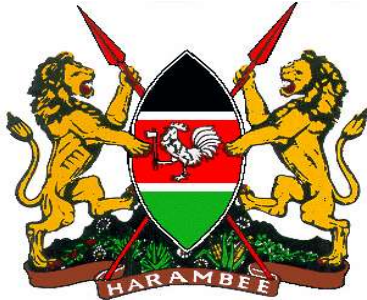


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# BUDGET STATEMENT

FY 2019/20

***Theme: Creating Jobs, Transforming Lives - Harnessing the “Big Four” Plan***

## **I. Introduction**

**Mr. Speaker, Honorable Members and Fellow Kenyans,** today, I present to the country the highlights of the Budget for financial year 2019/20. I do this in performing my fiduciary responsibility as the guardian of the nation's finances and in fulfilment of the requirements of Section 40 of the Public Finance Management Act, 2012 and the Standing Order Number 241 of the National Assembly.

**Mr. Speaker,** H.E. the President, Hon. Uhuru Kenyatta has on several occasions, including most recently during the 2019 State of the Nation Address, set out an ambitious social-economic development agenda that speaks to the Kenya we want. This has been captured under the Big Four agenda which lays out key initiatives that will put Kenya on a bold new path of rapid and shared economic growth, jobs creation at an unprecedented pace and reduced poverty on a sustained basis.

**Mr. Speaker,** the Budget for FY 2019/20 lays a strong foundation for achieving the President's Big Four agenda while at the same time addressing the following challenges facing our economy:

- **One,** creating an enabling environment for businesses, and in particular for the micro, small and medium enterprises in order to accelerate the growth of our economy and create more jobs for our youth;
- **Two,** the need to be prudent and efficient in our spending;
- **Three,** the need to mobilize domestic resources to fund priority projects and programmes;

- **Four**, the need to reduce our fiscal deficit in order to stabilize and reduce our debt; and
- **Five**, the need to implement reforms that will enhance our efficiency and make us more competitive.

Before addressing these challenges, allow me **Mr. Speaker** to say a few words on the recent economic developments and outlook.

### ***Recent Economic Developments and Outlook***

**Mr. Speaker**, our economy continues to be resilient in the midst of significant global and domestic headwinds. In 2018, our economy grew by 6.3 percent, up from 4.9 percent in the previous year. This growth is the highest to have been recorded for the past 8 years and well above the sub Saharan Africa region average growth of 3.0 percent and the global average of 3.6 percent, reinforcing the advantages of a diversified and reforming economy. This strong growth was attained despite the rising global trade frictions among major trading partners as well as uncertainties from Brexit and renewed geopolitical risks.

**Mr. Speaker**, we project growth in 2019 to remain strong at around the same level as in 2018. While there are risks associated with delayed long rains which may impact negatively on agriculture, we expect such risks to be offset by continued strong performance in non-agricultural activities such as tourism and construction. Over the medium term, we expect growth of over 7.0 percent as programmed activities under the Big Four agenda gain traction.

**Mr. Speaker**, the risks to this outlook include an escalation of global trade-related tensions, a rise in oil prices and weather related shocks. Should these risks materialize, Kenya's growth

forecast could be constrained. However, the Government will take appropriate measures to mitigate any negative impact on growth.

**Mr. Speaker**, let me now turn to how we are going to address the challenges facing us. **Mr. Speaker**, the theme for this year's budget is: ***Creating Jobs, Transforming Lives - Harnessing the "Big Four" Plan***. This theme resonates with our strategies towards a stronger economy that will generate more employment opportunities and provide better livelihoods for Kenyans. In this budget therefore, we are laying a firm foundation for accelerated growth and shared prosperity.

## **II. Accelerating and sustaining inclusive growth**

**Mr. Speaker**, in order to achieve rapid and inclusive economic growth and expand job opportunities for the youth, we must continue to improve the business climate in order for our private sector to thrive. Therefore, we must continue to implement prudent fiscal and monetary policies in order to achieve a low rate of inflation, low but sustainable interest rate and a competitive exchange rate.

In addition, we will continue with our ambitious business reform initiatives in order to reduce the cost of doing business and encourage private sector innovation and entrepreneurship. Our current ranking of 61 out of 180 countries in the World Bank's doing business indicators is not only the best ranking we have had so far, but it is also an indication of our resolve to improve our business climate and become a top investment destination. Our aim in the next few years is to be among the top 50 nations in the World by continuing to strengthen our reform agenda.

**Mr. Speaker**, last year, I amended the Income Tax Act, to provide for a deduction of thirty percent (30%) of the total electricity by manufacturers as rebate subject to the conditions to

be set by the Ministry of Energy. **Mr. Speaker**, the Ministry of Energy in consultation with the Ministry of Industry, Trade and Cooperative Development has now developed the framework that will be used so that manufacturers can enjoy this incentive. We expect this incentive to reduce the cost of electricity to manufacturers by about 20% and to make our products competitive in the region, and this should spur economic growth and create employment for the youth.

**Mr. Speaker**, the large accumulation of VAT refunds with KRA arising from VAT on zero rated supplies has impacted negatively on the cash flow and liquidity of our manufacturers and the business community at large. In order to fast track the return of these funds to the rightful owners, I have constituted a team at the National Treasury to quickly validate the outstanding refunds with a view to clearing them within the next two months. **Mr. Speaker**, in addition there has also been a large accumulation of VAT refunds at KRA, which emanate from the 6 percent VAT Withholding Tax. We are currently working on the modalities for settling these obligations and I intend to engage the business community immediately in order to come up with a workable solution. Going forward, we intend to lower the VAT Withholding Tax to a level that will eliminate the need for KRA to make refunds. I will be making proposals to lower the VAT Withholding rate under the tax proposals later in this Budget Statement.

**Mr. Speaker**, on the pending bills, we have reviewed existing pending bills as directed by H.E. The President during this year's Madaraka Day celebrations. In addition to the payments we have made so far, we have prioritized payment of Ksh 10.9 billion of the verified pending bills which will be paid before end of this month. This should eliminate most pending bills owed to the youth, women and persons living with disabilities under the Access to

Government Procurement Opportunity. The clearance of this backlog should improve liquidity to our suppliers and contractors and thereby boost our economy.

**Mr. Speaker**, our micro, small and medium enterprises (MSMEs) play a critical role in wealth and employment creation. We have listened carefully to their concerns which include limited access to credit, entrepreneurial skills and markets, as well as a cumbersome regulatory and working environment.

**Mr. Speaker**, to facilitate faster clearance of cargo, H.E. The President in May 2019, directed the Ministry of Interior and Coordination, in collaboration with other Government Agencies, to ensure all import and export consolidators undergo strict vetting, registration and gazettelement before they are allowed to operate at all the ports of entry and clearance. This will reduce delays in cargo clearance into the country for most small cargo importers operating under the consolidators; reduce tax evasion; curb the illegal importation of contraband and counterfeits goods; and reduce delays in cargo clearance into the country.

