ACHIEVING SUSTAINABLE-PUBLIC SECTOR REFORMS: A CASE STUDY OF TAX ADMINISTRATION REFORMS BY KENYA REVENUE AUTHORITY

By

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This project paper has been submitted for examination with our supervision and approval as University supervisors.

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Professor Winnie Mitullah **Date**

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Professor Karuti Kanyinga **Date**

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DEDICATION

This research project is dedicated to my family; my husband William and baby Geda; and lastly to all those public servants who are dedicated to building this nation despite the various hurdles they face.

There are people in the public sector with a range of experiences that have no equivalent in business, but are essential to governing. The value of those skills cannot easily be measured against a bottom line.

Dee Dee Myers

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ABSTRACT

Reforming public institutions and practices is one subject that has attracted the attention of policy makers, practitioners and scholars in developing countries, including Kenya, for many years. Many people would like to see public sector institutions deliver services in an efficient and effective manner. This has resulted in growing pressure and demand for reforms, which in turn has led to governments introducing reforms aimed at improving public institutions.

Many public sector reforms have failed due to corruption, poor services and poor infrastructure. However, some public sector reforms have succeeded. Tax administration reforms in Kenya are one of those that have succeeded. The implementation of tax reforms - either at a policy or design and administration level - has had its share of challenges. Nonetheless, the results are positive. Revenue increased from Kshs. 480bn in 2008 to Kshs. 635bn in 2012. This study seeks to find out why tax administration reforms by Kenya Revenue Authority succeeded.

The focus of the study is on Integrated Tax reforms (iTax). The study notes that within government, an interaction of political and economic motives affects the context in which reforms take place. There are interests and incentives of different stakeholders that affect reforms and policies. Public sector reforms are linked to political institutions and therefore the political context in which they are undertaken matters.

The study draws the following key conclusions based on the findings. For any public sector reform to be successful, it has to be viewed as a process rather than a one-time event. Second, there is need for establishment of an autonomous or semi autonomous body to govern the process. Third, that financial resources to support the reforms and stakeholders overall influence, ultimately determine the success of the public sector reforms. The analysis revealed that the likelihood of success may be high where the interests of all stakeholders converge with limited and powerless stakeholders with conflict of interest. Moreover, actors involved in public sector reforms should conduct participatory strategic planning, application of technology and continuous research for further improvement. Ultimately, the study established that the iTax reform, which resulted in increased tax revenue, was a sequence of events that were done successfully.

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Reforming public institutions and practices is one subject that has attracted the attention of policy makers, practitioners and scholars in developing countries, including Kenya, for many years. Many people would like to see public sector institutions deliver services in an efficient and effective manner. This has resulted in growing pressure and demand for reforms, which in turn has led to governments introducing reforms aimed at improving public institutions. This pressure for reforms usually comes from ordinary citizens and civil society organizations.

Specifically, citizens and civil society organizations demand better services that commensurate with tax paid and delivery made by elected officials. The private sector also calls for reforms when their businesses are negatively affected. On the other hand, donors demand reforms of institutions as value for money they offer in reforms programs. According to the European Union, fiscal stress and complaints of high levels of corruption, poor service delivery and poor infrastructure result in demand for reforms by citizens, civil society organizations and donors (European Union, 2009).

In Kenya, the public sector has witnessed increased demand for reforms more than any other sector in the country. Due to increase in population and demand for public services, the government has made several attempts to improve public service delivery. Efficient service delivery has been the key objective of these efforts for the last two decades (Opiyo and Ndegwa 2012).

Overall, the results of the public sector reforms in Kenya have been a mixture of success and failure. There are those reforms that failed to achieve the objectives for which they were introduced. Social Development Department of World Bank raises the question, “Why do policy reform processes sometimes stall, stop, reverse, or go off track despite their content, design and implementation appeari2ng technically sound?” (Social Development Department, 2008:1). It is also now acknowledged that the failure to appreciate the political economy context of these reforms may have constrained success of these reforms (Social Development Department, 2008).

On the other hand, there are those reforms that have succeeded. Kenya Revenue Authority is one of those public sector reforms that have been successful by having sustained revenue growth over the years. The revenue has grown from Kshs. 168 billion in the Financial Year 1999/2000 to Kshs. 274 billion during the Financial Year 2004/2005 (KRA, 2010). Furthermore, the Independent Evaluation Group (2008; xvi) cites evidence of improvements in tax administration pointing to strong government ownership. Within government, an interaction of political and economic motives affects the context in which reforms take place. There are interests and incentives of different stakeholders that affect reforms and policies. Public sector reforms are linked to political institutions and therefore the political context in which they are undertaken matters. That is, reforms are not politically neutral. Political considerations inform how they are undertaken. Leaders also tend to prioritize on what they consider to be critical in terms of gaining political capital (Simson, *et al.,* 2011). All this raises the need to find out why some public sector reforms succeed and others fail. At a time when the country is implementing its largest public sector reform; devolution, it is important to understand why tax administration reforms have succeeded.

1.2 Problem Statement

Public sector reforms in developing countries have had a long history of failure. The Results for Kenyan Programme Evaluation report (2009), noted that 'there is public apathy and cynicism' with the belief that reforms are on paper but not seen on the ground (Institute of Public Administration of Canada and Africa Development Professional Group, 2009:38). In addition, 2011/12 report by the Controller of Budget revealed that ministries failed to spend Ksh.106 Billion, a large amount of which was meant for development projects. This was viewed as an 'indictment (by public sector institutions) because it undermined service delivery by denying the public access to vital facilities' (Opiyo and Ndegwa 2012). In many cases, the reforms have "stalled, stopped, reversed or completely gone off track" (Social Development Department, 2008:1). This failure has been largely attributed to lack of political will and absence of support for anti-corruption initiatives by the governments (Social Development Department, 2008). Nonetheless, some public sector reforms have been successful. An example is the Tax administration reforms by Kenya Revenue Authority, which is the subject of this study. This reform resulted in a functional tax administration system, increased tax compliance and collection. For instance, there was increased revenue collection over the years since its inception in 2008: from Kshs. 480bn in the Financial Year 2008/2009 to Kshs. 635 bn in the Financial Year 2011/12 (KRA, 2012:15). However, why and how the success comes about in these public sector reforms remains unknown. This study therefore sought to assess the tax administration reforms by Kenya Revenue Authority as a successful public sector reform to provide insight on the reasons why it has succeeded.

1.3 Research Questions

Why did tax administration reforms succeed?

1. How was the iTax reforms administered by Kenya Revenue Authority?
2. What were the factors that facilitated the success of iTax reforms by Kenya Revenue Authority?
3. What are the achievements of iTax reforms implemented by Kenya Revenue Authority?

1.4 Specific Research Objectives

To investigate why tax administration reforms succeeded

1. To establish the process of implementing iTax Reforms by Kenya Revenue Authority.
2. To identify the factors that contributed to the success of the iTax administration reforms by Kenya Revenue Authority.
3. To assess the achievements of iTax reforms implementation by Kenya Revenue Authority.

1.5 Significance of the study

Tax policy and administration is imperative for the development of any country and consequently relevant both to the public and private sector and development practitioners. As Kenya implements a devolved system of governance, the national government is in charge of both direct and indirect tax (VAT, excise duty and customs duty) while county governments will be in charge of property and entertainment taxes among others (Mutua, 2012). The findings generated from this study will create an understanding on issues surrounding tax administration so as to provide lessons for the effective implementation of tax administration in the newly established county governments. The study provides evaluation findings for the Kenya Revenue Authority to understand the current status of iTax application and identify areas of the improvement for sustained better performance.

The study recognizes that the country has reviewed its constitution and formulated a comprehensive national development blueprint –Vision 2030. These lay the foundation for national development. Endeavours in this regard, however, will depend on the success of public sector reforms. The information from this study will assist the public sector institutions by applying the principles that made the tax administration reforms a success. Borrowing the experience from Kenya Revenue Authority (which is a public sector institution) will prevent public sector reforms in those institutions from past failure. The principles can also be applied in the current reforms such as judicial, police, parastatal and land reforms. The success of the current and future public sector reforms will contribute towards the development of the country.

1.6 Research Design: Case Study Method

This study was conducted under the framework of case study research design. A case study is defined as 'a single case, temporally, physically, or socially limited in size, complex in nature, unique and thus not comparable with other cases' (Verschuren, 2003:121). It is largely aimed at gathering data on an entity to gain a better understanding of how it operates (Berg, 1998). Due to the emphasis on the 'intensive examination of the setting', there is a tendency to associate case studies with qualitative research, which is not always the case (Bryman, 2004:50). In most instances, case study is applied in the investigation of an individual, organisations and complex institutions with focus on relationships, practices and behaviours among the players. The kind of investigation generates qualitative data that can only be used to describe the situation as it is.

The strength of a case study is its ability to get as much details as possible on a 'case'. In this study, on iTax administration reform, it is a case that is purely a process occurring in bounded context (Kenya Revenue Authority) as compared to other cases where it is an entity (individuals, organisations or community). There are different types of cases as outlined by Bryman (2004: 51). The first is the critical case where it is chosen since the researcher has a specified hypothesis they seek to understand. The case is therefore chosen to examine the circumstances under which the hypothesis will hold. Second, a revelatory case is where a previously inaccessible phenomenon can be investigated. Exemplifying cases are chosen because they provide the appropriate context for certain research questions to be answered. In this instance the study focuses on a critical case. The hypothesis being that tax administration reforms are a success (Baxter and Jack, 2008).

Another advantage of case study is the ability to maximize multiple sources in generating the data to ensure the case is revealed adequately. The sources include documents, focus group discussion, records, interviews, direct observation and participant observation (Baxter and Jack, 2008).

Finally, case studies are viewed as intensive analysis. Examining a case against the theoretical analysis adopted helps test the validity of the theory.

> *'The central issue of concern is the quality of the theoretical reasoning in which the case study engages. How well does the data support the theoretical arguments that are generated? Is the theoretical analysis incisive? For example, does it demonstrate connections between different conceptual ideas that are developed out of the data? The crucial question is not whether the findings can be generalized to a wider universe, but how well the researcher generates theory out of the finding'* (Mitchell, 1983; Yin, 1984; as cited in Bryman, 2004: 52)

In this case, the main argument was that there is need for appreciation of the political economy of reform. By examining the one reform that has been a success using political economy analysis, we would be able to assess whether context played a key role in the reform success.

Case study, in some instances, is a disadvantage because of issues of external validity and generalization. As one gets a large amount of data on one phenomenon, it raises questions on whether they are able to make generalizations based on that data. This is not possible because the case may not be a representative to other similar cases. However, there are lessons that can be obtained from the case that can be applied in other cases.

1.6.1 Identification of the Case and Respondents

The scope of the research was specific to tax administration reforms focusing on Integrated Tax Management Systems now known as iTax, in the Domestic Tax Department. The study sought to investigate the process used in implementing the iTax, assess the achievements of the iTax reforms and factors that enhanced the success of iTax reforms with focuses on political and economic contexts. The reasons for selecting the iTax reforms are i) previous studies indicate that there have been success rates in tax administration, ii) they have direct contact with the citizenry, iii) the tax revenues collected fund other public sector reforms and iv) with devolved government units administering their own county taxes, insight into successes at the national level are imperative to the county governments.

To get detailed information on the iTax administration, the primary stakeholders were selected. For each of the stakeholders, a representative was elected and key informants interviews done. The stakeholders included Kenya Revenue Authority who were are mandated to implement the reforms, Ministry of Finance to mobilize financial resources and external consultants who provided technical support to iTax implementation. The study engaged representatives from key departments in Kenya Revenue Authority such as operational and programme management, Customer service, ICT and Research. Although the project focused on iTax, information was also collected from the Customs department SIMBA reform project. The inclusion of SIMBA project was for two reasons: first as a source of comparison and, second, to assist in generalization on how reforms are conducted in the Kenya Revenue Authority.

The research purposely selected and targeted seven senior level management employees who have been in the institution since the inception of the I-Tax reform. Those selected included those involved in the planning and implementation of the reform program. In the specific departments, experience of respondents ranged from two to seven years. An external consultant taxed with the technical part of setting up the system was interviewed. Though the consultants were only involved in the second phase of implementation, they were able to provide insight to intricate issues involved in implementing the reform. In addition, a respondent from the customs service department of SIMBA project who was key to the planning and implementation of the reform was able to give insights into the SIMBA project for comparison purposes. Further, a technical expert from the Ministry of Finance in the Economic Affairs department with sixteen years of experience was interviewed.

As mentioned, the majority of respondents in the Authority were middle level management, meaning they had a wealth of knowledge on the operations and decisions pertaining to reforms. All the respondents had at least an undergraduate degree with five having post-graduate qualifications and years of training in the organization. All the respondents understood the operations of the agency and had a wider macro level understanding on how tax reforms relates to the wider economy.

1.6.2 Data Collection Procedures

The data was generated from two main sources. The first, it was generated from the publications and Kenya Revenue Authority reports kept in the Kenya Revenue Authority Library. The data generated from the documents was on the implementation process of iTax and evidence of achievements of the iTax presented in form of charts in the reports. The data was extracted from these documents.

Secondly, the researcher conducted key informants interviews. A structured questionnaire was used guide the interviews. The questionnaires had a set of open-ended questions categorised into four sections. The questions were related to planning, implementation and factors that affected the implementation. The designing of the questions were informed by the sensitive nature the information it sought to collect. Having open-ended questionnaires allowed for critical thinking and inclusion of all relevant information. The data generated from each of the respondents was triangulated by other respondents. This means that 'significant factual claims made in a given interview (in this case questionnaire) were checked against claims on the same or similar subject by other interviewees occupying different vantage points' (Harris and Booth, 2013).

Sets of three questionnaires were designed: one intended for those implementing the iTax reforms; those within KRA and the Ministry of Finance. Another questionnaire was for those implementing SIMBA project in customs department for comparison purposes. The third set was for the technical consultants who were tasked with developing the online system.

