1965/66

Establishment of Kenya Export Development Corporation

Mr. Oduya: Mr. Speaker, Sir, the second Motion is:—

THAT noting so far foreign agencies continue to monopolize the business of exporting goods from this country, this House urges the Government to eradicate the imbalance by establishing one Kenya Export Development Corporation Ltd., to be directed and manned by African workers and farmers as a step towards ensuring all profits deriving are continually circulating in this country.

Banning of East African Newspapers Ltd.

Mr. Khalif: Mr. Speaker, Sir, I beg to give notice of the following Motion:—

THAT in view of the biased manner in which the East African Newspapers National Series Limited, namely *Daily Nation* and *Taifa Leo* allows its newspapers to conduct its affairs, this House calls upon the Government to cancel the registration of these papers, thus banning their continued circulation, and further this House urges the Government to take over all the property belonging to the said company.

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 is already in possession of the Estimates of Expenditure for 1965/66 both Development and Recurrent and of the Economic Survey. I now present the estimates of revenue for the year ending the 30th June 1966, together with the Financial Statement.

The unscrambling of the Regional Constitution has caused an even greater rush than usual in getting the estimates ready and printed on time, and I am grateful to all those in the Ministries concerned, in the Treasury and in the Government Press, who have had to work at high pressure to produce these documents. Three-hundred years ago, a king selecting officers for his Treasury said that he wanted persons "who were rough and ill-natured men not to be moved with civilities or importunities in the payment of money". I hope that the House will agree with me that Treasury officers must not be deflected from discharging their duties to the Government, to this House and to the taxpayers of the country by either civilities or importunities, even if this gains them a reputation for being a little rough and ill-natured.

Each of my Budget Speeches has been shorter than the last, but I fear that this speech will inevitably be rather longer than last year as I will have to explain in some detail major proposed changes in our system of income tax.

I will begin by dealing as briefly as possible with the out-turn for the present year and the major points in the Economic Survey.

Recurrent revenue from taxation will be very close to the original estimate after taking into account the receipt by the Central Government of revenue which under the former Constitution would have gone to Regional Authorities. Very little will be realized from the export duty on sisal owing to the fall in price and income tax is expected to bring in slightly less than the estimate of £13 million. This loss of revenue will be compensated for by additional receipts from import and excise duties. Recurrent expenditure will, according to the revised estimates, be £47.3 million. However, taking into account the surrender by Regions of cash balances amounting to some £325,000 and a windfall item of £773,000 received on the winding up of the African Teachers' Pension Fund and taking into account also balances with Accounting Officers at the beginning of the year and the British Government grant of £1.25 million, I estimate that issues will be fully covered by receipts and that the balance in the recurrent exchequer at the 30th of June will be £2.7 million or over £100,000 up on the figure at the beginning of the year.

Receipts on Development account will total a little over £16 million. Of this sum, £9.6 million will be received from the British Government including some £6 million for settlement. We have also received the whole of the grant from the Chinese Government of a little over £1 million and slightly less than £1 million from the West German Government. We will also have received some £350,000 from the World Bank or I.D.A. and I am hopeful that we will get increasing sums from this source in the future. I am also glad to say that we will have raised from local sources during the year over £3 million which is a considerable achievement. These figures illustrate the extent to which our development programme continues to depend on assistance from the British Government which I gratefully acknowledge.

[The Minister for Finance]

Development expenditure is expected to be about £1 million less than Development receipts, mainly because at the beginning of the year we were in arrears with claims for settlement expenditure, and I expect that the deficit in the Development Exchequer at the 30th June will fall by about £1 million to a little less than £5 million. I also propose to reduce this deficit further by a transfer to the Development Exchequer of any balance which may be left at the end of the year in the recurrent Exchequer Account in excess of £1 million.

To sum up, the Government's financial position at the end of this financial year will be better than it was at the beginning of the year. This is satisfactory but what is less satisfactory is that one of the main reasons for this is savings resulting from the large number of unfilled vacancies in the senior and middle ranks of the service.

The Economic Survey has been laid on the Table of this House and has, I hope, been studied by all hon. Members. 1964 was a good year and the National Income or Gross Domestic Product rose by 7.2 per cent or more than the target figure in the Development Plan. It is also encouraging that a large part of the increase was in the small farm sector and that over 200,000 coffee growers benefited from the rise in the price of coffee. Employment recovered substantially on the low figure of the previous year, and the average amount paid in wages to African employees rose by 14 per cent. Consumer prices rose by only about 1 per cent so that the benefit of the rise in the National Income was widely spread and there was a real improvement in standards of living. It is, however, significant that there would have been no increase in agricultural incomes in 1964 if prices had not improved.

The expansion in our manufacturing industry was considerable, although a large part of the increase was the result of the Mombasa oil refinery coming into full production. Kenya's exports to the outside world were a record and the adverse balance of imports over exports was the lowest recorded by available statistics. Trade with our common market neighbours continued to expand at a faster rate than trade with any other group of countries. This underlines the benefits which stem from the common market.

There was an up-turn in private investment and the Survey suggests that this rate of improvement will increase in 1965. There was a marked recovery of confidence in Kenya which is being reflected in numerous investment inquiries, a number of which are likely to be realized with participation by the Development Finance Company of Kenya. The redemption yield on our London stocks has fallen during the year and is more favourable than that of almost any other African country.

The prospects for 1965 are not so good. The full effect of the drop in sisal prices will be felt and partly owing to patchy rains, dairy production is likely to be down and in some areas the yield from cereal and other crops will be adversely affected. In fact it is feared that agricultural income in 1965 will show no improvement over 1964. Other sectors of the economy are expected to have a reasonably good year and an overall increase in the Gross Domestic Product of 4 per cent is forecast. The prospects for 1966 are more encouraging. By then a number of large schemes in the agricultural and other spheres will have got underway, and I hope that we will in that year achieve or surpass our Development Plan target rate of growth. Before I leave the Economic Survey, I would like to make two more points. First that although the published figures are as accurate as we can make them, they may well underestimate the rate of growth of income of small farmers as it is difficult to measure accurately the value of produce sold within districts and outside the control of the main marketing organizations. Secondly, as the Survey itself suggests, the numbers employed on small farms but not enumerated in the Employment Census may be as many as 50,000, and I, myself, am inclined to believe that the figure may be even higher. I do not wish the House to believe from this that I am in any way complacent about our rate of growth or the seriousness of our unemployment problem. I merely wish to suggest that published figures for the National Income and for employment may underestimate the true rate of growth achieved in 1964.

