Tuesday, 16th June 1964

The House met at Four o'clock.

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

PRAYERS

COMMUNICATION FROM THE CHAIR

BIRTHDAY HONOURS: MAJOR M. G. ELIOT

The Speaker (Mr. Slade): Hon. Members, I know that you would wish me, on your behalf, to congratulate our Serjeant-at-Arms, Major Eliot, on the honour of M.B.E., which has been awarded to him by Her Majesty the Queen on the occasion of Her Birthday.

I do not think that I can do better than read the official citation, which is as follows:—

As Serjeant-at-Arms, he has rendered exceptional services to a comparatively young Parliament, the whole future of which has depended upon an initial foundation of high standards. His unfailing loyalty, reliability, and impartiality have been an example both to Members and to staff of this National Assembly; and by a combination of firmness, tact and devotion to duty he has taught Members of Parliament and members of the public standards of conduct and discipline which will continue after he has gone.

I believe that you will confirm every word of that citation.

You probably know that he is due to leave us very soon. He will now leave with the happy knowledge that his five years of service here have earned the respect and gratitude of all of us.

NOTICES OF MOTIONS

The Minister for Home Affairs (Mr. Odinga): Mr. Speaker, Sir, I beg to give notice of the following Motions:—

LIMITATION OF DEBATE: BUDGET DEBATE

THAT speeches in the debate on the Financial Statement on the Annual Estimates be limited to thirty minutes.

LIMITATION OF DEBATE: ANNUAL ESTIMATES DEBATES

THAT the following limitations shall be applied to the business of the Annual Estimates:—

(i) On the Motions "That Mr. Speaker do now leave the Chair", to enable Ministers to initiate debates on policy, all Members speaking, other than the Mover in Moving and in Reply, be limited to twenty minutes.

(ii) In Committee of Supply all speeches shall be limited to ten minutes.

COMMITTEE OF WAYS AND MEANS

(*Order for Committee read*)

FINANCIAL STATEMENT

MOTION

THAT MR. SPEAKER DO NOW LEAVE THE CHAIR

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

The House is already in possession of the Estimates of Expenditure for 1964/65, the Economic Survey and the Development Plan. I now present the Estimates of Revenue for the year ending the 30th June 1965, together with the Financial Statement.

The preparation and printing of all these documents has been an exacting task involving many hours of overtime in the Treasury and other Ministries and in the Government Press, and to all concerned, I express my gratitude.

I am very conscious that any speech as full of figures as a Budget Speech, can all too easily become tedious, and I propose to reserve some of my ammunition for the reply to the debate. I will begin by reviewing the present financial and economic position of the Government and the country. I will set out briefly the Government's proposals for expenditure in 1964/65, both development and recurrent, and I will indicate how this expenditure will be financed and what taxation changes will have to be introduced, and will then try to look a little further ahead and to link the Budget as a whole with the over-all objectives of the Government as set out in the first chapter of the Development Plan.

I will begin by dealing with the out-turn for the present financial year. Excluding some £1.2 million of money received from the Currency Board and used to pay our subscriptions to the International Monetary Fund, the World Bank and other international organizations, I expect revenue for the current year to be about £38.1 million or £1.3 million more than the original estimate. The main cause of the increase is additional revenue from income tax related to a higher level of economic activity and a higher level of company profits than had been expected.

[The Minister for Finance and Economic Planning]

Recurrent expenditure is also up. The House has already been given details in three Supplementary Estimates and will be aware that the major additional items relate to the take over of responsibility for our Army, to increases in Army, Police and Prisons pay and to the implementation of the Pratt Salaries Commission Report. The revised estimate of expenditure will be very close to the revised revenue figure of £38.1 million which I have given. I have arrived at this figure after deducting expenditure of £4½ million on compensation and commuted pensions payments for designated officers which is covered by assistance from the British Government and I have also deducted expenditure of £547,000 on the Army between the 12th December 1963 and the 31st March 1964, which has been covered by a British Government grant and the subscriptions to the International Monetary Fund and other organizations to which I have already referred.

We started the year with a credit balance of £2.1 million in the Exchequer Account and after allowing for certain adjustments to former grant-in-aid payments and for money already issued from the Exchequer but not spent at the 30th June 1963, I expect that a credit balance at the 30th June 1964 will be approximately £2.2 million. To sum up, excluding special items of expenditure met from special sources, we will cover in the present year all our recurrent expenditure from revenue at the existing rates of taxation.

