NATIONAL ASSEMBLY

OFFICIAL REPORT

Thursday, 14th June 2018

The House met at 2.30 p.m.

[The Speaker (Hon. Muturi) in the Chair]

PRAYERS

COMMUNICATION FROM THE CHAIR

ANNUAL GENERAL MEETING OF CPA-KENYA BRANCH

Hon. Speaker: Could the Members making their way in take their seats, please? Order Members!

Hon. Members, the Commonwealth Parliamentary Association (CPA) is an international community of Commonwealth parliaments working together to deepen the Commonwealth's commitment to the highest standards of democratic governance. The Association connects parliamentarians and parliamentary staff from over 180 national, state, provincial and territorial parliaments and legislatures across the Commonwealth through its network. Members of the legislature in which a branch is formed are entitled to become Members of that branch or life members after paying a modest annual fee. Every branch is autonomous and has an Executive Committee elected annually by Members and is usually representatives of all main parties. The Association also has other organs such as the Commonwealth Women Parliamentarians (CWP) elected or nominated by Members.

Having said that, and in keeping with the requirement of Rule 21 of the CPA Kenya Branch Rules, I wish to notify you that there will be an annual general meeting (AGM) of the CPA-Kenya Branch on Thursday, 21st June, 2018, in the National Assembly Chamber starting at 10.00 a.m., comprising of all Members of Parliament. All Members are invited to this inaugural meeting of the Branch. I have requested the branch secretary to circulate the agenda of the AGM, a brief on the CPA, the list of positions which require to be filled and any other related documents by close of business by Monday, 18th June, 2018.

Additionally, Hon. Members are requested to register as CPA Members with the Office of the Clerk of the National Assembly - who is the Branch Secretary - on or before 9 a.m. on Thursday, 21st June, 2018. Registration forms will be available at the main reception, Main Parliament Buildings from Monday next week.

PAPERS LAID

Hon. Speaker: There are papers to be laid. Let us start with Hon. Washiali.

Hon. Washiali: Hon. Speaker, on behalf of the Leader of the Majority Party, I beg to lay the following Papers on the Table of the House:

Bilateral Air Services Agreements between Kenya and Jordan, Kenya and Jamaica and Kenya and Bahamas and the Protocol amending the Bilateral Air Services Agreement between Kenya and Turkey and the Cabinet Memorandum.

The Reports of the Auditor-General and Financial Statements in respect of the following Institutions for the year ended 30th June, 2017, and the certificates therein: -

(i) Kenya Technical Training College;
(ii) State Department for Correctional Services;
(iii) State Department of University Education - Vote 1065;
(iv) Mechanical and Transport Fund - State Department of Infrastructure;
(v) National Humanitarian Fund;
(vi) National Quality Control Laboratory; and,
(vii) Mount Elgon Lodge Limited.

The Reports of the Auditor-General and Financial Statements in respect of the following Constituencies for the year ended 30th June, 2016 and the certificates therein: -

(i) Malava Constituency;
(ii) Matungu Constituency;
(iii) Vihiga Constituency;
(iv) Emuhaya Constituency;
(v) Shinyalu Constituency;
(vi) Luanda Constituency; and,
(vii) Kimilili Constituency.

Hon. Speaker: Let us have the Vice-Chair of the Budget and Appropriations Committee.

Hon. Lessonet: Hon. Speaker, I beg to lay the following Paper on the Table:

The Report of the Budget and Appropriations Committee on the County Allocation of Revenue Bill, 2018 (Senate Bill No.11 of 2018).

Hon. Speaker: Let us have the Chairperson of the Select Committee on Regional Integration. Who is tabling the Report? Is it the Chairperson or the Vice-Chairperson? Let us have Hon. Lesuuda.

Hon. (Ms.) Lesuuda: Hon. Speaker, I will receive the Report shortly.

Hon. Speaker: The Report has been brought to me for approval and I have approved it. There is a problem of transmission. If you get it, you will be allowed to table it. Unfortunately, in the next two Orders, we only have Hon. Lesuuda. Make sure you get the Report. Wait until you get the Report. Once reports are brought to my office, the Chairperson or the Vice-Chairperson of the Committee – as the case may be – should pursue the Table Office. We will skip those two Motions.

Let us move to the next Order.

STATEMENTS

BUSINESS FOR WEEK COMMENCING 19TH TO 21TH JUNE 2018

Hon. Washiali: Thank you, Hon. Speaker. Pursuant to the provisions of Standing Order No.44 (2) (a), I, on behalf of the Leader of the Majority Party, rise to give the following statement on behalf of the House Business Committee:

The Committee met this week at the rise of the House to prioritise business for consideration. On Tuesday next week, the House will consider the Second and Third Readings of the County Allocation of Revenue Bill (Senate Bill No.11 of 2018). Afterwards, the House will consider the Copyright (Amendment) Bill, 2017 in Committee of the whole House. We shall also consider the following Bills at the Second Reading;

(i) the Tax Laws (Amendment) Bill, 2018;
(ii) the Warehouse Receipts System Bill, 2018;
(iii) the Land Value Index Laws (Amendment) Bill, 2018;
(iv) the SACCO Societies (Amendment) Bill, 2018;
(v) the Statute Law (Miscellaneous Amendments) Bill, 2018; and,
(vi) the Health Laws (Amendment) Bill, 2018.

I wish to urge the Departmental Committees on Trade, Industry and Cooperatives and on Justice and Legal Affairs to table their reports on the consideration of the Statute Law (Miscellaneous Amendments) Bill, 2018 and the Statute Law (Miscellaneous Amendments) (No.2 Bill of 2018) to allow Members to acquaint themselves with the comments of the Bills before the Second Reading commences.

On the questions before the Committees, the following Cabinet Secretaries are scheduled to appear before the Committees on Tuesday, 26th June 2018:

1. The Cabinet Secretary of the Interior and Coordination of National Government before the Departmental Committee on Administration and National Security to answer questions from:
   (a) Hon. Didmus Wekesa, MP;
   (b) Hon. Martha Wangari, MP;
   (c) Hon. Muturi Kigano, MP;
   (d) Hon. Mohamed Duale, MP;
   (e) Hon. Janet Ongera, MP;
   (f) Hon. Omboko Milemba, MP; and
   (g) Hon. Jeremiah Lomorukai, MP, in the Main Chamber, Parliament Buildings at 10.00 a.m.
2. The Cabinet Secretary for Lands and Physical Planning before the Departmental Committee on Lands to answer questions from:
   (a) Hon. Olago Oluoch, MP; and
   (b) Hon. Godfrey Osotsi, MP, in the Mini Chamber, County Hall at 10.00 a.m.
3. The Cabinet Secretary for Education before the Departmental Committee on Education and Research to answer questions from:
   (a) Hon. Rashid Kassim, MP;
   (b) Hon. Gathoni Wamuchomba, MP;
   (c) Hon. Kimani Kuria, MP; and
   (d) Hon. Godfrey Osotsi, MP, in the Mini Chamber, County Hall at 11.00 a.m.

Finally, the House Business Committee will reconvene on Tuesday, June 19th, 2018 at the rise of the House to consider the business for the coming week. I now wish to lay the statement on the Table of the House.

(Hon. Washiali laid the document on the Table)

Hon. Speaker: I hope Hon. Members have taken note of the fact that the date of the appearances of the Cabinet Secretaries has been deliberately pushed to the 26th June, 2018 as read out by the Chief Whip of the Majority Party.

I needed to also alert Members that, having gone through this exercise of how questions are asked and responded to, the House Business Committee has decided that quite apart from the questions being written and forwarded to the respective Cabinet Secretaries or Ministries, Members will be allowed to read out their questions in the plenary so that every Members knows the nature of the question. This is so that should you feel that there is a necessity for you to also appear before the Committee to seek some further clarification from the various CSs, then at least, the entire Membership of the House is informed.

(Applause)

Therefore, this is intended to also inform the country what kind of questions Members are asking. The other system which we have practiced in the 11th Parliament and the better part of this Session has been found to be a little unsatisfactory. This is because not every Member knows what kind of question a colleague is asking and perhaps you may have something which could be related to which the Cabinet Secretary (CS) could very well address at that particular Session.

That is the reason why we have gone that route.

We will go back to Order No.5 to allow the Vice Chair on the Select Committee on Regional Integration to lay several papers.

Hon. (Ms.) Lesuuda.

PAPERS LAID

Hon. (Ms.) Lesuuda: Thank you, Hon. Speaker. I am the Chair of the Committee.

Hon. Speaker, I beg to lay the following Papers on the Table of the House:

Reports of the Select Committee on Regional Integration on the East African Legislative Assembly, (EALA) Plenary Session held in Arusha Tanzania from 13th -16th March, 2018.

The East African Legislative Assembly (EALA) Plenary Sessions held in Dodoma Tanzania from 14th to 25th April, 2018

The Report on the inspection visit to the Isibania one stop border post in Migori County, from the 22nd to 25th March 2018.

The Consideration of East African Community (EAC) Bills and the Protocol on Cooperation of Metrological services.

Thank you.

Hon. Speaker: Very well Hon. Lesuuda. Sorry for the mistake and information that actually you are not the Vice Chair, but the Chairperson.

Next Order

Hon. Speaker: Hon. Lesuuda, I want to exercise my prerogative under Standing of Order No. 1. Proceed with the notices.

NOTICES OF MOTIONS

REPORT OF THE SELECT COMMITTEE ON REGIONAL INTEGRATION IN ARUSHA

Hon. (Ms.) Lesuuda: Thank you, Hon. Speaker. I beg to give Notice of the following Motions:

THAT, this House adopts the Reports of the Select Committee on Regional Integration of the East African Legislative Assembly, (EALA), Plenary Session held on the13th to 16th March, 2018 in Arusha Tanzania, laid on the Table of the House on Thursday, 14th June, 2018.

REPORTS OF THE SELECT COMMITTEE ON REGIONAL INTEGRATION IN DODOMA

THAT, this House adopts the Report of the Select Committee on Regional Integration on the East African Legislative Assembly, (EALA), Plenary Session held on the 17th to 25th April 2018, in Dodoma Tanzania, laid on the Table of the House on Thursday, 14th June 2018.

THE INSPECTION VISIT TO ISIBANIA ONE STOP BORDER

THAT, this House adopts the Reports of the Select Committee on Regional Integration on the Inspection visit to the Isibania one stop border post on 22nd to 25th March 2015 in Migori County laid on the Table of the House on Thursday, 14th June, 2018.

EAC BILLS AND THE PROTOCOL ON COOPERATION OF METEOROLOGICAL SERVICES

THAT, this House adopts the Report of the Select Committee on Regional Integration on consideration of the EAC Bills and the Protocol on Cooperation of Meteorological Services, laid on the Table of the House on Thursday, 14th June 2018.

Thank you, Hon. Speaker

Hon. Speaker: Very well.

Next Order.

BILLS

Second Reading

THE TAX LAWS (AMENDMENT) BILL

Hon. Speaker: The Bill is published in the name of the Hon. Leader of the Majority Party. In keeping with the ceremony, the Hon. Chair is aware of the ceremonial role that the Hon. Leader of the Majority Party is engaged in right now. If you look at the Order Paper, there is something that should happen not later than 3.00 p.m. I see a number of Members have placed requests. I do not know to contribute to what.

(Laughter)

Hon. Osotsi, Hon. Ndirangu, Hon. Waihenya, Hon. Atandi, Hon.William Kamket, Hon. Alfred Keter.

Hon. William Kamket, what is it that you want to intervene on?

Hon. Kamket: Thank you, Hon. Speaker. I wanted to say something about the manner in which the Cabinet Secretaries (CS) appear before this House to answer questions. I am happy with the move the House Business Committee (HBC) has taken. These are some of the problems we have had to inherit with this Constitution because of the absence of the Executive from Parliament. This is really hurting Parliament in terms of what we want to interrogate and as well do serious oversight of Government. So, as much as the HBC has tried to go a step further, it is time we did more in trying to bring the Executive back to Parliament.

(Laughter)

Hon. Speaker, you can see how Hon. Members are anxious to hear me talk about the Constitution. That is the mood of the country. The mood of the country is to amend the Constitution to bring back some of the issues that make accountability real in this country.

Hon. Speaker: Even as we appreciate what the HBC has done in trying to grapple with the situation, avoid anticipating or campaigning for something that has not been laid on the table of the House.

