REPUBLIC OF KENYA

Budget Speech

for the
Fiscal Year 1971/72
(1st July—30th June)

by

The Hon. Mwai Kibaki, E.G.H., M.P.
Minister for Finance and Economic Planning

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REPUBLIC OF KENYA

Speech delivered to the National Assembly on 17th June, 1971 by the Hon. Mwai Kibaki, Minister for Finance and Economic Planning, Republic of Kenya, when presenting the Budget for the Fiscal Year 1971/72 (1st July to 30th June).

Mr. Speaker, Sir,

I beg to move that Mr. Speaker do now leave the Chair.

Hon. Members will already have received copies of the Economic Survey, 1971, and the Recurrent and Development Estimates for the coming Financial Year 1971/72. In my speech I will assume that you have all studied those documents carefully together with the remarks I made on the state of the economy last week. During my speech hon. Members will be receiving in their pigeonholes a copy of the Financial Statement for the coming year together with a copy of the Revenue Estimates. All these documents must be considered together in order to place in context the statement on the Annual Budget I am going to present to the House this afternoon.

The Lay-out of the Development Estimates

Before commencing on the budget statement proper, I would like to mention that the lay-out of the Development Estimates this year is rather different from previous years. The reasons for this are several. Firstly, we have endeavoured to present a much more detailed breakdown on individual projects which go to make up the Development Estimates. This will, I think, go a long way to meet the wishes of Members to have more detail on how Government spends its money.

I am trying to make the Development Estimates easier to understand. Not all Ministries have been able to achieve the amount of detail and clear description that I would like to see in the Development Estimates, but I hope that hon. Members will agree that this year's document is much more easily understood than those of earlier years. I also hope that by next year we shall have achieved our purpose completely and hon. Members will be able to pick up the Development Estimates and understand, immediately, exactly how Government is spending its money in terms of particular projects. A great deal of work has been necessary to recast the Estimates in this way.

Secondly, we have endeavoured to show, within the Estimates, the sources of finance for various projects. This information will, I am sure, be interesting to hon. Members. It will also provide both the Treasury and Ministries much greater control over the collection of revenue for the financing of Government projects than has been possible hitherto. In addition, it will enable me to estimate the amount of aid finance available to me in the coming financial year with much greater precision and thus facilitate a more accurate formulation of the Budget as a whole.

Thirdly, the revised presentation of the Development Estimates will form a list of projects for consideration by those agencies and countries willing to assist us in our development efforts. Eventually, the Estimates will contain, not only details of projects for the coming year but also details of projects that are expected to go ahead in the year after that. Already this year we are showing some projects that will be on-going until 1972/73 and in many cases thereafter. Once again, Ministries have not been able to adapt their thinking fully to this forward project planning, but my Ministry will continue to assist the operating Ministries to develop this process, so that by next year the Estimates will form a detailed project list for two years ahead, as was proposed in the Development Plan. However, and as now, Parliament will only be asked to vote on the expenditure in the twelve months immediately ahead. I feel sure that if we can achieve this objective, the financing of projects can be arranged much more expeditiously and thus accelerate the pace of plan implementation.

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HE LAY-OUT OF THE RECURRENT ESTIMATES

I should also mention that in order to meet the ishes of the House, the Recurrent Estimates ve also been drawn up to provide additional tail on how the money voted by Parliament is tually spent. In particular, details of the nount of money required for each class of manpwer or Civil Service grade is shown separately, gether with the number of posts in that grade. urther details of the expenditure items going to ake up the other subheads are also set out for e information of hon. Members. I hope that n. Members will find this additional information useful.

I am not yet convinced that this represents the st way of setting out the Recurrent Estimates d my Ministry will undertake an examination the coming years to see whether it would not possible and valuable to set them out wheneer possible, on a project basis as we do the evelopment Estimates. This would represent a ajor change in thinking and the implications of ch a step must, therefore, be thought out very refully beforehand.

ECURRENT EXPENDITURE 1970/71

Gross Recurrent Expenditure this year, 1970/71, expected to total approximately K£108 million mpared with the audited expenditure for 69/70 of some K£91 million. This represents a arp increase of 18½ per cent. But this percentage somewhat misleading for two reasons. Firstly, hon. Members are aware, the Government has, is year taken over completely the responsibility r primary education, local health services and cal road maintenance from the county councils. his accounts for an increase in gross spending is year of approximately K£10 million. Hon. Members will also recall that as a result of a numer of loans falling due for repayment this year, onsolidated Fund expenditure has risen by £4.4 million or 24 per cent. If allowance is ade for these factors, the increase in gross rdinary expenditure was no more than 3 per ent.

An annual increase in recurrent spending as w as 3 per cent is probably insufficient to aintain a high standard of Government services, king into account the expansion in these services ecessary to support rising development and an creasing population. It has, however, been necesry to impose fairly severe restraint on recurrent ending this year, for, although ordinary services ay not have expanded as fast as I would have liked, the fact remains that I have still had to finance an increase of expenditure of nearly 20 per cent while providing a surplus to help finance development. I have, this year made use of local sources of development finance to a greater extent than ever before and have made use of local financial instruments in a more flexible way. I shall return to the sources of development finance in a moment.

DEVELOPMENT SPENDING 1970/71

On the side of development spending, Mr. Speaker, Sir, even though I am seeking a further improvement through improved project planning and improved forward planning as I described a moment ago, the performance of the Government over the last few years can be counted on the whole quite good. In the last three financial years for which we have audited figures i.e. 1967/68 to 1969/70, the net spending on development has been K£15.6 million, K£26.8 million and K£31.4 million. In the current year I expect development spending to reach a level of about K£48 million net. I accept that this figure has been boosted by special factors such as the cost of Government share purchases which totalled K£8 million; but even when these share deals are excluded, development spending increased from K£29 million to K£40 million between last and this year. This is an increase of 38 per cent. In addition, since increasing amounts of credit purchases for development are being accounted for under Appropriations-in-Aid, the gross spending has risen even more sharply from K£30 million to K£43 million—a rise of 43 per cent. The Ministries concerned are to be congratulated on this achievement.

The opportunity for a further advance in our development lies before us Mr. Speaker, Sir. Our financial position is as sound as it has ever been. Provided we do not squander this resource but are prepared to use it as a base on which to build further prosperity, our Development Plan is well within our capacity to achieve.

DEVELOPMENT FINANCING 1970/71

To turn to development financing, we have taken a more flexible and expansionary attitude to financing in the past year. Hon. Members will recall that in my Budget Speech last year I spoke of the high level of liquidity in the banking system and the fact that this represented unutilized resources for development. I indicated that I proposed to use some of those unemployed resources in the current year.

Treasury Bills

Accordingly, an increasing use has been made of the short-term treasury bill for financing development. No treasury bills were on issue at

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the beginning of July, 1970 but by March, 1971, total issues reached a peak of K£13 million. At the end of June I expect that a total amount of some K£10 million will be outstanding.

Most of these treasury bills have been taken up by the banks with idle cash resources. The banks have welcomed the opportunity to do this, to the extent that they have competed strongly for these bills and the average rate of interest has been bid down by tender from 2.41 per cent to 1.64 per cent. The previous time we borrowed by way of treasury bills, at the beginning of 1970, the rate of interest was 3.16 per cent.

