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GOVERNMENT REVENUES AND EXPENDITURES IN KENYA WITH EMPHASIS ON TRENDS AND COMPOSITIONS

by

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"To my beloved wife, Agatha,

and our lovely children,

Naomi, Martin and Emma,

who have braved the pain of loneliness

and faithfully upheld me in prayers

through the year of study."

ABSTRACT

Since the Second World War, the role of the public sector has expanded significantly in most economies. This is evidenced by total Government expenditure's share in GNP which averages 30 per cent and 25 per cent for developed and developing countries, respectively. It is thought the expanded role of Government which is financed mainly by taxes comes as a result of the Government's power to allocate resources efficiently where the market fails to do so and from its ability to provide relief to the poor.

The public finance literature review presents methods of identifying tax capacities for both developed and developing countries. Some of the methods used in developed countries are not found to be applicable in developing country. The study examines the composition and trends of expenditures and revenues in Kenya, between 1964/65 to 1986/87.

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LIST OF CONTENTS

Page No.

CHAPTER 3

Page No.

CHAPTER 4

CHAPTER 5

LIST OF TABLES

Page No.

Page No.

CHAPTER 1

CHAPTER 1

1.0 INTRODUCTION

1.1 Purpose Of Study

The purpose of the study is mainly to investigate trends of revenues and expenditures of the Central Government of Kenya. Attempts have been made to examine the sources from which the Central Government of Kenya receives its revenue and how this has been related to the growth in Gross National Product (GNP). Also, attempts have been made to find out where expenditures are incurred. The expenditures have been related to revenues to find the financial gap and how this gap is met.

GNP share of various types of outlay and the allocation of available financial resources among the competing activities are examined to establish the trends and compositions over the years. In addition to this domestic analysis of the total and individual items, comparisons are made with other countries to determine whether Kenya reflects patterns elsewhere.

One question which is intended to be answered is whether Kenya Central Government revenues, expenditures and Gross National Product follow similar patterns. Individual items of expenditures will also be examined to find out what happens to them when revenues change.

Many countries and organisations such as World Bank, International Monetary Fund, International Development Agency, African Development, European Economic Community, Commonwealth Development Corporation have shown considerable interest in the economic affairs of Kenya and as a result they are assisting many projects in Kenya. The assistance in the form of grants and loans they are offering will be highlighted. The foreign assistance never covers the financial gap, so the Kenya Government receives loans from its local financial institutions. This aspect of financing is also mentioned, because Kenya's interest and loan repayment expenditures are partly to local debtors.

1.2 Methodology

The methodology of the study used is the time-series analysis involving the calculation of ratios, percentages, of revenues and expenditures for comparison. Apart from the domestic comparisons, comparisons are made with other countries to find out if they have similar patterns and composition of Central Government expenditures and revenue sources.

1.3 Data

Data were obtained from various sources and this has been indicated in various tables used. However the data used are largely from various issues of Economic Surveys and Statistical Abstracts of Kenya Government ranging from 1968 to 1988. Sometimes it was noticed that later issues of the documents had different figures for the same year, in this case later issue figure were preferred. Where also such documents like the Government Finance Statistical Year Books and International Finance Statistical Year Books figures were used and they were found to differ substantially from Kenyan sources, the Kenya sources were preferred especially if they are of recent issue than those documents. Deflator from IFS

Year Book 1987 is used to minimise bias that could have occurred as a result of windfalls or disaster in any one year.

The period of study is twenty three years, i.e. from 1964/65 to 1986/87. Since Kenyan Financial Year starts on 1st July and ends 30th June of the next year, the study adopted the same periods to avoid any difficulties of converting figures to match calendar years. The analysis adopted is that of dividing the years into five year periods to match the Kenyan development plans which cover five years. It is only 1979/80 to 1986/87 which covers eight years because the current development plan period will end 1988/89, so it was decided to lump together its three years with 1979/80 to 1986/87 for the convenience of the analysis. It is noted that in some four cases the periods of analysis does not follow exactly the five years or the length of twenty three years is not covered, this is due to availability of data which illustrates the analysis better.

The next part of this chapter will try to highlight the features of the Kenyan economy. First it tries to give background information on the Kenyan economy on such aspects as population, composition, and main policies of the government, then it goes further to mention some of the recent economic problems which the country faces. Efforts to solve these economic problems have been pointed out.

The system of Budget has been briefly outlined in the same chapter and main tax reforms since independence have been mentioned. Future guidelines on tax reforms have also been listed.

Chapter 2 of the study contains the literature reviews on the subject of government revenues and expenditures that have been done by other people and organisations. Appendix I is included at the end to show the different sources of revenue in Kenya.

Chapter 3 has gone into analysing the expenditure patterns, and composition of central government of Kenya. As already mentioned in the methodology, the analysis used is time-series for twenty three years. The expenditures are first analysed on total basis and thereafter, they are broken down into various classifications, and analysis done on that basis also. Relationship with budget and actuals is highlighted at the end of that chapter.

Chapter 4 deals with revenue, composition and patterns of it. This is also analysed for twenty three years and on the same time-series analysis as expenditures. It also contains graphs which depict various relationship with GNP, expenditures and the individual items of the total revenue. Also highlighted is the fact that Kenya Government has a financial gap which is normally covered by loans and grants from other countries.

Chapter 5 finally gives a summary and conclusion to the study.

Current prices are used in cases where clarity of some points are better made with the use of those prices and that is clearly indicated.

* 1985/86 and 1986/87 figures are provisional.

1.4 Highlights On The Kenyan Economy

1.4.1 Background Information On The Economy

The 1979 Census[1] indicated that Kenya's population had reached 15,327,061 with an annual growth rate of about 3.8 per cent. At mid-1983[2], Kenya's population was estimated to be 18,784,000 with an annual growth rate of 4.1 per cent. This is the highest rate in the world.

Agriculture[3] accounted for 32.5 per cent of the Gross Domestic Product in 1982 compared to 42 per cent in 1977. About 78 per cent of the working population make their living on the land, while 22 per cent of the people in paid employment are in the agricultural sector. Unlike many other less developed countries in Africa, Kenya produces a wide variety of cash crops which helps to make its economy less vulnerable to fluctuations in export prices.

Manufacturing[4] contributes 15.8 per cent of the Gross Domestic Product as at 1983. Only a few countries in Africa, south of the Sahara have a higher rate. Exploration for petroleum[5] has been going on for many years, but with no tangible results. Electricity, apart from small local stations, is supplied inland by hydroelectric plants in Tama River Basin and by the geothermal station at Olkaria and at the coast by an oil fired plant.

State enterprises[6] include financial institutions, parastals running various activities ranging from tourism, Hotels, industry, agricultural corporations etc. (1983 it was estimated that the Government was involved in 323 organisations in one way or another).

Kenya's[7] income per capita is estimated at $290, which makes it one of the low-income economies of the world.

Since independence in 1963[8], the Kenya Government has encouraged the growth of a "mixed" economy where private and public enterprise coexist. The Government has favoured increasing public participation in the economy, expanding cob-operative institutions, encouraging and actively promoting self-help schemes and at the same time reflecting private ownership, coupled with an increasing domestic share in that ownership. The Government has tried over the years, to create institutions, and an environment, which would facilitate the achievement of its major objectives, production of investment in new activities, production of key inputs required for growth, acceleration of economic growth and the achievement of sound economic management.

At[9] independence, the Government produced a document called "Session Paper No. 10 on African Socialism and its Application in Kenya" to guide it in implementing the above policies. The Paper lays down processes and strategies to be followed in all future political, social and economic actions. To this day the Session Paper continues to be an important guiding document. As its main objectives, it says that "rapid economic growth is necessary" to achieve high growing per capita incomes, equitably distributed so that all are free from want, disease and exploitation. This Paper has through the years influenced strongly the focus of the strategy on the modern sector activities.

The country has made considerable strides in the fields of education, communication, agriculture, and many other sectors of its economy. On the next page is a table which shows how the Gross Domestic Product has grown over the years in percentage.

Despite the impressive growth rates, in some years, Kenya has had its share in international economic crises. In the mid-1970, the oil crisis made the economy slow to 1.2 per cent growth rate as shown in the table.

TABLE 1 : ANNUAL GDP GROWTH RATES 1972-80

Years	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
%tage	7.0	4.1	1.2	5.6	8.6	6.6	4.1	2.4

Source : Kenya Government Statistical Abstract 1975, 1978, 1982.

1.4.2 Recent Economic Development

In the 1980s' Kenya has been faced by formidable problems, these are mainly not only international but also domestic. The problems are as follows :

(1) Worsening of balance of payments deficit occasioned by sharply deteriorating terms of trade and rising debt service payments.

(2) Budgetary deficits - this is due to the downwards trend in prices of major exports, so enough revenues cannot be raised to meet expenditures.

(3) Kenya has at times faced severe drought which forced it to import massive amounts of foodstuffs in 1984.

(4) The other problem that Kenya has experienced is the protectionist climate that has developed in the industrialised world for several years now and continues to harm the developing countries and this limit their ability to break out of stagnation and poverty.

In countering the above problems, the Kenya Government has tried to work out some solutions. For example, to solve the budgetary deficit the Government appointed "a Working Party on Government expenditures in 1982" to report how best this problem can be tackled. The reference terms to the Working Party was[10]; "To recommend urgent and practical measures for containing

Government Expenditures within the level of limited Government Revenue Receipts." Below is a table which demonstrates the problems as at 1982.

TABLE 2 : REVENUES AND EXPENDITURES AS PERCENTAGE OF GDP AT MARKET PRICES, 1976/77 - 1980/81

	1976/77	1977/78	1978/79	1980/81	1980/81
Total Expenditures	24.7	30.1	32.2	31.6	35.5
Current Revenues (Excluding grants)	19.3	24.1	23.6	25.1	25.6
Deficit	5.4	6.0	8.6	6.5	9.9
Foreign grants	0.7	0.5	0.6	0.8	1.3
Required Borrowing	4.7	5.5	5.7	5.7	8.6

Source : Working Paper on Government Expenditures 1982, p. 7, Republic of Kenya.

The Working Party came out with some of the following recommendations which have been implemented :

(1) Decentralisation of all planning and implementation of Government projects. This is intended to make efficient use of Government resources.

(2) Government to disinvest in some of its non-profitable projects.

(3) Tight control on use of Government vehicles and machinery.

(4) Reduction in participation by Government in commercial activities.

All the above and many other recommendations covering all the economic development of Kenya were again outlined and projected in "Session Paper No 1 on Economic Management for Renewed Growth of 1986." The Paper covers the period up till the year 2000. the main theme of the Paper is the efficient use of resources for faster economic growth. All future five year development plans (which Kenya has produced since independence) will be based on this Session Paper plus the Session Paper No. 10 on African Socialism of 1965. On Government revenue, it has the following recommendations:

(1) Revenues should be raised to 24 per cent of GDP over a number of years in order to permit expenditures to grow at an average of 5 per cent per year from 1984/85 - 1999/2000.

(2) The tax structure should favour savings and investment, thus placing the greater burden on taxation of consumption. Any disincentives to investment will be removed.

(3) The tax structure will have to promote rural-urban balance and meet other goals of an equitable distribution of income.

(4) The new structure must advance Kenya's structural adjustment by extending recent changes, especially in import duties and export compensation that make industry more competitive, reductions in Preferential Trading Area import duties which are among the more important changes to be accommodated.

(5) Tax revenues must be responsive to changes in Gross Domestic Product so that Government revenues will keep pace with income growth without annual change in rates.

(6) Taxes must be collectable and enforceable at low cost.

1.4.3 The Budgetary System

Kenya has scrupulously maintained the inherited tradition of parliamentary approval of budget estimates, financial appropriations, and audit, with the addition only of improvements in the presentation of the Budget accounts and the introduction of systematic forward budgeting.

The budgetary process has two main purposes, first to give effect to the orderly planning of Government's expenditures and raising of revenue, and secondly, to provide a method of control over the actual spending of Government Departments[12].

The system of "treasury control" over the spending activities of the other Government Ministries plays a very important role. The treasury in turn is sanctioned by the Cabinet and Parliament.

Expenditures are formulated in two parts - i.e. Recurrent and Development Estimates. These estimates are examined and debated in Parliament, which ultimately approves them after debate.

At the present time the construction of the expenditure estimates is a three stage process, namely :

(1) The five year forward budget embodied in the Development Plan.

(2) The Draft estimates which are constructed with the framework of a three year rolling plan.

(3) The annual expenditure estimates submitted to Parliament for approval.

1.4.4 Tax Reforms[13]

The following reforms to the Kenyan tax system have taken place since the early 1970s' :

(1) Sales tax was introduced in 1972/73 Budget, becoming fully operational the following year at a rate of 10 per cent on

manufactured goods locally produced, and imported with a number of exemptions including foods such as flour and sugar. Medicine and fertilizers were also exempted. Petrol, beer and electricity which had been liable to consumption tax at specific rates from mid-1972 continued to be subjected to specific sales tax. Consumption taxes were abolished.

(2) Poll tax which was a form of flat rate income tax was abolished in 1972.

(3) In 1975 capital gains tax was introduced but it was discontinued on 1st July, 1985 because of administrative difficulties.

(4) Other changes that have been effected is either increasing, abolishing or decreasing the tax rates in order to achieve some fiscal policy. All these changes are normally effected in the Budget.

KENYA : FACT SHEET

Area : 224,081sq m. Population : 20.3m (1985e) +4.0% pa (1975-85e).

President : Daniel arap Moi (1978-)

Political system : One-party state ruled by Kenya African National Union. Unicameral legislature (172 members, 158 of whom are elected). Five maximum term.

GNP : KShs 82.8bn, $5.3bn; per head KShs 4,249, $269 (1948e).

GDP demand : % Consumption (private) 65.7 (Government) 18.1, fixed investment 17.8, stocks 0.7, exports 25.4, imports -27.7 (1985).

GDP supply : % Agriculture 30.9, manufacturing 12.6, other industry 7.9, services 48.6 (1985).

Changes % pa	1981	1982	1983	1984	1985	1981-85
GDP : (1982 prices)	3.9	1.7	3.7	0.4	3.9	2.7
Consumer Prices : (an av)	11.8	20.5	11.5	10.1	13.1	13.3
Money Supply : M1 (an av)	2.8	5.6	12.2	13.2	8.9	8.5
Govt deficit : (% of GDP)	8.7	7.0	3.7	4.5	6.0e	6.0

Exports : Shares % : Coffee 27.0, tea 25.1, petroleum products 17.4, fruit and vegetables 3.8, cement 2.3. Customers % : UK 16.9, west Germany 11.6, Uganda 8.7, USA 6.7, Netherlands 6.6 (1985).

Imports : Shares % : Fuel 31.4, industrial supplies 29.7, machinery & capital equipment 15.0, food & beverages 9.1, transport equipment 10.2. Suppliers % : Saudi Arabia 18.6, UK 13.7, Japan 10.0, West Germany 8.0 (1984).

Exchange Rate : Kenyan Shillings 15.7 =$1, KHs 23.4 = £1 (Dec 1986)

	1981	1982	1983	1984	1985	1981-85
KShs per $:(% an av change)	35.9	23.7	8.4	14.4	3.9	16.6%pa
Fx receipts : $bn	1.8	1.6	1.6	1.8	1.7	5.7%pa
Fx payments : $bn	2.6	2.2	1.7	2.0	1.9	-4.5%pa
Current account : $bn	-0.7	-0.5	-0.1	-0.2	-0.2	-1.8cum
External debt : $bn	2.7	3.3	3.4	3.8	3.9	1.3cum
Debt : fx receipts :	1.50	2.06	2.13	2.11	2.29	14.2%pa
Off reserves : ($bn)ex gold	0.23	0.21	0.38	0.39	0.40	-0.24cum

Gold : 0.08m oz (Oct 1986). IMF quota : SDR 142.om.

Source : Kenya Economic Report 1986, Lloyds Bank, London.

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CHAPTER 2

CHAPTER 2

2.0 PRINCIPLE OF TAXATION AND GOVERNMENT EXPENDITURES

Like any other social and economic organisations, a Government needs funds to run its affairs. In olden days, the role of the State (Government) was primarily that of ensuring maintenance of law and order and providing for the defence of the country. Virtually all social and economic activities were left in the hands of the private sector.

The modern state, however, recognised the need for the State's intervention in both economic and social activities of the economy. There are some essential social services such as the provision of health and education which cannot adequately be provided by the private sector. These services and many others have now been taken over by the State. Besides the provision of these social services, the modern states have also engaged in some commercial and industrial activities in order to enhance economic growth through the provision of goods and services to supplement those provided by the private sector.

To meet all these responsibilities, modern Governments require sufficient funds. Since the State is a non-profit making organisation, it has to turn to its citizens for the funds required to finance its affairs. There are various means which a Government can use to raise revenue from its citizens. The main way of raising revenue is through taxation.

Public Finance deals with the policy of collection and application of public resources by Governments. The collection of resources comprises the collection of both local and foreign resources. Domestic or local resources incorporate taxes as a major item, Government borrowing, and other miscellaneous resources, whereas foreign resources are basically loans and grants.

As mentioned above taxes form a major portion of Government revenues. However, apart from being a means of raising revenue, taxes can have various impacts on the economy as well as on individuals. The impacts may be adverse or good depending on the tax system. Livingstone I. and Ord H.W.[1] have enumerated the following criteria for a "good" tax system :

(1) Its effect on the supply and allocation of resources. They say that taxation should not disturb supply and lead to the re-shuffling of existing resources. In developing countries, they point out that particular attention has to be paid to the disincentive effects of various taxes on labours' willingness to work, or on the voluntary supply of savings and enterprise.

(2) Its effect on the distribution of income and employment. Livingstone and Ord argue that a tax should satisfy horizontal and vertical equity. By horizontal equity, they mean "like treatment of equals"; i.e. people with equal incomes should be taxed equally. For vertical equity, they argue that people should be taxed according to the "benefits principle"; that is, those who get the services should be the ones to pay the taxes. Another approach to vertical equity is to apply "the principle of ability to pay" : that people should pay taxes according to how much they are able to pay. Whichever approach is followed however, the principle of equity is difficult to achieve because in the case of the "benefits principle" you may not be able to identify who really benefits, and in the case of ability to pay, it may not be the best because when the Government provides services such as defence, some people may benefit for what they have not paid for. Whatever the

case, the criteria of equity requires a tax system as a whole to produce a distribution of income which is equal or as equal as possible, they argue.

(3) Its effect on the stability and growth of aggregate income and employment. They argue that one of the economic functions of Government is to stabilize the level of aggregate income and employment by appropriate policies, including fiscal policies, which means using the Government discretionary powers of taxation and public expenditure to smooth out fluctuations in activities in the domestic economy.

(4) It should meet administrative efficiency, and convenience to the tax payers. Administrative efficiency means that too much resources should not be used for its administration, and of course, it should not give tax payers undue hardships.

They conclude that most taxes do not meet all criteria, but there should be a compromise between the economic and social objectives in introducing any tax system. Incorporating a combination of various forms of taxation would probably be the best because each of the criteria would be achieved in one way or other. As already suggested, there is also the possibility of using foreign loans and grants in the short run to augment domestic savings and export earnings to permit a higher level of capital formation.

2.1 Expenditure And Taxation In Developing Countries

Prest[2] notes that there have been marked upward movements in recorded expenditures and revenues in developing countries in relation to their Gross National Product (GNP) especially in post-war period. He attributes such increases to the following factors:

(1) Rapid rise in population. He says that any increase (even the smallest) in population calls for more public housing, sewers, water supply, etc. There are ample evidence as concerns population increases in developing countries.

(2) The other factor he calls local pressures placed on the Governments. These pressures come from citizens who want better living standards and they believe that can only be provided by the Government. Prest also talks of the newly independent states with their rulers usually anxious at least to give the appearance leading the people to the "promised land"[3]. So the Governments have made ambitious plans, some of which are unattainable.

(3) The other factor he calls "world opinion". Prest says that at international conferences international agencies, the main item on the agenda is usually, "developing countries and their problems of economic development."

The increasing role of Government resulting from the above factors inevitably calls for increased Government expenditures. Therefore, the need to raise Government revenues becomes compelling.

The dominating objective for all developing countries is faster economic growth. When the local domestic revenues do not meet the expenditures, the developing countries have to find assistance from elsewhere.

This assistance is often loans and grants from developed countries and other international agencies, or domestic borrowing. The assistance from external sources is normally limited. That is, because those countries which could give grants have limited funds or they may be too concerned with political affiliations.

As to whether Government intervention in economic development is legitimate or not is not ours to decide but at the moment, many developing countries are deeply involved in economic development. Kaldor[4] points out that in connection with economic development, there are generally two different points of view which involves quite distinct, and often conflicting, considerations; the point of view of incentives and the point of view of resources. Those who believe that it is the lack of adequate incentives which is mainly responsible for insufficient growth and investment are concerned with improving the tax system through granting of additional concessions of various kinds, with less regard to the unfavourable effects of the public revenue. Those who believe that insufficient growth and investment is mainly a consequence of lack of resources are chiefly concerned with increasing the resources available for investment through additional taxation, even at the cost of worsening its disincentive effects.

He concludes that a great deal of the prevailing concern with incentives is misplaced, except in particular cases, such as tax concessions granted to foreigners which may increase the inflow of capital from abroad. He says that it is shortage of resources, and not inadequate incentives, which limit the pace of economic growth. He further says that the importance of public revenue from the point of view of accelerated economic development could hardly be exaggerated. The economic and cultural development of a country requires the efficient and steadily expanding provision of a whole host of non-revenue-yielding services such as education, health, etc., which require to be financed out of Government revenues. Taxes and other levies provide the most appropriate instrument for increasing savings of capital formation out of domestic sources. He further argues that taxation of agriculture has a critical role to play in the acceleration of economic development since it is only the imposition of compulsory levies on agricultural sector itself which can be relied on to increase the supply of food for sale, and thus enlarge the supply of "savings" in the required sense for economic development.

John Due[6] argues however, that framing of the tax structure must give particular attention to the minimisation of adverse effects and maximisation of incentive reactions which further the attainment of the goal. He argues further that the extent to which the above objectives can be attained will, in turn, constitute an important element in the determination of the optimum rate of economic growth, which cannot be defined without regard to the tax-incentive factors. He says that unfortunately two problems are encountered. First, the type of tax that most successfully recovers for the Government a portion of the gains of raising national income is also the type that is most likely to interfere with incentives. Secondly, the general tax environment of an underdeveloped economy is unsuited to a high degree of perfection of the tax structure. He mentions various significant features of such an economy which include low levels of literacy and poor record keeping, inadequate numbers of trained tax administrators and auditors, etc.

Whatever the case, the Government needs both a tax that increases revenue and at least encourages incentive effects. Some level has to be maintained. As discussed earlier, there is no such thing as the "best" tax; Livingstone and Ord[7] concluded that with all the criteria of a good tax system, some combination has to be achieved depending on the environment of each individual country.

It should be mentioned also that some "good" combination of criteria is not enough. Other problems could arise. Such problems are dishonest tax officials and the administration of the whole tax system could be ineffective in achieving the desired goals.

Prest[8] argues that the basic factor which determine the amount of tax revenue is the real income per head. He discounts, however the other factor of the degree of inequality in the distribution of income suggested by Kaldor[9] because he argues that where benefits cannot be easily seen, such a factor will lead to disincentives which will lead to less income and thus less tax.