(Laughter)

Hon. Kamket: I stand guided.

Hon. Speaker: Remember that kind of situation would require another 30 days out there. Maybe now it would be in coit to try to discuss or debate it.

Hon. Kamket: I stand guided. I just wanted to make an observation about the dissatisfactory nature of the mode in which CS respond to the questions.

I had a question earlier and the CS just walked in with no written reply. Up to now, I have never seen the written reply. It takes two to three months to get a response from a CS. That is the frustration we go through as Members of this Assembly. These are real issues that affect Kenyans. By the time the reply comes to the Assembly, some of those answers have been overtaken by events.

It is a very frustrating situation.

Hon. Speaker: The Member for Budalangi, I have not seen any intervention from you. The Member for Budalangi is living in history; those are the antics he remembers from the 8th and 9th Parliament. Nevertheless, Member for Budalangi what is your point of order?

Hon. Wanjala: On a point of order, Hon. Speaker. We are the representatives of the people and what Hon. Kamket is raising is a very serious issue. More than 26 constituencies which some of us represent were protected. As we talk right now, that protection is over. We do not know our fate. That is why you find most of us not being taken seriously when we raise the issue of the Constitution review.

We have a Constitution, but we represent people and we are here on their behalf. We should be taken seriously when we feel Kenyans are pressed. Equally, I asked about army recruitment in Budalangi, it is now five months down the line and I have not been answered. We are frustrated, we are talking to ourselves. We do not make decisions. We need to assert ourselves as Parliament and say we want a Constitution review. This Constitution belongs to Kenyans. It is Kenyans who brought it and they want some changes. Why are they not being given that chance? In fact, we thought the Budget and Appropriations Committee was going to provide money for a referendum. We want a referendum.

Thank you, Hon. Speaker.

(Laughter)

Hon. Speaker: Hon. Wanjala, it is true and I can see you are very passionate about this. However, the Chair can only express sympathy because this is not the business before the House.

(Laughter)

Can we go to Order No.8?

Hon. Mbarire.

BILL

Second Reading

THE TAX LAWS (AMENDMENT) BILL

Hon. (Ms.) Mbarire: Thank you, Hon. Speaker. I beg to move that the Tax Law (Amendment) Bill, 2018 be now read a Second time. By way of introduction the Tax Laws (Amendment) Bill, 2018 seeks to amend three tax related statutes to enhance efficiency, national revenue mobilisation, cushions the public by supporting livelihoods and social economic welfare.

The Tax laws to be amended by this Bill are as follows: The Income Tax Act (Cap 470), The Stamp Duty Act Cap (480) and the Value Added Tax (VAT) Act, 2013 (No.35 of 2013). In summary the Bill seeks to amend the Income Tax Act to introduce a tax on winnings and to enhance the tax incentive to home ownership. The Bill seeks to amend the Stamp Duty Act to provide an incentive to first time home owners and amend the VAT Act 2013 to move some categories of items listed in the Schedule of the Bill from zero-rated VAT status to tax exempt. This is in order to limit zero-rating to exports. Further, the Bill seeks to focus the expansion of the exemption bracket by capturing those supplies that are currently zero-rated or standard-rated.

Hon. Speaker, I now seek to highlight the proposed amendments contained in this Bill. One, the proposed amendments to the Income Tax Act proposes to introduce withholding tax on winnings from betting and gaming at a rate of 20 per cent for non-resident and resident persons. This measure reflects the Governments intention to benefit from the growing betting industry through additional tax collections. This measure was already in the Income Tax Act, but was repealed due to implementation challenges and subsequent measures to tax the betting and gaming companies on their revenue.

The move to reintroduce this withholding tax is aimed at shifting some of the burden from the betting and gaming companies to the punters. The proposed amendment to Section 22C(2) of the Income Tax Act further seeks to increase allowance for depositors of home ownership savings plans from Kshs.48,000 to Kshs.96,000 per annum. The amendment is meant to facilitate potential first time home owners to save for purposes of purchasing or constructing homes.

The proposed amendments to the First Schedule of the Income Tax Act seeks to exempt from capital gains tax and compensating tax licensed Special Economic Zone developers or operators. This proposal seeks to ensure that the impact of the granted tax incentives is not lost at the point of dividend distribution or safe of a stake to other potential investors. The Bill further seeks to amend Section 117(1) of the Stamp Duty Act Cap in order to exempt first time home owners under affordable housing schemes from payment of stamp-duty. As part of the Big Four Agenda the amendment is meant to provide an incentive to first time home owners as it will reduce the transactional costs incurred in the purchase of homes.

Finally, the Bill seeks to amend the VAT Act 2013 to move a number of items currently listed as zero-rated for VAT purposes to the exemptions schedule. This is a move largely geared towards restricting zero-rating of taxable supplies to exports. By default, it is expected that the number of VAT refund claims associated with zero-rating will significantly drop.

Some of the proposed amendments such as exception of taxable supplies imported or purchased for exclusive use in the construction of minimum of five thousand housing units by a licensed special economic zone entity which is also aimed at supporting the housing pillar of the Big Four Agenda.

As I conclude, I wish to assure Hon. Members that the proposals in this Bill comply with the provisions of the Constitution and Standing Orders. The amendments proposed will not only spur economic growth, but also immensely improve the collection of revenue by the country. Further, the proposal will help in realisation of the key pillars of the Big Four Agenda such as access to affordable housing through reduction of transaction costs among other incentives.

Thank you, Hon. Speaker, I beg to move. I now ask the Deputy Leader of the Majority Party, Hon. Jimmy Angwenyi to second the Bill.

Hon. Speaker: Well, the Deputy Leader of the Majority Party is in the House. Hon. Jimmy Nuru Angwenyi Ondieki, Member for Kitutu Chache North.

Hon. Angwenyi: Hon. Speaker, I second the Bill on the grounds that have been enumerated by the Deputy Chief Whip of the Majority Party.

(Laughter)

Hon. Nuh: On a point of order, Hon. Speaker.

The Tax Laws (Amendment) Bill seeks to be amended so that…

Hon. Speaker: The Member for Suna East, What is your point of order?

Hon. Nuh: On a point of order, Hon. Speaker. Despite the old age of the Deputy Leader of the Majority Party. Is he in order, to mislead the House that he was listening to the points as he has said, enumerated by the Mover? Instead, as a seconder, he should have come up with his own points to second the Bill.

(Laughter)

Hon. Angwenyi: Hon. Speaker, I hate repetition. So, I do not want to repeat the points raised by the Deputy Chief Whip of the Majority Party.

With those few remarks, I beg to second.

(Laughter)

Hon. Mbadi: On a point of order, Hon. Speaker.

Hon. Speaker: Hon. John Mbadi, Leader of the Minority Party.

Hon. Ng'ongo: Hon. Speaker, my point of order is this; a Bill on tax laws is very important in this House. I just want to ask whether it is in order for the Majority side to treat this Bill so casually, especially knowing that probably, this Bill may go to the Departmental Committee on Finance and Planning. It would have been proper for the Leader of the Majority Party to delegate the moving of this Bill to the Chairman of the Departmental Committee on Finance and Planning, or even the Chairman of the Budget and Appropriations Committee, so that we could have quality moving and seconding.

(Laughter)

With all due respect, there is no justice that was given to this Bill.

(Loud consultations)

An Hon. Member: On a point of order, Hon. Speaker!

Hon. Speaker: But he is on a point of order.

Hon. Ng'ongo: This is a very serious concern. How on earth can we have Tax Laws (Amendment) Bill being seconded by saying: "I have nothing to say," On a serious note, if we had people from other jurisdictions watching our Parliament, it would be a shame for us if this is the kind of debate we would engage in; especially when it comes to tax laws. This will impose taxes on the people of this country. If Hon. Jimmy Angwenyi was not ready, it would have been proper for him to delegate that to another Member of Parliament. I think it is unfair to this House and the people of Kenya.

(Hon. Angwenyi consulted loudly)

Hon. Speaker: Hon. Angwenyi, you are out of order! Hon. Members, my assumption is that all of you by now understand the rules under which you operate; but they keep constantly changing. If you recall, just recently, when we resumed, there were some Motions that were moved here to give the chairpersons of committees - even after a Bill has been moved by whomever - an almost similar time as the mover because it is the chairperson of the committee who will have gone out there and listened to views from stakeholders. The Chairperson will then inform the House and the country what it is that they have heard from stakeholders. Therefore, since you approve that Motion, you approved it as Hon. John Mbadi. You also know that the owner of a Bill is at liberty to either move it or request somebody to move it on his behalf. On seconding, the seconder may just rise in their place and bow and that will be sufficient. Those are your rules.

(Question proposed)

Hon. Speaker: Member for Seme.

Hon. (Dr.) Nyikal: Hon. Speaker, this is an extremely important Bill on taxes. Therefore, I would seek your guidance whether it is not important. I have looked at this Bill. It is relatively a complex Bill. It is not as simple as it is being put when being moved. Would it be in order, Hon. Speaker, that we actually get the Committee Report on this Bill before we go for full deliberations on it?

Hon. Speaker: Unfortunately, the Member for Seme, by saying whether you may get the Report of the Committee, which you are now telling the whole world that you have not checked on that Report. This is because the Report was prepared and approved by me. It was not even tabled today. It is there. The Report of the Committee on this Bill is out there.

Hon. (Dr.) Nyikal: At the Table Office?

Hon. Speaker: Yes. It has been tabled. You want me to do administrative work from the Chair, which I may not be able to. The Report has been prepared and I have even gone through it myself. It is not even this week. It was done last week and tabled. Hon. Members, the indication I have is that the Chairman of the Committee is ready.

Hon. Junet, do you want to contribute to this one? We have already disposed of the issues you are raising of moving and seconding and the Question being proposed.

Hon. Nuh: On a point of order, Hon. Speaker!

Hon. Speaker: Hon. Junet, what is your point of order?

Hon. Nuh: Thank you, Hon. Speaker. The Motion has been moved properly and the Report, as you said, is available. I even have a copy. However, I was requesting, today being an important day for the national Budget, that, with your discretion, under Standing Order No. 1, you defer this debate to a later date. This is because even the Order Paper says that not later than 3.00 p.m.; we will hear the highlights of the Budget. I do not know whether the Cabinet Secretary (CS) for the national Treasury is still in traffic jam. It is already 3.00 p.m. now as we are speaking and normally he has outriders. I do not know what happened today. I do not know whether it has been reduced to a county executive office or something.

Hon. Speaker: Again, Hon. Junet, I may not be able to address that issue from here. I am sure if it was in the office I would have addressed it. We need to find out from the Leader of the Majority Party what is happening or whether they have not looked at their watches to see the hour.

Nevertheless, there is no harm in the House hearing views of those who have read the Bill and, perhaps, even the Report. I am told Hon. Kimunya is ready to contribute.

Hon. Kimunya: Thank you, Hon. Speaker. I wish to confirm that indeed the Report of the Committee was tabled before this House and for those who were interested; we took the time to pick and read it.

I stand to support the proposed amendments to the Tax Laws (Amendment) Bill 2018. I will start with the one issue that affects each one of us, especially our young children and those who come after them. This is the issue of home ownership. Today, if you bought a House, you would pay 5 per cent stamp duty regardless of whether it is your first time to buy a house or you are trading. The stamp duty depends on where the house is. It is 2 per cent or 5 per cent in different areas. This Bill proposes to remove that for first time home owners. With escalation in house prices, this can only mean one thing; that those who are buying houses… Most of you may not be eligible because you have already bought your houses. But the Kenyans out there who now need to get incentives to own houses will now find a discount there, courtesy of this Bill, of the amount that has been taken by the stamp duty. From that point of view, I support that and wish to say that perhaps we also need to think of the second time owners after the first round as part of accelerating ownership of houses.

Hon. Speaker, the provision on winnings has always been in the law, but it was removed, I think, last year or last year but one. It was changed so that the guys who actually do the betting do not end up paying. The receiver of the revenue has been paying that. What this Bill is trying to do is to say that there will be deduction of the withholding tax at source so that those who are actually betting would deduct the 20 per cent, which is the winning. This broadens the income tax base and at the same time brings everyone who is a participant in gamming to be a player in contributing to our tax revenues.