Hon. Members will see, therefore, that in the past year I have been able to borrow money from the local money market at a very reasonable rate of interest. It would be foolish not to take advantage of the cheap funds that can be made available by way of treasury bills, and which would not normally be available to take up long term issues. For this reason, I intend to make greater use of the treasury bill for development financing in future. I do not expect that I shall always be able to borrow in this way at a rate of interest as low as that ruling in the last month or so, but since the banking system is prepared to hold their statutory liquidity requirements under the Banking Act in this form, I propose that in future the treasury bills will remain a regular feature of the local money market. The size of each issue will be varied according to the cash needs of the Exchequer and our judgement of the capacity of the market to take up the bills. By instituting regular issues of treasury bills, both the Exchequer and the banking system will be able to plan their affairs more easily, and both will benefit accordingly.

Central Bank Loans

During the current year, the Treasury has for the second year running obtained a loan from the Central Bank of K£5 million. This also represents another way in which I have put to work unutilized resources in the economy, especially labour. In this way I am able to divert idle funds in the banking system to development spending. I am convinced that the Kenya economy is able to withstand a limited degree of money creation, such as is represented by the Central Bank lending to the Exchequer, without creating wasteful inflationary forces.

However, I hasten to warn hon. Members that this seemingly costless way of financing development cannot be exploited in an unlimited fashion. I do believe, however, that a small amount, such as the K£5 million per annum we have been advanced by the Central Bank in the last two years, is a sensible way of putting unutilized resources in the economy to work for the development of our country. So long as our Foreign Exchange Reserves are as high as they have been over the last two years and the inflationary forces in the economy are kept in check, I will not be incurring a risk in following this policy. To this end, I shall shortly be introducing a Bill into the House to amend the Central Bank of Kenya Act so as to enable me to borrow from the Bank rather more than the K£12 million ceiling that exists at the present time. Unless that ceiling is raised, it will not be possible for me to finance the whole of the Budget. I am presenting this afternoon.

Local Market Loans

The fact that I have financed a good proportion of development spending in the current year by means of treasury bills and a further loan from the Central Bank does not mean that I have not used what, for want of a better word, I will call the usual sources of development finance. A total of K£6.7 million new money has been borrowed, medium- and long-term, from the Nairobi Stock Exchange this year. This is rather less than last year—mainly because cheaper forms of finance such as treasury bills have been available to me and I have thought it advantageous to have recourse to them and, thus avoid paying the long-term rates of interest which are still very high in relation to short-, and even medium-term rates. However, I hope that future long-term issues will be possible at a rather lower rate.

In any event, the fact that Government has held back from the long-term money market in the current year has enabled a number of private companies to carry through their public issues successfully. In addition, it enabled the National Social Security Fund to broaden its investment portfolio with equity shares to enable the workers to participate in the growth of future industrial profits. National Social Security Fund surplus cash will normally be used to finance general development through subscription to long-term stock issues. However, from time to time, as this year, it will be opportune for the Fund to broaden its investment portfolio with industrial and commercial shares.

External Loans

During the current year four foreign exchange loans totalling K£3.45 million were obtained from the oil companies and a private banker to finance Government's purchase of shares in the

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ombasa Oil Refinery. They were paid into the xchequer Account to finance the transaction al- ady approved by the House.

As usual we have also received finance from e international lending agencies such as the orld Bank and the International Development ssociation. We have also received loans and ants from friendly countries prepared to help enya's development by providing money on vourable terms. During the Budget last year I dicated that I expected to receive some K£14 illion this year from aid sources. In the event, seems that we are unlikely to receive more than £11¼ million, including revenues accounted for Appropriations-in-Aid.

During the past year a number of criticisms ve been voiced in this House against the nount of loans and grants we accept from over- as. The Government agrees, and has made it iite clear in the Development Plan, that it ould finance the country's development to an creasing extent from local sources. This year, t of a total gross spending of over K£159 llion, less than K£15 million or less than 10 per nt represented overseas finance. Even if we nsider the financing of development spending one, it can be shown that less than one-third, cluding the commercial loan of K£3.45 million r the shares in the Oil Refinery was financed om overseas. This is a significantly lower per- ntage than was proposed in the Development an and accepted by the House when considering at Plan.

I am as determined as any other hon. Member at we shall rely to the maximum extent possible our own resources to finance our development. owever, and as I pointed out last year, I do not lieve that it would be sensible, or in our untry's interest, to carry this policy to the point here we restrict our overall development. rther, our ability to take advantage of the ance made available to us under aid terms eans, among other things, that I can minimize e pressure on the local money market which xpect to finance private development as well as blic sector development. We also obtain valu- le balance of payments support to cover the bstantial current account deficit that is created large measure by the level of our development ending. If these capital sums were not avail- le from overseas, it would be impossible for me balance of payments grounds to follow the pansionist spending policy that has been my n in the last year and will be my aim in the ming year. I would, therefore, impress on hon. Members the need to take a broader view of the impact on the Kenya economy of aid finance and remember that it represents a transfer of real resources—that is economic wealth—from the donor countries to Kenya. Kenya would have been a poorer country now if that aid had not been made available in the years since we achieved political independence.

Recurrent Surplus for Development

The only other source of development finance I have not discussed in detail is the recurrent surplus. I have transferred K£6 million of the surplus in the Recurrent Account to the Development Exchequer. Such transfers within the overall Exchequer Account represent no more than book-keeping entries and the cash position of the Government is unaffected. They do, however, serve to highlight the fact that we are restricting the growth of recurrent services in order to divert recurrent revenue to the financing of development.

However, as a result of the fact that in recent years we have been running a recurrent surplus each year, even after making transfers to the Development Account, we have tended to accumulate an increasing balance in the Recurrent Exchequer. On the other hand, we have accumulated an increasing deficit in the Development Account, particularly in the last year, when we have financed development with short-term finance which cannot be credited to either the Recurrent or Development Exchequer. There does not seem to be a great deal of sense in allowing these balances to move increasingly in contrary directions and I, therefore, propose—and I would ask the House to take this as a notice of intent—to transfer the credit balance in the Recurrent Account as at 30th June to the Development Account. On present trends this is likely to mean a transfer of approximately K£15 million over and above the K£6 million already transferred. It will mean that we shall commence the new financial year with a nil balance in the Recurrent Exchequer.

GOVERNMENT SHARE PURCHASES

Since I discussed the highlights of the Government spending programme in my comments on the annual Economic Survey, I do not propose to cover that ground again today, except to mention the recent Government share purchases. Some K£8 million of development money this year has been spent on the acquisition of shares in companies in the private sector. In particular, we have purchased a 60 per cent shareholding in the new Kenya Commercial Bank Limited; a 50 per cent shareholding in the new Standard and

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Barclays Bank of Kenya Limited now in formation; 50 per cent of the shares in East African Oil Refineries Limited; and 40 per cent of the shares in Grindlays Bank (International) Kenya Limited. These share purchases acquired by the Government directly are in addition to those acquired indirectly through Government investment agencies such as I.C.D.C., Tourist Development Corporation, Kenya National Properties Limited and the Development Finance Company of Kenya. In addition, and as I have said earlier on, workers of the Republic have increased their participation in the private sector through the National Social Security Fund. Government share purchases represent a significant part of development spending in the current year and it is, therefore, appropriate that I should say something about the Government policy towards these and any further acquisitions that may be contemplated in future.