**Mr. Speaker**, the Government has been supporting MSMEs through various affirmative action funds including the Uwezo Fund, Youth Enterprise Development Fund and Women Enterprise Development Fund. To increase efficiency and eliminate overlaps, I have consolidated the three Funds into one to be known as Biashara Kenya Fund. The Fund will give special priority to businesses owned by youths, women and people living with disabilities. The Regulations establishing the new Fund have been published after being subjected to stakeholder consultations and I will be submitting them to this House today. **Mr. Speaker**, to further improve access to credit for SMEs, last month, we endorsed a mobile loan product known as **Stawi loans** which offers unsecured loans to small enterprises.

**Mr. Speaker,** the Government through the Ministry of Information, Communications and Technology in Partnership with Academia, Civil Society and the Private Sector has set up a program known as “Ajira Digital Program” whose aim is to bridge the gap between skills available and skills demand. A major objective of the program is to enable over one million youths annually to be engaged as digital freelance workers. In order to provide stability for the youth engaged in this program, the Government has proposed that the youth registered in the program pay a registration fee of ten thousand Kenya shillings for the next three years in lieu of income tax with effect from 1<sup>st</sup> January 2020. In this regard, **Mr. Speaker,** I propose to amend the Income Tax Act in order to exempt registered members from regular taxation for the specified period.

**Mr. Speaker,** this registration fee will be paid to the Ajira Fund through which the youth-oriented program will be financed for the benefit of our young people who need to be engaged in tangible programs. In this regard, a framework for the registration of the Ajira members, the modalities of collecting the fee as well as the structure for the utilization of the Fund will be put in place. **Mr. Speaker,** this Fund that will promote growth of local business that generate digital and digitally-enabled jobs.–In this respect, I have set aside Ksh 1.0 billion as seed capital for the Fund. I encourage the Youth and Women to take advantage of this funding window to establish and grow their businesses.

**Mr. Speaker,** in order to take full advantage of the preferences and reservations in the procurement Act and promote local industries through the ‘Buy Kenya Build Kenya’ initiative, we are in the process of developing a catalogue of items that are locally manufactured,

assembled, mined or grown in Kenya and which will be given priority in public procurement. Accordingly, no tax exemptions will be provided for any items on the catalogue.

In this respect, **Mr. Speaker**, with effect from 1<sup>st</sup> July 2019, all Ministries, Departments, Agencies and other Public Entities are required to give exclusive preference in procurement of motor vehicles and motor cycles from firms that have assembly plants in Kenya. This will go a long way in spurring the growth of local auxiliary industries and enterprises and create employment opportunities to the youth.

**Mr. Speaker**, we have received numerous complaints relating to late payment, and even non-payment of suppliers by businesses and contractors who enjoy relatively superior bargaining positions. The most affected are Small and Medium Enterprises. To address this situation, **Mr. Speaker**, I have proposed amendments to the Competition Act to empower the Competition Authority to deal with abuse of buyer power and ensure prompt payment to suppliers. The proposed amendments shall also provide for penalties for infringement of these provisions.

Further, **Mr. Speaker**, going forward the National Treasury will endeavor to ensure that payments to suppliers of goods and services to the National Government are made within a maximum of 60 days. This, **Mr. Speaker**, will support our MSMEs and the business community. I expect all the 47 County Governments to take cue from this and ensure prompt payments for all supplies delivered to their respective Counties.

**Mr. Speaker**, Government will streamline the process of Pre-Verification of Conformity (PVOC), so that our business community stops suffering demurrage charges and other costs while clearing their goods at the point of entry. This has been caused by additional inspections

of imports by the Kenya Bureau of Standards and a host of other agencies. **Mr. Speaker**, to address this challenge, it has been decided that once the Pre-Verification of Conformity (PVOC) has been done at the point of export and information relayed to our Customs and Standards teams, the same goods should not be subjected to further inspection unless there is prior intelligence on non-compliance. In addition, **Mr. Speaker**, the logistics at the Port and at the Inland Container Depot will be streamlined to have the customs and the essential Standards team only.

### **III. Improving Expenditure Efficiency**

**Mr. Speaker**, turning to expenditures, we must ensure that our scarce resources are used in the most efficient and effective manner. Accordingly, since the start of this financial year, Government has implemented new initiatives to contain growth of expenditure. **First**, we adopted a zero-based budgeting process to weed out non-priority expenditures from the budget; **second**, we have adopted a policy of “no new projects” to ensure that Government completes ongoing projects; **third**, we are reviewing the portfolio of externally funded projects with a view to restructuring and re-aligning them with the “Big Four” Plan; and, **fourth**, we are taking measures to reduce spending on some specific programmes which are not of high priority. All these initiatives, **Mr. Speaker**, have helped to lower our expenditures.

Going forward, **Mr. Speaker**, we will continue to take bold actions to contain our expenditures further in the next financial year in order to further reduce the deficit. This will entail the following:

### ***The Wage Bill***

**Mr. Speaker**, the public sector wage bill continues to rise leaving fewer and fewer resources for development. Certainly, this is not a good practice and no meaningful development can be realized, unless we reverse the trend. **Mr. Speaker**, in order to contain the wage bill, I propose that we limit strictly the extension of service for the significant number of civil servants who are retiring after the age of 60 years. In addition, **Mr. Speaker**, we will restrict new recruitment to key technical staff, security personnel, teachers and health workers. Further, **Mr. Speaker**, a cleansing of the wage bill will be undertaken to root out ghost workers. Government will also fast track migration away from the current Integrated Payroll and Personnel Database System (IPPD) to IFMIS Human Resource Module to improve payroll management.

### ***Domestic and foreign travel***

**Mr. Speaker**, expenditure on domestic and foreign travel has been growing due to frequent travels. To limit this expenditure, we are exploring the use of a more efficient cost cutting approach, including use of electronic cards system for all public officers travelling within and outside the country. This card would be pre-loaded with subsistence allowance to be expended by Officers travelling on official duty on eligible expenditures only.

### ***Government Transport Policy***

**Mr. Speaker**, the Cabinet is considering a new Government transport policy that will standardize the institutional framework for fleet management and use of fuel cards across Government in order to improve efficiency and cut cost. In addition, the policy will promote

local industries by requiring that all Government vehicles be procured only from local assembling plants.

### ***Office Accommodation***

**Mr. Speaker,** the Government has been leasing office space at higher than market rates resulting in huge costs to the Government. Beginning 1<sup>st</sup> July 2019, all procurement of office accommodation by Government will be standardized with uniform cost leases and existing contracts will be renegotiated to ensure a standard rate.

### ***Procurement Reforms***

**Mr. Speaker,** we are on course towards providing an electronic end-to-end solution on all procurement processes. **Mr. Speaker,** this will significantly enhance efficiency, transparency and accountability in procurement. It will further provide procurement audit trails, enhanced reporting and procurement analytics for better monitoring of the public procurement system, efficient and electronic archiving of procurement records and availability of online appeal and complaint mechanism, among others.

**Mr. Speaker,** we are now in the final stage of issuing the new Public Procurement and Asset Disposal Regulations to fully operationalize the Public Procurement and Asset Disposal Act, 2015. Our assessment shows that significant savings can be achieved under Framework Procurement and new institutional arrangement for Common User items that have been instituted in the new Regulations.