Prest[10] says that the popular approach to determining the amount of tax revenues is the use of econometric techniques to obtain measures of taxable capacity and tax effort on the basis of inter-country comparisons. Basically the techniques define taxable capacity on the basis of what one might expect a country with given characteristics to do in the taxation field.

2.2 Trends And Compositions Of Expenditures And Revenues In Developing Countries

The studies done on trends and composition are based on Tax/GNP ratio and percentages only, and they are cross-sectional analysis thus enabling inter-country comparisons. Various studies have shown that Government current revenues and current expenditures (as a percentage of Gross National Product) increase with economic development.

Oshima[11], in his study of the early post-war years 1948-54 recorded twenty developed countries with Government Revenue/Gross Domestic Product ratios averaging between 19 and 25 per cent. Twelve less developed countries are recorded with ratios averaging between 8 and 19 per cent. There is a big difference between the average income levels of the developing and the developed groups. He attributed the differences to the greater productivity of high-income countries which raises their taxable capacity. He argues that much more is left for Government after essential consumption needs are met.

Martin and Lewis[12] in their study based in 1953-54 found six developed countries with Revenue/Gross National Product (at factor cost) ratios ranging from 23.53 to 37.09 per cent and ten less developed countries with ratios from 8.41 to 22.2 per cent. The purpose of their study[13] was to see how patterns of expenditures and sources of revenues vary with economic development in the hope of discovering in this process what patterns are appropriate to different levels of development. In the case of expenditures, they concluded that it is not unreasonable to conclude that Governments of countries making special development effort will find themselves spending between 19 and 22 per cent of their Gross National Product. In the case of expenditures, they distinguished "basic" Government expenditures from those of defence, public debt (post-wars) and agricultural subsidies. When only "basic" expenditures were compared, the rich countries did not show great differences in terms of percentage of National Income. They maintain that Government's share of income for these "basic" expenditures (i.e. civilian, administrative, services, health and education) has increased over time, not because countries were richer but because they have a different conception of the role of the State. Thus, as the poor countries of today become infected with this view of maximum instead of minimum Government, their expenditures for the "basic" expenditures have risen and will continue to rise.

J.G. William[14], in his study used univariate regression analysis and had 33 countries in his sample, 17 from high income and 16 from poor countries. The period covered was from 1951-1957. He used three types of measurement to determine the Government's share in income, i.e. current expenditures on public services, total current revenues and total current revenues less the expenditure on national defence. High income countries showed Revenue/Gross National Product ratio ranging from 20 to 25 per cent while low income countries showed 9 to 21 per cent. In the case of expenditure, high income countries showed Expenditure/Gross national Product ratio ranging from 14 to 28 per cent while low income countries countries showed 6 to 22 per cent. For all 33 countries, he found a close fit with correlation coefficient of 0.73 and 0.70 for total current revenues and current expenditures, respectively. However, for current revenues less the expenditure on national defence, the correlation coefficient of 0.53 was not good. So, he concludes that there is a definite positive current expenditure and total revenue correlation between per capita income and the Government's share. His study further shows that from low income to middle income the share of Government in revenues and expenditures increases rapidly with respect to per capita income while the rate of change lessens with movements to high income nations.

Hinnrich's[15] sample was 60 countries. He used multiple regression to identify determinants of Government's revenue shares. His study covered the period 1957-60. He concluded that "openness" (imports as a share of Gross National Product) is a superior indicator of Government's revenue share for less developed countries with a per capita below US$300. "Openness", he says may serve as a better estimator for poor countries' "taxable capacity" than the usually employed per capita income measure.

Prest[16] refers to the studies by Chelliah and Tait and comments that on the revenue side by the end of 1960s, ratios of tax revenue to Gross National Product at market price was around 15 per cent compared to a typical developed country figure of 25 per cent (or over 30 per cent including social security). In the mid-1970s, he says the respective figures were 16 per cent and 26 per cent (34 per cent including social security). On the expenditure side, he points out that the figure is 13.6 per cent for developed countries and 13 per cent for developing countries. He suggests that the explanation of of the contrast between the revenue and expenditure data is to be found in the much greater relative importance of transfer payments in more developed countries.

Chelliah[17]conducted studies for two periods, 1953 to 1955 and 1966 to 1968. His sample included 27 developing countries for the first period and 50 for the second period. The second study was a cross-section review. His studies are more intended to assess tax ratios and tax efforts in develpoing countries. He concludes that overall Tax Revenue/Gross National Product ratio increased with development. He confirmed this by comparing the ratios of less developed countries with those obtained from developed countries. He recorded 14 per cent for developing countries compared with 25 per cent for developed countries, both excluding social security.

In addition to the per capita income, the studies indicated that the structure of the economy may also affect the tax ratio. The degree of "openness", the share of agriculture, mining and manufacturing in Gross National Product are all said to be positively related.

Tait, G. and Eichengreen[18] examined a sample of 63 developing countries. Sub-samples were also created by income group and separate regressions were run according to such factors as population, National Income, per capita income, share of foreign trade in Gross National Product, share of mining and/or share of agriculture in Gross National Product. Tax revenues, as the dependent variable, were regressed on the above factors. Their study covered the years 1969-71 for 47 countries and 1972-76 for 63 countries. The 1969-71 study was basically to update Chelliah's early study. In their study the predictive values were important for their analysis. By dividing the actual taxes into the predictive values of taxes, they attempted to establish tax efforts which they renamed International Comparison of Taxes Indices (ITC).

Their studies indicated that tax revenues in every country changed with the levels of economic development. Some categories of taxes are found to contribute little at the low stages of economic development whereas others provide a substantial proportion of revenues at a high level. The ranking of countries by use of International Tax Indices provide a better measure of tax effort than the simple tax ratio. It provides information about the capacity of countries to respond to fiscal problems by raising the level of taxation.

Prest[19] argues that a country may have a higher income per head than another but a low ratio of tax to Gross National Product ratio. He suggests that this might be due to the slackness in imposing or collecting taxes, and he comments further that there is no necessary implication that a country which appear to be making a low tax effort should make a higher one. The low tax ratio in developing countries, Prest argues, is not explained by a lack of pressure for public spending but rather by constraints of taxable capacity.

Prest also notes that regression analysis have not been successful in expenditure analysis, that is why for expenditure analysis only Expenditure/Gross National Product remains the only technique at the moment.

Parmena William[20] in his study conducted in 1976 for comparing 21 African countries' tax effort, argues that tax effort should focus on the tax-to-tax base ratio (T/B) rather than to Gross National product ratio. The tax base themselves are defined as components of Gross National Product rather than the legal tax bases which vary from country to country and over a period of time. He extends the concept of tax effort to include time dimension so that T/B in the base year is considered the static tax effort, while the change of this ratio over a period of time is taken as the dynamic tax effort (the coefficient of the dynamic tax effort is taken as the buoyancy of the tax base - buoyancy, he defines as the percentage change in tax revenues associated with a unit percentage in tax base, whereas the elasticity of the tax to base is the percentage change in tax revenues induced by one percentage change in tax base). He argues that the need for considering the ratio of tax to base rather than tax to income is underlined by the fact that changes over time in T/Y ratio are not accurate measures of tax effort once the difference in taxability of the various bases is recognised. He concludes that the bases are defined to suit African economies.

2.3 Composition Of Expenditures

Prest[21] points out that a number of countries have adopted the common form of classification of Government expenditures provided by International Monetary Fund. Below is a table which shows a functional classification for developed and less developing countries.

TABLE 3 : COMPOSITION OF TOTAL CENTRAL GOVERNMENT EXPENDITURES, 1978 - 1980 AVERAGES (PERCENTAGES)

FUNCTIONAL CLASSIFICATION

Type of Expenditure	Non-oil developing countries (average)	Industrial countries (average)
Defence	14.0	13.9
Social Security & Welfare	18.0	37.6
Education	10.9	5.4
Health	4.8	11.7
Housing	2.3	2.5
Economic Services	24.9	11.3

Source : Public Finance for Developing Countries, by A.R. Prest.

The major contrast in the above table 3 is between the proportion of expenditure devoted to social security and welfare (plus health) in the two sets of countries. This is to be expected, Prest notes, given the differences in income levels and the extensive systems of aid by kinsfolk, members of the same ethnic group and so on in many developing countries.

Turning to the economic classification, table 4 below shows that industrialised countries spend much more on subsidies and other current transfers while developing countries spend much more on current goods and services. Prest notes that there is an obvious relationship between the spending in the economic classification for industrialised countries on subsidies and other current transfer to social security and welfare. He comments that the greater relative importance of capital expenditure in developing countries is very clear evidence of the way in which the pressure for economic advance has pushed and pulled Governments into a major role in the working of the economy.

TABLE 4 : TOTAL CENTRAL GOVERNMENT EXPENDITURES 1978 -1979 AVERAGES (PERCENTAGES)

ECONOMIC CLASSIFICATION

Type of Expenditure	Non-oil developing countries (average)	Industrial countries (average)
Current Goods & Services	36.0	27.2
Subsidies and other Current Transfer	29.9	55.9
Interest Payments	8.1	7.0
Capital Expenditure	16.6	6.2
Lending minus Repayments	9.8	3.6

Source : Public Finance for Developing Countries, by A.R. Prest.

Burrow John[22], the author of the Report of a mission sent to Kenya by the World Bank in 1975 says that recurrent expenditures on administration and defence has been claiming an increasingly larger share of Government resources in recent years in many African countries. He notes that fortunately that has not happened in Kenya which spent at most 11.9, and 14.2 per cent on administration and defence, respectively for the period of his study of 1964/65 to 1972/73. He, however notes that education is taking an increasingly bigger share than any other sector. At most, 37 per cent were spent on education and 17.9 per cent on economic services.

On capital expenditures, he says that they are growing very rapidly. The growth rate had been 25 per cent per annum since independence.

On current goods and consumption, he notes that there is a danger if the Government is forced to increase its labour force under political pressure. There may reach a time when the amount spent on goods and services could be very high (tables of his analysis covering the period 1964/65 to 1972/73 are attached).

The conclusion from his expenditure studies are not different from other developing countries as presented by Prest. The only difference is education in which Kenya is probably the highest spender in the world.

2.4 Composition Of Revenues

According to Prest, the difference in direct taxes exist because the proportion of the population liable to pay tax is less than 5 per cent in developing countries, whereas it is as high as 35 to 40 per cent in industrialised countries.

TABLE 5 : PERCENTAGE OF CENTRAL GOVERNMENT REVENUE (1978-80)

Type of Revenue	Non-oil developing countries	Industrial countries
Tax on Income and Profit	24.2	41.5
Domestic taxes on Goods and Services	31.6	15.8
Taxes on International Trade	17.5	1.8
Social Security Tax	16.3	32.2

Source : Public Finance in Developing Countries, by A.R. Prest.

Due[23] also argues that income tax is widely accepted as the most suitable primary source of revenue and suggests that it is progressively used to raise revenue where incomes are above subsistence.

The problems of literacy, subsistence agriculture and the administrative difficulties of income taxes have been factors mentioned in developing countries as contributing to low levels of income taxes. So in developing countries, indirect taxes are treated as substitutes for income taxes.

There are two classes of indirect taxes. First, domestic indirect taxes which comprise excise taxes on domestic productions and sales taxes on transactions. The second class is foreign traded taxes which include customs duties on exports and imports plus sales taxes on imports.

Burrow John[24] analysed the Kenyan Government revenues between 1974/65 to 1972/73. He found out that Central Government's revenue increased from 20 per cent in 1964/65 to 30 per cent in 1972/73 of Gross Domestic Product. He notes at the time that Kenya's reliance on indirect tax is one of the lowest in the developing world. A major element in the increase in direct taxation was income tax whose share increased from 34 to 44 per cent while there was a decline in the share of import duties.

He also found that buoyancy of tax revenues was 2.0 with respect to monetary Gross Domestic Product and 2.2 with respect to total Gross Domestic Product, which he says was very impressive. In most developing countries, the majority have a buoyancy of less than 2.0 (analysis of tax analysis between 1964/65 to 1972/73 attached).

APPENDIX I

CLASSIFICATION OF TAXES

Taxes can be broadly classified as under :

(a) Direct Taxes

These taxes whose impact and incidence fall on one and the same person; e.g. income tax and corporation tax.

(b) Indirect Taxes

These are taxes whose impact and incidence do not fall on one and the same person, e.g. sales and customs duties.

Another way of classifying taxes is by the effect they have on tax payers. By using this criterion taxes can be either of the following two :

(i) Progressive Taxes

These are taxes which increase proportionally to the increase in income, i.e. those who have more income pay more tax and those who have less income pay less tax. Example of these taxes are income taxes and corporation taxes.

(ii) Regressive Taxes

These are taxes which do not discriminate between those who have more income and those who have less income. These taxes have more economic effect on those who earn less income than those who earn more because both parties pay at the same rate of taxes.

VARIOUS TAXES LEVIED BY THE GOVERNMENT OF KENYA

(a) Income Tax - This is levied on earned income by individuals (including companies) through salary, or wage employment or business profit. It is progressive in nature.

(b) Sales Tax - This is a tax levied on some locally manufactured goods and also on imported goods. It is charged as a fixed rate percentage on the sales price.

(c) Customs Duty - This is a duty levied on imported goods. It is charged as a fixed rate percentage on the value of goods.

(d) Excise Duty - This is a duty levied on some locally manufactured goods. It is charged as a fixed sum which is added to the selling price.

(e) Export Duty - This is a duty imposed on exports from Kenya. It is a fixed rate percentage on the value of goods.

(f) Capital Gains Tax - This is a tax levied on sale, or transfer of property or marketable securities, e.g. land and quoted company shares. It is charged as a fixed rate percentage on gains accrued from the sale or transfer of such properties. This tax was suspended in Kenya with effect from 1st July, 1985.

(g) Airport Passenger Departure Tax - This is a tax payable by air passengers who depart from the country. It is payable as a fixed sum.

(h) Communication Tax - This is a tax payable by telephone consumers. It is charged as a percentage amount or units used.

(i) Hotel Accommodation Tax - This is a tax payable by Hotel lodgers. It is charged as a fixed rate on the room charge.

(j) Second Hand Vehicle Purchase Tax - This is a tax payable on sale or transfer of second hand motor vehicles. It is charged as a fixed sum regardless the value of the vehicle.

(k) Entertainment Tax - This is a tax payable by people who attend entertainment shows, e.g. cinema.

(1) Betting Tax - This is a tax payable by those who bet on games of chances, e.g. horse racing.

(m) Casino Tax - This is a tax payable by casino owners.

(n) Stamp Duty - This is a tax payable on all documents bearing government seal.

(o) Estate Duty - This is a tax levied on inherited property. It is based on the value of the property.

OTHER SOURCES OF GOVERNMENT REVENUE

Besides taxation, the Government has other ways of raising revenue. These are enumerated as follows :

(a) Traffic Revenue - Under this source falls the following categories of revenue :

(i) driving licences; (ii) motor vehicle licences;
(iii) road licence; (iv) transport licences; and
(iv) motor vehicle registration fees.

(b) Land Revenue - This has the following sources :

(i) rent on land; (ii) stand premium on town plots; and
(iii) rent on Government buildings.

(c) Forest and Mining Revenue - The following are the sources :

(i) timber royalties; (ii) fuel wood royalties;
(iii) Magadi soda royalties (iv) mining fees; and
(iv) royalties on carbon dioxide.

(d) Wildlife and Tourism Revenue - The following are the sources :

(i) rent on park lodges; (ii) park entry fees
(iii) game licenses; (iv) trout licences;
(v) lake fisheries licenses;
(vi) sale of tourist guide books; (vii) tour licenses; and
(ix) arms and ammunition licenses.

(e) Airport Aviation Revenue - The following are the sources :

(i) aviation landing fees; (ii) parking fees;

(iii) handling fees; (iv) aviation fees; and

(v) navigation fees.

(f) Trading Revenue - The following are the sources :

(i) Hotel and Restaurant licenses;

(ii) cattle traders licenses;

(iii) liquor licenses;

(iv) business premises trading licenses;

(v) electrician licenses;

(vi) registration of banks and financial institutions;

(vii) motor vehicle accessories; and

(ix) marking fees, e.g. Bureau of Standards.

(g) Fines and Forfeitures - Categories of revenues under this are as follows :

(i) court fines;

(ii) forfeiture of court bonds;

(iii) confiscation of ivory and other properties; and

(iv) forfeiture of police bails.

(h) Investment Revenue - Under this heading, Kenya has the following categories of revenue :

(i) profits from parastatals;

(ii) dividends from Government investments;

(iii) interest on Government loans; and

(iv) Government loan redemption receipts.

(i) Loans - Loans can be classified into two categories :

(1) Internal loans :(i) Loans from individuals and non-bank financial institutions; and

(ii) Loans from banks and other financial institutions.

(2) External loans : (i) multilateral loans; and

(ii) bilateral loans.

(j) Grants - These can be classified into two categories :

(i) Internal grants; and

(ii) External grants.

(k) Miscellaneous Revenue - We have the following under this category ;

(i) sales of Government property;

(ii) extract exchequer receipts;

(iii) exchange control fees;

(iv) Harambee funds - these are amounts raised by citizens on voluntary basis for commerce/Government projects; and

(v) Appropriation-in-Aid - these are amounts raised by Government Departments for the services they offer.

SOME DEFINITIONS

Revenue - Any money received or due to the Government from whatever source.

Levy - An earmarked tax for a specific purpose.

Fees - Price paid for a service for any special privilege, grant or ownership of an item.

Licenses - A document granting permission to carry an activity. A licence derives a direct benefit from the licensees.

Sources : (1) Statistical Abstracts Kenya - 1972, 1975, 1982, 1984 & 1986;

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CHAPTER 3

CHAPTER 3

3.0 CENTRAL GOVERNMENT EXPENDITURE IN KENYA

3.1 Review Of Expenditure Classifications

The traditional role of the budget was to exercise legal and political control over government expenditures. Any recognised economic effects of taxation and expenditures were regarded as secondary or incidental to the major task of raising revenues to finance the collective wants of society that the market mechanism cannot satisfy. At best, therefore budgetary techniques and procedures were concerned with finding out the most equitable methods of raising revenues and the most efficient way of carrying out the activities of Government. Nowadays however, the functions of the budget have expanded to include the following :

(1) Providing information for economic analysis and is deployed to achieve specific tasks.

(2) It is used as an instrument of planning and plan implementation.

(3) It is used as a means for approval of projects by the Government.

The wider concern with fiscal problems and economic planning raises new claims on the budget system of almost all countries. Therefore, for the budget to fulfil some of the above functions, it became necessary to introduce the following classifications :

(1) Functional - This generally indicates the shares of the budget directed towards the major purposes of the Government. It shows the share of the budget and where that share is applied, e.g. Defence, Education Administration,

etc.

(2) Economic - This provides information on the economic impact of the Government's activities and its allocation of resources for investment purposes. The information and share of the budget show for example, the share of the budget that goes to goods and services, capital formation, Labour costs, payment of debt, interest, etc.

(3) Current or Recurrent and Capital (Development) expenditure - current represents the flow of financial resources for administrative functions, defence, education, etc. It shows the flow of resources to ongoing or operations which are recurrent. Capital shows resources channelled into productive uses and investments in social and economic infrastructure.

(4) Organisational - This informs spending of a budget granted for each spending agency in return for a given level of services, that is ministries, departments and units.

(5) Object - This classifies the purchase or service rended.

(6) Revenue Classification - This indicates budgetary receipts by sources.

Kenya is fortunate in that it inherited a comparatively sophisticated system of budgetary policies and procedures at independence in 1963. Over the years, it has improved and adjusted that system to match the above classifications.

At independence, the Government of Kenya introduced five year National Economic Development Plan, and it has maintained the five year cycle. The planning exercise is basically used for effective medium-term direction of Government expenditures. To ensure this objective is met, the Government has divided the expenditure estimates into three stages (already referred to in Chapter 2) namely :

(1) Forward Budget which is essentially a planning exercise. This budget embodies the Development Plan itself and lays down the framework for Government Ministries and Departments. It is a mirror of the Development Plan in monetary terms and it sets out how expenditures will look in the next five years.

(2) The Draft estimates are constructed within the framework of the three year rolling budget. When one year is taken to the annual budget, another year is added to it.

(3) The Annual Expenditure Estimates (Annual Budgets) - These are estimates which are normally taken to Parliament for approval. Of course after the approval, the spending begins. Our concern here is really these annual expenditures (i.e. how much they are, where they are spent and their trend over the years).

3.2 Size, Composition And Trends Of Kenyan Central Government Expenditures

Kenya Government expenditures at constant 1980 prices have risen from K£70.5 million in 1964/65 to K£1053.5 million in 1986/87. The average annual rate of increase during this period has been 8.5 per cent. This is a massive average annual increase bearing in mind that during the same period, the average annual growth for the GNP has been 5.5 per cent. This increase has of course been prompted by the Government's desire to provide various services to its citizens. Such services include among others, free primary Education, free health care and infrastructural facilities.

Table 6 shows in detail how total expenditures have behaved between 1964/65 to 1986/87. The same table shows how GNP has grown during the same period and its share in total expenditures. The

TABLE 6 : GROWTH OF GOVERNMENT EXPENDITURE IN KENYA, ALSO SHOWN IS SHARE IN GDP AND SHARE IN GNP FOR PERIOD

1964/65 - 1986/87 (CONSTANT 1980 PRICES)

TOTAL EXPENDITURES

	Current prices Million K£	in 1980 Constant Million K£	Annual Growth Rate Constant 1980 Prices %	GDP K£ Million	Share in GDP %	GNP 1980 Constant Prices K£ Million	Annual Growth of of GNP %	Total Expenditure Share in GNP %
1964/65	70.5	209.7	-	1062.4	19.7	1042.6	-	20.1
1965/66	77.5	221.1	5.4	1182.2	18.7	1159.9	11.1	19.1
1966/67	84.9	231.3	4.6	1192.2	19.4	1155.3	- 0.4	20.0
1967/68	94.6	255.0	10.2	1293.1	19.7	1255.1	8.6	20.3
1968/69	105.0	274.8	7.8	1363.4	20.2	1337.7	6.6	20.5
1969/70	121.4	309.9	12.7	1466.7	21.1	1437.4	7.4	21.6
1970/71	156.8	382.4	23.4	1566.5	24.4	1543.7	7.4	24.8
1971/72	180.5	454.6	18.9	1819.5	25.0	1764.9	14.3	25.8
1972/73	201.4	463.0	8.4	1926.6	24.0	1825.5	3.4	25.4
1973/74	230.2	445.3	- 3.8	1967.3	22.6	1885.5	3.2	23.6
1974/75	299.7	498.6	12.0	1983.9	25.1	1878.1	- 0.4	26.5
1975/76	371.3	525.9	5.5	2058.9	25.5	1962.5	4.5	26.8
1976/77	409.7	496.6	- 5,6	2254.4	22.0	2159.0	10.0	23.0
1977/78	633.6	743.7	49.8	2415.7	30.8	2309.3	7.0	32.2
1978/79	693.4	765.3	3.0	2507.6	30.5	2415.0	4.6	31.7
1979/80	777.8	777.8	1.6	2632.5	29.5	2548.5	5.5	30.5
1980/81	978.3	885.3	13.8	2736.1	32.3	2648.2	3.9	33.4
1981/82	1135.6	926.3	4.6	2771.6	33.4	2660.4	0.5	24.8
1982/83	1194.9	901.8	- 2.6	2883.2	31.3	2787.2	4.8	32.3
1983/84	1249.2	853.2	- 5.7	2998.0	28.5	2894.1	3.8	29.5
1984/85	1530.7	971.9	13.9	3120.2	31.1	3003.8	3.8	32.4
1985/86	1648.3	920.9	- 5.2	3258.0	28.3	3140.1	4.5	29.3
1986/87	2014.8	1053.5	14.4	3461.4	30.4	3327.2	6.0	31.7

Sources : 1. Tables 23, 25, 27 and 30;

2. Computation from this table; and

3. Deflator from International Financial Statistics Year Book 1987. Also GNP extracted from there, although where there was variance with Kenya Economic Surveys, the latter were preferred especially the latest issues.

table shows that total expenditures have at times risen by as much as 49.8 per cent, this was during the world coffee boom prices of 1970s'.

