

**TALKING NOTES FOR THE Ag. CABINET SECRETARY/NATIONAL TREASURY AND PLANNING, HON. UKUR YATTANI, FOR USE DURING THE NATIONAL TREASURY/KENYA REVENUE AUTHORITY RETREAT TO BE HELD ON 10TH AUGUST, 2019 AT THE WINDSOR HOTEL, NAIROBI**

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- **Chief Administrative Secretary, National Treasury and Planning,**
- **Principal Secretary and Staff of the National Treasury,**
- **Chairman and Board of Directors, Kenya Revenue Authority,**
- **Commissioner General, Kenya Revenue Authority,**
- **Management and Staff of Kenya Revenue Authority**
- **Ladies and Gentlemen**

**A. Introduction**

1. I feel honored to join you today in this retreat. On behalf of the National Treasury, I thank the Kenya Revenue Authority (KRA) for bringing us together to deliberate on tax matters.

2. At the outset, being my first time to formally interact with you in my new role, allow me to congratulate you, Mr. James Githii Mburu for being appointed as the Commissioner General. I look forward to working closely with you and the entire Kenya Revenue Authority on tax issues in order to achieve our development goals.

3. **Ladies and Gentlemen**, we are meeting at a time when our economy continues to be resilient in the midst of significant global and domestic headwinds. In 2018, our economy grew by 6.3 percent, up from 4.9 percent in the previous year reinforcing the advantages of a diversified and reforming economy.

4. Growth momentum was sustained, with the economy expanding by 5.6 percent in the first quarter of 2019. The robust growth benefitted from a stable macroeconomic environment, ongoing public infrastructural investments and sustained business confidence during the year.

#### **B. Boosting Revenue Performance**

5. **Ladies and Gentlemen**, we know that to sustain this high growth, it is imperative that we mobilize our domestic revenues. Domestic revenue mobilization is one of the core drivers for the implementation of Kenya's development agenda as prioritized in the Third Medium Term Plan (MTP III) of the Vision 2030. Boosting our revenues will also help us to effectively meet the commitments under the "Big Four" Plan.

6. **Ladies and Gentlemen**, these necessitates legal and tax administration reforms to enhance tax compliance. We appreciate KRA's full dedication to undertaking the requisite reforms. Am well aware, that the National Treasure and the Kenya Revenue Authority have worked together tirelessly to boost revenue performance overtime.

7. Notable progress has been registered in the following areas:

- i. Tax policy reviews through amendments to Tax laws, including the ongoing overhaul of the current Income Tax Act;
- ii. Tax administration reforms under the Revenue Enhancement Initiatives (REI) Programme to seal revenue loopholes;
- iii. Sustained fight against illicit and counterfeit trade that was launched last year; and
- iv. Upgrade of KRA's ICT systems, including the full rollout of the integrated customs management system.

8. However, **Ladies and Gentlemen**, we note that in the recent past revenues as a share of GDP has been declining. With huge revenue shortfalls being registered. By the end of June 2019, total revenues recorded a deficit of Ksh 138.1 billion of which ordinary revenue was Ksh 91.2 billion. The overall decline of revenues as a share of GDP although huge in FY 2017/18, has been consistent in the last four years with an average annual decline of about 0.6 percent of GDP.

9. These revenue shortfalls ought to be reversed, given that they have dire implications on the fiscal deficit and ultimately on our debt position.

10. **Ladies and Gentlemen**, it is important to note that under the fiscal consolidation programme, we target to progressively reduce fiscal deficit as a ratio of GDP from **7.4 percent** in FY 2018/19 to **5.9 percent** in FY 2019/20 and further to below **4.0 percent** over the medium term.

11. I urge KRA to further strengthen the administrative measures to boost revenues performance and attain the set revenues target for the FY 2019/20. In particular, there is need to identify and address the root causes of the revenue shortfalls.

12. **Ladies and Gentlemen**, am pleased to note that already through the help of the Technical Assistance Mission of the International Monetary Fund, these causes were identified and measures to raise revenue were recommended. Am also pleased to note that these recommendations have been taken on board in the Finance Bill 2019 that is currently in Parliament. And that the measures are expected to raise additional revenue of **Ksh 37.2 billion**

13. Further, **Ladies and Gentlemen**, am happy to note that the 7<sup>th</sup> Corporate Plan of the Kenya Revenue Authority emphasizes organizational transformation is anchored on technological and process innovation which will help sharpen tax compliance and assist in expanding the tax base.

14. I believe that through this Corporate Plan, KRA will enhance revenue collection and I urge KRA to work towards meeting all revenue targets included in the Plan.

### **C. Expenditure Rationalization**

15. **Ladies and Gentlemen**, on the other hand, it is important to continue rationalizing expenditures, to compliment revenue reforms. It is also important that

we ensure that our scarce resources are used in the most efficient and effective manner.

16. Towards this end, in the last few years, we have implemented measures to rationalize our expenditures. These include:

- i. First, we adopted a zero-based budgeting process to weed out non-priority expenditures from the budget;
- ii. Second, we have adopted a policy of “no new projects” to ensure that Government completes ongoing projects;
- iii. Third, we are reviewing the portfolio of externally funded projects with a view to restructuring and re-aligning them with the “Big Four” Plan; and,
- iv. Fourth, we are taking measures to reduce spending on some specific programmes which are not of high priority.

17. All these initiatives, have helped to lower our expenditures.

18. **Ladies and Gentlemen**, building on this gains, to further contain growth of expenditure, we have initiated new measures that will be implemented as from this financial year.

19. We will sustain implementation of these measures in order to free up resources thereby availing them for development programmes and other critical social sectors with the highest impact on Kenyans.

#### **D. Conclusion**

20. In conclusion, **Ladies and Gentlemen**, I would like to commend the KRA and National Treasury teams for their continuing focus on getting the job of revenue collection accomplished within the constraints that we continue to face as a country. Now is the time to work harder to seal revenue leakages, and expand the tax base so as to ensure that all Kenyans pay their rightful share.

21. I wish to reiterate the support of the National Treasury to KRA's medium strategy plans. The National Treasury pledges to be part of a continuous dialogue to ensure maximum revenue collection.

**Thank You**