

THE REVENUE DILEMMA

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(EXCHEQUER OPERATIONS,NATIONAL TREASURY)

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OUTLINE

- Government Revenue
- Legal framework in Revenue management
- Institutional Arrangements in Revenue Management
- Sources of Government Revenue
- Sources of Revenue gaps

OUTLINE

- Fiscal deficit vs Revenue deficit
- Revenue Trends in the last 5 years
- Implication of Revenue and Fiscal Deficits
- General measure to reduces revenue/fiscal deficits
- Practical Policy Options Out

COMPOSITION OF GOVERNMENT REVENUE

- Tax Revenue
- Non Tax Revenue
- Domestic Borrowing –T/Bills and T/Bonds
- Other domestic financing eg Dividends ,Surpluses etc
- External Loans and Grants
- Commercial Borrowing eg Foreign Bonds

ENABLING LEGISLATION

Enabling legislation for revenue allocation , collection , spending and accounting includes:

- Constitution of Kenya 2010
- Public Finance Management Act 2012
- Public Finance Management Regulations 2015
- Tax Law amendment Acts
- Value Added Tax Act
- Excise Duty Act

ENABLING LEGISLATION Cont'

- Tax Procedure Acts
- Miscellaneous Fees and Levies Act
- Income Tax Act
- Kenya Revenue Authority Act 2012
- Audit Act 2015
- Division Of Revenue Act
- County Revenue Of Allocation Act
- Revenue Act
- Appropriation Acts

INSTITUTIONAL ARRANGEMENT

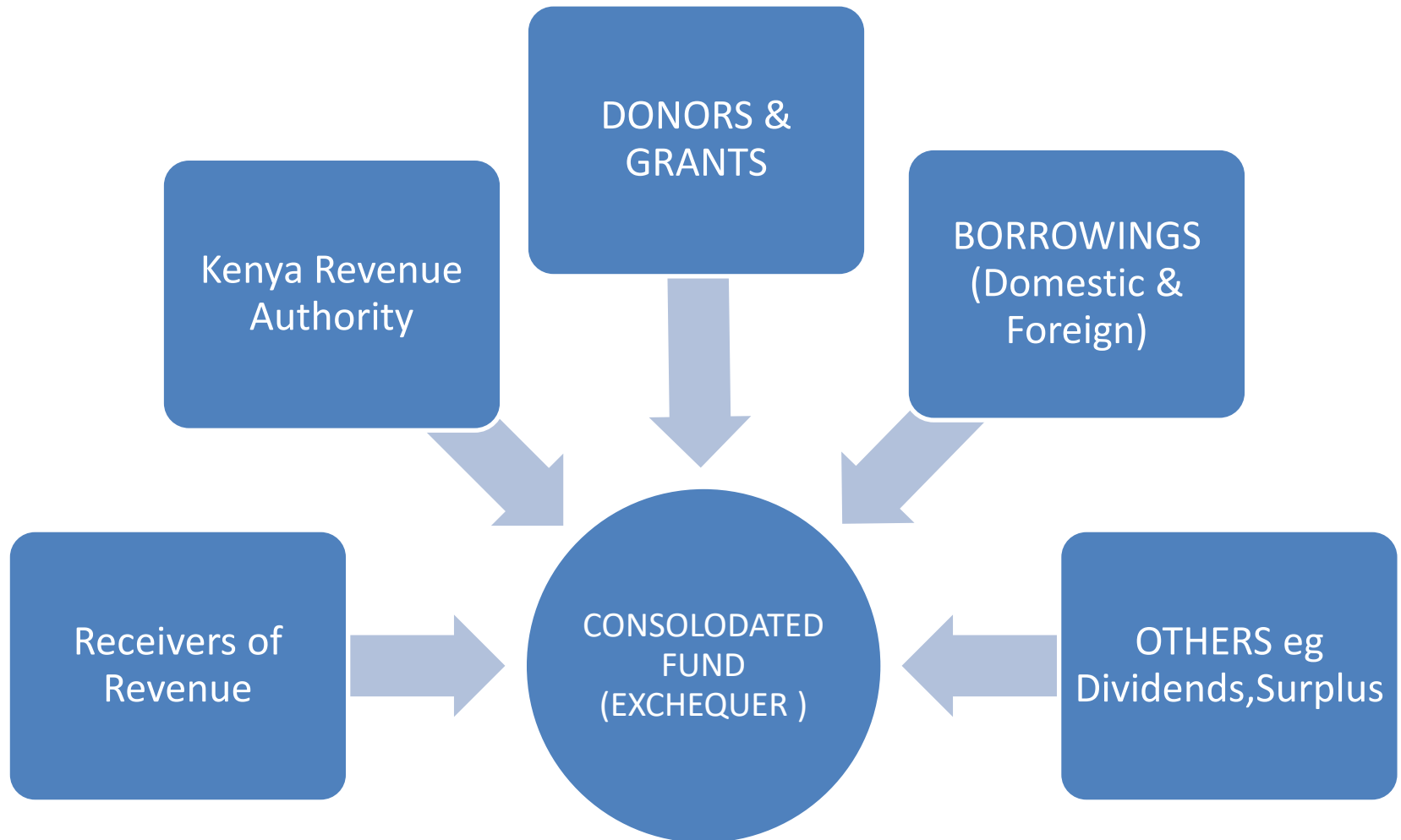
Institutions overseeing revenue allocation collection, spending and accounting includes:

