COLONY AND PROTECTORATE OF KENYA

Speech delivered to the Legislative Council of Kenya on 27th April, 1960, by the Hon. K. W. S. MacKenzie, C.M.G., Minister for Finance and Development, Government of Kenya, on presenting the Budget for the Fiscal Year 1960-61 (1st July to 30th June).

Mr. Speaker, Sir, I beg to move that Mr. Speaker do now leave the Chair.

On Tuesday, 12th April, the Permanent Secretary to the Treasury laid on the Table the Estimates of Expenditure for 1960/61, that is for the year ending the 30th June, 1961. He also laid Sessional Paper No. 4 of 1959/60 being the Development Programme for the three years ending the 30th June, 1963, and the Economic Survey for 1960. I now present to the Council the Estimates of Revenue for the coming year 1960/61 together with the Financial Statement. I would like to express my appreciation to the Permanent Secretary to the Treasury and to all those officers of the Treasury responsible for the production of the Estimates and the accompanying documents. As a result of the Constitutional changes, which were announced only a few days before the Expenditure Estimates were laid, this task was even more onerous this year than is usually the case not only for the officers of the Treasury but also for the Government Printer. All concerned, however, showed their usual enthusiasm and efficiency with the result that the job was completed on time.

I would also like to acknowledge the work of the Economic Research Division and of the Kenya Unit of the East African Statistical Department both in providing information connected with the Estimates and in preparing the Economic Survey. This is a new departure in our Budgetary procedure. The Survey contains detailed information of our economic progress during the past year and sets out the considerations which are likely to affect the economy during the year ahead. It also gives in a clear and easily readable form the detailed economic information which would otherwise have to be included in this speech. I hope that this innovation, which will assist Members of the Legislative Council in preparing for the Debate on the Financial Statement, will be generally welcomed. It will also provide a wider public with an account of our progress.

It now remains for me to draw attention to some of the more important high-lights affecting the economic sphere. Last year, at the end of his Budget Speech, my predecessor said that we must forge ahead with our plans for development and expansion, accepting, if necessary, a certain amount of calculated sacrifice, so that a Minister for Finance in Kenya could say to this Council, "We can—we have met our commitments. We stand firm again". The Economic Report and the Estimates before the House show that this has now been done. The credit is, if I may say so, that of the people of Kenya whose work, determination and energy have made this possible.

Kenya depends on world conditions for its prosperity. Our exports are almost entirely agricultural, competing in the world markets with those of other primary producing countries. Our imports come from the industrialized countries of the world. The size of the import bill depends in part on the income which the Colony receives from the exports sent overseas. I say "in part" because we receive many advantages from our geographical position and our invisible exports, including tourism, are quite important in helping to pay for our imports.

The world market for primary products has been fairly stable at low prices, but has been improving during the last year. The f.o.b. price of sisal fibre increased by some 30 per cent, while the average price of meat and meat products was higher by some 15 per cent. The f.o.b. price of coffee per ton was some 2 per cent lower in 1959 than in 1958 and a similar drop was experienced in the f.o.b. price of tea. Overall, however, our export index held up well. The world market has been fairly buoyant, but only in so far as

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extra quantities have been absorbed at similar or slightly better prices than in the previous year. It will be through increased quantities of exports rather than from higher prices that primary producing countries will increase their incomes during 1960.

The industrialized countries of the world have been having a boom year. Production has been increasing and demand has been expanding. This prosperity has increased the demand for our products. It may well be that with boom conditions in the industrialized countries their export prices may increase. In that case our terms of trade could get worse and we should have to export more in order to obtain the same amount of imports during 1960. It is against this background of world conditions that we have to make our own forecasts for 1960.

1959 was a better year than 1958. In 1959 agricultural production improved, prices were more satisfactory, and the returns to all farmers were better than in the previous year. The total contribution of cash agriculture to the gross domestic product was some £35 million compared with £33 million in 1958. The most remarkable expansion has been in the sphere of peasant farming, where the monies so far spent on the Swynnerton Plan are now coming to fruition and where we are really beginning to reap the benefits of land consolidation and farm planning. The increase in the cash incomes of our peasant farmers, including incomes from livestock activities, was nearly £1,500,000 or 20 per cent higher than in 1958, while their payout from coffee sales alone was some 75 per cent larger than in the previous year. These developments are still in their early stages, since with such crops as coffee and tea it is not immediately that one obtains increased harvests. We may expect that, as the modernization of peasant agriculture proceeds, the increased output should be even more considerable and the incomes of the farmers much higher than at present.

Wholesale and retail trade had a satisfactory year, while the manufacturing industries maintained their position and showed signs of improvement in the early months of 1960. Mining had a record year.

Building and construction suffered somewhat, but not to the extent felt in 1958. In that year there was a great fall from the boom of 1957, but, although we have not returned to the building output in value terms of 1957, 1959 was better than 1958. Some indication of what is in store in 1960 can be seen from the value of building plans passed in Nairobi City. Although the annual figures for 1959 showed a slight decline, compared with the first three months of that year, the first three months of 1960 showed an increase of 30 per cent. We realize that some of these plans will not become buildings, but most of them do.

Our exports showed a healthy increase of £4 million. Imports remained relatively unchanged, so that the adverse balance of trade on external account fell by £4,500,000. We were still importing capital goods and producer materials as well as consumer goods, and our trade position was helped by the favourable balance of trade with our neighbouring territories of Tanganyika and Uganda, where we had a favourable balance of some £7 million, which reduced our overall visible trade balance to £16 million.

During 1959 there was a slight increase of about 3,700 in the number of persons employed. The increase in the Wage Bill was some £2 million compared with 1958 and the total for the Colony has been estimated to be of the order of £80 million. A Commissioner is examining the unemployment position. I, personally, prefer to call it the employment problem. In the modern industrial state, paid employment is the normal condition of the mass of the people. This is not so in a country like Kenya where the whole idea of paid employment only came into being during living memory. In any case, the answer is to increase the opportunities for our people to earn a decent living, whether through self-employment or through wage-earning. That is, of course, one of the major objectives of the Government's development plans and policies.

Our efforts in 1959 were successful and the year was one of resumed growth during which the gross domestic product showed an increase of 3½ per cent at current prices. If we take only the monetary sector, the increase was of the order of 5 per cent. Allowing for population increases and price changes, an estimate of the real growth per head—again in the monetary sector—was of the order of 3 per cent, which compares most favourably with 1958, when there was a slight fall. The price level has, of course, remained remarkably stable, the Nairobi cost-of-living index being only one-third of 1 per cent higher in February, 1960, than in mid-1958, about 1 per cent higher than in mid-1957 and less than 5 per cent higher than in mid-1956.

Turning now to 1960, I am advised that the trend should not be very different from 1959. Government expenditure, including all public activities, on capital construction, will be running at a high rate: in 1959 it was £14 million. Our agricultural production and exports should continue to increase. If prices remain fairly satisfactory, then total income from these exports should also expand. It is thought that in the cash sector the gross domestic product could increase

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by about 4 per cent during the present year. This improvement, which is needed year by year if we are to have those higher standards of living and improved services for which everyone is asking, will, of course, require political stability and an economic climate which will encourage existing enterprises to continue their efforts and investors to develop new projects. Talk of "liquidating" large-scale "Farmers" will do no one any good. Nor will such expedients as putting farms on a care and maintenance basis or "mining" the land. What we need in the way of policy are measures which will encourage all such farmers to continue with development to their own and everybody else's profit.

At the present moment some £40 million is invested annually in Kenya in "gross capital formation". This means that both for replacement of obsolete equipment and buildings, and for the development of new land, the equivalent of 25 per cent of the gross domestic product in the monetary sector is used. Net capital formation, the amount spent on additions to our capital, is possibly in the region of half the gross figure, and of the total much is financed from overseas. £5 million of private money is invested annually in large-scale agriculture alone and it is essential that this should continue. The Government invests very large sums in peasant agriculture. All this investment must be continued if the income per head is to grow at a satisfactory rate and to result in a national income which will permit us to have those conventional necessities, which do not mean cigarettes and beer but schools, hospitals, roads and other assets to future growth and amenities for the well-being of the community.

Whilst I am still dealing with economic matters, there are two other points to which I must refer. The first concerns the allegations that there has been a fall in confidence and an outflow of capital since the end of the Constitutional Conference. Certain statements were made whilst I was in London and a figure of £900,000 a week outflow was mentioned. It was also suggested that currency control might be introduced. At the time I made what enquiries I could from the authorities both in London and in Nairobi, and I was informed that there was nothing in the situation to cause alarm. Since I returned to Nairobi I have been able to obtain further information on the subject. I was not altogether surprised to learn that there had been some outflow. It is not unnatural, at times of change, for people with liquid assets to transfer them to places where they believe that they may be safer. I was, however, also glad to learn that, as I had expected from the information obtained in London, the figure which was mentioned was highly exaggerated. I am also advised that the flow has eased up during the current month. Nor is this the whole story. Throughout the period, money for investment has continued to come in to the Colony and in to the East African area generally. Here again, the amount has probably not been as great as in normal times which, once more, is not surprising in a time of change and uncertainty. The fact, however, that the flow has by no means ceased—some of the sums introduced are, I understand, of a sizeable nature—shows that there are still people with faith in our future.

To the extent that there may have been a net outflow of capital during March, I think that it may have been due not only to uncertainty as to the future but to fears that some form of currency control might be introduced. I said in London, and I repeat it here, that the Government has no intention of introducing any measures which would impede the free flow of capital between this Colony and the rest of the sterling area. If people wish to transfer their money from Kenya to London or to other parts of the sterling area, they are perfectly free to do so. I hope, however, that there will not be any large-scale movement and, as I have already said, my information is that the degree of outflow which appears to have existed last month, has now eased up. I shall, of course, continue to watch the position and will inform the House of any important changes.

It may be said that statements such as mine are all very well now, but what of the future. The fact is that, whatever the political complexion of any future Government of this Colony may be, our economy will remain very much dependent on the rest of the world not only for its development but for its very maintenance. Any interference in the free flow of money would, in my opinion, kill not only development but the economy itself stone dead. There would be an end to everyone's dreams of a better life, of more schools and an improving standard of living. I cannot believe that any foreseeable future Government of this Colony is going to ignore these facts. I can, therefore, see no reason why anyone should have fears on this score, now or in the future.

My other point concerns the Fiscal and Economic Commission which is to examine the East African common market arrangements, together with those for economic co-ordination between the Territories and for fiscal uniformity. The Commission has been directed to pay special attention to the measures for facilitating inter-territorial trade in local products and to developing local industries in East Africa; to those for securing uniformity in fiscal and financial matters, including the allocation of customs, excise and

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income taxes between Territories; and to the provision of revenue for the East Africa High Commission. They will consider the advantages and disadvantages of the present arrangements, whether they are economic and fair to the interests of each Territory, and they will make recommendations.

The Commission will begin its work fairly soon and it would not be for me to attempt to anticipate its findings. All I would say is that I, personally, am a convinced believer in the value to us, and to all the territories of East Africa of the common market. So far as Kenya is concerned, the figures which I have already quoted, and to which reference is made in the Economic Survey, speak for themselves. I do not, however, believe that our gain is anyone else's loss. I believe that the common market is a stimulus to production and to trade throughout the area of East Africa, and that all territories benefit from it. It is my view that, if in the past we had had the misfortune to be "balkanized", each of the territories would have been poorer in their economies, quite apart from the cost of administering separate customs and income-tax administrations. I would, therefore, regard the maintenance of our common market as being of the utmost importance to the welfare of us all.

I shall next deal with the general capital and development position.

At 30th June, 1959, there was a deficit of a little over £4,560,000 in the Development Account financed as to £2,400,000 from Revenue Account and Tax Reserve Certificates and as to the balance from short-term borrowing including internal borrowing from the Government's own resources. The revised estimates of expenditure for 1959/60, given in Table III of the Development Estimates, total £10,259,000. This figure is based on the revised estimates submitted by Ministries. However, on the basis of the experience of previous years, and the actual issues made from the Exchequer by the end of March, I regard £9.6 million as a more realistic figure for actual expenditure in the current year. This expenditure will be covered almost in full from loan funds raised during the year, or from other receipts.

The loan funds' figure of £6,225,000 includes £4 million of exchequer loan money, and the "other receipts" figure of £2,970,000 includes £800,000 surrendered from the sugar equalization fund. I propose also, as I foreshadowed in the debate on the speech from the Chair, to authorize the transfer to the development account of £1 million, being the bulk of the surplus of almost £1,150,000 in the Colony exchequer at the 30th June, 1959. This will cover the allocation of £750,000 for public works non-recurrent in the 1960/63 Development Plan. There will also be £250,000, of which I propose that £100,000 should be used to increase the target for the number of families to be absorbed into employment in the Government's forest estate under the supplementary forest scheme from 5,000 families to 6,000 families. The remaining £150,000 will reduce the "capital gap" on the 1960/63 Plan to approximately £1 million.

The 1960/61 Development Estimates total nearly £10,128,000. The details of the various projects are set out in Sessional Paper No. 4 of 1959/60. Over 65 per cent of the expenditure will be on economic services, particularly agriculture. I am convinced that the Government is right in the emphasis which has been placed in the programme on the development of agriculture. This will make the most immediate impact on the national income by encouraging the growing of an increasing acreage of cash crops for which markets can be found at profitable prices. It is only by an increase in the national income that the country will be able to meet the ever-increasing demands for improvements in the less immediately productive social services—in particular, in the field of education.

