REPUBLIC OF KENYA

Speech delivered to the National Assembly on 18th June 1968 by the Hon. J. S. Gichuru, Minister for Finance, Republic of Kenya, on presenting the Budget for the Fiscal Year 1968/69 (1st July to 30th June).

Mr. Speaker, Sir,

I beg to move that Mr. Speaker do now leave the Chair. Honourable Members are already in possession of the Estimates of Expenditure for 1968/69 and of the Economic Survey for 1968. I now present the Estimates of Revenue and the Financial Statement.

I am grateful to my colleagues and officials in other Ministries for their co-operation in the production of the Estimates and am in particular grateful to my Permanent Secretary and the Supply Officers in the Treasury who have, I fear, had to make themselves very unpopular in bringing the Expenditure Estimates down to a reasonable and acceptable figure.

In each of my previous Budget Speeches I have been able to say that the out-turn for the previous year would be rather better than I had expected when I introduced the Budget. This year I cannot do this. Honourable Members will recollect that last year's Budget imposed about £3 million of additional taxation mainly in the form of increased import and excise duties and aimed at enabling us to provide from taxation not less than £4 million for development.

Whereas last year I was able to say that receipts from Customs and Excise would be over 10 per cent up on the Estimates this year, I have to confess that they will be at least £2 million down. The money I expected to get from increased taxes will not all be received. There are four main reasons for this. Closure of the Suez Canal and the London Dock strike which led to the delays in the arrival of goods at Mombasa. Some destocking by traders, who were, in my view, unnecessarily alarmed by the provisions of the Traders' Licensing Act and lastly increased import substitution. This last reason was the most important and is strikingly illustrated by the figures for the import duty received on cotton and synthetic cloth. Whereas in 1966 we obtained £3.75 million from this source, in 1967 we received only £2.6 million, a fall of 30 per cent in spite of a substantial increase in the duty at the time of the last Budget. The yardage of cloth imported in 1967 was only about half of that imported in 1966. I believe in fact that our import duty revenue in 1966 was probably a peak from which it will decline. This has its favourable as well as its unfavourable features as it shows that we are each year becoming more able to produce within Kenya and within East Africa the goods that we require for consumption and in particular I am confident that we will never again have to import basic foodstuffs such as maize in significant quantities. However, it also has unfavourable implications for revenue and means that we will have to look for other taxes to replace the revenue which we will lose on imports. To some extent increased receipts from excise have compensated for loss of import revenue and as the Economic Survey shows, receipts from excise duty have risen by 50 per cent over the last three years. I am also glad to be able to say that increased receipts from income tax in 1967/68 will entirely cover the loss of revenue from Customs and Excise combined.

As late as the Exchequer Return of the 20th January this year, Customs and Excise Revenue was lagging to the extent of over £1 million on receipts for the previous year and I had good reason at that time to fear a considerable deficit. However, there has been a recovery in revenue since then and I have been able to authorize the transfer of £4 million to the Development Exchequer, as I anticipated in my last June Budget Speech.

Development expenditure will be a record. My target of about £12 million from local sources will be achieved but we will not get much more

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than half the £15 million which I had hoped to obtain from overseas sources. Taking into account some under-expenditure on the Estimates and the cash balances held by Accounting Officers at the beginning of the year issues from the Development Exchequer are likely to be covered by receipts including the transfer of £4 million from recurrent.

Our cash resources have had to meet the strain of providing part of the finance needed for our largest ever crops of wheat and maize and I expect that at the end of the financial year about £1.5 million of Government money will be advanced to the Cereals and Sugar Finance Corporation. In spite of this the deficit on the Exchequer Accounts after allowing for the balance held in Tax Reserve Certificates will be very close to the figure of £2 million which I gave in the Financial Statement in June 1967.

I should now like to spend a few minutes looking at our economic progress over the last year or so, and the outlook for the future. I know that there is sometimes a tendency to regard the Budget as a sort of annual sporting event like the East African Safari, with some people winning, some losing, and sometimes a bit of money, too, being won or lost on the result. But although many people are interested in the Budget chiefly because they want to know what taxes will be increased or reduced, changes in taxation are only one aspect—though admittedly an important aspect—of what is involved. The Budget is primarily an occasion for looking at our progress; not only the progress of Government expenditure and tax revenue, but also the progress of the economy as a whole. I must consider not only the question of whether Government expenditure and Government revenue are in a satisfactory relationship with each other, but a number of wider questions as well. Are we, as an economy, going in the right direction? Are we going as fast as we could? What steps can I take, either by permitting particular items of expenditure, or by changing rates of taxation, or in other ways, to promote our economic growth and the welfare of our people? These are some of the questions I must ask myself, and my particular proposals on expenditure and taxation must reflect the answers to them.

Before I come to look at Kenya's recent economic progress I must say a bit about economic developments outside Kenya, and indeed outside East Africa, because of the very important effect they have on our situation. Kenya is a country which is very much at the mercy of world economic forces over which we have little or no control. The great bulk of our exports to countries outside East Africa consist of primary products, and the amount of these products we can sell, and even more the price at which we can sell them, is very largely determined by the rate at which world trade grows. If world trade grows slowly, for example, because of deflationary action in the main industrial countries, then the value of our total exports can be reduced. When this happens, we are affected in two ways. The incomes of our farmers fall, and this can have adverse effects on employment and incomes in other parts of the economy, because farmers have to reduce their own spending, and this in turn reduces the incomes of many other people in the country who are dependent on farmers' expenditure. Secondly, when this happens our earnings of foreign exchange are reduced, and this makes it more difficult to finance imports of capital goods essential for our development programme.

1967 was, unfortunately, a year in which the growth of world trade slackened very markedly. It grew by only about 5 per cent compared with a growth of 11 per cent in 1966. More serious still, such growth in trade as did take place was mainly in manufactured goods; there was an actual fall in world trade in the commodities which we export outside East Africa. 1967 was not the worst year for our foreign trade that we have experienced, but it was pretty bad, and we have been suffering accordingly. The prices of many of our main export crops declined, with coffee and sisal prices being particularly depressed. As a result of these adverse price trends, and a fall in the actual quantity of both tea and coffee that we were able to ship abroad, there was a significant fall in the value of our exports.