1.6.3 Execution of Survey

After the writing of the project proposal and subsequent approval by the supervisors, the researcher proceeded to data collection, analysis and thesis writing. The researcher went to Kenya Revenue Authorities where official permission was sought to conduct the research. After the official permission, the researcher did data extraction from documents for a period of one month. The key interviews with departments' representatives at KRA were done. From the KRA, the researcher visited Ministry of Finance where key informants interviews were conducted. Finally, the interviews were done with representative from customer service department in SIMBA project and consultants. The data generated was then analysed, presented and discussed in the process of writing the report.

1.7 Data Organization and Analysis

The open-ended questionnaires ensured minimal loss of data that would otherwise occur in conducting an interview. Thematic analysis was used for the analysis of the data. The data was organized and analysed according to the conceptual framework, which differentiates between the reform contexts, reform process and reform arena. This was categorized according to the sections of the questionnaire. The form of analysis is called category aggregation and direct interpretation (Bater and Jack, 2008). The data from the documents was also categorized and the extracted data presented in the findings. A fieldwork report was developed that contained all the data collected from the field. This entailed creating a table with the questions and filling in all the answers from the open-ended questionnaire[1]. The findings were described under the stakeholder-mapping framework that was utilized to identify the relationships between the various actors and their influence over the reform process and the relationship between the actors.

1.8 Ethical Consideration

The University of Nairobi issued a letter of authorization to collect the data. A written permission was also sought from Kenya Revenue Authority so as to access reports and conduct interviews with selected personnel. Verbal consent was sought from the respondents before they were engaged in interviews. The interviews were conducted in the respondents' offices to ensure there was privacy during the interviews. This allowed the respondents to give information without external influence. The researcher also acknowledged the source of any information obtained from secondary sources. Confidentiality was maintained throughout the study period and respondents' names or any form of their identification was not taken at any point during the study.

1.9 Organization of the Paper

Chapter one begins with background to the study. It also presents the problem statement, research questions, research objectives and significant of the study. It also contains the methodology of the study. Chapter two is a presentation of literature review. The literature review was on public sector reforms in Africa, selected case studies in Africa, financing public sector reforms, context of public sector reforms in Kenya and the importance of political economy analysis. The chapter closes with description of the theoretical and conceptual frameworks. Chapter three and four present the findings of this study. Chapter three has concentrated on findings related to iTax reforms process. A detailed background has been given on the history of the tax reforms in Kenya, stages of the Tax reform processes and factors that affected the tax reform process. Chapter four has described the evidence of successes from the tax reforms in Kenya. Chapter five (the last chapter) presents conclusions and recommendation of the study based on findings presented in Chapter three and four.

[1] Annex II: Key Informant Interview Report

CHAPTER TWO

HISTORY OF PUBLIC SECTOR REFORMS IN AFRICA

2.1 Introduction

The preceding discussion has highlighted the need to examine the literature related to public sector reforms. This chapter briefly discusses the history of public sector reforms. It is aimed at generating a good understanding of these reforms and the context of their implementation. The first part of the review looks at the three generations of public sector reforms in Africa. These are Weberian bureaucracy, New Public Management and the third aimed at restoring the problems that arose from New Public Management. The second part of the review discusses the experiences of public sector reforms in the continent by pointing out some case studies in Bostwana and Ghana. The third part examines the introduction of Public Financial Management reforms, which were among the first reforms to take place under the New Public Management reforms. The review then highlights the importance of political economy analysis when implementing reforms, which forms the theoretical framework of the study. And concludes with the conceptual framework that guides the analysis of this paper.

2.2 Three Generations of Public Sector Reforms in Africa

Public sector reforms comprise “change that either produces a measurable improvement in services or a noticeable change in the relationship between institutions of the state and the citizens’ (European Union, 2009:4). These take place in the public sector or civil service. Public Sector Reforms consist of ‘establishing management practices and job descriptions, lines of reporting and basic disciplines of time-keeping, attendance and focus on increased efficiency’ (European Union, 2009:23). There are three generations of public sector reforms in Africa.

The first generation is comprised of setting up Weberian bureaucracy elements, that is ‘establishment control’ which includes: ‘finding out who does what, writing job descriptions, setting up payroll systems so that people who are paid both exist and turn up for work, making organization charts to establish lines of accountability away from patronage patrimonial systems’(European Union, 2009:23). This is aimed at moving the public service away from neo – patrimonial systems, which is ‘patrimonialism within the superficial trappings of modern state, using state instruments such as tax, appointments and rewards for patrimonial purposes’ (European Union, 2009:19). The refocus was necessary during an era largely characterized by dictatorship in Africa.

The second-generation reforms comprises a new type of arrangement for the public service (European Union, 2009). New Public Management is used in this generation as a label for a number of responses to replace previous managerial styles in the government aimed at improved efficiency in public service. New Public Management is described as the 'rising body of managerial thought' (Ferlie, *et al.* 1996). The private sector, (Hood, 1991) inspired this new thinking around New Public Management. As Pollitt (1993) points out, New Public Management is an 'ideological thought system based on ideas generated in the private sector and imported into public sector organizations' (Larbi, 2003:3). Its ideas include:

- A management culture and orientation that put the customer/citizen first with emphasis on the importance of accountability;
- Organizational choices that are decentralized in nature; and
- A focus on cost recovery and competition for contracts to deliver services

New Public Management, however, still faces challenges in the implementation process. These challenges ranges from dealing with political influences to clinging on vested interests that prevent reforms within local governments (Sato, 2010). Governments which implement New Public Management have challenges on lack of central direction and poor policy coherence as a result (European Union, 2009).These challenges and more, still face the public sector in Africa.

The third generation reforms seek to correct these problems and are therefore designed to 'restore coordination and coherence' (European Union, 2009:28). They involve combining policy making and service delivery; setting targets on outcomes and not products; processes are set up to enable evaluation of effectiveness and efficiency; and core executives are strengthened to move power to the centre of government from individual department (European Union, 2009). Skills are also developed in commissioning services, networking, managing contracts, communication and knowledge management for newly created organizations (European Union, 2009).

The three generations have one common feature; they are all geared towards creating a responsive government. The first generation focuses on moving away from patrimonial systems, the second is geared to increasing efficiency, 'putting the customer first'. And when there are challenges in this, the third generation concentrates on moving power to the centre of government for better direction. Moving from bureaucracy to emulating private sector has caused some changes. Nevertheless, the reforms are not as successful as anticipated; public service delivery is still not as efficient or effective as it was intended. There remains a gap in examining why despite all these measures put in place, the reforms have not succeeded. Nonetheless, there has been an excessive focus on the failures in public sector reforms without attention to what has enabled some of them to succeed.

2.3 Some Case Studies; Experiences in Africa

African governments undertook reforms in the 1980s in the political and economic spheres for three main objectives: to 'reduce poverty, to promote economic growth and to encourage popular participation and good governance' (Kayizzi-Mugerwa, 2003:1). Initially public sector reforms aimed at 'institutional peculiarities inherited from the colonial period' (Economic Commission for Africa, 2003;European Union, 2009). Donor financial support for these reforms was crucial. During this period, the continent was experiencing a rise in oil prices, reduction in prices for primary commodities, growing debt, rapid population growth, drought brought by desertification and internal conflict in a number of countries (Larbi, 2003). As a response, the World Bank prescribed Structural Adjustment Programmes to the governments as conditionality for loans. Structural Adjustment Programmes were formally introduced in Kenya through Sessional Paper No 1 of 1986 on Economic Management for Renewed Growth.

The Structural Adjustment Programmes sought to establish an efficient public sector and introduced neoliberal practices, that is, New Public Management, with the main objective of searching for better ways of delivering services to the citizenry (Larbi, 2003; Economic Commission of Africa, 2003). The donors saw African governments as overextending themselves and so the World Bank (1989:5) recommended they concentrate on core functions and provide a conducive environment for other actors to operate. This entailed: 'protecting property rights; ensuring law and order; managing the macro economy to promote and regulate the market; protect the vulnerable and destitute and provide basic social services and infrastructure' (Economic Commission of Africa, 2003:7).

Different African countries went about public sector reforms in a number of ways and the intentions were not always perceived to be in the interest of the citizenry. In Botswana, for instance, Motsomi (2008) points out that public sector reforms stemmed from imperialism and colonialism that left high levels of dependency on the diamond industry. A total of 85 per cent of government revenue was dependent on diamond wells. The public however believed these reforms were put in place to separate the rich and the poor and ensure as much primitive accumulation as possible, in addition to other well-intended purposes. Unemployment was a major concern followed by challenges such as international recession, depressed diamond market, crippling drought in the country, high inflation, an alarming growth in unemployment, the spread of HIV/AIDS and poverty, all posing new challenges to Botswana (Motsomi, 2008).

As a response, Botswana inaugurated the Vision 2016 focusing largely on privatization. Unfortunately, this did not work because they have a small population (Motsomi, 2008). They provided tax incentives to multinationals but the market was too small to realize profits. Consequently, they witnessed companies coming and going to where there is a larger client base or markets. All this occurred while unemployment remained at an all-time high.

Another case is that of Ghana. Since the early 1990s, Ghana's Ministry of Health was granting autonomous status to Teaching Hospitals. The government allowed them to constitute their own management boards and regional health management teams. While the Ministry of Health was focused on core policy and strategic issues, the government created the Ghana Health Service, an executive agency, to deal with implementation of health policies. This and the Customs and Internal Revenue Departments of the Ministry of Finance were separated from the service in the 1980s. They also put in place performance appraisal systems to replace the annual confidential reports (Larbi, 2003). Such reforms were not unique to Ghana. They have been implemented across the continent though success is not always assured.

Several challenges accompanied these new reforms. These included corruption, lack of efficiency and accountability, and institutional disintegration, among others. As noted by the Economic Commission of Africa (2003) 'governance in Africa has been marked by authoritarianism and state privatization for the benefit of the ruling elite, resulting in institutional disintegration rather than development', hence, lack of efficiency and accountability, ineffective management practices and corruption have been attributed to the low performance of reforms in Africa (Economic Commission of Africa, 2003:1).

Evidence has also shown that the problem of applying reforms in the context of Structural Adjustment Programmes, when strongly influenced by external partners, there is usually no support or preparedness from the local government. External experts who design the reforms rarely have in depth knowledge and commitment to it; there is lack of local involvement, understanding and commitment. World Bank acknowledged in its review of ten years of structural adjustment in Africa, that greater recognition be given to the time and attention needed for changes, especially institutional reforms, to take effect' (Larbi, 2003:8). Understanding the reform context emerged as a critical factor to the success of reforms.

Later, studies observed that reducing the role of African governments in steering the economic development of respective countries may not be recommendable as they are too weak and therefore not ready to participate in the global markets, as 'globalization requires reinforcing state capacity' (Economic Commission of Africa, 2003:2). The focus was then turned to increasing state capacity through re-engineering and invigorating of public institutions. Measures were put in place to this end. They included more emphasis on output; increased transparency; pay reform; standards and measures of performance; marketization and competition in service; private sector style of management; decentralization; restructuring of public organizations and reorganization of ministries; staff reductions and changes in budgetary allocation (Economic Commission of Africa, 2003:7). Unfortunately, despite all these efforts, some African governments were not able to achieve political stability and increased economic growth (Economic Commission of Africa, 2003). Reform arena, political and economic processes could not be ignored when formulating the systems. Understanding and working on the political and economic processes of the governments should have been the first step. The efforts put on increasing state capacity were rendered meaningless because the individuals within the state had varying interests that interfered with the implementation of the reforms.

On the whole, the outcomes of some public sector reforms thus far have not been satisfactory. There are instances of better results in both political and economic reforms. However, in the areas where there are better results, the reforms are seen as being introduced from outside by donors and therefore lack local ownership. To have sustainable gains, indeed some of the public sector reforms are introduced as conditionality for aid. This would explain the reason many countries undertook tax reforms; they were introduced as an aid package. Viewed this way, arguably, public sector reforms appear to lack ownership. Local interests do not drive them; they are externally induced, and to some extent, externally driven.

2.4 Financing Public Sector Reforms

Public Financial Management was among the first reforms to take place in New Public Management since they were a conditionality to aid. Public Financial Management covers all government activity from revenue mobilization, fund allocations to expenditure and accounting (Simson, *et al.*, 2011). It includes changes in budgeting, accounting systems and in management practice. Public Expenditure and Financial Accountability (PEFA) are a set of criteria for public financial management.

It includes ensuring credibility of budgets. The budgets have to be realistic and implemented as intended. Secondly, there were concerns over budget oversight and public accountability: 'the budget and the fiscal risk oversight should be comprehensive and fiscal and budget information should be accessible to the public. Third, the process of budgeting has to be cognizant of policy. All departments have to appreciate the cost implications of policy and include this in their budget. The fourth criterion is on budget execution, accounting and reporting of finance functions. Finally there is an external audit and follow up of the audits point by the executive (European Union, 2009). All these financial reforms require management practices to enable implementation, hence the finding of World Bank on Public Sector Reforms evaluation. It states that 'improving Public Financial Management to the point where it gets beyond just processes, and has real effects on public service performance, and accountability, has not happened without also improving the civil service' (European Union, 2009:29).

The donor community supported these reforms, but the reforms faced two major challenges in implementation. Although many developing countries had sound Public Financial Management laws and regulations, the results of public sector reforms were disappointing (Simson, *et al.*, 2011). Simson *et al* presents three sets of critics to explain the failure. The first points to the importance of understanding country specific and country context needs. They argued that these economic reforms are highly linked to the political institutions and should therefore be able to serve the political context. Others pointed to the weak technical capacity in African countries. They believed the reform projects advanced too fast and therefore needed proper prioritization and sequencing. The third critic that is similar to the first, pointed to the political economy factors, noting the need for reforms to engage with the political dynamics instead of trying to control the reform with technical measures (Simson, *et al.*, 2011). All the three revealed a divergence between theory and practice, but notably pointed to the need to understand the political economy of the country under reform, if reforms were to succeed.

2.5 The Context of Public Sector Reforms in Kenya

Post-independence Kenya has witnessed four phases of public sector reforms. Phase one (1993 - 1998) comprised Civil Service Reforms; these focused on early retirement and reducing the bloated government in order to have a lean civil service. This was done on the assumption that a lean civil service was more effective in delivery of services. It was introduced under the Structural Adjustment Programmes promoted by the World Bank/International Monetary Fund with a view to making governments more efficient. Phase two (1998 – 2002) focused on privatization of state owned enterprises. This saw a further reduction of civil servants and the ministries also released the non-core activities, which were privatized in the State Corporations Privatization Programme[2].

