiencies caused by bad management, old equipment and inadequate port facilities. I wish to report to this House that there has been a marked improvement in services, especially at the container terminal since the new management took over. New equipment has now been installed and rehabilitation of the container terminal has been tendered. The port has for the first time in many years made a profit.

During the next year, the ongoing activities of improving the availability and reliability of container handling equipment through refurbishment and replacement of equipment and tug masters will be hastened. In order to eliminate corruption and theft of goods and services, and to facilitate the flow of goods through the port, action will be taken to rationalise administrative procedures and remove bottlenecks. Plans for privatisation of port operations through awarding concessions for the container terminal and other non-core services will be accelerated.

Railways

Mr. Speaker, the use of outdated and inefficient locomotives and an old railway line has resulted in high maintenance costs, unprofitable operations and poor service delivery by the Kenya Railways. The Government will address this by providing additional funding for improving Kenya Railway's telecommunications system, increasing wagon availability, rehabilitating locomotives and relaying 60 kms of the Nakuru - Kisumu branch line in the financial year. This will increase the

capacity of the Railways to haul more traffic and capture the lucrative traffic destined for North Western Tanzania, Uganda and Rwanda by improving its reliability and reducing transit time.

Telecommunications

Efficient telecommunication links within the country and with the rest of the world is an essential prerequisite to increased trade and economic activities, and to international competitiveness. During the last fiscal year, two cellular telephone licences were issued opening up the area to competition, which will bring down prices, improve the services and bring more users within the subscriber base. In the new financial year, Telkom will reduce international tariffs by 18%. This will bring down the cost of doing business, and enhance the attractiveness of Kenya as an investment destination. Plans are also under way to provide additional payphones in all urban areas and rural centres as part of the poverty reduction strategy. Within the next financial year, Telkom will embark on plans to upgrade the existing telecommunication infrastructure in the country. Digital equipment has already been secured for the Industrial Area, Parklands and Embakasi areas under this modernisation programme. The sale of a 49% share of Telkom to a strategic partner will be effected in order to upgrade its access to technology and capital.

Energy

The present demand for electricity is 750 megawatts (MW) of peak power and 385 gigawatt hours (GWH) of energy per month. Hydro power stations supply roughly 77% of peak power and 70% of energy per month. The balance of 30% of electric power is supplied by geothermal, thermal and diesel plants, and imports from Uganda. The power situation has been severely affected by failure of rains in the hydro catchment areas in the latter parts of last year and the first half of this year that has depleted the reservoirs at Masinga, Kiambere, and Turkwell. This situation initially led to power rationing for six hours a day in order to load shed about 100MW of power. Power rationing has since been intensified to 12 hours a day due to the extremely low water levels in the dams. The effect of the power shortages in the economy has been serious with economic activity slowing down and industries operating below their installed capacities. Urgent measures are therefore necessary to reverse this sad state of affairs.

Mr Speaker, emergency measures are being put in place to expand power supply by 180 MW to alleviate the rationing . **First,** I will be announcing tax measures to encourage private sector participation in power generation and to reduce the costs that will arise from the additional use of oil-based electrical power generation. The Ministry of Energy, KPLC and KRA will be working with companies and institutions with generators over 100KVA to make arrangements for

them to receive duty rebates on fuel usage and compensation payments for the extra costs of supplying themselves in place of using grid power. This will save some 20MW of grid power. **Second**, KENGEN and KPLC will work to relocate idle standby generators owned by the Government or parastatals to critical institutions such as universities. KPLC is also investigating the potential for sugar factories to supply their excess power to the grid. **Third**, KENGEN will rehabilitate a moth balled boiler and turbine at Kipevu to provide an additional 30MW by September 2000. **Fourth**, arrangements have been made with Uganda to import increased amounts of power from July onwards as new power plants come on stream in Uganda. **Fifth**, the Government is already working with our development partners on the modalities and financing to bring in emergency power generators over the next three months. To supply the remaining 130 MW, a combination of power generator sets rented from international suppliers for 6 to 12 months, and incremental generating capacity installed on an emergency basis by KENGEN and existing independent power producers are being investigated.

Mr. Speaker, the Government will take measures to ensure capacity is enhanced over the medium term to stabilise the power supply. KENGEN has drawn up a detailed energy balance plan which includes conservation of water in the reservoirs and commissioning of Kipevu power plant and Gitaru Hydro Power Station. Medium-term generation programmes include progressive commissioning of several power plants up to the year 2004. The Government, with support from development partners, will also embark on a project to reduce power losses. Possibilities of sourcing additional power from Uganda and the SADC region are also being actively explored. We expect that beyond July 2001, the power situation in the country will be healthy as there will be adequate reserve capacity to meet peak demand and energy requirements.

Mr Speaker, KPLC will, through the Rural Electrification Programme, invest over Kshs 1 billion during the next financial year for extension of transmission lines in rural areas. Market centres, public facilities and social amenities will be targeted with the aim of supporting business creation and income generation.

3. Agriculture and Rural Development

Mr. Speaker, the agricultural sector has suffered greatly due to persistent drought and high dependence on rain fed agriculture and high cost of inputs. The decrease in agricultural productivity has impacted negatively on economic growth rates and consequently led to the increase in poverty in the rural areas. The growth in the sector slowed down to 1.2% in 1999, compared to 1.5% in 1998, mainly due to poor prices offered for agricultural commodities, inadequate rainfall in major food growing areas and increased prices of farm inputs. In order to arrest the decline in

productivity and to realise the full potential of the agricultural sector, the Government will undertake a number of measures.

The promotion of food security through establishing a strategic reserve to protect the most needy will be a key policy intervention in the medium term. Given current food shortages, Kshs 1.5 billion has been allocated to food relief. The promotion of income and employment generating crops and the development of ASAL areas will also be key priorities. The Government has already taken action to begin restructuring the institutional arrangements for marketing coffee and tea, which together account for about a third of exports. The tea sector is in the process of being liberalised to allow individual tea factories to operate independently. The Government has also held wide consultations among stakeholders on a sugar sector reforms policy. A Sugar Bill will be presented to Parliament in the course of the year. Other measures will include: provision of water, ensuring that the early warning system is functional in drought prone areas, the improvement of inspection and quality control of farm inputs through the revision of the legislation, control of crop and livestock pests and diseases, and rationalisation of funding of research and technology development and transfer to farmers. Increased funding has also been provided for boreholes in rural areas. Emphasis will be on removing silt from and rehabilitating existing boreholes in readiness for the short rains.

The Government will also address other structural and physical constraints of the sector which has led to decrease in yields and reduction in areas under cultivation. These include the dilapidated infrastructure and poor management of major agricultural marketing organisations. We expect that these measures will lead to sustained growth in agricultural production of about 4 to 6 percent in the medium term which will make a meaningful impact on over all economic growth.

4. Human Resource Development

Mr. Speaker, the Government will in the next financial year focus resources on improving the provision of and access to basic social services particularly basic education and primary health care. In all of these activities, Government will seek a closer working relationship with development NGOs, religious organisations and other private service providers to increase the range and quality of provision.

Education

Mr Speaker, the fall in enrolment rates experienced at all levels of education is attributed to the rising costs that are borne by parents at this time of increasing poverty. The Government remains committed to the goal of Universal Primary Education (UPE) by the year 2015 and will pursue this target by lowering costs to parents. Specific measures include:

1. Collaborating with development partners and NGOs to significantly increase funding for purchase of text books;
2. Revising the curriculum to ensure quality and relevance of subjects;
3. Increasing funding for the purchase of essential equipment in schools;
4. Improving and expanding the school feeding programme.

In order to bring more children into the school system, the bursary programme will be expanded while at the tertiary level the Higher Education Loans Board will be facilitated to provide more loans efficiently and effectively. At the same time scholarships will be provided for outstanding students from poor households targetted to specific degree programmes in high demand by the economy.

Health

Mr. Speaker, the priority for health care will be to increase the availability of affordable quality health services to all Kenyans. In this regard, we have in this budget given more resources to district and rural health facilities, and allocations for communicable and vector borne diseases, and family planning, maternal and child care have more than doubled. The waiver system will be enforced and charges for certain diseases dropped in government hospitals. We will also develop a transparent and accountable drug procurement system to ensure that drugs are available in hospitals at reasonable cost. The emphasis in the next financial year will be on shifting greater resources from curative to primary and preventive health care, and rural health services.

