COLONY AND PROTECTORATE OF KENYA

Speech delivered to the Legislative Council of Kenya on 5th June, 1962, by the Hon. J. S. Gichuru, Minister for Finance, Government of Kenya, on presenting the Budget for the Fiscal Year 1962/63 (1st July to 30th June).

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

The House is already in possession of the Estimates of Expenditure for 1962/63, and the Economic Survey, 1962. I now present the Estimates of Revenue for the year ending 30th June, 1963, together with the Financial Statement.

I should like at this stage to express my thanks to all those officers of the Treasury, and all other Ministries, who are responsible for the production of the Estimates and the accompanying documents. The recent increase in the number of Ministries has added to the difficulties of their task, as has the need—owing to our grant-aided status—to agree our expenditure proposals with the British Government. Many last-minute adjustments have had to be made, and the staff of the Government Printer has displayed its usual patience and efficiency.

I should also like to thank my predecessor, Mr. Kenneth MacKenzie, for the work which he did in conducting lengthy negotiations on these Estimates with the Colonial Office and the British Treasury. He will be leaving Kenya within the next few days, and I am sure all hon. Members will wish to join with me in paying tribute to him for the valuable services which he has rendered to Kenya, and to wish him well in whatever new activity he may decide to apply his considerable talents.

I shall deal first with the out-turn for the current year. The latest estimate of expenditure is £34.79 million, of which £1.35 million relates to famine and flood relief and rehabilitation measures, and is covered by a special grant from the British Government, leaving £33.44 million to be covered from revenue or grant-in-aid.

The revised estimate of revenue is £31.4 million, leaving a deficit of £2.04 million, or slightly less than the amount of grant-in-aid agreed with the British Government before the presentation of the Estimates over a year ago. The out-turn is close to the original estimate, and would have been even closer if Kenya's biggest ever pre-Budget spending spree had not brought in an unexpectedly large amount of revenue during the last ten days.

The deficit will be covered by grant-in-aid, including the balance of grant-in-aid and other revenue carried forward from previous years, and I do, in fact, expect to end this year with a credit balance of some £800,000 in the Colony Exchequer Account at 30th June. Ignoring famine and flood relief, expenditure has kept closely in line with the original estimates, adjusted for the implementation of the Raisman Report, and revenue has slightly exceeded the target, a shortfall in Graduated Personal Tax—mainly owing to famine and flood—being compensated for by an increase over the estimate in receipts from Income Tax.

We must be most grateful for the generous assistance which we have had from the British Government towards famine relief and flood relief, and for the gift of foodstuffs to the value of over £2 million from the United States Government.

On Development account the deficit at 30th June, 1961, was slightly less than the figure forecast last year of £5 million. The revised estimates of expenditure in the current year total £9.6 million, and the deficit at 30th June, 1962, is likely to have risen to some £5.4 million, mainly because it has not yet been possible to draw on International Bank and Colonial Development Corporation money for settlement schemes, although it is hoped that it will be possible to draw from these two sources against expenditure which will be incurred this year. It has also not been possible to finalize negotiations with the West German Government, and it is unlikely to be possible to draw from West Germany before

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30th June funds to cover certain items of expenditure in the normal Development Programme and for settlement schemes which we had hoped to finance from this source.

The main cause of under-expenditure of some £2 million on the original estimates is that the settlement schemes have got under way more slowly than was expected—mainly owing to a delay in finalizing the terms for land purchase. The deficit will be covered by the balance of a little over £1 million held in Tax Reserve Certificates, from the cash held in the Paymaster-General's Account and by short-term borrowings.

The Economic Survey sets out in detail how the economy has fared during 1961 and in the early part of 1962, and I do not propose to cover this ground again, although I should like to draw attention to some salient points in the Survey. These include the following.

For the first time since the series of national income statistics was introduced into Kenya the gross domestic product showed no change from the preceding year. This means that, after allowing for price changes and the growth of the population, real output per head must have declined. I do not need to emphasize the reasons for the stagnation in the economy, since these are well known. They include the decline in world prices of a number of Kenya's main exports, the effect of natural disasters in the form of pestilence, famine and flood and the serious decline in capital expenditure resulting from conditions created by political uncertainty.

In the cash economy the domestic product expanded by nearly 2 per cent, although the greater part of the increase was due to higher wages and salaries in the public service, where the numbers in employment also went up. In the private sector the numbers in recorded employment fell by nearly 40,000 between mid-1960 and mid-1961, although the total paid out in wages and salaries remained static. The level of profits remained virtually unchanged.

Lower export prices for agricultural products led to a drop in the contribution of agriculture to the domestic product. Nevertheless, output of a number of crops expanded, and the rising trend in incomes accruing to African farmers continued with an increase of nearly £1 million, which helped to offset the drop of £1¼ million in the earnings of farms and estates in the Scheduled Areas. African farmers will continue to make an increasing contribution to the economy, and now produce some 27 per cent of our pyrethrum and 22 per cent of our coffee, but the dangers of marketing difficulties and a further drop in world prices are serious, and emphasize the need maintain quality and diversify production.

At £35.3 million, Kenya's export earnings w slightly higher than the previous record figure 1960. An encouraging feature in the growth Kenya's external trade has been the increase exports to neighbouring territories and to ot markets in Africa and the Middle East.

