NATIONAL ASSEMBLY

OFFICIAL REPORT

Thursday, 10th June, 1999

The House met at 2.30 p.m.

[Mr. Speaker in the Chair]

PRAYERS

ARRIVAL OF HIS EXCELLENCY THE PRESIDENT

(Mr. Speaker announced the arrival of His Excellency the President, the Hon. Daniel Toroitich arap Moi, MP)

(Hon. Members rose in their places while His Excellency the President took his seat in the Chair of State)

COMMITTEE OF WAYS AND MEANS

MOTION

THAT, MR. SPEAKER DO NOW LEAVE THE CHAIR

The Minister for Finance (Mr. Masakhalia): Mr. Speaker, Sir, I beg to move that Mr. Speaker do now leave the Chair.

PAPERS LAID

1999/2000 Estimates of Revenue of the Government of Kenya for the year ending 30th June, 2000.
Financial Statement for 1999/2000 (Budget)

(By the Minister for Finance)

Mr. Orengo: On a point of order, Mr. Speaker, Sir.

Mr. Speaker: What is your point of order, Mr. Orengo?

Mr. Orengo: Mr. Speaker, Sir, I want to say, with the greatest humility, that it is a tragedy that we want to discuss the Annual Budget when the constitution making process is not under way, and yet that is the basic document of the land. We have refused to discuss the Constitution, and that is why there is bad governance. No matter how many Budgets we are going to pass, without resolving the constitutional dilemma or impasse that is in country at the moment, I think we are going to see a lot of scenes similar to the ones we have seen today. Women were beaten up by the police today, and yet we have come here to give money to the Government, to be stolen. I am asking the President to give this country a legacy by making the Constitution through the people and not through Parliament.

(Applause)

Mr. Speaker: Order! Order, hon. Members! I think, in its totality, the House agrees that the purported point of order raised by the hon. Member for Ugenya is actually not a point of order; he has just made a statement. So, I would urge him to be patient. Immediately the Minister for Finance reads the Budget Speech, there will be seven uninterrupted days during which hon. Members, including the Member for Ugenya, can say anything about the Budget, governance, *et cetera*. I promise that I will give you a chance, Mr. Orengo. Proceed, hon. Minister!

The Minister for Finance (Dr. Masakhalia): Mr. Speaker, Sir, speeding up the process of economic recovery and addressing the problems of poverty and unemployment are the immediate and most important challenges facing our nation today. To address these challenges, there is need for collective and concerted efforts by all Kenyans, working in an enabling environment for peace, stability and national unity, the three guiding principles advocated by our President. I, therefore, take this opportunity to commend His Excellency the President, hon. Daniel Toroitich arap Moi, for his continued commitment to the on-going reform process of our economy, and in particular, for his mature leadership and statesmanship in seeking solutions to our nation's and, indeed, our region's economic and political problems.

I would like to thank my colleagues in the Cabinet and all the hon. Members of this House for their support since I assumed the responsibilities in the Treasury. I would also like to pay tribute to my predecessors in the Treasury for their initiatives and determined efforts to reform our economy in order to initiate sustainable economic development. Finally, my tribute goes to all Kenyans for their understanding during the period our economy faced difficult times.

Mr. Speaker, Sir, while preparing the Budget, which we table in this House today, we have taken into account the emerging trends in the global economies. The financial crisis that has adversely affected the performance of the economies of many regions of the world since 1997 sparked off a massive flight of capital from emerging markets to the developed economies in what has been termed "the flight to quality". Net capital inflows declined by 53.4 per cent between 1996 and 1998. Africa suffered a 33 per cent decline in foreign capital inflows. From the United States of America (USA), Africa suffered a decline in capital inflow of US$4.5 billion in 1997 and US$3 billion in 1998. Kenya has also been adversely affected by this decline as is evidenced by the reduced activity at the Nairobi Stock Exchange.

Another significant development in the world's economy worth noting is the decline in the annual growth of the world trade from 9.2 per cent in 1997 to 4.6 per cent in 1998, leading to a general fall in commodity prices. This, in turn, had a significant impact on developing countries' export earnings, Kenya included. It is also important to note that prospects for the world's economy are not encouraging. The rate of growth of the world economy is projected to decline further in 1999. The declining trend of capital in-flows to developing countries is also expected to continue in the year.

Mr. Speaker, Sir, whereas the debate for a new international financial architecture continues with the aim of identifying measures to prevent such massive movements of capital, it is essential that we in Kenya adopt and implement strong measures that will help us to attract and retain capital and reduce the vulnerability that such movements could have on our economy. Moreover, in view of the expected slowdown of the growth in the global economy and reduced capital inflows, it is important that we make better use of our resources and encourage domestic savings.

Mr. Speaker, Sir, let me now, briefly, review the performance of our economy in the past year. The economy experienced a further slowdown in growth in 1998. It is estimated that the Gross Domestic Product (GDP) grew at the rate of 1.8 per cent compared to a growth rate of 2.7 per cent expected when we formulated the 1998/99 Budget.

(There was a loud bang in the background)

The continued slowdown of the economy has been mainly attributed to the persistent slump in the tourism, manufacturing, banking and agricultural sectors. Weaknesses in our infrastructural facilities continue to adversely affect the economy, particularly the manufacturing sector. Besides, the unfavourable weather conditions and the fall in the prices of coffee and horticultural products in the world market had a major toll on the agricultural sector.

Mr. Kathangu: Jambo la nidhamu, Bw. Spika. Ninafikiri halitakuwa jambo la busara kuendelea na kusomwa kwa Bajeti baada ya kusikia huo mlipuko ambao umelia hapa. Tunajua ya kwamba tuliacha ghasia zikiendelea kule nje, huku polisi wakifyatua risasi kiholela. Je, ni kitu gani ambacho kililipuka humu ndani?

Mr. Speaker: Order! Order! May I assure you, Mr. Kathangu, that you are in my very safe hands. Proceed, Mr. Minister!

The Minister for Finance (Dr. Masakhalia): Mr. Speaker, Sir, new investments were slow in coming as investor confidence remained subdued partly because of the relatively high domestic interest rates. Gross fixed capital formation declined to 16.1 per cent of GDP in 1998, which is significantly below our target of 24 per cent. Although, generally, interest rates declined during the year, this came towards the end of the year. So, it was too late for this fall to have any impact in the year. Nonetheless, we continue to make commendable progress in sustaining a stable micro-economic environment, which is crucial for increased investment to take place. We managed to contain inflation within the single digit range, with a gradual depreciation of the Shilling's exchange rate.

Mr. Speaker, Sir, the money supply increased by 3.3 per cent and the overall fiscal position, including grants, although a small deficit of 0.6 of GDP, marked a major improvement. Improvements in the fiscal position reflected better revenue performance due to improved tax administration which partly offset the increased expenditure outlays. In tandem with reduced inflationary pressures and modest Government borrowing requirements, lending interest rates on bank loans came down in the year, though less rapidly than we would have desired. The depreciation of the shilling exchange rate, which I have referred to, was partly as a result of capital outflows associated with the fall in interest rates of the 91-day Treasury bills, from 26.5 per cent in January, 1998 to about 12 per cent in December, 1998.

Mr. Speaker, Sir, with respect to the external sector, the overall balance of payments recorded a lower surplus of K£228.7 million in 1998 compared to K£336.2 million in 1997. This was due to the worsening of the current account deficit to K£1,225.4 million from K£1,107.9 million in 1997, on account of the sharp drop in exports earnings. As a proportion of GDP, export fell to 16.1 per cent in 1998 from 18.3 per cent in 1997. Imports, as a ratio of GDP, fell from 29.9 per cent in 1997 to 28.5 per cent in 1998, thus helping to stem the widening of the current account deficit. Gross official reserves as at the end of December, 1998, were US$783 million, and US$694 million at the end of April, 1999, enough to cover 2.6 months worth of imports.

Mr. Speaker, Sir, it is important to note that the lower economic growth experienced in 1998, has worsened the problems of unemployment and poverty. Given the projected poor performance of the global economy in 1999, and the reduced inflows of external resources, we will need to rely more on our own efforts and resources to reinvigorate performance of our economy. It is, therefore, imperative that we prioritize and allocate more of our budgetary resources to those areas that have the greatest impact on economic growth and the welfare of our people. This will no doubt entail making painful sacrifices, including delaying or cancelling less important projects. We need to rededicate our commitment to sound and sustainable economic policies as the key criteria for resource allocation. We cannot afford to waste the scarce resources available to us, at a time when we need to focus more emphatically on accelerating growth and alleviating poverty. This leads me to a brief account of our policy objectives and strategies.

Mr. Speaker, Sir, the principal objectives of our economic policy still remain alleviation of poverty and employment generation, in order to improve the lives of all our people. We recognise that to achieve these objectives, it is important that our economy grows at a more rapid rate than the growth of our population. This will be possible only if adequate investments, both local and foreign, are realised. Recognising the importance of the private sector as the engine of growth for our economy, the Government's effort in the 1999/2000 fiscal year, will be directed towards: first, improving the investment environment by maintaining a stable macro-economic environment; second, deepening the reform process; third, upgrading and rehabilitating the infrastructure; and fourth, enhancing regional integration within the COMESA and East African Co-operation framework. We consider this as an appropriate strategy which can help us resuscitate growth and achieve sustained economic and social development. Therefore, the dominant theme of this year's Budget is "Economic Recovery for Sustained Economic and Social Development".

