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BUDGET STATEMENT

FY 2018/19

Creating Jobs, Transforming Lives and Sharing Prosperity

I. Introduction

Mr. Speaker, it is my honour to present to this august House the FY 2018/19 Budget Statement. I make this Statement in fulfillment of the requirements of Section 40 of the Public Finance Management Act, 2012 and the Standing Order Number 241 of the National Assembly.

Mr. Speaker, 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 working closely with all of you in order to achieve our development goals.

Mr. Speaker, while delivering his State of the Nation address early this year, H.E. 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 aspirations for an inclusive and shared prosperity.

Mr. Speaker, as a country we have come a long way since 2013. At that time, when H.E. 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 mainly to unreliable hydro and costly thermal sources. We needed to modernize 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 a challenge of rolling out the devolved system of Government with 47 County Governments as enshrined in our Constitution.

Mr. Speaker, faced with these challenges, the Jubilee Administration designed and implemented an Economic Transformation Plan under five key pillars involving: (i) improving the business climate by maintaining macroeconomic stability, addressing security challenges, and reducing the cost of doing business; (ii) closing the infrastructure gaps; (iii) investing in key sectors such as manufacturing, agriculture and tourism; (iv) sharing prosperity by investing in pro-poor programmes in health, education and in social welfare programmes; and (v) fully supporting devolution. The Plan we chose in 2013 has worked and is delivering positive results to our people. **Mr. Speaker**, let me mention a few of the key achievements under the Plan:

- During the past five years our economy has expanded by an average rate of 5.6 percent per year outperforming the average growth rate of the previous five years (2008-2012) and that of the global economy and of sub-Saharan Africa. We are now relishing the benefits of an expanded economy that is more competitive and well rated not only in the East African region but also in the whole of Africa;
- We have completed phase 1 of the Standard Gauge Railway (SGR). Today, Kenyans are enjoying cheaper and faster travels between Mombasa and Nairobi using 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 ten-fold 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 investment in police and military modernization;
- Our tourism sector continues on a recovery path largely due to the 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 specialized treatment than ever before;
- We have also made education more inclusive and sensitive to the country's skills demand by; (i) expanding the free education program to include free day secondary school education; (ii) introducing a new curriculum that focuses on nurturing talents; and (iii) delivered new and upgraded technical training institutes across the country; and finally
- More vulnerable Kenyans are benefiting from cash transfers, especially our senior citizens, orphans and vulnerable children, and persons with disabilities.

Mr. Speaker, 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 H.E. 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.

Mr. Speaker, achieving these strategic objectives will require that we all pull in the same direction. It is in this context, that H.E. 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 founding fathers. This has rekindled our sense of purpose and triggered a new sense of renewal.

Mr. Speaker, 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 for this year's budget is: ***"Creating jobs, Transforming Lives and Sharing Prosperity."***

Mr. 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.

Mr. Speaker, we must now seize the opportunity to accelerate our economic growth, create jobs for our youth, 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 favorable global economic and trading environment;
- Our domestic economic outlook is bright;
- We have a fiscal plan that supports growth, provides funds for our devolved government, 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 enthusiastic 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".

Mr. Speaker, in the Budget for FY 2018/19 that I will present shortly, we have balanced the need to provide resources to key priority areas to support the enablers and drivers of "The Big Four" Plan and accelerate economic growth, while at the same time ensuring that our public debt remains on a sustainable path.

Mr. Speaker, given the competing needs for our limited resources, we have had to make tough choices. We have curtailed resources going to lower-priority areas following the zero-based budgeting approach that we have adopted. This has enabled us to redirect these savings toward "The Big Four" 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 projections, so as to limit borrowing. Obviously, there are risks and spending pressures that we will need to manage prudently.

Mr. Speaker, the rest of my Statement focuses on the economic context around which this budget is prepared and details of various strategies aimed at creating jobs and transforming the lives of Kenyans under "The Big Four" Plan. Thereafter, I will broadly outline the fiscal policy and budget framework for the FY 2018/19 budget, together with tax proposals and priority expenditures as well as critical structural reforms that we intend to implement.

II. Recent Economic Developments and Outlook

Mr. Speaker, we recently completed our Third Medium Term Plan (MTP III), which will guide us in achieving the Sustainable Development Goals (SDGs), 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 percent in 2018 and 2019, from 3.8 percent in 2017. This growth momentum is supported by a rebound in investments, trade and industrial production, coupled with strengthened business and consumer confidence.

Equally, **Mr. Speaker,** economic growth in sub-Saharan Africa, is recovering with growth projected at 3.4 percent in 2018, up from 2.8 percent 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, **Mr. Speaker,** 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.

Mr. Speaker, 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 percent 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.

Mr. Speaker, we project the economy to grow by at least 5.8 percent this year supported by growing investor confidence, improved agricultural activities bolstered by favorable 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 7.0 percent per year, which in turn should support job creation and reduce poverty among Kenyans.