- The National Assembly
- The senate
- Commission Of Revenue Allocation
- The National Treasury
- Other Receivers Of Revenue (RoRs)
- The Kenya Revenue Authority

INSTITUTIONAL ARRANGEMENTS Cont'

- The Kenya Revenue Authority
- Other Collectors Of Revenue
- Office of the Auditor General
- Office of the Controller of Budget
- Various County Governments
- Central Bank of Kenya
- Other banks

REVENUE SOURCES



REVENUE DEFICIT

- Revenue Deficit arises when governments expenditure exceeds the total revenue receipts



REVENUE DEFICIT

Revenue deficits implies that the government plans to spend more than it can raise from both ordinary revenue and borrowings

FISCAL DEFICIT

- Fiscal deficits implies government expenditure over and above money raised from Taxes and Non tax Revenue



REVENUE DEFICIT VS FISCAL DEFICIT

- Revenue deficit occurs when government expenditure plans exceeds the projected receipts
- Fiscal Deficit arises whenever the governments plans to spend more money than it can generate internally

HOW IS FISCAL DEFICIT MET

Fiscal deficit is ordinarily closed by government borrowing i.e

- Domestic Borrowing - Sale of government securities (T-Bond/T bills)
- External Borrowing

HOW IS REVENUE DEFICIT MET?

- Increase in Tax and Non Tax Receipts
- Reduce unnecessary expenditures
- Cost cutting measures

HOW IS FISCAL DEFICIT MET

- Fiscal deficit is ordinarily closed by government borrowing
- Sale of government securities (T-Bond)
- Long term deficit are detrimental for economic growth
- Sluggish Economy vs boosting aggregate demand
- Distort interest rates