Development expenditure originally estimated at £14.1 million is now expected to be about £600,000 up on this figure. Expenditure on Settlement will be up on the original estimate mainly owing to the carry forward of expenditure from the previous financial year. Expenditure on the basic Development Plan will be slightly under the estimate. Receipts into the Development Exchequer will be over £400,000 less than expenditure, but most of this amount relates to expenditure which will eventually be reimbursed by the World Bank, the Commonwealth Development Corporation and the British Government. The deficit in the Development Exchequer will rise to about £6.2 million. I do, however, propose to transfer £1.5 million of the credit balance in the main Exchequer Account to Development, in order to bring the deficit in the Development Exchequer to below the figure of £5 million which I regard as an appropriate maximum to be financed from the Paymaster-General's balances and short-term borrowing.

The Economic Survey which I laid on the Table of the House last week, sets out in detail how the country fared in 1963 and gives a forecast of what we may expect in 1964. The growth of the Gross Domestic Product or National Income was 6.5 per cent in 1963 which was higher than in any other year since 1957. Exports were up by 15 per cent and agricultural production was at a record level. Industrial production rose by 3 per cent and the number of tourists visiting Kenya by 15 per cent. These are very encouraging figures. But it must be admitted that a large part of the improvement resulted from a rise of some 50 per cent in the average price received for sisal in overseas markets. We have been obliged to struggle against falling export prices for a number of years and it is not perhaps before time that we are now able to welcome a movement in our favour.

An adverse balance in visible trade is not a bad thing for a developing country if it is a sign of an inflow of capital goods financed by new capital investment. However, those who hold the popular view that a favourable visible balance of trade is desirable, will be pleased to note that in 1963, after allowing for re-exports, interterritorial trade and charges on goods in transit through Kenya, our trade was very nearly in balance.

The two factors in the 1963 picture which were not satisfactory were the level of employment and the level of capital formation. According to the figures of reported employment, the numbers fell between June 1962 and June 1963 by some 46,000, whereas, at the same time, the total number of men of working age in the country, must have increased by a similar figure. It is, however, pointed out in Chapter 6 of the Survey that the position may not be quite as bad as figures suggest, as it is not possible in an enumeration based on a postal inquiry to cover the large number of persons employed in small businesses and on small farms. I hope that the June 1964 census will provide a wider coverage of those in employment and the Tripartite Agreement represents a turn of the tide, and will be reflected in substantially improved figures this year. Unemployment remains a major problem and will not easily be cured, even if we can obtain, as we hope to do, an increased rate of industrialization. Our Development Plan will create more jobs, but we must be careful to see that the benefits of future development are spread to all sections of the community. In other words, we must not be content merely with a growth in the National Income without paying careful attention to the need to ensure that this growth benefits, to the greatest possible extent, that large section of our population which is now living at a bare subsistence level. During 1963, as the figures in the Economic

[The Minister for Finance and Economic Planning]

Survey show, the average earnings of Africans in employment went up by 15 per cent. This was considerably more than the additional incomes earned by the far larger number of people engaged in small-scale agriculture. However, if I may express a personal view without incurring the wrath of my professional advisers, I am frankly doubtful whether the published figures reflect sufficiently the growth in incomes of small-scale farmers over the last five or six years. I believe that there has been a considerable increase in production which is sold within districts, and which, therefore, it is not easy to measure.

The total of capital formation in 1963 declined to a level lower than has been recorded in any year since these estimates were first calculated. But there are now, a number of clear indications that investment is rising. Machinery imports are running at a higher level, while the building plans approved by the Nairobi City Council, which has always been a good indicator, suggest that there should be an early increase in construction activity. A number of new projects for hotels, commercial buildings and industrial buildings have been announced and will be going ahead. The Government's Development expenditure will be at a higher level and the Kenya Development Finance Company has already committed a large part of its funds in association with private investors. The Seven Forks Hydro-electric Project will, I hope, actually get off the ground before the end of 1964.