Included in the Development Estimates is £300,000 for loans to African farmers and £300,000 for feeder roads in African areas. Last year, my predecessor referred to the discussions which had been opened with the International Bank for Reconstruction and Development to see whether they could make available on a loan basis funds for this purpose. As honourable Members are aware, my colleague, the Minister for Agriculture, and I, and you, Sir, have recently been having talks in Washington about these schemes. The total project will cost some £6 million, of which £2 million will be for agricultural credit and feeder roads in the areas of high potential, during the currency of the 1960/63 Development Plan. We hope to be able to provide some £4 million from our own resources, including loan funds and assistance from Her Majesty's Government. I am happy to be able to say that, subject to the approval of the Bank's executive directors, which will be sought during the next few days, and to the passage by this Council of the Ordinance covering this borrowing from the Bank, we have reason to believe that the remaining £2 million will be forthcoming from that source. This will make it possible for us to go ahead with a much increased credit programme for African farmers in the areas of high agriculture potential and with schemes for providing a greatly improved system of feeder roads in these same areas.

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The House may also be interested to know that we told the Bank about the scheme for increasing agricultural production which was referred to by the Secretary of State during the Lancaster House discussions on constitutional affairs. The Ministry of Agriculture and the Treasury are still working out concrete proposals in connexion with this scheme and until this has been done we shall not know to what extent, if any, the World Bank will be able to participate. I can, however, assure the House that the preparation of the scheme is being treated with the very greatest urgency by all concerned and that I, personally, feel confident that funds will be forthcoming from one source or another to finance a worthwhile project, of benefit to farmers of all races who are prepared to press on with the development of their land.

In addition to the projects in the Estimates, it is expected that at least £1 million will be spent on the £4 million Contractor Finance Road Programme. A further project, not included in the Estimates, is the Nairobi City Council's £1.5 million Contractor Finance African Housing Project. This project also will get under way in 1960/61, and total expenditure by the Government and the City Council combined is likely to be at a higher level than in any previous year of Kenya's history. This will make a notable contribution to employment as well as to our housing resources.

As I stated earlier in my speech, expenditure on buildings will be running at a high level, and will absorb to the full the capacity of the Ministry of Works.

I also referred at an earlier stage to the employment problem. The Development Programme was examined several months ago with a view to seeing whether, by including in the Plan some of the proposals of Ministries which had had to be cut out in order to bring the total of the Programme within the funds likely to be available, further employment could be created. The enquiry showed that an adjustment on these lines would not be likely to improve the position, since it would involve cutting out more immediately remunerative projects for others of more doubtful or longer term economic value.

There is, however, one project in the Plan referred to on page 46 of the Sessional Paper—namely, the Supplementary Forest Development Scheme, which is a scheme specifically designed to reabsorb landless and unemployed persons on new forest stations. Some 4,000 families have already been absorbed, and the money provided in the Sessional Paper is designed to increase this number to 5,000. As explained earlier, I am now proposing, at a cost of about £100,000 to be found from last year's revenue surplus, to raise the target still further to 6,000 families. For purpose of comparison, the House may be interested to know that it would require a special building project costing about £300,000 to employ 1,000 workers even for a short period. Far more than £300,000 would be needed to employ the same number on roads.

The problem of financing a development programme of over £10 million during the coming year will be formidable. It will be necessary to borrow—either by way of exchequer loan, by public issues on the market or from short-term sources—a further £6,500,000 during the coming year. It will not be easy to obtain all we need by excheque loans and public issues on the local market—particularly bearing in mind that it will be necessary for the Government to convert or repay in June, 1961, the 4 per cent local loan of £2,925,000 raised in 1954. I am confident, however, that it will prove possible to finance in one way or another the expenditure shown in the Estimates, and that this ambitious programme is fully justified and entirely necessary if we are to secure that growth in the economy of the country which is essential to our economic progress.

I am also confident that we are wise to plan for total development expenditure of some £27 million during the period 1960/63. It is true that finance will not be easy to find—it never is—but it should not be impossible. It is also true that additional loans involve additional debt charges. But, as the economic story for 1959 shows, they also generate more income. The fact is that countries like ours must develop or stagnate. In spite of all the difficulties we have been through, wise development expenditure in the past has made it possible for us to sustain services of a scope and standard which would not have been thought possible even ten years ago. There may be risks in continuing to plan for development at the same rate in the future; but I think the House will agree that the risk of not doing so would be infinitely greater.

Before proceeding to the recurrent Budget, I have one further thing to say about development finance. It is always desirable that some part of any capital programme should be financed from recurrent revenue if that is at all possible. At present we cannot do this by provision in Estimates. Prudent financial management will, however, tend to throw up small annual surpluses. Such surpluses are needed in the early months of each financial year to cover the normal excess of exchequer issues over receipts in that period. Subsequently, I believe that we should transfer them to capital account. We shall do this as to £1 million this year and I would hope that

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similar action would be possible in the future—though the amounts might well be less.

I now turn to this year's out-turn and to the Estimates for the coming year and, at this point, I shall—as has been done in previous years—set before the Council the pattern of net expenditure covered by the total figure of £32,014,675 in the printed Expenditure Estimates. There is, in fact, little change. Basic administrative services, law and order, defence and revenue collection still account for about 34 per cent. Economic services, which include roads, water works, agricultural services, forestry, game and fisheries, lands and mines, commerce and industry, account for some 15 per cent. The social services take up about 25 per cent (of which the bulk—nearly 19 per cent—is for education). Financial charges of a recurrent nature—public debt, pensions, and payments to local authorities—take up nearly 18 per cent. The remaining 8 per cent is taken up by various general and ancillary services such as public works and printing.

I would also, at this stage, refer to the tables of comparative expenditure and revenue over a four-year period published at pages (vi) to (viii) of the introductory pages of the Expenditure Estimates. I hope that Honourable Members will find these tables of some value in viewing the Budget in historical perspective. It is intended that they should become a regular feature of our published Estimates and that the perspective should be lengthened in due course to at least five years.

With regard to the current year, the original Estimate—including emergency expenditure—was £32,325,520. There will be savings of £408,349 on our contributions to the High Commission, it having been agreed that Kenya's surplus balances with the High Commission should be reduced to £100,000 by the 30th June, 1960. The payments being made to the High Commission this year are being reduced with this target in view. There are also likely to be savings of approximately £153,000 in the Public Debt Vote. These arise because, when the Estimates were prepared, it had been anticipated that half-yearly payments would have to be made on exchequer loans obtained from Her Majesty's Government. In fact, payments are to be made annually, and not half-yearly, and this means that no payments will have to be made in the current financial year on exchequer loans obtained during the year. These savings will be partly offset by the need for supplementary provision on a number of votes. Although, however, after allowing for all savings and Supplementary Estimates, the total revised Estimate will be some £32,175,000, I do not, in fact, anticipate that actual expenditure will exceed £32 million.

The revised Estimate of Revenue for the current year approximates very closely to the original Estimate. I have no reason, at this stage, to revise the original Estimates for Customs and Excise or for Income Tax, and an anticipated shortfall of some £180,000 in collections of graduated personal tax will be more than covered by increased extra exchequer receipts. The revised Revenue Estimate —as shown in the statement on page (viii) of the Estimates presented to Legislative Council—exceeds the original Estimate by £37,287.

The Estimates, as presented, envisaged a surplus of £68,266. In view of the savings that have been made on our contributions to the High Commission, and on the Public Debt Vote, I shall be disappointed if we do not have a surplus on the year of about £430,000. As Honourable Members will see from the financial statement, this will mean with the unspent balances of £229,000 brought forward from 1958/59 the overall balance in the Colony Exchequer Account at the beginning of the 1960/61 financial year—after allowing for the transfer of £1 million to Development—will be approximately £800,000. This represents less than two weeks' revenue and is a very small reserve to hold against the excess of expenditure over revenue which, as I have said, is normal during the early months of the year and to meet possible shortfalls of revenue or other unforeseen contingencies which may arise during the year. Ultimately I would hope to be able to transfer the bulk of it to Development Account. But that will depend on the circumstances of the coming year.

The present year is the last in which we shall receive assistance from Her Majesty's Government towards Emergency expenditure and it may, therefore, be of interest if I indicate the amount of total expenditure on the Emergency for the period from 1952 to the 30th June, 1960. The total figure is likely to be £57,185,424. Of this, £25,050,000 will have been met by grants from Her Majesty's Government; £6,050,000 by interest-free loans, which we shall before long have to begin repaying; and no less than £26,085,424 from our own resources.

As explained in the general memorandum note printed on page (*v*) of the 1960/61 Estimates, estimated expenditure in 1960/61 represents a net reduction of £310,845 on the provision made in the current financial year, but—after allowing for the reduction in expenditure previously met from the Emergency Fund from £1,600,000 to £514,000, and after taking credit for the generous decision of Her Majesty's Government to relieve us of

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responsibility for the recurrent cost of the East African Land Forces, for which £1,128,000 was provided in the current year's Estimates—there is a true increase of some £1.9 million. On the great majority of votes there has been a virtual standstill. The increases fall into four main groups.

First, there are the increases in public debt, in pensions and in local government contributions—mainly statutory—which may be regarded as commitments, and unavoidable, and which total some £550,000, and which are likely to rise still further in future years. In particular, the annual increase in public debt will—if we carry on with our necessary but ambitious Development Programme—exceed the increase shown in the 1960/61 Estimates of £341,000.

The next group is the social services. The increase on education and health totals over £650,000—ignoring the provision for passages. The net increase of over £530,000 on education is a formidable figure which we could not have found but for the decision of Her Majesty's Government to relieve us of the recurrent cost of the East African Land Forces. I am fully conscious of the need not to abandon our programme for the improvement of educational facilities, particularly in African education, and particularly at the intermediate and secondary stages. It will be noted that the increase in 1960/61 for commitments and for social services totals over £1.2 million. We are likely to be faced with a similar or increasing bill in future years. This bill can only be met from an expanding economy—if the improvements in the health and education of our people are reflected rapidly in greater productivity in all sectors of our economy, but especially in our agriculture. We cannot expect Her Majesty's Government to take over a large portion of our expenditure every year—nor, indeed, must we forget that the day may come when we shall have to resume responsibility for the cost of our own forces. It cannot be said too often that, while the outside world will help us to develop our resources by grants and loans of money and skilled manpower, no one owes the people of Kenya a living and if we are to progress we can only do so through our own efforts.

The increase still to be explained is £700,000, of which nearly £100,000 relates to passage costs. In accordance with my undertaking last year, I have had the passages vote split up amongst the services to which it relates. This has, as I suspected it might, led to an immediate increase in total provision—instead of one margin there are now several. The total may not, however, be spent and I am sure that we shall have greater control in the future.

Of the remaining £600,000, some £377,000 relates to my third group, namely, administration and the maintenance of law and order. These increases are explained in detail in the memorandum notes on the Chief Secretary's Vote and on the Police and Prison's Votes. I am hopeful that we have now reached an establishment and a level of expenditure for these services which can be held in future years.

The remaining increases, which constitute the last group, total some £223,000 and relate to a number of miscellaneous votes. £63,000 is for the Ministry of Local Government, largely arising out of the ministerial changes that have taken place, but including an additional £15,000 for the relief of distress; £50,000 is for the Ministry of Tourism, Game, Forests and Fisheries, and includes £24,000 for anti-poaching measures and £10,250 required for the take-over from the High Commission of the Lake Victoria Fisheries Service; £49,000 is an increase in our contribution to the High Commission, of which nearly half will be required for the East African Directorate of Civil Aviation and the E.A. Meteorological Department, and arises mainly because of the tapering of grants received from the Ministry of Civil Aviation in the United Kingdom; the greater part of the balance relates to some necessary strengthening of the revenue-collecting departments—namely, the E.A. Customs and Excise Department and the E.A. Income Tax Department.

Lastly, the increase under the Ministry of Agriculture totals £42,000. This is almost fully explained by the need to provide £40,000 to subsidize the price of local rice. The cost of this rice subsidy will be more than fully offset by revenue obtained from customs duty on rice imports. The only other significant increase is on the Ministry of Labour, and includes the provision of a new post of officer-in-charge, employment services, and some strengthening of staff at labour exchanges.

I feel that, at this stage, I should again make it clear that it is unlikely to be possible—on the basis of the forecast of the probable growth in the national income given in the Economic Survey—to finance in future years as large an increase in expenditure as is contemplated in 1960/61. In fact, it will be necessary to hold the majority of votes at approximately their present levels, and to cover the need for additional provision for increments and other adjustments by administrative economies. This applies to levels of pay as much as to anything else. The Government has always recognized that selective salary adjustments may be needed

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to assist recruitment or to retain the services of experienced staff. This still holds good. It is also probable that we may have to look in a more general way at the relationship between the remuneration of our civil servants and that of comparable employees in the field of recruitment. As the Economic Survey shows, however, the cost of living has been stabilized over the past three or four years. In these circumstances any general upward movement of salaries would appear to be unjustified. It would also have most serious economic and financial consequences. Our total salaries bill, including Development, is now about £18 million and even a 5 per cent overall increase would cost some £900,000 involving cuts in services or increased taxation, or both. It must, therefore, be recognized that, however distasteful the fact may be, we cannot afford general salary increases and that, even where adjustments are unavoidable because of market considerations, they can only be granted to the extent that the country can afford to pay.

I turn now to the problem of financing the overall net estimate of £32,014,000. The Revised Estimates of Revenue for 1959/60 total £30,831,000 and there is, therefore, an additional sum of £1,183,000 to be found in 1960/61 in order to balance the Budget.

Revenue receipts from all sources other than customs and excise and income tax in 1959/60 total some £6,580,000. We are likely to receive an additional amount of approximately £203,000 from these sources in 1960/61. I need not go into these items in detail, but I expect that we shall receive an additional £75,000 in land revenues largely as a result of the revised valuations of land, and an additional £90,000 in interest on loans made from Development Funds. There will also be a small increase in receipts from graduated personal tax.

