1966/67

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Wednesday, 15th June 1966

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

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

PRAYERS

PAPERS LAID

The following Papers were laid on the Table:—

The Military Forces (Service Pension and Gratuities) (Soldiers) (Amendment) Regulations, 1966.

The Pensions (Amendment) (No. 2) Regulations, 1966.

(*By the Minister for Finance (Mr. Gichuru)*)

Maize Marketing Board, Annual Report for the Financial Year ended 31st July 1965.

(*By the Minister for Agriculture and Animal Husbandry (Mr. McKenzie)*)

Treatment of Offenders Annual Report, 1964.

(*By the Minister for Agriculture and Animal Husbandry (Mr. McKenzie) on behalf of the Minister for Home Affairs (Mr. arap Moi)*)

The Speaker (Mr. Slade): Before proceeding with the next Order, I think we will just await the arrival of His Excellency the President.

ARRIVAL OF HIS EXCELLENCY THE PRESIDENT

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

(*The House rose while His Excellency, the President, took his seat on the Front Bench*)

COMMITTEE OF WAYS AND MEANS

MOTION

THAT MR. SPEAKER DO NOW LEAVE THE CHAIR

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

The House has already had the Estimates of Expenditure for 1966/67, and the Economic Survey for 1966 which has been so ably compiled under the directions of my colleague the Minister for Economic Planning and Development. I now present the Estimates of Revenue for the year ending 30th June 1967, together with the Financial Statement.

PAPERS LAID

1966/67 Estimates of Revenue of the Republic of Kenya for the year ending 30th June 1967.

Financial Statement for the year of Account, 1966/67.

(*By the Minister for Finance*)

(*Resumption of Budget Speech*)

Before I proceed any further, I should first of all like to convey my thanks to all the Treasury officials who not only had the task of preparing the Estimates in their present form and coping with unusually high bids submitted by Ministries and Departments, but also had to spend many hours adjusting the Estimates to take account of the recent Ministerial changes. A word of thanks should also go to other Government officials who co-operated with the Treasury in containing the Estimates at their present level and to the Attorney-General's Department and the Government Printer who had to deal with the drafting work and the printing of the Estimates now before the House.

In the Budget debate last year, one hon. Member was kind enough to say that I caused the House to listen for over two hours just to hear two small changes in taxation. I can assure him that my speech this year will not be so long but I hope that he and other hon. Members will accept that a Budget is more than a mere statement of taxation changes. For example, I could perhaps announce that I intend to impose an extra charge of Sh. 5 a seat whenever a James Bond film is shown and that all members of the K.P.U. will have to pay double personal tax and income tax. I could then sit down. However, I do not intend to do this, and it is necessary that we should once a year review the financial position of the Government and of the country and take stock of our progress and future prospects.

One day, perhaps I, or my successor may be able to present a Budget with no taxation increases and in fact some concessions to taxpayers. We have now absorbed the extra expenditure which we had to take over at the time of Independence and have published a Development Plan which gives an indication of what the Government proposes to do over the next few years. The implementation of this plan has recurrent implications particularly for public debt and education which we have to accept. If we are to grow economically on the lines suggested in the plan the Government must restrict the annual growth in recurrent expenditure to about 7 per cent or not more than about £3 to

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£4 million per year. This means that the annual Budget will take its proper place in the plan period and will not, I hope, contain any major surprises or major shocks. Unless we are to adopt the course which has led many other countries along the road to bankruptcy and devaluation, we must accept reasonable limitations on the rate of growth in our recurrent expenditure.

Chapter 8 of the Economic Survey deals with public finance in a clearer and more detailed manner than in any previous year. The first table shows that taking recurrent and development expenditure together, we did in each of the four financial years from 1961/62 to 1964/65 manage to do a little more than cover our expenditure either from taxation, local loans, or what we could get or borrow from overseas. The surplus figures must, however, be considered against the background of the growth in the public debt which increased from £69 million in 1961 to £95 million in 1965. The service of the public debt is now the largest single item in our expenditure and we will have to be very careful to see that loan money is spent on productive purposes which will generate sufficient income to enable us to meet our obligations. The figures in fact suggest that we have found too little money from taxation towards development expenditure. As stated in the Development Plan we must aim by 1970 to be in a position to find an increasing annual sum from taxation towards development costs.

