REPUBLIC OF KENYA

Speech delivered to the National Assembly on 17th June 1970 by the Hon. Mwai Kibaki, Minister for Finance, Republic of Kenya, on presenting the Budget for the Fiscal Year 1970/71 (1st July to 30th June).

Mr. Speaker, Sir,

It is customary on occasions such as this one for the Minister for Finance to propose a Motion and accordingly I beg to move that Mr. Speaker do now leave the Chair.

Copies of estimates of expenditure for 1970/71, Recurrent and Development and the 1970 Economic Survey have been supplied to hon. Members and the Financial Statement for the forthcoming financial year will be available to this House after my speech this afternoon. These documents, Mr. Speaker, should, and indeed do, provide a very useful background to the substance of the proposals I have been privileged to make in my first year of appointment to this challenging post.

As I will shortly show, Mr. Speaker, I have every reason to pay my personal tribute to my predecessor the Minister for Defence, the Honourable James Gichuru for the sound condition in which I found the Treasury and other financial institutions when I took over from him late last calendar year. The overall financial position of the Government for the period up to 30th June 1969, which he forecast in the last Budget Speech did in fact improve by about K£3.2 million to about K£4.7 million for the reasons he then gave and which I do not need to repeat now. I intend that my speech should be as short as I can possibly make it.

His expectation that Development Expenditure in 1968/69 would reach K£26 million was achieved which means that project implementation was at a much higher level than ever before. There now does exist definite indications that the executive capacity of Ministries and Departments has significantly improved and all those concerned should be congratulated for this welcome development.

I am very hopeful that the Government will have an overall credit balance of about K£4.9 million as at 30th June 1970, thus maintaining, more or less, the same position as at 30th June 1969.

I expect that Development expenditure as at 30th June 1970, will reach a record gross figure of K£30 million after excluding about K£3 million recently voted towards the purchase of shares in the East African Power and Lighting Company. If my forecast proves right, and I am hopeful that it will, the rate of expenditure on projects will be yet another yardstick of the extent to which the Government has managed to minimize the constraints on Development which we experienced prior to 1968/69. The expenditure will also show that we shall have exceeded the Development Plan target of K£29 million for the year.

Mr. Speaker, Sir, development expenditure this year has, as I have already stated, been the highest ever and the financing of this has not been achieved without problems here and there. At the time of compiling the estimates, it was assumed that receipts from external sources would be of the order of K£14 million and that we would be able to raise about K£15 million from local sources including transfers from the ordinary recurrent revenue. For a variety of reasons, however, these proportions have not in practice been maintained. The first reason is that implementation of projects financed from external loans has not proceeded at the level forecast at the beginning of the financial year. The second reason arises from a procedure on which many donor countries have insisted we should follow and this is that we have to spend our own funds first and submit to them, on a more or less quarterly basis, certified accounts to justify reimbursements. It is not my intention to complain about the procedure

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but the point I want to make is that claims relatin to the last quarter of this financial year will not have been processed, submitted and reimbursed at the end of this month.

The recurrent expenditure has considerably increased during the year, mainly because of the Government's decision to take over primary education, roads and health services from county councils but partly to finance certain services which could not have been foreseen at the time the printed Estimates were prepared. The estimated amount the county councils would have spent on education, roads and health services during the period 1st January to 30th June 1970, is a part of the revised estimates. Later in my speech I will return to this subject but for the present, suffice it to say, I expect that the additional expenditure will be more than offset by increases in recurrent revenue mainly from the income tax, customs and excise, and to a lesser extent, by an estimated sum of K£750,000 from the graduated personal tax which would otherwise have accrued to the county councils. As the Financial Statement will show, I expect to end the year with a surplus of about K£6.3 million in the Recurrent Account notwithstanding the considerable transfer I have sanctioned into the Development Account. I have been able to transfer K£6 million from the Recurrent into Development Account partly because of the buoyancy of the recurrent revenue and partly because of the control my Ministry has exercised over the recurrent expenditure. It is important, and indeed vital, that the control should be regarded as a permanent feature of our financial administration. Chapter 5 of the 1970-74 Development Plan is quite explicit on this point and, I quote: "Since Kenya has such a low average income level and a corresponding shortage of private capital which can be devoted to investment, the Government must exercise strict economies in expanding public recurrent expenditure in order that it may channel a fair share of the available financial resources into investment". It must be accepted that friendly countries and institutions who want to help us will do so more if we actively and in practice demonstrate that we are also doing everything humanly possible to help ourselves. In recognition of this, it is my desire, and I hope that of this House, that we must maintain the policy of using our scarce resources to the maximum and on the essential and necessary, as opposed to merely desirable, services the demand for which we are unlikely to satisfy in the immediate future. We must also aim at planning and carrying out projects which will provide a better way of life to many of our citizens and avoid prestigious projects which elsewhere have landed some of the developing countries into many financial difficulties. We should continue to welcome private investors whose money we obviously need if the rate of economic growth we have set ourselves to achieve is to be attained. In this respect, it should not be necessary, other than in passing, for me to refer to the safeguards given to overseas investors in the country's Constitution, the Foreign Investments Protection Act, and our taxation policies. There must, however, be deliberate policies by private investors to involve the local people and particularly workers, more meaningfully into the ownership and management of enterprises.

Earlier in my speech, I did say that I would return to the subject of transfer of primary education, roads and health, including G.P.T. from the county councils to the Central Government. I consider it necessary that I should on behalf of the Government take this opportunity to dispel any misunderstandings which appear to exist amongst some people as to the intentions of the Government in the take-over of the services. To those who are in possession of the facts of this matter but appear to be bent towards their distortion in order to confuse the public, I can only say for the present that they should not cut their nose because they will spite their face and that they need to note the following, though brief, background to the Government's action.