Mr. Speaker, Sir, there has been a tendency in the past to focus on policies and programmes whose benefits are short-term at the expense of our long-term development objectives. It is important that we articulate a long-term vision of the Kenya we want to see a generation ahead, and a well-structured, consistent and long-term policy perspective that should guide the management of our economic affairs. We have already articulated parts of this vision in a number of policy documents, namely, the Sessional Paper No.2 of 1997 on the Industrial Transformation to the year 2020 and more recently, the National Poverty Eradication Plan which covers the period 1999-2015. The poverty plan seeks to improve the delivery of basic social services to the poorer sections of the population, with particular emphasis on primary education and rural health services.

It is, however, necessary to integrate these initiatives in a comprehensive long-term perspective policy framework that will encompass a wide range of social and economic goals. The Government will initiate the preparation of these treatise during the 1999/2000. Furthermore, the Policy Framework for Economic Reform (PFER) covering 1999/2000 to 2001/2002 period has been developed. The framework outlines measures that can effectively translate long-term strategies into medium term operational plans for effective implementation. As part of this framework, we will during 1999/2000 embark on the formulation of the first phase of a three-year Medium Term Expenditure Framework (MTEF) which will outline: (1) Priorities for allocation of public resources; and (ii) measures for the more effective implementation of policies and expenditure programmes. Once such an integrative framework is established, annual budgets will be formulated within a long-term framework as outlined in the MTEF.

In a significant departure from the past, the Government has in the three year framework for Economic Reform selected a few reform areas which we consider critical to the resuscitation of our economy and which we feel we can fully implement. The key policies and reforms emphasized in this programme include:
(i) Sustaining micro-economic stability: This entails ensuring that our expenditure programmes match revenues mobilized during the year to minimize Government domestic borrowing. (ii) Improving economic governance, by among other measures, ensuring the Kenya Anti-Corruption Authority becomes operational and effective; strengthening the procurement system and the Office of the Controller and Auditor-General; and improving the Judicial system. It is not debatable that efficient and transparent use of public resources, and protecting property rights and enforcing contracts are important to encouraging growth. (iii) Accelerating privatization of public enterprises as well as reforming those retained in the hands of the Government. The key service parastatals earmarked for priority reform during the new fiscal year are the Kenya Telecom Company, the Kenya Railways and the Kenya Ports Authority. (iv) Downsizing the public service to remove duplications and functional overlaps, including rationalisation of Ministries and departmental functions. This will release resources for improving efficiency in the delivery of core public services in the social sector, and for operations and maintenance of infrastructure.

Fifth, increased campaigns to educate the public on appropriate methods to prevent contracting HIV, AIDS. This is important for safeguarding lives and ameliorating the economic costs of this terrible scourge.

Mr. Speaker, Sir, one of the critical factors that has contributed to our economic stagnation and the deepening poverty has been the decline in productivity in virtually all sectors of the economy. Experience from elsewhere shows that, high rate of economic growth has always been the result of significant increases in productivity, nurtured by an appropriate Government policy.

(Gun shots were heard and several hon. Members withdrew from the Chamber)

It is, therefore, important that we identify policies that will enhance productivity, particularly, in the agricultural services sector and in the small-scale enterprises. Enhanced research support for agriculture and industry will, therefore, be the critical elements in our strategy for enhancing the growth process. The policy direction already incorporated in the National Poverty Eradication Plan to target research and extension services at resource-poor farmers to raise their productivity, is a clear example of this situation.

I also expect the Commission of Inquiry into our education system to come up with clear recommendations to enhance relevance and quality of our education services, particularly, at secondary and technical education levels, the effective implementation of which should considerably enhance productivity.

Mr. Gatabaki: On a point of order, Mr. Speaker, Sir!

The Minister for Finance (Dr. Masakhalia): Mr. Speaker, Sir, let me emphasize that the policies in the PFER have been initiated and developed by Kenyans, and not by our development partners, as some people may be tempted to think. In developing these policies, we consulted closely with key players and stakeholders in order to bring everyone on board, with the development of these policies, and to facilitate effective implementation.

Mr. Gatabaki: On a point of order, Mr. Speaker, Sir.

Mr. Speaker: Order! What is it Mr. Gatabaki?

Mr. Gatabaki: Mr. Speaker, Sir, what is going on in this House--- The Kenya Police Force officers are harassing and shooting people outside the House. Is it in order for the Budget to be read, when there is a crisis outside the House?

Mr. Speaker: Order! Order, Mr. Gatabaki! I have not locked that door; if you do not want to stay in the Chamber, you can leave. Proceed, Mr. Minister.

(Several hon. Members applauded)

The Minister for Finance (Dr. Masakhalia): Mr. Speaker, Sir, what I have presented so far, is a broad development strategy which will guide our economic management in the next three years.

I would like now to briefly touch on the specific sectoral reforms, consistent with that broad strategy, which we will implement during the physical, 1999/2000. I will first address reforms relating to the agricultural sector. For a number of years now, the sector has performed below its potential, mainly because of low productivity. Over the last two years, the sector registered a growth rate of one per cent per annum compared to five per cent in the period 1993/97, while unfavourable weather conditions have contributed to the low productivity in that sector. Instability in the major agricultural marketing organisations, the poor state of roads in the agricultural areas, poor crop husbandry and unfair competition from subsidized agricultural imports have also had their contribution to the poor performance of that sector.

Mr. Kirwa: Fungua mlango!

(Several hon. Members returned to the Chamber)

The Minister for Finance (Dr. Masakhalia): Mr. Speaker, Sir, the sector is the backbone of the Kenyan economy, supporting the majority of our population and accounting for a major share of our exports. Therefore, its improved performance is critical to the success of our strategy to eradicate poverty and unemployment. The sector has the potential to grow at more than four per cent per annum.

(Several hon. Members stood up in their places)

Mr. Speaker: Order! Order, hon. Members!

(Prof. Anyang'-Nyong'o moved to the Dispatch Box)

Mr. Speaker: Order, Prof. Anyang'-Nyong'o! Order, all of you!

Hon. Members: On a point of order, Mr. Speaker, Sir.

Mr. Speaker: Order! Order, hon. Members! There cannot be logic in hon. Members saying: "Point of order," when in the same breath, they are making it absolutely impossible for me to respond. First of all, all of you must sit down; I am on my feet.

An hon. Member: They should freeze!

Mr. Speaker: Order! I do not want anybody to freeze; I want all of you alive. Sit down!

(Laughter)

(Several hon. Members remained standing up in their places)

Order! Order, hon. Members! Please, hon. Members, sit down!

(Mr. Orengo remained standing up in his place)

Mr. Speaker: Order! Order, Mr. Orengo! You must sit down! If you want to be recognised, you must recognise the authority of the Chair. I suppose that, that is the reason why you want my intervention; it is because you think that the House has some authority, and unless you give the Chair the authority, then the House as a whole loses the authority. So, can we give the House the dignity it deserves?

(Applause)

(Several hon. Members stood up in their places)

Hon. Members: Endelea, Bw. Waziri!

The Minister for Finance (Dr. Masakhalia): Mr. Speaker, Sir, in the Fiscal Year, 1999/2000, planned reforms specific to the sector includes---

Hon. Members: On a point of order, Mr. Speaker, Sir.

Mr. Speaker: Order! Order, hon. Members! Hon. Members came through the door and all of them, at the same time rise on points of order; why do we not have some---

Hon. Members: On a point of order, Mr. Speaker, Sir.

Mr. Speaker: Order! Order, hon. Members! Maybe I will just hear from Mr. Kariuki; what is it, Mr. Kariuki?

Mr. Kariuki: Mr. Speaker, Sir, there is a crisis outside there. There are people who are being shot by the police with live bullets. We are worried about that. Could the Government stop killing our people outside there? We are elected by the people, and we represent them here and as it is at the moment, those people are in danger.

An hon. Member: They are dying!

Mr. Kariuki: Mr. Speaker, Sir, this is a national crisis which we should address before we address the Budget Speech. Could the Government stop the police officers from harassing our people?

An hon. Member: We should adjourn!

Mr. Speaker: Order! Order, hon. Members! I, in all honesty, urge all hon. Members and everybody concerned, to help us to continue in an orderly fashion. As hon. Members know, my jurisdiction does not go beyond the fence of the National Assembly.

(Several hon. Members stood up in their places)

Mr. Speaker: Order! Order, hon. Members! If you wanted the people responsible to hear, they have heard.

So, can we proceed?

Hon. Members: On a point of order, Mr. Speaker, Sir.

Mr. Speaker: Order! Order, Messrs. Mwenje and Muihia! However much you want to provoke the Chair to use force on you, I will not. We are going to have a very, very peaceful Budget Day. So, the earlier you forget that I will throw you out, the better for everybody.

The Minister for Finance (Dr. Masakhalia): Mr. Speaker, Sir, also earmarked for restructuring in the dairy subsector where the Dairy Act will be amended and the Dairy Board restructured to be a more effective regulator.

