Who Pays Tax in Kenya

JOHN R. NELLIS*

I INTRODUCTION

To much of the developed world, Kenya represents something of an emerging success story of economic growth and development. Unlike many other African—or Asian or Latin American—countries, Kenya has managed to sustain a very respectable cumulative average economic growth rate of 6.6 per cent per annum for the period 1964-1970.[1] Kenya's Gross National Product in 1970 was estimated to be K£564,890,000. Divided by the estimated mid-1970 population of 11,250,000, this yields a per capita income of K£50.21. This is a substantial increase over the 1964 GNP of £346.39 million, and the estimated per capita income of £39.59. A sampling of other economic in—dicators conveys a picture of a comparatively solid and growing economy. For example, in 1970, the value of Kenyan agricultural produce exceeded that of 1969 by K£10 million; prices for the important crop of coffee, averaged 25 per cent higher than the previous year; foreign exchange reserves stood at K£77.9 million in September of 1970 (though these have since fallen), and it was estimated that in 1969, foreign capital inflows to Kenya were in the neighbourhood of K£25 million.[2] Over the period since independence in late 1963, agricultural exports grew and by 1970 accounted for "25 per cent of total credit on current accounts in the balance of payments".[3] Substantial "invisible" earnings have been generated from a booming tourist industry; Kenya enjoys a considerable balance of trade surplus with its East African partners, Uganda and Tanzania (though not with markets outside East Africa), and the monetary and especially government sectors of the economy are slowly, steadily growing, reducing the "Outside Monetary Economy" sector of the GDP from 27.03 per cent in 1964 to 23.29 per cent in 1970.[4] These figures indicate a general economic state of which many other developing countries would be envious.

There are, of course, serious problems. The balance of payments position is now uncertain; coffee prices are presently falling; inflation in the developed

* John R. Nellis is a Research Fellow in the Institute for Development Studies, University of Nairobi, on leave of absence from the Department of Political Science, Carleton University, Ottawa, Canada.
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1 At constant 1964 prices. Republic of Kenya, *Economic Survey—1971* (Nairobi: Government Printer, 1971), p. 6. Note that the population growth rate for the same period has averaged 3.3 per cent, reducing by half this gain.

2 Figures taken from "Kenya Survey: 1970—A Golden Year", in *African Development* (January, 1971), pp. 3 and 5 of special supplement on Kenya.

3 Tim Aldington, "What Future for Agricultural Exports?" in *Kenya Survey*, op. cit., p. 6.

4 Figures for 1970 provisional, for *Economic Survey—1971*, op. cit., p. 9.

world has added to the cost of imports; the terms of trade for Kenya's agricultural exports have generally declined (by about 5-10 per cent) since 1965; rural credit and development problems have proved difficult, if not intractable; and there is a continuing large deficit on the overall balance of trade. This deficit is presently offset by invisible earnings, by the country's leading economic position in the East African region, and by Kenya's great success in generating foreign aid and investment.[5] For a specific public sector example, in fiscal 1971-72, out of a net development expenditure of K£51.5 million, the government estimated that some K£16.5 million would be derived from foreign loans and grants.[6] This figure, and others which could be cited, reveal Kenya's success in obtaining (and dependency on) foreign capital.

Perhaps the greatest economic problem is the "national obsession", unemployment. Roughly 250,000 people are unemployed, a number equivalent to one-third of the total number of jobs in the modern sector, or one-fourth of all wage employment.[7] "However, as a proportion of the potential labour force of nearly 3.9 million, the unemployed amount to no more than 6-7 per cent . . ."[8]; 125,000 school-leavers attempt to enter the economy each year; the present absorption rate is somewhere around 30,000 new jobs per annum.[9] Government has committed itself in its second five-year plan to a rural development programme in an attempt to find ways to absorb this surplus and to devising an incomes policy which would stabilize wages and the rising cost of living. Government has found the first task difficult, and its sincerity on the latter score is questionable since in May of 1971 it announced across-the-board pay increases for 160,000 civil servants, adding some K£4.6 million to the public sector wage bill.[10]

Such difficulties are the rule rather than the exception in African countries, and in comparison with the economic situations in many other states, Kenya's overall present economic position must still be regarded as rather promising. In spite of this promising performance (or, with specific regard to the dependency on foreign capital inflows, because of it) there is in Kenya a strong undercurrent of criticism of the basic direction and specific economic policies of the present regime. While Government spokesmen praise past efforts and convey a generally complacent attitude towards the type of policies utilized,[11] some few political figures, journalists, and academics severely question present trends. Criticisms stem from a variety of motivations and sources. Some raise doubts about the dependency on foreign aid, capital, and advisers, and speculate on the amount of control over Kenyan policies exercised by foreign

5 Unsigned article, "The Economy: The Main Problem", *Kenya Survey*, op. cit. p. 16.
6 Ibid.
7 D. Ghai, "Unemployment: The National Obsession", in *Kenya Survey*, op. cit., p. 12.
8 Ibid.
9 Ibid., p. 13.
10 *Daily Nation*, May 7, 1971, p. 1.
11 Government spokesmen argue that much has been done, and while agreeing that much more needs to be done, and quickly, they do not question the methods and techniques which have been used.

governments and experts, and resources extracted by foreign firms. Others object to the creation and maintenance of what they regard as a largely self-seeking élite; still others vehemently object to what they perceive as mainly regional disparities in the distribution of government-controlled goods and services. Lower-level gossip, which cannot sustain the title of criticism, centres on civil servants who spend much of their office time attending to personal business, real estate or farming concerns, and on politicians who become wealthy through manipulating the powers of their office. There is a widespread acceptance, though very little definite proof, of the notion that corruption is prevalent, and that many of those in political office, and to a lesser extent in bureaucratic posts, are doing very well for themselves at the expense of the state and the masses.

