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REPUBLIC OF KENYA

THE NATIONAL ASSEMBLY

TWELFTH PARLIAMENT – FOURTH SESSION – 2020

DEPARTMENTAL COMMITTEE ON FINANCE AND NATIONAL PLANNING

REPORT ON THE INSPECTION VISITS TO KENYA REVENUE AUTHORITY OFFICES TO ASCERTAIN THE IMPACT OF REVENUE ENHANCEMENT INITIATIVES ON REVENUE COLLECTION

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DIRECTORATE OF DEPARTMENTAL COMMITTEES
PARLIAMENT BUILDINGS
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ACRONYMS

KRA	–	Kenya Revenue Authority
VAT	–	Value Added Tax
BOFFIN	–	Bishop Gate Office Freight Forwarders Infrastructure Network
RRAMP	–	Revenue Reforms And Modernization Project
ITMS	–	Integrated Tax Management System
DPC	–	Data Processing Centre
ISO	–	International Organization for Standardization
iCMS	–	Integrated Customs Management System
RECTS	–	Regional Electronic Cargo Tracking System
OSBP	–	One Stop Border Post
CGT	–	Capital Gains Tax
DTD	–	Domestic Tax Department
DWBI	–	Data Warehouse & Business Intelligence
IFMIS	–	Integrated Financial Management Information System
NSSF	–	National Social Security Fund
NHIF	–	National Hospital Insurance Fund
LTO	–	Large Taxpayers Office
MTO	–	Medium Taxpayers Office
TSO	–	Tax Service Offices
KEBS	–	Kenya Bureau of Standards
TPS	–	Taxpayer Services
ETR	–	Electronic Tax Register
BMC	–	Border Management Committee
WCO	–	World Customs Organization
REIs	–	Revenue Enhancement Initiatives
JKIA	–	Jomo Kenyatta International Airport
ICDN	–	Inland Container Depot Nairobi
APSC	–	Air Passenger Service Charge
ANSC	–	Air Navigation Service Charge
KQ	–	Kenya Airways
AEO	–	Authorized Economic Operator
JOC	–	Joint Operation Centre
SOPs	–	Standard Operating Procedures
M & C	–	Marketing & Communication
I & SO	–	Intelligence & Strategic Operations
KPA	–	Kenya Ports Authority
DCI	–	Directorate of Criminal Investigations
KAM	–	Kenya Association of Manufacturers
SMEs	–	Small and Medium-sized Enterprises
TEUS	–	Twenty-Foot Equivalent Units
KRC	–	Kenya Railways Corporation
MIT	–	Mombasa Inland Terminal
NICT	–	Nairobi Inland Container Terminal
NEMA	–	National Environment Management Authority
CFS	–	Container Freight System
MRI	–	Monthly Rental Income

KPLC	–	Kenya Power and Lighting Company
FY	–	Financial Year
SGR	–	Standard Gauge Railway
COVID	–	Corona Virus Disease
PAYE	–	Pay As You Earn
TOT	–	Turnover Tax
JICA	–	Japan International Cooperation Agency
ADB	–	Africa Development Bank
LPG	–	Liquefied Petroleum Gas
COMESA	–	Common Market for Eastern and Southern Africa
DA	–	Direct Assessment
FOB	–	Free On Board
MMS	–	Manifest Management System
EAC	–	East African Community
SCT	–	Single Customs Territory
CoE	–	Certificate of Export
WHO	–	World Health Organisation
TMEA	–	TradeMark East Africa
MDF	–	Medium Density Fibreboard

CHAIRPERSON'S FOREWORD

This report contains the findings and recommendations of the Departmental Committee on Finance and National Planning on its fact-finding visits to the Kenya Revenue Authority Offices at the Times Towers, Inland Container Depot, Jomo Kenyatta International Airport and the Port of Mombasa as well as the selected One Stop Border Posts across the country (Namanga, Busia and Malaba).

The objective of the visit was to assess the capacity of Kenya Revenue Authority to collect revenue for budget implementation as well as honoring other country obligations. The visit was undertaken between 23rd September, 2020 and 10th October, 2020.

It is noted that the ability to raise revenues from taxes referred to as fiscal capacity is a crucial aspect for the functioning of any state and being able to collect revenues efficiently, is a cornerstone of state formation and survival. Secondly, greater fiscal capacity implies greater access of the state to resources needed to provide public goods and services. Lack of substantive investments in KRA has greatly affected the revenue collection capacity and as such, there is need to put greater emphasis on the infrastructure put in place to optimize revenue collection.

Under revenue collection in Customs, KRA has implemented several strategies towards enhancement of revenue being funded under the Revenue Enhancement Initiative (REI) framework. Some of these initiatives including intelligence driven Valuation and Tariff Interventions, enhanced cargo scanning and monitoring of transit cargo through a centralized control center, ensuring full adherence of the Pre-Export Verification of Conformity (PVOC) rules on all imported goods, multiagency enforcement in combating illicit trade and regular auctions to clear overstay cargo.

The Committee is grateful to the Offices of the Speaker and Clerk of the National Assembly for the logistical and technical support accorded to it during its sittings. The Committee further wishes to thank the Kenya Revenue Authority as well as all the stakeholders who made the inspection visit successful. Finally, I wish to express my appreciation to the Honorable Members of the Committee who made useful contributions towards the preparation and production of this report.

On behalf of the Departmental Committee on Finance and National Planning and pursuant to provisions of Standing Order 199(6), it is my pleasant privilege and honour to present to this House the Report of the Committee on the inspection visits to Kenya Revenue Authority offices to ascertain the impact of revenue enhancement initiatives on revenue collection.

Hon. Gladys Wanga, CBS, MP
Chairperson, Departmental Committee on Finance and National Planning

EXECUTIVE SUMMARY

Kenya Revenue Authority was established by the Kenya Revenue Authority Act Cap. 496 on 1st July, 1995 for the purpose of enhancing the mobilization of Government revenue, while providing effective tax administration and sustainability in revenue collection. Before 1995, revenue collection functions of the Government were distributed among at least five different ministries and as a result, lacked in co-ordination. Their performance was characterized by inefficiency and low levels of accountability. The rationale behind the establishment of the Authority arose from the need to enhance efficiency, transparency and accountability in this critical area of the public sector.

The main objective of the establishment of KRA therefore, was to streamline public revenue collection function by bringing the relevant agencies under the umbrella of a central revenue agency, under the Ministry of Finance. The Board and Management of KRA have since its inception spent time and resources setting up systems, procedures and the adoption of new strategies aimed at enhancing the operational efficiency of the Authority's processes.

In particular, the functions of the Authority are: To assess, collect and account for all revenues in accordance with the specified provisions of all revenue collection laws; To advise on matters relating to the administration, and collection of revenue under the specified provisions of all revenue collection laws and, to perform such other functions in relation to revenue as the Minister of Finance may direct.

In fulfilling its mandate, KRA administers 17 revenue Acts, with the key ones (in terms of revenue importance) being the Value Added Tax (VAT) Act (Cap. 476), the East African Community Customs Management Act (EACCMA), the Income Tax Act (Cap. 470), the Customs and Excise Act (excise provisions) (Cap. 472) and the Traffic Act (Cap. 403). KRA has continued to enlarge in size as well as in the scope of its operations. Regarding the organization structure, KRA is composed by centralized and decentralized units, located across the national territory. The centralized units are basically situated at Times Towers in Nairobi, the capital of the country. The jurisdictions of the decentralized units are geographically distributed across the country in five fiscal regions namely: Southern, Central, Rift Valley, Western and Northern Regions.

It is for this reason therefore, that developing effective ways in revenue collection has been an important matter in tax and revenue collection. The advent of new instruments to help businesses work more efficiently affects the way taxes and revenues are collected. KRA embarked on extensive implementation of various revenue collection strategies in its operations. This was to significantly enhance revenue collection in all Departments. Implementation of innovative revenue collection strategies was supposed to improve its organization structures, training, manpower planning, developing teamwork among management and staff, new approaches to reward management and adaptation of total quality management.

The ability to collect taxes is central to a country's capacity to finance social services such as health and education, critical infrastructure such as electricity and roads, and other public goods. There has been several concerns raised with regards to challenges affecting revenue efficiency including rampant corruption involving tax evasion, illegal tax credits, and theft of government tax revenue.

1 PREFACE

1.1 ESTABLISHMENT OF THE COMMITTEE

1. The Departmental Committee on Finance & National Planning is one of the fifteen Departmental Committees of the National Assembly established under ***Standing Order 216*** whose mandates pursuant to the ***Standing Order 216 (5)*** are as follows:
    i. **To investigate, inquire into, and report on all matters relating to the mandate, management, activities, administration, operations and estimates of the assigned ministries and departments;**
    ii. To study the programme and policy objectives of Ministries and departments and the effectiveness of their implementation;
    iii. To study and review all the legislation referred to it;
    iv. To study, access and analyze the relative success of the Ministries and departments as measured by the results obtained as compared with their stated objectives;
    v. To investigate and inquire into all matters relating to the assigned Ministries and departments as they may deem necessary, and as may be referred to them by the House;
    vi. To vet and report on all appointments where the Constitution or any law requires the National Assembly to approve, except those under Standing Order No. 204 (Committee on appointments);
    vii. To examine treaties, agreements and conventions;
    viii. To make reports and recommendations to the House as often as possible, including recommendation of proposed legislation;
    ix. To consider reports of Commissions and Independent Offices submitted to the House pursuant to the provisions of Article 254 of the Constitution; and
    x. To examine any questions raised by Members on a matter within its mandate.

1.2 MANDATE OF THE COMMITTEE

2. In accordance with the Second Schedule of the Standing Orders, the Committee is mandated to consider, public finance, monetary policies, public debt, financial institutions (excluding those in securities exchange), investment and divestiture policies, pricing policies, banking, insurance, population revenue policies including taxation and national planning and development.

