1972/73 BUDGET SPEECH

Thursday, 15th June, 1972

The House met at thirty minutes past Three o'clock.

[*The Speaker* (*Mr. Mati*) *in the Chair*]

PRAYERS

ARRIVAL OF HIS EXCELLENCY THE PRESIDENT

(*The Speaker announced the arrival of His Excellency the President, the hon. Mzee Jomo Kenyatta, M.P.*)

(*Hon. Members rose in their places while His Excellency the President took his seat in the Chair of State*)

COMMITTEE OF WAYS AND MEANS

MOTION

THAT MR. SPEAKER DO NOW LEAVE THE CHAIR

The Minister for Finance and Economic Planning (Mr. Kibaki): Mr. Speaker, I beg to move:—

THAT Mr. Speaker do now leave the Chair.

Mr. Speaker, Sir, with the growing sophistication of the Kenya economy, the annual Budget becomes a much more complicated affair than it was a few years ago, and in order to avoid having to stand here and make a speech of several hours duration, it is necessary that I must assume that hon. Members will have given a close study to the Economic Survey 1972, and the Recurrent and Development Estimates for the coming Financial Year 1972/73. It will be impossible in my speech today for me to refer to these documents in detail although I shall draw attention to a number of the highlights contained in them.

I dwelt at some length on the state of the Kenya economy when I introduced the Annual Economic Survey last week and I do not propose to repeat to the House what I said then. There are, however, some aspects of the present state of the economy which bear particularly on the financial situation of the country and which I must discuss this afternoon.

During my speech, hon. Members will receive in their pigeon-holes, a copy of the Financial Statement for the coming year, together with a copy of the Revenue Estimates. All these documents I have mentioned must be considered together with my speech today for a full assessment by the House of the Annual Budget, which although primarily concerned with the financing of Central Government expenditure, is also concerned with the maintenance of equilibrium in the economy as a whole and the attainment of Plan targets.

Last year at the beginning of my Budget Speech I spoke about the improvements we have been trying to introduce in the layout of the Annual Estimates, so as to meet the wishes of the House that they should be better informed regarding the purposes to which Government moneys are spent. This process of improvement has continued in the current year and, in particular, improvements have been made towards the budgeting of Government expenditure two or three years ahead. This is already apparent in the Development Estimates: but such forward planning will also, we hope, gradually give us much greater control over our recurrent spending than we have had in the past. Our efforts are still being directed towards obtaining these improvements in the presentation of Estimates and the House will, I feel, reap the benefit from them in the form of much more detailed information and much more control over the spending undertaken by Government departments.

Recurrent Expenditure gross of Appropriations in Aid in 1971/72 will, as I announced in last year's Budget Speech, turn out to be a record. Total Recurrent Expenditure, I expect, will reach a level of K£126 million compared with a comparable figure last year of approximately K£110 million. This increase of some K£16 million represented, deliberately, a more relaxed attitude by the Treasury in processing Recurrent Estimates of Expenditure last year, in order to ensure that the progress of development was not being held back by shortage of recurrent funds. Such a rate of increase in recurrent spending—13 per cent—however, is not one that can be maintained every year.

Although strong feelings were voiced in the House regarding this year's Supplementary Estimates of Expenditure, some Members will have recognized that, in fact, the Treasury has had much more success than for some time in controlling Government expenditure to within the limits of the estimates originally approved by Parliament. I said last year that the Treasury proposed to take a much tougher attitude towards Supplementary Estimates and this has in fact, been the case.

It is not possible altogether to avoid some requests for supplementary provision; but Ministries and departments must now adopt the psychology that the amount of funds they are originally voted by Parliament during the annual supply debate is the limit within which they must work during the financial year. If they wish to change their priorities for spending during the year, they are entitled to ask Parliament's permission to do this, but the ceiling of the estimates approved by Parliament *must*, as closely as possible, become the ceiling for each individual department throughout the financial year.

Unless the Treasury is able to determine the expenditure ceilings of each Ministry at the time I come to Parliament to present my Budget, the process of budgeting becomes meaningless. And now that Government finds itself in a very much tighter financial situation than has ruled over the last few years, a situation I shall talk about at some length later, it is imperative that Ministries and departments should accept that the ceiling originally approved by Parliament is the ceiling within which they must work in the coming financial year. New schemes of expenditure, however exciting, must either be introduced at the expense of some other scheme or delayed until the following financial year.

Development spending will also achieve a record during the current year and I expect the gross value of projects implemented to reach a level of approximately K£56 million, quite close to the original estimates. The

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big change that has taken place during the year is that, whereas, in earlier years our problem has been to encourage Ministries to increase development spending to take advantage of unutilized resources available, the situation this year has been that the development spending capacity of Ministries and departments has far outstripped the ability of the Treasury to find resources to finance them. I shall talk about this matter in more detail later. For the moment, it is sufficient to say that, whereas we have increased the level of development spending each year, starting with 1967/68 as follows: K£15.6 million; K£26.8 million; K£31.8 million; K£48.6 million and now K£56 million; in the current year, the financial situation in Kenya has changed radically and we cannot so long as this situation persists, expect that annual increases in development spending can continue indefinitely at this sort of rate.

When I introduced my Budget last year, I indicated to hon. Members that I was deliberately under-providing finance against the level of expenditure budgeted. I advised hon. Members that I expected to cover the difference by drawing down cash balances and/or making greater use of short term finance. In the event, although recurrent revenue has fully come up to expectations, the financing of the development budget has turned out more difficult than I had reason to expect.

Aid receipts have fallen short of the level that we hoped to obtain. The tightening of the local money market has restricted my ability to cover the shortfall by additional long-term issues on the local market. At the same time, the tightening of the local money market has made it more difficult to borrow short-term, although I expect the total Treasury Bill issue to be raised from K£10 million to K£16 million by the end of the year.

The problem of financing the Government expenditure has also been made more difficult for me by the withdrawal of loans made by the private sector to the Cereals and Sugar Finance Corporation and the necessity for the Corporation to finance higher levels of cereals production and sugar imports. The Exchequer has had to ensure the availability of sufficient funds for the corporation to fulfil its responsibilities. However, in spite of supplementary estimates of recurrent expenditure increasing the total expenditure I have to finance, I expect that the surplus on Recurrent Account will be nearly as great as forecast in the Financial Statement last year, and I propose that the whole of that surplus, approximately K£14 million, will be transferred to the Development Account on 30th June, 1972. I would ask hon. Members to take this as notice of my intention to do so.