I now come to the expenditure estimates for 1965/66 which have already been laid on the Table of the House and which indicate that proposed expenditure amounts to some £67 million. In addition to this, we will have to arrange refinancing of a local loan maturing in December and of other liabilities totalling a further £5 million so that the total amount of money that we will have to find next year is some £72 million. I am giving the combined figures for recurrent and development expenditure so that I can answer in advance any critics who may say that we should have a deficit budget and should

[The Minister for Finance]

not impose additional burdens on the taxpayers of the country. The figures demonstrate that we will in fact be having a deficit budget. Out of the expenditure to which I have referred only about two-thirds will be financed from taxation leaving one-third to be found by internal or external borrowings or by external grant money. I have also begun by giving the combined figure because it does represent our total proposed budgetry expenditure and if we followed the practice in many other countries, we would print our estimates in one book instead of two, and would, for example, show in the Vote for the Ministry of Education both the recurrent expenditure on Education and the proposed capital expenditure on school buildings. There might be advantages in our adopting this procedure in future, but I am inclined to think that for the sake of clarity it is still preferable to have our Development Estimates printed separately so that they can be readily related to our Development Plan.

A further reason for giving the combined figure is to emphasize that the Government is now having to find and spend on an average next year about £6 million a month or £200.000 a day. This illustrates the need for a careful watch on the flow of revenue and receipts from other sources and of the progress of expenditure and the need to keep the rate of expenditure adjusted in a way which will enable us to cover any temporary lags in the receipt of revenue or loans by the use of our short-term borrowing facilities.

A reaction to these very large figures may be that surely in relation to expenditure of this size the Treasury should not quibble about the additional £5.000 or £10,000 which might be required over and above the expenditure in the Estimates to meet the particular needs of a particular project in a District, which an hon. Member represents, or even to meet the cost of some important item of expenditure which one of my colleagues pressed for during the estimates season but which had to be rejected on financial grounds.

There are several answers to this. Our monetary cash income per head of the population is only £23 a year, out of which we take on an average about £5 per head in taxation. We thus have only about £5 per head to spend on all Government recurrent services in the year. We must ensure that the taxpayers' money is spent on the sort of thing that we can justify to him so that he can feel that what he pays is being used more usefully than if it had remained in his own pocket, or at least that this money is not being wasted or spent extravagantly. Another important point is that we should be covering a larger proportion than two-thirds of our total budgetary expenditure from taxation and we will have to do this in the future when we will have to meet not only recurrent expenditure but also an increasing share of the local costs of development projects.

In relation to our National Income both our expenditure and the level of taxation are already on the high side, and we must aim in the future at restricting the growth of recurrent expenditure to a rate related to the growth in the National Income.

I now turn to the 1965/66 Development Estimates and I will have to be a little careful what I say as I am no longer responsible for development planning, and I do not want to steal the thunder of my hon. colleague the Minister for Economic Planning and Development. In another African country when a similar decision to split Development from Finance was made, I am told that the two Ministers concerned did not speak to each other for six months. My hon. friend and I have our differences of opinion from time to time but I can assure the House that we are normally on speaking terms most days of the week. This is helped by our two Ministries being lodged in the same building and working in close co-operation. The primary responsibility for raising the money for development and fixing the annual ceiling of expenditure is mine, and I hope that the Minister for Economic Planning and Development will accept that I have done him well in these estimates. Estimated expenditure on the basic Development Plan will be over £12 million or 50 per cent higher than in the present financial year. Of the total amount of money required to finance expenditure, namely a little over £18 million, we have a very good chance of finding £13 million from overseas sources leaving about £5 million to be found either from local sources or from new approaches to overseas Governments or agencies in which we can now include the African Development Bank. If the out-turn this year is as favourable as I hope, at least £1.7 million of this amount will be available without fresh borrowing to repay Contractor Finance on 1st September. We will then be faced with finding a little over £3 million plus arranging the refinancing of a local loan also of over £3 million together with the refinancing of part of the funds originally used for the Mombasa Water Supply. We have already negotiated with the banks who

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hold some £1.3 million of loans to the Mombasa Pipeline Board and this money will be re-lent for a further period. I have been preparing for some time for this very difficult year and I have deliberately been keeping in reserve part of our short-term borrowing facilities so that I can now be confident that we will be able to cope with the problem.

The memorandum note on the Estimates is comprehensive and hon. Members will have noticed that we will be making a major effort in the field of communications and secondary education. In the field of Agriculture, in addition to the projects mentioned in the note, we will be attracting private investment into the further development of pineapples, vegetables and passion fruit on a large scale. The 1,000,000-acre settlement scheme will be almost completed and the Government will have to consider in the light of the Stamp Mission Report what the next stage should be, bearing in mind the importance of not concentrating too much money in one area of the country and also the importance of maintaining economic farming units.

Our large road programme supplemented by a considerable building programme and the progress of the Seven Forks scheme and the improvements to the Nairobi City Council Water Supply will lead to a substantial increase in the amount of employment given by public sector projects.