During the first year of our independence, the Constitution then in force, it will be recalled, Mr. Speaker, Sir, provided for regional governments and also a new set-up of the local authorities. It also defined the sources from which the Central Government, the regions and local authorities would obtain their revenues respectively. One such source for the local authorities was a grant of K£1.5 million from the regions. On 11th December 1964, Parliament amended the *Majimbo* Constitution and as a result abolished regional governments which then meant that the Central Government would pay the K£1.5 million annual grant which the regions previously gave to the local authorities. The Central Government also took over the financing of what were then regional schools. In 1964/65 Financial Year, therefore, the Central Government gave to local authorities grants of K£2.4 million and in the following year, 1965/66, the grants rose to K£3.2 million because the local authorities accepted salary increases knowing quite well that they had no funds with which to pay. The grants provision for the

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Financial Years 1966/67, 1967/68 and 1968/69 were K£2.4, K£3.1 and K£4.5 million respectively. An amount of K£4.2 million was provided in this year's Estimates. It is, therefore, evident that the Government, over the last six financial years, has gone out of its way to assist the county councils to finance the services entrusted to them until last December. Despite this massive financial assistance, however, the major services continued to be a matter of concern not only to the Government but also to the public; in the majority of county areas, teachers went for days without pay, roads were deteriorating and medical services changed for the worse in quality. Books of accounts remained unaudited because they were never kept properly and it was, therefore, difficult to know at any given time the financial position of any or all of the county councils.

Some of the causes of this state of affairs were given to this House by the then Minister for Local Government last October and they are briefly, mismanagement, dereliction of duty, incompetence, failure to collect revenue, failure to keep accounts, failure to maintain financial control, misuse of funds, and decisions based on local political expediencies. No Government which respects itself or expects to be respected could have allowed under any manner of excuse these disclosures to continue unchecked and the take-over of the services means that they will in future be provided without interruption. I have ensured that the necessary funds have been provided in this and the next financial year to meet expenses arising from a more reasonable level of services.

I must assume that hon. Members have studied carefully the 1970 Economic Survey; for although the survey forms the background to my Budget, I do not have time this afternoon to do more than highlight some of the more important features of the state of the economy which have led me to reach the decisions I shall announce later.

In spite of the currency uncertainties that persisted through 1969 the year was a good one for world trade. This was important to us, for it meant that overall our exports were able to benefit from the higher shipments of coffee and tea. The outlook for the year ahead is not so good. It is quite clear that the economy of the United States has slowed down considerably. Other industrial countries are being influenced by this and are reacting to it—indeed, possibly over-reacting. If this situation persists, we must expect that the industrial countries will cut down on the stocks of commodities they buy from us and in all probability cut down on the quantities they buy for consumption. I must, therefore, warn the House that we may be faced with a worsening of the terms of trade squeeze we have experienced in the past—our own export prices falling while import prices continue to rise, for there seems to be no let up—indeed a worsening—in the rate of inflation persisting in the industrial countries.

The steps that the Government has taken in recent years to diversify the Kenya economy and make us less dependent on overseas trade will help to isolate us to a greater extent than previously from this squeeze; but if we are to maintain the pace of development scheduled in the Plan we must purchase capital equipment and necessary intermediate goods from overseas. We are still vitally dependent on our overseas trade and I have had, therefore, to take into account the serious situation threatening in the world economy in shaping my Budget.

Although I expect the present level of coffee prices to be maintained in the coming months because of the special circumstances affecting Brazilian production, I fear we may see some further fall in the prices of our exports with a consequent effect on domestic income. On the other hand, weather conditions in Kenya this year have so far been quite good and I hope in consequence that we shall achieve higher levels of agricultural income. Overall, although I fear that we shall not increase domestic income to the same extent as domestic production because of worsening terms of trade, I am confident that further progress will be made in the achievement of national prosiperity in 1970 and that the revenue on which this Budget is based will benefit in consequence. I shall, however, continue to watch the trends in the world economy closely and trust that the present set-backs in economic activity overseas will not be allowed to deteriorate into a world recession. A serious recession in the world economy would be a serious setback to our own development.

The out-turn of our own economy in 1969 was rather worse than forecast in the Economic Survey of that year. Gross domestic product rose by about 5½ per cent overall which meant that the year must be counted as a relatively poor one. But in spite of a lower production of maize and wheat, total farm income was higher than expected, largely because of unexpectedly higher prices for coffee and tea. The fact that nearly 300,000 small farmers now grow either coffee or tea means that this higher income was widely spread throughout the rural areas and was not received merely by a few plantation owners as in

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the past. Even though farmers' incomes from maize and wheat were lower than in the previous year they were still significantly higher than a few years ago. Production of wheat and maize was still in excess of local consumption and the House will recall that a total of K£2¼ million was voted to pay for export losses incurred in the year on these two crops. This represented a subsidy to farmers.

Manufacturing had a very good year in 1969. The Government's policy of active encouragement of industrialization has started to bear fruit. The quantity of production was 11 per cent higher than in 1968, a remarkable rate of advance, and the expansion of manufacturing production is now saving us substantial amounts of foreign exchange, since we no longer need to import as many consumer goods as previously. On the other hand, from the Treasury point of view, there is no doubt that this has affected the revenue we have obtained from import duties, which is why, from time to time, we have to look round for other sources of revenue. I regard this factor of less importance, however, than that jobs are created and foreign exchange earned or saved by our industrialization programme.