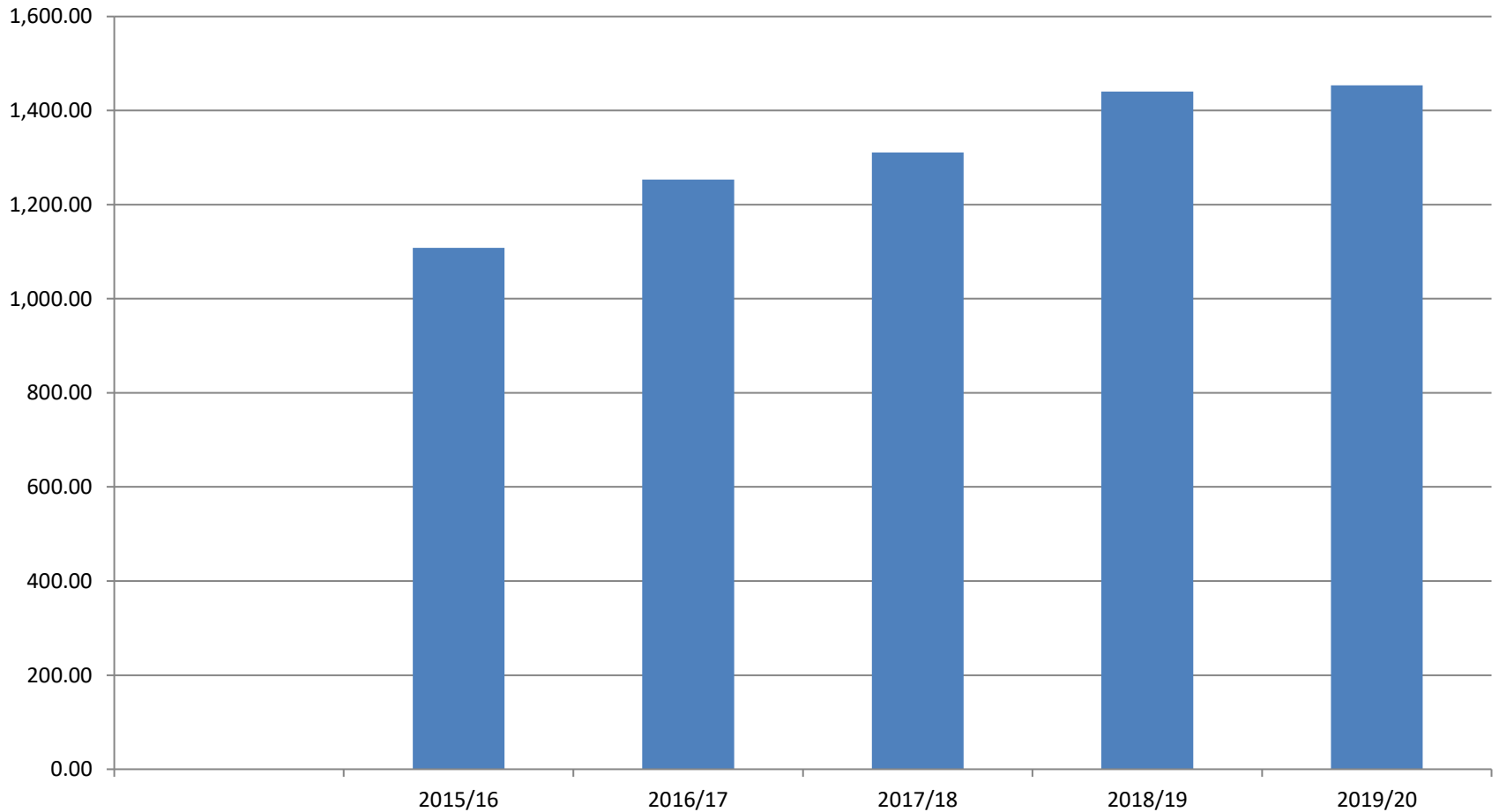
FISCAL DEFICIT, GOOD OR BAD?

- Long term deficit are detrimental for economic growth
- Sluggish Economy vs boosting aggregate demand
- Distort interest rates