Mr. Speaker, 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.

Mr. Speaker, 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.

III. Creating jobs, Transforming Lives and Sharing Prosperity – "The Big Four" Plan

Mr. Speaker, 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.

Manufacturing

Mr. Speaker, on manufacturing, we plan to increase the contribution of the manufacturing sector to GDP to 15 percent by 2022 by adding between US Dollar 2 to 3 billion to our GDP. It is expected that this will increase manufacturing sector jobs by more than 800,000.

Mr. Speaker, 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.

Mr. Speaker, we will target investors that are ready to invest in specific areas by providing tailor-made incentives, some of which are in my 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.

Mr. Speaker, we are taking actions to remove non-trade barriers within the East African Community (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 fiscal year. Meanwhile, we have stay of application on some of the sensitive products before completion of the review.

Mr. 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 cents 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.

Mr. Speaker, 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 of Kenya Bureau of Standards (KEBS), Kenyan Revenue Authority (KRA) and Anti-Counterfeit Agency are coordinating efforts to identify, seize and destroy counterfeit goods. Already, the actions taken have yielded results.

Food and Nutrition Security

On food security, **Mr. Speaker,** 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.

Mr. Speaker, 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.

Affordable Housing

Mr. Speaker, 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.

Mr. Speaker, 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 **Mr. Speaker,** 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 2018 and has started raising capital.

Mr. Speaker, we have also developed a comprehensive housing package that will incentivize the private sector in the construction of low cost housing. This includes reduction of corporate tax rates to 15 percent 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 mobilization and management of tenant purchase schemes and provide alternative financing strategies for low cost housing and the associated social and physical infrastructure.

Mr. Speaker, 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% of the employees gross monthly emolument subject to a maximum of five thousand shillings while the employee will contribute 0.5% of their monthly gross earnings.

Universal Health Care

Mr. Speaker, 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.

Mr. Speaker, H.E. 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.

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

Mr. Speaker, 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 specialized skills from outside to address existing gaps.

Mr. Speaker, 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 NHIF, and the requirements on infrastructure, commodities and personnel will inform the roll out to all the counties in the subsequent years.

Mr. Speaker, 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.

Mr. Speaker, 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” Plan a reality. Already, many of our development partners are funding projects within the “Big Four” sectors. But in addition to that, and with a view to mobilizing additional resources, they have indicated their willingness to review the rest of their portfolio to align them with the “Big Four” Plan.

IV. Fiscal Policy and the Budget Framework

Mr. Speaker, let me now turn to the fiscal policy and budget framework for the FY 2018/19 budget and the medium term.

Mr. Speaker, in this fiscal year ending in June 2018, we estimate a fiscal deficit of 7.2 percent of GDP, down from 9.1 percent 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.

Mr. Speaker, 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 2018. With the additional funding of Ksh 4.3 billion from the National Treasury, KRA committed to collect additional revenues of Ksh 74 billion by end June 2018. By April 2018, KRA had collected Ksh 33 billion and we expect them to deliver the remaining revenue yield by end June 2018.

Mr. Speaker, 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.

Mr. Speaker, under this fiscal consolidation plan, we project the fiscal deficit to narrow to 5.7 percent of GDP in the FY 2018/19 from the estimated 7.2 percent of GDP in the FY 2017/18 and further to around 3.0 percent of GDP by FY 2021/22. As such, this will help stabilize the Net Present Value (NPV) of debt to GDP ratio at below 50 percent, which is well below the 74 percent threshold considered to signal an unsustainable debt position.

Mr. Speaker, 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.

Mr. Speaker, with revenue enhancement measures, we project revenues to rise by 17.5 percent to Ksh 1, 949.2 billion (equivalent to 20.0 percent of GDP) in the FY 2018/19 from the estimated Ksh 1,659.6 billion collected in the FY 2017/18.

Mr. Speaker, 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, **Mr. Speaker,** 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.

Mr. Speaker, 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 service wage bill.

Mr. Speaker, given our expenditure containment measures, we project the total expenditure at Ksh 2,556.6 billion (equivalent to 26.3 percent of GDP) in 2018/19. Of this, recurrent expenditure will amount to Ksh 1,550.0 billion (equivalent to 15.9 percent of GDP), development expenditure is projected at Ksh 625.1 billion (equivalent to 6.4 percent of GDP), and transfers to County Governments will amount to Ksh 376.4 billion (or 3.9 percent of GDP).

Mr. Speaker, the deficit of Ksh 558.9 billion (equivalent to 5.7 percent of GDP) will be financed by net external financing amounting to Ksh 287.0 billion (equivalent to 3.0 percent of GDP) while other domestic financing will amount to Ksh 271.9 billion (equivalent to 2.8 percent of GDP).

Mr. Speaker, 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 maximize 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.