Cash balances as at 30th June, 1971 were higher than expected, and I have been able to draw down cash to a greater extent than forecast. As hon. Members are aware, however, one can only draw down cash balances once and the level of cash in the Exchequer at the end of the financial year will be significantly lower than on 30th June, 1971.

Although the Annual Economic Survey described in considerable detail the trends in our economy in 1971 and I endeavoured to interpret these trends for the general public in a Press Statement last week, I feel for the benefit of hon. Members, I should explain at some length just how it is that the economic situation facing the country today is so very much different from what it was twelve months ago. Let there be no mistake about this: the situation facing us is very different indeed and, whereas, twelve months ago, I was able to be confident, in spite of a number of clouds on the horizon, that I could envisage a continuing expansion of the development programme, I must say quite frankly that I cannot say the same at the present time.

The reasons for this are several, some of which I have mentioned in the House on a number of occasions recently. The performance of the Kenya economy in 1971 was really very remarkable and demonstrated well the resilience of our economy in adverse circumstances. Agricultural receipts were lower following inadequate rainfall for the second year running and lower export prices. Yet in spite of that, manufacturing had a record year and industrial production in real terms rose by some 13 per cent. Other non-agricultural industries also did very well and if agriculture had been able to achieve favourable levels of production and prices, 1971 would have turned out to be one of the very best years in terms of growth in the country's history.

But this was not the case. Coffee prices fell, tea prices fell and overseas export prices, as a whole, were 2 per cent lower than in the previous year. At the same time, raging inflation in the industrial countries meant that we had to pay, on average, prices 10 per cent higher than in 1970 for the goods the country imported from overseas. As a result, what had been a very reasonable balance of payments surplus in 1971 of K£16 million, turned round to a deficit of approximately K£28 million. Some K£20 million of this swing in the balance of payments can be explained by the drop in export prices and the increase in import prices, i.e. the change in the terms of overseas trade. Thus, the very fine performance of the Kenya economy in 1971 was, to a great extent, vitiated by changes in the terms under which we trade with other countries. We have to produce and export greater quantities of our own products in order to purchase the same volume of imports from countries overseas.

At the same time, the pace of development built up over the previous few years reached a new peak and additional imports were drawn into the economy which had to be paid for in foreign exchange. This increased pace of development is demonstrated by the statistics of capital formation which, as hon. Members will have seen from the Economic Survey, increased from K£113 million in 1970 to K£140 million in 1971. This increase in capital spending of K£27 million or 24 per cent should also be considered in conjunction with an estimated increase in the value of stocks in the economy of nearly K£23 million. In 1971 gross investment in Kenya was equal to 26 per cent of gross domestic product, a rate higher than has ever been achieved before.

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Normally, every year, I say something in the Budget Speech and in the annual Economic Survey regarding the influence of international events on the domestic economy. Members may have felt sometimes that these remarks are thrown in rather to make weight, but the importance of these international influences was never greater than during 1971. The speculation in international monetary markets arising from the growing United States balance of payments deficit led to long periods of currency speculation from which Kenya was not exempt. Currency values were changing from day to day and decisions were having to be taken on a day to day basis.

Procedures under which international financial decisions, in these circumstances, were eventually taken, were very unfair to the poor nations of the world. These procedures are now being improved and I hope that the developing countries in particular will have a stronger voice in the monetary councils of the world than has been the case hitherto.

As you know, the decisions on the realignment of currencies following the devaluation of the United States dollar in terms of gold were taken quite independently of ourselves or any other developing country. We were faced with a *fait accompli*. We had to make adjustments to the new situation created by the decisions of the "Group of Ten" nations of the world. In the light of our balance of payments deficit, and the deterioration in our trading terms with other countries, we came to the conclusion, which was shared by our colleagues in Tanzania and Uganda, that our country's best interest lay in the Kenya shilling remaining aligned to he United States dollar which, in practice, meant that we devalued, *vis-a-vis* a number of other important trading currencies. The extent of that devaluation varied from country to country, falling by some 18 per cent against the Japanese Yen, 16 per cent against the German Mark and 9 per cent against British Sterling, but bearing in mind, that a number of other countries decided to follow a similar procedure to ourselves, and stay pegged to the dollar, the average devaluation of the Kenya shilling was approximately 6 per cent on the basis of the pattern of trade existing at that time.

This decision had the effect of turning the terms of trade against us even further than had already occurred as a result of international price movements. Even so, my judgement was that the additional income afforded to our farmers as a result of the devaluation and the improved competitive position of industry *vis-à-vis* imports, was such as to justify the Kenya shilling being allowed to devalue with the dollar. It is sometimes thought that the effects of devaluation become apparent overnight, and, although this is true in respect of immediate cash payments the more fundamental economic effects of a change in the value of the currency are not normally seen for at least a year or two, and I do not expect the situation in Kenya to be any different. Indeed, if anything, I would expect the influence of a change in the value of the currency to take longer to work out in an economy such as ours than in a more developed economy.

· cause of this, we could not continue open trading with an adverse balance of payments of the scale experienced during 1971, for we would very quickly have exhausted the foreign exchange reserves that we have so carefully built up over the previous five years. Hon. Members will be aware that during the year, I introduced a number of measures designed specifically to restrict the loss that was then occurring in our foreign exchange reserves.

International speculation against the United States dollar led also, as I have said, to some speculation against the Kenya shilling which made the situation worse and it was necessary for me to introduce measures to limit the extent of that speculation, by tightening exchange control regulations. Bank credit was also tightened.

But the main thrust of our foreign exchange programme was to introduce, in conjunction with my colleague, the Minister for Commerce and Industry, some fairly stringent restrictions of imports into Kenya. This was undertaken with the greatest reluctance, since I am aware that measures such as these can distort the pattern of production in the country and lead to high domestic costs with considerably adverse consequences for the economy over the longer term.

An axe with an immediate effect to safeguard the foreign exchange reserves was, however, imperative and I felt that I could not experiment with the more academic solutions that were being suggested to me at that time. We had to make a choice of our priorities and decide what we could afford to import and what we could manage to do without so long as we were short of foreign exchange. Although it is too early to form any firm judgement on the success of import control in arresting the decline in our foreign exchange reserves, I am happy to report to the House that, on a liquidity basis, the country enjoyed a balance of payments surplus in the first four months of 1972 with an increase in its foreign exchange reserves. Some loss of reserves has occurred since then but I hope that the half year figures will broadly show a balance overall.