Phase three (2003) comprised the Results for Kenyans Programme, which focused on delivering results (Institute of Public Administration of Canada and Africa Development Professional Group, 2009). During this period a number of reforms were initiated. They included Performance Contracting (2003-2008). It was during phase three that the government introduced the Revenue Administration Reform and Modernization Program (RARMP) in 2004/05 at the Kenya Revenue Authority (KRA) with the main aim of transforming the Authority into a 'modern, fully integrated and client-focused organization' (Kenya Revenue Authority, 2013).

Tax administration reforms from 2003 were critical to the country for two reasons. First, they came in under a new political regime, the National Rainbow Coalition (NARC) government, which had promised to advance on the issue of governance, fight against corruption and improve service delivery. Secondly, due to this commitment by the new government, public institutions undertook a number of reform projects. Implementation of these projects required government resources but revenue from tax, the main source of government revenue, was inadequate. Thus improvement in tax administration was needed to ensure increase in revenue collected to finance these reform projects.

Phase four (2009) aimed at the alignment of all reforms with the Vision 2030 and Medium Term Plan I (2008 – 2012). Finally Medium Term Plan II (2013 – 2017) is currently aimed

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[2] Vision 2030 First Medium Term Plan 2008-2012 page 36

at aligning the reforms to the constitution and the new devolved structure (Institute of Public Administration of Canada and Africa Development Professional Group, 2009).

Overall public sector performance has not been impressive. For Kenya, there are a number of indicators that support the view that public service reforms have not been as successful as anticipated. First, the World Bank's report on 'Ease of Doing business 2013' ranks Kenya at 121 down from 109 out of 185 countries in the world. This puts Kenya behind Rwanda (52), a step below Uganda (120) but ahead of Tanzania (134). The ranking is based on a number of public sector related indicators; from starting a business, getting electricity, dealing with permits, to getting credit and paying taxes. Kenya's worst performing indicator is 'Paying taxes' (165). This looks at allowing self-assessment, electronic filing and payment and having one tax per base. While there has been an increase in the number of newly registered firms in Kenya after years of reforms, compared to years before reforms, the country still lags behind in a number of the indicators (World Bank and International Finance Corporation, 2013).

There is consistency in the messages from various sources on the failure of public sector reforms. The Results for Kenyan Programme Evaluation report (2009), noted that 'there is public apathy and cynicism' with the belief that reforms are on paper but not seen on the ground (Institute of Public Administration of Canada and Africa Development Professional Group, 2009:38). In addition, 2011/12 report by the Controller of Budget revealed that ministries failed to spend Ksh.106 Billion, a large amount of which was meant for development projects. This was viewed as an 'indictment (by public sector institutions) because it undermined service delivery by denying the public access to vital facilities' (Opiyo and Ndegwa 2012).

State officials cited weak governance structures, lack of sufficient financial controls, graft, poor planning, delays in processing payments to contractors, unreliable data, bureaucratic procurement procedures, lack of coordination with donors and low absorption capacity by ministries and departments as the reasons behind the inability of ministries to spend part of the budget. This implies that the absorption capacity of these institutions had not been increasing yet there were reforms being implemented. The then finance minister, Njeru Githae, in a meeting with Permanent Secretaries and accounting officers, underlined this problem of absorption capacity when he noted that 'you are letting us down as Treasury because when you don't absorb the money you are letting the donors, Treasury and Kenyans down' (Opiyo and Ndegwa, 2012). This paints a very bleak picture in terms of public sector reforms. However there have been successes in some sectors such as tax administration.

Successes in tax reforms have been progressive. After independence, the tax system was similar to that of Britain. During the early years there were piecemeal reforms, which included changing of consumption tax to sales tax on specific goods, among others (Karingi and Wanjala, 2005). In 1986 the Tax Modernization Programme (TMP) was introduced with the main aim of enlarging the revenue base of government. The Budget Rationalization Programme of 1987 followed, which was aimed at regulating expenditure through strict fiscal control (Moyi and Ronge, 2006). Revenue Administration Reform and Modernization Program (RARMP) in 2004/05 came after, with the main aim of transforming KRA into a modern, fully integrated and client-focused organization (KRA, 2013).

These reforms aimed at improving revenue collection for sustained government expenditure, in a manner that did not prove a disincentive for investment, or put a heavy burden on the people of Kenya (Karingi and Wanjala, 2005). There has been success in increasing tax collection as administration has improved considerably. Revenue grew in 1999/2000 from Kshs. 168 billion to Kshs. 635 billion in 2011/12 (KRA, 2012:15).A clear demonstration that the reforms achievedtheir intended goal.

2.6 The Importance of Political Economy Analysis

During the 1980s, economic reforms were the fad aimed at economic stabilization and structural adjustment. This was in order to give space for the markets to play a greater role in the economies of the countries facing adjustment measures. In Africa, however, there have only been scattered examples of renewed growth resulting from these reforms. Unfortunately, weak institutions, lack of political commitment and civil strife accompanied some of the reforms (Hamdok, 2003). In response, since early 1990s, there has been a focus on good governance in development efforts. This has involved transparency, efficiency and accountability. There was also an emphasis on participatory and inclusive politics. These are seen as critical to the success of reforms (Hamdok, 2003).

The 1990s was characterized by international organizations finally realizing that prescribing the solution and funding it, was not the solution. It became imperative that local governments have ownership over the reform for it to be effective and sustainable. This gave rise to the 2005 Paris Declaration on Aid Effectiveness, which emphasized on creating space for dialogue for recipient countries through a ‘new international aid architecture’[3]. It called for country–driven development strategies and country ownership, after a number of initiatives failed. Larbi(2003) points out that one of the reasons for the failure of reforms in Africa was that those coming up with the reforms lacked in depth knowledge on respective country contexts and did not stay in the implementing country long enough to see it come into fruition. As a result, the reforms failed because of lack of understanding of the context and the related infrastructure needed for successful implementation.

Political Economy analysis approach to understanding reforms came out of these efforts. This was supported by a World Bank review that noted:

> *‘Careful review of the country’s political economy and of stakeholders’ concerns is required to identify the scope for a sustainable reform program. Given the complexity of country situations, such an assessment goes beyond a simplistic notion of ownership that presupposes a uniform government position or a full consensus. It would not be sensible to suppose that all recipient countries are functioning democracies, respond to the interests of the majority of the population, avoid elite or foreign-interest capture, and maintain a stable course on reforms. A realistic assessment of ownership relies on the government’s track record of reform and acknowledges the political economy dimensions that reforms may be owned by some constituencies and opposed by others who stand to lose from them’* (Social Development Department, 2008:2).

The above acknowledgement resulted in the Bank, and other development agencies, beginning to use political economy approach in their works and in analysis and understanding how reforms work.

2.7 Theoretical Framework of Political Economic Analysis

Political economy analysis becomes a favoured approach taken by development practitioners. This is mainly due to the risks that could be associated with development operations and

[3] Paris Declaration 2005

reforms (Bank, 2008). Here politics is defined as the ‘contestation and bargaining between interest groups with competing claims over rights and resources’ (Department for International Development, 2009:4). This implies the process where political actors fight for control over resources and rights. This usually ends with the stronger party winning. However the desired goal is to achieve a compromise, which is a win for all. It is a power struggle between actors. Economic process on the other hand, is that which ‘generates wealth and influence how political choices are made’ (Department for International Development, 2009:4). This implies those actions that involve resources that affect decisions made by the actors involved, which normally require economic considerations.

The concept of political economy emerged from the works of David Ricardo, Karl Marx and Adam Smith’s Wealth of Nations. In their writings it was defined as ‘analysis that studies the linkages between politics and economics’, where theories of law, economics, political science and social sciences were used (Social Development Department, 2008:4). Today the definition has become more comprehensive. For instance, Organization for Economic Co-operation and Development -Development Assistance Committee defines Political Economy analysis as,

> ‘*Concerned with the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time.’* (Development Assistance Committee as cited in Department for International Development, 2009:4)

The Political Economy approach helps in understanding the interests and incentives of different groups especially political elites and how these interests may affect policies in the development arena either positively or negatively. The approach also assists in understanding how the formal and informal social, political and cultural norms shape human interaction and political and economic competition. It also enhances understanding of the impact of values and ideas especially political ideologies, religion and cultural beliefs on political behaviour and public policy (Department for International Development, 2009).

By understanding these interrelationships, the approach contributes to a shared understanding of the political context and how such a context affects the overall aid strategy (Department for International Development, 2009). According to the Department for International Development (2009), it also informs better policy and programming by developing relevant holistic solutions; supports risk management and scenario planning for all eventualities; broadens scope for dialogue around political issues affecting the country; 'helps foster country ownership and contribute to improved prioritization and sequencing of reform efforts; inform peace building activities and examine the impact of external drivers' (Department for International Development, 2009:6). This shows that public sector reforms do not just involve institutions; they also involve the context in which they operate.

In analysing the political economy of reforms there are two major approaches used: the economic rational choice-based approach and the power based approach.

2.7.1 Rational Choice- based approach

This approach has a strong focus on institutions, defined as 'formal and informal rules underlying political powers, bureaucratic agencies or social and private organizations' (Social Development Department, 2008:4). It examines factors and ways in which rational individuals would work together in solving a collective problem. Rational choice perspective strives to find a balance between the individual and the institution, so that their actions are mutually beneficial (Moe, 2005). This is based on the overall Pareto principle used in economics, which is achieved when 'resources are allocated to maximize benefits to all individuals, but without making any individuals worse off in the process' (Social Development Department, 2008:4). Though institutions are a factor of success, they are not the only factor contributing to the success of reforms. The unit of analysis in reforms is the individual and not the institutions. It is the individual who contests for resources and who makes the political decision within the institution. It is very difficult to separate individuals from institutions, for it is individuals who make institutions work.

2.7.2 Power based approach

As it was aptly pointed out by the World Bank,

> *'Reforms work if you have a good sense of who the winners and the losers are, and if you have a good platform for dealing with the negative impacts of policy changes […]. Economists like to look at the net welfare gain in societies, whereas politics is about winners and losers."* (Social Development Department, 2008:8)

While rational choice approach focuses on institutions, this approach looks at the individuals for whom these institutions are built around. It focuses more on the political dimensions that exist in policy issues, which inform the decisions made (Frey, 1994). It points out that powerful individuals creating both winners and losers make institutions. Power based approach appreciates the concept of power in reforms. The approach recognizes that reform is influenced by economic, social and political factors. Power based approach enables one to see how ‘political, economic and social actors, institutions and processes influence each other’ (Social Development Department, 2008:5).

The study has used this approach because it ‘reveals the conditions and processes under which political actors or political entrepreneurs manoeuvre within institutional contexts to build coalitions, negotiate, build consensus, and bargain to generate new policies, new legislation, and new institutions’ (Social Development Department, 2008:5). The main intention of political economy analysis is to ‘synthesize the issues, organizing thoughts and inducing objective and realistic expectations’ (Lal, 2008:84). To be able to achieve this it takes on a process driven route (Department for International Development, 2009).

Political economy approach also helps in analysing institutional, political and social factors across sectors and regions[4]. One model increasingly used in this regard by the World Bank is a three - branched integrated and systematic approach of analysis, process and action; it aims at examining the operational and analytical concerns of reforms that include: improved distributional equity, ownership and sustainability of reforms (Social Development Department, 2008). The framework therefore distinguishes between reform context, reform arena and reform process.

[4]www.worldbank.org/psia

2.8 Conceptual Framework of iTax Reforms

The following figure represents the conceptual framework adopted in this paper.

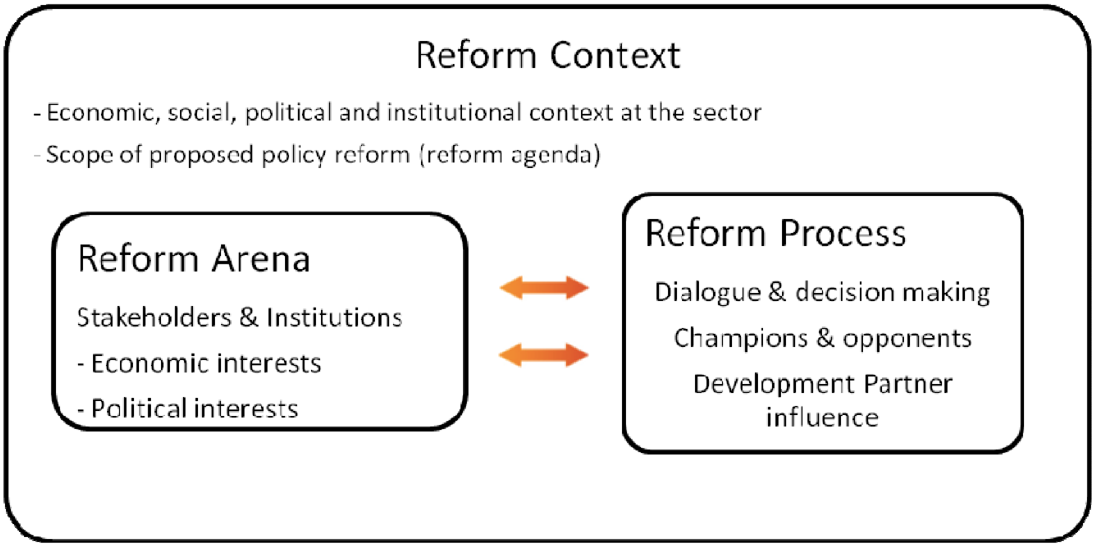

FIGURE 3. 1. Conceptual framework of the political economy of reform

Source: Social Development Department, 2008

2.8.1 Reform Context

This study is cognizant of the importance of understanding the reform context; as a result, it delves into the details of reforms. The reform context examines the 'deeper social (including ethnic cleavages), national, political and historical institutions, which affect the sector under consideration' (Social Development Department, 2008:19). This looks at the bigger picture, a sort of background of the reform in question. Here, an analysis looks into the different elements of political economy, including; 'social and economic inequality, property rights, power relations, social organization such as ethnic groups, regional disparities, systems of exchange and markets, the state apparatus and the political parties, institutions and powers' (Social Development Department, 2008:10). The scope of the reform agenda is therefore examined and questions such as the following are raised, 'what are the key policy changes being proposed? What are their objectives? Who tabled the reforms i.e. champions? How do they support the political objectives and repertoires of the stakeholder who are sponsoring them?' (Social Development Department, 2008). In order to best answer this we further assess the reform arena and reform processes contained within.