(Loud consultations)

Mr. Speaker: Order! Order, hon. Members! I urge all concerned to exercise the greatest amount of respect.

Proceed, Mr. Minister!

Mr. Mwenje: On a point of order, Mr. Speaker, Sir.

Mr. Speaker: Order, Mr. Mwenje! What is it? And this is the last time I will hear of that!

Mr. Mwenje: Mr. Speaker, Sir, what we are saying here is that, we are lucky to have His Excellency the President in this House today. Our people are being shot at and killed outside the House by police officers, as we continue sitting here. We are asking the Government to order, right now from here, that the police officers stop harassing and killing our people. There is no point listening to the Budget Speech, when our people are being harassed, shot at and killed.

Mr. Speaker: Order! hon. Members, as I have said in the past, we can all contribute to the general harmony and peace of the country. We can also collectively make it impossible for all of us to live. I think the first alternative is better, and I send the message to you all concerned: Let us all, as Kenyans, live together in harmony. I think that, that is the best I can do. There is nothing you will tell me; like to issue orders outside the jurisdiction of this House.

Proceed, Mr. Minister.

Mr. Kiunjuri: On a point of order, Mr. Speaker, Sir.

Mr. Speaker: Overruled!

The Minister for Finance (Dr. Masakhalia): With regard to the horticultural and floricultural sub-sectors, efforts will be made to encourage self-regulation through such organisations as the Fresh Produce Exporters of Kenya and the Flower Council of Kenya to improve product equality and service. In the growing competition, we cannot afford to compromise on product quality. To provide a helping hand to this important sector, duty on pulling equipment targeted for horticultural purposes will be reduced. To protect our agricultural products from unfair competition, suspended duty on final agricultural imports will be retained. Access to bank credit by small-scale agricultural enterprises has been a major problem. To address this problem, a study to assess the causes of the depth of the problem and to recommend necessary remedial action is in progress and is planned to be completed by December 1999. In addition, the Government should promote and encourage development of micro-credit providers.

Mr. Speaker, Sir, let me now turn to infrastructure. The poor condition of our infrastructure has continued to constraint economic growth. In coming financial year, reforms in these areas will focus on energy, water, telecommunication services, railway services and road transport.

Mr. Speaker, Sir, let me start with the energy sector. Over the last two years, a number of action have been taken to enhance the supply and reliability of electric power and improve efficiency in its delivery. Power generation was separated from its distribution by putting generation under KenGen which is now operational. In addition, investments by independent power producers expanded during 1998 resulting in the growth of installed capacity from 802 Megawatts to 963.3 Megawatts which is an increase of 7.6 per cent. While this has improved the supply of electricity, it still is not adequate and reliable enough to match the current demand levels. Therefore, the Government will continue to encourage more investment in power generation and distribution. Our objective is to achieve self-sufficiency in power supply by the year 2002. During the year 1999 to the year 2000 will be enhanced by additional investments in Kipevu II plant together with Third Gitaru plant on the Tana River Basin which are expected to provide an additional 75 Megawatts and 80 Megawatts respectively. Future plans include Ol Karia II and Sondu-Miriu and two additional fast track independent power producing units of 55 Megawatts each in Nakuru and Eldoret. These two IPP units are expected to commence construction in the new fiscal year.

With regard to the water sector, it is important to note that currently water supply is running way below demand both for industrial and domestic use. Indeed, the availability of water is one of the constraints to new investments. The existing public sector institutions handling water facilities have not managed them appropriately, resulting in a decline in both the quality and quantity of water. To address this problem, the Government will take the following measures: (a) Amend the Water Act and restructure the Ministry of Water Resources in line with the new Water Policy; (b) Develop criteria for selecting water projects whose management can be transferred to the beneficiaries and/or stakeholders such as local communities and authorities. In addition, the Government will initiate a study for selected major towns to assess the appropriateness of encouraging the private sector to take a greater interest and participation in the management, maintenance and operations of the water supply.

Mr. Speaker, Sir, on telecommunications services, poor quality service and high tariffs have been a major concern to us all. Efforts to reform the sector in 1998 did not succeed as approval of the Telecommunication Bill by this House took longer than was expected. It was also necessary to ensure the operational regulations and network plans were prepared and agreed before the reforms would start. All these have been done and the sector is now set for a major restructuring.

Mr. Speaker, Sir, as regards port services, the performance of the Mombasa Port has been below the expectation of many investors. To restore efficiency and competitiveness of our ports and to retain and expand their market for the benefit of all stakeholders, the Government has decided to offer concessions to the container terminals; inland container deports and general cargo berths so that Kenya Ports Authority remains a landlord only. In addition, the Government has decided to allow the private sector to develop similar facilities next to the current facilities in Mombasa. Some of these policy actions are already at the tender evaluation stage.

Mr. Speaker, Sir, on railway transport, the continued deterioration of the financial position of the Kenya Railways and its poor service delivery continue to worry all of us. To enhance the competitiveness of our services and maintain the competitiveness of the rail on the northern transport corridors against alternative corridors, Kenya needs an efficient railway system. In its current form, Kenya Railways cannot efficiently deliver its services. To address this problem and improve its financial performance, the Government has opted for an operational and management contract as a fast track to restore the railway system to viability and to prepare it for concessions.

Mr. Speaker, Sir, road transport is the most important mode of transport in the country. However, our road network has suffered substantial degradation as a result of poor workmanship and lack of well planned maintenance programme. The condition of the network was worsened by the *El Nino* rains which caused considerable damage last year. Since then, efforts have been made to rehabilitate, but with limited success. The *El Nino* Project experienced some teething problems at the beginning. However, it is now ready for take off and contracts have been approved for several roads in Nairobi, Voi, Mombasa, Garissa, Kisumu and Malindi. A number of donors have expressed interest to support this rehabilitation, including the Roads 2000 Programme and other access road projects. To speed up the rehabilitation of roads, financed under the Roads Maintenance Levy Fund, the level of funding has been increased from Kshs6.3 billion in 1998 to Kshs7.7 billion in the fiscal year, 199/2000. Part of this amount, classified roads will receive Kshs6.1 billion while the balance of Kshs1.6 billion will go to the roads under local authorities.

To improve operational procedures for contracting and achieving greater accountability, new rules have been published today which will govern the movement of the fund. As regards the Mombasa Nairobi Road, rehabilitation work has been done on some sections under both the Fuel Levy Fund and the donor assistance. For those sections that will require complete reconstruction, preparatory work is continuing with construction schedules to start later in the year. Rehabilitation of other urban roads will be undertaken under the Kenya-Urban Transport Investment Project. All these efforts are intended to restore the quality of our road network. In the course of this fiscal year, the Government will finalise the establishment of the Kenya Roads Board.

Mr. Speaker, Sir, I will now address myself to tourism. As hon. Members are aware, the performance of this sector deteriorated further in 1998 compared to 1997, arrivals fell by 10.6 per cent and bed occupancy fell by 42.7 per cent due to negative publicity overseas, poor physical infrastructure, especially roads and insecurity. The situation is particularly bad along the Coast tourist hub. This has resulted in many tourist enterprises reducing their staff. To reverse this trend, our focus in 1999/2000 will be on the promotion of tourism. To facilitate this, at least, 50 per cent of the catering, training and tourism development levy revenue should be spent on promotion. In addition, the Government will continue to improve security, not only in the tourist hubs, but also in other areas. The efforts and resources directed to the road rehabilitation and improvement will provide an impetus to tourism sector. We also appeal to the private sector, especially the Kenya Tourism Board and the Kenya Tourism Federation to focus their marketing efforts in areas of greatest impact to the sector. We also need to give more emphasis on domestic tourism to supplement foreign tourism, especially during the low season. To compliment these efforts, VAT on hotel and restaurant services and the Catering Training and Tourism Development Levy will be restructured to be more enabling to the industry. Finally, in view of the bad state of this important sector, the Government has suspended visa fees for visitors who stay up to 30 days.

Mr. Speaker, Sir, as we consolidate our economic reforms, it is necessary to ensure resulting development does not impact negatively on the environment. In this connection, the Government has published the Environmental Management and Coordination Bill (1999), which, in due course, will be tabled for debate and approval by this House. The Bill aims at establishing:-

(a) legal and institutional framework for the management of the environment; and,

(b) legal and administrative mechanisms for coordinating various sectoral environmental initiatives.

This will also enable us to comply with our commitments under Agenda 21 of the Rio Earth Summit among others. It will also help us create capacity for home-driven institutional capacity necessary to achieve sustainable environment.

Mr. Speaker, Sir, manufacturing contributes significantly to Gross Domestic Product (GDP). In 1998, the manufacturing sector dropped to 1.4 per cent from 1.9 per cent in 1997. While the poor state of road infrastructure, power supply shortages and high cost of credit adversely affected the sector. Increased competition both in local and regional markets has worsened the situation. Also aggravating the situation, is unfair competition from sub-standard imports that have come into the country. This sector has great potential for generating employment and has a crucial role to play in our poverty alleviation strategy.