Hon. Speaker, there are some changes on the Value Added Tax (VAT). I believe that the local manufacturers have been looking at an even playing ground, *vis-a-vis* the foreign counterparts like being fair on medicine that is imported. I know that people have said in many of debate that medicine should become more expensive because of the change from zero rating to exempt status. If the incentives which are being given are to ensure that local manufacturers can be motivated by being put on the same level playfield with the foreigners. Then it can only be better for this country, especially as we look at manufacturing as part of the Big Four Agenda and opening up the employment opportunities, and Kenya becoming a market leader in provision of healthcare. Healthcare and manufacturing are intertwined within the Big Four Agenda. One of the ways to do that is to encourage the local manufacturers by putting them at par with the foreigners in the way their taxes are managed. The discrepancy in VAT had a knock-on effect on them.

From the Report, it is very clear that there were a lot of consultations. I can see Klynveld Peat Marwick Goerdeler (KPMG) which is one of the auditors, Kenya Oil and Gas Organisation, Association of Gaming Operators of Kenya and PricewaterhouseCoopers (PWC). These are people within the accounting world which is my world. There is also Kenya Wildlife Conservancies Association, Kenya Association of Manufacturers, Institute of Surveyors, Agro-chemical Association of Kenya, Kipkenda and Company Associates, and Betting Control and Licensing Board. It basically shows that there was heavy public participation in the development of this Bill. There is also Sports Betting Association of Kenya, Federation of Kenya Pharmaceuticals and Kenya Revenue Authority (KRA). All these people appeared before this Committee. I am happy because the Committee listened to them and concurred in the issues that we need to commend this Bill.

I know that it is a very important Bill. It is only a very small component of tax that needs to be brought in. I know that the Committee at some point will bring in some of the amendments that they agreed on. I will leave that to the leadership of the Committee and the Members of the Committee to prosecute that. However, by and large, I believe that these amendments that have been brought within the tax law are for the benefit of this country.

With those few remarks, I beg to support the Bill.

Hon. Speaker: Member for Emuhaya, what is your point of order?

Hon. Milemba: Thank you, Hon. Speaker. My point of order is that the mood in the House is quite expectant. When our senior, Hon. Kimunya, was contributing about the Tax Laws (Amendment) Bill, you could see the attention of the House was not in the mood of concentration. I wish to plead with the Chair that we suspend this discussion and focus on the Budget.

Thank you, Hon. Speaker.

(Loud consultations)

Hon. Speaker: Order, Members. Member for Emuhaya raised a point of order and he was perfectly right. At this point, Members, I wish to interrupt the business of the House. As you are aware, yesterday, Wednesday, 13th June 2018, this House concluded a fairly taxing and meticulous process of allocating funds to various votes in the national Government comprising of the Executive, Judiciary and Parliament to finance their respective programmes during the year ending 30th June 2019. This is a process that is commonly referred to as the Committee of Supply in most commonwealth jurisdictions.

Hon. Members, the conclusion of the Committee of Supply process is followed by a public pronouncement of the policy highlights which are contained in the approved Budget. More importantly, the pronouncement also includes the revenue raising measures which are proposed by the Cabinet Secretary (CS) for the National Treasury to support the Budget.

Section 40(1) of the Public Finance Management Act, 2012 read together with the Standing Order No. 244(c) requires that: "Each financial year the CS for the National Treasury shall, with the approval of Cabinet, make a public announcement of the Budget Policy Highlights and revenue raising measures for the national Government."

Further Standing Order No. 25(a) relates to designation of a place in the Chamber for Cabinet Secretaries and other persons provides: "The Speaker may designate a suitable place in the Chamber for the purposes of admitting the Cabinet Secretary responsible for Finance to make a public pronouncement of the Budget Policy Highlights and Revenue Raising Measures for the national Government as contemplated under the Public Finance Management Act."

In this regard, and in fulfilment of the requirement of the law and our Standing Orders, I have designated a suitable place in the Chamber to the right of the Speaker's seat and adjacent to the Public Servants Benches to enable the CS for the National Treasury to also discharge his obligation in compliance with the law.

I now invite Mr. Henry Rotich, the CS for the National Treasury, to occupy the seat next to the Speaker and make pronouncement of the Budget Policy Highlights and revenue raising measures of the national Government for the Financial Year 2018/2019.

Mr. Rotich, you are welcome and you may proceed.

(Applause)

THE BUDGET STATEMENT

BUDGET HIGHLIGHTS AND REVENUE RAISING MEASURES 2018/2019

The Cabinet Secretary for the National Treasury (Mr. Henry Rotich): Hon. Speaker, it is my honour to present to this august House the Budget Statement for the Financial Year 2018/2019. I make this Statement in fulfilment of the requirements of Section 40 of the Public Finance Management (PFM) Act, 2012, and Standing Order No.241 of the National Assembly.

This is the first Budget following the conclusion of the General Elections last year. Allow me to congratulate those who were re-elected and those who are serving for the first time in this august House. I look forward to work closely with all of you in order to achieve our development goals.

(Applause)

Hon. Speaker, while delivering the State of the Nation Address earlier this year, His Excellency President Uhuru Kenyatta reminded us of the journey we have travelled as a nation in building a stronger democratic society. This democracy has strengthened our collective belief in justice and our aspiration for an inclusive and shared prosperity. As a country, we have come a long way since 2013. When His Excellency President Uhuru Kenyatta took office in 2013, there were numerous constraints to economic growth. For example, we had huge infrastructure gaps in roads, rail and air transport as well as challenges at our ports. Our capacity to generate energy was limited to unreliable hydro and costly thermal sources. We needed to modernise our education sector to enable training of skilled manpower. Our health facilities were overstretched with families struggling with communicable diseases and inadequate modern treatment facilities. Above all, we faced the challenge of rolling out the devolved system of government with 47 counties as enshrined in our Constitution.

Faced with these challenges, the Jubilee Administration designed and implemented an economic transformation plan under five key pillars involving:

1. improving the business climate by maintaining micro economic stability, addressing security challenges and reducing the cost of doing business.
2. Closing the infrastructure gap.
3. Investing in key sectors such as manufacturing, agriculture and tourism.
4. Sharing prosperity by investing in pro-poor programmes in health, education and social welfare programmes.
5. Fully supporting devolution.

The plan we chose in 2013 has worked and it is delivering positive results to our people. Let me mention a few of the key achievements under that plan. During the past five years, our economy has expanded by an average 5.6 per cent per year outperforming the average growth rate of the previous years of 2008-2012 and that of the global economy and of Sub-Saharan Africa. We are now relishing the benefits of an expanded economy as a more competitive and well rated, not only in the East Africa region, but also in the whole of Africa.

We have completed Phase I of the Standard Gauge Railway. Today, Kenyans are enjoying cheaper and faster travel between Mombasa and Nairobi using the Madaraka Express. In addition, the SGR freight service that started in January 2018 has facilitated cheaper movement of goods with the monthly loads increasing from the initial 22,345 metric tonnes to an impressive 213,559 metric tonnes; a tenfold increase in only a few months. We have expanded our energy generation capacity through investment in green energy. Today, 6.7 million Kenyans have been connected to electricity compared to 2.3 million in 2013.

Security has been substantially improved throughout the country, thanks to our strategic investments in police and military modernisation. Our tourism sector continues on a recovery path largely due to improved security in the country and effective tourism promotion strategies. We have significantly eased the burden of medical expenditure. As a result, more Kenyans are accessing specialised treatment than ever before. We have also made education more inclusive and sensitive to the country’s skills demands by expanding the free education programme to include free day secondary education, introduce a new curriculum that focuses on nurturing talent and delivering new and upgraded technical training institutes across the country. Finally, more vulnerable Kenyans are benefiting from cash transfers, especially our senior citizens, orphans, vulnerable children and persons living with disabilities.

Notwithstanding these significant achievements, we are aware that a lot remains to be done in order to decisively deal with the pressing challenges of unemployment, poverty and inequality that Kenyans continue to face. It is for this reason that His Excellency the President has directed us to focus on four key strategic areas under the Big Four Plan that will help create jobs and transform the lives of Kenyans. Achieving these strategic objectives will require that we all pull in the same direction. It is in this context that His Excellency the President has urged us to put our differences aside, build bridges and focus on serving our people for a better Kenya. This is a profound and timely call consistent with the unifying vision of our forefathers. This has rekindled our sense of purpose and triggered a new sense of renewal.

Consistent with this vision, the Budget we present today is an opportunity to begin to walk this talk, and more importantly, to boldly confront the challenges we face today of getting employment for our youth, improving the lives of our people and sharing the benefits of our economic progress. Accordingly, the theme of this year's Budget is "Creating jobs, transforming lives and sharing prosperity."

Hon. Speaker, building a united nation in which every Kenyan has a decent living, access to economic opportunities and a chance to pursue their dreams is the pressing challenge facing us as a nation and one that the Budget must speak to. All of us, therefore, must heed the President's call to boldly address the underlying challenges and work hard together in order to achieve our national aspirations.

We must now seize the opportunity to accelerate our economic growth, create jobs for the youths, reduce poverty and share our prosperity. This is because we have a Government and a President who is fully committed to this resolve. We have a favourable global economic and trading environment, our domestic economic outlook is bright, we have a fiscal plan that supports growth, provides funds for our devolved governments while ensuring our debt remains sustainable.

Our exchange rate, interest rates and inflation outlook are stable. We have development partners that are ready to provide both financial and non-financial support. We have foreign investors knocking on our doors and eager to invest in our country. We have creative and home-grown entrepreneurs ready to expand their opportunities and above all, our political environment has improved significantly over the recent months, thanks to the handshake.

In the Budget for 2018/2019 that I will present shortly, we have balanced the need to provide resources to key priority areas to support enablers and drivers of the Big Four Plan and accelerate economic growth while at the same time ensuring that our public debt remains on sustainable path.

Given the competing needs of our limited resources, we have had to make tough choices. We have curtailed resources going to non-priority areas following the zero-based budgeting approach that we have adopted. This has enabled us to redirect these savings towards the Big Four Plan and their enablers while continuing with pro-poor expenditures in health, education and protecting the vulnerable. We are clearly conscious of our limited fiscal space and we will be leveraging on the partnership between the private sector and the Government to deliver most of the Big Four requirements. Overall, we have moderated our spending and ensured cautious revenue projection so as to limit borrowing. Obviously, there are risks and spending pressures that we will need to manage prudently.

Hon. Speaker, the rest of my statement focuses on economic context around which this Budget is prepared and details of various strategies aimed at creating jobs and transforming lives of Kenyans under the Big Four Plan. Thereafter, I will broadly outline the Fiscal Policy and the

Budget Framework for 2018/2019 Budget together with the tax proposals and priority expenditures as well as critical structural reforms that we intend to implement.

We recently completed our Third Medium-Term Plan (MTPIII), which will guide us in achieving sustainable development goals as well as our Vision 2030 development objectives. Achieving our development agenda will require robust implementation of the policies and programmes outlined under the Big Four Plan. We need to do this by seizing the investment opportunities presented by the improving global and domestic environment. Global growth is projected to improve to 3.9 per cent in 2018 and 2019, from 3.8 per cent in 2017. This growth momentum is supported by a rebound in investments, trade and industrial production coupled with strengthened business and consumer confidence.

Hon. Speaker, equally, economic growth in sub-Saharan Africa, is recovering with growth projected at 3.4 per cent in 2018, up from 2.8 per cent in 2017. The improved global and regional economic outlook will benefit Kenya's exports further strengthening our growth prospects and more specifically our manufacturing industry. As you will recall, Kenya recently ratified the African Continental Free Trade Area (AfCFTA). It is important that we take full advantage of this new trading frontier to further enhance Kenya's trade prospects in the region.

On the domestic front, we faced significant challenges last year, particularly the severe drought and the prolonged electioneering period. Despite these challenges, our economy remained resilient expanding by 4.9 per cent in 2017 supported by strong public investment and macroeconomic stability. As a result, we generated an additional 898,000 new jobs in 2017, up from 833,000 jobs in 2016. We project the economy to grow by, at least, 5.8 per cent this year supported by growing investor-confidence, improved agricultural activities bolstered by favourable weather, ongoing public investments and the improved demand for our exports due to improved global and regional growth. Over the medium-term, decisive implementation of the Big Four Plan should result in faster economic growth of at least 7 per cent per year, which in turn, should support job creation and reduce poverty among Kenyans.