Tourism was also maintained at a very high level. The number of visitors coming to Kenya was higher although the amount of foreign exchange earned did not quite reach the record 1968 level. The growth of this industry with the concomitant expansion of hotel development and touring firms also provides many jobs—an estimated 20,000 and is an important source of foreign exchange and one reason why our balance of payments has improved so remarkably over the last two years.

The service industries generally reflected the slower progress of tourism and did not advance as fast as in previous years in consequence. Other industries which did not progress as fast as usual were the transport and communications industry, wholesale and retail trade and fishing.

The building and construction industry had another year of expansion, partly because of the continuing building boom in Nairobi and partly because of Government's heavier development expenditures on road building. The level of activity in this industry was 17 per cent higher than in the previous year and this was achieved without any further significant increase in building costs. The rise in building costs, of considerable concern to Government a year ago, now seems to have levelled out and the industry has adapted itself to a rising level of demand. On the other hand, it would seem that the building industry has achieved this relative stabilization of costs by substituting capital intensive methods of building and the rapid growth of activity in the industry has not, as expected, had a significant effect on the unemployment situation—indeed the Economic Survey shows a 10 per cent fall in building employment in 1969.

Perhaps I should at this point say something about the employment situation. Last year there was a rather higher rate of growth in wage-paid jobs than has been experienced in recent years—3.4 per cent—but this was almost entirely due to expansion of agricultural employment created by the higher coffee and tea crops and a 7 per cent increased employment in the public sector. This is still some way behind the Plan target of an increase of more than 5 per cent per annum which is why the President announced in his Madaraka Day Speech a new Tripartite Agreement to reduce unemployment. As stated in the Development Plan, the Government proposes to introduce an Incomes Policy covering wages, profits, rents and prices. The section of the Development Plan entitled Incomes Policy lays down principal policy guidelines on our Incomes Policy. Active steps are being taken to amend the Trade Disputes Act in order to re-structure the Court to enable it to implement a wages policy consistent with the principles laid down in the Development Plan. The Government will soon give guidelines on minimum wages to the Court. To enable the Court to undertake its task adequately a group of professional and technical staff will be attached to the Court to do the necessary research.

I have already commented on the fact that 1969 was a year of below average growth in the economy. Although I am confident that there will be a rather better performance this year, I have been actively searching for ways to stimulate the economy further and accelerate the creation of job opportunities. It has become increasingly clear to me that the economy is not at full stretch; not all the resources available are being used. We have been running a very substantial balance of payments surplus and the liquidity of the banking system has risen sharply. I am convinced these two trends are not unconnected.

In 1968, the balance of current and long-term capital transactions in our balance of payments showed an adequate surplus of some K£10 million. In 1969 this surplus moved up to a record K£23 million and although it is possible to take some comfort in such a healthy situation, a surplus of

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this size does represent resources which are not being used for development. I have in fact already taken steps to utilize some of these resources by obtaining an advance of K£5 million from the Central Bank for the Development Exchequer and as indicated in the Development Plan, I intend to arrange for more advances from this source in the coming years if the situation so allows.

Lest there should be any misunderstanding about this balance of payments surplus, it is perhaps worthwhile dwelling for a moment on the reasons why it has occurred. In the first place, there was very little change in imports last year, while exports on an adjusted balance of payments basis showed an increase of K£5 million. Secondly, private capital flows increased, partly due to the requirement of the Banking Act that the foreign banks should increase the amount of assigned capital deposited with the Central Bank, but partly also due to an increase of private foreign capital investment in Kenya. Thirdly, net borrowing by Government and the East African Corporations were, taken together, rather higher than last year.

There is, however, no doubt in my mind that if the private sector had been developing at a faster rate, the level of imports would have been higher and our balance of payments surplus lower. There were, however, special factors involved in the import situation: the fact that some Asian traders have been running down stocks in anticipation of leaving the country has, I am sure, been one reason why we have seen no significant import growth over the last few years, while the steady growth in import substitution industries has also influenced the overall level. But whatever the reasons for the balance of payments surplus, the fact that we have achieved it and built up our foreign exchange reserves to K£75 million, equivalent to about seven months' imports, means that our economy is in a very strong position to tackle the problems of financing the new Development Plan.

There are three incidental points I would like to mention in connexion with our foreign exchange reserves. Firstly, the total of K£75 million I mentioned a moment ago, includes K£1.9 million in the form of Special Drawing Rights issued by the International Monetary Fund in conformity with the agreement reached at the annual meeting of the Fund two years ago in Rio de Janeiro. These drawing rights represent a paper increase to reserves but are freely convertible in balance of payments need. This world scheme to increase the total of liquidity available for world trade must be regarded as one of the most important monetary changes the world has ever seen.

Secondly, the Government proposes to bring legislation to this House covering the formation of a State Re-insurance Corporation of Kenya. This new corporation will undertake the writing of all re-insurance for the country which will represent a substantial saving of foreign exchange since all this business is undertaken overseas at the present time.

Thirdly, arrangements are in hand to establish a Workers' Investment Trust and legislation to that effect will be brought to this House shortly. The control of the trust will be shared between the workers, the employers, and the Government. The law will require that all provident funds and other savings invested overseas shall be brought back to Kenya and in this way our foreign exchange reserves will improve further. The Workers Investment Trust will thus provide the vehicle for the participation of workers in the ownership and management of certain sectors of our economy.