The total value of imports into Kenya was o slightly lower than in the previous year, but co mercial imports fell by 8 per cent. This reflec the running down of traders' stocks in contin tion of a process started in the second half 1960, and a drop in imports of capital goods particularly those associated with buildi activity. However, the internal demand for co sumer goods kept up well, and the level activity in wholesale and retail trade was ma tained. The transport industry had a reasonal good year, with a continued increase in the u of air travel.

As in previous years, Government again play an important part in supporting the economy maintaining the level of expenditure and the le of employment in the public sector. This, ho ever, was made possible only through continu substantial financial assistance from the Briti Government.

More people visited Kenya in 1961 than 1960, but hotels and other services catering f tourism did not benefit greatly from this increa as the length of stay per visitor fell, as compar with recent years. The growing popularity package tours and the floods, which interfer with communications in the latter part of t year, may have been responsible for this.

The contribution of the building and constru tion industry declined only slightly, entirely owi to the maintenance of expenditure in the pub sector. Building for the private sector was at very low ebb, and private residential buildi virtually at a standstill.

I have referred already to the fall of 40,0 in the numbers employed in private industry a agriculture. Lack of investment was undoubted one reason for this. However, the continu upward movement in wages—partly in respon to changes in the statutory minimum wage—w another. Kenya has at present considerab reserves of unskilled manpower which could, a should, be employed in increased productio and higher wages not reflected in greater outp will inevitably increase unemployment. Strikes called contrary to agreements previously reache or before all normal methods of negotiation ha been fully explored—are discouraging to n investment, and damaging to economic progre

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his does not mean that wages at the minimum iould not increase progressively to a level which ill provide a living for a man and his family, r that skilled and specialized training should not ırn its just reward.

One aspect of the situation which is only briefly ouched upon in the Survey I should like to deal vith in more detail. This is the question of the utflow of money from Kenya. Under the Currency Board system an outflow of money does ıot in any way endanger the strength of our urrency. The Currency Board holds more than ıdequate sterling securities as backing for the currency in circulation, and the surplus assets of the Currency Board at 31st December, 1961, were in excess of £8 million. The strain is taken by the banks and, in order to correct the situation, the banks had to raise their overdraft rates and, at the same time, they increased the rates paid on deposits. Credit also had to be restricted, although the banks did succeed in maintaining the level of advances to agriculture.

However, in 1961 the flow has not all been one-way, and the banking statistics suggest that during 1961—taking into account all transactions—there was a net inflow of funds. There has been an increase in the amount of money coming in from a number of European countries, and this can be measured with reasonable accuracy, as investors from countries outside the sterling area normally seek to obtain "approved status" for their investment, so that they can get the necessary assurances with regard to future remission of profits and, if necessary, repatriation of capital. The amount of investment given approved status since 1st January, 1962, has totalled some £3¼ million—more than during the whole of 1961. This is an accurate figure, as approved status to an investment is not granted until a certificate can be produced from one of the banks that the money has actually arrived in Kenya from an external account. This money has come from Italy, Switzerland, France, West Germany and the United States of America, and has gone into various ventures, including some fairly substantial investments in farming enterprises.

A further sign of an improvement in the situation is the recent reduction in bank overdraft rates from 8 per cent to 7 per cent. This rate is sometimes wrongly compared with British bank rate. The London bank rate is the rate at which the Bank of England is prepared to buy Treasury bills, and certain other eligible bills, from the discount market. It is not the rate at which individuals and companies can obtain overdrafts in the United Kingdom. This is now 5½ per cent and there is therefore a difference of only 1½ per cent in the rates at which overdrafts can be obtained in Kenya as compared with the United Kingdom. This is a far smaller spread than the difference between the rates for long-term loans on Kenya stocks as compared with British Government stocks. This has now widened to some 4 per cent, and the redemption yield on long-term Kenya stocks quoted on the London market is now over 10 per cent. I hope that we shall be able to conduct our financial and economic affairs in such a way as to be able to bring this rate down.

There is the further important point that local overdraft rates have to be related to local circumstances and—as I have explained earlier—it was necessary for the banks to raise their overdraft rate in order to protect their own liquidity position, and they have now been able to bring it down, *not* because British bank rate has come down, but because there has been some improvement in the position here.

The Currency Board has also taken a hand, and the Chairman of one of the East African banks stated in his recent address to the Annual General Meeting of the Bank—referring to conditions in Kenya—that there had been a marked deceleration in the flight of capital, but that the market was still notably short of money for export finance, so that the steps taken by the East African Currency Board in 1961 to assist banks with accommodation and discount facilities for this purpose were very welcome indeed. The rate at which the Currency Board will provide these facilities has recently been reduced to 5½ per cent. It has also recently been announced that the Currency Board is entering new fields of activity, in addition to providing both long-term and short-term finance for Governments and beginning to assist in the provision of finance for export crops.

As Kenya moves to independence there will no doubt be further developments in the monetary field, and I am hopeful that it will be possible to concert them on an East African basis. The maintenance of an East African common market is very much in the interests of all the East African territories, and Kenya has recognized this by accepting the recommendations of the Raisman Commission at a cost of some £500,000 in the current financial year. I am encouraged to believe that we shall be able to work in agreement with our neighbours by the frank and friendly negotiations which I had with the Finance Ministers of Tanganyika and Uganda over the revenue measures that will be reflected in this Budget. I am also encouraged by the agreement reached between the territories on a

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number of protective measures for various local industries, and by the fact that the territorial representatives on the East African Currency Board have never failed to find agreed solutions to outstanding problems.