Our main sources of aid are set out in the Table of Estimated Receipts of Development Funds in the published Development Estimates, and it will be noted that our main source will again be the British Government which will be providing £3 million for the basic development programme as a twenty-five-year loan with a complete waiver of interest and capital repayments for the first five years. In addition, we have negotiated another loan of £1 million for the Land Bank and Agricultural Finance Corporation and will also be getting continued support for the completion of the 1,000,000-acre settlement scheme. Most of the projects to be financed by the £3 million loan have already been agreed and include £800,000 for the Mombasa Road. We will also be getting £500,000 for Land Consolidation and £435,000 for Forestry. There is no other source from which we could obtain overseas assistance towards these two projects which involve almost entirely local expenditure. One of the arguments that helps me in my negotiations with the British Government on the local cost problem is that we have standardized on the purchase of British vehicles for Government purposes. Assistance from the International Development Association will include trunk roads, tea development, tea roads and I hope assistance with secondary school and teacher training college buildings although this project has not yet been fully negotiated. We will also be obtaining substantial help from the West German Government and the American A.I.D. organization for projects both inside and outside the actual Development Estimates. One scheme represents a model from our point of view for aid agreements. This is the secondary school Science Teachers' College for which the Swedish Government will be providing over £1 million. The Swedish Government will be meeting all the local costs and will also be assisting substantially with recurrent expenditure. We also expect that the Russian hospital project at Kisumu will go ahead.

Other important sources of development aid include the United Nations Special Fund and the Commonwealth Development Corporation. We will also be receiving valuable assistance from the Ford Foundation, the Rockefeller Foundation, the Wellcome Foundation, the Freedom From Hunger Fund and OXFAM. We will also be receiving loan funds from commercial banks the largest being a loan from Barclays Development Corporation for the construction of a Government office building in Nairobi.

Before I leave the subject of overseas aid, I would like to make it clear that we are in this matter completely non-aligned, and are only too eager to receive aid in acceptable form from any country or overseas institution. What, however, we cannot do is accept, for example, machinery and plant for a factory on credit from an industrial country, unless we can also see our way to obtaining from that country the other money which we need to construct the factory building and the necessary housing and other local services, and also unless we can obtain money to produce the product which the factory will process. We also have to be satisfied that the price we are being charged is fair and reasonable and that the whole project is economic and will not involve losses which will have to be met by the Kenya taxpayer. An illustration of a project worked out in the correct way is the Chemilil Sugar Project for which we have negotiated from West Germany not only finance for the factory machinery but also for the local cost of construction and a sum of nearly £1 million for the actual growing and development of sugar cane which will be supplied to the factory when it is installed.

[The Minister for Finance]

I have only one thing more to say before I leave Development, which is that I have been encouraged by reading some of the reports of the Provincial Commissioners on their Provinces in 1964 and by my own tours to believe that a new spirit is abroad in many parts of the country. Self-help schemes are becoming a significant element in our progress, supplementing the Government's efforts in the Development Plan. For example, it is reported that in one Province in 1964, 350 miles of road, 30 bridges, 1,670 houses and 250 nursery centres were constructed. There are also signs in many parts of the country of a greater effort to make better use of the land in accordance with the technical advice of officers of the Ministry of Agriculture.

It is unfortunate that the rains have not been kind to all those who have cultivated their land more intensively, but I hope they will not be discouraged by any temporary setback due to unfavourable weather. There is evidence in many areas of better co-operation between the public and civil servants often assisted by hon. Members of this House. It is now beginning to be recognized that the benefits of Independence are there to be won through effort and enterprise. I must, however, sound one note of warning with regard to self-help schemes which is that care must be taken to see that the staff and recurrent costs of operating a self-help project are available and that the project itself fits into the overall plan as otherwise the effort put in will be wasted.

I now turn to the recurrent estimates for 1965/66. The increase in expenditure of nearly £4 million is high, and I would like to take hon. Members into my confidence and let them know that I had hoped with the agreement of my colleagues in the Government to contain the estimates within a ceiling of a little over £47 million instead of the actual figure of £48.58 million. It was only very recently that I was convinced that without cutting essential expenditure, it would not be possible to get down to this lower figure. One of the main reasons was that when I first began working on the estimates, I had hoped that it would be possible to restrict assistance to local authorities to the amount provided in Regional Estimates for 1964/65 with only a small addition. But during the period of Regionalism the Central Government lost direct contact with Local Authorities and, therefore, with primary education and a substantial part of secondary education, and when the picture became clear, it was necessary to accept that Local Authorities would need fairly massive support. It has been difficult to assess accurately the real needs of Local Authorities for help and it will be necessary to work out a new basis of Government grants which will encourage local effort and at the same time ensure that those Local Authorities which are making a real endeavour to balance their budgets will get the assistance which they require. All my colleagues have however played their part in getting the estimates down to the present figure in relation to forecasts which added up to well over £50 million and in almost every field we are not doing as much as we would wish. We have also provided in the estimates only one-third of the theoretical provision needed for vacant posts and if more than one-third of the posts now vacant are filled, we will have difficulty in containing expenditure within the estimates. This we must do and I will not be able to accept bids for supplementary estimates except in relation to the recent announced decision on medical fees and in connexion with another matter to which I will refer later in my speech.

The major increases relate to commitments for Public Debt and Pensions which are unavoidable, to the build up of the Armed Forces, mainly related to the Air Force and the Navy, and to additional provision for Education both in the Education Vote and in the Vote for the Ministry of Local Government from which grants to Local Authorities for Primary Education will be made. There is also a significant increase on the Police Vote and the Vote for the National Youth Service. In considering how this expenditure is to be financed, it is necessary to accept that we will not only have to find additional taxation revenue to cover increases but also to replace the British Government grant of £1.25 million which we received this year.

Neither the expenditure estimates nor my revenue proposals take into account the recent decision to transfer to the taxpayer or the ratepayer the full cost of providing hospital services to children and out-patient facilities both to children and adults. This decision was taken after the estimates had been printed and the direct additional Government expenditure will be about £86,000. I hope that the House will forgive me for the manner in which I have referred to this decision, which I welcome, but I do not think that it can be emphasized too often that every service provided either by the Government or by Local Authorities has to be paid for either by the users of the service or by taxpayers or by ratepayers or by a suitable combination of two or

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[The Minister for Finance]

three of these means. I have also not taken into account the cost of certain other increases which will be consequential on an announcement that I will have to make later in my speech. However, I cannot pretend that my forecast of revenue will be accurate to within £100,000 and I will keep the situation under review during the course of the year. If necessary, further taxation measures may have to be introduced but I will do my best to avoid this.