Branching out from purely economic concerns, there has been criticism of the highly centralized, hierarchical administrative apparatus of the state, which is seen as very powerful—perhaps excessively so—in relation to the representative mechanisms such as parliament, the single political party, and local government structures.[12] The importance of this criticism in politico-economic terms is the implication that the bureaucracy, relatively well paid and served, is used to sustain the power, authority and interests of the present regime, to the supposed detriment of the "outs".

In sum and in essence there is a widely shared, but not substantially articulated,[13] set of criticisms which views present Kenyan politico-economic policies as basically benefiting a grand coalition of foreign interests and indigenous élite at the expense of the mainly rural producers and workers of Kenya. It is felt that the present emphasis on production downgrades distribution issues, and indeed, that the type of economic strategy being pursued in Kenya leads almost automatically to ever widening gaps between income groups, as those possessing, *inter alia*, luck, skill, power and capital, "cash-in" on the opportunities in the system, again, at the expense of those less well endowed with the productive factors. The countering argument, of course, is that this type of a strategy leads most rapidly to economic growth, and it is the special task of the democratic political system to redistribute income through the tax system, the price structure, and general distribution of government-controlled goods and services, commensurate with the maintenance of a high rate of production. One does not have to be Marxist

12 The force of the argument may decline with the admission that it is this author who has made it. See J. R. Nellis, "Is the Kenyan Bureaucracy Developmental? Political Considerations in Development Administration", Institute for Development Studies, University of Nairobi, Staff Paper No. 103, June, 1971. For a somewhat different view of the power of bureaucracy, see G. Hyden, "Social Structure, Bureaucracy and Development Administration", paper read at the Conference on Comparative Administration in East Africa, Arusha, Tanzania, September, 1971.
13 At least one searching analysis does exist, though it is aimed at testing the applicability of the socialist critique to the Kenyan situation. See Colin Leys' excellent piece, "Politics in Kenya: The Development of Peasant Society", Institute for Development Studies, University of Nairobi, Discussion Paper No. 102, December, 1970. For a brief but provocative critique by a socialist economist, see Brian Van Arkadie, "Development and the Mode of Production: The Case of Kenya", Communication Series No. 57, Institute of Development Studies, University of Sussex, August, 1970.

(though it helps) to counter this with the simple idea that, "democratic" or not, governments drawn mainly from the benefiting group or groups are likely to be able to restrain their enthusiasm for distributive programmes, although it must be remembered that there exist many historical examples of otherwise not notably progressive regimes, through enlightened self-interest, indulging in defensive distribution programmes so as to bolster their long-run position (Bismarck in Germany instituting pension schemes and unemployment insurance for workers, is an example).

The question this paper begins to discuss (through certainly not answer) is: What kind of data on the issues raised by these criticisms and counter-arguments are available and how are they best interpreted? More simply, what do we really know of the politico-economic exchange system in Kenya, of how it works, of who benefits, and why?

These, of course, are the seminal political questions: *cui bono?* Who gets what, where, when and how? The contention here is that by looking at some of the results of scattered recent research in Kenya, and by digging into published Government figures and documents we can shift—or start to shift—some parts of the argument away from assertion and towards more solid ground. Not surprisingly, questions on these issues are easier to pose than answer and much of the available data related to these issues are ambiguous in the extreme. It is difficult to know whether to attribute the ambiguity to incorrect questions or to some more sinister explanation based on the reasonable, if somewhat conspiratorial, assumption that one cannot expect the extractors to put forth a public record of their exploitation.

II. THE TAX SYSTEM

Are resources being extracted from the Kenyan producers and if so, how? To a very large extent this is an international question since the Kenyan economy as a whole, producers and extractors (obviously, the latter can be producers as well), is in an inferior position vis-à-vis world markets and the great economic powers. Let us start by looking at the domestic situation, and begin by investigating how the official, ordinary revenue of the Kenya Government is derived from internal sources. (Note, that part of the reason for beginning here is the simple availability of data; suggestions on how to obtain information on extraction by the private sector are welcome.)

A number of features of this Table are interesting. Note, for example, the increasing amount of money, and the increasing percentage of total revenue, being derived from income tax. Who pays this tax? In Kenya in 1968 (the latest year for which figures are available) there was a total of 41,162 tax-payers, this figure being mainly composed of:

19,888 employees (of which 165 were non-residents)
15,789 individuals (5,694 non-residents)
459 clubs and trusts (9 non-resident)
3,026 companies (131 non-resident)