HIV/AIDS

HIV/AIDS has had a devastating effect in Kenya with 2.2 million people currently infected including 106,000 children under the age of 5. On average close to 500 people die every day because of AIDS-related infections. Estimates of the resultant economic loss incurred by the country are as high as Kshs210 million per day. This loss arises from increased health care expenditure, reduction in trained and experienced labour force, lost time due to illness, increase in labour costs and reduction of savings and investments. In order to deal with this disease effectively, the Government has declared AIDS a National Disaster and established the National AIDS Control Council to co-ordinate a multi-sectoral response to deal with all aspects of the epidemic. Adequate funding will be provided for the activities of the Council while Aids Control Units will be established in ministries. Our objectives will be to reduce the HIV prevalence rate, increase access to care and support to people infected and affected by the epidemic and strengthen the capacity at national, district and community level to respond to the epidemic.

5. Public Administration

Public Service Reform

Mr. Speaker, it is now recognised that the mandate, structure and operation of the public service need to be reshaped in a manner that will raise productivity so that it can more effectively facilitate private sector activities. Reforms in this area initiated in 1993 produced little impact on the levels of efficiency and productivity in the public service. The Government therefore has approved a new strategic plan for Public Sector Reform which is more comprehensive and integrated. The programme has four elements, namely: Public Service Management Programme, Legal Sector and Judicial Reform, Enhanced Integrity and Accountability, and Interaction with Civil Society. The Public Service Management Reform component covers the entire public service. As you are aware, the ministerial and departmental rationalisation exercise has been completed and restructuring and retrenchment can now be implemented. Ministries and departments have identified their optimal staffing levels for carrying out their core functions. The excess staff are targeted for retrenchment over the next two years. During this financial year a total of 25,783 civil servants; 1,095 Kenya Revenue Authority staff; 4,882 University staff; 1,500 Kenya Agricultural Research Institute, and 300 Catering Training Levy Trust staff will be retrenched at a cost of Kshs 7.8 billion generating an ongoing annual wage savings of Kshs 3 billion. The average termination package for each retrenched public servant is expected to be about Kshs 240,000, but substantial savings in salaries and associated personnel costs mean that this initiative should achieve payback within three years. It is planned that the 25,783 civil servants due for retrenchment during 2000/01 will proceed on leave between July and August, and that their retirement package will be paid to them in October 2000 to enable them to settle into their retirement. The Government is grateful to several donor agencies for their participation in the design and financing of the programme.

Mr. Speaker, the House is aware that the Kipkulei Commission on Harmonisation of Terms and Conditions of Service in the Public Service has presented its report to the Government. It is necessary that recommendations relating to the improvement of pay and benefits be implemented as a matter of urgency and Kshs 6.8 billion has been set aside this financial year to cater for the first phase of implementing proposals of the Commission. Further adjustments will be made over the following years. Adequate funding has also been set aside for capacity building and training in order to reequip the public service with skills to fulfil its new mandate. In this way, the culture of efficient service delivery, integrity and professionalism should be restored in the public sector.

Parastatal Reform

Mr. Speaker, the Parastatal Reform Programme which has been on-going since 1992 will be redefined this financial year. Its scope will be widened and the process made more transparent, open and competitive. The immediate focus will be to divest the large infrastructure and service enterprises, specifically Kenya Railways, Kenya Ports Authority and Kenya Pipeline Company. During this financial year, the strategy for the privatisation of Kenya Railways through a unitary concession to a private operator of the rail infrastructure, including passenger and cargo operations, will be implemented and at least two concessions will be let for the operation of the container facilities at Mombasa. Necessary regulatory agencies will be established in both cases. A strategic partner will be sought to take over the running of the Kenya Pipeline Company.

In the financial sector, the Government is committed to selling its shares in Kenya Commercial Bank during the course of next financial year. Restructuring KCB in preparation for further privatisation has already begun with the appointment of a new management team. The restructuring of the National Bank of Kenya, including the intensification of efforts to collect or restructure outstanding debts will be accelerated in preparation for future privatisation. Plans to privatise the Kenya Reinsurance Company are already at an advanced stage.

Local Government Reform

Mr Speaker, successful implementation of poverty reduction measures through the better delivery of public services will depend highly on strengthening the capacity of local governments to deliver key local services in a more responsive manner to local demand. Local services such as road maintenance, water, sewage, solid waste disposal and public health are key to an attractive investment environment and to improving the welfare of the people. Over the medium term, this will require the devolution of greater responsibility for local services to more autonomous local authorities. To achieve this, the Government will develop a decentralisation strategy and reform the Local Government Act accordingly. At the same time, it will continue the efforts to strengthen the governance and service delivery capacities of local authorities. Two key mechanisms are being used for local capacity development, namely, the Local Authority Transfer Fund and Financial Control Management Boards.

The Local Authority Transfer Fund aims simultaneously to increase the resource base of local authorities and to enhance their governance capacities through a number of conditions imposed on their financial management performance. The LATF became operational from January this financial year and 2% of the income tax collections have been transferred to local authorities. During 2000/01, the LATF will

transfer 5% of income tax collections. This will include a transitional amount to compensate for the full phase out of the Local Authority Service Charge effective January 1, 2001 as announced in the Budget last year. Some 65% of the disbursements over 2000/01 will be for service delivery support subject to the following conditions: (1) capital expenditures by a local authority have to exceed 50% of the amount allocated to it; (2) less than 70% of total expenditures are to be spent on personnel; and (3) payment of all statutory charges are to remain current. The remaining 35% will be disbursed subject to performance criteria being met, namely, (1) expenditure statements for 1999/2000 are certified, (2) statements of debtors and creditors are provided, and implementation of a debt reduction plan is confirmed, (3) a revenue enhancement plan is developed, and (4) implementation of the Single Business Permit is confirmed. The LATF secretariate is being strengthened with specific funds set aside to ensure that all local authorities are well informed of LATF requirements, that on-sight monitoring is conducted and program performance is reported.

Mr Speaker, Nairobi City Council is in a state of chronic financial distress. It has been spending beyond its means, and it has debt payment arrears that exceed its annual income before even taking into account its future debt repayment obligations. Accordingly, following the findings of an Extraordinary Investigation, H. E. The President acted expeditiously to appoint an Interim Oversight Board to assume control of the Nairobi City Council finances under the direction of an Inter Ministerial Committee. Funding has now been raised from development partners such that this Board will start its work to systematically reform NCC finances, starting with a full external audit. In addition, the Government will bring to Parliament legislation to underpin the future operations of boards to impose financial controls on all local authorities suffering chronic financial distress, and at the same time to assist them restructure their operations to enhance their revenues, rationalise their budgets and expenditures and improve the efficiency of their service delivery. Such boards will provide an objective private-sector driven approach and employ professional staff to reform the financial management of the larger local authorities.

6. Trade, Tourism and Industry

Manufacturing Industry

Mr. Speaker, productivity in our manufacturing industry has suffered substantial decline as a result of increased costs of doing business. Growth in the sector declined from 2.4% registered between 1990 - 1997 to 1.4% in 1998 and a mere 1% in 1999. Poor infrastructure, particularly poor roads, erratic and unpredictable electric power supply, inefficient sea port and railway, high interest rates and high input costs have all contributed towards increased costs of production. In addition, with further reductions in the COMESA tariffs, the threat of greater

competition from other COMESA countries has increased. This has sometimes prompted calls for protection against more efficient producers within the COMESA region. However, the balance of trade between Kenya and virtually all countries within the COMESA region shows that Kenya is still a major net beneficiary of the COMESA arrangement. I also believe that shielding our producers behind high tariff walls without addressing the real problems that diminish competitiveness will not yield the desired benefits. While we realise that the playing field is not level, since other producers in the region benefit from more favourable environments, imposing tariff barriers may trigger retaliatory measures which could deny us this market share.

During the last financial year, the Government put in place anti-dumping and countervailing duties legislation to allow it deal with practices that disadvantage local manufacturers. The gazetting of anti-dumping and countervailing duty regulations now makes it possible for the Government to protect domestic producers against dumped or subsidised goods. The regulations require the industry affected to submit a formal complaint to the Finance Minister's office before action is initiated. Subsequently, an advisory committee is constituted to investigate the claims. The law also allows the imposition of provisional measures within 60 days after the commencement of investigations. We are looking forward to begin work on the first cases once formal complaints have been received.