The one thing that, more than anything else, would discourage large-scale industrial investment in East Africa would be the break up of the common market and the common currency. The negotiations which have taken place with our neighbours, have shown that this Government is prepared to co-operate in strengthening the East African Common Market, and in the planning of development, particularly in the industrial sphere on an East African basis. The leaders of the three countries have also reaffirmed the intention of the Governments to maintain a common East African currency. I am hopeful that we will soon make progress towards the establishment of an effective East African Central Bank.

The second greatest dis-incentive to progress and investment in the private sector would be an unduly high rate of taxation. The revenue position in Kenya has reached a point at which no very significant increase to Government revenues can be produced except from an expansion of income accompanying a growth in the economy. There is little scope for me to find additional revenue to provide the increased services which everyone desires by levying higher rates of taxation. There are in fact already indications that the rates of one or two taxes have been pushed so high that no additional revenue has been obtained from recent increases. The fact of the matter is that Kenya is already highly taxed. The average income per head is about £29 per annum, and if we consider the monetary sector only, this figure comes down to £21. The Central Government is this year taking some 19 per cent in the form of taxes, while if we include taxes payable to local authorities, the percentage would rise to over 20 per cent. The average family in Kenya pays approximately £22 a year in tax to the Central Government.

The most recent statistics which I have for neighbouring countries and for countries in other parts of Africa suggest that, proportionately, the level of taxation in Kenya is high. In this House, we consider estimates and supplementary estimates running into millions of pounds, but should, I feel, bear in mind that, even small sums spent by the Government, represent money provided at considerable sacrifice by large numbers of taxpayers; for example, it requires the contribution of many families of taxpayers to maintain one Kenya student at a university or even at a secondary school, and the allowances which hon. Members draw for each day's attendances in Parliament amount to roughly the average amount of tax payable per head of the population in a whole year. We must ensure that we spend the taxpayers' money in ways which the taxpayers themselves would consider as justified and we must be careful to avoid all forms of wasteful or unnecessary expenditure.

It is a mistake to think that either recurrent expenditure or development expenditure can be financed without the burden in the end falling on the Kenya taxpayer. If we borrow the money, it has to be repaid and most of the money that we have obtained by loans for development in the past have been at rates of interest which mean that the total amount eventually paid by the taxpayer for an asset created from loan funds of, say, £100 is in the end double this figure or about £200. Nothing the Government provides is from the point of view of the taxpayer free, and if, for example, we reduce the fees payable for primary education, then we are merely shifting the burden from the parent to the taxpayer who is one and the same person. The rate at which we can do this will depend partly on the recognition by taxpayers that they must meet their obligations and the ability of local authorities to collect graduated personal tax in full. There is obviously a limit to the amount of money that

[The Minister for Finance and Economic Planning]

we can afford to borrow without imposing too heavy a burden on taxpayers in future years. I am, of course, aware that there is a third way of finding money which has tempted many Governments along a road that has led to disaster, namely the way of inflation, which is in fact a disguised form of taxation. But there is some scope for making greater use of the fiduciary element in our currency reserves in order to bring into productive operation idle resources including land and labour. In particular, the use of such sources will have to be tapped in 1965 when we have a very severe problem in relation to refinancing short-term debt. The proportion of our total expenditure which is financed from overseas loans is high, and we will have to find more money locally for development.

As the Population Census showed, over half our people are under the age of 16 and others are too old to contribute much to the national effort. This means that there are only approximately 2,000,000 men and 2,000,000 women of working age on whom we depend to make the efforts now required if our nation is to break out of the cycle of poverty and achieve the aim of rapid self-sustaining growth.

The Development Plan looks forward to a greater diversification of Kenya's economy but it is a fact from which we cannot escape that industrialization will not itself be the cure of our difficulties, and that, even in the most favourable circumstances, we are unlikely to be able to expand industrial employment at a rate sufficient to absorb the annual increase in the working force. Over two-thirds of the population will continue to have to obtain a living from farming or employment in agriculture, and it is from the increasing product of our land that growth of incomes will be achieved and the market created for further industrialization.

The Economic Survey suggests that prospects for 1964 are quite good. Given favourable weather conditions, agricultural income should be up by about 6 per cent and sales of manufactured goods and income from tourism should rise by a similar amount. My advisers estimate that the Gross Domestic Product should rise by at least 4 per cent. I have taken this estimate into account in framing my estimates of revenue for 1964/65, and I have also allowed for the fact that higher incomes earned in 1963 will be charged for income tax in 1964/65.