The last figure in the table to which I have referred suggests that in 1965/66 there will be an overall deficit of over £7 million. The position will in fact not be quite as bad as this. Last year when I presented the Budget, I forecast that we would at the end of the 1964/65 year have a credit balance taking the recurrent and development exchequer and tax reserve certificates together of about £200,000 and that we would end the year with an overall deficit of £2 million. Although, therefore, technically and from the accounting point of view I budgeted for a deficit of about £2.2 million on the year, I had it in mind that we had accumulated sufficient money to enable us to repay contractor finance and certain other debts totalling about this amount without fresh borrowing. We have in fact during the year repaid £1.7 million of contractor finance and have also repaid to the Uganda Government a loan of £333,000 for the Mombasa Water Supply. My present estimate is that we will end the year with an overall deficit of £3.5 million. Or, in other words, the position will be about £1.5 million worse than I expected. We started the year with a credit balance of £900,000 and the true deficit on the year is, therefore, £4.4 million. This we have been able to carry without undue strain and only for a short period did we have to use our facility to borrow money on Treasury Bills from the Currency Board. But we cannot allow this deficit to increase and it is essential that I should produce a balanced Budget for 1966/67.

I do not propose to go into any great detail on the revised estimates of revenue and expenditure for the present year but briefly I expect to end the year with a credit balance of about £600,000 in the recurrent exchequer and a debit balance of about £6 million in the development exchequer. The balance at the end of the year in the recurrent exchequer would in fact have been almost exactly my target figure of £1 million if it had proved possible to recover in full the amount due from African settlers on settlement schemes. The shortfall was about £400,000 and it is essential that recoveries should be improved and that the arrears due should be paid up. On the recurrent side, expenditure is up in accordance with the supplementary estimates which have been approved by Parliament, but we have also got an additional £1 million in income tax mainly owing to a special drive by the Income Tax Department for collection of outstanding arrears. On the development side both expenditure and receipts are down on the estimate and it is in fact possible that the published deficit at the end of the year will be slightly higher than my forecast of £6 million owing to delays in the receipt of aid for which the negotiations have been only recently concluded. But this position will correct itself early next year. We have succeeded in converting a local loan of over £3 million and have also raised a further sum of about £775,000 on the local market towards development expenditure. Our refinancing problem is less formidable in 1966/67 and we will be able to make a significant contribution to development expenditure from money raised locally.

There is one more matter to which I should refer before I leave the present year's Estimates and out-turn, which is that we have received £540,000 from the Currency Board towards the expenses of the Central Bank which will not be paid over to the Central Bank until 1966/67, but I do not regard it as necessary in order to balance the Budget to cover this payment by taxation in 1966/67.

The Economic Survey which I have just referred to has, at great length, analysed the state of our economy in the calendar year 1965, and has also given a forecast of the likely economic picture in 1966. Although this document is now

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available to the House and the country, there are certain aspects of it which I would wish to touch upon before I proceed to other parts of my speech.

The 1965 Economic Survey forecast that, in that year, our Gross Domestic Product would rise by 4 per cent over the 1964 figure. Our limited ability to prophesy, however, could not have allowed us to foresee that the main rains would fail and that one of our worst dry weathers would persist right up to the end of the year. Mainly because of these factors, therefore, a rise of only 2.3 per cent in our Gross Domestic Product at current prices as against the 4 per cent forecast was achieved. In the circumstances prevailing in 1965, when the principal industry of the country, namely agriculture, suffered severely from drought conditions, this overall increase cannot be viewed as entirely unsatisfactory.

However, looking at the two years 1964 and 1965 together, the Gross Monetary Domestic Product of the economy had an average growth rate of 7.5 per cent as compared with a rise of 7.1 per cent forecast in the Development Plan. Apart from the agricultural sector, the rest of the economy was sufficiently strong to continue to move forward and to sustain, overall, the level of the Gross Domestic Product. Except for the off-setting effects of the increases in the value of subsistence livestock, fishing and hunting, the fall in subsistence agriculture in 1965 would have been 8.3 per cent as against the actual fall by 4.6 per cent. Dry weather conditions significantly affected the production of our main crops such as coffee, which was also hit by the incidence of Coffee Berry Disease, and tea, whilst prices for sisal remained low.

One other encouraging aspect is that the estimated cash income of small farmers continued to rise during the year although at a slower rate than in past years. It is significant to note that the small farm section of the agriculture and livestock sectors accounted for £13.4 million equivalent to 31.4 per cent as against the 27.9 per cent for 1964. In our small mining industry, copper production benefited from rises in prices, and manufactures had a good year in spite of very severe restrictions imposed by Tanzania on our exports. Notably the Mombasa Oil Refinery expanded its production and also increased its exports overseas and to the rest of East Africa. Industries other than food industries recorded a rise in production and the construction sector had a 12.6 per cent increase—an increase which represents a useful start towards the target set in our Development Plan.

The wholesale and retail trade and service industries maintained the 1964 level of production and there was a recorded small increase in production of electricity although consumption remained the same as in 1964. In our transport industry, importation of bulk commodities partly accounted for a 12.5 per cent rise in the transport, storage and communications product.