The strengthening of our economy since independence has meant that whereas in 1963/64 we financed only 87 per cent of our recurrent budget, in 1970/71, we shall effectively finance 100 per cent from our own resources. On the development side, domestic finance was only able to finance about 12 per cent in 1963/64, but in 1970/71, I expect to finance over 70 per cent from domestic sources of finance. We are, therefore, in large measure relying on our own resources to achieve our development. It would, however, be wrong for me to give the impression that we can now manage entirely without financial assistance from overseas. The current account of the balance of payments—as opposed to the current and long-term capital accounts taken together of which I was speaking a moment ago—is still in deficit and the projections in the Development Plan show that if we expand our economy as planned, this deficit will grow very substantially. It will, therefore, be necessary to cover this current account deficit—as in recent years—with loans from the international lending organizations and friendly countries.

I shall, however, endeavour to reduce our dependence on overseas loans as far as possible, so long as this does not cause me to introduce measures which retard the growth of the economy and employment. Our best hope of achieving this aim is to increase our export and tourist income as rapidly as possible and to reduce our need to

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purchase goods and services overseas whenever these can be produced in Kenya. Hence "Buy Kenyan Build Kenya".

It is, therefore, gratifying to observe that our exports reached a new record in 1969. Imports were also a record but the increase was less, so that a narrowing in the balance of merchandise was achieved. The increase in imports was in fact due to special factors such as the arrival of a new VC 10 for East African Airways. While there was an increase in imports of capital goods and basic materials, imports of food, drink and tobacco and consumer goods declined. Since these are the things we can produce ourselves we must continue to strive to replace imports in these groups.

Trade with our East African Community partners was still a little disappointing. Our exports to Tanzania and Uganda did move up but still did not achieve the 1966 level. Imports from Uganda and Tanzania in fact recorded a further decline in spite of our desire to increase our purchases from our partners in the Community. The Government will continue its efforts to remove all artificial impediments to trade within the Community Common Market.

One reason why imports did not rise in 1969 was that—as expected—there was no great expansion of capital formation. The increase of about 6 per cent in real terms recorded in the Economic Survey was influenced by the fact that capital expenditures of the East African Community were lower and that although there were a number of large capital projects in the pipeline, they had not been brought to completion during 1969. In part also, this was a reflection of the slackness in the economy but I am confident that the rise in capital spending necessary for the achievement of the Plan production targets will start to be evident during 1970 and 1971. The Government itself proposes to set a lead in this—as in fact it did last year—by expanding its development budget on a net basis by 25 per cent (excluding the special transaction to purchase the expatriate holdings of East African Power and Lighting).

I propose to take up the slack in the economy by expanding both the development budget and to a lesser extent the recurrent budget. Total Government expenditures in 1970/71 on a gross basis will reach a level of about K£141.5 million compared with about K£120 million in the current year and will reflect an increase of 17 per cent. I have satisfied myself that the resources are available to support this expanded budget and that in the present circumstances of slackness in the economy there is an obligation on me to take the initiative in this. My budget is a budget for expansion to ensure that the targets the Government has set itself in the Plan are achieved and that the economy as a whole is set on the chosen course. This does not mean that the budget is inflationary. It is designed to utilize human and capital resources that are lying idle and to achieve an acceleration of the economy to a level it is quite capable of sustaining without inflation. These higher expenditures will create new opportunities for the enterprise sector and I look to Kenya firms both publically and privately owned to expand their capital expenditures to seize these opportunities by expanding capacity and increasing production. The Government is showing the way with its spending budget for 1970/71 and the private sector has the opportunities to follow.

Before I move away from this part of my speech, I want to say a few words on costs and prices and industrial protection. The House will be aware that price control has for some time now been imposed on those consumer items which the Government considers essential for wage earners and lower income group of our community. To make this control effective and to protect the consumer from unscrupulous traders, we have expanded the price inspectorate which is now able to operate in most parts of the country.

It will be recalled that the Government spends a substantial amount of money on subsidies to agriculture, mainly as a means of supporting agricultural exports and reducing the cost to the farmer and consequently minimizing the cost to the consumer. In order to clearly establish the cost of agricultural inputs, a working party will shortly embark on a study of economic aspects of these inputs with emphasis on machinery and fertilizers.

In the industrial front, it is the Government's policy to encourage viable industries to establish locally, mainly in order to provide employment and substitutes for imported goods and to increase our exports. As a measure towards this objective, the Government spent over £1 million for the year 1969 on customs duty refunds for raw materials imported by industrialists for local manufacture, and several firms have been gazetted for customs duty remission on such materials. The problem which has in the past been experienced by certain categories of firms in claiming duty refunds has now been to a great extent overcome by the introduction of a category of firms to be regarded as concessionaires for the purposes of customs duty refund and in relation to our export drive.

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I now turn to the 1970/71 Development Estimates which stand at a gross sum of about K£37.9 million and a net total of about K£36.5 million. Relatively, the net amount exceeds the expected expenditure in 1969/70 by K£5.5 million and the Development Plan allocation for 1970/71 by K£3 million.

In my consideration of the expenditure I have proposed to this House, I have been influenced by the facts, that project implementation has improved remarkably and that it will continue to improve, that the expenditure will represent real development and capital formation, that the existing liquid position of the monetary sector is capable of financing the local component of the estimates, that revenue receipts from external sources will be higher than previously and finally, my belief that we can and should be able to implement a more ambitious development programme than we have set ourselves to achieve.

I should, however, warn that we shall have to recognize that the changes we all look forward to are dependent on the devotion and performance of our development agencies, be they Government Ministries, statutory boards, the private sector, the Armed Forces or the Civil Service. Much too much unnecessary and uncalled for criticism has in the past been voiced in this House and elsewhere, against some of these vital instruments of development. I am sure that we all want to see a well-disciplined, contented and efficient Civil Service whose performance should be encouraged and not interfered with. As an hon. Member stated recently in this House, time has come when M.P.'s should stop regarding civil servants as outcasts.

