NATIONAL ASSEMBLY

OFFICIAL REPORT

Thursday, 19th June, 1997

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)

(Opposition hon. Members remained seated)

COMMITTEE OF WAYS AND MEANS

MOTION

THAT MR. SPEAKER DO NOW LEAVE THE CHAIR

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

PAPERS LAID

1997/98 Estimates of Revenue of the Government of Kenya for the year ending 30th June, 1998.

1997/98 Financial Statement.

(By the Minister for Finance)

Mr. Speaker: Order, Mr. Mudavadi. What is it, Mr. Orengo?

POINT OF ORDER

MOTION FOR THE ADJOURNMENT UNDER STANDING ORDER NO. 45 (B).

Mr. Orengo: On a point of order, Mr. Speaker, Sir. I rise on a point of order and plead with you; we believe in constitutionalism, and, therefore, just hear me out. Before you are dethroned from the Chair, and we resort to the Committee of Ways and Means, I have the following point of order.

Mr. Speaker, Sir, the Regulations and Procedures of this House are provided for in Section 56 of the Constitution. If I may read the Section for ease of reference:

(a) "Subject to this Constitution, the National Assembly may:- (1) Make Standing Orders regulating the procedure of the Assembly including, in particular the orderly conduct of the proceedings.

(b) Subject to Standing Orders made under Paragraph (a), establish Committees in such a manner and for such general or special purposes as it thinks fit, and regulate the procedure of any Committee so established."

Mr. Speaker, Sir, in fact, I am surprised that at the beginning, the Clerk read out the Business of the House without going through the normal procedure of going through the Order Nos 1,2,3, 4 and 5. Be that as it may, Standing Order No.137, provides--- Before I come to Standing Order No.136, I want us to look at Standing Order No. 137 (1), which reads as follows:-

"Unless the House otherwise orders, the debate on the Financial Statement on the Annual Estimates shall take precedence over all other business, and until disposed of, shall be set down as the first Business of that day."

So, Mr. Speaker, Sir, when the debate will commence on the Annual Estimates, that Business will take precedence over all other Business. If you look at Standing No. 136, there is no such protection. It states:

"On an order of the day for Committee of Ways and Means being read, Mr. Speaker shall leave the Chair without questions put, unless the Minister moves that Mr. Speaker do now leave the Chair forthe purpose of enabling the Minister to deliver a financial statement".

Mr. Speaker, Sir, the point I am trying to bring out is that the Financial Statement does not take precedence. It does not have protection in accordance with their Standing Orders as is found in Standing Order No. 137 (1) and (2), where there is protection. So, on that basis, I move that this House do now adjourn under Standing Order No.45 (b), which reads as follows:-

(Applause)

"The following Motions may be moved without notice:-

(a) A Motion by Way of Amendment to a Question already proposed from the Chair", and no Question has been proposed.

(b) "A Motion for the Adjournment of the House or of a debate."

So, Mr. Speaker, Sir, I rise under that Standing Order to move that this House do now adjourn. The reason are as follows. When this House first met, we all took the Oath of Allegiance. Everybody from the President of this country to the ordinary hon. Members of Parliament, must take the oath of office or the Oath of Allegiance to protect and defend the Constitution. Any one of us who goes against that oath, flouts the dignity of this House. Standing No. 146 (1) provides that:-

"There shall be a select committee to be designated the Estimates Committee which shall consist of a Chairman and not less that ten other Members of the House, who shall be nominated by the Sessional Committee at the commencement of every Session."

This Estimates Committee owes its existence, not only to this Standing Order, but to Section 56 of the Constitution.

(2) "The Estimates Committee may examine such annual or Supplementary Estimates of the expenditure presented to the House as it shall think fit..."

The word "may" applies to the Estimates Committee, not to the House, the Speaker, the Minister for Finance and not to the President. It applies to the Estimates Committee. It is the one with the discretion, and the Annual Estimates were presented in this House, I think the day before yesterday. The Leader of the Government Business, knows very well that over all these years, the Estimates Committee has never had a single sitting. I challenge the Leader of Government Business to table before this House any minutes of the Estimates Committee. Now this House is going to listen to a Financial Statement when there has been no meeting of an Estimates Committee; they have not been given opportunity, whatsoever, to consider the Annual Estimates.

The Assistant Minister for Education (Mrs. Ndetei): On a point of order, Mr. Speaker, Sir.

Mr. Orengo: I am on a point of order.

Mr. Speaker: Order, hon. Orengo! Order means: "Sit down." I am afraid, Mrs. Ndetei, you know the rules. An hon. Member on a point of order shall be heard without interruption. So, can I hear from you, hon. Orengo!

(Applause)

Mr. Orengo: Thank you very much, Mr. Speaker, Sir. Defectors do not tend to understand things very well.

Mr. Speaker: Order, hon. Orengo. The rule of the House is that hon. Members shall use civil language. So, will you use civil language?

Mr. Orengo: Mr. Speaker, Sir, I withdraw and apologise to the Gracious Lady, particularly. The point I was making is that the Estimates Committee should have opportunity to consider the Annual Estimates at the time when they are presented. The names of the Estimates Committee were read out yesterday, and today, we are faced with the situation where the Minister is going to make the Financial Statement without the Estimates Committee sitting and considering both estimates and reporting to this House in accordance with Standing Order No.146. I shall read the relevant section of this Standing Order:-

"The Estimates Committee may examine such annual or Supplementary Estimates of the expenditure presented to the House as it shall think fit, or as shall be referred to the Estimates Committee by the House, and shall report to the House what, if any, economies or improvements of form should be made in such Estimates for the future, consistent with the proper carrying into effect of the policies implied in or by such Estimates."

Mr. Speaker, Sir, even looking at the Estimates themselves, there are matters of policy involved in those estimates. I want to remind the Chair, that the Leader of the Opposition, hon. Wamalwa, presented a Motion here on the revision and amendments of electoral laws. The side opposite, took opportunity to move amendments to that particular Motion, and demonstrated its commitment to political and Constitutional Reform, particularly, on the electoral law. Now the Estimates are providing Kshs2.3 billion to the Electoral Commission, and we have not, up to now, debated on any Bill brought before this House to change the electoral laws in this country. But more importantly, the question of the Constitution should take precedence over any other business that comes before this House.

(Applause)

Mr. Speaker, Sir, those who were in Lancaster, and they are very few here---

Mr. Speaker: Order, Mr. Orengo!

Mr. Orengo: Mr. Speaker, Sir, I am just making the point as a matter of emphasis. I am trying to be brief and civil.

Mr. Speaker: Order! You had better do so because you rose on a point of order under Standing Order No.45. It does not give you a blanket to address all matters throughout the day. So, you had better make your point and then the Chair will be in a position to make a ruling on it.

Mr. Orengo: Thank you, very much, Mr. Speaker, Sir. What I am saying is that there is no more serious business in Kenya today, and before this House, than the issue of Constitutional Reform. In order to have order, democracy and justice in this country, we cannot evade the issue of Constitutional Reforms. So, I do move that this House do now adjourn. I have here with me--- If the Attorney-General is too busy to work on amendments of the Constitution and the relevant statutes, electoral laws, I lay these before the Table so that he can have a day or two to go and consider the issue of the Constitution. Relax and consider the issue of the Constitution, bring it, we will talk like gentlemen and reform the Constitution. That is the business of the day.

Thank very much, Mr. Speaker, Sir. I move.

(Mr. Orengo laid the documents on the Table)

Mr. Speaker: Order, hon. Members! The hon. Member for Ugenya stood on a point of order alleging that the House should adjourn under Standing No.45 (b). He has also mentioned Standing Orders Nos. 137 and 136, and has also made reference to the contents of the Order Paper.

I would like to say as follows, and I will begin with the Order Paper: The relevant provision of the Standing Order relating to the order of business in the House says:

"The Order Paper shall be prepared by the Clerk of the National Assembly showing the business to be place before or taken by the House in the order in which it is to be taken together with such other information as Mr. Speaker may from time to time direct to be shown therein. Such Order Paper shall be circulated as early as possible before the House meets."

I believe the Order Paper contains the business as stipulated under Standing Order No.30. I also believe that every Member has had the Order Paper circulated to him or her. Standing Order No.31 states:-

Each day after prayers have been read, the House shall proceed with the Order Paper of the day as follows:-

(a) Matters other than business -

(i) Administration of Oath;

(ii) Communication from the Chair;

(iii) Petitions;

(iv) Papers;

(v) Notices of Motion;

(vi) Questions of which notice has been given.

(b) Business set down on the Order Paper.

Today's Order Paper which has been circulated in accordance with Standing Order No.30, does not contain any other business except the business of the House. That disposes there.

I will now touch on Standing Order No.45 under which the hon. Orengo attempted to move that the House do adjourn. Hon. Members will notice that under Standing Order No.45, it is, in fact, a provision made to this House where several Motions not requiring notice may be moved for the business exigency of the House. Hon. Members will notice that Standing Order No.45(a) to (i), lists what are normally called dilatory Motions. The hon. Member wishes the House to adjourn under Standing Order No.45 (b); "A Motion for the Adjournment of the House or of a debate." Adjournment of the House for what purpose? I invite the hon. Members to look at Standing Order No.35 - Sittings and Adjournments of the House. From Standing Order No.17 through to Standing Order No.22, you will find the reasons why the House may be adjourned. In other words, the House may interrupt its business in accordance with Part V of the Standing Orders.

Standing Order No.17 talks about Hours of Sitting of the House. That makes provision for the House to either extend the sittings of the House after the already stipulated time. Standing Order No.18 allows a Member, aggrieved by an answer giving by a Minister, to move the House to adjourn to discuss that particular issue. That is normally done at the rise of the House and it is stipulated that it shall be for 30 minutes. Standing Order No.19 talks about resumption of interrupted business and reads as follows:-

> "Any debate interrupted under the provisions of this part of the Standing Orders shall, on coming again before the House or the Committee, be resumed at the point the same was interrupted as it were a continuous debate, and any Member whose speech was so interrupted shall have the right to speak on such resumption for the remainder of the time available to him. If such Member does not avail himself or herself, his or her speech shall be deemed to have been concluded."

That Standing Order takes into account the fact that, at the end of our normal sitting; say for example, in a normal sitting day, at 6.30 p.m, we must interrupt our business and if there was a Member on the Floor, it gives that Member the right, because the business has been interrupted to the next day, to resume and continue his debate.

Then Standing Order No.20, is applied when a Member has a definite matter of national importance; the House may then adjourn business to debate that issue.

(Applause)

Order! Standing Order No.21 deals with the adjournment of debates; that is after the question has been proposed from the Chair and a Member would like that debate to be interrupted. Then a Member may stand under that Standing Order, to ask the House to adjourn to discuss that particular issue. Standing Order No.22, deals with Adjournment to a Day Other than the next sitting day. This is when we have to adjourn for more than our usual adjournment. For example, Standing Order No.23 deals with the Adjournment of the House and it says:-

> "A Member may at any time, for reasons stated, seek leave to move "That this House do now adjourn." If Mr. Speaker shall be of the opinion that such a Motion for adjournment of the House is frivolous, vexatious, or an abuse of the process of the House, he may forthwith put the question thereon or may decline to propose."