Not all the external events of the last year or so have been unfavourable to us. One item on the credit side, for example, has been the progress made towards replenishing the funds of the International Development Association after a long period of rather ominous-looking deadlock. Kenya gets a good deal of aid from IDA, and it is aid of a particularly useful kind, since it is virtually untied and on much more favourable terms than most of the aid we receive. We very much hope, therefore, that IDA will soon have substantial new funds at its disposal, and that those countries which are dragging their feet over ratifying the agreement will complete the process with as little delay as possible. Another agreement which in the longer run, even if only indirectly, will be of benefit to us is the agreement on Special Drawing Rights which was reached in Stockholm, and which gives promise of being a

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first step towards putting the method by which world liquidity is created on to a more rational basis.

There have, of course, been other international developments which must be put on the debit side. The prolonged closure of the Suez Canal has raised the cost of both our exports and imports and has effectively eliminated some of our most promising markets in the Mediterranean and Middle East. The virtual failure of the UNCTAD Conference in New Delhi earlier this year is very disappointing. The attitude of a number of industrial countries showed little sense of the urgency of the needs of the developing countries, and Kenya, as a country with a rapidly expanding manufacturing sector, must be particularly disappointed that so little concrete progress has so far been made in the direction of giving preferences to the manufactured exports of developing countries.

I have not yet mentioned the two main economic events of the past 12 months. One of these was the result of intensive efforts on our part; the other was none of our making.

The first event was of course the inauguration last December of the East African Community. Although in some respects this marked a consolidation and formalization of existing relations rather than a completely new departure, there are many features in the Treaty which are quite new, and which constitute an experiment in regional development and co-operation which is being watched with close attention all over the world. By moving towards the creation of a large market of more than 30 million people—and perhaps much larger if more countries are eventually admitted to membership of the Community—we shall increasingly be able to take advantage of the economies of scale achieved by many modern industries; and by moving increasingly towards integration of our industrial and agricultural policies we shall be able increasingly to benefit from specialization and rational allocation of economic resources. In the long run I am confident that factors of this kind will demonstrate the economic advantages of the arrangements we have entered into. Of course, we are at the present time experiencing various problems in adjusting to the new position, and I recognize that certain industries are facing a difficult situation because of the operation of transfer taxes. Another problem which is beginning to emerge is the constraints placed on the freedom of each member State in respect of changes in direct and indirect taxation such as income tax, corporation tax, excise duties or sales taxes; and in respect of customs duties. If the Community is to develop properly, it is not possible for these taxes and duties to differ very substantially as between the three countries. On the other hand the economic structure and conditions of the three countries are not exactly the same, and the requirements of one country can call for changes in taxation which are not needed, and may indeed be positively harmful, in the other two countries. However, solutions to problems of this kind must be found, and in view of the great advantages for East Africa of the kind of economic co-ordination and integration I mentioned a moment ago, I am confident that such solutions will be found.

The second major economic event of the past 12 months was the devaluation of sterling last November. This was undoubtedly to be welcomed as the only step by which the U.K. could get her balance of payments back into surplus and, after a period of adjustment, resume a reasonably rapid rate of growth. The U.K. still remains our biggest single market and a major source of aid, and the probability that before long that market will again be expanding fast, and that a stronger balance of payments situation in the U.K. will permit her to continue aid to us at a high level, is very welcome to us.

At the same time, the devaluation of sterling undoubtedly brought us certain problems. One disadvantage was that since a large part of our Foreign Exchange Reserves at the time of devaluation were held in the form of sterling, the value of those reserves, expressed in terms of currencies which were not devalued, fell by some K£3½ million. Another consequence of the devaluation of sterling and a number of other currencies was to weaken our competitive position to some extent both overseas and in East African markets, including our own. It was clear at the time that—unless we chose to devalue as well—there would be some threat to our balance of payments in the form both of greater difficulty in selling some of our exports and greater difficulty in supplying home demand from domestic production instead of imports.

We did of course consider all these problems very carefully last November, in consultation with our East African partners, and in the end we decided that the balance of economic advantage lay in maintaining the parity of our currency with the dollar rather than with sterling. We did, however, recognize at the time that this decision might make it necessary for us to take other action to protect our balance of payments, and I shall be returning to this later in my Speech.

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Despite these various events which occurred on the international scene, many of them unfavourable to us and most of them completely outside our control, our economic progress over the past year or 18 months has on the whole been reasonably good. 1967 was not a particularly good year, but it was not a particularly bad year either: there was some rise in output and employment, prices remained fairly stable, and our foreign exchange reserves are still at quite a comfortable level. In fact one could say that on the whole 1967 saw a continuation of the encouraging growth of the Kenya economy that has taken place since Independence. During the four years since we became independent, the Gross Domestic Product, generally taken to be the most important single measure of economic progress, has risen by about 5.3 per cent a year in real terms—that is, after allowing for the effects of some rise in prices. This is a record that very few developing countries can match. The gross value of agricultural produce brought to the market has risen by over 4 per cent a year since 1963, and in the small farm sector, progress has been particularly rapid, with incomes and production rising by about 14 per cent a year on average. Industrial production, too, has forged ahead, with an average growth rate of 7½ per cent a year. So if we look back over the period since Independence I think we can claim that our economic performance has been pretty good; though of course this is not to say that we cannot do even better in the future.

In 1967, the Gross Domestic Product grew by about 5 per cent in money terms, and a little less in real terms. This was a much slower rate of growth than was recorded in 1966 when, as is suggested by revised figures given in the Economic Survey, the economy grew by about 10 per cent in real terms. However 1966 was of course a very untypical year, since it covered the period of recovery from the very unfavourable year of 1965. A growth rate of a little under 5 per cent is somewhat below the target of 6.3 per cent enshrined in the National Plan, but in view of some of the adverse circumstances I have mentioned, it is not really too bad.