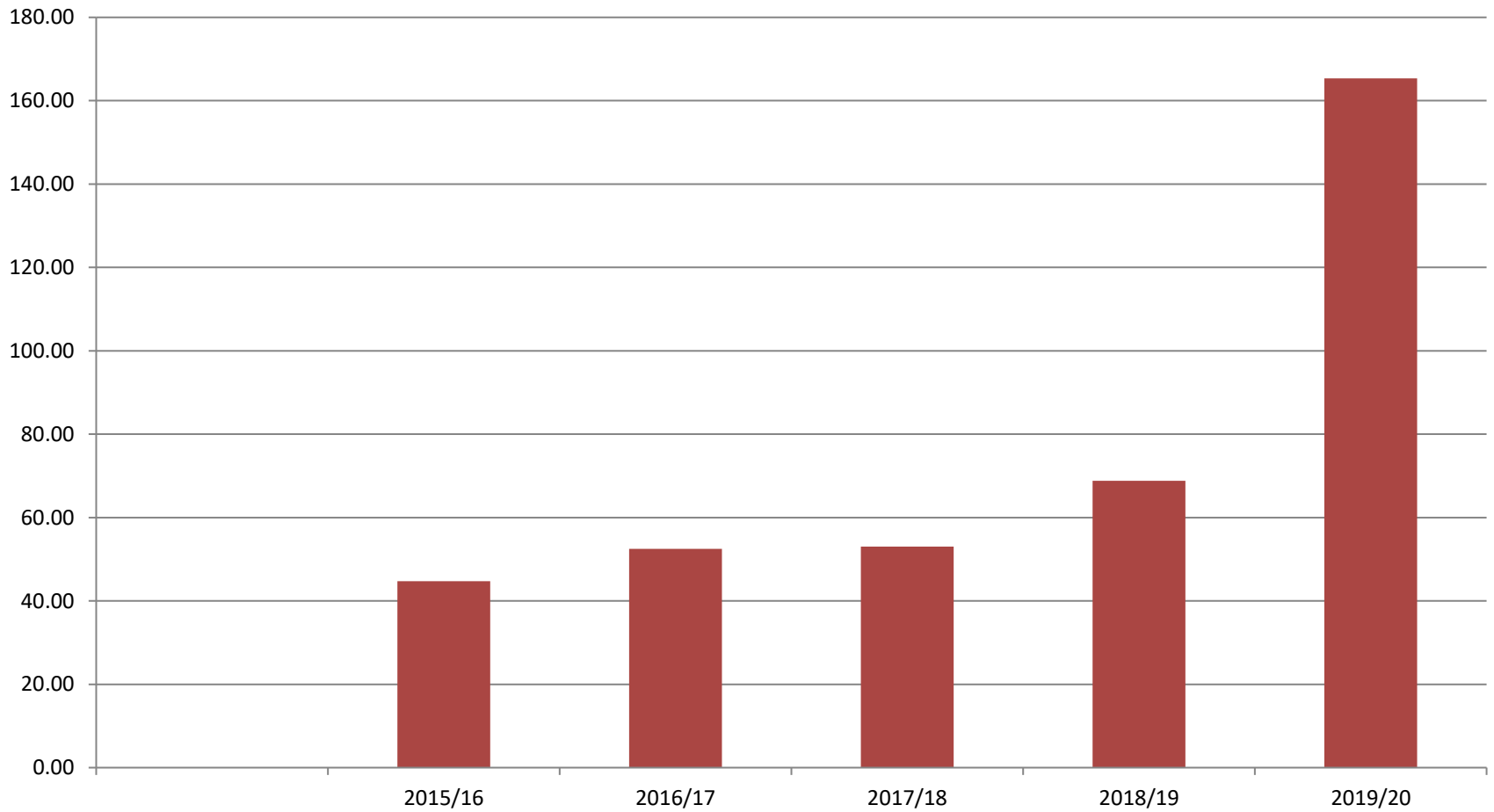
REVENUE TRENDS - 5 YEARS

		REVENUE TREND				
FISCAL YEAR		2015/16	2016/17	2017/18	2018/19	2019/20
TAX REVENUE		1,108.00	1,253.00	1,311.00	1,440.20	1,453.50
NON TAX REVENUE		44.70	52.50	53.00	68.80	165.30
DOMESTIC BORROWING		506.20	414.90	420.90	486.70	558.90
LOANS & GRANTS		43.50	38.50	33.50	12.70	15.90
COMMERCIAL BORROWINGS		134.00	186.00	298.00	489.07	285.50
OTHER REVENUES		16.60	82.10	52.60	3.53	50.80
TOTAL ACTUAL REVENUE		1,853.00	2,027.00	2,169.00	2,501.00	2,529.90
ORIGINAL ESTIMATE		1,627.00	2,019.00	2,272.00	2,630.00	2,597.60
REVISED ESTIMATE		1,863.00	2,093.00	2,309.00	2,617.00	2,734.30