On average, the total expenditures increased by an annual average of 7 per cent between 1964/65 to 1968/69. This average increased to 11.9 per cent between 1969/70 to 1973/74. In the late 1970s', this increased to 12.9 per cent. In the 1980s', this average annual increase has reduced to 4.5 per cent (see table 7). It is pointed out that although this average annual increase has reduced drastically, the amount in absolute terms continued to increase as seen from the current prices on table 6.

TABLE 7 : AVERAGE ANNUAL GROWTH RATE OF TOTAL EXPENDITURES BETWEEN 1964/65 TO 1986/87 (PERCENTAGE AT 1980 CONSTANT PRICES)

Period	1964/65 -1968/69	1969/70 -1973/74	1974/75 -1978/79	1979/80 -1986/87
Average Growth Rate	7.0	11.9	12.9	4.5

Source : Computed from table 6.

In relation to the GNP/Total Expenditure ratio, Kenya has experienced in some years, ratios as high as 34.8 per cent. In 1964/65, the share of total expenditures was 20.1 per cent, but this increased gradually to reach 34.8 per cent in 1982. Such a high percentage is not a special feature to Kenya alone, but the World Development Report 1988[1] says that from 1972, the Central Governments' of developing countries share of total expenditure of GNP has increased from an average of 19 per cent to 26 per cent in 1985. The Report notes that the trend of increase has not been uniform, at least ten developing countries' GNP share of total expenditure have gone down from 1972 levels.

The Report says that the average total expenditure for industrial countries' share of GNP has increased from 22.2 per cent in 1972 to 28.6 per cent in 1985 (table 8). The Report further notes that generally for developing countries, Central Government spending to GNP is lower as compared to industrial countries. It give the reasons for that difference as being to the following :

(1) Industrial countries have a high transfer for social security and welfare than developing.

(2) In developing countries, the Government plays the role of an investor than in industrialised countries.

TABLE 8 : TOTAL EXPENDITURES SHARE IN GNP COMPARED FOR 1972 AND 1985 (PERCENTAGES)

Period	1972	1985
Developing Countries	18.7	26.4
Low-income Countries	n.a.	20.8
Middle-income Countries	21.7	27.5
Industrialised Countries	22.2	28.6

Source : World Development Report 1988 - "Role of Government".

Table 9 takes some selected countries and compares their GDP to total expenditure share between 1974 to 1980. Comparing the countries with Kenya's share, the countries' shares are not very much different although they are using GDP rather than GNP. The difference actually between GDP and GNP is very insignificant for these particular countries. For Kenya in particular, the difference between GNP and GDP is minimal (see table 6). There are extremes on the table, such as Sudan which spent 63.3 and 66.6 per cent for 1978 and 1979, respectively.

TABLE 9 : SELECTED COUNTRIES, TOTAL EXPENDITURE 1974-80 SHARE IN GDP (PERCENTAGES)

Country	1974	1975	1976	1977	1978	1979	1980
Bangladesh	10.0	19.0	17.5	19.0	19.0	22.0	20.9
Ghana	n.a.	29.0	24.2	20.9	15.9	14.9	n.a.
Ivory Coast	n.a.	n.a.	n.a.	31.9	36.7	42.0	38.8
Kenya	32.7	32.8	28.7	35.7	38.1	39.3	43.4
Nigeria	16.1	29.1	27.5	28.9	19.5	23.7	26.0
Sudan	n.a.	50.3	44.1	49.3	65.3	66.6	n.a.
Pakistan	25.3	24.9	23.5	23.5	25.2	23.2	22.2
Zaire	50.5	36.8	34.1	30.1	27.5	23.5	29.9
Zambia	30.3	38.0	38.3	35.4	35.2	42.2	n.a.
Ethopia	14.0	19.0	20.0	19.7	23.4	21.1	23.7

Source : Vito Tanzi, "Fiscal Disequilibrium in Developing Countries", in World Development, Vol. 10, No. 12, Great Britain, 1982.

3.3 Composition Of Total Expenditures

Total expenditures, we have seen can be broken down for various reasons already discussed. Kenya has not been left behind in this area, it has over the years tried to implement and improve on the classification of its expenditures. This is specifically mentioned in 1987 Kenya Economic Survey, page 33. From that year, the economic classification will have Current Expenditures, Capital, Net Lending and Debt Repayments separated. This is as accepted internationally.

With the above in mind, the next part of this Chapter on expenditure sections will attempt to analyse the expenditures according to their classification.

3.4 Economic Classification

As already mentioned earlier, economic classification divides total expenditures into Current Expenditures, Capital, Net Lending and Public Debt Redemption. This is the classification which Kenya has just adopted as from 1987 (see details of this division shown in table 10). The table shows total expenditure as divided into : (1) Current Expenditures, (2) Capital Expenditures, (3) Net Lending, and (4) Public Debt Repayments. It should however, be noted that Current Expenditures are again divided into : (a) Consumption expenditure on goods and services which, in turn is dived into labour, and goods and services expenditures, (b) Interest expenditures, and (c) Transfers and subsidies.

Discussion on the economic classification is going to follow this classification taking into account the details of breakdowns of current expenditures into its component expenditures.

TABLE 10 : ECONOMIC CLASSIFICATION OF TOTAL EXPENDITURES AT CONSTANT 1980 PRICES, FOR 1964/65 TO 1986/87, PERIOD ENDING 30TH JUNE

MILLION KENYA POUNDS (K£M)

	CURRENT EXPENDITURES Consumption Expenditure on Goods & Services							
	LABOUR	GOODS & SERVICES	INTEREST	TRANSFER & SUBSIDIES	CAPITAL	NET LENDING	PUBLIC DEBT REPAYMENT	TOTAL EXPENDITURE
1964/65	71.1	32.1	13.1	53.1	13.1	18.2	9.2	209.7
1965/66	71.2	36.1	13.7	53.0	18.3	16.3	13.5	222.1
1966/67	76.3	37.6	14.2	48.3	27.2	18.0	9.5	231.3
1967/68	79.8	40.4	14.6	54.2	38.8	19.9	7.3	255.0
1968/69	83.0	41.4	15.7	56.8	43.5	26.7	7.8	274.8
1969/70	107.3	48.6	16.8	47.4	51.0	28.1	10.5	309.7
1970/71	131.5	55.1	18.0	43.4	70.0	38.3	26.1	382.4
1971/72	173.3	75.8	21.9	41.3	91.2	30.5	20.6	454.6
1972/73	162.5	87.4	24.4	42.3	93.1	39.3	14.0	463.0
1973/74	155.1	88.2	23.2	46.5	85.1	35.2	12.0	445.3
1974/75	106.8	112.0	24.1	108.0	82.2	50.4	15.1	498.6
1975/76	115.4	104.4	27.6	110.8	80.2	71.2	16.3	525.9
1976/77	100.7	122.8	29.1	99.5	82.8	46.8	14.9	496.6
1977/78	146.9	174.2	44.0	107.1	160.9	63.5	47.1	743.7
1978/79	139.0	220.0	46.9	128.9	126.0	79.1	25.3	765.3
1979/80	136.8	229.4	48.1	122.1	149.1	61.6	30.7	777.8
1980/81	156.4	223.5	61.5	166.8	170.9	61.2	45.0	885.3
1981/82	183.0	254.1	100.0	158.2	116.8	60.2	54.0	926.3
1982/83	173.6	212.2	110.1	162.1	107.1	23.3	113.4	901.8
1983/84	180.7	225.1	118.6	148.1	91.0	17.5	72.2	853.2
1984/85	183.3	202.0	124.4	183.2	138.3	23.4	117.3	971.9
1985/86	187.6	198.1	148.6	164.6	98.9	28.2	94.9	920.9
1986/87	205.3	200.8	153.5	211.6	164.8	24.9	92.6	1053.5

Sources : 1. Various issues of Economic Survey from 1968 - 1988;

2. Statistical Abstract 1973, 1975, 1982, 1984, 1986; and

3. Deflator from International Financial Statistics Year Book 1987 and the issue of June 1988.

3.4.1.1 Consumption Expenditures On Goods And Services

This is the area of current expenditure where the Kenya Government spends most of its resources. During the period 1964/65 to 1969/70, 47.8 per cent of total expenditure went into this area on average. 1969/70 to 1973/74, the share of total expenditure to this area went to 52.5 per cent, this reduced to 44.2 per cent and 43.4 per cent in the late 1970s' and 1980s', respectively. These expenditures go to labour, and goods and services. Table 11 shows the details of labour expenditures as taking 32.1 per cent of the total expenditures in 1964/65 to 1968/69. This percentage

TABLE 11 : KENYA ECONOMIC CLASSIFICATION OF EXPENDITURE, AVERAGE PERCENTAGE SHARE BETWEEN 1964/65 TO 1986/87

Expenditure Category	1964/65 -1968/69	1969/70 -1973/74	1974/75 -1978/79	1979/80 -1986/87
1. Labour	32.1	35.4	20.3	19.3
2. Goods and Services	47.8	17.1	23.9	24.1
Total Consumption Goods & Services	**47.8**	**52.5**	**44.2**	**43.4**
3. Interest	6.0	5.1	5.6	11.7
4. Transfer and Subsidies	22.4	11.1	18.8	18.0
Total Current Expenditures	**76.2**	**68.7**	**68.6**	**73.1**
5. Net Lending	8.2	8.4	10.4	4.2
6. Capital	11.5	18.8	17.3	14.3
7. Debt Repayments	4.1	4.1	3.7	8.4
Total Percentage	**100.0**	**100.0**	**100.0**	**100.0**

Source : Computed from tables 10 and 34.

3.4.1 Current Expenditures

Current expenditures take the major part of the total expenditure of the Central Government of Kenya. As shown on table 11, which gives a detailed percentage share average breakdown of total expenditure on the economic classification basis, the current expenditure has always taken a lion's share of total expenditures. The period 1964/65 to 1968/69 shows that current expenditures took 76.2 per cent, however in the two period of the 1970s', the current expenditures decreased to 68.7 per cent and 68.6 per cent, respectively. This is as noted in Economic Survey 1978 (page 72) because there was a deliberate Government policy to shift resources to capital expenditures. As can be seen from the same table 11, it is confirmed that resources shifted to capital expenditure during the two periods of 1970s to 18.8 per cent and 17.3 per cent, respectively from 11.5 per cent in 1964/65 to 1968/69. In the 1980's, current expenditures share of total expenditures has increased to 73.1 per cent.

Current Expenditures/GNP share has increased from 15.2 per cent in 1964/65 to 16.5 per cent in the period 1968/69 to 1973/74. The GNP share increased steadily to 19.2 per cent in 1973/74 to 1978/79 period, and in the 1980s, the average share of current expenditures has reached 23.2 per cent. This is detailed in table 12. Current expenditures as shown in table 11 and 12 is divided into its component parts, before the other expenditures are looked into, the next part deals with the component parts of current expenditures.

increased to 35.4 per cent in 1969/70 to 1973/74. However, in 1974/75 to 1978/79, and in the 1980s', the average percentage reduced to 20.3 per cent and 19.3 percent, respectively. It is noteworthy to note that goods and services had a low percentage share in total expenditures in 1960s and earlier 1970s (i.e. 15.7 per cent and 17.1 per cent, respectively) as compared to labour expenditures, but in the 1973/74 to 1978/79 and 1979/80 to 1986/87, the goods and services took a higher share, i.e. 23.9 per cent and 24.1 per cent, respectively.

In relation to GNP share, table 12 gives the details. Consumption expenditure on goods and services took 9.5 per cent on average during the period 1964/65 to 1969/70. This percentage increased gradually to 12.7 per cent in 1969/70 to 1973/74. In 1973/74 to 1978/79, it is slightly reduced to 12.4 per cent, but in the 1980s', it has again increased to an average of 13.8 per cent. As concerns labour, the GNP share increased from 6.4 per cent in the 1960s' to 8.6 per cent in 1969/70 to 1973/74. This share reduced to 5.7 per cent in the later part of 1970s and in the 1980s, it has increased to 6.1 per cent. As seen from table 11, goods and services share of GNP has increased steadily from a low of 3.1 per cent to 7.7 per cent in the 1980s.

3.4.1.2 Interest Payments

Interest payments are mainly to loans which the Government of Kenya has borrowed over the years to finance its developments. The interests payments are to both external and internal borrowers. The percentage share of total expenditures of interest was 6 per cent in 1964/65 to 1968/69. Although it reduced slightly to 5.1 per cent in 1969/70 to 1973/74, it has steadily increased its share of the total expenditures to an average of 5.6 per cent and 11.7 per cent in the late 1970s and 1980s, respectively. The share of interest expenditure to GNP was 1.2 per cent on average in the late 1960s and earlier 1970s. This increased slightly to 1.6 per cent in the late 1970s, and to 3.7 per cent in the 1980s. It noted that interest payments began to increase steadily in the 1980s because that is the the time when a number of loans given to the Government in the 1960s and 1970s began to mature. Some of the loans had grace periods of up to 10 or more years when they were given.

3.4.1.3 Transfers And Subsidies

These are expenditures given as subsidies to agriculture, industry and many other needy areas of the economy. In percentage terms, as a share of total expenditure, this expenditure was 22.4 per cent in 1964/65 to 1968/69 on average. This share reduced to 11.1 per cent in 1969/70 to 1973/74 as indicated in table 11. It then increased to 18.8 per cent and reduced slightly to 18 per cent in 1974/75 to 1978/79 and 1979/80 to 1986/87, respectively. In relation to the share in GNP, transfers and subsidies had a share of 4.5 per cent in 1964/65 to 1968/69. This share reduced to 2.6 per cent in 1969/70 to 1973/74. It then rose to 5.2 per cent in the later part of 1970s and to 5.7 per cent in the 1980s (see table 12).

3.4.2 Net Lending

This is the amount that is lent to Government or non-Government organisations. It may be in the form of direct loans or investments (purchase of equity). The Lending expenditures are

TABLE 12 :KENYA ECONOMIC CLASSIFICATION OF EXPENDITURES AVERAGE SHARE IN GNP BETWEEN 1964/65 TO 1986/87

Expenditure Category	1964/65 -1968/69	1969/70 -1973/74	1974/75 -1978/79	1979/80 -1986/87
1. Labour	6.4	8.6	5.7	6.1
2. Goods and Services	3.1	4.1	6.5	7.7
Total Consumption Goods & Services	**9.5**	**12.7**	**12.4**	**13.8**
3. Interest	1.2	1.2	1.6	3.7
4. Transfer and Subsidies	4.5	2.6	5.2	5.7
Total Current Expenditures	**15.2**	**16.5**	**19.2**	**23.2**
5. Net Lending	1.7	2.1	2.9	1.3
6. Capital	2.3	4.6	4.9	4.5
7. Debt Repayments	0.8	1.0	1.1	2.7
Total Expenditure/GNP	**20.0**	**24.2**	**28.1**	**31.7**

Source : Computed from tables 6, 10 and 34.

normally shown as net, because whatever the loaned organisation repays to the Government, it nets out any expenditure on lending the Government makes. Also netted out are any interest dividends that the Government receives from its equity investments. Table 11 shows that Net Lending as a percentage of total expenditures was 8.2 per cent in 1964/65 to 1968/69. This amount increased to an average of 8.4 per cent and 10.4 per cent in earlier 1970s and late 1970s, respectively. In the 1980s, the amount has reduced to 4.2 per cent of total expenditures. The Government wanting to accelerate economic growth in its earlier years of independence, formed many parastatals to which it was channelling some of this lendings to, but as years went by, these organisations were making losses, so the policy of the Government in the 1980s has changed to that of not encouraging Government investments in those type of organisations. Another area where the Government spent its lending was Local Governments, now the Government has changed its policy to that of encouraging local Governments to look for new sources of revenues.

In relation to Lending and its share in GNP, it is seen from table 12 that the share was 1.7 per cent in 1964/65 to 1968/69 on average. This increased slightly to 2.1 per cent and 2.9 per cent in earlier 1970s and late 1970s, respectively. This has reduced to 1.3 per cent in the 1980s.

3.4.3 Capital Expenditures

This is the amount that the Government spends on capital formation. Table 11 shows that the expenditure on capital as a percentage of total expenditures in 1964/65 to 1968/69 was 11.5 per cent on average. This average increased to 18.8 per cent and 17.3 per cent in 1969/70 to 1973/74 and 1974/75 to 1978/79, respectively. The percentage increase in the 1970s was as mentioned earlier in the chapter because of the deliberate Government policy of encouraging/spending more on capital than on current expenditures. In 1977/78 when the Government had more windfalls of revenue from the world coffee price boom, the percent share of capital to total expenditure increased to 21.7 per cent (this was of course in addition to the Government deliberate policy of encouraging spending more on capital formation than on current expenditures). In the 1980s, the share in total expenditure has reduced to 14.3 per cent. This is despite the continued Government Policy of trying to put more resources on capital spending rather than on current expenditures. But as can be seen elsewhere in this Chapter or Chapter four, in the 1980s, there is a constant deficit on Central Government out-turn of revenue and expenditures, that means that capital expenditures are financed mainly from borrowed funds. That could explain where capital expenditures to total expenditures have reduced to 14.3 per cent in the 1980s.

As a percentage of GNP, capital expenditure was 2.3 percent in 1964/65 to 1969/70 on average. This increased to 4.6 per cent and 4.9 per cent for 1969/70 to 1973/74 and 1974/75 to 1978/79, respectively. In 1980s, that share has slightly gone down to 4.5 per cent. The trend is very much the same as the percentage above.

3.4.4 Public Debt Repayment

This part is mainly loan repayment on amounts that were previously borrowed. The expenditure is for both local and International lenders. As loans mature, the Kenya Government is gradually spending more and more on Debt repayments. From a share of 4.1 per cent in total expenditures in 1964/65 to 1968/69, the average percentage share although remaining constant in 1969/70 to 1973/74 and reducing to 3.7 per cent in 1974/75 to 1978/79, it sharply rose to 8.4 per cent share in 1979/80 to 1986/87 (table 11).

As regards its share in GNP, it will appear that it is small although increasing. For 1964/65 to 1969/70 the share was 0.8 per cent and this increased to 1.0 per cent in 1969/70 to 1973/74 period. In the next period of 1974/75 to 1978/79, its share increased slightly to 1.1 per cent and in the 1980s, the share in GNP stands at an average of 2.7 per cent (see table 12).

TABLE 13 : ALLOCATION OF CENTRAL GOVERNMENT SPENDING BY ECONOMIC CATEGORY 1980 (PERCENTAGES)

GROUP OF COUNTRIES COMPARED

Category of Expenditures	Industrial countries	Middle-income countries	Low-income countries
1. Capital Spending	6.0	23.0	16.0
2. Wages	13.0	23.0	16.0
3. Other Goods & Services	14.0	13.0	17.0
4. Interest	7.0	7.0	12.0
5. Subsidies & Transfers	60.0	34.0	39.0
Total Percentage	**100.0**	**100.0**	**100.0**

Source : World Development Report, "Government Expenditure", p.108.

Table 13 is a comparison of average expenditures divided on economic classification of different groups of countries. The average share of expenditure is in relation to total expenditures. Low income countries spent an average of 16 per cent on capital, this is not very much different from Kenya's average of 14.3 per cent in the 1980s. Industrial countries spent only 6 per cent while middle-income countries spent 23 per cent. As referred to earlier, the reason is that developing countries are much more pre-occupied with capital investment than developed countries. A major difference here again is spending on subsidies and transfers by the Industrial countries. Expenditure that is on average 60 per cent as compared to low income countries' 39 per cent. Kenya's expenditure on that is very low at 18 per cent on average in 1980s. On Labour, Kenya Government spent an average of 19.3 per cent in the 1980s, low income countries spent on average 16 per cent, this being not different from Kenya's expenditure. Industrial countries spent 13 per cent which is very near to the low income countries level. On other goods and services, Kenya's expenditure is about 24.1 per cent, while other low income countries had 17 per cent, and 14 percent for industrial countries. The Kenyan Government spend much more on this category of expenditures. Spending on interest payments at 12.0 per cent for low income countries is not very much different from Kenya's 11.7 per cent in the 1980s. Compared to Industrial countries' expenditure of 7.0 per cent, the low income countries are spending alot on interest repayment, although with this expenditure, a country has no alternative for its payment so long as it takes loans.

Below is table 14 which is a comparison of some selected countries and their current expenditure shares in the GDP. Their

TABLE 14 : SELECTED COUNTRIES CURRENT GOVERNMENT EXPENDITURES 1974-1980 (IN PERCENTAGE GDP)

Country	1974	1975	1976	1977	1978	1979	1980
Bangladesh	6.0	12.0	10.0	10.0	7.0	7.0	8.9
Ghana	n.a.	17.9	15.0	16.2	12.4	12.7	n.a.
Ivory Coast	n.a.	n.a.	17.3	14.6	18.8	20.9	23.0
Kenya	23.3	21.5	19.8	24.1	25.7	27.0	29.6
Nigeria	5.6	10.0	7.5	8.6	7.0	9.3	9.0
Pakistan	15.3	14.5	12.8	14.0	14.5	13.8	13.1
Sudan	n.a.	21.5	18.0	14.9	18.4	16.7	20.1
Tanzania	n.a.	27.6	28.9	29.8	41.2	42.4	n.a.
Zaire	28.6	28.0	25.5	23.2	22.6	20.7	22.2
Zambia	21.0	36.0	29.0	31.0	30.0	29.0	34.0
Ethopia	14.0	14.0	15.3	14.9	18.8	16.4	18.0

Source : Vito Tanzi, "Fiscal Disequilibrium in Developing Countries", in World Development, Vol. 10, No. 12, Great Britain.

levels are very much similar although it is worth noting that in some years, Tanzania has spent as much as 42.4 per cent. Table 15 shows a further comparison of the same countries, but this time it is the share of capital expenditures in the GDP. These tables when compared to figures in table 12 on Kenya's spending level in the two areas, there is not any much difference. The trend is very similar.