I would like to say a little more about Government's policy towards import control. A number of local producers seem to regard this as an excuse to assert the monopoly position import control can provide them in the local market, and to take advantage of the consumers, in spite of price control, to charge prices not justified by normal commercial criteria. For this reason, I do not see the maintenance of import control in this country as a long-term solution to our problems, and as soon as I feel that it is safe to do so, I shall propose that we should relax the quotas and leave local producers to withstand competition from overseas importers. Inflation is still rampant in the industrial countries and local producers have been provided with an additional advantage as a result of devaluation. I am, therefore, convinced that local manufacturers must be prepared to compete in price and quality with imports from overseas, and to do so without continually coming to Government for additional protection.

The Government has provided highly protected markets to local industrial producers in this country since independence. I do not believe, however, that it

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will be in the interests of the country to maintain this level of protection indefinitely, and I give due warning to our manufacturers that the Government proposes to lower the protective barriers around domestic industry and require our manufacturers to compete on more equal terms with producers from overseas. Indeed, I would go further and say that our manufacturers must go out and compete in the export markets with those overseas producers. This will be the only long-term answer to our balance of payments problem and the manufacturers, the Government, and the Export Promotion Council, must together seek ways to bring this about.

For the present, however, it will be necessary to maintain the system of import quotas set up at the end of last year until we are sure that controls can be relaxed without danger to our foreign exchange reserves. Stocks of imported commodities were built up to high levels last year, as is clear from the figures I quoted earlier, and in general it will take some time for these to be run down. Even so, we must face the fact that some shortages are likely to occur in the economy, particularly in commodities—mainly consumer durables—which are subject to control and are not produced in Kenya. We shall take steps to adjust quotas to avoid such shortages but I must also take steps to restrict the growth of demand for a number of import items in the luxury and semi-luxury class. I will speak about this again in two minutes time.

Our recent problems with regard to our balance of payments have not been made easier by the difficulties experienced by our local manufacturers in maintaining the level of their trade with our East African neighbours. Tanzania and Uganda have also had their difficulties and like us have had to introduce policies to restrict imports. We can sympathize with them. But it is not going to help any of us in the East African Community if we try to pass the balance of payments buck to each other.

The East African Community is now fully functional but there are still restrictions on movements of people, goods and money. The Community cannot stand still and become restrictive for if it did the pressures from those restrictions would bring it down. We in Kenya believe that the Community should move forward and in this connexion we would like to suggest that the E.A. Authority should direct that the five years' review of the Transfer Tax system provided for under Article 20 of the East African Treaty should now be carried out on time.

Since I have spoken about import control, I would like to say something about our policy towards price control which has, I know, become a subject of considerable debate amongst the business community. It is not our policy to impose a rigid price constraint in the face of unavoidable cost increases: but experience has shown us that traders take every possible advantage in periods of uncertainty and currency change to increase prices, whether these are justified by actual cost increases or not.

It was for this reason that at the time we adjusted the value of our currency and introduced import quotas, I felt it necessary to impose a blanket restriction against all price increases. This provided us with breathing space until we were able to examine the effect of devaluation on each individual product in depth. The process of that examination has been a tremendous task and has led to delays in giving decisions on applications for price increases. This was partly unavoidable.

Where, however, the cost of raw materials has increased as a result of devaluation or other reasons, and excessive profits are not being made in the sale of these items, the Treasury are now allowing price increases to be put into effect. Decisions on such applications, if they have not been received, can be expected soon. But I must state firmly that it is in the interests of all of us that price increases in the economy should be held to a minimum and I am not convinced that businessmen are doing all they might to absorb even part of their cost increases through greater efficiency. Too often they follow the practice that if costs have gone up 5 per cent, prices must go up by at least 5 per cent at the same time and almost automatically.

Compared with other countries, we have been relatively successful in Kenya in recent years in restricting increases in the cost of living. To some extent, however, this relative success has been at the expense of providing our farmers with justifiable price increases, and in the last year there has been a more rapid increase in the cost of living, largely as a result of increases announced by the Government in farm prices. Notable amongst these were increases in the price of sugar, maize, milk, beef and wheat. All of these farm price increases had an immediate impact on the cost of living since they all had to be passed on to the final consumer. On the whole, I think, the farmers have done very well out of price reviews over the last twelve months and they must be prepared now to increase their incomes through higher yields and higher productivity if we are to maintain a grip on the cost of living of people living in the towns.

INCOMES POLICY

It is appropriate that I should turn from prices to incomes, for the two are closely connected. The prices paid to the farmers affect the prices paid by the workers and, therefore, the real incomes of the workers in the towns. The wages paid to the urban workers affect the prices paid by the farmers for their farm supplies.

Naturally everyone in the community is trying to increase his own income but there is a limit, defined by the country's rate of real income growth, to the extent that everyone can increase their income at the same time. There is, therefore, a duty on the Government to intervene to ensure that decisions relating to both incomes and prices are taken on the basis of equity for everyone.

As a result of our efforts to Africanize the economy as rapidly as possible after independence, the incomes of the better-qualified citizens, the new large-scale farmers and some traders have tended to move ahead more rapidly than the average incomes of the people as a whole. The time has now come for us to reassess

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our policies towards the growing gap in the incomes of the richest members of our nation and the poorest members. All of us in this nation must make a more determined effort to bring those below a certain minimum standard of living up to a higher standard. We must define a minimum poverty line. We must then go all out with total commitment to ensure that everyone below such a minimum poverty line is brought up to at least that minimum standard. If you agree with me in this objective, has not the time come to freeze all incomes above, say, K£700 per annum to enable us achieve it? It is all very well to talk about the widening gap between the rich and the poor but if something is to be done about it, sacrifices will have to be made, sacrifices by the richer members of our nation which includes every one of us in this House today.

In aiming to bring the very poor up to a minimum standard of living we must keep in mind the importance of regional balance. In particular, the rural sector must receive even more attention that it has in the past. During the last few months, a highly-qualified UNDP/ILO mission has been examining our unemployment problem in great depth. This mission is now finalizing its report which I await with great interest and which I aim to lay in the House. Its recommendations should be of great assistance to us in drawing up new plans to tackle the unemployment problem.