It is, I think, obvious that an independent Kenya will wish to pursue its own monetary policy, and have a greater say in credit policy than is now possible. I must, however, emphasize that we shall seek to find East African solutions to these problems, and that we shall not act hastily or without careful consideration of the most expert advice which can be obtained.

I now turn to the 1962/63 Development Programme. The Estimates total over £14 million, and are, therefore, larger than ever before in Kenya's history, but £5¾ million of this amount is for settlement schemes, which are now beginning to get under way, and which are essential if production in the Scheduled Areas—which now provide some 70 per cent of our exports—is to be maintained, if the best use is to be made of our main natural resource—namely, the land—and if substantial steps are to be taken towards dealing with the formidable problems of unemployment and landlessness.

On the question of unemployment, it may be of interest if at this stage I give some figures to show how many people can be employed per £100,000 spent by the Government on building projects or road projects. It has been calculated that a £100,000 building project would be likely to employ an average of 240 men for a period of 12 months, and that a £100,000 road project would give employment to about 140 men. The contractor finance project, which is now proceeding at the rate of well over £1 million a year, is employing between 1,200 and 1,500 men. These figures do, I think, illustrate that it is impossible for the Government, within its resources, to compensate to more than a small degree for the fall of 40,000 in the numbers employed in private industry and agriculture, to which I have already referred.

The finance for the Plan is not yet certain, but I am hopeful that current negotiations with Her Majesty's Government in the United Kingdom, and with the West German Government, will be successfully concluded, and that it will be possible to cover the expenditure in full, and to reduce slightly by 30th June, 1963, the formidable deficit of over £5 million in the Development Exchequer Account.

We shall before long be receiving the Report of the International Bank Mission, which will provide us with sound advice on the preparation of our next Development Plan. It must, howev be recognized that an independent Kenya will qualify for Colonial Development and Welf grants, and that we shall, therefore, have absorb progressively in the recurrent budget penditure of some £1½ million of a recurr nature, which is now included in our Devel ment Programme, and financed by grant.

It must also be recognized that our ability add to the Public Debt is limited, and that mor borrowed for Development must be put economic use, and must generate sufficient ad tional income to cover the recurrent cost of borrowing. We shall seek to tap all availa sources of finance, but there is no certainty tl we shall be able to finance as large a Devel ment Programme—excluding settlement schen —during the next few years as we have be able to finance this year, or hope to be able finance in 1962/63. In addition, some pigec will be coming home to roost and, in particul we shall have to find money to meet payme due on the £4½ million contractor finance rc programme.

The greater part of our Development P gramme involves local expenditure. Our expen ture on agriculture and forestry is mainly eitl on staff or on loans spent locally. Buildings a roads are constructed in the main from loca produced materials. When we become indep dent we shall, I hope, find it possible to obt long-term loans or at least short-term credits the import cost of Development projects, but will be extremely difficult to find sources of mor to replace the Colonial Development and Welf grants and the Exchequer loans which we n obtain, and which we can use to meet local co

I now turn to the recurrent expenditure e mates, which total £36,486,840—an increase the revised estimates of expenditure for 1961/ of nearly £1.7 million. Part of this difference explained by what may seem to some hon. Me bers mysterious figures appearing in the Expen ture Summary relating to the Overseas Scheme.

The position is that, under the Overseas Agreement, the British Government meets whole of the overseas addition to the ba salaries of designated officers, but the Inco Tax paid by these officers on the overseas ad tion to their salaries comes off the amount the grant from the British Government. T must be accepted as fair, and it would not reasonable to expect the British Government pay part of the salaries of designated officers a to allow the Kenya Government to pocket Income Tax on this element in salary.

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There is a further complication in that Income Tax is deducted from salary 18 months in arrears, whereas the amount of the Income Tax payable on the British Government's contribution to salary is deducted from each of our quarterly claims. This presents us with a cash problem which, during 1961/62, has been met by a grant of £795,000, which is liable to repayment when the Government actually receives the Income Tax on the salary payments. Of the £730,000 shown in the 1962/63 Estimates, all but approximately £110,000 will actually be received as Income Tax revenue during the year, and the £110,000 will be covered by a grant from Her Majesty's Government. The two figures relating to 1962/63 and 1961/62 are not strictly comparable, and the total amount deducted from our Overseas Aid grant in 1961/62 was approximately £1 million, towards which we have obtained a special grant of £795,000, the balance being represented by Income Tax actually received and included in the Revenue Estimates.

My next point concerns expenditure on Flood and Famine Relief and on Rehabilitation Measures. As explained in the General Memorandum Note on the Estimates, £1,278,500 is included for these purposes. All but £135,000 of this will be met mostly by grant and partly by loan from the British Government.

Ignoring these two factors, the increase in the 1962/63 Estimates over the revised Estimates of Expenditure for 1961/62 is approximately £1¼ million, and this increase is accounted for in the main by additional commitments on the Public Debt of £585,300, and additional commitments on the Pensions Vote of £534,600. These two commitments, plus the need to provide £59,000 for the Census and £64,000 for the creation of new Ministries, account for the whole of the increase; and all other increases, including £127,000 for Education and nearly £100,000 for the Police, have been covered by savings.