This leaves an additional amount of approximately £1 million to be produced from our main standbyes—namely, customs and excise and income tax. In spite of the increase in the national income set out in the Economic Survey, which amounted to some 5 per cent in the monetary sector in 1959, I do not anticipate that income tax receipts in 1960/61, at present rates of taxation, will exceed the 1959/60 estimate of £10,550,000. The reason for this is that the 1959/60 figure will be swollen by the recovery of arrears from previous years, and actual collections in 1960/61 are likely to approximate closely to actual assessments on the year of income 1959. Actual assessments on the year of income 1958 will total only about £10 million, and I do not anticipate that assessments on the 1959 year of income will exceed £10.5 million.

I feel, therefore, that I am being reasonably optimistic in forecasting receipts of £10,550,000 from income tax in 1960/61. The estimate for 1959/60 of customs and excise is £13.7 million, and is likely to be achieved. The Economic Survey forecasts a rise of approximately 4 per cent in the monetary sector of the national income in 1960, and it would, I feel, not be unreasonable to estimate that there will be a corresponding rise of about 4 per cent—or £550,000—in receipts from customs and excise at the present rates of duty in 1960/61.

HONOURABLE MEMBERS WILL HAVE NOTED THAT, GIVEN THE EXPENDITURE PROPOSALS CONTAINED IN THE ESTIMATES OF RECURRENT EXPENDITURE AND THE REVENUE FORECAST WHICH I HAVE JUST GIVEN, WE SHOULD BE FACED WITH A DEFICIT IF EXISTING LEVELS OF TAXATION WERE TO BE MAINTAINED. AS THE HOUSE IS AWARE, I DO NOT BELIEVE THAT A POOR COUNTRY LIKE KENYA CAN AFFORD THE LUXURY OF DEFICIT BUDGETS. BEFORE, HOWEVER, DEALING WITH MY PROPOSALS FOR CLOSING THE GAP, I HAVE TO PROPOSE A NUMBER OF REVENUE CHANGES WHICH ARE DESIGNED NOT TO PRODUCE ADDITIONAL MONEY FOR THE EXCHEQUER BUT TO ENCOURAGE OR PROTECT LOCAL INDUSTRY OR TO RECTIFY ANOMALIES OR TO CLOSE LOOPHOLES IN OUR SYSTEM OF REVENUE COLLECTION. 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 FIRST DEAL WITH PROTECTIVE MEASURES. THE DUTY ON TOMATO PUREE IS AT PRESENT 22%. THE LOCAL TOMATO PUREE INDUSTRY PROCESSES A VALUABLE CASH CROP AND IT IS ESTIMATED THAT IT CAN PROVIDE FOR THE FULL REQUIREMENTS OF THE EAST AFRICAN TERRITORIES IN A QUALITY SUPERIOR, BY ANALYSIS, TO THAT OF COMPETING IMPORTS. IN DUE COURSE THERE WOULD SEEM TO BE NO REASON WHY THE INDUSTRY SHOULD NOT EXPAND INTO THE EXPORT MARKET AND THEREBY PROVIDE A VERY USEFUL OUTLET FOR A CASH CROP. IT IS, HOWEVER, NECESSARY TO ASSIST THE INDUSTRY TO CAPTURE THE INTERNAL MARKET. THE LOCAL PRODUCT IS NOT SUFFICIENTLY WELL-KNOWN TO ACHIEVE THIS. WITH THIS IN VIEW, I NOW PROPOSE THAT THE DUTY BE INCREASED TO 30% AD VALOREM. THIS INCREASE WILL, AT THE WORST, HAVE A NEGLIGIBLE UPWARD EFFECT ON HOUSEHOLD EXPENDITURE.

MY NEXT PROPOSAL AFFECTS FOOTWEAR. THE DUTY ON BOOTS AND SHOES IS AT PRESENT SH.1/50 PER PAIR OR 22% AD VALOREM. I PROPOSE TO INTRODUCE A NEW TARIFF ITEM UNDER WHICH THE SPECIFIC DUTY ON FOOTWEAR, EXCLUDING FOOTWEAR WITHOUT UPPERS AND EXCLUDING FOOTWEAR WITH UPPERS OF COTTON AND SOLES OF RUBBER OR ROPE, AND ALSO EXCLUDING

CHILDREN'S FOOTWEAR, SHOULD BE SHS.5/- PER PAIR. THE AD VALOREM DUTY WILL REMAIN AT 22%. MEMBERS WILL HAVE NOTED THAT THIS CHANGE IN DUTY WILL ONLY AFFECT LEATHER BOOTS AND SHOES WORN BY ADULTS. SIMILARLY, I PROPOSE THAT THE SPECIFIC DUTY ON IMPORTED LEATHER FOR BOOT AND SHOE UPPERS SHOULD BE INCREASED FROM 50 CENTS TO 75 CENTS PER SQUARE FOOT. THE OBJECT OF THESE CHANGES IS, FIRST, TO PROTECT THE MANUFACTURERS OF LEATHER FOOTWEAR IN THE MEDIUM AND LOW GRADES OF SHOES AND, SECOND, TO PROTECT OUR LOCAL TANNERIES. AS MEMBERS KNOW, SMALL COBBLERS HAVE BEEN ENCOURAGED TO ESTABLISH COTTAGE INDUSTRIES USING LOCAL LEATHER. WE HAVE ALSO, FOR A LONG TIME, HAD SMALL SHOEMAKING ESTABLISHMENTS IN THE COLONY. ALL THESE WILL BE PROTECTED AGAINST THE IMPORTATION OF CHEAP AND SHODDY FOOTWEAR MADE OF LEATHER. SINCE WHAT ARE COMMONLY KNOWN AS "TACKIES" ARE EXCLUDED, AS ARE CHILDREN'S SHOES, THOSE MEMBERS OF THE COMMUNITY WHO CAN ONLY AFFORD RUBBER-SOLED SHOES WITH COTTON UPPERS WILL NOT BE AFFECTED BY THIS CHANGE. NOR WILL THOSE WHO HAVE TO PROVIDE SHOES FOR GROWING CHILDREN. FINALLY, FASHION FOOTWEAR OF THE BEST QUALITY, WHICH HAS STILL TO BE IMPORTED, WILL NOT BE AFFECTED SINCE THE DUTY ON THE MOST EXPENSIVE GRADES WILL CONTINUE TO BE ASSESSED ON AD VALOREM RATES.

LAST YEAR, NEW DUTIES OF A PROTECTIVE NATURE WERE INTRODUCED FOR ENAMEL HOLLOWARE. THESE DUTIES APPEAR TO HAVE GIVEN EFFECTIVE PROTECTION TO OUR LOCAL INDUSTRY, FOR, INSTEAD OF THE INCREASE OF REVENUE WHICH WAS ANTICIPATED IN LAST YEAR'S BUDGET, THERE HAS, IN FACT, BEEN A CONSIDERABLE FALL. ONE DISADVANTAGE OF THE RATES IMPOSED LAST YEAR WAS, HOWEVER, THAT THEY WERE AT THE SAME LEVEL, 50 CENTS, FOR ALL SIZES OF CUPS, MUGS, PLATES AND SAUCERS. SIMILARLY, THE RATES FOR OTHER TYPES OF ENAMEL HOLLOWARE WERE FLAT RATES IRRESPECTIVE OF THE SIZE OF THE ARTICLE. IT IS NOW PROPOSED TO PROVIDE DIFFERENT LEVELS OF DUTY FOR DIFFERENT SIZES OF ARTICLE. THE RATE FOR THE SMALLEST SIZES OF CUPS, MUGS, PLATES AND SAUCERS

WILL, FOR INSTANCE, BE ONLY 25 CENTS AS AGAINST THE PRESENT 50 CENTS. THE EXISTING RATE WILL CONTINUE TO APPLY FOR MEDIUM-SIZED ARTICLES, WHILST THE LARGER ONES WILL PAY 75 CENTS. SIMILAR ADJUSTMENTS WILL BE MADE IN RESPECT OF BASINS AND BOWLS WHERE THE EXISTING SPECIFIC RATE IS 75 CENTS. THE SPECIFIC RATE ON STEWPANS, SAUCEPANS AND CASSEROLES WILL REMAIN AS AT PRESENT SH.1/25. THE AD VALOREM RATE OF 30% WILL ALSO REMAIN UNCHANGED. THIS IS NOT A REVENUE PROPOSAL AND IT IS DIFFICULT TO SAY WHAT THE EXACT EFFECT WILL BE IN TERMS OF REVENUE. IN VIEW, HOWEVER, OF THE SUCCESS OF THE MEASURE OF PROTECTION ALREADY AFFORDED, THE FINANCIAL EFFECT IS UNLIKELY TO BE APPRECIABLE EITHER WAY.

I AM PROPOSING TO MAKE A SMALL CHANGE IN TARIFF ITEM 58(n) BY PROVIDING THAT WASTE AND SCRAP METAL SHALL BE IMPORTED FREE. THIS WILL NOT ONLY ASSIST LOCAL INDUSTRY ENGAGED IN PROCESSING SCRAP METAL BUT WILL REMOVE AN ANOMALY. THE LOCAL PRINTING INDUSTRY WILL BE ASSISTED BY FURTHER CHANGES WHICH I PROPOSE TO MAKE UNDER TARIFF ITEMS 68 AND 136(a). THESE CHANGES WILL EXEMPT SENSITISED PLATES, PRINTERS' INK-DRYERS AND CERTAIN OTHER CONSTITUENTS OF PRINTING INK FROM DUTY. THE FINANCIAL EFFECT OF ALL THESE MEASURES WILL BE NEGLIGIBLE.

THE LAST OF MY PROTECTIVE PROPOSALS RELATES TO THE INTRODUCTION OF A NEW TARIFF ITEM, 165(e), INTRODUCING A NEW DUTY OF 22% ON CROWN CORKS. PREVIOUSLY THESE WERE IMPORTED FREE AS PACKING MATERIALS. THE NEW DUTY WILL PROTECT OUR LOCAL CROWN CORK INDUSTRY AGAINST CUT-THROAT COMPETITION WHICH ONLY AROSE AFTER OUR INDUSTRY CAME INTO OPERATION. I AM INFORMED THAT THE LOCAL COMPANY IS CAPABLE OF MEETING THE WHOLE EAST AFRICAN DEMAND.

MY NEXT SERIES OF PROPOSALS ARE OF A TECHNICAL NATURE. THE MORE IMPORTANT RELATE TO THE IMPOSITION OF DUTY ON CERTAIN TYPES OF SYNTHETIC FIBRE WHICH ARE NOT COVERED BY THE EXISTING TARIFF. THIS, WHILE STOPPING A LOOPHOLE, WILL PRODUCE SUFFICIENT REVENUE TO OFFSET DECREASES RESULTING FROM PROTECTIVE MEASURES AND RELIEFS; THE EXEMPTION FROM DUTY OF "OFF THE HIGHWAY" VEHICLES WHICH ARE USED

PRIMARILY FOR CONSTRUCTIONAL WORK; A SIMPLIFIED METHOD OF PROTECTING THE LOCAL BOTTLE-MAKING INDUSTRY, WHILE ALLOWING FREE IMPORT TO BOTTLES OF A TYPE WHICH ARE NOT MADE LOCALLY; AND THE EXEMPTION FROM DUTY OF CERTAIN SCIENTIFIC, EDUCATIONAL AND RELIGIOUS EQUIPMENT. THERE IS ALSO A NUMBER OF MINOR AMENDMENTS DEALING WITH NEW TYPES OF BUILDING MATERIAL, CLIP BOLTS, "FLOAT" GLASS, PRIZES AND AWARDS, AND ROAD AND TRAFFIC SIGN MATERIALS. FINALLY, THE TARIFF ITEM RELATING TO BATHS AND OTHER SANITARY WARE IS AMENDED SO AS TO EXTEND THE SCOPE OF THE EXEMPTION FROM DUTY TO ALL ARTICLES OF THIS NATURE, IRRESPECTIVE OF WHETHER THEY ARE MADE OF EARTHENWARE, STONEWARE, PORCELAIN OR PLASTIC OR OF ANY OTHER MATERIAL. THE FINANCIAL IMPLICATIONS OF THIS MEASURE, WHICH MERELY MAKES IT UNNECESSARY TO EXTEND THE SCOPE OF THE ITEM EVERY TIME A NEW MATERIAL IS INVENTED, ARE NIL.

I NOW COME TO A SERIES OF PROPOSALS DESIGNED PRIMARILY TO ASSIST THE TOURIST INDUSTRY. THEY WILL, HOWEVER, ALSO BENEFIT RESIDENTS OF KENYA AND WILL SIMPLIFY THE ADMINISTRATION OF THE CUSTOMS' TARIFF. THE FIRST OF THESE MEASURES RELATES TO CUSTOMS' TARIFF ITEM 144 COVERING PASSENGERS' BAGGAGE. I PROPOSE THAT THIS ITEM SHOULD BE REVOKED AND REPLACED BY A COMPLETELY NEW ITEM. THE CURRENT ITEM WAS DRAFTED MANY YEARS AGO TO MEET CONDITIONS IN THE EARLY PIONEERING DAYS WHEN MANY KINDS OF GOODS WERE NOT READILY AVAILABLE IN THE SHOPS AS THEY ARE TODAY. CONSEQUENTLY IT REFLECTS HISTORY RATHER THAN PRESENT-DAY FACTS. FOR EXAMPLE, IT PERMITS BINOCULARS AND CAMERAS TO BE BROUGHT INTO THE TERRITORY DUTY-FREE, WHILE CINE PROJECTORS ARE ASSESSED TO DUTY. PORTABLE TYPEWRITERS ARE FREE, WHILE TAPE-RECORDERS ARE DUTIABLE. THESE ANOMALIES ARE NOW BEING RECTIFIED IN FAVOUR OF THE TAXPAYER. IT HAS ALSO BECOME APPARENT THAT THE CONCESSIONS GRANTED BY THE PRESENT ITEM ARE TOO LIMITED FOR CERTAIN TYPES OF PASSENGER, PARTICULARLY TOURISTS AND PEOPLE ARRIVING TO TAKE UP RESIDENCE IN KENYA FOR THE FIRST TIME.