Mr. Speaker, our strategy of reviving the manufacturing sector will therefore entail addressing the factors which act as constraints and contribute towards high costs of production. The speedy rehabilitation of all infrastructure, the improvement in security and improvements in the delivery of public services will be the corner stone of this strategy. In order to rejuvenate local industry, the Government will significantly reduce the tariff rates on a large number of raw materials not produced in the country and remove a number of minor import inspection fees, as a way of reducing costs of production and levelling the playing field. A number of the minor inspection fees on imports will be removed to further lower the costs of imported inputs. These are very significant steps and I call upon industry to take full advantage to expand their production. COMESA preferential rates will now be on a reciprocal basis.

Mr. Speaker, as regards the importation of second hand items, the impact of these products, especially on our textile and motor vehicle industry, has been damaging to producers and not always beneficial to consumers where low quality goods have been imported. We have already made moves to regulate trade in these areas. The Customs and Excise Act was amended last year to prohibit the importation of goods that have been declared sub-standard by the Kenya Bureau of Standards. Customs is legally bound to order the importer to re-export such goods at the importers cost or destroy the goods under supervision. It must however be realised that the demand for second hand goods is symptomatic of the economic hardships and

poverty that afflict our society. The achievement of higher and sustainable growth rates which increase the incomes of Kenyans will therefore remain the principal strategy of dealing with competition arising from second hand imports.

The Jua Kali Sector

Mr. Speaker, the *Jua Kali* sector has emerged as an important industry for creation of employment and poverty alleviation. Over the years, the sector has expanded rapidly with the share of informal sector employment as a percentage of total employment going up from 53% in 1967 to 64% in 1994. Despite this important contribution, micro enterprises continue to suffer from weak marketing, inadequate property rights, excessive regulation (both formal and informal, through corrupt officials), poor access to economic services, and poor access to formal bank credit.

In recognition of the potential of the micro enterprises in creating jobs and alleviating poverty, the Government will initiate the development of an appropriate policy and legal framework to promote a system of viable and sustainable micro financing in the country. The Central Bank of Kenya is already assisting the newly formed Association of Micro Finance Institutions in streamlining legal and regulatory framework and accounting standards. Within the course of this financial year, the Bank will establish a fully fledged micro finance unit to regulate micro finance organisations.

Tourism

Mr. Speaker, tourism remains an important source of foreign exchange. In 1999 the sector showed signs of recovery. The number of visitors went up by 8% to stand at 970,000 compared with a decline of 10% in 1998. Tourism earnings also increased by 22% to stand at Kshs 21 billion. The objective in 2000/01 will be to increase our share of the world tourism market by aggressively marketing Kenya as an attractive and safe destination. This will be done through joint public /private sector initiatives in the areas of security, tourism infrastructure and marketing.

Regional Co-operation

Mr. Speaker, experience has shown that countries which do not integrate themselves into the regional and global economy do not reap the benefits of improved resource allocation, wider markets, technology transfer and access to foreign capital. Our commitment to regional integration is borne out of this realisation and Kenya has continued to play a pivotal role in the activities and programmes of COMESA and the East African Cooperation. It was particularly gratifying to witness the signing of the Treaty establishing the East African Cooperation in Arusha by the Heads of States of the three East African countries. The signing of the Treaty ushered in a new

commitment to a Common Market in East Africa guaranteeing the free movement of goods, capital and people as well as the removal of all tariff and non-tariff barriers. We also recognise that the success of both COMESA and EAC will depend on the sum-total of the commitment and contributions of every member in the organisations. For this reason, while we endeavour to faithfully implement the programmes of the organisations, we shall continue to urge other member countries to abide by the timetable agreed upon for integration. By October, this year, we will be going to zero tariffs according to the COMESA programme for elimination of intra regional tariffs.

Mr Speaker, members will notice from the highlights of the sectoral policies laid out above that the thrust of the Budget and of the three-year MTEF is to start to address the sectoral constraints that are holding back economic growth and the reduction of poverty. The Budget, therefore provides a systematic expenditure plan, which with determined implementation will lead to poverty reduction through economic growth.

MONETARY POLICY AND FINANCIAL SECTOR REFORMS

Mr. Speaker, a healthy and vibrant financial sector is key to the achievement of higher economic growth rates. Unfortunately, our banking sector is still characterised by a large number of small unstable banks and a huge portfolio of non-performing advances. The latter has been increasing over the years and currently stands at 36% of total gross advances. A number of banks have consequently been placed under statutory management. Several measures have already been taken to reverse this situation including: amendment of the Banking Act to restrict insider lending; strict enforcement of banking laws especially with regard to lending and provisioning for non-performing assets; and strengthening capacity of the Banking Supervision Department. The Central Bank has now been empowered with cease and desist provisions, and the power to impose financial penalties for failure to comply with the law. It is encouraging to note that two banks under statutory management have been successfully restructured and have re-opened during the current year.

A number of measures will be implemented in the next financial year to address the problem of non-performing advances and to enhance financial stability. **First**, a legislative framework will be introduced into the Banking Act for the establishment of credit reference bureaux where information on defaulting borrowers will be maintained and made available to banking institutions who will subscribe for membership. Confidentiality requirements governing the relationship between banks and their customers will be safeguarded by putting in place the necessary legal framework. **Second**, amendments will be made to the Banking Act to allow the Central Bank to share confidential banking information with other regulatory authorities or other authorities deemed fit by the Central Bank. **Third**, amendments to the Building Society Act will be brought to Parliament to bring building societies

under the regulatory control of the Central Bank. **Fourth**, in order to discourage the issuance of bouncing cheques and to maintain the respectability of these instruments, legislation will be introduced to criminalise cheque kiting and bouncing. **Fifth**, banks will also be encouraged to modernise their information technology and to pool services such as Automated Teller Machines to cut down costs. **Sixth**, the commercial courts capacity to assist in the collection of loan arrears will be expanded.

Following the amendment of the Banking Act in 1999, capital requirements of banks were progressively increased. In order to meet the higher capital requirement in the next five years, institutions are expected to generate increased profits or inject fresh capital while smaller banks are encouraged to merge. In order to facilitate smooth merger, appropriate legal and other enabling procedures will be put in place by the end of 2000 to remove legal impediments in areas like the assignment of assets and liabilities. The Government will also accelerate its divestiture from the financial sector during the three year period to 2002 by selling its shareholding in Kenya Commercial Bank, National Bank of Kenya, Development Bank of Kenya, Housing Finance Company of Kenya, Consolidated Bank, and Industrial Development Bank.

A number of amendments to the Insurance Act will be presented to Parliament during the year. Among the more important will be proposals for the introduction of structured compensation for motor vehicle related accidents to reduce disputes and prevent the escalating costs that are damaging both the insurance and the passenger transport sectors.

Mr Speaker, the regulations to the Retirement Benefits Act have received considerable comment from stakeholders and will be gazetted early in the new financial year. Thereafter, the Retirement Benefits rules under the Income tax Act will be amended to remove any inconsistencies with the standards required under the Retirement Benefits Act for a pension scheme.

Kenya needs to attract foreign capital to support privatisation and industrial development. Following a review of the policy governing foreign participation in the securities markets, I am proposing to amend the Foreign Investor Regulations under the Capital Markets Act to introduce a new policy that will guarantee a minimum shareholding reserve for domestic investors and introduce the concept of beneficial interest in domestic companies to gain sharper identification a domestic investors. Strategic sectors will have a higher minimum reserve for domestic participation.

Mr Speaker, significant advances have been achieved in improving the regulation of the financial sector. These developments, however, have not been coordinated or comprehensive across all financial market subsectors leaving gaps and inconsistencies in regulation. Insurance companies, for example, have to deal with regulations under the Insurance, Retirement Benefits and Capital Markets Acts.

Accordingly, I propose to appoint a task force to study and advise on the development of consolidated financial services regulatory framework.

Monetary Sector Reforms

Mr. Speaker, the restoration of monetary discipline and maintaining price stability remains the primary objective of monetary policy. The further tightening of monetary conditions in the last financial year saw a general reduction in the growth of money supply. The Government will continue to pursue a tight monetary policy with the aim of ensuring that expansion of money remains consistent with the growth of economic activities. The intervention in the market will continue to be via open market operations. The Government is committed to live within its means and employ prudent fiscal policy to support the monetary policy objectives, particularly the maintenance of inflation below 5%.