3. In executing its mandate, the Committee oversees the following government Ministries and departments:-
    i. National Treasury and Planning
    ii. State Department for Devolution
    iii. Commission on Revenue Allocation
    iv. Office of the Controller of Budget
    v. Salaries and Remuneration Commission

1.3 COMMITTEE MEMBERSHIP

4. The Departmental Committee on Finance and National Planning was constituted by the House in December, 2017 and comprises of the following Members: -

Chairperson
Hon. Gladys Wanga, CBS, MP
MP for Homabay County
ODM Party

Vice-Chairperson
Hon. Isaac W. Ndirangu
MP for Roysambu Constituency
Jubilee Party

Hon. Jimmy O. Angwenyi, MP
MP for Kitutu Chache North Constituency
Jubilee Party

Hon. Christopher Omulele, MP
MP for Luanda Constituency
ODM Party

Hon. Shakeel Shabbir Ahmed, MP
MP for Kisumu East Constituency
Independent Member

Hon. Daniel Nanok, MP
MP for Turkana West Constituency
Jubilee Party

Hon. (Dr.) Christine Ombaka, MP
MP for Siaya County
ODM Party

Hon. Andrew Okuome, MP
MP for Karachuonyo Constituency
ODM Party

Hon. David Mboni, MP
MP for Kitui Rural Constituency
CCU Party

Hon. Francis K. Kimani, MP
MP for Molo Constituency
Jubilee Party

Hon. Joseph Oyula, MP
MP for Butula Constituency
ODM Party

Hon. Joshua Kandie, MP
MP for Baringo Central Constituency
MCC Party

Hon. Stanley Muthama, MP
MP for Lamu West Constituency
Jubilee Party

Hon. Edith Nyenze, MP
MP for Kitui West Constituency
WDM-K

Hon. Catherine Waruguru, MP
MP for Laikipia County
Jubilee Party

Hon. James Mwangi, MP
MP for Tetu Constituency
Jubilee Party

Hon. (Prof.) Mohamud Muhamed, MP
MP for Wajir South Constituency
Jubilee Party

Hon. Peter Lochakapong, MP
MP for Sigor Constituency
Jubilee Party

Hon. Qalicha Gufu Wario, MP
MP for Moyale Constituency
Jubilee Party

1.4 COMMITTEE SECRETARIAT

5. The Committee is facilitated by the following Secretariat: -

Ms. Leah W. Mwaura
Senior Clerk Assistant/Head of Secretariat

Ms. Jennifer Ndeto
Principal Legal Counsel 1

Ms. Laureen Wesonga
Clerk Assistant II

Mr. Josephat Motonu
Senior Fiscal Analyst

Mr. Chelang'a Maiyo
Research Officer II

2 BACKGROUND

6. One of the mandates of the Departmental Committee on Finance and National Planning is to investigate, inquire into and report on all matters relating to the mandate, management, activities, administration, operations and estimates of the assigned ministries and departments. KRA is one of the institutions oversighted. To this end, the Committee allocated funds as follows to KRA for the procurement of Revenue Enhancement Initiatives:-
    i. KSh. 3.3 billion in the Supplementary Budget for the FY 2018/19 for Revenue Enhancement Initiatives (REIs);
    ii. KSh. 3 billion in the Budget Estimates for the FY 2019/20 to implement Revenue Enhancement Initiatives that was projected to realise additional revenue of KSh. 141 billion; and
    iii. Additional funding of KSh. 2 billion in the Supplementary Budget for the FY 2019/20 for funding recruitment of additional 1,000 officers country wide in order to generate additional revenue of KSh. 50 billion.
7. Following the above budgetary allocations and due to the COVID-19 pandemic which has affected several sectors of the economy, the Committee resolved to undertake fact-finding visits to KRA Offices and its other satellite facilities with a view to assessing challenges affecting their ability to collect revenue.

2.1 OBJECTIVES OF THE FACT-FINDING VISITS

8. The objectives of the fact-finding visits were:-
    i. To establish whether the REIs were procured according to the budgetary allocation and the impact of the REIs on revenue collection;
    ii. To find out whether the additional revenue of KSh. 191 billion was realised;
    iii. To find out the impact of COVID-19 on revenue collection;
    iv. To establish the impact of digitisation on revenue collection; and
    v. To establish challenges faced by KRA in the execution of their mandate.

3 KENYA REVENUE AUTHORITY

3.1 ESTABLISHMENT

9. Kenya Revenue Authority (KRA) was established under section 3 of the Kenya Revenue Authority Act, 1995 as a Government agency responsible for assessment, collection and accounting for all revenues that are due to Government. The Authority has undergone a lot of transformation since its establishment in 1995 which has resulted in a steady increase of the tax collected. The table below highlights KRA's journey from inception to date:-

YEAR	ACHIEVEMENT	REVENUE COLLECTED (KSH.)
1995	Customs & Excise Department	
	Income Tax Department	
	Value Added Tax (VAT) Department	
1996 to 1997	Operations in BOFFIN	**133.1 billion in 1996/97**
	Formation of the Large Taxpayer Unit	
	VAT 100% manual	
	Income Tax 100% manual	
	Revenue collection	
1999 to 2000	Times Towers opened	**168.6 billion in 1999/00**
	First corporate plan launched	
	ISO journey begins	
2003 to 2005	RRAMP Program begins: Simba, ITMS e.t.c.	**274.3 billion in 2004/05**
	Regional offices opened	
	First taxpayers' week held	
	Formation of Domestic Taxes Department	
2006 to 2007	KRA became ISO 9001:2000 Certified	**360.2 billion in 2006/07**
	DPC introduced	
	Re-establishment of the Marine Unit	
	Transformation of Large Taxpayer Unit	
	Automated KRA refunds process	
2013 to 2016	KRA became ISO 9001:2015 Certified	**1,200 billion in 2015/16**
	iTax launched	
	Culture and Change Programme begun	
	Revenue collection	
2016 to 2020	Launch of the Sixth/Seventh Corporate Plan	**1,606.9 billion in 2019/20**
	Launch of technological systems e.g. iCMS and RECTS	
	Launch of OSBPS i.e. Namanga, Busia, Taveta e.t.c.	
	Capital Gains Tax (CGT) online	
	100% online filing	
	Automation of DTD	
	Revenue collection	
	Establishment of intelligence function	

10. From the table above, it is clear that digitisation of services at KRA has resulted in an increase in the revenue collected. KRA has established the following digital platforms:-

i. iTax which is an automated platform for domestic taxes operations;
ii. Integrated Customs Management System (iCMS) for management of customs operations;
iii. iCare manages all customer support operations;
iv. iSupport manages administrative support services; and
v. Other systems
   a. **Cargo Scanner Management Solution:** Automate and centralize cargo scanning;
   b. **Data Warehouse Solution (DWBI):** Facilitate use of data driven compliance interventions;
   c. **Regional Electronic Cargo Tracking System (RECTS):** Real time monitoring of cargo across East Africa;
   d. **Excisable Goods Management System:** Tracking of excisable goods;
   e. **Integration with key databases**: IFMIS, LIMS, iCMS, NSSF and NHIF;
   f. **TIMS** Real time information and business transactions; and
   g. **IGS**: Anonymous reporting system.

3.2 MANAGEMENT OF KRA

11. The Authority is headed by a Board of Directors comprising of the Chairperson and eight (8) directors while the operations of the Authority are headed by the Commissioner General. The current Chairman of the Board and Commissioner General of the Authority are Ambassador Francis Muthaura and Mr. Githii Mburu respectively.

12. KRA has seven (8) Commissioners who report to the Commissioner General and head the following departments:-

i. Domestic Taxes;
ii. Customs and Border Control;
iii. Legal Services and Board Coordination;
iv. Corporate Support Services;
v. Strategy, Innovation and Risk Management;
vi. Investigations and Enforcement; and
vii. Intelligence and Strategic Operations
viii. Kenya School of Revenue Administration

3.2.1 Overview of Revenue Departments

The revenue departments at KRA are the Domestic Taxes and the Customs and Border Control.

Domestic Taxes Department (DTD)

13. The department was formed through the merger of Income Tax and Value Added Tax Departments and take-over of functions of excise regime from former Customs and Excise Department.

Mandate of DTD

14. The legal mandate of DTD is entrenched in the Acts of Parliament being administered by the Department. The main Acts administered are the **Value Added Tax (VAT) Act, 2013; Income Tax Act (ITA) (Cap. 470) and Excise Act 2015.** The functional mandate is spread across the DTD divisions: Large Taxpayers Office (LTO); Medium Taxpayers Office (MTO); and Tax Service Offices (TSO) depending on the taxpayer's annual sales turnover (LTO KSh. 2B and above, MTO KSh. 1.99B and below and TSOs below KSh. 200M respectively). The Department also collects stamp duty, Kenya Bureau of Standards (KEBs) Levy and land rent on agency basis.

Taxpayer Segmentation

15. DTD Taxpayers are segmented into the large ones served through LTO, Medium sized ones served through MTO and the rest served through TSOs which are grouped into regions i.e. Nairobi (Times Tower, Sameer and Ushuru Towers), Southern, Central & Northern, North Rift Valley, South Rift Valley and Western headed by DTD Regional Heads of Operations.

DTD Programmes

16. Revenue functions of the Department are categorized in programmes within the divisions. The main revenue programmes are:-
    i. Taxpayer Services;
    ii. Compliance programme; and
    iii. Debt & Enforcement.

Taxpayer Services (TPS) & Taxpayer Base Expansion

17. Largest programme in the Department responsible for: taxpayer education; on-line filing; management of refunds; and recruitment and registration which is the gateway to tax administration. TPS, through the Recruitment and Registration Unit, undertakes broadening of the tax base (which leads to equitable distribution of tax burden) while implementing appropriate strategies in dealing with challenges of the informal sector.

Compliance Operations Programme

18. Responsible for enhancing voluntary compliance among taxpayers. Key functions include: monitoring of payments; return submission; nil; non and credit filers; return analysis and reconciliations. Other functions are compliance checks, issuance of Tax Compliance Certificates and Electronic Tax Register (ETR) usage enforcement.

19. They also do tax audit which is a key component of compliance operations conducted to ensure compliance with revenue legislation and is crucial in detecting issues like irregular and aggressive tax planning practices amongst the otherwise "compliant" taxpayers. Also responsible for management of debt - collection, enforcement, waiver application processing and updating Taxpayer ledgers through necessary ledger corrections.

Customs and Border Control Department

Customs Role in Border Management Committees (BMCs)

20. Customs represents KRA at the various BMCs in the following capacities:-
    i. as the chair of all BMCs at the land borders;
    ii. as the deputy chair at Sea ports;
    iii. as a member at Airports; and
    iv. Customs is present and active at all pilot Joint Operation Committees.