This group had a total income of £107.73 million, of which total assessed

Table 1—KENYA REVENUE SUMMARY—(IN K£ MILLIONS)*

	71/72	70/71	69/70	68/69	67/68	66/67	65/66	64/65	63/64	62/63	61/62
Direct Taxes											
Income Tax	40.00	35.50	28.26	23.61	22.67	18.78	15.88	13.46	13.23	11.11	10.34
Graduated Personal Tax	3.30	2.17	2.75	1.51	.41	—	—	—	.14	1.26	1.68
Export Duties	.40	.50	.40	.35	.41	.99	.64	.45	—	.10	NA
Estate Duties	.34	.34	.30	.30	.36	.29	.26	—	—	.02	.10
Land Premia	.75	.60	.53	.69	1.25	1.39	.41	.55	.31	.30	.47
Total	44.79	39.11	31.76	25.85	23.99	20.21	1.83	13.97	13.41	12.44	12.13
Indirect Taxes											
Import Duties	28.60	25.75	22.32	21.83	19.76	20.07	17.19	15.89	13.69	13.75	11.71
Excise Duties	16.00	15.25	12.84	11.79	10.34	8.47	6.29	6.24	6.01	5.44	3.86
Stamp Duties	1.15	1.10	1.00	.91	.78	.80	.69	.72	.78	.51	.53
Entertainment Tax	.11	.11	.08	.07	.07	.07	.09	—	.06	.06	.06
Petrol & Diesel	2.20	2.40	1.80	1.78	1.67	1.55	1.18	1.14	1.07	1.08	1.07
Licences & Fees (Traffic)	2.40	1.42	1.41	1.52	1.39	1.31	.97	.84	.79	.85	.80
Trade Licences	.24	.25	.26	.26	.19	.01	.01	.01	.07	.17	.17
Other Licences	NA	NA	.80	.86	.83	.70	.85	.73	.70	.42	.48
Royalties	NA	.30	.22	.29	.19	.18	.18	.17	.15	.15	.14
Total	50.70	46.58	40.75	39.34	35.27	33.19	27.48	25.77	23.35	22.47	18.84
Grand Total	95.49	85.69	75.52	65.20	59.26	53.41	44.32	39.74	36.76	34.91	30.98

Note: When used in the 'other licences' and 'Royalties' Rows, NA means not available. In the direct taxes rows it is not certain whether it means no information or no revenue. It is probably the latter.

*Sources: *Statistical Abstract* for 1970 and 1971/72 *Estimates of Revenue.*

tax came to £26.5 million, and £23.6 million was, evidently, actually collected. The average rate of taxation was 4/95 shillings in the £.[14] This comparatively small group of tax-payers paid 36.2 per cent of total taxation in 1968; if the 1971-72 figures are correct, income tax-payers will this year contribute 41.8 per cent to total taxation.

This is noteworthy stuff, simply because few urban workers and fewer rural people pay income tax; the low-salaried workers and farmers are hit presumably only by Graduated Personal Tax (of which much more below). True, this is not too surprising since an income tax on those without incomes is not the most lucrative way to raise revenue, but the extent to which the ordinary citizens escape this major tax is interesting. Some figures on the number of income tax-payers derived from various income groups are available. They reveal that in 1968 only 1,463 residents in the income range £1-449 per year paid tax. The number of residents (and thus more likely to be Kenyan) tax-payers in the £500—999 range was 3,794.[15] The point is that the majority of tax-payers, and the vast bulk of the tax revenue itself, comes from the over £1,000 annual income range, a sum astronomically far above the average annual earnings of the masses, however defined. The conclusion must be that this major source of government revenue is derived from the wealthy few.

This is hardly the same thing as saying that the present income tax set-up is the best possible or even a good system. As noted, an income tax is not a rational way to extract resources from rural producers, and there must be some discussion of how the revenue derived from this and other taxes is spent. The crucial question here is how does the tax system fit into the issue of the distribution of income? A recent study of the system by M. Westlake, titled "Kenya's Extraneous and Irrational System of Personal Income Taxation", argued that the system was "... regressive over certain income ranges and geared in terms of progressivity to income levels many times higher than those in Kenya."[16] Westlake contended that if the government were serious about its stated desire to use the tax system to redistribute income in a more equitable fashion, there would be—at a minimum—a restructuring of the present, generous allowance system and a raising of rates. Income tax rates were slightly raised in the 1971-72 fiscal year, but the allowance system remained intact (save for a change in the allowance given a single person supporting a child). For example, a single person in Kenya earning £1,000 a year pays 13.5 per cent of his income in tax, while the comparative figure for Great Britain is 18.6 per cent. A married man with four children earning £2,400 a year pays 12 per cent; in Britain he would pay 15.65 per cent.[17] The

14 All of these figures are from the East African Income Tax Department, *Report for the Period 1st July, 1969, to 30th June, 1970*, (Nairobi: E.A. Community Printer, 1971), p. 1 of Schedule 2. Note that this document contains information for the 1968 income year; next year's report will be on 1969, etc.

15 Ibid., p. 1 of Schedule No. 5.

16 M. Westlake, "Kenya's Extraneous and Irrational System of Personal Income Taxation", Institute for Development Studies, University of Nairobi, Staff Paper No. 101, June, 1971, p. 1.

17 Ibid., from the revised appendix attached to the paper.

implication of Westlake's study, and the feeling of many, is that it is irrational for a developing country with a low per capita income to tax the élite with a lower-than-European rate.

Tax-paying, salaried Kenyans are quick to justify the lower rates and higher allowances on two related grounds: lack of state welfare services and a corresponding series of obligations to their families and relatives. An income tax official pointed out in conversation that in Kenya, unlike Britain, education, sufficient medical coverage and old age insurance are not adequately covered by state supplied services paid for by taxation. Thus, expenses for the employed are higher, and especially so since almost every Kenyan with a job can expect an unending series of requests and demands for financial aid from his parents, siblings, cousins, clansmen and all the myraid relations which compose the African extended family. Since, in all likelihood, the man in the salaried post gained his education and position through the sacrifice of his extended family, and since there remain in potent force powerful cultural and emotional ties with the land and the family that transcend contractual obligations, few can refuse to pay subsistence costs, school fees, or a number of other items which erode an income. Those at the top may not be happy with the system, and they may be seeking a way to avoid family demands, but there is really no escape. So goes the justification.