Wage earners as a whole were better off in 1965 than in 1964 since they received higher incomes which include a rise of 7.8 per cent even though consumer prices probably rose by 4 per cent or 5 per cent during the period. This means that self-employed farmers who are the great majority of our population were relatively worse off during the year and taking into account the growth in population, the national income per head in 1965 fell. It will be one of the major aims of our Development Plan to ensure not only that the target increase in national income is achieved but also that the increase goes to those who need it most. This will involve containing increases in the level of wages to ensure that self-employed farmers enjoy their fair share of the growth in the national income. It will also involve a major effort in land consolidation, farm planning, agricultural extension services, the use of improved seed and fertilizers, irrigation schemes and range management schemes for the ranching areas. It is on these lines and not from prestige projects that economic growth beneficial to the whole country will be achieved.

Our 1965 capital formation target of £38 million was just achieved and reflected a rise of 8 per cent over the previous year. As a percentage of Monetary Gross Domestic Product, the achievement was higher than the previous two years. As for the future, it looks likely that the present rate of growth of capital formation will continue and that consequently it will be possible for the revised Development Plan annual target of £65 million to be reached by the end of the plan period. In farming, capital spending on large farms was in 1965 higher than in the previous year, and on a per-acre basis the highest since 1960. As regards the value of our exports, there was an improvement by £2 million which is mainly attributable to expansion of manufactured exports and re-exports, particularly petroleum products even though there was a sharp drop in export prices for sisal and a shortfall in the quantity of coffee available for export. I have

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already made reference to the effects of drought on our agricultural exports and I would now wish to turn to our imports.

Importation of abnormally large amounts of foodstuffs notably maize plus a 25 per cent rise in the import of intermediate goods, for processing purposes, such as crude oil and iron and steel explain for the unusual rise in imports during the period. In our export and import fields perhaps I should briefly refer to the fact that while the United Kingdom remained our principal trading partner, African countries supplied 14 per cent of our imports while 43 per cent of our exports were sold within the Continent of Africa, mostly to our Common Market neighbours. As for export prices, these showed a small improvement over 1964.

The gap between the rich and the poor countries is getting wider while the value of aid being given for the development of poor countries seems to be shrinking in relation to their requirements. I have for some time felt that the spate of economic advice and economic publications on how developing countries should order their affairs gives insufficient weight to the problems arising from continuing deterioration in the terms of trade between industrial nations and the rest of the world. In fact in some cases the aid given may only be a small proportion of the loss sustained through deterioration of the country's terms of trade. I know that this problem has been considered at international conferences, but there is no point in industrial countries claiming to want to help and then failing to provide markets for the produce of the poorer nations who frequently have seen the benefits of greater production lost through falling prices, lack of markets and increases in prices of imports. Indeed, restrictive trade measures against goods from developing countries are becoming quite widespread in the industrial nations. This international problem requires re-examination of aid and trade policies, for what under-developed countries need is not only aid but also trade.

Some hon. Members may have been alarmed to see from the published figures and from the Economic Survey that we had a deficit in our visible balance of trade in 1965 of some £36 million and that after taking into account our credit balance on inter-territorial trade that there was an overall deficit of £19 million. However, the balance of payments table in Chapter I of the Economic Survey shows that the position overall was satisfactory, and that the current account as a whole was more or less balanced. There was also a sharp rise in tourist income and mainly owing to the imposition of exchange control the net outflow of private capital which had taken place in 1964 was converted into a small net inflow.

If I may, Mr. Speaker, I would now like to turn to the finance and banking matters. In my last Budget Speech, I announced a number of important issues which have influenced and will continue to play the same role in our economic activities. I touched upon the likely future of our common currency in East Africa and on the position which events in East Africa had forced us to assume in the management of our medium of exchange, namely the currency. Our two partners in this field, namely Tanzania and Uganda, have already announced the dates on which their respective Central Banks will commence their operations, and many of you will remember that the date announced by Tanzania was the 14th of June which was yesterday. The Central Bank of Uganda, I am told, is likely to open its doors to its customers some time next month. I am aware that this House, the country and the interested world have been expecting a similar announcement from me, but before I give it, I will give a brief résumé of the progress the Government has made in the process of establishing the Central Bank of Kenya otherwise known as the *Banki kuu ya Kenya.*

From the time the Government became aware beyond reasonable doubt that the future of our monetary association in East Africa had a limited life, preparations for the setting up of our national bank were set in motion. Work is just about to be completed in converting the former Army Pay and Records Office into premises befitting this national institution. I am indebted to His Excellency the President and the Minister for Defence who, at very short notice, were agreeable to my proposal that the building should be made available as a temporary measure for conversion into our Central Bank premises. A nucleus of staff mainly for planning purposes has been at work for the last few months and the selection of additional staff is currently in progress. Initially, the staff of the bank will comprise 100 members, many of whom will be experts in their own fields of work. His Excellency the President has already appointed the Governor of the bank and four Directors on the board of the Central Bank which had its first meeting on the 3rd June this year.