Extracting these savings has been a painful operation, and it must be borne in mind that, with a salary bill of some £18 million, normal increments lead to an annual increase of some £500,000 in expenditure, which has had to be absorbed by savings. However, in framing these Expenditure Estimates, I have had to have regard to the even greater problems with which we shall be faced in 1963/64, and the need to make every effort to balance our recurrent budget before independence, when additional commitments will arise for the Armed Forces and for diplomatic representation overseas, as well as for contributions to a number of international bodies and for taking over recurrent expenditure from the Development Estimates.

I do not propose to go into detail on the various expenditure Votes either in the Colony or the Development Estimates, as these will be discussed in the debates in the Committee of Supply: nor do I want to anticipate what the Ministers responsible for particular Votes will say in introducing them: but I should like to summarize very briefly some of the background to the cold figures, and to indicate some of the things that the Government will have to do at the cost of about £5 per head of the population, as far as the recurrent budget is concerned, and less than £2 per head of the population on Development.

Education will be provided for over 800,000 children, and Government hospitals will treat over 150,000 in-patients and over a million out-patients. The Administration—in addition to its normal duties—will have to tackle a Census and an Election. The Ministry of Agriculture will be responsible for continuing to provide probably the best agricultural extension services in any African country and the best research services.

On the Development side expenditure on Settlement Schemes will be on a very large scale, and is expected to amount to more than one-third of our total expenditure on Development. In the General Development Programme the highest priority has been given to localization and training, and 27 departmental training schemes will be in progress, covering every aspect of Government activity. By the end of March, 1963, 104 Administrative Officers, 360 Executive Officers and 48 Local Government Officers will have passed through the Institute of Administration at Kabete.

Despite the need for economy, the Government will press on with land consolidation, farm planning and all the other essential agricultural and veterinary services which are vital to Kenya's economic progress. The planting of cash crops will continue on an increasing scale, and more than 2,000 acres of tea will be planted in the African areas. Educational projects will absorb more than £¼ million, with emphasis on the provision of improved facilities for secondary and technical education. More money than ever before will be provided for industrial development, and the road programme—including the contractor finance project—will add 190 miles of tarmac road to the present system.

I have touched on merely one or two of the activities of the Government, but I hope I have said enough to indicate that the country will be receiving value for money, and that the revenue proposals, to which I shall be coming shortly, must be accepted as necessary evils.

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I have already compared proposed expenditure in 1962/63 with the revised Estimates of Expenditure in the current financial year. It is now necessary for me to indicate to what extent it will be possible to meet the expenditure of £36,486,840 from revenue at the existing rates of taxation which, on the basis of the Economic Survey, cannot be expected to increase.

Of the £1,278,500 to be spent on Flood and Famine Relief and Rehabilitation Measures, all but £135,000 will be covered by a special grant or loan from the British Government. This means that the expenditure that we shall have to meet from revenue or from normal grant-in-aid is £35,343,340. Towards this I estimate that revenue at existing rates of taxation will bring in £31.3 million, leaving a gap to be closed of a little over £4 million. At the time of the Lancaster House Conference, the Secretary of State informed delegates that we were facing a deficit of £5 million, but this has been reduced to £4 million—mainly by stringent economy measures. This is a formidable gap, but, included in it, is some £533,000 for compensation and related payments.

We shall hope in the financial negotiations leading up to independence to be able to secure assistance from the British Government towards Kenya's share of the immense compensation bill, and it must be recognized that Kenya cannot meet this bill without assistance. Also included in the expenditure figures is £135,000 for rehabilitation measures, which it is hoped it will not be necessary to provide for in the future, and £110,000 related to the cash shortfall on the Overseas Aid Scheme. This means that abnormal items of expenditure account for £778,000 out of the £4.043 million gap, leaving £3.265 million of what must be accepted as normal basic recurrent expenditure.

It is essential that, as we move towards political independence, we must be able to cover our normal recurrent expenditure from taxation revenue. Political independence is not consonant with grant-aided status and, although the grant-in-aid rules have been operated in a most understanding way by the Colonial Office and the British Treasury, an independent political Government must be able to decide on how it spends its available resources without the detailed control and scrutiny of expenditure proposals which is essential under the arrangements for grant-in-aid.

This does not mean that we should not try to secure assistance to help us absorb over a period the new additional commitments that will fall upon Kenya at the time of independence.

I now come to my revenue proposals, an would at this stage ask, Mr. Speaker, that- accordance with our usual practice—this spe be taken as Notice of Motion to be placed bei the Committee of Ways and Means dealing v the measures I am now proposing.

I shall first deal with protective measures, should perhaps draw attention to the Local Inc tries (Refund of Customs Duties) Bill, wh already has had its First Reading and will introduced by my colleague, the hon. Minister Commerce and Industry. This Bill will have place in our general policy of stimulating inc trial development by changing the present metl of granting refunds to a system that will ens that these refunds do not have to be curtai during the course of a year, and by ensuring t the refunds on a particular commodity can given for a period of several years where thi necessary.

A second piece of legislation which is be published today has been prepared in consu tion with my colleague, the hon. Minister Tourism, Forests and Wild Life, and with other East African Territories, and is entitled T Export Duty Ordinance, 1962. This provides the levying of an export duty of Sh. 20 on ea untanned crocodile skin leaving this territory. T object of this legislation—which it is proposed make effective from 1st July—is to make export of small skins uneconomic, thus discour ing the killing of immature crocodiles. I hc that this measure will demonstrate that in the n Kenya even crocodiles will have a fair deal!