ECONOMIC OUTLOOK

Our ability to tackle the problems of incomes and employment will still depend to a great extent on the maintenance of our development impetus. My Budget for the coming year will depend on the performance of the economy in 1972 and 1973.

It is too early to say whether the recent rainfall received by the country is sufficient to provide the farmers with a normal crop year. In many areas the rains were late and in some areas the rains have been spasmodic. Preliminary estimates do, however, show that farmers' receipts in total may, perhaps, be 15 per cent higher in 1972 than in 1971. In the non-agricultural sector, the building industry is likely to remain at a high level of activity. Manufacturing is expected to continue on its recent remarkable growth path, with a number of new products coming on to the market. Overall, we expect that the level of growth in total Gross National Product in 1972 may be as high as 8 to 10 per cent at current prices.

The rate of inflation in the industrial countries overseas has lessened only to a limited extent and import prices can be expected to continue to rise. Some improvement can be seen in the outlook for export prices but only to a limited degree. It is essential that we operate the economy without a balance of payments deficit and a continuing drain on our foreign exchange reserves, and in this situation it is, therefore, necessary that we do not rush ahead with economic schemes which may endanger this delicate balance. In the coming year, therefore, it will be necessary to hold back on some schemes which we would like to go for ward and to concentrate more on consolidation rather than a great new leap forward in terms of capital spending.

Directives issued to the commercial banks will I hope, move some of the funds presently used to finance imports into more productive activities. At the same time, the Central Bank is endeavouring to limit any further increase in the level of commercial bank advances to the private sector to a level 12 per cent above that of February, 1972. This means that although the banks should not need to impose any severe squeeze on the financial system, they will not be in a position to take such an expansionary outlook towards advances such as they have had over the last few years. During 1971 alone, commercial bank advances to the private sector increased by 38 per cent.

Similarly, Government itself will have to take a more cautious attitude towards an expansion of expenditure, and, whereas, last year, I was able to say that the Treasury had taken a more relaxed view of applications for increases in recurrent expenditure, in the current year, we have examined all proposals closely and endeavoured to persuade Ministries to hold back all schemes for expansion which are not absolutely essential at the present time. In particular, Ministries must try to use their vehicles more efficiently and more economically, and, for the time being, a much tighter attitude will be taken towards the allocation of finance for new buildings. As a result of the very rapid expansion in Government buildings over the last few years, this should not, however, create serious problems in most departments.

THE FINANCIAL OUTLOOK

Although the economic outlook at the moment appears very good indeed, the continuing need to maintain equilibrium in the balance of payments through import control and some restriction on the growth of the money supply causes the financial outlook to be less favourable. The present level of import restrictions will cost the Exchequer between K£7 million and K£8 million alone.

As Minister for Finance and Planning, I am, therefore, faced with a most serious dilemma. On the one hand, there is the need, indeed necessity, to maintain the development impetus achieved in recent years in order to achieve our plan targets and provide employment for the growing labour force. On the other hand, in so far as the development drive consists of new plans and new projects, they have to be financed, and financed in a way that will not upset the precarious balance we have now, in the last few months, achieved in our overseas payments.

One thing I am sure we can do is to obtain better value for every shilling of public funds we spend. I am far from convinced that we get full value for our expenditure at the present time. Poor financial control, misuse of Government vehicles and, in the light of the Controller and Auditor-General's report, it would seem also occasionally misappropriation and waste of Government funds, all prevent the people of Kenya obtaining the full value they have a right to expect for the taxes they pay.

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I was appalled to read the Controller and Auditor-General's report on the accounts of the Local Authorities which have demonstrated major weaknesses in financial control and control of establishment, administration of loans (such as from the National Housing Corporation) and a lack of drive in exploiting their known sources of revenue. Drastic measures are required to correct these weaknesses.

Financial control must become more stringent within the Central Government, within Local Government, within statutory organizations and indeed within the economy as a whole. Cases of fraud and corrupt practices before our courts are far too common and anyone lacking complete financial probity must be weeded out from our society before an epidemic of corruption pulls our economy down.

Yet, even if we achieved the standards of financial behaviour I would like to see throughout the economy, my immediate dilemma for the coming year will remain. Do I cut back expenditures to the level of revenue of which I can be completely sure and risk causing a sharp check to the development impetus we have now built up? Do I play safe with our finances and cause a drop in the level of employment as a result of cuts in Government expenditure? Will the forecast growth of the economy in 1972 cause the revenue to rise above our present estimates in spite of the loss of customs revenue caused by import restrictions? These questions represent my present dilemma; but all the time I have to remember that now we have run down our cash balances we cannot spend what we do not earn by way of revenue without incurring serious risks for our economy. This, I firmly believe, would be wrong.

ESTIMATED EXPENDITURE 1972/73

In this very difficult situation, I have tabled estimates of expenditure for 1972/73 which on a gross basis total K£201 million or nearly 10 per cent higher than the estimated expenditure of K£183 million in the current year.

The Recurrent Estimates are influenced by rising costs of salaries and supplies but at K£132 million have been held to a level less than 4 per cent above the estimated final expenditure for the current year. Bearing in mind that 65 per cent of the total increase is represented by increases in the Votes for the Ministries of Education and Health you will see just how firmly increases to the other Ministries have been restricted. I cannot cut back the Recurrent Estimates harder than this without causing overall cuts in the level of Government services, bearing in mind the increased number of schoolchildren each year and the increased population. But in order to permit these increases in vital social services it has been necessary to make overall cuts in the Votes of a number of Ministries.

As I said earlier in my Speech, I shall expect all Ministries to operate within the limits set by their voted provision. In addition, they will be required to follow the rules I have just listed.

The Development Estimates for 1972/73 show an increase on a gross basis of some K£13 million or 23 per cent above the expected level of expenditure in the current year. On a net basis the increase is also approximately K£13 million.

However, owing to the tighter financial situation, I have to say that after these Estimates are approved by the House, their implementation must be made subject to certain conditions. Although all on-going development projects, not yet started, will only commence after the Treasury has given its specific approval of such commencement. No approval will be given for the commencement of new aided projects until an aid commitment has been firmly obtained and a project agreement signed with the donor.