Mr. Speaker, the high interest rates have acted as disincentive to investment and frustrated efforts to achieve higher growth rates in the economy. More recently, partly due to tighter expenditure management and the receipt of Kshs 5.3 billion from the sale of two cellular phone licences, the proceeds of which have been applied to domestic debt reduction, interest rates on Treasury Bills have fallen to the 10 to 12% range. Commercial bank lending rates, however, have unfortunately remained high. These high lending rates will not trigger the increased private sector borrowing and investment required to spur economic growth. The Government is determined and will play its part to achieve sustained reductions in the stock of domestic debt to bring it down by 6% of GDP to 15% of GDP over three years. This should lead to consistently low interest rates on Treasury Bills. In addition, foreign exchange reserves will be gradually increased and the current account deficit maintained at sustainable levels to discourage speculative attacks on the shilling. The overall investor confidence in the economy engendered by the commitment of the Government to a realistic and constructive reform programme with strong backing from our development partners will also provide the stimulus for a decline in market interest rates. This confidence factor will also allow the Government to lengthen the maturities of its domestic debt portfolio as the market becomes more willing to buy Treasury Bonds.

Fiscal Policy

Mr. Speaker, when we began the current financial year in July 1999, we undertook to achieve a balanced budget through expenditure reduction measures and improved revenue collection. The aim was to constrain the growth of domestic debt which has been dampening the growth of the economy. Government revenue, however, fell below budget by Kshs 11.2 billion. This is attributed to a decline in economic activity during the year. Income taxes on business activity are expected

to be Kshs 6.3 billion below target as company profits declined, particularly in the financial sector. Excise duties are expected to be Kshs 2.8 billion below target owing to declining per capita incomes depressing sales of beer and cigarettes, while import duties are expected to be Kshs 1.7 billion below target as import demand has declined. These shortfalls will be partly offset by VAT, Pay-As-You-Earn and other revenue collections which are expected to be above budgeted levels. Although we have not met our target of a balanced budget, our performance at the end of the financial year shows improvements in the management of the budget. The budget deficit this year on a commitment basis before grants is expected to be lower this year than in 1998/99, as detailed below.

Mr Speaker, under the IMF and related programmes, significant concessional borrowing is being negotiated. This will require the external borrowing limit of the Government to be raised. Accordingly, I will be presenting to Parliament amendments to the External Loans and Credits Act to raise the external borrowing limit to accommodate the expected new concessional borrowing and to adjust the limit for past devaluations in the Kenya shilling.

Taxation Policies

Mr. Speaker, the decline in the growth rate of the economy over the past three years has put enormous stress on our revenue collection machinery to meet revenue targets. This makes our task for the coming year doubly difficult. On the one hand the Government needs the resources to spend on infrastructure development and poverty reduction programmes and to bring down the debt burden, while on the other hand, the private sector needs incentives to invest and to match international competition. The poor also need the burden of tax shifted more to those more capable of bearing it. Therefore, to make up the significant revenue short falls that have arisen out of the decline in economic activity, and to finance investment and business incentives, two strategies will be followed. **First**, KRA as part of its medium term corporate strategy will be focussing increased efforts on expanding the tax base, enhancing its audit capacity, tightening the policies and procedures for tax exemptions, and accelerating collection of tax arrears. This will not only bring in more revenues, but it will shift more of the tax burden onto those that have been evading tax in the past and thereby enhance equity. **Second**, a number of proposals will be made that increase the revenues collected out of consumption so that we can encourage investment that will provide the growth and job creation that this economy urgently needs.

Mr. Speaker, in the tax proposals laid before the House today, significant reductions are made in customs duties on raw materials and other inputs into manufacturing. Under the income tax proposals, personal reliefs and brackets are expanded to ensure that the poor are left out of the tax net. Measures are also

introduced in the income tax and VAT to encourage investment. In the area of VAT, proposals are included to widen the tax base and adjust the tax rates upwards to rationalise them with those of other EAC member states.

Expenditure Policies

Mr. Speaker, expenditure policies are targetted towards sectors that will contribute to growth in the economy and thereby lead to poverty reduction. In the short-run, key interventions will be in the following areas: (i) security and governance; (ii) human resource development, specifically primary health and basic education; and (iii) upgrading and rehabilitating physical infrastructure (especially roads and water and sanitation). The Government has allocated Kshs 20.3 billion for core poverty programmes in an endeavour to improve the welfare of Kenyans. These programmes, which are mainly in the social sectors of education, health, water and sanitation, will be ring-fenced so that they will not be subject to budget cuts should these become necessary. A listing of the *Core Poverty Programmes* is provided as an Annex to this Speech. This list will be reviewed and expanded under the final PRSP. To enhance transparency in allocation of resources, the Ministries of Roads and Public Works, Environment and Natural Resources and Health are now preparing district annexes which will contain details of provisions made to districts in respect of their programmes. The annexes will be presented to this House when debate on estimates begins.

Mr. Speaker, in order to restore the credibility of the budget system, the cash management system introduced a few years ago will be enhanced and the Treasury will endeavour to meet the exchequer issues to Ministries in a predicable manner so that planned programmes are implemented on schedule. Ministries, however, will only be provided with resources if they adhere to set budgets and make timely and accurate expenditure returns on all commitments and payments.

In order to eliminate the menace of pending bills, beginning in the new financial year, no accounting officer will be allowed to enter into commitments for any goods or services over and above the set expenditure ceiling for the quarter. The Treasury shall also strengthen its capacity to monitor the budget on a continuous basis to ensure that the overall ceilings for a Ministry or Department as well as the sector ceilings are adhered to in order not to distort the priority allocations.

FINANCIAL OUTTURN FOR 1999/2000

Mr. Speaker, let me now briefly review the financial outturn for 1999/2000 fiscal year. Despite a weak economy, below target revenue collection, and high external debt amortisation requirements, we have managed to keep the budget deficit,

on a commitment basis and before grants, to 0.6% of GDP or Kshs 4.5 billion, down from 0.7% of GDP or Kshs 5.2 billion in 1998/99.

Tight expenditure controls helped restrain the domestic borrowing, which was largely driven by the need to finance the net repayment of foreign loans over the course of the year. This amounted to a net outflow of Kshs 14.5 billion. These net foreign loan repayments along with the current year deficit resulted in Government having to borrow an additional Kshs 10.3 billion shillings from the domestic market, excluding the Kshs 5.1 billion of special bonds issued to clear pending bills.

Revenues

Mr. Speaker, originally, ordinary revenues were estimated at Kshs 174.6 billion plus appropriations-in-aid of Kshs 28.9 billion, making a total of Kshs 203.5 billion. With lower than expected economic growth, however, ordinary revenues are now estimated to be 9.4% below target. I now expect a total of Kshs 163.5 billion in ordinary revenues and Kshs 22.9 billion in appropriations-in-aid.

Expenditures

Mr. Speaker, as indicated in the Supplementary Estimates recently approved by this House, expenditures for the year had to be adjusted downwards to offset shortfalls in revenue. As a result, total expenditures for the year have decreased by Kshs 9.7 billion. Initially, gross recurrent expenditures for the year were projected at Kshs 163.1 billion, including appropriations-in-aid of Kshs 15.0 billion and consolidated fund services of Kshs 36.5 billion. Total gross development expenditures were projected at Kshs 54.1 billion of which Kshs 38.6 billion was appropriations-in-aid. The Supplementary Appropriation Bill adjusted expenditure downwards as follows: total gross recurrent expenditures declined by Kshs 2.1 billion, while development expenditures declined from Kshs 54.1 billion to Kshs 42.4 billion. Consolidated fund service payments, however, increased from Kshs 36.5 billion, to Kshs 38.4 billion, reflecting an additional Kshs 1.9 billion over the Printed Estimates.

FORECAST FOR 2000/2001

Mr. Speaker, let me now turn to the 2000/2001 budget. As emphasised above, this budget has been prepared within the context of the Medium Term Expenditure Framework based on estimates developed over the last six months. In recent weeks, the extent of the drought and hydroelectricity shortage has become clearer. While policies have already been developed to mitigate the adverse effects of this crisis, some of which are contained within this budget statement, and donor assistance is being sought to alleviate its adverse effects, the full economic impact

of this crisis is currently being assessed and its effects on growth and government revenues estimated. There is no doubt that it will reduce government revenues and will require some expenditure re-allocations and cut-backs. The full extent of these expenditure adjustments will be announced as soon as estimates are completed.

Revenue

Mr. Speaker, the total revenue target for fiscal year 2000/01 is Kshs 203.3 billion or nearly 24% of GDP. This is comprised of Kshs 182.3 billion in ordinary revenues and Kshs 20.9 billion in appropriations-in-aid .