TABLE 15 : SELECTED COUNTRIES : CAPITAL EXPENDITURE 1974 - 1980 (IN PERCENTAGE GDP)

Country	1974	1975	1976	1977	1978	1979	1980
Bangladesh	4.0	7.0	7.0	9.0	12.0	13.0	12.0
Ghana	n.a.	11.0	9.2	4.8	3.5	2.0	n.a.
Ivory Coast	n.a.	n.a.	14.6	22.1	23.2	21.0	15.8
Kenya	10.3	11.3	8.9	11.6	12.4	12.0	13.8
Nigeria	10.5	19.1	20.0	20.3	12.5	14.0	17.0
Pakistan	10.0	10.4	10.7	9.5	10.5	9.0	9.1
Sudan	n.a.	7.0	6.6	6.5	4.8	5.0	7.5
Tanzania	22.8	22.8	15.3	19.4	24.2	24.0	n.a.
Zaire	8.0	8.0	8.6	6.9	6.9	2.0	3.7
Zambia	9.0	9.0	6.0	5.0	5.0	3.0	n.a.
Ethopia	4.3	4.7	4.7	4.8	4.5	4.6	5.3

Source : Vito Tanzi, "Fiscal Disequilibrium in Developing Countries", World Development, Vol. 10, No. 12, Great Britain.

3.5 Functional Classification

This classification is dissegregated into two, namely (a) Recurrent and Development, and (b) Individual Departments /

Organisations into which funds are spent. Recurrent and Development are really the major classification and under each of them we have the individual Departments/Organisations which uses funds. Table 16 below shows the share of total expenditures by Recurrent and Development expenditures between 1964/65 to 1986/87. Table 16 shows that Recurrent expenditure took an average of 80.3 per cent of total expenditure between 1964/65 to 1968/69 period. This average percentage declined to 72 per cent in the earlier part of 1970s. It decreased further to 67.5 per cent in 1974/75 to 1978/79. In the 1980s, the percentage share has increased to 76.8 per cent. Development has followed the opposite pattern that Recurrent expenditures has followed. As seen from table 16, when Recurrent expenditures decline, Development increases, and the reverse is true. Development expenditures increased substantially in the 1970s because the Government was undertaking major construction of International Airports at Nairobi and Mombasa. The Mombasa Port facilities were also being expanded during that time.

TABLE 16 : COMPOSITION OF RECURRENT AND DEVELOPMENT EXPENDITURES 1964/65 TO 1986/87 (PERCENTAGES)

Category	1964/65 -1968/69	1969/70 -1973/74	1974/75 -1978/79	1979/80 -1986/87
Recurrent	80.3	72.0	67.5	76.8
Development	19.7	28.0	32.5	23.2
Total Expenditure	**100.0**	**100.0**	**100.0**	**100.0**

Source : Computed from tables 24, 26, 28 and 31.

In the 1980s, because there are major expansion of Universities, it is expected that in the late 1980s, the Development expenditure will have probably increased to about 30 per cent of the total expenditures.

Regarding the Recurrent Expenditures/GNP ratio, the trend has been mainly of increasing from 16 per cent in the 1964/65 to 1968/69 period to 17.5 per cent in the earlier 1970s. In the late 1970s, it increased to 18.7 per cent and in the 1980s, it reached 24.5 per cent. Development/GNP ratio has also had an upward trend, from 4 per cent in 1960s it increased to reach 9.4 per cent in the late 1970s, it then went down to 7.1 per cent in the 1980s (see table 17). It is expected that in the late 1980s, the Development expenditure will go up because of constructions of new Universities. In 1987/88, the Development expenditure/GNP ratio is about 9.8 per cent, from provisional figures in 1988 Kenya Economic Survey.

TABLE 17 : RECURRENT AND DEVELOPMENT EXPENDITURE/GNP RATIOS BETWEEN 1964/65 TO 1986/87 (PERCENTAGES)

Category	1964/65 -1968/69	1969/70 -1973/74	1974/75 -1978/79	1979/80 -1986/87
Recurrent	16.0	17.5	18.7	24.5
Development	4.0	6.7	9.4	7.1
Total Expenditure	**20.0**	**24.2**	**28.1**	**31.7**

Source : Computed from tables 23, 25, 27 and 30.

The average percentage annual increase for these two types of expenditures are shown in table 18.

TABLE 18 : AVERAGE ANNUAL PERCENTAGE INCREASES OF RECURRENT AND DEVELOPMENT EXPENDITURES BETWEEN 1964/65 - 1986/87

Category	1964/65 -1968/69	1969/70 -1973/74	1974/75 -1978/79	1979/80 -1986/87
Recurrent	1.0	10.0	11.5	5.8
Development	22.7	12.3	20.1	1.8

Source : Computed from tables 23, 25, 29 and 32

As will be noted from table 18, Development expenditures average annual increases has tended to move in a very unstable manner. This is because when Development expenditures are taken,alot of planning is required and they require substantial resources, so if one major project is begun, the implication on recurrent expenditures in form of higher expenditures will have to be assessed. Since Developmental expenditures require heavy expenditure, again an assessment as to whether they will get enough funds has to be satisfactory. From table 18, percentage growth rates are ranging from 22.7 per cent in the 1960s to 1.8 per cent in the 1980s. As already explained, this could be because Development expenditures are non-recurring in nature, so these Development expenditures are only incurred when they have been adequately planned for, and at the same time, such expenditures can be postponed if funds are not available as anticipated in preference for Recurrent expenditures.

3.5.1. Functional Categories Of Expenditures

The major classification of individual items is shown on table 19.

TABLE 19 : FUNCTIONAL CATEGORIES OF SPENDING BY KENYA CENTRAL GOVERNMENT 1964/65 TO 1986/87 (AVERAGES PERCENTAGES)

Category	1964/65 -1968/69	1969/70 -1973/74	1974/75 -1978/79	1979/80 -1986/87
Public Administration	17.0	14.7	15.7	14.3
Education	9.6	17.9	18.0	19.1
Defence	5.4	4.9	10.0	9.9
Health	5.2	6.4	6.5	6.2
Economic services	29.6	33.2	33.9	25.8
Welfare/ Community Development	4.0	5.0	4.4	3.3
Others	29.2	17.9	11.5	21.4
Total Expenditures	**100.0**	**100.0**	**100.0**	**100.0**

Source : Computed from tables 24, 26, 28 and 31.

Economic services takes the major percentage share of total expenditures from 1960s to the 1980s. Its share was 29.6 per cent in 1960s, and this increased to 32.2 per cent in the earlier 1970s. In the late 1970, it reached an average of 33.9 per cent. This was because the Government in the past has participated seriously in the production of foodstuffs and other necessary foods to feed the nation. Also the Government has been running many commercial parastatals. However in the 1980s, the Government's policy has changed to that of leaving these activities to the private sector. In fact there has been cases of disinvesture on some of its commercial undertakings. So that is why the percentage share of economic undertakings has gone to 25.8 per cent in the 1980s.

On defence, it is seen that the percentage share was 5.4 per cent in 1960s. This dropped down to 4.9 percent in the earlier 1970s. According to the Kenya Economic Survey 1978, the Government Policy on Defence matters changed as from about 1974/75, so the Government started spending more on Defence. The said policy could be because as from 1974, we began to have hostile neighbours so the Kenya Government has to spend more on Defence in order to protect its people. That is why Defence expenditure's share as a percentage of the total increase to 10 per cent, although in the 1980s', the percentage share has slightly gone down to 9.9 per cent.

Education expenditure's percentage share of the total expenditure by Kenya Government is probably the highest in the world. In the 1980s, the average is 19.1 per cent. As will be observed from table 18, in the 1960s, the percentage share of Education expenditure to the total was only 9.6 per cent. In 1970, the Kenya Government started a policy of free primary education from the lowest classes. This gradually made Primary Education free. University education although students are on loan system, still the responsibility of paying Lecturers and other staff plus some of the facilities is Government's responsibility. The expenditure on education has increased to very high levels because of the Government Policy which the Government committed itself to at independence. The policy is that of providing free Education in all primary school, and later on it took other levels of education. It should be mentioned that the system of education has changed several times to meet the changing demands of a growing economy and that has been costly.

Expenditures on Health is on average about 6.5 per cent of the total expenditure. Health facilities in Kenya are free, so expenditures are incurred to provide free treatment and the expansion of medical facilities.

On Welfare, the Government of Kenya, like many developing countries is spending an average of about 4 per cent of total expenditure to this area. Kenya Government also incur expenditures on what is labelled "others" on table 19. This goes to Debt repayment, transfers to other levels of Government and many other miscellaneous activities. In the 1960s, it used to spend an average of 29.2 per cent, this reduced to 17.9 per cent and 11.5 per cent in the earlier and late 1970s, respectively. This was due to Government policy of reducing transfers to other levels of Government, but however in the 1980s, beecause of Debt Payments has increased substantially the share of these "others" to an average share of 21.4 per cent of total expenditures.

Table 20 is a comparison with other groups of countries. For low income countries, economic services is taking top priority of 26 per cent. This percentage is not different from Kenya's percentage of 25.8 per cent in the 1980s. The Industrial countries are spending more on social security at 56 per cent as compared to middle income countries which are spending 34 per cent, and Kenya is spending an average of 3.3 per cent in the 1980s. the low income countries spent an average of 19 per cent on defence while middle income countries spent 11 per cent, industrial countries spent 12 per cent.

TABLE 20 : ALLOCATION OF CENTRAL GOVERNMENT SPENDING BY FUNCTION 1980

Category	Industrial Countries	Middle income countries	Low income countries
Defence	12.0	11.0	19.0
Social Sector	56.0	34.0	8.0
General Public	6.0	17.0	8.0
Economic Sector	10.0	25.0	26.0
Others	16.0	13.0	39.0
Total	**100.0**	**100.0**	**100.0**

Source : World Development Report 1988, p. 110.

Functional Expenditure/GNP ratio is also calculated for Kenya's Central Government spending categories. The same functional allocation used in table 19 are used. Still as seen from table 21, economic services, Education, Public Administration have the highest Expenditure/GNP ratio. As already explained these are areas that the Government has given high priority since thetime of Independence. Kenya, as a developing country is very similar as any other developing/low income countries, this is clearly established when one compares the figures in tables 19 and 20. When figures in table 21 are interpreted, they point to the same trend.

TABLE 21 : FUNCTIONAL EXPENDITURE/GNP RATIO FOR KENYAN CENTRAL GOVERNMENT 1964/65 TO 1986/87

Category	1964/65 -1968/69	1969/70 -1973/74	1974/75 -1978/79	1979/80 -1986/87
Public Administration	3.4	3.5	4.3	4.5
Education	1.9	4.4	4.9	5.7
Defence	1.1	1.2	2.9	3.1
Health	1.0	1.5	1.8	1.9
Economic Services	5.7	8.1	9.7	8.2
Welfare/Community	0.8	1.2	0.9	1.2
Others	6.1	5.3	3.6	7.1
Total	**20.0**	**24.2**	**28.1**	**31.7**

Source : Computed from tables 22 - 30.

3.5.1.1 Recurrent Classification Functional Categories

The major components of Recurrent expenditures are shown in table 22. The period is divided into three as shown in the table, and the share of total expenditures is in percentages. Education is taking at least 20 per cent while general Administration although fairly high, it is showing a downwards trend. Defence has increased from an average of 6.6 per cent to 12.9 per cent. Economic services is likely to decline further in future taking into account the Government policy of selling some of its investments in commercial activities.

The Session Paper No. 1 on Economic Management for Renewed Growth is an important document intended to direct not only economic management in Kenya up to the year 2000, but also the

TABLE 22 : AVERAGE RECURRENT EXPENDITURE SHARE BY DIFFERENT FUNCTIONAL EXPENDITURES 1980 CONSTANT 1980 PRICES 1964/65 - 1986/87 (PERCENTAGES)

Items	1964/65-1972/73	1973/74-1977/78	1978/79-1986/87
General Admin.	23.3	17.0	13.8
Defence	6.6	11.1	12.9
Education	17.0	25.8	21.8
Health	6.3	7.5	6.7
Economic Services	14.5	17.5	15.9
Social Security			
Housing & Community Development	3.3	2.9	2.3
Other Community & Social Services			
Others	21.9	5.1	2.2
Total	**100.0**	**100.0**	**100.0**

Source : As computed from table 27

Government expenditures. One area that it has pointed to as needing urgent attention is functional expenditures on Recurrent Account. It has recommended cost sharing with the Government in areas of Education, Health, etc. with the people who use the facilities, but no details have been worked out how this is going to be done.

Public Debt has shown has shown a tremendous increase from an average of 7.1 per cent in 1964/65 to 1972/73 to 24.4 per cent in the period 1978/79 to 1986/87. Public debt here includes both interest and loan redemption. Health has shown a very small change from 6.3 per cent to 7.5 per cent and down to 6.7 per cent.

3.5.1.2 Development Classification (Tables 25, 26, 30, 31 and 32)

Development expenditure are allocated to similar Departments/organisations or units as Recurrent expenditures. The major category of beneficiary of this expenditure is Economic services. Table 31 shows that in 19873/74 its share of Development expenditure was 73.4 per cent but over the years, it has declined to 45 per cent in 1986/87. The other major item is General Public Administration which has shown an increase from 5.3 per cent in 1973/74 to 27.3 per cent in 1986/87. Table 32 has changed the figures into constant 1980 prices for Development expenditures.

Organisation classification is composed of mainly Ministries, but because ministries are reorganised now and again it is not possible to make any meaningful comparison. However, since the ministries are organised in a similar manner as Recurrent and Development functional classification, the comparison is already made.

TABLE 23 : FUNCTIONAL CLASSIFICATION OF CENTRAL GOVERNMENT RECURRENT EXPENDITURE, FOR 1964/65 - 1972/73, PERIOD ENDING 30TH JUNE

MILLION KENYA POUNDS (K£M) (NOMINAL VALUES)

CATEGORY	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72[2]	1972/73
1. GENERAL SERVICES	**17.2**	**18.6**	**21.5**	**22.7**	**22.7**	**25.0**	**27.1**	**34.3**	**38.0**
Administration	4.6	3.8	3.9	3.8	4.1	5.3	6.5	8.9	11.9
Law and Order	8.0	8.6	9.5	10.5	10.4	11.1	11.9	14.2	13.9
2. SOCIAL SERVICES	**11.0**	**11.3**	**13.4**	**14.6**	**16.3**	**25.1**	**36.6**	**44.0**	**49.1**
Education	6.2	5.9	7.2	7.9	9.0	15.8	25.9	31.9	37.0
Health	3.0	3.6	3.8	4.3	4.7	6.1	7.5	8.3	7.9
Community Development and others	1.8	1.8	2.4	2.4	2.6	3.2	3.2	3.8	4.2
3. COMMUNITY SERVICES	**2.4**	**3.0**	**3.5**	**3.4**	**3.9**	**4.3**	**5.2**	**6.7**	**9.9**
Roads	1.3	1.8	1.9	2.0	2.4	2.9	3.5	4.5	5.1
Water works	1.1	1.2	1.6	1.3	1.4	1.4	1.7	2.1	2.2
4. ECONOMIC SERVICES	**7.0**	**8.3**	**8.4**	**12.7**	**15.0**	**12.8**	**12.8**	**15.2**	**17.9**
Agriculture, veterinary and forestry	5.2	6.5	5.8	7.8	8.7	7.8	7.9	9.8	10.4
Commerce and Industry	0.7	0.7	0.8	3.1	4.2	2.9	1.5	2.0	2.0
5. FINANCIAL OBLIGATIONS and OTHERS[1]	**19.3**	**19.5**	**18.0**	**16.7**	**17.3**	**19.9**	**19.1**	**18.1**	**22.7**
Public debt interest	4.4	4.8	5.2	5.4	6.0	6.6	7.4	8.7	9.6
Pension and gratuities	3.9	3.8	3.9	3.6	3.8	3.8	3.6	3.6	5.4
Transfer to local authorities	2.0	3.4	2.9	3.9	5.6	4.8	0.5	0.7	0.7
TOTAL CURRENT EXPENDITURE	**59.9**	**60.7**	**64.8**	**70.1**	**75.2**	**87.1**	**100.8**	**118.5**	**137.7**

Notes : 1. Excludes public debt Sinking Fund and Redemption.
2. Excludes unallocable expenditure of some K£ 5 million.

Source : Kenya : Into The Second Decade, 1975 Report of a mission to Kenya, The World Bank.

TABLE 24 : FUNCTIONAL ALLOCATIONS OF CENTRAL GOVERNMENT RECURRENT EXPENDITURE, FOR 1964/65 - 1972/73 (PERCENTAGES)

CATEGORY	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72[2]	1972/73
1. GENERAL SERVICES	**30.2**	**30.6**	**33.2**	**32.4**	**30.2**	**28.7**	**26.9**	**29.1**	**27.6**
Administration	8.1	6.3	6.0	5.4	5.5	6.1	6.4	7.5	8.6
Law and order	14.1	14.2	14.7	15.0	13.8	12.7	11.8	12.0	10.1
Defence	5.1	6.4	7.9	8.3	7.0	6.2	6.1	5.1	6.5
2. SOCIAL SERVICES	**19.3**	**18.6**	**20.7**	**20.8**	**21.7**	**28.8**	**36.3**	**37.1**	**35.7**
Education	10.9	9.7	11.1	11.3	12.0	18.1	25.8	26.9	26.9
Health	5.3	5.9	5.9	6.1	6.3	7.0	7.4	7.0	5.7
Community Development and others	3.1	3.0	3.7	3.4	3.4	3.7	3.1	3.2	3.1
3. COMMUNITY SERVICES	**4.2**	**4.9**	**5.4**	**4.9**	**5.2**	**4.9**	**5.2**	**5.7**	**7.2**
Roads	2.3	2.9	2.9	2.9	3.2	3.3	3.7	3.8	3.7
Water works	1.9	2.0	2.5	1.9	1.9	1.6	1.5	1.9	1.6
4. ECONOMIC SERVICES	**12.3**	**13.7**	**13.0**	**18.1**	**19.9**	**14.7**	**12.7**	**12.8**	**13.0**
Agriculture, veterinary and forestry	9.1	10.7	9.0	11.1	11.6	9.0	7.8	8.3	7.6
Commerce and Industry	1.2	1.2	1.2	4.4	5.6	3.3	1.5	1.7	1.5
5. FINANCIAL OBLIGATION and OTHERS	**34.0**	**32.2**	**27.7**	**23.8**	**23.0**	**22.9**	**18.9**	**15.3**	**16.5**
Public debt interest	7.7	7.9	8.0	7.7	8.0	7.6	7.4	6.8	3.0
Pensions and gratuities	6.9	6.3	6.0	5.1	5.1	4.4	3.5	3.0	3.9
Transfer to Local Authorities	3.5	5.6	4.5	5.6	7.4	5.5	0.5	0.6	0.5
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

<u>Source</u> : Kenya : Into The Second Decade, 1975 Report of a mission to Kenya, The World Bank.

TABLE 25 : FUNCTIONAL CLASSIFICATION OF CENTRAL GOVERNMENT DEVELOPMENT/CAPITAL EXPENDITURE, FOR 1964/65-1972/73,

PERIOD ENDING 30TH JUNE

MILLION KENYA POUNDS (K£M) (NOMINAL VALUES)

CATEGORY	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73
1. GENERAL SERVICES	**0.6**	**0.7**	**1.1**	**2.1**	**1.8**	**2.4**	**3.6**	**4.8**	**6.5**
Administration	0.4	0.3	0.3	0.5	0.5	1.1	1.6	1.7	2.1
Law and order	0.1	0.3	0.7	1.3	1.1	1.3	2.0	3.0	2.2
Defence	-	0.1	0.1	0.2	0.2	-	-	0.1	2.2
2. COMMUNITY SERVICES	**1.8**	**3.9**	**5.3**	**5.9**	**6.9**	**9.6**	**14.9**	**20.3**	**22.3**
Roads	1.6	3.4	4.4	5.2	6.5	9.3	14.3	18.9	19.8
Waterworks	0.2	0.5	0.9	0.7	0.4	0.3	0.6	1.4	2.5
3. SOCIAL SERVICES	**1.3**	**1.4**	**2.9**	**3.7**	**6.2**	**6.7**	**7.3**	**9.6**	**14.0**
Education	0.6	0.6	0.6	1.4	2.4	1.5	1.4	1.0	3.1
Health	0.1	0.2	0.5	1.1	1.4	2.4	2.7	2.9	3.9
Housing	0.5	0.4	1.4	0.8	2.1	2.5	2.7	3.2	4.8
Others	0.1	0.2	0.4	0.4	0.3	0.3	0.5	2.5	2.2
4. ECONOMIC SERVICES	**6.5**	**6.1**	**6.7**	**9.0**	**10.8**	**11.1**	**17.5**	**12.7**	**27.6**
Agricultural, veterinary and forestry	6.1	5.7	5.6	4.9	5.8	4.0	4.4	5.4	11.3
Commerce and Industry	negative	negative	0.5	2.8	4.1	3.0	4.4	5.2	4.7
Electricity	-	-	-	-	-	2.6	4.0	-	4.8
Transfer to Local Authorities	0.4	0.4	-	0.1	0.1	0.3	0.3	0.4	1.7
Unallocable	-	-	0.6	1.0	1.0	0.9	0.8	0.5	-
TOTAL	**10.5**	**12.5**	**16.6**	**21.8**	**26.8**	**31.0**	**44.4**	**48.3**	**72.1**

Source : Kenya : Into The Second Decade, 1975 Report of a mission to Kenya, The World Bank.

TABLE 26 : FUNCTIONAL ALLOCATION OF CENTRAL GOVERNMENT DEVELOPMENT/CAPITAL EXPENDITURES FOR 1964/65 TO 1972/73 (PERCENTAGES)

CATEGORY	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73
1. GENERAL SERVICES	**5.7**	**5.6**	**6.6**	**9.6**	**6.7**	**7.7**	**8.1**	**9.9**	**11.0**
Administration	3.8	2.4	1.8	2.3	1.9	3.5	3.6	3.5	5.0
Law and Order	0.9	2.4	4.2	6.0	4.1	4.2	4.5	6.2	4.3
Defence	-	0.8	0.6	0.9	0.7	-	-	0.2	1.7
2. COMMUNITY SERVICES	**17.1**	**31.2**	**31.9**	**27.1**	**25.8**	**31.0**	**33.6**	**42.0**	**33.6**
Roads	15.2	27.2	26.5	23.9	24.3	30.0	32.2	39.1	30.7
Waterworks	1.9	4.0	5.4	3.2	1.5	1.0	1.4	2.9	2.9
3. SOCIAL SERVICES	**12.4**	**11.2**	**17.5**	**17.0**	**23.1**	**21.6**	**16.4**	**19.9**	**19.7**
Education	5.7	4.8	3.6	6.4	9.0	4.8	3.2	2.1	5.2
Health	1.0	1.6	3.0	5.0	5.2	7.7	6.1	6.0	5.2
Housing	4.8	3.2	8.4	3.7	7.8	8.1	6.1	6.6	6.7
Others	0.9	1.6	2.5	1.8	1.1	1.0	1.0	5.2	2.6
4. ECONOMIC SERVICES	**61.9**	**48.8**	**40.4**	**41.2**	**40.3**	**35.8**	**39.4**	**26.4**	**34.6**
Agriculture, veterinary and forestry	58.1	45.6	33.7	22.5	21.6	12.9	9.9	11.2	17.1
Commerce and Industry	negative	negative	3.1	12.8	15.3	9.7	9.9	10.8	3.7
Electricity and Power	-	-	-	-	-	8.4	9.0	-	-
Transfers to Local Authorities	3.8	3.2	-	0.5	0.4	1.0	0.7	0.8	1.1
Unallocable	-	-	3.6	4.6	3.7	2.9	1.8	1.0	-
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source : Computed from table 25.