My estimate of probable receipts from taxation at existing rates plus the £2.6 million which we will receive from the British Government for compensation and commuted pension payments is £45 million leaving £3.58 million to be found from additional taxation receipts. The figure of £45 million includes additional receipts expected from interest and redemption on loans made by the Government for Settlement and to the various statutory bodies such as the Land Bank, the Agricultural Finance Corporation and the Local Government Loans Authority and the Central Housing Board.

I now turn to my revenue proposals, and I would at this stage ask, Mr. Speaker, that in accordance with our usual practice, this Speech be taken as Notice of Motion to be placed before the Committee of Ways and Means dealing with the measures I am now proposing.

I will deal first with proposals affecting customs and excise. A number of them are formal or procedural such as those providing that "fruit" means "nuts" and that Northern Rhodesia is now Malawi. A number of the proposals agreed with the Governments of Tanzania and Uganda give additional protection to local industries. Included in the list of products which will receive additional protection are wood-screws, nails, bolts, nuts, aluminium hollow-ware, aluminium sheets, circles and coils, steel strips, bars, rods and angles, asbestos cement pipes, certain types of leather, boxes including tea chests, plywood, cardboard and exercise books. Full details of all the changes are given in the Financial Statement.

I now come to the proposals designed to bring in increased revenue and as has already been announced the general rate of 25 per cent was increased to 30 per cent with effect from the 1st April with corresponding adjustments in the other *ad valorem* and specific rates of duty on the majority of items in the Tariff. I do not think that I need to take up time in going through in detail these changes which have already been published and which are also fully covered in the Financial Statement. Additional revenue of about £820,000 is expected to be received. The increase of 10 per cent on the duty on tobacco and cigarettes has also been announced and brought in from 1st April and is expected to produce additional revenue of about £220,000.

The effect of the increase in the duty on tobacco and cigarettes is interesting, and illustrates the very sharp and immediate effect on consumption, of changes in taxation on goods which cannot be classed as essential, although some of us would not perhaps put tobacco and cigarettes in the class of luxuries. The fall in consumption in the first month after the imposition of the new duty was 8 per cent, so the increase in revenue to the Government in that month was only marginal. There are, however, already signs that consumption is beginning to come up again, and I expect that my estimate of additional revenue will be achieved. Part of this additional revenue would, however, have been achieved even if the rate of tax had been left unchanged.

I now turn to beer. We must face the fact that we will lose a substantial proportion of our beer exports to the other East African countries in the next few years. In 1964, 24 per cent of the beer produced in Kenya was sold to Tanzania or Uganda. These exports will be replaced by increasing demand in Kenya provided that the excise duty is not too sharply increased. We must also bear in mind that beer on which excise is charged has to compete with locally produced liquor such as the *Matingasi* produced in Mombasa on which no taxation is levied. I have carefully considered this problem and have come to the conclusion that a small increase in duty equivalent to about 5 cents per bottle is unlikely to influence demand to a significant degree, and this increase with a suitable and slightly higher increase on imported beer will come into force from midnight tonight. It will bring in additional revenue of about £125,000 next year.

I have also considered whether or not the duty on spirits and wines should be increased, but do not believe that I would get any more revenue if a further increase was imposed. The whole problem of the taxation on alcoholic drinks is a complicated one and the Uganda Government faced with their special problem of very large production of illegal liquor has decided to produce a legal spirit at a very low price. There are three reasons why I do not think that at this stage we should follow their example. The first is that our breweries are contributing to the Government revenue through excise duty or income tax over £2.5 million a year. The use of illicit spirit is not nearly as widespread in Kenya as it is in Uganda, and I am very afraid that the introduction of a cheap legal local spirit would

[The Minister for Finance]

seriously affect sales of beer, and would have a serious effect on an industry which provides a lot of employment.

My second reason is that from the point of view of fairness both to manufacturers and to taxpayers, it is, I think, reasonable that the amount of tax levied on alcoholic drinks should in general be related to their alcoholic content, or, to put it more bluntly, that a man should be able to get a similar alcoholic stimulus at a similar price whether he drinks beer, wine, or whisky.

My third reason is that I am doubtful whether it is wise on social grounds to place on the open market a spiritous liquor on which a man can get drunk for two or three shillings. We will keep this problem carefully under review but it is most important that we should not look at it in isolation, but should have regard to the social and employment effects and to the need to maintain our revenues from all forms of alcoholic drinks.

I have considered the possibility of increasing the price of petrol and diesel. I am, however, anxious to avoid, if possible, a further increase in the price of diesel in view of the effect it would have on farmers' costs of production and also the effect that it might have on bus fares and the cost of transport throughout the country. With regard to petrol, the oil companies a few months ago made a substantial increase in price. The reasons for this have been examined and the figures do demonstrate that even after this increase, petrol is now being sold in Kenya, ignoring the duty element, at a lower price than it was in 1959, and that without the recent increase, the oil companies would not have been obtaining a reasonable return on the capital employed. One reason for this may be that competition between the oil companies has led to the uneconomic development of unnecessary petrol stations, and we can all think of examples where from the point of view of the motorist, there are an unnecessarily large number of petrol stations at particular points. I hope that the oil companies will consider this problem and avoid further uneconomic expenditure which can only ultimately be paid for by the Kenya user of petroleum products. I do not propose therefore to increase the duty on petrol this year.

I have also considered the question of the duty on motor vehicles. Our present rate of duty on new vehicles is very much lower than that in Tanzania, taking into account the special taxation measures introduced last year. Our present rate of duty is 20 per cent on load-carrying vehicles, 25 per cent on motor bicycles and the small passenger cars and 30 per cent on the larger cars with an engine capacity of more than 2,000 c.c. Now that we have amended the general tariff rate to 30 per cent, I have decided that we should apply a similar rate to motor bicycles and the smaller passenger cars, and I think it reasonable that those who wish to buy large cars should pay a little more. The rate of duty on large cars will, therefore, go up to 35 per cent from midnight tonight. The rate of duty on load-carrying vehicles will also go up 5 per cent to 25 per cent. I anticipate that additional revenue of £135,000 will be obtained from this measure, and I estimate that the total increase in revenue obtained from changes in customs and excise will amount to £1.3 million.