There is some hard evidence that this is so; preliminary material coming from the University of Nairobi's urban study, being conducted by Whitelaw and Johnson, indicates that some 89.89 per cent of the 1,140 males surveyed (who were employed during December, 1970), send some money back to their families in the rural areas each month. (The average income of this group was 411/- per month, and there was an average individual remittance to the rural areas of 86/- per month; thus, some 20.83 per cent of the Nairobi wage bill covered in this sample is returned to non-Nairobi families.)[18] In sum, say the tax-payers, when one wage-earner may be supporting an extended family, which cannot rely upon sufficient state aid in times of trouble, large allowances and comparatively low rates are justified.

There are flaws in this argument, not least of which is that the information available on remittances to non-Nairobi families comes from low and middle income groups, not income-tax payers. Even if it were shown that high income groups remit an equally large, or larger share of their income,[19] one could question the logic of such an indirect method of income redistribution. Why not impose higher taxes and increase government services especially since so many of the income tax-payers are non-Kenya individuals and firms that make no remittances? But of course, these along with their high-salaried Kenyan counterparts, constitute a politically powerful class, able to strongly defend their interests. Further, it could be argued that increasing government services would result in inefficiencies, but the present system does not strike one as either just or efficient, as it rewards only the more fortunate.

18 I am indebted to Drs. E. Whitelaw and G. Johnson for this information.

19 G. Johnson thinks that there is some evidence for the notion that it is the high income group which attempts most industriously to escape the obligations.

Defenders of the system would, on the other hand, say that it is the intelligent and the industrious, and not simply the fortunate, who are rewarded and therein lies an argument.

Overall, major criticisms may be levelled against the Kenyan income tax system.

> The system could be modified to allow the government to raise much more from the taxation of personal incomes and at the same time move towards a greater equality of incomes. Such modifications would be likely to have little adverse effect on the supply of effort or investible funds while at the same time adding little to the cost of collection.[20]

Still, the thrust of criticisms is that the tax system is not presently being used as an efficient tool of income redistribution, a stated government aim.[21] This is quite different from saying that the tax system is being used as a direct device to extract resources from the rural producers and urban workers for the benefit of the ruling group. I do not see how the latter claim could be substantiated.

III. GRADUATED PERSONAL TAX (GPT)

If the income tax touches only the wealthy élite, it is the common people who pay the bulk of GPT. Or do they? GPT is assessed as follows: those earning 960/- a year, or possessing goods and livestock reckoned to be worth this amount, pay 48/- per year. Those earning or possessing more pay larger amounts, up to the maximum GPT of 600/- per annum on incomes of £600 or above. As Westlake notes, GPT "... is regressive over each income range and a higher percentage of income is taken from those at the bottom and top of the tax's range".[22] (Note that there used to be a minimum GPT of 24/- per annum on those earning 480/- or less a year; this was discontinued in 1970, ostensibly as a tax break for low income groups. People in the rural areas allege that assessors simply pushed many more people into the 960/- category. Thus, there is a great deal of grumbling that the lowest tax category was doubled, not eliminated.)

As Table 1 shows, there has been a steady and substantial growth in GPT revenue since 1967-68, following a precipitous decline in collections in the years immediately after independence. Neither people nor politicians like the tax and there can be no doubt that a substantial proportion of the time of the entire provincial administrative structure is taken up by GPT matters. MPs denounce the tax as a harassment; it has been suggested that the cost of collection exceeds revenue, and it has been said that the GPT ought to be abolished and the efforts of the Provincial Administration turned to other, more important issues. From the point of view of this paper, the question is to what extent GPT is an extraction of resources from rural producers? £3.30 million may not be much, but it is a place to start. Thus, who pays this tax?

20 Westlake, op. cit., p. 1.
21 As noted by Westlake, this is explicitly stated on page 4 of the *Development Plan—1970-1974*, paragraph 1.14.
22 Westlake, op. cit., p. 2.

Table 2:— GRADUATED PERSONAL TAX BY INCOME GROUP.

Income (K£)	Annual GPT (K Shs.)	% Liability Lower and Upper Ends of Income Bracket
48–96	48	5.0%–2.5
96–144	72	3.75 –2.5
144–204	108	3.75 –2.64
204–312	156	3.82 –2.5
432–420	240	3.85 –2.85
510–516	360	4.29 –3.48
126–600	480	4.65 –4.0
> 600	600	5.0%< 5.0%

Source: V. P. Diejomaoh, "Financing Local Government Authorities in Kenya", Institute for Development Studies, University of Nairobi, Discussion Paper No. 96, September, 1970, p. 10.