TABLE 27 : FUNCTIONAL CLASSIFICATION OF CENTRAL GOVERNMENT RECURRENT EXPENDITURES, FOR 1973/73 TO 1986/87, PERIOD ENDING 30TH JUNE

MILLION KENYA POUNDS (K£M) (NOMINAL VALUES)

CATEGORY	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87
1.GENERAL PUBLIC ADMINISTRATION	**27.5**	**37.3**	**45.9**	**47.2**	**67.1**	**78.8**	**86.8**	**111.1**	**118.1**	**111.4**	**132.3**	**161.5**	**160.6**	**193.9**
(a) General Administration	8.7	16.0	20.8	22.4	35.9	39.8	44.9	50.7	53.9	64.8	62.3	86.4	66.8	84.7
(b) External Affairs	2.1	2.3	2.5	2.6	4.3	6.0	6.9	8.8	10.2	12.2	13.8	15.6	22.2	26.9
(c) Public order and safety	16.7	19.0	22.6	22.2	26.9	33.0	35.0	51.6	54.0	34.4	56.2	59.5	69.7	82.3
2.DEFENCE	**12.9**	**17.7**	**19.4**	**41.1**	**73.7**	**96.8**	**104.6**	**81.9**	**122.4**	**130.6**	**129.5**	**101.3**	**113.7**	**113.0**
3.EDUCATION	**42.9**	**58.5**	**68.9**	**76.3**	**89.1**	**101.5**	**122.6**	**162.4**	**180.6**	**192.1**	**210.5**	**245.3**	**313.9**	**362.8**
4.HEALTH	**12.1**	**16.9**	**19.2**	**21.3**	**29.2**	**35.4**	**42.8**	**52.6**	**59.8**	**62.0**	**64.4**	**72.4**	**78.8**	**95.5**
5.SOCIAL SECURITY AND WELFARE	**0.4**	**0.6**	**0.6**	**0.7**	**0.8**	**0.9**	**0.9**	**1.2**	**1.3**	**1.4**	**1.4**	**1.5**	**2.6**	**2.6**
6.HOUSING AND COMMUNITY WELFARE	**1.4**	**1.3**	**1.3**	**1.2**	**3.4**	**1.7**	**2.2**	**2.6**	**2.8**	**3.0**	**3.1**	**3.3**	**2.8**	**6.2**
(a) Housing	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.1	0.2	0.3	0.3	0.3	0.7	0.7
(b) Community Development	1.3	1.2	1.2	1.1	3.3	1.4	1.9	2.5	2.6	2.7	2.8	3.0	2.1	5.5
7.OTHER COMMUNITY AND SOCIAL WELFARE	**4.6**	**4.7**	**5.1**	**5.7**	**5.6**	**8.6**	**10.6**	**12.7**	**13.8**	**15.9**	**19.2**	**22.2**	**24.1**	**24.1**
8.ECONOMIC SERVICES	**29.0**	**38.6**	**46.1**	**47.8**	**70.0**	**75.2**	**85.0**	**130.0**	**128.8**	**134.8**	**151.5**	**199.8**	**196.7**	**271.6**
(a) General Administration	2.0	2.4	2.1	3.2	6.1	6.1	7.6	14.8	13.6	10.7	11.7	9.6	15.2	12.3
(b) Agricultural and Forestry	10.0	12.6	19.1	16.6	22.8	20.9	22.3	45.2	38.7	52.4	47.4	90.4	61.0	122.0
(c) Game and Fisheries	1.1	1.0	1.4	2.4	3.4	4.3	5.3	6.8	6.6	6.2	6.7	7.4	8.3	10.0
(d) Mining,Manufacturing & Construction	4.0	5.4	5.6	5.6	8.7	10.2	10.8	13.6	14.0	15.0	17.0	24.4	29.9	35.8
(e) Electricity, Gas, Steam & Water	2.3	2.6	3.7	4.6	5.4	7.1	9.0	12.8	13.7	13.1	15.9	15.8	16.5	19.4
(f) Roads	7.0	7.4	8.4	8.8	9.4	10.8	14.5	16.8	19.8	16.1	19.6	10.9	10.6	11.5
(g) Inland and Coastal Waterways	-	-	-	-	0.1	0.2	0.2	0.3	0.3	0.4	0.5	0.2	1.8	2.0
(h) Other Transportation & Communications	1.2	1.7	1.6	1.9	5.6	5.1	4.9	6.2	7.0	7.5	7.4	8.2	8.7	9.3
(j) Other Economic Services	1.4	5.4	4.2	4.6	8.5	10.5	10.5	13.5	15.1	13.4	25.3	32.9	44.7	49.3
9. OTHER SERVICES	**33.2**	**34.0**	**41.8**	**45.8**	**92.7**	**78.7**	**93.7**	**134.8**	**202.6**	**316.5**	**296.6**	**404.0**	**453.2**	**494.6**
(a) Transfer to Government Organisations	8.7	0.6	1.3	-	9.9	8.7	9.2	9.9	10.3	10.8	7.1	8.2	-	-
(b) Public Debt	18.2	23.7	31.0	36.3	77.6	65.8	78.8	118.9	184.8	296.1	279.4	380.6	436.0	470.7
(c) Other Purposes	6.3	9.7	9.5	9.5	5.2	4.2	5.7	6.0	7.5	9.6	10.1	15.2	17.2	23.9
TOTAL	**163.7**	**209.6**	**248.3**	**287.1**	**402.3**	**477.6**	**549.2**	**689.3**	**830.2**	**967.7**	**1008.7**	**1211.3**	**1346.6**	**1564.3**

Sources : 1. Economic Surveys 1968, 1975, 1978, 1982 - 1984, 1986 - 1988;
2. Statistical Abstract 1975, 1982, 1984, 1986; and
3. Central Bank Annual Report 1982.

TABLE 28 : FUNCTIONAL CLASSIFICATION OF KENYA CENTRAL GOVERNMENT RECURRENT EXPENDITURES FOR 1973/74 TO 1986/87 (PERCENTAGES)

CATEGORY	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87
1. GENERAL PUBLIC ADMINISTRATION	**16.8**	**17.8**	**18.5**	**16.4**	**15.5**	**16.5**	**15.8**	**16.1**	**14.2**	**11.5**	**13.1**	**13.3**	**11.9**	**12.4**
(a) General Administration	5.3	7.6	8.4	7.8	8.3	8.3	8.2	7.4	6.5	6.7	6.2	7.1	5.0	5.4
(b) External Affairs	1.3	1.1	1.0	0.9	1.0	1.3	1.3	2.3	1.2	1.3	1.4	1.3	1.7	1.7
(c) Public Order and Safety	10.2	9.1	9.1	7.7	6.2	6.9	6.3	7.5	6.5	3.5	5.5	4.9	5.2	5.3
2. DEFENCE	**7.9**	**8.5**	**7.8**	**14.3**	**17.1**	**20.3**	**19.0**	**11.9**	**14.7**	**13.5**	**12.8**	**8.4**	**8.4**	**7.2**
3. EDUCATION	**26.2**	**27.9**	**27.8**	**26.6**	**20.6**	**21.2**	**22.3**	**23.5**	**21.8**	**19.9**	**21.0**	**20.3**	**23.3**	**23.2**
4. HEALTH	**7.4**	**8.1**	**7.7**	**7.4**	**6.8**	**7.4**	**7.8**	**7.6**	**7.2**	**6.4**	**6.4**	**6.0**	**5.8**	**6.1**
5. SOCIAL SECURITY AND WELFARE	**0.2**	**0.3**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.1**	**0.1**	**0.2**	**0.2**
6. HOUSING AND COMMUNITY WELFARE	**0.8**	**0.6**	**0.5**	**0.4**	**0.8**	**0.3**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.2**	**0.4**
(a) Housing	0.1	0.1	-	-	-	-	-	-	-	-	0.1	0.1	-	0.1
(b) Community Development	0.7	0.5	0.5	0.4	0.8	0.3	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.3
7. OTHER COMMUNITY AND SOCIAL WELFARE	**2.8**	**2.2**	**2.1**	**2.0**	**1.3**	**1.8**	**1.9**	**1.8**	**1.7**	**1.6**	**1.9**	**1.8**	**1.8**	**1.5**
8. ECONOMIC SERVICES	**17.7**	**18.4**	**18.6**	**16.7**	**16.2**	**15.8**	**15.5**	**18.9**	**15.5**	**13.9**	**15.0**	**16.5**	**14.6**	**17.4**
(a) General Administration	1.2	1.2	0.8	1.1	1.4	1.3	1.4	2.1	1.6	1.1	1.2	0.8	1.1	0.8
(b) Agricultural and Forestry	6.1	6.0	7.7	5.8	5.3	4.4	4.1	6.6	4.7	5.4	4.7	7.5	4.6	7.8
(c) Game and Fisheries	0.7	0.5	0.6	0.8	0.8	0.9	1.0	1.0	0.8	0.6	0.7	0.6	0.6	0.6
(d) Mining, Manufacturing & Construction	2.4	2.6	2.3	2.0	2.0	2.1	2.0	2.0	1.7	1.6	1.7	2.0	2.2	2.3
(e) Electricity, Gas, Steam and Water	1.4	1.2	1.5	1.6	1.2	1.5	1.6	1.9	1.7	1.4	1.6	1.3	1.2	1.3
(f) Roads	4.3	3.5	3.4	3.1	2.2	2.3	2.6	2.4	2.4	1.7	1.9	0.9	0.8	0.7
(g) Other Transportation & Communication	0.7	0.8	0.6	0.7	1.3	1.1	0.9	0.9	0.8	0.7	0.7	0.7	0.7	0.6
(h) Other Economic Services	0.9	2.6	1.7	1.6	2.0	2.2	1.9	2.0	1.8	1.4	2.5	2.7	3.3	3.2
(i) Inland and Coastal Waterways	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1
9. OTHER SERVICES	**20.2**	**16.2**	**16.8**	**16.0**	**21.5**	**16.5**	**17.1**	**19.6**	**24.4**	**32.7**	**29.4**	**33.3**	**33.7**	**31.6**
(a) Transfer to Government Organisations	5.3	0.3	0.5	-	2.3	1.8	1.7	1.4	1.2	1.1	0.7	0.7	-	-
(b) Public Debt	11.1	11.3	12.5	12.7	18.0	13.8	14.4	17.2	22.3	30.6	27.7	31.4	32.4	30.1
(c) Other purposes	3.8	4.6	3.8	3.3	1.2	0.9	1.0	1.0	0.9	1.0	1.0	1.2	1.3	1.5
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source : Computed from table 27.

TABLE 29 : FUNCTIONAL CLASSIFICATION OF CENTRAL GOVERNMENT RECURRENT EXPENDITURES FOR 1973/74 TO 1986/87

MILLION KENYA POUNDS (K£M) IN CONSTANT 1980 PRICES

CATEGORY	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87
1. GENERAL PUBLIC ADMINISTRATION	**53.2**	**62.0**	**65.0**	**57.2**	**67.1**	**87.0**	**86.8**	**100.5**	**96.3**	**84.1**	**90.4**	**102.5**	**89.7**	**101.4**
(a) General Administration	16.8	26.6	29.5	27.1	35.9	43.9	44.9	45.9	44.0	48.9	42.6	54.9	37.4	44.3
(b) External Affairs	4.1	3.8	3.5	3.2	3.2	6.7	6.9	8.0	8.3	9.2	9.4	9.8	12.4	14.1
(c) Public Order and Safety	32.3	31.6	32.0	26.9	29.0	36.4	35.0	46.7	44.0	26.0	38.4	37.8	38.9	43.0
2. DEFENCE	**25.0**	**28.3**	**27.5**	**49.8**	**73.7**	**106.8**	**104.6**	**74.1**	**99.8**	**98.6**	**88.5**	**64.3**	**63.5**	**59.1**
3. EDUCATION	**83.0**	**97.3**	**97.6**	**92.5**	**89.1**	**112.0**	**122.6**	**147.0**	**147.3**	**145.0**	**143.8**	**155.7**	**175.4**	**189.7**
4. HEALTH	**23.4**	**28.1**	**27.2**	**25.8**	**29.2**	**39.1**	**42.8**	**47.6**	**48.8**	**47.8**	**44.0**	**46.0**	**40.8**	**50.0**
5. SOCIAL SECURITY AND WELFARE	**0.8**	**1.0**	**0.8**	**0.8**	**0.9**	**1.0**	**0.9**	**1.1**	**1.1**	**1.1**	**1.0**	**0.9**	**1.3**	**1.3**
6. HOUSING AND COMMUNITY WELFARE	**2.7**	**2.2**	**1.8**	**1.4**	**4.0**	**1.9**	**2.2**	**2.3**	**2.3**	**2.3**	**2.1**	**2.1**	**1.5**	**3.2**
(a) Housing	0.2	0.2	0.1	0.1	0.1	1.3	0.3	0.1	0.1	0.2	0.2	0.2	0.4	0.4
(b) Community Development	2.5	2.0	1.7	1.3	3.9	1.6	1.9	2.2	2.2	2.1	1.9	1.9	1.1	2.8
7. OTHER COMMUNITY AND SOCIAL WELFARE	**8.9**	**7.8**	**7.2**	**6.9**	**6.6**	**9.5**	**10.6**	**11.5**	**11.3**	**12.0**	**13.1**	**14.1**	**13.5**	**12.6**
8. ECONOMIC SERVICES	**56.1**	**64.2**	**65.3**	**57.9**	**92.8**	**83.0**	**85.0**	**117.6**	**105.1**	**101.7**	**103.5**	**126.9**	**109.9**	**142.0**
(a) General Administration	3.9	4.0	3.0	3.9	7.3	6.7	7.6	13.4	11.1	8.1	8.0	6.1	8.5	6.4
(b) Agricultural and Forestry	19.3	21.0	27.1	20.1	29.8	23.1	22.3	40.9	31.6	39.5	32.4	57.4	34.0	63.8
(c) Game and Fisheries	2.1	1.7	2.0	2.9	4.6	4.7	5.3	6.1	5.4	4.7	4.6	4.7	4.6	5.2
(d) Mining, Manufacturing & Construction	7.7	9.0	7.9	6.8	11.2	11.3	10.8	12.3	11.4	11.3	11.6	15.5	16.7	21.4
(e) Electricity, Steam and Water	4.4	4.3	5.2	5.6	6.9	7.8	9.0	11.6	11.2	9.9	10.9	10.0	9.2	10.1
(f) Roads	13.5	12.3	11.9	10.7	11.0	11.9	14.5	15.2	16.1	12.1	13.4	6.9	5.9	6.0
(g) Inland and Coastal Waterways	-	-	-	-	0.2	0.2	0.2	0.3	0.2	0.3	0.3	0.1	0.1	0.1
(h) Other Transportation & Communication	2.3	2.8	2.3	2.3	8.6	5.6	4.9	5.6	5.7	5.7	5.0	5.2	4.9	4.9
(i) Other Economic Services	2.7	9.0	5.9	5.6	12.0	11.6	10.5	12.2	12.3	10.1	17.3	20.9	25.0	25.8
9. OTHER SERVICES	**64.2**	**56.5**	**59.2**	**55.5**	**108.8**	**86.8**	**93.7**	**122.0**	**165.2**	**238.6**	**202.6**	**256.5**	**252.5**	**258.6**
(a) Transfer to Government Organisations	16.8	1.0	1.8	-	11.6	9.6	9.2	9.0	8.4	8.0	4.9	5.2	-	-
(b) Public Debt	35.2	39.4	43.9	44.0	91.1	72.6	78.8	107.6	150.7	223.4	190.8	241.7	242.9	246.6
(c) Other purposes	12.2	16.1	13.5	11.5	6.1	4.6	5.7	5.2	6.1	7.2	6.9	9.6	9.6	12.5
TOTAL	**316.6**	**348.7**	**351.7**	**348.0**	**472.2**	**527.2**	**549.2**	**623.8**	**677.2**	**730.3**	**688.7**	**769.1**	**752.3**	**817.9**

Sources : 1. Computed from table 27; and
2. Deflator from the International Financial Statistics, 1987.

TABLE 30 : FUNCTIONAL CLASSIFICATION OF CENTRAL GOVERNMENT DEVELOPMENT/CAPITAL EXPENDITURES FOR 1973/74 TO 1986/87, PERIOD ENDING 30TH JUNE

MILLION KENYA POUNDS (K£M) (NOMINAL VALUES)

CATEGORY	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87
1. GENERAL PUBLIC ADMINISTRATION	**3.5**	**7.9**	**27.0**	**15.7**	**25.1**	**20.5**	**40.2**	**52.8**	**41.6**	**28.4**	**31.3**	**51.2**	**46.0**	**124.8**
(a) General Administration	2.0	5.6	24.9	13.9	21.2	17.3	34.8	45.0	30.6	21.8	24.1	41.0	33.7	110.3
(b) External Affairs	-	0.1	0.2	0.3	1.2	0.6	0.8	0.1	0.5	-	0.5	1.7	0.8	1.0
(c) Public Order and Security	1.5	2.2	2.0	1.5	2.7	2.6	4.6	7.6	10.5	6.6	6.7	8.5	11.5	13.5
2. DEFENCE	**1.4**	**1.4**	**1.2**	**1.8**	**5.7**	**8.8**	**7.2**	**7.8**	**6.1**	**7.2**	**10.5**	**10.9**	**13.7**	**22.0**
3. EDUCATION	**3.2**	**5.3**	**3.3**	**4.6**	**5.4**	**7.6**	**14.5**	**14.0**	**17.1**	**14.3**	**9.6**	**14.5**	**15.8**	**25.5**
4. HEALTH	**2.3**	**3.8**	**4.7**	**8.3**	**7.7**	**7.8**	**10.8**	**12.7**	**11.3**	**7.7**	**11.9**	**10.3**	**14.0**	**14.7**
5. SOCIAL SECURITY AND WELFARE	-	**1.2**	**2.1**	**2.4**	**4.1**	-	-	-	**0.5**	-	-	-	-	-
6. HOUSING AND COMMUNITY DEVELOPMENT	**4.3**	**4.9**	**4.8**	**4.2**	**9.3**	**6.6**	**8.9**	**12.1**	**11.2**	**7.5**	**3.0**	-	**13.5**	**14.1**
(a) Housing	4.3	4.4	4.4	3.0	5.3	5.4	7.3	7.3	7.4	5.1	3.0	-	9.0	9.0
(b) Community Development	-	0.5	0.4	1.2	4.0	1.2	1.6	4.8	3.8	2.4	-	-	4.5	5.2
7. OTHER COMMUNITY AND SOCIAL WELFARE	**1.5**	-	-	-	-	**4.2**	**6.4**	**7.8**	**10.1**	**15.5**	**15.5**	**32.1**	**20.9**	**53.0**
8. ECONOMIC SERVICES	**48.9**	**66.2**	**78.0**	**81.9**	**162.2**	**158.5**	**132.9**	**165.9**	**182.6**	**138.3**	**162.9**	**204.4**	**176.9**	**206.0**
(a) General Administration	3.2	6.2	9.5	6.0	11.7	10.3	10.3	12.7	10.8	9.2	20.2	60.4	20.2	12.3
(b) Agricultural and Forestry	6.8	18.4	19.4	17.4	45.1	37.3	37.0	52.1	54.2	44.3	37.6	39.0	75.5	92.8
(c) Game and Fisheries	1.6	2.1	2.0	2.0	2.3	2.3	3.1	4.6	4.1	2.8	2.1	4.0	3.0	4.0
(d) Mining, Manufacturing & Construction	1.3	1.3	1.5	1.7	2.2	5.0	9.5	21.2	15.1	9.6	19.0	24.6	5.8	13.0
(e) Electricity, Gas, Steam and Water	3.4	6.0	12.6	11.2	36.9	30.4	24.6	27.9	31.1	17.1	28.1	21.3	23.2	35.9
(f) Roads	19.7	18.8	17.9	20.6	26.1	32.3	41.7	40.7	57.8	49.9	47.7	48.3	42.8	39.2
(g) Inland and Coastal Waterways	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(h) Other Transportation & Communication	5.1	11.7	13.6	16.2	34.8	36.6	4.3	3.0	5.2	4.0	4.2	3.6	4.8	6.5
(i) Other Economic Services	7.8	1.8	1.5	6.8	3.1	4.2	2.4	3.8	3.7	1.4	4.0	3.2	1.6	2.3
9. OTHER SERVICES	**1.5**	**1.8**	**3.1**	**4.0**	-	**6.1**	**11.2**	**9.7**	**11.6**	**4.1**	**4.0**	-	**8.3**	-
(a) Transfer to Government Organisations	1.1	1.8	3.1	4.0	-	6.1	11.2	9.7	11.6	4.1	4.0	-	8.3	-
TOTAL	**66.6**	**92.5**	**124.4**	**122.7**	**234.9**	**220.1**	**232.1**	**282.8**	**292.1**	**223.0**	**246.3**	**323.4**	**309.1**	**457.1**

Sources : 1. Various Economic Surveys; and
2. Various Statistical Abstracts.