NEW RESIDENTS WILL, IN FUTURE, BE ASSISTED BY BEING PERMITTED TO IMPORT INTO THE TERRITORY FREE OF DUTY ALL USED

PERSONAL AND HOUSEHOLD EFFECTS. THEY WILL ALSO BE PERMITTED TO INTRODUCE FREE OF DUTY A MOTOR VEHICLE WHICH THEY HAVE OWNED AND USED FOR AT LEAST A YEAR BETWEEN THE DATE ON WHICH THEY TOOK DELIVERY ABROAD AND THEIR OWN ARRIVAL.

SUCH PEOPLE WILL, OF COURSE, HAVE TO BE PREPARED TO PAY DUTY ON ANY GOODS WHICH THEY MAY SELL WITHIN TWO YEARS OF THE DATE OF IMPORTATION. THEY WILL ALSO HAVE TO PRODUCE SATISFACTORY PROOF OF THEIR PREVIOUS POSSESSION.

TOURISTS AND VISITING BUSINESSMEN WILL BE ASSISTED BY BEING PERMITTED TO INTRODUCE FREE OF DUTY ALL THEIR REQUIREMENTS FOR PERSONAL AND HOUSEHOLD USE DURING THEIR STAY. HERE AGAIN, OF COURSE, THEY WILL HAVE TO SATISFY THE REVENUE OFFICERS THAT THE GOODS CONCERNED ARE APPROPRIATE IN QUANTITY AND KIND FOR THE PURPOSE OF THEIR VISIT. THEY WILL ALSO HAVE TO RE-EXPORT THESE GOODS OR PAY DUTY ON DEPARTURE.

ANOTHER MEASURE DESIGNED TO ASSIST TOURISTS RELATES TO THE IMPORT DUTY ON BINOCULARS, TELESCOPES, CAMERAS AND FILMS. AT PRESENT EAST AFRICA AS A WHOLE RECEIVES SOME £40,000 A YEAR IN DUTY ON THESE ARTICLES. THE KENYA SHARE HAS BEEN ESTIMATED AT APPROXIMATELY £18,500. I NOW PROPOSE TO INTRODUCE A NEW TARIFF ITEM, 140A, UNDER WHICH ALL THESE ARTICLES WILL BECOME FREE OF DUTY. THIS WILL NOT ONLY ASSIST THE TOURIST INDUSTRY BUT WILL REMOVE A FREQUENT SOURCE OF DISPUTE AND IRRITATION IN THE EXAMINATION OF BAGGAGE AT PORTS OF ENTRY. IT WILL, OF COURSE, ALSO GIVE LOCAL TRADERS AN OPPORTUNITY OF INCREASING THE SALE OF THESE ARTICLES TO VISITORS TO THE COLONY.

A THIRD MEASURE DESIGNED TO ASSIST THE TOURIST INDUSTRY RELATES TO THE ADMISSION OF ARMS AND AMMUNITION. AT PRESENT, UNDER TARIFF ITEM 166, RIFLES MAY BE IMPORTED FREE OF DUTY BY MEMBERS OF RIFLE ASSOCIATIONS AND CLUBS SOLELY FOR THE USE OF THEIR MEMBERS. I PROPOSE THAT THIS ITEM SHOULD BE REVOKED AND REPLACED BY ONE UNDER WHICH ALL ARMS AND AMMUNITION MAY BE IMPORTED FREE. THE LOSS OF DUTY FROM THIS MEASURE WILL BE SOME £3,000 A YEAR. I NEED HARDLY SAY THAT IT WILL STILL BE NECESSARY FOR THOSE WHO WISH TO POSSESS ARMS AND

AMMUNITION TO OBTAIN THE USUAL LICENCES.

MY NEXT PROPOSAL WHICH RELATES TO THE EXCISE TARIFF IS ALSO, TO A LARGE EXTENT, A TIDYING-UP MEASURE. THERE IS AT PRESENT NO PROVISION FOR THE IMPOSITION OF AN EXCISE DUTY ON LOCALLY MANUFACTURED WINE. I AM ADVISED THAT THIS OMISSION SHOULD BE RECTIFIED. I PROPOSE, THEREFORE, TO INTRODUCE SPECIFIC DUTIES AT THE FOLLOWING RATES. ON STILL WINE SHS.6/- A GALLON AND ON SPARKLING WINE SHS.18/- A GALLON. THESE RATES ARE APPROXIMATELY EQUIVALENT TO 75% OF THE LOWEST SPECIFIC RATES OF CUSTOMS DUTY ON EACH CLASS OF IMPORTED WINE. THE IMPOSITION OF AN EXCISE DUTY WILL MAKE WINE AN EXCISABLE ARTICLE. IN THIS CONNECTION HONOURABLE MEMBERS WILL WISH TO KNOW THAT CONSIDERATION IS BEING GIVEN TO AMENDING THE EXCISE MANAGEMENT ACT TO PERMIT AND CONTROL THE FORTIFICATION OF LOCALLY-MADE WINES WITH SPIRITS, AND THE MIXING OF IMPORTED AND LOCALLY-MADE WINES.

I NOW TURN TO THE PROPOSALS DESIGNED TO INCREASE THE REVENUE.

FOR SOME TIME I HAVE HAD UNDER CONSIDERATION THE ADEQUACY OF OUR PRESENT ARRANGEMENTS FOR THE TAXATION OF MOTOR VEHICLES. THE REVENUE FROM THIS SOURCE IS, OF COURSE, HYPOTHECATED TO THE ROAD AUTHORITY FOR EXPENDITURE ON OUR ROADS. THE PRESENT POSITION IS THAT MOTOR VEHICLES WITH FOUR OR MORE WHEELS WHICH ARE POWERED BY PETROL ARE TAXED IN A FULL YEAR AT A MINIMUM RATE OF £4 FOR THE FIRST 1500 LBS. TARE WEIGHT WITH AN INCREASE OF £1 FOR EVERY ADDITIONAL 250 LBS. TARE WEIGHT OR PART THEREOF. THESE FEES ARE DOUBLED FOR MOTOR VEHICLES POWERED BY ANY FUEL OTHER THAN PETROL. THERE ARE SOME OTHER SPECIAL TYPES OF VEHICLES WHOSE NUMBERS ARE, HOWEVER, INSIGNIFICANT FOR WHICH ENHANCED LICENCE FEES ARE PAYABLE. ADDITIONAL CHARGES ARE ALSO MADE FOR PUBLIC SERVICE VEHICLES DEPENDING ON THE NUMBER OF PASSENGERS WHICH THEY CARRY. HALF FEES ARE CHARGED FOR TRAILERS, AND TRACTORS USED FOR AGRICULTURAL PURPOSES ARE CHARGED AT A FLAT RATE OF £2 PER ANNUM. MOTOR-CYCLES PAY AN ANNUAL LICENCE FEE OF SHS.30/- WITHOUT SIDECAR AND SHS.40/- WITH SIDECAR. THESE LAST RATES AND THE MINIMUM RATE FOR ALL PETROL VEHICLES HAVE REMAINED UNALTERED FOR THE

PAST 32 YEARS. THE DOUBLE RATE FOR MOTOR VEHICLES POWERED BY OTHER FUEL WAS FIRST IMPOSED 20 YEARS AGO, WHILE THE INCREASE OF £1 IN THE FEE FOR EVERY 250 LBS. TARE WEIGHT DATES FROM 1952. BEFORE THEN THE INCREASE WAS SHS.10/- ONLY.

FOR THE YEAR 1959, THE TOTAL NUMBER OF LICENSED MOTOR VEHICLES IN KENYA, INCLUDING MOTOR-CYCLES AND TRAILERS, WAS ABOUT 78,000. OF THIS TOTAL, 57,000 WERE IN THE LIGHT VEHICLE CLASS WEIGHING 4,000 LBS. OR LESS. WITHIN THIS CLASS IN THE FOUR YEARS 1956 TO 1959 INCLUSIVE, THE NUMBER OF VEHICLES IN THE CATEGORIES UP TO AND INCLUDING 2,500 LBS. TARE WEIGHT INCREASED BY 41%. THOSE IN THE MIDDLE CATEGORY FROM 2,501 LBS. TO 3,400 LBS. INCREASED BY 21%. THOSE IN THE HEAVIEST CATEGORY FROM 3,401 LBS. TO 4,000 LBS. DECREASED BY 19%. IN THE PAST THREE YEARS, THE TOTAL NUMBER OF VEHICLES REGISTERED IN THE COLONY INCREASED BY 14.8%, BUT, IN SPITE OF THIS, THE AVERAGE RETURN IN LICENCE REVENUE WAS SLIGHTLY LESS IN 1959 THAN IN 1957. THIS IS, OF COURSE, DUE TO THE SWING IN RECENT YEARS TOWARDS LIGHTER TYPE PASSENGER VEHICLES WHICH IS HARDLY SURPRISING IN VIEW OF THE GREATER EFFICIENCY OF SMALL MODERN CARS COUPLED WITH THE GREAT IMPROVEMENT WHICH HAS TAKEN PLACE IN OUR ROADS. I WOULD LIKE TO SAY HERE THAT THIS IMPROVEMENT REFLECTS GREAT CREDIT ON THE WORK OF OUR ROAD AUTHORITY AND OF THE ROADS BRANCH OF THE MINISTRY OF WORKS, AND I TAKE THIS OPPORTUNITY OF PAYING A TRIBUTE TO THEIR EFFICIENCY AND ACTIVITY.

IT IS, OF COURSE, OBVIOUS THAT, AS THE TRAFFIC DENSITY INCREASES AND HIGHER ROAD STANDARDS ARE DEMANDED BY THE MOTORING PUBLIC, MORE AND MORE MONEY IS NEEDED FOR THE MAINTENANCE AND BETTERMENT OF OUR ROAD SYSTEM. AT ONE STAGE IT WAS EXPECTED THAT THE HYPOTHECATED REVENUE WOULD AUTOMATICALLY TAKE CARE OF THIS. UNFORTUNATELY, THE TREND TOWARDS THE PURCHASE OF LIGHTER VEHICLES HAS FALSIFIED THIS VIEW. I CONSIDER THAT STEPS MUST NOW BE TAKEN TO INSULATE THE REVENUE FROM LICENCE FEES AGAINST THIS TENDENCY AND TO TRY TO ENSURE THAT THE RECURRENT REVENUE FROM THIS SOURCE MORE NEARLY

KEEPS PACE WITH THE INCREASING TRAFFIC. I PROPOSE, THEREFORE, THAT WITH EFFECT FROM THE 1ST JANUARY, 1961, THE MINIMUM ANNUAL LICENCE FEE FOR PETROL POWERED VEHICLES SHOULD BE £8 AND THAT THIS SHOULD APPLY TO ALL SUCH VEHICLES OF UP TO AND INCLUDING 2,500 LBS. TARE WEIGHT. I ALSO PROPOSE THAT THE MINIMUM LICENCE FEE FOR MOTOR-CYCLES SHOULD BE INCREASED TO £3 PER ANNUM WITHOUT SIDECARS AND TO £4 PER ANNUM WITH SIDECARS. THE FEES FOR VEHICLES OF 2,501 LBS. TARE WEIGHT AND ABOVE WILL REMAIN AS AT PRESENT. I AM ADVISED THAT THIS MEASURE SHOULD PROVIDE RATHER MORE THAN £50,000 ADDITIONAL REVENUE FOR THE ROAD AUTHORITY IN A FULL YEAR. AN ADDITIONAL ADVANTAGE WILL BE THAT, BY CHARGING FEES AT ONE FLAT RATE FOR NEARLY HALF OF ALL THE VEHICLES LICENSED IN THE COLONY, WE SHALL CONSIDERABLY EASE THE ADMINISTRATIVE TASK OF THE LICENSING AUTHORITIES, THUS ENABLING GREATER ATTENTION TO BE PAID TO THE CORRECT ASSESSMENT OF FEES FOR THE VEHICLES OUTSIDE THAT GROUP.

THE NEW ARRANGEMENTS WILL INVOLVE AN INCREASE OF £4 IN THE LICENCE FEES OF 3½% OF THE VEHICLES IN THE UNDER 2,500 LBS. TARE WEIGHT GROUP. THIS WORKS OUT AT ABOUT SH.1/50 A WEEK. 14% OF THE VEHICLES IN THE SAME GROUP WILL BEAR AN INCREASE OF £3 IN FEES, 35% AN INCREASE OF £2, 20% AN INCREASE OF £1, AND 27½% WILL BEAR NO INCREASE AT ALL. THE INCREASED FEE FOR A MOTOR-CYCLE WITHOUT SIDECAR WILL COST 58 CENTS A WEEK, WHILE THAT FOR MOTOR-CYCLES WITH SIDECARS WILL COST THE OWNERS AN EXTRA 77 CENTS A WEEK.

I HAVE ALSO BEEN CONSIDERING THE TAXATION OF MOTOR FUEL. AT PRESENT PETROL PAYS CUSTOMS DUTY AT THE RATE OF 75 CENTS A GALLON. IT ALSO PAYS CONSUMPTION TAX AT THE RATE OF 32 CENTS A GALLON. THE PROCEEDS OF THE CONSUMPTION TAX, LIKE THOSE OF THE VEHICLE LICENCE FEES, GO TO THE ROAD AUTHORITY. NO DUTY OR TAX IS PAID ON LIGHT DIESEL OIL USED IN MOTOR VEHICLES. THESE VEHICLES, HOWEVER, AS I HAVE NOTED, PAY A DOUBLE LICENCE FEE.