Mr. Speaker, as you are aware, this House has reviewed the 2018/19 Budget Estimates that I submitted on April 26, 2018. I want to thank the Budget and Appropriation Committee (BAC) and all Departmental Committees for interrogating the Estimates. Based on the BAC report adopted by the House, the Committee of Supply has now approved the Estimates, paving the way for finalization 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.

V. Taxation Proposals

Mr. Speaker, let me now turn to the various tax measures that I intend to introduce through the Finance Bill 2018, to realize the objectives set out in "The Big Four" Plan.

Mr. Speaker, the tax proposals that I am submitting through the 2018 Finance Bill are designed to generate an additional **Ksh 27.5 billion** in tax revenue for the FY 2018/19. In addition, the proposed tax measures are intended to incentivize the achievement of "The Big Four" Plan and offer strategic incentives. **Mr. Speaker,** allow me to highlight some of the tax proposals in this budget.

Customs Measures

Mr. Speaker, during the East African Community (EAC) Pre-Budget Consultations meetings, we agreed on Customs duties aimed at promoting industrialization, 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. **Mr. Speaker**, details of the Customs measures will be communicated through the EAC Gazette and implemented from 1st July this year. I will highlight a few of them.

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

Mr. Speaker, 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% to 35% on some paper and paper board produced in the region.

Mr. Speaker, 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% whichever is higher. This should guard against undervaluation.

Mr. Speaker, 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/MT on particle board, USD 120/MT on medium density fiber board, USD 230/M^3 on plywood and USD 200/MT on block boards, or an advalorem duty of 35% whichever is higher.

Mr. Speaker, 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% whichever is higher.

Mr. Speaker, 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.

Mr. Speaker, currently, the law provides for exemption of duty for some select 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.

Mr. Speaker, 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 percent. This will promote local production of clean energy cooking stoves and make them more affordable.

Mr. Speaker, the EAC Common External Tariff 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.

Mr. Speaker, 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.

Value Added Tax

Mr. Speaker, 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 food and ensure sustained food security in the country. In this budget, **Mr. Speaker**, I propose to expand this exemption to include equipment 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.

Mr. Speaker, 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.

Mr. Speaker, Information Communication Technology 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.

Excise Duty

Mr. Speaker, 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 twenty percent to thirty per cent on private passenger motor vehicles whose engine capacity exceeds 2500cc for diesel and 3000cc for petrol powered vehicles.

Mr. Speaker, 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 0.05% on any amounts of five hundred thousand shillings 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% to 12%. The revenue realized from these measures shall be used to fund Universal Health care.

Mr. Speaker, Under the Excise Duty Act, illuminating kerosene attracts a duty rate of Ksh 7,205 per 1000 litres while gas oil is subject to excise duty at the rate of Ksh 10,305 per 1000 litres. **Mr. Speaker**, 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. **Mr.**

Speaker, in order to reduce the incidence of adulteration of fuels, I propose to harmonize the rate of excise duty applicable on illuminating kerosene to Ksh 10,305 per 1000 litres.

Income Tax

Mr. Speaker, in the recent years, we have implemented tax reforms aimed at modernizing tax legislations 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.

Mr. Speaker, in the Income Tax Bill, 2018, I had proposed to introduce a higher tax band of 35% on incomes above Ksh 750,000 per month and an increase of the capital gains tax from 5% to 20%. 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.

Mr. Speaker, we are finalizing the draft Bill then seek approval from Cabinet before submission to this House by end July 2018. I propose to make limited amendments to the Income Tax Act with a view to address critical issues on the revenue gaps and to expand the tax base.

Mr. Speaker, the informal sector in our country 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 fifteen percent in order to ensure that the sector contributes towards the economic agenda of the country.

Mr. Speaker, in the Tax Laws Amendment Bill, 2018, I have proposed to introduce withholding tax on winnings. However, the proposal did not provide how the revenue realized from this measure will be applied. I propose to amend the Income Tax Act to clarify that the revenue realized from the tax on winnings shall be used for the development of sports, arts and cultural activities for the youth, as well as critical social development initiatives including Universal Health Care.

Mr. Speaker, 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 eighty (80) Ports worldwide attracting various service providers, particularly the 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 twenty percent.

Mr. Speaker, 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-residents persons and capital gains made by general insurance companies are not taxed under the current legal framework. **Mr. Speaker**, 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 five percent tax on insurance premium paid to non-residents excluding insurance premium paid for insurance of aircraft.

Mr. Speaker, 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 specific conditions and deliverables that are measurable and with specific timeliness that must be met. **Mr. Speaker**, 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.

Mr. Speaker, the Government is dedicated to support the manufacturing sector as a key 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. **Mr. Speaker,** in order to mitigate the cost of production, I propose to amend the Income Tax Act to provide a deduction of thirty percent 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.

Tax Procedures Act

Mr. Speaker, 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 of 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, **Mr. Speaker**, and in order to encourage the uptake of the amnesty, I propose to extend the period of 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 or any other Act relating to reporting and investigation of financial transactions, to the extent of the source of the funds. **Mr. Speaker**, this exemption however does extend to proceeds from terrorism, poaching and drug trafficking.