TABLE 31 : FUNCTIONAL CLASSIFICATION OF CENTRAL GOVERNMENT DEVELOPMENT/CAPITAL EXPENDITURES FOR 1973/74 TO 1986/87 (PERCENTAGES)

CATEGORY	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87
1. GENERAL PUBLIC ADMINISTRATION	**5.3**	**8.5**	**21.7**	**12.7**	**11.8**	**9.3**	**17.3**	**18.6**	**14.3**	**12.7**	**11.8**	**15.8**	**14.9**	**27.3**
(a) General Administration	3.0	6.1	20.0	11.3	10.0	7.9	15.0	15.9	10.5	9.7	9.8	12.7	10.9	24.1
(b) External Affairs	-	0.1	0.1	0.2	0.6	0.3	0.3	-	0.2	-	0.2	5.3	0.3	0.2
(c) Public Order and Safety	2.3	2.3	1.6	1.2	1.2	1.2	2.0	2.7	3.6	3.0	2.8	2.8	3.7	3.0
2. DEFENCE	**2.1**	**1.5**	**1.0**	**1.5**	**2.7**	**4.0**	**3.1**	**2.7**	**2.1**	**3.2**	**4.3**	**3.4**	**4.4**	**4.8**
3. EDUCATION	**4.8**	**5.7**	**2.6**	**3.7**	**2.5**	**3.5**	**6.2**	**5.0**	**5.9**	**6.4**	**3.9**	**4.5**	**5.1**	**5.6**
4. HEALTH	**3.5**	**4.1**	**3.8**	**6.8**	**3.6**	**3.5**	**4.6**	**4.5**	**3.9**	**3.5**	**4.8**	**3.2**	**4.5**	**3.2**
5. SOCIAL SECURITY AND WELFARE	-	**1.3**	**1.7**	**1.9**	**1.9**	-	-	-	**0.2**	-	-	-	-	-
6. HOUSING AND COMMUNITY DEVELOPMENT	**6.5**	**5.3**	**3.9**	**3.4**	**2.5**	**3.0**	**3.8**	**4.3**	**3.8**	**3.4**	**1.2**	-	**4.4**	**3.1**
(a) Housing	6.5	4.8	3.5	2.4	2.0	2.5	3.1	2.6	2.5	2.3	-	-	-	2.0
(b) Community Development	-	0.5	0.4	1.0	0.5	0.5	0.7	1.7	1.3	1.1	-	-	-	1.1
7. OTHER COMMUNITY AND SOCIAL WELFARE	**2.2**	-	-	-	-	**1.9**	**2.8**	**2.8**	**3.5**	**7.0**	**6.3**	**9.9**	**6.8**	**11.6**
8. ECONOMIC SERVICES	**73.4**	**71.6**	**62.8**	**66.7**	**76.7**	**72.0**	**57.3**	**58.7**	**62.5**	**62.0**	**66.1**	**63.2**	**57.2**	**46.0**
(a) General Administration	4.8	6.7	7.6	4.9	5.5	4.8	4.4	4.6	3.7	4.1	8.2	18.7	6.3	2.7
(b) Agricultural and Forestry	10.2	19.9	15.6	13.9	21.4	16.9	15.9	18.4	18.5	19.9	15.3	12.1	24.4	20.3
(c) Game and Fisheries	2.4	2.3	1.6	1.6	1.0	1.0	1.3	1.6	1.4	1.3	0.8	1.2	1.0	0.9
(d) Mining, Manufacturing & Construction	2.0	1.4	1.2	1.4	1.0	2.3	4.1	7.5	5.2	4.3	7.7	7.6	1.9	2.8
(e) Electricity, Gas, Steam and Water	5.1	6.5	10.1	9.1	17.5	13.8	10.6	9.9	10.6	7.7	11.4	6.6	7.5	7.8
(f) Roads	29.6	20.3	14.4	16.8	12.3	14.7	18.0	14.5	19.8	22.4	19.4	14.9	13.8	8.6
(g) Other Transportation & Communication	7.7	12.6	10.9	13.2	16.5	16.6	1.8	1.1	1.7	1.8	1.7	1.1	0.3	1.4
(h) Other Economic Services	11.7	1.9	1.2	5.5	1.5	1.9	1.0	1.3	1.3	0.6	1.6	1.0	0.5	0.5
9. OTHER SERVICES	**2.2**	**2.0**	**2.5**	**3.3**	-	**2.8**	**4.8**	**3.4**	**4.0**	**1.8**	**1.6**	-	**2.7**	-
(a) Transfer to Government Organisations	1.6	2.0	2.5	3.3	-	2.8	4.8	3.4	4.0	1.8	1.6	-	2.7	-
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source : Computed from table 30.

TABLE 32 : FUNCTIONAL CLASSIFICATION OF CENTRAL GOVERNMENT DEVELOPMENT/CAPITAL EXPENDITURES FOR 1973/74 TO 1986/87

MILLION KENYA POUNDS (K£M) IN CONSTANT 1980 PRICES

CATEGORY	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87
1. GENERAL PUBLIC ADMINISTRATION	**6.8**	**13.1**	**38.2**	**19.0**	**29.5**	**22.6**	**40.2**	**47.8**	**33.9**	**21.4**	**21.4**	**32.5**	**25.7**	**65.3**
(a) General Administration	3.9	9.3	35.2	16.8	24.9	19.1	34.8	40.7	25.0	16.4	16.5	26.0	18.8	57.7
(b) External Affairs	-	0.2	0.2	0.4	1.4	0.6	0.8	0.1	0.4	-	0.3	1.1	0.5	0.5
(c) Public Order and Safety	2.9	3.6	2.8	1.8	3.2	2.9	4.6	6.9	8.5	5.0	4.6	5.4	6.4	7.1
2. DEFENCE	**2.7**	**2.3**	**1.7**	**2.2**	**6.7**	**9.7**	**7.2**	**7.1**	**5.0**	**5.4**	**7.2**	**6.9**	**7.6**	**11.5**
3. EDUCATION	**6.2**	**8.8**	**4.7**	**5.6**	**6.3**	**8.4**	**14.5**	**12.7**	**13.9**	**10.8**	**6.6**	**9.2**	**8.8**	**13.3**
4. HEALTH	**4.5**	**6.3**	**6.7**	**10.1**	**9.0**	**8.6**	**10.8**	**11.5**	**9.2**	**7.0**	**8.1**	**6.5**	**7.8**	**7.7**
5. SOCIAL SECURITY WELFARE	-	**2.0**	**3.0**	**2.9**	**4.8**	-	-	-	**0.4**	-	-	-	-	-
6. HOUSING AND COMMUNITY DEVELOPMENT	**8.3**	**8.1**	**6.8**	**5.1**	**6.2**	**7.3**	**8.9**	**10.9**	**9.1**	**5.7**	**2.0**	-	**7.5**	**7.4**
(a) Housing	8.3	7.1	6.2	3.6	5.0	6.0	7.3	6.6	6.0	3.8	2.0	-	5.0	4.7
(b) Community Development	-	0.8	0.6	1.5	1.2	1.3	1.6	4.3	3.1	1.8	-	-	2.5	2.7
7. OTHER COMMUNITY AND SOCIAL WELFARE	**2.9**	-	-	-	-	**4.6**	**6.4**	**7.1**	**8.2**	**11.7**	**10.6**	**20.4**	**11.7**	**27.7**
8. ECONOMIC SERVICES	**94.6**	**110.1**	**110.5**	**99.3**	**190.3**	**174.9**	**132.9**	**150.1**	**148.9**	**104.4**	**111.3**	**129.8**	**98.8**	**107.7**
(a) General Administration	6.2	10.3	13.5	7.3	13.7	11.4	10.3	11.7	8.8	6.9	13.8	38.3	11.3	6.4
(b) Agricultural and Forestry	13.2	30.6	27.5	21.1	53.2	41.2	37.0	47.1	44.2	33.4	25.8	24.8	42.2	48.5
(c) Game and Fisheries	3.1	3.5	2.8	2.4	2.5	2.5	3.1	3.8	3.3	2.1	1.4	2.5	1.7	2.1
(d) Mining, Manufacturing & Construction	2.5	2.2	2.1	2.1	2.6	5.5	9.5	19.2	12.3	7.2	13.0	15.6	3.2	6.8
(e) Electricity, Gas, Steam and Water	6.6	10.0	17.8	13.6	43.3	33.6	24.6	25.2	25.4	12.9	19.2	13.5	13.0	18.0
(f) Roads	38.1	31.3	25.3	25.0	30.6	35.7	41.7	36.8	47.1	37.7	32.6	30.7	23.9	20.5
(g) Inland and Coastal Waterways	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(h) Other Transportation & Communication	9.9	19.5	19.3	19.6	40.8	40.4	4.3	2.7	4.2	3.0	2.9	2.3	2.7	3.4
9. OTHER SERVICES	**2.9**	**3.0**	**4.4**	**4.8**	-	**6.7**	**11.2**	**8.8**	**9.5**	**3.1**	**2.7**	-	**4.6**	-
(a) Transfer to Government Organisations	2.9	3.0	4.1	4.8	-	6.7	11.2	8.8	9.5	3.1	2.7	-	4.6	-
TOTAL	**128.8**	**153.9**	**176.2**	**148.7**	**248.1**	**242.9**	**232.1**	**255.9**	**238.3**	**168.3**	**168.2**	**205.3**	**172.7**	**239.0**

Sources : 1. Computed from table 30; and

2. Deflator from International Financial Statistics, 1987.

3.6 Central Government Expenditure Budget Financing Gap

As already referred to in chapter two, the Forward Budget is the critical link between the Development Plan and the annual Budgets of the Government which translated the public sector components of the Plan into constructive action. It is through the mechanism of the Forward Budget that development priorities are identified in terms of the specific projects and programmes whose implementation will bring the development strategy to life.

The Forward Budget covers five fiscal years spanned by the Plan. It is revised annually and it is extended as necessary to ensure that it always encompasses at least three forward years. The annual budget which takes one year from the forward budget, is the one that authorises the Government Department to begin spending.

The Annual Budget only estimates the expenditures and revenues, so sometimes there may be short-falls in revenues, and in that case the Government adjusts its expenditures to meet the revenue expectations. Table 33 shows budgeted and actual expenditures between 1980/81 to 1986/87. The actual spending as seen from the table are very different. Recurrent expenditure show for all the seven financial years, except 1984/85, that expenditures have been above the Budget. The average for the seven years is 112.9 per cent. On the other hand, capital and lending shows that for most of the seven years, actual spending was below the budget except 1981/82 when it was 121.1 per cent. On average actual expenditure to the Budget for the seven years was 72.9 per cent.

TABLE 33 : KENYA CENTRAL GOVERNMENT BUDGETED AMOUNTS COMPARED TO ACTUAL 1980/81 TO 1986/87 (NONIMAL VALUES, IN K£M)

	Recurrent Expenditures			Capital and Lending		
	Budget	Actual	% spent	Budget	Actual	% spent
1986/87	1292.3	1390.2	107.6	510.6	362.9	71.1
1985/86	1068.2	1176.7	110.1	388.8	227.0	58.4
1984/85	950.7	842.1	88.6	353.4	254.7	72.1
1983/84	854.6	1008.5	112.7	268.5	158.9	59.2
1982/83	806.7	984.2	122.0	361.8	172.7	47.8
1981/82	635.6	728.1	114.5	281.8	341.3	121.1
1980/81	536.1	721.1	134.5	258.1	207.3	80.3

Sources : 1. Economic Surveys 1986, 1987, 1988.
2. Computation from the same table.

When the Budgeted revenues are less than the anticipated expenditure, the Kenyan Government has resorted to the following methods :

(1) It normally defers capital and lending spending, that is why the actual are less than the budgets. This is because for recurrent expenditures, it is difficult to defer them. The recurrent expenditures are for ongoing services so the Government finds it ease to defer the capital and lending expenditures than recurrent.

(2) The Government may resort to more borrowing to meet the revenue shortfalls. This applies to cases where especially capital expenditure cannot be deferred. The fact that capital projects take a long time to plan, and depending at what stage of implementation, the Government borrows to meet their expenditure.

(3) Control of Recurrent expenditures normally has taken the

form of freezing the filling of new positions and the Government advising to utilise the available staff for sometime until the revenue positions returns to normal. In addition to filling of new jobs, the Government advises that non-essential recurrent expenditures may be deferred. However, as seen from the table, the Government more often goes for deferring of capital expenditures than recurrent which for most of the time is higher than the budget.

As will be noticed from the Recurrent functional allocation graphs the general trends is mostly upwards, apart from roads which the trend is downwards. That may have nothing to do with revenue shortfalls, it could be because more roads have been tarmaced, so it takes a longer time before they are maintained. At the time of writing this dissertation, the writer was not able to get the budget for functional allocation for analyse to find out which functional area is reduced in relation to the budget. It, however, may be said that revenue shortfall may not be the deciding factor on which expenditure should be undertaking. Changing Government policies are much more important in shaping Government expenditures in Kenya. For example, in 1986, the Government decided that it was going to double University in-take, so more resources were shifted to this undertaking (Education). In 1984, there was drought in Kenya, so more resources were used in Economic services, and more so in agriculture.

3.7 Observations To Be Drawn

The general remarks from the analysis is that the Government has taken a very large share of GNP, and that is why the trend for almost all expenditure items and the total expenditure itself is showing an upward trend all the time. This trend is bound to continue that way until such time the Government relinquishes some of its share especially in the provision of economic services. In their report, The Working Party on Government Expenditures (1982), it is recommended that the Government should introduce cost sharing with the people in such areas as Education, Health, Provision of waters, etc. The Session Paper No. 1 of 1986 on Management for Renewed Growth, the Government has reiterated what the Working Party on Government Expenditure recommended. The same Paper has also said that the Government will relinquish its investment, especially those non-profitable areas. However, all those recommendations may not affect the rising rate of Government expenditures.

TABLE 34 : ECONOMIC ANALYSIS OF CENTRAL GOVERNMENT EXPENDITURES, FOR 1964/65 TO 1986/87, PERIOD ENDING 30TH JUNE (CURRENT PRICES)

MILLION KENYA POUNDS (K£M)

	CURRENT EXPENDITURES								
	Consumption Expenditure on Goods & Services								
	LABOUR	GOODS & SERVICES	SUBSIDIES	INTEREST	TRANSFER	CAPITAL	NET LENDING	PUBLIC DEBT REDEMPTION	TOTAL EXPENDITURE
1964/65	23.9	10.8	0.3	4.4	17.5	4.4	6.1	3.1	70.5
1965/66	24.9	12.6	0.8	4.8	17.7	6.4	5.7	4.7	77.5
1966/67	28.0	13.7	0.6	5.2	17.2	10.0	6.6	3.5	84.9
1967/68	29.6	15.0	2.5	5.4	17.6	14.4	7.4	2.7	94.6
1968/69	31.7	15.8	2.8	6.0	18.9	16.6	10.2	3.0	105.0
1969/70	42.1	19.1	1.4	6.6	17.2	20.0	11.0	4.1	121.4
1970/71	53.9	22.6	1.2	7.5	16.6	28.7	15.7	10.7	156.8
1971/72	68.8	30.1	0.8	8.7	15.6	36.2	12.1	8.2	180.5
1972/73	70.7	38.0	1.8	11.6	16.6	40.5	17.1	6.1	201.4
1973/74	80.2	45.6	2.8	12.0	21.3	44.0	18.2	6.2	230.2
1974/75	64.1	67.3	0.9	14.5	64.0	49.4	30.3	9.1	299.7
1975/76	81.5	73.7	0.8	19.5	77.4	56.6	49.9	11.5	371.3
1976/77	83.1	101.3	0.7	24.0	81.2	68.3	35.2	12.3	409.7
1977/78	125.2	148.4	0.6	37.5	90.6	137.1	71.4	40.1	633.6
1978/79	125.9	199.4	1.3	42.5	115.5	114.2	71.7	22.9	693.4
1979/80	136.8	229.5	1.0	48.1	121.1	149.1	61.6	30.7	777.8
1980/81	172.8	247.0	11.3	68.1	173.0	188.8	67.6	49.8	978.3
1981/82	224.4	311.5	15.1	122.6	178.8	143.2	73.8	66.3	1135.6
1982/83	230.1	281.1	10.5	145.9	204.3	142.0	30.9	150.2	1194.9
1983/84	264.7	329.6	14.0	173.6	202.7	133.3	25.6	105.7	1249.2
1984/85	288.7	318.2	14.8	195.9	273.8	217.8	36.9	184.7	1530.7
1985/86	335,8	354.4	27.4	266.1	267.2	177.0	50.5	169.9	1648.3
1986/87	392.6	384.0	26.9	293.6	377.7	315.2	47.7	177.1	2014.8

Source : Various Kenyan Economic Surveys.

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CHAPTER 4

CHAPTER 4

4.0 CENTRAL GOVERNMENT REVENUES IN KENYA

4.1 COMPOSITION Buoyancy And Patterns

In Chapter three, it was noted that between 1979/80 to 1986/87, Kenya Government Total Expenditure/GNP ratio averaged 31.7 per cent. This average had risen from 20 per cent in the 1960s. Kenya is not alone in such an increase, because the trend worldwide has been that of increased Total Government Expenditure/GNP ratio. The Developed worlds' Governments Total Government Expenditure/GNP ratio increased from about 5 to 10 per cent and now it is averaging 30 per cent and for developing countries, it averages 25 per cent[1]. Such massive increases calls for an equal increase in revenues.

Government revenues in Kenya have kept an upward trend trying to match the expenditures although the increase has been at a decreasing rate as table 35 below shows. Between 1964/65 to 1968/69 the increase was on average 6.2 per cent per annum, 1969/70 to 1973/74 the increase was about 10.8 per cent, however, the late 1970s, the average increase went down to 9.1 per cent, and in the 1980s, it went further to 3.6 per cent.

TABLE 35 : CENTRAL GOVERNMENT AVERAGE GROWTH RATE BETWEEN 1964/65 TO 1986/87 AT CONSTANT 1980 PRICES

Period	1964/65 -1968/69	1969/70 -1973/74	1974/75 -1978/79	1979/80 -1986/87
Growth Rate (average)	6.2	10.8	9.1	3.6

Source : Computed from table 36.

Government Domestic Revenue has between 1979/80 to 1986/87 averaged 22.6 per cent of the Gross National Product. This ratio is small as compared with the expenditures which had a ratio of 31.7 per cent on average, so the short-fall has to be financed from Grants and borrowing.

4.2 Central Government Revenue

4.2.1 Central Government Revenue Sources

There are three main sources of Government revenue in Kenya, and these are taxes, Domestic non-tax revenue and revenue from foreign sources (Grants). Taxes account for the major proportion of Government revenue as can be seen from table 36. Between 1964/65 to 1986/87, taxes have increased their share of total revenue from an average of 73.6 per cent to 83.2 per cent. Non-tax revenue increased from 20.2 per cent to 21.2 per cent in the earlier 1970s, but since that time, its share has decreased to 12.1 per cent in the 1980s. For Grants, they reduced from 6.2 per cent

TABLE 36 : GOVERNMENT REVENUE COMPOSITION - AVERAGE PERCENTAGE 1980 CONSTANT PRICES, 1964/65 TO 1986/87

Revenue source	1964/65 -1968/69	1969/70 -1973/74	1974/75 -1978/79	1979/80 -1986/87
Total Tax Revenue	73.6	77.1	82.6	83.2
Non-Tax Revenue	20.2	21.1	14.2	12.1
External Grants	6.2	1.1	3.1	4.7
Total Revenue	**100.0**	**100.0**	**100.0**	**100.0**

Source : Computed from table 37.

to 1.1 per cent and then they gradually increased to 4.7 per cent in the 1980s.

In 1980 constant prices, tax revenues have increased from Kenya pounds 118.7 millions to Kenya pounds 655.3 millions in 1987 (see table 37). The other sources have not increased significantly, taking into account that during the same period, total taxes increased from Kenya pounds 176.2 millions to 769.4 Kenya pounds millions. The tremendous increases of tax revenue has been because of the restructuring of the tax system, as well as introducing new taxes such as sales tax (introduced in 1972/73 financial year). Table 37 shows the different sources of revenue over the years in 1980 constant prices. It is self-evident from the table that other sources of revenue have not contributed much to total revenue as compared to tax revenues. The grants especially have been minimal in some years. It should be noted that for grants, Defence assistance is not included, as that is normally confidential to the Government of Kenya.

4.2.2 Government Revenue Trends And Share In GNP

As already noted in table 36, taxes contribute most to Kenya Government's total revenue. In terms of growth rates, from 1964/65 to 1986/87, the sources have increased as shown in table 38. It is seen that tax revenues increased by an annual average of 9.6 per cent between 1964/65 to 1968/69, and thereafter, increased to 13 per cent before decreasing to 9.6 per cent between 1974/75 to 1978/79. The period 1979/80 to 1986/87, the average increase decreased to 4.6 per cent. Non-tax Revenue at times, the average increase has been negative as can be seen from the table. The negative increases were between 1969/70 to 1973/74 and 1979/80 to

TABLE 37 : GOVERNMENT REVENUE SOURCES, 1964/65 TO 1986/87

MILLION KENYA POUNDS (K£M), 1980 CONSTANT PRICES

Year	Total Revenue	Total Tax	Non-Tax Revenue	Grants(External Sources)
1964/65	176.2	118.4	28.9	28.9
1965/66	179.6	126.9	28.1	14.6
1966/67	189.3	145.5	34.3	9.5
1967/68	212.9	161.4	46.4	5.1
1968/69	224.3	170.7	51.0	2.6
1969/70	253.3	194.4	55.3	3.6
1970/71	304.4	226.8	75.6	2.0
1971/72	361.1	271.5	85.1	4.5
1972/73	343.7	269.2	73.3	1.2
1973/74	374.3	310.4	57.1	6.8
1974/75	387.1	328.1	45.4	13.6
1975/76	388.1	323.8	54.4	9.9
1976/77	389.1	322.2	54.2	12.7
1977/78	564.1	469.2	74.7	20.2
1978/79	578.4	463.4	100.3	14.7
1979/80	627.0	515.1	92.8	19.1
1980/81	666.0	561.9	83.6	20.5
1981/82	671.6	562.7	72.8	36.1
1982/83	668.0	538.7	86.8	42.5
1983/84	665.0	554.9	76.0	34.1
1984/85	692.1	562.5	84.8	44.8
1985/86	706.2	594.2	81.4	30.6
1986/87	769.4	655.3	81.3	32.8

Sources : 1. Computed from table 54; and

2. Deflator from International Financial Statistic Year Book 1987.

1986/87. For the Grants, the annual average percentage are misleading because the amounts involved are very small. Grantsincreased from K£28.9 millions to K£44.8 millions between 1965 and 1985 while during the same period, taxes increased from K£176.2 millions to K£692.1 millions (1980 constant prices).

TABLE 38 : GOVERNMENT REVENUE AVERAGE GROWTH RATES BY SOURCES, 1964/65 TO 1986/87 (1980 CONSTANT PRICES)

Source	1964/65 -1968/69	1969/70 -1973/74	1974/75 -1978/79	1979/80 -1986/87
Tax Revenue	9.6	13.0	9.6	4.6
Non-Tax Revenue	8.3	- 2.3	14.3	-2.0
Grants	-49.9	102.5	26.6	14.7

Source : Computed from table 37.

The grants are specifically those for the Central Government projects, or are given through the Central Government for some Government organisations. Grants to private organisations directly are not included in this study.

Table 39 analyses the three sources in terms of Government Revenue/GNP ratio. Tax revenues on average have increased their Tax/GNP ratio from 12.1 per cent to 19.8 per cent in 1986/87. The non-tax sources is showing initially an increase from 3.3 per cent to 4.1 per cent in the 1970s and then a decrease to 3 per cent and 2.9 per cent in the late 1970s and 1980s, respectively. Grants have an insignificant Grant/GNP ratio as can be seen from the table. It should however, be noted that for total Domestic Revenue (i.e. tax and non-tax revenues)/GNP ratio, the increase has been from 15.1 per cent in the 1960s to 22.7 per cent in the 1980s.

TABLE 39 : CENTRAL GOVERNMENT SOURCES/GNP RATIO BETWEEN 1964/65 TO 1986/87 AT 1980 CONSTANT PRICES (PERCENTAGES)

Revenue Source	1964/65 -1968/69	1969/70 -1973/74	1974/75 -1978/79	1979/80 -1986/87
Tax Revenue	12.1	15.0	17.0	19.8
Non-Tax Revenue	3.3	4.1	3.0	2.0
Total Domestic Revenue	15.1	19.1	20.7	22.7
External Grants	1.1	0.2	0.7	1.1
Total Government Revenue	**16.1**	**19.3**	**21.4**	**23.4**

Source : Computed from tables 37 and 40.

Total Central Government/GNP ratio averaged 23.8 per cent (including grants) in the 1980s, otherwise without grants, it is 22.7 per cent. This is in contrast with Total Expenditure/GNP ratio which averaged 31.7 per cent, meaning that there is a gap which has to be financed from some source (borrowing in this case).

Table 40 shows the GNP in 1980 constant prices and its growth rate over the years. Also in the same table is the per capita income and its growth rate between 1964/65 to 1986/87/. The per capita growth rates are showing more negatives than GNP growth rates, because of the faster population growth rate which is on average 4.1 per cent per annum.