I now turn to the 1964/65 Development Programme. The Development Plan has been published and the Memorandum in the Development Estimates explains in considerable detail the 1964/65 proposals. I do not wish on this occasion to do much more than refer to the arrangements for financing the proposed expenditure, but should, I think, point out that the 1964/65 Estimates are at a higher level than ever before in our history and that the programme will make a very significant contribution to economic growth. Our planning organization is being improved and the plan will be subjected to regular scrutiny and revision and will be flexible. Out of the proposed expenditure of £15.7 million, £6.7 million will be on Land Settlement Schemes, and will carry one stage further the completion of the 1,000,000-acre programme which is the largest scheme of its kind in Africa. Over 15,000 families have already been settled and a further 10,000 to 12,000 families will be settled next year. The scheme is being executed more rapidly, efficiently and successfully than many of its critics expected, and it has been established that production on the land taken over for the International Bank for Reconstruction and Development and the Commonwealth Development Corporation schemes has gone up by 25 per cent. But I should make it clear that the Government does not intend to continue after the completion of the scheme the break up of the efficient economic holdings. There are already signs that this process has gone far enough. For example, as pointed out in the Economic Survey, there will be no surplus of maize this year, the pyrethrum quotas are unlikely to be filled, and most serious of all, the numbers of our livestock are declining and too many valuable dairy herds have already been dispersed and too much immature stock has been slaughtered. The Government is taking energetic measures to deal with all these problems. We also have under consideration schemes for the purchase of more land by the Government.

The transfer of land through Settlement Schemes has been hardly more massive than the transfer of land through private sales, in most instances with the assistance of the Land Bank. In 1963, the Land Bank made loans covering the purchase of over 400,000 acres; in 1964, the total will be only a little less than this figure. Further funds have been obtained which will ensure that the Land Bank will be able to continue assisting private purchasers and, as hon. Members know, loans are being confined to Kenya citizens.

Many of the farms now changing hands were not being energetically run by their previous owners and I have every hope that those who have bought land will do well, to the advantage of themselves and the country as a whole. It must, however, be accepted that there is not

[The Minister for Finance and Economic Planning]

enough good land in Kenya for everybody to own his own farm, and that everyone owning land, whether as an individual, a group, a co-operative society or a company, must make use of every acre; we cannot afford to allow land to be left idle.

Expenditure on the general development programme at £9 million is a significantly higher figure than for the present year, even leaving out of account the transfer of nearly £1 million of expenditure from the Development to the Recurrent Budget. Towards this large programme of £15.7 million the table of estimated receipts shows that we have already negotiated finance to the extent of £13.8 million, leaving a gap of a little less than £2 million.

Applications now being considered by the World Bank for assistance towards expenditure on roads and education will, if approved, reduce this gap by about half. The remaining gap will have to be filled and I am confident that this can be done and that we will also be able to arrange the conversion or repayment of a £1 million local loan which comes up for redemption in February 1965. The largest single source of aid will be the British Government which will be providing over £10 million, for which we are sincerely grateful. We will also be getting valuable and much appreciated assistance from the International Bank, from the International Development Association, from the West German Government, from the American Government, the Commonwealth Development Corporation, and to a smaller but useful extent from a number of other governments and organizations. National and Grindlays Bank and Barclays Bank will be assisting us with money towards the extensions to Parliament Buildings. I am glad to say that we have also recently opened up two new sources of aid as a result of the visit of two of my colleagues to the People's Republic of China and to Russia. The exact details of this assistance are being worked out, and I have already included in the estimates of receipts for next year the first instalment of a grant of some 3 million dollars from the Chinese Government. I hope that other aid from these two sources will go towards reducing the present gap on the 1964/65 Development programme.

It should also be noted that we will be finding from local sources over £1.4 million towards Development expenditure. This will come from export duties, the Currency Board's profits and estate duty. We have, however, a major problem to overcome in the 1965/66 financial year when, as explained on page 126 of the Development Plan, we have to find some £6.7 million to re-finance existing debt before we start spending any money on development. In order to cope with this problem, we will hope that in relation to local loans existing holders will agree to convert to a new stock, but we will also have to seek assistance from the Currency Board and use other devices to find the money. Once we have got over this hump, the re-financing problem will become less difficult for a number of years and we will be able to devote almost all our resources to fresh development, although we will have to keep a careful watch on the size of our Public Debt and continue to ensure that scarce capital resources are used to the maximum and most profitable effect.