Roles of Customs

21. Customs is charged with the following responsibility:-
    i. Facilitation of legitimate trade;
    ii. Border control & protection of society;
    iii. Revenue collection; and
    iv. Trade statistics

Facilitation of Legitimate Trade

22. Customs controls and administers the movement of goods along the supply chain. This is done through World Customs Organisation (WCO) tools such as:-
    i. Safe framework of standards to secure and facilitate global trade; and
    ii. Revised Kyoto Convention which aims at facilitating trade by harmonizing and simplifying customs procedures and practices.

Border Control & Protection of Society

23. Customs enforces various Acts of Parliament including:-
    i. East African Community Customs Management Act, 2004;
    ii. Firearms Act (Cap. 114);
    iii. Pharmacy & Poisons Act, 1989 (Cap. 244);
    iv. Proceeds of Crime and Anti-Money Laundering Act (POCAMLA) (No. 9 of 2009);
    v. Ant-Counterfeit Act (No. 13 of 2008); and
    vi. Civil Aviation Act (Cap. 394).

24. Customs also enforces various international conventions including:-
    i. The Narcotics and Psychotropic Convention;
    ii. The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES); and
    iii. The Montreal Protocol.

4 FACT FINDING VISITS TO KRA OFFICES TO ASCERTAIN THE EXTENT OF IMPLEMENTATION OF REVENUE ENHANCEMENT INITIATIVES (REIS) AND THE IMPACT ON REVENUE COLLECTION

25. The Committee on Finance and National Planning undertook fact finding visits to a number of KRA offices with a view of establishing:-
    i. Whether the budgetary allocations of KSh. 3.3 billion in the Supplementary Budget for the FY 2018/19 and KSh. 3 billion in the Budget Estimates for the FY 2019/20 for Revenue Enhancement Initiatives (REIs) had been used for the intended purpose;
    ii. How digitisation of services has increased revenue collection by the Authority; and
    iii. Challenges hindering the Authority from collecting revenue optimally.

26. The Committee conducted fact finding visits to the following KRA Offices:-
    i. Times Towers in Nairobi;
    ii. Jomo Kenyatta International Airport (JKIA);
    iii. Inland Container Depot (ICD);
    iv. The Southern Region (Mombasa); and
    v. One Stop Border Posts (OSBPs)

4.1 TIMES TOWERS

27. Times Towers is the Main Office for Kenya Revenue Authority in Nairobi.
28. Times Towers is the Main Office for Kenya Revenue Authority where co-ordination of the Authority's activities, staffing and other centralised activities are done. It houses members of the Board of Directors, the Commissioner General, commissioners, deputy commissioners and other officers of the Authority. Times Towers also houses the central control unit for all the digital platforms including scanners, iCMS, iTax, RECTS e.t.c.

4.1.1 Scanners

29. The table below shows a summary of before and after integration of scanners.

Before Integration	After Integration
Images analyzed at the scanning points; interaction with traders.	Centralized Real time Image analysis (Use of iScan) at 2 command centers;
Only targeted containers were scanned.	99.4% scanning of all containerized cargo (All regimes).
Scanning was done only during the day, and manual reports shared with release points within 24 hours.	Enhanced speed of image analysis 1. Analysis done on real - time basis 2. 24/7 scanning, analysis and monitoring of Scanner operations.
No means of sharing Scanner Images with release points.	Availability of Scanning Information: 1. Images stored in a central location and accessible to any system user. 2. Sharing of scanner images with Partner Government Agencies.
A few scanners were available, in cases of scanner breakdowns scanning was not possible	Increased number of scanners; fallback mechanisms available in cases of scanner breakdown times.

30. The use of non-intrusive inspection has improved voluntary compliance. Compliance in declarations improved from 86% in June 2018 to an average of 98% as of July 2020.

31. So far, KRA has bought the following scanners installed at entry points:-
    i. Ten (10) CT scanners at JKIA;
    ii. Thirteen (13) baggage scanners at JKIA;
    iii. One (1) rail scanner;
    iv. Four (4) drive through scanners;
    v. Three (3) fixed scanners; and
    vi. Three (3) mobile scanners.

4.1.2 Regional Cargo Tracking Systems (RECTS)

32. RECTS is a web based system, integrated with customs management systems in the Region. The system provides an end to end monitoring of transit cargo along the Northern corridor.

33. Before the installation of RECTS, KRA used the following systems: customs escort system and multiple vendor system.

Customs Escort System

34. This is where an officer of the Authority would escort a number of trucks from the port to the border. Challenges experienced this system include:-
    i. Traffic as a result of the convoy of trucks;
    iv. Delays as the trucks had to move together;
    v. It was expensive;
    vi. Risk to staff; and
    vii. Cumbersome as there was no central view of the trucks.

Multiple Vendors Systems

35. The disadvantages of this system include:-
    i. Increased cost of doing business. The installation cost was USD 1,200 & the monthly fees was USD 100; and
    ii. Tracking was done up to the border resulting in time wastage at hand over and diversion at no-mans' land

Components of RECTS

36. The components of RECTS are:-
    i. Arming teams who are responsible for:-
        a. Assigning an e-seal to a consignment;
        a. Attaching the seals to the container; and
        b. Arming the seals.

    ii. Central Monitoring Centre which is responsible for:-
        a. Giving 24/7 Real time of alerts;
        a. Taking appropriate action for the alerts; and
        b. Escalate issues to the rapid response unit.

    iii. Rapid response team is always on standby to take action whenever alerts are issued from the Central Monitoring Centra.

Benefits of RECTS

37. KRA has realised the following benefits from the installation of RECTS:-
    i. Reduced clearance time and Cost of doing business;
    vii. Enhanced Cargo security;
    viii. Real time location in transit;
    ix. Seamless movement of cargo within the EAC member countries; and
    x. Improved Transit accountability

4.2 JOMO KENYATTA INTERNATIONAL AIRPORT (JKIA)

38. Jomo Kenyatta International Airport is a critical Government installation. Its expansion is one of the flagship project under the Vision 2030 project. JKIA has the following terminals:-
    i. Terminal 1A: International arrivals & departures;
    ii. Terminal 1B: International departures;
    iii. Terminal 1C: International departures;
    iv. Terminal 1D: Domestic departures & arrivals;
    v. Terminal 1E: International arrivals; and
    vi. Terminal 2: International departures & arrivals, domestic departures & arrivals

4.2.1 Overview of JKIA Customs Station

39. JKIA is a regional hub for trade facilitation and collection of taxes on behalf of KRA and the Government of Kenya from air shipments, Air Passenger Service Charge (APSC) and the Air Navigation Service Charge (ANSC).

40. Air cargo is handled from the Cargo Sheds namely Kenya Airways (KQ) Cargo Center, Siginon Freight, African Freight Service (AFS), Cargo Service Centre, DHL, KQ Courier and Mitchelcott Shed. The station handles imports from China, Dubai, Europe among other countries handling electronics, general merchandise, apparels etc. The station handles the following airlines: KQ, Emirates, China Southern, Qatar, KLM, Ethiopian Airline etc in supporting imports and tourism.

4.2.2 Flights, Stock & APSC/ANSC Analysis

41. The daily average Kilograms received at JKIA declined from a monthly average of 4,284,076 Kgs in 2018 to 3,659,408 Kgs in 2019 (15%) and 2,793,167 Kgs (31.8%) in 2020 when compared to 2019. The above decline led to a reduction of twenty five percent (25%) in revenue collection from a monthly average of KSh. 2,215,609,985 in 2019 to KSh. 1,660,106,826. The number of Monthly average international flights declined by fifty-four point three percent (54.3%) from 3,202 in 2019 to 1,461 in 2020 while local flights declined by fifty three point three percent (53.3%) from 1,153 in 2019 to 538 in 2020.

42. Due to the decline in the number of flights, the Air Passenger Service Charge declined by sixty-two point seven percent (62.7%) from a monthly average of KSh. 919,284,590 in 2019 to KSh. 342,491,322 in 2020 while the Air Navigation Service Charge declined by twenty-nine point six percent (29.6%) from KSh. 397,939,748 in 2019 to KSh. 280,340,916 in 2020. Despite the above and due to the enforcement measures put in place to grow revenue collection, the station has grown the yield per kilogram from **KSh. 439** in 2018 to **KSh. 645** in 2019 and the current **KSh. 770** in 2020.

4.2.3 Revenue Collection Vs Stocks

43. The table below shows the revenue collected against stocks from 2018 to 2020

YEAR	YIELD (KGS)	YIELD (KSH)	YIELD PER DAY
2018	51,408,914	22,435,630,113	439
2019	43,912,896	26,587,319,828	645
2020	19,390,699	13,044,185,305	770

4.2.4 Flights Vs APSC/ANSC Collection

44. The Table below shows flights against the Air Passenger Service Charge and the Air Navigation Service Charge from 2018 to 2019.

YEAR	INTERNATIONAL FLIGHTS	DOMESTIC FLIGHTS	APSC COLLECTION	ANSC COLLECTION
2018	37,321	13,788	11,880,670,289	5,388,639,548
2019	38,424	13,864	11,031,416,290	4,775,276,986
2020	12,426	4,581	2,911,176,245	2,382,897,789

4.2.5 Handling of Shipment

45. Shipment is handled in the following four ways:-
   i. Green Channels (Authorized Economic Operator (AEO)/Compliant shippers);
   ii. Prior releases (Urgent pending documentation);
   iii. Partial verification by sampling a few packages; and
   iv. Sensitive cargo /consolidated shipments (100% verifications).

4.2.6 JKIA Improvement Initiatives

The following initiatives have been put in place to improve service delivery at JKIA:-

46. Establish & operationalize Joint Operation Centre (JOC) which is expected to improve co-operation & coordination among Government Agencies. This has been done by: developing JOC standard operating procedures (SOPs), code of conduct, management of information; and setting up and operationalization of the JOC Office at JKIA.

47. Implement use of risk based approach in passenger clearance & baggage inspection which is expected to encourage focused targeting of passengers, faster clearance/facilitation & promote transparency in the clearance process. This has been done by: categorizing flights on security & revenue indicators (high, medium and low); use of baggage scanners for risk profiling of passengers and luggage; and passenger categorization (categories A, B & C).