Mr. Speaker, despite imposing a one percent 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 Procedures Act to increase the rate of late payment interest to two per cent, and also introduce a twenty percent late payment penalty. This will promote tax compliance among the taxpayers and boost our revenue mobilization efforts to avail the much needed funds for supporting "The Big Four" Plan.

Mr. Speaker, 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.

Tax Administration

Mr. Speaker, in the year 2015, I exempted Regulatory Authorities from payment of corporate taxes and provided that these Authorities remit ninety 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 Kenya Revenue Authority collect the surplus from the regulatory authorities and remit to the Consolidated Fund.

Mr. 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 twenty percent penalty and two 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.

Export Levy

Mr. 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% on copper waste and scrap metals.

VI. Expenditure Priorities

Mr. 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 Ksh 2,330.0 billion in FY 2017/18 to Ksh 2,556.6 billion in FY 2018/19. In relation to GDP, this represents a reduction from 26.8 percent of GDP to 26.3 percent, consistent with our fiscal consolidation plan.

Mr. Speaker, despite the planned fiscal consolidation, resource allocation criteria was aimed at ensuring that funding for "The Big Four" Plan was prioritized. In total, I have allocated around **Ksh 460 billion** to "The Big Four" sector drivers and their enabling sectors. We have also sustained prioritization of resources to other pro-poor programmes, such as social protection (cash transfers), education, access to electricity and drought mitigation interventions.

Supporting "The Big Four" Plan

Mr. Speaker, the specific incentives under the Special Economic Zones (SEZ) Act, and other special incentives, together with PPP arrangement will draw in investors into the manufacturing business. To catalyze this, the Government will provide the enabling infrastructure including building industrial sheds. To this end, I have allocated **Ksh 0.4 billion** for the leather industrial park development and **Ksh 0.4 billion** for textile development. **Mr. Speaker,** to modernize facilities in RIVATEX and the New KCC, we have allocated **Ksh 1.4 billion** and **Ksh 200 million,** respectively.

Mr. Speaker, to enhance food and nutrition security and modernize agriculture, I have allocated **Ksh 1.4 billion** for the strategic food reserves, **Ksh 1.9 billion** for the Kenya Cereal Enhancement Programme, **Ksh 0.5 billion** for mechanization of agriculture, and **Ksh 0.9 billion** for crop diversification.

Mr. Speaker, the severe drought that we experienced last year underscores the importance of reducing our reliance on rain fed agriculture. **Mr. Speaker,** in order to reduce our vulnerability to drought and bring additional land under crop production, I have allocated a total of **Ksh 8.5 billion** for ongoing irrigation projects in Bura and Mwea, National Expanded Irrigation Programme and Smallholder Irrigation Programme, Galana Kulalu, Turkana and micro irrigation in schools.

Mr. Speaker, we will continue to improve accessibility of fertilizer and crop insurance. To this end, I have set aside **Ksh 4.3 billion** for subsidized fertilizer, **Ksh 300 million** to support crop insurance schemes in order to cushion farmers against climate related risks, and **Ksh 300 million** for Fall Army Worm Mitigation. On subsidized fertilizer, I expect the Ministry of Agriculture to reform the supply chain systems and ensure better service to farmers with the ongoing registration of farmers.

Mr. Speaker, to further expand access to affordable healthcare, I have allocated **Ksh 2.0 billion** for Free Primary Healthcare, **Ksh 0.8 billion** for Health Insurance Subsidy Programme (Elderly & Disabled), and **Ksh 2.5 billion** for the rollout of universal health coverage to four counties on a pilot basis.

Mr. Speaker, to continue with the initiatives of H.E. the President on universal health care, we have provided a total of **Ksh 13.7 billion** to further support the Free Maternal Healthcare programme and the leasing of medical equipment.

Mr. Speaker, in view of the increasing cases of cancer related deaths, early screening and management is imperative. We have allocated **Ksh 7.0 billion** for leasing of Computed Tomography Scanners Equipment, which will help diagnose the disease at early stages and curb cancer deaths. I have also allocated, **Ksh 400 million** for the establishment of Cancer Institute.

Mr. Speaker, other allocations to improve health service delivery include **Ksh 2.9 billion** for Doctors/Clinical Officers/Nurses internship programme, **Ksh 11.7 billion** for Kenyatta National Hospital, **Ksh 7.7 billion** for Moi Teaching and Referral Hospital, **Ksh 2.2 billion** for Kenya Medical Research Institute and **Ksh 4.7 billion** for Kenya Medical Training Centres (KMTC).

Mr. Speaker, on 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.

Mr. Speaker, to roll out the housing programme, we have provided **Ksh 3.0 billion** for construction of affordable/social housing units by the Government and **Ksh 1.5 billion** for construction of housing units for police and Kenya prison officers. We have also provided **Ksh 1.5 billion** for the Civil Servant Housing Scheme Fund to support the offtake of the housing units.