However, it cannot recover without a supportive environment that includes consumer loyalty. Kenyans must appreciate that every time they opt for imported goods, they export jobs while keeping our labour force idle. Consequently, if we want to retain jobs in Kenya, we must consume more of Kenyan-made goods. We must also re-double our efforts to regain and export exports. To support the recovery of this sector, the Government will take the following measures:-

(i) disallow goods declared to be sub-standard by the Kenya Bureau of Standards, or unfit on health grounds, from entering the country;

(ii) limit the period which traders can be allowed to keep goods in transit, or goods destined for bonded warehouses within the port, to prevent such goods being diverted into the local market without paying duties and taxes; and,

(iii) take appropriate retaliatory measures within the provisions of the international commitments on any country that uses unfair restrictive practises to hinder entry of Kenyan exports into that country.

These measures are intended to compliment measures taken to improve service delivery by our public facilities which are I am coming to.

Mr. Speaker, Sir, it is now well recognised that there is an urgent need to reform the public sector, both at the central and local Governments levels. The Government currently spends close to 30 per cent of GDP, which is a very high proportion considering our low income levels. Moreover, the productivity of the public sector has been below our expectations. Therefore, our strategy for rapid economic growth and poverty alleviation will critically depend on the improvement in the quality and productivity of the public sector. Private sector investments and business activities, the prime mover of growth, needs the support of adequate infrastructure and efficient public services. Moreover, enhanced efficiency of the public sector will facilitate reduction of taxes and release resources for productive investments. It is for this reason that the public sector reforms will be the centre-piece of our medium term policy framework and development strategy. The rationalisation of Ministries and Government Departments, which is part of the second phase of the Civil Service Reform Programme will be finalised in the year 1999/2000. To facilitate this exercise, guidelines have been released to all Ministries on core-functions, and on modalities for staff reductions and right-sizing in the Civil Service and the teachers service. In addition, pension reforms have been initiated on vesting and deferment for officers who either voluntarily quit, or are compulsorily retrenched or dismissed before the age of 50. These changes will introduce greater flexibility and equity into Civil Service employment conditions. In subsequent years, further reforms are planned to improve the benefit structure and to introduce full funding of the public pensions scheme.

Mr. Speaker, Sir, Local Authorities provide services such as roads, water supply, sewerage and waste disposal which are essential to the economy. However, these levels of Government have been unable to provide these services effectively. To strengthen Local Authorities, the Government will take a number of measures.

First, the share of funds allocated to Local Authorities and the Roads Maintenance Levy Fund will be increased by 33 per cent to supplement their efforts in maintaining and rehabilitating roads under their jurisdictions. Out of this amount, over Kshs300 million will be allocated to support routine maintenance activities in line with the Kenya Urban Transport and Infrastructure Project. This component will be expanded to other Local Authorities outside Nairobi as funding increases. The criteria for allocating funds to the Local Authorities will be published soon, while new contracting rules have been published today, that seek to ensure Kenyans receive value for money used in road maintenance under the Fund.

Secondly, the simplified business licensing system, that was approved last year, will be implemented in the full by 1st January, 2000, when all Local Authorities will be required to issue single business permits. Already, 30 Local Authorities have implemented the new licensing system, effective from January, 1999.

Third, the Local Authority Transfer Fund Act will come into effect on 1st July, 1999, and the first quarterly disbursements will be made in January, 2000. The Fund will receive two per cent of the Income Tax collections in the first year, estimated at Kshs1.2 billion. But in the subsequent years, the contribution rate will rise to five per cent.

Fourth, the existing Local Authorities Service will be phased out, effective 1st January, 2000. Fees payable by businesses will be cancelled. However, the payroll tax component will be retained for one year and cancelled from 1st January, 2000.

Mr. Speaker, Sir, with these broad reforms, the landscape of Local Authorities should change to serve wananchi better. However, the Local Authorities must ensure that the substantial resources being released to them by the central Government are fully accounted for and used for the specific purposes for which they are intended. With these reforms, we do not see why Nairobi City, in particular, cannot restore its esteemed status of a "Green City in the Sun", which it acquired in 1950.

Mr. Speaker, Sir, good economic governance, defined simply as better and transparent management of public resources, is, as I mentioned earlier, essential for the realisation of growth and poverty reduction objectives. Lack of good governance and in particular, corruption, distorts resource allocation, thereby, inhibiting growth. For investors, corruption conceals an additional tax that leads to higher costs of operating their businesses. For this reason, the Government is determined to make corruption intolerable in order to improve the quality of public expenditure and delivery of public goods and services.

Mr. Speaker, Sir, hon. Members have frequently called upon the Government to take effective follow-up action on incidences of misuse of public financial resources reported by the Public Accounts and the Public Investments Committees of Parliament. In this regard, effective from 1st July, 1999, I am establishing an adequately staffed follow-up unit in the Ministry of Finance, directly under the Permanent Secretary, which will be responsible for continuous liaison with the relevant Accounting Officers to ensure effective compliance with the laid down financial regulations. Working closely with the Accounting Officers, and the Office of the Attorney-General, this Unit will also publish quarterly reports on actions it will initiate.

Mr. Speaker, Sir, as hon. Members are aware, the Ministry of Finance is already publishing Quarterly Budget Reviews, covering all fiscal developments in the quarters, such as the actual realisation of revenues, expenditures incurred, and details of foreign and domestic debts servicing. To further enhance transparency and accountability, all Ministries and departments will, with effect from the Financial Year 1999/2000 publish on half yearly basis, performance and financial reports showing expenditures incurred and services and programmes implemented compared to their fiscal targets. These reports will indicate, in brief details, the scope and value of the contracts awarded, the company or persons awarded and the time limit for execution. Such reports will be widely circulated and copies made available to the hon. Members of Parliament.

Mr. Speaker, Sir, the tender boards have already been strengthened and constituted with a view to improving the quality of adjudication of tenders to ensure the Government realises full value for its money. The Treasury is also reviving the Procurement Procedures and Tendering System with a view to making them transparent and fool-proof and to enhance competition in supply of goods and services to the public sector.

Mr. Speaker, Sir, the Government Ministries have over the past years accumulated substantial pending bills. I will explain later the action I propose to take to settle these debts. To avoid the recurrence of pending bills, measures will be put in place to control expenditures and commitments strictly within the limits approved by Parliament. In this connection, the Government has now approved the new scheme of service for Finance Officers in all Ministries and Departments and the creation of the posts of Chief Finance Officers at a sufficiently senior Job Group for each vote. This measure will be operational during the first quarter of 1999/2000 Financial Year and will assist in the professionalisation of financial management in all Ministries for better control of expenditure and commitments. In addition, a review of the Office of the Controller and Auditor-General will be conducted in the year with a view to strengthening its operations and effectiveness. We are also strengthening Government accounting systems by computerising all the financial operations in the Government. To improve the quality of debate in Parliament, the Government will provide office accommodation and library facilities for hon. Members of Parliament.

Mr. Speaker, Sir, improvement in the administration of justice, which is an aspect of good governance, is an important part of our development agenda. With this in mind, the Government recently appointed the Commissioners of Assize to help clear the back-log of cases pending in courts. Arrangements are also in place to computerise operations of the Judiciary in order to improve the delivery of judicial services.

Mr. Speaker, Sir, let me address briefly regional co-operation. In a globalised market economy, countries need bigger markets to attract adequate investments, both local and foreign. Therefore, we have accepted the principle of regional markets and are fully committed to expand and make the East African Co-operation, COMESA and IGAD successful vehicles of our economic development. We will cooperate with our partners to harmonise policies and strategies in accordance with our commitments with these bodies. In so doing, we will seek to ensure that fair and transparent trading practices are maintained.

Under the East African Co-operation, our commitments include the need to harmonise: (i) fiscal and monetary policies, as well as laws and procedures relating to licensing and supervision of banks; and (ii) infrastructural development to ensure smooth communications within the region. Indeed, some of the proposals presented today, are in fulfilment of some of our commitments. As was recently categorically stated by His Excellency the President, we are fully committed to the elimination of tariff barriers and also subscribe to a common external tariff, both for East African Co-operation and COMESA.

Towards this end, we will seek to harmonise investment rules, tax exemptions and incentives in order to promote East Africa as a common investment area. Last month, we reduced our tariffs on imports from COMESA countries to only ten per cent of their regular rates. This harmonisation will require us to promote institutions which will bind us together. These include a mechanism for settling disputes to ensure compliance with agreed decisions and policies by all member states. We must also pay special attention to areas of divergence which can create strains in our common endeavour.

Mr. Speaker, Sir, I have so far in my speech focused on economic matters which we need to attend to. But, as hon. Members are aware, we are about to cross into the next millennium which offers many challenges and opportunities, especially in the area of information technology. The major challenge to over-come is the so-called Millennium Bug or the Year 2000 (Y2K) compliance problem. The problem is real and failure to comply can be disastrous to many business operations and the economy as a whole. Everyone of us must, therefore, appreciate and accept that the 31st December, 1999 deadline for this compliance is absolute and is not subject to extension. We should not take any chances with it. All enterprises using computer based information systems must meet the deadline. I am happy to report to this House that we have made good progress to be compliant in all key sectors including banking, energy, health, civil aviation, revenue administration and in Government.