There was some worsening in the balance of payments in 1967. I might mention that this worsening was very much in line with what we forecast a year ago. However, I would assure Honourable Members that although we may take some credit for the forecast, we take no comfort from the fact. A reasonably healthy surplus in 1966 turned into a small deficit in 1967. There was some worsening in the trade balance, mainly because of a fall in exports which resulted largely from factors I have already discussed, but also, in part, from the quota restrictions imposed by Tanzania and Uganda. Imports fell slightly. This was partly a reflection of a very welcome trend towards domestic production of goods previously imported; this applied particularly to textiles, for example. However, it also reflected a number of special factors, such as destocking by certain traders in Kenya, and delays caused by the U.K. dock strikes, and there is no doubt that the real trend of imports is still upwards. I am not deploring this—it is inevitable for a developing country—but it does mean that the real adverse trade balance in 1967 was somewhat greater than the figures suggest. I shall be saying something about the outlook for the balance of payments later on.

As I have said, the GDP grew in real terms by a little under 5 per cent in 1967. This reflected, as usual, very divergent experience in different sectors of the economy. Total agricultural production, in real terms, showed little change; there was probably a small rise outside the monetary economy, but the output of monetary agriculture fell a little. The fall in total farm income in 1967 to a large extent reflected a big drop in the international price of coffee and sisal, and to that extent large estates were hit harder than small; indeed, there was an increase of about 6 per cent in small farm income in 1967. The ravages of Coffee Berry Disease hit coffee growers indiscriminately, and often it was small farmers who suffered most because they were less able to afford to take off-setting action. It is noteworthy (as is shown in one of the tables in Chapter 4 of the Economic Survey) that small-holders have become the principal producers of coffee in Kenya. Indeed the great increase in the production by small-holders of a number of other crops, not only coffee, is an indication of the success of the Government's policies of land consolidation and registration, and of the rapid increase in the provision of agricultural extension services and credit facilities.

Tea also had a rather bad year in 1967 because of adverse weather conditions, and many small farmers suffered as a result of this. On a more cheerful note, there was a big rise in the marketed crop of both maize and wheat. However this brings its own headaches, particularly to the Treasury, since we are now growing more maize than we need for our own requirements, but can only export at a substantial loss as long as the producer price of maize remains at its present level. The rapid improvement in maize yields which has been taking place over the last few years should enable us to bring the producer price of maize down quite significantly over the next

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year or two, while at the same time permitting incomes in the rural sector to rise. I must warn Honourable Members that as long as the present very large gap persists between the producer price and the export price, the tax-payer will have to fill the gap with money which could have been spent in other ways.

I have only touched quickly on a few aspects of our agricultural performance during the past year or so, and hope that Honourable Members will read the much fuller account which is contained in the Economic Survey.

A sector where output rose very rapidly in 1967 was building. This, of course, reflected the big rise in construction for both residential and non-residential purposes. The bulk of this construction was again in Nairobi, but a considerable proportion—about a quarter of all private building work completed in main towns—was in the other five or six main towns of the country. However the big rise in the value of building activity displayed by the figures is partly illusory, since there was a big increase in building costs, reflecting both higher wages and higher raw material prices, and the real increase in the output of the industry was, therefore, considerably less. The problem of rising building costs is a serious one, because so much of the success of the Development Plan is based on a big increase in construction activity. In this connexion I might mention that the Government is at present finalizing a Sessional Paper on Incomes Policy, which will cover this question.

The output of manufacturing industry rose reasonably fast in 1967, despite the greater difficulties experienced in selling in the East African market. The overall growth of manufactured output in 1967 is put at about 4 per cent; this figure comes from a new and more accurate and comprehensive index the Ministry of Economic Planning has compiled, and I think we can feel considerable confidence in it. A detailed breakdown of the index, which is shown in Chapter 5 of the Economic Survey, reveals that the year saw a substantial rise in the output of food and textiles—the latter reflecting the first year of operation of the mill at Kisumu. Output of petroleum products and cement also rose, in both cases the result of successful export efforts, and the growth of the Kenya economy, particularly the construction and road transport sectors. However, experience in manufacturing was not in all cases entirely happy, and the output of some industries—such as footwear, clothing, leather and chemicals showed an actual decline. Before I leave the subject of manufacturing, I would like to draw Honourable Members' attention to the very interesting account in Chapter 5 of the Economic Survey of the successful efforts being made to expand the participation of Africans in manufacturing industry, by assisting them to get established on Industrial Estates.

The service sector of the economy expanded rapidly in 1967, with tourism again showing a big increase. I discussed tourism quite fully in my Budget Speech last year and will not say much about it now. However, I might just observe that tourism is one of the world's most rapidly expanding industries, and likely to remain so for some time to come. We are very fortunate in Kenya in having such unrivalled attractions in our climate, our scenery, our beaches and our game parks, and we must ensure that the growth of foreign exchange earnings from tourism is not constrained by a shortage of accommodation or other facilities. A considerable amount of hotel building is, of course, going on; indeed the two large international hotels that are under construction here in Nairobi not far from where I am standing, come to mind. However, substantially more beds will soon be needed at the Coast and in the game parks, and we must continue to be willing to permit foreign capital to participate in these ventures if they are to be built fast enough to take full advantage of the world tourist boom. Of course the extension of tourist facilities also imposes responsibilities on the Government, which has to ensure that adequate sums are spent on developing airports, roads, water supplies, etc. This question is discussed more fully in Chapter 7 of the Economic Survey.

Before I leave the subject of the Gross Domestic Product I might mention that one encouraging sign is the high level of expenditure on capital formation in 1967. The term capital formation covers livestock and land improvement, but it relates mainly to the construction of new buildings and the installation of machinery and capital equipment. For the second year running capital formation rose by about 30 per cent. This is a current price figure and, therefore, in view of the rapid increase in building costs to which I have already referred, the real rise must have been smaller. Even so, these figures confirm other signs which suggest that capital formation in total has not been running very far short of the targets set in the Development Plan. However, this is more true of the private sector than of Central Government development expenditure, which is lagging behind, in some areas quite seriously. Certain weaknesses have become apparent in the way in which

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projects are prepared by some departments. It is essential that these weaknesses be rectified if our development is to proceed at the pace we would all like, and my colleagues and I are urgently considering what steps can be taken to improve the speed and efficiency of project preparation and implementation. I might add, however, that not all the delays are our fault; sometimes very tedious hold-ups occur in the process of negotiating foreign aid, and it is not unknown for projects on the ground to be held up for this reason.