Mr. Speaker, we plan to provide infrastructure and utilities to urban land owned by both National 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 **Ksh 18.4 billion** to support the servicing of land in various towns in the country to bring in private developers into the affordable housing programme.

Enablers for "The Big Four" Plan

Mr. 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 industrialization as envisaged in the Kenya Vision 2030. Building on the progress made thus far, **Mr. Speaker,** the strategy going forward, will involve implementing the programmes and policies that support achievement of "The Big Four" Plan so as to bolster economic growth and job creation.

Mr. Speaker, to achieve "the Big Four" Plan, it will be critically important to ensure that the following key enablers are implemented: (i) continued macro-economic stability; (ii) enhanced security; (iii) targeted infrastructure; (iv) expanded technical training; (v) technology innovation; (vi) and finally addressing vigorously the cancer of corruption.

Security

Mr. Speaker, recognizing 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 infrastructures. **Mr. Speaker**, to support these initiatives, I have set aside: **Ksh 8.9 billion** for enhanced security operations, **Ksh 29.8 billion** for police and military modernization, **Ksh 3.0 billion** for securitizing our borders and **Ksh 9.2 billion** for leasing of police service vehicles.

Mr. Speaker, to improve the welfare of our police officers, I have allocated **Ksh 6.5 billion** for Police and Prison Officers Medical Insurance Scheme; and Group Life Insurance for Police.

Infrastructure

Mr. 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 **Ksh 115.9 billion** for on-going road construction projects, and **Ksh 74.7 billion** for the construction of Phase 2A of the SGR. I have also allocated **Ksh 2.7 billion** for the Mombasa Port Development Project, and **Ksh 1.4 billion** for the expansion of Malindi, Isiolo and Lokichogio 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 mobilizing additional resources for the same purpose.

Mr. Speaker, to support generation of adequate and affordable energy, I have allocated, **Ksh 12.7 billion** to support the exploration of geothermal, wind and solar resources**,** and **Ksh 4.8 billion** for the exploration and distribution of oil and gas.

Mr. Speaker, to connect more Kenyans to affordable electricity, I have set aside, **Ksh 5.9 billion** for rural electrification and connection of public facilities; **Ksh 6.7 billion** for Last Mile Connectivity; Ksh **1.0 billion** for the national street lightning programme; **Ksh 5.5 billion** for Eastern Electricity Highway Project (Ethiopia - Kenya Interconnector)**; Ksh 1.0 billion** for substation installation**, Ksh 1.0 billion** for installation of transformers in constituencies; **Ksh 1.0 billion** for Connectivity Subsidy; **Ksh 12.6 billion** for Loiyangalani – Suswa transmission line, land compensation and counterpart funding; and **Ksh 3.1 billion** for Nairobi 220KV Ring.

Human Capital Development

Mr. 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 institutes in order to equip the youth with the relevant skills necessary for industrialization. For this reason, we have allocated **Ksh 16.0 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; **Ksh 91.1 billion** to support University Education; and **Ksh 9.6 billion** to the Higher Education Loans Board.

Mr. 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 **Ksh 59.4 billion** for Free Day Secondary Education Programme. In addition, I have allocated **Ksh 13.4 billion** Free Primary Education Programme; **Ksh 4.0 billion** for examinations fee waiver for all class eight and form four candidates; and **Ksh 2.0 billion** for the School Feeding Programme. Further, to increase the teacher to student ratio, I have set aside **Ksh 5.0 billion** for the recruitment of additional teachers.

Supporting ICT Knowledge and Innovations

Mr. Speaker, we need to further develop our capabilities in the areas of science, technology and innovation. Leading this drive, the Government has spearheaded major ICT investments including the expansion of Fibre 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,** we have further enhanced allocations to support the ICT sector and improve Government service delivery. We have allocated: **Ksh 11.9 billion** for the Digital Literacy Programme, **Ksh 8.3 billion** to support the ongoing construction of Konza Complex, **Ksh 100 million** for Presidential Digital Talent Programme, and **Ksh 310 million** for Digital Migration (KBC). **Mr. Speaker,** to support service delivery by Government agencies, we have set aside, **Ksh 300 million** for Single Window Support Project, and **Ksh 0.7 billion** for continued roll out of 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

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

Social Safety Nets

Mr. 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). **Mr. 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: **Ksh 7.95 billion** for orphans and vulnerable children (OVC); **Ksh 17.3 billion** for cash transfers to the elderly persons; and **Ksh 1.2 billion** for cash transfers to persons with severe disabilities.

Mr. Speaker, to further support the less fortunate families, we have set aside: **Ksh 1.2 billion** for Children Welfare Society; **Ksh 400 million** for the Presidential Secondary School Bursary Scheme; **Ksh 4.5 billion** for the Kenya Hunger Safety Net Programme; and **Ksh 8.5 billion** for the Equalization Fund.