I must emphasize that the Government's primary concern is the development of the economy and the achievement of a rapid rate of economic growth, with an equitable distribution of the rewards of that growth amongst the people. For this reason, the Government does not, in general, propose to divert the available cash, which would otherwise be used to finance new development projects, into the purchase of shares in existing businesses. The Government believes that its primary duty is to use the limited financial resources it can command to build up the stock of national assets by new investment, rather than merely purchasing existing assets leading to no net increase in the total stock of national capital.

Where, however, we decide that an industry is of such economic and strategic importance that Government must take a financial interest, it is our intention to continue the present policy of entering into negotiations for such share purchases on a commercial basis, rather than endeavour to nationalize first and negotiate a value subsequently. This way, we are able to retain the goodwill of investors and also maintain the necessary continuity in management and thus avoid serious operating interruptions.

THE MIXED ECONOMY

We believe in the development strategy of a mixed economy in which the State participates jointly with the private sector in selected projects. This will require that the public sector of our economy grows at a relatively faster rate than that of the private sector.

The Government has, however, made it quite clear in the Development Plan that the policy of the mixed economy allows, and indeed looks for, a simultaneous expansion of private investment and private sector production. We do not believe that we can maximize income or social and economic benefits unless the initiative and enterprise of the country, as a whole, are harnessed in the overall development task. We accept that the principle of the mixed economy requires that investment decisions are undertaken in the expectation of profit. We do not believe that a reasonable profit is bad. But, we believe the Government has an obligation to intervene to ensure that more than normal profits are used to improve wage benefits or reduce prices. This is particularly necessary when, as is often the case, these profits are derived from the protection afforded to firms by Government through high tariffs or import licensing.

PUBLIC SHARE ISSUES

Our attitude to the sale of shares to the public on the Nairobi Stock Exchange is derived essentially from the same premises which govern our attitude to Government share purchases. We believe that the Stock Exchange should be used by local companies to raise cash for capital development. But we cannot agree that the local capital facilities, which are clearly limited, should be used simply to finance the repatriation of capital. It has been suggested that this is a denial of the Investment Protection Certificate given to foreign investors. This is not so. It represents no more than the belief that when local capital resources are limited, it is only reasonable that priority in the raising of funds should be allocated, firstly for Government's own development financing needs, and secondly, for meeting private enterprise financing needs leading to capital expansion and new development.

There have been a number of public issues on the Nairobi Stock Exchange in the current year and I know that there are a number of other proposals in the pipeline which, if and when pursued, will cause shares in these companies to transfer to Kenya *residents*—though experience suggests that not many are transferred to Kenya *citizens*. In so far as the proceeds of such issues are not used for further capital development but are merely repatriated to a parent company overseas, the Kenya economy receives very little long-term benefit and a significant short-term balance of payments loss.

A number of firms may possibly have misunderstood the Government policy towards the promotion of public issues on the Stock Exchange

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and while having no particular desire to withdraw their capital from Kenya have felt that it was Government's policy that they should sell their shares on the Nairobi Stock Exchange in order to enable those shares to be transferred to the Kenya public. I hope what I have said today will clarify our thinking for such firms. We welcome the idea of Kenyan capital going into partnership with foreign capital to finance the further development of enterprise in Kenya. We do not see any particular benefit in Kenya capital being used to finance the withdrawal of capital overseas, for, as our Development Plan makes clear, we have a need for substantial amounts of additional foreign private capital if the private capital investment and production targets are to be achieved.

While on the question of share issues on the Nairobi Stock Exchange I would like to mention that a Committee has been set up in my Ministry to be responsible for examining all proposals for the sale of shares on the Nairobi Stock Exchange. The Committee has been set up to screen all such issues before they are presented to the public. To do this work, the Committee will need to have provided to it all details that would normally be included in the share prospectus, details of how the funds to be raised by the issue will be employed and the amount of any sum the company may wish to repatriate after the issue has been completed. The Committee will ask for all information necessary to determine the order of priority for such company issues on the Nairobi Stock Exchange and to operate as, what in other parts of the world, is known as a Capital Issues Committee. I shall shortly introduce into Parliament legislation to enforce these rules. I should add that this Committee will also deal with applications from non-resident owned companies wishing to have more than presently allowed credit facilities.

THE COMMITTEE ON AGRICULTURAL INPUTS

Recently, my Ministry published the report of the Committee on Agricultural Inputs. This Committee made many recommendations. Most of these were directed towards my colleague, the Minister for Agriculture, who, I believe, will comment on some of them during the debate. The recommendations in the report which were directed at me fall broadly under three heads. Firstly, proposals for the control over the pricing policies of suppliers of agricultural machinery and agricultural supplies, particularly fertilizers. Secondly, recommendations relating to the need for a new approach to agricultural credit. Thirdly, proposals relating to reduction in taxation on petroleum fuels used by farmers.

As regards the first group of recommendations concerning prices, I am prepared to give an undertaking that the necessary investigations into the recommendations of the Committee will be put in hand immediately. I am, in fact, concerned that there has been an inordinate rise in the prices of farm machinery. I have noted that the prices of different types of tractors have risen by between 7½ and 20 per cent in the last year.

As regards credit, I would like this afternoon to give an undertaking, that this recommendation of the Committee concerning a new approach to this matter will be implemented early in the new financial year, and I hope to be able to come back to the House with proposals for a major overhaul of our agricultural credit system.

As regards the third set of recommendations I have, as the Committee noted, already abolished the consumption tax on diesel fuel and this has led to a reduction in diesel fuel prices. Owners of diesel vehicles now have a substantial tax advantage over owners of petrol vehicles and I believe that in these circumstances a case for a reduction in the customs duty on diesel fuel does not exist. I have noted that the Committee agrees that it would be dangerous to introduce special and separate sales of petroleum fuel to farmers at reduced rates of tax.

Government continues to pursue the policies outlined in the Development Plan for a greater emphasis on the development of the rural areas. We shall do all we can to hold down the level of agricultural costs. However, it is clear from the report of the Committee on Agricultural Inputs that it would be dangerous to cause an uneconomic diversion of resources by treating agriculture significantly different from other sectors of the economy through subsidizing agricultural inputs even more than we are doing already. However, one area in which more Government subsidy will be given is for artificial insemination. I propose that in the current year, the amount of subsidy involved in this programme should be increased from what is now Sh. 22 per successful insemination to over Sh. 30. I propose that the present charge of Sh. 10 per pregnancy should be reduced to Sh. 1 as from 1st July.

AGRICULTURAL PRICES

Government will continue to review regularly its agricultural pricing policies in order to maximize farmers' incomes. Hon. Members will, for

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example, recall that the amount to be paid to farmers in the current year for both maize and wheat has been increased significantly. And, of course, all farmers are especially grateful to H.E. the President for the award of a 25 per cent increase in the price of milk.

However, we must be aware of certain possible conflicts when reviewing producer prices. If farm prices are increased in order to encourage production, an increase in consumer prices must normally follow automatically. Similarly, any cut in consumer prices must normally be followed by a cut in farm prices. Only rarely do intermediate manufacturers or processors have a profit margin sufficient to absorb all of an adjustment in producer or consumer prices.