48. Promote and build staff capacity at passenger terminals which is expected to improve efficiency and supervision. This has been done by: increasing Customs presence in terminal through deployment of additional officers, border control assistants and sixty-four (64) scanner officers to terminals.

49. Train all customs officers at the terminal on customer care, protocol and culture change which is expected to improve officers' approach to passengers. This has been done by: training one hundred and thirty-one (131) officers from Customs and M&C on customer experience, communication skills, protocol and etiquette; and twelve (12) officers have been trained in Chinese language.

50. Provision of enforcement tools and a friendly mode of payment this is expected to improve service delivery. This has been done by: installing CCTV at Terminal 1E and giving access to DC NCR, CM NCR and Times Towers; using baggage scanners at the International Arrivals (two (2) scanners at Terminal 1A, one (1) scanner at Terminal 1E and one (1) scanner at T2); and use of PDQ & M-Pesa for payment of taxes.

4.2.7 Challenges Experienced by Customs at JKIA

In the course of executing their roles at JKIA, the Customs department experiences a number of challenges key among them being:-

51. The Department has three hundred and eighty-four (384) members of staff against a staffing need of five hundred and sixty-six (566). This has impacted negatively on the achievement of targets; and

52. There are no import scanners at JKIA and this provides a loophole for tax evasion. The Department requires six (6) import scanners.

4.3 INLAND CONTAINER DEPOT (ICD)

53. Inland Container Depot – Embakasi was rehabilitated and launched as Inland Container Depot Nairobi (ICDN) by His Excellency the President on 16th December 2017. Completion of the SGR Phase I and the upgrading of facilities at the port resulted in enhancement of the scale of operations at the Depot.

54. The staff strength was enhanced from thirty-four (34) officers to the current one hundred and twenty (120). Additional KRA functions such as Customs Valuation & Tariff, Exemption, Information, Communication and Technology, Marketing & Communication, Security and Property & Logistics were introduced at the Depot. Since the inception of Standard Gauge Railway, the Inland Container Depot, Nairobi has focused on the following initiatives to enhance revenue collection:-

   i. Revenue enhancement;
   ii. Trade facilitation; and
   iii. Cargo management

4.3.1 Revenue Enhancement

This has been done through the following three (3) ways:-

55. Intelligence based cargo intervention through:-
   i. Scanners intelligence that guides in detection of prohibited, restricted, concealments and undeclared items;
   ii. Intelligence from other KRA Departments – I & SO; and

iii. Intelligence from other government agencies – DCI, KPA

56. Compliance with Customs Laws & Regulations:-
    i. Declaration of accurate customs values with a focus on mixed items consignments; and
    ii. Compliance with various conditions according the importers preferential treatment – reduced tax rates or exemptions.

57. Focused initiatives to cater for different categories of importers - SMEs, AEO, KAM

4.3.2 Revenue Performance from 2016 to Date

58. Monthly average revenue collected has been rising from KSh. 0.35 billion in 2016 to KSh. 10.32 billion in 2019.

59. The table below shows revenue performance from 2016 to August 2020.

MONTH	2016 (KSh. Bn)	2017 (KSh. Bn)	2018 (KSh. Bn)	2019 (KSh. Bn)	2020 (KSh. Bn)
Jan.	0.38	0.45	0.53	11.15	11.87
Feb.	0.26	0.35	0.56	8.88	9.26
Mar.	0.43	0.42	1.35	8.80	7.02
Apr.	0.25	0.30	2.28	9.94	7.50
May	0.38	0.46	4.48	10.68	7.70
Jun.	0.35	0.29	5.92	9.92	9.37
Jul.	0.29	0.34	6.89	12.02	9.86
Aug.	0.39	0.31	8.58	11.01	9.43
Sep.	0.33	0.40	7.77	10.06	
Oct.	0.29	0.39	8.94	10.74	
Nov.	0.43	0.44	10.10	1091	
Dec	0.43	0.45	9.11	9.77	
TOTAL	**4.21**	**4.59**	**66.51**	**123.87**	**72.00**
MONTHLY AVERAGE	**0.35**	**0.38**	**5.54**	**10.32**	**9.00**

4.3.3 Number of Trains from 2018 to 2020

60. The number of trains from Mombasa to ICDN has been growing from 2018 to date from fourteen (14) to over two hundred (200) trains per month.

61. The table below shows the number of trains from 2018 to August 2020

MONTH	2018	2019	2020
Jan.	14	214	242
Feb.	36	172	210
Mar.	92	184	149
Apr.	120	203	178
May	127	203	165
Jun.	167	221	171
Jul.	181	258	186
Aug.	183	247	187

Sep.	174	244	
Oct.	192	232	
Nov.	195	254	
Dec.	205	212	
MONTHLY AVERAGE	**141**	**220**	**186**

4.3.4 Cargo Volumes from 2018 to 2020

62. The volume of cargo from Mombasa to ICDN has been growing from a low of nine hundred and twenty-four (924) TEUS in the month of January 2018 to twenty-one thousand five hundred and eighty four (21,584) TEUS in December 2018.

63. The table below shows cargo volumes from 2018 to August 2020

MONTH	2018	2019	2020
Jan.	924	22,628	23,472
Feb.	2,582	18,194	17,974
Mar.	9,108	19,696	15,688
Apr.	12,422	21,862	18,112
May	12,752	20,496	16,635
Jun.	17,244	20,938	17,090
Jul.	18,882	24,044	19,063
Aug.	19,236	23,014	18,644
Sept.	19,052	21,732	
Oct.	21,232	21,890	
Nov.	20,848	21,318	
Dec.	21,584	21,106	
MONTHLY AVERAGE	**14,656**	**21,410**	**18,335**

4.3.5 Trade Facilitation

This is done through the following ways:-

64. **Authorised Economic Operator Programme:** This programme provides platinum service to select importers/clearing agents/transporters who have demonstrated high level of compliance. Clearance time target is six (6) hours. This improves on the turnaround period for imports.

65. **Pre-Arrival Clearance:** Importers are allowed to lodge customs clearance documents before arrival of cargo at ICDN.

66. **Green Channel:** Select items have been identified and are granted green channel status that allows customs clearance without physical intervention on the consignment.

67. **KAM Members/LTO/MTO Importers:** Select importers have their cargo cleared through customs with minimal physical intervention.

4.3.6 Cargo Management

Monitoring and management of Cargo at ICDN is done by:-

68. **Joint Monitoring Centre:** KRA/KPA/KRC is able to monitor cargo on SGR Train from Kilindini Harbor to ICDN and on return to Kilindini Harbor. The Centre also provides information to clearing agents on arrival and the location of containers at ICDN.

69. **Operations Control Centre:** KPA/KRA is able to monitor activities within the entire yard for surveillance.

70. **Smart Gates:** Currently, KPA is fully automated at the gates and requires minimal human intervention in processing trucks for gate-in and gate-out. KRA is still awaiting iCMS roll-out for integration with KPA systems at the gates.

71. **RECTs:** All transit cargo released from ICDN destined to our neighboring countries are armed with RECTS and tracked from Integrated Command Centre at Times Tower throughout the journey to the borders.

72. **Overstayed cargo:** Pursuant to the CAB Circular of 4th June 2019, overstay cargo is transferred to the Peripheral Storage Facilities (MIT, NICT & Makongeni) awaiting to be lotted and Gazetted for Customs Public Auction.

73. **Condemned Cargo:** Cargo condemned by the relevant government agency is destroyed at appointed destruction facilities recommended by NEMA and supervised by the Multi-Agency Team at ICDN. Alternatively, condemned cargo can be re-shipped back to the country of origin on recommendation by the condemning government agency.

4.3.7 Challenges

The following challenges have been experienced at the ICDN:-

74. The lifting of the directive on transport of all cargo belonging to Nairobi and upcountry importers has given the stakeholders the choice of clearance of cargo at either the Port, CFSs or ICD.

75. Consolidated cargo can only be processed at licensed de-consolidation facilities that are located in Mombasa.

76. The four (4) days free storage period offered by Kenya Ports Authority (KPA) effective 18th May, 2020 for domestic imports has put pressure on the importers to clear cargo form the ports. CFSs have now become more attractive and preferred choice of clearance for importers who may not be able to expedite cargo clearance within the "free storage period".

77. KPA is currently charging container verification fees at ICDN for labor outsourced from private company at between USD 80 to USD 120 depending on the nature of verification (100% or partial verification).
78. Delays in railage of containers from Kilindini to ICDN. Non-availability of wagons has been cited as one of the reasons for delay in railing of Dangerous Cargo.

79. Truck turnaround time at ICDN has been affected by the limited resources deployed as well as the frequent system outage for both KRA and KPA during peak days.

80. Manual systems by some PGAs in cargo clearance process requiring human interventions.

81. Office space to accommodate officers while observing the MoH guidelines on safe distance in seating arrangements

4.4 THE SOUTHERN REGION (MOMBASA)

82. The KRA Southern Region consists of the following customs and border control points of entry:-
    i. Ports i.e. Kilindini; Old Port; Shimoni; and Vanga
    ii. One Stop Border Posts i.e. Lungalunga; and Taveta
    iii. Other custom stations i.e. Kiunga; Kilifi; and Ngomeni
    iv. The General Post Office i.e. Mombasa
    v. Twenty-one (21) Container Freight Stations (CFSs)
    vi. Airports i.e. Malindi; Ukunda; Moi International Airport; and Lamu

4.4.1 Revenue Performance of the Region

83. The region collects twenty-six-point six percent (26.6%) of Kenya's revenue making it the second highest revenue collector in the country after the Central Region.

84. The table below shows the revenue performance for the region for the Periods July to September 2020 and July to September 2019

Dept.	JULY-SEPTEMBER 2020 (KSh. millions)			% Perf	JULY- SEPTEMBER 2019 (KSh millions)			% Perf	Growth %
	Actual	Corp. Target	Surplus/ Deficit		Actual	Corp. Target	Surplus/ Deficit		
C&BC	93,256	92,147	1,109	101%	85,287	92,130	(6,843)	93%	9%
DTD	3,029	3,656	(627)	83%	3,836	4,057	(221)	96%	-21%
TOTAL	**96,285**	**95,803**	**482**	**101%**	**89,123**	**96,187**	**(7,064)**	**93%**	**8%**

4.4.2 Revenue Enhancement Initiatives (REIs)

Customs and Border Control Department

85. The following REIs have been put in place at the Customs and Border Control Department; scanners, joint verification, establishment of the marine unit and Regional Electronic Cargo Tracking System (RECTS). Through Revenue Enhancement Initiatives additional taxes of KSh. 12 billion were collected between the FY 2018/2019 and 2020/2021.

