1967/68

COMMITTEE OF WAYS AND MEANS

MOTION

THAT MR. SPEAKER DO NOW LEAVE THE CHAIR

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

It is usual on occasions such as this one for me to draw the attention of hon. Members to certain documents before the House. These are the Estimates of Expenditure for 1967/68 and the Economic Survey for 1967 which have been tabled, and the Estimates of Revenue and the Financial Statement which I now present. I will return to these papers at some stage in my speech.

PAPERS LAID

1967/68 Estimates of Revenue of the Republic of Kenya for the year ending 30th June 1968.

Financial Statement for the year of Account 1967/68.

(By the Minister for Finance (Mr. Gichuru))

(Resumption of Budget Speech)

For the present, Mr. Speaker, allow me to express my sincere appreciation of the commendable contribution which members of the Treasury staff, the personnel of other Ministries and Departments have made in the preparation of the estimates and other related documents into a form acceptable to this House. To all of them, I am most grateful.

The outturn for 1966/67 will be better than I forecast when I introduced my Budget last year. I had expected a balance on recurrent account and a slight increase in the deficit on development account. In fact, there will be a small overall surplus and revenue and receipts from loans will exceed total expenditure both recurrent and development.

Receipts from Customs and Excise will be over 10 per cent up on the estimate in line with the growth of the national income in 1966. This is most encouraging and suggests that there is not much wrong with our tax system. Income tax will also be substantially up for three main reasons. The first, the successful introduction of P.A.Y.E., the second the fact that company profits in 1965 on which tax was paid during this financial year were not down as much as I had expected and the third that the Income Tax Department has been making strenuous efforts to collect arrears of tax. I expect a recurrent surplus of about K£3.6 million which I propose to transfer to the development account before the 30th June. The surplus would have been higher if we did not have to repay to the Government of the United States a loan of K£1.366 million relating to export of the yellow maize we imported from America. I, however, expect to recover most of the money from the Maize and Produce Board, possibly in the next financial year. The transfer to Development Account will bring the deficit in the Development Exchequer down to what I regard as a normal figure of about K£5 million.

Development receipts will be below the estimate although I have achieved and exceeded my target of K£7 million from local loans. I expect to receive only about K£6.5 million from overseas sources during the year. There are two reasons for this shortfall, the first, some delays in concluding negotiations with overseas governments and international agencies and the second that we can no longer draw down overseas assistance on the basis of the estimates because of the fact that we have in the first instance to spend our own money and thereafter support our request for reimbursement with documents showing that expenditure has been incurred. This means that we will not draw any overseas aid towards expenditure on development in the last three months of the financial year which is always the period of highest expenditure until we can put in our claims in July.

I expect actual drawing from the Exchequer on development account to be only about K£15 million as against the estimate of K£22 million. This does not mean that under-expenditure will be anything like K£7 million. Accounting Officers had K£2.4 million in hand at the beginning of the year and we will have obtained about K£800,000 from credit purchases which will also not be reflected in drawings from the Exchequer. The under-expenditure which I forecast in my 1966/67 Budget Speech will therefore be rather less than K£4 million and the total expenditure will be a record. The Government is currently engaged in a study to find out the probable causes of the under-expenditure with a view to remedying the situation. I expect that we will do even better in 1967/68.

To sum up, we will start the year in a stronger financial position than ever before since our Independence.

I know, Mr. Speaker, that Honourable Members will be waiting anxiously to hear what taxation changes I have to propose and will not therefore delay too long in getting to what will be regarded as the real meat of my Speech. I must, however, begin by referring briefly to some of the major points in the Economic Survey which provides the background to the Budget.

[The Minister for Finance]

Amongst the various external economic factors which influenced our economic performance in 1966 are the continued balance of payments deficits in the major world reserve centres; the consequent corrective measures calling for capital outflow restrictions from these centres and high rates of interest nearly throughout the world during the greater part of the year: the buoyancy of world trade which expanded by 11 per cent in value; the faster expansion of trade in manufactures than in primary commodities: decline in price of certain important commodities such as coffee and sisal: the more guarded attitude towards the granting of development aid mainly caused by balance of payments problems in the United States and in Britain: the fall in the level of untied contributions by the developed economies to the International Development Association: and in the East African scene, restrictions on our trade goods in the Tanzanian market.

Despite these rather discouraging occurrences which are beyond our control as a country, our Survey has concluded that in 1966 our exports increased to a new record level although some of them were sold at a lower price in the World Market: that National Production, as measured by Gross Domestic Product, expanded at the best rate since such estimates have been in Kenya, that we were able to raise substantial funds from our own local market for development and that despite the reduction of development aid on a world level, we managed to negotiate a higher amount of external aid; that the overseas private capital inflow was higher than in the past years and that the evidence available shows that the trend will continue at a more enhanced rate. In short, and as a general feature, 1966 was a good year for Kenya despite the existence in the world economic scene of factors that could have more adversely affected our economy. This should not lead us into believing that we can no longer be very much affected by happenings elsewhere in the world. On the contrary, the major explanations of this rather abnormal situation are not very far to find. We have continued to provide conditions conducive to more investments as a result of outstanding leadership by His Excellency the President and his Government, the implementation of our Development Plan has had a favourable impact on the economy and weather conditions have been generally good throughout the country.

One measure of economic development which economists seem to accept is the estimate of Gross Domestic Product which according to Table 1.1. of the Economic Survey rose by 10.3 per cent at current prices in 1966 as compared with 2.5 per cent in 1965 and 7 per cent in 1964. Admittedly, 1965 was an abnormal year due to drought conditions but the 10.3 per cent increase in the Gross Domestic Product in 1966 leads to the conclusion that we can hope to achieve and maintain the rate of growth forecast in the Plan of 6.3 per cent at constant prices and perhaps exceed it.