An additional problem is posed by the fact that if Government increases the farm prices of products such as wheat and maize, surpluses of production over local consumption are created which can only be disposed of in world markets at substantial losses. The House will be aware that on a number of occasions in recent years, the Government has had to ask for funds to be voted to pay for export losses in respect of both wheat and maize. When the weather is favourable during the growing season, we can normally expect surpluses of wheat and maize at current price levels. Those prices can, therefore, only be maintained if consumer prices are increased in order to cover the cost of export losses. I have considerable doubts whether it is reasonable to ask maize and wheat consumers to pay for losses incurred on maize and wheat exports.

Incomes Policy

The conflict arising between producers and consumers is one of the reasons why Government has endeavoured to formulate a comprehensive incomes policy.

Contrary to what is sometimes supposed, an incomes policy is not only concerned with wages policy. The Government believes that the objectives of an incomes policy are to ensure that the benefits of economic development are distributed equitably amongst all sections of the people and employment opportunities are created in all sectors of the economy as rapidly as possible. In order to achieve these objectives, a comprehensive incomes policy must take into account the impact of all policies and programmes, particularly those concerned with agricultural pricing and rural development, wages policy, rents, price control, profits, Government spending and taxation.

I have already spoken about the conflict between high farm prices and low consumer prices. Government must be prepared to intervene and decide the issues posed by this conflict. It must also be prepared to follow a positive policy towards prices throughout the economy as a whole, and to this end the price control machinery will, in future, be used to impose restraint on increases in a wider range of commodities than is the case at the present time.

One of the most important objectives of our incomes policy is to maximize the growth of employment in all its aspects. Achievements in this direction, last year, particularly when the Tripartite Agreement is taken into account, were better than in earlier years. However, we still have a long way to go if all the unemployed are to be absorbed and the degree of under-employment in the economy reduced.

The Economy

Normally at this stage of the Budget Speech, I would consider, in some detail, the recent performance of the economy and indicate how I thought it might perform in the coming year. The out-turn of the Budget is still dependent, to a significant degree, on the performance of the economy. At the same time, economic performance is influenced strongly by the expenditure programmes and taxation policies that are outlined in the annual Budget. For these reasons, when formulating my Budget, I have to consider the overall situation in the economy in the recent past and the immediate future, and have to pay regard to the longer term development directions we propose in the Development Plan.

If today I spend less time than usual discussing the state of the economy, it is not because I feel that the economic influences on my Budget are less than in previous years: it merely reflects the fact that hon. Members will already have had time to examine the Economic Survey for 1971 and will have seen my review of that Survey issued a few days ago. Because of the amount of ground I wish to cover today and the time available to me, I do not propose to repeat a review of the economy once again.

It is sufficient to say that last year turned out to be quite a good year from the point of view of economic growth, and the coming year, although affected by the recent dry weather, also promises reasonably well. The highlights last year were perhaps the upsurge in capital formation which expanded the productive capacity for future growth. Our balance of payments position was still reasonably strong, although the surplus

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rned was less than in the previous two years, gely because of the sharp increase of imports eded to sustain our development effort. This nd was not unexpected, and followed closely e path foreshadowed in the Development Plan.

As the Plan emphasized, however, the proposed e of development spending and the forecast e of economic growth will require an even ater quantity of imported machinery and uipment which will lead to an increase in the icit in the current account of the balance of yments. That balance of payments current ount deficit can only be covered by a capital flow, whether by way of private capital investnt or grants and loans to the Government. ese are inescapable economic facts which is y I emphasized earlier in my speech the conued need of the Government to obtain aid ance from overseas and to encourage foreign vate firms to use funds for development rather n repatriate money to parents overseas.

I have ranged widely over the Government's onomic policies, and I have referred hon. Mems to the Economic Survey and my personal view of the economy, both of which have been de available to them. I should like now to n to the Government's expenditure programme the year 1971/72, the detailed estimates for ich have also been made available.

TAL EXPENDITURE 1971/72

As before, I shall consider the expenditure ogramme in terms of *gross* expenditure, since s is the measure of the impact of Government penditure on the economy. Looking at expendie this way, also overcomes the problem of riations from year to year in the amounts ailable by way of Appropriations-in-Aid.

I noted earlier in my speech that taking both ecurrent and Development Accounts together, tal gross expenditure in the current year was ely to be K£159 million. For next year, 1971/72, have tabled Estimates which together make up gross total of approximately K£177 million, at is an increase of 11 per cent over the amount ent this year. The Recurrent Estimates show an crease of some 11 per cent, while the provision r Ministries, excluding Consolidated Fund items, ll increase by some 15 per cent. This represents significant increase in the cost of Government rvices.

As usual, however, there are special factors inlved. This year the most important is the prosion that has been included in the Recurrent stimates to implement the salary recommendations of the Commission of Inquiry on Public Service Structure and Remuneration—K£5.1 million. If this amount is deducted from the total increase in the recurrent expenditure, it can be said that the recurrent Government services next year will expand by 10 per cent overall. The 10 per cent increase in recurrent services is approximately in line with the forecast in the Development Plan.

The Development Estimates at K£56.5 million gross are little different from the total sum voted by Parliament for the current year—K£55.7 million. However, I have already advised the House, that actual gross expenditure in unlikely to exceed K£51 million as a result of underexpenditure, while K£8 million of the current year's total, represented the cost of share purchase transactions for which no provision is made in the current year. Accordingly, if this year Ministries can improve their Plan implementation performance and spend all money provided for in these Estimates, there could be an increase of over 30 per cent in the expendture on new development services. Every effort must be made by Ministries to ensure that this happens.

The total expenditure programme of K£177 million represents an overall increase in expenditure by Government of K£18 million in one year. On occasions, in recent years, criticisms have been heard both in this House and outside that the Treasury has maintained too tight a grip on expenditure to the extent that development efforts have been frustrated. I consider it to be the duty of the Treasury to continue to scrutinize all expenditure proposals closely and only provide for those which conform to Government policy as expressed in the Development Plan, as adjusted from time to time since that document was published. But I have felt there may be a little scope for some loosening of the reins where Ministries have come forward with sound arguments for an expansion of recurrent services or well prepared projects for development. For this reason, a more flexible attitude has been taken by the Treasury in the granting of funds which is reflected in the size of the Estimates. I do, however, hope that it will be possible this year to minimize the level and number of Supplementary Estimates submitted by Ministries and that they will make a determined effort to work within the higher expenditure provisions given them without asking for more later in the year.

Hon. Members will, of course, have the usual opportunity to discuss the expenditure proposals of individual Ministries. I shall, therefore, leave it to my colleagues to explain their respective programmes in detail at the appropriate time.

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DEVELOPMENT SPENDING 1971/72

On the side of development spending, the road programme continues to dominate. In the coming year, it is expected to account for 28 per cent of total gross development spending. Some concern has been expressed that we are allowing road development to run ahead of development in other sectors of the economy. But although it is true that it is somewhat easier to define and plan road building projects than it is to define and plan projects for, say, agricultural development, it must also be accepted that the road net-work in this country at the time of independence was seriously under-developed and only now are we beginning to achieve the basic road infrastructure required to support development throughout the economy. We cannot develop agriculture, industry and tourism unless we have a road system which allows the movement of agricultural and industrial products and which enables tourists to get from one part of the country to another.