(Applause)

Hon. Members, the reason why I have taken the liberty to go through the procedure relating to the adjournment of the House is because the Standing Orders of this House derive their validity from the Constitution itself. The Constitution stipulates that the House may make such rules as it deems fit for the regulation of business. I will, therefore, find and I do now find, that an adjournment that is referred to under Standing Order No.45(b), as not requiring notice as such adjournments as can be found between Standing Order No.17 to No.23 and, no less. It does not have legs of its own, part one, at least, and therefore, I find that it has no merit.

The hon. Member also referred to Standing Order Nos.136 and 137(1). I will make my observation. Of course, the House must appreciate that I am making this ruling without the benefit of having looked much more closely at the issues, as Mr. Orengo did. Nevertheless, I will do the best I can. Standing Order No.137(1), which the hon. Member referred to states:-

"Unless the House otherwise orders, the debate on the Financial Statement on the Annual Estimates shall take precedence over all other business until disposed off, shall be set down on each day as the first business of that day."

Obviously, this does not arise. We have not had any presentation of the Financial Statement itself. In fact, as we sit here now, we are not even in the Committee of Ways and Means. So, Standing Order No.137 does not apply to us, as of now.

(Applause)

Standing Order No.136 referred to by the hon. Member says:-

On an Order of the Day for the Committee of Ways and Means being read, Mr. Speaker shall leave the Chair without question put, unless a Minister moves" That Mr. Speaker do now leave the Chair" for the purpose of enabling the Minister to deliver a Financial Statement."

I suppose that is what the Order Paper is requesting and I suppose that is what the Minister will move, and, until he has been on the Floor, that Standing Order also does not apply.

I wish to refer to his last presentation; the matter of Constitutional change or whatever. May I say this to this august Assembly; as Speaker of this House, I am a servant of the House; I do not initiate legislation, debate, Motions neither do I take part in them and neither do I vote. To ask the Chair to nitiate any legislation, Motion or changes in the rules; is totally asking the Chair to depart from the rules of this House. I am afraid, hon. Members, I am not in a position and I am not willing to take a role that has not been assigned to me either by the Constitution or the rules of this House or by the resolution of this House.

(Applause)

I will only do those things that I am empowered to do by this House or by the regulations made by the House. I will, therefore, order that the business of the day, as stated in the Order Paper, do now commence.

(Resumption of Budget Speech)

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

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

Mr. Speaker: I am sorry, Mr. Shikuku!

Hon. Members: No reforms, no Budget! No reforms, no Budget!

The Minister for Finance (Mr. Mudavadi): As we move towards the end of the 1996/97 fiscal year, I am pleased to report that the economy is stable and firmly on the path of growth---

Mr. Speaker: Order! Hon. Members, this is your House, the House of the people of Kenya; the National Assembly of the Republic of Kenya. It is our duty as Members of this House to stick to our rules; hold our dignity and the dignity of the people we represent. What was it, Mr. Shikuku, very briefly?

(Applause)

Mr. Shikuku: On a point of order, Mr. Speaker, Sir. Thank you very much, Mr. Speaker, Sir. I do not intend to challenge your ruling, but I wish to draw your attention to Standing Order No.45(b) which you have referred to, and get the ruling of it not being used; that it could stand the test of time. But your ruling is actually governed by Standing Order No.23, where you have the powers to rule that whatever Motion moved is frivolous and remains the thing. But under Standing Order No.45, that is not stipulated. Now, could you advise us as to where you derive your powers from, under Standing Order No.45(b)?

(Applause)

Mr. Speaker: If the House will remember, I have taken the House on a journey of Standing Order Nos.17 to 23. I have also quoted particularly Standing Order No.23(2) which empowers the Chair to decide to decline any Motion which, in the opinion of the Chair, is frivolous and I have done it.

Now, proceed.

The Minister for Finance (Mr. Mudavadi): As we move towards the end of the 1996/97 fiscal year, I am pleased to report that the economy is stable and firmly on the path of growth though at a somewhat reduce rate---

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

Mr. Speaker: Order! Order, Mr. Orengo! I have already made a ruling on that issue. The Minister will take the Floor. If after he has made his speech, or in the course of making his speech, there is anything that is in breach of order, any Member will be at liberty to bring that to my attention.

Proceed, Minister.

Hon. Members: No! No! No Budget! Reforms first!

The Minister for Finance (Mr. Mudavadi): This stipulates the sound rate of the economic reforms which we have continued to implement---

Hon. Members: No reforms, no Budget! No reforms, no Budget!

Mr. Speaker: Order! Order! Hon. Members, I may also tell you that among the provisions of the Standing Orders, you will find therein, that the business of keeping order in the House has been vested by this House on Mr. Speaker. As a matter of fact, the only reason why I am paid is to keep order in the House. I will discharge that duty to earn my pay honestly.

Proceed.

The Minister for Finance (Mr. Mudavadi): Today, I will report on the economic achievements we have attained and programmes which the Government plans to implement during 1997/98 in order to achieve even higher growth.

Prof. Mzee: On a point of order, Mr. Speaker, Sir.

Mr. Speaker: Order! Order! Prof. Mzee, the Chair would now like to warn you that your persistent defying of the Chair may be considered disorderly conduct. I warn you not to do so. So, will you be orderly and hear the speech?

The Minister for Finance (Mr. Mudavadi): Traditionally, the Budget Speech carries an assessment of the recent developments in the world economy. I will not dwell much on this subject, but I will make one key observation---

Hon. Members: No reforms, no Budget! No reforms, no Budget!

Prof. Mzee: On a point of order---

Mr. Speaker: Order! Order! Prof. Mzee, I now warn you formally that you may be breaching **[Mr. Speaker]** Standing Order No.88. I call your attention to the fact that your persistent disobedience of the Chair is disorderly conduct, the result of which is that, if you persist you may be asked to leave the Chamber. I do not wish to do that. I would like you to sit there in an orderly fashion.

Proceed.

The Minister for Finance (Mr. Mudavadi): The world economy grew at an average rate of 4.0 per cent during 1996 and inflation remained low, generally below three per cent. **Hon. Members:** No reforms, no Budget! No reforms, no Budget!

(Several hon. Members remained standing)

Mr. Speaker: Order! Order! I would like hon. Members to listen to me. The rule is this: If you are not contributing or you are not in transit from point A to point B, thou shall be seated. Can we have Members seated?

Hon. Members: No reforms, no Budget! No reforms, no Budget!

The Minister for Finance (Mr. Mudavadi): It is encouraging to note that the economies of Sub-Saharan Africa together grew by five per cent in 1996, which for the first time in more than a decade, exceeded the world average of four per cent. Clearly, the benefits of economic adjustments are now evident in this region.

PERFORMANCE OF THE DOMESTIC ECONOMY

Mr. Speaker, Sir, I will now focus on the domestic economy. This is the fourth year since Kenya embarked on a comprehensive programme of economic reforms designed to deregulate the economy and to put it on the path of rapid employment generating growth---

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

Hon. Members: No reforms, no Budget! No reforms, no Budget!

(Shouts and display of posters)

Mr. Speaker: Order, Mr. Muite! You are warned by the Chair that if you have not been given the Floor to please sit down. Hon. Members, if you really want to be seen in that light, I really have no business about it. There is no Standing Order that tells me that you cannot hold your paper up. You can do that. Proceed.

The Minister for Finance (Mr. Mudavadi): Hon. Members will recall that during 1991-1993, Kenya faced serious economic problems caused partly by external factors. Real national income stagnated while inflation reached triple digit levels. Those---

Hon. Members: No reforms, no Budget! No reforms, no Budget!

Mr. Speaker: Order! Order Members! Hon. Members must know that they are Members of this House by right and they are expected to be honourable by themselves, by the Kenyan nation and by the world. You do not expect the Chair to respond to that kind of thing. I will totally concentrate on my business. The Chair does not see and does not hear.

Proceed.

The Minister for Finance (Mr. Mudavadi): Gross foreign exchange reserves fell to an all time low of US$120 million and the shilling lost its value significantly. Therefore, the Government had to act swiftly to reverse the slide in production and to restore macro-economic stability in order to enhance investor confidence.

It is possible for some of us, in the heat of political debate, to lose sight---

Hon. Members: No reforms, no Budget! No reforms, no Budget!

(Shouts and display of posters)

Mr. Speaker: Order! Order! Hon. Members, as regards all those hon. Members, who are behaving the way they are, I invite the hon. House and the Kenyan public to judge. Proceed.

The Minister for Finance (Mr. Mudavadi): It is possible for some of us in the heat of political debate to lose sight of what has already been achieved. Therefore---

(Mr. R. K. Mungai interjected the Member on the Floor)

Hon. Members: No reforms, no Budget! No reforms, no Budget!

Mr. Speaker: Order! The hon. Member for Makuyu, Mr. Robert Mungai, the Chair is satisfied that you are disorderly. Will you keep quiet?

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

Mr. Speaker: Order! From now henceforth, any Member who will deliberately hamper the lawful business of this House will take the necessary consequences of the rules.

Hon. Members: No reforms, no Budget! No reforms, no Budget!

(Shouts, foot thumping and display of posters)

The Minister for Finance (Mr. Mudavadi): Therefore, let me take a few minutes to outline how far we have come since those grim days of 1991/93. We brought the economy back to a growth of three per cent in 1994 and 4.8 per cent in 1995.

Hon. Members: No reforms, no Budget! No reforms, no Budget!

(Mr. Mulusya displayed a poster amid shouts)

Mr. Speaker: Order! Mr. Mulusya, you are now excluded from the business of this House under Standing Order No.88 for disorderly conduct. You will, therefore, proceed to leave. I will read out to the House what constitutes disorderly conduct. I will read to the House Standing Order No.88.

> "Mr Speaker, or the Chairman of Committees shall order any Member whose conduct is grossly disorderly to withdraw immediately from the precincts of the Assembly during the remainder of that day's sitting; and the Serjeant-at-arms shall act on such orders as he may receive from the Chair in pursuance of this Standing Order; but if on any occasion Mr. Speaker or the Chairman deems that his powers under the foregoing provisions of this Standing Order are inadequate, he may name such Member or Members, in which event the procedure prescribed in Standing Order No.89 (Member may be suspended after being named) shall be followed."

I would also like to bring to the attention of the Members the consequence of any Member being asked to leave and such Member refuses. The Chair will bring to the attention to the House that force is about to be used. So, the Chair can use forcibly to evict a Member who refuses to move out. The consequences of a Member being forcibly removed is contained under Standing Order No.92, but we have not reached that stage yet. Standing Order No.92 reads as follows:-

> "If any Member shall refuse to withdraw when required by or under these Standing Orders, Mr. Speaker or the Chairman or Committee, as the case may be, having called attention of the House or Committee to the fact that the recourse to force is necessary in order to compel any such Member to withdraw, shall order such Member to be removed and such Member shall thereupon without question put be suspended from the service of the House during the remainder of the session and shall during such suspension forfeit his right of access to the precincts of the Assembly."

Mr. Mulusya, can you now leave?

(Mr. Mulusya destroyed a poster as he withdrews from the Chamber)

Hon. Members: No! No! Reforms or no Budget! No reforms, no Budget!