As Chapter 3 of the Survey shows the most important sector of our economy, namely agriculture, expanded by 15.6 per cent. Sales of almost every crop exceeded the 1965 level to the point that the total value of marketed production rose by nearly 18 per cent. Despite a fall in the quality of our coffee and the drop in price, the item which accounts for much of the increase was coffee which brought K£4.4 million more than in the previous year. It is, however, sad but true that we should have continued to import wheat because our production could not meet the local demand even though the Government's Guarantee on Minimum Financial Return, to say nothing about the suitability of our land for this type of farming, had been improved and widely publicized. I hope our farmers will in the future be able not only to satisfy the whole Kenya market for wheat but also produce some surplus for export to the neighbouring countries. The most encouraging aspect of farming in 1966 was the striking rise in the value of marketed produce from the small farm sector. This went up by K£5.8 million or by 40 per cent on the previous year. I should perhaps emphasize that this figure does not include the value of sales from small farms within the districts concerned which undoubtedly also went up, but relates in the main to sales through the statutory marketing organizations. The contribution of the small farms to the total increase in recorded sales of agricultural produce was 68 per cent. One valid conclusion that can be drawn out of this is that in 1966, more money came into the possession of small farmers who not many years past were engaged almost exclusively on subsistence farming.

It seems likely that in the near future and assuming that the weather will continue to be kind, the farmers' main concern will not be that of lack of productive capacity but rather that of the need for better prices for our produce in the world commodity market.

The problem of markets for our increased coffee production is well known throughout the country. Despite improvement in the quality and quantity of our pyrethrum, the crop is still

[The Minister for Finance]

under heavy threat from synthetic insecticides. The Government is committed to the policy of diversification of marketable crops, particularly those crops that will bring more cash to farmers principally in the small farm sector. I will return to this subject when dealing with the 1967/68 Development Estimates.

Chapter 4 of the Economic Survey shows that there is a renewed high level of activity in the building industry and that this development would have been at a much higher level were it not for the shortage of contractors, apparent lack of skilled artisans and also a shortage of ballast material. The shortage of contractors may be excusable and production of ballast should be a paying proposition under our present circumstances. As regards skilled artisans, I want to appeal to the remaining unemployed Africans with the necessary qualifications to register themselves with the Ministry of Labour so that they may assist the Government in placing them within the industry. It is also evident that building costs have risen sharply in the last two years. Although there are other factors which would explain this situation, I am reliably told that most of the contractors are making rather excessive profits and I want to appeal to them to stop this practice which if not brought to an end may hamper development for the benefit of the majority and only enrich a few. They have the opportunity, which they should not abuse, to make a fair return for their skill and labour.

The visible adverse balance of trade was K£50 million on trade with countries outside East Africa and K£30 million on all our trade. This is at first sight most disquieting but the figures show that, in fact, during 1966 our overseas assets rose which means that we were able to finance this increased level of imports without strain on our balance of payments. How were we able to do this? There were two reasons. The first that we continued to obtain substantial amounts of investment from overseas both in the public and private sectors. The second was that our gross receipts from tourism increased to a record figure of K£14 million. I know that it has been suggested that we are losing part of the money which we should get from tourism and this is a matter which I am arranging to have investigated, but I am assured that the figure of K£14 million is a conservative estimate of what we actually earned in foreign exchange in 1966. In reply to a Parliamentary Question in April, my Assistant Minister, Mr. Odero-Jowi, informed the House that it was estimated that out of tourist expenditure of about K£14 million, the Government was probably collecting nearly K£3 million in taxation. This shows that there are two benefits that we get from tourism, one foreign exchange and the other revenue for the Government. A third benefit is increased employment opportunities. It looks as if our programme for constructing new hotels, which is now well under way, may not be completed in time to enable us to cope in 1968 with the rapidly increasing demand. I must admit that if I had been more generous in taxation concessions to the tourist industry this development might have taken place earlier. However, I am sure that my policy was right and will be supported by this House. Hotel operators will pay the normal rates of tax on their profits and the valuable land made available for hotel sites will be charged for at the appropriate value. No special customs and excise privileges will be given on materials used in hotels or on commodities consumed by tourists. The Government will make effort to encourage the development of tourism but not in a manner which will deprive the country of a reasonable return from the tourist trade. The Government, however is making a large contribution in the development of this industry by building Tourist roads, maintaining National Parks, Airports, Airstrips and other related services. I do not anticipate that we will have to resort to measures of credit control or import licensing to protect our balance of payments position although action on these lines could become necessary if we do not continue to succeed in attracting investment and expanding our earnings from tourism.

The year under review, in so far as our external trade is concerned, was a record in that both imports and exports taken together went up by 18 per cent looked at against the 1965 figures, although for the first time in two years there was no increase in exports to Uganda and Tanzania. Coffee, tea and petroleum products accounted for almost 78 per cent of the increase in exports which as a whole rose by 23 per cent to K£58 million. The agricultural sector contributed the most to this expansion, with the small farm sector accounting for K£6 million over 1965 income. As for the overseas imports these rose by 26 per cent to K£112 million the largest part of which is accounted for mainly by import of capital goods by both the Public and Private sectors. Consequently, the overall visible trade balance deteriorated by K£13.1 million over and above the 1965 figure of K£19.2 million but in so far as this was due to imports of machinery and equipment the apparent deficit was to a large extent covered by an inflow of capital.

[The Minister for Finance]

Chapter 7 of the Survey deals with employment and earnings and shows that there was a rise in employment in 1966. I am sure that with increased investment in agricultural projects, industrial projects and in hotels, housing and roads in 1967, the figure will rise further, although not as fast as we would like. The Survey also points out that over the last three years the rate of growth of average earnings has been nearly three times that of wage employment which strongly supports the need for an incomes policy.

I have only one more point to make before I leave the Economic Survey. In my Budget Speech two years ago, I suggested that the published figures for the National income were an under-estimate. I am glad to see that additional information which our Statisticians have been able to collect has proved me right. The 1966 *per capita* income calculated on the old basis would be K£33 but on the new basis K£38. We are therefore collectively Sh. 100 a year better off than we thought, although this does not mean that we will necessarily find an unexpected Sh. 100 note in our pockets when we go home this evening!