There is one further measure that will affect motorists other than those who buy new cars. The annual licence fee charged in Kenya is very much lower than that charged in either Uganda or Tanzania, and for example, for certain cars where in Kenya the annual charge is Sh. 160, in Uganda and Tanzania it is between Sh. 170 and Sh. 300. For larger vehicles the increase is even more marked. The difference for vehicles of from 5,001 lb. in weight to 5,040 lb. being Sh. 380 in Kenya and Sh. 700 in Uganda and Tanzania.

I propose to increase our rates with effect from the 1st January 1966, but I do not expect that the ordinary motorist will find himself paying more than another Sh. 3 or Sh. 4 per month in additional licence fees. The additional revenue which I hope to collect in the last six months of the 1965/66 financial year is at least £100,000. The details of these changes are not included in the Finance Bill but will be included in legislation published later this year. I thought that it would be unfair to make this change with effect from tonight or even from the 1st July as this would mean that those who had taken out a year's licence would get an unfair advantage over those who take out quarterly licences during the year.

I now turn to proposals relating to income tax and will deal with these proposals in two parts. The first, those which will affect the 1964 year of income and will bring in additional revenue in our 1965/66 financial year, and, secondly, those which will affect the 1965 year of income and which will, therefore, not have any financial implications for the present Budget. It has already been announced that it is the Government's intention to reduce the married allowance in relation to the 1964 year of income from £700 to £600, the single allowance from £225 to £216, and the allowance for single people with dependant

[The Minister for Finance]

children from £450 to £432. I do not propose to change the old age allowance or the children's allowances in relation to the 1964 year of income.

In making these proposals, I have had the advantage of seeing the very comprehensive report on income tax prepared for the Uganda Government by a United Nations expert, and some of the considerations put forward in this report have influenced me in making these changes. There is at present a gap in our personal tax structure as the top rate of personal tax is reached at an income of £600, and taking into account the former married allowance of £700 plus the children's allowance, there were many people who by Kenya standards in relation to average incomes, are well off who do not pay any additional tax when their incomes rise from £600 per annum to well over £1,000 a year. It is also necessary for more money to be raised in order to meet the increases in expenditure which I have already described. The incidence of additional tax arising from these changes will be progressive, and in relation to individual taxpayers who are married, will mean that they will pay tax on an additional £100 of income and that, therefore, this additional tax will be at the top rate at which they are liable. The man whose top rate is Sh. 2 in the £ will pay an additional £10 tax and the man whose top rate is Sh. 15 in the £ will pay an additional £75.

I have only one further change to propose in relation to the 1964 year of income which is an increase of 50 cents in Corporation Tax. This small additional charge will be imposed both on public and private companies and will not be passed on to shareholders. In comparison with the majority of countries both developed and developing, our rate of company tax is not high, and I am confident that this additional 50 cents will prove a tolerable burden. I estimate that the total yield in additional revenue in 1965/66 of the changes in personal income tax and in corporation tax will be approximately £1 million.

I now turn to the future, and being very conscious that income tax is a complicated subject and that any simple summary may be misleading, I have included in the Financial Statement a detailed account of the proposed changes. These changes are not included in the Finance Bill which is being published today, but I think it is only fair to give taxpayers advance notice of my proposals which affect the tax which they will eventually have to pay on their 1965/66 incomes. The proposals have been worked out in considerable detail, but to repeat a phrase that was recently made in a debate in another place, I am very ready to "listen" to any representations which may be made.

I will deal first with personal income tax and PAYE. One of the difficulties which has prevented the earlier introduction of PAYE is administration. The Income Tax Department is already fully stretched, and any complicated system which involved the reassessment of each income taxpayer's liabilities at the end of the year would impose an intolerable burden which could not be faced. It is proposed to divide our personal taxation system into two parts, the first income tax, and the second, surtax. Income tax on all chargeable income will be payable at the rate of Sh. 2/50 in the £. PAYE will apply to income tax only, and will be brought in for all persons in employment from the 1st July 1966. It is estimated that approximately half the total number of employees subject to tax will be able to extinguish their liability entirely through PAYE. Each month's chargeable income will have income tax deducted at Sh. 2/50 in the £ which will extinguish the liability for that month. Forms will be supplied to employers whose co-operation it will be necessary to obtain, and these forms will be far less complicated than the PAYE forms which employers in many other countries have to operate. The tables will show what is the monthly free income from which no deduction need be made according to the status of the employee, that is to say whether he is single, married or has children.

It will be observed that the new rates of allowances for single, married and married with children have already this year been brought to a figure which is divisible by twelve, namely £216 for the single allowance, £432 for single people with dependent children, and £600 for the married. One further change proposed for the 1965 year of income is to retain the present allowance for single men over 65 and women over 60, but to reduce this allowance slightly from £450 to £432.

I now come to the vexed question of children's allowances. As I have said, no change will be made in relation to the 1964 year of income. The simplest answer would, of course, be to abolish children's allowances completely, and this would be in accordance with the advice which I have received from the United Nations expert, but this is one of the comparatively few points on which I do not feel that I can accept his advice. I am fortified in so doing by the fact that he himself is a bachelor! At present the allowances vary from £75 for a child under six years of age, up to £250 for a child of seventeen or over who is receiving full-time post-secondary education. A

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very considerable simplification of this system is clearly necessary and as I have explained earlier I do feel that it is fair that those who are by Kenya standards comparatively well off should begin paying some more tax when their incomes rise substantially above the top figure for Graduated Personal Tax of £600. The maximum amount of the total allowance for children which I think should be granted is £480, which will bring up the income tax-free element in the earnings of a married person with the requisite number of children to £1,080 or £90 a month. I have considered carefully how this child allowance of £480 should be divided up, and whether it should be perhaps divided by six or divided by four. No taxpayers with large families will lose if it is divided by four and families with not more than four children will gain, and although this view may be slightly out of line with that put forward by my colleagues in Uganda and Tanzania, my proposal is that there should be a flat rate allowance of £120 a child for up to four children. This, as I have explained, is the most favourable answer from the point of view of the individual taxpayer. The allowance will be given for each child up to nineteen years of age, but a child of over nineteen who is incapacitated or receiving education or serving as an apprentice will also qualify. The allowances will be given only for children of the taxpayer, including step-children and legally adopted children of whom he has the custody and whom he wholly maintains.