The Minister for Finance (Mr. Mudavadi): In 1996, we managed to achieve a growth of 4.6 per cent despite poor weather conditions and associated electric power shortages which affected both agricultural production and manufacturing output. Much of the impetus for growth in 1996 was provided by trade, hotel and restaurant services together with the financial services which grew by about eight and seven per cent respectively. Inflation has been brought down to about 5.1 per cent in 1995/96, from the 49.4 per cent in 1993/94. The rise in the annual inflation rate in the first quarter of 1997 to 12.3 per cent was due to drought-induced food price increases. The rate is expected to moderate in the coming months as the food supply situation improves. Our external payments position improved remarkably, as exports and net external capital receipts increased.

Hon. Members: No reforms, no Budget! No reforms, no Budget!

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

Mr. Speaker: Order! What is it, Mr. Nthenge?

Mr. Nthenge: On a point of order, Mr. Speaker, Sir. I am standing because, as an old citizen and one of the next oldest Members in this House, that it is wrong for us to continue all day doing very little while we know what the problem is. Why do we not adjourn the House for a few minutes to discuss this issue?

Mr. Speaker: Indeed, hon. Nthenge has been here for a long time, and I think hon. Nthenge, I share your sentiments that hon. Members must transact the Business of the House in a dignified manner. But it is up to you and all other hon. Members to talk to their colleagues to be dignified.

Proceed!

Mr. Obure: On a point of Order, Mr. Speaker, Sir!

The Minister for Finance (Mr. Mudavadi): As a result, gross official foreign exchange reserves increased to about US$1 billion or four months import cover in May, 1997, and the Kenya Shilling regained its value significantly.

We also managed to control the financial operations of the Government and expansion of money supply. The Budget deficit has been reduced from 8.4 per cent of GDP five years ago to 1.2 per cent in 1996/97, while money supply increased by 15.9 per cent in 1996 compared with over 37 per cent in 1992/93.

Mr. Speaker, Sir, we have made further progress in structural reforms since the last Budget day. Privatisation proceeded well with the Government reducing its shareholding either completely or partially in an additional 18 enterprises. In total, the Government has divested its shareholdings in 148 enterprises from the original 207. This leaves only 59 enterprises to be divested.

Mr. Speaker, Sir, the Government is committed to ensuring that all the privatisation process remains transparent. It is for this reason that we have been publicising the decisions of the Parastatal Reform Programme Committee while bids are competitively advertised through the print media.

Hon. Members: No reforms, no Budget! No reforms, no Budget!

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

Mr. Speaker: Order! Order! Can I hear from hon. Wamalwa? Those consultations are too loud!

Mr. Wamalwa: Mr. Speaker, Sir, this is not exactly pleasant to us or to anybody else. But I think it brings home the point that the matter of Constitutional reforms is of national importance.

Mr. Speaker, Sir, may I appeal to the Chair that the House adjourns to debate the matter of the Constitution under Standing Order No.20 as a matter of national importance?

(Several hon. Members stood up in their places)

Mr. Speaker: Order! Order, Members! I honestly suppose that hon. Members do take time to read their Standing Orders, if they really want to participate effectively in the proceedings of the House. The hon. Wamalwa just now, a long standing Member of this House and a lawyer, invites me here and now under Standing Order No.20, to suspend the business of the House to discuss a matter of national importance without following the provisions of Standing Order No.20. I will read to the House the requirement of Standing Order No.20.

It reads as follows:-

"A Member may at any time rise in his place and seek leave to move the adjournment of the House for the purpose of discussing a definite matter of urgent national importance".

Honourable Members may be applauding at a "fitness" now and then the hatchet later. Mr. Wamalwa, the hatchet is this:-

"A Member who wishes to seek leave to move the adjournment of the House, shall at least two hours before the commencement of the sitting, hand to Mr. Speaker written notification of the matter he wishes to discuss. Mr. Speaker shall refuse to allow the claim unless he is satisfied that the matter is definite, urgent and of national importance and may properly be raised on a motion for the adjournment of the House".

Honourable Members, the fact is this: The hon. Wamalwa has not notified the Chair in accordance with Standing Order No.22 of his intention to do so, and therefore, application is frivolous.

Proceed!

The Minister for Finance (Mr. Mudavadi): With respect to the restructuring of public enterprises, the following measures were initiated in 1996:-

1. Two distinct companies were established in the energy sector, that is Kenya Power and Lighting Company Ltd., for the transmission and distribution, and Kenya Power Company Ltd., for generation;

2. Two independent power producers to generate about 88 mega watts of power were licensed;

3. Two Bills which provide for the splitting of the Kenya Posts and Telecommunications Corporation into two entities, that is, Telecom Kenya and the Postal Corporation of Kenya were published;

4. Kenya Ports Authority contracted out the management of the Mombasa container terminal;

5. Similarly, Kenya Railways contracted out the maintenance of its locomotives and privatised Magadi railway line; and finally commercialisation of the National Cereals and Produce Board (NCPB) commenced.

In the financial sector, the most important development was the amendment of the Central Bank of Kenya Act (CBK) which gave the Bank greater autonomy in the management of monetary policy. The Government also published two bills, notably, the Retirements Benefits Bill and the National Social Security Fund (Amendment) Bill and presented them to this august House. The two Bills are intended to provide security and better management of the funds contributed by the workers and their employers.

We have also continued to reform the Civil Service to improve its efficiency.

Hon. Members: No reforms, no Budget! No reforms, no Budget!

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

(Several hon. Members stood up in their places)

Mr. Speaker: Order! Order, Hon. Members! It is strange that Members would like to stand on a point of order and they do not want to be orderly. Now, it is strange that you want the assistance of the law and, at the same time, you want to have total disregard of your honour. I am urging the Members, if you want to have the benefit of the rules, then you must respect the rules in the first place. It is in your own interest as a House that you follow your own rules of procedure; that you respect your own House.

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

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

Mr. Shikuku: Mr. Speaker, Sir, being an old Member here, I would like to pursue what the hon. G.G. Nthenge said here and I thought you had agreed with him, because we cannot go on doing what we are doing here. And that--- Can I be heard?

(Loud consultations)

Mr. Speaker: Order! Order! I do not know why, Mr. Shikuku, you should be complaining of one side. You should be complaining of both sides of the House. There must be order from both sides of the House.

Mr. Shikuku: Mr. Speaker, Sir, you are very right because Standing Order No.67 says:-

"A Member on a point of order shall be heard in silence".

But, much of the noises came from the other side of the House.

Mr. Speaker, Sir, we cannot go on doing what we are doing. For all this time that has gone; the suggestion by hon. G.G. Nthenge would be reasonable. I thought you had agreed with him that we adjourn for half an hour. Let us get our sanity, come back here and see what we can do.

(Applause)

Mr. Speaker: Order! Order, hon. Members! I beseech all Members present here to abide by what hon. Shikuku said. Let us all get sanity back into us here and now because the Chair has done nothing to drive away sanity.

Proceed!

The Minister for Finance (Mr. Mudavadi): During the period between July 1996 and February 1997, a total of 6,039 employees left the Civil Service through both natural attrition and the Voluntary Early Retirement Scheme (VERS), bringing the total number of civil servants retired since the programme began in 1993 to 54,262. This leaves 220,000 staff in the Government service plus 239,500 teachers. A second phase of this programme is under preparation.

Mr. Speaker, from the summary I have just given, one can see that we have achieved a lot over the last four years. It should, however, be recognised that these achievements are the result of hard work by our farmers, industrial workers, managers and exporters, and prudent economic reforms implemented by the Government. I am also encouraged by the emergence of a broad national consensus as reflected in the stimulating debate both here in Parliament and also outside, in support of reforms. It is for this reason that I have chosen the theme for the Budget this year to be: Enhanced Economic Reforms for Faster Growth".

Mr. Murungi: On a point of Order, Mr. Speaker, Sir,

CHALLENGES AHEAD

Mr. Speaker, Sir, the country is still faced with major challenges, which make it necessary for us to redouble our efforts to consolidate our gains and push the economy to even greater heights. The most daunting challenges facing our nation today are as follows:-

(1) creation of adequate employment opportunities to absorb the large number of new entrants into the labour market;

(2) reduction of poverty levels;

(3) achievement of high and sustainable non-inflationary growth;

(4) increasing domestic investments and savings to levels sufficient to support the desired rate of growth;

(5) reduction of domestic borrowing by Government to reduce domestic interest rates;

(6) improvements in the management of public finance; and finally

(7) restoring the state of our economic infrastructure to a sound level.

(Loud consultations and foot thumping)

Hon. Members: No reforms, no Budget! No reforms, no Budget!

Mr. Speaker: Order! Order, hon. Members! You are the owners of this House and the honourable Members of this House. The hon. Nthenge and hon. Shikuku have made a plea to this House which the Chair does agree with. I implore hon. Members in the name of the people of Kenya and in your own names as the hon. Members of this House, to keep some dignity about Business.

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

Mr. Speaker: Order! Order, hon. Murungi! Order means, "sit down".

Proceed, Minister!

POLICY FRAMEWORK AND STRATEGY

The Minister for Finance (Mr. Mudavadi): Mr. Speaker, Sir, let me now briefly discuss the policy framework and the strategy which the Government has adopted to deal with these challenges. The Government will endeavour to:-

(1) consolidate macro-economic stability;
(2) strengthen public sector finance management to achieve greater fiscal discipline;
(3) improve efficiency of the public sector;
(4) improve delivery of infrastructural services;
(5) accelerate privatisation/commercialisation;
(6) address social aspects of development through targeted poverty interventions;
(7) intensify the war against corruption; and
(8) remove unnecessary regulations.

This strategy is geared towards improving further the environment for private sector development.

As hon. Members will appreciate, it is important that the Government is seen to provide a clear and predictable policy direction.

Hon. Members: No reforms, no Budget! No reforms, no Budget!

(Mr. Ndwiga stood up in his place to display a placard)

Mr. Speaker: Order! Order, hon. Ndwiga! I do not think, that is the best thing for an hon. Member to do. By the way, I have been looking at that placard for half an hour, it has not turned me blue! So, you can keep it the whole day long, it does not bother me a bit. Can we have some form of order?

Proceed, Minister!

Hon. Members: No reforms, no Budget! No reforms, no Budget!

Mr. Speaker: Order, hon. Members! Even when you stand there and shout "points of order," when there is all that noise, how do you expect me to hear? If you want me to hear your point of order, first of all, keep order! Until that happens, I hear nothing!

The Minister for Finance (Mr. Mudavadi): Investors, both local and foreign, need to be assured that the reforms are not only irreversible, but will also continue in order to address new issues and obstacles as they emerge.

Mr. Speaker, Sir, due to the impact of unfavourable weather conditions in the first quarter of this calendar year, our objective is to sustain a growth rate of 4 per cent in 1997, rising to around 6 per cent in 1999; and to contain inflation within a single digit level. It is important to note that we have the potential to attain higher growth even in excess of 8 per cent provided strong reform measures are put into place to deal with challenges that I have just outlined.

Mr. Speaker, Sir, to achieve the growth targets we have set for ourselves, we need to increase investment from 20 per cent of GDP to 23 per cent by 1999 and domestic savings from about 16 per cent of GDP currently to around 19 per cent over the same period.

During the coming year, I intend to maintain a tight fiscal policy stance. This is important if we are to deal decisively with domestic debt overhang and high interest rates that have continued to haunt the economy.

Hon. Members: No reforms, no Budget! No reforms, no Budget!

Mr. Speaker: Order, Members! You are misdirecting whatever anger you have. If hon. Members want me to hear their points of order when they stand, they must make it possible for me to hear that there is a point of order. You do not assume that I will hear you in the middle of that tumult! I am sure, you are not hearing yourselves either! I think, we have heard enough of that! Can we now be back to business?