I now turn Mr. Speaker, Sir, to banking and money matters and specifically, to begin with, the Central Bank of Kenya. In my last Budget Speech, I gave a résumé of the progress the Government had made towards the establishment of the Bank. It is now my intention to review briefly the progress which has been made since the Bank commenced business. This was on 14th September 1966, when the Bank's notes were issued for the first time. New coins were also issued for the first time on 10th April 1967, and as at 31st May 1967, there were in circulation Kenya Notes and Coins to the tune of K£18,124,520 and K£525,060 respectively. On the coins, there has recently been very interesting comments in the local Press and no doubt Honourable Members intend to express further views. It should, however, be remembered that the Bank was established under heavy pressures resulting from developments in East Africa which were beyond the Government's control and that arrangements for the minting of coins were very much affected by one of the highest rises ever in the price of copper.

In December 1966, the Central Bank took over from the National and Grindlays Bank Limited the functions of banker to the Government when the administration of the main Government Account was transferred to it. Mr. Speaker, Sir, I trust that this House will join me in expressing the Government's appreciation of over 60 years' efficient service which the National and Grindlays Bank have given to Government. The Central Bank has also taken over the Administration of the Exchange Control Act. In addition to its day-to-day business the Central Bank has been playing a prominent role in assisting to draft a new legislation to replace the existing Banking Act and also in the drafting of another Bill intended to make unnecessary the endorsement of cheques which are paid into a Bank for credit to the payees account. I am hopeful that in due course, I shall be laying before this House Bills to give effect to these fundamental needs of a modern banking system.

In the commercial banking system in Kenya today the trends which I mentioned in my Speech last year have continued. Private bank deposits stood at K£67 million at the end of March 1967, an increase of some K£6½ million since last June. There was a smaller rise in advances to the private sector during the period with the result that the private advances/deposits ratio fell from 89 per cent in June 1966 to 86 per cent. However, the overall advances/deposits ratio at March 1967 was 76 per cent. This latter figure can be regarded as most satisfactory and close to the norm of 70 per cent which I mentioned last year. There has also been an improvement in the commercial banks' cash ratio (that is the percentage of notes and coin and balances at the Central Bank against total deposits) during the period from about 3½ per cent to over 5 per cent, although this figure is still below the more usual 8 per cent.

In other words, our commercial banking system is in good shape and we intend to keep it that way. Our money supply is something over K£100 million of which only some 20 per cent is in the form of currency in circulation. This is a surprisingly low figure for a country of the size and at the stage of development that Kenya is at present and it indicates that there is a well developed and growing banking habit in the country which augurs well for the future.

At the present time we have every reason to be confident in the international standing of our currency. Our Central Bank, which has got off to such a splendid start, is in a strong position to continue maintaining the external value of the Kenya shilling. Since the beginning of 1967 the level of external assets has never been less than 115 per cent of the amount of currency in circulation. At the end of April, when the Bank's foreign holdings reached a peak of over K£24 million this ratio was as high as 134 per cent. However, this is not the whole picture of the country's foreign exchange reserves; one has to

[The Minister for Finance]

remember that Kenya still has a share in those foreign assets which are held by the East African Currency Board and which at the end of March amounted to some K£26 million. Furthermore, the commercial banks also hold substantial amounts of foreign exchange in the form of balances with their Head Offices, etc. By adding an estimate of these items to our Central Bank's holdings and by including our automatic right, otherwise known as "gold tranche" to draw from the International Monetary Fund we arrive at a total figure for our foreign exchange reserves of over K£40 million —an amount in excess of the value of four months' imports which is the target set in our Central Bank Act. This I think you will agree, Mr. Speaker, Sir, is a most satisfactory position and indicates the underlying strength of the Kenya economy.

Two months ago, Dr. Leon Baranski handed over to Mr. Nderitu Ndegwa, the former Secretary to the Cabinet, the responsibility of the Office of Governor of the Bank. I am sure the House will join me in wishing Dr. Baranski who has served us well a happy retirement and Mr. Ndegwa success in his new capacity of service to this Nation.

Rather briefly, Mr. Speaker, Sir, I would now like to turn to the subject of Public Finance with particular reference to the economic impact caused by expenditure by the Government and other related bodies. This is discussed in Chapter 8 of the Economic Survey from where it will be noted in Table 8.1 the public sector contributed a total of K£51.7 million to the Gross Domestic Product. Table 8.2 shows that since Independence and up to 1966/67, Government receipts for both recurrent and development expenditure will have increased by about K£25 million and that expenditure will have risen by about K£30 million. The difference between the two figures is accounted for by the deficit in development account. It is of great interest to note that at a time when under-developed countries are so often criticized for governmental extravagance, capital expenditure of Government between 1962/63 and 1965/66 nearly doubled while expenditure on wages and salaries went up by no more than 19 per cent in spite of a substantial increase in the number of Government employees. One main explanation to this of course, is the fact that the Civil Service has been localized to over 92 per cent so that Inducement Allowances and Passages which used to be paid in relation to expatriate officers have been considerably reduced.

The message of the Economic Survey is a cheerful one, that we are succeeding in achieving the targets set out under the Development Plan. We are achieving our target for economic growth. We are near to achieving our target for investment both in the public and private sectors and in 1966 the most significant rise in incomes was obtained by the small-scale farmer. But we have a long way to go in achieving the rise that we would like to see in the incomes of the great mass of our people. It will be one of the objectives of the Government to try to ensure that those in employment do not get a disproportionately large share of the benefits of economic growth.

I would now like to turn to estimates of expenditure by firstly and briefly referring to the approved development estimates for 1966/67. During the financial year, the Government was able to finance, amongst other undertakings, the completion of the new Ngong Medium Wave Transmission Station, the new Teacher-Training College at the Coast, the Forest Department's Extraction Roads Unit at Kaptagat with equipment worth K£250,000, the construction of over 300 miles of new roads, including 130 miles of bituminized roads, and the planting of nearly 10,000 acres of new forest of which 9,500 acres will be soft woods.