Impact of Scanners

86. Revenue Enhancement
    i. Enhanced scanning levels to 100% for imports and exports;
    ii. Enhanced detection of concealments;
    iii. Enhanced physical inspection; and
    iv. Enhanced compliance from 86% in June 2018 to 98% in July 2020

87. Trade facilitation
    i. Faster clearance of cargo (facilitated by use of non-intrusive inspection);
    ii. Intelligence based targeting; and
    iii. Enhanced business continuity.

88. Enhanced transparency/corruption prevention
    i. Avails images to multiple users at points of need for reference;
    ii. Avails images to partner state agencies (on request);
    iii. Randomised/unpredictable allocation of tasks by iScan; and
    iv. Reduced interaction between image analysts and agents.

Domestic Taxes Department

89. The recruitment of new block management staff managed to recruit new MRI payers using the KPLC data hence the rental income performance of 200% with a growth rate of 30% for the FY 2019/2020 in line with base expansion anchored in KRA's 7th Corporate Plan. The data driven approach of revenue enhancement initiatives resulted to the contribution of 19% of the total actual collections through:-
    i. Tax base expansion
    ii. Return review, payment return without payments
    iii. Import/export, salary and expense data
    iv. Professional data etc.
    v. The collection is through account payment, enhanced Debt collection initiatives
    vi. MTO has been recently established at the region to enhance revenue collection for the taxpayers based in the region with a gross income between KSh. 200M and KSh. 750M.

4.4.3 Strategies to Bridge the Deficit

90. The table below shows strategies that have been put in place to bridge the revenue deficit.

APPROACH	SOLUTION	RESULT
Rigorous review of major tax head decliners to ascertain the true position.	Liaise with ADR team to fast track dispute resolution cases.	Tax base expansion
Continuous use of third party data to raise more additional assessment.	Liaise with TAT team for faster resolution of cases at TAT.	Increased voluntary compliance
Issue more agency notices to recover hard core debt.	Debt Payment plans	Improved business environment and stakeholder relationships

4.4.4 Challenges

91. Effect of SGR on logistic sector and its associate i.e. transporters, clearing agents, warehouses, CFs and spare part dealers had major negative effect on their business operation.

92. The travel restriction occasioned by the COVID-19 pandemic led to further scaling down of operations and cash flow issues.

93. Hospitality sector was largely affected by the general slow-down of tourism and further grounded by the pandemic but is now picking up.

94. Reduced tax rates especially on PAYE, VAT, and TOT had negatively impacted on actual collections.

4.5 ONE STOP BORDER POSTS (OSBPs)

95. An OSBP is a 'one stop' form of border crossing point jointly managed by adjoining Partner States, where multiple border agencies cooperate and collaborate with each other and effectively coordinate their agencies to maximize their operational efficiency. OSBP arrangement brings together under one roof all the Government agencies performing border crossing controls procedures, doing away with the need for motorised traffic and persons to undergo clearance twice at both sides of the border.

96. The OSBP arrangement expedites movement, release and clearance of goods and persons across borders by streamlining border procedures, automation of the border processes and simplification of trade documents.

97. An OSBP is managed through a Border Management Committee (BMC) in which all Agencies represented at the OSBP are members. KRA is the lead agency and its charged with the responsibility of coordination. BMC Meetings and stakeholder meetings involving cross border traders and government agencies are conducted fortnightly while Joint Border Committee meetings involving Kenya and the Partner State are conducted quarterly to address emerging issues between the two Partner States. Multi agency border patrols are often conducted at the OSBP. OSBP membership comprises of:-
    i. KRA
    ii. Department of immigration
    iii. National Police Service (NPS)
    iv. Kenya Bureau of Standards (KEBS)
    v. Kenya Plant Health Inspectorate Services (KEPHIS)
    vi. Port Health Services
    vii. Directorate of Veterinary Services
    viii. Anti-Counterfeit Authority
    ix. National Biosafety Authority
    x. National Intelligence Service (NIS)
    xi. Pharmacy and Poisons Board
    xii. Kenya Dairy Board
    xiii. Agriculture & Food Authority
    xiv. Kenya Wildlife Service (KWS)
    xv. East African Community Office
    xvi. Mines & Geology
    xvii. Pest Control and Product Board
    xviii. Fisheries Department
    xix. Kenya Forest Service (KFS)
    xx. Directorate of Criminal Investigations (DCI)

Benefits of the OSBP Arrangement

98. Benefits of the OSBP include the following:-
    i. More effective and efficient use of resources;
    ii. Better co-ordination and co-operation between government agencies and the trade community;
    iii. Improved trader compliance;
    iv. Better risk management and enhanced security because of the Joint operations;
    v. Increased integrity and transparency;

vi. Promotion of better international relations between Kenya and the border country;
vii. Increased revenue yields;
viii. Reduced smuggling;
ix. Improved cargo accountability hence reduced outstanding transactions & diversions of cargo;
x. Investigation has been made easy on both sides due to information sharing;
xi. Damages to cargo has reduced due joint handling;
xii. Turnaround time has reduced;
xiii. Traffic flow has greatly increased; and
xiv. Achieved close working relationship with other agencies within the same country.

99. The Committee visited the following OSBPs:-
  i. Namanga;
  ii. Malaba; and
  iii. Busia

4.5.1 Namanga One Stop Border Post

100. Namanga OSBP is the border station between Kenya and United Republic of Tanzania and is located in Kajiado County (Kenya) and Longido District (Tanzania). It is approximately 174 kilometres from Nairobi and 100 kilometres from Arusha and is the busiest border point between Kenya and Tanzania. The OSBP became operational on 2nd October, 2017 and was officially inaugurated on 10th December, 2018. Its constriction was Supported by development partners; African Development Bank (ADB) and Japan International Cooperation Agency (JICA).

Major exports and imports through Namanga OSBP

101. Export goods from Kenya to Tanzania and beyond include: Margarine, cigarettes, detergents, automotive batteries, liquefied carbon dioxide (food grade), alcoholic beverages (Smirnoff ice) and built body trailers.

102. Imports from Tanzania to Kenya include: rough sawn timber, fabrics and finished garments, soft drinks, ceramic tiles, industrial coal, alcoholic beverages (konyagi), ethanol, lubricants, empty bottles farm produce (dry maize, fresh ginger, water melons, potatoes, fresh tomatoes), hydrated lime, LPG sourced from Tanzania but of Mozambican origin among others.

Key Revenue Drivers

103. The main imports from Tanzania driving revenue are ethanol and Konyagi due to excise duty tax of KSh. 253 per litre and VAT of 14%. Other revenue drivers include wines and spirits originating from South Africa, maize seeds sourced from Zimbabwe and Zambia (COMESA) and used motor vehicles from South Africa.

Cargo clearance and revenue collection

104. Cargo at the border are categorized as either imports (goods coming into Kenya) or exports (goods leaving Kenya to adjoining partner state or beyond).

105. Imports are cleared under:-
  i. C17B (customs entry): Clearing agent will lodge an entry into the Simba System and taxes assessed and paid before presenting the goods for verification and subsequent clearance.

ii. Direct Assessment (DA): This is for accompanied baggage and goods of FOB value below USD 2000. Goods are verified and taxes assessed and paid at the entry point. Goods are then cleared using the Simplified Certificate of Origin.

106. Exports are cleared under:-

i. Manifest Management System (MMS): This is for goods going to EAC partner states that are cleared under Single Customs Territory (SCT).

ii. Export Declaration - C17B: Export entry is lodged by an agent then stuffing is done at the source and message input at the exports office. Exit is confirmed in the system and Certificate of Export (COE) issued.

Namanga Revenue Trend for the last 5 years

107. The amount of revenue collected at the Namanga OSBP has been growing over the last five years as illustrated in the table below.

FINANCIAL YEAR	REVENUE COLLECTED (KSH.)
2015/2016	2,218,056,036.00
2016/2017	2,724,566,592.00
2017/2018	3,293,627,309.00
2018/2019	3,478,534,093.00
2019/2020	4,056,668,501.00

Impact of COVID-19 on cross-border trade

108. COVID-19 has negatively impacted on trade. This is mainly due to:-

i. Restriction in movement of persons which has affected cross border movement of traders;

ii. Long awaiting time for COVID-19 results that have reduced turn over;

iii. Fear of the unknown that has led to traders holding back because of the uncertainties; and

iv. Misunderstanding between health officials from Kenya and Tanzania that led to temporary closure of the Namanga border from 2nd June to 15th June, 2020.

Measures taken to mitigate effects of COVID-19 on trade

109. The following measures have been put in place to mitigate the effects of COVID-19 on trade at the Namanga OSBP:-

i. Electronic clearance where documents for clearance of goods are presented online;

ii. Sensitization of truck drivers on the need to test and get the negative COVID-19 attestation certificate before arrival at the border to minimize time taken at the border;

iii. Continue facilitating trade through faster clearance so as to sustain supply chain continuity; and

iv. Strict adherence to World Health Organisation (WHO) protocols on COVID-19 so as to ensure safety of everyone involved in the clearance from the drivers, clearing agents to government officers from different agencies.

Challenges experienced at the Namanga OSBP and ways of mitigating them

110. Agencies at the Namanga OSBP experience a myriad of challenges in the execution of their mandates. The table below highlights the challenges and their possible solutions.