TAX REVENUE

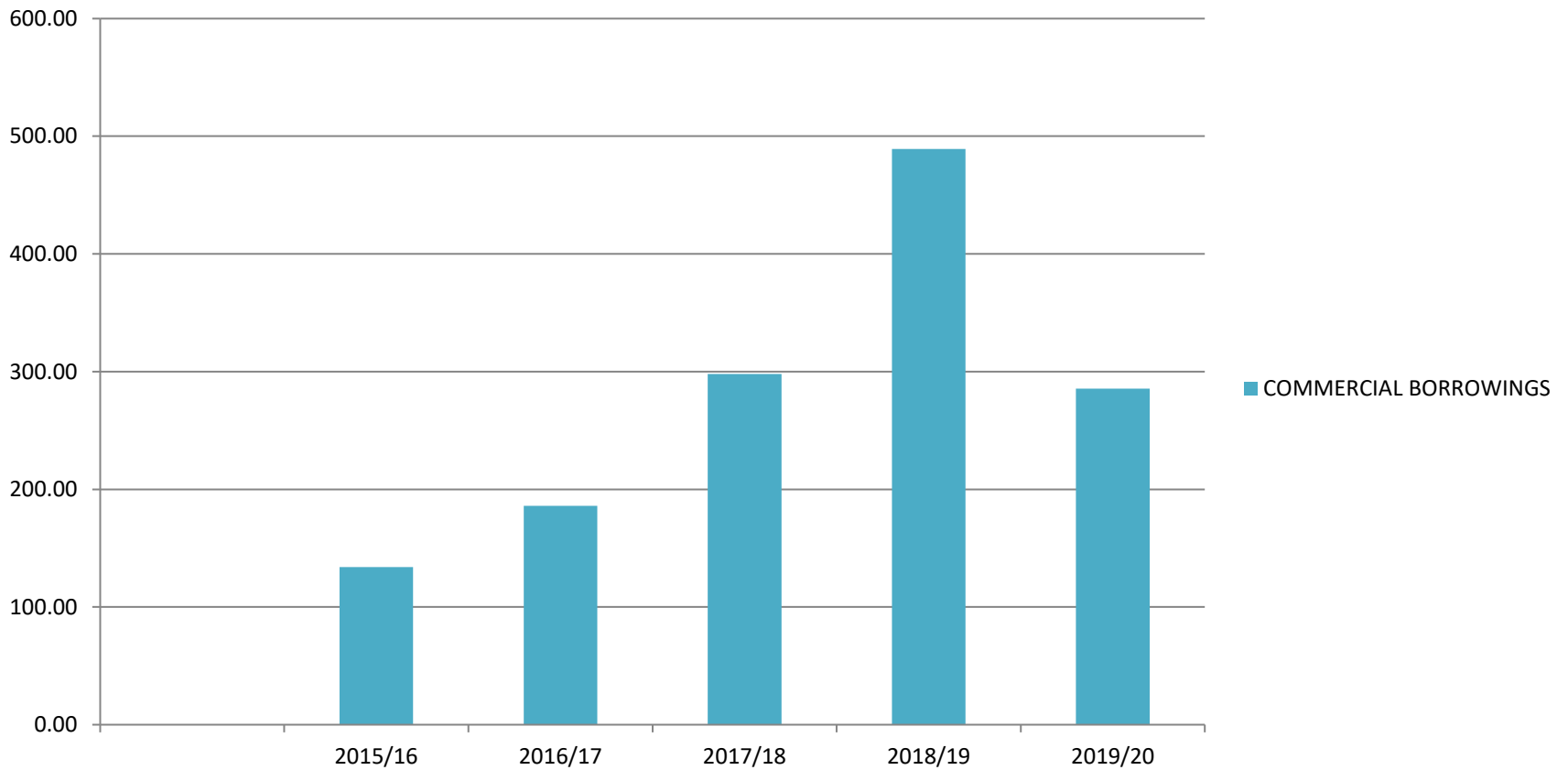


NON TAX REVENUE