As for 1967/68, the General Memorandum Note included in the Development Estimates indicates that we propose to spend a total of K£26.6 million during the financial year. Land Settlement will take up K£3.2 million and K£721,000 will be required to re-finance maturing debts relating to the Mombasa Pipeline Board and the Contract Finance Housing Scheme at Ofafa, Nairobi. The provision for general development of K£23.4 million is substantially more than the K£20.7 million shown in the published Development Plan for 1967/68.

In relation to the amount to be raised from overseas sources for development, a number of loans have already been negotiated. These include K£1 million from the African Development Bank, K£1¼ million from the United States Aid for International Development towards the construction of trunk roads and a loan of K£1¼ million from the International Development Association of the World Bank for small-holder agricultural credit scheme. K£4.1 million will come out of the United Kingdom interest-free loan of K£18 million.

Among the new projects to be financed are the Eldoret/Tororo and Athi River/Namanga roads, otherwise known as the Great North Road, Sugar roads in the Chemelil/Muhoroni area, Mombasa Television, the Kenyatta National Teaching Hospital, improvements to Airports and Airstrips, and building works at the

[The Minister for Finance]

University College, Nairobi. Projects already started which are expected to be completed during the year include the Nairobi/Mombasa road, Kenya Polytechnic Extensions, Homa Bay Hospital and the One Million-Acre Settlement Scheme. Notably, there will be increases of K£2.4 million for Education and K£1.2 million for Health Services. The Building content in the estimates amount to K£8 million while the road and airport construction programme will call for expenditure of K£5.5 million. It is hoped that the amount of under-expenditure in 1967/68 will be much less than in the current year. I said earlier that I would return to the subject of cash crops. It seems that the best opportunities exist in increased output of tea and the efforts of the Government in relation to the industry are directed towards that end. By the end of 1966, there were about 16,200 acres planted with tea under the smallholder scheme. The 1967 planting which involved 5,800 new growers has brought the total acreage under the scheme to 21,000 acres while the number of growers increased to 32,000. The Tea Development Authority is now in its second plan to plant 14,400 acres with tea. The Plan for tea development which was originally scheduled to be completed by 1970, it now seems, will in all probability be completed by 1968 or two years in advance. Arrangements are underway to start in 1969 the Authority's Third Plan which envisages planting of 36,000 additional acres over a period of five years from then. Improved methods of producing better quality planting material are being applied and the Government is hopeful that by 1970, there should be no limit of the planting material available to the smallholders. It is also planned to build 11 more factories to bring the total number of factories at the disposal of the smallholders to 18 factories by 1973.

These measures and others in the agricultural side of our economy can only be construed as the Government's acceptance of the fact that our economic salvation, at least as far as it can be foreseen, lies in the best utilization of our agricultural land. Just as coffee and tea have transformed the farming picture in the areas most suitable for these crops, so in the same way, we can expect major advances during the next few years in the areas being developed for sugar. By 1970 there will be between K£15 million and K£20 million invested in the sugar industry, almost as much as in any of the other major agricultural industries in Kenya and we are planning to spend K£1 million next year on roads in the sugar areas.

The Development Estimates show that we propose in 1967/68 to finance expenditure of K£26.6 million to the extent of about K£15 million from overseas sources and K£11.6 million from internal sources. It has been suggested by Honourable Members in some of the debates which we have had in the House in recent months, that we are continuing to rely too much on money from overseas for financing our Development Plan. I would, however, like to point out that we are in fact shifting very substantially the proportions of development expenditure to be financed from overseas and internal sources. In 1964/65 it was about 80 per cent but in the present financial year we have in fact obtained more finance locally than from overseas. Next year we are planning to finance over 40 per cent of our expenditure locally partly from loans and partly from taxation. This target of K£11.6 million may seem high but I am confident that it will be met. On the other hand, it could not be significantly increased and if we did not have access to overseas sources of finance then we could not contemplate expenditure of anything like K£26.6 million on development next year.

This is the first and most obvious reason why we must continue to seek money from overseas for a substantial part of our development expenditure. The second and only slightly less obvious reason is the one to which I have already referred briefly in discussing our visible deficit in external trade. Although the direct import content of our plan is only about 20 per cent it has been shown that local cost expenditure generates a demand for more imports. Therefore, if we do not continue to obtain external loans the amount of our development expenditure will be severely limited for balance of payments reasons. This point was emphasized on page 98 of the 1966/1970 Development Plan which stated that:—

> "In 1970 K£26.5 million out of the balance of payments deficit of K£28 million forecast for that year would have to be financed by the net inflow of capital from abroad."

Again on page 123 it is stated:—

> "That a Foreign capital inflow projected at a level sufficient to finance two-thirds of Central Government investment, 40 per cent of private investment and one-half of total planned investment was necessary to enable the country to meet its foreign exchange obligations and maintain a prudent level of foreign reserves."

In other words, in order to avoid balance of payments difficulties, we need to obtain from overseas sources, money to finance imports and in addition at least an equivalent amount of money to finance local cost expenditure.

[The Minister for Finance]

The third reason is that from the point of view of the Budget and the point of view of the Kenya tax-payer a lesser financial burden is placed on the country by borrowing money on favourable terms from overseas than by raising it at current rates of interest on the local market. The actual charge on K£1 million borrowed locally is about K£75,000 a year including interest and a 1 per cent sinking fund and at the end of 25 years only half the capital sum borrowed would have been covered by the sinking fund. K£1 million borrowed from overseas and repaid over 25 years with no interest costs us K£40,000 a year as compared with K£75,000 a year for a similar amount borrowed locally. At the end of 25 years the whole sum has been repaid, whereas with a local loan only half of it has been repaid.

The Government should have a free hand in matters of borrowing and in exercising its borrowing powers the main consideration will be, as it has always been, to obtain the best terms whether overseas or locally which will benefit the people of this country; provided that this main criterion is fulfilled, it should not matter whether the money is from the East or West.