The coming year should see the completion of the Kenya stretch of the Great North Road, and it will be possible to drive right through Kenya from Tororo to Namanga on a fast tarmac road. The new Addis Ababa Road which has already reached beyond Marsabit will continue towards the Ethiopian Border. In addition, we propose to undertake expenditure to improve tourist roads and roads in the sugar, tea, and settlement production areas. Hon. Members will note that a major item included this year is for the Road Maintenance Organization. If we are to obtain the best return from our expenditure on new roads, we must be prepared to spend money to maintain them at all times.

It is a notable and perhaps encouraging feature of the Development Estimates this year that the Estimates of the Ministry of Commerce and Industry are the second largest in gross terms. The main reason for this is that funds will be required to enable Government to subscribe for its share of the equity and loans in the Panafrican Paper Mills at Broderick Falls and will, by a Government expenditure totalling K£2.2 million, enable a project worth K£14 million to go ahead and form what will be one of the very largest industrial investments in Kenya. This project underlines how we like to see Government participate in industrial projects. Although the Government investment is a large one, it is still no more than a catalyst to organize much larger amounts of investment funds and so enable a project, several times as large as the amount of Government investment, to go ahead. The Broderick Falls Paper Mills can be expected to make a significant impact on the economy of Western Kenya.

Additional funds are being provided next year for other public sector investments in new industrial projects through ICDC which will, we hope, again enable much greater capital sums from other sources to be organized. The amount provided for the ICDC Small Loans Programmes is also being increased in order to keep up with the expanded loans programmes for small industrialists, shopkeepers, etc., throughout the country. Simultaneously, the industrial estates programme will be extended in Nairobi, Nakuru and later on in Kisumu and Mombasa, while new industrial development centres will go ahead in Kakamega, Machakos and Nyeri.

The works programme provides for the completion of the Kanu building and new buildings for the Ministry of Agriculture and the Survey Department. The Attorney-General's Chambers is to be extended.

The Development Estimates for housing show a notable increase of 30 per cent with K£2.8 million being provided for the National Housing Corporation compared with K£2.2 million this financial year.

The Estimates for the Ministry of Tourism are also increased sharply to enable K.T.D.C. to increase its participation in new lodges and hotels, while the sum provided for the loan programme to support local tourist projects is increased to K£390,000 from K£150,000.

Expenditure on the health programme is also to be increased, so as to continue the extension of the Kenyatta National Hospital and to undertake the construction of training institutions throughout the country to support the present emphasis on training local personnel for the long-term expansion in health services.

Hon. Members will, I am sure, be pleased to see that provision is made in the Development Estimates of the Ministry of Agriculture for the Mumias Sugar Project. The Estimate covers the purchase of land, share participation in the proposed sugar factory company and credit purchases of factory machinery which will represent a loan to the company. The Mumias Sugar Project will cost a total of K£6.5 million and Government will provide about half of the required capital. The factory should be in production by mid-1973 and will form yet another development project having a profound impact on the economy of Western Kenya.

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The provision for the development of water chemes is also higher. The Rural Water Supply Programmes will accelerate and increased activity vill be seen under the Range Water Programme which will have a significant long-term effect on he lives of the people in the North-Eastern Province. New water programmes will be prepared during the coming year in order to accelerate he rural water development in 1972/73.

RECURRENT SPENDING 1971/72

On the side of Recurrent Expenditure, the most otable feature is perhaps the increased provision or the Ministry of Education. This represents 5 per cent of total recurrent spending, and nderlines the emphasis being given by the Government to the education of the nation's hildren. I fully expect that a number of hon. Members will rise during the Budget Debate and ress once again for free primary education. I vould, however, refer those hon. Members now to he amount of the Appropriations in Aid shown n the Ministry of Education's vote for primary ducation—K£5.3 million. This represents, in the nain, the school fees paid by parents to support heir children at school. There are two comments o make on that sum of K£5.3 million. Firstly, it s outweighed by the sum paid by Government owards the cost of primary education, K£12 nillion, and secondly, if Government had to find hat K£5.3 million from normal revenue sources, t would almost certainly involve a sharp increase n taxation—to be paid, in the main, by the same eople as paid the school fees. Government is noving steadily towards its declared long-term im of free primary education, as can be seen rom the fact that the net expenditure of the Ministry of Education on primary education will ncrease by over K£2 million next year while the mount to be received by way of primary school ees will increase by only K£½ million. Government's *relative* share of the total education bill is, herefore, being increased every year towards the ong-term aim, largely by increasing the number f fee remissions and also improving the *quality* f education.

Other increases in recurrent spending are spread hroughout nearly all votes. There are, in particuar, sharp increases in the cost of the Kenya Armed Forces and the police, being necessary xpenditure to support law and order in the ountry. There is also a notable increase of nearly 0 per cent for the vote of the Ministry of Tourism, largely to meet the cost of a marked expansion in tourist promotional facilities. This will, we hope, lead to an acceleration of the growth of tourism generally.

The Ministry of Natural Resources will also have a much higher vote next year, largely to intensify work on mineral exploration. This Ministry also has more money for development, particularly for rural afforestation schemes.

On the face of it, it would seem that the recurrent vote of the Ministry of Agriculture will be lower next year. This is not so, in fact. If Members refer to the gross expenditure figures they will see, in fact that there is an increase of some K£700,000. The difference is due to the higher estimate of Appropriations in Aid derived from livestock marketing operations.

The recurrent expenditures of the Ministry of Agriculture and Ministries such as Education and Health consist in large measure of the costs of salaries. It seems, on occasions in this House as if hon. Members feel that there is something wrong in spending money on civil servants salaries rather than on construction projects. Such an attitude represents a very narrow view of development and I would urge Members to take a broader view and realize that the money we spend on teachers' salaries to improve the education of our children or on doctors' and health assistants' salaries to improve the health of the people generally all represents economic development leading directly to the social and cultural improvement of the country, as well as indirectly to economic advancement from a better educated and more healthy labour force.

This concludes the remarks I propose to make on the side of expenditure. In sum, I propose a 10 per cent increase in the real value of recurrent services, but I shall have to find the money for an overall cost increase of 11 per cent to take into account the increased salary proposals of the Commission of Inquiry on Public Services and Remuneration. Fortunately, the cost of Consolidated Fund Services is a little lower next year than this.

On the side of development we are aiming at a very ambitious increase in spending of 30 per cent, if we leave recent share transactions out of account. The Government has, therefore, set itself a formidable task for the coming year. I am confident the Government and the Civil Service are now equal to that task and it is now my responsibility to find the finance to pay for the programmes proposed.

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And so, Mr. Speaker, Sir, I have reached the point in the annual Budget Speech, which hon. Members must feel I put off as long as possible, when, as Minister of Finance, I have once a year to discuss questions of taxation. Accordingly, I would like to request, Mr. Speaker, that the following part of my speech be taken as a Notice of Motion to be placed before the Committee of Ways and Means.

Hon. Members will have already seen from the Development Estimates that I hope to obtain some K£21 million by way of external loans and grants (including those accounted for by way of Appropriations in Aid) to finance development in the coming year. This means that some K£35 million of our Development programme will be financed from internal sources.