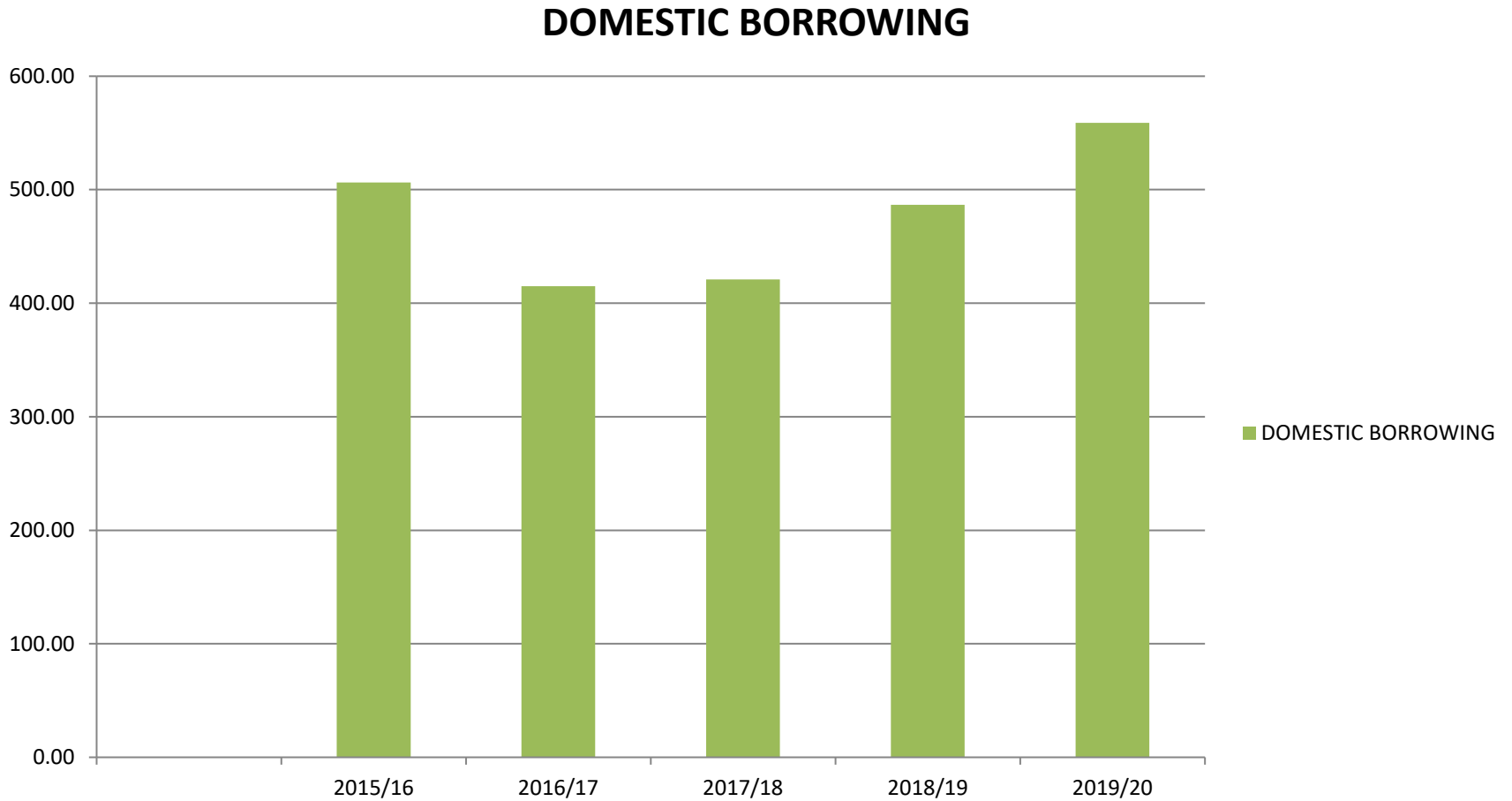