TABLE 40 : GROWTH RATES OF GNP AND PER CAPITA INCOME AT CONSTANT 1980 PRICES, KENYA MILLION POUNDS (KFM)

	GNP		Per capita Income	
Year	Value	Growth %	Value	Growth %
1964/65	1048.6	- 0.8	109.5	-
1965/66	1159.9	11.1	118.6	8.3
1966/67	1155.3	- 0.4	113.2	- 4.3
1967/68	1255.1	8.6	119.8	5.8
1968/69	1337.7	6.6	123.0	2.7
1969/70	1437.4	7.5	128.1	4.1
1970/71	1543.7	7.4	132.3	3.3
1971/72	1764.9	14.3	146.2	10.5
1972/73	1825.5	3.4	146.3	0.1
1973/74	1885.5	1.6	146.1	0.1
1974/75	1878.1	- 0.4	140.1	- 4.1
1975/76	1962.5	4.5	141.7	1.1
1976/77	2159.0	10.0	150.5	6.2
1977/78	2309.3	7.0	155.2	3.1
1978/79	2415.0	4.6	157.5	1.5
1979/80	2548.5	5.5	152.9	- 2.9
1980/81	2648.2	3.9	152.7	- 0.1
1981/82	2660.4	0.5	147.5	- 3.4
1982/83	2787.2	4.8	148.3	0.5
1983/84	2894.1	3.8	148.4	0.1
1984/85	3003.8	3.8	148.7	0.2
1985/86	3140.1	4.5	149.5	0.5
1986/87	3327.2	6.0	152.6	2.1

Source : International Financial Statistics, i.e. GNP and the Deflator plus population figures.

4.2.3 Borrowing

Table 41 shows that after all the domestic sources of revenue have been taken into account, plus of course external grants, there remains still an overall deficit which has to be financed by both external and internal loans. The table shows that the deficit in current prices has increased from K£8.4 million to K£366.2 million between 1964/65 to 1986/87. These amounts exclude redemption of public debt, which if included, the deficit will be much higher.

According to the Session Paper No. 1 of 1986 on Economic Management for Renewed Growth Budget Projection for 1985/86 to 1988/89 shows total deficit of some K£775 million in 1984/85 prices over four years. It says that some K£200 millions of this amount will obtained from the domestic market. The Session Paper further states that the following guidelines will be followed in securing future finances for the Government :

(1) To the greatest extent possible, finance will be sought from non-inflationary sources, i.e., from institutions and markets other than the Central Bank and the Commercial Banks.

(2) To lengthen the maturity of the Government debt, long-term finance will be sought.

(3) Secondary markets will be developed for Government debt to increase the liquidity of this debt and thus make it more attractive to hold.

(4) To minimize the distorting effects on financial markets of Government debt operations, Government will develop an effective system for the competitive marketing of Treasury bills.

TABLE 41 : CENTRAL GOVERNMENT FINANCING GAP FOR 1964/65 TO 1986/87 IN CONSTANT 1980 PRICES
MILLION KENYA POUNDS (K£M) (NOMINAL VALUES)

Particulars	64/65	65/66	66/67	67/68	68/69	69/70	70/71	71/72	72/73
1. Doemstic Revenue (Current Revenue)	49.3	57.8	66.0	77.0	84.9	99.2	124.0	141.6	149.1
2. Current Expenditures	56.9	60.7	64.8	70.1	75.2	86.3	101.8	124.0	137.7
3. Current (Deficit)/Surplus	(7.6)	(2.9)	1.2	7.6	9.7	12.9	22.2	17.6	11.4
4. Capital Expenditures	4.4	6.4	10.0	14.4	16.6	20.0	28.7	36.2	40.5
5. Net Landing	6.1	5.7	6.6	7.4	10.2	11.0	15.7	12.1	17.1
6. External Grants	9.7	5.1	3.5	1.9	1.0	1.4	0.8	1.8	0.5
7. Overall Deficit	**(8.4)**	**(9.9)**	**(11.9)**	**(12.3)**	**(16.1)**	**(16.7)**	**(21.4)**	**(28.9)**	**(45.7)**
1980 Constant Prices									
1. Domestic Revenue (Current Revenue)	146.7	165.6	179.8	209.4	222.2	253.0	302.4	356.7	342.7
2. Current Expenditures	169.3	173.9	176.6	188.9	196.8	220.1	248.3	312.3	316.5
3. Current (Deficit)/Surplus	(22.6)	(8.3)	3.2	20.5	25.4	32.9	54.1	44.3	26.2
4. Capital Expenditures	13.1	18.3	27.2	38.8	43.4	51.0	70.0	91.2	93.1
5. Net Lending	18.1	16.3	18.0	19.9	26.7	28.0	38.3	30.5	39.3
6. External Grants	28.9	14.6	9.5	5.1	2.6	3.6	1.9	4.5	1.1
7. Overall Deficit	**(25.0)**	**(28.4)**	**(32.4)**	**(33.1)**	**(42.1)**	**(42.6)**	**(52.2)**	**(72.8)**	**(105.1)**
8. Overall Deficit/GNP	-2.4	-2.4	-2.8	-2.6	-3.1	-3.0	-3.4	-4.1	-5.7

CON'TN TABLE 41

Particulars	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87
1.Domestic Revenue (Current Revenue)	190.1	224.4	266.9	310.5	463.4	510.7	607.9	713.3	779.1	832.1	923.6	1019.6	1209.3	1408.8
2.Current Expenditures	161.8	210.8	252.9	290.5	394.4	475.1	546.4	672.1	852.4	875.9	984.6	1091.3	1250.8	1474.9
3.Current (Deficit)/Surplus	28.3	13.6	14.0	20.0	69.0	35.6	61.5	41.2	(73.3)	(43.8)	(61.0)	(71.7)	(41.5)	(66.1)
4.Capital Expenditures	44.0	49.4	56.6	68.3	137.1	114.1	149.1	188.8	143.1	141.9	133.3	217.8	177.0	315.2
5.Net Lending	18.2	32.2	52.1	38.7	71.4	71.7	59.6	67.5	73.8	30.8	25.6	36.9	50.5	47.7
6.External Grants	3.5	8.2	7.0	10.5	17.2	13.1	19.1	22.6	44.3	56.3	49.9	70.5	54.8	62.8
7.Overall Deficit	**(30.4)**	**(59.8)**	**(87.7)**	**(76.5)**	**(122.3)**	**(137.1)**	**(128.1)**	**(192.6)**	**(245.9)**	**(160.2)**	**(170.0)**	**(255.9)**	**(214.2)**	**(366.2)**
1980 Constant Prices														
1.Domestic Revenue (Current Revenue)	367.7	373.4	378.0	376.3	543.9	563.7	607.9	645.5	635.5	628.0	630.9	647.4	675.6	736.6
2.Current Expenditures	313.0	350.8	358.2	352.1	462.9	524.4	546.4	608.2	695.3	661.1	672.5	629.9	698.8	771.2
3.Current (Deficit)/Surplus	54.7	22.6	19.8	24.2	81.0	39.3	61.5	37.3	(59.8)	(33.1)	(41.6)	(45.5)	(23.2)	(34.6)
4.Capital Expenditures	85.1	82.2	80.2	82.8	160.9	125.9	149.1	170.9	116.7	107.1	91.0	138.3	98.9	164.8
5.Net Lending	35.2	53.6	73.8	46.9	83.8	79.1	59.6	61.1	60.2	23.2	17.5	23.4	28.2	24.9
6.External Grants	6.8	13.6	9.9	12.7	20.2	14.5	19.1	20.4	36.1	42.5	34.1	44.8	30.6	32.8
7.Overall Deficit	**(58.8)**	**(99.5)**	**(124.2)**	**(92.7)**	**(143.5)**	**(151.3)**	**(128.1)**	**(174.3)**	**(200.6)**	**(120.9)**	**(116.1)**	**(162.5)**	**(119.7)**	**(191.5)**
8.Overal Deficit/GNP (Percentage)	-3.1	-5.3	-6.3	-4.3	-6.2	-6.3	-5.0	-6.6	-7.5	-4.3	-4.0	-5.4	-3.8	-5.8

Sources : 1. Various Economic Surveys from 1968 to 1988; and

2. Deflator from the International Financial Statistics Yearbook, 1987.

In terms of overall Deficit/GNP ratio, table 42 shows that the ratio has been between -2.4 per cent to -7.5 per cent, between 1964/65 to 1986/87.

As at June 30th, 1986, Kenya's unfunded debt was K£2029.0 million from external sources. When internal debt of K£10.0 million is added, the total comes to K£2039.0 million. Funded debt accounted for another K£718.10 million making Kenya's total debt to be K£2757.10 million as at 30th June, 1986. Table 42 shows the major suppliers of external funds between 1982 to 1986. It should be mentioned that funds from funded sources come from the local financial Institutions. All the external sources are long-term. Domestic sources are either long-term or short-term and are secured from the local financial Institutions. These are expected to contribute 74.2 per cent of the total deficit financing between 1985/86 to 1988/89 (Session Paper No. 1 of 1986, p. 34).

Some of the local financial Institutions are :

(1) National Social Security Fund (NSSF) - This is a local pension fund;

(2) Commercial Banks;

(3) Insurance Companies; and

(4) Non-Bank Financial Institutions.

The grants come mainly from foreign Governments. These Governments assist specific projects in the areas of agriculture, Education, Road construction and water. Table 42 shows that those funds have increased over the years to reach K£70.5 in 1984/85.

TABLE 42 : SOURCES OF KENYA UNFUNDED DEBT 1982 - 1986, K£ MILLION (NOMINAL VALUES)

Outstanding as at 30th June	1982	1983	1984	1985	1986
1. External Debt:					
(a) Lending Companies					
U.S.A.	51.14	56.30	101.41	122.23	137.22
West Germany	74.90	86.82	98.82	123.50	182.63
Japan	35.81	59.23	63.90	82.70	140.57
Netherlands	23.80	35.20	45.31	48.51	63.13
Denmark	9.50	12.71	17.50	21.10	31.75
Finland	-	-	-	1.91	2.63
Others	339.30	402.90	443.60	882.60	610.22
Total	**534.45**	**655.96**	**770.54**	**782.55**	**1173.15**
(b) International Organisations					
I.B.R.D.	119.21	188.10	413.93	332.80	367.12
I.D.A.	140.93	236.41	260.10	334.32	367.00
Africa Development Bank	10.40	15.40	20.01	25.00	42.84
O.P.E.C.	4.90	7.40	8.01	8.40	9.08
E.E.C.	14.60	22.50	21.40	22.31	29.53
I.M.F.	32.80	39.61	32.10	29.20	26.77
Arab League	2.00	2.40	2.60	2.70	2.55
Badea	-	-	3.30	3.60	3.51
I.F.A.D.	-	-	-	1.70	3.29
E.D.C.	-	-	-	-	4.16
Total	**384.84**	**511.82**	**761.45**	**760.03**	**855.85**
Total External	**859.29**	**1167.78**	**1531.99**	**1542.58**	**2029.00**
2. Internal Debt :					
Central Bank of Kenya	10.00	10.00	10.00	10.00	10.00
Others	-	-	-	-	-
Total Internal	**10.00**	**10.00**	**10.00**	**10.00**	**10.00**
Total Unfunded Debt	**869.29**	**1177.78**	**1541.99**	**1552.58**	**2039.00**

Source : Economic Survey 1987.

4.2.4 Non-Tax Revenues

Non-tax revenue sources include the following sources :

(1) Compensatory Fees, fines and Penalties;

(2) Income from Property;

(3) Current transfer;

(4) Sales of Goods and Services; and

(5) Others

Below is table 43 which shows the percentage contribution of Non-tax sources between 1980/81 to 1986/87. It should be noted that in current prices, sources increased in amounts from K£92.4 million to K£155.3 million over that period.

TABLE 43 : COMPOSITION OF NON-TAX REVENUE SOURCE BETWEEN 1980/81 To 1986/87 (PERCENTAGES)

Category	80/81	81/82	82/83	83/84	84/85	85/86	86/87
1.Compensatory Fees, Fines & Penalties	12.3	6.5	10.2	12.2	13.3	14.0	14.1
2.Income from Property	41.8	38.9	46.2	48.7	43.0	44.4	43.3
3.Current transfers	1.3	1.7	2.2	1.7	1.9	7.8	9.9
4.Sales of Goods and Services	37.1	41.3	26.4	24.6	24.6	27.6	27.8
5.Others	7.5	15.6	15.0	12.8	14.2	7.1	4.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source : Computed from Economic Surveys 1987 & 1988.

As can be seen from table 43, the main contributor of revenue for Non-tax revenue is Income from Property. This revenue comes as a result of the Government incomes from its investments in property. The trend for this source is a decrease initially from 41.8 per cent to 38.9 per cent and gradually to 48.7 per cent, from there again it decreases to 43.3 per cent in 1986/87. The other major source is sale of Goods and Services. This source increased initially from 37.1 per cent to 41.3 per cent in 1981/82, and thereafter it decreased to 24.6 per cent in 1983/84, after which is started to increase gradually to 27.8 per cent in 1986/87. The other three sources shown are really minor when you compare them with the total Government revenue. Their trend has been increasing gradually over the years, although the source labelled "others" seem to on the decrease.

4.3 Composition And Patterns Of Tax Revenue

4.3.1 Total Tax Revenue

As already noticed in our earlier analysis, taxes form the main sources of revenue in Kenya. They accounted for an average of 83.2 per cent of the Total Government revenue in the period 1979/80 to 1986/87. Apart from forming the major part of Government revenue, taxes are an important instrument for changing Government policies. It was mentioned in Chapter two that Kenya's tax system has gone through a number of reforms to conform with the growing economic structure in the country and at the same time to achieve the increased revenue that the Government needs for its development.

In absolute terms, Kenya Government tax revenue has increased tremendously over the year. One way of analysing the tax system of a country is to calculate the tax buoyancy. Tax buoyancy is the simple relationship between the rate of growth of tax receipts and the rate of growth of national income. Table 44 shows the buoyancy of Kenya tax receipts between 1979/80 to 1986/87.

TABLE 44 : TAX BUOYANCY IN KENYA BETWEEN 1979/80 TO 1986/87

Year	Monetary GDP K£ million	Taxation Receipts K£ million	Tax Buoyancy
1979/80	2100.7	515.1	1.7
1980/81	2432.7	620.9	1.3
1981/82	2780.0	689.9	0.8
1982/83	3114.1	713.8	0.3
1983/84	3581.0	812.4	0.9
1984/85	4044.9	886.0	0.7
1985/86	4790.9	1063.5	1.1
1986/87	5368.0	1253.4	1.5

Sources : 1. GDP figures from various issues of Economic Surveys;

2. Tax receipts also from various issues of Economic Surveys; and

3. Computation from the table itself.

It can be noticed that although between 1979/80 to 1980/81, the buoyancy was above unity, it went down to below one between 1981/82 to 1984/85. The decline could be attributed to inflation which was high world wide during that period and it affected Kenya as well. The tax rates were not not keeping up with the increased inflation rates. However, as from 1985/86, the Government increased sales tax rates, and started to implement the recommendations of Session Paper No. 1 mentioned in Chapter two in connection with the tax reforms. So we can see again that the tax buoyancy began to pick up in 1985/86. The deliberate policy of stressing more on indirect taxes borne fruit in that in 1984/85 and 1986/87, sales tax has overtaken Income tax as the leading Government revenue earner. Table 45 shows as comparison of buoyancy for different countries. In the 1960s' and early 1970, Kenya's tax buoyancy was always above 2. As noted earlier in this Chapter, that time the increase in tax revenue was very high as compared to 1980s when it has reduced to a growth rate of 3.5 per cent per year on average. What may be needed is still the restructuring of the Kenya tax system. At the time, Kenya tax buoyancy was 2.

TABLE 45 : TAX BUOYANCY FOR TWENTY DEVELOPING COUNTRIES IN 1971

Country	Buoyancy	Country	Buoyancy
Argentina	1.6	Korea	1.2
Brazil	1.3	Mexico	2.2
Cameron	1.7 (1970)	Pakistan	1.5 (1970)
Costa Rica	1.4	Panama	1.4
Ethopia	0.5	Peru	1.3
Garbon	1.8 (1970)	Sri Lanka	1.1 (1970)
Guatemala	1.2	Thailand	0.8
Indonesia	1.1	Uganda	1.7
Israel	1.7	Venezuela	2.2
Jamaica	2.1	Zaire	0.8 (1970)

Source : Kenya : Into The Second Decade, p. 170.

Kenya tax sources could be divided into three, i.e. Direct taxes such as income taxes, Indirect Domestic taxes and Foreign Trade taxes. This division has been done in table 46(a) for the years 1980/81 to 1986/87. In table 47, the arrangement is not similar because I could not get the data that could separate sales taxes for imported manufactured goods and sales taxes for locally manufactured goods. However, from the figures alone, it should be noticed in table 47 that sales tax has overtaken Income tax.

The arrangement of the Kenya tax system (from tables 46(a) &(b)) is better suited to analysis than it has been in the past. The arrangement has been made possible by a better arrangement of economic survey 1987 and 1988. From table 48, it is found that income taxes accounted for 31.8 per cent, Indirect Domestic taxes 31.1 per cent and Foreign Trade taxes accounted for 37.1 per cent during the period 1980/81 to 1986/87.

Prest[3] has noted in his study that Indirect domestic taxes account for 31.6 per cent, Direct taxes 24.2 per cent and foreign trade taxes 17.5 per cent of the total taxes. He implies that foreign trade taxes decline at higher levels of economic development.

Tait, Gratz and Eichengreen[4]; from a sample of 63 developing countries they covered the period 1972 to 1976 found that foreign trade taxes accounted for an average of 36.9 per cent of the total taxes while Direct taxes averaged 29.5 per cent.

In the case of Kenya, locally manufacturing sales taxes seem to be increasing at a fast rate, may be in due course, it may overtake all the other taxes, taking into account the Present Government Policies of moving more to indirect taxes than direct taxes.

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source : [illegible]

Notes : 1. The amounts are in million [illegible]
2. [illegible]
3. [illegible]

TABLE [illegible] : COMPOSITION OF THE REVENUE [illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Sources : 1. [illegible]
2. [illegible]

TABLE 46(a) : COMPOSITION OF TAX REVENUES FOR 1980/81 -1986/87 (NOMINAL VALUES)

	DIRECT TAXES	DOMESTIC INDIRECT TAXES	FOREIGN TRADE TAXES		IMPORT	TOTAL FOREIGN	TOTAL TAX REVENUE
			Sales Tax	Export Taxes			
1980/81	198.3	168.7	94.4	3.1	154.4	253.9	620.9
1981/82	201.1	200.0	86.3	5.3	197.2	288.8	689.9
1982/83	231.8	226.8	72.6	6.8	175.8	255.2	713.8
1983/84	251.8	259.8	107.2	10.1	183.5	300.8	812.4
1984/85	301.0	277.3	115.6	27.0	165.1	307.7	886.0
1985/86	355.1	344.5	112.6	39.6	211.8	364.0	1063.5
1986/87	385.1	418.6	155.8	33.9	259.4	449.1	1253.4

Source : Economic Surveys 1987 and 1988.

Notes : 1. The amounts are in million Kenya pounds (K£m).
2. Sales tax is on foreign manufactured goods.
3. The above is re-arranged as shown because of the better re-arrangementt of the Economic Surveys in 1987.

TABLE 46(b) : COMPOSITION OF TAX REVENUES FOR 1980/81 TO 1986/87 (1980 CONSTANT PRICES)

	DIRECT TAXES	DOMESTIC INDIRECT TAXES	FOREIGN TRADE TAXES		IMPORT	TOTAL FOREIGN	TOTAL TAX REVENUE
			Sales Tax	Export Taxes			
1980/81	179.5	152.7	85.4	2.8	141.5	229.7	561.9
1981/82	164.0	163.1	70.5	4.3	160.8	235.6	562.7
1982/83	174.9	171.2	54.8	5.1	132.7	192.6	538.7
1983/84	172.0	177.5	73.2	6.9	125.3	205.4	554.9
1984/85	191.1	176.1	73.4	17.1	104.8	195.3	562.5
1985/86	198.4	192.5	62.9	22.1	118.3	203.3	594.2
1986/87	201.7	218.9	81.4	17.7	135.6	234.8	655.3

Sources : 1. Computed from table 46(a); and
2. IFS Index deflator from International Statistics Financial Year Book, December, 1987.

TABLE 47 : COMPOSITION OF KENYA GOVERNMENT REVENUES, 1964/65 - 1986/87, IN CONSTANT 1980 PRICES
KENYA MILLION POUNDS (K£M)

	DIRECT TAXES	SALES TAX	IMPORT DUTIES	EXCISE DUTIES	EXPORT DUTIES	OTHERS	NON-TAX REVENUE	GRANTS
1964/65	41.7	-	47.3	18.4	-	11.0	28.°	28.9
1965/66	48.1	-	49.3	18.0	-	11.5	38.1	14.6
1966/67	54.7	-	54.8	23.2	-	12.8	34.3	9.5
1967/68	53.9	-	53.9	28.0	-	14.3	46.4	5.1
1968/69	67.5	-	57.1	30.9	-	15.2	51.0	2.6
1969/70	82.6	-	62.0	36.7	-	16.1	55.3	3.6
1970/71	100.7	-	70.0	37.3	-	18.8	75.6	2.0
1971/72	120.4	-	79.3	40.8	-	31.0	85.1	4.5
1972/73	125.5	6.2	62.1	38.6	-	36.8	73.3	1.2
1973/74	112.6	61.9	77.0	44.3	-	14.7	57.1	6.8
1974/75	128.4	78.0	70.0	37.8	-	13.8	45.4	13.6
1975/76	127.8	84.0	69.7	29.2	-	13.1	54.4	9.9
1976/77	130.9	79.3	64.1	34.2	-	13.7	54.2	12.7
1977/78	167.8	108.9	122.3	45.8	9.6	14.7	74.7	20.2
1978/79	167.4	110.1	111.8	54.1	3.1	16.8	100.3	14.7
1979/80	173.6	154.9	102.5	59.5	7.0	17.6	92.8	19.1
1980/81	179.5	162.3	141.5	54.5	2.8	21.3	83.6	20.5
1981/82	164.0	158.9	160.8	52.2	4.3	22.4	72.8	36.1
1982/83	174.9	147.8	132.7	55.8	5.1	22.3	86.8	42.5
1983/84	172.0	172.3	125.3	54.2	6.9	23.2	76.0	34.1
1984/85	191.1	173.7	104.8	50.0	17.1	25.7	84.8	44.8
1985/86	198.4	169.6	118.3	49.8	22.1	36.0	81.4	30.6
1986/87	201.7	207.8	135.6	55.6	17.7	36.9	81.3	32.8

Sources : 1. Table 54; and

2. International Financial Statistics Year Book 1987 Deflator used.

TABLE 48 : TOTAL TAX COMPOSITION 1980/81 TO 1986/87

Tax Category	Composition (Average Percentage)
Direct taxes	31.8
Domestic indirect taxes	31.1
Foreign trade taxes	37.1
Total Taxes	**100.0**

Source : Computed from table 46(b).

Foreign trade taxes account for 31.7 per cent. This may be because, Kenya introduced sales taxes for foreign manufactured goods. So that could be the reason why foreign trade taxes have registered a very high s revenue.