Despite the extremely difficult circumstances we faced as a country last year, we were able to preserve macroeconomic stability with inflation, interest rates and exchange rates remaining largely stable throughout 2017. This serves as a clear demonstration to domestic as well as foreign investors of our commitment to maintain macro-economic stability which is key in enhancing investor confidence. We intend to sustain this commitment in the years to come. We will continue to improve the environment for businesses to thrive, deal decisively with corruption and address the governance and performance challenges at our parastatals and State-linked companies, as well as improve efficiency in our financial sector. All these measures will boost investments and create the much-needed jobs. Under the Big Four Plan, we target to boost manufacturing activities, enhance food and nutrition security, achieve universal health coverage and support the construction of, at least, 500,000 affordable houses by 2022.

On manufacturing, we plan to increase the contribution of the manufacturing sector to GDP to 15 per cent by 2022 by adding between US$ 2 to 3 billion to our GDP. It is expected that this will increase manufacturing sector jobs by more than 800,000. This will be achieved through establishing leather parks and textile industries in various parts of the country, reviving and transforming industries such as the blue economy and manufacturing of construction materials, and re-establishing the automobile industry, which will make new vehicles more affordable.

We will target investors that are ready to invest in specific areas by providing tailor-made incentives, some of which are in the tax proposals that I will outline later in this Statement. Already, one investor is setting base in Eldoret benefiting from incentives offered under the

Special Economic Zones (SEZ) Act. The Government will provide land in Naivasha for potential investors interested in setting up their activities in the SEZ to benefit from the SGR and cheap geothermal power generated nearby. We will also conclude the mode of financing the development of the Dongo Kundu SEZ in Mombasa, among others.

We are taking actions to remove non-trade barriers within the EAC region. Together with other EAC partner States, we are working on the framework for the implementation of the EAC Non-Tariff Barriers Act, 2017. In addition, we have established an online reporting mechanism for non-tariff barriers.

Further, we have embarked on the review of the Common External Tariff to enhance protection of industries in the region that is expected to be completed in the coming financial year. Meanwhile, we have stay of application on some of the sensitive products before completion of the review.

Hon. Speaker, in order to reduce the cost of production for our manufacturers, we have cut the cost of off-peak power by half and we plan to implement modalities of bringing the cost of energy to about US$9 per kilowatt hour for selected investors. We are reviewing work permits to accommodate expatriates whose skills support our development agenda. We will continue to expand infrastructure and land access targeting manufacturing zones.

Illicit and counterfeit trade rob us of revenue to fund critical programmes and retard our progress towards industrialisation. To deal with this, our multi-agency team, comprising the Kenya Bureau of Standards (KEBS), the Kenya Revenue Authority (KRA) and the Anti-Counterfeit Agency are coordinating efforts to identify, seize and destroy counterfeit goods. Already, the actions taken have yielded results.

On food security, we plan to grow enough food to feed our people at affordable prices. Achieving this will require enhancing large-scale production by placing an additional 700,000 acres of land through PPP and by promoting investments in post-harvest handling as well as adopting contract farming and other commercial off-taking arrangements including supporting the development of agro-parks or hubs to serve as a link to farmers and markets. We will also support smallholder farmers by upscaling crop and livestock insurance and promoting use of appropriate farming techniques in addition to availing affordable credit facilities.

On housing, access to adequate and affordable housing remains a key concern in Kenya. It is estimated that the country's urban centres face a shortage of 200,000 housing units annually and this shortage will rise to 300,000 units by the year 2020 on current policies. At the moment, only about 50,000 new housing units are being constructed every year.

Every Kenyan has a right to decent shelter. To meet this requirement, we plan to increase the supply of affordable houses by partnering with the private sector to develop homes in serviced land. This will require reforms in property registrations, access to affordable financing and adoption of new low-cost building technologies which we are prepared to undertake under the Big Four plan.

Already, with a view to extending long-term loans to financial institutions secured against mortgages, we have established the Kenya Mortgage Refinance Company (KMRC), which will be jointly owned by the Government, the private sector and select development partners. This company was incorporated in April this year and has started raising capital.

We have also developed a comprehensive housing package that will incentivise the private sector in the construction of low cost housing. This includes reduction of corporate tax rates to 15 per cent for developers who construct, at least, 100 units per year. Additionally, we plan to establish a National Social Housing Development Fund and strengthen the National

Housing Corporation (NHC) to take up more strategic roles in resource mobilisation and management of tenant purchase schemes and provide alternative financing strategies for low cost housing and the associated social and physical infrastructure.

In order to promote development of low cost housing for Kenyans, I propose to amend the Employment Act to provide that an employer shall contribute to the National Housing Development Fund, in respect of each employee in his or her employment, 0.5 per cent of the employees' gross monthly emolument subject to a maximum of Kshs5,000 while the employee will contribute 0.5% of their monthly gross earnings. We intend to roll out universal health coverage to all households by 2022, so as to guarantee access to quality and affordable health care. This will involve reconfiguring the National Hospital Insurance Fund (NHIF) and reforming the governance of private insurance companies to align them to the universal health coverage.

His Excellency the President has already launched a comprehensive NHIF medical scheme for secondary school students to insure them for all kinds of injuries and diseases. We expect this to ease the financial burden of their parents.

Working with counties, we shall scale up the provision of specialised medical equipment and increase the number of health facilities at the community level, including mobile health services, in order to increase access to specialised healthcare.

We plan to expand the "Linda Mama" programme (free maternity programme) to mission hospitals and private hospitals and to enlist Community Health Volunteers to help in healthcare service provision at the grassroots level. We will also continue to train more doctors, while sourcing specialised skills from outside to address existing gaps. In the next one year, we will undertake a universal health coverage pilot in four counties namely: Kisumu, Nyeri, Isiolo and Machakos. The lessons learnt from the pilot in terms of capacity of the NHIF, and the requirements on infrastructure, commodities and personnel will inform the roll out to all the counties in the subsequent years.

We acknowledge the limited budgetary space to implement the Big Four Plan. As such, we will leverage on the partnership especially through the PPP framework, with the private sector and development partners.

Our development partners have supported us in various projects that have uplifted our living standards. We value this support very much. We will be engaging with them in the spirit of true partnership to make the Big Four Agenda Plan a reality. Already, many of our development partners are funding projects within the Big Four Agenda sectors. But in addition to that, and with a view to mobilising additional resources, they have indicated their willingness to review the rest of their portfolio to align them with the Big Four Agenda Plan.

Let me now turn to the fiscal policy and budget framework for the FY 2018/19 budget and the medium-term. In this fiscal year ending in June 2018, we estimate a fiscal deficit of 7.2 per cent of GDP, down from 9.1 per cent of GDP in the previous year. This reduction in the deficit was despite additional expenditure requirements arising from the severe drought, prolonged electioneering period, the implementation of several Collective Bargaining Agreements (CBAs) combined with shortfalls in revenue collections. In order to recoup the revenue shortfalls during the first half of the year, we agreed on a number of revenue enhancement initiatives with the Kenya Revenue Authority (KRA) in February this year. With the additional funding of Kshs4.3 billion from the National Treasury, KRA committed to collect additional revenues of Kshs74 billion by end of June this year. By April 2018, KRA had collected Kshs33 billion and we expect them to deliver the remaining revenue yield by the end of

June 2018. Going forward, now that the challenges we faced in the last two years are behind us, we plan to bring down the deficit progressively to ensure that our public debt remains sustainable.

Under this fiscal consolidation plan, we project the fiscal deficit to narrow to 5.7 per cent of GDP in the Financial Year 2018/19 from the estimated 7.2 per cent of GDP in the Financial Year 2017/18 and further to around three per cent of GDP by Financial Year 2021/22. As such, this will help stabilise the Net Present Value (NPV) of debt to GDP ratio at below 50 per cent, which is well below the 74 per cent threshold considered to signal an unsustainable debt position. Strengthening revenues through tax policy measures is at the core of achieving the fiscal targets. Other revenue administrative measures are also key. I will outline some of these measures shortly. With revenue enhancement measures, we project revenues to rise by 17.5 per cent to Kshs1, 949.2 billion (equivalent to 20.0 per cent of GDP) in the Financial Year 2018/19 from the estimated Kshs1,659.6 billion collected this financial year.

We will continue to strengthen expenditure control and improve the efficiency of public spending through public financial management reforms in order to free fiscal space for priority social and economic projects. In particular, we plan to address the challenges we face in project identification, preparation and execution, which have been responsible for delays, cost overruns and pending bills. Towards this end, we have established a Public Investment and Management Unit at the National Treasury to improve the management and budgeting of public development projects. This unit will ensure that all the projects in the budget are appraised before they are committed. This will improve efficiency of our public investment, streamline spending and reduce waste.

This year will witness the implementation of the second phase of the salary review following the 2017 job evaluation by the Salaries and Remuneration Commissions (SRC). We commit to stay on this path so that we can contain the public-sector wage bill.

Given our expenditure containment measures, we project the total expenditure of Kshs2,556.6 billion, equivalent to 26.3 per cent of GDP in the Financial Year 2018/19. Of this, recurrent expenditure will amount to Kshs1,550.0 billion, which is equivalent to 15.9 per cent of GDP. Development expenditure is projected at Kshs625 billion and it is equivalent to 6.4 per cent of GDP). Transfers to county governments will amount to Kshs376.4 billion. It is equivalent to 3.9 per cent of GDP.

The deficit of Kshs558.9 billion, equivalent to 5.7 per cent of GDP, will be financed by net external financing amounting to Kshs287 billion, which is equivalent to 3 per cent of GDP. Other domestic financing will amount to Kshs271.9 billion, which is equivalent to 2.8 per cent of GDP. We will continue to diversify the sources of funding our development budget over the medium-term by maintaining a presence in the international capital markets. We will seek to maximise our access to official development assistance on concessional terms while limiting use of non-concessional and commercial external borrowing to development projects with high financial and economic returns.

As you are aware, this House has reviewed the 2018/19 Budget Estimates that I submitted on 26th April 2018. I want to thank the BAC and all the departmental committees for interrogating the Estimates. Based on the BAC Report adopted by the House, the Committee of Supply has now approved the Estimates. That paves way for finalisation of the Appropriation Bill. Today, I submit the Finance Bill, 2018, which contains the taxation and financial proposals, along with other documents for consideration and approval by this august House.

Let me turn to the various tax measures that I intend to introduce through the

Finance Bill 2018 to realise the objectives set out in the Big Four Plan. The tax proposals that I am submitting through the 2018 Finance Bill are designed to generate an additional Kshs27.5 billion in tax revenue for the Financial Year 2018/19. In addition, the proposed tax measures are intended to incentivise the achievement of the Big Four Plan and offer strategic incentives.

Allow me to highlight some of the tax proposals in this Budget. During the East African Community (EAC) Pre-Budget Consultations meetings, we agreed on customs duties aimed at promoting industrialisation, encouraging local investments, and creating incentives in the agricultural and manufacturing sectors. The measures are also intended to make our products more competitive while at the same time protecting local industries from unfair competition. Details of the customs measures will be communicated through the EAC Gazette for implementation from 1st July this year. I will highlight a few of them.

Hon. Speaker**,** our iron and steel industry are facing stiff competition from imported cheap and subsidised iron and steel products. In order to protect the local iron and steel industries, I have increased the rate of import duty from 25 per cent to 35 per cent in a wide range of steel and iron products which are available in the region.

Kenya has sufficient capacity to produce some paper and paper products which require protection. To protect manufacturers of these products, I have increased the rate of import duty from 25 per cent to 35 per cent on some paper and paper board produced in the region. Our textile and footwear sector are closing down due to increased unfair competition from cheap imported textiles and footwear, as well as second hand clothing and footwear. In order to encourage local production and create jobs for our youth in the sector, I have introduced a specific rate of import duty of USD $ 5 per unit or 35 per cent whichever is higher. This should guard against undervaluation.

To protect the timber and furniture industry from proliferation of cheap timber products and to enhance the local production, I have introduced a specific rate of duty of USD $110/Metric tonnes on particle board, USD$120/ Metric tonnes on medium density fibre board, USD$ 230/M3 on plywood and USD$ 200/MT on block boards, or an *ad valorem* duty of 35 per cent whichever is higher.