The rate of surtax will be nil on the first £1,000 of chargeable income which, as I have explained, will bear income tax at Sh. 2/50 in the £ and will be Sh. 3 on the next £1,000 of chargeable income going up in graduated stages to a maximum of Sh. 12 in the £ on chargeable income in excess of £10,000. This means that the maximum rate of tax including income tax paid on the highest incomes will be Sh. 14/50 in the £, although the present maximum rate of Sh. 15 in the £ will be payable by individuals drawing very high incomes directly from private companies.

I have explained that in relation to the 1964 year of income, the combination of income tax and corporation tax will add up to Sh. 8 in the £. For the 1965 year of income, I propose a Corporation Tax of Sh. 7/50 in the £. It might appear at first sight that this represents a reduction in the overall tax burden and a loss of revenue. It will in fact mean a slight increase in the tax burden and a slight increase in revenue as companies will not be in a position to deduct any tax from their dividend payments. The effect on the individual will not be as severe as might be supposed as dividends received by individuals will not be subject to income tax, which as I have said will be levied at Sh. 2/50 in the £, and they will only have additional tax to pay on their dividends if they are liable to surtax. This change will be effective from the 1st January 1966, and the present right to set off tax deducted at source will continue until the 31st December 1965. Companies will not be subject to Corporation Tax on dividends received, nor on interest from which tax will be deducted at Sh. 7/50 in the £. Tax at Sh. 2/50 in the £ will be deducted from interest payments to individuals whether resident or non-resident. Trustees will be charged income tax at Sh. 7/50 in the £, but credit for tax paid will be given on income distributed. The rate of Corporation Tax on life insurance companies and mining companies will be Sh. 7 in the £ and Sh. 4 in the £ respectively.

I now turn to the position of the controlled companies. The object of the present undistributed income tax system is to try to ensure that individuals who would otherwise have to pay tax at more than Sh. 7/50 in the £ do not escape this liability by failing to distribute a fixed proportion of the earnings of the private company in which they have an interest or which they control. The simple answer would be to reduce the maximum rate of personal income tax to Sh. 7/50 in the £, but I fear that I could not support a change of this nature on revenue grounds or on grounds of equity. The present system does, however, impose hardship on developing companies which may be required to distribute profits which might better be used for further development. Partly, therefore, in the interests of simplification, and partly to ease the position of developing companies, I propose to abolish U.I.T. Controlled companies will in future be subjected to Corporation Tax at Sh. 7/50 in the £ which they will not be able to pass on to their shareholders. At first sight this might appear to be likely to cause hardship to small private companies, particularly farming companies and it may be that some such companies may decide that it would be in their interests to form partnerships instead of maintaining their present position as a private company, but they will have another remedy. It is not my intention that individuals forming a private company should be forced into paying tax at a higher rate than their individual rates of tax if their company operated as a partnership. The remedy will, of course, be to limit the profits subject to Corporation Tax at Sh. 7/50 in the £ by paying out appropriate sums in directors' fees.

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It will also be necessary to reinforce the anti-avoidance provisions to ensure that liability to a higher rate of tax than Sh. 7/50 in the £ is not avoided. The public or private company which ploughs back its profits for needed development will have nothing to fear but those companies which deliberately accumulate profits to escape taxation on their principal shareholders or who try by complicated devices to ensure that those profits are enjoyed by shareholders in a non-taxable form will be vulnerable. The Commissioner of Income Tax will be given the power to counter this and other types of avoidance. However, to ensure that these new anti-avoidance provisions are not unreasonably applied, and that individuals can have access without excessive cost to an appellate body, an independent tribunal will be set up to which any company aggrieved by an order of the Commissioner will be able to appeal. This procedure will be simpler and less costly than an appeal to a court, but the right to appeal to the courts will be preserved.

I have dealt with the major changes that will affect the 1965 year of income and with the introduction of PAYE from the 1st of July 1966, except for one important point concerning PAYE, namely cancellation and a number of comparatively minor other points.

The question of cancellation is a controversial and difficult one, but I start from firm ground in saying that taxpayers would not support the introduction of a PAYE system if they were required to pay in the same year tax on their current income under PAYE, and also arrears of tax related to the previous eighteen months' income. Cancellation for those who remain in employment for four years after the introduction of PAYE will be allowed, but it would in my view not be proper to allow cancellation, for example, for someone starting a two-year contract on the 1st January 165. If cancellation was allowed in this case, it would mean that in relation to his two-year contract, he would get the entirely unexpected and unanticipated benefit of paying no income tax on eighteen months out of his two-year period of work. My proposal to get over this difficulty is, therefore, that there will be no cancellation of past liability for those who leave employment within eighteen months of the 1st July 1966, but that at the end of each six months period after the 1st July 1967, one-sixth of the outstanding income tax liability will be cancelled. This method will ensure that the great majority of employees do obtain a genuine benefit from the PAYE system. I should emphasize again that PAYE applies to income tax at Sh. 2/50 in the £ only, and similarly that cancellation applies only to income tax and not to surtax which will continue to be assessed as at present.

The comparatively minor changes relate to life assurance relief which as already announced will in relation to the 1965 year of income be given for East African policies only. No reason is seen in present circumstances why relief against Kenya tax should be given to those who wish to take out life insurance in sterling or other currencies. Relief will be given against the first slice of income chargeable to surtax at Sh. 3 in the £. The self-employed who have taken out annuity contracts will be permitted to continue to obtain relief but in future relief on new annuity contracts will apply to East African policies only. Another change is that averaging relief will no longer apply. Also, as already announced, the passage deduction will no longer be given as this is an anomaly in present circumstances. Passages supplied by employers to their employees will, however, continue to be allowed to the employer as at present.