An important reason why external revenues have fallen short of the sums estimated in the past is that Ministries have included projects in the Estimates which have been suggested to donors as being worthy of their attention but which have not been completely agreed with the donors. This has meant that projects shown in the Estimates as being financed from aid sources have in the event fallen to be financed from our own resources. The budgetary process has been made much more difficult as a result and I must now insist that aided projects do not go ahead until a project agreement has been finalized and signed.

Hon. Members will, I am sure, appreciate that the reason I have laid down conditions for the spending of moneys provided for in the Estimates is so that the Treasury can control the level of spending throughout the year in accordance with the finance we can be sure of obtaining in the Exchequer during the year. Accounting Officers will be advised that the Treasury will only issue cash to them in accordance with the availability of cash in the Exchequer and they are being instructed to control their expenditure in accordance with the cash issued to them.

I do not, this year, propose to discuss the detailed content of the Estimates of individual Ministries. I shall leave it to my colleagues to explain the proposals for their particular Ministry in the Committee of Supply. I propose now to turn to the problems of financing a budget some K£18 million higher than the expected level of spending in the current year. Accordingly I would like to request, Mr. Speaker, that the following part of my Speech be taken as a Notice of Motion to be placed before the Committee of Ways and Means.

PAPERS LAID

1972/73 ESTIMATES OF REVENUE OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDING JUNE, 1973

1972/73 FINANCIAL STATEMENT

(By the Minister for Finance and Economic Planning (Mr. Kibaki))

(Resumption of Minister's Speech on Financial Statement)

Hon. Members have seen already, from their study of the Development Estimates, that I hope to obtain some K£27 million from aid sources to help us finance specific projects in 1972/73.

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External grants and loans to finance development should total approximately K£34.5 million or about 50 per cent of the total of the Development Estimates, taking into account non-aid external finance.

This, Mr. Speaker, leaves me with the need to find approximately K£35 million of development finance from local sources, a higher amount than ever before. I estimate that half this total can be raised by way of long term bond issues on the local market, with the help of the National Social Security Fund to which I am very grateful and the East African Community pension funds. In addition, I propose to borrow K£10 million from the Central Bank of Kenya after the Central Bank of Kenya Act has been amended.

This now still leaves me with a shortfall of development finance of K£7.5 million. If I were to expect that the level of recurrent surplus next year was likely to be about the same as this year, then there would be no problem. Unfortunately Mr. Speaker, this is not the case. The Recurrent Estimates have risen by K£5 million on a net basis, while at the same time, my estimates of Recurrent Revenue suggest a drop of approximately K£5 million at existing rates of tax. On this basis, the surplus on recurrent account would be insufficient to cover development deficit. I am convinced that I cannot, this year, present a budget to the House with an overall deficit and I am afraid, therefore, that increases in taxation are inevitable. In order to balance overall revenue against overall expenditure, I decided I must, in fact, raise an additional K£5 million.

As I indicated earlier in my speech, I feel that I ought to take steps to restrict the growth of demand for a number of import items in the luxury and semi-luxury class and, accordingly, I propose that import duties will be raised to provide me with additional revenue on a fairly wide ranging list of imported commodities. The full list is set out in the Finance Bill that will be made availabe to hon. Members as I am speaking and I shall merely summarize these changes here this afternoon rather than read out each individual item because that would take us up to seven o'clock.

Mr. Speaker, plaster and paper floor coverings, including plaster tiles and linoleum will have their duty raised from 30 per cent to 40 per cent; and by implementing part of the suspended duty already available to me, the total duty imposed on motor tyres and inner tubes will be increased by 45 cts. a kilo. This will, of course, apply merely to those tyres which are now imported, not those which are produced in the local tyre factory, Mr. Speaker, about which we are going to speak later.

The duty on most paper and paper products will be increased. Where the existing duty is currently 15 per cent, they are generally raised to 17½ per cent, where the existing duty is 30 per cent, the duty is pushed up to 40 per cent, except in the case of ruled paper and box files where the total duty is increased from 30 per cent to 33⅓ per cent by the imposition of suspended duties already provided. The duty on envelopes is increased by imposing the suspended duty which has the effect of raising the total duty from Sh. 5/25 or 33⅓ per cent per thousand to Sh. 6/15 or 40 per cent per thousand.

Other duties to be increased are those on carpets and tapestries from 30 per cent to 40 per cent; footwear where the fiscal entry is now to be raised to 40 per cent and the specific duties to Sh. 3 and Sh. 7/50, an increase of Sh. 1 per pair of imported shoes and footwear.

The duty on iron bars and rods will be increased to Sh. 200 per tonne or 30 per cent. Square and flat bars and rods will carry a duty of 25 per cent and others 10 per cent. The fiscal entry for iron sheets and plates will be increased, in the case of corrugated sheets to Sh. 1/25 per square metre or 35 per cent, and in the case of flat galvanized sheets to Sh. 1 per square metre or 25 per cent.

Perhaps I should interject here that I do not consider either iron bars or rods or iron sheets and plates in the luxury or semi-luxury class but these are all products which are produced in Kenya and East Africa and can be supplied from local factories.

One item which might be considered in the luxury class which is at the present time completely untaxed is pleasure boats and sports fishing boats. If, Mr. Speaker, I tax motor-cars, I feel I should also tax this item, and I propose that duty shall be imposed for the first time at a rate of 33⅓ per cent.

We have in the past taken a rather lenient view of the customs duties on cameras and photographic equipment, watches and clocks. But since we are now short of foreign exchange and have felt it necessary to restrict their importation, I feel that it is not unreasonable to increase the duty on these items from 30 per cent to 40 per cent.

By the same process of reasoning, we are, Mr. Speaker, restricting the importation of passenger cars to a level significantly below the recent volume of imports, I feel that it is only right for me to increase the scale of duties imposed on all passenger cars imported. I emphasize here, Mr. Speaker, that we are talking about the passenger cars, not utilities like lorries.

The new scale of duty will be as follows: where the cubic capacity of the vehicle does not exceed 1,200 c.c. the duty will be 40 per cent; from 1,201 to 1500 c.c. the duty will be 50 per cent; from 1,501 to 1,750 c.c. 55 per cent; from 1,751 to 2,000 c.c. 60 per cent; from 2,001 c.c. to 2,500 c.c. 75 per cent, and from the very largest cars exceeding 2,500 c.c. the tax will now be 100 per cent of the c.i.f. value. Thus, the duty on the smallest cars will go up from 33⅓ per cent to 40 per cent and on the very largest cars from 80 per cent to 100 per cent. Unassembled vehicles will be taxed at the existing rate of 15 per cent, so that if any industrialist wishes to come and set up an assembly plant in Kenya, he will have the opportunity of producing behind these relatively high rates of duty on imported cars.