Our local manufacturers have adequate capacity to manufacture vegetable oils to meet regional demand. To protect our local manufacturers from imported cheap vegetable oils, I have introduced a specific rate of USD $500/MT of 35 per cent whichever is higher. Pests and vectors continue to pose a great risk to crop and animal production. Despite our potential to produce pesticides and acaricides locally, we continue to import them. To encourage local production, I have allowed manufacturers of these products to import raw materials and inputs under the EAC duty remission scheme. Currently, the law provides for exemption of duty for some selected vehicles for the transport of tourists. To boost tourism and provide a platform to market our national brand worldwide, the exemption will now be expanded to include sightseeing buses and overland trucks imported by licensed tour operators.

Majority of our people rely on firewood for cooking. This has a significant negative impact on our forests as well as adverse health effects. To make clean and healthy cooking methods, such as the use of cooking stoves affordable, and encourage local production of clean cooking stoves, inputs and raw materials for assembly of clean energy cooking stoves imported by local manufacturers will be imported under duty remission 100 per cent. This will promote local production of clean energy cooking stoves and make them more affordable.

The EAC Common External Tariffs which sets out the rates of duty applicable on imported goods is undergoing a comprehensive review with the intention of enhancing protection of industries in the region as well as creating a conducive business environment for investors. The EAC Customs Management Act, 2004 is also undergoing review as envisaged at inception. The review is expected to incorporate new developments as well as address challenges in the implementation of the law. This will enhance efficiency in Customs administration in the region.

During the 2017 Budget Speech, I proposed to exempt from VAT materials for the construction of grain storage facilities in order to support safe storage of foods and ensure sustained food security in the country. In this Budget, I propose to expand this exemption to include equipment's used in the construction of the facilities in order to lower the cost of post-harvest storage. This will go a long way in supporting the food security pillar under "The Big Four" Plan. While animal feeds are exempt from VAT, some of the raw materials used in their manufacture are taxable. This treatment has led to high prices of animal feeds. Thus, to make animal feeds affordable to farmers and attract more manufacturers to invest in the sector, I propose to exempt these raw materials from VAT.

Information Communication Technology (ICT) continues to play a big role in supporting the growth of our economy and thus making Kenya a regional ICT hub. To support the assembly of laptops under the primary schools program, I exempted parts imported or purchased locally, for the assembly of these laptops in the country. In order to further promote the penetration of ICT in our economy, I propose to further exempt from VAT, parts imported or purchased locally for the assembly of computers. This will encourage local manufacturing, innovation and job creation.

Private passenger motor vehicles fall under two categories, the high and low engine rating vehicles. Currently, excise duty is charged uniformly on these motor vehicles irrespective of the engine rating. To ensure progressivity which is a cardinal principle of taxation, I propose to increase excise duty from 20 per cent to 30 per cent on private passenger motor vehicles whose engine capacity exceeds 2500cc for diesel and 3000cc for petrol powered vehicles.

(Loud consultations)

Our economy has a well-established financial sector in the region with significant sums of money transferred monthly. In order for the Government to get a fair share of revenue from these financial activities and to finance critical Government programmes, I propose to introduce a Robin Hood Tax of 0.05per cent on any amounts of Kshs500,000 or more transferred through banks and other financial institutions. In addition, I have increased excise duty fees charged on money transfer services by cellular phone service providers from 10 per cent to 12per cent.

The revenue realised from these measures shall be used to fund Universal Health care.

Hon. Speaker: Order Members! The Cabinet Secretary shall be heard in silence. You may applaud or express surprise but only for 10 seconds.

(Laughter)

The Cabinet Secretary for the National Treasury (Mr. Henry Rotich): Thank you, Hon. Speaker. Under the Excise Duty Act, illuminating kerosene attracts a duty rate of Kshs7,205 per 1000 litres while gas oil is subject to excise duty at the rate of Kshs10,305 per 1000 litres. The difference in the rates applicable to these two petroleum products has led to adulteration of the fuel products resulting in loss of excise duty revenue to the Exchequer.

In order to reduce the incidence of adulteration of fuels, I propose to harmonise the rate of excise duty applicable on illuminating kerosene to Kshs10,305 per 1000 litres. Let me now turn to Income Tax. In the recent years, we have implemented tax reforms aimed at modernising tax legislation and simplification of tax administration. In this pursuit, most of the tax statutes have been reviewed, with the exception of the Income Tax Act. We are currently in the process of undertaking a comprehensive review of the Income Tax Act, and we now have a new draft Bill that has undergone public participation in accordance with the constitutional requirement.

In the Income Tax Bill, 2018, I had proposed to introduce a higher tax band of 35 per cent on incomes above Kshs750,000 per month and an increase of the Capital Gains Tax from 5 per cent to 20 per cent.

(Loud consultations)

However, during the public consultations on the Bill, members of the public raised concerns on these proposals and were of the view that the higher rates are not appropriate at this time. We have considered these concerns and resolved to revert to the rates contained in the current Income Tax Act. We are finalising the draft Bill then seek approval from the Cabinet before submission to this House by end of July 2018. I propose to make limited amendments to the Income Tax Act with a view to addressing critical issues on revenue gaps and to expand the tax base.

The informal sector in our economy is expansive and remains out of the tax net. The Finance Act, 2006, introduced taxation of the sector through a turnover tax. However, this system of taxation has largely been unsuccessful and the levels of compliance have remained low due to the profile of the sector. I propose to amend the Income Tax Act to replace the turnover tax with presumptive tax based on the business permit or trading license fees at a rate of 15 per cent in order to ensure that the sector contributes towards the economic agenda of the country.

In the Tax Laws (Amendment) Bill, 2018, I had proposed to introduce withholding tax on winnings. However, the proposal did not provide how the revenue realised from this measure will be applied. I propose to amend the Income Tax Act to clarify that the revenue realised from the taxes on winnings shall be used for the development of sports, arts, cultural activities for the youth, as well as critical social development initiatives including universal healthcare.

The Port of Mombasa is the gateway to East and Central Africa and is one of the busiest ports along the East African coastline. The port provides direct connectivity to over 80 ports worldwide, attracting various service providers, particularly shipping lines. Under the current legislative framework, payments for such services which represent income from Kenya are not subject to tax. This creates an unfair playing field for residents of Kenya whose income from similar sources are subject to tax. I, therefore, propose to amend the Income Tax Act to subject payments for demurrage charges made to non-resident persons to withholding tax at a rate of 20 per cent.

Kenya represents one of Africa's most well-developed and best-regulated insurance markets. General insurance is about twice the life insurance penetration and the assets have grown over time. Some streams of income from this sector, including payments to non-resident persons and capital gains made by general insurance companies are not taxed under the current legal framework. I propose to introduce Capital Gains Tax on transfer of property by general insurance companies. In addition, I propose to amend the Income Tax Act to introduce 5 per cent tax on insurance premium paid to non-residents, excluding insurance premium paid for insurance of aircraft.

The Government is committed to attract investors into the country. To facilitate investment by targeted investors, the Government will provide special fiscal incentives through a special operating framework arrangement that outlines the special conditions and deliverables that are measurable and with specific timeliness that must be met. I propose to develop a framework to introduce special incentives in the VAT Act, Excise Duty Act, and Miscellaneous Fees and Levies Act, and provide a preferential tax rate under the Income Tax Act in order to encourage investments.

The Government is dedicated to support the manufacturing sector as a pillar of the Big Four Plan. The manufacturers have raised concern regarding the high cost of electricity. The Government is committed to reducing this cost to support the manufacturing sector. In order to mitigate the cost of production, I propose to amend the Income Tax Act to provide a deduction of 30 per cent of the total electricity bill by manufacturers from corporate profit in addition to normal deduction, subject to the conditions to be set by the Ministry of Energy.

In 2016, the Tax Procedures Act was amended to provide a tax amnesty on income declared for the year 2016 by a person who earned taxable income outside Kenya. In 2017, I extended the period for applying for amnesty from 30th December 2017 to 30th June 2018 for the year of income 2016. However, despite the extension, the uptake of amnesty has been low, partly due to concerns that when the monies are returned, questions will be raised regarding the source as required by Financial Reporting Centre.

In this regard, and in order to encourage the uptake of the amnesty, I propose to extend the period of the amnesty from 30th June 2018 to 30th June 2019 and the year of income declaration to be 2017. Further, I propose to provide that funds transferred under the amnesty shall be exempt from the provisions of the Proceeds of Crime and Anti-Money Laundering Act and any other Act relating to reporting and investigation of financial transactions, to the extent of the source of the funds. This exemption, however, does extend to proceeds from terrorism, poaching and drug trafficking.

Despite imposing a 1 per cent late payment interest on unpaid taxes, we have noted that a number of taxpayers are filing returns without payment of the taxes due. I am, therefore, proposing to amend the Tax Procedure Act to increase the rate of late payment interest to 2 per cent, and also introduce a 20 per cent late payment penalty. This will promote tax compliance among taxpayers and boost our revenue mobilisation efforts to provide the much-needed funds to support the Big Four Plan.

The Government has been working on simplifying and facilitating filing of self-assessment tax returns by taxpayers. In order to enhance the process for submission of tax returns through the i-Tax System, I propose to amend the Tax Procedure Act, to provide for time limits in the application and extension of time to file a return as well as allow taxpayers to amend self-assessment return.

In the year 2015, I exempted regulatory authorities from payment of corporate tax and provided that these authorities remit 90 per cent of their surpluses to the Consolidated Fund. However, these authorities have not been consistent in remitting the surplus to the Consolidated Fund. In this regard, I propose to amend the Kenya Revenue Authority Act and the Public Finance Management Regulations to allow the Kenya Revenue Authority to collect the surpluses from the regulatory authorities and remit them to the Consolidated Fund promptly.

Hon. Speaker, currently, there is no penalty or interest on payment of taxes in the Betting, Lotteries and Gaming sector, which has led to non-compliance. In order to ensure compliance and prompt payment of taxes, I propose to introduce a 20 percent penalty and 2 percent interest on late payment of tax in the Betting, Lotteries and Gaming Act. This will enhance the collection of these taxes that are meant to support sports, arts, cultural and social development activities in our country.

Hon. Speaker, one of the pillars under the Big Four Plan is to promote manufacturing activities. To achieve this, it is important to support value-addition through measures to retain raw materials like scrap metal in order to protect local manufacturers and stem the tide against vandalism of public infrastructure. In this regard, I propose to introduce an Export Levy of 20 per cent on copper waste and scrap metals.

Hon. Speaker, allow me now to turn to how the Government will spend the resources in this Budget. As stated earlier, total spending will increase from Ksh2.3 trillion in the Financial Year 2017/18 to Ksh2.5 trillion in the Financial Year 2018/19. In relation to Gross Domestic Product (GDP), this represents a reduction from 26.8 per cent of GDP to 26.3 per cent, consistent with our fiscal consolidation plan.

Despite the planned fiscal consolidation, the resource allocation criteria were aimed at ensuring that funding for the Big Four Plan was prioritised. In total, I have allocated around Kshs460 billion to the Big Four sector drivers and enablers. We have also sustained prioritisation of resources to other pro-poor programmes such as social protection, education, access to electricity and drought mitigation measures.

The specific incentives under the Special Economic Zones (SEZ) Act, and other special incentives, together with the Public Private Partnership (PPP) arrangement will draw investors into the manufacturing sector. To catalyse this, the Government will provide enabling infrastructure, including building industrial sheds. To this end, I have allocated Kshs400 million for the Leather Industrial Park development and Kshs400 million for textile development. In order to modernise facilities in Rift Valley Textiles (RIVATEX) and New KCC, we have allocated Kshs1.4 billion and Kshs200 million, respectively. In order to enhance food and nutrition security and modernise agriculture, I have allocated Kshs1.4 billion for strategic food reserves, Kshs1.9 billion for the Kenya Cereal Enhancement Programme, Kshs0.5 billion for mechanisation of agriculture and Kshs900 million for crop diversification.

Hon. Speaker, the severe drought that we experienced last year underscores the importance of reducing our reliance on rain-fed agriculture. In order to reduce our vulnerability to drought and bring additional land under crop production, I have allocated a total of Kshs8.5 billion for ongoing irrigation projects in Bura and Mwea, the National Expanded Irrigation Programme and the Smallholder Irrigation Programme, the Galana/Kulalu Irrigation Project, Turkana, and micro-irrigation projects in schools.