Turning now to the recurrent expenditure for 1967/68, it will have been noted that this stands at a net amount of nearly K£57 million and that if K£1.9 million which will be met by way of a loan from the British Government in connexion with compensation and commuted pensions to Designated Officers, were to be excluded, a net balance of about K£55 million will be left to be financed from our own resources, mainly from taxation. This latter amount exceeds the 1966/67 corresponding amounts by almost K£2.7 million after reductions of about K£5.7 million were made out of the forecast estimates submitted by Ministries to the Treasury. I am glad that it is more and more being realized that the Treasury like and other Ministry or Department has limitations in satisfying the wishes of Ministries.

There are a number of major increases and one of these is in the Public Debt provision to the extent of over K£1.3 million. We cannot afford to allow our public debt estimates to continue to rise at this alarming rate, and must therefore begin now to finance part of our development expenditure from taxation. The alternative which I would not like to recommend to this House, would be to cut down on planned development expenditure. The next largest increase relates to the Ministry of Education where an extra K£½ million has been provided for secondary education, K£50,000 for technical education, K£61,000 for teacher-training consequent upon additional intake of 514 students and K£305,000 for higher education in order to cater for greater intake of students into the University College. New provision has also been made under the Education Vote for the expense of the Teachers' Service Commission and the new Correspondence Course Unit. Another Ministry with a significant increase is the Ministry of Health which has over K£520,000 more than the amount provided in the current year's estimates. This increase is mainly accounted for by the establishment of 790 posts for the Ministry as a whole and in particular for the Kisumu, Gatundu and Lady Grigg's Hospitals. The increase also reflects additional cost in relation to improvements in the patients' diets, the establishment of the Faculty of Medicine at the University College, Nairobi, family planning and medical facilities for villagers in the North-Eastern Province. Other votes showing increases include the Kenya Armed Forces and the Kenya Police, the Office of the President in connexion with villagization and the replacement of the Swedish Aid for the Government Secretarial College which it is understood will no longer be forthcoming, the Office of the Vice-President as a result of the anticipated increase in the Prison population, and the Ministry of Foreign Affairs where posts of Commercial Attachés overseas have been established. Some of these increases have been offset by additional appropriations-in-aid expected to occur primarily in the Ministry of Agriculture and Animal Husbandry arising from the sale of mismanaged farms on which the Government has spent about K£1 million Ministry of Labour and the Voice of Kenya. Provision for certain Ministries also reflect their requirements in order to enable them to provide facilities in the new villages in the North-Eastern Province.

The estimates, however, do not include the probable financial implications of the recommendations of the Miller-Craig Salaries' Review Commission which are likely to be of the order of K£2 million. In accordance with the intentions expressed by me early in 1965, the Government has now made arrangements with the agreement of the existing shareholders to acquire a majority shareholding in the Kenya National Assurance Company. The reorganization of this Company will require reference to the courts in accordance with our Company Law and as soon as the necessary formalities have been completed, it will be necessary for me to seek additional provision in the region of K£100,000 to enable the Government to purchase additional shares. This K£100,000 is not reflected in the published Expenditure Estimates. It has also been agreed that the Company will as soon as possible begin life assurance

[The Minister for Finance]

business and in this way it will be able to play an increasing role in developing national savings. Further, although expenditure on security in the North-Eastern Province is already running at a high level, it has recently become apparent that to implement the Government plans in this area, some additional expenditure, not included in the estimates will be necessary. The actual provision will be sought through a Supplementary Estimate in the next financial year.

Before I conclude on the recurrent expenditure for the next financial year, I would like to say something about the current situation in the financial management of local authorities and Honourable Members will have noticed from the recurrent estimates for the Ministry of Local Government, the grant provision for 1967/68 remains at the same level as in the current year. Whereas, I am prepared to listen to representations for additional grants to local authorities, I am far from being satisfied that the local authorities who now claim to be in financial difficulties are doing what is necessary in order to ensure that there is enough money to maintain and improve the services which the people in their areas have a right to expect. There appears to be a great reluctance on the part of certain local authorities to collect the revenue due, although, the information I have received mainly from the Provincial Administration, leads me to believe that the ability to pay, does exist in the majority of cases. For example, a recent drive through the combined efforts of Members of Parliament, the Provincial Administration, Counsellors and Officials of one of the County Councils, did in a period of three days produce over K£25,000 which was utilized to avert an imminent strike by some of the staff of the County Council concerned. The maximum revenue permissible by law must not only be collected but must be seen to be collected and Local Authorities should realize that without carefully worked out budgets coupled with proper financial administration they are bound to remain with their present problems which no amount of grant will solve. What I cannot accept is that the Government should be looked upon as the traditional Father Christmas by Local Authorities who are not prepared to do their best before approaching the Central Government for further grants. I wish to appeal to the Local Authorities to cut their coat according to their cloth and to assume their responsibilities courageously.

As I have explained, we have to find about K£55 million in taxation to cover expenditure in the Printed Estimates. I estimate that revenue at existing rates of tax will amount to about K£58 million. The surplus of K£3 million will be required to meet the cost of three items not included in the Printed Estimates, namely, salaries revision, the purchase of additional shares in our National Assurance Company and additional expenses in the North-Eastern Province. In addition, some allowance will have to be made for Supplementary Estimates which we cannot now foresee.

This does not I fear mean that I need not impose any further taxation. It would not be possible for us to finance the Development Estimates of K£26.6 million unless we can find a substantial contribution from revenue towards this expenditure and this brings me to my taxation measures and I would ask Mr. Speaker that this speech be taken as Notice of Motion to be placed before the Committee of Ways and Means which is to deal with the measures I am about to announce, and which will come into force from midnight tonight.

I have already explained that I expect to be able to cover recurrent expenditure including the cost of salaries revision from taxation receipts at the existing level but in order to ensure that our Development Plan is not held up and also in order to prevent an excessive rise in our public debt, I propose to raise a further sum of nearly K£4 million in taxation towards development expenditure. About K£2.8 million of this will come from changes in customs and excise and K£1 million from changes in income tax.

The changes in customs and excise fall into three main groups, namely those which are technical or administrative, those which are primarily being made to raise revenue and those which are designed to increase the burden on certain luxury articles and thus perhaps to save us unnecessary foreign exchange expenditure, while at the same time bringing in some more revenue even if there is some reduction in imports.