IN NAIROBI, A GALLON OF PETROL IS AT PRESENT SOLD FOR SHS.3/60 AND A GALLON OF LIGHT DIESEL OIL FOR SHS.2/18. I HAVE

ALREADY SPOKEN OF A SWING IN RECENT YEARS TOWARDS THE LICENSING OF LIGHTER TYPES OF VEHICLE IN THE UNDER 4,000 LBS. TARE WEIGHT CLASS AND OF THE ADVERSE EFFECT WHICH THIS HAS HAD BOTH ON THE CUSTOMS DUTY AND THE CONSUMPTION TAX REVENUE. THIS IS ILLUSTRATED BY THE FACT THAT, IN SPITE OF THE INCREASE OF NEARLY 15% IN THE NUMBER OF VEHICLES LICENSED IN THE COLONY BETWEEN 1957 AND 1959, THE AVERAGE REVENUE PER VEHICLE OBTAINED IN LICENCE FEES AND CONSUMPTION TAX FELL FROM SHS.358/61 TO SHS.334/86 OR 6.6%. I AM ADVISED THAT OF THIS DROP OF SHS.23/~~37~~ 75 PER VEHICLE PER ANNUM, 98½% WAS ATTRIBUTABLE TO PETROL CONSUMPTION TAX REVENUE. THIS CANNOT ALL BE ACCOUNTED FOR BY THE MOVE TOWARDS SMALLER CARS. THERE HAS INDEED BEEN A PARALLEL MOVEMENT IN THE LARGER VEHICLES FROM PETROL TO DIESEL FUEL. IN 1954, ONLY 10% OF LORRIES AND TRUCKS, AND 15% OF OMNIBUSES AND COACHES WERE DIESEL OPERATED. IN 1959, THE FIGURES WERE 31% AND 63% RESPECTIVELY.

IN THEORY, THE DOUBLE LICENCE FEE PAID IN RESPECT OF DIESEL VEHICLES COMPENSATES FOR THE FACT THAT LIGHT DIESEL OIL USED IN SUCH VEHICLES PAYS NEITHER CUSTOMS DUTY NOR CONSUMPTION TAX. UNFORTUNATELY, THIS IS NOT BORNE OUT IN PRACTICE. FOR INSTANCE, THE ANNUAL LICENCE FEE FOR A 5-TON PETROL LORRY IS ABOUT £24, WHEREAS ITS DIESEL COUNTERPART PAYS ABOUT £52. THE DIFFERENCE OF £28 REPRESENTS THE FUEL TAX ON SOME 524 GALLONS OF PETROL, WHICH, AT 10 MILES PER GALLON, IS THE EQUIVALENT OF 5,240 MILES. UP TO THIS MILEAGE THE DIESEL VEHICLE CONTRIBUTES AS MUCH AS, OR MORE THAN, THE PETROL VEHICLE, BUT THEREAFTER THE CONTRIBUTION BECOMES LESS AND LESS AS THE ANNUAL MILEAGE INCREASES. NOT ONLY, THEREFORE, IS THE PRESENT SYSTEM WEIGHTED IN FAVOUR OF THE HEAVIER DIESEL VEHICLE, BUT THE REVENUE IS NOT RECEIVING A CONTRIBUTION TOWARDS THE WEAR AND TEAR ON THE ROADS IN PROPORTION TO THE ANNUAL MILEAGE RUN. FURTHER, THE HEAVY ROAD USER CONTRIBUTES RELATIVELY LESS THAN, SAY, A FARMER WHO NEEDS TO RUN A HEAVY VEHICLE IN CONNECTION WITH HIS BUSINESS, BUT WHO MAY COVER A RELATIVELY LOW MILEAGE PER ANNUM.

HERE, CLEARLY, IS A STATE OF AFFAIRS WHICH CALLS FOR ADJUSTMENT. MY SECOND MEASURE, THEREFORE, INVOLVES THE IMPOSITION OF A CUSTOMS DUTY OF 75 CENTS PER GALLON ON LIGHT DIESEL OIL AND A CONSUMPTION TAX OF 35 CENTS PER GALLON ON THE SAME COMMODITY. I ALSO PROPOSE THAT THE CONSUMPTION TAX ON PETROL SHALL BE RAISED BY 3 CENTS PER GALLON TO A TOTAL OF 35 CENTS PER GALLON, SO THAT THE DUTIES AND TAXES ON PETROL AND LIGHT DIESEL OIL WILL BE AT EQUIVALENT RATES.

I HAVE TWO IMPORTANT POINTS TO MAKE FOLLOWING ON THESE PROPOSALS. THE OPERATOR OF A DIESEL VEHICLE WOULD BE UNFAIRLY PENALISED BY THESE NEW ARRANGEMENTS IF HE WERE TO CONTINUE PAYING A DOUBLE LICENCE FEE FOR HIS VEHICLE. IN ORDER TO REMEDY THIS SITUATION, I PROPOSE THAT THE DOUBLE LICENCE FEE FOR DIESEL VEHICLES SHOULD NO LONGER APPLY AFTER THE 1ST MAY, 1960. I ALSO PROPOSE THAT REFUNDS SHOULD BE MADE IN RESPECT OF THE PERIOD FROM THE 1ST MAY TO THE 31ST DECEMBER, 1960, RELATING TO THE UNEXPIRED PORTION OF LICENCES FOR THE CURRENT YEAR WHERE A DOUBLE FEE HAS ALREADY BEEN PAID. FULL DETAILS OF THE ARRANGEMENTS FOR SUCH REFUNDS WILL, I HOPE, BE PUBLISHED TOMORROW.

MY SECOND CONSEQUENTIAL POINT CONCERNS THE EFFECT OF THE NEW DUTY AND TAX ON OUR MAJOR INDUSTRY, AGRICULTURE, WITH WHICH I WISH TO COUPLE, IN THIS CONTEXT, THE SAWMILLING INDUSTRY. INFORMATION HAS BEEN PRODUCED WHICH INDICATES THAT THE EFFECT WILL BE SEVERE IN BOTH CASES. I PROPOSE, THEREFORE, THAT FARMERS AND SAWMILLERS MAY APPLY FOR A REFUND OF THE WHOLE OF THE DUTY AND TAX PAID ON LIGHT DIESEL OIL WHERE THIS CAN BE SHOWN TO HAVE BEEN USED IN AGRICULTURAL TRACTORS AND IN TRACTORS EMPLOYED IN LOGGING. I INTEND THAT CLAIMS SHOULD BE MADE QUARTERLY IN ARREARS

TO THE MINISTRIES OF AGRICULTURE AND FORESTS RESPECTIVELY. HONOURABLE MEMBERS WILL RECALL THAT SIMILAR ARRANGEMENTS FORMERLY APPLIED TO THE REFUND OF DUTY ON KEROSENE USED IN AGRICULTURAL TRACTORS. FULL DETAILS OF THE ARRANGEMENTS WILL BE PUBLISHED SHORTLY.

I ESTIMATE THAT IN A FULL YEAR THE RETURN FROM THE CUSTOMS DUTY TOWARDS THE GENERAL REVENUES OF THE COLONY WILL BE OF THE ORDER OF £450,000. THE CONSUMPTION TAX, INCLUDING THE SMALL INCREASE IN THE PETROL CONSUMPTION TAX, SHOULD BRING IN AN ESTIMATED £260,000. THIS, TOGETHER WITH THE £40,000 TO BE DERIVED FROM LICENCES ON THE SMALLER VEHICLES DURING THE NEXT FINANCIAL YEAR, WILL GO TO THE ROAD AUTHORITY. THEY WILL, HOWEVER, LOSE APPROXIMATELY £95,000 AS A RESULT OF MY PROPOSAL RELATING TO LICENCE FEES FOR DIESEL VEHICLES, SO THAT THE TOTAL GAIN TO THEIR REVENUES WILL BE OF THE ORDER OF £205,000. IT WILL, OF COURSE, BE NECESSARY TO INCREASE THE PROVISION FOR THE STATUTORY GRANT TO THE ROAD AUTHORITY REVENUE BY THIS AMOUNT. THE REVENUE HEAD - OTHER LICENCES, DUTIES AND TAXES - HAS BEEN INCREASED BY A CORRESPONDING FIGURE. A CONSIDERABLE PART, IF NOT THE WHOLE, OF THE £450,000 INCREASE IN GENERAL REVENUE WILL, OF COURSE, ALSO BE TAKEN UP IN MEETING LOAN CHARGES ON CAPITAL ROAD WORKS.

HONOURABLE MEMBERS WILL WISH TO BE INFORMED OF THE EFFECT OF THESE PROPOSALS ON THE COST OF LIVING. I AM ADVISED THAT THE RISE IN VEHICLE LICENCE FEES AND OF THE INCREASE OF 3 CENTS IN THE PETROL CONSUMPTION TAX WILL HAVE A NEGLIGIBLE EFFECT. I AM ALSO ADVISED THAT THE TOTAL EFFECT OF ANY INCREASE IN THE COST OF TRANSPORT OF MERCHANDISE ON THE NAIROBI COST OF LIVING INDEX, DUE TO THE CUSTOMS DUTY AND CONSUMPTION TAX ON LIGHT DIESEL OIL, WILL BE LESS THAN ONE-THIRD OF ONE PER CENT. FINALLY, I AM ADVISED THAT, IN TERMS OF PASSENGER MILES, THE NEW MEASURES SHOULD HAVE ONLY A FRACTIONAL EFFECT ON PASSENGER TRANSPORT SO FAR AS THE TRAVELLING PUBLIC IS CONCERNED.

THIS COMPLETES MY PROPOSALS RELATING TO REVENUE FROM CUSTOMS AND EXCISE DUTIES, AND FROM VEHICLE LICENCES. AS I HAVE STATED, IT IS INTENDED THAT THE PROPOSALS RELATING TO LICENCE FEES SHOULD COME INTO EFFECT ON THE 1ST JANUARY, 1961. ALL THE OTHER PROPOSALS RELATING TO THE CUSTOMS AND EXCISE TARIFFS, AND TO THE CONSUMPTION TAX, WILL COME INTO FORCE AT MIDNIGHT TONIGHT. CONFIRMATORY LEGISLATION WILL BE PUBLISHED AND INTRODUCED AT THE APPROPRIATE TIME. AT THIS STAGE, ALL

I NEED DO IS TO INFORM THE HOUSE OF ONE FURTHER PROCEDURAL INNOVATION. IN THE PAST, EACH TYPE OF REVENUE MEASURE HAS BEEN DEALT WITH IN A SEPARATE BILL. THIS YEAR, WE PROPOSE TO INCLUDE ALL THE REVENUE PROPOSALS IN ONE COMPREHENSIVE FINANCE BILL. I TRUST THAT THIS WILL BE FOUND TO BE A CONVENIENT METHOD OF PROCEEDING AND WILL THUS COMMEND ITSELF TO ALL HONOURABLE MEMBERS.

IT WILL BE REMEMBERED THAT THE OVERALL NET ESTIMATE OF EXPENDITURE FOR THE COMING YEAR WAS APPROXIMATELY £32,014,000. THE INCREASE IN THE STATUTORY GRANT TO THE ROAD AUTHORITY WILL BRING THIS UP TO £32,219,000. THIS YEAR'S REVISED ESTIMATE OF REVENUE WAS £30,831,000. WE ANTICIPATE THAT, AT EXISTING LEVELS OF TAXATION, A FURTHER £753,000 WILL ACCRUE DURING 1960/61, BRINGING THE TOTAL TO £31,584,000. THIS LEAVES A GAP OF SOME £635,000 WHICH WILL BE RATHER MORE THAN COVERED BY THE PROCEEDS OF MY INDIRECT REVENUE PROPOSALS. THESE WILL BRING THE TOTAL REVENUE FIGURE TO £32,239,000, LEAVING US WITH AN ESTIMATED SURPLUS OF APPROXIMATELY £20,000. I HAVE, THEREFORE, NO FURTHER REVENUE PROPOSALS TO MAKE.

MR. SPEAKER. AT THE BEGINNING OF THIS SPEECH I SAID THAT THE PEOPLE OF KENYA HAD, THROUGH THEIR EFFORTS, MADE IT ONCE MORE POSSIBLE FOR US TO STAND ON OUR OWN FEET. THE WAY AHEAD WILL NOT BE EASY. WE SHALL ALL HAVE TO WORK EXTREMELY HARD IN THE FUTURE. WE MUST CONTINUE TO ELIMINATE WASTE, TO PUT ECONOMIC NECESSITIES BEFORE ALL ELSE, AND TO ENDEAVOUR TO INCREASE OUR EFFICIENCY IN ALL WALKS OF LIFE. IF THIS IS DONE, AND ONLY IF THIS IS DONE, WE SHALL BE ABLE TO PROVIDE ALL OUR PEOPLE WITH MORE OF THE SOCIAL AND OTHER BENEFITS TO WHICH THEY NATURALLY ASPIRE. GIVEN COOL HEADS, STOUTHEARTS, HARD SINEWS AND - DARE I SAY IT - SLOW TONGUES, I BELIEVE THAT IT CAN BE ACHIEVED. MAY I EXPRESS THE HOPE OF THE GOVERNMENT AND OF ALL MEMBERS OF THIS COUNCIL THAT IT WILL, IN FACT, BE ACHIEVED.

MR. SPEAKER. SIR, I BEG TO MOVE.

This change was also occasioned by the recognition of the Government of the increasing financial responsibility of women in our society. Notwithstanding the vehement demands of certain women groups, it is regretted, however, that complete separation of income between husband and wife could not be extended to other types of incomes as this would have opened a major loophole in the tax law. Nevertheless, the present separation of wives employment incomes represents a very substantial relief to employed persons and especially to the low income tax-payers. This measure, Mr. Speaker, will cost the Exchequer some K£5 million.

The Finance Bill published today contains further amendments to the Income Tax Act intended to tackle other areas of tax relief. I would like to deal with these tax concessions individually.