I now turn to particular amendments to t Customs Tariff which are listed in the Financ Statement, and are designed to assist lo industry.

Tariff Item 45 is to be amended to impose duty of 12½ per cent on imported wood screv These screws will be afforded the same degr of protection as is accorded to nails, nuts a bolts now manufactured in East Africa. T manufacture of wood screws has already start in one of our neighbouring territories and w I hope, also start here.

Tariff Item 47 will be amended to raise t duty on iron ridgings and gutterings from 1 per cent to 25 per cent. At the lower rate, loc manufacturers turning iron sheeting into gutterin or ridging had to pay more duty than was pa on the competing imported item.

Tariff Item 58A has been recast to permit al minium sheets, plates and circles of a thickness .275 inches and above to be imported free

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duty. This is to encourage the manufacture of aluminium tanks from imported materials, in competition with the comparable imported articles which come in duty-free under Tariff Item 72.

An anomaly relating to the import of galvanized strip in coils has also been removed and, in agreement with our neighbours, the specific rate of duty on the thinnest varieties of corrugated iron has been reduced from 15 cents to 10 cents per square foot, which will be adequate for protective purposes, and will achieve uniformity in the rate of duty throughout East Africa.

Tariff Item 165, which deals with packing materials, is to be amended again in a manner which will encourage the local printing of wrapping paper and of material imported for the manufacture of cartons and boxes. The local manufacture of multi-ply bags will be encouraged by the imposition of a duty of 17½ per cent, although the special needs of the cement industry which requires 6-ply bags for export will be met by reducing the duty on them to 5 per cent only.

There are also a number of other minor amendments designed to rectify anomalies or to stop loopholes in the present Tariff.

I now come to the major changes in indirect taxation, made with the object of raising some £2½ million from this source. The Treasury is often advised to get additional revenue by increasing the taxation of luxuries, but unfortunately most luxury articles are already subject to a high rate of duty, and further increases in the present rates would reduce consumption and bring in little, if any, additional revenue. I have some proposals for increasing duties on luxuries, but I fear that the greater part of the increase must be derived from articles in common use.

From midnight tonight the rate of customs and excise duty on sugar will be raised by 5 cents per lb. However, the price to the consumer will go up by only 3 cents per lb., the remainder of the increase being borne by the Sugar Equalization Fund. The amount of additional revenue is estimated as £475,000 in a full year.

It is a considerable time since the Minister for Finance has increased the duties on beer and tobacco. The reason for this has been that it was thought that an increase would have serious effects on consumption, but I am hopeful that a moderate increase in the duty on beer will bring in nearly £400,000 in a full year. The customs duty on imported beer will go up from Sh. 10/50 to Sh. 14 per imperial gallon, and the excise duty will go up from Sh. 216 to Sh. 288 per 36 standard gallons of worts. The effect of this increase on the average sized bottle of beer will be approximately 20 cents.

I fear that, after making this attack on the beer drinkers, it would be invidious of me to neglect the drinkers of harder liquors. I am therefore raising the duty on spirits from Sh. 160 to Sh. 200 per proof gallon, with a complementary increase on liqueurs from Sh. 140 to Sh. 180 per imperial gallon. The excise duty on spirits will go up from Sh. 130 to Sh. 170 per proof gallon. The effect of these increases will be to increase the duty element on the average sized bottle by Sh. 5/83. The duty element per proof gallon will still be between 13*s*. 8*d*. and 14*s*. 8*d*. below the rates now applied in the United Kingdom. After allowing for some drop in consumption, I estimate that these increases should bring in additional revenue of £150,000 in a full year.

On tobacco, my proposals are somewhat more complicated. In the first place, the customs duty on cigars, cheroots and cigarillos will be raised from Sh. 44 to Sh. 56 per lb., with a complementary increase of Sh. 3 per lb. in the excise duty. Customs duty on imported cigarettes will go up from Sh. 33 to Sh. 44 per lb. The excise duty on this item has been completely recast, and a graduated scale of rates based on weight, with an additional rate based on retail prices, will be introduced from midnight tonight. The aim has been to maintain the existing price categories in the cheapest types of cigarettes to encourage the local growing of leaf tobacco, and to produce such additional revenue as is consistent with the law of diminishing returns. A prime consideration in evolving this graduated rate was the fact that a large proportion of the consumption of cigarettes in these territories is dependent upon purchase of a small number of individual cigarettes related to prices expressed in multiples of 5 cents. It has been necessary to reduce the starting point in the scale to Sh. 2 per lb. below the existing figure, while imposing an increasing tax on the larger and more expensive brands. Generally, the effect of these proposals will be to increase the prices of existing brands by about 20 per cent. The price of a packet of 20 Crown Bird will go up to Sh. 1/30; 20 Sportsman to Sh. 1/65; 20 Clipper to Sh. 2; and 20 Rex to Sh. 2/40. A packet of imported Players will go up from Sh. 2/80 to approximately Sh. 3/40.

The customs duty on manufactured tobacco will be increased from Sh. 33 to Sh. 44 per lb., but no increase will be made in the duty on the cheapest variety of local pipe tobacco. An additional excise duty of Sh. 2/25 per lb. will be applied to the more expensive brands.

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It is estimated that these proposals will provide an additional revenue of £300,000 in a full year.