I think it would be appropriate if I said a few words about the course of employment and earnings during the last year or so. The coverage of the employment figures has recently been improved, and this new method of compiling the figures reveals that wage employment in Kenya is considerably higher than had previously been thought, chiefly because employment in small non-agricultural rural enterprises had been substantially under-estimated. However, the fact that more people are in work than we thought, although very welcome, does not alter the fact that there is still substantial unemployment and under-employment particularly in the rural areas, and the important thing is the rate at which we are reducing this pool of unemployed and under-employed and providing them with jobs. Total employment did show some rise in 1967, and it would undoubtedly have grown faster but for a fall in agricultural employment which resulted directly from the troubles of coffee and sisal which I mentioned earlier. Employment in building and construction, not surprisingly, rose very fast; and in manufacturing, too, a healthy growth was recorded.

Earnings rose as well as employment, the average rise in earnings per head in 1967 being about 3 per cent—a slower rise than the 10 per cent increase experienced in 1966. This was very welcome since the rapid rise in earnings in recent years has been causing the Government considerable concern, both because of its effects on the competitiveness of our agriculture and industry in international—and indeed domestic—markets; and because of its adverse effects on the distribution of income. In recent years, as the House will know, wages of industrial and white-collar employees have risen much faster than the income of most people in the rural areas. Nevertheless, in spite of the more favourable outcome in 1967, the problem of excessive increases in wages is still very much with us and will, as I have already mentioned, be covered in the forthcoming Sessional Paper on Incomes Policy.

One encouraging factor over the past twelve months has been the near-stability of consumer prices. Although there was some rise in the early part of 1967, both the wage-earners index and the middle-income index have been pretty flat during the past year or so. A major reason for this has undoubtedly been the tighter price control the Government has imposed on a number of staple commodities such as maize, beef and rice.

Before coming to say a few words about the outlook for the economy, I would like to spotlight two points raised in Chapter 10 of the Economic Survey. Neither of them may seem to be of a directly economic or financial character, but I can assure Honourable Members that they both have a very substantial bearing on our economic progress.

The first point is the complex of problems which arise from the very rapid increase in secondary school enrolment, and the prospect that very soon secondary school-leavers will be emerging from the schools in much larger numbers than can be employed in the urban white-collar jobs which many people think of as the traditional occupations for people of this level of education. Many of these secondary school-leavers will have to find employment in the rural areas, and indeed such an outcome will be both a cause and an effect of a successful programme of rural development of the kind to which the Government is giving increasing attention. In order to ensure that children leaving both primary schools and secondary schools and going to work in the rural sector have appropriate qualifications for such work it may be necessary to revise some of the content and methods of our present teaching system. Another change that will undoubtedly be required is a change in the attitude of many parents towards the importance of rural as opposed to urban occupations, and in this connexion I would stress to the House that it is of great importance that Members of Parliament and others in responsible positions should do all they can to remove the wrong and harmful attitudes at present entertained by many people on the subject of white-collar jobs.

The second point I wish to mention is the importance of the Government's continuing efforts to make family planning facilities available to all those who want to use them. This is of course a very human problem, and it is not unknown for Ministers of Finance to be accused of inhumanity, and I do not want to add to this image. However it must be said that,

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looked at objectively, a rate of population growth as fast as ours—which may be something over 3 per cent—creates very serious economic problems. In this situation, the proportion of the nation's resources going into building schools, houses, hospitals and so on has to be unusually high just in order to maintain existing standards. This leaves correspondingly less money available for productive investment in agricultural or industrial enterprises. In fact a rapidly growing population imposes a double brake on the rise in living standards. The Gross Domestic Product has to be spread over more people, and therefore there is less available for each person; and because investment in productive enterprises in agriculture or industry is less than it could be, the growth of the G.D.P. is smaller. This underlines the importance, if we are to raise our standard of living as fast as possible, of ensuring that family planning facilities are available to anyone who wants to use them. However, I would stress—to temper any impression of cold statistical calculation that I may have given—that family planning is only one aspect of a three-pronged approach to maternal and child welfare, which also aims to combat malnutrition and improve the services available to both mother and child.

I think I have said enough about the past and the present. Let me try to peer a little into the future. 1968, like 1967, is a year in which the course of events in Kenya will be very much affected by what happens overseas. So far in 1968 world trade has been growing reasonably fast, though it must be recognized that one of the main reasons for this has been a big growth of imports into the U.K. and the U.S., and that the Governments of both countries have taken action designed to restrain this rise in imports. During the rest of this year and the early part of 1969, much will depend on the rate of expansion in the countries of Continental Western Europe, and on whether the big concessions which have been made to the workers in France will have the effect of speeding up the French growth rate or, on the other hand, of precipitating further speculative attacks on key currencies and on the official price of gold. These overseas events—the rate at which the U.K. and the U.S. reduce their balance of payments deficits, events in Vietnam and in France, the speed with which the plan to extend the resources of the I.M.F. by introducing Special Drawing Rights is implemented—may seem very remote to us in Kenya. Unfortunately, although they are almost entirely outside our control, they will very much affect the development of our economy during the next year or so.

Picking my way as best I can through these various uncertainties, it would seem that 1968 is likely to be a difficult but by no means a bad year for Kenya's economy. The prospects for many of our exports are better than they were last year, and for the time being this should off-set certain unfavourable effects on us of the devaluation of sterling and various other currencies. Maize exports, for example, should be substantially higher this year and although, as I mentioned earlier, these exports result in a significant loss to the Treasury, they nevertheless bring us in foreign exchange. We should be able to export a lot more tea than we did last year, though the value of these exports will be affected by the very big drop in the price of tea, expressed in Kenya shillings, compared with last year. On the manufacturing side, some exports—for example of textiles—seem likely to be adversely affected by the inauguration of the East African Community. On the other hand, in spite of transfer taxes, it should prove easier to export certain goods to Tanzania and Uganda now that quota restrictions have been removed.

