

## **PRESS RELEASE**

*For Immediate release*

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### **REVENUE PERFORMANCE REPORT**

#### **1. Introduction**

The following is the revenue performance report for the Kenya Revenue Authority (KRA) covering the third quarter of 2008/09 Fiscal Year,( January to March 2009) and cumulative performance for the nine months (July 2008-March 2009) of the fiscal year 2008/09.

In the Fiscal Year 2008/09, the Authority is expected to collect **Kshs. 492.9 billion** representing a growth of **17.7%** over the **Kshs. 418.9 billion** (excluding the one off payment of Kshs.15 billion by Telkom) collected in 2007/08 Fiscal Year.

#### **2. Operating Environment**

During the FY 2008/09, economic performance was constrained by poor performance by key sectors such as agriculture, reflecting the impact of the post-election violence on farm production. This was compounded further by higher fertilizer and oil prices, and failure of the short rains in 2008.

During the nine months to March 2009 and for the 3rd quarter of the financial year 2008/09, key elements of the operating environment were:-

**Inflation:** The overall inflation rate accelerated from **21.9%** in January 2009 to **25.1%** and **25.8%** in February and March 2009 respectively. Average inflation for the quarter was **24.3%**. During the 1<sup>st</sup> and 2<sup>nd</sup> quarters overall inflation rate averaged **27.4%** and **28.5%** respectively.

**Interest rate:** The 91-day Treasury bill rate declined during the quarter averaging **8.47%** in January, **7.55%** in February, and **7.31%** in March leading to overall average rate for the quarter of **7.78%**. During the 1<sup>st</sup> and 2<sup>nd</sup> quarters of the fiscal year 2008/09, the interest rate averaged **7.92%** and **8.24%** respectively.

**Exchange rate:** The Kenyan Shilling exchanged at **Kshs. 79.54** to the US dollar in January, **Kshs. 79.53** in February, and **Kshs. 80.26** in March 2009, giving an average rate of **Kshs. 79.8**. The Sterling Pound averaged **Kshs. 113.9**, while the Euro averaged **Kshs. 103.0** during the quarter. In the 1<sup>st</sup> and 2<sup>nd</sup> quarters of fiscal year 2008/09, the exchange rate averaged **Kshs. 69.76** and **Kshs. 78.41** respectively against the US dollar.

**NSE Index:** The NSE 20-share index declined from **3,199** points in January to **2,475** points in February and rose by **13.3%** in March 2009 to close at **2,805** points. The index therefore declined by **12.3%** during the period. Overall during the nine months to March 2009, the NSE 20-share index experienced a decline from **4,868** points in July 2008; to **3,387** points in October 2008; **3,199** points in January 2009, settling at **2,805** points at the end of March 2009.

The operating economic environment for the nine months thus recorded a below average performance with lower than expected growth, characterised by high inflation, depreciating shilling and a declining stock market. These conditions were not optimal for achieving high growth in revenues.

### 3. Revenue Performance in the 3rd quarter (January-March 2009)

The adverse economic environment experienced in the third quarter of FY 2008/09 impacted negatively on revenue performance during the period. However, despite these conditions, the Authority was able to realise a significant revenue growth rate of **14.5%** compared to a similar quarter in FY 2007/08.

Table 1 below summarizes the revenue performance during the 3rd quarter.

**Table 1: (January to March) 2009 Revenue Performance (Kshs million)**

Department	Percentage of Forecast Revenues	Target 3rd quarter	Actual 2008/09	Performance Rate	Actual 2007/08	Growth over 3rd quarter 2007/08 (%)
Domestic Taxes	60.2%	69,466	66,631	95.9	57,403	16.1
Customs Services	39.1%	45,111	42,988	95.3	38,311	12.2
Road Transport	0.6%	724	578	79.9	549	5.3
<b>Total</b>	<b>100.0</b>	<b>115,300</b>	<b>110,197</b>	<b>95.6</b>	<b>96,263</b>	<b>14.5</b>

During the 3<sup>rd</sup> quarter of 2008/09 (January to March 2009), KRA collected **Kshs 110.2 billion** against a target of **Kshs. 115.3 billion**. This represents **23.4 percent** of the financial year 2008/09 target.

In the quarter under review, Domestic Taxes Department collected **Kshs 66.6 billion** against a target of **Kshs. 69.5 billion**, while Customs Services Department collected **Kshs. 43.0 billion** against a target of **Kshs. 45.1 billion**. Road Transport Department realised a collection of **Kshs. 0.6 billion** against a target of **Kshs. 0.7 billion**.

KRA collected an additional **Kshs. 13.9 billion** in the 3<sup>rd</sup> quarter of 2008/09, representing a revenue growth of **14.5%** over a similar quarter in 2007/08. Domestic Taxes Department recorded the highest revenue growth of **16.1%** followed by Customs Services Department at **12.2%**. Road Transport Department recorded revenue growth of **5.3%** during the period under review.

### **3.1 Administrative Measures**

During the third quarter, the Authority implemented the following administrative measures:

- Enhanced taxpayer Audits with a resultant revenue collection of **Kshs 973 million**
- Recruited a total of **40,066** new taxpayers, resulting in **Kshs. 375 million** in additional revenue.
- Intensified debt collection leading to collection of **Kshs.3.0 billion** in debt arrears by Domestic Taxes Department.
- Overcame challenges experienced earlier with regard to connectivity between the Kenya Ports Authority's Kilindini Water Front Operating

System (KWATOS) and KRA's Simba 2005 System interface leading to smooth flow of data between the two systems.