The technical and administrative changes are explained in the Financial Statement and I do not propose to list them in detail now, except in relation to unprinted paper and cardboard imported for the manufacture of cartons and paper bags at present imported free of customs duty under Tariff Item 165 (*b*). The Customs Investigation Branch has found out widespread abuse of the concession whereby paper and cardboard thus imported have been used for other dutiable purposes such as the printing of wall calendars and stiffeners for locally made shirts. Although convictions have been obtained and fines imposed,

[The Minister for Finance]

the abuse has not been abated and as local manufacture of the items is now well established, there should be an *ad valorem* customs duty of 15 per cent.

A minor revenue proposal will remove an anomaly to which some hon. Members drew my attention last year, when the duty on matches was increased. I have taken their advice and propose a specific duty of Sh. 2 with an *ad valorem* duty of 45 per cent on mechanical lighters, flints and gas refills for lighters. This will bring in about K£9,000. I see no reason to continue the present exemption on ball and roller bearings and propose that these should be dutiable at the normal rate of 30 per cent. This will bring in about K£40,000. A slightly more important change will be the extension to the list of excise duties to include paints and distempers. As I stated last year, it is necessary in order to compensate for the effects of import substitution to impose modest rates of excise duty on local manufactures when their industry is firmly established. The duty on paints will be Sh. 4 per gallon and on distempers Sh. 9/60 per cwt. and I estimate the revenue as K£60,000. Moving up the scale, I expect to get about K£170,000 from making cameras, accessories and films dutiable at 30 per cent I see no reason to continue the present concession under which these articles now come in free but care will be taken to see that in the administration of this duty tourists bringing in cameras and taking them out again are not subjected to excessive examination and tests.

My next proposal concerns food preparations, many of which might be regarded as almost in the class of luxury articles as there are adequate local substitutes for many items of food which we now import. I propose an increase in the present rate of duty from 37½ per cent to 50 per cent and among the items affected will be breakfast cereals, jams, pickles, tinned fruit, macaroni and tomato sauce. I estimate the additional revenue will be about K£150,000. The petrol companies reduced the price of petrol by 15 cents and of diesel by 10 cents a few months ago and although I do not wish to add unnecessarily to transport costs, I think it reasonable to restore this difference in price by increasing the duty on petrol by 15 cents. This will mean that users of this commodity will be paying no more for their supplies than they were a few months ago. In consideration of the need to keep farming and public transport costs down, there will be no extra duty on diesel. The estimated revenue will be about K£250,000. I have also examined the trends and consumption in a number of old favourites, including beer and I am satisfied that a modest increase equivalent to about 10 cents per large bottle can now reasonably be made. This should bring in about K£300,000. I have also considered wines and spirits, both of which fall into the class of luxury articles. I am satisfied that a small increase of Sh. 4 per gallon in the duty on wine could reasonably be made and estimate that this will bring in additional revenue of K£17,000. Revenue from spirits has not, however, been buoyant and the existing rate of duty is equivalent to nearly 300 per cent which is a high rate even for a luxury article. It does, however, seem to me slightly anomalous that perfumed spirit which is also a luxury article should bear a duty of only 75 per cent and I propose to raise this to 100 per cent. I estimate I will get K£4,000 more. My major revenue proposal is for an increase of 25 cents per yard in the duty on textiles. I estimate that this will bring in additional revenue of about K£1.4 million.

I, however, will be disappointed in my expectations if the ladies decide to wear even shorter skirts! I doubt, however, whether "minis" can become "minnier".

Textiles provide one of our main sources of revenue which will gradually be reduced as production within Kenya and within East Africa increases. I do not want at this stage to contemplate any reduction in the existing high level of protection which the present duties afford to our textile industry but we will eventually have to impose an excise on locally made textiles and I propose that a start should be made now by the imposition of a duty of 25 cents per square yard. This should bring in about K£230,000 in revenue. I now come to an item which I think can reasonably be regarded as in the luxury class. That is large motor-cars. Last year, I announced changes in the level of duty on different types of motor-cars. The present rates for passenger-carrying vehicles are 30 per cent 40 per cent and 50 per cent for small, medium and large cars. I feel that it would be reasonable to keep the 30 per cent duty for the really small type of car of up to 1200 c.c. I propose that the middle rate of 40 per cent which now applies to vehicles exceeding 1800 c.c. but not exceeding 2300 c.c should apply to cars of between 1201 c.c. and 1800 c.c. There are a considerable number of cars in this class that cannot be regarded as small cars. The 50 per cent rate now applies to cars exceeding 2300 c.c. I propose to apply this rate to cars of from 1801 c.c. to 2250 c.c. and to have a new class of over 2250 c.c. which will be chargeable to duty at 70 per cent. Hon. Members might like to have

[The Minister for Finance]

one or two examples of the different cars which will fall into the different classes. Cars which will remain dutiable at the present rate of 30 per cent include the Ford Anglia, Peugeot 204 and the Morris 1100. the medium car class includes the Ford Cortina, the Peugeot 404, the Morris 1800 and the Renault 1600 and Toyota Corona. The next highest class will include the Rover 2000, the Mercedes 2000 and the Triumph 2000. I do not think that I need go into details about the top class which many of us would like to own and some of us do! I estimate the increase in revenue from motor-cars at about K£200,000.

My next proposal concerns the export duty on coffee. The purpose of this tax was only partly to raise revenue. It was intended to bring home to coffee farmers that with increased production over and above our quota it was desirable that marginal producers should switch to other crops. It has been suggested to me that the rate of tax should be increased with this end in view, from K£20 to K£40 per ton and when I undertook to review the tax when the price fell below K£320 per ton, I gave no undertaking to reduce it. However, I am satisfied that the decline in profitability is having an effect and do not want to make production unprofitable for those who will continue to produce high quality coffee. I have, therefore, decided to reduce the rate of tax from K£20 per ton to K£10 per ton. I have taken into account the loss of revenue, namely K£350,000 in the estimates of revenue at existing rate of tax which I have already given.