This is a large sum and it would strain the local money market considerably if I were to attempt to raise all of this amount by way of long-term stock issues. However, as I indicated earlier in my speech, I shall ask the Central Bank to provide the Development Exchequer with a long-term loan of K£5 million each year and I shall look to the Central Bank for such a loan in the coming year. Although there is still considerable over-liquidity in the banking system, I have found from experience that this type of money does not normally subscribe to long-term Government stock issues. For the latter purpose, we shall as, in the past, seek funds mainly from the National Social Security Fund and to a more limited extent from private insurance companies. It seems unlikely, therefore, that I shall be able to raise more than, say K£7 million by way of long-term stock issues in the coming year.

For these reasons, it is necessary that I maintain the level of recurrent surplus if I am to continue, as I should, to finance the major part of development spending from internal sources and not rely too heavily on external aid sources. Thus, although the recurrent surplus in the current year will, in all probability, turn out to be a record, I propose to budget for a recurrent surplus in the coming year equally large.

Yet, on the recurrent side, as I have already mentioned, I have to provide for an increase of spending of some K£12 million.

However, we have been particularly fortunate in Kenya in recent years in that the revenue has responded well to the growth of the economy. So long as the national income continues to grow at around the rate achieved in recent years, I can expect that revenue from taxation will grow steadily year by year without any changes being introduced in tax rates. Thus, even though I am taking a somewhat cautious view of the growth of the economy in the next twelve months, I still expect this natural growth of the economy to provide me with an additional K£6 million from tax revenue next year. This is most helpful to me but it is not, I fear, enough.

In total, my budget consists of a total expenditure of K£177 million. Recurrent revenue, allowing for natural increase at existing rates and a reimbursement from the British Government for expatriate pensions will provide me with an estimated K£109 million. Appropriations in Aid for the Recurrent Budget will provide another K£18 million, Local Loan Conversions K£5 million, Grants and Loans from overseas for Development K£21 million and local loans K£15 million. This all totals K£168 million.

There is thus, a gap of K£9 million. Accordingly, Mr. Speaker, Sir, there is no escape, I am afraid, from some increase in taxation this year. But K£9 million is still a very large sum in Kenya and I do not think I can take as much of this out of the economy by way of increased taxation without causing some set-back in the level of economic activity.

I propose, therefore, to take half of this sum—K£4.5 million—by way of increased taxation and to finance the difference by way of short-term finance. Thus, I shall on these figures allow the overall deficit on the Exchequer to increase by K£4.5 million over the year.

Hon. Members will recall that a month or so ago when petrol prices went up because of a rise in the price of crude oil imports, I took the opportunity to raise the petrol tax and at the same time to abolish the diesel fuel tax. I stated at the time that this would help our farmers to keep down the level of agricultural costs. It was, of course, inevitable that all users of diesel fuel obtained the benefit of this measure—not only the farmers, and, as a result, users of diesel vehicles now pay significantly less tax than users of petrol vehicles. If a five-ton truck is used fairly intensively this difference can be over K£200 per year. I can see very little justification for this discrimination and I propose, therefore, to correct the balance by changes in vehicle licence fees. As from tomorrow the cost of a licence for a diesel vehicle will be twice as much as the cost of the licence for a petrol vehicle.

At the same time, I propose to increase the scale of licence fees for heavier vehicles. Starting with medium weight motor-cars which will pay a small increase of licence fee—the fees for smaller

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icles remaining unchanged—the scale will rise idly, so that the very heaviest vehicles will pay a significantly higher rate. To quote some mples. The Ford Cortina licence fee will re- n unchanged but a Peugeot 404 will pay Sh. 50 year more and a Mercedes 220S, Sh. 110 per more. A 45-seater petrol bus will pay about 200 per year more, whereas if the same size operates with a diesel engine, it will pay 1,600 a year more. A ten-ton lorry which will ny case tend to have a diesel engine will pay ut Sh. 2,000 a year more than now.

here are some good reasons for these lating licence rates. First, it is quite clear n our recent road building experience that the heaviest vehicles cause a disproportionate nage to the roads compared with smaller icles and it is not unfair, therefore, that vier vehicles should be asked to pay at a er higher rate. Secondly, the profitability of l haulage with the very heaviest vehicles is emely high, and the Railways have suffered stantial losses of freight as a result of this. hough some of the increase in licence fees may n to be fairly high, I would point out that our ulations show that generally the increases in nce fees for diesel vehicles will be little or no her than the relief they obtained from the cut diesel tax, assuming that the vehicles are used sonably intensively and economically. I must, refore, emphasize that there is no justification ll for any increase in bus fares as a result of se licensing measures. There was no decrease ares when I cut the diesel tax and there is no e, therefore, for an increase now.

s a result of the increasing number of diesel icles on the roads of Kenya, I hope to obtain to K£700,000 from the proposed licensing asures.

Our Customs Tariff has been increased quite rply in recent years and I do not think that a ther general increase is justified at the present e. There are, however, a few relatively minor ustments I propose to make in the current r.

Firstly, in order to assist local industry, I pro- e that the present duties on tallow and tyre tiles should be abolished. Since these duties e previously subject to refunds or remissions, loss of revenue is involved. Further, in order assist local producers of cheaper knitted fabrics, duty on the cheapest imported grades will be sed from Sh. 12 per kilo to Sh. 36 per kilo, h the *ad valorem* duty remaining unchanged.

Early this year, a Select Committee of this House considered the problems of unemployment in this country, and amongst their recommendations, was a proposal that a duty should be imposed on lifting and loading equipment since they were increasingly being used to replace local labour. The reasons which persuaded the Select Committee to make these recommendations seem to me to be sound. Accordingly, I propose to impose a duty of 30 per cent on lifting and loading equipment, including fork-lift trucks and work trucks. This measure is expected to produce a useful gain to the Exchequer of K£270,000.

In order to assist my search for additional revenue in the current year, I propose that the customs duties on beer, spirits, cigarettes and tobacco should be increased. Imported cigarettes will go up by an average of 30 or 40 cents for a packet of 20, while I expect the price for a bottle of whisky to go up by approximately Sh. 2.

My final measure relating to the customs tariff is to reverse the proposal made last year, whereby the duty on sports goods was increased. Since no local manufacturers have come forward to take advantage of the protection afforded by the customs tariff of 50 per cent. I propose that the whole of that duty should be abolished in order to encourage sports generally throughout the country. This measure will cost me about K£17,000 per year in revenue.

Taken together customs duty changes are expected to increase the revenue by some K£373,000.

I have looked very carefully at the Excise Tariff in the current year. But this is essentially a common tariff and I propose to make no changes this year, except a slightly technical one of wording which does not have any revenue implications.

However, I well recall listening to the Budget debate last year when Hon. Members rose to their feet and argued that I should then have taxed beer and cigarettes more heavily. I was impressed at the end of the debate, I have given careful consideration to those arguments during the current year.

I have to tell you now that I have been convinced. I propose that rather than increase the excise, a consumption tax of 50 cts. per litre will be introduced on all beer subject to the excise. This tax will be collected by the Treasury Inland Revenue Department and the money, therefore, will come directly to us rather than indirectly through the Customs Department. I hope to collect K£1.9 million from this tax.