CHALLENGE	POSSIBLE SOLUTION
Smuggling - Porous Border	Establishment of satellite border stations
	Harmonization of standards and taxation within EAC
Trade Facilitation	Mobile Scanner Installed – Centralized analysis of images
	Drive through Scanner for both Export and Import
Difference in operating hours	Engagement with Tanzania Authorities to make Namanga a 24 hour Station.
Inadequate resources Funding for Multi Agency Operations, Motor Vehicles	Pooling of available resources
Expansive porous border	Establishment of a satellite border station at Shompole (Between Namanga and Isebania)
Delay in delivery of Test Results for COVID-19 (Truck Drivers)	Ensure adequate supply of sampling and testing kits at Namanga mobile laboratory
	Acceptance of valid test certificates from Tanzania

4.5.2 Malaba One Stop Border Post

111. The Malaba OSBP is the major (biggest) inland entry port on the northern corridor. It handles over 80% of cargo destined to; Uganda, Rwanda, Burundi, Democratic Republic of Congo (DRC) and South Sudan. Malaba OSBP became operational in 2015 and is a TradeMark East Africa (TMEA) Project. TMEA through its donors and in partnership with the East Africa Community has since 2010 to date supported fiftenn (15) OSBPs in East Africa and has invested about US$117 million in OSBPs and access roads. Since its establishment, the Malaba OSBP and enhancement of business processes following the implementation of SCT, the OSBP has registered tremendous increase in traffic outbound flow as follows:-

i. 2015: approximately 680 trucks per day
ii. 2016: approximately 780 trucks per day
iii. 2017: approximately 890 trucks per day
iv. 2018: approximately 1100 trucks per day
v. 2019: approximately 1300 trucks per day
vi. 2020: approximately 1000 trucks per day

Major exports and imports through Malaba OSBP

112. Exports from Kenya to Uganda are; fuel products, plastic products, lubricants, salt, cement (clinker), fertilizers, iron/steel products, iron sheets, confectionery, steel products like iron sheets and tiles.

113. Imports from Uganda to Kenya are; sugar (brown), ethanol, grains (maize), milk, cooking oil – palm stearin, tobacco, wheat & maize brans, fish, food stuff (cabbages, tomatoes, bananas, water melon, lemons, pineapples, etc), motor cycle tyres, plywood and tiles.

Key Revenue Drivers

114. The main imports from Uganda driving revenue is Ethanol due to Excise Duty and Value Added Tax (VAT). In August, KRA collected KSh. 205 Million from this commodity alone. Other revenue drivers include; Sugar, tobacco, beauty products, timber (pine from Uganda and Mahogany from DRC), ceramic floor tiles and hides and skins from Rwanda.

Malaba Revenue Trend for the last 5 years

115. The table below shows revenue trends at the Malaba OSBP for the last five (5) years.

Financial Year	Corporate Target	Actuals	Revenue Performance %	Variance
2015/2016	1,382,325,990.72	1,364,767,227.00	98.73	(17,558,763.72)
2016/2017	1,631,902,479.00	1,515,446,935.00	92.86	(116,455,544.00)
2017/2018	1,407,950,447.00	1,606,348,127.00	114.09	198,397,680.00
2018/2019	2,811,283,691.38	2,168,572,424.00	77.14	(642,711,267.38)
2019/2020	2,911,068,339.27	2,202,131,723.00	75.65	(708,936,616.27)
2020/2021	790,487,098.00	919,087,011.00	116.27	128,599,913.00

Proposals for Strengthening Operations at Malaba OSBP

116. In order to operate optimally, the following need to be done at the Malaba OSBP:-

i. Investment in technology to enhance border security and curb smuggling for example installation of a cargo scanner;
ii. Allocation of funds for continuous engagement (public sensitizations);
iii. Structured training programs for government agencies on cross border trade;
iv. Strengthening of joint border surveillance in porous areas;
v. Enhancing sharing of information among concerned parties;
vi. Providing staff accommodation at the OSBP;
vii. Having all the border agencies operate 24/7;
viii. Integration between Asycuda and Simba Systems; and
ix. Establishment of satellite border stations especially at the notorious smuggling locations eg. Komiriai (lego maria), Olobai (Kwa Reli).

4.5.3 Busia One Stop Border Post

117. Busia OSBP is one of the largest and busiest border posts in the western region of Kenya and is notable for processing large numbers of passenger traffic (average of 30,000 persons per month). It has the highest revenue target in the western region handling transit cargo to and from the Great Lakes Region of Burundi, Rwanda, Democratic Republic of Congo, South Sudan and Uganda with an average traffic flow of one thousand (1,000) trucks daily.

118. The OSBP covers 100 kilometres and has approximately 250 illegal entry points from the OSBP to Sio Port. Notable porous entries include Sofia, Marachi, Adungosi and Alupe.

Major imports and exports through the Busia OSBP

119. Exports from Kenya to Uganda and beyond include: fresh fruits, fish, palm oil, salt, rice, beer, petroleum products, cement, clinker, assorted chemicals, paints, articles of plastic, household items and steel/iron sheets.

120. Imports from Uganda and beyond to Kenya include: plywood, MDF boards, ceiling boards, timber, frozen chicken, beans, coffee, milk, foodstuff, soft drinks, galvanised sheets, Aluzinc sheets, ceramic tiles and ethanol.

Key revenue drivers

121. Key imports include ethanol, electricity, milk and milk powder, processed sugar, raw timber (mahogany and pine), plywood, MDF boards, ceiling boards, ceramic tiles, galvanised wire and alu-zinc sheets.

Busia OSBP revenue collection for the last five years

122. The table below show revenue collection at the Busia OSBP for the last five years:-

FINANCIAL YEAR	ACTUAL	TARGET	PEF %
2015/2016	817,670,672.00	979,120,284.92	83.51%
2016/2017	1,412,385,915.00	958,945,109.00	147.29%
2017/2018	1,371,327,857.00	1,141,598,899.93	120.12%
2018/2019	2,206,331,282.00	2,712,592,873.00	81.34%
2019/2020	3,142,236,438.00	2,925,719,851.25	107.40%

Challenges

123. The table below highlights the main challenges experienced at the OSBP and the possible short-term and long-term interventions:-

CHALLENGES	SHORT-TERM INTERVENTIONS	LONG-TERM INTERVENTIONS
Porous border	Impromptu/coordinated border patrols	Use of technology for border surveillance.
	sensitisation through public barazas	
The national road (Kisumu-Busia) leading to the OSBP is in a poor state and is also too narrow	Escalation through the County Commissioner's Office	Expansion of the road

Proposals for strengthening operations at Busia OSBP

124. Investment in technology to enhance border security and curb smuggling;

125. Allocation of funding for continuous engagement (sensitisation) with border community;

126. Bench-marking with other border points;

127. Training of officers on securing the border;

128. Structured training program for government agencies and cross border traders;

129. Additional housing facilities for government agencies;

130. Information display screens with content guiding OSBP operations;

131. Strengthen joint border surveillance in porous areas; and

132. Enhance sharing of information with the County Commissioner's Office, Uganda Revenue Authority (URA) and other government agencies.

5 COMMITTEES' OBSERVATIONS

Following the inspection visits to KRA Offices and OSBPS, the Committee observed that:-

133. Revenue collection points installed with scanners collect more revenue compared to those without scanners but with high traffic. For instance, the Malaba OSBP which is busier than the Namanga OSBP managed to collect revenue of KSh. 2 billion in the FY 2019/20 compared to Namanga which collected KSh. 4 billion in the same FY;

134. Automation of systems has enhanced revenue collection by KRA as there is less human intervention and increased information sharing between the regional offices and with the Times tower centralized monitoring centre;

135. KRA is understaffed with four thousand five hundred (4500) permanent and pensionable staff and one thousand eight hundred (1800) under contract terms. This understaffing has resulted in revenue underperformance due to inadequate staff complement; posing a challenge on service delivery;

136. The Malaba OSBPs lacks decent staff housing forcing the staff to travel long distances to and from work which reduces productivity and puts them in an awkward position where they have to seek accommodation in houses owned by smugglers thereby compromising their integrity;

137. There was huge potential of revenue increase if the OSBPs were made to operate 24hours as it will ease of doing business since there is no limitations of working hours. Traders are able to import and export more. The 24hr operations will also ease congestion as the operating hours will be flexible;

138. KRA installed in Regional Electronic Cargo Tracking Seals (RECTS) where all containerized Transit Cargo & Single Customs Territory (SCT) goods from the port, and excisable goods are tracked under the Regional Electronic Cargo Tracking System (RECTS) Seals. The installation of the cargo tracking system has greatly minimized cases of corruption and theft of goods on transit as there is less or no human intervention and thus improved transparency due to real time information sharing. Before the RECTS, KRA was forced to escort trucks physically to ensure that they reach destination as declared. However, the cargo tracking devices are very few with the Inland Container Deport having only five thousand (5,000) seals). The lack of enough seals has created backlog at the Port of Mombasa and hence the need to invest in additional RECTs;

139. The lack of harmonization of tax on commodities between Kenya and her neighbors has encouraged smuggling of goods into the country especially alcoholic and soft drinks. For instance, the excise duty payable on alcoholic and soft drinks in Tanzania is relatively lower in comparison to the excise duty charged in Kenya. This has resulted in unscrupulous traders preferring to smuggle the items through the long and porous Kenya- Tanzania Border;

140. The introduction of 10% import duty on non-East African countries has resulted in a decrease in volumes of hardwood imported into Kenya and this may lead to deforestation in the country; and reduction in revenue;

141. There is need to re-examine the Special Economic Zones policy in Kenya and carry out a comparative study between the SEZ policy in Uganda and Rwanda as there were reports of some

businesses relocating to these two countries chiefly because of favorable policies and ease of doing business;

142. The cost of electricity for manufacturers in Kenya is high compared to Uganda which has lower prices for electricity in the industrial zones making it a preferred business destination. This could be seen by the increase in the number of manufactured products being imported from Uganda to Kenya e.g. tiles and steel bars;

143. The Malaba OSBP was poorly designed with no parking space for trucks leading to long queues of trucks, the buildings were dilapidated, the paths were not paved and there was no standby generator in case of power failure;

144. The Malaba OSBP had no clean water and the only water available was being pumped from river Malaba for use in sanitation. The contractor did not carry out a feasibility study to assess whether there was a potential for drilling a borehole to supply water to the OSPB;

145. Kenya Ports Authority had twenty-two (22) acres of unutilized land close to the Malaba OSBP that can be utilized for parking of trucks and this will go along in reducing traffic congestion;

146. The road leading to the Busia OSBP was narrow and dilapidated and this leads to long queues of trucks including those carrying explosive material posing a risk in case of an explosion given that there were no fire extinguishers in Busia County;

147. The speedboats used by KRA for surveillance at the Port of Mombasa are old and are unable to effectively monitor illegal activities in the waters and apprehend the tax evaders;

148. All OSBPs did not have coolers in their warehouses hence goods stored awaiting clearance go bad quickly;

149. The long and porous border between Kenya and her Tanzania and Uganda continue to encourage smuggling as the Multi agency teams are unable to provide security surveillance. The cross-border trade continues to undermine revenue collection as the traders use these illegal and unmanned routes.