Firstly, it has been our practice in the past to review tax payable by individuals in order to reduce the tax burden on people with fixed incomes together with those whose incomes do not increase as fast as the rate of domestic inflation. The last time that we did this was in 1978. In pursuit of this practice, I am proposing to widen tax brackets by K£300 while leaving the rates of tax unchanged. This will have the effect of reducing personal tax payable by individuals such that those at the lower income tax brackets will have their tax reduced by about 25 per cent, while those at the upper income tax brackets will have a tax relief of 15 per cent.

Secondly, I propose to change the threshold, i.e., the point at which individuals start paying Income Tax. I shall effect this change by increasing the Personal Reliefs to all categories of individuals by Shs. 120 per year. Thus a married man will not become liable to income taxation until his income reaches Shs. 18,000 per year or Shs, 1,500 per month. The single person will enter the tax net at Shs. 7,200 per annum or Shs. 600 per month and for that category of tax payers known as Special Single because they are single persons supporting a child, the threshold is raised to Shs. 8,400 per annum or Shs. 700 per month. Although these changes sound small they have the effect of eliminating a significant number of eligible tax-payers from taxation while giving substantial relief to those who are left in the tax net.

Thirdly, in view of the rising cost of insurance premiums, and as a measure to boost savings, I propose to increase the statutory maximum insurance premium claimable from the present Shs. 4,800 per annum to Shs. 7,200 per annum. For similar reasons, and as I have already mentioned, interest earned on Housing Bonds shall be exempt from tax.

Fourthly, I propose to make some changes in capital gains tax as it affects individuals and companies. Firstly, I propose to reduce tax payable by companies by half. Only 50 per cent of the net gains will from now on be subjected to Corporation Tax. At the current corporate tax rate of 45 per cent, only 22½ per cent of net gains will therefore be paid as tax by companies. Secondly, taxation of gains accruing to individuals will be subjected to a lower but progressive rate of tax starting at 10 per cent upto a maximum of 35 per cent. Since, as in the case of companies, the first 50 per cent of the gains will not be taxable, this means that individuals will not pay more than 17½ per cent of the net gains realized on sale of property. Thirdly, in view of the reduced rates at which gains will be taxed, it would be unreasonable to withhold too much money from the transferor. I am, therefore, proposing to reduce the rate of withholding tax on gross consideration from 10 per cent to 5 per cent. Finally, on capital gains, Mr. Speaker, and in order to boost our Stock Exchange, the withholding tax on investment shares will be reduced from 35 per cent to 15 per cent.

My last amendment Mr. Speaker, refers to private vehicles employed in business. Paragraph 15 of the Second Schedule to Income Tax Act limits to Shs. 30,000 the amount of capital expenditure that is subject to allowable wear and tear deductions on private motor vehicles employed in a business. By private vehicle, I mean to distinguish this type of a vehicle from the ordinary commercial vehicles used in the business. Commercial vehicles are of course subject to the normal wear and tear deductions but the private vehicle is limited to a cost of Shs. 30,000 regardless of the amount paid in the purchase. When compared to the current prices of cars, this limit is obviously too low and I propose to raise it to Shs. 75,000. While this amount may look small to some of us, I am compelled to limit it to this figure in order to discourage use of big luxury cars at a time when rising petroleum costs constitute our biggest constraint to economic recovery.

Before concluding my remarks on private cars employed in business, I would like to make one other point. While recognizing that cars are necessary to run businesses successfully and that their costs have risen considerably, it is an open secret that senior business executives and other senior employees use these cars for private purposes and indeed this has become recognized as one of the most popular business perks. I am, therefore, requesting the Commissioner of Income Tax to look into these benefits and see to it that these executives are taxed fully on this benefit in the interest of equity.

Mr. Speaker, it is well known that many prosperous farmers and businessmen escape tax altogether. In order to make those eligible to pay tax to come into the tax net, we are instituting tax measures to eliminate tax evasion. We also intend to open an Income Tax Office at Eldoret, in addition to the existing regional offices at Mombasa, Nyeri, Thika, Nakuru and Kisumu.

At the moment, Tax Reserve Certificates are issued by the Accounts Controller Treasury; but it is clear that many tax-payers do not know of this scheme. In order to bring the scheme closer to tax-payers, the issuance of Tax Reserve Certificates will now be administered by the Income Tax Department. I would urge businessmen to take advantage of this scheme for, while doing so, they will be earning themselves tax free interest.

I have today proposed tax measures aimed at lightening the tax burden on individuals. I have also announced measures intended to provide incentives to investors with the view to improving the tax base for future taxation. All of us should therefore be ready to face our fiscal responsibilities if we cherish stability and social justice.

Mr. Speaker, the measures I have announced today on income tax changes, the effective dates of which are spelt out in the Finance Bill, will cost the Exchequer approximately K£13 million.

LOCAL MANUFACTURERS EXPORT COMPENSATION ACT

Mr. Speaker, the proposed changes to the Sales Tax Act also necessitate changes to the Local Manufacturers Export Compensation Act as outlined in the Finance Bill. On the whole, these changes are purely procedural and will have no net revenue effect.

MISCELLANEOUS TAXES AND FEES

The Finance Bill also includes a proposal of a minor amendment to the Entertainment Tax Act to exempt stage plays from the operation of the tax. This proposal, Mr. Speaker, is designed to encourage local drama and culture. This measure will cost the Exchequer a small price of K£25,000 every year -- a very small sum indeed for the promotion of arts and culture.

Other Legal Notices have also been simultaneously published with the Finance Bill to effect changes in fees for petroleum pumps; wholesale and retail licenses for liquors and spirits; stock trading and court brokers. Taken together, these measures will bring an extra K£20,000 to the Exchequer.

CONCLUSION

Taken as a whole, the new taxation measures introduced today will bring a net addition of revenue of K£20 million. I shall, therefore, be left with a residual deficit of some K£96 million to finance from short term borrowing. It should, however, be noted that of this amount only K£3 million is attributable to fiscal year 1981/82 operations; the balance of K£93 million represents Excess Votes and Under Issues carried over from previous years extending back to fiscal year 1977/78. The financing for these carry-overs will need to be regularized in the coming financial year and it is anticipated that authorization will be received from Parliament for disposing of most if not all of these items during the coming year. It is our intention to achieve this regularization of financing for these carry-overs in a manner which will not have adverse monetary consequences nor limit the availability of banking system credit to the private sector.

In effect Mr. Speaker, my proposals today are aimed at giving new impetus to the investment process by maintaining a better balance between public and the private sector; by creating incentives for savings; by lowering the cost of machinery and facilitating rational utilization of our limited foreign exchange through restructuring of tariffs; by encouraging housing development, and finally, but by no means the least, by providing substantial tax relief to Wananchi. I hope that Kenyans will take advantage of these incentives to seize the challenge of revitalizing our economy by further investments and creation of employment.

Mr. Speaker, I beg to move.

REPUBLIC OF KENYA

Speech delivered to the National Assembly on 15th June, 1978, by the Hon. Mwai Kibaki, Minister for Finance and Planning, Republic of Kenya, presenting the Budget for the Fiscal Year 1978/79 (1st July to 30th June).

Mr. Speaker, Sir,

I beg to move that Mr. Speaker do now leave the Chair.

The Economy

In my Budget Speech last year I was able to report to the House that our economy had recovered well from the setbacks of 1974-76. As it turned out, the recovery was even more significant than I then forecast. The provisional figures of gross domestic product for 1977—as Hon. Members will already have seen from the *Economic Survey*—indicate that our rate of growth, 7.3 per cent, was the highest we have achieved for nine years.

In addition, the terms under which we trade with other countries moved in our favour for the second year running. Our export prices increased by 42 per cent, while import prices increased by merely 8 per cent. Real incomes in Kenya increased by more than the increase in real production.

The Kenya economy has as a result been booming and in spite of the fall of coffee and tea prices, is still booming. The benefits of this boom have also been widely spread. Let there be no misunderstanding or misrepresentation about this.

Agricultural incomes increased by K£160 million. Much of that increase, of course, was received by the coffee and tea farmers. But there are 275,000 farmers growing coffee and 120,000 farmers growing tea in this country. Other crops—such as sugar, pyrethrum, maize, milk and horticulture—also did well, while the spin-off economic benefit from the high agricultural incomes has been widespread in the rural areas. The recent prosperity of the farms and villages is something that must hearten us all.

It is estimated that the terms on which the rural sector trades with the urban sector moved by over 50 per cent in favour of the rural sector during 1976 and 1977.

Agricultural production rose in volume by 12 per cent in 1977. But manufacturing production rose by 15 per cent, in spite of the loss of the Tanzanian market. The service sectors of the economy also did well even though the numbers of tourists coming to Kenya did not increase as much as we had hoped and the building industry is only now starting to pick up.

Employment increased in 1977. Indeed, the official figures mask what is becoming an increasing problem—a very real shortage of labour on the farms. The tea industry has regularly failed to produce the volume of tea it should produce because of a shortage of pickers. This has been the case on the large estates for some time and is now the case with small scale farms.

Coffee also is not always picked at the optimum time because of labour shortages and the sugar and sisal industries are unable to recruit the labour they require when they require it. We must, therefore, rethink the precise nature of our unemployment problem and the policies we need to adopt to provide jobs to those without, when the country is under-producing and under-exporting because of labour shortages.

1977 was a good year for the Kenya economy. But as I warned in my Budget Speech last year, the boom has brought its own problems. I spoke then of too much money chasing too few goods and that is what we have experienced. There have been shortages of essential goods and prices have risen faster than ever before. This time, we cannot blame rising import prices, for inflation abroad has slackened. The rise in the cost of living in Kenya has been generated in Kenya.

Inflation and Monetary Control

Inflation is now perhaps our most difficult economic problem. We cannot, however, control it by wider price controls as I have explained to Hon. Members on numerous occasions in the past. We must increase the production of goods in Kenya at competitive prices to meet the market demand and remove the present shortages. And we must retain a tight grip over the supply of money, so that it expands to facilitate the growth of the economy but does not fuel an expansion of prices as well. This is a difficult balance to maintain.

The money supply—cash in circulation and bank deposits—increased much more rapidly than was desirable in 1977—by 47 per cent. This was a direct consequence of a substantial balance of payments surplus arising from the record coffee and tea incomes flowing directly into the domestic banking system. Also, in the latter part of the year particularly, domestic private credit rose strongly to compound this trend. Fortunately, the Government Budget this year has not added to those inflationary forces to the extent I had expected in the Budget last year.

After consultation with me, the Governor of the Central Bank has acted to restrain this excessive growth of the money supply. Firstly, by increasing the liquidity ratio of the commercial banks to 20 per cent and, more recently, by imposing a 4 per cent cash ratio and a limit to the rate of growth of bank advances of 1½ per cent per month. We aim to restrict the growth of bank money to around 18-20 per cent in the coming financial year.

There is still money available in the banks for lending but increases in the total volume of lending will be restricted. Bank customers may have to shop around a little more but they should learn to do this anyway in order to ensure that they get the best service and lowest loan rates in the market.

PRICES AND WAGES

The need for this restraint is underlined by a look at the cost of living index which rose by an average of 16 per cent last year. This rate of inflation is too high and we must aim to bring it down.

Wages on average rose by 12 per cent last year very much in line with the wage guidelines then operating. The wage guidelines have, however, been amended with effect from 1st January, 1978, to allow an additional element for productivity increases. Since wage awards this year will be related to the cost of living and productivity increases last year, provided we can restrict inflation this year to a lower rate, wage earners will be able to make up some of the loss of real income they have suffered in the last few years.

It will, however, be even more necessary to maintain the wage guidelines in the coming year and any suggestion of their being discarded cannot be supported, for we now face, once again, a difficult period for our economy.

THE BALANCE OF PAYMENTS

As I warned last year, coffee and tea prices fell back sharply from the peak levels of the second quarter 1977. Imports have also risen sharply and our balance of payments, although achieving a record surplus in the calendar year 1977, has been in deficit since last September. Our foreign reserves are now lower than they were at this time last year.

We cannot afford to allow a balance of payments deficit of any size to build up. This year, calendar 1978, I expect a deficit but within limits that will not seriously reduce our foreign reserves. Next year, 1979, the outlook is rather more serious.

The Kenya economy in 1978 is expected to maintain a fairly strong momentum in spite of the fall in coffee and tea prices. Good rains were experienced in 1977 and good harvests were gathered in at the end of the year and in the early part of 1978. Coffee and tea prices have fallen but they are still about twice as high as they were in 1975. Shortages of industrial commodities provide opportunities for manufacturers to raise production and the building industry is picking up again. The high incomes of 1977 are still working their way through the economy.

1979 should also be a good year generally. But the abundant rains we have enjoyed have brought problems. The coffee crop in 1978/79 will be seriously reduced perhaps by 40-50 per cent. And the lower volume of coffee available for export in 1979 will have a serious impact on our export receipts in that year, particularly if, world coffee prices were to continue to decline.

Imports have recently moved up sharply. But if Hon. Members study the composition of imports set out in the *Economic Survey*, they will observe that imports of food, consumer goods and passenger vehicles comprised only 16 per cent of the total in 1977. The rest is made up of industrial supplies, fuels, machinery and other transport equipment, all essential to the running of our economy. There is very little room within which to effect import savings—and the recent rain is likely to mean that, in some areas, we shall have to import additional foodstuffs—barley and wheat for instance.

Our policy of reducing Kenya's import dependence is still a vital part of development strategy. Our recent success can be gauged by noting that, whereas our economy expanded by over 30 per cent over the last five years, we were still, even in the import boom of 1977, importing a lower volume of goods than we were in 1972. There is, however, now very little room for further reduction and our emphasis must be to restrain the growth of imports to a lower rate than the growth of the economy.

With lower exports and little room to squeeze imports, we are therefore facing a serious balance of payments outlook for 1979. In order to overcome this, without causing a sharp setback to our recent economic recovery, we must increase exports in those areas where production capacity is available. Certainly, we must produce the full potential of our tea plantations this year and sell as much as possible of what should be a new record level of tea production overseas. We must also stop importing goods we can produce efficiently at home.