Consignments of notes forming part of our national currency are already in the country and it is my belief that sufficient ground work and preparation will have been completed by the 14th

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of September which is the date I intend to publish in due course as the date of commencement of business in our Central Bank.

From the date of its opening, the bank will accept the East African Currency Board's shilling notes and will exchange them for Kenya shilling notes of the Central Bank. It will also deal both in sterling with the commercial banks and the Government within published limits on a commission basis. The new coins of the Central Bank will not be ready until at a later stage and, to begin with, the Central Bank will use East African Currency Board coins under a special arrangement. The period needed to accomplish the exchange of the currency can be estimated as one year for bank notes and another two years for coins. In the meantime, the Currency Board shilling will still be legal tender in Kenya.

I am confident that the initial foreign cover of Kenya currency will be about 80 per cent which represents a slightly higher ratio than that now applicable in the case of the East African Currency Board. The denominations and size of the bank notes and coins will generally follow those used hitherto, but there will be a new note of 50 Kenya shillings and new coins of Sh. 2 and of 25 cts. The second change will be that all denominations will bear the replica of the head of our President Mzee Jomo Kenyatta.

Hon. Members: Without the *kofia*?

The Minister for Finance (Mr. Gichuru): I can assure the hon. Members the *kofia* is not there.

One other change will be the elimination of the hole in the 10 cts. and 5 cts. coins. These two latter coins will be a bit thinner but will be able to be used in existing slot machines in the country so that neither the Post Office, the Railways, the City Council or any other organization will require to replace their slot machines as a result of the introduction of our national currency. I have thus avoided the possibility of being called upon to pay compensation for replacement of slot machines which might have been unable to accommodate our new coins. I have not investigated whether the new coins will fit into machines known as one-armed bandits or amusement machines—I sincerely hope they will not!

I would like also to say a few words in relation to what might be termed the guiding principles on which our Central Bank will operate, since I feel that this ought to be understood from the outset in order to obviate any misconceptions that may be held in certain interested quarters. The principal aim of a Central Bank is to take care of the money supply of the country it has been established to serve either directly by issuing notes and coins or indirectly through the control of the country's banking system. It must be borne in mind that by opening customers' accounts which can be drawn on by cheques, the banks are in fact providing means of payment to a large sector of the country's economy. Because this is an additional source of money supply, the banks have to be placed under the influence and supervision of the institution responsible for the monetary system in the country. It can, therefore, be said with justification that the credit activity of a Central Bank is a control by which the bank influences the volume of money in circulation with the ultimate aim of a proper monetary policy which is to keep the value of the currency stable both in relation to the internal price level and to gold and principal world "reserve" currencies. A Central Bank is certainly not a source of automatic extension of the volume of credit in a country. Neither could it make additions to or supplement the credit volume based on savings of the public. It can only serve as a cash reserve for commercial banks which keep customers' moneys or provide these banks with incidental or seasonal credit facilities of a temporary nature to improve their liquid position. It will also provide banking services to the Government. The Central Bank will take into account that the volume of Government funds can fluctuate heavily according to seasonal movements or economic cycles and that the holding of such large and fluctuating funds as Government would have in commercial banks may cause abrupt changes in the latter's disposable funds and expose the normal credit activity of the banks to considerable strain by shifting it from undue expansion to harmful restriction. By banking with the Central Bank the Government will insulate its funds from the undesirable role of a factor determining the volume and price of credit.

It is also material to refer to the fact that the maintenance of the external value of our currency as expressed by its par value is normally guaranteed by the continued readiness of the Central Bank to sell to commercial banks sterling or other "reserve" currencies at a fixed rate of exchange. In order to provide an effective backing for such policy, an adequate amount of foreign currencies must be held by the Central Bank. In this connexion and in the case of our Central Bank, a target has been provided by the Central Bank of Kenya Act which requires that our Central Bank will hold at any given time foreign convertible currencies equal to the value of four months' imports. It might be considered that this

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target is high and that it may take some time to achieve, but I am satisfied that it allows some flexibility and is also related to prudent policy in addition to being appropriate in the actual conditions prevailing in Kenya. In the long run, however, the maintenance of a sufficient cover for the currency can only be assured by the absence of inflationary tendencies caused by excessive expansion of credit either in the Government or in the private sector. We must avoid, as indeed we have done in the past, policies aimed at pumping into our economy a money supply which would exceed the value of the material resources available. We can only achieve this by trying as far as is possible to match up our imports with adequate exports and thus avoid a deficit in our balance of payments, the balance of payments which together with the bank's foreign reserves are the indicators of stability of the currency or of inflationary conditions. Borrowing from the Central Bank by the Government will be restricted to a level consistent with the stability of our currency and thus forestall inflationary conditions which experience has shown elsewhere occur through excessive borrowing by the Government. The Government has undertaken not to embark on inflationary spending in relation to the Development Plan.