2.8.2 Reform Arena

The reform arena is characterized and influenced by 'sector stakeholders, institutions, and their economic and political interests' (Social Development Department, 2008:19). Decision-making that results in implementation of reforms is a consequence of negotiations between 'different stakeholder interest, power relations, incentives and use of formal and informal institutions' (Social Development Department, 2008: 11). Institutions are the rules of the game for organizations. These can be formal or informal depending on the organization. Stakeholders (individuals, groups, communities or organizations) have different interests and they all aim at having their interests met. Unfortunately, they are not all governed by the same rules. And it is therefore a flaw to assume that they will go about in the implementation of a reform playing by the same rules. Furthermore, their interests and influences are varied during the reform process. Those involved in the formulation might not (and in most cases) are not involved in the implementation (Social Development Department, 2008). The reform arena is therefore part of the reform context.

2.8.3 Reform Process

The reform process is characterized by the 'dialogue and decision-making, champions or coalitions of change, and the influence that donor agencies and external actors have in the reform and operation' (Social Development Department, 2008:19). This looks at the partnership, participation and leadership of the different stakeholders. These key concepts are thoroughly thrashed out by the Social Development Department (Social Development Department, 2008) as has been discussed below.

The concept of partnership is similar to that envisioned in the Paris declaration where the stakeholders 'have real influence and responsibilities' (Social Development Department, 2008: 12). It looks at ensuring there is adequate disclosure of information, power sharing within government levels and decision making between different partners, that is government, donors, civil society and private sector. Reform processes are not always linear. The solutions might not be the best, but the most pragmatic, as it is not only a technical but also a political process. These include: communication, consensus building, conflict resolution, compromise, adaptation and participation. Participation in this case is very useful in reforms to increase 'legitimacy, effectiveness, efficiency, ownership and sustainability of policy reforms'.

Leadership is a key factor in the reform process though often ignored. Leaders mobilize the different stakeholder interests and ensure that institutions bring about equitable outcomes. They 'commit themselves to the agenda, mobilize coalitions to support the reform, negotiate effectively with opposition and often provide a vision of a more equitable future that all stakeholders can buy into' (Social Development Department, 2008:13).

Finally, development partners/donors have varied relations with the recipient countries. And reform success is based on the tools at their disposal to build coalitions. There are cases where they are catalyst in the reform process and other times when they are an outsider imposing their conditional ties on the recipient countries. For them, understanding the political economy of the country can inform their engagement, but also for the scholar, appreciating how they fit into the political economy informs why some of the decisions were made.

The conceptual framework (as outlined in Chart 2.1) provides the structure for analysis of the case study on tax administration reforms, iTax reform project. All these three components; reform context, arena and process are used to examine iTax reform as a case study. The reform context examines the environment and political economy of tax administration and why tax administration reforms are a success in that environment. The reform arena comprises the stakeholders' responsible for the implementation of the tax administration reform and the institutions that governs their relation. And finally the reform process includes analysis of responses to the interests of various stakeholders and how they contribute to the success of these reforms. Effectively by answering the four questions in this study we are able to look into the context, arena and process of tax administration reform in Kenya.

2.9 Conclusion

This chapter examined the history of public sector reforms from its inception in postcolonial era. It was clear that there have been multiple efforts to ensure that the public sector reforms were implemented in an effective and efficient manner. It further narrowed down to public financial management reforms, which were the first reforms to take place as conditionality by the donors. After examining the theoretical and empirical evidence, it was clear that a thorough appreciation of the context was imperative. This is because appreciation of the broader context in which the reforms are undertaken, show the interests and incentives involved in pushing the reform agenda, providing both a political and technical road map to navigating to success in reforms. Further, the interplay of political and economic factors within the context of formulation and implementation cannot be ignored. The review demonstrated, therefore, that the success/failure of a reform was likely to be determined by conducting a political economy analysis of the reform. Subsequently, to identify the success of tax administration reform in Kenya, we need to examine the reform arena and processes within the reform context. From the reviewed literature it is also clear that leadership is key to reform process.

CHAPTER THREE

KENYA REVENUE AUTHORITY I TAX REFORM PROCESS

3.1 Introduction

This chapter briefly examines the KRA I-Tax reform. It is aimed at generating a good understanding of these reforms and the context of their implementation. The first part of the review looks at the Kenya Revenue Authority, its culture and political environment. The second part of the review examines the tax reform context in Kenya. This includes historical and social economic factors. It also looks at the Operations and Programme management department tasked with such reforms. The third part examines the economic and political processes of tax reform in Kenya. Finally the reform arena is examined. This includes the stakeholders and institutions involved together with the rules of the game that is reform.

3.2 Kenya Revenue Authority's culture and political environment

In order to understand the context of I-Tax reform, one has to look at the general tax reform context in Kenya. Tax reforms are defined as 'the process of changing the way taxes are collected or managed by the government' (Karingi and Wanjala, 2005). Institutionally, tax reform involves the creation of a semi-autonomous authority model separate from the traditional Ministry of finance (Karingi and Wanjala, 2005). At the macroeconomic level it involves tax policy, while at the microeconomic level it consists of tax structure, design and tax administration (Musgrave, 1987).

Kenya Revenue Authority was established in 1994 by an Act of Parliament but became operational and was incorporated in 1995 (Karingi and Wanjala, 2005). It was set up with self-governing mechanisms, which included: high ranking public and private sector representatives in the board, self-financing mechanisms and *sui generis* personnel systems (Taliercio, 2004 as cited in Moyi and Ronge, 2006:4). Running on business principles, it aimed at having leverage to recruit, retain, dismiss and promote quality staff, paying the employees higher than the civil service with better terms aimed at motivating staff and reducing corruption[5]. It was designed to be less vulnerable to political influence and

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[5] Corruption in this case is defined as 'use of private payments to public officials to distort the prescribed implementation of official rules and policies' (Hellman, J.S., Jones, G. and Kaufmann, D., 2000:3).

combined five departments in the Ministry of Finance: Excise Duty, Customs Duty, Sales Tax, Income Tax and Corporate Tax (Moyi and Ronge, 2006:4).

The goal of the Authority is to 'enforce tax in a balanced manner, such that all the different taxes are collected, across all taxpayer classes and among all classes of income' (KRA, 2012). It aims to be 'the leading revenue authority in the world, respected for (its) professionalism, integrity and fairness and to decrease the taxation gap' (KRA, 2012). However, there are concerns that it is more inclined to respond to demands of the International Monetary Fund and World Bank, than domestic equitable taxation and reduction of taxation effects (Moyi and Ronge, 2006). This is a character that it inherited from treasury, the same criticisms that tax reforms faced prior to the establishment of the authority.

KRA is divided into five geographical regions: Rift Valley, Western, Southern, Northern and Central regions. The roles of KRA include (KRA, 2013):

i. To administer and to enforce written laws or specified provisions of written laws pertaining to assessment, collection and accounting for all revenues in accordance with these laws;

ii. To advise on matters pertaining to the administration or and the collection of revenue underwritten laws;

iii. To enhance efficiency and effectiveness of tax administration by eliminating bureaucracy of procurement and promotion of training and discipline;

iv. To eliminate tax evasion by simplifying and streamlining procedures and improving taxpayer service and education thereby increasing the rate of compliance;

v. To promote professionalism and eradicate corruption amongst KRA employees by paying adequate salaries that enables the institution to attract and retain competent professionals of integrity and sound ethical morals;

vi. To restore economic independence and sovereign pride of Kenya by eventually eliminating the perennial budget deficits by creating organizational structures that maximize revenue collection;

vii. To ensure protection of local Industries and facilitate economic growth through effective administration of tax laws relating to trade;

viii. To ensure effective allocation of scarce resources in the economy by effectively enforcing tax policies thereby sending the desired incentives and shift signals throughout the country;

ix. To facilitate distribution of income in socially acceptable ways by effectively enforcing tax laws affecting income in various ways;

x. To facilitate economic stability and moderate cyclic fluctuations in the economy by providing effective tax administration as an implementation instrument of the fiscal and stabilization policies; and

xi. To be a 'watchdog' for the Government agencies (such as Ministries of Health, Finance, etc.) by controlling exit and entry points to the country to ensure that prohibited and illegal goods do not pass through Kenyan borders.

3.3 The History of Tax Reforms in Kenya

From independence in 1963 till 1983/4 Kenya’s tax system was similar to that of Britain, Kenya’s colonial power (Karingi and Wanjala, 2005). The major tax reform being in Indirect tax where consumption taxes were converted to sales tax (Karingi and Wanjala, 2005). The authors also note, that prior to the 1970s the economy was doing well; growth rate was at 6%. However, the energy crisis of early 1970s prompted the government to introduce measures to mobilize tax.

In 1972/3 sales tax on specific goods replaced consumption tax. This also played three other major roles in the economy. The sales tax supported import substitution industrialization policy, reduced reliance on direct tax, and consequently increased saving and investment. However, these reforms had some weaknesses: a) the top marginal Personal Income Tax (65%) was higher than the top marginal Corporate Income Tax (47.5%) meaning people adopted the corporate model of business dealings 'siphoning off profits through expense deductions', and b) the top marginal 65% applied to those with very high income only, and there were few of those, meaning not much could be made from that end (Karingi and Wanjala, 2005:4). Thus these reforms became ineffective; they did not achieve their intended goal of raising revenue.

In 1986 the Tax Modernization Programme was introduced with the main aim of enlarging the revenue base of the government by increasing tax revenue and reducing compliance and administrative costs (Moyi and Ronge, 2006:1). There seems to be two main guiding principles for Tax Modernization Programme: to ensure the country's system is sustainable despite the domestic and international challenges, and to focus more on indirect tax and not direct tax (Karingi and Wanjala, 2005). Budget Rationalization Programme of 1987 aimed at regulating expenditure through strict fiscal control. The greatest tax reform success was the establishment of Kenya Revenue Authority in 1994, which is in charge of tax administration autonomous from treasury (Karingi and Wanjala, 2005).

Economic crisis and international pressure also contributed to the need for tax reforms in Kenya. Karingi and Wanjala (2005) point out that reforms were due to the inability to raise sufficient revenue. First, the tax to Gross Domestic Product ratio was higher than the average for Africa, and secondly there were 'large and chronic fiscal deficits' caused by imbalance between government revenue and public expenditure (Muriithi and Moyi, 2003:1). However, Moyi and Ronge (2006) point out that the government adopted reforms voluntarily to gain favour with international donors. They justify this claim by demonstrating that first the reforms were part of the Structural Adjustment Programmes, an agreement between the government and International Financial Institutions (Fjeldstad, O. and Rakner, L., 2003); and secondly, the reforms were focused on the central government tax system excluding local government tax reforms (Cheeseman, 2005). In their opinion, had it been solely an initiative of the government, then equal or even more attention would have been accorded to the local government tax reforms.

These arguments notwithstanding, the internal and external shocks at the time were demanding. Regardless of the true and often political intentions of the government, there was need for tax reforms at the time. However, what adds more weight to the second argument by Moyi and Ronge (2006), and that can be viewed as a failure on the part of the government, was the sequencing of the policies. Tax policy reforms came before tax administration reforms and the exclusion of local government reforms weakened the implementation process. These two have acted as the core challenges facing tax administration over the decades.

The reforms in the country were implemented gradually due to the country's political and economic environment. According to Karingi and Wanjala (2005), there seemed to be support from the government in terms of policy, appreciating the need for macroeconomic balance, as this was the goal of the reforms. Regardless of the incentives and influences, the economic stability of a country is critical and to achieve this, there is need for government revenue to be able to support expenditure.

3.3.1 Operations and Programme Management

Revenue Administration Reform and Modernization Programme (RARMP) introduced in 2004, is the latest umbrella reform initiated in the Authority, which is coordinated by the Operations and Programme Management. The Operations and Programme Management department was set up to implement and modernize reforms so as to adequately meet the desired outputs and stakeholder needs such as time efficiency, cost efficiency, attainment of objectives and deliverables, proper documentation and internal and external support to projects. iTax reforms fall within RARMP (KRA, 2013). According to the KRA (2013), the vision of the department is 'To successfully implement Reform and Modernization Programmes and ensure KRA transforms to become a modern and integrated revenue agency' (KRA, 2013). It works within a framework that utilizes project managers and teams. Consequently, the department encourages professionalism to ensure project success is the norm; project teams are proud of their work; stakeholders reap the benefit of a carefully planned investment; and taxpayers win through improved service or lower cost (KRA, 2013). The department's main focus is administration support and monitoring of reforms and objectives including the following (KRA, 2013):

- Ensure coordination and delivery of successful reform projects.
- Build Project Management professionalism among RARMP staff.
- Keep management and project stakeholders informed.
- Serve as the authority on Project Management and Business Analysis practice.

3.4 iTax Reform Processes in Kenya

Reform process as used in this study referred to 'the change through which information flows, voice and public debate, prompting the questions: Who sets the agenda, and how and when are proposed policy changes communicated, by whom and to whom?' (Kingdon, 1984) Usually these processes are not linear and are often fragmented; they include partnerships with stakeholders with influence but also their responsibilities within the reform context (Social Development Department, 2008:12). Within iTax reform, the participation of these stakeholders resulted in two main processes; economic and political.

3.4.1 Economic Processes

Economic processes refer to those that 'generate wealth and influence how political choices are made' (Department for International Development, 2009:4). There are economic processes that take place prior to the reform that informs its implementation. These involve the generation of resources that will finance the reform. They influence how political choices are made. The iTax economic process is divided into three stages, those that took place prior to the reform, during planning and those that took place in the first stages of implementation. In the analysis of the actors' influence, the following three main factors were considered: the importance of the stakeholder's overall influence, the relationship between stakeholders and the amount of influence over other stakeholders (figure 3.1).