Mr. Speaker, there is a fairly long list of items where the fiscal entry is raised to 30 per cent. It includes yeast, putty, gelatin, safety glass, glass mirrors, weighing machines, typewriters, calculating and accounting machines, other office mechines, electric fans, electric shavers, lenses and measuring rods and so on.

There is also a fairly long list of items where the duty is raised to 50 per cent. It includes microphones and amplifiers, radio and television sets, toys, portable

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lighters, scent sprays, malt, olive oil, prepared and preserved fish, sugar confectionery, chocolate and other food.

Finally, Mr. Speaker, I propose that the specific duty on gramophone records shall be increased from Sh. 1/25 to Sh. 1/50 and the *ad valorem* duty from 32½ per cent to 45 per cent. This is something which all can afford.

Taken together, these changes in Customs duty are estimated to earn just over K£2 million of the K£5 million I am seeking to raise. They will, I am afraid, lead to some increase in prices but I hope not immediately, since they will only affect new imports.

Before turning to other matters, I would like to mention that there are a number of administrative changes relating to the wording of the Tariff which are set out in the Finance Bill. In addition, the Third Schedule to the Customs Tariff Act will be amended to provide that contractors to the Government will no longer be able to purchase machinery, plant and materials free of duty. Although the present system of Government contractors having access to duty free supplies has been convenient for the Government, it has, I fear, been abused by the contractors, and I feel that this is a tax loophole we must close.

There is one major customs concession which will be of interest to many businessmen. I propose that, with immediate effect, customs duty will only be charged on 50 per cent of the air freight charges when goods are imported into Kenya by air. At the present time duty is charged on the full value of all freight charges which has had the effect of discouraging importation of goods by air because air freight charges are relatively more expensive than sea freight. It will, I feel, be of benefit to the economy if importers can bring in goods more quickly by air, since it will allow the level of stocks in many instances to be reduced and will allow such items as spare parts which may not be available in the country to be obtained more quickly.

This customs concession on goods imported by air freight should, by increasing the volume of goods imported by air, also ensure that there is a greater volume of space available on aircraft returning to Europe for goods exported from Kenya than is the case at the present time. I hope, therefore, that this measure will be of assistance to the horticulturalists and others who need to export their products overseas by air.

My last proposal relating to the Customs Tariff is to ask this honourable House to agree that the Act should be changed to provide that the Minister for Finance, with the approval of the Parliament, may vary any fiscal entry by notice in the Gazette by an amount not exceeding 10 per cent of the rate of duty ruling at the time. This amendment will mean that if I feel it necessary on revenue or economic grounds such as the recent devaluations, I can vary the rate of duty up to 10 per cent of that shown in the Tariff Book, provided I come to Parliament and obtain your approval by Motion in the House within 20 days from the day on which the House next sits. The ultimate control of the use of such a regulator will, therefore, rest with the House. Perhaps I should mention that both Tanzania and Uganda already have provision for such a regulator within their laws and if they were to implement the regulator at any time, Kenya would not be able to adjust quickly and a common external tariff would no longer exist.

In concluding this section, I should state that this is a contingency provision in the law which at the present time we do not propose to use.

I would now like to turn to the Excise. As hon. Members will be aware, there is already an excise on soap. It has, however, been difficult to apply this to soap in liquid form and I propose to provide for a separate item for soap in liquid form with an excise rate of 55 cents per litre.

In addition, the present excise on fabrics relates merely to woven fabrics whereas modern technology is increasingly turning towards knitted or crocheted fabrics. For this reason I propose to extend the excise to knitted or crocheted fabrics at a rate of Sh. 3/50 per kilogramme.

The excise on woven fabrics was converted to metric rates a year or so ago by a straight conversion from the imperial measures at 29 cents per square metre when the length or breadth exceeds 61 cm. In order to rationalize this in metric terms, I propose to change the tariff, so that excise will in future be 30 cents per square metre on all fabrics where the length and breadth exceeds 50 cm. Only a very small amount of additional revenue of some K£2,000 will be involved in this change.

There has been some ambiguity regarding whether the existing excise on paints also applies to printers' ink although it was always our intention that it should. In order to make this quite clear, the wording of the tariff will be amended to show the printers' ink will be included.

Finally, I propose to introduce a regulator for the excise tariff exactly the same as I have proposed for the Customs Tariff so that with the approval of Parliament, the Minister for Finance may vary all or any of the rates of excise by notice in the Gazette by an amount not exceeding 10 per cent of the rate in the Schedule.

The rates of Estate Duty—sometimes called death duty—which apply on the value of an estate when a person dies are I think generally on the low side and I propose that the rates of duty escalate rather more steeply on the very large estates than in the case at the present time. This will only apply in the first instance on estates of K£17,500 when the rates of duty will increase from 6 per cent to 7 per cent. On larger estates, the duty will be increased by one or two percentage points from what it is now, until the estate reaches a value of K£160,000 when the rate of tax will be increased by 3 percentage points to 23 per cent and at K£300,000 by 5 percentage points to 30 per cent; at £800,000 by 6 percentage points to 40 per cent. In the event that anyone is fortunate enough to die with an estate exceeding K£1 million, the rate of estate duty will be 50 per cent compared with the present 40 per cent.

On the other hand, I propose that whereas small estates pay a fixed rate of duty at the present time, in future, all estates below K£2,500 will pay no estate duty at all. This will mean that most of our small farmers and indeed most people in this country will not be bothered by the problem of estate duty in future.

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Even though I shall lose a certain amount of revenue by this concession, I estimate that the changes in Estate Duty as a whole will provide me with an additional K£80,000 overall.

There are a number of miscellaneous taxes and fees I propose to vary. Firstly, Entertainment Tax: this tax has not been varied for many years, although prices for admission to cinemas and theatres have tended to rise during this time. I now propose two additional segments should be added to the Schedule of Entertainment Tax. Where the payment for admission—excluding the amount of tax—exceeds Sh. 4/50 but does not exceed Sh. 7, tax will be 75 cents and where payment for admission exceeds Sh. 7, the tax shall be Sh. 1/25. This change will come into effect on the 1st of July and is estimated to earn some K£20,000 in additional revenue.