### ***Pension reforms***

**Mr. Speaker,** the pension budget has increased by over three fold in the last 10 years from Ksh 25 billion in FY2008/09 to Ksh 86 billion in FY 2018/19. This is unsustainable. Between February and May 2019, we conducted a payroll cleansing exercise for pensioners and dependants at the Huduma Centres across the country, to authenticate the approximately 270,000 recipients of monthly pension paid by the Government. We are finalising the analysis and we expect cost savings. Pension management is also being improved with migration to IFMIS since May 2019.

**Mr. Speaker,** to address the challenge of the rising pensions budget, we have finalised a new National Pensions Policy and the Public Service Superannuation Scheme (PSSS). This scheme, which will be rolled out in the FY 2019/20, will ease the pension burden on the exchequer and free resources for other critical national priorities while at the same time ensuring that the pension budget remains sustainable. This scheme will allow portability of pension benefits thus allowing free movement of staff into and out of Government.

### ***Public Investment Management***

**Mr. Speaker,** the Government will issue Public Investment Management Regulations which will provide a framework for appraising and approving new projects to be funded through the Government budget. In order to enhance transparency and accountability, all the approved and on-going projects will be available in a Public Investment Management Information System portal.

#### **IV. Increasing Tax Collection**

**Mr. Speaker**, in addition to the expenditure measures that I have just enumerated, domestic revenue mobilization will be critical to helping us achieve our fiscal deficit target.

**Mr. Speaker**, I will be coming back later in this Budget Statement to our proposed taxation measures that will make our tax system more efficient and strengthen our revenues.

Meanwhile, in terms of administrative measures to enhance revenue collection and seal revenue loopholes, a number of initiatives are underway, including:

- Sustaining the fight against illicit and counterfeit trade that was launched last year;
- KRA will continue to strengthen and upgrade the ICT systems, including the full rollout of the integrated customs management system which has been delayed for too long;
- Information sharing through Memorandum of Understanding (MoUs) with other jurisdictions to support the fight against cross-border tax evasion;
- Revenue Enhancement Initiatives (REI) that target among others: enhanced scanning of containers to detect concealment; Implementation of a Regional Electronic Cargo Tracking system to tackle transit diversions; Implementation of new debt collection strategy; Resolution of tax disputes; and enhancing investigative capacity to support revenue collection.

**Mr. Speaker**, we expect the above administrative measures to significantly boost our revenue efforts.

## **V. Fiscal framework to stabilize and reduce our debt**

**Mr. Speaker,** in the coming financial year, we expect revenues, including A-i-A of Ksh 2.1 trillion (19.7 percent of GDP). Expenditures and net lending are projected at Ksh 2.8 trillion (25.7 percent of GDP), leaving a fiscal deficit including grants of Ksh 607.8 billion. In relation to GDP, this deficit translates to 5.6 percent, a decline from 6.8 percent in FY 2018/19 and 7.4 percent for FY 2017/18. **Mr. Speaker,** the fiscal deficit of 5.6 percent of GDP in FY 2019/20 will be financed by net external financing of Ksh 324.3 billion (3.0 per cent of GDP) and net domestic financing of Ksh 283.5 billion (2.6 per cent of GDP).

**Mr. Speaker,** we shall continue to remain on this planned path of reducing the fiscal deficit in the medium term in order to create more fiscal space and to reduce the public debt.

**Mr. Speaker,** resource mobilization through borrowing will be in accordance with the Public Finance Management Act, 2012 and guided by the annual Medium Term Debt Management Strategy, which this House approves annually, and which seeks to minimize costs and risks on public debt and borrowing. Official Development Assistance on high concessional terms will be preferred for some of the external financing while medium to long term Treasury Bonds will remain the primary source for domestic financing.

**Mr. Speaker,** Kenya continues to meet its debt service obligations promptly with no accumulation of debt arrears. Public debt is within sustainable levels and the debt burden is projected to decline over the medium term as we implement fiscal consolidation plan.

**Mr. Speaker,** the loan proceeds we have contracted, primarily from our multilateral and bilateral development partners have been used to finance development expenditures including in such areas as ports, railway, roads, energy and water. This infrastructure is critical

to the expansion of our potential growth and regional competitiveness and in making Kenya the African hub for transportation, industrial and services sectors. Nevertheless, the borrowed resources must be used wisely. Accordingly, the recently established Public Investment Management Unit will be appraising all infrastructure projects before such projects are committed in the budget, in order to establish their value for money, affordability and economic return for the benefit of the current and future generations in line with the Constitution of Kenya.

**Mr. Speaker**, we have constituted and strengthened the Public Debt Management Office at the National Treasury under a Director-General to be responsible for public debt management and operations. We have initiated a set of reforms to promote development of the domestic debt market, an important source of financing for our development programs. In particular, **Mr. Speaker**, we plan to roll-out measures to enhance transparency and predictability in the issuance and trading process for Treasury Bills and Treasury Bonds to enhance efficiency, lower costs and risks, as well as develop an effective yield curve for Government domestic debt securities. Given the importance of Eurobonds in our debt portfolio, we will strengthen the debt office to adopt modern liability management instruments to reduce cost and settlement risks, in addition to introducing an investor relations unit.

## **VI. Transfers to Counties**

**Mr. Speaker**, County Governments in the coming financial year will receive a proposed allocation of Ksh 371.6 billion, of which, Ksh 310 billion is the equitable share and Ksh 61.6 billion will be conditional transfers, including Ksh 38.7 billion from our development partners.

**Mr. Speaker**, I am well aware that the proposal I have outlined above on the Division of

Revenue between the National and County Governments is subject to negotiations under the Joint Mediation Committee established by the two Houses of Parliament. We look forward to the speedy conclusion of the mediation process, which we expect will fully take into account the provisions of Article 203 of the Constitution.

### ***Own Source Revenue***

**Mr. Speaker**, in order to encourage the Counties to optimize own source revenue collection, the National Treasury in collaboration with the Council of Governors will implement the *National Policy to Support Enhancement of County Governments' Own-Source Revenue*. Further, as per the Presidential Directive issued in February 2019, the National Treasury has established a multi-agency team to develop and implement an Integrated Revenue Management System for County Governments. This initiative is aimed at eliminating the leakages and large costs currently incurred by Counties in their revenue collection processes.

**Mr. Speaker**, during this financial year, the County Governments' Revenue Raising Process Bill, 2018 was submitted to the National Assembly. Pursuant to Article 209(5) of the Constitution, this Bill aims to regulate the introduction of levies by County Governments while ensuring that Counties do not prejudice national economic policies, cross-County economic activities; or, national mobility of goods, services, capital or labour. I urge this House to prioritise the enactment of this Bill in order to ensure better regulation of the process of introducing new levies by County Governments to safeguard the gains made in improving our business climate.

**Mr. Speaker**, we expect Counties to manage their finances in a manner that is consistent with the fiscal responsibility principles, as set out in the PFM Act, 2012, with respect to development spending allocations, and control of expenditure on personnel emoluments.

**Mr. Speaker**, we also expect Counties to adhere to the Policy of clearing pending bills, pursuing austerity measures and completing ongoing projects before embarking on new ones.

## **VII. Spending Priorities**

**Mr. Speaker**, let me turn to highlights of the Government spending priorities in the coming financial year. Total programmed spending for the FY 2019/20 amounts to **Ksh 2.8 trillion**.