Mr. Speaker, Sir, I now turn to fiscal policy. In the coming fiscal year we plan to continue to maintain a tight fiscal stance. In line with this, domestic borrowing will be reduced to the minimum in order to reduce pressure on the domestic money markets and on interest rates.

To achieve our fiscal objectives, we will need to deepen reforms in tax policy and administration to maximise revenue receipts. So far, we have made significant achievements in restructuring the tax system in the last few years, reducing levels of duty and tax rates. This process has gone hand in hand with improved revenue administration, which has in the last few years enabled us to realise revenue targets even as economic activities declined. We will continue with the reforms to reduce the tax burden on those already in the tax net. The Kenya Revenue Authority on its part is modernising its information technology in order to improve further tax administration and combat tax evasion. As part of this effort, the KRA will introduce in the 1999/2000 Financial Year electronic data interchange on inward international trade.

Mr. Speaker, Sir, in the tax proposals laid before the House today, modest reductions have been made both in VAT and income tax. As will be recalled, in the past, the combined effect of VAT and Catering Training and Tourism Development Levy, imposed a heavier burden on tourism than the other services. This has now been rationalised for greater equity. Furthermore, in the light of the difficulties facing local producers, we do not promise or propose any tariff reductions except for a few selected items involving raw materials and intermediate goods. This position will be reviewed as and when the economies of our major trading partners strengthen. For agricultural produce, we have noted with concern the tendency for some local traders to continue importing farm produce, which are abundantly available locally. Such imports have hurt our farmers unnecessarily. Accordingly, duties on these items have been reviewed and adjusted upwards.

Mr. Speaker, Sir, requests for duty and tax waivers take too much time of our staff in the Treasury and the KRA. Although the tax laws provide for some exemptions to charitable organisations, a very unhealthy trend has emerged. Many of these organisations are now writing to the Minister stating clearly that goods, especially vehicles, are donated on condition that the Government will waive duties and taxes. We find this practice unacceptable. Those who donate goods must do so genuinely and purchase their donation on duty and tax paid basis.

We have also had instances when NGOs have submitted fake donation certificates purporting the goods to have been donated from outside the country. We have checked some of these donations and found that the external donors do not exist. The KRA, working with the appropriate organisations, has intensified its intelligence gathering system to counter-check information given by importers, particularly where the goods appear suspicious.

I wish to emphasize that where the donations are found to be fake, all duties and taxes payable and penalties will be demanded, not withstanding prior authority to exempt them.

Mr. Speaker, Sir, let me turn to the expenditure programme for 1999/2000 Fiscal Year. Our key priorities include:

(a) upgrading and rehabilitating of economic infrastructure, particularly the road network and power supply;

(b) improve provision of basic social services such as education, health and water;

(c) improved security and administration of justice; and

(d) targeted poverty alleviation programmes.

To ensure better utilisation of available financial resources and promote growth, the Government will give priority to completion of on-going projects, particularly those that are at an advanced stage of implementation. Special attention will be given to a selected number of housing projects earmarked for the Police and Prison Departments in order to improve housing for these essential services.

Consistent with the poverty eradication plan, targeted budgetary allocations have been provided to improve access and retention of children from poor families in primary and secondary schools. Similarly, increased funding has been made for purchase of school equipment and feeding programmes. More specifically, in the recurrent Budget, Kshs924 million has been provided to finance supply of school equipment, school feeding programmes and bursaries for poor children. For rural health services, funding has been increased from Kshs1.55 billion in the 1998/99 Financial Year to Kshs1.8 billion in the Fiscal Year 1999/2000. Additionally, Kshs735 million has been provided for improvements of rural water supply. Besides, Kshs32.6 million has been availed under the Office of the President (OP) for the establishment of the Poverty Eradication Unit that will co-ordinate poverty related activities.

Mr. Speaker, Sir, to institutionalise the fight against poverty, the Government will establish the Anti-Poverty Trust Fund (APTF) with an initial capital of Kshs20 million. In addition, the Government will establish 15 demonstration projects across the country. These projects will be implemented under the supervision of the Poverty Eradication Commission, which will ensure that they conform with geographical and sectoral priorities according to the plan. The Commission will seek to establish appropriate linkages and support from other partners. Other donor supported initiatives which will benefit the poor include Kshs3.39 billion for improvement of rural health services, family planning, AIDS control, supply of medical equipment and water supply enhanced project.

To improve project completion at the district level, the Government has increased the amount of financial resources available to the District Treasuries. However, to ensure prudent financial management and avoid diversion of project funds, accounting procedures will be restructured, expenditure monitoring and reporting systems strengthened.

The *Jua Kali* sector has and continues to play a significant role in our economy. It has become the main source of employment for many Kenyans. As part of the strategy to fight poverty, the Government will seek to create a conducive environment to promote *Jua Kali* as a source of productive employment opportunities in order to improve incomes of the poor. To achieve this, we need to remove obstructive regulations which hinder growth of informal businesses where the poor are concentrated. Consequently, reforms at the local authority level are already under way to improve regulatory and licensing environment, and to strengthen performance in the delivery of services.

I have already mentioned Ministries and Government Departments that have accumulated pending bills amounting to Kshs14 billion. Delays in payment of this amount of money has not only hurt those who have provided services to the Government, but also the banks which granted such businesses financing facilities. Besides, failure to pay on time encourages providers of goods and services to load risk premiums which inflates cost of Government projects. Consequently, the Government commissioned a task force in 1998 to scrutinise and validate the stock of pending bills and advise on the way forward.

Based on the task force report, the Government intends to settle by cash payments those bills which are less than Kshs1 million. For larger debts, the Government will issue to the creditors special Treasury Bonds which can be traded in the financial market. While securitisation of pending bills will increase the stock of domestic debts, it is prudent to settle the debts in order to help the affected enterprises regain financial viability. As regards debts owed to utility providers, namely the Kenya Posts and Telecommunications Corporation (KPTC) and the Kenya Power and Lighting Company (KPLC), I am happy to inform the House that debts amounting to Kshs5.65 billion have been offset against some of the claims the Government has against these corporations.

In future, it will be necessary to ensure that the Government does not accumulate any Pending Bills. Consequently, all Ministries must operate within the Budget approved by Parliament. The tendency to spend more than available resources hurts the economy by first, pushing interest rates upwards thus making credit expensive. Secondly, it attracts short-term capital inflows that lead to currency appreciation and volatility. Thirdly, it crowds out the private sector. These factors are detrimental to long term investment growth. The Government should only borrow when necessary and use such funds to finance productive investments that play a catalytic role in economic growth and development. For now, the Government needs to start repaying the current stock of short-term debts in order to generate growth. As for external debt, the Government should only contract concessionary debt.

Mr. Speaker, Sir, let me now address monetary policy and financial sector reforms.

Monetary policy during the Financial Year will aim at achieving price stability with sustainable growth. In this context, the underlying inflation will be contained at a single digit, preferably at five per cent. To achieve this, growth of money supply will be limited to 10 per cent in the year. The Central Bank of Kenya (CBK) will actively use open markets operations to contain expansion of money supply. Concomitantly, credit expansion is expected to increase by no more than eight per cent in the year.

Mr. Kiunjuri: On a point of order, Mr. Speaker, Sir.

Mr. Speaker: I have overruled your point of order!

The Minister for Finance (Dr. Masakhalia): Mr. Speaker, Sir, consistent with these objectives, the CBK will, in the year, seek to maintain foreign exchange reserves at about three months of import cover.

Mr. Kiunjuri: On a point of order, Mr. Speaker, Sir.

Mr. Speaker: Order! Order, Mr. Kiunjuri! Over 200 hon. Members are seated here listening to the Budget. If you are not interested in the Budget Speech, please, keep quiet!

Proceed Dr. Masakhalia.

Mr. O.K. Mwangi: On a point of order, Mr. Speaker, Sir.

Mr. Speaker: Order! Order! Mr. Kiunjuri and Eng. Toro, I wish to bring to your attention the provisions of Standing Order No.88(2), which says that any hon. Member, whose conduct is to lower the dignity or to bring this House into ridicule will be deemed to be disorderly, and will be dealt with accordingly. Will you please sit in an orderly manner?

(Mr. Kiunjuri stood up in his place)

Mr. Speaker: Order! Mr. Kiunjuri, this is a House for hon. Members. Hon. Members do their business here in accordance with the rules of the House. We certainly do not accept your kind of behaviour. Mr. Kiunjuri, you are, by your conduct, in breach of the Standing Orders. I will give you the last chance to behave and sit down.

Mr. O.K. Mwangi: On a point of order, Mr. Speaker, Sir.

Mr. Speaker: Order! Order, Mr. O.K. Mwangi! I am told from the place where I come from that a person with upara is certainly supposed to be an elder, and generally gives good advice. People with upara make things cold and not hot so that we can proceed!

(Laughter)

Mr. Kiunjuri: On a point of order, Mr. Speaker, Sir!

Mr. Speaker: Mr. Kiunjuri, for your persistence in disorderly conduct, you are ordered, under Standing Order No.88(2), to go out of this Chamber for the balance of the day. Will you now proceed out? You are now a stranger. So, will you leave the Chamber now?