I now turn to my proposals for income tax and will deal with corporation tax. Here I have pursued a consistent policy of gradually converting company tax into a corporation tax. I should perhaps remind hon. Members that the essential difference between these two forms of tax is that corporation tax has to be paid in full with no allowances for dividends which are separately taxed as part of the income of those who receive the dividends. However, under our law as it stands at present, dividend income is charged to surtax only and not to income tax.

I took the first step in 1962 when in my first Budget I introduced a corporation tax of Sh. 2 in the £, in addition to a company tax of Sh. 5/50 chargeable on profits of the year of income 1961. In the next year I reduced the company tax to Sh. 4 and increased the corporation tax to Sh. 3/50 leaving the overall charge still Sh. 7/50. For the 1964 year of income, the corporation tax became Sh. 4 and the company tax also Sh. 4. For the 1965 year of income this was converted into a single corporation tax of Sh. 7/50. I now propose that this rate should be increased to Sh. 8 in the £ for the 1966 year of income or 40 per cent. The higher standard rate levied on chargeable incomes of Trusts will also be increased to Sh. 8 in the £ and there will be other consequential changes including from the 1st July 1967 an increase from Sh. 7/50 to Sh. 8 in the tax to be deducted from Debenture interest paid to all persons other than individuals. The rate to be deducted from interest paid to individuals remains at Sh. 2/50 in the £. The chargeable income of insurance companies and that part of the chargeable income of mining companies which relate to income derived from the mining of specific minerals will go up by 50 cents in the £. Similar increases will be announced today by my colleagues in Uganda and Tanzania. I estimate that the additional revenue which will be received in the 1967/68 financial year will be K£900,000.

In arriving at the proposed rate of Sh. 8 in the £, I have had careful regard to the rates of taxation in other developing countries and although I cannot give any firm commitment in view of possible changes in circumstances which I cannot now foresee, I would certainly hope to be able to avoid any further increase in the rate of corporation tax for a number of years.

I recognize that it is from the re-investment of profits that we will secure a large part of the money that we need to fulfil the portion of the Development Plan which relates to the private sector. I also recognize that the profit motive is the main one which governs investment in the private sector and that it is in the interest of the Government that scarce resources of money and materials should be used as profitably as possible for the benefit of the economy of the country. It must also, however, be appreciated that in relation to investment from countries with which we have a double taxation agreement, there will be no additional tax payment if the rate of tax in the country concerned is not less than 40 per cent. Hon. Members will also appreciate that with this new increase in the rate of corporation tax the Government, has an effective 40 per cent interest in the profits of all companies

I now turn to income tax on individuals. Just as I have explained in relation to corporation tax, I have been following a consistent policy also in this sphere and did indicate in introducing my 1965 Budget that it would be necessary to review the rates of personal allowances in order to increase the tax base or in other words the number of persons liable to pay income tax. In that year I announced the reduction in the marriage allowance from £700 to £600 and made

[The Minister for Finance]

this effective for the 1964 year of income. Since then a new complication has arisen with the introduction of Pay-as-you-earn for those in employment who are now each month clearing their liability for tax in the current year of income, namely, 1967. I do not think it would be proper for me, therefore, to make any change in personal allowances effective to the 1966 or 1967 year of income. Theoretically, it would be possible to apply any changes only to those who are not in employment but this I think would be unfair discrimination between two classes of taxpayers. No one, therefore, will pay any more income tax as a result of my proposal in 1967 and will, therefore, have time to prepare for the shock.

Under the present level of allowances a married man with four children does not begin paying income tax until his income rises above K£1,080 a year. There are only about 50,000 income tax payers in the country and assuming that each taxpayer is the head of a family of five persons the class of income tax payers represent only about 2½ per cent of our population. Further under the present tax system a married man with four children does not pay any more tax as his income rises from £600 to £1,080.

I do not propose to make any changes in childrens' allowances but I propose for the 1968 year of income a reduction in the married allowance from K£600 to K£480. I estimate that this will bring in additional revenue of about K£100,000 in the present financial year and K£1 million when fully effective.

I have only one further minor change to propose with regard to income tax. At the moment the maximum rate of surtax, namely Sh. 12 in the £ is reached for chargeable incomes of K£10,000 and over. I would propose that there should be a new rate of Sh. 13 in the £ on chargeable incomes of over K£15,000 and that this new rate should apply to the year of income 1967. This means that the top rate of tax including income tax and surtax on these very high incomes will become Sh. 15/50 in the £. Before I leave the question of income tax, I would like to pay tribute to the Commissioner and Staff of the Income Tax Department in improving collections of tax and also to say that it has been agreed with my colleagues in Uganda and Tanzania that the Income Tax Department should be reinforced by additional staff so that income tax offices can be opened in main centres outside the capital cities in order that the scope for evasion of tax can be markedly reduced. I intend to introduce more effective measures of collection and I have decided to steepen the penalty for non-payment of tax so that it will increase in accordance with the length of time the tax remains in arrears. At present the Income Tax Act provides for a penalty of 5 per cent irrespective of the period of default. It is intended to make this 5 per cent the minimum and that it shall scale upwards so that it has a more realistic relation with the rates of interest which are commonly payable for money borrowed. On this basis, a charge approximating to 12 per cent per annum is contemplated.

I would now like to announce some minor taxation changes. The rate of tax on pool betting is now 10 per cent. I regard betting on football pools as a comparatively harmless activity, but if we allow it to continue, I think we should take a little more in tax. I propose to double this to 20 per cent which should bring in additional revenue of K£30,000. I have also considered the question of Estate Duty and think that the present complete exemption from duty on estates of below K£5,000 cannot be justified in the circumstances of our society. The charges which I propose on the small estates are not large but will at least compensate for the work involved in dealing with these estates. I propose that the exemption limit be reduced to K£1,000. K£5 only will be charged where the value of an estate exceeds K£1,000 but does not exceed K£1,500. K£10 will be charged where the value exceeds K£1,500 but does not exceed K£2,000. The charge will go up to K£15 for estates exceeding K£2,000 but not exceeding K£2,500, and where the value of the estate exceeds K£2,500 but does not exceed K£5,000 the rate will be 1 per cent. Additional revenue of about K£4,000 is expected.