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At the same time, I feel, as Hon. Members argued last year, that our own traditional beer should not escape entirely. A Bill will be published today to repeal the out-dated African Liquor Act and replace it by a Traditional Liquor Bill. Most of that Bill is concerned with the licensing and control of brewing of Traditional Liquor, but one section provides that the Minister for Finance may impose a tax on the manufacture of traditional beer produced in the larger breweries that have been set up throughout the country. It is not, however, the intention of Government to tax home-brewed beer or indeed to tax beer produced by small breweries which have been defined as those producing up to 6,000 litres per month, i.e. something like 12,000 bottles of Pilsner per month. Any brewery licensed to produce more than that limit will, however, be asked to pay a tax at the rate of cts. 20 per bottle as from the 1st of July. Since taxes on a half litre bottle of Pilsner amount to Sh. 1, a tax of cts. 20 per bottle on Traditional Beer brewed by the larger manufacturers of this product is not unfair. It is only reasonable that people who are able to frequent local clubs and bars should make a contribution to the development of the country. It is estimated that the Treasury will earn K£500,000 from this new tax.

I am also proposing a similar consumption tax on cigarettes and tobacco. The new cigarette tax will be at the rate of five cents on a packet of 20 of the cheaper brands, ten cents on the medium price brands such as Sportsman, and 15 cents and 20 cents on the more expensive brands. I think that those people who can afford to smoke, can afford to pay this tax. I hope to obtain K£500,000 from this measure.

Hon. Members will, I am sure, not have forgotten the recent heated debate on the Hotel Licensing Bill. It was clear from that debate that many hon. Members felt that luxury hotels were being constructed around the country which were providing benefits for the richer members of the community and tourists without providing benefits for the country as a whole. Having regard to the very substantial sums the Government is spending to improve the infrastructure of roads, water and drainage for tourist facilities, it is not unreasonable that I should look for some revenue from the people who use these hotel facilities. I, therefore, propose to introduce a tax of 10 per cent on the hotel room charges, excluding the charge for food, drink and service, to be paid by all hotel guests when they pay their hotel bill. Hotels excluded from the licensing provisions of the Hotel Licensing Bill, recently passed, will once again be exempted from the payment of this tax. Even so, I expect the revenue to gain by some K£500,000 from this measure.

If I may call the new tax on hotel accommodation a consumption tax, the total amount I expect to earn from the new consumption taxes, taken together, including those covering beer, cigarettes and tobacco, will be approximately K£3.4 million.

I would now like to turn to Income Tax. Hon. Members will be aware that last year I introduced a number of far-reaching measures attempting to bring our income tax system more up-to-date. The impact of those measures was hotly debated throughout the last year and I have followed that debate with considerable interest. Many of the criticisms advanced against the new system were badly misinformed but others did I feel have considerable validity. I am sure that the extension of P.A.Y.E. to the full range of the employee's income was sound and sensible; and I am sure that the provisions for the earlier payment of company tax were not unfair. I do not, therefore, propose to introduce any changes in the basic principles of employee's P.A.Y.E. and the only change I propose in relation to the payment of company tax is to cancel the arrangement whereby companies paid in two instalments, firstly, 75 per cent one month after the end of the accounting year, and secondly, 25 per cent four months after the end of the accounting year. I propose to introduce a system whereby companies will pay 100 per cent of their estimated tax liability three months after the end of their accounting year. Owing to the problems of obtaining fully audited accounts within three or four months of the end of their accounting year, I propose to allow companies to submit final audited accounts up to nine months after the end of their financial year. Since almost all of their tax will have been paid on the basis of estimated tax liability, it will then only be necessary to make a final adjustment on the basis of the agreed assessment. This change will, I think, reduce the burden on companies in the accounting profession and will ease the burden on the Income Tax Department to a certain extent without causing the Exchequer any loss of revenue.

There are two other changes I propose to introduce with regard to company tax. They are both rather technical and are not expected to make any significant impact on the revenue. At the present time mining companies producing scheduled minerals pay a company tax at a rate

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22½ per cent even if they are making substantial profits. I no longer see any strong justification for the continuance of this indefinite favourable discrimination towards a few mining companies and I propose that although the lower rate of company tax will continue for five years after the company first makes a profit, from the sixth year, the mining company will pay tax at the normal rate of 40 per cent.

Secondly, under section 19 of the East African Income Tax Management Act, associated companies are allowed to make, what are called, subvention payments between profitable and loss-making companies in the same group and the subvention payment is fully deductible before tax is assessed. I do not accept that there is a continuing justification for this concession and section 19 of the Act concerning subvention payments will be revoked.

It has been a matter of concern to me which Hon. Members may have detected from the earlier part of my speech that foreign companies are taking substantial sums of money from Kenya by way of dividends, interest on loans, management fees and royalties; in some cases those sums are not taxed at all until they get back to the country of the parent company. In some cases taxes are paid but the Income Tax Department is then required to make complicated assessments of whether or not liability was in fact due in those cases.

In order to simplify the situation and to increase the Kenya revenue, I propose that a withholding tax on both dividends and interest will be introduced as from tomorrow at a rate of ... per cent of the gross dividend and interest paid. The withholding tax will be paid by both residents and non-residents, but residents will be allowed *to set off* the amount they pay by way of withholding taxes against their normal tax liability. Where the amount of withholding tax is greater than a resident's normal tax liability, a repayment will be made by the department. Non-residents will not, however, be allowed to set off this tax against their Kenya tax liability.

Where, however, there are double taxation agreements between Kenya and the country receiving the dividends and interest, which is likely to be the case more often than not, it will be possible for non-residents to set off the withholding taxes they have paid in Kenya against their tax liability in their own country. In fact, therefore, where there are double taxation agreements, a non-resident receiver of dividends and interest derived from Kenya will probably not pay any additional tax in total. All that will happen is that the amount of tax charged and collected by the foreign Treasury will be reduced and the Kenya Treasury will profit to the same extent.

It is estimated that some K£2 million per year leaves Kenya by way of management fees and royalty payments to non-residents. These sums are at the moment fully deductible for tax. From tomorrow, I propose that a withholding tax of 20 per cent will be imposed on all payments of management fees and royalties to non-residents. This tax will not apply to Kenya residents, individuals or companies. I expect to get K£400,000 from this measure. Once again, the tax will normally be relieved in the receiver's home country, and he is unlikely to have to pay very much more tax as a result of these proposals.

Hon. Members will be aware that the most contentious measures introduced last year concerned the timing of payments of tax by self-employed. Some people have found no difficulty in adapting to the new system; but it is undoubtedly true that others, particularly the farmers, have found the greatest difficulty in attempting to estimate the amount of income they have earned each quarter and, therefore, the amount of tax they are liable to pay. I, therefore, propose to abolish the system introduced last year in so far as it applies to the payment of tax by the self-employed.

With effect from 1st January, 1972, self-employed persons and persons not paying tax by way of P.A.Y.E., such as people with dividend income or people with a wife earning taxable income, will pay their tax in two instalments based, still on a *provisional* assessment, but *after* the year of income. Such people will pay their tax three months and six months after the end of their accounting period, which in most cases will be a calendar year. They will also be allowed up to nine months to submit audited accounts for assessment and final adjustment of tax liability where such accounts are required. This means that in future we shall be treating self-employed persons very much in the same way as if they were companies, except that they will be allowed to pay in two instalments and will have rather longer to pay.