I am grateful to the House for bearing with this rather long exposition of a complicated subject and I hope that I have managed to make it reasonably clear. The changes affecting 1964 are included in the Finance Bill and come into operation at once in accordance with a Provisional Collection of Taxes Order also published today. It will be necessary later in the year to introduce a new rates and allowances Bill to include the changes that are applicable to 1965 and later years. The Bill amending the Income Tax Management Act will be presented to the Central Legislative Assembly as soon as possible.

I indicated that it would be necessary to find additional revenue of £3.58 million. £1.3 million will come from changes in customs duty, £100,000 from motor vehicle licences, and £1 million from income tax which leaves £1.18 million still to be raised. Some hon. Members who have studied the Development Estimates which I laid on the Table of the House ten days ago may have discovered the answer. In this year's table of receipts, I included Currency Board profits, estate duty and half the proceeds of export taxes. They are not included in the 1965/66 Table and I intend to apply these items to the recurrent Budget. Currency Board profits will total about £630,000, a half share of export taxes about £400,000 and estate duty about £150,000. The total of these three comes to exactly £1,180,000.

There were only two other ways in which I could have balanced the Recurrent Budget, the first by cutting this amount off the expenditure

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estimates and this is the solution I would have liked to have adopted, but I was convinced after a detailed examination of the Estimates that these cuts could not be achieved without damaging effects on essential services, including in particular education and the security services.

The second way would have been by further increases in taxation, but here again I was satisfied that further increases could not be imposed without damaging effects on the economy and the rate of growth at which we are aiming. I have chosen what may be regarded as the easy and popular course, but in this case I am convinced that it is the right one even if I am accused of performing another conjuring trick.

Looking ahead to the 1966/67 Financial Year, I have already indicated that the pattern of income tax, in so far as it relates both to individuals and companies, will not only lead to simplification but will also give me some additional revenue in that year. I will do my best to see that as much as possible of the inevitable growth of expenditure in that year is covered by increases in taxation at existing rates, and that the rate of increase in recurrent expenditure is held down to a figure which corresponds fairly closely to the expected increase in national income in 1966. My decision to transfer these sources of revenue from development to recurrent will make it a little harder for me to finance development expenditure in 1965/66, but the response to issues of local loans which have already been made, encourages me to believe that this problem will not prove insoluble. We must, however, aim before 1970 to cover a significant part of our development expenditure from taxation.

There is one more important matter to which I must refer before I sit down, that is central banking and currency. With the agreement of the three East African Governments, the International Monetary Fund was invited to send a mission to East Africa to advise us how best to proceed in establishing an effective central banking system. This mission visited East Africa in February this year and had full discussions with the individual Governments on the problems involved. On the 12th of February, a joint meeting was held in Dar es Salaam between the three Finance Ministers and the I.M.F. Mission. At this meeting the Tanzania Government indicated their intention of establishing their own Central Bank and issuing their own currency. Further negotiations have taken place since that date and this indication of the Tanzania Government's views was recently confirmed as a definite decision of policy which will be announced by the Tanzania Finance Minister today. It is not for me to comment or give the reasons for the decision of the Tanzania Government, but I should make it clear that this Government has always been anxious to maintain a common East African currency with one effective central bank. This, however, will not now be possible.

I think it would be fair to say that this Government has always accepted that the maintenance of a common currency and a common central bank carries with it the implication that financial sovereignty may be shared, and currency and credit policy co-ordinated, and that this view was confirmed by the advice given by the experts of the International Monetary Fund, and that the Tanzania and possibly the Uganda Governments feel it essential in their national interests to go further towards the management of their own currency affairs than would be technically possible under an East African Central Banking system.

The creation of Central Banks and the preparation of national currencies will inevitably take time, and it is essential that a Central Bank should be expertly planned, organized and managed. The Government has been assured of assistance from the International Monetary Fund and from other sources, and through the good offices of the International Monetary Fund, we have secured the services of a very experienced central banker who will be arriving within the next month. During the interim period which in our case will be at least a year, the East African shilling will remain the common currency of the three countries, and we will co-operate with the Governments of Tanzania and Uganda to ensure that the present system continues to function smoothly. I am confident, that any uncertainties which may arise in people's minds will be dispelled when they understand clearly what is being done and appreciate that it is the firm intention of this Government to maintain a sound currency which will be strong and respected, and a national credit policy based on the maintenance of as high a level of economic activity within the country as is consistent with the integrity of the national money.

The decision which the Tanzania Government has taken will obviously have wide implications on the structure of the common market and the Common Services Organization. We will, however, continue to work in the greatest possible harmony and co-operation with the other East African Governments, but from the financial point of view, will have to consider whether it is proper for the Raisman Financial Arrangements under which Kenya meets about half the expenditure on the EACSO Non-self-contained Services and also contributes about half to a common pool

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which is then distributed between the three countries to continue in its present form.

The advice of all the experts I have consulted including the experts of the International Monetary Fund is that during at least the transitional period while arrangements are being made for the establishment of central banks and the issue of new currency, it will be necessary in order to protect this country's economy and to forestall a possible flight of capital to apply Exchange Control Regulations immediately.

I have made a number of statements on Exchange Control in this House and to the Press and do not wish to withdraw anything which I have said. As recently as the 11th May, I stated and I quote: "Banking and currency statistics do not suggest that there is any need at present to take the drastic step of Exchange Control." This is still true and I could have added that as is explained in the Economic Survey, our currency remains strong and our balance of payments position has improved in each of the last two years. The reason for the imposition of Exchange Control is not that we are in balance of payments difficulties or that our currency is not more than adequately backed, but is, as I have explained, to protect the economy and forestall a possible flight of capital resulting from the announcement about seperate currencies.