I now turn to the 1964/65 Recurrent Expenditure Estimates. Leaving out of account compensation and commuted pensions payments to designated officers, which will be met from British Government assistance, and payments to Regions which will be covered by corresponding revenue, the increase is over £7 million on the amount originally provided in the current financial year for Central Government and Nairobi Area expenditure. This is an enormous increase in one year, far greater than in any previous year and far greater than we will be able to afford in any year in the foreseeable future. However, these increases are unavoidable, and I can assure the House that there has been a rigorous scrutiny of the estimates by the Treasury. With the co-operation of the Ministries concerned, substantial reductions have been made in the original bids and many significant economies effected. Nearly £3 million of the increase relates to the Kenya Armed Forces, the responsibility for which we always knew we would have to take over at Independence. The bill would be much higher if we were not receiving as a free gift from the British Government a large amount of stores and equipment, military assets and assistance with training. The next largest sum of over £1 million relates to unavoidable commitments on the Public Debt and Pensions. The increase in the Public Debt is the inevitable consequence of loans raised in the current financial year for the Development Programme and the increase on pensions is due to the rapid increase in the number of pensioners and arises largely from the departure of a large number of expatriate officers. Next we have over £900,000 for the transfer of recurrent expenditure from the Development to the ordinary Budget. This transfer relates to Localization and Training, Agricultural Services and expenditure on Water Development, much of which was formerly financed from Colonial Development and Welfare grants which we can no longer expect to receiv after Independence. Next we have some £80

[The Minister for Finance and Economic Planning]
for pay increases for the Police and Prisons services and for pay increases arising from the Pratt Salaries Revision Report. These pay increases will benefit mainly lower paid staff, and those in the higher ranks of the service will actually be contributing towards the cost of increases for the lower ranks by accepting a progressive reduction in their housing allowances or a progressive increase in the amount which they will pay in rent for Government housing. I am grateful to the representatives of the staff concerned for their ready acceptance of this sacrifice. I must, however, make it clear that, looking to the future, we will during the next few years have to devote any additional revenues that we can obtain to meeting rising commitments for Public Debt and Pensions, and for the expansion of the existing services, and that we are unlikely to be able to afford further increases in pay even for those in the lower ranks of the service. In the sphere of social services, the increase on Education, mainly for secondary and higher education and for teachers' training, amounts to over £400,000. This represents a greater advance than in any previous year, and will help to deal with one of the main bottlenecks in our development. We have also had to provide £500,000 more than in the original estimates for the present year for the External Affairs Branch. We have also provided £250,000 for the National Youth Service and £200,000 for Unemployment Relief Projects. These will both help us to deal with a proportion of those members of the community who are most in need of Government help. In connexion with the National Youth Service, we expect to receive generous assistance from the American Government with foodstuffs and equipment, and in addition to the provision in the recurrent estimates for Unemployment Relief a number of projects in the Development Plan have been brought forward in order to assist in providing an immediate increase in the numbers employed. There are also a number of comparatively minor increases elsewhere in the estimates of which ... the more important relates to the ta... Government of full responsibility ... and Television services.

... for payments to Regions is ... regional authorities to meet ...nitments and to provide for ... services, provided only that ...ucceed in collecting in full ...ax at the new rates. It will ... the Government to sub- ...uthorities to make up for ...n of Graduated Personal ... my Budget Speech last year, the continued provision, even at the present standards, of services for which local authorities are responsible, such as primary education, will depend on the collection of local authorities' revenues, and in particular Graduated Personal Tax.

Part of the additional expenditure which, as I have explained, is unavoidable, will be met by a free grant of £1¼ million from the British Government. I am most grateful for this final gesture of assistance which was given in recognition of the exceptional financial problems that would face us in the first year following Independence. We cannot, however, expect in the future to receive from the British Government or from any other source grant money to meet normal recurrent expenditure. This final grant from the British Government will make all the difference between our having either to cut back on essential services or having to impose taxation which would inevitably damage our future prospects of economic growth.