An hon. Member: Toka!

Mr. Speaker: Order! Order! Mr. Kiunjuri, once you are a stranger, you have no right or business to be in this Chamber.

Proceed!

(Mr. Kiunjuri withdrew from the Chamber)

Mr. O.K Mwangi: On a point of order, Mr. Speaker, Sir!

Mr. Speaker: Order! Order! Mr. Kihara, at your own invitation, I also recognise that you are disorderly and I, therefore, order that you too, will proceed out under Standing Order No.88(2). Proceed! Order! You are a stranger!

Mr. O.K. Mwangi: The Budget does not supersede the lives of Kenyans!

(Mr. O.K Mwangi withdrew from the Chamber)

Mr. Katuku: On a point of order, Mr. Speaker, Sir!

Mr. Speaker: You too, want to do the same? If you want to listen to the Budget, you had better keep the peace.

Mr. Katuku: Mr. Speaker, Sir, I have a serious point of order.

Mr. Speaker: Order! Order! There cannot be a more serious business transaction more than what we are doing at the moment.

Mr. Katuku: The lives of Kenyans---

Mr. Speaker: Order! Order, Mr. Katuku! I think more than 200 Members have been sitting here for an hour plus and those who need to walk out, you did so and came back. So, you can as well go back.

Proceed!

Mr. Katuku: On a point of order, Mr. Speaker, Sir!

Mr. Speaker: Order! Order! Mr. Katuku, under Standing Order No.88(2), you too, go out.

An hon. Member: Go out!

Mr. Katuku: There is no problem, Mr. Speaker.

Mr. Speaker: Very well.

(Mr. Katuku withdrew from the Chamber)

Mr. Speaker: Order! Order, Mr. Minister. Wait until he goes out. He is a stranger in the House.

(Loud consultations)

Order! Order! Hon. Members, do not jester or argue with strangers! Proceed!

(Laughter)

The Minister for Finance (Dr. Masakhalia): Mr. Speaker, Sir, hon. Members will agree with me that the role of financial institutions in promoting economic development cannot be over emphasized. However, for them to effectively play their role, it is important that they be managed prudently and efficiently. Recent bank failures have caused real concern to the Government as they---

Hon. Members: Read loudly! We cannot hear you!

Mr. Speaker: Order! Order! I realise, Mr. Minister, that you have been reading for more than one hour. But you see, hon. Members are very attentive, because they want to hear you and as you have seen, I got rid of those who do not want to hear. So, can you make those ones who want to hear, hear. Read aloud!

(Applause)

The Minister for Finance (Mr. Masakhalia): Mr. Speaker, Sir, recent bank failures have caused real concern to the Government, as they threaten the sector's ability to mobilise financial resources that we need to achieve the desired growth, generate employment and alleviate poverty. It is, therefore, necessary to take further institutional and regulatory forms to improve the soundness of this sector.

To further strengthen the financial sector, I have laid before the House amendments to the Banking Act which seek to enhance Central Bank's capacity to supervise banks and enforce prudential standards in conformity with internationally agreed practices. The amendment provides for raising the core capital deposit liability ratio from 7.5 to 8 per cent, tightening lending limits, particularly lending to insiders and single borrowers and raising the paid up capital required to start a new bank. The Central Bank of Kenya will also intensify its own on and off-site inspection and surveillance, while the number of judges to deal with commercial cases will be increased. Other proposals in the banking sector seek to harmonise prudential regulations within our region in the spirit of East African Co-operation. They also seek to allow: (i) Voluntary liquidation of solvent institutions; and (ii) banks under statutory management to offset deposits against loans held by one person in the same bank. In the course of this year, the Banking Act will be amended to allow establishment and sharing of information with sectoral references bureau operated by Kenya Bankers Association. Similarly, consultations are in progress to amend the appropriate law to make issuing of bouncing cheques a criminal offence, in order to reduce cash transactions, a practice which is not only risky, but out of date.

Hon. Members are also aware that traditionally, building societies focus primarily on mobilising deposits for mortgage finance. These societies have emerged as alternative avenues of financial intermediation akin to commercial banks. However, currently these institutions are not effectively supervised, which puts at risk the depositors' money placed with them. Changing financial circumstances require they be properly operated to avoid contagious effect in the cause of problems. To ensure these institutions are properly managed with adequate risk assessment and proper credit administration along sound banking principles, various amendments are proposed under the Building Societies Act as well as under the Mortgage Companies Act. These will provide for key prudential ratios and also give the Central Bank of Kenya the legal authority to supervise building societies.

As regards the capital market, dealers who are the market makers will be encouraged to enter the market in order to reduce market fluctuations in the Nairobi Stock Exchange. To achieve this, the Capital Markets Authority will, by the end of this year, publish guidelines on the licensing of dealers.

Mr. Speaker, Sir, a healthy insurance industry is a necessary component of the financial sector. Consequently, amendments are proposed to the Insurance Act to raise the minimum paid up share capital for brokers to Kshs1 million, large insurance businesses to Kshs50 million and general insurance business to Kshs100 million. Existing companies will have three years from 10th June, 1999 within which to comply with these changes. To save costs or providing guarantees by brokers, it is proposed that the Commissioner of Insurance accepts long term Government security as an alternative to bank guarantees. To prevent unnecessary risk to insuring public, insurance agents will be required to pay the policy premiums to the insurers before commencement of the cover. To enhance proficiency in the insurance industry, investigators, like agents, will be required to pass an examination of insurance law and practice.

Mr. Speaker, Sir, still on the financial sector, let me touch on micro-financing, which we feel should be promoted more vigorously, because it is well-suited for informal or small-scale and Jua Kali businesses. As hon. Members are aware, small scale enterprises receive inadequate attention from the formal banking sector which perceives them as high risk borrowers. Given the role the small scale enterprises can play in the fight against poverty, there is need to improve their access to credit. To meet these objectives, the Government, in conjunction with the Central Bank of Kenya will endeavour to improve the environment for micro-finance institutions. As a start, the Central Bank of Kenya will: (a) establish a unit, within its Banking Department, to monitor operations of micro-finance institutions and to assist them in their development; (b) encourage micro-finance institutions to co-ordinate their operations and co-operate with the formal banking sector; (c) assist the newly formed association of micro-finance institutions to streamline their legal and regulatory framework as well as accounting procedures.

Mr. Speaker, Sir, I have explained the institutional and legal changes which we are to implement in the year to improve the soundness of banking industry. It is however, important to emphasise that a sound financial sector needs more that appropriate laws. Those entrusted to managing banks must be honest and public-minded. Banks must ensure good management systems are in place, not because the Central Bank is looking over their shoulders but because they believe in doing what is right. It is equally important that we as borrowers change our attitude and moral values. While the recent slack in economic activity may have made it difficult for some borrowers to honour their financial obligations, we must do our very best to repay our loans. The significant proportion of non-performing loan portfolio for banks is a real concern and has somehow contributed to liquidity problems for some banks.

Let me now briefly review the financial outturn for 1998/99 fiscal year. As I indicated earlier the rate of economic growth was much lower than we expected when the budget was formulated. Consequently, ordinary revenue are now estimated to be 1.5 per cent below the target. Originally, ordinary revenues were estimated to be K£8,659.2 million plus Appropriations-In-Aid of K£769.7 million making a total of K£9,428.9 million. I now expect a total K£8,527.7 million in ordinary revenues and K£1,135.4 million in Appropriations-In-Aid including K£282.6 million from settlement of mutual debts. Arising from lower profits income tax will have a shortfall of K£117.5 million which is made up of a fall of K£199.7 million in other income tax and an increase of K£82.2 million from Pay As You Earn. From other major taxes I expect over performed by K£100.8 million composed of K£53 million excess in import duty K£45.7 million from VAT and K£2.1 million from excise duty. This is as a result of improved revenue administration by the Kenya Revenue Authority. From other revenues I expect a short fall of K£136.4 million arising from the declines in investment income of K£53.4 million and K£83 million in revenue from other minor sources.

The expenditures for the year had to be adjusted to, accommodate, the need for the Exchequer intervention to ameliorate the crisis in the banking industry, accommodate interest payments on past over-drafts with the Central Bank of Kenya and other additional expenditures all of which were detailed in the supplementary estimates recently approved by this House. As a result, total expenditures for the year have increased by 5.3 per cent. Initially, the net recurrent expenditures for the year were projected at K£5,106.9 million plus Appropriations-In-Aid of K£639.7 million. Consolidated Fund services were to take K£2,120.7 million bringing the total recurrent expenditure to K£7,867.3 million. The Supplementary Appropriation Bill recently approved by this House includes additional recurrent expenditure amounting to K£217.1 million of which K£54 million was re-allocated from the already approved recurrent budget leaving a net increase of K£163.1 million.