Mr. Speaker, Sir, I cannot promise hon. Members that my speech this afternoon is going to cover every aspect of next year's development programme because there would not be sufficient time for me to do so and furthermore because details of programmes and projects provided for can be obtained from the printed copies of the Estimates.

It should, however, be noted that the provision for roads heads the list with gross allocation of about K£10.4 million, the greater part of which will be in relation to continuing projects. The importance of roads as a means of communication cannot be over-emphasized in relation to the activation of other fields of development and the allocation I have proposed should be seen in the context of other sectors and subsectors such as education, health, agriculture, marketing and trade. In the development of our road network, therefore, more should be seen than what meets the eye.

The Ministry of Agriculture takes up the next largest provision of about K£4.5 million allocated to three areas of expenditure. Expenditure on agricultural services is expected to be slightly over K£2 million, about K£1 million being for agricultural credit through the Agricultural Finance Corporation. The remainder will be spent on the development of the Livestock Industry and in particular on veterinary services, the Range Livestock Project and the Range Management Services on the one hand and on land transfer through the Agricultural Development Corporation and Agricultural Finance Corporation on the other.

The Ministry of Agriculture is also responsible for water and irrigation for which, respectively, allocations of about K£1.2 million and K£342,000 have been made.

In the same order and approximation, Housing will take up K£2.53 million, Health K£2.4 million, Building and Works K£2.18 million, Education K£1.4 million, Lands and Settlement K£1.7 million, Commerce and Industry K£1.7 million, Lands, which includes Land Consolidation K£1.3 million, and Power and Communications K£1.11 million.

My financing proposals envisage that I will obtain K£23.9 million from local sources including a transfer of K£6 million from the recurrent revenue, and K£14 million from external sources.

Mr. Speaker, Sir, I now turn to my recurrent expenditure proposals for 1970/71 and as it will have been noted from the printed Estimates, I have already tabled before this House, I have planned for a gross expenditure of about K£103.7 million which represents an increase of slightly over K£16 million if all supplementary appropriations for 1969/70 are taken into account. The net revised expenditure for this financial year stands at a figure of about K£75 million so that comparatively the 1970/71 net expenditure is up by about K£12 million. Appropriations-in-Aid have also increased by roughly K£2 million.

Both gross and net estimates, as would be expected, are the highest ever. There are three major factors to account for this record increase. The first, of course, is the higher level of activities of Ministries and Departments in the implementation of the Second Development Plan. The second is that the public debt and subscriptions to certain international institutions have gone up considerably. The third which is in a way related to the

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first, is that the cost of running the services taken over from the county councils is, as far as it could have been assessed, fully reflected in the Estimates.

The largest allocation is under Vote 24—The Ministry of Education—which will take a net provision of over K£19 million or about 29 per cent of the total net sum to be voted for Ministries and Departments. Compared with the current financial year the Vote has increased by about K£6.6 million. The comparison, however, does not fully reflect the cost of Primary Education, a half of which is included in the 1969/70 estimates of expenditure. I have estimated that the cost of primary education will be a gross sum of about K£13.2 million, and that Appropriations-in-Aid of about K£4.3 million in respect of tuition, boarding and equipment fees will be applied to reduce the gross to net expenditure of about K£8.9 million. The estimate includes the cost of the recent Industrial Court Award to Primary School Teachers. The establishment of the University of Nairobi as from the 1st of July next accounts for an increase of K£934,000 and there is also an increase of K£375,000 relating to 158 new classes in secondary schools. Extension of technical education at the Nairobi Polytechnic accounts for K£55,000. The Ministry will in the light of its expanded responsibilities require additional administrative staff and these will call for expenditure of about K£39,000.

Now that the Central Government is responsible for financing the cost of primary education, teachers should have no fear of not receiving their salaries on time; parents and pupils should be relieved from their experiences in the last few years.

The next largest provision relates to the payment of the public debt which has gone up to about K£16.8 million, representing an increase of about K£6.9 million. This last amount is almost off-set by revenue receipts I have estimated for in my revenue proposals and in this respect, I expect to receive about K£4.2 million from the East African Railways Corporation in relation to their share of the Railways 2½ per cent 1965/70 and 4½ per cent 1961/71 loans which will mature during 1970/71 Financial Year. Another sizeable receipt of K£2 million will come out of the Sinking Fund established by the Government for the purpose of servicing our share of the Railway Loans. Other Funded Debts, including interest on deposits, short-term borrowings, and internal loans raised in 1968/69 and 1969/70 Financial Years account for the balance of the increase. The net rise in our Public Debt obligations is, therefore, of the order of about K£700,000. I am, however, not unduly worried about the amount of money we have borrowed or intend to borrow so long as the money is used to finance viable development projects which, I am confident, should generate incomes in excess of our repayment requirements.

While on Consolidated Fund Services, there are two other items of expenditure which, Mr. Speaker, Sir, I feel I ought to bring to the attention of the House. The first relates to what I informed the House early this calendar year that the British Government has now agreed to take over with effect from April 1971, payment of pensions to expatriate officers who worked for the British Government in Kenya prior to our achievement of independence. The pensions bill should, therefore, come down considerably in the Financial Year 1971/72, possibly by about K£2 million.