6 COMMITTEE RECOMMENDATIONS

From the above observations, the Committee recommends that:-

150. Kenya Revenue Authority should immediately install drive-through scanners and in addition consider purchasing mobile scanners for bulk cargo and smart gates for all One Stop Border Posts. Parliament, through the Departmental Committee on Finance and National Planning should provide this budgetary requirement to be factored through the Supplementary Estimates I 2020/21 with priority on Malaba and Busia One Stop Border Posts and in the long term ensure all OSPBs are adequately equipped with drive-through scanners, mobile scanners for bulk cargo and smart gates.;

151. The Kenya Revenue Authority is grossly understaffed at 4500 permanent staff and 1800 staff on contract. The National Treasury should allocate additional funds under the Supplementary Estimates I for 2020/21 to employ additional 2000 staff.

152. The Cabinet Secretary, National Treasury and the Commissioner General, Kenya Revenue Authority, should work out ways of operationalizing all One Stop Border Posts to operate 24 hours a day by the end of the year 2021. There is need for regional diplomatic engagement between Kenya and her neighbors to ensure necessary infrastructure is put in place to facilitate 24 hour operations;

153. The National Treasury should engage with Ministries of Finance in the East African Region during the budget cycle for the FY 2021/2022 in order to harmonize the excise duty charged by respective countries;

154. The Cabinet Secretary for National Treasury should direct Kenya Ports Authority to transfer land owned by Kenya Ports Authority in Malaba to Kenya Revenue Authority for purposes of building a truck parking facility. Once the transfer is done, Treasury should source funding to build the parking facility before the end of 2021;

155. The Cabinet Secretary, National Treasury should provide a report to Parliament on the Status of Special Economic Zone on how they compete with the rest of the East African countries within sixty days upon adoption of the report;

156. The Cabinet Secretary Ministry of Industrialization, Trade and Cooperatives should establish industrial zones where, in consultation with the Cabinet Secretary, Ministry of Energy the cost of electricity shall be subsidized in order to attract investment in the manufacturing sector; Provide a status report on the establishment of industrial zones and the progress made in establishing the same;

157. The National Treasury in consultation with the Departmental Committee on Finance and National Planning should review Tax Laws in the country in order to promote ease of doing business in the country. The amendments should be introduced in the Finance Bill, 2021;

158. The Commissioner General, KRA should include the purchase of regional electronic cargo seals in the Authority's budgets for the Financial years 2021/2022; 2022/2023; and 2023/2024;

159. To effectively combat illegal trade and tax evasion at the Ports of Mombasa and Kisumu, Parliament should allocate funds in Kenya Revenue Authority's budget for the FY 2021/2022 for the purchase of speedboats;

160. Kenya Revenue Authority should budget and purchase cold storage equipment in all One Stop Border Posts to ensure that goods stored in the warehouses are kept in the right conditions before they are dispatched; and

161. Feasibility studies should be carried out to find out the viability of establishing a border post at Shompole as the long and porous border between Namanga and Isebania One Stop Border Posts poses a greater avenue for tax evaders.

SIGNED.. **DATE** 26th November 2020

HON. GLADYS WANGA, CBS, MP
CHAIRPERSON
DEPARTMENTAL COMMITTEE ON FINANCE AND NATIONAL PLANNING

MINUTES OF THE 59TH SITTING OF THE DEPARTMENTAL COMMITTEE ON FINANCE AND NATIONAL PLANNING HELD IN 5TH FLOOR, CONTINENTAL HOUSE ON WEDNESDAY, 25TH NOVEMBER, 2020 AT 02.00 PM

PRESENT

1. Hon. Gladys Wanga, MP - **Chairperson**
2. Hon. Isaac W. Ndirangu, MP - **Vice Chairperson**
3. Hon. Jimmy O. Angwenyi, MGH, MP
4. Hon. Christopher Omulele, MP
5. Hon. Shakeel Shabbir Ahmed, CBS, MP
6. Hon. (Dr.) Christine Ombaka, MP
7. Hon. David M. Mboni, MP
8. Hon. Joseph M. Oyula, MP
9. Hon. Joshua C. Kandie, MP
10. Hon. Edith Nyenze, MP
11. Hon. Catherine Waruguru, MP
12. Hon. James Gichuhi Mwangi, MP
13. Hon. Peter Lochakapong, MP
14. Hon. Qalicha Gufu Wario, MP

ABSENT WITH APOLOGY

1. Hon. Daniel E. Nanok, MP
2. Hon. Andrew A. Okuome, MP
3. Hon. Francis K. Kimani, MP
4. Hon. Stanley M. Muthama, MP
5. Hon. (Prof.) Mohamud Sheikh Mohamed, MP

INATTENDANCE

SECRETARIAT

1. Ms. Leah Mwaura - Senior Clerk Assistant/Head of Secretariat
2. Ms. Laureen Wesonga - Clerk Assistant II
3. Mr. Chelang'a Maiyo - Research Officer II
4. Mr. John Njoro - Serjeant-At-Arms
5. Ms. Mercyline Kerubo - Audio Officer

AGENDA

1. Prayers
2. Communication from the Chairperson
3. Confirmation of Minutes
4. Matters Arising
5. **Meeting to consider and adopt the following reports:-**
   i. **Report on the inspection visits to KRA Offices to ascertain the impact of revenue enhancement initiatives on revenue collection; and**
   ii. **Report on the optimization of revenue in grain handling services at the Port of Mombasa.**
6. Adjournment/Date of the next meeting

MIN.NO.NA/F&NP/2020/283: COMMUNICATION FROM CHAIRPERSON

The meeting was called to order at 02.30 p.m. and a prayer was said. The Chairperson then welcomed the meeting to deliberate on the day's agenda.

MIN.NO.NA/F&NP/2020/284: CONFIRMATION OF MINUTES

Agenda deferred

MIN.NO.NA/F&NP/2020/285: CONSIDERATION AND ADOPTION OF THE REPORT ON THE INSPECTION VISITS TO KRA OFFICES TO ASCERTAIN THE IMPACT OF REVENUE ENHANCEMENT INITIATIVES ON REVENUE COLLECTION

The Committee considered the report and adopted it having been proposed and seconded by Hon. Shakeel Shabbir, CBS, MP and Hon. James Gichuhi, MP respectively. The Committee agreed on the following observations and recommendations:-

COMMITTEES' OBSERVATIONS

Following the inspection visits to KRA Offices and OSBPS, the Committee observed that:-

1. Revenue collection points installed with scanners collect more revenue compared to those without scanners but with high traffic. For instance, the Malaba OSBP which is busier than the Namanga OSBP managed to collect revenue of KSh. 2 billion in the FY 2019/20 compared to Namanga which collected KSh. 4 billion in the same FY;
2. Automation of systems has enhanced revenue collection by KRA as there is less human intervention and increased information sharing between the regional offices and with the Times tower centralized monitoring centre;
3. KRA is understaffed with four thousand five hundred (4500) permanent and pensionable staff and one thousand eight hundred (1800) under contract terms. This understaffing has resulted in revenue underperformance due to inadequate staff complement; posing a challenge on service delivery;
4. The Malaba OSBPs lacks decent staff housing forcing the staff to travel long distances to and from work which reduces productivity and puts them in an awkward position where they have to seek accommodation in houses owned by smugglers thereby compromising their integrity;
5. There was huge potential of revenue increase if the OSBPs were made to operate 24hours as it will ease of doing business since there is no limitations of working hours. Traders are able to import and export more. The 24hr operations will also ease congestion as the operating hours will be flexible;
6. KRA installed in Regional Electronic Cargo Tracking Seals (RECTS) where all containerized Transit Cargo & Single Customs Territory (SCT) goods from the port, and excisable goods are tracked under the Regional Electronic Cargo Tracking System (RECTS) Seals. The installation of the cargo tracking system has greatly minimized cases of corruption and theft of goods on transit as there is less or no human intervention and thus improved transparency due to real time information sharing. Before the RECTS, KRA was forced to escort trucks physically to ensure that they reach destination as declared. However, the cargo tracking devices are very few with the Inland Container Deport having only five thousand (5,000) seals). The lack of enough seals has created backlog at the Port of Mombasa and hence the need to invest in additional RECTs;
7. The lack of harmonization of tax on commodities between Kenya and her neighbors has encouraged smuggling of goods into the country especially alcoholic and soft drinks. For

instance, the excise duty payable on alcoholic and soft drinks in Tanzania is relatively lower in comparison to the excise duty charged in Kenya. This has resulted in unscrupulous traders preferring to smuggle the items through the long and porous Kenya-Tanzania Border;

8. The introduction of 10% import duty on non-East African countries has resulted in a decrease in volumes of hardwood imported into Kenya and this may lead to deforestation in the country; and reduction in revenue;
9. There is need to re-examine the Special Economic Zones policy in Kenya and carry out a comparative study between the SEZ policy in Uganda and Rwanda as there were reports of some businesses relocating to these two countries chiefly because of favorable policies and ease of doing business;
10. The cost of electricity for manufacturers in Kenya is high compared to Uganda which has lower prices for electricity in the industrial zones making it a preferred business destination. This could be seen by the increase in the number of manufactured products being imported from Uganda to Kenya e.g. tiles and steel bars;
11. The Malaba OSBP was poorly designed with no parking space for trucks leading to long queues of trucks, the buildings were dilapidated, the paths were not paved and there was no standby generator in case of power failure;
12. The Malaba OSBP had no clean water and the only water available was being pumped from river Malaba for use in sanitation. The contractor did not carry out a feasibility study to assess whether there was a potential for drilling a borehole to supply water to the OSPB;
13. Kenya Ports Authority had twenty-two (22) acres of unutilized land close to the Malaba OSBP that can be utilized for parking of trucks and this will go along in reducing traffic congestion;
14. The road leading to the Busia OSBP was narrow and dilapidated and this leads to long queues of trucks including those carrying explosive material posing a risk in case of an explosion given that there were no fire extinguishers in Busia County;
15. The speedboats used by KRA for surveillance at the Port of Mombasa are old and are unable to effectively monitor illegal activities in the waters and apprehend the tax evaders;
16. All OSBPs did not have coolers in their warehouses hence goods stored awaiting clearance go bad quickly;
17. The long and porous border between Kenya and her Tanzania and Uganda continue to encourage smuggling as the Multi agency teams are unable to provide security surveillance. The cross-border trade continues to undermine revenue collection as the traders use these illegal and unmanned routes.