Expenditure

As Honourable Members have already noted from their copies of Printed Estimates, gross recurrent expenditures for 2000/01 will be Kshs 190.3 billion. This includes Kshs 16.8 billion financed by appropriations-in-aid. Consolidated fund service payments will take up Kshs 36.9 billion, leaving Ksh. 151.4 billion for discretionary expenditures. The CFS payments include Kshs 21.5 billion for domestic interest; Kshs 9.1 billion for foreign interest; and Kshs 6.3 billion for pensions, salaries of constitutional officers and contributions to international organisations.

Mr. Speaker, gross development expenditures for 2000/01 will be Kshs 38.4 billion. This will include Kshs 23.1 billion financed by appropriations-in-aid including direct project financing of Kshs 8.0 billion in loans and Kshs 10.9 billion in grant commitments, and Kshs 4.2 billion realised as appropriations-in-aid from domestic sources.

External Financing

Mr Speaker, I have received commitments of project grants of Kshs 12.5 billion from both multilateral and bilateral development partners to finance development expenditures. In addition, Kshs 11.4 billion has been committed in project loans.

As Honourable Members are aware, negotiations with the Bretton Woods institutions are at an advanced stage with conclusion expected in July 2000. Based on this new IMF programme in 2000/01, I expect to receive Kshs 7.5 billion in programme grants and Kshs 14.4 billion in programme loans. Under the programme, the fiscal deficit (on a commitment basis and excluding grants) will be held to Kshs 14.8 billion or 1.8% of GDP.

With the additional programme loans, and with the planned rescheduling of Kshs 12.6 billion in external debt, I now expect foreign financing to provide a net

inflow of Kshs 456 million to help reduce the domestic debt. In addition, expected capital receipts from privatisation of Kshs 10.0 billion will be used to reduce domestic debt. After allowing for cash payments of pending bills and foreign interest arrears, and excluding the issuance of Kshs 3.3 billion in special bonds to pay off the remaining pending bills, I expect to be able to reduce domestic debt by Kshs 9.1 billion or 1.1% of GDP.

TAXATION PROPOSALS

Mr. Speaker, as already mentioned, I plan to raise Kshs 203.3 billion in total revenues. Based on an economic growth rate of 2.65%, the basis of which is described in the IPRSP, and current taxation structures, revenues will fall short of the total revenue target by Kshs 8.6 billion. The rest of my speech outlines the tax measures I intend to take to raise the revenues to bridge this gap.

General overview

Mr. Speaker, as already mentioned, I am faced with the difficult task of making up revenue shortfalls in a slow-growth economy and, at the same time, finance poverty reduction programmes and provide growth-enhancing investment incentives. To the maximum extent possible, revenue enhancement will be achieved through base-broadening and enforcement measures, but it will also require tax rate increases that will not jeopardise investment or put an unfair burden on the poor.

Much of the burden of enhanced revenue collection will be sought from the Kenya Revenue Authority. They have established a medium term corporate strategy that not only seeks greater effectiveness and efficiency in tax administration, but also will make KRA more supportive of taxpayer compliance through improved taxpayer education and information. In the medium term, KRA will become the collector of all Government revenues, and therefore in this budget I will continue the process of shifting revenue administration responsibilities to KRA to ensure that their expertise and low cost of collection will lead to enhanced revenue receipts.

Mr. Speaker, Customs will be a major target area for strengthening the administrative capacity of KRA. Part of this capacity development will involve Customs assuming greater responsibility for import valuation and inspection. Over the course of 2000/01, the Government will tender for new pre-shipment inspection and import verification contracts that will reduce the role of these agencies through more selective and cost-effective targeting of their services.

Mr. Speaker, in keeping with tradition, I now request that the remainder of my Speech be regarded as a Notice of a Motion to be moved before the Committee of Ways and Means.

Customs Measures

I will start with the Customs measures that have no direct revenue implications.

First, to further support the implementation of the GATT rules for Customs Valuation legislated last year, I propose to establish a Tribunal for the resolution of appeals concerning customs values. This will provide a more transparent dispute resolution mechanism.

Second, to assist the motor vehicle assemblers, recognizing that world-wide sourcing of parts has now become standard practice, provisions will be introduced to allow completely knocked down kits to be sourced from multiple countries. In addition, it is proposed that longer periods for holding assembled motor vehicles in bond will be allowed for approved assemblers.

Third, with the expanded use of inland dry ports and transit sheds proposals are being made to mandate operators to have proper goods handling facilities and to bear the costs of disposal of condemned goods under their control. In addition, to cater for the time taken to transport goods to inland dry ports, normal 21 days allowed for entry of goods shall commence from the date of arrival of the goods at the port.

Fourth, diversion of duty-exempt manufactured goods designated for export, particularly vegetable oil products, has been a source of major concern. To discourage this practice, it is proposed to increase the fines on this offence significantly up to the higher of five hundred thousand shillings or three times the value of the goods. In addition, to deter the sale of adulterated refined petroleum products, a new fine of up to five million shillings and forfeiture of the goods is proposed.

Fifth, to minimise red tape, the responsibility of the KRA to approve charitable donations for exemptions is increased by raising their duty exemption limit from Kshs 100,000 to Kshs 500,000.

Sixth, it is proposed to raise the general fine for offences under the Customs regulations from a maximum of Kshs 200,000 to Kshs 500,000.

Seventh, to reduce bureaucracy, it is proposed to raise the amount of warehouse rents, interest and penalties that Customs Commissioner, along with interest and penalties that the Commissioners of VAT and Income Tax can waive for deserving cases without reference to the Minister for Finance from Kshs 100,000 to Kshs 500,000. These Commissioners, however, will have to provide quarterly reports of these waivers to the Minister for Finance.

Eighth, to assist the tea industry in verifying tea exports for purposes of the EPPO programme, tea sold at the Mombasa auction shall be deemed to have been exported.

Ninth, an updated listing of pharmaceutical raw materials and packaging for exempt importation by registered pharmaceutical manufacturers is being gazetted.

Tenth, Lokichoggio Airport will be gazetted as a Customs Airport and Customs will commence collecting the Airport Service Charge at Lamu and Lokichoggio Airports effective 1st July, 2000.

Mr. Speaker, I now turn to customs measures with direct revenue consequences.

First, the Government recognises that the manufacturing sector has been going through difficult times as their competitive position has been eroded by high domestic costs arising from high interest rates and poor infrastructure, particularly transport and energy supply problems. Low world commodity prices in recent years have also lowered product prices, and the opening up of trade within COMESA is posing competitive problems. To assist manufacturers weather this storm and level the playing field with countries in the region, I propose to lower the duty rates on key raw materials and inputs into the manufacturing sector. All items in the 10% tariff band along with selected inputs in the 15% band will be lowered to 5% and a range of key primary raw materials currently in the 10% and 5% tariff bands will be lowered to 2.5%. These raw materials include crude vegetable oils, rubber, basic metals and minerals.

Mr Speaker, over the past three years the Asian and South American currency crises led to the use of suspended duties to provide temporary relief against falling international prices. This has led to a complex web of tariff rates which now need to be unravelled into a simpler and more transparent structure. Accordingly, all suspended rates will be combined with regular tariff rates, except for the suspended duty rates on oil products. At the same time, the top duty rate will be capped at 40%, excluding the rates applicable to the major agricultural commodities. This will reduce the number of tariff bands from 13 to 9, excluding tariffs on sugar. Within this structure, the duty rates on a limited range of products, including footwear, biscuits, and soaps, will be raised. At the same time, the duty rates on a range of paper products not produced in Kenya have been lowered to assist the printing and converting sector.

Mr Speaker, while high duty rates have afforded manufacturers some added protection in recent years and sustained businesses through difficult times, in the long run, these high duty rates lead to high domestic costs making Kenyan businesses

internationally uncompetitive. Kenya will also be working towards harmonising its tariff structures with those of COMESA and EAC trading partners to establish a common external tariff. Accordingly, a review will be undertaken over the coming year on how to reduce further and rationalise tariff structures. Particularly important will be the identification of sectors with the potential for high domestic value added and employment creation which can remain the focus of future protection.

Second, Mr Speaker, as part of restructuring of the tariffs and removal of suspended duties, special attention has been paid to the major agricultural commodities to ensure that these key sectors receive adequate and sustainable protection. The current drought conditions, however, are necessitating the lowering of duties on maize and milk to ensure domestic supplies are supplemented with imports. Furthermore, following the declaration by H.E. The President of the drought situation as a national disaster, on 13th June, the import duties on maize have already been reduced to facilitate both the private sector and donor sponsored imports of maize to relieve the domestic shortage.