With these declarations, the country can look forward to having the services of the Central Bank of Kenya which will play the role of fiscal agent and financial adviser to the Government.

The application of Exchange Control regulations over sterling area transactions introduced in June 1965, has had very satisfactory results on bank deposits and advances, currency in circulation, share quotations on our Stock Exchange and on our balance of payments. In June last year, private bank deposits rose from about £44 million to just under £57 million while advances rose from £46 million to just under £53 million. The private advances/private deposits ratio which was at a peak of 109 in January 1965, eased to 93 by March 1966. This latter ratio must be regarded as still high compared with the normal ratio of about 70, and I ought to urge income earners to deposit more in order to make it possible for further improvements to be made in the credit operations of our banks.

The currency in circulation which was £56.3 million at 30th June 1965, rose to £65.5 million by the end of the year. During the year 1965, the East African Currency Board assets covering the currency in circulation increased to just over £73 million so that the currency in circulation had a backing of more than 100 per cent. The external assets of the Currency Board rose from £46.8 million to £49.1 million and the external backing of currency reached the 75 per cent mark as compared with the previous figure of 73 per cent.

It will be recalled that the East African Trade and Industry Share Index stood at 91.8 at the beginning of 1964. At the end of 1965, the Index was 111.1 and by the beginning of May 1966, the Share Index stood at 125.5. There can be no doubt that improvement in these monetary fields owes a great deal to the application of the Exchange Control regulations over the sterling area other than Tanzania and Uganda and also to the increasing confidence in our economy and the policies of the Government. It is also clear that the availability of money in the country together with the shortage of scrip in the Stock Exchange market explains the unusually high quotations in the market. The Government Stock and Conversion Issue of £3.5 million was substantially over-subscribed in December 1965 and subsequently three small issues totalling about £775,000 were successfully floated. The recent City Council Stock Issue of £250.000 was over-subscribed on the same day it was announced while in fact the Stock was closed a few hours after the announcement. One of the conclusions that can be made out of all this is that we should be in a position to raise a reasonable amount of money internally to support expenditure on our Development Plan projects.

As a result of the decision to establish separate Central Banks in East Africa and the consequent break-up of the common currency, the commercial banks have in the last few months been adjusting their assets liabilities so that the banks in each country are now very largely independent of the banks in the rest of East Africa. I am told that in some cases balances are being cleared between branches, say, in Kenya and Uganda through London instead of directly as previously. Our commercial banks continue to be in credit with banks in both Tanzania and Uganda and at the end of March 1965, they were in credit of over £5 million with banks abroad. This I venture to say must be viewed as a good atmosphere within which our commercial banks will enter into business with the Central Bank of Kenya.

I now turn to the development estimates for 1966/67. At £22 million they are far higher than ever before. They include only about £1 million of re-financing as compared with over £2 million in the present year, and I am glad to say that we will be making the final payment under the contractor finance road project. The estimates

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contain a little over £4 million for settlement schemes and land transfer, but the major increase is on the provision for general development which totals nearly £17 million. The estimates correspond closely to the suggested programme for the year in the Development Plan. I hope that hon. Members will find time to read this plan and we can now for the first time claim to have a plan which is very much more than a mere catalogue of Government capital expenditure.

I am sure my hon. colleague the Minister for Economic Planning and Development will, in speaking in the Budget debate, explain in some detail our programme for the year which will undoubtedly provide a considerable amount of additional employment and will lay the foundation for further advance on the road to a more prosperous Kenya. I do not propose to go into much detail myself on the projects included in the estimates but we can note that the provision for Education has more than doubled on the present figure of some £937,000, that we are hoping to spend over £5 million on transport and communications, that the provision for Agriculture is significantly up and that we have increased the provision for Housing from £450,000 to £1.4 million. My main responsibility is to try to find the money and I am reasonably confident that I will be able to do so. I fear that there will be under-expenditure but this is more likely to arise from lack of executive capacity than from lack of money.

It will be seen that, out of the £22 million, I have undertaken to find, nearly £7 million is from internal resources. This may seem very ambitious but I hope to achieve this target in three ways.

The Central Bank will be purchasing sterling securities from various Government funds and from the Post Office Savings Bank. The Government will then issue local stocks to absorb the money produced in this way. The sterling investments concerned will remain with us as part of the overseas reserves of the Central Bank. In addition, substantial contributions will flow into the National Social Security Fund and will be invested in local stock. I have also been encouraged from the success of recent public issues on the local market, to believe that further issues will be absorbed. In these three ways it should be possible to raise most of the £7 million.