### ***Fulfilling the Big Four agenda***

**Mr. Speaker**, H.E the President has outlined the **four big areas** of focus. These are:

- Universal health coverage;
- Affordable housing;
- Increasing manufacturing contribution to the economy; and
- Food and nutrition security.

**Mr. Speaker**, let me outline how the budget speaks to the President's priorities. Ministries, Departments and Agencies while finalizing the expenditure estimates for the next fiscal year and medium term were required to align their proposals towards realization of the 'Big Four' Plan. In total, I have allocated approximately **Ksh 450.9 billion** to the "Big Four" Plan drivers and their enabling sectors.

### ***Universal Health Coverage***

**Mr. Speaker**, a healthy population is key in the attainment of social economic development. It is for this reason that the Government has prioritized Universal Health Coverage. To support UHC, I have allocated **Ksh 47.8 billion** to activities and programmes geared towards universal health coverage. Some of the specific interventions in this area include scaling up universal health coverage to the rest of the Counties, NHIF cover for the elderly and severely disabled. In addition, **Mr. Speaker**, I have allocated **Ksh 7.9 billion** from the Sports, Arts and Social Development Fund to fund the universal health care initiatives.

**Mr. Speaker**, other allocations to improve health service delivery include **Ksh 2.9 billion** for Doctors/Clinical Officers/Nurses internship programme, **Ksh 14.4 billion** for Kenyatta National Hospital, **Ksh 9.2 billion** for Moi Teaching and Referral Hospital, **Ksh 2.3 billion** for Kenya Medical Research Institute, **Ksh 7.4 billion** for Kenya Medical Training Centres (KMTC) and **Ksh 1.2 billion** for Health Workers Internship Programme.

### ***Affordable Housing***

**Mr. Speaker**, the Government continues to stay focused on providing decent and affordable housing for our citizens. To that end, I have allocated **Ksh 10.5 billion** to cater for social housing and construction of affordable housing units, including housing Units for the Police and Kenya Prison. Included also is **Ksh 2.3 billion** for the Public Servants Housing Mortgage Scheme and **Ksh 5.0 billion** for the National Housing Development Fund, as contributions by Government for its employees.

**Mr. Speaker**, with the recent establishment of the Kenya Mortgage Refinance Company (KMRC) by H.E. The President, Kenyans will now access affordable mortgage loans for

purposes of acquiring homes. KMRC has received capital injection of **Ksh 1.0 billion** from Government, and **Ksh 35 billion** credit line from the World Bank and the Africa Development Bank. KMRC has also received **Ksh.1.2 billion** from other shareholders (Banks and SACCOs), and a further **Ksh 400 million** is expected from other Development Financial Institutions (IFC and Shelter Afrique) in form of equity injection.

### ***Increasing Manufacturing Contribution to GDP***

**Mr. Speaker**, investment in manufacturing sector is key in transforming Kenya into a middle income economy. Under the 'Big Four' Plan the goal is to increase its contribution to GDP, create jobs annually, increase foreign direct investment and improve ease of doing business. To support the manufacturing sector, we have scaled up reforms to encourage investments in industrial sheds and parks. The electricity rebates mentioned earlier will improve competitiveness in the sector.

**Mr. Speaker**, Government has completed the revival of one of the oldest textile company in Kenya based in Eldoret (RIVATEX) and it is expected to be launched in the coming weeks. RIVATEX is expected to employ over 3,000 employees when fully operational. In this budget we have allocated a total of **Ksh 1.1 billion** for the development of textile and leather industrial park, Naivasha Industrial Park and Cotton Development subsidy. In addition, we have allocated **Ksh 1.7 billion** to support the growth of SMEs in the manufacturing sector; **Ksh 0.4 billion** to Constituency Industrial Development Centers; and **Ksh 1.0 billion** to modernize facilities in Kenya Industrial Research and Development Institute (KIRDI).

### ***Improving Food and Nutrition Security***

**Mr. Speaker**, to enhance food and nutrition security and support our farmers, Government is reforming its agricultural policies and regulations as well as subsidies to farmers with a view to make them efficient and less prone to rent seeking. With the unspent funds for this current financial year and proceeds from sale of maize from strategic reserve, the Strategic Food Reserve Trust Fund will have adequate funds to buy food reserves and intervene to support farmers in accessing inputs in a reformed arrangement in the coming financial year.

In this budget, I have set aside **Ksh 2.0 billion** for the National Value Chain Support Programme; and **Ksh 3.0 billion** for setting up the Coffee Cherry Revolving Fund to implement prioritized reforms in the coffee sub-sector. In the coming financial year, coffee farmers across the country will be able to access the Cherry Advance at a modest interest rate of 3 percent. **Mr. Speaker**, in this current financial year, Government supported sugar farmers by paying **Ksh 2.1 billion** debt for cane deliveries to public mills. To cater for the outstanding balance, we have provide for **Ksh 0.7 billion**. Other provisions include **Ksh 1.0 billion** for crop diversification and to revitalize the Miraa industry; **Ksh 0.8 billion** for the rehabilitation of Fish Landing Sites; and **Ksh 0.7 billion** for small-holder dairy commercialization. I have also allocated a total of **Ksh 7.9 billion** for ongoing irrigation projects.

**Mr. Speaker**, allow me to turn to the proposed expenditures on enablers that are critical to the realization of the “Big Four” agenda.

### ***Investing in Critical Infrastructure***

**Mr. Speaker**, we will continue with infrastructure programme in order to improve our competitiveness. I am therefore, proposing to allocate **Ksh 180.9 billion** for on-going roads construction projects as well as the rehabilitation and maintenance of roads.

We have also provided **Ksh 55.8 billion** for the completion of Phase 2A of the SGR, **Ksh 11.0 billion** for the LAPSET Project; and **Ksh 7.2 billion** for the Mombasa Port Development Project.

**Mr. Speaker**, to support generation of adequate and affordable energy, particularly, for our manufacturing sector, I have allocated, **Ksh 8.6 billion** for the geothermal Development; **Ksh 61.2 billion** for power transmission and distribution. This includes **Ksh 4.5 billion** for electrification of public institutions; **Ksh 5.5 billion** for Last Mile Connectivity; **Ksh 1.3 billion** for Connectivity Subsidy; **Ksh 1.0 billion** for street lightning and **Ksh 1.5 billion** for transformers in our constituencies.

### ***Improving security and protecting our borders***

**Mr. Speaker**, a safe and secure environment is a precondition for achieving the “Big Four” agenda. Therefore, I have provided **Ksh 326.5 billion** for security agencies which includes: **Ksh 121.6 billion** for Defence, **Ksh 37.7 billion** for National Intelligence Service; **Ksh 26.9 billion** for Prisons Department; **Ksh 140.5 billion** for State Department of Interior. The allocation to the State Department of Interior includes **Ksh 22.8 billion** for House Allowance for the Police and Prisons, and **Ksh 6.9 billion** for Police and Prison Officers Medical Scheme.