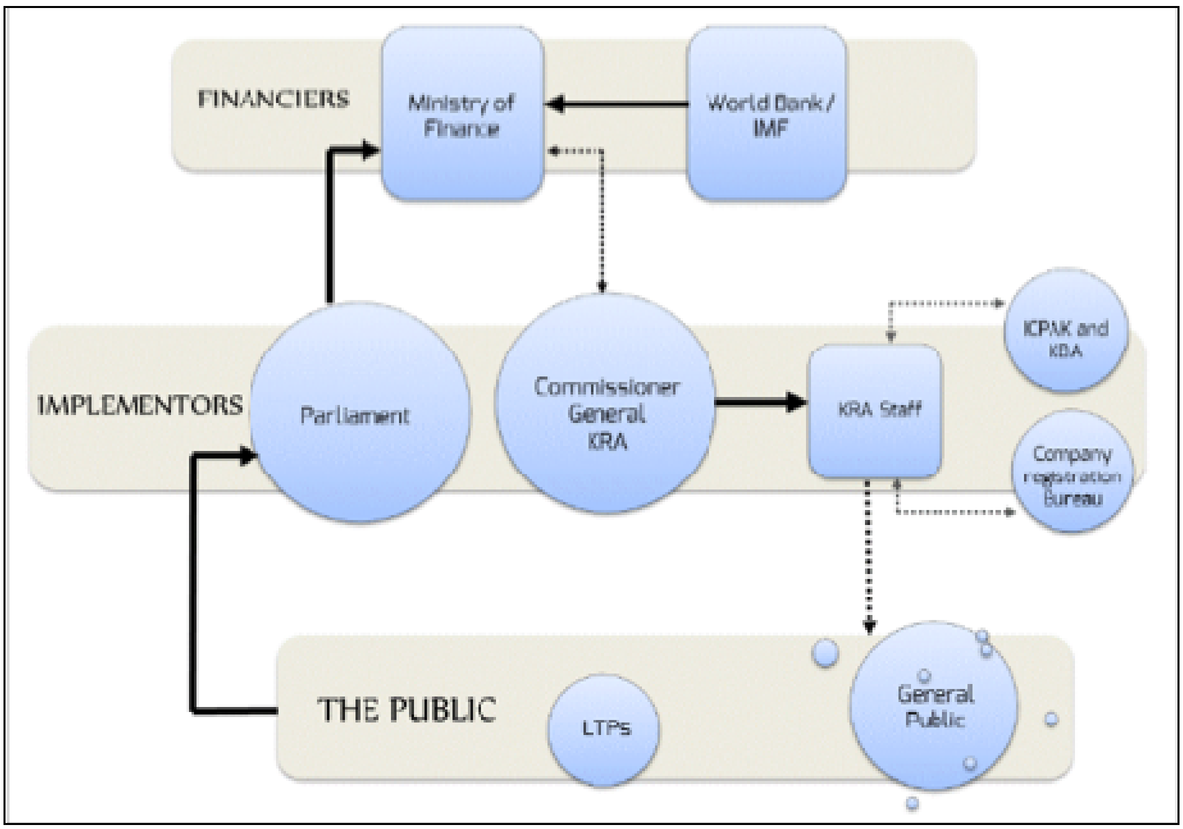

FIGURE 3. 1.TAX ECONOMIC PROCESSES

Source: *Author's model*

Stage 1: Resource Mobilization - Financiers

Fundamentally there were three main stakeholders with varied interests. On the one end, there was the World Bank and International Monetary Fund who lobbied the Ministry of Finance and KRA for *'modernization of tax administration and reforms to enhance service delivery and transparent processes'*[6]. This was in line with their neo liberal policy, which promoted New Public Management. The World Bank was at the time keen on supporting public sector reforms (Bank, 2008). This would explain the '*missions from the World Bank to the Kenya Revenue Authority'*[7], explaining the influence of the World Bank on the Ministry of Finance.

On the other hand, there was KRA consulting with the treasury for budget approvals. It should be noted that any revenue going to the authority, even if provided by an external financier, goes through the exchequer. For this reason, the Authority has to get approvals from the ministry. This is a negotiation between the Ministry of Finance and KRA through the Commissioner General, represented by the dotted line between the two. Here there was minimal resistance because '*tax administration is a priority for the government'*[8]. Unfortunately, due to the bureaucratic nature of the ministry there were procurement delays that affected the project implementation.

Stage 2: Formulation and Implementation

The Kenya Revenue Authority is in charge of spearheading these reforms with the aim of reducing the cost of compliance. The Commissioner General, therefore, took the lead to ensure they were a success, having recognized the value of domestic revenue; he clearly stands out as the reform champion as described by Lal (2008).

A stakeholder analysis revealed five major categories as represented in the chart. Some have greater influence than others but all are involved in the reform process with coordination from the Kenya Revenue Authority, spearheaded by the Commissioner General and implemented by project managers and section heads. Their economic relationship or engagement is necessary for the success of the reform. They can be classified in the following

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[6] Key Informant #1, Senior Programme officer, Operations and Programme Mgmt, KRA, 2013

[7] Key Informant #1, Senior Programme officer, Operations and Programme Mgmt, KRA, 2013

[8] Key Informant #7, Technical Expert, Economic Affairs Dept, Min of Finance, 2013

broad categories.

First were the departments within KRA. They included: Domestic Taxes Department (project team), ICT department, procurement department, marketing and communication and legal services departments each with their respective functions. They were the main implementers and therefore their interest and incentive was to see the success of the project so as to ensure increased revenue collection and meeting of their collective revenue and performance targets. Their influence was majorly centred on the implementation of the reform.

Then there were financiers, which included the Ministry of Finance (treasury), International Monetary Fund and the World Bank. The Ministry of Finance has a large influence on what reforms get funded and therefore are a major stakeholder. Nonetheless, their priority is to collect as much revenue as possible so as to be able to meet government expenditure. The reform was a priority for them as it sought to have increased revenue collection. For the development partners, World Bank and International Monetary Fund their main incentive was to see proper management of finances in the government. They had an interest in a reform that would streamline the systems and seal any loopholes for corruption. Their influence however was minimal. The government does not rely on them for recurrent expenditure. The government pays for recurrent expenditure from taxes. Since the government does not rely on aid, then their influence was not as amplified as it would be if the government were dependent on them.

Consultants were sourced to develop iTax online system. Initially it was Optimisa from Chile and later Tata Consulting from India. Their main incentive was remuneration. Upon being contracted their payment was based on performance. They were paid on the basis of their achievement. This was very instrumental in ensuring the system process was within the set deadlines. Their influence was however limited to their technical expertise which in this case was setting up the online system.

The National Registration Bureau and company registry was key in the provision of relevant information on companies for the system. Their influence was on the data they possessed. This means that they contained the database of all the individuals and companies registered in the country. They were very compliant in the first stage, however as the system structuring progressed the company registry was reluctant to provide the updated database. This was because usually whenever one needed such information, they would have to pay the officers a ‘fee’ to facilitate the process. Yet this system was now providing this data as open source.

Fortunately, a regulation was passed that mandated the free sharing of such information within government that eased the process.

After the development of the software some institutions were involved in the piloting stage. These were taxpayers: 100 large and 100 middle level taxpayers. They were interested in a system that reduced the transaction costs of tax payments. Their influence on the success of the project was high as they pointed at how to make the system as efficient as possible before it was implemented to the public. They provided feedback on the use of the system.

Banks and the Institute of Certified Public Accountants of Kenya were also consulted on the design and implementation of the system. This is because they are the largest stakeholders, acting as the go between individuals and companies and KRA. Therefore their input was imperative and as such discussions were held to ensure the tax system introduced could be easily adapted to their processes.

Stage 3: Public involvement

It is worth mentioning that KRA gave special attention to the public. The taxpayers were involved through sensitization forums and public participation to provide views on the proposed iTax system. For the pilot phase KRA identified 100 large taxpayer and 100 middle taxpayers enterprises, carried out needs assessment and held consultative meetings with them. Within the public, KRA also had consultative meetings with the Kenya Bankers Association as well as International Certified Public Accountants of Kenya. These two institutions work directly with the public in managing their finances, therefore, involving them was necessary. The stakeholders involved in the economic process were engaged in the different stages. A few had direct influence on the acquisition of the finances, while most were engaged on how it would be used.

3.4.2 Political Processes

Politics in this study referred to the ‘contestation and bargaining between interest groups with competing claims over rights and resources’ (Department for International Development, 2009:4). The politics in reform processes are complex in nature and understanding them affects the speed and success rate of the public sector reform. As the World Bank aptly point out,

> *‘First, it pays to recognize the especially complex political and sequencing issues in public sector reform projects. That in turn puts a premium on understanding the*

political context, identifying the prerequisites to achieve the objectives, focusing on the basic reforms initially, and being realistic about the time it takes to get significant results'. (World Bank, 2008)

Prior to the financing of the project, there were a number of activities that took place. This was immediately after the first stage of the economic processes. Once there was sufficient lobbying to get the resources to finance the reform, the technocrats stepped in. After seeing the need to increase revenue, the technocrats undertook research. KRA looked around the world for case studies that could be adapted or cases through which KRA could establish benchmarks to help them gauge their performance. In the case of iTax, benchmarks were established using Chile. Thereafter, the Revenue Authority set up the project and started planning its implementation. The political process is demonstrated in Figure 3.2.

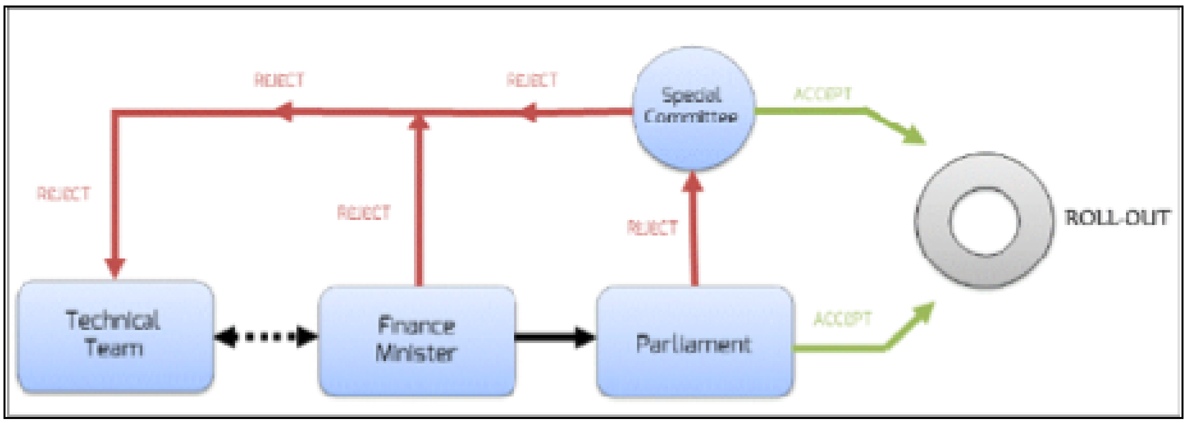

FIGURE 3. 2.TAX POLITICAL PROCESSES

Source: *Authors model*

The Technical Team in the Ministry of Finance worked with the KRA team to implement the reform project. The Ministry of Finance technocrats were motivated by the auditors' recommendations to improve the system that would result in increase of revenue collection. Based on the report they went about finding ways of increasing revenue. This was aligned with the iTax reform project that was then proposed by KRA. The technocrats then looked through the elements of the reform and made their recommendations to finance and implement the reform project. This information flowed from the officers to the department director, the finance secretary, the permanent secretary and finally the Finance Minister to be presented in parliament. In Parliament, the legal process of turning it into law started. With regards to this reform, VAT, Excise tax, dispute resolution and application of Information

Technology were key to the success of the reform.

Step one in the chart above took place in the Ministry, once the officers made the 'recommendation' it was presented to the minister. It was considered a technical recommendation because it was only the minister who had the power to accept or reject the proposal. It was here that political influence came to play.

In cases where the recommendation was controversial to the minister, that is, he had vested interest that should the reform be implemented, would interfere with his political interests, then the reform would have been rejected. However, when there are no conflicts of interests in the case of iTax it was approved without interferences.

Once the minister consents and it goes to parliament, step 2. However members of parliament may seek a technical meeting, as they did, in this case it was with KRA officers to give their expert view and justify why the iTax reforms were important. There are two outcomes, either they accept or reject.

When the reform is not in conflict with their personal or constituents' interests, they accept. This then means the project has been approved for implementation. On the other hand, rejection occurs when it conflicts with the interests of the parliamentarians or their constituents. In the case of the iTax reform, there was no opposition.

In summary, interests largely govern the political process. Technical expertise was just a factor of the reform; its implementation was based on the interests of the political actors. In this case, on one end it was whether their constituents were for or against the idea. Yet on the other end, was the need to meet government expenditure (including salary payments). The more revenue was collected the more the government could achieve its goals and provide services. In this case however, the interests of the political actors overcame the resistance from lobby groups that were against the levying of Value Added Tax on some basic goods.

3.5 Factors that supported the iTax reforms Process

Stakeholders' interests: Individuals within the institutions largely influenced the reforms. While the reform process concerns how the reforms were conceptualized, the reform arena concerns interaction between institutions and stakeholders. Institutions in this case refer to those rules that govern relations and behaviour of actors, while stakeholders include those whose 'economic and political interests mediate the policy reform' (Jordan and Richardson, 1987 as cited in Social Development Department, 2008:11). The following are the stakeholders and institutions involved in the iTax reform project.

Stakeholders are the 'individuals, communities, groups, or organizations with an interest in the outcome of an intervention, either as a result of being affected by it positively or negatively, or by being able to influence the intervention positively or negatively' (Social Development Department, 2008:11). Stakeholders often have competing interests and influences. As a result policy reform is seen as a game. The difference is that the players use different rules in negotiating and lobbying for their interest; power relations, timing and information asymmetries being their weapons of choice (Social Development Department, 2008).