The Minister for Finance (Mr. Mudavadi): Mr. Speaker, Sir, during that---

Mr. Kiliku: On a point of order, Mr. Speaker, Sir. We are here as representatives of the people of this country. We are here as written there, "For the Welfare of the Society and Just Government of Men and Women."

Mr. Speaker, Sir, the demand for constitutional reforms has not started today even in this House. It has been a demand of this country for a long time. I am very much privileged to be speaking in the presence of the hon. Member of Parliament for Baringo Central who is also the Head of State. The demands of this country are more supreme than the demands of individuals. Therefore, I am asking the Chair to listen to adjourn the House for the welfare of this society, so that we can discuss constitutional reforms.

Hon. Members: No reforms, no Budget! No reforms, no Budget!

Mr. Speaker: Order! Hon. Members, we have to follow the rules of the House. The Order before the House now is under Standing Order No.136. The Constitution of this country, as it is now, and our Standing Orders, stipulate that the annual statement of account, as a Budget, must be presented before the 20th June, and the only day that is before 20th of June is today.

Hon. Members: No reforms, no Budget! No reforms, no Budget!

Mr. Speaker: Order, hon. Members! Why do you only want to hear one side of the House? All of you here, hon. Members, have sworn to uphold the Constitution, me included. The Constitution enjoins us to do what we are doing now. In any case, hon. Members, under Standing Order No.140, on a Committee of Ways and Means of the House, says:- "The Business of the House shall not be interrupted under any Standing Order." That is the rule.

So, can we proceed!

The Minister for Finance (Mr. Mudavadi): Mr. Speaker, Sir, during the coming year, I intend to maintain a tight fiscal policy stance. This is important if we are to deal decisively with domestic debt overhang and high interest rates that have continued to haunt the economy. I know this is a subject in which hon. Members have a keen interest. To reduce interest rates, it would be necessary for us, as a country, to tighten our belts. In this respect, the total Government expenditure will have to be constrained to around 26 per cent of GDP by 1999.

Mr. Speaker: Order! Mr. Murungi and Mr. Nyanja, you are warned. If you persist, I will see you out of this House!

The Minister for Finance (Mr. Mudavadi): With the expected net inflow of foreign financing, we hope to keep fresh Government borrowing from the domestic market---

(Mr. Nyanja stood up in his place)

Mr. Speaker: Order! Mr. Nyanja, by persisting to disobey the Chair, you will now be excluded from this Chamber under Standing Order No.88. You will now leave for the balance of today's sitting. You are now excluded from the proceedings! Mr. Nyanja, you are now a stranger in the House. You are not even entitled to the facilities of the House!

(Mr. Nyanja walked to the Table to take a glass of water)

Order! Order! On humanitarian grounds, I allow you to take the water and then after that you must leave!

Order! Mr. Nyanja, you are a stranger in this House. Could you, please, leave?

(Mr. Nyanja and Mr. Gatabaki displayed posters as Mr. Nyanja withdrew from the Chamber)

Mr. Speaker: Order! Mr. Gatabaki, you will also follow him! You must leave now! Mr. Gatabaki, if you think that is the best thing you can do, do it very quickly and leave!

Hon. Members: Take some water!

(Mr. Gatabaki withdrew from the Chamber after taking a glass of water)

Mr. Speaker: Proceed, Mr. Minister!

The Minister for Finance (Mr. Mudavadi): Mr. Speaker, Sir, with the expected net inflow of foreign financing, we hope to keep fresh Government borrowing from the domestic market to less than 2 per cent of GDP and reduce domestic debt from 20.7 per cent to 18.8 per cent. To help reduce domestic debt even further, the Government is planning to float a Eurobond in 1998, and use the proceeds to retire a chunk of the Treasury Bills. This will facilitate gradual reduction in interest rates which is needed to boost private sector investment.

Mr. Speaker, Sir, monetary policy will aim to maintain price stability during the year so as to facilitate sustained reduction in interest rates. Expansion in the money supply will be contained within the level consistent with the requirements of the economy. In line with this policy stance, Central Bank intervention in the foreign exchange market will be limited to smoothening out short-term fluctuations in the exchange rate. Details of monetary policy will be provided in the first Monetary Policy Paper to be issued by the Central Bank, which I will shortly lay before an appropriate Committee of this House in accordance with the recent amendments of the Central Bank of Kenya Act.

Mr. Speaker, Sir, hon. Members will,however, recall that the Central Bank Act was recently amended to restrict Government borrowing to 5 per cent of latest audited revenue receipts. The law also provides for conversion of the existing overdraft into marketable securities. In compliance with these provisions, 50 per cent of the

Government's overdraft, as at June 30, 1997, will be converted into Treasury Bonds while the balance will be converted into Treasury Bills, both of which the Central Bank can use for open market operations. These changes will require adjustments of both the Treasury and the Central Bank records. Accordingly, some adjustments are reflected in the Financial Statement.

Mr. Speaker, Sir, I now wish to deal with some of the sectoral policy reforms which we intend to implement.

As regards the financial sector, several resources will be taken to improve the money and capital markets to facilitate mobilization of financial resources. In this connection, the CMA, in collaboration with CBK, will develop and establish a central depository system for financial securities traded in the stock exchange. This will enhance security and encourage investment in long-term financial instruments. In addition, I will be proposing measures to increase the minimum share capital for commercial banks and other deposit taking financial institutions. This will be supplemented by strict enforcement of prudential regulations in order to ensure we have a healthy financial sector.

To promote risk capital, Venture Capital Funds will be encouraged. These are important vehicles for mobilizing the funds needed to finance expansion of productive capacity in small and medium size firms. In September, 1996, the first venture capital fund was licensed and launched. To underpin the development of Venture Capital Funds, I propose to introduce legislation, under the Income Tax Act, that will provide an appropriate regime for all qualifying venture capital companies.

Mr. Speaker, Sir, the performance of the three-year floating-interest bond and the one year floating rate Treasury Bond, recently issued by the East African Development Bank and the Government, respectively, have been very encouraging. The Government will continue to facilitate the promotion and further development of these medium-term financial instruments in order to mobilise the much needed finance for industrial expansion.

Hon. Members may be aware that the Capital Markets Authorities of the three East African Member States, have agreed on a cross-listing of companies in their respective stock markets. To facilitate listing and ensure quoted companies have the same features in all the three countries, the Capital Markets Authority, in consultation with Central Bank of Kenya, will initiate the process of independent rating of companies already quoted in the stock exchange markets of the three states and those intending to issue or float public debt. This will increase disclosure and thereby enhance security of investments. Today, I am proposing changes, under the Income Tax Act, that will encourage the process of rating.

To modernise and develop our capital markets further, there is need to inject new skills and technology, particularly in brokerage and fund management. These are important channels for foreign direct investments. They are also necessary for the development of retirement benefit schemes which we intend to promote once the Retirement Benefits Act is approved. We will, therefore, allow foreign brokerage and fund management firms to participate in this market provided they do so through locally registered companies in which there is local beneficial ownership of at least: (a) 30 per cent in the case of fund management firms, and (b) 51 per cent in the case of brokerage firms. The Capital Markets Authority will work out the necessary regulations.

(Chaos ensued as some hon. Members tried to remove the Mace while others restrained them)

(Loud consultations)

Mr. Speaker: Order! Order, hon. Shikuku! Order! Order! Nani ametoa hii! Haina sauti! Order! Order, now! Order, hon. Mbeo! Hon. Gitau, Order!

The following hon. Members, for attempting to deface the authority of this House, will be forcefully removed from this House. Hon. Paul Muite, hon. Gitau and hon. Mbeo. The three hon. Members, for attempting to deface the authority of this Parliament, the Mace, will be removed from the Chamber, and if they will not go on their own volition, I will ask the Sergeant-at-Arms to remove them.

But before they go---

(Mr. Orengo stood up in his place)

Mr. Mbeo: I was not even there, Mr. Speaker, Sir!

Mr. Speaker: Sit down! Hon. Orengo, Order! Will you, please, leave, hon. Muite? When hon. Muite leaves, will hon. Gitau leave? Hon. Gitau, if you do not leave, I will invite the Sergeant-at-Arms to forcefully remove you!

Order! I wish to bring to the attention of the House, the fact that force is about to be used to evict an hon.

Member. Now, for the last time, will hon. Muite leave? Will hon. Mbeo and the rest leave? You can leave the Mace now!

Hon. Members, I wish to say this---

An hon. Member: The Sergeant-at-Arm's people should leave!

Mr. Speaker: Order! They are at my service! They are my officers, at my service.

Hon. Members, the Mace is a symbol of the authority of this House. It is one thing to seek reforms and another to seek rebellion. I wish to say this from this Chair: As the Speaker of this House, I expect hon. Members to respect Parliament, the authority of this House and themselves. You may want to do anything, but even the reforms that you are talking about; how do you do them without order and Parliament?

Mr. Muite: No reforms, no Budget! No reforms, no Budget!

Mr. Speaker: Hon. Members, can we now be honourable? It does not pay! We have already shown a very terrible example.

(Messrs. Muite and Gitau withdrew from the Chamber)

Anyway, proceed, hon. Mudavadi!

The Minister for Finance (Mr. Mudavadi): Mr. Speaker, Sir, let me at this juncture, take this opportunity to allay the fears raised in connection with the Retirement Benefits Bill. The regulatory authority which we are proposing to establish will only endeavour to monitor rather than control or administer the retirement schemes. The Authority will only step in when a scheme moves outside the prescribed bounds.

Mr. Speaker, Sir, let me now turn to the agricultural sector. Agriculture remains the backbone of our economy. To achieve meaningful reduction in poverty and ensure we have enough food to feed our people and also support our industrialisation strategy, this sector has to be attended to and adequately provided for in our Budget. For these reasons, attention will be given to the improvement of physical infrastructure and programmes that will support the growth of this sector. Accordingly, in the development budget, the Ministry of Agriculture, Livestock Development and Marketing has been allocated K£171.4 million or 7.3 per cent of the development budget. Of this allocation, some K£33 million is earmarked for the agricultural and livestock extension services, K£15 million is for the horticulture export programme and K£8 million is for soil conservation. There are also allocations in other votes which will benefit farmers directly. These include K£28.4 million for agriculture and livestock research through the Kenya Agricultural Research Institute (KARI). Some K£40.1 million has been allocated under the Road Maintenance Levy and K£18.5 million under the Stabex for funding the rural access roads. Under the energy sector, rural electrification, covering mainly coffee and other rural factories, has been given additional provisions.

Related to agricultural sector reforms, is the co-operative movement which is an important component of our economy. Currently, this movement has 7,356 societies with 2.5 million members, controlling assets amounting to about Kshs21 billion, and the size of the movement is growing rapidly. The Government will initiate reforms to establish a new role which will be distinctly different from the paternalistic approach of the past. Reforms anticipated in 1997/98 will seek to reduce Government involvement in day-to-day operations of the societies, liberalise the co-operative movement, enhance its efficiency in delivery of services to the members, facilitate the movement to consolidate its current activities to be more competitive in agricultural production, and marketing and finally, improve its competitiveness in harnessing savings through Savings and Credit Societies. The appropriate Bill has been tabled before this House. I invite hon. Members to give the Bill the seriousness it deserves.