Consolidated Fund Services payments will increase from K£2,120.7 million to about K£2,305 million reflecting an additional K£184.3 million over the Printed Estimates. Printed Estimates for 1998/99 projected gross Development Expenditure of K£1,913.7 million including Appropriations-In-Aid of K£1,347.6. I now expect these estimates to increase by K£213 million to finance supplementary expenditure by the year. Out of this sum K£44.4 million was re-allocated from the already approved provisions leaving a balance of K£168.6 million over the net development issues in the Printed Estimates of K£565.7 million. In addition, I have to finance excess votes for 1993/94 and 1994/95 amounting to K£73.5 million which form part of the overdraft with the Central Bank as of 31st December, 1997. The cumulative effect of this development will be to increase domestic borrowing requirement in 1998/99 to 1.5 per cent of GDP compared to the original target of a balanced budget.

However, including an expenditure of K£421.5 million carried forward from the previous year, the Budget deficit for 1998/99 will be 2.6 per cent of GDP. Let me now turn to 1999/2000 budget, and I begin with recurrent expenditure. As hon. Members have already noted from their copies of printed estimates growth recurrent expenditure for 1999/2000 will be K£8,154.4 million. This includes Appropriations-In-Aid of K£750.9 million. Payments for the Consolidated Fund services will take K£1,823.1 million, leaving K£6,331.4 million to finance gross recurrent expenditure of Ministries. The Consolidated Fund Services payment includes K£991 million for domestic interest and K£457.6 million for foreign interest, K£86 million for guaranteed loans and K£288.5 million for pensions salaries and contributions to international organisations.

In addition, I have to finance external redemptions amounting to K£1,607.6 million and domestic redemptions of K£2,445.2 million. Total recurrent expenditure will, therefore, amount to K£12,207.1 million. Turning to Development Expenditure, gross development expenditures amount to K£2,706.1 million including K£1,932.3 million financed by the Appropriations-In-Aid. These include direct project financing of K£752.6 million in loans and K£483.4 million in grants. I will also realise K£526.9 million in Appropriations-In-Aid proceeds from the special Treasury Bonds to be issued for settlement of pending bills. Thus I will have to finance and meet development expenditure of K£773.7 million during the year. I shall now briefly go into how I propose to finance these expenditures.

Turning to External Financing, I do not intend to factor any programme finance for budget support for the Fiscal Year 1999/2000. Should any such finances become available, I will use it to reduce the domestic debt. However, I expect to receive project grants worth K£582.3 million from both multi-lateral and bilateral sources to finance the development budget and project loans amounting to K£1,124.5 million.

In total, I expect to raise K£1,706.8 million from external sources. External loan redemption payments, however, are expected to exceed disbursements by K£483 million which will have to be financed by domestic borrowing.

Mr. Speaker, Sir, addressing internal revenue, during the fiscal year; 1999/2000, I expect the economy to grow by about 2.5 to 3.0 per cent. Based on this, and at the current rates of tax, I would expect to raise K£8,968.7 million in ordinary revenue and K£1,326.8 in Appropriations-in-Aid. However, given the current state of the economy and the need to restructure the tax system, I now plan to raise K£8,730.2 million in ordinary revenue and K£1,447.3 million in Appropriations-in-Aid. This will reduce the overall tax burden by some K£118.1 million. I expect to receive K£75 million from privatisation which will reduce the domestic borrowing requirement to K£608 million or 1.5 per cent of the Gross Domestic Product (GDP).

The rest of my Speech outlines the tax measures I intend to take to achieve these results.

Mr. Speaker, Sir, before turning to the detailed taxation proposals, a few introductory remarks are appropriate. First, I wish to reiterate that restarting economic growth to create jobs and alleviate poverty remains our priority. Consequently, reduction of tax rates, and selective protection of domestic industry, are key changes presented to the House today as incentives to the private sector.

(Applause)

Overall, the tax ratio will be brought down close to 24 per cent of GDP compared to 25.4 per cent in 1998/99 fiscal year when mutual debt settlement and pending bills; Appropriations-in-Aid are excluded. This will leave room for the private sector to grow while the public sector will make every effort to nurture that growth.

Secondly, the Kenya Revenue Authority (KRA) has performed well and achieved revenue targets over the past year, despite difficult economic circumstances. I, therefore, propose to assign to the KRA the responsibility to collect Catering Training and Tourism Development Levy, Betting and Casino Taxes and Stamp Duties. I expect these changes to result in increased revenue yields at lower costs. Funds collected under Catering Training and Development Levy will be paid to the trustees.

Thirdly, Kenya needs to adjust her taxation in accordance with our international and regional commitments; such as COMESA and East African Co-operation, which accords Kenyan goods a larger access to the market. Indeed, harmonization of tax policies has increasingly become a requirement in order to gain the benefits of trade from economic integration and co-operation.

Mr. Speaker, Sir, in keeping with tradition, I now request the rest of my Speech to be regarded as a Notice of Motion to be moved before the Committee of Ways and Means. First, I deal with changes that have no direct revenue implications.

First, we are proposing various amendments under the Customs and Excise Act in accordance with our commitments under the World Trade Organisation, particularly on Customs Valuation under the GATT rules, which will become effective from 1st January, 2000.

Second, with the privatisation of Transit Sheds and Container Depots, it is now necessary to require private operators to put up bond securities.

Third, to ease congestion at the Port, it is proposed that transit goods which are not cleared and removed from the Port within 30 days of entry, be removed to Customs Warehouses. Fourth, to reduce the risks of diversion of goods on transfer from the Port to an inland Bonded Warehouse, proposals are introduced to require warehousing to be completed within 21 days.

Fifth, currently, the law requires persons operating in Customs areas to be competent and of integrity. This does not however apply to subsequent change of ownership. It is proposed that this requirement be extended to require prior approval by the Commissioner to change directors or ownership of these facilities.

Sixth, it is now clear that some of our trading partners are using unfair and restrictive trading practices to hinder entry of Kenya exports into their markets. To deal with this situation, I propose to amend the Customs and Excise Act to enable the Government, in accordance with our commitments under the international agreement, to take retaliatory action against imports from such countries.

Mr. Speaker, Sir, I now turn to Customs measures with direct revenue implications. Local businesses have been through a difficult period. The Asian economic crisis has led to a decline in the international prices of many imports. While the recent decline in interest rates and the weakening of the Kenya shilling exchange rates are making business prospects more attractive, until rapid growth is regained, the additional protection provided through suspended duties will be retained. In addition, for selected sectors, I propose to strengthen protection to domestic businesses to sustain and nurture their activities.

The following are the measures I propose to take:

First, to assist the agricultural sector, the bedrock of our economy, I propose to raise import duty from 15 to 25 per cent on a wide range of agricultural, livestock and horticultural products including all foods and vegetables as well as certain prepared foods.

Second, farmers growing barley for the beer industry are threatened by a downturn in world prices and export subsidies provided by European farmers on barley and malt. To correct this situation, I propose to impose 25 per cent suspended duty on barley and malt imports.

Third, Kenyan farmers grow soft wheat while hard wheat is imported for blending purposes. Accordingly, I propose to split the wheat tariff to distinguish between hard and soft wheat. This will allow for lower suspended duty to be charged on hard wheat. But its imports will be closely monitored to ensure a desirable result is obtained to serve interests of all stakeholders.

Fourth, to assist the manufacturing sector, duty on a wide range of imported intermediate inputs, including crude palm oil, vitamins, dyes, essential oils, some stainless steel products and some basic chemicals is proposed to be lowered to 10 per cent. At the same time, duty on selected domestic manufactures including certain rolled metal products will be increased and a suspended duty of 10 per cent imposed on commercial vehicles to encourage local assembly.

Fifth, to rationalise duty rate structure for the clothing and textile industry, it is proposed that the duty on yarns be 15 per cent except for domestically-produced yarn which will be raised to 25 per cent with suspended duties. Duty on textiles will be raised from 25 to 30 per cent by imposition of a 5 per cent suspended duty, while duty on clothing items remains at its current rate of 35 per cent. This structure also allows for adjustment of alternative minimum specific rates on textiles.

Sixth, to help revive the assembly business, I propose to lower import duties on unassembled radios, and household refrigerators and washing machines to 10 per cent.

Seventh, to assist energy intensive industries such as paper and cement, duty on residual fuel oil will be lowered by 50 cents per litre.

Eighth, there has been a tendency to increasing use of kerosene as a substitute for diesel by industry. It is also used to dilute diesel in motor vehicles with adverse environmental consequences. With the increase in the road maintenance levy on petrol and diesel by Kshs1.00 per litre, duty on kerosene will also be raised by the same amount to avoid revenue losses from substitution of kerosene for diesel.

Ninth, to assist the rapidly-growing information technology sector, duty on software will be lowered from 15 to 5 per cent, same tax level as for computers. This will remove any confusion between duty rate on the media and the message.

Ten, we continue receiving duty waivers on vegetable oils, electronic audio-visual equipment, and spare-parts which are difficult to monitor and control diversion. Consequently, to protect revenue leakage and improve equity, these items will no-longer qualify for discretionary exemption. In addition, duty and VAT remissions on all other qualifying goods will be limited to no more than 50 per cent the amount payable. Full exemptions will continue on donations made through organizations specified in the law or where official agreements exist or in circumstances of a national disaster.