In order to understand the iTax reform it was important to look into the key actors involved in the process. At the forefront was the Commissioner General of Kenya Revenue Authority. He was very important for allocation of resources and provision of project direction. Financiers represented by treasury and donors influenced him by sending teams to KRA to convince him of the need to get financing for the reform. In this case the World Bank and International Monetary Fund played key roles by financing the iTax reform project. He also worked closely with the Ministry of Finance who administer the resources. He also led the team of bureaucrats who were tasked with the implementation of the reform project.

The Ministry of Finance and Treasury was critical to the project as they were involved in the financing of the project. All funding by donors supporting KRA reforms went straight to the exchequer, which was then directed to the institution. Tax administration was considered '*a priority to the government and consequently there was allocation of resources for implementation of reform processes especially since 90% of the national budget was supported through taxes collected'*[9]. The ministry supported this because increased revenue collection was and still is a key objective to the ministry as it financed national expenditure and development projects. In this case they received funding for a revenue mobilization system from the International Monetary Fund and World Bank. They were however influenced by Parliament who pass the law and check on expenditure.

The target audience involvement: Professional associations such as the Institute of Certified

[9] Key Informant #7, Technical Expert, Economic Affairs Dept, Min of Finance, 2013

Public Accountants of Kenya (ICPAK) were consulted. The Authority ensured that their considerations to make the system user friendly were included by ensuring the online system is user friendly. ICPAK is one of the main users of the KRA system; their members file tax returns on behalf of taxpayers using the system. Therefore, their buy-in was crucial to the successful implementation of the system. Similarly, the Kenya Bankers Association also had influence in encouraging their members to embrace I-Tax to facilitate electronic payments. One respondent noted that,

> *'The greatest incentive (for the professional bodies) was to expedite services for electronic platform and lower cost of administration. These were to be provided as long as actors mobilized their members to use the electronic products. A balance had to be struck between expectations and acceptability to manage their expectations'* [10].

The National Registration Bureau and the Registrar of Companies provided data on registered companies. The Registrar of Companies however, was reluctant to provide updates after the first phase of the reforms. This is because such information was a source of informal revenue for the officers in the department, hence the reluctance to offer it freely. Fortunately, the data transmission protocol in place was meant to ensure this information is free to the public, which enables KRA to access the information.

Like a match with a goal post and different players there are rules that guide their actions, which in this study we refer to as institutions. Institutions are 'societal "rules of the game" that shape and constrain human interaction and individual choices' (Social Development Department, 2008:11). Institutions can either be formal (political regime, constitution) or informal (cultural practices), habits that exist within social hierarchy, patron client relations and forms of rent seeking behaviour. During the study research the following were ground rules of the game that informed some of the formal and informal rules that guided the processes.

Technology: The E-government directorate was an important actor because it provided the

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[10] Key Informant #1, Senior Programme officer, Operations and Programme Mgmt, KRA, 2013

overall ICT strategy in the public sector. They provided consistent support to ensure the electronic processes met their objectives. Kenya ICT Board was also needed to offer support for the government to expand the ICT infrastructure in the country.

Lobbying: Consistent lobbying and balancing of interests was very important to the success of the reform because it affected the implementation of reforms in a number of ways. There was balancing of interests of different actors. This entailed negotiating interests and finding a compromise that would ensure everyone's needs are catered for. It was required at all the stages of the economic process. In the planning phase, it was needed in the resource mobilization of the project. At this stage the Commissioner General had to consistently lobby the ministry to allocate resources to the I-Tax reform. This was done through regular meetings with the ministry to explain the benefits of the iTax reform project. This was also necessary because the different stages involved in implementation needed financing and the results were not immediate.

In parliament there was need to have a technical session with Members of Parliament to convince them to pass the bill. At the time when the bill was in parliament, the parliamentary committees, i.e. finance, trade, budget committees had other pressing national legislation, other than tax administration reforms. To be able to make progress in this regard, there were high levels of lobbying from the Ministry of Finance to ensure timely legislative changes to accommodate reforms.

At the implementation phase, '*lobbying reduces any resistance from association members in the use of the products, it affects implementation, if stakeholders offer no support from the beginning and most importantly, as stakeholders, they may stall or stop the reforms if not favourable to their current operations'*[11]. The critical stakeholders at the stage of implementation were the Kenya Bankers association, Institute of Certified Public Accountants of Kenya and the taxpayers', which comprised large and middle level companies. In order for the implementation of the tax system to succeed, KRA had to convince them to adapt it. Since they were the 'middlemen' between taxpayers and the Authority, the Authority had to ensure that they adapted the system. This process was well

[11] Key Informant #5, Programme Officer, I-Tax, KRA, 2013

managed with their '*technical input incorporated in the system*'[12]. This included factors that would enhance the user experience of the online system and make it easier for the public to use.

Trial runs and sensitization trainings for the rest of public were conducted. The public's input was very limited in the planning but during the implementation phase, there was great need for awareness creation. Comments from the change agents who were part of the public were taken into consideration to make the system easy to use.

Contractual Agreements: The consultants were contracted to develop the online system. In this case, the consultants had contractual agreements with the authority. This was imperative because it facilitated timely enforcement, as there were stipulated consequences in their contracts should they fail to deliver. There were severe penalties for non-compliance that acted as a strong incentive to deliver on the part of consultants. One respondent indeed noted that "*Laxity in implementation was not an option especially for the consultants since no contract variations on pricing was allowed*"[13]. This implies that the reform project was on kept track and did not stall.

Contractual agreements were what saved the Authority a great deal in 'disciplining' the consultants to work within the agreed time. Similarly, performance contracting was employed within the authority. The project team was given specific targets to meet at a set time. This was very instrumental in monitoring progress. However, unlike the case of consultants where lobbying was used to discipline, there were no tangible financial or otherwise, incentives and/or penalties that were meted against the workers if they do or do not meet their targets. Although there was '*initial resistance from staff members who thought they would lose their jobs as a result of the high levels of automation*'[14], when the reform was no longer seen as a threat there was great support and high levels of performance from the team.

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[12] Key Informant #6, Tata Consultant, I-Tax, KRA, 2013

[13] Key Informant #1, Senior Programme officer, Operations and Programme Mgmt, KRA, 2013

[14] Ibid

3.6 Conclusion

This section specifically examined the KRA iTax reform process that was led by Kenya Revenue Authority. The iTax reform happened within the economic and political processes. In both contexts, stakeholders' interests and influence significantly affected the reform process. The economic processes depicted that reforms needs financial resources before, planning and implementation stages. On the other hand, political processes are driven by overall influence as demonstrated in the stakeholders' relationships in the reform processes. Other factors explored in this study include public involvement, application of technology, lobbying among the stakeholders and contracting. The integration of these factors has proven to bring about the success in iTax reform process.

CHAPTER FOUR

iTAX REFORMS SUCCESS

4.1 Introduction

The main aim of the study was to examine why tax administration in Kenya is viewed as a success. The study identified iTax reforms as a case study specifically to find out how the reform was carried out. The discussion dissected the iTax reform and examined its reform context, reform arena and reform processes. The data collected painted a clear picture of how these three elements are related. The reform process and arena all took place within the reform context. In this section, the study goes back to the original premise and seeks out evidence of the success that is tax administration reform.

4.2 Justification and Sequencing of iTax Reforms

The overall goal of the Kenya Revenue Authority from inception was to increase revenue by increasing compliance. As stated in their mission:

> "*To promote compliance with Kenya's tax, trade, and border legislation and regulations by promoting standards set out in the Taxpayers Charter and responsible enforcement, by highly motivated and professional staff thereby maximizing revenue collection at the least possible cost for the social-economic well-being of all Kenyans.*" (KRA, 2012:xix)

It was therefore not surprising that the officials attributed the inception of the reforms to the need to increase compliance. As one respondent pointed out, '*mainly it (the reform) was due to high levels of non-compliance coupled with various initiatives to find out solutions through committees. This gave rise to recommendations on improving various systems and processes within the Domestic Tax Department and was therefore included as part of the corporate plan*'.[15] The identification of the problem as lack of compliance led to the research team examining tax systems in different countries and they agreed on iTax after a benchmarking visit to Chile.

For the Ministry of Finance, on a macroeconomic level, saw the reforms as '*a response to*

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[15] Key Informant #5, Programme Officer, I-Tax, KRA, 2013

meeting the national strategies, in this case Economic Recovery Strategy for Wealth and Employment Creation'[16]. The key aim was to address the under performance in revenue collection and meet customer expectations. The main interest of the ministry was to have increased revenue collection. This was seen as '*an opportunity to facilitate electronic filing, registration payment, query of taxpayer accounts and Electronic Tax Register data transmission'*[17]. This was the overarching goal of the two main government institutions.

Overall, the objective of the reforms was to increase public service delivery, more specifically iTax reforms were aimed at increasing compliance and revenue collection. The reforms were designed and went live in December 2008 with a number of objectives. Within the Authority, there was a clear understanding among the workers on what it was aimed to do. The objectives included: '*to improve service delivery; to expand the tax base; to modernize revenue administration, Income tax and VAT systems; to reduce cost and increase tax compliance by the taxpayer; to reduce tax collection expenses or costs and to integrate all domestic taxes transactions of a taxpayer through a single window that will enable sharing of information among other functions'*[18]. All these goals geared towards improving service delivery to the taxpayer. Implementation was divided into three phases:

1. Phase 1: - taxpayer registration, filling and payments.
2. Phase 2: - automation and backend processes involving introduction of GPRS enabled ETR data to facilitate real time transmission of invoice data and help processing of VAT refunds
3. Phase 3: - workflow and management reports.

Key elements of I-tax reforms included:

a) Shifting to the use of a uniform Tax Identification Number (TIN) while registering for Personal Tax, Corporate Tax or VAT.

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[16] Key Informant #7, Technical Expert, Economic Affairs Dept, Min of Finance, 2013

[17] Ibid

[18] Key Informant #1, Senior Programme officer, Operations and Programme Mgmt, KRA, 2013

b) Simplification of the tax code.

c) Developing systems that can enhance access to third-party sources of information, such as withholdings, bank transactions (foreign exchange transactions, transactions in securities and large transactions) involving real estate, cars, tax-deductible transactions and customs payments.

d) Enhancing administration through measures such as entrusting sensitive negotiations to special teams; minimizing contact between tax payers and tax collectors and reducing the discretionary powers of tax officers; setting up supervisory systems with at least three hierarchical levels to reduce opportunities for collusion; and devise incentive systems that match public and private interests. There was the possibility of relying on banks in collecting taxes (Moyi,and Ronge, 2006).

4.3 I-Tax Reform Success Evidence

Overall, the I-Tax reform was considered a success because of a number of reasons. One, as demonstrated by the figure below, there has been improvement of tax revenue collection from 2001 as a result of tax administration reforms over the years.

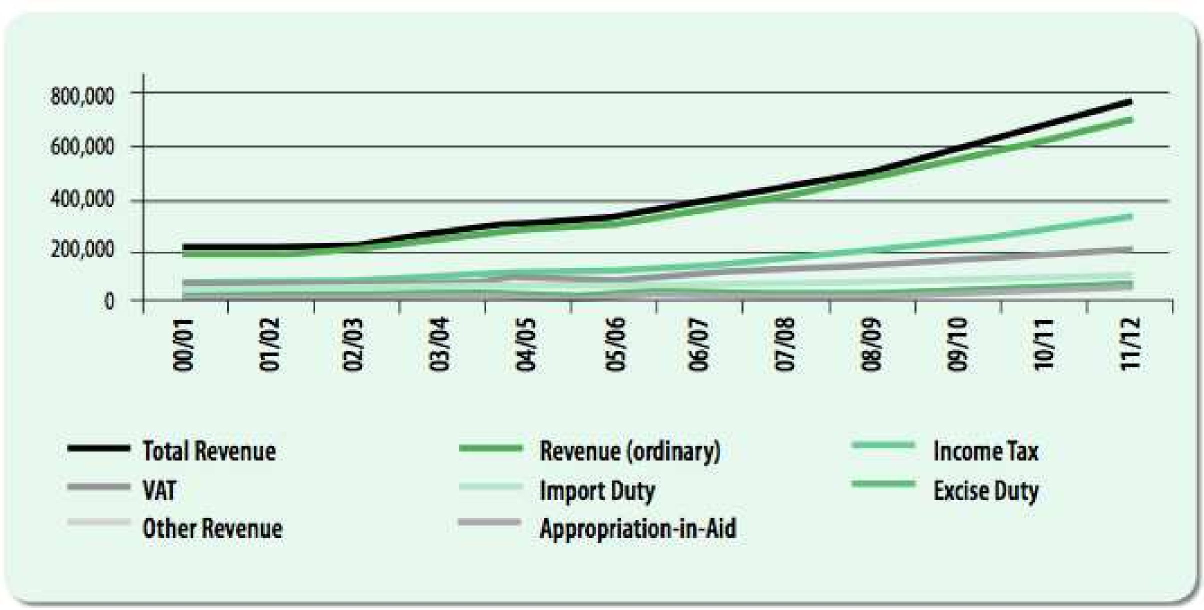

FIGURE 4. 1. **TRENDS IN TAX REVENUE**

Source: (Mutua, 2006:15)

Second, tax collection increased since the inception of the reform in 2008 as shown in the figure 4.2 below. The revenue collected from the three departments: customs service department, domestic taxes department and road transport department, increased every year. Revenue performance increased by 32% since its inception from FY 2008/2009 to 2011/2012. This demonstrated the first signs of improvement.