The first thing to note is that prior to fiscal 1971-72 there was a dual taxation system in effect which meant that every income tax-payer had to pay GPT as well; with their higher incomes they naturally paid more. Even more enlightening (though at the same time rather confusing) are GPT figures for 1970 given in Parliament in April of 1971. It was stated that in all of 1970 GPT collections amounted to £5,188,966, including collections from Nairobi and Mombasa, but not including collections from Kisumu, Kitale, Eldoret, Nakuru and Thika.[23] Something is very wrong here, since this sum far exceeds the government's official estimates of GPT revenue for the two-year period, July, 1969, to June, 1971, as given in Table 1. Thus, even if the sum mentioned in Parliament referred to GPT collected in all of 1970 and was applied to two separate fiscal years, there is still a major discrepancy. With this warning in mind, let us look at the figures. It was stated that of the grand total (which, note again, excludes the smaller urban areas):

> £3,129,302 was collected from Nairobi;
> £ 648,991 was collected from Mombasa; and
> £1,410,991 was collected from "rural areas".[24]

Moreover:

		Minimums
Kiambu, Thika and Kericho Districts produced over	£100,000	£300,000
10 other Districts produced over	£ 50,000	£500,000
10 other Districts produced over	£ 25,000	£250,000
All 17 remaining produced over	£ 3,000	£ 51,000
	TOTAL	£1,101,000

23 As reported in the *East African Standard*, April 2, 1971, p. 5.
24 Ibid.

Notice that of the £5.18 million GPT, the two major urban areas, Nairobi and Mombasa, produced 73 per cent. If one makes the reasonable assumption that the five smaller urban towns—which combined have a population almost exactly half that of Mombasa—produced about half of Mombasa's GPT, one can say that total GPT for Kenya collected in 1970 came to roughly £5.5 million. Of this, Nairobi and Mombasa produced 68.7 per cent; if one includes the estimated GPT from the smaller towns, and accepts £5.5 million as the total, the percentage of GPT derived from towns rises to 74.35 per cent. We can include at least another £300,000 from the atypical Kiambu. Thika and Kericho areas, meaning that the urban areas and these three districts produce 79.80 per cent of GPT. These areas have a population of about 1,845,388, or 16.8 per cent of the total population of Kenya. They pay almost 80 per cent of GPT.

What can one conclude from this run of figures? First, the peasantry is not excessively struck by this tax; obviously it is the urban and peri-urban worker who maintains the brunt of the tax burden. Precisely how few rural people pay GPT is evidenced by some figures from one location in Mbere division of Embu District. The chief of this location had records to show that there were 3,894 potential tax-payers in the location. Of this number, the locational assessment committees had decided that only 326 earned or possessed enough to warrant their paying tax. Three hundred and three were assessed at the minimum rate of 48/- per annum; 14 at the next highest rate of 72/-, and only 9—one of which was the chief himself—were placed in higher gradations. Being assessed does not necessarily mean that one will end up paying; in spite of the severe and enforced penalties for failure to pay GPT, over the past few years actual collections in Mbere division as a whole have varied from a low of 44 per cent to a high of 60 per cent of assessments. This is a case of few being chosen, and even fewer being caught. Secondly, the cost of collecting the £1.4 million in rurally derived GPT may not exceed revenue by a great deal. In a study of administration in Mbere division, it was estimated that about 30 per cent of the DO's, chiefs', and sub-chiefs' time was spent on tax-related issues.[25] Assuming that this is typical across Kenya, and assuming that it is also true of other staff in the Provincial Administration, one can make a very rough calculation: the salaries and emoluments of Provincial Administration staff total £2,336,000 for 1971-72, 30 per cent of which is £700,800. To this must be added equipment, vehicles, police, legal and other, less calculable costs. Perhaps, then, it costs £1 million to collect £1.4 million. And what are the opportunity costs for the Provincial Administration staff? No conclusions here; just some thoughts.

How badly is the urban worker hit by GPT? Again, some calculations can be made. The Johnson-Whitelaw data on Nairobi male workers show an average income of 411/- per month or £247 per annum. In this wage range

25 See David Brokensha and J. R. Nellis, "Administration in Mbere: Portrait of a Rural Kenyan Division", Institute for Development Studies, University of Nairobi, Discussion Paper No. 114, August, 1971, p. 10.

people pay about 4.43 per cent in direct taxes.[26] This does not strike one as excessive (though one is not a Nairobi worker earning £247 a year). The conclusion must be that GPT by itself is not a significant extractive device.

IV. INDIRECT TAXES AND NON-CENTRAL GOVERNMENT TAXES

A. Other direct taxes—export and estate duties and land premia—are minor in their financial impact, and they seemingly do not fall on the non-élite. It is the indirect taxation, especially import and excise duties, which are the remaining major revenue earners. Indeed, when combined, these two taxes have consistently produced more than the income tax, even including GPT (see Table 1). M. Westlake also conducted a study of Kenyan indirect taxes and their effect on income distribution. He concluded:

> ... the indirect tax burden is greater on all the lower income groups than the highest income group. Looking at individual commodities, the duty on some would appear to be regressive, for example, sugar and cigarettes and tobacco ...[27]

Westlake ended his paper with a table estimating the combined incidence of direct and indirect taxation in Kenya. This is reproduced below. Note that Westlake stated that the estimates should be treated with caution. If these figures accurately reflect reality one finds that there is a cumulative regressivity in the overall tax structure, with those earning 300/- per month or less paying a fairly high rate, not matched until incomes exceed 2,000/- per month. This latter figure, of course, covers very few people. 49.4 per cent of workers (much less most women and totally unemployed) surveyed by Johnson and Whitelaw had incomes of less than 300/- per month, and this was from a random sample of low and middle income areas in Nairobi. In the country as a whole the percentage of adult workers earning less than 300/- per month would, no doubt, be appreciably higher. At the other end of the scale, for those with incomes of over 2,000/- per month we have the 1968 figures to tell us roughly how many people this category includes: in that year there were 27,625 residents with incomes exceeding £1,000 per year.[28] It is true that this figure represented 67.1 per cent of all income tax-payers in 1968, but it is also apparent—and this is the point—that a substantial portion of comparatively high income earners paid, and probably still pay, about the same percentage in tax as those at the very bottom of the scale.