Looking at the Gross Domestic Product as a whole, it seems possible that the real growth of the economy will not be much lower than last year, with good prospects for a number of major crops helping to off-set slower growth in some other sectors, notably building: capital formation may level off or even fall slightly this year. Although this rate of growth—perhaps something of the order of 4 per cent to 4½ per cent in real terms—is not unsatisfactory, we must recognize that it falls some way short of the target in the development plan. One consideration which has been very much in my mind in framing this Budget is that a time when growth is a good deal lower than we should like is no time to be imposing substantial further taxation on the economy.

The immediate outlook for the balance of payments is reasonably good. In 1968 the deficit is unlikely to be bigger than in 1967 and there could be a small surplus if, as I hope, there is some rise in exports and if a decline in imports of capital equipment and some consumer goods reduces the total import bill. However, the outcome for the balance of payments in 1968 will depend to a considerable extent on what happens to the level of stocks held in the economy, and this is always something very difficult to predict.

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Although we may be reasonably satisfied with the outlook for the balance of payments in 1968, I must sound a note of warning for the future. If the economy is to resume a rate of expansion more in line with the rate envisaged in the Development Plan, imports of capital goods are bound to rise fairly fast. Unless our exports can rise equally fast, or faster, we may find that our development is being held up by a shortage of foreign exchange. This danger is made somewhat more acute by the increasing reluctance on the part of certain donor countries to provide larger amounts of aid. For this reason, as well as in order to spur industrial development in Kenya, we must continue to take all possible measures to eliminate imports of goods that we can make for ourselves, and thus ensure that we conserve our foreign exchange for the purchase of the materials, machinery, transport equipment and so on, that we are not at present able to make for ourselves. This consideration has been very much in my mind in drawing up my Budget.

This then, Mr. Speaker, Sir, brings me to the expenditure estimates which total £88½ million. I am proud to say that for the first time since our independence we will be financing the whole of the printed recurrent estimates of £61.3 million from our own resources and that also for the first time we will be budgeting to finance ourselves over half the provision of £27.2 million in the development estimates. Ignoring compensation and commuted pension payments met last year, but not this year, from a British Government loan, the increase on the recurrent side is nearly £4½ million and I think it appropriate that I should mention some of the major reasons which account for this increase. This may save some Honourable Members the labour of going through in detail the memorandum notes which explain each of the Votes.

In the field of agriculture, there will be an increase of about £421,000 mainly to meet additional claims against the Guaranteed Minimum Return for both maize and wheat and also to finance increased activity of the Cotton Lint and Seed Marketing Board.

Under the Education Vote, provision has been made for 152 new secondary school classes including bursaries to students of African origin in the former European and Asian high-cost schools. There has also been increased expansion in technical education and teacher training and a greater growth in the field of higher education has also been catered for while the activities of the Curriculum Development and Research Centre will be stepped up. The new Faculty of Medicine has also been provided for under the Education Vote so that Education at all levels accounts for almost £1 million increase.

Health Services also account for an increase of about £300,000, the main items being the need for more staff, medical and surgical stores and equipment. Recurrent expenditure arising from the opening of new hospitals and improvement of existing ones has been provided and hospitals concerned include Homa Bay, Kerugoya, Kakamega, Thomson's Falls, Nyeri, Meru, Eldoret, Siaya, Isiolo, Thika, Embu and Kitui, including Mobile Health Clinics and Mombasa Nursing Home.

Additional provision for the Ministry of Works account for more than £548,000 which will go towards a higher level of maintenance of roads and Government houses and buildings.

Grants to local authorities have increased considerably following Government's formulation of a Grants System which it is hoped will ensure that local authorities will be able to give a more reasonable level of services than has been the case since Independence. As I stated in my Budget Speech last year, the problems now prevailing in our local authorities will not be solved by money alone and there must be a determined effort on the part of local authorities to identify their areas of priority in line with the lead given by the Central Government. Mature judgment in the interest of people to be served must be the guiding principle. I trust, therefore, that the efforts of the Central Government to see local authorities on an even keel will receive the co-operation of all local authorities concerned.

The Government has opened additional diplomatic missions so that money has been provided in order to make this representation meaningful in the Congo Kinshasa, Addis Ababa, Mogadishu and New Delhi. In order also to improve administration of the country the Vote for the Office of the President has been increased by about £344,000 which includes over £80,000 for Famine Relief, should this be found necessary in the course of the year. The balance will mainly go towards improved administration in all areas of the country.

Another significant increase is the Public Debt and this amounts to about K£690,000. One of the credits in our favour in international circles is that as a country, we have honoured our loan obligations by making repayments on time and as stipulated in our loan agreements. This reputation cannot be allowed to suffer and the Government

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has made it a policy that debt repayments must continue to receive the highest priority in our financial allocations. I do think that the House need not be very much worried at the extent of our borrowing provided that the money is used towards sound and feasible development projects which would not only generate additional incomes but also yield funds with which to repay the loans. This consideration, I would like to assure this House is uppermost in the Government's deliberations on matters of this sort.