Mr. Speaker, Sir, without an efficient and effective telecommunications sector, the impact of the other reforms we are taking will be limited. Efficient telecommunications services will enable local businesses to compete in the global market place. To improve these services, the Government has decided to open 30 per cent of Telcom Kenya to private capital through either---

Hon. Members: No reforms, no Budget! No reforms, no Budget!

Mr. Speaker: Order! Order now! There are some hon. Members who would like to hear the Minister. Will those who want to hear him, hear him?

Proceed, hon. Mudavadi!

The Minister for Finance (Mr. Mudavadi): To improve these services, the Government has decided to open 30 per cent of Telcom Kenya to private capital through either flotation of its shares on the Nairobi Stock Exchange and/or invitation of a strategic partner to participate in the new company. In addition, a second cellular operator will be licensed by end of November, 1997.

Mr. Speaker, Sir, the continued deterioration in the financial performance of the Kenya Railways and its services is a cause of grave concern. To address this problem, the Government will open up the railways to private sector participation through privatisation or concessioning, that is, limiting Kenya Railways's involvement to owning and regulating lines while leasing locomotives to the private sector operators. The management of Kenya Railways will be required to develop, by the end of 1997, a specific programme to increase private sector involvement.

Mr. Speaker, Sir, in the cereals sector, the Government recently adopted the operating rules to effect the commercialisation of the National Cereals and Produce Board (NCPB). Preparation of the draft amendments to the NCPB Act to bring the legislation in line with the Board's new role, is at an advanced stage. For the reminder of 1997, work will proceed to effect the financial restructuring of NCPB and complete the commercialisation of its operations.

Mr. Speaker, Sir, the road network continues to impose unnecessary costs on the economy, which seriously affects productivity. A plan to address the activities to be financed by the Road Maintenance Levy has already been approved. However, funds generated from this Levy have not been sufficient to fully finance the maintenance programmes of our road network. It is, therefore, necessary to progressively raise the levy rate, in order to increase the funding to a more appropriate level. In addition, the Government will review the existing institutional framework for road management to achieve effective management and accountability of these funds.

Mr. Speaker, Sir, local authorities have not been given much emphasis in the past, in spite of the fact that they provide basic services which affect the operations of businesses and attraction of new investments. However, it is now clear to most Kenyans that the majority of local authorities are not performing. Garbage remains uncollected, roads are in bad shape, water and sewerage services are inadequate, while regulatory services remain unenforced exposing residents to the dangers of poorly designed structures. This deterioration must be reversed and services improved.

To address this problem, the Government, through the Kenya Local Government Reform Programme and the Kenya Urban Transport Infrastructure Project (KUTIP), has established two reform vehicles. These reforms will address the following issues: Revenue mobilisation, eliminating inefficient expenditure practices, rationalising staff, updating and auditing accounts, rehabilitating infrastructure and development of human capacity.

To supplement these efforts, I am proposing amendments to the Road Levy Fund Act to allocate part of the funds for maintenance of roads under the Local Authority jurisdiction. An Inter-Ministerial Committee, chaired by the Ministry of Local Government will be established to prepare modalities, rules and regulations of operating these funds.

Mr. Speaker, Sir, I will be announcing later, other measures to supplement local authorities, resources. Needless to say, urgent efforts are required to raise and efficiently utilise these resources. One key concern is the poor state of accounts. Hon. Members should note that some local authorities have not prepared books of account for over 20 years. Consequently, they have also not been audited. My Ministry has drawn the attention of the Controller and Auditor-General to this matter, and remedial action is being taken. Another area of fiscal responsibility that needs addressing is the failure by many local authorities to service loans provided by, or guaranteed by the Government. The burden has effectively been passed on to the Treasury and ultimately, to the taxpayers. As we enhance revenues for local authorities, they too must appreciate and honour their financial obligations.

Consequently, I am proposing measures under the Local Government Act, that will enable the Government to appoint agents to collect services charges consumed, so that these debts can be serviced. Effective collection of charges is critical to local authorities establishing in their credit worthiness to finance infrastructural developments, particularly water supply.

Mr. Speaker, Sir, let me now turn to trade reforms. Over the years the Government has continued to institute measures to promote exports as the pillar of our growth strategy. The reforms we have put in place over the last three years, have helped the export industry as local producers have had access to raw materials at low rates of duties and taxes. These measures, in conjunction with our macro-economic reforms, have generally boosted exports.

Mr. Speaker, Sir, one of the incentives in place to promote exports is the Duty/VAT Remission under the EPPO Programme.

(The Minister for Finance continued reading
the Budget Speech amid shouts and
foot thumping by Opposition Members)

Although the programme has been relatively successful, I consistently receive some claims from its users. The major complaints arise from the late verification which force exporters to retain Custom Bonds for longer periods than is necessary and also delayed Bond presentations once verifications are completed. To speed up processing of bonds verifications and cancellation, the EPPO programme, I have decided to transfer this responsibility to a special unit in the Customs and Excise Department with immediate effect. The approval for exemption will largely remain with the Ministry of Finance.

Mr. Speaker, Sir, we have received complaints regarding some shipment of goods which are described as exports originating from Kenya. The consequences of this can be disastrous to our development efforts. Our textile industry has been a victim of this transhipment problem which made the United States to impose quotas on Kenyan textile exports. We hope the American Government will reconsider this decision soon. In the meantime, to deal with this transhipment problem, I am today proposing measures which will make it illegal for a person to bring goods into Kenya, label or re-pack them and subsequently re-export them as Kenyan made. Customs and Excise officials are under instructions to ensure that all goods shipped as Kenyan made meets the necessary domestic content requirements under the rules of origin. Goods misdeclared be declared as originating from Kenya will be subject to Custom penalties including seizure.

Mr. Speaker, Sir, there has also been a general feeling that our liberal trade policy has resulted in increased imports and weakened our economy. To address this concern, I am proposing an amendment to the provisions of the Customs and Excise Act that relate to anti-dumping. The new legislation will clearly define how to determine dumping margins and export subsidies and the circumstances under which an investigation can be initiated. Detailed regulations will be issued later. The basic objective of these provisions will be to ensure that legitimate protection is granted to local industry suffering injury by imposing additional duty to the extent of dumping margins or subsidies following appropriate investigations. This will ensure that imports are not sold at artificially low prices. In the course of this Fiscal Year, we will also prepare legislation on safeguards which should complement these provisions.

Mr. Speaker, Sir, diversion of transit goods to the domestic market has of late become a serious problem. Diverted transit goods are harmful to the country, because the country is denied the right to tax revenue. Secondly, it subjects domestic industry to unfair competition as imports sell at artificially low prices. The sugar industry has in particular, suffered greatly been affected as a result of this diversion. While we have already taken measures to deal with this problem, I will later be proposing additional measures to tighten controls on transit cargo. In similar vein, the three East African countries have agreed to harmonise tax procedures and administration in order to improve compliance and eliminate diversion of transit goods. In the coming year, the three countries are expected to adopt a common transit bond which will specify the address, physical abode of the importer and common anti-smuggling mechanism. Other measures include exchange of information on pre-shipment inspection and transit goods and a common ratio of value for pre-shipment inspection at $2,000. However, the long term solution is harmonisation custom duties and procedures together with the electronic data in Kenya. The three Governments have started work towards this harmonisation.

Mr. Speaker, Sir, as regards public expenditure, the Government has just concluded a comprehensive review of public expenditures. The review focused on assessing appropriateness and composition of public expenditures, has confirmed that in certain instances, allocation of our financial resources has neither effectively reflected our priorities nor adequately promoted growth. Moreover, no new projects are introduced, even when available resources are not adequate to fund on-going projects fully, while provisions for operations and maintenance have been insufficient. The end result of this has been an accumulation of large stock of incomplete or non-performing projects, pending bills and deterioration of public infrastructure. This is costly to the economy. In line with the findings of this review, and given our financial position and the state of our infrastructure, the Government will improve on its expenditure programme, giving priority to operations and maintenance and on-going projects that will facilitate private sector development and reduce poverty. No new major projects will be initiated in the fiscal year 1997/98. This position will continue in the next two financial years, after which it will be reviewed.

Mr. Speaker, Sir, the Civil Service Reform Programme will enter a new phase in the coming year. It will build on the gains that I have already outlined. The programme will focus more on measures that will improve productivity and progression on the part of the public. This will have to be done in the context of a Government-wide approach. Accordingly, the first step will be the development of a payroll adjustment plan by the end of 1997. The programme will detail how the Government can achieve wage improvement over a three year period, while constraining the wage bill to manageable levels consistent with our macro-economic framework. The Government will be seeking donor support to assist in financing costs of this adjustment effort both at Central Government and Local Authority levels.

Mr. Speaker, Sir, following the liberalisation of our economy, it has become clear that our cash-based accounting and financial reporting system does not adequately meet present day management and user requirements. For instance, the system does not provide for asset accounting and neither does it provide for maintenance of the systems for measuring performance against the systems. For this reason, the Government will establish accounting and financial systems considered appropriate to Kenya. Similarly, the Government will review laws relating to preparation of accounts together with the institutional arrangements and consider the necessary modifications to make them more suitable to present needs and operations. This is necessary in order to ensure that the Government focuses more appropriately on expenditures and available resources while encouraging greater financial discipline to maximise out-puts and achieve objectives.

Mr. Speaker, Sir, I now wish to briefly go over the financial out-turn for the financial year ending 30th June, 1997. Our financial performance in 1996/97 financial year has been marked by two different developments. Firstly, the domestic interest rates remained high throughout the year, contrary to earlier expectations. Secondly, the Government had to incur priority supplementary expenditures for the importation of famine relief maize. I also had to finance increases in salaries and allowances for the armed forces and foreign services allowances. In addition, I had to finance voter-registration and security expenses. Though revenues are expected to be in line with the budget estimates, it was not possible to raise additional revenue to cover these supplementary expenditures. Moreover, there was also a substantial shortfall in external receipts, mainly because funds expected from the Structural Adjustment Credit could not be disbursed during this financial year.

To contain the budget deficit, we had to enforce strict expenditure controls during the year. As hon. Members will recollect, the recent Supplementary Appropriation Bill authorized additional expenditures of K£287.5 million. Out of this amount K£52.9 million was re-allocated from other areas with a net increase of K£224.5 million over the budgeted recurrent expenditures. As a result, I now expect the net recurrent issues for the year to be about K£4,372.8 million compared to the Printed Estimates of K£4,148.3 million including Appropriations-in-Aid. Growth recurrent expenditures will be K£4,743.7 million. Payment under the Consolidated Fund Services will increase to K£2,017 million compared to the budgeted amount of K£1,642.9 mainly due to higher than planned domestic interest payments. Consequently, I expect gross recurrent expenditures for the year to be K£6,760.7 million compared with expected---

(Shouts and foot thumping persisted on the Opposition side)

Prof. Mzee: Wewe! Wewe!

Mr. Speaker: Order! Order, Prof. Mzee! Order, Order, Mr. Icharia! Order, Mr. Mak'Onyango! Order, hon. Members!

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

Mr. Speaker: I beseech you, Mr. Ruhiu. Quite frankly, if there is one Member whom I do not want to upset in this House, it is you, taking into account your condition. I think it is in your own interest that you keep your temperature down. Whatever you do, I will not expel you. That you can take for granted.

