



Reforms In Public Finance Management



Permanent Secretary / Treasury, Mr. Joseph Kinyua

Context

“ Government of Kenya launched a comprehensive program to strengthen public financial management (PFM) systems in 2006.

The program supports reforms and capacity building in ministries and agencies central to implementation of the broader economic reform program in Kenya. The objective of the PFM program is to make public financial management more transparent, accountable, and responsive to policy priorities.

The program was a response to the realization that governance challenges in the public sector had for many years impacted negatively on Kenya's economic growth and development contributing to increased cost of

doing business in the country, discouraging private investment, and was an obstacle to addressing widespread poverty and improving the quality of life of citizens. Previous reform initiatives to deal with these problems yielded only modest results, but starting after election in 2002, reform programs became more effective. The current program consists of several components, all undertaking reforms to improve fiscal discipline, bring resource allocations in line with development priorities, improve budgeting preparation and execution as well as financial reporting and evaluation processes. Development Partners, including the World Bank, European Commission, JICA, DFID, DANIDA, Sida, CIDA, GTZ, USAid and Norway have been working closely with the Kenya Government in implementing the reforms.

The Revenue Authority in Kenya

The Kenya Revenue Authority (KRA) was established in 1995 as a semi autonomous government agency responsible for revenue administration.

It performs a range of different tasks with a core mandate to administer and enforce written laws or specified provisions of written laws pertaining to assessment, collection and accounting for all revenues in accordance with these laws.

Key functions of KRA also include providing advise on matters pertaining to the administration and collection of revenue; enhancing efficiency and eliminating tax evasion; facilitating economic stability and controlling exit and entry points to the country.



Map of Kenya, home to ongoing PFM Reforms.

Dissemination Notes - [2]

This is the second note as part of a series of notes on Public Finance Management Reforms in Kenya.

Reforms within the Kenya Revenue Authority (KRA)

Background to Reforms

Since the inception of KRA, revenue collection has continued to grow while professionalism in revenue administration has been enhanced.

The main objective for establishing KRA was to provide operational autonomy in revenue administration and enable its evolution into a modern, flexible and integrated revenue collection agency. It is for this reason that the level of revenue collection has increased gradually from Kshs. 122 billion in 1995/96 to Kshs. 229 billion in the 2003/04 financial year (FY), and 534 billion in FY 2009/10, accounting for over 93% of total government revenue. This accounts for over 300% growth in revenue collection over the 15 year period. As a result of this, the government has been able to increase funds to investment projects and social spending.

The key challenges facing KRA at the beginning of 2000 were that a number of processes remained manual and its efficiency was hampered by the lack of integration within the organization and throughout its processes.

Consequently, the KRA Second Corporate Plan recommended a coherent strategy to address this issue in the Revenue Administration Reform and Modernization Program (RARMP) which commenced in 2004/05. The main objective was to transform KRA into a modern, fully integrated and client-focused organization. In addition, a GoK key economic policy document, the Economic Recovery Strategy (ERS) (2003), identified areas for reform in revenue collection. Some of these areas included the expansion of the tax base in order to enable reduction of some tax rates;



KRA Commissioner General, Mr. Michael Waweru

“ Our key focus in the reforms is to transform KRA into a modern, fully integrated and client focused organization. ”

harmonisation of Kenya’s regime to bring it in line with the East African Community; and rationalization of personal income tax by reducing the number of tax brackets.

The reform process adopted project management and business analysis techniques in accordance with international best practice with

the creation of a designated office under the Commissioner General.

Major Reforms and Key Indicators for Results.

Reform activities focused on customs, domestic taxes, investment and enforcement departments. Taken together, this initiatives have largely improved the operations of the KRA and benefited stakeholders in a number of ways. *(see box with results on page 3)*

Importantly, KRA has developed a set of performance indicators which the ongoing reforms are measured against. Some of the most important include; improve tax compliance by 5% per annum; enhance revenue collection by an additional Kshs. 15 billion per annum on account of improved compliance; maintain cost of collection at below 2% of printed estimates; improve public perception of KRA; reduce corruption/bribery index .



Answering client queries: A KRA Contact Centre Attendant going about her job. The Centre which has been put in place through the support of the PFMR Programme has enhanced resolution of Client challenges hence tremendously improving tax compliance

Story 1: Large Tax Payers

By improving focus on core customers, KRA has re-engineered its Large Taxpayers Office (LTO), originally established in 1997, to segment taxpayers according to their turnover. The 800 large taxpayers is a very important group

contributing over 70% of total tax revenue. Drawing on the successful example of LTO, KRA has initiated further segmentation within the Domestic Taxes Department, between the medium sized and small sized enterprises.

Results of the Reforms



Chief Executive Officer, Association of Kenya Insurers, Mr. Thomas Gichuhi

Many positive developments in revenue administration were achieved during the implementation of the First Phase of the Revenue Administration Reform and Modernization Programme. Key examples include:

- An increase in revenue collection by almost 2% as a share of the Gross Domestic Product between 2002/03 and 2009/10.
- Income Tax, Value Added Tax and Domestic Excise Tax were merged to form Domestic Taxes Department (DTD) while the mandate and taxpayer population of Large Taxpayer Office (LTO) was clearly defined with LTO being elevated to department status.
- The Simba system was implemented to facilitate self-assessment and Post Clearance Audit (PCA) function was strengthened. Support Service Department was created to consolidate support functions and enhance taxpayer services while the Office of Regional Heads was formed to bring services and decision making closer to taxpayers.