Development expenditure for 1968/69 is estimated at a record figure of about K£27.2 million and is very much higher than the amount forecast for the year in the 1966/1970 Development Plan. The estimate is also higher than that for the current financial year although past expenditure trends and the nature of the prevailing aid negotiation requirements and procedures would tend to contain a warning note that the whole amount is unlikely to be actually spent. As I have already stated, Mr. Speaker, Sir, the Government is very riously considering how some of the bottlenecks our Plan implementation might be partially if wholly overcome in the coming years.

opies of the printed Development Estimates ch I have tabled contain a summary of the rces from which receipts towards Development penditure are expected. The summary shows that less than half of the estimated expenditure will be forthcoming from external sources. I am, however, hopeful that negotiations I am currently conducting with one of our major donors will make it possible for the expenditure to be more or less equally apportioned between external and internal sources of finance. Despite this hope I should like this House to take notice of the high rise of the proportion of Development Expenditure we have to meet from our own resources and about which I would appeal to the Honourable Members to take into account in their requests for new projects to be financed by the Government. As our President and the Father of the Nation stated at his State Opening of this Parliament on 26th February this year, the task of finding money, both for recurrent and development expenditure has become more difficult. But this need not deter us from the too frequently heard appeals to the donor countries of the world to ease their loan terms and to simplify loan negotiation procedures as their further contribution to the economic development of the poorer nations of the world. It is our belief that improved distribution of the world's riches, and not armaments or landings on the moon, will ultimately be the answer to World Peace. It is with this belief that our Government has, since it came to power, given highest priority to economic development in order to improve living conditions throughout the country. This objective has been in my mind in framing our development budget to which I would now like to turn by emphasizing certain aspects of what the Government intends to do in this field in the coming financial year.

The largest provision in the estimates is for the construction of roads. An exceptionally large programme of road development is envisaged in 1968/1969 and this is expected to involve expenditure of slightly more than K£7.4 million. Work will continue on the international road links with Tanzania, Uganda and Ethiopia and on the road scheme for the Nyanza sugar areas while, if negotiations are concluded successfully, as I am hopeful they will, a start will be made on the road to Narok at a cost of K£1 million as a part of tourist development plan and in order to open up more areas for development. Included in this cost will be smaller projects to improve roads to the Taita Hills and Kitui. It is also expected that the I.D.A. of the World Bank will provide about K£3.7 million to finance construction of eleven roads and ten bridges in the various parts of the country.

Agriculture takes about K£3.65 million of the total development estimate but I would like to think that provision for roads has a great deal to do with the development of agriculture. A livestock development project involving expenditure of about K£4 million will commence in 1968/69 and the I.D.A. of the World Bank and the Government of Sweden have accepted to jointly provide about K£2.5 million on equal basis towards the project. The balance will be provided by the Government. The Smallholder Tea Development Programme will continue and it is expected that I.D.A. and the C.D.C. will finance the scheme to the extent of K£735,000 and K£500,000 respectively in order that acreage may be increased from 26,000 to 60,000 acres by 1972. Furthermore, agricultural projects not finished in the current financial year such as the Mwea/Tebere Irrigation Scheme and others will be continued with during the year.

About K£3 million have been provided for education and in addition to continuing the Secondary School programme financed through an I.D.A. loan, a sum of about K£350,000 has been allocated towards the provision of additional facilities to certain schools, while K£200,000 will go towards the take-over by the Government of some of the *Harambee schools*. There is an overall increase of over K£700,000 under the Vote.

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The Housing Development Vote has been increased by some K£750,000. The housing programme has over the last few years been expanding steadily and in 1968/69 a larger number of local authorities will be assisted with loans and where necessary technical assistance to undertake housing programmes. The emphasis will be on houses for low and middle-income earners. In Nairobi, for example, the City Council will be continuing with the Uhuru Estate and other schemes with loans from the National Housing Corporation. Further, funds for essential staff housing at schools and hospitals and housing for civil servants in the remote stations are also being provided.

The biggest single project in the field of health will be the start of the extensions of the Kenyatta National Hospital which as Honourable Members will know is to become the teaching hospital for Kenya medical students. The new hospital at Homa Bay will be completed and the programme of modernizing such facilities as kitchens, laundries, out-patient sections at the provincial and district hospitals all over the country at an estimated cost of K£200,000 will be pursued.

The industrial sector must continue to receive the support of the Government. In particular the indigenous people of the country will continue to be assisted as far as this is possible for the Government to do so. In the next financial year, for example, it is expected that K£400,000 will be spent by the Government through the I.C.D.C. on loans to African traders, businessmen and industrialists to enable them to own business and industrial premises. I might also add that progress on the first Nairobi Industrial Estate which will eventually provide 50 premises to African businessmen at an estimated cost of K£225,000 is well advanced. The I.C.D.C. will continue to participate in industrial projects both by way of equity and loan. The part played by the Kenya National Trading Corporation in Africanization of the wholesale and the commodity distribution business will be strengthened and the policies of the Corporation will continue to be applied in the appropriate areas of the commercial enterprises in the country.

About K£500,000 have been allocated towards our Forestry Development Programme and in addition some K£175,000 will be spent on the Turbo Afforestation Scheme which will provide raw material to the proposed Broderick Falls Pulp and Paper Mill. Negotiations for the construction of the mills have now reached in advanced stage.

It is estimated that about K£650,000 will be spent on water projects. About K£169,000 will be spent on Urban Water Supplies and just over K£327,000 will go towards Rural Water Supplies. Out of the latter some K£40,000 have been allocated towards the K£400,000 water programme expected to be carried out over a five-year period in villages and other centres of population in the North-Eastern Province. The money will meet the cost of bore-holes, wells, pans and pipelines.

Mr. Speaker, Sir, apart from provision for Land Settlement and other land services, I have covered what I consider to be major Development Votes but I should conclude this theme by saying that a large programme of housing for the Armed Forces and the Police has been provided in the estimates in order to make it possible to complete housing projects in relation to which a substantial amount of money is already being spent.

I have so far, Mr. Speaker, Sir, spoken about our financial and economic outlook and also on the recurrent and development expenditures in relation to both the present and the coming financial years and I would now like to turn to a very important service to our economic activities, namely banking. Before I review the services in relation to the existing banking institutions, I should like first of all to inform the House that in line with the Government policy I have gone ahead and arranged for the establishment of a Commercial Bank which is to be wholly owned by the Government. The Bank whose authorized capital is to be K£1 million is expected to be operative from early next September and I sincerely hope that Honourable Members will support this project which together with the Central Bank and the Co-operative Bank will provide a reasonable level of Government participation in the banking business. The Bank will be known as the National Bank of Kenya Limited.