We will continue to improve accessibility of fertilizers and crop insurance. To this end, I have set aside Kshs4.3 billion for subsidized fertilizers, Kshs300 million to support crop insurance schemes in order to cushion farmers against climate related risks and Kshs300 million for foul army worm mitigation. On subsidised fertilizers, I expect the Ministry of Agriculture to reform the supply chain system and ensure better service to farmers with the ongoing registration of farmers.

Hon. Speaker, to further expand access to affordable healthcare, I have allocated Kshs2.0 billion for Free Primary Healthcare, Kshs800 million for Health Insurance Subsidy Programme, and Kshs2.5 billion for the rollout of universal health coverage to four counties on a pilot basis.

In order to continue with the initiatives of His Excellency the President on universal health care, we have provided a total of Kshs13.7 billion to further support the Free Maternal Healthcare programme and leasing of medical equipment.

In view of the increasing cases of cancer-related deaths, early screening and management is imperative. We have allocated Kshs7.0 billion for leasing of Computed Tomography Scanners Equipment, which will help diagnose the disease at an early stage and curb cancer deaths. I have also allocated Kshs400 million for the establishment of the Cancer Institute.

Hon. Speaker, other allocations to improve health service delivery include Kshs2.9 billion for the Doctors, Clinical Officers and Nurses Internship Programme; Kshs11.7 billion for the Kenyatta National Hospital (KNH), Kshs7.7 billion for the Moi Teaching and Referral Hospital, Kshs2.2 billion for the Kenya Medical Research Institute (KEMRI) and Kshs4.7 billion for the Kenya Medical Training College (KMTC).

On the Affordable Housing Programme, the initiatives we plan to implement will draw in private sector involvement to develop housing units that a majority of Kenyans can afford. In order to roll out the housing programme, we have provided Kshs3.0 billion for construction of affordable social housing units by the Government and Kshs1.5 billion for construction of housing units for National Police Service and Prison Service officers. We have also provided Kshs1.5 billion for the Civil Servant Housing Scheme Fund to support the offtake of the housing units.

We plan to provide infrastructure and utilities to urban land owned by both the national Government and county governments and invite the private sector to develop affordable housing units. To this end, we will restructure the Kenya Urban Support Programme, Kisumu Urban Project and Nairobi Metropolitan Services Improvement Project to provide Kshs18.4 billion to support the servicing of land in various towns in the country to bring in private developers into the affordable housing programme.

Hon. Speaker, as I stated earlier, the Government has successfully implemented the Economic Transformation Agenda during the last five years. This has created a strong and solid foundation for economic transformation and industrialisation as envisaged in the Kenya Vision 2030. Building on this progress made thus far, the strategy going forward will involve implementing programmes and policies that support achievement of the Big Four Plan so as to bolster economic growth and job creation.

Hon. Speaker, in order to achieve the Big Four Plan, it will be critically important to ensure that the following key enablers are implemented:

(a) continued macro-economic stability;
(b) enhanced security;
(c) targeted infrastructure;
(d) expanded technical training;
(e) technology innovation; and,
(f) addressing vigorously the cancer of corruption.

Hon. Speaker, recognising the importance of security as an enabler for the achievement of our development goals, the Government has continued to implement reforms targeted at supporting our security forces and guaranteeing Kenyans safety. We shall build on the on-going security reforms by scaling-up investments in security infrastructure. In order to support these initiatives, I have set aside Kshs8.9 billion for enhanced security operations, Kshs29.8 billion for police and military modernisation, Kshs3.0 billion for securing our borders and Kshs9.2 billion for leasing of police vehicles. In order to improve the welfare of our police officers, I have allocated Kshs6.5 billion for Police and Prison Officers Medical Insurance Scheme, and Group Life Insurance for Police.

Hon. Speaker, with regard to infrastructure as an enabler, to further enhance movement of Kenyans and reduce the cost of transportation of goods, I have allocated a total of Kshs115.9 billion for on-going road construction projects, and Kshs74.7 billion for construction of Phase II of the SGR. I have also allocated Kshs2.7 billion for the Mombasa Port Development Project and Kshs1.4 billion for the expansion of Malindi, Isiolo and Lokichoggio airports, and Kabunde, Kakamega, Kitale and Migori airstrips.

In addition, I have set aside funds for emergency repair of roads damaged by the recent floods across the country. I will also be engaging our development partners towards mobilising additional resources for the same purpose.

Hon. Speaker, to support the generation of adequate and affordable energy, I have allocated, Kshs12.7 billion to support the exploration of geothermal, wind and solar resources, and Kshs4.8 billion for the exploration and distribution of oil and gas.

Hon. Speaker, to connect more Kenyans to affordable electricity, I have set aside, Kshs5.9 billion for rural electrification and connection of public facilities; Kshs6.7 billion for Last Mile Connectivity; Kshs1.0 billion for the national street lightning programme; Kshs5.5 billion for Eastern Electricity Highway Project (Ethiopia-Kenya Interconnector); Kshs1.0 billion for substation installation, Kshs1.0 billion for installation of transformers in constituencies; Kshs1.0 billion for Connectivity Subsidy; Kshs12.6 billion for the Loiyangalani-Suswa Transmission Line, land compensation and counterpart funding and Kshs3.1 billion for Nairobi 220KV Ring.

Human Capital Development

Hon. Speaker, the provision of quality and relevant education and training is critical in equipping Kenyans with skills necessary for industrialization. For this reason, the Government will focus on improving and expanding Technical and Vocational Education and Training (TVET) institutes in order to equip the youth with the relevant skills necessary for industrialisation. For this reason, we have allocated Kshs16.0 billion for technical institutions for recruitment of additional 2,000 technical training instructors, capitation grants, 15 new technical training institutes, curriculum development assessment and certification center and Technical Vocational Training Authority; Kshs91.1 billion to support university education and Kshs9.6 billion to Higher Education Loans Board.

Hon. Speaker, to further expand access to quality basic education, we implemented the 100 percent transition policy in January this year. To sustain this, I have allocated Kshs59.4 billion for Free Day Secondary Education Programme. In addition, I have allocated Kshs13.4 billion to Free Primary Education Programme; Kshs4.0 billion for examinations fee waiver for all class eight and form four candidates and Kshs2.0 billion for the School Feeding Programme. Further, to increase the teacher to student ratio, I have set aside Kshs5.0 billion for the recruitment of additional teachers.

Supporting ICT Knowledge and Innovations

Hon. Speaker, we need to further develop our capabilities in the areas of science, technology and innovation. Leading this drive, the Government has spearheaded major

Information Communications and Technology (ICT) investments including the expansion of Fiber Optic Backbone Infrastructure across the counties, which has facilitated reliable high-speed networks and supported e-government service and innovation among businesses.

In this Budget, Mr. Speaker, Sir, we have further enhanced allocations to support the ICT sector and improve Government service delivery. We have allocated Kshs11.9 billion for the Digital Literacy Programme, Kshs3 billion to support the ongoing construction of Konza Complex, Kshs100 million for Presidential Digital Talent Programme and Kshs310 million for digital migration for Kenya Broadcasting Corporation (KBC).

Hon. Speaker, Sir, to support service delivery by Government agencies, we have set aside Kshs300million for Single Window Support Project and Kshs0.7 billion for continued roll out of Integrated Financial Management Information System (IFMIS) to counties. We have also consolidated all ICT equipment and licensing expenditure under the Ministry of (ICT) in order to facilitate better coordination of Government ICT strategy and eliminate duplication.

Shared Prosperity

Hon. Speaker, we have taken decisive steps to care for and share with the community by enhancing support for the disadvantaged.

Social Safety Nets

Hon. Speaker, under the National Safety Net (*Inua Jamii*) Programme, we have extended cash transfers to vulnerable groups including older persons, Orphans and Vulnerable Children (OVCs) and Persons with Severe Disabilities (PWDs). Hon. Speaker, to further relieve the plight of the less disadvantaged in society, combat poverty and promote equity, the National Safety Net has been enhanced as follows: Kshs7.95 billion for orphans and vulnerable children (OVC); Kshs17.3 billion for cash transfers to the elderly persons and Kshs1.2 billion for cash transfers to persons with severe disabilities.

Hon. Speaker, to further support the less fortunate families, we have set aside: Kshs1.2 billion for Children Welfare Society; Kshs400 million for the Presidential Secondary School Bursary Scheme; Kshs4.5 billion for the Kenya Hunger Safety Net Programme and Kshs8.5 billion for the Equalisation Fund. Further, Hon. Speaker, I have set aside Kshs35.7 billion for the National Government Constituency Development Fund (NG-CDF) and Kshs2.3 billion for Affirmative Action Fund to promote equity and for social development.

Empowering Women, Youths and Persons with Disabilities

Hon. Speaker, our resolve to empower the youth, women, persons with disabilities and other vulnerable groups through various initiatives including provision of affirmative funds, reservation of public procurement opportunities remains steadfast. Already, Hon. Speaker, we have set registration and advisory services for those groups in 52 *Huduma* Centers spread across the country. The National Treasury is closely monitoring the implementation of the programmes to ensure full compliance by all public entities.

Hon. Speaker, we will continue to create a conducive environment for micro, small and medium size enterprises (MSMEs) to thrive as they are the pillar to create jobs for our youth. Work is being done to provide funding in an efficient manner.

Hon. Speaker, to support sports, culture and arts, I have allocated: Kshs200 million for construction of a Sports Academy and Kshs300 million for completion of an ultra-modern national library. Funding for sports, culture and arts will be enhanced significantly with the creation of a new fund that will receive monies from taxation of betting and gaming.

Enhancing Service Delivery through Devolution

Hon. Speaker, since the commencement of devolution five years ago, it is evident that resources are now closer to the people, decisions are made at the grassroots level and public participation is a requirement at every level of engagement. The over Kshs1.3 trillion that has gone to the counties in the last five years has ensured uninterrupted service delivery by all the 47 county governments.

Hon. Speaker, in the Financial Year (FY) 2018/19, we are providing to the counties a further Kshs376.4 billion comprising a sharable revenue of Kshs314 billion and conditional allocations amounting to Kshs62.4 billion. The allocations in 2018/19 translate to 40 percent of most recent audited revenues, well in excess of the constitutional threshold of 15 percent. This will be in addition to funds provided under NG-CDF and National Government Affirmative Action Fund (NGAAF) which, as we all know, goes to the grassroots level, in addition to funds appropriated from the Equalisation Fund.

Hon. Speaker, we will be coming back to Parliament with specific projects to be funded from the Equalisation Fund as soon as the Commission on Revenue Allocation develops the second policy on marginalized areas. The previous policy expired in this financial year and there was no basis to prepare appropriation for the Equalization Fund.

Hon. Speaker, I wish to highlight three key challenges facing county governments. First, the shrinking county own source revenue collection; second, escalation of expenditure arrears which deny local businesses the necessary capital to support growth, and third, weaknesses in public financial management, exposing county public finances to leakage and wasteful spending.

Hon. Speaker, to support county governments to improve revenue collection, we have finalised a policy to support the enhancement of county own source revenue. We have also prepared the County Governments Revenue Raising Regulation Process Bill, 2018 which provides for regulation of the process of introducing new taxes, fees and charges by county governments. This is intended to address the concerns of double-taxation as goods and services move from one county to the next and is consistent with Article 209 of the Constitution, which prohibits revenue raising measures which impede the movement of goods and services within Kenya. I will shortly be submitting those two documents to Parliament for consideration and approval, upon Cabinet approval.

Hon. Speaker, to stop the growth of expenditure arrears in counties, we have agreed with the county governments that all pending bills shall be subjected to verification. Once authenticated, the arrears shall be included in the budget as a first charge on the respective county revenue funds as required under the Public Finance Management (County Governments) Regulations, 2015. I urge county assemblies and Parliament to assist us by enforcing this agreement.

To strengthen the capacity of county governments to manage public finances, human resources, as well as to monitor and evaluate county plans and conduct civic education and engage with the general public, I have allocated Kshs800 million under the World Bank sponsored Kenya Devolution Support Program (KDSP) and I intend to scale up this allocation Kshs6.3 billion in the course of the year. In addition, in order to enhance public finance management skills of county governments' officials, the National Treasury will intensify its training at the Kenya School of Government, including on public procurement.