The problem of negotiating the remaining £15 million required from overseas sources will not be easy and if there are delays in these negotiations, this may involve some slowing down of development expenditure. Our two largest sources of aid will be the British Government and the International Development Association. As a side effect of the disastrous drought in 1965, we have obtained a loan from the United States Government covering the cost of the maize which we had to import. I would like to make it clear that the money so generated is to be repaid over twenty years and as for other development loan moneys, we will have to use it for productive projects.

Before I leave the question of development and the raising of money to cover our planned expenditure, I would like to draw the attention of our friends overseas, particularly our donor countries, to certain aspects of our development needs. I have already mentioned that rapid development of developing countries requires both aid and trade. In the field of aid the donor countries have yet to appreciate the full significance of the problem of local costs. In our Development Plan, it has been calculated that the local cost element is about 80 per cent. There is, therefore, a limit on the extent to which aid tied to the purchase of imports from donor countries concerned can be used. It is unfortunate but true that aid is increasingly becoming tied to imports and that the balance of payments problems in a developed country arising from her transactions with other industrialized countries, are now being used as an argument for raising the proportion of tied aid to the developing countries with whom the developed country concerned may have substantial trade surpluses. There is the likely danger of aid programmes being used as export promotion devices, and it would appear that some countries want to give what they call aid without any real cost to themselves.

As far as Kenya is concerned, we believe that the development strategy which we have formulated in the revised plan is appropriate, and we expect our donors not only to give us aid relating to the capital imports but also aid to supplement our resources in undertaking those local cost expenditures without which the imported capital would contribute little in our development. Therefore, although we understand the problems of some donor countries, we hope that it will be generally accepted that gross inequalities of wealth between different countries in the world are incompatible with a healthy international society in much the same way as gross inequalities in the distribution of wealth within a country are inconsistent with the requirements of a happy and contented national society.

[The Minister for Finance]

In addition to the problem of finding money for development, the greater part of which will be in the form of loans which will have to be serviced and repaid, I will have a new problem. Before the creation of a Central Bank, automatic checks and balances operated, which limited the extent to which our economic position could be damaged by balance of payments difficulties, but in future this will not be the case. On the best advice that I have been able to obtain, I believe that the proposed borrowing for development will not cause inflation and a balance of payments crisis provided development money is used for productive projects which add to our income and overseas earnings. But this is something that will have to be very carefully watched and on which I hope to receive the advice of the experts of the International Monetary Fund.

I now turn to the recurrent estimates of expenditure for the year 1966/67 which amount to £52,805,700 as compared with £49,670,012 in 1965/66 including the first Supplementary Estimate. The additional expenditure in 1966/67 has been necessitated by the need to provide more for the Kenya Armed Forces, Social Services notably Education, and Health and improvements of security measures in our Prisons. There is also a large element representing commitment in our Public Debt. Out of the £759,200 increase in the Ministry of Education, £500,000 will go into secondary education to finance 177 new secondary education forms. Provision has also been made for additional students at the Teacher Training Colleges, Adult Literacy, Teachers' Service Commission and for a nucleus of staff for a medical school at the University College, Nairobi. Under the vote of the Ministry of Health, the additional provision is mainly accounted for by the need to provide more staff and equipment in relation to the already announced free medical treatment.

Under the Ministry of Commerce and Industry, a sum of £26,000 has been provided as a grant to the Export Promotion Council in order to assist our industrialists to advertise and look for more markets for our industrial products. It will be noted that other smaller increases have been off-set by less provision for the Ministry of Local Government.

Our expenditure estimates for 1966/67 taking recurrent and development together total some £75 million. This is a frighteningly large sum, and although I hope that it does frighten hon. Members, I fear that in the debate their main complaint will be that the Estimates are not large enough. They in fact represent as high a level of Government expenditure as can possibly be justified in relation to our resources. A recent publication of the International Monetary Fund states that while the share of the Government sector in Gross Domestic Product in developing countries generally exceeds 20 per cent, it is below that level in most less developed countries. In our case, as the Economic Survey shows, Government expenditure in 1965/66 was over 35 per cent of the monetary sector of the Gross Domestic Product and over 27 per cent of the total. This illustrates the very important part which the Government plays in development and in the generation of the national income and also demonstrates that we are doing more on the Government side in relation to the total resources of the country than many other nations.

The 1966/67 Estimates of recurrent expenditure, as compared with the printed Estimates for 1965/66, show that they exceed the latter by £4,222,100. This is an enormous sum all of which, in our present circumstances, could not be raised from new taxation without damaging the economy. The additional expenditure, however, must be met and I have a number of ways in which I intend to balance the recurrent expenditure.