### ***Reforming the Education System and Developing the Necessary Skills***

**Mr. Speaker**, education continues to receive the lion's share of spending as Government continues to provide access to basic and higher education as well as to skills development and training. **Ksh 55.4 billion** is allocated to cater for Free Day Secondary Education Programme and **Ksh 13.4 billion** for Free Primary Education Programme. To increase the teacher to student ratio, we have provided **Ksh 3.2 billion** for the recruitment of additional teachers. Other allocations include **Ksh 1.5 billion** for primary and secondary school infrastructure, **Ksh 10.3 billion** for tuition and tools support to vocational training, **Ksh 6.8 billion** for the construction and equipping of technical institutions, **Ksh 4.0 billion** for examinations fee waiver for all class eight and form four candidates, and **Ksh 4.0 billion** for NHIF Insurance for secondary school students.

**Mr. Speaker**, I have further set aside **Ksh 97.7 billion** to support University Education; and **Ksh 12.6 billion** to the Higher Education Loans Board.

### ***Improving governance and sustaining the fight against corruption***

**Mr. Speaker**, in my Budget Statement last year, I highlighted some of the measures to improve governance and transparency and accountability of Government. Procurement reforms included the requirement for all MDAs to continuously publish and publicize all details of procurement information and contracts awards on the Public Procurement Information Portal. **Mr. Speaker**, this portal was developed and launched. The Public Procurement Regulatory Authority continues to publish monthly contract awards by all Public Entities in the Portal. To date, 385 Public Entities have been registered in the portal, and 5,236 contracts

published valued at Ksh 146.5 billion. We expect further transparency with implementation of a new end-to-end e-procurement system fully integrated with IFMIS.

**Mr. Speaker**, to sustain the drive against corruption, I have enhanced allocations to the institutions mandated to fight corruption. In particular, **Mr. Speaker**, we have allocated Ksh **Ksh 2.9 billion** to the Ethics and Anti-Corruption Commission, **Ksh 3.0 billion** to the Office of the Director of Public Prosecutions, **Ksh 149.0 million** to the Unclaimed Assets Recovery Agency, **Ksh 50 million** to Asset Recovery Agency, **Ksh 540.8 million** to the Financial Reporting Centre, **Ksh 7.1 billion** to the Criminal Investigations Services, and **Ksh 5.7 billion** to the Office of the Auditor General.

Additionally, **Mr. Speaker**, to support the oversight and legislative role of Parliament and access to justice, I have allocated **Ksh 40.5 billion** to Parliament and **Ksh 19.4 billion** to the Judiciary.

### ***Digitalizing our economy***

**Mr. Speaker**, the rapidly developing digital economy provides opportunities to boost our economic growth and create jobs. Therefore, we need to invest more in this area to boost literacy and digital skills. We also need to invest in digital infrastructure and improve access to affordable broadband connectivity.

Thus, **Mr. Speaker**, to support the ICT sector and take advantage of the digital dividend, and consolidate Kenya's leading position in the technology space, I have allocated **Ksh 3.2 billion** for the Digital Literacy Programme; **Ksh 2.9 billion** for Government Shared Services; **Ksh 2.8 billion** for National Optic Fibre Backbone Phase II expansion and **Ksh 1.1 billion** for Installation of an Internet Based 4000 Network. I have also set aside **Ksh 7.2 billion** for the

on-going construction of Konza Technopolis Complex and another **Ksh 5.1 billion** to support the Konza Data Centre and Smart City Facilities project.

***Protecting the vulnerable members of our society***

**Mr. Speaker**, to share the benefits of our growing economy and to relieve the plight of the vulnerable members of our society, we have provided **Ksh 16.6 billion** for cash transfers to the elderly persons; **Ksh 7.9 billion** for orphans and vulnerable children (OVC); and **Ksh 1.1 billion** for cash transfers to persons with severe disabilities.

Also, we have set aside **Ksh 2.3 billion** for the Kenya Hunger Safety Net Programme; **Ksh 0.1 billion** to support those with Albinism and **Ksh 0.2 billion** for the National Council for Persons with Disabilities Fund.

**Mr. Speaker**, to support sports, culture and arts, I have also allocated: **Ksh 5.3 billion from the Sports, Arts and Social Development Fund** to support the youth, women and persons living with disabilities in areas such as sports and arts.

***Equitable regional development***

**Mr. Speaker**, to promote equitable regional development, we have provided **Ksh 41.7 billion** for the National Government Constituency Development Fund; and **Ksh 2.3 billion** for Affirmative Action Fund to promote regional equity and for social development. We expect these Funds to augment National Government functions especially school infrastructure to ease the shortages associated with the 100 percent transition policy. I have also allocated **Ksh 5.8 billion** for the Equalization Fund to finance programmes in the marginalized areas.

## **VIII. Taxation Proposals**

**Mr. Speaker,** the rest of my presentation summarizes various tax measures and miscellaneous amendments that I intend to introduce through the Finance Bill, 2019 and Regulations to realize the objectives set out in the “Big Four” Plan. The tax policy measures in this budget are expected to generate an additional **Ksh 37.0 billion**, in tax revenue to the Exchequer.

### ***Income Tax***

**Mr. Speaker,** the new Income Tax Bill that benefitted from extensive public consultations is at the final stage of legal drafting before it is submitted to this House shortly. Accordingly, I will make limited changes to the Income Tax Act to enhance equity and fairness.

**Mr. Speaker,** after four years of implementation, there is need to review the Capital Gains Tax legislation in order to enhance equity and fairness as well as harmonize the rate with other jurisdictions, including the East Africa Community region, where the rate ranges from 20% to 30%. Consequently, I propose to increase the rate of Capital Gains Tax from 5% to 12.5%.

Further, **Mr. Speaker,** in order to allow for seamless restructuring of corporate entities, I propose to exempt from the Capital Gains Tax the transfer of property that is necessitated by restructuring of corporate entities. This measure will allow corporate entities to restructure their operations for efficiency and market penetration.

**Mr. Speaker,** with the increasing demand to mobilize resources, there is need to expand the tax base and enhance our revenue. Over the years, with the expanded economy, there has

been an increase in services that are offered on commercial basis some of which are not within the ambit of withholding tax. I therefore propose to expand the scope of application of withholding tax by subjecting additional services, other than management and professional fees, to withholding taxes. **Mr. Speaker**, these services include security services, cleaning and fumigation services, catering services offered outside hotel premises, transportation of goods excluding air transport services, sales promotion, and marketing and advertising services. This measure will enhance tax compliance by persons offering these services.

**Mr. Speaker**, the Kenyan economy, and the world economy at large, is fast changing to keep up with technological advancements. In particular, the digital economy is fast evolving thereby posing challenges to taxation. This **Mr. Speaker**, is due to the unparalleled reliance on intangibles, the massive use of data, the widespread adoption of multi-sided business models and the difficulty of determining the jurisdiction in which value creation occurs. This has led to erosion of our tax base hence low tax revenue since the existing system is not equipped to deal with these emerging challenges. In this regard, **Mr. Speaker**, I have proposed a raft of tax measures that are aimed at providing the platform for taxation of income generated from the digital economy so as to boost our revenues for inclusive economic development.

**Mr. Speaker**, in my budget statement last year, I had indicated that the draft Income Tax Bill, 2018, would be submitted to Parliament for enactment. The bill is at an advanced stage of legal drafting and I will soon be submitting the same to this House. This Bill will modernize our Income Tax legislation so as to boost revenue mobilization.