To sum up on the expenditure side, as the Expenditure Summary shows, we envisage total expenditure of some £39.26 million. Included in this, is a little over £5 million for payment to or on behalf of the regions which will be covered by corresponding revenue, including some additional revenue derived from taxation measures, which I will announce later. Also included in the expenditure figures, is some £2.76 million for compensation and commuted pensions payments to designated officers, which will be covered by assistance from the British Government. In addition to this, we are, as I have explained above, obtaining a final once-for-all grant from the British Government of £1¼ million. Deducting all these sums from the expenditure total, we are left with expenditure of £30,200,000 to be covered from local resources.

The experts who examined our economic and financial prospects shortly before Independence were all of the view that we would find it difficult to maintain the level of the existing services and that there might well be a fall off in revenue at existing rates of taxation. To take one factor, namely the departure of the British Forces: it has been calculated that the reduction in British military expenditure and in expenditure by British military personnel will lead to a loss of import duty of the order of £300,000 per annum and that the indirect effect of the loss of military expenditure on income tax will be a drop in the yield of some £350,000. The Settlement Schemes will also tend to reduce the yield from income tax as a result of the replacement of one farmer who paid income tax by a number of small farmers,

[The Minister for Finance and Economic Planning]

none of whom will derive enough income from their farms to bring them into the income-tax paying class. In addition to this, as explained in my Budget Speech last year, the changes made in the arrangements for the payment of income tax by private companies are giving us this year a windfall of over £300,000 which will not be received next year. However, in spite of this, our latest inquiries suggest that profits in 1963 on which tax will be paid in 1964/65 were up and that we will derive additional revenue from income tax next year even allowing for the unfavourable factors which I have mentioned. I estimate, in fact, that we will get not less than £13 million from this source.

PAPERS LAID

(At this juncture, the Minister for Finance and Economic Planning laid the following Papers upon the Table)

1964/65 Estimates of Revenue of the Government of Kenya for the year ending 30th June 1965.

Financial Statement for the year of Account, 1964/65.

The Minister for Finance and Economic Planning (Mr. Gichuru): On customs and excise, I intend to obtain towards closing the gap on the Budget at least an extra £350,000 from beer and cigarettes. Hon. Members will, I hope, be relieved to know that I expect this additional revenue without any increase in the present rates of excise duty, and my figures are based on a conservative appreciation of the present trends. In other words, smokers and drinkers will not suffer. To sum up: the existing rate of taxation is expected to produce a little over £29 million leaving about £1.1 million to be found by additional taxation measures plus a sum of about £500,000 to assist in making up the requirements of regions. This is a large figure and we must not get into the habit of thinking that we can, each year, raise £2 million or £3 million in revenue merely by changes in taxation without damage to the economy.

I now come to my revenue proposals and I would at this stage ask, Mr. Speaker, that in accordance with our usual practice, this speech be taken as Notice of Motion to be placed before the Committee of Ways and Means dealing with the measures I am now proposing. We have again looked at items in our Customs Tariff which can be classified as luxury or semi-luxury and from which we can have a reasonable chance of deriving some additional revenue if we increase the rates of duty, and I propose to raise the duty on the following items from 25 per cent to 33⅓ per cent *ad valorem*. A number of items compete with local products and, in fact, the majority of them do so and the increase in duty will, therefore, also have a protective effect. The items are: condensed milk, meat (tinned or bottled), fish (including salmon), tinned fruits, sauces and pickles, breakfast foods, confectionery, honey and preserves, soap extracts and razor blades. Also, on luxury and semi-luxury items, I propose to raise the specific duty on still wine from Sh. 12 to Sh. 16 per imperial gallon when imported in bottles and from Sh. 8 to Sh. 12 per imperial gallon when imported by the cask. This may not be a very long list but we have in the last two years raised considerably the duties on more obvious luxury items to a level at which the law of diminishing returns begins to apply. The above measures are expected to bring in additional revenue of about £95,000.

Another change which I propose which will also have some protective effect is an increase of 15 cts. per square yard on grey cotton and of 10 cts. per square yard in the duty on cotton piece-goods, clothing and blankets. There will also be a small corresponding increase in the duty of shirts, vests, stockings and other garments. The changes in duties on textiles are estimated to produce additional revenue of about £350,000.

The long suffering road user will, I fear, have to bear some comparatively small additional burden, but at the same time, we are pressing on with a major programme for the improvement of our roads, and I do not think that the proposed increase of 10 cents per gallon in the rate of duty on petrol and light amber diesel oil will cause any grave hardship. The increase in revenue from this source is estimated at £255,000 including an adjustment in the duty on grease.