Special attention has been paid to restructuring the duties on sugar. A package of policies has been designed to simultaneously enhance support to the domestic sugar industry and also lower costs for the domestic food and beverage processing industries. The duty rate on refined industrial sugar will be set at 70% and that on other sugar at 100%. Domestic manufacturers will be able to get remission of 65% of the duty charged on industrial sugar for production for the domestic market through applying for remission through the Essential Goods Production provisions of EPPO. The bonding and control provisions of the EPPO programme will afford better control against diversion of such industrial sugar into the domestic market. With the high regular duty rates on sugar imports, the levy charged by the Kenya Sugar Authority on imports will be lowered from 20% on industrial sugar and 40% on other sugar to 7%, the same rate charged on domestic production. This will both remove the previous trade distorting effects of this levy and lower the costs of food and beverage production making Kenyan businesses more competitive in the regional market.

Third, to help alleviate the costs of the energy crisis and encourage private sector participation in power production, I am proposing a number of measures to support equipment purchase and duty rebates on fuel for emergency power supply. All electrical generators and generator sets will be made duty free and VAT exempt. Wind and solar powered generators will be zero rated under the VAT. Duty, tax and IDF fee exemptions will be available for the importation of equipment and parts for the rehabilitation of generators and for emergency power supply.

A special programme will be established in conjunction with KPLC to encourage institutions and companies with generators over 100KVA in capacity to

self supply rather than use grid power. Based on metre readings by KPLC of energy self-supplied, registered companies will be able to get duty rebates on a prompt basis from KRA/Customs as well as compensation from KPLC for the added costs of using their own equipment rather than drawing power from the grid. In addition, approved emergency suppliers of power to the national grid will be able to get duty free fuel supplies. I am also proposing to allow companies operating under manufacturing under bond for export arrangements to purchase residual fuel oil free of duty, and for EPZ enterprises to import duty free fuels for their stand-by generators.

Fourth, oil condensates have recently started to be imported so that a new import category has been created to cater for them with the same duty rate as kerosene.

Fifth, under COMESA agreements, duties on imports from COMESA countries of origin will be reduced to zero by October 2000. These import duty reductions, however, will be applied on a reciprocal basis. This means, for example, that imports from a country offering only a 60% duty reduction on Kenyan exports will only receive a 60% reduction in the Kenyan import tariff. Stiff application of the rules of origin will also be applied. In product categories where it is highly improbable that exports from other COMESA countries meet the country of origin rules, such as paper products, Kenya will require confirmation by Kenyan trade and customs officers that the particular products from the particular factories and countries are compliant based on on-site visits.

Sixth, to reduce road carnage and entry of unroadworthy used vehicles, I propose to raise the surcharge on large buses and lorries over 5 tonnes over five years old to the higher of 20% or Kshs 100,000. Imports of these types of vehicle over eight years old along with used tyres will be prohibited.

Seventh, to enhance the control over the issuance of Import Declaration Forms, the IDF fee will be divided into two parts: a fixed application fee of Kshs5,000 that will be collected at the time of application and any balance of the *ad valorem* fee at the time of importation.

Eighth, to promote motorcycle rallying as a sport, I propose to allow importation of duty exempt motor cycles for approved rallies and entrants. To prevent abuse of the exemptions for motor cars and cycles for rallying, I am proposing that these vehicles become dutiable if they do not participate in the approved rally or are otherwise disposed of to persons without duty-free privileges.

Finally, I am proposing to continue the process of reducing non-essential exemptions and tightening their administration. This is necessary not only for revenue reasons, but also to cut out abuse of these privileges. For next financial year,

import exemptions for donated passenger cars and minibuses, goods won in a raffle, films and projectors will be discontinued.

Mr Speaker, while these measures will result in loss of Kshs 955 million from estimated revenues, this cost is considered a worthwhile investment in the economy. These measures will come into effect from midnight tonight.

Excise Measures

First, under the excise duty, in order to continue the rationalisation of duty rates within the East African Co-operation, I propose to reduce the duty rate on malt beer from 90% to 85%.

Second, to strengthen the control over undutied cigarettes offered for retail sale entering either through import smuggling or through diversion of cigarettes intended for export, I am proposing to introduce excise stamps for all cigarette packages. This will improve the inventory control and allow the easy identification of duty paid, smuggled and diverted cigarettes. To offset the cost of these stamps to the importer or manufacturer, the excise duty rate on tobacco products will be lowered by five percentage points.

These measures in conjunction with stricter administration of excisable goods and higher penalties on improper trading and handling excisable oil products will increase revenues by Kshs 77 million. The changes in excise duty rates will come into effect at midnight tonight.

VAT Measures

First, Mr Speaker, as already emphasised the Government is faced with meeting a significant revenue shortfall as well as the need to provide investment incentives to restart economic growth. The VAT has become a broad based and stable source of revenue. As a tax on consumption expenditures, it also avoids dampening investment incentives. Furthermore, in exempting unprocessed food and other agricultural products, it excludes most of the consumption expenditures of the poor, particularly those in rural areas. Therefore, the VAT has been targeted to bear the burden of meeting the revenue short fall. The standard VAT rate will be increased by 3 percentage points from 15% to 18%, and the rate on hotel and restaurant service will go up from 13% to 16%. These rate increases will bring the Kenyan rate closer to the rates prevailing in the East African region. I will also be proposing increases in the income tax reliefs to offset the effects of the VAT increase on low income workers.

Second, to encourage investment and exports, the provisions for refund of excess input deductions will be amended to hasten refunds. In place of the current practice of only making refunds available to those in a regular refund position, refunds will now be available to all businesses based on their making zero rated supplies or undertaking major investments in physical capital. In the case of investment, once the plant and equipment has been put in use and the excess input deduction exceeds one million shillings, the business will be able to apply for a refund. This removes a major cash flow cost of investment.

Third, Mr Speaker, currently services are subject to VAT if they are included in a schedule of taxable services. In order to expand the VAT base and move to the more standard structure used internationally, I propose to make all services subject to VAT except those appearing on a negative list specifically exempting them. This negative list will include health, education, and financial services amongst others. All services currently subject to VAT will remain taxable. The new system will come into effect on 1st January 2001 in order to give service providers time to study the exempt services and apply for registration.

Fourth, the switch to a negative list to identify taxable services will effectively result in gaming and betting services becoming subject to VAT. Accordingly, to avoid doubling the tax burden on this sector and to simplify the tax system, I am proposing to amend the Betting, Lotteries and Gaming Act to discontinue the taxes on these gambling activities from 1st January 2001.

Fifth, to further expand the VAT base, I propose that the tax point for prepared and preserved food items which are already taxable at the manufacturing level and are generally consumed by higher income groups be made taxable through to the retail level. Basic food items, however, will not be taxable at the retail level. By contrast, to cut tax administration costs, I propose to remove zero rated goods from being taxable at the retail level. These changes will come into effect from 1st September, 2000.

Sixth, to provide greater certainty about the time of supply of services in the construction sector, I propose to define this tax point in terms of the issuance of certificates of completion of work by an architect, consultant engineer or other appropriate supervisory professional.

Seventh, Mr Speaker, tax on construction service and building materials are deductible inputs when the newly constructed building is used in the production of taxable supplies, but not otherwise. To expand the tax base and prevent tax evasion, I propose to require that these input deductions be repaid when there is a change of use of the building to exempt activities.

These VAT measures will increase revenues significantly by Kshs 7, 369 million and will assist to finance the expenditures on infrastructure and social programmes. The changes in VAT rates will go into effect from midnight tonight.

Income Tax Measures

First, Mr Speaker, my primary concern is to protect the incomes of low income workers from bearing an unfair share of the tax burden. I am therefore proposing to raise the personal relief significantly by 20%. This will increase the minimum monthly taxable income amount from Kshs 8,000 to Kshs 9,440. It will also remove some 200,000 low income employees from the tax rolls. This measure will be strengthened by the cancellation from 1st January 2001 of the payroll component of the Local Authority Service Charge which is largely a tax on low income workers. These combined measures will shield low income workers from any adverse tax increases from the higher VAT rate. In addition, to prevent any inflation-induced "bracket creep", I propose to increase the bracket widths by 5%.