COMMITTEE RECOMMENDATIONS

From the above observations, the Committee recommends that:-

1. Kenya Revenue Authority should immediately install drive-through scanners and in addition consider purchasing mobile scanners for bulk cargo and smart gates for all One Stop Border Posts. Parliament, through the Departmental Committee on Finance and National Planning should provide this budgetary requirement to be factored through the Supplementary Estimates I 2020/21 with priority on Malaba and Busia One Stop Border Posts and in the long term ensure all OSPBs are adequately equipped with drive-through scanners, mobile scanners for bulk cargo and smart gates;

2. The Kenya Revenue Authority is grossly understaffed at 4500 permanent staff and 1800 staff on contract. The National Treasury should allocate additional funds under the Supplementary Estimates I for 2020/21 to employ additional 2000 staff;
3. The Cabinet Secretary, National Treasury and the Commissioner General, Kenya Revenue Authority, should work out ways of operationalizing all One Stop Border Posts to operate 24 hours a day by the end of the year 2021. There is need for regional diplomatic engagement between Kenya and her neighbors to ensure necessary infrastructure is put in place to facilitate 24 hour operations;
4. The National Treasury should engage with Ministries of Finance in the East African Region during the budget cycle for the FY 2021/2022 in order to harmonize the excise duty charged by respective countries;
5. The Cabinet Secretary for National Treasury should direct Kenya Ports Authority to transfer land owned by Kenya Ports Authority in Malaba to Kenya Revenue Authority for purposes of building a truck parking facility. Once the transfer is done, Treasury should source funding to build the parking facility before the end of 2021;
6. The Cabinet Secretary, National Treasury should provide a report to Parliament on the Status of Special Economic Zone on how they compete with the rest of the East African countries within sixty days upon adoption of the report;
7. The Cabinet Secretary Ministry of Industrialization, Trade and Cooperatives should establish industrial zones where, in consultation with the Cabinet Secretary, Ministry of Energy the cost of electricity shall be subsidized in order to attract investment in the manufacturing sector; Provide a status report on the establishment of industrial zones and the progress made in establishing the same;
8. The National Treasury in consultation with the Departmental Committee on Finance and National Planning should review Tax Laws in the country in order to promote ease of doing business in the country. The amendments should be introduced in the Finance Bill, 2021;
9. The Commissioner General, KRA should include the purchase of regional electronic cargo seals in the Authority's budgets for the Financial years 2021/2022; 2022/2023; and 2023/2024;
10. To effectively combat illegal trade and tax evasion at the Ports of Mombasa and Kisumu, Parliament should allocate funds in Kenya Revenue Authority's budget for the FY 2021/2022 for the purchase of speedboats;
11. Kenya Revenue Authority should budget and purchase cold storage equipment in all One Stop Border Posts to ensure that goods stored in the warehouses are kept in the right conditions before they are dispatched; and
12. Feasibility studies should be carried out to find out the viability of establishing a border post at Shompole as the long and porous border between Namanga and Isebania One Stop Border Posts poses a greater avenue for tax evaders.

MIN.NO.NA/F&NP/2020/286: CONSIDERATION AND ADOPTION OF THE REPORT ON THE OPTIMIZATION OF REVENUE IN GRAIN HANDLING SERVICES AT THE PORT OF MOMBASA

The Committee considered the report and adopted it having been proposed and seconded by Hon. Edith Nyenze, MP and Hon. Qalicha Wario, MP respectively. The Committee agreed on the following observations and recommendations:-

COMMITTEES' OBSERVATIONS

Following the inspection visit to the Port of Mombasa and from the stakeholders' submissions, the Committee observed that:-

1. Cargo throughput at the Port of Mombasa has been rising over the years driven by the corresponding economic growth of countries that use the port for import and export.
2. Kenya Ports Authority through the Wayleave Agreement of 1992 for a period of forty-five (45) years and a License Agreement entered in 2000 for a period of thirty-three (33) years designated berths 3 and 4 to GBHL to handle grain bulk vessel discharge alongside the conventional dry grain and fertilizer handling that utilize grabs for bagged cargo.
3. GBHL is a private company which commenced operations in 2000 and solely operates a specialized terminal (berths 3 and 4) for handling bulk grain imports and is the sole operator for mechanical bulk grain handling at the Port of Mombasa.
4. GBHL facilities comprise of a vessel handling facility, a bulk transit terminal, a bulk storage terminal bagged warehousing and local transportation services.
5. Terminal/berths 3 and 4 are designated to GBHL but occasionally, the berth serves as a common user facility for purposes of discharging other vessels when idle.
6. The Port of Mombasa has limited berths for handling specialized cargo including dry bulk grain discharge, this shortage is attributed to the congestion experienced at the Port especially during emergency, surge in importation and or humanitarian crisis.
7. Kenya Ports Authority is responsible for providing the critical infrastructure to support the berthing of grain bulk whereas GBHL has installed equipment for discharge of grain vessels and storage facilities.
8. Grain and bulk handling at the Port is done either through GBHL vide conveyor from the port to silos outside the Port; or conventionally by bagging vide grabs onto bagging plants alongside ships and loaded to trucks.
9. Conventional grain bagging is mainly done where there is excess demand for vessel discharge resulting from long queues of ships awaiting clearance hence waiting time and demurrage charges are not deemed economical.
10. GBHL uses highly mechanized systems with dust suppression filters which has resulted in reduced dust emission to the environment, shorter ship dwell times and reduced cargo wastage.
11. GBHL dry bulk handling terminal in Nairobi is complete with a storage capacity of 134, 000 M/T of cargo, the terminal is adjacent to the Athi SGR station. The two institutions entered into a lease agreement on 25th November, 2018 with the aim of allowing GBHL to reside and conduct dry bulk handling without hindrance. The Nairobi terminal is responsible for non-food products such as clinker, coal and fertilizer.
12. The current rates payable for grain bulk handling under the GBHL service is USD 3.85 per M/T as provided for in the KPA Tariff Book while conventional grain bulk handlers are charged USD 10.4 per M/T. This price differentiation has presented a technical barrier to trade and competition.
13. The projected annual growth in grain handling at the Port of Mombasa is 7%. In 2019, the vessel discharge was at 2.7 million metric tonnes compared to 400,000 metric tonnes in 2000.
14. The License Agreement between KPA and GBHL covers a period of 33 years from the signing period in 2000 and the Agreement provides that GBHL will be granted exclusive operation for a period of 8 years from 2000 to allow her recoup expenditure before exploring the licensing of another grain bulk handler at the Port of Mombasa.
15. Kilindini Terminals Ltd (KTL) was granted wayleave subject to several conditions however, according to KPA, KTL has not responded to KPA on the same. KTL have

proposed variation of their initial application to change location from berth 11 to berth 5 which has a width of 76 meters while a vessel has an average length of 200 meters making it inadequate for use.

COMMITTEE RECOMMENDATIONS

From the above observations, the Committee recommends that:-

1. In order to optimize revenue collection, KPA should fast-track authorization of design, development and commissioning of other grain bulk handlers to enhance efficiency and effectiveness in the grain handling business by 2022.
2. The process of appointing new operator(s) for the grain bulk handling services in the country must be fair, open, transparent and adhere to the Public Procurement and Asset Disposal Act, 2015 to ensure non-discrimination and accountability.
3. Under the KPA Master Plan of 2018 to 2047, KPA needs to pursue alternative locations to discharge grain vessels particularly at the Dongo Kundu Special Economic Zone (SEZ), the upcoming Lamu and Kisumu Ports with consideration on space and business model applicable under the Public Private Partnerships (PPPs) framework.
4. In order to promote efficiency in grain bulk handling in the country, there is need for the government to provide critical infrastructure to continually expand and sustainably gain leverage in technology while maximizing on the return on investment. Such critical infrastructure includes wide berths and state of the art vessel handling equipment.
5. KPA should continue investing including through the PPP framework in expansion of the Port facility to accommodate more berths to meet the growing demand within the region.

MIN.NO.NA/F&NP/2020/287: ADJOURNMENT/DATE OF NEXT MEETING

There being no other business to deliberate on, the meeting was adjourned at 04.08 p.m. The next meeting will be held on Tuesday, 1st December, 2020 at 10.00 a.m.

HON. GLADYS WANGA, CBS, MP
(CHAIRPERSON)

SIGNED..**DATE**....26th November 2020....

REPUBLIC OF KENYA

THE NATIONAL ASSEMBLY

DEPARTMENTAL COMMITTEE ON FINANCE & NATIONAL PLANNING
ADOPTION SCHEDULE FOR THE REPORT ON THE INSPECTION VISITS TO KRA OFFICES TO ASCERTAIN THE IMPACT OF REVENUE ENHANCEMENT INITIATIVES ON REVENUE COLLECTION

DATE: 25TH NOVEMBER, 2020

NAME	SIGNATURE
1. HON. GLADYS WANGA, CBS, MP – **CHAIRPERSON**	
2. HON. ISAAC W. NDIRANGU, MP – **VICE-CHAIRPERSON**	
3. HON. JIMMY N. O. ANGWENYI, MGH, MP	Virtual
4. HON. CHRISTOPHER OMULELE, MP	virtual
5. HON. SHAKEEL SHABBIR AHMED, CBS, MP	
6. HON. DANIEL E. NANOK, MP	
7. HON. (DR.) CHRISTINE OMBAKA, MP	COmbaka.
8. HON. ANDREW A. OKUOME, MP	
9. HON. DAVID M. MBONI, MP	
10. HON. FRANCIS KURIA KIMANI, MP	
11. HON. JOSEPH M. OYULA, MP	
12. HON. JOSHUA KANDIE, MP	
13. HON. STANLEY M. MUTHAMA, MP	
14. HON. EDITH NYENZE, MP	
15. HON. CATHERINE WARUGURU, MP	Virtual
16. HON. JAMES GICHUHI MWANGI, MP	
17. HON. (PROF.) MOHAMUD SHEIKH MOHAMED, MP	
18. HON. PETER LOCHAKAPONG, MP	
19. HON. QALICHA GUFU WARIO, MP	