## ***Value Added Tax***

**Mr. Speaker**, the VAT Act provides for refund of tax where the input tax exceeds the output tax for taxable supplies and full of input tax attributed to zero-rated supplies. In 2017, the VAT Regulations introduced a formula for determination of the amount of refund payable to taxpayers who supply both zero rated and standard rated supplies. However, the application of the formula is adversely affecting exporters as they are not able to fully recover the excess input tax relating to zero-rated supplies. To address this, I propose to adjust the VAT refund formula in order to ensure that these taxpayers are able to fully recover the portion of input tax relating to zero-rated supplies. This measure will boost Kenyan exports and make them competitive in the international market.

In addition, **Mr. Speaker**, the Value Added Withholding Tax system has been in operation for some time now. However, the implementation of the system has encountered challenges, the major one being a build-up of huge credits, yet the law does not provide for refund of the same to the taxpayers. **Mr. Speaker**, in order to address these challenges, I propose to reduce the rate of VAT Withholding from 6% to 2%. This will not only help reduce the build up of VAT refunds, but will also help enhance the cash flow of our business community and stimulate economic activities and job creation.

**Mr. Speaker**, Kenya is positioning herself as a leading assembler of electronics and computers within the region. This development initiative will transform Kenya into a major manufacturer and supplier of electronics and computers in the East Africa Community. **Mr. Speaker**, in order to encourage the growth of this sector, I propose to exempt from VAT locally

manufactured motherboards and all inputs used in their manufacture. This will make them more competitive against imported motherboards.

**Mr. Speaker**, the government has made tremendous efforts in protecting our environment. The country has banned the use of plastic bags to reduce pollution and provide clean environment to its citizens. However, other forms of plastic waste remain a major cause of both land and water pollution. **Mr. Speaker**, to address this challenge, there is need to promote plastic waste management by encouraging recycling of plastic waste. In this regard **Mr. Speaker**, I propose to exempt from VAT all services offered to plastic recycling plants and supply of machinery and equipment used in the construction of these plants. Further, to encourage investment in plastic recycling I propose to lower corporation tax to 15% for the first five years for any investor operating a plastic recycling plant.

### ***Customs Duty***

**Mr. Speaker**, on matters relating to Customs, I have proposed measures intended to make our products more competitive while at the same time protecting local industries from unfair competition. This will support the manufacturing sector under the Big Four plan which is expected to grow to 15% of GDP by 2022. **Mr. Speaker**, the details of the Customs measures will be communicated through the EAC Gazette and will be effective from 1st July this year. I wish to highlight a few of them.

**Mr. Speaker**, our Metal and Allied sector continues to face stiff competition from imported cheap and subsidized iron and steel products. In order to protect this industry, I have retained the ad valorem rate of import duty at 25% with corresponding specific rates of duty in a wide range of these products which are produced in the region.

**Mr. Speaker,** Kenya has sufficient capacity to produce some paper and paper board products and therefore there is need to protect these industries. However, the common external tariff on these products is 10%. To protect manufacturers of these products from unfair external competition, I have proposed that the import duty rate which was increased last year to 25% for a one-year period be maintained for another one-year period.

**Mr. Speaker,** as you may be aware the Government banned the logging of trees to stop deforestation. However, our manufacturers who use raw timber to manufacture furniture and other products are affected by this measure as they now lack adequate supply of raw timber. To address their plight and at the same time protect our forests, I have proposed to reduce import duty on raw timber from 10% to 0%. In addition, **Mr. Speaker,** to protect the timber and furniture industry from proliferation of cheap finished timber products and to enhance local production, I have proposed to retain an ad valorem rate of import duty at 25% with corresponding specific rate of import duty on the products.

### ***Excise Duty***

**Mr. Speaker,** betting has become widespread in our society and its expansion has had negative social effects, particularly to the young and vulnerable members of our society. In order to curtail the negative effects arising from betting activities, I propose to introduce excise duty on betting activities at the rate of ten percent of the amount staked.

**Mr. Speaker,** although currently there is low uptake of electric powered motor vehicles in the country, green energy technology is being embraced in many countries due to environmental benefits and renewability. Kenya too needs to promote the use of this clean type of energy in line with the sustainable development goal 7 which can be achieved through lowering the cost

of these vehicles through tax incentives. **Mr. Speaker**, this will encourage uptake of these vehicles as well as encourage investment in this area of technology. Further, it will support the policy on green energy thereby reducing carbon emission. In this regard, **Mr. Speaker**, I propose to reduce the excise duty on motor vehicles that are fully powered by electricity to 10%.

**Mr. Speaker**, Excise revenue has declined from approximately 3% of GDP in 2003/04 to about 2% in 2017/18. The law currently provides for an annual inflation adjustment for excisable goods that have a specific rate. The adjustment was done last year and the rates of excise duty on these goods were increased by 5.2%. **Mr. Speaker**, although the rates will be adjusted again in July 2019 by the inflation rate provided by the Kenya National Bureau of Statistics, the adjustment may not be adequate to address the declining trend of the excise revenues. **Mr. Speaker**, in order to address this decline and to boost excise revenues, I propose to increase the rates of excise duty on cigarettes, wines and spirit by 15%.

In other words, **Mr. Speaker**, excise duties on alcohol and tobacco will be increased as follows: a 750ml bottle of wine will have an excise duty of **Ksh 136** which is **Ksh 18 more** from the current rate; the duty of a bottle of whisky will go up by **Ksh 24** to **Ksh 182** for a 750ml bottle. The excise duty on a packet of 20 cigarettes will increase by **Ksh 8** to **Ksh 61** per packet.

### ***Tax Procedures Act***

**Mr. Speaker**, the Government introduced the Growth and Enterprise Market Segment (GEMS) with favourable listing conditions for the SMEs to raise finance from the capital markets for growth. However, the uptake has not been good in view of potential back taxes

that the enterprises may be facing. In this regard, **Mr. Speaker**, I propose to introduce an amnesty on the tax penalties and interest, on any outstanding tax for two years prior to the listing, for SME's that list under the GEMS program to encourage them to list and clean their tax records. The principal taxes shall however be paid in full.

**Mr. Speaker**, the Government is keen to position Kenya as a prime financial centre in East and Central Africa. The first step to achieving this is to make our financial services accessible to both Kenyans and our visitors. Currently, **Mr. Speaker**, the law requires one to have a KRA PIN before opening bank accounts. This poses challenges to visiting foreigners, privileged persons and foreign investors investing in our financial markets. In this regard, I propose to amend the Tax Procedures Act to empower the Commissioner to grant exemption from the PIN requirement, in certain circumstances, when opening a bank account.

### ***Fees and Levies***

**Mr. Speaker**, last year, through the Finance Act 2018, I introduced an anti-adulteration levy on illuminating kerosene in order to check the menace of adulteration of fuel. In addition to reducing the adulteration of fuel products, this levy has increased the cost to manufacturers of paint and resin who use illuminating kerosene as inputs. In order to address this problem **Mr. Speaker**, I propose to introduce a provision, under the Miscellaneous, Fees and Levies Act, 2016 that will allow manufacturers of paint and resin to get refund on the levy paid.