Before I leave tobacco and cigarettes, I should mention that, in consultation with the other two East African Governments, I have considered the effect on the interests of the growers of local tobacco and of the revenue derived from locally manufactured cigarettes of the increasing tendency to fit filter tips or similar devices to locally made cigarettes. In order to protect those interests it is proposed to fix a minimum quantity of tobacco per 1,000 cigarettes which must be used in any locally manufactured cigarettes to which filter tips or similar devices are attached. The filter tip in a locally manufactured cigarette is not chargeable with excise duty, and the attachment of a filter tip to any existing brand of cigarette should not increase the cost of the cigarette by more than the cost of the tip itself. The necessary notice will be issued by the Commissioner of Customs.

My next major proposal affects road users. In spite of the increases made in the duties on petrol and diesel oil in 1960 and 1961, the consumption of these fuels has continued to increase, and our present rate of duties are substantially lower than those in many other countries. I am proposing, therefore, an increase of 45 cents per gallon. The total duty, including consumption tax, will thus rise from Sh. 1/30 to Sh. 1/75 for petrol and from Sh. 1/20 to Sh. 1/65 per gallon for diesel oil. Concurrently—to discourage evasion of duty—it will be necessary to increase the charge on kerosene from 40 cents to 60 cents per gallon. It is also proposed to increase the duty on compressed gas from 2½ to 8 cents per lb. I estimate that the total effect of these measures will be to bring into the exchequer a net sum of about £920,000, after allowing for the continuation of the present system of refunds. It has been estimated that the increase in the running cost of a 5-ton diesel lorry with a 50 per cent load factor will be only a fraction over 1 per cent per ton mile, and I imagine that road hauliers who manage their business efficiently will be in a position to absorb the bulk—if not all—of the increase in costs.

Turning to passenger transport, I am advised that for a 61-seater omnibus the increase in cost will be less than a quarter of a cent per passenger mile with a 50 per cent load factor, or about one-tenth of a cent when fully loaded. The increase in cost to both lorries and buses will be smaller than those which resulted from the 1960 Budget.

I also propose an increase of 25 cents per in the duty on tyres and tubes, with an alternat *ad valorem* rate of 25 per cent. This should p duce £50,000.

My remaining proposals are comparativ minor. Many countries successfully tax pat medicines, and we do not want Kenya to bec a nation of hypochondriacs. At the same ti medicines essential to the preservation of hea should remain duty-free. I am therefore impos a tax of 25 per cent on patent medicines, wh leaving ethical medicines, as well as vitamins, b teriological products, sera and vaccines, penicill stryptomycin and other antibiotics, free of du There is at present a very high profit margin patent medicines, and I propose to share it the tune of £90,000 in a full year. I do not co sider that the imposition of this duty need ma any appreciable difference to prices now charg

My final proposals, while individually of min significance, should benefit the revenue by sor £7,500. The duty on gramophones, record playe pick-ups, radiogrammes and tape recorders w be raised from 25 per cent to 33⅓ per cent, a a similar increase will be applied to gramopho records.

Perfumery, cosmetics and toilet preparations w bear an increase from 66⅔ per cent to 75 per cen with a complementary increase in the speci duties on perfumed spirits and toilet preparatio and on essential and perfumed oils and on ha dyes.

I am advised that these taxation proposals a likely to cause the Nairobi wage-earners' ind and the Nairobi cost-of-living index to rise b only about 1.7 per cent and 2.3 per ce respectively.

I estimate that the additional revenue that w be received from these measures, after deducti 6 per cent for the Distributable Pool, will £2,250,000.

I now turn to my proposals concerning dire taxation. The process of simplifying income t legislation was started last year, and must be co tinued. I propose to simplify the methods granting income tax relief on capital expenditu which are contained in the Second Schedule the East African Income Tax (Management) A The opportunity has been taken to make so forms of relief, not only more uniform, but a more attractive, with particular attention to need to encourage industrial and agricultu development.

I propose to extend the present basis of rel for farm works expenditure to cover also capi

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expenditure on industrial buildings, mines and plantations. Relief will be given once and for all when the expenditure is written off. No balancing adjustments will be made when assets are sold, and the producer will be allowed to write off any balance of the original cost which is unrelieved at the time of purchase.

For industrial buildings I propose to increase the present annual allowance of 2 per cent of the cost of the building to 4 per cent, and to allow this both for existing and for new industrial buildings. I do not intend to change the annual allowance for approved expenditure on hotels, which is 6 per cent. I do, however, intend to withdraw the present initial allowance on new buildings, which is 10 per cent. This means that, instead of the present allowances for industrial buildings of 10 per cent initial allowance in the first year and 2 per cent annually for 45 years, the original cost will now be written off over 25 years at 4 per cent per annum, without any complications on change of owner. I also propose to avoid the complications arising from change of use by providing that deductions shall continue to be made for a building which was originally classified as an industrial building.

Last year the law was changed to permit the deduction of capital expenditure on the mining of specified minerals as and when it was incurred, but the complications of balancing adjustments on sale were not removed by this change. I now propose that, with effect from the year of income 1962, no such adjustments should be made on sale, either for specified or unspecified minerals.

I now turn to the allowances given on clearing agricultural land and planting it with permanent or semi-permanent crops. I do not intend to accelerate the rate at which capital expenditure on existing crops is written off but, for new development undertaken after today, I propose to withdraw the present option to write off expenditure over the life of the crop. This expenditure will be allowed as and when it is incured.

As a very minor change—but one which is made in the interests of uniformity—I also propose that such scientific research expenditure as is not already allowed as and when it is incurred should be written off on that basis in future, and that the "farm works" basis should apply here also.