Second, to encourage investment in industrial buildings, machinery and equipment (including power generators), I am proposing to increase temporarily the investment deduction rate from 60% to 100% through the end of 2001. This measure will be effective for investments put in use by businesses in financial years starting on or after 1st July 2000. To accelerate investment expenditures, the investment deduction rate will be reduced back to 60% in steps over the next three years. This measure will encourage investment in physical capital by the private sector, which is key to restarting growth.

Third, to further encourage investment, I am proposing two amendments to the duty offset provisions for large capital investments to make it more effective. (1) The duty offset will become refundable if the company can show that use of the investment deduction resulted in it having insufficient tax against which to offset the duty. (2) Any duty offset claimed will be added to the dividend tax account to avoid it resulting in any compensating tax being payable.

Fourth, to encourage savings for retirement and to increase the pool of risk capital available to businesses, I propose to increase the tax deductible contribution limit to registered pension funds by Kshs 30,000 to Kshs 210,000 per employee per year.

Fifth, to ease the financial burden of home ownership, I propose to increase the amount of mortgage interest that is deductible from Kshs 56,000 to Kshs 100,000.

Sixth, to improve tax compliance by companies and other businesses providing consultancy, agency and contracting services, I am proposing to introduce a two

percent withholding tax on gross payments in excess of Kshs 24,000 in a month. This will replace the withholding tax that already applies to individual consultants, agents and contractors.

Seventh, to broaden the collection of withholding taxes on management and professional fees paid to non-residents, I propose to widen their definition to include agency services:

Eighth, to improve the efficiency of the distraint process for collecting tax arrears, I am amending the distraint rules to allow a distraint agent to proceed with a distraint order without the presence of a tax officer.

These measures, in conjunction with enhanced administrative effort, particularly in arrears collection, will raise an additional Kshs 1,100 million.

Other Miscellaneous Measures

Turning to miscellaneous measures, I am proposing the following changes:

First, in response to complaints by businesses in manufacturing and other sectors about the proliferation of charges, which raise the cost of raw materials, I am proposing to cancel a number of inspection charges on imports and fund these inspection services through appropriations-in-aid out of the import declaration form fee charge that already funds the pre-shipment inspection and import verification services. Accordingly, the import inspection charges of the Kenya Bureau of Standards, the Horticultural Crop Development Authority and the Kenya Plant Health Inspectorate Service will be cancelled.

Second, Mr Speaker, a systematic policy of the Kenya Revenue Authority assuming the responsibility for revenue collections of the Government is being followed in order to lower collection costs and increase accountability. Accordingly, a number of additional revenue items will be collected by KRA in 2000/01. These include the standard levy on domestic producers charged by the Kenya Bureau of Standards, the levy charged by HCDA on horticultural exports, and the Kenya Sugar Authority Levy. Further amendments to the Stamp Duty Act will be brought to Parliament to facilitate the implementation of stamp duty collections by KRA, which will also commence collection of civil aviation fees as ordinary revenues early in the new financial year. Finally, financial provisions have been made to assist with the restructuring of the Catering Training Levy Trust to allow the transfer of the collection of the levy to KRA as had been announced in the Budget last year.

Second, to increase the transparency of tax administration, amendments are proposed to the KRA Act that will require KRA to publicise its annual accounts within six months of end of each financial year.

Third, to remove the double trade licence fees on accountants, advocates, doctors, architects and other professionals, I am proposing amendments to their various controlling Acts to cancel the trade licensing fees payable to central government. They will be required to pay the Single Business Permit to local authorities. In addition, the consequential changes to the Trade Licensing Act are proposed to effect the removal of trade licensing fees for professionals.

Fourth, to further encourage the use of Nairobi Stock Exchange to raise capital, amendments are proposed to the Stamp Duty Act to provide exemptions from stamp duties for new and expanded listings of stocks and for the transfers involved in the creation of asset-backed securities, such as mortgage backed securities.

Fifth, I am proposing two amendments to the Local Government Act. (1) To discourage delays in payment of the Single Business Permit, a fine of 3% per month will become chargeable on all late payments. (2) The Local Authority Transfer Fund requires local authorities to implement their budgets promptly in order to comply with disbursement conditions. This requires the Ministry of Local Government to accelerate their budget reviews and approvals. To ensure this happens, local authority budgets will be approved within 60 days.

Sixth, to ensure the proper use of funds disbursed under the Local Authority Transfer Fund, the LATF Act will be amended to allow one-half of one percent of the funds to be used for operational expenditures relating to dissemination of information to local authorities, monitoring compliance with LATF disbursement conditions and reporting on Fund activities.

Seventh, to promote the safe handling and discourage fraudulent dealing in petroleum products, I am proposing amendments to the Petroleum Act that will raise the fines significantly up to Kshs 2 million for unlicensed storage, transport, handling of and trading in petroleum products or failure to follow proper procedures or rules for petroleum products.

Eighth, to increase the flexibility of the use of Export Processing Zones, amendments are proposed to the EPZ Act to licence enterprises for commercial activity such as the supply goods to other EPZ enterprises or re-export to other countries, but to limit unfair competition with businesses undertaking similar regional trading business outside the Zones, no income tax breaks will apply to such commercial EPZ enterprises.

Ninth, currently the Airport Passenger Service Charge Act requires payment by passengers in transit forced to leave the airport due to circumstances beyond their control. An exemption will be provided for this anomaly. In addition, to harmonise with international practice, the monthly IATA exchange rate will be used for assessing the charge.

Tenth, Mr Speaker, while Retirement Benefits Act provides the legal framework for all retirement benefits and supercedes other laws on this matter, it is important that this Act not create conflicts with banking and revenue laws. Accordingly, I am proposing amendments so that it does not prevail over the Central Bank of Kenya Act and any revenue law. I am also proposing to clarify the definition of an actuary to include all fully qualified actuaries under internationally recognised actuarial professional organisations.

Eleventh, under the Insurance Act a number of limits have not been adjusted for inflation. Therefore, I propose to raise the limits for compensation for the death of a child under ten years, and the right of the Commissioner to arbitrate on small life policies amongst others.

Twelfth, significant amendments were made to the Banking Act last year to ensure the strengths of banks to meet the challenges of the global financial markets and to comply with regional and international standards. I am proposing a number of additional amendments. (1) When banks are licensed, the integrity and competence of the owners are vetted. Consistent with this policy, any transfer of more than 5% of the shareholding in a bank will now require prior approval by the Central Bank. (2) To facilitate the merger of banks, particularly small ones, detailed provisions are proposed covering the modalities of amalgamating institutions and the transfer of assets, liabilities and agreements. (3) To help the enforcement of prudence in the banking system, clarifications are proposed to the terms "fraudulent" and "reckless" behaviour. (4) To promote co-ordination of the regulation of financial markets within Kenya and the region, provisions are proposed to allow the exchange of information between the Central Bank and other monetary and financial authorities. (5) Amendments will also be proposed to allow for the establishment of credit reference bureaus to help reduce the incidence of poorly performing loans in the banking sector.

Finally, to further enhance confidence in the financial markets, there is a need to severely discourage the issuance of bouncing cheques. I am therefore proposing amendments to the Penal Code to make a criminal offence the issuing cheques with insufficient funds or using such cheques to raise loans or misrepresent the financial status of an institution. In addition, with the development of computerised banking and business operations, I am making proposals to update the Evidence Act to provide

for the conditions under which computer print-outs or statements can be admissible documents as evidence.

The miscellaneous tax measures announced above will raise an additional Kshs 1,025 million in revenues.

CONCLUSION

Mr Speaker, this Budget represents a new beginning for Kenya. **First**, we have employed new approaches to budgeting. The use of the Medium Term Expenditure Framework and the development of a Poverty Reduction Strategy have allowed Kenyan stakeholders from the public and private sectors to participate actively and in a systematic fashion in setting objectives and priorities and identifying the policy measures that went into the preparation of this Budget. We can truly say that we have presented a Budget by Kenyans for Kenyans. **Second**, far reaching reforms in improving governance have been implemented this year, and further measures will be implemented in the upcoming year that will improve the capacity, professionalism and integrity of the public sector to ensure that the measures contained in this Budget are efficiently implemented. Kenyans not only want the Budget they deserve, but they also expect to receive the public services that the Budget finances. **Third**, this Budget also represents the beginning of a new relationship with our development partners. They have provided constructive assistance in the development of this Budget, which incorporates substantial funding commitments from external sources. I look forward to strengthening this productive relationship in the coming year.

The combination of these planning procedures and policy measures will establish a strong platform and provide investors at home and abroad with greater confidence in our economy that will provide a solid basis for economic recovery and poverty reduction.