With import restrictions on motor vehicles and the increased customs duty on imported motor vehicles, it is inevitable that the value of secondhand vehicles will rise. I feel that the Exchequer is entitled to some part of that increase in value and I propose to double the Secondhand Motor Vehicle Purchase Tax from Sh. 200 to Sh. 400. Vehicles with less than four wheels changing hands will be taxed at Sh. 60 rather than Sh. 30 at the present time.

A few years ago, an Airport Passenger Tax of Sh. 10 paid by departing passengers was introduced. Since then the cost of operating and building new airports for our travellers and tourists has risen steeply as a result of inflation and I do not think that it is too much to ask tourists and other departing passengers to pay a tax of Sh. 20 in future. We hope to earn an additional K£180,000 revenue from this measure.

Hon. Members will recall that last year I introduced for the first time a tax on our own traditional beer when produced by large brewers with an average production of 6,000 litres per month. I argued then, and I am still convinced, that it is not unreasonable for me to tax traditional beer which must in the light of other family needs and the State's development needs come into the same category of a luxury, in the same way that other types of beer such as Pilsner and Tusker are so regarded. Unfortunately, this tax has not been very successful and has not earned as much revenue as I had hoped because of the fact that it only applies to the largest brewers. It has been possible for consumers of traditional beer simply to go next door and purchase their beer from a smaller brewer who is not subject to tax. This has I think turned out to be most unfair to the larger brewers, including the Municipal brewers, whose business has been seriously affected. Since I consider that the present tax of about 25 cts. a bottle is perfectly reasonable, I feel that the fairest thing for me to do is to reduce the limit of production to which the tax applies. As from the 1st of July all brewers of traditional liquor who produce more than 600 litres per month for sale will be required to pay the tax. This will still exempt from tax small producers of all household production of beer and such other producers.

The annual licence fee for a driving licence has remained unchanged at Sh. 10 for a very long time. If a person can afford to drive a car, it is not unreasonable, I feel, to ask him or her to pay an annual licence fee of Sh. 20. On the other hand, in order to try to reduce the length of the queues that occur every year in the licencing offices, it is proposed to introduce a three year driving licence which can be purchased for Sh. 55. There will, therefore, be a small concession for people who are prepared to take out a three year driving licence. The fees for other licences such as the Provisional Licence, Replacement of Licence, etc., will also be increased in the same manner.

I would like now to turn to the income tax. I am very much aware that as a result of the fact that we have been working with an income tax law drawn up many years ago before independence, which has been amended *ad hoc* from time to time since, the law as a whole is in a number of instances not particularly appropriate for Kenya of to day. Because of this I have increasingly felt that there was a need to undertake a complete and fundamental review of the law relating to income tax, in order to make it more appropriate to Kenya's needs and policies at the present time. In this belief, a few months ago, I asked the International Monetary Fund to send to Kenya a team of experts to assist us to undertake a complete review of the present law and also the law relating to graduated personal tax to see whether the two taxes can be combined. My colleagues in Tanzania and Uganda asked that the team should also consider their needs in this review and this has in fact been done. The team has been in East Africa and examined the law closely on the ground and had long discussions with us. I hope to receive their report some times in August which will be considered carefully with a view to redrafting the income tax law completely afresh.

Hon. Members will also be aware that, in the last year or so, significant differences have been introduced in the law relating to income tax as it applies in Kenya, compared with the law as it applies in Uganda and Tanzania. Because of this, the East African Income Tax (Management) Act has become increasingly complicated and difficult to apply and my colleagues in Tanzania and Uganda are at one with myself in the belief that the time has come to accept the inevitable and transfer responsibility for the law relating to income tax from the East African Legislative Assembly to the National Assemblies in the three states. I, therefore, propose that the new law relating to income tax, which I mentioned a moment ago, will, when drafted, be brought to this House for consideration rather than the East African Legislative Assembly.

A very considerable amount of work will be involved in drafting the new income tax law and it seems unlikely it will be ready for presentation to the House before the beginning of 1973 and cannot, therefore, come into effect before the 1st of January, 1974. I do not, however, wish to wait until 1974 before implementing one particular change in income tax which will in my view correct a serious inequity created by the present law.

At the present time when an employer provides housing to an employee, the value of that housing is taxed at the rate of 15 per cent of the employee's salary. But a limit is placed on that valuation of housing at K£528

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per annum which is equivalent to a rent of no more than K£44 per month for a house. This means that people enjoying very high salaries provided with housing perhaps worth K£1,500 to K£2,000 per annum are only taxed on that housing up to an amount of K£528. This is inequitable, both compared with people enjoying lower salaries who are not affected by the ceiling and compared with people who pay for their own housing. I propose, therefore, that with effect form 1st January, 1973, housing provided by an employer will be valued for tax purposes at 15 per cent of salary without any limit being placed on that valuation. In the case of a director, other than a full time service director, the valuation will be 15 per cent of his world income.

The effect of this change will be that employees earning over K£4,000 per annum will pay a small additional tax. People with even higher salaries will be affected to a greater extent. However, although, as I have explained, I feel it is necessary on grounds of equity to remove the anomaly in income tax created by the ceilings placed on the valuation of housing, I do not feel that I can ask anyone to pay substantially more additional income tax at the present time. I, therefore, propose to widen some of the segments in the scale of personal income tax with effect from 1st January, 1973, in order to mitigate, although not wholly remove, the increased taxation caused by a higher value being assessed on housing provided to employees by their employers. This will mean, of course, that some self-employed persons and persons already paying for their own housing will pay rather less income tax than they are paying this year. As a result of these changes employees in the higher income brackets will pay a little more income tax, while self employed in the same range will tend to pay a little less.

The new scale of income tax is set out in the Financial Statement and the Finance Bill. But briefly, we have widened the Sh. 7 and Sh. 8 segments from £600 to £900 and the Sh. 10, Sh. 12 and Sh. 14 segments from £1,200 to £1,800. The maximum rate of tax effective on every taxable £ over £9,000 will now be Sh. 15. It seems likely that I will have to forego some revenue as a result of the net effect of these two changes in the income tax, I estimate that in the current financial year it will not, however, be more than K£250,000, and I feel that this is a reasonable sacrifice to make in order to remove part of the inequity in the present income tax system.