**Mr. Speaker**, in order to further cushion our local manufacturers, and facilitate the growth of the sector, I propose to reduce the import declaration fee (IDF) on intermediate goods and raw materials used by manufacturers from 2% to 1.5%, while increasing the rate on finished goods from 2% to 3.5%. In addition, **Mr. Speaker**, I am proposing to raise the Railway

Development Levy for finished products from 1.5 percent to 2.0 percent to further cushion our manufacturers.

**Mr. Speaker**, raw hides and skins are currently subject to export levy. This measure has had a significant impact in increasing value addition in the sector. However, the levy does not apply to tanned and crust hides and skins which are also being exported at the expense of value addition. **Mr. Speaker**, in order to further accelerate value addition and promote the manufacturing of local leather products, I propose to impose export levy on tanned and crust hides and skins at 10%.

### ***Financial Sector***

**Mr. Speaker**, the Capital Markets Authority is responsible for promoting, regulating and facilitating the development of an orderly, fair and efficient capital market in Kenya. In order to effectively deliver on this mandate, the Authority requires powers to sanction the players in the market in case of a default. In this regard, **Mr. Speaker**, I have proposed amendments to the Capital Markets Act to empower the Authority to enforce penalties and sanctions on market players who violate laid down rules and procedures.

**Mr. Speaker**, the Policy Holder's Compensation Fund was established to cushion holders of insurance policies in the event that insurance companies are unable to discharge their services. However, **Mr. Speaker**, the Fund has not been utilized since its establishment in 2004, despite 4 insurers going under statutory management. This is because the current provisions of the law only allow compensation to claimants of an insolvent insurer. To address these challenges, I have proposed amendments to the Insurance Act and the Regulations to bring clarity and enable the Fund to be utilized to compensate claimants.

**Mr. Speaker**, boda-boda transport has become an important sector in our economy, it is one of the largest employers of our youth and also provides cheap and convenient transport for Kenyans. Despite the above benefits, **Mr. Speaker**, this mode of transport has proven to be very risky to the riders, passengers and even pedestrians. Further, **Mr. Speaker**, the accident victims, who are mostly from the lower cadres of the society, are left to seek financial assistance for treatment from friends and relatives since these boda bodas are not insured. In order to mitigate against these risks, **Mr. Speaker**, I propose to amend the Insurance (Motor Vehicle Third Party Risks) (Certificate of Insurance) Rules to require all passenger carrying boda bodas and tuk-tuks to have an insurance cover for passengers and pedestrians.

**Mr. Speaker**, the Retirement Benefits Schemes that invest in guaranteed funds are subjected to unfavourable terms of exit. In particular, the schemes are required to withdraw funds in instalments spread over three years otherwise they suffer a charge of up to 25% of the Fund value. This exposes members to low returns on the fund balance due to an extended transfer period. Therefore, **Mr. Speaker**, I have proposed to amend the Retirement Benefits Act to reduce the period of transfer to one year so as to allow members to access better returns.

**Mr. Speaker**, while both Individual and Occupational Regulations under the Retirement Benefits Act make provision for creation of reserve funds in the defined contribution schemes, the schemes are not required to make provisions for distribution of the reserve funds in the rules. This has made some members exit without accessing their entitlement to the reserve funds. In this regard, **Mr. Speaker**, I propose to amend the Occupational Benefits Regulations and Retirement Benefits Regulations to ensure that the exiting members receive their equitable share of the reserve funds.

**Mr. Speaker,** last year I introduced amendments to allow contributions for post-retirement medical funds in the Occupational and Individual Retirement Benefit Schemes Regulations. This was meant to enable members of these schemes to contribute for a medical scheme to be accessed after retirement as a form of social security. In order to ensure that many Kenyans enjoy this opportunity. **Mr. Speaker,** I proposed to further amend the Umbrella Retirement Schemes Regulations to allow members of the Umbrella Retirement Benefits Schemes to contribute towards Post-retirement Medical Fund. This will also contribute to the achievement of Universal Health Coverage.

**Mr. Speaker,** in order to establish the legal framework for the operation of the National Electronic Single Window System, I will soon submit the National Electronic Single Window Bill, 2019 for deliberation by the National Assembly. **Mr. Speaker,** the Bill proposes to legislate the use of the National Single Window System as well as reestablish the Kenya Trade Network Agency. In addition, the Bill also seeks to amend various Statutes to recognize and formalize the issuance of electronic certificates/permits that are currently issued by various Agencies through the System.

**Mr. Speaker,** the aim of the interest rate capping introduced in September 2016 was to reduce the cost of borrowing, increase access to credit and higher return on savings. It is now going to three years and the law has had the opposite effect with micro, small and medium enterprises (MSMEs) starved of credit and the loan books of small banks becoming smaller.

**Mr. Speaker,** you will recall in the Finance Bill, 2018, I proposed to amend the Banking (Amendment) Act, 2016 by repealing section 33B of the Act. The proposal was motivated by the need to enhance access to credit and minimize the adverse impact of the interest rate

capping on credit growth while strengthening financial access and monetary policy effectiveness. In addition, I highlighted a number of reforms that we were putting in place to optimize lending to the private sector while at the same time encouraging innovation in the financial sector in Kenya. Already the Central Bank of Kenya is dealing with consumer protection issues in the banking sector.

**Mr. Speaker**, given the challenges that MSMEs are facing in accessing credit from the banking sector and conscious of the need to spur business activities, I am in this year's Finance Bill proposing a repeal of section 33B of the Banking (Amendment) Act, 2016. I am convinced this will unlock credit to the private sector and in particular to the MSMEs.

Further, **Mr. Speaker**, we will be launching an "SME Credit Guarantee Scheme" in a few weeks' time, to deepen access to credit by SMEs without being subjected to complex application procedures and collateral requirements. This together with Biashara Kenya Fund and SME Fund will address the very reason why interest rate caps were introduced.

**Mr. Speaker**, the aforementioned reforms will not only address shortcomings in the credit market but will also catalyze provision of credit to support the Government's "Big Four" Plan.

## **IX. Addressing Future Fiscal Risks to the Budget and Sustainable Development**

**Mr. Speaker**, the budget is also about insulating ourselves against future risks and sustaining our long-term development agenda.

### ***Public Private Partnerships***

**Mr. Speaker**, the funds allocated in the budget for infrastructure development are not adequate to meet the growing needs for quality and sustainable services and to support the “Big Four” Plan. In this respect, the Government will continue to leverage on the private sector to fund infrastructure development through public private partnership arrangements.

**Mr. Speaker**, we have already made great strides in this area, and have awarded the Nairobi - Nakuru - Mau Summit Toll Road Project and approved development of the JKIA-James Gichuru Nairobi Expressway Project to be done under the PPP framework. These projects are expected to commence soon and will significantly reduce traffic in Nairobi City and on the Nairobi-Nakuru highway.

### ***Green Growth***

**Mr. Speaker**, as the host Nation of the United Nations Environment Programme (UNEP), Kenya remains a global leader in Environmental Conservation and Sustainable Development.

**Mr. Speaker**, we have continued to champion the green economy by spurring industrial growth in a manner that protects the environment from the effects of climate change. We are also committed to expand our forest cover from 7.2 percent to the 10 percent target.

**Mr. Speaker**, building on our commitment to foster a sustainable environment, we have issued another ban on single use plastics in all our protected areas, including: National Parks, beaches, forests and conservation areas. The ban shall be effective from 5th June, 2020.