The second aspect of the Consolidated Fund Services which I should like to bring to the attention of the House relates to a rise of about K£2.5 million under the item dealing with our subscriptions to international organizations. When we joined the International Monetary Fund, we were allocated a quota subscription of 25 million dollars or about K£8.93 million of which we were required to pay about K£2.2 million under the Bretton-Woods Agreement Act. In view of the fact, however, that we were then operating under the Currency Board and our foreign reserves were not in a healthy position, we were allowed by the Fund to pay K£0.8 million in cash and the balance in Promissory Notes. We have since then re-purchased Promissory Notes worth about K£300,000 and about K£1.1 million will be needed in the next financial year to re-purchase the remainder.

Of the K£2.5 million, the balance is accounted for by the recent decision of the International Monetary Fund to increase quotas allocated to member countries. The main purpose of increasing members' quota is to improve international liquidity which should in turn promote the healthy growth of international trade and the flow of investment capital. A member's borrowing from the Fund is based on the quota the member has acquired in it. It follows, therefore, that the increase in our quota also means that our borrowing facilities will improve and although we do not in the near future need to borrow from the Fund in view of the satisfactory position of our foreign reserves, it would be unwise on our part if we were not prepared for that rainy day.

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The Vote for the Kenya Armed Forces is the third largest with a net provision of about K£6.15 million. In order of magnitude, it is followed by the Ministry of Health with estimated expenditure of slightly over K£6 million. Included in the latter Vote is a sum of K£1.32 million to meet expenditure on Health Services taken over last January from the county councils and which reflects the Development Plan target of the rate of growth of the services.

The provision for the Ministry of Works reflects a net additional amount of K£615,100 which will go towards maintenance of roads taken over from the county councils and also to meet expenses arising from more rented housing and office accommodation. This additional amount includes about K£220,000 to be spent on minor feeder roads previously maintained by county and area councils from their own financial sources. For a true comparison between the Financial Years 1969/70 and 1970/71, however, the Supplementary Estimate of about K£600,000 presented in 1969/70 should be taken into account.

At a glance, it would appear that the Votes for the Ministry of Agriculture and the Police Department have had a cut if compared with the provision shown against 1969/70 Financial Year. This, however, is misleading in that the 1969/70 Estimates include large items of expenditure which do not require to be provided for in the 1970/71 Estimates.

These then, Mr. Speaker, Sir, are only a few examples to show why and how my proposals in relation to the recurrent expenditure for 1970/71 have gone up to the extent indicated in the printed Estimates.

I must turn now to the financing of the expenditure programme. We have, in Kenya, been fortunate in a number of ways in recent years. Taxation revenue has in the main been very responsive to the growth of the economy and although there have been increases in taxation both for revenue purposes and for purposes of protecting local industry, most of the growth of revenue can be said to have derived from a normal expansion of the economy. Income Tax receipts have risen by 115 per cent since 1963/64, Excise receipts by 113 per cent and Customs receipts—affected by Government measures to protect industry—by 63 per cent. It is this natural increase affording me an expected increased revenue of some K£4½ million in the coming year —which will in large measure meet the higher expenditures in the recurrent estimates.

I have already indicated that the current high level of liquidity in the banking system represents unutilized resources for development and that I propose to organize those resources as necessary.

Over K£17 million was raised in loans and advances from the local market in the financial year coming to an end—more than twice as much as in any previous year. If it had been necessary, I am sure that I could have raised more than this total. It is interesting to note that the National Social Security Fund is now the largest investor in Government Stock, holding over K£17 million nominal value at the end of 1969, an increase of K£7 million over twelve months earlier. It is in this way that the savings of *wananchi* are organized to finance national development. It is apparent that these savings are now increasing regularly every year.

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In some of the literature we read, Benjamin Franklin is quoted as having said, "In this world nothing can be said to be certain except death and taxes". I have this afternoon nothing at all to say about death since I am clearly not qualified to do so. I will merely talk about taxes, and in accordance with our Parliamentary practice, I request, Mr. Speaker, that the following part of my speech be taken as a Notice of Motion to be placed before the Committee of Ways and Means which will consider in detail the measures I am about to announce.

I have been impressed, Mr. Speaker, by the fact that we shall have to spend very substantial sums on the development of our airports to keep pace with the expansion of traffic using them and I feel that it is necessary that the people who enjoy the benefit of these expenditures should provide me with a rather greater contribution to the cost of servicing the capital involved in building the airports and the cost of running them on a day to day basis. I have, therefore, decided that, as is already the case in Tanzania and Uganda, a fee will be charged on all passengers who pass through the airports at Nairobi, Mombasa, Wilson, Malindi and Kisumu en route to destinations outside Kenya. This fee will be KShs.10/- per head and will be collectable by the airlines and travel agents as from to-morrow. Everyone travelling to destinations outside of Kenya through an airport will be required to show a ticket indicating that they have paid the necessary fee to pass through. I expect to obtain approximately K£130,000 from this measure in the first year and increasing amounts in future years as our tourist industry expands.

My second measure, which will affect a great many more of our citizens, is to abolish the present system of annual radio and television licenses. In its place, the Minister for Information will introduce a system of non-renewable permits to receive radio and television broadcasting. These permits will be attached to each receiver now in existence and each receiver purchased in future. Every license issued for the year 1969/70 will, as from to-day, represent the permit for a single receiver already in the hands of individuals and will not as in the past need to be renewed every year. Every person, however, who purchases a new receiver as from the 1st July will be expected to purchase a permit through his radio or television dealer at the same time. It will be the responsibility of both the purchaser and the seller to ensure that this permit is obtained and penalties will be imposed on either or both the parties involved if sales are undertaken without the issue of a permit. Similarly, anyone now in possession of a radio or television receiver who is not in possession of a license will be liable to prosecution if he does not hasten to obtain one of the new permits. No questions will be asked about why he does

The cost of the non-renewable permits will be exactly the same as the present annual licenses that is KShs.80/- for a television receiving permit and KShs.20/- for a radio receiving permit. By an amendment to the relevant regulations published to-day a new form of license is introduced for the year 1970/71 effective 1st July. This will be used until a substantive amendment to the Broadcast Receiving (Licensing) can be considered by the House. In the meantime, it will not be necessary for those in possession of a receiving license for 1969/70 to renew that license and no prosecution will be instituted if they do not. We shall, however, continue to prosecute those found not to be in possession of any form of license or permit at all. I expect to lose a certain amount of revenue from this measure but at the same time I hope to be able to save part of the substantial cost of administering the licensing system each year which has involved a license registry and expensive investigation operations.