Further, **Mr. Speaker,** I have set aside **Ksh 35.7 billion** for the National Government Constituency Development Fund; and **Ksh 2.3 billion** for Affirmative Action Fund to promote equity and for social development.

Empowering Women, Youths and Persons with Disabilities

Mr. Speaker, our resolve to empower the Youth, Women, Persons with Disabilities and other vulnerable groups through various initiatives including provision of affirmative funds and reservation of public procurement opportunities remain steadfast.

Already, **Mr. Speaker,** we have set registration and advisory services for these 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.

Mr. 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.

Mr. Speaker, to support sports, culture and arts, I have allocated: **Ksh 200 million** for construction of a Sports Academy, and **Ksh 300 million** for completion of the 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

Mr. 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 Ksh 1.3 trillion that has gone to the counties in the last five years has ensured uninterrupted service delivery by all the 47 County Governments.

Mr. Speaker, in FY 2018/19, we are providing to the Counties a further **Ksh 376.4 billion** comprising a sharable revenue of **Ksh 314 billion** and conditional allocations amounting to **Ksh 62.4 billion.** The allocations in 2018/19 translates 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 CDF and National Government Affirmative Action Fund, which as we all know goes to the grassroots level, in addition to funds appropriated from the Equalization Fund.

Mr. Speaker, we will be coming back to Parliament with specific projects to be funded from the Equalization 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.

Mr. 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.

Mr. 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 these two documents to Parliament for consideration and approval upon Cabinet approval.

Mr. 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.

Mr. Speaker, 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 **Ksh. 0.8 billion** under the World Bank sponsored Kenya Devolution Support Program (KDSP and I intend to scale up this allocation **Ksh 6.3 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.

Mr. Speaker, we will continue to cooperate with county Governments to ensure quality, effective and efficient service delivery to our citizens. In this context, **Mr. Speaker,** 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, **Mr. Speaker,** 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 title 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.

Mr. Speaker, to support regeneration of the Nairobi river, in a collaboration between the National Government and the Nairobi City County Government, I have allocated **Ksh 0.8 billion** in the budget for FY 2018/19.

Harnessing Natural Resources and the Blue Economy

Mr. 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. **Mr. Speaker,** to further support mining activities and geophysical mapping, I have set aside **Ksh 509 million,** and a further **Ksh 500 million**, respectively.

Mr. Speaker, to further support development of the blue economy, I have allocated **Ksh 575 million** for aquaculture technology development and innovation transfers.

Stimulating Tourism Innovations

Mr. Speaker, our strategies to revive tourism sector have borne fruits. **Mr. Speaker**, to further support tourism activities, I have allocated **Ksh 1.0 billion** to scale up promotion of Tourism, **Ksh 340 million** for sustaining new markets and sitting booths, **Ksh 380 million** for capital lending to hoteliers and **Ksh 325 million** for restoration of Fort Jesus.

Extractive Industries

Mr. Speaker, the Early Oil Pilot Scheme has now taken off setting Kenya on stage to join the league of oil exporting countries. Like our neighbors, 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, Mr. Speaker, 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, **Mr. Speaker,** 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; (i) 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 – 80,000 barrels of oil per day; (ii) the development of the proposed 821km crude oil pipeline from Lokichar oil fields to Lamu; and (iii) 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.

Managing of Water Resources and Safe Guarding the Environment

Mr. Speaker, 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: **Ksh 7.2 billion** for Water Resource Management, **Ksh 33.7 billion** for Water and Sewerage Infrastructure Development, **Ksh 2.9 billion** for Environment Management and Protection**, Ksh 10.8 billion** for Forests and Water Towers Conservation, **Ksh 8.3 billion** for Integrated Regional Development, and **Ksh 2.2 billion** for Meteorological Services

Mr. Speaker, 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.

VII. Structural Reforms

Strengthening Governance

Mr. Speaker, a key enabler for achieving the big four 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.

Mr. Speaker, the new Constitution provides for independent institutions, Commissions, and institutions dealing with Governance. We have strengthened the Multi Agency team enabling them investigate, prosecute and recover corruptly acquired assets. Additionally, we have enhanced the oversight and legislative role of Parliament and access to Justice, by allocating **Ksh 36.8 billion** to Parliament and **Ksh 15.2 billion** to the Judiciary.