### ***Harnessing Natural Resources, Sovereign Wealth Fund***

**Mr. Speaker**, as reiterated by H.E. The President during his State of Nation address in April this year, our resolve to sustainably manage our natural resources remains unwavering. **Mr. Speaker**, this is a new sector in our economy. We shall soon export the crude to establish its commercial viability. In addition, the National Intelligence Service working with Department of Defence is conducting a geophysical survey to map out the natural resources across the country. In order to prepare for that, we have finalized the Kenya Sovereign Wealth Fund Bill which is undergoing legal drafting before submission to Parliament for approval.

**Mr. Speaker**, among other things the SWF Bill proposes creation of a Fund and provides a legal framework to guide the investment of revenues from oil, gas, and mineral resources. It is important to underscore that, other than the cost of managing the Fund, all the monies in the Fund will be used to finance critical development programmes, build savings for future generations in order to ensure inter-generational equity, and for stabilizing budgetary expenditures in the event of fluctuations in the price of the natural resources.

### ***Digitalization***

**Mr. Speaker**, the Government has eased service delivery to the public through digitalization of critical services in the e-citizen portal. We have e-Registry, and we are digitalizing land transaction services, business registration, motor vehicle and driver's license services and services under the registration of persons, including passports.

As a result of the ICT penetration, **Mr. Speaker**, Kenya has been ranked seventh in Africa in e-commerce uptake and 85th globally, in the United Nations Conference on Trade and Development (UNCTAD) Business-to-Consumer E-commerce Index, 2018.

**Mr. Speaker,** in May 2019, H.E. The President launched Kenya's Digital Economy Blueprint for Africa in Kigali, Rwanda. The Blueprint serves as one of Kenya's contributions to SMART Africa Alliance in its role as the champion for Digital Economy within the Alliance and proponent of an African-wide digital economy.

**Mr. Speaker,** the adoption of the Digital Economy framework offers us opportunities to leapfrog and join nations in the First World and actively contribute to the global economy.

### ***State-Owned Enterprises Reforms***

#### **Development Bank Institutions/Banks**

**Mr. Speaker,** the Government will continue with its initiatives to recapitalize and restructure the banks that are partially or wholly owned by the Government with a view to creating stronger Banks and Development Financial Institutions. In this regard, the Government as a shareholder is supporting the merger of the National Bank and the Kenya Commercial Bank that will result in creation of one of the strongest Banks in East Africa.

In addition, the merger of the Tourism Finance Corporation, IDB Capital and the Industrial & Commercial Development Corporation (ICDC) to form the Kenya Development Bank will have the right capacity to support the industrial growth of the country by providing long-term development financing.

#### **Sugar Companies**

**Mr. Speaker,** you will recall that H.E. The President appointed a Task Force in November 2018 to review our sugar industry with a view to addressing the challenges in the sector. The

Government will implement the recommendations from the Task Force, and in the meantime, pay all outstanding debts owned by sugarcane farmers.

## **Universities**

**Mr. Speaker**, university reforms are critical at this stage. We shall review all the Universities' public financial and management systems; appraise ongoing projects with a view to restructuring them; and implement radical measures that will include merger or closure of some universities and university campuses that are not able to sustain their operations against the number of students admitted or degree courses offered.

## **X. Conclusion**

**In conclusion, Mr. Speaker**, the Government, under the leadership of His Excellency President Uhuru Kenyatta, has steered our economy to become the largest and most diverse in the region. **Mr. Speaker**, we should be proud of this and be ready to guard and further promote our growth and development.

**Mr. Speaker**, the budget I have presented today has undergone a vigorous preparation process in which we had to make tough decisions in the quest to move our country forward. Faced with limited resources we have had to make tough choices to cut low priority expenditures. I firmly believe that if we all embrace and support the measures spelt out in this budget, we shall create more jobs and transform the lives of Kenyans.

**Mr. Speaker**, this budget takes into account the social-economic status of our people and their desire for better livelihoods and quality of their lives. In summary, **Mr. Speaker**, this Budget:

- Responds to the concerns of Kenyans, which include high cost of living, unemployment, poverty and income inequality;
- Lays a firm foundation for economic transformation and renewal;
- Aligns resource allocation to the “Big Four” Plan while sustaining allocations to critical infrastructure as well as pro-poor spending in health, education, and social safety net programs; and
- Provides support to the youth and growth of MSMEs.

**Mr. Speaker**, the actualization of our development goals in the past has largely been driven by the Kenyan spirit of peace, hard work, unity of purpose and national cohesion. **Mr. Speaker**, these values remain critical for our growth and development. I therefore, urge all Kenyans to nurture and promote peace and unity of purpose as fundamentals in building the Kenya we want – a prosperous and peaceful nation in which we all aspire to live in.

At this point, **Mr. Speaker**, I wish to thank H.E. The President and H.E. The Deputy President for their leadership during this Budget preparation process.

**Mr. Speaker**, allow me to thank you, most profoundly for according me this opportunity to present to this august House, the Highlights for the FY 2019/20 Budget and also for the support the House has accorded the National Treasury in the budget formulation process.

I am also greatly indebted to my Cabinet colleagues and the Principal Secretaries for their support and cooperation throughout the process of preparing this budget.

Many thanks to the Budget and Appropriation Committee led by the Chairman, Hon. Kimani Ichung'wa, the Finance and Planning Committee led by Chairman, Hon. Joseph Limo and the other Departmental Committees of the National Assembly as well as leader of majority Hon. Aden Duale for the time and dedication in sifting through the Estimates and constructive debates that helped refine this Budget.

A word of appreciation to the staff of the National Treasury and Planning led by the Principal Secretary, Dr. Kamau Thugge, who have tirelessly worked long hours to ensure that this budget and supporting documents meet the legal timelines.

Finally, **Mr. Speaker**, I wish to thank Kenyans from all walks of life who gave their suggestions and proposals throughout the budget making process.

**Thank You**

**God bless you, God bless Kenya**

**Mr. Speaker**, in April 2019, I submitted the budget estimates together with the accompanying documents. As I conclude, I further submit the following documents to this august House;

1. Budget Statement;
2. Finance Bill, 2019;
3. The Competition (Amendment) Bill, 2019;
4. The Insurance (Amendment) Bill, 2019;
5. Various Legal Notices;
6. Financial Statement for FY 2019/20;
7. 2019 Budget Policy Statement;

8. Estimates of Revenue Grants and Loans for FY 2019/20;
9. 2019 Medium Term Debt Management Strategy;
10. Budget Highlights – The “Mwananchi” Guide, 2019/20;
11. Statistical Annex to the Budget Statement for the FY 2019/20; and
12. Public Finance Management (Biashara Kenya Fund) Regulations, 2019.

**Mr. Speaker,** I will soon submit the following bills which are at advanced stages of legal drafting to the National Assembly for approval.

- (1) Income Tax Bill, 2019;
- (2) Kenya Sovereign Wealth Fund Bill, 2019;
- (3) Central Bank of Kenya Bill, 2019; and
- (4) Kenya National Electronic Single Window Bill, 2019.

**THANK YOU VERY MUCH, MR. SPEAKER**  
**JUNE 13, 2019**