Thirdly, there are a number of changes I propose to introduce into the customs tariff. These may be divided broadly into four groups. The first group covers measures to align tariffs on food items to a general rate of 50 per cent. This will cause some increase in the tariff - generally from 30 or 37½ per cent - for the following items: salted fish; dried grams; roots and tubers; processed coffee; maté; cereal and other flours; malt; sugar beet and cane; molasses (but not manufactured sugar); lard; fruit juices; roasted chicory and coffee (including extracts); dies for colouring foodstuffs. These items are generally available in East Africa and, with the possible exceptions of malt and dried grams, are not normally imported in any significant quantity

The second group covers measures to assist local agriculture and industry and overlaps to some extent with the first. Higher protective duties will be applied on the following items: rice (the present suspended duty will be abolished); oil seeds (except linseed); vegetable oils; jams and jellies; sanitary and lavatory appliances; yarns and man-made fibres (of counts less than 40s); the cheaper range of fabrics, fishing nets, stockings, garments and bed-linen; small [illegible] stranded wire cables; insulated electric wire and cables; electric filament lamps; hessian and sacking; sacks and gunny bags; chairs. Suspended duties will be imposed on starches; linseed; linseed oil, and fertilizers.

The third group covers a few proposals to increase revenue from what are mainly luxury items. This group includes waters (including spa waters and aerated waters); beers and stouts; beads, saddlery and harness, travel goods, leather goods, articles made from gut; hats; jewellery; perfumes and cosmetics; fur and leather garments; and silk fabrics.

Finally, there are a few proposals made to clarify the description of items in the customs tariff and to overcome anomalies that have come to light in the last year during its use. These proposals cover lubricating preparations, chains and matches. The latter proposal will have the effect of reducing the tax on book matches.

All these changes will come into effect at mid-night to-night and the additional revenue they involve in total is expected to be about K£340,000.

I will now turn to excise duties. These have become a significant source of revenue but much as I may have been tempted to add a little more to the excise on beer, whisky and cigarettes, I have decided not to touch these on this occasion. Indeed, I propose to give away a small amount of revenue - to show that Ministers of Finance are generous at heart - by making a special provision for a lower rate of excise for matches when they are packed in packings of less than 25 matches. As with the change in the customs tariff, this provides a special concession for book matches.

I have a more substantial series of measures relating to Income Tax. These measures are somewhat complicated and I shall, therefore, explain them at some length.

1. CORPORATION TAX.

Last year some changes were introduced to advance the due date of Corporation Tax to make it payable twelve months after the accounting period and to provide for the individual taxpayers to pay their full tax liability within the twelve months in the succeeding year of income. These changes went only half-way since twelve months is still a long period and the Government is still being forced to resort to borrowing while the taxpayers are keeping the Government's revenue.

I have, in consultation with my colleagues in Uganda and Tanzania, now decided to make new changes on due dates to correct these unsatisfactory features where the Government is forced to wait for twelve months before it is able to get its revenue.

With effect from 1st December, 1970, Corporation Tax will be payable in this manner:-

(i) 75% of the tax will be payable within one calendar month after the date of the accounting period.

(ii) The balance will be payable three months later - i.e. four months after the date of the accounting period.

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Companies, Trusts and Clubs will be required to estimate the 75% of their tax liability from unaudited accounts and to notify these figures to the Income Tax Department. The balance which will be payable four months from the accounting date should be obtained from audited accounts.

(iii) Corporation Tax due between 1st December, 1970 and 30th November, 1971.

To avoid hardship, I have decided to spread forward the Corporation Tax due between these two dates under the present system so that it is paid in four equal instalments. The first instalment of 25% will be payable on the due date on which the whole amount would have been due. The other three instalments will be payable at intervals of twelve months - the due date falling on the date of the accounting period. To be more specific, I will give an example of the Corporation Tax already due on 31st December, 1970. The four instalments will be payable as follows -

First instalment on	31.12.70	-	25%
Second instalment on	31.12.71	-	25%
Third instalment on	31.12.72	-	25%
Fourth instalment on	31.12.73	-	25%

The above example will be the pattern of the payments of the tax spread forward.

2. EXTENSION OF P.A.Y.E. TO COVER THE WHOLE RANGE OF TAX ON INCOME FROM EMPLOYMENT.

P.A.Y.E. has been in existence since 1st July, 1966. As you are aware, tax collected under P.A.Y.E. has been limited to Shs.2/50 in the £. The time has now come for me, in consultation with my colleagues in the other Partner States, to extend P.A.Y.E. to cover the whole range of tax on income from employment. The effective date of this new change is 1st January, 1971. The rates of tax and personal allowances remain unchanged. However, it has become necessary, in order to facilitate the smooth operation of the new system, for Life Insurance Relief to be given in the form of personal allowance. Insurance allowance will still be applicable to those whose chargeable income exceeds £1,000. The allowance will be restricted to -

(i) 10% of the total income of the individual concerned; and
(ii) 10% of the capital sums assured; and the whole allowance will be one-third of the premiums paid with a maximum

(a) 1970 Surtax from Employees (excluding Government Servants and those under Employer's Deduction Scheme (E.D.S.)).