We will continue to co-operate with county governments to ensure quality, effective and efficient service delivery to our citizens. In this context, the Government has partnered with the African Development Bank to implement a program that seeks to improve access and quality water supply and sanitation services in urban areas in Kenya, in a sustainable manner. In addition, the national Government is also collaborating with the Nairobi City County in the implementation of the Nairobi Regeneration Program. Some of the activities to be undertaken under this program are: first, cleaning of Nairobi River; second, issuing over 50,000 land titles to land owners in the Eastlands of Nairobi City County; third, decongesting the Nairobi City by creating a Mass Rapid Transit System and deploying high capacity buses; fourth, decongesting Kenyatta National Hospital by providing capacity in other health facilities under the Nairobi City County Government such as Mama Lucy, Mutuini and Pumwani hospitals.

To support regeneration of the Nairobi River, in a collaboration between the national Government and the Nairobi City County Government, I have allocated Kshs800 million in the budget for Financial Year 2018/2019.

Hon. Speaker, with the discovery of new minerals, we are determined to work with mining companies and communities to grow the sector, attract new investment, create jobs and set the industry on a new path of transformation and sustainability. To further support mining activities and geophysical mapping, I have set aside Kshs509 million, and a further Kshs500 million, respectively. To further support development of the blue economy, I have allocated Kshs575 million for aquaculture technology development and innovation transfers.

Our strategies to revive tourism have borne fruits. To further support tourism activities, I have allocated Kshs1 billion to scale up promotion of tourism, Kshs340 million for sustaining new markets and sitting booths, Kshs380 million for capital lending to hoteliers and Kshs325 million for restoration of Fort Jesus.

The Early Oil Pilot Scheme has now taken off, setting Kenya on stage to join the league of oil exporting countries. Like our neighbours, Kenya has the potential of harnessing many other natural resources and this will further diversify our economy and provide the much needed foreign exchange and job creation. It is critically important that we design a framework for managing these new resources in order to avoid the so called "Dutch Disease". In this context, we have already completed the Sovereign Wealth Fund legislation which will help us deal with the potential windfall of resources from the extractive sector and will also help us manage the resource responsibly for the current and future generations. We will soon be submitting this legislation to this august House after Cabinet approval.

Concurrently, we are working with our private sector partners to develop the necessary infrastructure to evacuate and achieve early monetization of our crude oil resources. In this regard, work is on-going for; first, the development of the upstream facilities which include drilling of over 200 production wells and the installation of the necessary oil drilling facilities to allow the flow of 60,000 to 80,000 barrels of oil per day; second, the development of the proposed 821 kilometres crude oil pipeline from Lokichar oil fields to Lamu and third, the export facilities at Lamu.

As this is a commercially viable project, we plan to deliver it on a project finance basis without recourse to public debt. The Government will, however, invest as a shareholder in the integrated project and will provide public sector facilitation as necessary.

The recent drought and floods that have afflicted most parts of our country underscores the need to preserve our forests and environment. Therefore, to enhance and sustain environment protection, flood control and water harvesting interventions, I have allocated: Kshs7.2 billion for Water Resource Management, Kshs33.7 billion for Water and Sewerage Infrastructure Development, Kshs2.9 billion for Environment Management and Protection, Kshs10.8 billion for Forests and Water Towers Conservation, Kshs8.3 billion for Integrated Regional Development and Kshs2.2 billion for Meteorological Services

To further enhance our capacity to handle the effects of floods and other disasters in the future, the Cabinet has approved the Disaster Risk Management Policy and Disaster Financing Strategy as well as Disaster Risk Management Fund. In addition, the Cabinet has also approved the National Drought Emergency Fund for timely mobilization of resources to fund intervention, mitigation and recovery.

Hon. Speaker, a key enabler for achieving the Big Four Agenda is eradication of corruption. Without vigorously addressing corruption we will not achieve our aspiration of becoming a middle income country with a high quality of life. It is critical, therefore, that each arm of Government – the Legislature, Judiciary and the Executive – play its role firmly and without fear or favour.

The new Constitution provides for independent institutions, commissions, and institutions dealing with governance. We have strengthened the multi-agency team enabling them to investigate, prosecute and recover corruptly acquired assets. Additionally, we have enhanced the oversight and legislative role of Parliament and access to justice, by allocating Kshs36.8 billion to Parliament and Kshs15.2 billion to the Judiciary.

We have undertaken reforms to improve the Public Procurement and Disposal System in order to effectively and efficiently manage our resources as provided for in the Constitution. This has simplified the procurement process. To enhance this further, we intend to revamp the procurement process. Firstly, we will shortly be submitting to Parliament the Public Procurement and Asset Disposal Act (PPAD) regulations. Hon. Speaker, allow me to share some of the major highlights of the Public Procurement and Asset Disposal Regulations, which provides for:

(i) Establishment of common user agency that will facilitate and manage the procurement of standard goods and items. This is aimed at reaping economies of scale while minimizing expenditure and having standard pricing on such items;

(ii) Enhancement of the e-procurement platform to improve efficiency and effectiveness, accountability and transparency in the procurement processes;

(iii) Provisions to facilitate prompt payment for performed contracts within 60 days upon proper certification of the same;

(iv) Provisions for firms that supply manufactured articles, materials or supplies wholly produced or mined in Kenya to enjoy various margins of preference in procurement evaluation;

(v) Margin of preference shall also be extended to local contractors and suppliers where Kenyans are shareholders and offering goods manufactured, assembled, mined, extracted or grown in Kenya.

To this end, all accounting officers of procuring entities are required to procure items manufactured in Kenya to embrace the "Buy-Kenya-build-Kenya Initiative". Where an accounting officer is unable to procure items wholly or partially manufactured in Kenya, he or she shall cause a report detailing evidence of inability to procure such items.

Hon. Speaker, we intend to make procurement as transparent as possible. In line with yesterday's Presidential Directive on procurement processes and consistent with the provisions of the Public Procurement and Asset Disposal Act 2015, all accounting officers of Ministries, Departments and Agencies (MDAs) and parastatals are required to publish and publicise all procurement contracts on their websites, the State portal and tender notice boards with effect from 1st July 2018. The publication shall contain the following information:

(i) Names and designations of the tender evaluation committee members;

(ii) The name of the contractor or supplier awarded the tender;

(iii) Names of the directors of the awarded firms;

(iv) The contract price and tender sum; and,

(v) The contract period including commencement and completion dates.

Accordingly, all the accounting officers will be expected to share the reports on contract awards to the National Treasury and the Public Procurement Regulatory Authority (PPRA) for publication on its website notices. This directive will enhance transparency and accountability in the public procurement and asset disposal proceedings.

In addition, we are working very closely with the key investigative agencies of Government, including the Ethics and Anti-Corruption Commission (EACC), National Intelligence Service (NIS) and the Director of Criminal Investigations (DCI) to identify and seal any loop holes that corrupt individuals may be using within the Integrated Financial Management Information System (IFMIS). To strengthen various institutions that are mandated to fight corruption in the country, I have allocated Kshs2.9 billion to EACC, Kshs2.9 billion to the Department of Public Prosecutions, Kshs161.0 million to the Assets Recovery Agency, Kshs587.0 million to the Financial Reporting Centre, Kshs6.4 billion to the Criminal Investigations Services and Kshs5.1 billion to the Office of the Attorney General.

Kenya has made significant steps towards improving its anti-money laundering measures and abiding by global standards on anti-money laundering and financing of terrorism. To further tighten these measures, I propose to amend the Proceeds of Crime and Anti-Money Laundering Act to address money laundering and terrorism financing risks associated with non face-to-face businesses and transactions. In addition, I propose to include the SACCO Societies Regulatory Authority (SASRA) as one of the supervisory bodies under Proceeds of Crime and Anti-Money Laundering Act to give the Authority a legal platform to monitor the compliance of deposit-taking SACCOs in respect to prevention of money laundering and combating financing of terrorism. Currently, there are limited criteria for assessment of applicants to acquire casino operations license. It is important that before issuance of the casino license, individuals and companies are vetted in order to adhere to global standards on anti-money laundering measures. In this regard, I propose to introduce a legal framework that will enable the Betting, Control and Licensing Board to take into account a wider criterion while undertaking fit and proper test.

The strategic role of State corporations in the creation of a conducive business environment and the implementation and delivery of key development priorities cannot be gainsaid. To ensure that those corporations continue to play a critical role in the delivery of our economic and social agenda, we will undertake key reforms aimed at addressing systemic weaknesses in the parastatal sub-sector, as well as address specific challenges facing individual institutions. To address these challenges and align the mandates of specific corporations to "The

Big Four" Plan, we will implement specific restructuring measures, including:

1. Reforming the Agricultural Finance Corporation (AFC) to help deliver on food and nutrition security;
2. Merging of the Industrial and Commercial Development Corporation (ICDC) with the Industrial Development Bank (IDB) and the Tourism Finance Corporation (TFC) to create the Kenya Development Bank with enhanced capacity to meet the financing requirements of key sectors;
3. Implementing initiatives to address the challenges of Government investments in the banking sector.

Hon. Speaker, we will also review the privatisation programme with a view to identifying, unlocking and prioritising transactions with high impact potential in the implementation of the national development agenda. In this regard, we seek the co-operation of key political actors, without whose support the programme will not succeed.

Kenya's aviation sector has faced a steady decline over the last decade, characterised most notably by the turbulent performance of the national carrier and the loss of business by Jomo Kenyatta International Airport (JKIA) to other competing regional hubs. If Kenya has to achieve its objective of being a premier aviation hub in the region, it has to begin to look at its aviation assets more strategically as key contributors to Gross Domestic Product (GDP). This starts with having a world-class national airline and world-class airports, starting with JKIA as the main gateway to the country. We will, therefore, restructure our aviation sector to enhance the competitiveness of our airline and key airports, particularly JKIA, as we position Kenya as an international commercial and financial hub.

We are presently in the process of establishing the National Toll Fund as a special fund to support the development of world-class national trunk roads, key among them, are the Mombasa to Malaba and Busia, as well as Lamu to hinterland destinations. Under the Public Private Partnership (PPP) Programme, two roads annuity projects have reached financial close, namely the Ngong-Kiserian-Isinya Road and Kajiado-Imaroro roads. These roads will shortly progress to construction. We have also signed contracts for six other projects namely:

1. The 1050Megawatts (MW) Lamu Coal Power Plant;
2. 3 PPP projects to deliver 105MWof Geothermal Power at Menengai;
3. Wajir-Samatar and Rhamu-Mandera Road Annuity Project;
4. Kenyatta University Students Hostel Project.

We have also launched tenders for:

1. Nairobi-Nakuru-Mau Summit PPP Toll Road;
2. Second Nyali Bridge Toll Project;
3. Moi University Students Hostel Project;
4. South Eastern Kenya University Students Hostel Project; and,
5. Embu University Students Hostel Project.

In addition, we have completed contract negotiations on the Likoni Cable Car Project at Mombasa and we have four other PPP projects currently under contract negotiations under the Roads Annuity Programme. Further, a pipeline and more PPP projects are under preparation for implementation. These projects are drawn from the health, tourism, water, solid waste, energy, ports, education, agriculture, housing and manufacturing sectors.

Hon. Speaker**,** allow me at this stage to invite Kenyan pension funds and other local institutional investors to consider PPPs as a distinct asset class, and to partner with the Government in enhancing our country's capacity for PPPs. We note that these funds have the

potential to play a critical role, particularly, in providing local currency financing for PPP projects, thereby significantly de-risking projects from foreign currency funded exposure.
To create a more robust framework for the implementation of PPP projects, the Government intends to revamp the PPP Unit with the aim of speeding up the pace of project preparatory activities, while being mindful of the need to ensure projects are well prepared, and all considerations required by law are taken into account. In this regard, we have completed a review of the PPP ecosystem and undertaken a legal audit of the PPP Act 2013. This work informed the need for amendments to various statutes which are before this august House.

The proposed amendments focus on land acquisition and reduction of the bureaucracy associated with the PPP project development. We shall also be undertaking administrative actions aimed at speeding up project turn-around times. These include establishing shortlists of advisory services providers, standardizing project documents and resourcing the capacity of the PPP Unit to deliver on its mandate. Next week, I shall be launching the PPP Disclosure Portal which is an online platform through which all stakeholders can access all Kenyan PPP data. This is our commitment under the Access to Information Act, 2016, and a demonstration of our willingness to remain accountable to the people of Kenya for the efficient utilization of their resources for their benefit.