The year since my last Budget Speech has been one of growth and consolidation for the Central Bank of Kenya. The first major task of the Bank, that of replacing the currency of the East African Currency Board in Kenya is nearing completion. At the end of April 1968 there was in circulation in the country some K£23.3 million of Central Bank of Kenya notes and over K£1 million of coin, whilst at that date only about E.A.£6 million of the East African Currency Board currency was outstanding in the whole of East Africa. Kenya's share of the latter is unlikely to be more than E.A.£2 million. Last September, the East African Currency Board Notes ceased to be legal tender in Kenya and it is expected that East African Currency Board coins will lose their legal tender status some time

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next year. No date has yet been fixed for winding up the East African Currency Board, but this is likely to be a subject for discussion among the shareholders in the course of the coming financial year.

Apart from the supervision of our currency, the Central Bank has been steadily expanding its role in the nation's monetary affairs. It now administers our Exchange Control Act, it has strengthened its links with the banking system and liaises very closely with the Treasury which is responsible for the enforcement of the law on Exchange Control. It will also shortly be sharing with the Treasury the task of the management of the National Debt.

As custodian of the nation's foreign exchange reserves, the Central Bank adopted a policy last July of centralizing the foreign exchange reserves of the banking system in the hands of the Central Bank. This process was largely completed by the end of September 1967 when the foreign assets of the Bank exceeded K£30 million. However, with the devaluation of the pound sterling the foreign assets of the Central Bank suffered in two ways—firstly, there was a book loss of K£3.6 million on the sterling assets held by the Central Bank and secondly there was an outflow of K£4.6 million from the reserves so that by the end of December 1967 they stood at K£25.3 million. Since then they have climbed steadily and by the end of April were over K£29 million.

In order to protect the country's reserves at the time of the sterling devaluation, the Bank found it necessary to introduce a series of measures, the most important of which was the establishment of forward exchange facilities in sterling. The effect of this was to permit importers and exporters to insure against any exchange risk and was evidence of our confidence that the existing parity could be maintained. Other measures were also taken to restrict the granting of advances for the purpose of speeding up payments for imports. The success of these measures can be seen in the fact that the reserves of the country have moved back towards their earlier levels. A more recent problem which the Bank had to face was the possible effects on the foreign exchange reserves of the so-called Asian exodus. As a precautionary measure the Bank reduced the travelling allowance for one-way ticket holders, but in any event the exodus appears to have had little impact on our foreign exchange position.

Our banking system has continued to expand during the past year both physically and in the amount of funds handled. New branches and agencies have been established by the commercial banks in some of the more remote areas, and on the 2nd January 1968 a new bank—the Co-operative Bank of Kenya Ltd.—opened its doors for business.

The funds of the private sector held with the commercial banks in the form of demand, time and savings deposits rose by nearly K£9 million during the calendar year 1967 to K£74 million, nearly half of this increase was in savings deposits. On the other hand total advances rose by K£12.5 million during the year 1967, the bulk of the increase being in advances to the private sector and nearly two-thirds of the rise occurred in the last two months of the year. In fact the rise in advances was reflected in the fall in the country's foreign exchange reserves, indicating that advance facilities were being used to speed up payments for imports and was financed by the commercial banks borrowing from banks abroad and by running down balances at the Central Bank. It is probable that the hands of the commercial banks were tied in this matter as traders were taking up unused lines of credit which had been previously granted. There was a further rise of K£4 million in January of this year but it seems likely that this rise was seasonal borrowing by firms and had little impact on the country's foreign exchange reserves. This tremendous expansion of credit left the commercial banks little room for further lending and by March the level of advances had fallen by nearly K£2 million. I need hardly add that the Central Bank has been watching these developments most closely and has been in constant touch with the Government and the commercial banks in order to keep the situation under control. In this respect I am informed by the Governor of the Central Bank that he has received the utmost co-operation from the managements of the commercial banks during the past difficult months. However, I should perhaps sound a note of warning about the Government's concern at the recent increases in the commercial banks' charges to the public. Whilst recognizing that costs of operations may be rising, it is hoped that the banks will keep any increases in their charges to a minimum.

The outlook for Kenya's banking system is one of continued growth, there is evidence already that the banking habit is not only well developed but also expanding rapidly. By encouraging local savings and by pursuing a dynamic policy the banking system in Kenya is making a very full contribution to the economic growth of the country.

I now come to my taxation proposals and in accordance with our normal practice, I would ask Mr. Speaker that this Speech be taken as Notice of Motion to be put before the Committee of Ways and Means which is to deal with the measures I am about to announce.

I have already explained that I do not think that this is the time when I should significantly increase the present burden of taxation. I have, however, a long list of proposals for comparatively minor changes in import duties. There are two main reasons, the first is that the devaluation of sterling has led to some reduction in the prices of a number of imports. In order, therefore, to avoid an actual loss of revenue and in order to maintain the former effective rate of protection for Kenya manufacturers, it is necessary to adjust the rate of duty by about 10%. By an increase of 10%, I do not mean an increase from 30% to 40% but from 30% to about 33⅓%.

The second main reason is that the time has come when we must take serious account of possible balance of payments problems in the future. Our foreign exchange reserves are adequate at the moment but must be used to pay for the capital and consumer goods which we really need. They must not be frittered away on non-essentials. Included in my proposals is, therefore, some increase in duty of about 10% or more on commodities for which there are suitable local substitutes.

There are also one or two proposals for increases in import and excise duties purely for revenue reasons. Although I am prepared to take some risks in maintaining the momentum of development expenditure, if necessary, even by resort to short-term borrowing, I must find some money from revenue for development, and must also bear in mind that if we have another big maize crop there will be losses on exports part of which will fall on the tax-payer and have to be met by supplementary estimate.