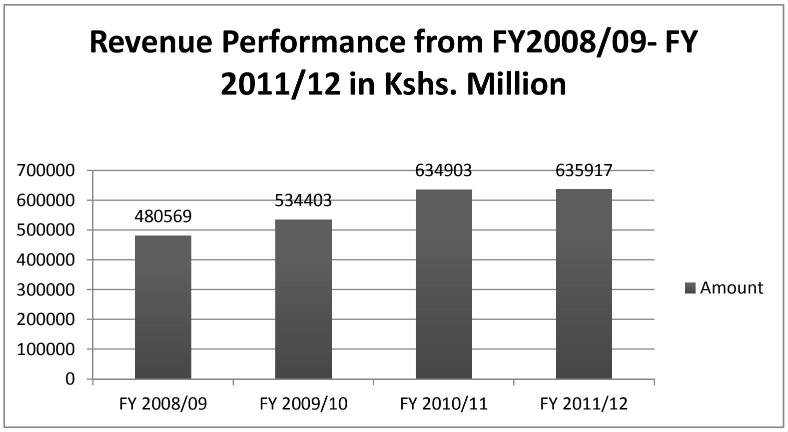

FIGURE 4. 2. **REVENUE PERFORMANCE FROM FY 2008/09 TO FY 2011/12 IN KSHS. MILLION**

Source: (KRA, 2012)

Third, now 90% of KRA operations were automated. With the introduction of iTax (formerly Integrated Tax Management System) many of the processes within KRA were automated. It is now easier for the taxpayer to directly submit their taxes.

Fourth, another goal set by KRA was to maintain a reduced cost of tax collection. Between the Financial Year 2008/09 to 2011/12 it remained below 2% (Figure 4.3). While the total cost of collection for all the departments remained below 2%, it is clear that the domestic tax department was doing better by ensuring its collection costs were below 1% of total revenue collected.

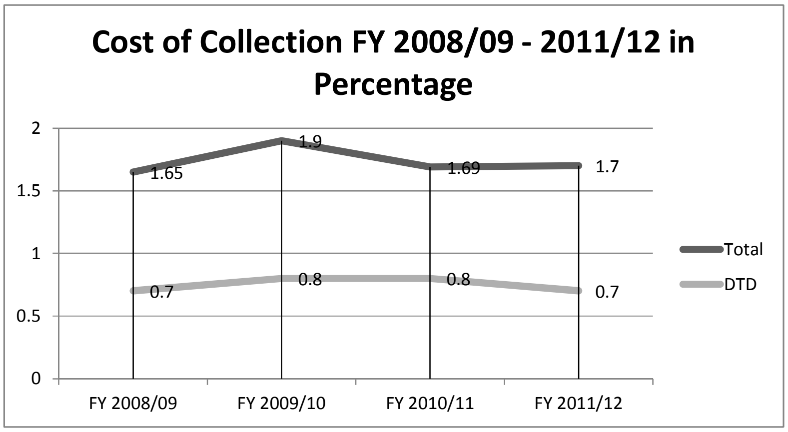

FIGURE 4. 3. **COST OF COLLECTION FY 2008/09 TO FY 2011/12 IN PERCENTAGE OF TOTAL REVENUE COLLECTED**

Source: (KRA, 2012)

Surveys also indicate that customer satisfaction rating improved to 65% aggregate for both corporate and individuals (KRA, 2012). As was previously discussed, there was a high sense of apathy when it came to payment of taxes. However, with the new system in place things seemed to improve.

Other indicators have also demonstrated its success. These included as the former Commissioner General Waweru stated,

> '*Since 1995, such reforms have gained prominence among the public as Kenyans have increasingly realized the precious value of domestic revenue. Indeed every Kenyan will be comforted that their government funds their education, medical cover or any other public utility. As a nation, we do not have to endure the indignity of pleading for assistance from development partners for our national budget. It is for this reason that tax reforms are a necessary tool to ensure that our domestic revenue base is regularly protected."* (KRA, 2010)

The key informants were required to rate the success of the reform using different indicators: ownership, efficiency, compliance and sustainability. When using ownership as an indicator of success, four out of the five respondents who answered this question scored it as very good while one gave an excellent score. Because the national budget was not dependent on external financiers, there was ownership over the reform project. This means Ministry of Finance and KRA had a strong influence on how it was formulated and implemented. This is impressive since many African countries 'have not been able to establish an institutional culture that is supportive of domestic reforms' (Kayizzi-Mugerwa, 2003:2).

The key informants rated efficiency and compliance as average. The compliance resistance being faced during its implementation by the public could explain this. These included: '*slow/low uptake of reform products such as the filing of tax returns, this was a consequence of the KRA staff not providing guidelines on who should mandatorily file returns electronically; technological challenges on taxpayer's side; state of ICT infrastructure in the country'*[19]. All these were considered as teething problems that could be resolved during the implementation of the different phases of the project.

Finally on sustainability, two key informants rated it as average; two very good and the official from the ministry rated it as excellent. It was encouraging to see that the ministry viewed it as sustainable that means they were more willing to finance the reforms in the future until the different stages are complete. The commitment of the Ministry of Finance indicates high levels of ownership and sustainability into the future to completion.

4.4 Conclusion

In this section, the paper has examined three main issues: what the reform was aimed at achieving, how KRA went about this process and whether it was a success. From the discussion, it is evident that the reform was able to achieve the goals it was set out to accomplish. The achievement included increased revenue collected, reduced cost of collection, automation of Kenya Revenue Authority operations and improved service delivery to the target audience. There is also evidence from the respondents that qualitative factors such as ownership and sustainability also contributed to the success of these reforms.

[19] Key Informant #3, Quality assurance lead – I-Tax, ICT Department, KRA, 2013

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The conclusions and recommendations made in this chapter are based on the findings from the study as presented in chapter three and four. The conclusions have been made on iTax Reforms process and successes of the iTax reforms. The chapter has ended with recommendations based on the findings and conclusions made.

5.2 iTax Reforms Process

For any public sector reform to be successful it has to be viewed as a process rather than a one-time event. From this study, the findings have showed that Kenya tax regime has been changing with years. The reforms process begun in 1986 when the Tax modernization programme was introduced to increase the revenue base. This reform was informed by decline of economic growth and shrinking international funding. The government was forced to effect reforms to be able to finance the public service delivery. In 2004, another change was made in the tax reform process by the introduction of Revenue Administration Reforms and modernization programme (RARMP). This necessitated the establishment of operation and programme management department at Kenya Revenue Authority to ensure reformed desired outputs are achieved and stakeholders' needs are met. From the historical timeline, it shows that public sector reform is a gradual process that goes through phases of improvement. To date, iTax reforms continue to improve as new challenges of tax administration continues.

The findings further showed that for any public sector reforms to succeed, there is need for establishment of an autonomous or semi autonomous body. In Kenya, the greatest tax reform success came about when Kenya Revenue Authority was established in 1994. It is an autonomous body from treasury in charge of tax administration (Karingi and Wanjala, 2005). The contribution to the success of the iTax administration is made because KRA works within a framework that utilizes project managers and teams encourages professionalism and careful planning and lowering of the administration cost to ensure project success is the norm. Currently Kenya Revenue Authority has opened regional offices in Rift Valley, Western, Southern, Northern and central. It has also a mainstream department that deals with research that support administration and monitoring of reforms and objectives (KRA, 2013).

To understand how iTax reform processes lead to desired outcomes, stakeholders mapping and analysis was conducted. The analysis revealed the likelihood of success may be high where the interests of all stakeholders converge with limited few and powerless stakeholders with conflict of interest. For instance, in iTax reform process the stakeholders included organisations such as World Bank and International Monetary Fund, Ministry of finance, Kenya Revenue Authority, professional bodies like Kenya Bankers Association and Institute of Certified Public Accountants of Kenya and national Registration Bureau and Company Registry. All these stakeholders had an interest in iTax reforms and their engagement was one of the pillars of Tax administration Reforms. Within the stakeholders' relationship, Kenya Revenue Authority was primary and coordinated the overall direction of the relationship to ensure the final outcome was professional management of tax.

It can further be concluded that financial resources to support the reforms and stakeholders overall influence ultimately determine the success of the public sector reforms. To manage the economic and political processes in the public sector reforms, there is coordinated lobbying for both financial resources and legal framework that support the reforms among the primary stakeholders. The findings further show that contract agreements become the instrument to govern and control the influence and interests among the stakeholders. The contracts contain obligations and contributions of each of the stakeholders to the reforms and violations of the terms results to grave consequences. Within this framework, creation of awareness and involving of the users of the iTax system also contributes to the successful implementation of reforms.

Other factors that were found to have contributed to the success of reforms were the application of technology and research. Technology with the tax management has significantly impacted the cost of administration and workload especially for users. The findings show that Kenya Revenue Authority had to hire consultants who did development of the iTax system. The consultants had insights into Tax system technology, which they deployed during the implementation phase of the reforms. In addition, E-government directorate was critical in providing ICT strategy in the public sector and support for the government to expand the ICT infrastructure in the country.

5.3 Achievements of iTax Reforms

From the findings it clear that the increased tax revenue was a sequence of events that were done successfully. The introduction of the iTax reforms was first to ensure there was increased compliance to pay the tax by individuals and companies. This event was followed by establishment of an organized system consisting of tax registration, automation and reports management. Kenya Revenue Authority also liaised with National Registration Bureau and Company registry to ensure that information on individuals and companies is provided and accessed by third party. As a result, there was 32% increase in revenue collection by 2008, 92% automation of Kenya Revenue Authority and 65% customer satisfaction by 2012. In conclusion, the achievements of reforms are not distinct deliverables but the accomplishment of a series of events.

5.4 Recommendations

1. Public sector reforms need a long-term planning since it is a gradual process. The participation of different stakeholders in this strategic planning is key so that their interests and needs can be included in the design.

2. The success of any public sector reforms depends solely on an established and autonomous body like Kenya Revenue Authority. The autonomy gives the body to act independently and coordination of the reforms implementation is objectively done.

3. For public sector reforms, several factors such as technology, public involvement among others must be considered to ensure that a balance has been reached. Lack of considerations of these factors will turn to be challenges that slow the reform process.

4. Longitudinal monitoring of the public sector reforms should also be considered by the body leading the reform process. The monitoring should be focused on management of stakeholders' interests and fulfilment of their needs, operations and systems of the body and performance with regards to desired outcomes of the reforms.

5.5 Conclusion

Several reasons were found to explain the success in the iTax reforms by Kenya Revenue Authority. Among the explanation is the various stakeholders' interests and influence within the economic and political processes. Others included lobbying, application of technology, public participation and continuous research for further improvement. The study therefore recommends that actors involved in public sector reforms should conduct participatory strategic planning to ensure that the interests and needs of different stakeholders are taken care of in the design and implementation of the reforms.

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ANNEXES

Annex I: Questionnaires

I-Tax Questionnaire

Greetings! I am Linda Wamalwa, a student at the Institute for Development Studies, University of Nairobi. I am conducting a study on tax administration reforms within the Kenya Revenue Authority. I would like to discuss these issues with you. All the information collected will be kept confidential, will be used for the purpose of this study and will not be revealed to any other person.

Date:

Section 1: Demographic Characteristics

Name of respondent? (Optional)

Gender:

Department:

Position:

Years in the department/position:

This project focuses on the Integrated Tax Management System reforms

Section 2: Planning

Why were these reforms introduced?

How did the reforms begin?

What aspects of the reform were considered important and by who?

What were the key steps involved in formulating the reforms, (what were the first and last steps?)

How long did it take to implement?

Section 3: Implementation

Who were the people and institutions involved? (Domestic tax department management, Financiers)

Who gave leadership at what level?

Which ministries were involved and how?

How was parliament involved if at all?

Was there any lobbying done to ensure the implementation of the reforms?

Where, by who and why was there need for lobbying?

How were tax payers involved if at all?

Who else was involved?

With regard to each of these actors:
What influence did actors have and why?

What incentive did they have and why?

How were the different incentives balanced?

How do they affect the implementation of the reforms?

What formal and informal values guide this interaction?

How did these values affect the political behavior of the actors?

Section 3: Challenges

What major challenges have been encountered?

Which actors have been responsible for these and why?

How were these overcome if at all?

Do you think the reform has been successful and why?

On a scale of 1-5 how has it been able to achieve the following:

	1. Not at all	2. Good	3.Average	4. Very good	5. Excellent
Efficiency					
Compliance					
Ownership					
Sustainability					

a) SIMBA Questionnaire

Greetings! I am Linda Wamalwa, a student at the Institute for Development Studies, University of Nairobi. I am conducting a study on tax administration reforms within the Kenya Revenue Authority. I would like to discuss these issues with you. All the information collected will be kept confidential, will be used for the purpose of this study and will not be revealed to any other person.

Date:

Section 1: Demographic Characteristics

1. Name of respondent? (Optional)
2. Gender:
3. Department:
4. Position:
5. Years in the department/position:

This project focuses on the implementation of SIMBA

Section 2: Planning

6. Why were these reforms introduced?
7. How did the reforms begin?
8. What aspects of the reform were considered important and by who?
9. What were the key steps involved in formulating the reforms, (what were the first and last steps?)
10. How long did it take to implement?

Section 3: Implementation

11. Who were the people and institutions involved? (customs department, financiers)

12. Who gave leadership at what level?

13. Which ministries were involved and how?

14. How was parliament involved if at all?

15. Was there any lobbying done to ensure the implementation of the reforms?

16. Where, by who and why was there need for lobbying?

17. How were tax payers involved if at all?

With regard to each of these actors:

18. What influence did actors have and why?

19. What incentive did they have and why?

20. How were the different incentives balanced?

21. How do they affect the implementation of the reforms?

22. What formal and informal values guide this interaction?

23. How did these values affect the political behavior of the actors?

Section 3: Challenges

24. What major challenges have been encountered?

25. Which actors have been responsible for these and why?

26. How were these overcome if at all?

27. Do you think the reform has been successful and why?

28. On a scale of 1-5 how has it been able to achieve the following:

	1. Not at all	2. Good	3.Average	4. Very good	5. Excellent
Efficiency					
Compliance					
Ownership					
Sustainability					

b) Ministry of Finance Questionnaire /Interview guide

Greetings! I am Linda Wamalwa, a student at the Institute for Development Studies, University of Nairobi. I am conducting a study on tax administration reforms within the Kenya Revenue Authority. I would like to discuss these issues with you. All the information collected will be kept confidential, will be used for the purpose of this study and will not be revealed to any other person.

Date:

Section 1: Demographic Characteristics

1. Name of respondent? (Optional)
2. Gender:
3. Department:
4. Position:
5. Years in the department/position:

This project focuses on the implementation of Integrated Tax Management System

Section 2: Planning

6. When did the reforms begin?
7. What aspects of the reform did your department consider important, why?
8. At what stage was the Ministry of Finance involved and what was its role?