Finally, a number of areas require targeted assistance. First, the existing exemption of power generation plants and equipment are scheduled to expire on 31st December, 1999. This has been extended through 31st December, 2000, to encourage private sector investment and power generation. Second, specialized equipment for cargo handling at the Port will be exempted from duty as already applies for similar equipment at airports. Third, minimum duty rate for capital equipment imported for foreign exchange earnings or for investment in the excess of Kshs10 million will be lowered from 10 per cent to 5 per cent. This will also apply to specialized cold storage equipment used by farmers. To reduce the gap in the taxation of the year, between Kenya and our neighbours, it is proposed excised duty on malt beer be lowered from 95 per cent to 90 per cent. While these measures will result in a small loss of revenue to the Exchequer, amounting to £7 million, we consider them a worthwhile investment. These tax measures will come into effect from midnight tonight.

Mr. Speaker, Sir, over the past two years, the standard rate of VAT had to be raised to cover increased revenue needs. However, given the state of the economy and in line with the objective of reducing tax burden, I propose to roll back the standard rate from 16 per cent to 15 per cent. To complete the process of simplifying the VAT rate structure to a single positive rate, the 12 per cent rate will be raised to 15 per cent with the exception of restaurant and accommodation services which will be charged a rate of 13 per cent, plus two per cent for the Catering, Training and Tourism Development Levy. These two taxes will now be collected by the VAT Department so that hotels and restaurants will effectively face a flat 15 per cent rate and deal with only one tax collection agency rather than two.

Second, to prevent small businesses getting caught up in the course of VAT registration and compliance, it is proposed, the threshold for compulsory VAT registration be raised from Kshs2.1 million to Kshs3.6 million. The same turnover will apply for registration under the Catering and Training Tourism Development Levy. However, to discourage businesses from splitting, to remain below the compulsory registration limit, new rules are proposed that will require businesses to register if their turnover, together with the turnover of other closely associate businesses, exceed the limit.

Third, to give coffee export similar treatment to tea export, I propose to make supplies of coffee to the coffee auction zero-rated. However, to allow for discussion with the key players on modalities of implementing this change, this measure will become effective on 1st October, 1999.

Fourth, amendment is proposed to the classification of different types of bread, so that all types of ordinary bread are exempt from VAT.

Fifth, it is proposed that clearing and forwarding services be designated to bring VAT registration in line with the requirement under the Customs and Excise Act, so that all clearing and forwarding agents be registered for VAT purposes.

Sixth, in order to curtail cases of fraudulent input tax deduction by the newly registered traders, I propose to limit input tax deduction to goods purchased 12 months prior to registration.

Finally, I propose to allow the Commissioner of VAT to appoint agents with specific skills who may be required to undertake specialized investigations or audit in such areas as electronic commerce where the department may not have in-house skills.

Mr. Speaker, Sir, except where specified, the proposed VAT rate changes will come into effect from midnight tonight and will cost the Exchequer K£124.2 million in revenue loss.

Mr. Speaker, Sir, turning to income tax measures, business investments and activities need a boost. Accordingly, I propose to reduce the top tax rate from 32.5 per cent, to 30 per cent, for both domestic companies and individuals. This will also harmonize the top tax rate on business activities with other partners in the East African Co-operation and make Kenya a more attractive place to do business.

Second, to reduce the tax burden and the risk of low-income earners being caught up in tax net, I propose to increase the personal relief and widen the bracket by 10 per cent. This will raise the minimum monthly taxable income from Kshs7,260 to Kshs8,000 per month.

Third, I propose to increase the tax deductible limit by 30 per cent to Kshs180,000 for contributions to registered pension or provident funds and registered individual retirement funds. This brings the tax deductible limit equal to the contribution limit, to these registered funds.

Mr. Speaker, Sir, this amendment marks the end of a ten-year phasing in a tax deductible pensions. This means that from the year 2000 onwards, all allowable contributions to registered pension funds will be tax deductible. I therefore look forward to pension funds providing a growing pool of savings to finance investments to promote economic growth. The Retirement Benefits Authority is now in place to ensure the pension sector develops in a more organized manner.

Fourth, to harmonize tax payments date in all KRA departments, I propose to change the payment date for withholding taxes from the 30th to the 20th day of the month following the deduction of the tax.

Mr. Speaker, Sir, for a number of years, the income of a wife has been taxed separately from her husband's where it is derived from employment, professional or self employment income, but the income tax return has been filed through the husband. Some husbands are finding it difficult to obtain the necessary information from their wives to file the returns on their behalf. To liberate the husbands from this situation, I propose to give the wives the option to file their own returns.

Sixth, where a tax-payer fails to submit a return of income, a 5 per cent penalty is charged on the tax payable, but no credit is given for the tax already paid. I propose to remedy this and allow taxes already paid to be netted out before calculation of additional tax.

Seventh, the income tax restricts depreciation deductions on vehicles used for private use, with the exception of business selling or hiring motor-vehicles. These exception gives unfair advantage to these businesses and has been abused. I propose to close this loophole, by restricting depreciation deductions to vehicles directly used for hire or as stock-in-trade.

Eighth, to assist industry improve quality and productivity I propose to expand the definition of machinery under the investment deduction provisions to include workshop machinery which are required to maintain machines used in a manufacturing process. This income tax measures are estimated to result in revenue loss amounting to K£57.6 million.

Mr. Speaker, Sir, on other miscellaneous measures, first, I will deal with the Road Maintenance Levy. We need to raise additional resources for the rehabilitation of our road infrastructure. Consequently, I propose to increase the funding for road maintaining by 19 per cent or K£1.2 billion. This necessitates raising the Road Maintenance Levy on petrol and automotive diesel, by Kshs1 per litre.

Mr. Speaker, Sir, secondly, some employers continue to import labour at a time when we have a surplus. Besides, the cost of providing services by the Immigration Department has increased substantially, as cases of forgery rise.

Mr. Speaker, Sir, to discourage employers from importing labour and to recover part of the processing costs, fees and security bonds under the Immigration Act have been increased by between 50 and 100 per cent, excluding those for foreign students. Visa fees have been unified to ease administration and compliance. Increases have also been made on citizenship and naturalisation fees and passport charges. Thirdly, last year, the Local Authorities Transfer Fund was approved to allow for transfer of a share of Income Tax collection to local authorities. We propose to amend this Act to allow for phasing in transfer in the next fiscal years. Contributions will start at 2 per cent, but will be enhanced to 5 per cent in subsequent years.

In addition to that, amendments are proposed under the Local Authorities Service Charge Act to cancel the Fixed Business Fee component as of 1st January, 2000, and the Payroll Tax component by 1st January, 2001. I propose to amend the Stamp Duty Act to exempt transfer of due property between husband and wife from Stamp Duties. These and other measures, taken together, will decrease revenues to the Exchequer by K£49.9 million, but increase the estimated receipts of Appropriations-in-Aid by K£120.5 million.

Mr. Speaker, Sir, before concluding, I would like to once again express sincere thanks, on behalf of all of us who are in Government, to His Excellency the President for his commendable and wise stewardship of our nation. We will require His Excellency's support even more as we prepare to cross into the new millennium. The new millennium and the rapid process of economic globalisation presents major challenges, particularly to economies of developing countries.

Mr. Speaker, Sir, while we in Kenya will strive to maintain an open and liberalised trade regime, we expect our trading partners to reciprocate by opening their markets to our goods and maintain fair trading practices. Furthermore, I would like to stress the need for us to strengthen our relations with our development partners, which can facilitate improved flow of external resources into our economy. This will complement our own resources and enhance the recovery process of our economy.

Mr. Speaker, Sir, the measures and expenditure programmes I have presented to this House today, should go a long way to strengthen the performance of our economy. I know that we have not provided for all the requests the Ministries put to us, but we have provided what the Kenyan economy and that taxpayer can afford. Consequently, spending units should not expect any more resources. However, we are convinced that if they spend what is at their disposal responsibly, focusing on priority areas, they can maximise delivery of public goods and services to improve the quality of life of our people. In doing so, they need the support of all leaders. Therefore, I would like to urge all of us to exercise the greatest care in the use of the resources that are at our disposal, so as to optimise their utility for the development of our nation.

I wish to emphasise that in the end, the destiny of our country is in our own hands as Kenyans. The speedy recovery of our economy is a challenge to all of us, and it needs to be addressed in a concerted manner. Therefore, let us, as Kenyans, join hands and work together in the spirit of *Harambee*, to improve the welfare of our people. It is my hope that the Budget I have just presented to this House will foster an enabling environment, which is needed for enhanced productivity by Kenyan farmers, industrialists, businessmen, professionals, public servants and Kenyans from all walks of life.

Mr. Speaker, Sir, I beg to move.

The Vice-President and Minister for Planning and National Development (Prof. Saitoti) seconded.

(Applause)

(Question proposed)

DEPARTURE OF HIS EXCELLENCY THE PRESIDENT

Mr. Speaker: Hon. Members, it is now the pleasure of His Excellency the President to take his leave.

(Hon. Members rose in their places while His Excellency the President left the

Chamber in a procession)

ADJOURNMENT

Mr. Speaker: Hon. Members, it is now time for us to interrupt our business. The House is now adjourned until Tuesday, 15th June, 1999, at 2.30 p.m.

The House rose at 4.45 p.m.