If I were to take this measure in isolation, the Exchequer would lose over a million pounds in revenue and all the self-employed would have a one year tax holiday. In these circumstances it seems to me only fair that the self-employed, and other individuals not paying tax by way of

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P.A.Y.E., who are being given a very substantial concession by the new proposals, should pay off all outstanding tax liabilities up to the 31st December, 1971, during the year 1972. This means that, whereas last year proposals were introduced to spread forward the 1970 tax liability for four years, those provisions will now be cancelled and the tax will be due in two instalments on the 30th March, 1972, and 30th June, 1972. By the end of 1972, I expect that all outstanding tax debts relating to the self-employed and other individuals not paying their tax by way of P.A.Y.E. to be paid up. I am confident that everyone concerned will accept the new proposals as being a fair way of collecting income tax from them and will clear off their debts in the time available, so that the new system can come into operation during the year 1973 in respect of the year of income 1972. I shall still lose revenue by these measures taken together—an estimated K£500,000 in 1971/72.

I would like to turn now to the question of individual allowances and rates of tax. There has for some time been a special allowance for a single parent with a child. I do not accept that there is a justification for a single person responsible for the care of a child to have an allowance virtually the same as that of a married couple and child. I propose, therefore, that the Supplementary Single Allowance for the single parent will be withdrawn and such people will in future have merely the single allowance and the normal child allowance.

I have no proposals this year concerning the scope and rates of graduated personal tax. The arguments for and against this tax have been rehearsed at great length in previous years and I do not intend to go over those arguments today. I am, however, prepared to concede that the combined imposition of graduated personal tax and personal income tax involves an element of double taxation. For this reason I propose that as from the 1st of January, 1972, the amount paid by way of graduated personal tax will be deducted from income before the charging of income tax. This concession will cost me K£400,000 in the full year.

Last year when I extended P.A.Y.E. to cover the full range of surtax for employees, I wanted to make the change without making any change in the rates of tax. This did, however, mean that the income segments to which the graduated rates of personal [illegible] income tax applied were not easily divisible by twelve [illegible] for the assessment of monthly tax by employers. I propo[illegible]se, therefore, to change the income segments, now generally K£1,000, to segments of K£600 for the lower range of income and K£1,200 for the higher ranges of income. The rate of tax on the first £600 of chargeable income will be Sh. 2/50 in the £ and thereafter will rise in £600 steps from Sh. 2/50 to Sh. 4, 6, 7, 8 to a chargeable income of £3,001. At that point it will increase in income segments of £1,200 from Sh. 10, 12 to Sh. 14 up to £6,600 chargeable income. In the chargeable income range of £6,601 to £10,800 tax will be Sh. 15 in the £.

This new scale of personal tax will mean that a person, with a wife and children, earning a chargeable income up to £1,600 per year, will pay exactly the same amount of income tax as he does at the present time. And in fact when the proposed relief for G.P.T. is taken into account, many will pay less. People earning chargeable incomes above £1,600 will pay a little bit more income tax and the amount will increase as income increases to the extent that the very highest incomes will pay quite significantly more in income tax. It will, therefore, be seen that the new tax rate proposals are administratively more simple for the implementation of P.A.Y.E. and at the same time they further the aims of African Socialism whereby the richer members of the community are asked to pay relatively more towards the cost of maintaining Government services than the poorer members.

In the income tax measures I have announced today, I have provided concessions for companies in so far as they will be allowed more time to finalize their accounts. I have announced concessions to the self-employed and to people with non-employment incomes in so far as they will be assessed in future in the year after the year of income. I am aware now that the heaviest burden is falling on employees who were liable to surtax in 1970 who have been asked to pay their 1970 surtax over and above their current tax liability. Taking into account the fact that those people who paid surtax in 1970 are also likely to have to pay a little bit more income tax as a result of the new tax rates in 1972, they will I fear be asked to carry an unfair burden which could affect adversely the livelihood of their families and, indeed, the consumption patterns of the economy.

I, therefore, propose that surtax in respect of 1970 employment income will be suspended with immediate effect and will be written off completely in eight six-monthly instalments commencing the 31st December, 1971. Any payments made by employees in respect of their 1970 employment surtax liability will be refunded or set off against future tax liability. Where surtax is charged on a

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composite of employment and non-employment income, employment income will be assumed to be charged at the lowest rates of tax and non-employment incomes charged at the subsequent higher rates. So long as the person stays in Kenya, he will not be asked to pay anything in respect of his 1970 surtax on employment income. If, however, he leaves Kenya, he will be asked to pay the amount outstanding in accordance with the timetable of write-offs I mentioned a moment ago.

I hope hon. Members will agree that the suspension of payment on 1970 employment surtax represents a very substantial concession on my part. I estimated it will in fact cost me £1.1 million in each of the next four Financial Years.

I have announced a wide range of measures affecting the income tax, and I have indicated that some of these will cost me substantial sums of revenue. On the other hand, the new withholding taxes and the new rates of taxes on personal income will have the effect of increasing the revenue. Overall, in the coming Financial Year I estimate that the income tax measures will have a *neutral effect* on the revenue. In the following year I hope to gain by some K£500,000 and in 1972/73 I look forward to a gain of £1½ million.

These then, Mr. Speaker, are my tax measures for this year. I estimate they will together bring an additional K£4.5 million to the revenue in the coming year, which with a natural increase of revenue, estimated at a lower level after these measures at K£5.5 million, will provide me with the K£10 million extra I was seeking from my Budget.

The changes I propose are in a number of ways far reaching, since they represent an attempt to introduce a fiscal system consistent with the policy aims and objectives of the Government such as I have outlined this afternoon.

The new income tax rates will have the effect of increasing the burden of taxation on the richer members of the community without touching the poorer members. The new withholding taxes will obtain greater revenue from non-resident receivers of income without increasing the overall burden on resident tax-payers.

The increased and wider taxation of beer, spirits, cigarettes and tobacco cannot be considered unfair, for if people can afford to consume these products, they can afford to pay an extra few cents of tax. The taxation of labour-saving equipment is consistent with our employment policy aims.

The heavier taxation of vehicles represents no more than my asking all transport owners to pay tax equitably, taking into account the present differences in taxation on petrol and diesel vehicles and asking them to pay rather more taking into account the construction and maintenance costs of the road system we provide for them to operate. The tax on hotel accommodation is also an attempt to ask our tourists to make a contribution to the expensive facilities the Government provides for them. I do not think the charge either onerous or unreasonable.

As I made clear earlier, even as a result of these measures, my Budget for 1970/71 will not be balanced completely in financial terms. Total revenues received in the Exchequer will be insufficient to meet total expenditures. I am, however, prepared to cover the overall deficit by short-term borrowing.

In economic terms, my Budget is expansionary. Expenditures of Government will be 11 per cent higher next year compared with the present year —if we ignore recent share purchase transactions expenditures can be said to rise by 17 per cent. At the same time I shall take out of the Kenya economy K£20 million or 11 per cent less than I put in, taking into account receipts of grants and loans from overseas, interest and debt repayments to overseas and the finduciary loan I propose to obtain from the Central Bank.

Once again, therefore, my Budget is a budget for expansion. There are still unutilized resources in our economy. My object is to assist the process of utilizing these unemployed resources and to expand incomes and production in line with the targets set in the Development Plan. I am sure we can make it.

Mr. Speaker, Sir, I beg to move.