When I announced my interim Budget measures last April, I stated that they would yield about £1.2 million per annum. My present assessment of these sources indicates that the sum will be realized in the 1966/67 financial year. I am also hopeful that growth in revenue at existing rates of taxation will produce £1,716,100, and in addition a carry-over of £540,000 out of a sum allocated to the Central Bank by the East African Currency Board in 1965/66 will be made towards meeting the excess expenditure.

This brings me to my new taxation measures, and in accordance with our normal practice, I would ask, Mr. Speaker, this speech be taken as a Notice of Motion to be placed before the Committee of Ways and Means which is to deal with the measures I am about to announce.

Firstly, I will deal with the new Excise Duties which in addition to the need to raise more revenue have been necessitated by the effects of import substitution consequent upon our policy of protecting our young industries until they are in a position to compete with similar imported manufactures. The raising of duty on imported goods for this purpose has, over a number of years, meant that less of such manufactures have entered the country and that, therefore, less revenue has accrued to Government. I have carefully looked into the operations of these industries and I have been convinced that some of them can

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no longer invoke the principle of inability to compete and that their financial state does now justify my calling upon them to start making some contribution towards the public purse. From midnight tonight, therefore, the following measures will become effective.

The present duty on matches will go up from Sh. 3 to Sh. 5 on every 144 boxes of matches each of which is in packing of less than 50 matches, including other quantities of matches specified in the Act. This increase is equivalent to about 2 cents per one ordinary box of matches. Mineral waters and similar beverages, aerated and non-aerated, bottled ready for consumption without further preparation or dilution, will have duty thereon raised from 80 cents to Sh. 1/60 per imperial gallon, which means an extra 5 cents per bottle. It is not much. One other commodity I have in mind in this series is biscuits, on which there will be excise duty of 25 cents per lb. The duty will not, however, apply on biscuits made in bakeries for direct retail sale without being put in enclosed packages. There will also be duty at the rate of Sh. 25 per 100 lb. on soap, soap powders, soap extracts and substitutes therefor.

The Budget proposals also contain additional measures aimed at protecting local industries which manufacture soap, biscuits and mineral waters.

My import duty revenue measures relate to two items. Complete radio receiving sets, including television sets and motor vehicle radios not elsewhere specified in the Customs Tariff Schedule, will carry duty at the rate of 50 per cent *ad valorem*, instead of the existing duty of 30 per cent *ad valorem* together with a suspended duty of 7½ per cent. The present specific suspended duty of Sh. 50 will become specific import duty. The second proposal is in connexion with petroleum, crude or partly refined for further refining, including other motor spirit on which the duty will go up from Sh. 1/40 per imperial gallon at 62° F. to Sh. 1/50 per imperial gallon at 62° F. The present Consumption Tax on petrol of 45 cents will go up to 55 cents per gallon, so that the overall increase on petrol will be 20 cents per gallon. I am hopeful that less pressure on the accelerators by motorists will not only minimize the effects of the measures I have taken on petrol but will also lessen the number of ghastly sights we have seen in our local newspapers and on our roads mainly because of speeding.

The less speed, the more petrol you save.

My last revenue measure relates to a service or throughput charge on aviation fuel—that is, when planes land at our airport, they pay 10 cts. extra on the fuel they take—on which there will be a charge of 10 cts. per gallon. My colleague, the Minister for Power and Communications, will today publish a Gazette Notice to this effect. Aviation fuel charge paid by the East African Airways will be shared equally amongst Tanzania, Uganda and Kenya, because this is an East African service and, for the time being, this is the agreement.

Some hon. Members would have liked to see the passenger service charge imposed instead of, or in addition to, the charge on aviation fuel. I am aware that a number of countries, including some in Africa, have a passenger service charge at their airports, but I must point out that besides being a possible source of irritation to passengers and the cause of delay in getting them through the airport, the proposal would not, at what I would consider a reasonable charge, yield as much revenue as I hope to obtain from the charge on aviation fuel. I am also convinced that it would not have been proper to impose the two charges concurrently.

The Financial Statement and the Finance Bill, 1966, include both protective and formal proposals which will also be effective from midnight to-night. The protective measures have been taken on the recommendation of the East African Tariff Committee, and are intended to protect, amongst others, local industries manufacturing items such as electric wires and cables, electric light bulbs, round steel bars and rods, and linerboard for making corrugated cardboard.

The formal changes to the Customs Tariff Schedule are meant to minimize administrative difficulties so far experienced by the Commissioner of Customs and Excise in the administration of the tariff.

I estimate that the new taxation measure will produce £26,000 from biscuits, £30,000 from matches, £150,000 from soap, £90,000 from mineral waters, £300,000 from petrol, £80,000 from radios and similar receiving sets, and £90,000 from aviation fuel; all making a total of £766,000. I am advised that as a result of these measures, the Nairobi Wage Earners' Cost of Living Index will not go up by more than 0.3 of a point, and that the Nairobi Middle Income Index is unlikely to rise by more than 0.5 of a point.