(Several Members grabbed the Mace and commotion ensued)

(The Mace was put back in its place)

I do not want hon. Members to do what they were not elected to come and do. I am sure hon. Members were not elected to come and fight in this House. They were elected to come and reason. Please, can we do exactly that?

The Minister for Finance (Mr. Mudavadi): Consequently, I expect recurrent expenditures for the year---

Prof. Mzee: But this is a question of security?

Mr. Speaker: Order! All Members have their security guaranteed except--- You have taken away my voice! As I said, I am paid to keep talking, including losing my voice.

Proceed, Minister!

The Minister for Finance (Mr. Mudavadi): Consequently, I expect those expenditures for the year to be K£6,760.7 million, compared with expected total recurrent revenue and Appropriations-in-Aid of K£7,756.7 million resulting in a net surplus balance of K£996 million.

Mr. Speaker, Sir, during the current financial year, net development expenditure authorizations increased by K£159.6 million. This was mainly accounted for by the additional expenditures for financing purchase and distribution of maize seeds for drought stricken areas, purchase of lorries to distribute relief food and additional provision for clearing some of the pending bills. Part of this increase was financed by savings from other areas in the development vote amounting to K£71.6 million, resulting in a net supplementary vote of K£87.9 million. I therefore expect net development issues to be K£1,0017.5 million compared to a budget of K£929.6 million. In addition, I have to finance excess votes amounting to K£26.1 million pertaining to 1990/91 and 1991/92 fiscal years.

Mr. Speaker, Sir, I now turn my focus to 1997/98 fiscal year. When planning for the expenditure levels for 1997/98, I had to take into account two very important factors. These are the prevailing large domestic debts and high interest rates and slow down in the phase of economic activity, during the first quarter of 1997 which reduces the amount of revenue that I can mobilise to finance the expenditure. For this reason, I recognise the need---

Mrs. Ngilu: On a point of order, Mr. Speaker, Sir. I came here because I wanted to listen to the Budget. The message has been given. Today is a sad day for this country.

Mr. Speaker: What is your point of order?

Mrs. Ngilu: Mr. Speaker, Sir, all Members in this House have been elected by their electorate to come and dialogue here but not to shout. It is very clear that the Government of the day has lost direction. It also shows that it has lost control.

Mr. Speaker: Very well, you have made your point. Order! Order, Mrs. Ngilu! Will you sit down?

(Mrs. Ngilu continued standing in her place.)

Mrs. Ngilu, you must obey the House. Order! Mrs. Ngilu, I would not like to take drastic action against you. Will you sit down? In any case, you are wasting your own time. That issue is closed!

Proceed, Mr. Minister!

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

Mr. Speaker: Order! Order, Professor! Professor Mzee, you will now leave! You must now leave! You are now a stranger in the House. Leave now!

Proceed!

Prof. Mzee: KANU A! KANU B! No reforms, no Budget! No reforms, no Budget!

(Prof. Mzee withdrew from the Chamber amid shouts)

Hon. Members: KANU A, KANU B! No reform, no Budget!

FORECAST OUT-TURN FOR 1997/98

The Minister for Finance (Mr. Mudavadi): Mr. Speaker, Sir, I now turn to my forecast out-turn for 1997/98.

EXPENDITURE

When planning for the expenditure levels for 1997/98, I had to take into account two very important factors. These are, the prevailing large domestic debt and high interest rates and the slow-down in the pace of economic activity, during the first quarter of 1997, which reduces the amount of revenues I can mobilise to finance expenditures. However, it will be necessary to promote real savings in the public sector so that domestic debt can be reduced and interest rates brought down. It is in this context, that the Government will aim for a budget surplus in the medium-term. Savings must also be realised within the parastatals and other public institutions which depend on the national Budget. These measures will help the economy attain higher growth rates.

Mr. Speaker, Sir, it is important that the Government achieves a substantial real reduction in expenditures as the current high level of 28 per cent of GDP, is not sustainable. This is an important medium-term economic management challenge which must be met so that the economy can take full advantage of the reform measures already in place.

In the 1997/98 Budget, I intend to maintain the overall deficit, excluding grants, but on a commitment basis, at around 1.7 per cent of GDP while ensuring that the allocations will achieve our overall objective of economic growth with social justice. This requires a major reallocation of public expenditure so as to concentrate them on improving and maintaining physical infrastructure, security, social services, primary education, basic and preventive health care and rural water supply. Other claims on our resources will have to be given less priority. In view of the changing pattern of our public expenditures, it will be necessary for each spending agency to carefully plan and prioritize their expenditure requirements.

Mr. Speaker, Sir, while the proposals I am submitting today reflect some significant changes in expenditure priorities, I must hasten to add that the desired changes cannot be brought about in one year. However, we have clear directions for change arising from the recent Public Expenditure Review together with the Policy Framework Paper. As for the 1997/98 Budget, I must finance some extraordinary expenditure requirements such as expenditures for elections, salary increases for civil servants, the police and the prison services, teachers and university lecturers and payments for famine relief maize. These expenditures require a total of K£365 million which will entail sacrifices elsewhere in the Budget.

RECURRENT EXPENDITURE

Mr. Speaker, payments for Consolidated Fund Services will amount to K£3,237.1 million in 1997/98, of which K£1,072.2 million is accounted for by redemption payments on external loans. Foreign interest payments are projected to cost K£455.6 million. Domestic interest payments will amount to K£1,078.4 million which is about 9 per cent lower than payments for the current year. This reflects the anticipated gradual decline in domestic interest rates.

Recurrent expenditures for Ministries will amount to K£5,344.5 million, of which K£414.9 million will be financed by Appropriations-in-Aid. Non-wage operating expenses in the recurrent vote will increase by 15.3 per cent from the current level of K£1,890.4 million reflecting Government policy of increasing allocations for operations and maintenance. The Government will also continue to implement the on-going Voluntary Early Retirement Programme as an important component of the Civil Service Reform Programme for which K£50 million has been allocated.

[Mr. Speaker left the Chair]

[Mr. Deputy Speaker took the Chair]

Mr. Deputy Speaker, Sir, I would like to highlight some of the more important allocations in the recurrent Budget that will contribute to our objective growth with social justice. The Budget proposals reflect substantial allocations for rebuilding our fiscal infrastructure particularly the road network. The allocation for road maintenance and improvement projects the Road Maintenance Levy will be increased by 28 per cent to K£204.25 million. In addition, a part of this levy is being earmarked specifically to improve roads under the local authorities. These efforts will supplement other infrastructure projects included in the development Budget to create an impact on the condition of our road network.

Mr. Deputy Speaker, Sir, recurrent expenditures include an allocation of about K£331.4 million spread over a number of Ministries for broad-based programmes that will directly benefit the poor. In the education sector, K£30 million has been allocated for school milk and feeding programmes, provision for books and equipment to the disadvantaged areas. This represents an increase of 25 per cent over this year's level. Funding for the secondary school bursary programme has been increased to K£25 million. Allocations have also been made for special programmes implemented by the Ministry of Education to address the problem of the declining primary school enrolment. In the health sector, the operating funds allocated to preventive and rural health services will increase by 8 per cent. I have also allocated K£26.7 million for improved maintenance of water projects in rural areas and K£40 million for rural access roads in order to accelerate development of rural Kenya where the majority of our people live.

[Mr. Deputy Speaker left the Chair]

[Mr. Speaker resumed the Chair]

Mr. Speaker, Sir, we are giving high priority to food security for the vulnerable sections of our population. In this regard, K£50 million has been set aside.

DEVELOPMENT EXPENDITURE

Mr. Speaker, Sir, the 1997/98 Development Estimates amount to K£2,355.5 million, out of which K£1,361.5 will be financed by Appropriations-in-Aid for projects and programmes supported by multi-lateral and bilateral donors.

The development budget also includes substantial allocations for physical infrastructure. A total investment of K£272.0 million has been earmarked in the Budget for improvements and expansion of the road network, financed by the Government and donors. Some of the major projects which will start next fiscal year, include the Nairobi-Mombasa road rehabilitation project with an allocation of K£33.5 million and the on-going Kenya Urban Transport Infrastructure Project with an allocation of K£38.7 million.

Mr. Speaker, Sir, I must also mention the planned public sector investments in the energy sector which will improve power supply within the next three years. An initial allocation of K£40 million has been earmarked in the development Budget to start implementing the energy sector programme. This is in addition to the investments programmed under the Kenya Power Company Limited together with the private sector. These investments should increase both the availability and reliability of our power supply.

The development Budget also contains K£13 million earmarked for food assistance to primary and pre-primary school children in arid areas, and K£10 million for the National Women Development Programme. In addition, an amount of K£15.2 million has been set aside for implementing special programmes for arid areas.

Mr. Speaker, Sir, I would like to take this opportunity to highlight two significant developments that will influence the management of our economic affairs in the next three years. First, is the updated Policy Framework Paper which the Government has prepared covering the period 1997 - 1999. This will provide firm direction for economic management over the next three years. Second, with broad agreement and the active support of a large number of donors, we hope to secure additional funding for general Budget support which we intend to use to reduce our domestic debt.

EXTERNAL FINANCING

Mr. Speaker, we have continued to maintain good relations with the donor community. The Government is particularly grateful to the donors who supported us during the recent drought. However, during the closing fiscal year, due to a variety of reasons, external financing is likely to result in a net outflow of some K£138.7 million. For 1997/98, I expect a net inflow of foreign financing of about K£88.3 million based on the existing commitments.

DOMESTIC BORROWING

Mr. Speaker, Sir, I have already appraised the House on the tight fiscal and monetary policies the Government intends to maintain over the next fiscal year. I have also indicated that I intend to keep government domestic borrowing below 2 per cent of GDP. These measures are consistent with the policy of maintaining single-digit inflation. In view of this, net domestic borrowing will be limited to K£22.1.1 million.

ORDINARY REVENUE

Mr. Speaker, Sir, to finance the planned expenditure programme for 1997/99, I will need to raise K£7,994.2 million in ordinary revenue and K£583.3 million in Appropriations-in-Aid. At current tax rates, I expect---

Mr. Speaker: Order! Can I have the microphones switched on.

Proceed, Minister.

The Minister for Finance (Mr. Mudavadi): Mr. Speaker, Sir, at current tax rates, I expect to raise K£7,970.8 million in ordinary revenue. This leaves me with a gap of K£23.4 million. The rest of my speech will outline how I intend to close this gap.

ORDINARY REVENUE

Mr. Speaker, Sir, before I turn to my detailed taxation proposals, allow me to make a few observations. The major world economies have in the context of restructuring these budgets substantially reduced their budgetary allocations to international or multilateral organisations and also for bilateral aid. Therefore, as we go into the new millennium, aid will increasingly be replaced by foreign direct investments. I must emphasise here that experience shows that foreign direct investments can only flow to countries with sound political stability and low taxation.

Mr. Speaker, Sir, last year, I promised to ease the tax burden as the economy stabilises. Although the drought conditions have affected revenue flows for the 1996/97 financial year, I intend to live up to this commitment. I expect the ratio of ordinary revenue to GDP to decline from 28 per cent in 1995/96 to around 26 per cent in 1996/97 and 25 per cent in 1997/98. This will enable the private sector retain more resources for investment and job creation. In order to encourage this process, I will continue to lower the marginal rates, broaden the tax base and restructure the tax rates.