Turning to excise, I have for a number of years been considering the possibility of a modest tax on soft drinks but have been deterred partly by administrative considerations which I am now advised can be overcome. My proposal is for an excise duty of 80 cts. per imperial gallon which will have the effect of imposing a duty of 5 cts. per bottle of 10 fluid ounces on any mineral water, aerated or non-aerated, sweetened or unsweetened. The additional revenue that should be derived from this source is about £200,000. A minor measure which I should perhaps mention is the imposition of an excise duty of Sh. 6 per lb. on snuff—but I have a small qualification—other than snuff made up by the grower without the use of machinery. There was no duty on locally made snuff previously as there was no factory making it, but a factory is now about to

[The Minister for Finance and Economic Planning]

be established in Tanganyika. The revenue implications are not of any significance. I also propose a reduction in the duty on locally manufactured spirits from Sh. 170 to Sh. 153 per proof gallon. This will give the local manufacturer an opportunity to expand his production to a more economic level, and the benefit of the reduction in duty will be passed on to consumers. I am hopeful that increases in sales will balance the loss of revenue which might otherwise result from the reduction in duty.

The proposals which I have announced are estimated to produce about £900,000 in additional revenue out of which £500,000 will go towards meeting regional expenditure and £400,000 towards meeting the gap on the Central Government budget. The new rates of duty which I have announced will come into force from mid-night to-night. They have been discussed and agreed with the Tanganyika and Uganda Governments. The effect of the taxation changes on the cost of living will be very small, and it is esetimated that the Nairobi Cost of Living Index will go up by about two-thirds of 1 per cent and the Nairobi Wage Earners Index by about one-fifth of 1 per cent.

I now turn to income tax. If I may be blunt, a lot of nonsense is often talked about income tax concessions and their effect on investment and industrialization. We do not want to induce either overseas or local investors to put money into industrial concerns which will not, in the end, make a profit because, if they do not make a profit, then they will, inevitably, close down, the chimneys of the factories concerned will cease to smoke and those who have been temporarily employed in the industry concerned will be out of work. As far as overseas investment is concerned, we have already got double taxation agreements with a number of countries from which investment comes and are ready to extend these agreements to other countries where the volume of investment justifies it. There is no point in Kenya giving away tax when this does not affect the ultimate rate of tax borne by the industrial venture concerned which has to pay a higher rate of tax than the Kenya rate on profits remitted to the parent company. Creating a climate for investment depends, very largely, on the Government establishing its reputation for sound financial policies, which this Government has done and will do, and a general willingness to treat investors fairly and to avoid excessive rates of taxation. An Investment Guarantee Agreement designed to attract more private capital investment to Kenya has been concluded with the United States Government. The Government has also prepared legislation which will be brought before this House in the near future to provide specific guarantees to overseas investors who invest in projects approved by the Government as being of economic value to the country. We must do everything to establish that Kenya is a land of opportunity.

I do, however, feel that there is a case for some extension of the existing generous investment allowance of 20 per cent. This allowance now applies to expenditure on new industrial buildings and the plant installed in them, but in view of the importance of tourism which is a growing Kenya industry, there is a case for extending the allowance to new hotel buildings. The deduction which is additional to the normal depreciation allowance will be at the rate of 20 per cent of the cost of the building and fixed plant such as lifts, built-in cooking equipment and permanent fittings installed in it. To qualify for the deduction, new hotels will have to be approved by the Government, and the test for approval will be that they will make a major contribution to the tourist trade. Major extensions to existing hotels which satisfy this test will also qualify. The object of this concession is to encourage the provision of additional facilities for tourists and, in accordance with the principle established when other similar concessions have been announced, it will apply to new projects started after today.

I am also giving consideration to the possibility of extending investment allowances to new plant installed in an old building by a new enterprise or required to extend the activities of an existing industry. It will be necessary for safeguards to be worked out to ensure that this concession does not apply to the replacement of existing machinery, and I hope that it will prove possible to work out these necessary safeguards. With regard to the rates of corporation tax, company tax and personal income tax, I have no changes to propose. A United Nations expert is now carrying out a study of the East African Income Tax system, and it is hoped that his report will be received in time for his recommendations to be taken into account in framing next year's Budget. I cannot hold out any hope that he will be able to suggest to us some other more painless way of producing the revenue which we now derive from income tax.