Turning to machinery and plant, I am advised that simplification on similar lines is hindered by the frequent turnover of machinery, and the large variety of assets on which relief is at present allowed. I propose that, with effect from the year of income 1962, the annual rate of wear and tear deductions should be standardized in three categories—

First.—At a rate of 37½ per cent per annum on tractors and other heavy power-driven equipment on which relief is at present given at 33⅓ per cent.

Second.—At a rate of 25 per cent on all power-driven vehicles.

Third.—At a rate of 12½ per cent on all other machinery and plant at present relieved under the Second Schedule.

As for industrial buildings, I propose to withdraw the existing initial allowance on machinery in the year of purchase.

A further simplification of the relief on machinery is proposed—to come into force from the year of income 1962—is that no balancing adjustments will be made on the sale of individual items. On the occasion of the final closing down of a business, however, any loss on the sale of machinery, representing the difference between the amount realized and the written-down value, will be allowed to be carried back for a period not exceeding six years, in so far as other income is not large enough to absorb the loss. On the other hand, any excess will be charged to tax in that year. The effect of these measures will not be felt on the revenue for 1962/63, but will first affect 1963/64. The changes are announced today so that calculations for 1962 can be made in the knowledge of the income tax reliefs available. I feel certain that the degree of simplification achieved in what, from its nature, cannot be other than a complicated subject, will be welcomed.

I now turn to certain changes which are more concerned with encouragement to development than those I have mentioned.

First, for farm works expenditure—and that includes farm buildings, labour lines, dams, fences, drains and other improvements—I propose that the capital expenditure on new development initiated *after today* should be written off for tax purposes over five years, at the rate of 20 per cent per annum, and not over nine years as at present.

Secondly, in the interests of further encouragement to industrial expansion, with the general benefits to the economy which will flow from industrial development, I propose to augment the allowances which I have already outlined by the grant, in certain circumstances, of an "investment allowance"—that is, a bonus allowance over and above the total cost of industrial assets already relieved by the income tax legislation.

[Minister for Finance]

In the case of new industrial building projects initiated after today, where the building would qualify for the present industrial buildings allowance as in use "for the purposes of a trade which consists in the manufacture of goods or materials", and for the machinery and plant which is installed in such a building for the purposes of the trade, I propose that an investment allowance of 10 per cent of the total cost be granted in the year in which the expenditure is incurred. This means, Sir, that over the life of the building and its contents, 110 per cent of the cost will be allowed for income tax purposes.

All these changes in the Second Schedule to the Income Tax Act will apply to the year of income 1962, and will require to be implemented by legislation introduced into the Central Legislative Assembly later this year.

Turning to rates of tax, I first want to mention a change in the treatment of dividends received from East African companies by overseas shareholders. At the present time, non-resident individual shareholders of East African companies suffer East African tax at Sh. 5/50 by deduction from their dividends, and, since the East African rate of tax is Sh. 2 for the first £800 of their chargeable income, many repayment claims arise. Moreover, for shareholders in overseas countries with which the East African territories have made Double Taxation Agreements, and whose personal rates exceed the East African standard rate deducted from the dividend, the arrangements represent something in the nature of a gift to the overseas Government, which benefits from the lower East African rate without any benefit accruing to the non-resident shareholder. In order, therefore, to eliminate the administrative complication of repayment to overseas shareholders, and this unnecessary generosity to overseas Governments, I propose that, in the case of dividends paid by East African companies, the rate to be deducted will be the standard rate in all cases, and that such dividends will be treated as "franked" in the hands of the overseas shareholder—that is, no repayment of East African tax will be made, but the dividend will be ignored for other East African tax purposes.

In the case of limited companies also I propose to leave the standard rate of income tax at Sh. 5/50 in the £, at which it has stood since 1957. I propose, however, to levy a Corporation Tax on the profits as calculated for income tax purposes, excluding dividends received from other companies. This new levy will not be deductible from dividends, and no credit therefore will be given to shareholders. The tax will apply to all corporate bodies of persons, other than compan which are controlled for purposes of undistribut income tax and companies which are engaged mining specified minerals. The rate proposed Sh. 2 in the £, and will apply to profits of t year of income 1961 and subsequent years.

The amount of revenue that will be lost 1962/63 may appear to be smaller than mig have been expected, but it is related to expect collections in the current year, which are l owing to famine and flood conditions in ma areas, and also takes into account the collecti of arrears during the remaining six months 1962. This concludes my proposals for chang in taxation.

The total net amount of additional taxati which I expect to be received as a result of the changes which I have announced is a lit over £2.6 million, leaving a deficit of £1.4 millic which will be covered by grant-in-aid, includi the carry-over of grant from the present financi year, which is likely to be about £800,000.

As I have already indicated, £533,000 of tl deficit is to cover compensation and related pa ments; £135,000 is non-recurrent expenditure rehabilitation measures; and £110,000 relates a cash shortfall on the Overseas Aid Schem which should not recur.