Section 3: Implementation

9. Which departments/ actors were involved in the ministry e.g. (treasury, legal)
10. Who gave leadership at what level?
11. How was parliament involved if at all?
12. Was there any lobbying done to ensure the passing of legislation to enable implementation of the reforms?
13. Where, by who and why was there need for lobbying?

With regard to each of the different actors involved in the reform process:

14. What influence did the actors have and why?
15. What incentive did they have and why?

16. How were the different incentives balanced?
17. How do they affect the implementation of the reforms?
18. What formal and informal values guide this interaction?

Section 3: Challenges

19. What major challenges have been encountered?
20. Which actors have been responsible for these and why?
21. How were these overcome if at all?
22. Do you think the reform has been successful and why?
23. On a scale of 1-5 how has it been able to achieve the following:

	1. Not at all	2. Good	3.Average	4. Very good	5. Excellent
Efficiency					
Compliance					
Ownership					
Sustainability					

c) Consultant Questionnaire

Greetings! I am Linda Wamalwa, a student at the Institute for Development Studies, University of Nairobi. I am conducting a study on tax administration reforms within the Kenya Revenue Authority. I would like to discuss these issues with you especially pertaining to your consulting services to KRA for I-Tax. All the information collected will be kept confidential, will be used for the purpose of this study and will not be revealed to any other person.

Date:

Section 1: Demographic Characteristics

1. Name of respondent? (Optional)
2. Gender:
3. Age:
4. Organization:
5. Position:
6. Years in the position:

This project focuses on the implementation of Integrated Tax Management System

Section 2: Planning

7. What is the mandate of your organization?
8. Within the region, which countries have you worked in?
9. What challenges did you experience in these countries?
10. What aspects do you find peculiar to public reforms in these countries?
11. When did you start working on i-Tax reforms?
12. What aspects of the reform are you engaged in?
13. What is your role?

Section 3: Implementation

14. Which departments/ actors do you engage with?

With regard to each of the different actors involved in the reform process:

15. What influence do the actors have and why?
16. How does their influence /affect the implementation of the reforms?
17. What formal and informal values guide this interaction? (e.g. contractual agreement etc)

Section 3: Challenges

18. What major challenges have been encountered?
19. Which actors have been responsible for these and why?
20. How were these overcome if at all?
21. Have you been successful in meeting your objectives?

Annex II: Key Informant Interview Report

This is a report on data collected in the month on august carried out on key informants in the Kenya Revenue Authority and Ministry of Finance. The data collated within the authority was from diverse departments as seen in the table below. The main target was the Integrated Tax Management System now referred to as iTax. However for purposes of comparison an interview was collected from on the Customs department SIMBA project, which has some similarities to I-Tax. Finally, an interview on a technical expert in the ministry of finance was conducted, he is the one who is mandated to deal with tax issues.

The data from the agency was collected using open-ended questionnaires as the instrument authorized by the authority. The instrument covered the main themes and arguments emerging from relevant literature. Data from the ministry of finance was an in depth interview based on key issues. Due to the sensitivity or political nature of the topic and questions a follow up confidential interviews was carried out with individuals within the cohorts.

No	**Date**	**Org**	**Department**	**Official Designation**
KI 01	12/08/13	KRA	Operations & Programme Management	Senior Programme Officer
KI 02	15/08/13	KRA	Customs Service Department	Senior Assistant Commissioner
KI 03	21/08/13	KRA	ICT Department	Quality Assurance Lead – I-Tax
KI 04	20/08/13	KRA	Research Department	Senior Programme Officer
KI 05	21/08/13	KRA	I-Tax	Programme Officer
KI 06	24/09/13	KRA	I-Tax	Consultant
KI 07	17/08/13	Finance	Economic Affairs Department	Technical Expert

Information Collected from Key Informants		
Information needed	Information Acquire	
Why reforms were introduced	ITMS To improve service delivery To expand the tax base To modernize revenue administration, Income tax and VAT systems To reduce cost and increase tax compliance by the taxpayer To reduce tax collection expenses or costs To integrate all domestic taxes transactions of a taxpayer through a single window that will enable sharing of information among other functions To facilitate electronic filing, registration	SIMBA To bring standardization in the process To automate procedure to reduce cargo clearance time To Increase efficiency in the services and revenue collection To create inclusive business environment To reduce or eliminate

	payment, query of taxpayer accounts and ETR data transmission	red tape
How reforms begin	ITMS High level of non-compliance coupled with various initiatives to find out solutions through committees. It gave rise to recommendation on improving various systems and processes within the DTD. It was part of the corporate plan, included after a benchmarking visit to Chile. A response to meet the national strategies, in this case ERSWCPC. Key driver was to address the underperformance in revenue collection and meet customer expectations.	SIMBA There was a formation of a reform or modernization project tram to review, re-engineer and automate systems. Various benchmarking tours were done to identify the best system
Aspects of reform considered important by different actors	ITMS Institutional organization reforms in relation to organization structure – IMF, GoK and KRA board Operational reforms geared towards service delivery and revenue enhancement – senior management Ministry of finance was interested in Trade facilitation to enable returns to be filed on time and fast track audit processes Tax automation Tax payer registration Tax returns filing	SIMBA Efficiency – management Improved revenue – government Trade facilitation – AU Eliminate red tape – AU
Steps involved in formulating reforms	Planning Step 1: develop plans and strategies aligned to the existing corporate plans and national goals Step 2: seeking funding Step 3: consensus building prior to implementation Implementation Phase 1 – taxpayer registration, filling and payments Phase 2 – automation and backend processes involving introduction of GPRS enabled ETR	SIMBA Simplification of processes – by review of the process and organizational structure and also getting the proper infrastructure in place Automation of processes

	data to facilitate real time transmission of invoice data and help processing of VAT refunds Phase 3 – workflow and management reports In the ministry of finance <u>Legal processes</u> Research – there is learning from other countries or implementation of auditors recommendation Technical process- the flow of information flows from the officers to the department director, the Finance Secretary, the permanent secretary and finally the minister to be presented in parliament Parliament – here a number of bills were introduced in support of the reform: VAT, Excise tax, dispute resolution and application of Information Technology. These are still underway Its passed into law <u>Political Processes</u> Within: once the officers make the ‘recommendation’ it is presented to the minister. it is considered a technical recommendation. It is at this point that he decides to accept or not. In some cases if the recommendation is controversial and the ministers due to personal or external influences rejects it. Without: in other cases, the minister consents and it goes to the floor. However members of parliament may seek a technical meeting to be able to give the experts audience to be able to understand the bill. In this case there are two options they accept or reject. Accept – this happens when it is not conflicting in their interest and those of their constituents Rejects – this occurs when it conflicts with the interests of their constituents. For instance, with the VAT bill there is a lot of	

	controversy surrounding the taxing of basic foods: wheat flour and bread. The MPs realize the voters, majority who are poor are against it and are therefore reluctant to oblige. On the other hand the technocrats realize the cartels are taking advantage and hike the price regardless. While they profit the government does not get any revenue whichwill be used to improve basic services. Economic processes: Tax administration being a priority to the government there is allocation for its implementation and consequently reforms especially since 90% of the budget is supported through taxes collected.	
IMPLEMENTATION		
Duration of implementation	ITMS Went live on Dec 2008. Phase one took 3 years and phase two is still ongoing	SIMBA From 2005 – 2006. However enforcement has been a continual system
Actors : people and institutions involved	ITMS Departments: Domestic Taxes Department (project team), ICT, procurement, marketing and communication and legal services Financiers: Ministry of Finance (treasury), International Monetary Fund and World Bank and management of departments Consultants: Optimisa Chile and Tata Consulting India Pilotees: taxpayers, banks, National Registration Bureau, company registry Institutions: KRA, MoF, Kenya ICT Board, E-Government, ICPAK	SIMBA Government as the funding agent The provider being government of Senegal KRA as the implementer Business community as the users Stakeholders: banks, clearing agents, insurance companies, KAM
Those who provided leadership	ITMS Inception and strategic direction– Project sponsor the Commissioner General, head of steering committee and KRA board Project planning – Project owner Project implementation - Project managers and sectional head	SIMBA Commissioner general of KRA and commissioners customs
Ministries involved	ITMS	SIMBA

	Ministry of Finance – treasury Ministry of Information and communication – ITMS as an electronic solution was publicized by the ministry Attorney general – contract Ministry of Home Affairs - NRB	Ministry of Finance
Parliament's involvement	ITMS Pursuit of Income Tax and VAT law requiring that traders install ETR Budgetary provisions through ministry to fund the project	SIMBA No involvement but later a bill was passed in EAC to allow electronic submission of customs declaration
Need for lobbying: reason and those involved	ITMS From KRA: Treasury was consulted for budget approvals and Stakeholder consultations to get buy in To KRA: from private sector and WB and IMF for modernization of tax administration reforms to enhance service delivery and transparency process Reason: without the shared interests between the different actors, the reforms may not have been implemented with a sense of urgency	SIMBA Yes to get buy in of the stakeholder, a lot of sensitizations were done to external and internal stakeholders. There were carried our in all borders, Nairobi and Mombasa by the implementation team to all stakeholders. There was a need to lobby since it was a total change of the process and there was need for all to have the correct infrastructure in place by the date to go live
Inclusion of the public, others	ITMS Public/taxpayers – involved through sensitization forums and public participation to provide views on the proposed products to cater for their needs Pilotees – 100 Large taxpayer and 100 middle taxpayers, requirements gathering and consultative meetings Banks through the banking association as a payment gateway Professional associations – ICPAK, Kenya	SIMBA Sensitization of taxpayers and through media

	Bankers Association E – government directorate Kenya ICT Board	
Influence of the actors; Their incentives and reason behind it Balancing of interests Effects on implementation	ITMS Commissioner General for project direction and allocation of resources. National Registration Bureau and Company registrar provided data on registered companies however the later have been reluctant to provide updates because they receive payment for this and feel they lose out. There is a currently a data transmission protocol that is meant to ensure this information is free to the public. Ministry of Finance/ treasury – Financing with interests in increased revenue collection. They had to be convinced that the reforms will generate additional revenue. Professional associations' considerations about the system were taken by the board. As main users of their system, it's their members who file returns on behalf of taxpayers. Therefore, their buy in is crucial to the successful implementation of the system Kenya Bankers Association – they have the influence to encourage their members to embrace ITMS and facilitate electronic payments. E-filing of returns is pegged on e-payments to succeed. E -government directorate somehow influential to provide the overall ICT strategy in the public sector. Meaning 24/7 support to ensure the electronic processes meet their objectives. Kenya ICT Board to offer support for the government to expand the ICT infrastructure in the country.	SIMBA The clearing agents were users of the system and were required to lodge entries online and therefore needed to have correct infrastructure and had to agree to train before implementation date. The banks too needed to use the system to upload payment and also integrate with their systems. To balance interests they adopted a phased approach to the different modules by prioritization. After every phased implementation an evaluation report was presented after 3 months. The implementation was made easier since each party understood their role and benefit

	IMF & World Bank – funding for a revenue mobilization system Balancing incentives: Greatest incentives is to expedite services for electronic platform and lower cost of administration. These were to be provided as long as actors were to mobilize their members to use the electronic products. A balance had to be struck between expectations and acceptability to manage their expectations. Effect on implementation of reforms: Reduce any resistance from their members in the use of the products They will affect implementation if they offer no support from the beginning As stakeholders, they may stall the reforms if not favorable to their current operations	
Formal and informal values guiding interaction and how they affect political behavior of actors	ITMS Professionalism Contractual agreement Integrity Team work All were instrumental but contractual agreement was very important as it had consequences due to the severe penalties for non-compliance. Secondly, the project gad to be complemented on time since no contract variations on pricing was allowed.	
Challenges encountered and actors responsible for this and why	Financial constraints from the ministry of Finance Resistance from staff who think they will lose their jobs and taxpayers fear that reforms will seal revenue loopholes Political interference by MPs in the engagement with parliamentary committees i.e. finance, trade, budget committees having	SIMBA Change of management among internal and external stakeholders Lack of infrastructure required especially amongst external

	other pressing national legislation Slow/ low uptake of reform products such as the filing of tax returns, this was a consequence of the KRA staff not providing guidelines on who should mandatorily file returns electronically Technological challenges on taxpayers side State of ICT infrastructure in the country Timely legislative changes to accommodate reforms Lengthy procurement procedures that brings delays in equipment and resources Language barrier with the consultants Min of Finance - Constant innovation and advancement in the IT sector: this means that people often find ways of by passing the law and not paying taxes. For instance in the purchase of books and software online they have been able to by-pass KRA	stakeholder Some stations still continues working with manual systems thus revenue loss Resistance from users
How the challenges were overcome	ITMS Finance – break projects into phases Resistance of staff through engagement, updates and change management training Sensitization of public, change management programs and appointing change agents MPs - engagement with parliamentary committees Upgrading ICT infrastructure to improve performance Constant regulation to try and keep up with the constant innovation	SIMBA Training Court cases sensitization
Success of the reform and the reason	ITMS YES Tax revenue has quadrupled from Kshs. 202bn to Kshs 800bn 90% of KRA operations are now automated Cost of tax administration has remained below 2% Customer satisfaction rating has improved to 65% (both corporate and individuals) Yes but they need continuous updating though the bills have not yet been passed into	SIMBA Yes Revenue has grown by over 300% Standardization of procedures Accountability of cargo ie no loss Transparency Centralization of processes has been

	law though it has been approved	achieved using less resources
Factors that made the reforms a success	ITMS Management support Committed teams Funding and resources provision though not adequate Stakeholder consultation Corporate and strategic planning	SIMBA Management support Committed teams Funding and resources provision though not adequate Stakeholder consultation Corporate and strategic planning

On a scale of 1-5 how has it been able to achieve the following:

	1. Not at all	2. Good	3.Average	4. Very good	5. Excellent
Efficiency		x	1	1z	1
Compliance			3 x	Z	
Ownership				2 x z	1
Sustainability			2	1 x	z

Key:
Numbers – KRA officials
X – Ministry of Finance
Z - SIMBA