Because of the boom conditions within Kenya last year, manufacturing exports did not do well. In the changing conditions we expect in the coming year, I look for an improvement in the export performance of the manufacturing sector. In order to give our manufacturers additional encouragement, the Finance Bill contains a proposal to extend the export compensation scheme to eligible goods exported to Tanzania and Uganda.

However, even if we achieve some success in increasing other exports, we must still anticipate a sizeable balance of payments deficit in 1979. And this is the economic background within which I have had to plan my Budget for 1978/79—a fairly buoyant economy in 1978 but the prospect of a balance of payments deficit in 1979.

New Financial Burdens

In these circumstances, it is necessary not only that the private sector should exercise restraint in the coming year—restraint signalled by the recent credit restrictions—but also that the Government sector should exercise restraint as well.

This restraint has been imposed in formulating the Budget for the coming year. But it has not been easy. The Government earlier incurred very substantial commitments towards large development projects and when impetus on such projects has been built up, it can be positively harmful to try to cut it back. For this reason, budgeted development spending will show a sharp increase in the coming year, as Hon. Members will have seen already from their copies of the Estimates.

It has also been necessary to accept new financial burdens—not least as Hon. Members are aware—burdens in the form of non-productive defence expenditure.

I do not suppose there are any Hon. Members of this House who do not recognize that the basic territorial integrity of this country must be protected and that external threats have necessitated a higher level of defence spending. I beg leave to doubt however, whether there are an equal number of Members who will accept that additional defence spending inevitably means a postponement of the realization of our development goals.

At the moment, I do not know when it will be possible for us to afford to implement the recommendations of the recent Education Commission. All I can say is that it will be essential now to restrain education spending within tighter financial guidelines than laid down in Sessional Paper No. 4 of 1975—indeed it is necessary to redefine those guidelines.

Education spending will in future be defined as a proportion of recurrent civil expenditure (excluding the Consolidated Fund Services). That proportion calculated on the 1978/79 Estimates is 32 per cent. It will not be possible to increase that percentage of spending on education in future years—indeed it may have to come down to 30 per cent.

The point I am trying to emphasize is that we can not expand defence and education spending at the same time. We are faced with a difficult problem of choice. If the present level of defence spending is inescapable, we have no option but to delay the improvement in education we all want. The police must also manage with less money and the administration of development must be restrained. Health services must be restricted. But with education and defence both now pre-empting such a large proportion of the total budget, the choice will largely be between these two services if others are not to be cut back absolutely.

Statutory Boards and Government Companies

There are other new financial burdens the Government has had to accept—particularly those resulting from the collapse of the East African Community. New corporations for Railways, Harbours, Post and Telecommunications and Airways have been established. The House has been asked to vote substantial funds for these organizations taken as a group. Additional funds will have to be voted next year.

The new corporations have risen from the ashes of the old and already there are clear indications that they are facing up to their problems well. I am encouraged by this. There are, however, three points that I would like to make about them and to them.

Firstly, these corporations are independent commercial organizations set up by Parliament. They should therefore strive towards financial independence and not expect to finance their development programmes from grants through the Government budget. We shall help where this is absolutely necessary but they should not look to us for money except in the most exceptional circumstances.

Secondly, they must aim to make a profit and their performance will be judged on the rate of return they achieve on the value of assets they control.

Thirdly, they must be prepared to pay profits back into the Exchequer as revenue to the Government, so that they contribute, and can be seen to be contributing, to the financial needs of this country. If some corporations require subsidies while others hang on to their profits as something belonging to them and not to the people of Kenya, there will be yet another turn of the screw on the financial resources available to finance education and other social services.

My last point regarding the payment of profits to Government applies equally to all the statutory corporations and Government companies. The rate of return received by the Exchequer on investments financed since independence is far too low. New instructions have already been issued by the Treasury to these bodies requiring that dividends shall be payable to Government as revenue and that profits shall only be retained with Treasury permission.

Subsidiary and associate companies of the development corporations will be expected to define profit objectives and to pay dividends to their parents to increase the flow of cash from the parent corporations to the Exchequer. Financial control is not something that applies only to Government. Some of the worst financial abuses now occur in public sector corporations and companies. We are determined to bring those abuses to a halt.

All our boards and companies must be brought to realize that they have been established in trust for the *wananchi* and the *wananchi* are entitled to a financial return on their investment. It is the responsibility of Parliament to determine how those funds are to be used—whether to finance new projects or to reduce taxation—and in order to enable Parliament to exercise that function, profits of statutory boards and Government companies must be paid into revenue.

POST OFFICE SAVINGS BANK

These profits represent public sector savings. We have also been giving a great deal of thought in the last year about how we can organize more efficiently the savings of the general public for development purposes. We have sought the advice of the World Bank and the I.M.F. and their advice is being studied.

The Post Office Savings Bank, recently reorganized, has finalized plans for four new saving schemes. One scheme they propose to implement is the sale of premium bonds. Premium bonds will be on sale at all branches of the bank from 1st September and if they are held for three months will qualify for cash prizes drawn by lottery. Unlike the normal sweepstake, however, the holder of a premium bond will not lose his stake and will be able to cash it at par.

Hon. Members will observe that the Finance Bill contains a small amendment to the Post Office Savings Bank Act to enable the premium bond scheme to be set up without contravening the Betting and Lottery Act.

GOVERNMENT CONTRACTS

The Finance Bill, this year also contains a number of other administrative amendments to financial legislation, not directly related to taxation. They are all concerned with improving the efficiency of financial administration and also, incidentally, the control of Parliament over financial administration.

Firstly, it has been the rule for some time that Ministries should not sign contracts with outside suppliers and contractors without first clearing with the Treasury that money was provided and available for the expenditure. That rule has not, however, always been observed and this is one reason why Ministries have from time to time overspent the sums voted by Parliament. I propose therefore to amend the Government Contracts Act so that Government contracts of more than Sh. 250,000 will not be binding unless they are countersigned by the Treasury.

It will also not be possible to grant tax exemptions within Government contracts without Treasury consent.

The Exchange Control Act will also be amended, so that Exchange Control will not be bound by Government contracts unless they comply fully with these conditions.

GOVERNMENT BORROWING

Secondly, Government borrowing. There has in the past been a great deal of confusion amongst lenders to Government, and indeed amongst Hon. Members of the House, about which Acts of Parliament apply to different types of borrowing. This is not surprising, as there is a whole host of legislation on the Statute Book applicable to Government borrowing and it is not always clear, even to experts, which Act is applicable in any particular case.

In order to clear up this confusion, I propose that all Government borrowing will eventually come within either one of two Acts. Firstly, there will be, what will be known as the External Loans and Credits Act which will cover all borrowing in foreign currency. And secondly, there will be, what will be known as the Internal Loans Act which will cover all borrowing, both long term or short term, in Kenya currency. There is also a small consequential amendment to the Exchequer and Audit Act to bring it into line with these amendments.

A consequence of the proposed amendments is that we shall also repeal and remove from the Laws of Kenya some twenty-seven redundant borrowing Acts. I hope that then both the House and our lenders will understand the borrowing legislation rather better. It will be observed that specific procedures for reporting to Parliament the amounts of borrowings drawn and outstanding each year have been provided in the two remaining borrowing Acts.

I know that Hon. Members of this House have expressed concern from time to time at the extent of the borrowing by Government. I am concerned that the House should understand more clearly how much we have borrowed at home and abroad and the amendments are designed to assist the House in this.

As a result of substantial short term foreign borrowings that have been made in the last two years, it is necessary that we monitor our borrowings carefully without any confusion in this. At the moment our external debt ratio—the ratio of debt service costs to receipts of foreign exchange—is not a problem. The Economic Survey calculates that in 1977 it was little more than 3 per cent. But as a result of recent short term borrowing, it is likely to rise over the next few years. Indeed in the current year, we project the ratio to rise to 7 per cent.

Even 7 per cent is not particularly high but the time has come to exercise greater care in borrowing short term overseas and I have decided that, for the time being, no new commitments for borrowing short term will be entered into by Government Departments or statutory corporations.

GOVERNMENT GUARANTEES

An important part of our external debt position is represented by guarantees for loan covenants granted by Parliament from time to time. As with direct borrowing, it is not always clear exactly how much has been guaranteed and is still outstanding. Accordingly, I propose to amend the Guarantee Act to make it clear exactly how much is outstanding, by way of guarantees, whether in Kenya currency or foreign exchange. Once again, provision is made for an annual report to Parliament.

INTERIM TAX LEGISLATION

Finally, on the subject of the amendments to legislation relating to financial administration. I would like to propose an amendment to the Provisional Collection of Tax Act.

At the moment, that Act allows me to impose taxes once a Bill has been published but does not allow me to set up the administrative machinery to collect the tax. Previously it was possible to use East African Community Legislation to implement changes in income tax and customs procedures. Now we have taken over those departments this is no longer possible and I feel that our present law is an anomaly that should be corrected.

I should emphasize that none of these changes affects the constitutional right of Parliament to consider, amend, reject or approve tax legislation as is the case now.

INSURANCE

Although not included in the Budget Bills, I also propose to introduce additional legislation and directions relating to the insurance industry.

It is appropriate that branches of foreign insurance companies should now be incorporated locally. This is a simple matter and should not require legislation. I do propose, however, to introduce legislation for the stricter supervision and control of insurance business to protect local policy holders.

I am also concerned about the foreign exchange cost of insurance unnecessarily written overseas. Accordingly, I have directed that no foreign exchange will be made available for the insurance of imports from 1st July. All goods purchased by Kenya importers must be insured with companies licensed to transact insurance business in Kenya. I hope to save K£7½ million per annum of foreign exchange in this way.

Further, I am determined that a larger share of the reinsurance business shall be transacted in Kenya to conserve foreign exchange and all insurance companies will now be required to refer their external reinsurance treaties to the Kenya Reinsurance Corporation before remittances overseas for reinsurance will be permitted.

Finally, on insurance, it is important that surplus funds generated by insurance business should assist in financing economic development. Accordingly, I would like to see a greater proportion of insurance funds being invested in real property in Kenya, such as housing estates, office blocks, industry, etc.

FINANCIAL OUTTURN 1977/78

I would now like to turn to the financial outturn for the current year 1977/78. Recurrent expenditure of Ministries is estimated to reach K£373 million—K£100 million higher than the amount shown by the Estimates laid in the House this time last year.

Some K£72 million of that unbudgeted expenditure is represented by additional defence spending. K£12 million was caused by the take-over of the General Fund Services of the East African Community and K£16 million was represented by other supplementary expenditure, of which about half were necessitated by the security situation around our borders.

In a normal year, K£100 million of additional expenditure would have presented us with an impossible financing problem and it was, therefore, fortunate that it was a boom year for our economy. Revenue as a result was much more buoyant than forecast and since the General Fund Revenue came directly into the Exchequer, we have been able to finance this additional expenditure burden.

Overall, I now expect that the current account surplus will be higher than originally forecast, perhaps K£63 million. As usual, any surplus in the recurrent account on 30th June will be transferred to the Development Exchequer and I would ask the House to take this as notice of my intention to do so.

On development account, we originally budgeted for expenditures of K£197 million. Supplementary estimates raised that total to K£235 million. By the time we receive the final accounts for the year, I doubt, however, whether development spending will exceed K£185 million.

This underspending on development can be looked at in two ways. On the one hand, we have to regret that development projects approved by Parliament have not been implemented on time. But on the other hand, if all the development spending voted had been implemented, we would have been presented with a very difficult financing problem.

Once again aid receipts have been very much lower than originally estimated—K£48 million against K£69 million. To a large extent the lower aid receipts are due to the slower than expected implementation of projects as already mentioned.

Short term commercial loans have been used to finance purchases of railway locomotives and defence equipment to the extent, perhaps, of K£47 million. We have also been able to borrow a record amount through Government stocks in the buoyant monetary conditions of recent months.

When all these factors are considered together, I expect to end the financial year with a residual budget deficit of only about K£9 million. It is possible that we could by 30th June achieve an overall surplus.

The dependence of the Budget on the banking system this year has been very much lower than I originally forecast. In the monetary conditions prevailing, this has been a good thing and, overall, I think we can allow ourselves some mild congratulations that the Budget has worked out as well as it has. I have to admit, however, that this year, luck has been on our side.

EXPENDITURE 1978/79

And so we come to the new financial year 1978/79, when, as I have already indicated the wheel of fortune may turn against us, with lower commodity prices and a drastically reduced coffee crop.

The total expenditure of Ministries provided in the Recurrent Estimates is K£376 million, virtually no increase on the actual level of expenditure I expect this year. However, the Estimates provide for a reduction in defence spending; and civil expenditures—if I may introduce this term—will increase from K£272 million to K£298 million, a rise of about 10 per cent. Taking into account that no provision has been made for increased salaries this represents perhaps an increase in civil expenditure in real terms of 6 or 6½ per cent.

Consolidated Fund Expenditures will be much the same as this year, taking into account some underspending this year and lower debt repayments next year.

On development, as I indicated earlier, estimated expenditure is sharply up—from K£185 million to K£258 million, some 40 per cent. Much of this increase represents a revote of underspending this year, particularly underspending on the larger projects such as the Upper Tana Reservoir.

I do not propose to say more about the details of either recurrent or development spending at this stage. We shall debate the spending allocations in the Committee of Supply and I shall hold the matter over until then.

It is sufficient at this time merely to note that in this Budget I have to finance total expenditure of some K£712 million. The rest of my speech will be concerned with how I propose to do this.

External Revenue 1978/79

Firstly, development revenue. The external revenue undrawn in the current year will be available for 1978/79 and I estimate that we should draw down K£69 million compared with K£48 million this year.

Of the total of K£69 million, some K£21 million is receivable as grant and the other K£48 million as loans on concessionary terms. In the past year, one more country, Sweden, has agreed to provide all its aid to Kenya on grant terms. Others have eased the terms on which they make loans to us. A further easing of aid terms overall is vital if we are to undertake the development of the marginal areas of Kenya.