This means that the real deficit related normal recurrent expenditure—for which we a having to seek grant-in-aid—is now down about £600,000, and if—as I hope—my estimat of revenue prove to be on the conservative sid it may not be necessary for us to draw as muc as this. We shall, however, have to eliminate th deficit as soon as possible, and the Commissic which the Secretary of State is setting up examine our expenditure may assist us in fin ing ways and means of making the necessa economies, although this will not be an easy tas We shall have to seek to meet additional comm ments in 1963/64 by economies in existing e penditure, and will not be able to ignore the fo lowing point made in relation to Uganda by t World Bank Mission, and applicable also Kenya—and I quote:—

> "The existing Civil Service structure salaries has been related to the salary structu in the United Kingdom, plus an inducem element to get people to leave their homes come to Africa: but the basic Governm salary structure that is appropriate to a coun like the United Kingdom with a *per cap* gross national product of £450, is hardly ri for a country where the gross domestic prod is £23 per head."

[Minister for Finance]

I think I should mention at this stage that, although the grant-in-aid will have come down to £1.4 million, we shall also be receiving over £1.1 million towards expenditure on flood and famine relief and rehabilitation measures, and some £2.3 million under the Overseas Aid Scheme towards the salaries and allowances of designated officers. The British Government's assistance towards our recurrent budget will therefore total nearly £5 million. In addition, we shall be relying on British Government grants or loans or the British Government guarantee of International Bank loans for a very large proportion of the money needed for our £14 million Development Programme, and I think that it is only proper that I should acknowledge and express our thanks for this large measure of financial aid.

For controlled companies—that is to say, companies which are controlled by five or fewer persons, and where the public does not have a substantial interest, the present legislation requires in general that 67½ per cent of the company's business profits should be distributed if the charge to undistributed income tax at Sh. 9/50 in the £ is to be avoided. In certain cases the rate is 72½ per cent, and in others 85 per cent. I propose that these percentages should be increased for the accounting periods forming the basis of assessment for 1961 from 67½ per cent to 75 per cent; from 72½ per cent to 80 per cent; and from 85 per cent to 90 per cent. Legal provision will be made extending the period within which dividends may be paid out of 1961 profits, and credit given for the purposes of undistributed income tax. I had considered the possibility of charging this type of company the Corporation Tax of Sh. 2 on 32½ per cent of its profits, but my present proposal will be less onerous to almost all the companies concerned, and will also be fairer in its incidence.

These income tax changes are estimated to bring in additional revenue of nearly £1 million. I very much regret the need to increase the taxation on companies but, in present circumstances, I fear that this is unavoidable and, even after the imposition of a Sh. 2 Corporation Tax, the total charge on companies will not compare unfavourably with that in many countries at a similar stage of development as that of Kenya. For example, the rate in Sierra Leone and British Guiana is Sh. 9; in Cyprus Sh. 8/6d.; in Ghana, Nigeria, Jamaica, Barbados and the Federation of Malaya and Singapore Sh. 8; and in the Federation of Rhodesia and Nyasaland Sh. 7/6d.

Naturally, I cannot bind a future Government, but can say that it is my intention to do my best to avoid next year any further upward movement in the total tax on companies, which will now become Sh. 7/50.

I now turn to individual rates of income tax. I do not propose any changes.

In last year's Budget Speech, Mr. Mackenzie said that we should aim at the reduction in the bottom rate of personal tax on incomes not exceeding £120 a year, with a view to its eventual elimination. I propose to abolish the present tax of Sh. 15 for this class of income with effect from 1st January, 1963. The loss of revenue that will result in the 1962/63 year is estimated as £585,000.

Some hon. Members may have read between the lines of the Memorandum Note in the Expenditure Estimates which I laid on 22nd May on the Prisons Department, which refer to an anticipated lower daily average prison population, and savings resulting from this. The Prisons Estimates have been framed on the assumption that the lowest rate of personal tax would be abolished. Otherwise these estimates would have had to have been £180,000 more than the printed figures. A tax which requires expenditure of some 30 per cent of what it brings in on prisons and detention camps is not a good tax, and I am glad to be able to announce its abolition.

This, however, does not mean that those who are liable to this tax in 1962, and have not yet paid it, will not be required to do so, and every effort will be made during the next six months to collect outstanding arrears. It also does not mean that persons in this category will not continue to have to pay their African District Council rate. It is essential, if the services which are financed from this rate are to continue, that this A.D.C. rate should be collected.

I am aware that the increases in taxation will provoke criticism, but the Government will be taking in taxation a smaller percentage of the national income than was actually taken during the Emergency in the 1955/56 financial year. The percentage is a little less than 15 per cent and compares not unfavourably with other countries in a similar state of development to Kenya.

The increase in the tax on companies is probably larger than was feared or expected, but I felt that it was better to face *now* the need for additional money from this source, and the total rate of tax on companies will not be out of line with that of other countries in Africa and elsewhere. The Investment Allowances will, I hope, be an encouragement to new enterprises and to existing enterprises in Kenya.

[Minister for Finance]

The increases in indirect taxation will be widely spread, and will inevitably affect articles in common use by all classes of the community, but I have tried to balance the incidence on the poorest section of the community by the abolition of the lowest rate of Personal Tax.

Our immediate problem is to achieve financial independence—at least in relation to ordinary recurrent expenditure—by the time we achieve political independence. My present Budget goes a long way towards doing this. The financial problems which we shall have to face in 1963/64 are formidable but, if faced realistically, they *can* and *will* be solved. The resumption of the growth of the economy—which is the only thing that can make possible the expansion of Government services and a rise in the standards of living of our people—will, however, depend upon our facing equally realistically our political problems. The solution of these problems rests, Mr. Speaker, with the hon. Members of this House.

Mr. Speaker, I beg to move.