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

Mr. Speaker, Sir, let me briefly deal with technical matters and subsequently turn to measures that have revenue implications.

1. KENYA REVENUE AUTHORITY ACT

First, to enhance sufficiency in the Kenya Revenue Authority, it has become necessary to better define the functional responsibilities in the Authority. It is also necessary to define the role of the Board in matters that may require its intervention in operations of specific departments. Technical issues arising in the administration of each of the tax laws need to be specifically dealt with within that particular law. The specified legal responsibilities should, therefore, remain with the individual Commissioner responsible under that particular Act. For these reasons, I propose to amend sections 11 and 23 of the Kenya Revenue Authority Act to make it clear, that (1) the Commissioner-General's responsibility include general supervision of the Commissioners; and (2) the functional responsibilities of specified Commissioners under the respective acts, shall remain delegated to individual Commissioners.

Second, detection of tax frauds can be greatly assisted by intelligence supplied by the public. To encourage greater co-operation, I propose to amend the KRA Act to provide for rewards for correct identification of tax fraud cases by members of the public. Such information will be treated with strict confidentiality.

2. CUSTOMS AND EXCISE ACT

Mr. Speaker, Sir, I now turn to measurers under the Customs and Excise Act.

First, the cargo controls system being implemented by the Kenya Revenue Authority in collaboration with the Kenya Ports Authority has progressed well. To improve this system further, I propose to make changes which will facilitate the electronic submission of documents.

Second, following the recent extension of Pre-Shipment Inspection Services through 1999, the minimum value for inspection has been raised to US$2,000. Import Declaration Forms will still be required for goods below this threshold. Customs verifications, audit and reconciliation will be tightened to detect those who may be tempted to split shipments to avoid inspection or misdeclare goods with the intention of avoiding payment of correct duties and taxes.

Third, local businesses, particularly industries which have made strong representations for the need to relax PSI requirements on urgently needed spare parts and essential imports which are airlifted through courier services. To speed up these deliveries, I propose to raise the value of airlifted goods, not subject to PSI, to a maximum of US$10,000. This facility will not be open to final consumer goods. Furthermore, any courier company committing irregularities in this facility will be excluded from the facility forthwith and all its parcels subject to all import formalities.

Fourth, as Hon. Members are aware, problems associated with transit cargo have of late intensified. While the Government has already taken some control measures to deal with this problem, I am proposing the following additional measures:

(i) with immediate effect, every agent handling transit cargo will be required to account for such goods within seven days after the end of the transit period;

(ii) the transit period will be reduced from 45 to 30 days;

(iii) a credibility assessment will be conducted on senior management and directors of clearing and forwarding firms to ensure they have clean records with the Customs and Excise Department before they are licensed;

(iv) if goods are not accounted for within the transit period, the Commissioner will realise the bond security within fourteen days;

(v) penalties under section 12 of the Act will be enhanced to Kshs500,000 or to imprisonment for a term not exceeding three years. The offender will remain liable to a fine of upto three times the value of the goods under section 195(2) of the Act;

(vi) any vehicle used to convey transit goods anywhere else other than to a licensed transit bonded warehouse or to the final destinations will be liable to forfeiture; and

(vii) finally, petroleum products will be exported in licensed vehicles which must be clearly marked in oil paint with the words "for export only".

Fifth, section 20 of the Act requires, as a master or agent, to file a report within 24 hours of arrival of the aircraft or vessel. This report is usually in hard copy. I propose to amend the relevant regulations to make it possible for documents to be filed electronically provided a hard copy of the same is submitted to Customs within 24 hours of arrival. This will pave the way for faster clearance of cargo through our ports.

Sixth, Mr. Speaker, Sir, hon. Members would recall, last year this House passed an amendment to section 34 of the Act to make forfeiture mandatory for goods not entered and delivered from customs within 21 days. A number of genuine cases have been brought to my attention such as where (i) goods are not entered due to mistakes of either the exporter or the shipping agent resulting in wrong names or description of goods appearing in shipping documents; or (ii) the importer falls sick or dies before the goods arrive. In all these circumstances, the goods cannot be cleared within the specified period. I propose to amend the law to provide for release of such goods to the owners, provided the Commissioner is satisfied that failure to remove the goods was due to physical impediments beyond the control of the importer. In all cases, appropriate duties and taxes will remain payable.

Seventh, as explained earlier, I propose to repeal section 125 of the Act and insert a new section that will provide for imposition of anti-dumping duties and the necessary modalities to be followed. Similarly, I propose to repeal section 126 and replace it with a new section that defines dumping and provides details of what constitutes dumping.

Eighth, section 139 of the Act allows remission of duty on spirits delivered from a distillery or warehouses for use in the fortification of wine or in industry. However, it excludes spirits used in the manufacture of alcoholic beverages. I propose to amend the law to allow remission of duty on such spirits provided they are delivered for the manufacture of excisable goods.

Ninth, currently, section 158B of the Act provides for waiver of duties where the Commissioner is of the opinion that attempts to collect such duties would be too expensive or difficult to enforce, but this provision does not include penalties. This is anomalous in that, if the principal amount cannot be collected, it is also unlikely that the penalty can be collected. It is also inconsistent with the other two revenue Collection Acts, i.e., Income Tax and VAT Acts, both of which allow for waiver of penalties in addition to the principal tax. To remove this anomaly and harmonise the three revenue Acts, I propose to amend section 158B and provide for waiver of penalties, provided the Commissioner will only waive up to Kshs100,000 in any one case. Where the penalties exceed this amount, it will be referred to the Minister for approval. This limit will apply to revenue Commissioners. In addition, the Commissioners will be required to make quarterly reports to the Minister on amounts waived.

Tenth, item 27 of Third Schedule Part A allows returning Kenyan diplomatic personnel to import, free of duty, vehicles which they owned while in overseas service. However, the law is silent on the period within which the vehicle has to be imported. This is inconsistent with similar provisions regarding other categories of privileged persons who are required to import their vehicles within three months of arrival or such longer period, not exceeding 360 days, as the Commissioner may allow. I propose to amend the law to remove this anomaly.

Eleventh, item 1 of Part B of the Third Schedule, allows scheduled airlines to import specialized equipment duty free. In practice, airlines contract services to local firms. I propose to amend the law to allow such firms to import, free of duty, specialized equipment for loading and off-loading, servicing and maintenance of aircrafts, provided the equipments remain within the international airports at all times.

Mr. Speaker, Sir, I now turn to customs proposals that have direct revenue consequences.

First, the tariff structure will be rationalized down to three positive duty rates, namely, 5 per cent, 15 per cent and 25 per cent. This will be achieved by reducing the 35 per cent rate to 25 per cent. Hon. Members may be aware that last week, Uganda reduced her top import duty rate to 20 per cent.

Second, to reduce the costs of industrial inputs, most industrial intermediate inputs in the 25 per cent tariff band will be reduced to 15 per cent and a few basic raw materials in the 15 per cent rate band will be reduced to 5 per cent. In cases where domestic producers will require some assistance as they adjust, I propose to provide temporary protection through the imposition of additional suspended duties of 5 per cent to 10 per cent. This will apply to certain products, including paper and paperboard, flat rolled iron and steel, resin, yarn, cars, minibuses, pickups, tyres and dry cells. To assist the local printing and packaging industry, the import duty on a number of categories of unprinted plastic sheets, films and foils will be reduced to 15 per cent, while the printed versions will remains in the 25 per cent tariff band. With the reduction of top rate duty to 25 per cent, the need to keep final goods in bonded warehouses is substantially reduced. I will, therefore, exclude a number of final goods from customs bonds.

Third, Mr. Speaker, Sir, declines in world prices of major agricultural commodities continue, from time to time to cause difficulties to our farmers. While the regular import duty rates for milk, rice, sugar and wheat will all be in the 25 per cent rate band along with the equivalent alternative specific duty rates, I propose to provide suspended duties of 70 per cent that will allow for quick imposition of higher duties in the event of major down swings in the world prices of the prices of these commodities. For the same reasons, I propose to impose a 10 per cent suspended duty on imports of apples, pears, grapes and oranges.

Fourth, to reduce the energy costs, import duty rates on heavy diesel and residual fuel oil will be lowered by Kshs1 and Kshs0.2 per litre, respectively. This will give local industries a substantial reduction in their energy costs. I am also proposing to lower the current suspended duty rate of Kshs0.5 per litre on selected fine products by 50 per cent, but expand the protection of the refinery by including automotive diesel under the suspended duty.

Fifth, duty exempt motor vehicles are not only a source of revenue loss, but also consume excessive amounts of administrative time. To defray the costs of screening and processing applications for duty waiver, I am proposing a processing fee of Kshs10,000 per duty exempt vehicle.

The measures proposed under import duties will cost the Exchequer K£59.5 million in revenue loss, and will come into effect from midnight tonight.

3. EXCISE DUTIES

Mr. Speaker, Sir, the excise duty has continued to contribute a significant share of government revenue over the last five years, as a result of the rationalization of the structure of indirect taxes. The measures that I propose today will continue this process on selected goods.

First, to simplify the collection of domestic excise, and prevent mis-declaration of imported cigarettes, I am proposing to rationalize excise duty rates on cigarettes to a uniform rate of 135 per cent.

Second, in order to reduce the movement away from high value to low alcoholic beverages, I propose to reduce the duty difference between the two items. Excise duty on malt beers will be reduced from 5 per cent to 100 per cent, while excise duty on non-malt beers and stout will be increased by 5 per cent to 60 per cent. The 60 per cent will also apply to other fermented beverages. In addition, excise duty on opaque beer will also be increased by 5 per cent to 15 per cent. This excise duty will also apply to powder beer.

Third, compliance problems have been experienced in the collection of excise duties from imported matches. To improve the competitive market position of local manufacturers, I am proposing to eliminate excise duty on matches.

Fourth, I propose to rationalize excise duty on passenger motor-cars by lowering the rate on vehicles with an engine capacity of between 1,800 cc and 2,000 cc from 20 per cent to 10 per cent. For vehicles with an engine capacity between 2,500 and 3,000 cc excise duty will be reduced from 40 per cent to 20 per cent. Other rates will remain unchanged.

Fifth, double-cab and king-cab pick-ups are classified under the Harmonized Code as passenger cars. As a result, these goods carrying vehicles with large engine capacities have been subject to excise duty like large luxury cars. I propose to introduce new classification codes for pick-ups and remove excise duty.

Finally, petroleum products are generally subject to specific duty rates. This requires occasional increases in the duty rates to maintain the revenue yields. Accordingly, I propose to raise the excise duty rates on petrol and automotive diesel by Kshs1.05 per litre. To prevent unintended diversion of demand to kerosene, I am obliged to increase the excise duty rate by Kshs0.85 per litre. The prices in these products shall be only half the average rate of inflation. The measures proposed under the excise duties will have a net revenue effect of K£61.9 million. These excise duty rate changes will come into effect from mid-night tonight.

4. VALUE ADDED TAX MEASURES

Mr. Speaker, Sir, I would now like to turn to Value Added Tax.

VAT has been in operation for just over seven years during which time a number of changes have been made to rationalize the rate structure and to simplify and strengthen administration, with a view to curbing tax evasion and enhance VAT revenue. I propose to continue this process.

First, to move the rate structure closer to a single rate, I propose to raise the lower rates from 8 per cent to 10 per cent.