Looked at as a whole, it appears that the Central Government tax system is regressive. Does this make it an extractive device? This depends somewhat on government expenditure, on how the resources gathered are spent. Still, it seems to me that while the figures are indicative and not conclusive, there is a *prima facie* case for concern.

26 Westlake, op. cit., appendix.
27 M. Westlake, "Kenya's Indirect Tax Structure and the Distribution of Income", Institute for Development Studies, University of Nairobi, Staff Paper No. 102, June, 1971, p. 7.
28 *Income Tax Report*, op. cit., p. 1 of Schedule 5.

Table 3—SIMPLE ESTIMATE OF THE COMBINED INCIDENCE OF DIRECT AND INDIRECT TAXATION IN KENYA

Income Group (Shs. p.m.)	0–119	200–299	300–399	400–499	500–699	700–999	1000–1399	1400–1999	Over 2000
Average Income (Shs. p.m.)	104.0	248.6	339.5	440.5	587.1	833.4	1174.9	1665.7	3009.7
Average Household	3.17	3.50	3.75	4.37	4.57	5.07	5.65	6.32	6.86
G.P.T. Liability	4	9	9	13	20	30	50	50	50
Income Tax Liability (shs. p.m.)	—	—	—	—	—	—	—	8.1	176.2
Total Direct Tax Liability (shs. p.m.)	4	9	9	13	20	30	50	48.1	226.2
Total Direct Tax Liability as % of Income	3.8	3.6	2.7	3.0	3.4	3.6	4.3	3.5	7.5
Total Indirect Tax Liability as % of Income	8.7	7.3	5.4	4.6	4.8	5.9	4.5	5.5	4.4
Minimum Assumptions									
Total Combined Tax Incidence as % of Income	12.5	10.9	8.1	7.6	8.2	9.5	8.8	9.0	11.9
Minimum Assumptions									
Total Indirect Tax Liability as % of Income	7.7	7.7	5.8	5.3	5.4	6.9	5.0	6.1	5.2
Total Combined Tax Incidence as % of Income	11.5	11.3	8.5	8.3	8.8	10.5	9.3	9.6	12.7
Maximum Assumptions									

Reproduced by permission of M. Westlake: 'Kenya's Indirect Tax Structure and the Distribution of Income', I.D.S. Staff Paper No. 102, June, 1971, p. 10.

B. Other forms of taxation, much less well known and discussed, are imposed on the Kenyan citizenry. The thirty-three County Councils of Kenya, which from 1964 to 1969 were responsible for, among other things, the provision of primary education, the maintenance of certain classes of roads, and the building and maintenance of health clinics and dispensaries, were provided with locally derived GPT, school fees, and large Central Government grants to support these functions. Due to inefficiencies, and probably due to competition between local authorities and centrally empowered bureaucrats, these responsibilities and revenues were transferred to the Central Government starting 1st January, 1970. This, in effect, was an emasculation of the local governments since about 80 per cent of their revenues and responsibilities were thus lost.[29] Still, the County Councils retain the power to levy certain cesses, licence fees and taxes, to an estimated total in 1970 of £3.42 million (down from £14.13 million in 1969).[30] Main sources of 1970's revenue were:

(i) Land rates (a percentage of the total unimproved value of land sites; presumably in urban areas)	£607,000
(ii) Licences and cesses (the latter a sales tax on agricultural commodities marketed in large quantities, collected from the various marketing boards, but ultimately paid by the grower)	£832,000
(iii) Income from property	£479,000
(iv) Sale of goods and services	£926,000
(v) Court fines, sale of capital assets, and non-government grants	£145,000
TOTAL ...	£2,989,000[31]

Further, there are fifty-four Area Councils, sub-divisions of the County Councils, which provide a very few services in the community development and marketing fields. These levy a poll rate, the income from which totalled an estimated £299,000 in 1970 (and is included in the previously mentioned £3.42 million total).

Who bears the brunt of these taxes? Land rates, as will be seen, are a major revenue source for Municipal Councils, but they also are important for County Councils, especially in view of the virtual disappearance of GPT, grants, and school fees. Evidently, only owners of plots in towns or quasi-urban areas pay this rate; not farmers on their own land. One might argue that licence fees also fall on the comparatively urban and wealthy, though even the smallest seller at the most remote rural market usually must pay a small fee to enter the market. Yet one would think that neither land rates nor licence fees are especially burdensome to the rural producer—though the rent-paying urban worker, no doubt, has some of the rate passed on to him.

Cesses are another matter. They vary from crop to crop and from County to County. Formerly, there were great and chaotic disparities, but I am informed by T. Aldington that rationalizations are under way (as of September,

29 V. P. Diejomach, "Financing Local Government Authorities in Kenya", Institute for Development Studies, University of Nairobi, Discussion Paper No. 96, September, 1970, p. 4.
30 *Economic Survey—1971*, op. cit., p. 191.
31 Ibid.

1971), with some cesses being reduced or eliminated, and others becoming standardized. The collection of cess is facilitated by the central marketing system used for so many crops in Kenya, i.e., coffee, cotton, tea, pyrethrum, wheat, etc. At crop pay-out time the marketing authorities list the gross official price to the grower; then they subtract the various costs and debts and taxes which must be paid, and the grower is given his net price in cash. (Pay-out time can be somewhat discouraging for the small farmer. Representatives of the Provincial Administration will be collecting GPT and stockists and shop-keepers will attempt to collect debts. In 1970 in Mbere—admittedly, a rather poor area—agricultural department records for cotton pay-outs showed a large number of farmers ending up with less than 50/- in cash.) As far as I know, the cess is a fixed, per kilo amount, meaning that all producers pay the same percentage in tax. But there is no need to labour the point; £832,000 is not a large amount, and obviously, many farmers escape totally.