Mr. Speaker, 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. Allow me **Mr. Speaker,** to share some of the major highlights of the Public Procurement and Asset Disposal Regulations, which provides for;

- One, establishment of common user agency that will facilitate and manage the procurement of standard goods/ items. This is aimed at reaping economies of scale while minimizing expenditure and having standard pricing on such items;
- Two, enhancement of the e-procurement platform to improve efficiency and effectiveness, accountability and transparency in the procurement processes;
- Three, provisions to facilitate prompt payment for performed contracts within 60 days upon proper certification of the same;
- Four, 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 (Buy-Kenya-build Kenya policy);
- Fifth, margin of preference shall also be extended to local contractors/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/she shall cause a report detailing evidence of inability to procure such items;

Mr. Speaker, we intend to make procurement as transparent as possible. In line with yesterday's Presidential directive on Procurement Process and consistent with the provisions of the Public Procurement and Asset Disposal Act 2015, all Accounting Officers of MDAs and Parastatals are required to publish and publicize all procurement contracts on their websites, the State portal and tender notice boards with effect from 1st July, 2018.

The publication **Mr. Speaker,** shall contain the following information:

- Names and designations of the tender evaluation Committee members;
- The name of the contractor/supplier awarded the tender;
- Names of the directors of the awarded firm;
- The contract price/tender sum; and
- The contract period including commencement and completion dates.

Accordingly, **Mr. Speaker,** 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, **Mr. Speaker,** we are working very closely with the key investigative agencies of Government, including the EACC, National Intelligence and the Director of Criminal Investigations to identify and seal any loop holes that corrupt individuals may be using within the IFMIS system.

Mr. Speaker, to strengthen various institutions that are mandated to fight corruption in the country, I have allocated: **Ksh 2.9 billion** to the Ethics and Anti-Corruption Commission**, Ksh 2.9 billion** to the Department of Public Prosecutions**, Ksh 161.0 million** to the Assets Recovery Agency**, Ksh 587.0 million** to Financial Reporting Centre**, Ksh 6.4 billion** to the Criminal Investigations Services, and **Ksh 5.1 billion** to the Office of the Attorney General.

Financial Integrity

Mr. Speaker, 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, **Mr. Speaker,** I propose to include the Sacco Societies Regulatory Authority 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.

Mr. Speaker, 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 be 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 the fit and proper test.

Parastatal Reforms, Public Investments and Public-Private-Partnerships

Mr. Speaker, 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 these corporations continue to play a catalytic 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.

Mr. Speaker, to address these challenges and align the mandates of specific corporations to "The Big Four" Plan, we will implement specific restructuring measures, including (i) reforming the Agricultural Finance Corporation (AFC) to help deliver on food and nutrition security; (ii) 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; and (iii) implementing initiatives to address the challenges of government investments in the banking sector.

Mr. Speaker, we will also be reviewing the privatization programme with a view to identifying, unlocking and prioritizing transactions with high impact potential in the implementation of the national development agenda. In this regard, we seek the cooperation of key political actors, without whose support the programme will not succeed.

Mr. Speaker, Kenya's aviation sector has faced a steady decline over the last decade, characterized most notably by the turbulent performance of the national carrier and the loss of business by Jomo Kenyatta International Airport to other competing regional hubs.

Mr. Speaker, 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 GDP – and 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, be restructuring 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.

Mr. Speaker, 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 which, are the Mombasa to Malaba and Busia, as well as Lamu to hinterland destinations.

Mr. Speaker, under the PPP programme, two road annuity projects have reached financial close, namely (i) Ngong-Kiserian-Isinya and (ii) Kajiado-Imaroro roads. These roads will shortly progress to construction.

We have also signed contracts for 6 other projects, namely (i) the 1050MW Lamu Coal Power Plant, (ii) 3 PPP projects to deliver 105MW of Geothermal Power at Menengai (each being 35MW), (iii) Wajir-Samatar and Rhamu-Mandera Road Annuity Project; and (iv) Kenyatta University Students Hostel project.

We have also launched tenders for (i) Nairobi-Nakuru-Mau Summit PPP Toll Road project, (ii) Second Nyali Bridge Toll Project, (iii) Moi University Students Hostel Project, (iv) South Eastern Kenya University Students Hostel Project, and (v) Embu University Students Hostel Project. In addition, we have completed contract negotiations on the Likoni Cable Car Project at Mombasa and we have four (4) other PPP projects currently under contract negotiations under the Roads Annuity Programme. Further, a pipeline of more PPP projects is under preparation for implementation. These projects are drawn from the health, tourism, water, solid waste, energy, ports, education, agriculture, housing, and manufacturing sectors.

Mr. 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 funding exposure.

Mr. Speaker, 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 project land acquisition and reduction of the bureaucracy associated with PPP project development.

We shall also be undertaking administrative actions aimed at speeding up project turnaround times. These include (i) establishing shortlists of advisory service providers (ii) standardising project documents and (iii) resourcing the capacity of the PPP Unit to deliver its mandate.

Mr. Speaker, next week I shall be launching the PPP Disclosure Portal, which is an online platform through which all our 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 utilisation of their resources for their benefit.

VIII. Financial Sector Reforms

Strengthening Financial Sector Regulators

Mr. Speaker, 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% in 2013 to 75.3% 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 the improved economic conditions. However, lending to private sector (enterprises) in Kenya has had mixed results over the last two years.