CONSUMPTION TAX

Hon. Members will be aware that I have still not provided for the K£5 million in additional taxation I am seeking. With import restrictions reducing the impact of any changes in the Customs Tariff and the income tax already pushed to high rates, my ability to raise the revenue I require from existing taxes is severely limited. I have, therefore, been forced to look to new forms of taxation. In doing this, I have borne in mind the fact that as we protect local industries and restrict imports, I am simultaneously reducing the ability of the existing fiscal system to expand the revenue in line with the expansion of the economy. My attention must, therefore, be turned towards industries which have been set up in Kenya and which operate on a monopoly or near monopoly basis with a considerable degree of protection. Although consumers of those industries are frequently asked to pay prices close to prices charged on imported products, with the present level of import restrictions I feel that I must place taxes on a selected group of locally produced items sold for consumption in Kenya. Hon. Members will remember that last year I introduced such a tax on beer, cigarettes and tobacco.

I propose, therefore, that new consumption taxes will come into effect from midnight to-night on the following items when locally produced or imported from Tanzania or Uganda: (1) Spirits, such as gin or vodka, at a rate of Sh. 4 per proof litre: this will lead to an increase of Sh. 3 in the price of a bottle of gin and vodka; (2) electricity at a rate of one cent per kilowatt hour measured through the consumers' meter: this will affect all electricity bills dispatched on or after 1st July and will add a few shillings per month to the average monthly account; (3) motor tyres at a rate of Sh. 5 per tyre; (4) motor batteries at a rate of Sh. 5 per battery; (5) torch or transistor batteries at a rate of 5 cents per cell; (6) crown corks at a rate of 5 cents per cork; (7) cement at a rate of Sh. 20 per metric tonne; (8) footwear at a rate dependent on the ex factory price of a pair of shoes: where the price including tax does not exceed Sh. 7/50, the tax will be merely 25 cents; in the range Sh. 7/50 to Sh. 15 the tax will be 50 cents; in the range Sh. 15 to Sh. 22/50, the tax will be Sh. 1/50; in the range Sh. 22/50 to Sh. 30, the tax will be Sh. 2/50; in the range Sh. 30 to Sh. 50, the tax will be Sh. 4/00; in the range Sh. 50 to Sh. 75, the tax will be Sh. 6/00; in the range Sh. 75 to Sh. 100, the tax will be Sh. 8/00; in the range Sh. 100 to Sh. 125, the tax will be Sh. 10, and although no shoes are produced in Kenya with an ex factory price in excess of Sh. 125, there is provision for a tax, if they are so ever produced, at a rate of Sh. 12. I should perhaps emphasize to hon. Members that the prices I have read out are ex factory prices and the impact of the tax on the ratail prices will be proportionately less.

Finally, there are two items which are already subject ot excise. Firstly,, there will be, in addition to the excise, a consumption tax on paint and distemper. In the case of paint at the rate of 22 cents per litre; in the case of distemper at the rate of Sh. 3/60 per 100 kilograms. Secondly, I propose a consumption tax on fabrics; in the case of woven fabrics at a rate of 5 cents per square metre, and in the case of knitted or crocheted fabrics at a rate of 50 cents per kilogram.

These new consumption taxes will provide me with approximately K£2.2 million which taken together with the measures I have already announced should be sufficient to provide me with the K£5 million I am looking for.

As a result of these tax changes, I shall in revenue terms be able to balance my budget, and even perhaps achieve a small overall surplus. In economic terms, recurrent revenue will fall short of total Government expenditure by about K£62 million but since I propose to cover some K£34 million of that total deficit by way of foreign exchange loans—or cut the expenditure provided for in the estimates—the impact of the overall

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deficit on the Kenya economy and the balance of payments will be substantially reduced.

I have felt obliged to tax commodities in everyday use to obtain the revenue I require. I do not like doing this but I feel I have no practical alternatives open to me. I would, however, reiterate to hon. Members what I said to the general public in my Press statement on the Economic Survey last week. The people living in the towns enjoy a relatively high standard of living compared with the mass of people living in the rural areas and they should not concentrate their attention merely on their own problems but should remember just how much better off they are. None of the tax measures I have announced this afternoon except the extension of the existing tax on *pombe* will affect the average person in the rural areas. Many families in the rural areas cannot afford to buy a lot of the items I propose to tax and will not, therefore, be affected by them. I would ask hon. Members to consider my tax proposals in that light.

It is, however, necessary at this stage of our development that I widen the tax base, and not be so dependent for my revenue requirements on income tax and customs duty, although these will still remain the principal sources of revenue. Increasingly, I fear, I shall have to consider taxes on items in everyday consumption—especially everyday consumption by the relatively better off families in the urban areas.

I will admit that I am taking something of a risk in presenting to the House expenditure estimates for 1972/73 some 10 per cent higher than the expected total expenditure in the current year. I am, however, convinced that we must not falter in our development efforts now that we have achieved so much momentum. But we must be more selective in our projects and choose our priorities carefully, giving preference to projects in the rural areas, to projects that will augment our exports, to those that will increase employment, and to those that will be least harmful to the balance of payments. We have to be less extravagant in the standards of construction of buildings and roads and given greater weight to the employment content of projects we implement. The expenditure estimates this year should be considered in that light.

Mr. Speaker, we have this afternoon talked about money and development. But we must never forget that the primary source of developmental energy is the personal will and individual initiative of each citizen. Our nation owes its success in the field of development to the peace and unity and sense of common purpose that have been guaranteed us in the last ten years by our beloved President Mzee Jomo Kenyatta. Indeed, this nation owes its very birth and existence to His Excellency the President Mzee Jomo Kenyatta. Let us unite under him and, together, march forward to a Kenya that shall be free, prosperous and democratic.

Mr. Speaker, Sir, I beg to move.

(Question proposed)

DEPARTURE OF HIS EXCELLENCY THE PRESIDENT

The Speaker (Mr. Mati): Hon. Members, it is now His Excellency's pleasure to take his leave.

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

The Speaker (Mr. Mati): That concludes the business on the Order Paper. The House is therefore adjourned until tomorrow, Friday, 16th June, at 9.00 a.m.

The House rose at Five o'clock.