Second, to simplify VAT administration, I propose to replace specific rates of tax on residual fuel oils, petroleum bitumen and heavy industrial diesel oil with the standard *ad valorem* rate of 15 per cent.

Third, I am proposing to expand the tax base by including arbitration services, investigation services and goods handling warehousing and storage services in the tax net.

Fourth, in order to harmonize the taxation of goods at the retail level, I propose to designate powdered beer to be taxed like other local beverages.

Fifth, to reduce risks to loss of revenue, the Commissioner has the powers to demand payment of tax immediately it is received by a registered trader. I am proposing to amend the law to make it clear that early payment demands only apply during the period before the tax is normally payable. The VAT remains payable by the 20th day of the month following the taxable supply being made whether or not the tax was collected.

Sixth, to streamline the collection of tax imported taxable services, I propose to amend the law to provide that the importer declares the taxable services imported by him to the Commissioner.

Seventh, to harmonize the refund of tax paid in error with the provision under the Customs and Excise Act, I propose that no refund of tax shall be made unless the claim is lodged within twelve months.

Finally, Mr. Speaker, Sir, to reduce the backlog of VAT refunds and at the same time maintain the payment of current VAT refunds, I propose to increase refund payments to at least K£300 million.

The measures I have proposed under the VAT Act will have a net revenue gain of K£132.7 million, and come into effect from mid-night tonight.

5. INCOME TAX MEASURES

Mr. Speaker, Sir, I now turn to measures under Income Tax Act.

As hon. Members are aware, the tax burden arising from direct taxation can be increased substantially as a result of inflation. This burden can be particularly punitive to low income earners. For these reasons, I propose to take several measures to ease this burden.

First, in 1996, I combined all personal reliefs into a uniform relief of Kshs7,200. In order to maintain the real value of this relief for the taxpayers, I propose to increase this relief by 10 per cent to Kshs7,920.

Second, I also propose to widen the tax brackets by 10 per cent to protect taxpayers against inflation-induced bracket creep. The combined effect of these measures will raise the minimum monthly income subject to tax to Kshs6,600. This effectively removes some 152,000 individuals from the income tax net.

Third, I propose to lower the highest rate of individual tax from 35 per cent to 32.5 per cent. Individuals will now reach the highest tax on attaining a salary of Kshs37,600 per month.

Fourth, I propose to lower corporate tax from the present 35 per cent to 32.5 per cent, while the rate of foreign branches will be lowered to 40 per cent from 42.5 per cent. Resident corporations will, therefore, pay tax at the same marginal rate of tax as the individuals.

Fifth, to continue bridging the gap between the limits for pension contributions and tax deductible contributions, I propose to increase the deductible contribution limits for registered pension, provident and registered individual retirement funds from Kshs90,000 per year to 120,000 per year.

Sixth, currently, the Income Tax Act accommodates normal rental arrangements for vehicles, equipment and real estate, but discourages development of long-term leases which include distinct financing arrangements. I am proposing to amend the law and introduce regulations that will clarify the tax treatment of different types of leases to allow the growth of the leasing sector.

Seventh, on the same theme of promoting the capital market, I propose to exempt from tax, income of a registered venture capital company, consisting of dividends and gains from holding or sale of shares in qualifying venture companies during the first ten years from the date of the first investment.

Eighth, insurance companies have continued to complain that taxation of gains realised from their trading in quoted stocks inhibits their participation in the stock market. To address this concern and give the capital market a shot in the arm, income from insurance companies arising from trading in shares in Nairobi Stock Exchange will now be tax exempt. However, to offset the revenue loss arising from this measure, I propose to increase the insurance premium tax rate from 1 per cent to 1.5 per cent.

Ninth, to boost liquidity of the stock market and enhance price stability, I propose to exempt from income tax, sole purpose licensed dealers, in shares and stocks, subject to regulations issued by the Capital Markets Authority. To discourage unnecessary retention of the stocks by these dealers, only gains on stocks and shares sold within twenty-four months from the date of their acquisition will be tax exempt. Where the dealers hold stocks for more than twenty-four months, their profits will become taxable. The dealers will be required to meet a pre-determined monthly turn-over.

Tenth, in many developed and emerging markets, deposit taking financial institutions and companies quoted on a stock market or wishing to issue public debt, are required to be rated by an independent agency. To encourage listed companies to be rated, and assist investors to make more informed identifications, I propose to make expenses related to rating of such businesses deductible under the Income Tax Act.

Eleventh, to widen the tax base and improve tax compliance, I propose to introduce provisions to require personal identification numbers for all business transactions with the Government, and other public institutions.

Twelfth, for the purposes of estimating instalment tax, I propose to change the base to the lesser of 110 per cent of the previous year's tax assessment or the tax payable on the current year's income. This will allow for income growth and provide for a fairer basis for determining current year tax.

Thirteenth, to encourage submission of more accurate audited accounts and increase compliance, I propose to increase the period within which audited accounts may be submitted to the Income Tax Department by two months. Audited accounts will now be due within six months following the end of business fiscal year. The instalment tax and final returns due dates remain unchanged. To ensure this measure is not abused, the penalty for late submissions of returns will be increased to 20 per cent of the tax payable.

Fourteenth, to deal with employers who deduct and illegally retain PAYE, I propose to increase the penalty under section 37 to 25 per cent of the tax due or minimum of Kshs10,000. I also propose to remove the requirement for submission of final returns by individuals with Personal Identification Numbers (PIN) in cases where all the tax due has been recovered under PAYE. This requirement is unnecessary and expensive. I propose to amend the law to correct this anomaly and save the compliance costs involved.

Fifteenth, I propose to amend the law on the value of benefits to clarify that the value of living quarters provided by the employer shall only be determined in accordance with the provision relating to quarters and not subject to the general overriding provision.

The measures proposed under Income Tax will cost the Exchequer K£1.1 million in revenue loss.

6. OTHER MEASURES

Mr. Speaker, Sir, I will now turn to measures under the miscellaneous category.

First, in accordance with our commitment, the road maintenance levy collections should increase by some 28 per cent to raise K£204 million in 1997/98. To meet this target, I propose to increase this levy by Kshs0.5 per litre on petrol and automotive diesel with effect from mid-night tonight. This is expected to contribute an additional K£34.5 million for the road maintenance levy in the coming fiscal year.

Second, I am proposing to introduce a programme of revenue sharing between the Central Government and the Local Authorities with effect from the next fiscal year. This programme will have three components:-

(a) 20 per cent of the Road Maintenance Levy will be set aside for roads in the Local Authorities. This will be raised gradually to a maximum of 50 per cent, in subsequent years, as their capacity to absorb additional funds is developed.

(b) I propose to establish a Local Authority Transfer Fund with effect from fiscal year 1998/99. To launch this Fund, 5 per cent of annual income tax collections will be dedicated to this Fund. An appropriate Bill detailing the operational modalities of the Fund is under preparation and will be tabled soon in this august House. When the Fund is operational, it will replace the cumbersome Local Authorities Service Charge by January, 1999.

(c) Finally, contributions in lieu of rates will be raised from K£8.5 million in the current fiscal year to K£20 million in 1997/98 financial year.

Fourth, as an initial step towards reducing the number of licenses required for a business, I propose to amend the Trade Licensing Act to discontinue the collection of trade licence fees for revenue purposes by the Central Government with effect from January, 1998. Agents of the Central Government will only be concerned with regulatory approvals. In the course of the year, the Local Authority Act will be amended to enable local authorities to issue only one business permit automatically to a business upon payment of the required fee. However, businesses will continue to observe all regulations dealing with health, environment and safety, *et cetera.*

Fifth, to rationalize penalties chargeable under the various revenue Acts, I propose to amend the Rating Act to increase the interest on late payments of rates to 3 per cent per month.

Mr. Speaker, Sir, Sixth, in order to instil fiscal discipline in local authorities, I propose to amend the Local Government Act to enable the Government to appoint finance managers where a local authority fails to service its debt obligations to the Government, or Government-guaranteed debt. The agent will collect the revenues and service the loan. Upon redemption of the loan or restoration of financial discipline, the local authority will resume its responsibility. I believe that with these measures we have established, this will be a basis for strong Government support to local authorities. I would like to stress that local authorities which show marked improvements in their financial management are likely to benefit more from this relationship.

Seventh, to enable businesses to raise capital cheaply from the financial sector, I propose to one, reduce stamp duty rates by 60 per cent for primary securities and two, by 50 per cent for other securities registered as collateral.

Eighth, I am prosing amendments to the Hotels and Restaurants Act to allow the Catering Training Levy to be used more generally to support the development of the tourism sector. This should help address concerns of the tourism industry.

Ninth, to make effective use of the Petroleum Development Levy, I am proposing amendments to the Petroleum Development Fund Act to allow funds from this levy to be used for other energy sector development projects. Consequently, local Appropriations-in-Aid for energy related projects will increase by K£13.2 million from K£15 million in the fiscal year 1996/97 to K£28.2 in the 1997/98 Financial Year. Out of this amount, K£13.2 million will go to rural electrification while K£15 million will be used to develop the liquefied petroleum gas (LPG) handling facility in Mombasa. These other measures that I have announced are expected to raise an additional K£47.5 million in appropriations-in-aid, while the Exchequer will experience a loss of K£10.6 million.

As I come to the end of my presentation, let me reiterate the Government's commitment to the reform process. On February 2nd, 1996, for the very first time, the Policy Framework Paper was launched by H.E. the President as a public document. It enunciates policies intended to enhance the environment for private sector development. In my speech today, I have given a wide range of measures which the Government has taken in fulfilment of that commitment. We have continued to implement these reforms without parochial political party interests.

I would like to assure Kenyans that the reforms that we have been implementing are our own initiative driven by the desire to see our country grow faster, and become an emerging market. The primary focus has been, as it should always be, the need to secure the best long-term interests for this nation and its people. I invite all Kenyans, both individual and corporate, to underpin these reforms through increased savings and investments, and more importantly, to consumers to give Kenyan goods the necessary support. The measures I have presented today are realistic and built on previous efforts. They are targeted to deal with the challenges I have enumerated. Specifically, they aim to spur savings and investments, promote industrialisation and create jobs.

Finally, Mr. Speaker, Sir, given that the second multi-party general election will be held in the coming financial year, my appeal to all Kenyans, including the hon. Members, is to nurture the economic and political harmony that prevails in our growing democracy. We should guard against anything that might threaten the micro-economic stability that has taken us years and a lot of sacrifice to achieve. Therefore, our utterances and actions should not be for mere political expediency. Elections, like individuals, come and go, but this beloved country will live for ever. As hon. Members debate these measures, let us remember the repeated call by H.E. the President that "Kenya will be built by Kenyans themselves". It is our sweat and sacrifices that will see us through.

Mr. Speaker, Sir, I beg to move.

Hon. Members: No reforms, no Budget! Moi must go!

Mr. Speaker: Order! Order!

(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.

KANU Members: Nyayo! Nyayo! Nyayo! Jogoo! Jogoo!

Opposition Members: Aende!

(Hon. Members rose in their places while His Excellency the President left the Chamber in a procession)

(Opposition Hon. Members remained seated)

Mr. Speaker: Order! Order!

ADJOURNMENT

Mr. Speaker: Hon. Members, it is now time for the interruption of business. The House is, therefore, adjourned until Tuesday, 24th June, at 2.30 p.m.

The House rose at 5.20 p.m.