Before I started outlining my revenue proposals, I indicated that it would be necessary to find a sum of about £1.1 million for the Central Government, and the proposals I have so far announced will only produce about £400,000. Where is the other £700,000 to come from? The answer is, of course, from the export taxes on coffee and sisal

[The Minister for Finance and Economic Planning]

which were brought into force with effect from 1st May this year. As explained at the time, I regretted having to impose these taxes, but believed that there was no other way in which the additional revenue required could be raised without greater damage to the economy. The sisal export tax follows the Tanganyika pattern, and experience has shown that this tax has not damaged the sisal industry in Tanganyika, and I am confident that it can be equally well carried by sisal producers in Kenya. The export tax on coffee should provide an incentive to the production of the best grades and enable us to make the most of the limited quota likely to be granted to Kenya under the International Coffee Agreement, and I think there is good justification for the application of export taxes where production of a particular commodity has to be restricted. These taxes are expected to bring in about £1.4 million in the 1964/65 financial year, and I propose to devote half this sum to development and half to the recurrent Budget. This brings me to the end of my revenue proposals which will produce a small surplus. This surplus, however, is likely to be swallowed up by payments that will arise when the necessary legislation has been passed for the take-over of the Broadcasting and Television services from the Kenya Broadcasting Corporation, and we will not be able to afford supplementary estimates next year on as large a scale as those which have had to be introduced in the present financial year.

My Budget could perhaps be criticized as being something of a conjurer's budget. I have produced alarming figures showing our recurrent expenditure rising by over £7 million and our development expenditure rising to a record level with a gap of nearly £2 million between proposed expenditure and resources in sight. I have then demonstrated how these apparent deficits can be made to disappear without, I hope, very painful consequences for the taxpayers of this country. However, if I admit an element of the conjurer's art in preparing the Budget, I hope that the House will not gain the impression that they can expect more conjuring from me next year, when we certainly cannot contemplate a further massive rise in recurrent expenditure. I may have one or two cards up my sleeve, but will have to use them in order to cope with the formidable refinancing problem involving the raising of some £6.7 million before we can start finding money for development in 1965/66.

If we have another good year and the National Income rises by from 4 per cent to 6 per cent, and if the Government continues to get about 19 per cent of the addition to the monetary sector in taxation, this will give us another £1½ million to £2,000,000 for expenditure on services in 1965/66, but the whole of this amount will be required to replace the grant of £1¼ million being received from the British Government this year, and to cover commitments for Public Debt and Pensions.

When I began preparing the present Budget, I feared that 1964/65 would have to be a year of consolidation, or even of retrenchment, in which we would struggle to find the money to take over new commitments such as the cost of the Armed Forces and diplomatic representation overseas. I am very glad that we have been able to do better than this, and find additional money for the expansion of Education, for the National Youth Service and for Unemployment Relief. There are two reasons why this has proved possible, namely a rise in revenue from income tax and the British Government grant of £1¼ million.

At the beginning of my speech I said that I would end by trying to link the Budget as a whole with the overall objectives of the Government as set out in the first chapter of the Development Plan. These include establishing the right economic climate, stimulating the growth of the economy, encouraging an equitable distribution of incomes, creating employment opportunities, expanding social services and establishing and maintaining essential security services and the Armed Forces. Provision for all these things has been made in the Budget, and although I know that our resources are not sufficient to enable us to provide as much as the people of the country would like, I do urge hon. Members to accept that if we try to go too fast, we will endanger what we have already achieved. The Government expects from all in Kenya not merely apathetic acceptance of the inevitable processes of political, social and economic change, but active and enthusiastic participation in the adventure of creating a happier and more prosperous nation. We also need good luck, good weather and good friends; we will do our best to deserve all three!

The Minister for Agriculture and Animal Husbandry (Mr. McKenzie) seconded.

(Question proposed)

ADJOURNMENT

The Speaker (Mr. Slade): Now, according to our custom and for the convenience of hon. Members, the House is adjourned until tomorrow, Wednesday, 17th June, at 2.30 p.m.

The House rose at Fifteen Minutes past Five o'clock.