Honourable Members will recollect that last year I increased to 50% the duty on a number of processed food-stuffs for which there were local substitutes. I do not propose any increases where the duty is now 50%, but do propose to make this rate the general rate for all processed foods. In one or two cases, where the present rate is nil, I am proposing a duty of only 37½% to avoid too large an impact in one year. I do not propose to go through the list of changes in detail but should perhaps mention the increase from nil to 37½% in the duty on dried fish and beans. No one can say that there is not plenty of both commodities available in Kenya from local sources. Some of the food items on which the duty is being increased may constitute the raw materials in a local industry and I have in mind in particular the manufacture of confectionery and I will be prepared to consider refunds of duty to local manufacturers who can establish the need for this.

I next come to a number of groups of items on which I am proposing to increase the duty in order to maintain the pre-devaluation level of protection and also to safeguard the revenue. Where the duty was 30% it will go up to 33⅓% where it was 37½% it will go up to 40%, and where it was 40% it will go up to 45%. This should not by itself cause any significant increase in wholesale or retail prices as compared with prices in November 1967 before devaluation. The list of goods on which the duty is being increased mainly for protective reasons includes Soap, Polishes, Envelopes, Footwear, Bricks, Tiles, Bottles, Nails and Screws and Brushes.

The list of goods on which an increase in duty is being made purely to maintain the level of revenue includes tyres and tubes, motor vehicles and spare parts for motor vehicles. The duty on tyres will go up from Shs.1/25 per lb. to Shs.1/50 per lb. There will be no change in the duty on transport vehicles but the rate on passenger cars will be adjusted. The present rate of duty graded in accordance with engine capacity is 30%, 40%, 50% and 70%. These rates will become 33⅓%, 45%, 55% and 80%. Cars which come from countries which have devalued should not with the new rates cost more than they did before devaluation.

I must admit that purely from a revenue point of view the larger the car that is bought, the happier I am, as the Treasury will get more revenue in import duty and petrol tax but from the balance of payments point of view I would not be sorry if some of those who planned to buy large cars now decide to buy smaller ones.

There is another group where the proposed increase is mainly for protective reasons, although it is also necessary to avoid a loss of revenue. This is the group consisting of textiles and all kinds of garments. Where the duty is now 40%, it will go up to 45% and where there are specific duties these will go up from Shs.1/- to Shs.1/10, from Shs.1/25 to Shs.1/35, from Shs.1/50 to Shs.1/60 and from Shs.2/75 to Shs.3/- Inspite of this increase, I do not expect to get increased revenue from imported textiles and garments in 1968/69 because of the expected increase in local production. I do not, however, feel that the time has yet come for me to propose any increases in the very low excise duty of 25 cts. on local cloth. Those who want to avoid paying more for imported cloth should buy local.

I now come to a proposal which is made for purely revenue reasons. In last year's Budget, a duty was imposed on cameras and the only reason why cameras had previously been duty-free was because it was thought that this was in the interest of the tourist trade. However, the Customs Department has made suitable arrangements under which tourists can bring in and take out their cameras. The same considerations in my view apply to binoculars and telescopes on which I propose a duty of 30%.

I now turn to excise and here is my one fairly major revenue measure in relation to indirect taxation. The duty on cigarettes has now remained at its present level for three years and I think that a modest increase which will bring in about K£400,000 can now be made without any serious effect on consumption. I propose that the rate of duty should go up on cigarettes, tobacco and cigars. The retail price per packet of twenty medium priced cigarettes such as SPORTSMAN will go up by 10 cents, rather less for the cheaper varieties and rather more for the expensive varieties.

In order to keep the level of the import duty in line with the excise duty, there will be a similar adjustment to the rates of tax on imported cigars, cigarettes, manufactured tobacco and snuff.

I now turn to direct taxation and will deal first with Corporation Tax. This as Honourable Members are aware, has been increased to 40% and when I announced this increase, I said that I would do my best to avoid a further increase in the immediate future. I do not think that it is now the right time for me to make any increases in Corporation Tax.

I next turn to personal income tax, and Honourable Members will recollect the considerable debate which took place last year on my proposal to reduce personal allowances. We will, no doubt, have to consider further action on these lines in due course but I do not propose to make any change in the present rate of tax or allowances in this Budget.

I estimate that my revenue proposals will bring in additional revenue of approximately K£700,000 all of which will be required for development expenditure.

My taxation proposals have been discussed with the Finance Ministers of Uganda and Tanzania who will be announcing this afternoon similar changes in Import duty and somewhat different rates in Excise duty. Both Governments, particularly Uganda, will also be announcing further taxation changes. It is not for me to refer to these changes here, but the Kenya tax-payer will be getting off comparatively lightly. The reason for this I have already explained. I do not feel, at a time when the economy as a whole is not as buoyant as I should like, that I should impose any significant additional taxation.

The effect of my measures on the cost of living will be very small. I am advised that the Wager Earners' Index will go up by less than one-third of one point and that the Middle-Income Earners' Index will rise by about one point only.

To sum up, expenditure both recurrent and development of K£88½ million in 1968/69 will be financed to the extent of K£65 million from revenue and K£23½ million from borrowing. A little more than half of the borrowing will be from overseas sources, mostly on very favourable terms. The recurrent expenditure of K£61.3 million will be fully covered by revenue and it will be my aim to transfer K£3 million from the recurrent to the development exchequer before the end of the financial year. I may not achieve this aim if I again have to come to the House with a large supplementary estimate for maize export losses.

Anyone listening to, or reading His Excellency the President's Speech on Madaraka Day could not fail to appreciate the great progress which has been made since Independence. For example, the National Income has risen by K£100 million since 1963 and I see no reason why it should not rise by at least as much over the next four years.

One of my colleagues in the Government is reported to have said that only a blind man going round the country could fail to observe the great changes which have been and are taking place.

However, I must admit that only a deaf man with a very special type of hearing aid would, when going round the country, hear nothing but praise and approval of what the Government has done, is doing, and plans to do. This, however, is a healthy sign in a Democratic State and I will look forward with interest to the criticisms which Honourable Members will make of my Budget during the next few days. I am, however, confident that when my time comes to reply, I will have no difficulty in defending what I believe to be the least controversial of the six Budgets which I have presented to the House.

Mr. Speaker, Sir, I beg to move.