I also said that Exchange Control would be likely to damage investment prospects to a greater extent than it would benefit the country. Here, I will do my best to prove myself wrong by ensuring that Exchange Control is administered in a liberal and efficient manner.

Under regulations published today, Exchange Control authority will be required for transfers of money to all sterling area countries other than Tanzania or Uganda, but there will be no restrictions on the movement of money within East Africa and the scheduled territories will be re-defined as consisting of Kenya, Uganda, and Tanzania. The necessary instructions to bank on the operation of Exchange Control have been issued this afternoon, and a Bill has also been published which I hope the House will agree to pass through all its stages tomorrow giving full legal sanction to the imposition of Exchange Control.

The object of Exchange Control is, as I have said, to forestall the possible flight of capital, but in order to forestall a flight of capital, it is necessary for the Treasury to be satisfied by the normal checks applicable at present to remittances to non-sterling area countries that payments for current transactions do not represent an illegal export of capital. No interference whatsoever will be placed on the normal flow of trade with sterling area countries, but payments for imports will have to be made on the basis of documents which show the value of imports being paid for and forms will have to be filled in, in connexion with exports which will in due course provide evidence that the money received for exports has been remitted back to this country. Allowances for travel, emigration and for personal and family remittances will be permitted on a scale approximately the same as those at present applicable to non-sterling area countries, in fact the allowances will in some respects be more generous. For example, where the Government buys land under the 1,000,000-acre settlement scheme, the farmers being bought out will be permitted to receive payment in sterling and this will cause no net loss of foreign exchange to Kenya as the money for the land purchase is being provided in sterling. Those who leave the country permanently will be permitted to get their money out either immediately or over a comparatively short period of years. Interest on loans and dividends on shares in public and private companies will be allowed to be remitted to overseas residents as will pensions and rents and other payments properly due.

The details of the Exchange Control arrangements are contained in Treasury circulars to the banks and I do suggest to all those who have any queries to apply first to their banks for information as otherwise the Exchange Control section of the Treasury is likely to be overwhelmed with inquiries which could be answered, on the basis of these circulars, by the banks. As far as investment is concerned, we already give "approved status" under the Exchange Control Act to investments from non-sterling area countries, and have always indicated that in the event of Exchange Control, similar "approved status" would be given to approved sterling investments. What Exchange Control does seek to prevent is the transfer outside Kenya of savings of Kenya residents as we feel that the savings of our people should be ploughed back and invested in the country in one of the many savings media available. The administrative arrangements governing exchange control have been discussed and in general agreed with other East African Governments and the circulars setting out these arrangements have been prepared with the assistance of expert advice from the Bank of England. A Press statement giving further details about Exchange Control is also being issued. Some additional expenditure not provided for in the Estimates will have to be incurred on the

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administration of Exchange Control and on preparing for the establishment of a Central Bank.

To sum up, I have explained that we will end this financial year in a better position than when we started it, that 1964 was a good year with a substantial rise in the National Income which resulted in a real improvement in standards of living, that 1965 will, agriculturally, be a more difficult year in which agricultural income may in fact fall but that during this year there will be increased investment and increased employment which will provide the basis for a further advance in 1966. I have presented the largest expenditure Estimates in our history, and on the development side have indicated that we expect to be able to finance a 50 per cent increase in our expenditure on the basic development plan. On the recurrent side, I have managed to present a balanced Budget and have introduced only four new taxation changes other than minor measures related to increased protection for East African industries. These are 50 cents on Corporation Tax, 5 cents on beer, 5 per cent on motor-cars, and a small increase which will not come into operation until the 1st January 1966, in the licence fees of motor vehicles.

In preparing the Budget, I have had very much in mind the policies and principles set out in the Sessional Paper on African socialism. Honourable Members will if they refer to this paper be able to confirm that the Budget includes steps that will assist in implementing all eleven of the matters referred to in paragraph 83 of the paper. With regard to taxation, they will find that the tax changes which I propose are endorsed or anticipated in the Sessional Paper. In particular I have put forward my proposals for the introduction of PAYE. I have announced reductions in personal allowances and have provided next year for the full taxation of companies without credit for dividend payments. I have given advance notice of my intentions with regard to income tax next year and unless unforeseen events necessitate a change in this policy, it will be possible for companies, investors and individuals to have a clear idea of what they will have to pay in 1966/67 as well as in 1965/66. I have also announced our intention to set up a Central Bank in the very near future and this will provide the means for a greater control of our economy which is also referred to in the Sessional Paper.

I have no doubt that hon. Members will have criticisms to make of the Budget both for what has been done and what has not been done. There are some criticisms which I could anticipate, but I do not feel that I should detain the House any longer now and have kept some of my ammunition in reserve for the reply to the debate. I do, however, urge hon. Members to accept that I have gone to the limits of financial prudence in the size both of the recurrent and the development Estimates and that with regard to taxation, I have also increased the burden to the maximum prudent level bearing in mind the need to maintain and encourage development in the private as well as the public sector.

The overall effect of the revenue and other proposals discussed in my speech on the cost of living will be an actual reduction in the Cost of Living Index. The Nairobi Middle Income Index **will fall by about one point** and the Wage Earners' Index by about 1.4. This may seem very surprising and it is not often that a Finance Minister can report at the end of a Budget Speech that his proposals will lead to a reduction in the cost of living, but I am advised that the removal of fees for out-patient treatment will more than counterbalance the small increase resulting from additions to customs and excise duties.

We can look to the future in the knowledge that Kenya is on the move and that we can confidently expect that we will be able to achieve a better life and better standards of living for our people.

Mr. Speaker, Sir, I beg to move.

The Minister for Labour and Social Services (Mr. Mwendwa) seconded.

(Question proposed)

DEPARTURE OF HIS EXCELLENCY THE PRESIDENT

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

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

ADJOURNMENT

The Speaker (Mr. Slade): Hon. Members, for the convenience of the House and in accordance with tradition, the House is now adjourned until tomorrow, Friday, 11th June, at 9 a.m.

The House rose at forty minutes past Five o'clock.