Mr. Speaker, 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. **Mr. Speaker**, the interest rate ceiling has contributed to slow growth in credit to the private sector, and especially to micro, small & 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 have 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 have 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.

Mr. Speaker, let me detail some of the initiatives that we are undertaking to address the above challenges in our effort to have a fair, transparent, competitive, efficient and accessible credit market to serve the needs of wananchi:

Mr. Speaker, 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

(NCGS) 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.

Mr. Speaker, 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, **Mr. Speaker**, 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 larger balance sheet, that is better able to make the investments in technology needed in a modern financial sector and support the provision of longer-term finance that the MSMEs requires.

Mr. Speaker, 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, 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 behaviour 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. **Mr. Speaker**, draft Financial Markets Conduct Bill, 2018 is currently undergoing stakeholder consultations before Cabinet consideration.

Mr. Speaker, other ongoing initiatives include 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.

Mr. Speaker, 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.

Mr. Speaker, the next part of my statement focuses on proposed amendments to various Acts which mainly targets the financial sector.

Capital Markets

Mr. Speaker, 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.

Retirement Benefits

Mr. Speaker, 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.

Mr. Speaker, 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 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 member's contribution.

Insurance

Mr. Speaker, 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, **Mr. Speaker,** 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 criminalize insurance fraud and protect the consumers.

Mr. Speaker, the current provisions of the Insurance Act allows the insured to pay for insurance premiums through an intermediaries. The intermediaries delay the payments for the premium thereby putting the insured at risk. In order to ensure prompt payment of premium to the insurer 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 direct to the insurer. This will enhance prompt coverage of the insured.

SACCOs

Mr. Speaker, Sacco Societies Act and the Regulations requires 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 the daily monitoring and evaluation of the financial performance of the SACCO Societies, such as their liquidity status, capital adequacy, and asset quality among others.
Mr. Speaker, 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 the SACCOs. I therefore propose to amend SASRA Act to allow the usage of ICT in submission of statutory reports.

IX. Conclusion

In conclusion, **Mr. 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.

Mr. Speaker, 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 initiative and sustain our public finances. I believe we have made the right decisions that will propel this country to prosperity and make us great.

Mr. Speaker, 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 (cash transfers), 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 Counties, National Constituency Development Fund, National Government Affirmative Action Fund and Equalization Fund.

Mr. Speaker, let this budget and the subsequent one 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.

At this point, **Mr. Speaker,** I wish to thank H.E. the President for the wise counsel and commitment to removing any blockages for the country to achieve its potential.

I wish also to thank H.E. the Deputy President, my Cabinet Colleagues and Principal Secretaries for the support and cooperation throughout the preparation of this budget. I share with my colleagues the collective responsibility of implementing this budget.

Mr. Speaker, our sincere thanks also go to the following:-

- You, Speaker of the National Assembly and the Speaker of Senate, together with your respective Clerks for facilitating the approval process of Budget Estimates for the FY 2018/19 and other budget documents in Parliament;

- Members of the Budget and Appropriation Committee led by the Chairman, Hon. Kimani Ichung'wah and the other Departmental Committees of the National Assembly for the time and dedication in sifting through the Estimates and constructive debates that helped refine the Budget;
- Majority Leaders of both Houses, Hon. Adan Duale and Hon. Kipchumba Murkomen, for the robust support of the Government Economic agenda during the legislative debates;
- Members of the Finance and National Planning Committee led by the Chairman, Hon Joseph Limo and other Departmental Committee of the Senate for the constructive engagement on budget and finance matter;
- All members of the National Assembly and Senate for their cooperation in facilitating legislative proposals in support of budget preparation and implementation;
- Members of the Intergovernmental Budget and Economic Council (IBEC) for the support and cooperation in Intergovernmental finance matters;
- Management and staff of the National Treasury and Planning under the able leadership of the Hon. Nelson Gaichuhie, the Chief Administrative Secretary, and Dr. Kamau Thugge, the Principal Secretary, National Treasury, who have tirelessly worked long hours, including most weekends to ensure that this budget and supporting documents meet the legal deadlines; We appreciate your deep commitment to public service;
- Management and staff of the Central Bank of Kenya and the Kenya Revenue Authority for their contributions;
- Staff from the Attorney General's Office;

- Staff of the Parliamentary Budget Office for providing support and insightful comments throughout the budget process; and
- Our bilateral and multilateral development partners, as well as our private sector 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, **Mr. Speaker,** 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.

Asante Sana

God Bless You, God Bless Kenya.

Mr. 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. Budget Statement
2. Finance Bill, 2018
3. The SACCO societies (Amendment) Bill, 2018
4. The Capital Markets (Amendment) Bill, 2018
5. The Insurance (Amendment) Bill, 2018
6. Financial Statement for FY 2018/19
7. Estimates of Revenue Grants and Loans for FY 2018/19
8. Statistical Annex to the Budget Statement for FY 2018/19

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