Mr Speaker, it is regrettable that the recent onset of severe drought conditions are going to make the next financial year more difficult than we had originally planned and hoped for. Fortunately, the good relationships that we have developed with our Kenyan stakeholders and development partners in the preparation of the Budget and reform programme are already providing a productive working relationship to develop the emergency relief measures to deal with food and electrical power shortages. These measures will be implemented on a urgent basis over the next few months such that the worst effects of the drought can be alleviated. At the same time, we will reassess the economic and fiscal situation in order to make the adjustments necessary to the Budget to accommodate the fiscal impacts of the drought and additional donor assistance that we are seeking.

As an indication of my deep concern over the drought-induced economic problems, and to set the ball rolling in our quest to save our meagre resources, the traditional Budget Party that Ministers of Finance have held following the Budget Statement in past years will not be held today. I do hope that Honourable Members will endorse this decision fully.

Finally, Mr Speaker, I will conclude with what has been a traditional appeal by Ministers of Finance for co-operation amongst all Kenyans to pull together in a constructive fashion to achieve our national development objectives. The difference this year, however, is the seriousness of the challenges that we currently face. As H.E. The President has already pointed out, this drought is one of the most severe that the economy has faced. I appeal with all sincerity to all Kenyans to adopt a positive attitude, display commitment and participate fully in our efforts to overcome this emergency and move on to achieve the economic growth that we all seek in order to rid Kenya of the scourge of poverty.

Mr Speaker, I beg to move.

Thank you.

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ANNEX
CORE POVERTY PROGRAMMES FOR 2000/01

RECURRENT VOTE

	Kshs million	
	1999/2000	2000/2001
TOTAL RECURRENT VOTE	6,785.8	9,115.3
(NON-WAGE)		
PRIMARY EDUCATION	473.9	586.6
Early Childhood programme	3.0	3.0
Expenses of Primary Schools	65.0	79.0
School Equipment Scheme(Text books)	262.4	346.1
School Feeding Programme	113.5	123.5
Primary Schools for Handicapped	30.0	35.0
SECONDARY EDUCATION	614.0	670.3
Bursary	500.0	536.0
Schools for the handicapped	9.0	19.0
Others	105.0	115.3
HEALTH	1,648.0	2,043.9
National Aids Control Programme	6.4	5.9
Sexually Transmitted Infections	5.7	6.1
District Hospitals	862.1	968.2
Mental Health Services	66.7	72.2
Spinal Injury Hospitals	10.1	13.9
Dental health Services	12.4	14.3
Environmental Health Services	5.7	6.6
Communicable and Vectorborne Diseases	34.1	94.3
Nutrition programme	3.6	4.8
Family Planning Maternal and Child Health care	12.5	73.2
Rural Health Centers and Dispensaries	593.3	740.4
Rural Health Training and Demonstration centres	35.5	44.0
OTHER SOCIAL EXPENDITURES	4,049.9	5,814.6
National Aids Council (Office of the President)	3.0	140.0
Maize Safety Net (Office of the President)	700.0	1,500.0
Probation and After Care Services (Home Affairs)	51.5	109.8
Prisons Department -Borstal Institutions(Home Affairs)	16.3	15.9
Prisons Staff Training College (Home Affairs)	15.3	72.7
Security Expenditures (Police Department OP)	2,915.3	3,409.6
Forestry and plantation Development (Environment)	13.9	20.9
Local Afforestation (Environment)	1.4	2.3
Water Resource Pollution Control (Environment)	2.1	2.1
District Environmental (Environment)	6.2	13.8
Rural Urban & Special Water Programmes (Environment)	1.3	5.8
Purchase of Farms(Lands and Settlement)	35.0	50.8
Crop & Livestock Disease & Pest Control (Agriculture)	173.3	213.2
Extension Services (Agriculture)	115.3	257.7

DEVELOPMENT VOTE

TOTAL DEVELOPMENT VOTE	Kshs million	
	1999/2000	2000/2001
	9,304.9	11,204.8
EDUCATION, SCIENCE AND TECHNOLOGY	1,313.1	1,084.7
School Feeding Programme	321.2	344.0
Early Childhood Programme	504.9	486.6
Curriculum Support Services	487.0	254.1
HEALTH	1,735.4	2,133.0
Health Development project IDA	0.0	102.0
Revolving Drug fund	36.0	18.0
Supply of Medical Equipment	402.0	539.9
Decentralization of District Health	26.8	9.5
Health sector Reform	210.0	200.0
Environmental Health Services	3.7	14.6
Rural Health Centres & Dispensaries	1,054.7	1,209.4
Rehabilitation of Motuaries	0.2	3.2
Rehabilitation of District Hospitals	2.0	36.4
OTHER SOCIAL EXPENDITURES	6,256.4	7,987.1
Poverty Eradication Unit (OP)	61.9	35.5
El-Nino Emergency Project (OP)	3,085.3	1,363.3
Relief Rehabilitation & disaster Programme (OP)	177.3	643.0
Arid Lands Resource Management Project (OP)	320.6	532.6
Community Conservation Development Turkana(Home Affairs)	20.5	15.5
Food & Rations -Refugees (Home Affairs)	156.3	156.3
Community Development Project (Home Affairs)	57.8	61.4
Community Based Nutritional Programme (Home Affairs)	76.8	160.0
Grants to women Development Projects (Home Affairs)	0.4	4.3
Grants to women in Development (Home Affairs)	10.0	6.0
Gender Equity In Decision Making (Home Affairs)	9.6	4.4
HIV /AIDS Awareness Programme (Home Affairs)	8.0	2.7
Gender Mainstreaming & Empowerment of Women (Home Affairs)	14.0	28.0
Minor Roads Programme (Public Works)	1,449.2	2,457.4
Construction of Water Supplies- Special water Programmes (Environment)	209.4	530.5
Water Conservation Structures-Rural Programmes(Environment)	1.8	119.4
Construction of Water Supplies-urban Special Programmes(Environment)	153.0	227.0
Water Rights (Environment)	1.8	60.0
Forestry Development (Environment)	95.6	102.7
Community Development (Finance and Planning)	13.9	549.4
Veterinary Farms Development (Agriculture)	2.1	9.8
Fisheries Development (Agriculture)	6.2	64.8
Facilitation and Supply of Agriculture and Livestock extension Services(Agriculture)	1.3	330.7
Monitoring and Management of Food Security(Agriculture)	35.0	106.6
Grain Storage and Handling(Agriculture)	173.3	404.7
Crop and Livestock Disease and pest control(Agriculture)	115.3	11.1
GRAND TOTAL (RECURRENT VOTE + DEVELOPMENT VOTE)	18,609.8	20,311.1

Eighth, various fees under the Aviation Act have not been changed since 1996. To bring these charges close to their administration and processing costs, these will be adjusted by 50%.

Ninth, various immigration fees will be increased by an average of 25%.

Tenth, under the Airport Passenger Service Charge, to simplify collections, I am proposing amendments to have the charge collected at the time of issuing airline tickets by the airlines or their agents, effective from 1st September, 1998.

These other measures will decrease revenues by K£84.5 million, but increase the estimated receipts of appropriations-in-aid by K£99.5 million.

CONCLUSION

Mr. Speaker, the major challenge facing our nation today is how to move our economy to a high growth path, which is a must if we are to eliminate unemployment and poverty. We can achieve the desired growth only if there is a substantial increase in private investments. This will occur only if bold measures are urgently taken to reduce the high domestic debt and interest rates, improve infrastructure and delivery of public services, improve efficiency of the public sector, improve public security and administration of justice, improve economic governance and reduce corruption. The proposals I have presented to the House are aimed at addressing these critical issues. In particular, I am asking all of you to tighten your belts so that we can achieve a balanced budget this year and thereafter achieve surpluses. This is the only viable option we have to reduce domestic debt and interest rates. The measures I have prescribed towards this objective are painful and will require all Kenyans to be ready to pull together if we are to succeed. As I said earlier, we need to urgently build a national economic purpose around new ambitions for our country. We have done it in the past when we were struggling to gain our Independence. I am confident we can do it again now against our common enemy, unemployment and poverty.

Mr. Speaker, I would like to appeal to all the Honourable Members, and all Kenyans, as our National Anthem beseeches us "Let one and all arise, In common bond united, Build this our nation together." If we have the will, we can turn this economy around within the next two years.

Mr. Speaker, I beg to move.