Let me now turn to the Financial Sector. The Government continues to implement measures and reforms aimed at further deepening and strengthening the financial sector. As a result, the Kenyan financial sector has witnessed an upward growth trajectory over the last seven years, with the proportion of the adult population having access to formal financial services increasing from 66.9 per cent in 2013 to 75.3 per cent in 2016. The efficiency of the financial sector has also generally been on an upward trend over the last ten years; mainly driven by innovative financial service delivery channels introduced by the players. Similarly, financial stability has been boosted by enhanced credit risk management systems as well as improved economic conditions. However, lending to private sector and enterprises in Kenya has had mixed results over the last two years.

You recall that in August 2016, the National Assembly sought to address the public concerns about the high cost of credit through the Banking (Amendment) Act, 2016, which imposed a maximum rate of interest for all types of credit offered by banks, as well as a minimum rate of interest on interest earning deposit accounts. The interest rate ceiling has contributed to slow growth in credit to the private sector, and especially to Micro, Small and Medium Enterprises (MSMEs), in the agriculture and trade sectors. Moreover, the aim of the amendment which was to expand access to financial services and increase return on savings has not been achieved since banks have shied away from borrowers they consider riskier and are priced above the maximum lending rate. At the same time, they have concentrated on either building non-interest earning deposit accounts or reclassifying interest earning deposit accounts to transaction accounts which do not earn interest. As a result, financial access and economic growth has been adversely impacted.

In this regard, the Government is putting in place a package of reforms aimed at optimizing lending to the private sector while, at the same time, encouraging innovation in the financial sector in Kenya.

Let me detail some of the initiatives that we are undertaking to address the above challenges in our efforts to have a fair, transparent, competitive, efficient and accessible credit market to serve the needs of *wananchi*. In order to enhance access to affordable credit to Micro, Small and Medium Enterprises (MSMEs) which are regarded as high risk borrowers, the

Government is working jointly with the private sector and development partners to introduce a National Credit Guarantee Scheme as a policy tool to direct credit to MSMEs. The Credit Guarantee Scheme will work through easing the financial constraints of MSMEs and start-ups by enabling them to access capital.

I earlier alluded to the establishment of the Kenya Development Bank. The proposed Bank is expected to play a greater role in providing long term credit to our MSMEs and especially to support The Big Four Plan. Further, in order to increase efficiency, resolve overlaps and make better use of resources to achieve economies of scale, the Cabinet has approved *Biashara* Kenya Fund by merging *Uwezo* Fund, Youth Enterprise Development Fund and Women Enterprise Development Fund. The consolidation of the funds will result in a stronger institution with a larger balance sheet that is better and able to make the investments in technology needed in a modern financial sector and support the provision of longer-term finance that the MSMEs require.

In order to enhance access to credit and minimize the adverse impact of the interest rate capping on credit growth while strengthening financial access and monetary policy effectiveness, I propose to amend the Banking (Amendment) Act, 2016, by repealing Section 33B of the said Act. This is to enable banks and other lenders to provide more credit especially to borrowers they consider riskier.

Mr. Speaker, Sir, in order to sustainably deal with inadequacies in consumer protection and unregulated lending in the financial sector, we have developed a Financial Markets Conduct Bill, 2018, that comprehensively addresses these issues, and does away with piecemeal and fragmented legislation on consumer credit. The Bill also addresses the problems of predatory lending and reckless behavior by credit providers; exploitation of consumers by debt collectors; lending without regard to a borrower’s ability to repay leading to high levels of indebtedness; deceptive pricing and abusive collection techniques. The draft Financial Markets Conduct Bill, 2018 is currently undergoing stakeholder consultations before the Cabinet considers it in due course.

Other ongoing initiatives include the digitization of land titling processes, development of a functional collateral registry to support provision of affordable credit to Kenyan businesses and individuals and implementation of the Treasury Mobile Direct and *M-Akiba* to offer retail individuals alternative savings mechanism, thus indirectly compelling formal financial services providers to offer competitive savings rates.

The aforementioned reforms will not only address shortcomings in the credit market, but will also catalyse provision of credit to support the Government’s Big Four Plan.

The next part of my Statement focuses on proposed amendments to various Acts which mainly targets the financial sector. On capital markets, the capital markets play a critical role in our economy and facilitate investment growth in the country. In this context, our capital markets require progressive regulatory framework to enhance investor confidence as well as regulate players in the financial sector. Therefore, I propose to amend the Capital Markets Act to introduce enhanced financial controls and provide for investor protection in the sector.

In the Retirement Benefits Act, we have cases of some employers who have failed to remit pension contributions to their respective retirement benefit schemes. In order to compel employers to remit the pension contributions, I propose to amend the Retirement Benefits Act to enable the Authority intervene against any employers who fails to remit such contributions to the scheme.

As you recall in the year 2016, I introduced amendments to the Retirement Benefits

(Individual Retirement Benefit Schemes) Regulations and the Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations in order to provide for establishment of a medical fund into which members can contribute during their working life and the same can be used to purchase medical cover upon retirement. To further promote this policy and support universal healthcare under The Big Four Plan, I propose to introduce amendments to the same Regulations to allow members who are unable to build medical funds during employment to utilize a portion of their retirement benefits for post-retirement medical cover. I further exempt the same Fund from the Retirement Benefit Levy in order to boost the members' contribution.

The Kenyan insurance sector has heavily relied on traditional indemnity based insurance which has had challenges due to the requirement for assessment of losses to be conducted before any payment is made. This has led to low uptake of agricultural insurance. In order to provide an alternative to the indemnity based insurance, I propose to amend the Insurance Act to introduce index based insurance which will lead to higher uptake of insurance by our farmers.

Further, we have witnessed increased instances of insurance fraud in the insurance sector mainly due to lack of adequate provisions to govern the sector. In this regard, I propose to amend the Insurance Act to introduce provisions to criminalise insurance fraud and protect consumers. The current provisions of the Insurance Act allow the insured to pay for insurance premiums through an intermediary. The intermediaries delay payments for the premium thereby putting the insured at risk. In order to ensure prompt payment of premiums to the insurance and taking into account the expanded mode of payment of premiums through digital platforms, I propose to amend the Insurance Act to require the insured to make payments in respect of premiums directly to the insurer. This will enhance prompt coverage of the insured.

The Sacco Societies Act and the Regulations require SACCO Societies to submit periodic statutory reports and other information to the Sacco Societies Regulatory Authority (SASRA) mainly on a monthly and quarterly basis. These statutory reports are critical components and tools for daily monitoring and evaluation of the financial performance of SACCO Societies such as their liquidity status, capital adequacy and asset quality, among others.

The Authority has been progressively adopting a Risk Based Supervision (RBS) model of supervision, which is the internationally accepted supervision model for financial institutions. The RBS model is heavily dependent on real time and accurate data and other statistical information from SACCOs. I, therefore, propose to amend the SASRA Act to allow the usage of ICT in submission of statutory reports.

In conclusion, Hon. Speaker and fellow Kenyans, the last two years were difficult for our nation, but we remained resilient and emerged stronger as a democratic society. Our people have shown incredible patience and optimism. Our President has led the way to find common ground and heal the wounds arising from divisive politics.

The Budget I have presented to you has been carefully prepared to balance the difficult choices we had to make in order to move this country forward, implement our President's legacy agenda of radically transforming this country through the Big Four Agenda initiative and sustain our public finances. I believe we have made the right decision that will propel this country to prosperity and make us great.

Despite our limited resources and the need to reduce the fiscal deficit, we have in addition to funding the Big Four Agenda, sustained the prioritization of resource to pro-poor programmes, especially in the areas of social protection, education, health, food security, access to electricity and drought and disaster risk mitigation measures. The Budget is also inclusive and promotes shared prosperity in light of resources allocated to ASAL areas and transfers to the counties, the National Government Constituencies Development Fund (NG-CDF), the National Government Affirmative Action Fund and the Equalization Fund.

Let this Budget and the subsequent ones be the beginning of revitalization and finding common ground in the way we do things so that we can ensure inclusivity and together tackle the triple challenge of unemployment, poverty and inequality. Let us seize the present opportunity and support the President's vision for the country and his resolve to weed out corruption and achieve high standards of governance.

Hon. Speaker, at this point, I wish to thank His Excellency the President for the wise counsel and commitment to removing any blockages for the country to achieve its potential. I also wish to thank His Excellency the Deputy President, my Cabinet colleagues and Principal Secretaries for the support and co-operation throughout the preparation of this Budget. I share with my colleagues the collective responsibility of implementing this Budget.

Our sincere thanks also go to you, the Speaker of the National Assembly and the Speaker of the Senate, together with your respective Clerks, for facilitating the approval process of the Budget Estimates for Financial Year 2018/2019 and other Budget documents in Parliament. We also thank members of the Budget and Appropriations Committee led by the Chairman, Hon. Kimani Ichung'wah, as well as the Departmental Committees of the National Assembly for their time and dedication in sifting through the Estimates, and for their constructive debate that helped refine the Budget. We thank the Leaders of the Majority Parties of both Houses, Hon. Aden Duale and Hon. Kipchumba Murkomen, for the robust support of the Government economic agenda during the legislative debates. We also thank Members of the Finance and National Planning Committee led by the Chairman, Hon. Joseph Limo, and other Departmental Committees of the Senate for their constructive engagement on the Budget and financial matters. We thank all Members of the National Assembly and the Senate for their co-operation in facilitating legislative proposals in support of budget preparation and implementation.

We also thank members of the Inter-governmental Budget and Economic Council (IBEC) for their support and co-operation in inter-governmental financial matters. My thanks also go to the management and staff of the National Treasury and Planning under the able leadership of Hon. Nelson Gaichuhie, the Chief Administrative Secretary, Dr. Kamau Thugge, the Principal Secretary, National Treasury and the Planning Permanent Secretary, Dr. Julius Muia, who have tirelessly worked long hours, including most weekends, to ensure that this Budget and supporting documents meet the legal deadline. We appreciate your deep commitment to public service.

We also appreciate the management and staff of the Central Bank of Kenya and the Kenya Revenue Authority for their contributions. Our thanks also go to the staff from the Attorney General's Office as well as staff of the Parliamentary Budget Office for providing support and insightful comments throughout the budgeting process.

We also thank our bilateral and multilateral development partners as well as our private sector players for their contribution to our development agenda through their technical and financial support. I must also thank my family for their support and inspiration.

Finally, my utmost gratitude goes to Kenyans from all walks of life for their contributions, proposals and suggestions received during the finalization of the Budget. I wish all Kenyans and persons who profess the Islamic faith a Happy Idd ul Fitr.

PAPERS LAID

The Cabinet Secretary for National Treasury (Mr. Rotich): Hon. Speaker, in April 2018, I submitted the Budget Estimates, together with the accompanying documents. As I conclude, I further submit the following documents to this august House:

1. The Budget Statement.
2. The Finance Bill, 2018.
3. The SACCO Societies (Amendment) Bill, 2018.
4. The Capital Markets (Amendment) Bill, 2018.
5. The Insurance (Amendment) Bill, 2018.
6. The Financial Statement for Financial Year 2018/2019.
7. The Estimates of Revenue, Grants and Loans for Financial Year 2018/2019, and
8. The Statistical Annex to the Budget Statement for Financial Year 2018/2019

Thank you very much. God bless you, God bless Kenya.

(Applause)

Hon. Speaker: Hon. Members, I thank the Cabinet Secretary for the National Treasury for having ably made his public pronouncement of the Budget highlights and the various revenue raising measures for the national Government for the Financial Year 2018/2019 and the medium term. I also wish to confirm that, in conformity with the provisions of Standing Order No.244(c), the Cabinet Secretary, as you have noticed the departure from the past, has submitted here in the Plenary the various documents, among them the proposed Finance Bill, 2018 and other legislative proposals necessary to actualise the revenue raising measures for the national Government for the said period.

Hon. Members, it is now my pleasure to invite all Hon. Members, the CS for the National Treasury, other CSs and all other invited guests to a reception at the Parliament Yard hereafter. Since tomorrow is a public holiday to mark Idd ul Fitr, I must also, in keeping with my tradition, wish all our Muslim brothers and sisters a Happy *Eid Mubarak*.

(Applause)

ADJOURNMENT

Hon. Speaker: Hon. Members, the time being 5.20 p.m., the House stands adjourned until Tuesday, 19th June 2018, at 2.30 p.m.

The House rose at 5.20 p.m.