C. There are seven Municipal Councils in Kenya and these had an (estimated) revenue in 1970 of £12.98 million (£13.00 million in 1969).[32] Municipalities' GPT revenue should rise drastically in 1971. In 1969, in response to demands from the rural areas for financial aid, the Nairobi and Mombasa Municipal Councils were directed to remit to County Councils 50 per cent of all the GPT they colletced. The reasoning was that workers migrated to Nairobi and Mombasa but left behind their non-tax-paying families, who were the main users of County Council maintained roads, dispensaries and especially schools. This move failed to prevent the over-loading of the local government system and the transfer of these functions to the Central Government. This year (1971) the Municipal Councils will once again retain the total GPT they collect.

For all Municipal Councils, the main sources of 1970's revenue were:

(i) GPT	£1,990,000
(ii) Land rates	£3,049,000
(iii) Income from property	£1,559,000
(iv) Sale of goods and services	£2,542,000
(v) Loans raised	£2,382,000
(vi) School fees	£ 594,000
(vii) Court fines, sale of capital assets and non-government grants	£ 483,000
TOTAL ...	£12,554,000[33]

Land rates are the major source of revenue, and the extent to which the small people in the economy are tapped under this device is questionable. However, as noted above, rent-payers in non-Council housing probably end up paying part of this tax. (I should think this would be the case, but am not really sure.) Sales of goods and service, the second largest revenue source, refers to incomes derived from Council housing, water charges and sewerage. There have been complaints in the Press[34] that low income housing in Nairobi

32 Ibid., p. 189.
33 Ibid.
34 *Sunday Nation*, September 12 and 19, 1971.

has been all too frequently utilized by persons with high incomes and equivalent influence, thus depriving persons in the low income ranges of housing supposedly built for them. This is a very shady business, as public funds are used to build and maintain these houses. On 18th September, 1971, the Minister for Local Government admitted that a disproportionate share of housing went to high income earners.[35] GPT has been covered above. There is not too much to say on the official figures; one needs, as the allegations for housing indicate, the unofficial figures, the lists of those who do not pay, or pay in smaller amounts than their incomes warrant. Assuming that there is activity of this kind, one will not find lists and figures in government publications.

D. Another shadow area, well deserving of a major study, is the issue of "voluntary" payments by citizens to self-help projects. In reality, collections for self-help efforts frequently resemble the collection of an involuntary tax. However, it must not be thought that all self-help collections are of this nature; no doubt many people respond voluntarily and enthusiastically to the call for funds to build a school, a cattle-dip, or a dispensary.

The *Economic Survey* for 1971 stated that "people's contributions" to self-help schemes in 1970 had a monetary value of £2,023,000.[36] (The survey also listed a category titled "Other Contributions" to self-help projects, valued at £292,000. It is not known whether this referred to official government aid, or monetary contributions to projects by politicians and other leading citizens, or something else.) One must treat the official valuation of "people's contributions" with suspicion. It is widely thought that Community Development officers, who give a value to these efforts, tend to be very liberal in their estimates of how many projects have been undertaken and completed, and the value of each. Moreover, even if the £2.0 million figure were reliable it would not mean that local people donated £2 million in cash; the bulk of the sum is an arbitrary assessment (made by CD staff) of the supposed cash value of the people's labour contributed to self-help programmes. Thus, what with truly voluntary donations and a built-in tendency towards the inflation of figures by those reporting—for this is the measurement of whether or not CD staff are doing their job—it is not at all fair to say that this £2 million is the same as a tax.

But a part of it is, though one cannot say how much. At crop pay-out time, it is common for a farmer, having paid GPT and perhaps County Council cess, to have to pay yet another 5/- or 10/- for the pet self-help project of the local *bwana mkubwa*. It has been stated that sometimes people are forced to contribute to projects which are to be located far from their home area.[37] One might argue that since self-help monies usually finance social service and welfare items such as schools and dispensaries, such an extraction of resources is in an individual's (though perhaps not the national) interest. Paternalism

35 *Sunday Nation*, September 19, 1971, p. 1.
36 Op. cit., p. 220.
37 See C. G. Mutiso, "Mbia Sya Eitee: A Low Status Group in Centre-Periphery Relations", mimeographed paper, Department of Government, University of Nairobi, pp. 28-45.

of this sort will not appeal to a man who has "contributed" to a hospital he will probably never enter, or to a far-away school to which his children cannot go.

Further, and more damaging, there has been widespread speculation that some of the funds collected never go into any self-help project, but simply disappear into the pockets of the collectors. Note that such accusations have been much more frequently made about non-government controlled collections (though these have not been immune from criticism), and that it has been unofficial local committees which most frequently have been accused of speculation.[38] Where and when it occurs, this is outright theft which transcends mere extraction and becomes exploitation. But the first instance is more difficult to categorize. It is obvious that much of the impetus for high administrators to support self-help projects stems from a realization that a reputation for accomplishments in this field enhances one's power and prestige. It is also clear that politicians who donate to projects, and who do their best to see that government officially supports, for example, a self-help school in their constituency, are primarily concerned with maintaining their power position. At the same time one cannot deny that, when constructed, these projects generally do serve (some) people—or at least their felt needs—quite well. When the Moguls of India constructed magnificent tombs and splendid palaces, they also considerably enhanced their power and prestige, but not at all the masses' welfare. It is a bit difficult to compare a cattle-dip to the Taj Mahal, but there is little doubt which of the two edifices better serves the material, if not the aesthetic, interests of the peasantry.