In order to finance the purchase of railway and defence equipment, further drawings will be made against commercial loans negotiated in previous years. This will finance approximately K£33 million of the expenditure total.

Thus, of our aggregate gross expenditure of K£712 million, we expect to use external revenue totalling K£102 million, some 14 per cent of the total. I am thus left to find K£610 million from local sources.

Internal Revenue 1978/79

In spite of lower coffee and tea prices, I estimate that local revenue, including local appropriations in aid, should provide some K£516 million. Long term borrowing by way of stock issues from the non-bank sector should provide me with a further K£36 million making a total of K£552 million.

I have therefore, a gap of about K£58 million. Last year I said in my Budget Speech that I was prepared to take a risk and finance K£60 million through the banking system. But as I have explained earlier, it has in the event only been necessary to depend on the banks for only K£9 million.

Even so, as Members are already aware, the rate of inflation in Kenya is already high and it would be imprudent of me to pump in another K£58 million into the money supply and cover my budget gap simply by creating new money.

This has faced me with a difficult decision. With high inflation and the prospect of a sizeable balance of payments deficit, I cannot rely entirely on deficit financing. I have to take out of the monetary system a reasonable part of the budget gap.

Last year, I was able to reduce the liquidity in the banking system by asking the banks to subscribe to Government stock. Some K£19 million was raised in this way. I feel I cannot use this device to the same extent this year but even so, I am seeking approximately K£5 million more from the banks. I propose to do this by requiring that all banks maintain a fixed percentage of their deposit liabilities in Government stocks.

GPK 958—400—6/78

Since it would be difficult for Hon. Members to identify the proposed changes in import duties within the mammoth new customs schedule, I have set them out separately in the Financial Statement and these will be available to Hon. Members at the end of my speech. I do not, therefore, intend to read out all the changes individually.

However, this year I have reduced the rates of duty on many more items than I have increased. Rates of duty on many food items are lowered from 50 per cent to 25 per cent. Amongst this list will be found vegetables, fruit and nuts, fruit juices, sauces, extracts and jellies.

Duties on soaps, candles, film rolls, polishes and creams are reduced to 30 per cent.

There are a number of pharmaceutical items - penicillin, antibiotics, etc., for which duty is removed altogether.

There are also raw material items where duty is reduced to 20 per cent; and a number of other items where varying rates of duty on similar types of machinery or components have been centralized on 20 per cent - some items up, some down. Amongst the latter can be found iron and steel rods, electric motors, television and radio parts for assembly.

The rate of duty on domestic sewing machines is reduced to 20 per cent; on typewriters, calculating machines, accounting machines, cash registers and duplicating machines to 30 per cent. Duty on computer tapes is reduced from 40 per cent to 20 per cent.

All these reductions of course have to be paid for. There are a few increases in duty, specifically designed to raise revenue.

Firstly, I propose to set up a higher rate of import duty, 85 per cent, for wine imported in bottle. I am leaving bulk wines at the existing rate of 75 per cent, so there will be a duty advantage to Kenya Wine Agencies and wine consumers to purchase wines bottled and packed locally.

Secondly, the import duty on spirits - whisky, brandy, etc. - will be increased by Sh.5/- per proof litre.

Thirdly, the duty on imported cigarettes will be increased by Sh.100/- per kilogramme, with increases also in cigars and pipe tobacco. For reasons I shall explain in a moment, these increases in tobacco duties will not be as heavy as they may seem at first.

Taking all the changes in import duties into account, including the charging of duty on goods imported from Tanzania and Uganda and the payment of export compensation on eligible goods exported to those countries, I expect the revenue to be increased by approximately K£0.4 million more than it would have achieved anyway.

NEW TAXATION PROPOSALS

Mr. Speaker, I am still left with a budget gap of K£53 million. The remaining part of my speech will be concerned with how I propose to close that gap. As usual, I ask that this part shall be regarded as being notice of a motion to be moved before the Committee of Ways and Means.

CUSTOMS AND EXCISE

Last year, when I introduced the Customs and Excise Department Bill to provide a legal framework for the establishment of Kenya's own Customs and Excise Department, I advised the House that it was my intention to publish a Customs and Excise Bill to replace East African Customs legislation.

A new Customs and Excise Bill is published today. It has taken longer than I had envisaged to prepare but the new Bill goes much further than had been our original intention. The new Bill brings together and codifies all existing customs and excise legislation. It aims to replace ten separate Acts: six Acts within the Laws of Kenya and four Acts within the laws of the East African Community.

But the new Bill not only aims to codify all existing Customs and Excise laws, it also aims to up-date the law and introduce improvements where these are felt to be appropriate. In particular, it aims to tighten up customs procedures, so as to prevent the abuse that we know has crept into the system in the last few years.

The new Customs and Excise Bill will apply the customs tariff equally to all countries - including Tanzania and Uganda. The free trade area and customs union of the East African Community has broken down completely and we have to accept that reality.

The new Bill does, however, contain a section - 118 - which will allow Kenya to enter into agreements with any other country for the mutual relief of import duty. We are prepared to talk to other countries on a bilateral or multilateral basis, including Tanzania and Uganda, about such agreements.

In addition, the Bill introduces a new customs list designed to provide a much more detailed trade classification than has been available hitherto. Since trade statistics will in future be based on the new classification, investors, market developers, trade planners and the commercial world generally will be able to obtain much more detail on Kenya's external trade than has been possible up till now. The new tariff and statistical code numbers should be brought into use by importers and exporters immediately.

IMPORT DUTIES

Generally, the rates of import duty provided in the First Schedule of the new Customs and Excise Bill are the same as under existing legislation. I have, however, taken the opportunity to introduce a number of changes, so as to push ahead further with the programme of tariff reforms I have followed over the last few years.

EXCISE

Over and above the changes in import duties, I propose to make two changes in the rates of excise.

Firstly, in order to simplify tobacco taxation, I propose to amalgamate the present sales tax and excise on cigarettes and tobacco into a single excise duty. The new single rate of excise will be a little higher than the present rate of excise and sales tax taken together; so that the price of a packet of Sportsman or Embassy will rise by 50 cents allowing for a small increase to the manufacturer. More expensive brands such as "555" will increase in price by Sh.1/- per packet, while the cheapest brands will increase by 25 cents per packet.

Secondly, the rate of excise on locally manufactured spirits - such as gin and vodka - will be increased by Sh.2/50 per proof litre.

Taken together, but without taking into account the abolition of sales tax on cigarettes, the increases in excise will bring an additional K£6.4 million to the Exchequer.

SALES TAX

I propose that there should also be increases in sales tax, particularly those items that bring in the most revenue.

The rate of sales tax on petrol and diesel oil will increase by 10 cents per litre. Taking into account some allowance for higher costs of processing and moving oil, the cost of these fuels in Mombasa will rise by 13 cents, and in Nairobi by 14 cents per litre.

The specific rate of sales tax on lubricating oils and greases will also increase by a few cents.

Once again, I am afraid, I have to look to beer. Beer prices in Kenya are cheaper than most other parts of the world and consumption continues to rise rapidly. The Exchequer must maintain its share of the total retail price, and allowing for a small increase to Kenya Breweries, a bottle of Tusker or White Cap will be 40 cents more expensive from tomorrow.

I have not increased the taxation of motor cars for a couple of years and the demand for vehicles is greater than can be met from the present foreign exchange allocation. I, therefore, propose to raise the rate of sales tax on passenger vehicles, other than the larger buses, from 15 per cent to 20 per cent. Since this is an ad valorem rate of tax, the increase in car prices will vary from model to model. The cheapest cars will incur the lowest increases in price.

I have already mentioned the small increase in rates of import duty and excise on wines and spirits. There will, in addition, be an increase in the rate of sales tax on wines and spirits from 15 per cent to 20 per cent.

The effect of these combined increases will be that the price of a bottle of imported whisky will rise by about Sh.8/-, or a little bit more allowing for higher import costs that have not yet been passed on in the price. Locally manufactured spirits will probably go up by about Sh.5/-, while wines will go up depending on the quality of the wine and whether it is imported in bottle or in bulk.

I have already mentioned the abolition of the sales tax on cigarettes and tobacco and the consolidation of the tax with the excise. In addition, I propose to continue with the procedure I have followed over the last two years of exempting raw materials from sales tax where these do not enter directly into consumption. There is a list of such manufacturers' raw materials set out in the Financial Statement, including crude vegetable oils and bottle stoppers.

In addition, I propose to exempt from sales tax completely a larger number of small manufacturers. At the moment, any manufacturer whose turnover does not exceed K£5,000 per year is not required to deduct and pay sales tax. I propose to raise that limit to K£10,000 which will have the effect of removing some 500 small manufacturers from the scope of the sales tax altogether. This will, I hope, be a boost to small industry in this country and since the collection costs of sales tax from small firms is relatively high, I do not expect any significant loss of revenue.

Overall, the changes I have proposed today in the sales tax will bring an additional K£7.3 million to the revenue in a full year.

INCOME TAX

I now turn to the income tax. There are a few technical changes contained in the Finance Bill which are consequential on the collapse of the East African Community. Amongst these is the new definition of income for tax purposes which, with effect from year of income 1978, will be restricted to income arising in Kenya and not to income arising in the partner states as a whole.

In addition, the opportunity has been taken to extend the definition of Kenya for income tax purposes to the continental shelf, since there is some possibility of resource development offshore of Kenya in the years ahead, and we should make it clear now that Kenya proposes to exercise tax jurisdiction over the continental shelf in that event.

Secondly, I am now convinced that the system of tax clearance certificates introduced some years ago has served its purpose. The cost of administering the present scheme outweighs any revenue benefits. Accordingly, the requirement that all residents travelling overseas should obtain a tax clearance certificate is abolished with immediate effect. I am sure that this move will be appreciated by the travelling public.

I propose, however, to reserve one safeguard for the revenue. When an individual applies to Exchange Control for emigration treatment, he will be required to show that he has cleared off any income tax liability before Exchange Control permission will be granted for an emigration allowance.

Thirdly, I propose to close a tax loophole under which shareholders of private companies have avoided tax under section 24 by converting themselves into public companies. Section 24 deems dividends to have been paid to the shareholders even though they may not be declared. That provision will now apply to public companies as well as private companies. No genuine company that retains profits for development need be concerned by this amendment. It is simply an anti-avoidance measure.

Fourthly, I am convinced that farm employees who are required to live on a farm under the terms of their employment are taxed unfairly when they are charged for the value of their house at 15 per cent of their emoluments. I propose, therefore to reduce the housing charge for agricultural employees to 10 per cent of emoluments.

Fifthly, the allowance for tax free fringe benefits has remained unchanged at Sh.1,000/- per year for many years. In the light of inflation, I propose to raise this amount to Sh.2,400/- per year which will allow works canteen lunches and similar minor fringe benefits to be free of tax.

I explained to the House last year that I was concerned at the amount of tax evasion in Kenya and that this was having the effect of reducing the revenue received by the Exchequer. Increased efforts by the tax department in the last year have significantly reduced the impact of evasion and income tax receipts have been much closer to the total that should be collected.

Revenue is, however, still affected by taxpayers delaying their tax payments beyond the date they are due and my sixth income tax measure today is to increase the penalty for late payment of tax from five per cent to ten per cent of the tax due.

This will not affect any law abiding taxpayer who pays on time but anyone who is late in his payments will suffer a heavier penalty than previously with effect from next year.

My next income tax proposal is also concerned with tax avoidance. It has been possible under the existing Act for the taxpayer to run a business at a loss and to deduct that loss from other taxable income, so that he ends up by paying little or no tax, although it is obvious to all that he enjoys a very high standard of living.

With effect from 1979, that will no longer be possible. Losses of business income will only be allowed for set off against profits of that typ of business and not against other income. Business losses can still be carried forward but not set off against employment income, rents, etc. This is, I think, an important improvement in our tax legislation.

My last change for this year affects the income tax chargeable on capital gains. There has been some technical difficulty over the working of the section of the Act that limits the rate of tax chargeable on this type of income. I, therefore, propose to drop that section - 34A - and to simplify the system by charging to tax only one-half of the gain realised by an individual on the sale of property. This will have the effect of reduci the impact of tax on capital gains for everyone, not just those paying tax at the top rates. I am making this change retroactive to year of income 1978.

Finally, Mr. Speaker, I propose no changes in rates of income tax for 1979. The rates I announced last year to take effect in 1978 will continue in force for 1979.

And so Mr. Speaker, these are my taxation proposals for the coming year. In total, I expect to increase taxation by approximately K£14 million, and thus reduce the Budget gap to about K£40 million. This is still a higher gap than I would like to see but we are working with forecasts of national income even more uncertain than usual.

If coffee production is not as bad as we now fear, if the recovery of coffee prices in the last couple of weeks is something more than temporary or if exports of non-traditional products can be expanded at a faster rate, the Budget deficit could be smaller than now seems likely.

In some ways, this year's Budget is highly technical with the emphasis being on the reform of tax and financial legislation rather than the introduction of substantial new tax measures. Provided the House approves the measures I propose, some 37 separate pieces of legislation will be removed from the statute book and replaced by legislation that will be more easily understood by Hon. Members of this House and the general public.

Although we shall still no doubt make changes in our taxing Acts from time to time, the main thrust of our tax reform programme has been completed with the implementation of Kenya legislation for income tax, sales tax and now customs and excise.

Our economy has recovered well from the strains of 1974-76. It is now stronger than it was then. As I explained, however, the forecast is for new difficulties ahead in 1979. I believe we are now better placed to face those difficulties and I am confident that we can face them without undue hardship.

At the end of this year, we shall publish our fourth Development Plan to map our path for the next five years. My Budget is designed to prepare the way for the new Plan.

Mr. Speaker, I beg to move.