There are two criticisms of the Budget which I expect will be made in the debate. The first is that not enough has been done and that the Estimates have not gone up sufficiently. This criticism can hardly stand up in relation to the Development Estimates which are not likely to be

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fully spent for physical rather than financial reasons. I admit that on the recurrent side, there is not as big an advance for the social services as I would have liked, but we had a big and unavoidable bill to meet for the Armed Forces, and I am hopeful that next year we will be able to do a little more for the social and economic services. I hope it will be accepted that we cannot, without departing from the principles of sound finance management, cover a greater increase on the recurrent side in any one year than about 7 per cent. The proportion of the national income taken in taxation has risen, and including Graduated Personal Tax, it is now well over 20 per cent.

The second criticism will, I am sure, be that, accepting that we needed to raise an additional £2 million in taxation, I should have found other means of producing this sum. There are several answers to this. The items chosen are those from which I am reasonably confident that I will get the additional money for which I have budgeted. We have increased our taxation on luxury goods considerably to a point where in many cases they may be yielding a lesser return than if our taxation was more modest. It is, I think, interesting that following the increased charges on cigarettes early last year, the consumption of cigarettes in Kenya was lower in every month in 1965 after the increase as compared with the corresponding months of 1964. Another reason for choosing the items that I did, was that I was able to reach general agreement with my colleagues in Uganda and Tanzania and have, therefore, been able to maintain the common external tariff which is basic to the common market.

There are two criticisms which may not be made in the Budget debate but may well be made by other critics and which do have considerable weight. The first is that I have been too hopeful in assuming that revenue at the existing rates of taxation will bring in about £1.7 million more than my original Estimates for last year. I admit that I have been hopeful. For example, I was advised by the Commissioner of Income Tax and by the Kenya Statistical Department that company profits in 1965 are likely to be at least 10 per cent down on 1964, and that revenue from the taxation of companies which will be received in 1966/67 will probably be at least £1 million less than the corresponding figure for the previous year. I must admit that my estimate is on the high side, but I am hopeful that the introduction of P.A.Y.E. will bring in some more money. With regard to customs and excise, I have assumed greater prosperity and greater purchases of goods liable to import duty and excise. This in turn assumes that we will have a good agricultural year, as the Minister for Agriculture has promised me!

I have assumed that Graduated Personal Tax will be efficiently collected and that local authorities will not require the whole of the special assistance which they had from the Government this year. I have assumed that it will be possible to recover in full the sums due from settlers on settlement schemes. I have assumed that following the Philip Commission Report, the East African Common Market will be maintained and strengthened. As I have explained, inter-territorial trade is most important to our economy. My general justification for doing this is that as stated in the Economic Survey and as planned for in our Development Plan, we should have a good year and I hope that I will be proved right. But I have left little or no margin for Supplementary Estimates—may the Ministers please note—and if things do not go as well as I hope, it may be necessary for me to impose some further taxation during the year.

The second valid criticism that can be made is that I am relying too much on loan funds to finance development expenditure and that in particular, instead of seeking to find £7 million locally in borrowed money, I should have increased taxation by £2 or £3 million towards the financing of the Development Estimates. The only answer is that I believe that the projects on which loan funds are to be spent are in general sufficiently productive to generate a growth in the economy and will enable us to service the very large increase in our public debt vote in 1967/68 and that there are sufficient unused resources to enable us to incur this additional expenditure on the basis of loan funds without leading to inflation. The situation will, however, have to be carefully watched.

In conclusion, I feel that I ought to remind the country that more demands for additional services inevitably mean additional taxation, particularly in relation to our recurrent expenditure which can no longer be financed through external assistance. I can only hope that this additional burden will be accepted, realising that the Government is being continually called upon to provide more services, and that the concept of mutual social responsibility enunciated in our policy of African Socialism will guide those who are more fortunate, in accepting that it is more than our moral duty to sacrifice a proportion of our individual wealth to aid the less fortunate citizens of this country.

Mr. Speaker, Sir, I beg to move.

The Minister for Economic Planning and Development (Mr. Mboya) seconded.

(Question proposed)

DEPARTURE OF HIS EXCELLENCY THE PRESIDENT

The Speaker (Mr. Slade): Now, hon. Members, before we adjourn according to our common practice at this point, I think that His Excellency—rather when he sits on the Front Bench, Mr. Kenyatta—would like to take his leave.

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

ADJOURNMENT

The Speaker (Mr. Slade): The House is now adjourned until tomorrow, Thursday, 16th June, at 2.30 p.m.

The House rose at fifty-eight minutes past Five o'clock.