As in the case of companies, etc., the 1970 tax will be spread forward and will be paid in eight equal instalments as follows:

First	instalment on 31.8.71	- one-eighth
Second	instalment on 31.5.72	- one-eighth
Third	instalment on 31.8.72	- one-eighth
Fourth	instalment on 31.5.73	- one-eighth
Fifth	instalment on 31.8.73	- one-eighth
Sixth	instalment on 31.5.74	- one-eighth
Seventh	instalment on 31.8.74	- one-eighth
Eighth	instalment on 31.5.75	- one-eighth

(b) One-half 1969 and 1970 Surtax of Government Servants and Employer's Deduction Scheme Cases.

This tax will also be spread forward and will be collected monthly in forty-eight instalments starting from 31st March, 1971. Employers will receive the necessary instructions from the Commissioner-General of Income Tax about the change-over on the 1969 surtax currently under deductions.

3. INTRODUCTION OF QUARTERLY PAYMENTS OF TAX BY SELF-EMPLOYED AND OTHER INDIVIDUALS WHO HAVE INCOME OTHER THAN FROM EMPLOYMENT.

As a result of extending P.A.Y.E. to cover the whole range of tax on income from employment, individuals receiving income from employment will be required to pay their tax liability as they earn it. I cannot, however, leave the matter there without laying myself open to some accusation that I have treated employees differently from other individual taxpayers. My colleagues and I have, therefore, decided that all individuals who receive income from sources other than from employment will be required to pay their tax quarterly on current year on account of the year of income. The quarterly payments will be due on 31st March, 30th June, 30th September, and 31st December of each year for those who have no business income. For those with business income the quarterly payments will be due as follows:

First payment	- Three months after the beginning of each account year.
Second payment	- Six months after the beginning of each account year.
Third payment	- Nine months after the beginning of each account year.
Fourth payment	- Twelve months after the beginning of each account year.

The final liabilities will be determined by the Commissioner-General of Income Tax after receiving the yearly Accounts and/or Income Tax Returns.

The effective date of this new system will be 1st January, 1971, and will affect the year of income 1971. Those affected will be required to estimate their yearly income and inform the Income Tax Department of these estimated figures at the beginning of each year.

1970 Tax:

As in the case of companies and employees the 1970 tax will be spread forward and will be paid in eight equal instalments on the dates indicated for employees (other than civil servants).

4. CHARGE ON QUARTERS ON ALL INDIVIDUAL EMPLOYEES WHO ARE PROVIDED WITH HOUSING BY THEIR EMPLOYERS.

When P.A.Y.E. was introduced in 1966, those who were not liable to surtax were exempt from the charge on the value of the quarters provided by their employers. This exemption introduced some inequity in that those who received house allowance in lieu of housing were taxed on the whole amount of the house allowance. I have, therefore, decided to restore the position which was in existence before the introduction of P.A.Y.E. where all the employees housed by their employers were liable to tax on the value of the quarters provided to them. With effect from 1st January, 1971, and affecting the year of income 1971, the value of quarters will be chargeable to tax on all individuals who are provided with official quarters by their employers. The rate of charge will be:

(i) in the case of an ordinary employee 15% of the income from employment with a maximum of £528 (or Shs.10,560); and

(ii) in the case of a director of a company, other than a whole-time service director, 15% of his World Income with a maximum of £750 (or Shs.15,000).

5. CESSATION OF CARRY BACK OF LOSSES.

It has been the practice for taxpayers to carry losses back one year if they applied to the Commissioner-General before the end of the year following the year of income. With effect from 1st January, 1971, no losses will be allowed to be carried back. The new change will affect the deficit for the year of income 1970 and subsequent years.

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To sum up, the main features of the Budget on Income Tax are -

1. Advance of the due dates for the payment of Income Tax and Corporation Tax.

2. Extension of P.A.Y.E. to cover the whole range of tax on Income from employment.

3. Introduction of quarterly payments of tax by self-employed and other individuals who have income other than from employment.

4. Charge on Quarters on all individual employees who are provided with housing by their employers.

5. Cessation of carry back of losses.

I would like to emphasise that the new Income Tax arrangements I have made involve no changes in the rates of tax nor in the level of allowances. No one will pay any additional tax in respect of any one year of income (except in the case of a company wishing to carry losses back). What I am doing is to ask everyone to pay up their tax earlier and to pay off their tax debts over the next four years. This means that every surtax and corporation tax payer will have to find more money for taxation purposes over the next four years, but after that period there will be no significant amount of tax debts outstanding and it will I hope be possible effectively to abolish the present cumbersome system of tax clearance certificates since everyone should be up to date with his tax.

The new arrangements will provide the Exchequer with additional revenue in the coming year to the extent of about K£840,000 as a result of some of the windfall payments for back tax falling due. In the subsequent three financial years these windfall payments will be very much more substantial - perhaps K£5½ million.

Taken together, my taxation proposals should afford an additional K£1.3 million in the coming financial year. After allowing for the higher revenue derived from the growth of the economy and for the higher loan redemption receipts falling due during the year, I expect that revenue will be about K£14 million higher than in the current year, and total receipts in the recurrent exchequer, allowing for various other items, about K£11½ million higher. On the basis of the recurrent estimates already in the hands of Members, this should provide me with a recurrent surplus of about the same size as this year. And provided there are no

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