- The KRA Information Communication and Technology (ICT) strategy was developed to act as the blue print for all future automation programmes. A key accomplishment is that tax forms are available online.

“ Revenue collection is very good but there is still room for improvement by including the informal sector.

The Large Tax Payers Department runs well but it is important to continue improvement in the corporate culture.

Between them (KRA) and us, we are looking at sharing motor vehicle data.

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Key results at a glance

General	<p>Revenue has grown from Kshs. 297.7 billion in 2005/06 to Kshs. 534.4 billion in 2009/10, Over 14% in the last 5 years.</p> <ul style="list-style-type: none"> • Tax/GDP ratio has improved from 19.6% in 2005/06 to 21.6% in 2009/10 • Cost of collection has been maintained at below 2% as required • Customer satisfaction has improved from 61% in 2008/09 to 65% in 2009/10. Target for 2010/11 is 67%
Customs Services Department	<p>Implementation of Simba system & other reforms led to:</p> <ul style="list-style-type: none"> • Customers being served 24/7 and at the comfort of their offices • KRA customs cargo clearance times have reduced over time. • Valuation data base – has minimised mis-declaration or under valuation of imports and exports • The number of entries processed online has increased from an average of 1000 per day in 2005 to 4000 per day currently.
Domestic Taxes Department (DTD)	<p>Online registration and filing of tax returns established</p> <ul style="list-style-type: none"> • 958,872 new taxpayers have registered online • 49,961 Income Tax returns filed online in 2009/10 • 34,164 PAYE returns (by employers) have been filed online (a monthly average of 3,000 employers) • 204,050 monthly VAT returns have been filed online (an average of 17,000 per month)
Business Automation	<p>Number of IT business solutions successfully implemented has increased from 2 to 5 over the last 5 years</p> <ul style="list-style-type: none"> • Local/Wide Area Network coverage of KRA stations has increased from 70% to 95% over the last 5 years • IT systems availability – systems outage have reduced from 20% to 5% over the last 5 years
Infrastructure Development Project	<p>Implementation of a call centre has led to:</p> <ul style="list-style-type: none"> • Improved service delivery by offering a single point of contact for enquiries • Centre receives up to 16,000 voice calls and 9,000 e-mails on a monthly basis with average service level at 80%

Reform agenda for the next period: How can the KRA improve further?

Considerable improvements over the past years have contributed to an organization which is operating more effectively and coherently. KRA has successfully met targets for revenue collection and is doing well by international standards, reaching 21% of GDP in revenue.

The targets for the next period are to increase the ratio to 23% and in the long-run, 2030, to a more ambitious target of 30%.

Some of the challenges for the future include continued reforms to mainstream systems and processes. Despite major reforms, KRA is yet to operate as a fully integrated organization, and this has inhibited some of the potential for the authority. Specifically, the limited integration of the various tax units and systems (Income Tax, VAT, Customs) and joint initiatives, has impeded the creation of common practices/procedures/culture across KRA and inhibited the timely and efficient exchange of information. The next stage of reforms would also include efforts to further reduce the number of manual business procedures.

One example is the KRA Business Automation Project which seeks to develop and implement an enterprise-wide Information Technology strategy which promotes integration of domestic tax administration and the exchange of information between Domestic Tax Department, Customs and Road Transport Department (RTD). The main objective is to enable a 'single view of the taxpayer' across all KRA functions, ensure efficient and effective revenue collection and attain operational excellence. The project will promote seamless sharing of information across KRA, and more efficient inter connectivity with systems of stakeholders, to enable integrated e-processing of tax returns and efficient enforcement.



Deputy Commissioner, Prog. Management & Business Analysis Office- KRA, Mr. Daniel Kagira

“ In the next phase, we shall not only seek to ensure optimal utilization of ICT by KRA and its clients but also bolster security of our systems from hackers.

We are also looking at ensuring full integration of our business systems internally and with third parties.

Story 2: Electronic Tax Register

A key reform measure that earned KRA millions in tax revenue was the introduction of the 'Electronic Tax Register' (ETR) in 2006. The register was brought in to enhance VAT administration, check tax evasion and improve the profitability of businesses in Kenya by supporting effective record keeping.

The ETR machine is increasingly being adopted by businesses in the

country and the level of compliance now stands at 77%. Of the 45,000 registered traders, more than 35,000 had already installed the ETRs by 2007 and substantial increases have been recorded since then.

Part of the reason why the ETR has received wide acceptance is because the machine is useful in preventing petty theft.



Programmes Officer, Kenya Private Sector Alliance, Mr. Anthony Weru

“ KRA has done a good job on ICT. An example is online filing, online enquiries and an interactive website. However, the taxation regime in Kenya is still complicated with cases of overlap of taxes. They could also improve on user friendliness of online services.