V. SOME PRELIMINARY DATA ON GOVERNMENT EXPENDITURE

The apparent conclusion to be drawn from this very preliminary analysis of government revenue collection activities is that the peasants and workers of Kenya do not seem to be overly hard hit. The overall tax system is regressive, and a number of (insufficiently studied) inequities do exist. Nonetheless, if one still harbours a suspicion, as I do, that considerable extraction is taking place, one will have to look elsewhere; it is simply not found in the collection of government revenue. I suspect that other places to look are in the private sector, and in the issue of rural-urban terms of trade. These areas will form the arena for future investigations. Finally, as noted throughout the paper, one must have some idea of how the revenue collected is spent. The following Tables, which are largely self-explanatory, provide some information on this question.

38 Ibid., p. 35.

Table 4—RECURRENT EXPENDITURE IN KENYA—ESTIMATES FOR 1971–1972

Total Recurrent Expenditure (TRE) (Including Public Debt, Pensions, Subscriptions to International Organizations) ....£K 120,506,000
Total Voted Expenditure (TVE) 98,520,000

MINISTRY	AMOUNT IN £K	% OF TRE	% OF TVE
1. Education	30,205,950	25.1	30.7
2. Agriculture	10,229,700	8.5	10.4
3. Works	8,752,300	7.3	8.9
4. Armed Forces	8,104,300	6.7	8.2
5. Health	7,468,950	6.2	7.6
6. Office of the President	6,976,154	5.8	7.1
7. Police	6,954,801	5.8	7.1
8. Office of the Vice-President	4,043,500	3.4	4.1
9. Foreign Affairs	1,683,250	1.4	1.7
10. Natural Resources	1,619,375	1.3	1.5
11. Finance and Planning	1,520,860	1.3	1.5
12. Labour	1,487,110	1.2	1.4
13. Land Settlement	1,420,000	1.2	1.4
14. Tourism & Wildlife	1,270,627	1.1	1.3
15. Voice of Kenya	1,174,000	1.0	1.2
16. Cooperatives & Social Services	1,162,600	1.0	1.2
17. Local Government	836,742	.7	.8
18. Judiciary	741,525	.6	.8
19. Power and Communications	737,123	.6	.7
20. National Assembly	503,011	.4	.5
21. Funds Service, Pensions and Subscriptions to International Organizations	21,891,100	18.2	N/A

EIGHT Other Ministries and Categories Account for Remaining 1.2% of TRE

Source: *Recurrent Estimates, 1971–72* (Nairobi: Government Printer, 1971), p. 1A.

Table 5—DEVELOPMENT EXPENDITURE IN KENYA—ESTIMATES FOR 1971–1972

Net Development Expenditure (NDE) .... £K 51,555,620
(Of which—From External Loans and Grants) 16,445,427

MINISTRY (AND CATEGORIES)	AMOUNT IN £K	% NDE	AMOUNT FOREIGN FINANCED	% NDE ACCOUNTED FOR BY FOR. FIN.
1. Roads	15,751,430	30.6	8,809,157	55.9
2. Agriculture & Animal Husbandry	4,871,069	9.4	2,138,897	43.9
3. Housing	3,637,000	7.1	0	0
4. Health	3,072,612	6.0	22,430	0.7
5. Commerce & Industry	2,925,580	5.7	527,040	18.0
6. Building & Works	2,985,710	5.6	0	0
7. Education	2,397,884	4.7	439,245	18.3
8. Lands	2,063,770	4.0	605,000	29.3
9. Settlement	1,854,011	3.6	99,260	5.4
10. Water	1,635,672	3.2	1,006,889	61.6
11. Forests	1,385,525	2.7	203,820	14.7
12. Reform School	1,214,150	2.4	0	0
13. Office of President	1,144,576	2.2	77,413	6.8
14. Power & Communications	988,730	1.9	93,020	9.4
15. Tourism & Wildlife	881,215	1.7	20,000	2.3

ELEVEN Other Ministries and Categories Account for 8.7% of NDE or roughly £K 4.5 million

Source: *Development Estimates, 1971–72* (Government Printer: Nairobi, (1971) pp. ii and iii.

Table 6—TOP TEN SPENDING AREAS FOR COMBINED CATEGORIES

Net Development Expenditure & Total Voted Expenditure = £K 150,075,620

MINISTRY	AMOUNT	% OF COMBINED CATEGORY	CUMULATIVE %
1. Education	32,603,834	21.7	21.7
2. Works*	24,503,703	16.3	38.0
3. Agriculture	15,100,769	10.1	48.1
4. Health	10,541,562	7.0	55.1
5. Office of the President	8,120,730	5.4	60.5
6. Armed Forces	8,104,300	5.4	65.9
7. Police	6,954,801	4.6	70.5
8. Office of the Vice-President	4,043,500	2.7	73.2
9. Commerce and Industry	3,303,761	2.2	75.4
10. Settlement	3,274,011	2.2	77.6

TOTAL £K 116,550,991

SIXTEEN Remaining Categories Account for £K 33,524,629.

* Note that Works is taken here to include recurrent for Works plus Development Estimates for Roads. If Development Estimates for Housing and Building & Works were included in this figure, the amount would rise to £K 31,026,440 or 20.7% of the combined Categories Expenditure.