- Enhanced enforcement measures through Post Clearance Audits and auctions, with a resultant collection of a total of **Kshs.1.3 billion**.
- Operationalised the Driving License Management System (DLMS), resulting in enhanced efficiency in processing driving licenses during the quarter under review.
- Conducted compliance checks to establish compliance of driving schools and their instructors with the provisions of the Traffic Act Cap 403.
- The Authority as well conducted countrywide TLB licensing meetings during the quarter, leading to collection of **Kshs 22.7 million**.

## Cumulative Revenue Performance (July 2008-March 2009)

Table 2 below summarizes the revenue performance for the nine months of 2008/09 (i.e. July 2008-March 2009).

**Table 2: Cumulative Revenue Performance (July 2008 – March 2009) (Kshs million)**

Department	Percentage of Forecast Revenues	Target 3rd quarter	Actual 2008/09	Performance Rate	Actual 2007/08	Growth over 3rd quarter 2007/08 (%)
Domestic Taxes	60.9%	216,261	204,712	94.7	180,354	13.5
Customs Services	38.3%	136,048	134,337	98.7	118,476	13.4
Road Transport	0.7%	2,530	1,799	71.1	1,789	0.6
Total	100.0%	354,838	340,849	96.1	300,620	13.4

Revenue collection in the period July 2008 - March 2009 totalled **Kshs. 340.8 billion** against a target of **Kshs. 354.8 billion**. This represents a performance rate of **96.1 percent**.

Compared to July 2007-March 2008 when **Kshs 300.6 billion** (excluding the one-off payment of Telkom Kenya debt in December 2008) was collected, revenue grew by **Kshs. 40.2 billion** or **13.4%**. Domestic Taxes Department recorded the highest revenue growth of **13.5%** followed by Customs Services Department at **13.4%**. Road Transport recorded revenue growth of **0.6%**.

#### 4. Implementation of Reforms

The Authority continued to implement reform initiatives through the Revenue Administration Reform and Modernization Programme (RARMP). Some of the reforms undertaken during the third quarter of 2008/09 were:

- Expansion of the Authorized Economic Operator (AEO) scheme which was geared towards expediting the processing of Imports by compliant traders. During the period under review the second group of taxpayers under AEO were identified for piloting and implementation of the same.
- Sensitised the airline industry on the soon to be introduced Enhanced Passenger Declaration Form (F88). The forms will be issued to passengers on incoming flights while on board and shall be surrendered to customs officers at arrival. This is aimed at promoting compliance and hastening the clearance process.
- Launch of the Kenya Revenue Authority Marine Unit which is charged with the responsibility of surveillance of our water fronts. Three patrol boats have so far been delivered for use by the unit. The establishment of the unit is expected to enhance KRA's surveillance ability along the coastline and in Lake Victoria and facilitate rapid intervention, and carriage of arrested persons and confiscated goods.
- The Authority commenced rollout of additional Online Services to compliment such services which were introduced in Customs operations in

year 2005. Among the services rolled out during the period under review include: Online registration of taxpayers (this include PIN application, and registration for a variety of tax obligations i.e. VAT, Excise Duty, PAYE and Corporation Tax) and Online filing of returns (VAT 3 and VAT 32). The Registration module is fully operational and cumulatively, **9,702** new taxpayers have registered online.

- KRA began piloting the Common Cash Receipting System (CCRS). The system provides a common platform for payment of taxes. It will as well provide a platform for integration with banks' systems. Piloting commenced with payments for transfer of motor vehicles and VAT.

## **NEXT STEPS**

- KRA plans to roll out additional online services. We intend to operationalise the filing of monthly Pay As You Earn (PAYE), Corporation Tax and Individual Taxes.
- Plans are underway to roll out the CCRS to more KRA services. This measure will ultimately migrate all tax payments to commercial banks and decongest KRA offices considerably.

## **5. Conclusion**

In spite of adverse economic conditions that prevailed during the period under review, the Authority still managed to realise a revenue growth of **13.4%** over

a similar period in 2007/08. Roll out of additional online services will enhance further the capacity of the Authority to collect revenue.

Going forward, KRA is expected to collect **Kshs. 138.0 billion** in the 4th quarter of 2008/09(April – June 2009). This translates to a growth rate of **16.6** percent over the **Kshs. 118.4 billion** collected in the fourth quarter of 2007/08. With the support of the Government and taxpayers, the authority is optimistic of bridging past revenue shortfalls and ultimately exceeding the target for the Financial Year.

Finally, I wish to appeal to our esteemed customers, the taxpayers, to fully embrace online services. These services are meant to enhance efficiency in service delivery to taxpayers apart from reducing their cost of compliance. For those who may not have computers of their own, they can conveniently access these services through the existing network of cyber cafes available countrywide. ***HOWEVER I WISH TO CAUTION THE PUBLIC THAT THERE ARE NO EXTRA CHARGES PAYABLE TO CYBER CAFES FOR USE OF KRA ONLINE SERVICES, APART FROM THE NORMAL CHARGES BY CYBER CAFES.***

**M. G. WAWERU, EBS**  
**COMMISSIONER GENERAL**