There will also be a number of minor changes in fees designed to cover costs of administration or to bring fees that have remained at their present level for some time up to an appropriate figure. For example, the fee for driving tests will go up from Sh. 15 to Sh. 20, the fee for vehicle registration will go up from Sh. 10 to Sh. 20, and the fee for issuing duplicate registration books will go up from Sh. 5 to Sh. 10. These changes will come into force immediately in accordance with legal notices signed by the Ministers concerned. I also propose that for 1968, motor dealers licences should go up from Sh. 200 to Sh. 600 and that those who deal in secondhand cars without holding motor dealers licences should be required to pay a registration fee of Sh. 200. The necessary steps to bring in these changes will be taken before the end of this year. Additional revenue or increased appropriations in aid of about K£24,000 will be obtained.

[The Minister for Finance]

Also, there will be other minor measures taken by the Ministries and Departments which in addition to tightening up administration will produce small amounts of additional appropriations in aid and which I need not estimate for here.

There is another measure I should announce even though it will not increase revenue and this is in connexion with the Aviation Fuel and Landing Fees. Hon. Members will recall that in my last Budget and after consulting the Minister for Works and Communications, I imposed a throughput service charge on aviation fuel, in order to close the gap between expenditure on our airports and income arising from their operation. Since this charge was imposed the International Civil Aviation Organization has discussed the principles which should govern the application of a fuel throughput charge and has recommended that this should only take the form of a concession charge, I have decided to abolish the charge with effect from 1st July 1967. It is, however, necessary for the airlines to pay a fair share of the costs of airport operation, and I have, therefore, decided to increase air landing fees with effect from the date of the removal of the fuel throughput charge. The alterations in the scale of landing charges will represent an average increase of about 25 per cent in the basic scale of fees, and will produce approximately the same amount of revenue as the fuel throughput service charge which I have removed. It will, of course, be simpler administratively to collect the revenue through one charge only. The night landing surcharge will remain at 50 per cent of the new basic landing charge.

My Budget can easily be summarized in a few words. Faced with total expenditure, recurrent and development, of over K£83 million, I am aiming to cover all but about K£16 million of this from our own resources. The manner in which revenue at existing rates of tax responded in line with the growth in the national income in 1966 has made it possible for me to make a start on achieving a target I have mentioned in previous years. I have, therefore, announced increases in taxation mainly to enable me to finance an appreciatable proportion of development expenditure from revenue.

My taxation increases amount to about K£4 million and will come to the extent of K£1 million from income tax and nearly K£3 million from customs and excise duty and other minor measures. None of the increases are very severe and the major revenue earners will be 50 cents on corporation tax, 25 cents a yard on textiles and 10 cents on a bottle of beer plus a restoration of the recent cut in the price of petrol by the oil companies.

I am advised that the effect of my taxation changes on the cost of living will be very small and that the Wage Earners' Index and the Middle Income Index will both go up by less than one point.

No doubt it is these changes which will receive most publicity but I hope that attention will also be paid to the manner in which the growth of expenditure has been kept under control.

The attention of economists and fiscal experts tends to be focused on the problems of development and the problems of different methods of taxation but recent history has shown that when developing countries have got into real trouble the start of the rot has almost always been a failure to limit and control expenditure. This is not an easy task but one which can be successfully discharged if a Finance Minister and his Treasury officials are prepared to be unpopular.

The year 1966 was a good one but I do not expect the growth of the economy in 1967 or 1968 to be as great as it was in 1966. There are a number of reasons for this. We will produce more coffee but the excess of production over our quota will increase and this will reduce the average return per ton to producers. We will produce more tea but the trend of world prices may not be favourable. We will, I hope, produce more maize including some maize for export, but the export price will be below the present guaranteed internal price. The price of sisal is unlikely to recover significantly. Two of the most hopeful fields for increasing the earnings of farmers are sugar and livestock products. But the development of new sugar estates and factories is a lengthy and expensive process, although well worthwhile and we will be producing sugar for a firm local market. We could certainly sell more beef if we could produce it but it will take time to build up and increase the national herd of dairy and beef cattle. Tourism will grow but the rate of growth will be limited by the rate of expansion in hotel accommodation and accommodation in the parks and game areas. When hotel projects already underway are completed, there will be a very significant increase in accommodation but neither of the two new international hotels in Nairobi are likely to be open before the end of 1968. Increased investment will, however, undoubtedly provide increasing employment opportunities. The success of the long negotiations for a Common Market Treaty will also, I hope, be welcomed throughout the country and the

[The Minister for Finance]

treaty itself will provide a firm framework within which, trade and investment throughout East Africa will, I am confident, increase.

The national income, the general standard of living, of education, and of health will increase and improved production methods will add to agricultural incomes. The pace of advance will be steady rather than spectacular.

This is the fifth Budget which I have represented to the House. During the last five years I have had to try to maintain the momentum of development, using almost exclusively overseas sources of finance. At the same time I have had to raise taxation substantially each year in order to balance the recurrent Budget. Our position is much stronger today than when I first took office. My aim during the next three years will be to restrain within reasonable limits the growth of recurrent expenditure to make it possible to finance an increasing development programme. I hope that by 1970 at least 25 per cent of the programme will be covered by taxation revenue and a further 25 per cent from loans raised on the local market. Despite the warning I have just given about our prospects and in the knowledge that past problems have been successfully overcome. I can say with conviction that we are on the road to a more prosperous future for all our people.

Mr. Speaker, Sir, I beg to move.

The Minister for Economic Planning and Development (Mr. Mboya) seconded.

(Question proposed)

DEPARTURE OF HIS EXCELLENCY THE PRESIDENT

The Speaker (Mr. Slade): Now it is His Excellency's pleasure to take his leave.

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

ADJOURNMENT

The Speaker (Mr. Slade): The House is now adjourned until tomorrow, Thursday, 15th June, at 2.30 p.m.

The House rose at fifty-three minutes past Five o'clock.