When the three categories of taxes in table 46(a) are compared with their share in GNP, it is found that income tax share has 6.3, while Indirect Domestic taxes have 6.1 and Foreign trade taxes share is 7.3 as shown in table 49. The three types of taxes will appear to be almost equally important because the differences from the table is very small.

When comparison is done on the basis of tax sources, as shown in table 47, and their share in GNP, the result is shown in table 50.

TABLE 49 : RATIO OF TAXES TO GNP BETWEEN 1980/81 TO 1986/88 (AVERAGE PERCENTAGES)

Tax Category	GNP Share
Direct taxes	6.3
Domestic Indirect taxes	6.1
Foreign Trade taxes	7.3
Total for all tax	**19.7**

Source : Computed from table 46(b).

TABLE 50 : RATIO OF TAXES TO GNP BETWEEN 1964/65 TO 1986/87 (AVERAGE PERCENTAGES)

Tax Category	1964/65 -1968/69	1969/70 -1973/74	1974/75 -1978/79	1979/80 -1986/87
Direct Taxes	4.5	6.4	6.7	6.3
Sales Taxes	-	0.8	4.3	5.8
Import Duties	4.5	4.1	4.1	4.4
Export Duties	-	-	0.1	0.4
Excise Duties	2.0	2.3	1.9	1.9
Other taxes	1.1	1.4	0.6	0.9
Total	**12.1**	**15.0**	**17.7**	**19.7**

Source : Computed from table 47.

Direct tax is at the top with 6.3 share in GNP followed by sales tax. It should be noted that taking 1986/87 alone, Sales tax has a share of 6.2 per cent while income tax has a ratio of 6.1 per cent of GNP share.

Table 51 looks into the proportion of each tax category to total tax. It is seen that income tax share increased from 38.1 per cent in 1964/65 - 1968/69 to 42.8 per cent on average, then it dropped gradually to reach 32.1 per cent in 1979/80 to 1986/87 period. Sales tax which was introduced in 1972/73 has increased from a share of 4.4 per cent to 29.6 per cent Import tax share in total tax has been on a downward trend, having started at 36.6 per cent in the sixties, it has dropped to 22.5 per cent. Even excise duties tax is also on a downward trend, having started at 16.3 per cent it has dropped to 9.5 per cent in the eighties. It can be concluded that it is sales which has been taking more share of the total tax than any other tax from the time it was introduced.

TABLE 51 : COMPOSITION OF TAXES 1964/65 TO 1986/87 (AVERAGE PERCENTAGES)

Category	1964/65 -1968/69	1969/70 -1973/74	1974/75 -1978/79	1979/80 -1986/87
Income tax	38.1	42.8	38.2	32.1
Sales tax	-	4.4	24.3	29.6
Import Duties	36.6	28.0	22.6	22.5
Excise Duties	16.3	15.5	10.5	9.5
Export Duties	-	-	0.6	1.8
Other taxes	9.0	9.3	3.8	4.5
Total Tax	**100.0**	**100.0**	**100.0**	**100.0**

Source : Computed from table 47.

Tait, Gratz and Eichengreen[5], in their study covering the period 1972-76, found a Tax Revenue/GNP ratio for 63 developing countries to be 15.8 per cent. In the same study, they showed Direct Tax/GNP ratio to be 5.15 per cent.

Chelliah[6], in a cross-section analysis of a sample of 50 developing countries which covered the period 1966 to 1968, he found a Tax Revenue/GNP share of 14.0 per cent. This result was similar for a smaller sample of 30 countries.

He also recorded an average Tax Revenue/GNP ratio of 25 per cent for 16 countries, excluding social security and 32 per cent when he included it[7]. The difference between developing and developed countries becomes even larger when social security is included.

Chelliah's study showed also that 26 developing countries with a per capita of more than $200 had a Tax Revenue/GNP ratio of 15.5 per cent and 24 countries with a per capita of less than $200 showed a ratio of 12.3 per cent.

Chelliah's study provides much more insight into the analysis, when he brings in the per capita income levels. From his analysis, meaningful conclusions can be drawn as to what level of development a country has reached by looking at Tax Revenue/GNP ratio.

In Chapter 1, it was noted that Prest[8] also refers to Tax Revenue/GNP ratios of 25 and 26 per cent at the end of 1960s and 1970s for developed countries and 15 and 16 per cent for developing countries for the same period.

4.3.2 Direct Taxes

Table 48 shows that between 1980/81 to 1986/87, direct taxes accounted for 31.8 per cent on average. Table 40 shows that direct taxes have been contributing more to total tax revenue than any other taxes. On average even for the period 1979/80 to 1986/87, direct tax recorded a share of 29.6 per cent. For the period 1980/81 to 1986/87 as shown in table 37, Foreign taxes recorded a share of 37.1 per cent in relation to direct taxes' share of 31.8 per cent. Although direct taxes have enjoyed a big share, it is pointed out that by 1986/87, sales tax is taking over as the leading contributor of Government revenue.

In his study of 30 developing countries for the period 1953 to 1955, Chelliah[9] showed that on average direct taxes had a share of 31.1 per cent of total tax revenues. This share decreased to 30.2 per cent for 50 developing countries in his study of between 1966 to 1968[10].

Tait, Gratz and Eichengreen[11], in their study of 63 developing countries, they found direct taxes on average with a share of 29.5 per cent of total tax revenues. The study was between 1972 -1976.

In relation to Tax Revenue/GNP ratio, tables 49 and 50 show that direct taxes have a share of 6.3 per cent. This share has increased over the years from 4.5 per cent in 1964/65 - 1968/69 period to 6.7 per cent in late 1970s and then it has now dropped to 6.3 per cent in the 1980s.

Tait, Gratz and Eichengreen[12] recorded a Direct Tax Revenue/GNP ratio of 5.15 in their 1972-76 study of 63 developing countries.

Chelliah[13] found that Direct Tax Revenue/GNP ratio averaged 5.1 per cent for 26 developing countries with a per capita income of over \$200 and 2.2 per cent for 24 developing countries with a per capita income of less than \$200.

Direct taxes in Kenya are composed of :

(1) Income from employment or from whatever source for individuals; and they are assessed on a progressive scale which range from Kenya shillings two to thirteen on one Kenya pound (one Kenya pound (K£1) is equal to twenty Kenya shillings).

(2) Company tax - Resident companies are taxed at 45 per cent on its profits while non-Resident companies are taxed at 52 per cent.

(3) There is also minimal tax revenue from estates of the deceased, in the form of estate duty.

Kenya Direct taxes are normally referred to simply as income taxes in most of the official Government documents. It should however, be mentioned that income taxes in Kenya are similar to the British income taxes, which are taxed at progressive rates with allowances given to the tax payers. Since the documents I have (Economic Surveys and Statistical Abstracts) do not divide the income taxes into their sources, this study limits the analysis of income tax to comparisons of other taxes. It should however, be noted that income taxes in Kenya are paid at source. That is, employers are empowered to deduct taxes from their employees before they pay them their salaries. So this type of tax has been easy to administer and since most of those who pay it are employed it is not easy to evade. For companies, the Government has a list of all registered Companies so it is not easy to evade it.

The only argument against this tax is that when the rates are very high, it may act as a disincentive to work, but this has been taken care of in that few Kenya earn very high incomes.

4.3.3 Domestic Indirect Taxes

Domestic Indirect taxes in Kenya is composed of sales tax for locally manufactured goods and export duties. These taxes as a proportion of total tax between 1980/81 to 1986/87 was 31.1 per cent as shown in table 48. Table 51 shows that sales tax revenue accounted for an average of 65 per cent between 1980/81 to 1986/87 while Excise duty accounted for an average 35 per cent.

TABLE 51 : COMPOSITION OF DOMESTIC INDIRECT TAX REVENUE BETWEEN 1980/81 TO 1986/87 (PERCENTAGES)

Category	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Sales tax	58.5	62.9	62.5	64.9	66.7	68.2	69.4
Excise Duty	41.5	37.1	37.5	35.1	33.3	31.8	30.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source : Economic Surveys 1987 and 1988.

Sales tax for locally manufactured goods have increased their share of Domestic indirect tax from 58.5 per cent to 69.4 per cent in 1986/87. Excise duty on the other hand, has reduced its share from 41.5 per cent in 1980/81 to 30.6 per cent in 1986/87.

As a share of GNP ratio, sales tax on locally manufactured goods showed 3.4 per cent between 1980/81 to 1986/87 and Excise duty showed 1.8 per cent for the same period.

Chelliah[14] showed in his study that 30 developing countries, Domestic indirect taxes share to total tax averaged 29.5 per cent during the period 1953 to 1955. This increased to 32.7 per cent between 1966 to 1968 when his sample remained at 30 countries.

When he considered a cross-sectional analysis of 50 developing countries, he further showed that 26 of those countries with per capita income of more than US$200 Domestic Indirect Tax/GNP was 4.7 per cent while those with per capita income of less than US$200 showed 4.0 per cent.

Tait, Gratz and Eichengreen[15] showed that Domestic Indirect tax revenue averaged 33.6 per cent of total taxes for 63 developing countries for the period 1972 to 1976. In their study this source was the second largest source, in this study it is the first at 37.1 per cent (table 48).

How these two types of taxes are levied is explained in Appendix I of Chapter 2

4.3.4 Foreign Trade Taxes

The composition of foreign trade taxes is sales tax for foreign manufactured goods which accounted for 33.5 per cent for the period 1980/81 to 1986/87. For the same period, Import duty accounted for 61.4 per cent and Export duty 5.1 per cent. This is shown in table 53.

TABLE 53 : COMPOSITION OF FOREIGN TRADE TAXES FOR THE PERIOD 1980/81 TO 1986/87 (AVERAGE PERCENTAGES)

Category	Percentage
Import Duty	61.4
Sales tax on foreign manufactured goods	33.5
Export Duty	5.1
Total	**100.0**

Source : Computed from table 46(a).

In relation to Import Duty/GNP ratio, it was found to be 4.5 per cent between 1980/81 to 1986/87. For the same period, Sales Tax/GNP ratio was found to be 2.4 per cent and export duty was 0.4 per cent.

Tait, Gratz and Eichengreen[16] found out that from a study of 63 developing countries that Foreign trade taxes had a ratio of 5.55 per cent to GNP. In this study, it was found to be 7.3 per cent. Their study was done in 1972-76.

Chelliah[17], in a cross-sectional analysis; he found the ratio to be 4.7 per cent for twenty six countries with per capita income of US$200 and above, while those with a less per capita income, 24 countries, their average was 4.4 per cent.

In conclusion, it has been seen that Kenya Government revenues have been increasing especially when you take into account that their share in GNP has increased from 15.1 per cent in the 1960s' to 22.7 per cent in the 1980s' (see table 39).

TABLE 34 : CENTRAL GOVERNMENT REVENUE [illegible]

MILLION OF KENYA POUNDS (K£M) (NOMINAL VALUES)

REVENUE CATEGORY	64/65	65/66	66/67	67/68	68/69	69/70	70/71	71/72	72/73
1. **INCOME TAX[1] (DIRECT TAXES)**	**14.0**	**16.8**	**20.1**	**24.2**	**25.8**	**32.4**	**41.3**	**47.8**	**54.6**
2. Sales Tax	-	-	-	-	-	-	-	-	2.7
3. Import Duties	15.9	17.2	20.1	20.0	21.8	24.3	28.7	31.5	27.0
4. Excise Duties	6.2	6.3	8.5	10.4	11.8	13.2	15.3	16.2	16.8
5. Petrol and Diesel Tax[2]	1.2	1.2	1.6	1.7	1.8	2.1	2.4	2.4	2.4
6. Licenses and Fees under the Traffic Act	0.8	1.0	1.3	1.4	1.5	1.1	1.7	2.6	2.9
7. Other Taxes and Duties[3]	1.7	1.8	1.8	2.2	2.5	3.1	3.6	7.3	10.7
8. **TOTAL INDIRECT TAXES**	**25.8**	**27.5**	**33.3**	**35.7**	**39.4**	**43.8**	**51.7**	**60.0**	**62.5**
9. **TOTAL TAX REVENUE**	**39.8**	**44.3**	**53.4**	**59.9**	**65.2**	**76.2**	**93.0**	**107.8**	**117.1**
10. **NON-TAX REVENUE**	**9.7**	**13.3**	**12.6**	**17.2**	**19.5**	**21.7**	**31.0**	**33.8**	**31.9**
11. **DOMESTIC REVENUE**	**49.5**	**57.6**	**66.0**	**77.1**	**84.7**	**97.9**	**124.0**	**141.6**	**149.0**
12. GRANTS	9.7	5.1	3.5	1.9	1.0	1.4	0.8	1.8	0.5
TOTAL REVENUE	**59.2**	**62.7**	**69.5**	**79.0**	**85.7**	**99.3**	**124.8**	**143.4**	**149.5**

Notes : 1. Includes Estate duties, Export duties, GPT.

2. As from 1972/73 to be part sales tax which was introduced.

3. Includes Royalties, Land Premia, Trade Licenses.

Sources : 1. Economic Surveys 1968, 1972-1975; and

2. Statistical Abstracts 1973 and 1975.

REVENUE CATEGORY	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87
1.INCOME TAX (DIRECT TAXES)	**58.2**	**77.2**	**90.2**	**108.0**	**143.0**	**151.7**	**173.6**	**198.3**	**201.1**	**231.8**	**251.8**	**301.0**	**355.1**	**385.7**
2.Sales Tax	32.0	46.9	59.3	65.4	92.8	99.8	154.9	179.4	194.8	195.9	153.7	173.6	303.6	397.5
3.Import Duties	39.8	42.1	49.2	52.9	104.2	101.3	102.5	156.4	197.2	175.8	183.5	165.1	211.8	259.4
4.Excise Duties	22.9	22.7	20.6	28.2	39.0	49.0	59.5	60.2	64.0	74.0	79.4	78.8	89.1	106.3
5.Export Duties	-	-	-	-	8.25	2.8	7.0	3.1	5.3	6.8	10.1	27.0	39.6	33.9
6.Business and Trading Licenses	1.0	0.9	0.9	1.1	1.1	1.3	2.0	1.8	2.3	2.2	3.2	3.7	6.0	6.3
7.Licenses & Duties on Production or Sale	-	-	-	-	-	10.1	9.9	15.2	19.3	19.7	23.1	28.7	47.2	52.0
8.Licenses & Fees under the Traffic Act	3.0	2.8	2.9	3.3	3.6	3.8	5.7	6.5	5.9	7.6	7.6	8.1	11.2	12.3
9.Other Taxes and Duties	3.6	4.5	5.4	6.9	7.8	-	-	-	-	-	-	-	-	-
10.TOTAL INDIRECT TAXES	**102.3**	**119.9**	**138.3**	**157.8**	**256.8**	**268.1**	**341.5**	**422.6**	**488.8**	**482.0**	**560.6**	**585.0**	**708.5**	**867.7**
11.TOTAL TAX REVENUES	**160.5**	**197.1**	**228.5**	**265.8**	**399.8**	**419.8**	**515.1**	**620.9**	**689.9**	**713.8**	**812.4**	**886.0**	**1063.5**	**1253.4**
12.NON-TAX REVENUES	**29.5**	**27.3**	**38.4**	**44.7**	**63.6**	**90.9**	**92.8**	**92.4**	**89.2**	**115.0**	**111.3**	**133.6**	**145.7**	**155.4**
13.DOMESTIC	**190.1**	**224.4**	**266.9**	**310.5**	**463.4**	**510.7**	**607.9**	**713.3**	**779.1**	**828.8**	**923.7**	**1019.6**	**1209.3**	**1408.8**
14.GRANTS	3.5	8.2	7.0	10.5	17.2	13.3	19.1	22.6	44.3	56.3	49.9	70.5	54.8	62.8
TOTAL REVENUE	**193.5**	**232.7**	**274.0**	**321.0**	**480.6**	**524.0**	**627.0**	**735.9**	**823.4**	**885.1**	**973.6**	**1090.1**	**1264.1**	**1471.6**

<u>Sources</u> : 1. Economic Surveys 1975, 1978, 1982-1988;
2. Statistical Abstracts 1975, 1982, 1984, 1986;
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CHAPTER 5

CHAPTER 5

5.0 SUMMARY AND CONCLUSIONS

The study found out that total Government Expenditure/GNP ratio has increased over the years to reach 31.7 per cent in 1980s. Revenue/GNP ratio has also increased to reached 23.8 per cent. The obvious outcome is a substantial expenditure gap between Central Government spending, and revenue. Kenya Government has two options which might be carried out to reduce its total Central Government spending and/or at the same time, to increase its revenues. Clearly these options must be seen against the background of the nature and dimensions of the Kenyan economy.

As is clear from Chapter 1, 32.5 per cent of Kenyan economic activity is accounted for by agriculture while manufacturing accounts for 15.8 per cent. 78 per cent of the working population make their living on the land, while 22 per cent of the paid employment are on agricultural sector. Per capita income is $290, making Kenya to be a low-income country. Population increases is 4.1 per cent (one of the higest in the world). The economy is run on mixed enterprise.

It has been demonstrated that the Total Expenditures/GNP ratio increased on average from 24.2 per cent in the earlier 1970s, to 28.1 per cent in the late 1970s and in 1980s, it has averaged 31.7 per cent. During the same periods, Revenue/GNP ratio increased from 19.3 per cent to 21.4 per cent and in the 1980s, it averaged 23.8 per cent. The following conclusions and observations are drawn from the information on expenditure and revenues in Kenya.

(1) Total Kenya Government expenditures and revenues have generally kept an upward trend between 1964/65 to 1986/87. Total expenditures, however have been rising faster than revenues. This is not only noticed from the above GNP ratio figures, but tables 7 and 35 show that between the period of study, average annual percentage increases of total expenditures have been higher than revenue.

(2) When individual years were examined, it was observed that generally when revenues increased, expenditures increased but by a higher percentage (e.g. during the world coffee prices boom of 1978 when revenues increased by 45 per cent, expenditures increased by 49.8 per cent). There were some years when revenue average annual percentage decreased but the expenditures average per cent still increased or vice-versa. Such situations could only be explained by over-expenditures or that political decisions, prevailed requiring that expenditures be incurred (e.g. employing all graduates coming out of University/Training institutions).

(3) It follows from the above that since expenditures have been increasing faster than revenues, Kenya Government has been increasingly relying on borrowed funds to finance some of its expenditures. As at June 30th, 1986, total Kenya Government long-term debt from borrowing was K£2757 millions composed of K£2029 millions from foreign sources and K£728 millions from domestic sources (see table 42). It could be noted also from the same table that Government debt from foreign sources more than doubled from K£859.3 millions in 1982 to K£2029 millions in 1986. Domestic sources (short-term and long-term) which has formed the bulk of the deficit

financing is projected to contribute K£575 millions of the required total of K£775 millions between 1985/86 to 1988/89 (Session Paper No. 1 of 1986, p. 34). This is on average 74.2 per cent per year of the total deficit financing.

(4) Recurrent expenditures were observed to be higher than the budget for almost all the years. The over-expenditures in relation to the budget were sometimes as high as 24 per cent in some years (see table 33). From the same table, it could be observed that development expenditures on the other hand, were almost always below the budget targets (under-expenditures). This under-expenditures in some years were as high as 52.2 per cent.

It follows then that revenue variations (although of course they could boost recurrent expenditures when they increased) have not been the main determinants of recurrent expenditures in Kenya because as will be noted from table 41, as from 1981/82 Kenya Government has experienced annual current financial deficits which have invited borrowing.

Some of the reasons advanced from over-expenditure on recurrent accounts are political decisions referred to earlier, and that the budget process in Kenya has been the traditional incremental budgeting which allocates funds by an arbitrary percentage increase. Also budget officers in some ministries are not well qualified for the job or they do not give the budget exercise the seriousness it deserves. It is, therefore suggested that a more advanced method like zero-based budgeting method if adopted while more qualified officers are deployed to handle the budgeting process, Kenya Government could improve the quality of its budgets.

As regards Development expenditures, the problem has been that project appraisal, implementation and monitoring has been poor, thus contributing to delays. Secondly, the Government has always find it easy to postpone on-going current projects in preference to recurrent expenditures. This normally contributes later to higher cost on these projects, and thus higher government expenditures.

(5) In the 1960s and 1970s, the Kenya Government expenditures on its State owned enterprises has not specified whether they were grants, loans or equity contributions. This situation although it is being rectified as from 1986, still needs alot of support to work very effectively. Because these expenditures overall contribute to over-expenditures it is suggested that expenditures on State enterprises should be based on proper project appraisal reports and/or whether such projects can be better provided by the private sector or the local communities.

In relation to revenues, it is suggested that some of the following measures could improve revenues :

(i) Income tax was found to account for 32.1 per cent in 1980s on average. This tax is assessed on a progressive scale which moves to the level of 65 per cent for any extra Kenya pound earned. At that level the rate is too high and any further increase might well contribute to disincentives to work. So future taxes from this source should probably come from an increased base. That means bringing more people into the tax bracket. Because of the assessment difficulties involved, most of those who pay this tax are the employed, while the majority (80 per cent) of people who own small unregistered companies or are in the rural farms do not pay. Some form of wealth tax could be instituted if it is found to be administratively cost-saving. Such tax could for example be land tax.

(ii) Income tax on companies is at a rate of 45 per cent for resident companies while for non-resident companies, it is 52 per cent. Any future increases in rates might again lead to disincentives for more production and investment, so any future increases in tax from this source will depend on the expansion of the present company profits, and new companies entering the market.

(iii) At the moment, all Government state owned enterprises do not pay tax. These companies might begin to pay tax at the rate of resident companies.

(iv) It is also possible that user charge services could be introduced in all government services especially where an individual derives benefits from the services. The areas which could be considered immediately are higher education/Training, Health, provision of water and many areas which the Government will identify. It is believed that substantial revenue will be derived from these areas, and would go a long way into recovering the cost the government incurs in rendering them. Government of Kenya Policy documents, especially Session Paper No. 1 of 1986, on Economic Management for Renewed Growth (p 29) indicates that this measure is possible when it says "If the strategy proposed in this Paper is successful in generating widespread economic growth, then families will have larger income from which to help support these services. However, in implementing measures to increase participant support, care will be taken to ensure that, while those who can pay will do so, no one will be denied access if they are genuinely unable to afford the fees. Moreover, it will be essential to convey to all participants precisely how they can benefit from the services being offered".

(v) Indirect taxes accounted for 31.2 per cent in 1980s. These are taxes that are likely to increase Kenya Government revenues especially sales tax, because they do not act as disincentives to work and investments. Provided appropriate rates are instituted, more revenues could be raised.

(vi) International trade taxes accounted for 31.7 per cent. These taxes act in two ways, namely; they can raise revenue and at the same time protect the Kenyan local Industries. Especially with sales tax on foreign manufactured goods and import duty, the Government could raise the rates appropriately so that it can raise more revenue.

(vii) The forecasting of tax revenues has been faulty, especially in 1986/87 when tax revenues were over-estimated by 10 per cent. Such a situation inevitably leads to high expenditures in anticipation of higher revenues which will not be forthcoming. The tax/revenue staff administration should be staffed with more qualified people so that the estimation and collection of tax can be done more effectively and efficiency. Where necessary, the tax officers should be given the training they need.

In conclusion, it should be said that Kenya Government has a number of areas which provide scope for raising more revenue. It should be pointed out, however, that for any new taxes/non-tax revenue sources, cost implications must be assessed well before they are implemented.

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