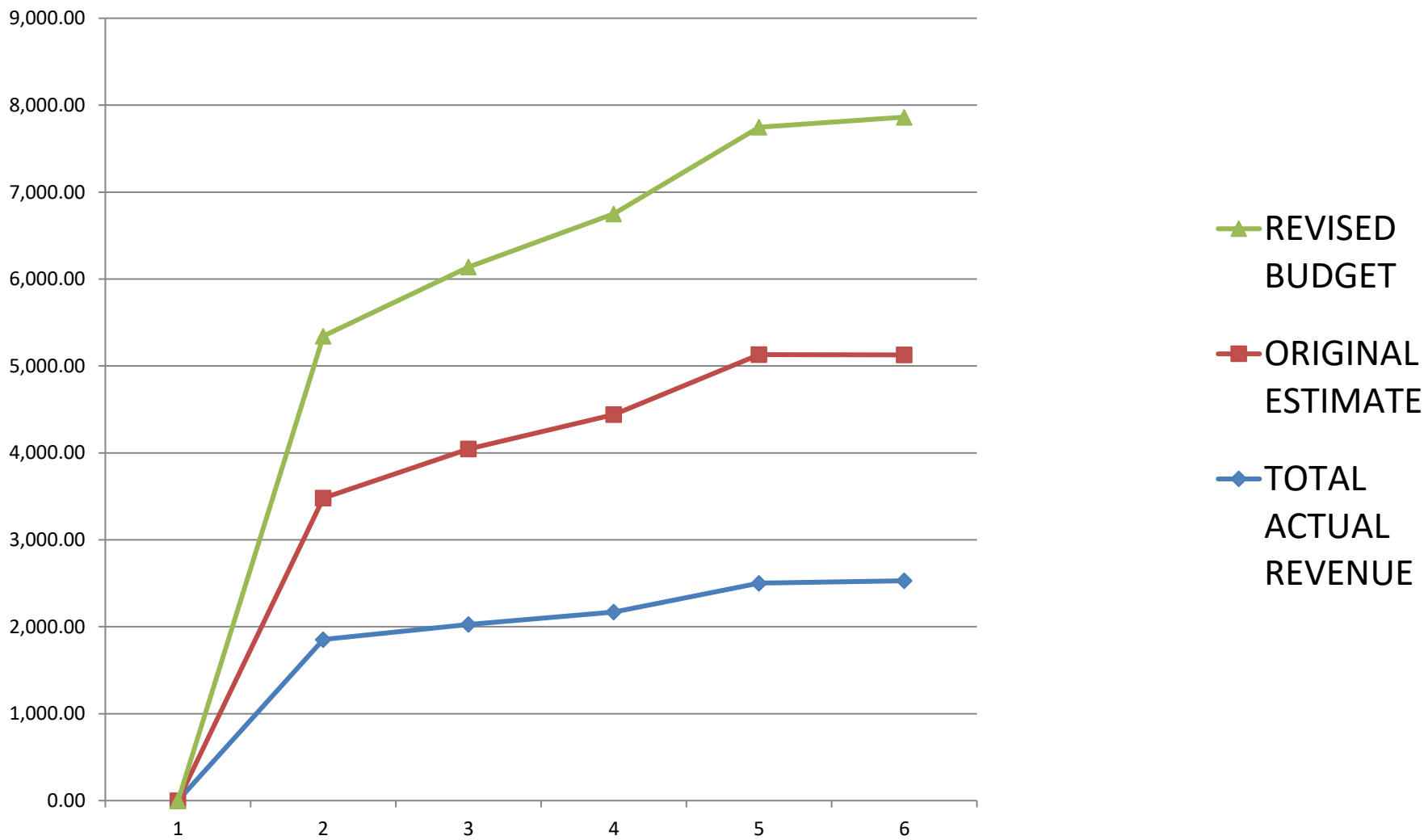
COMMERCIAL BORROWINGS

COMMERCIAL BORROWINGS

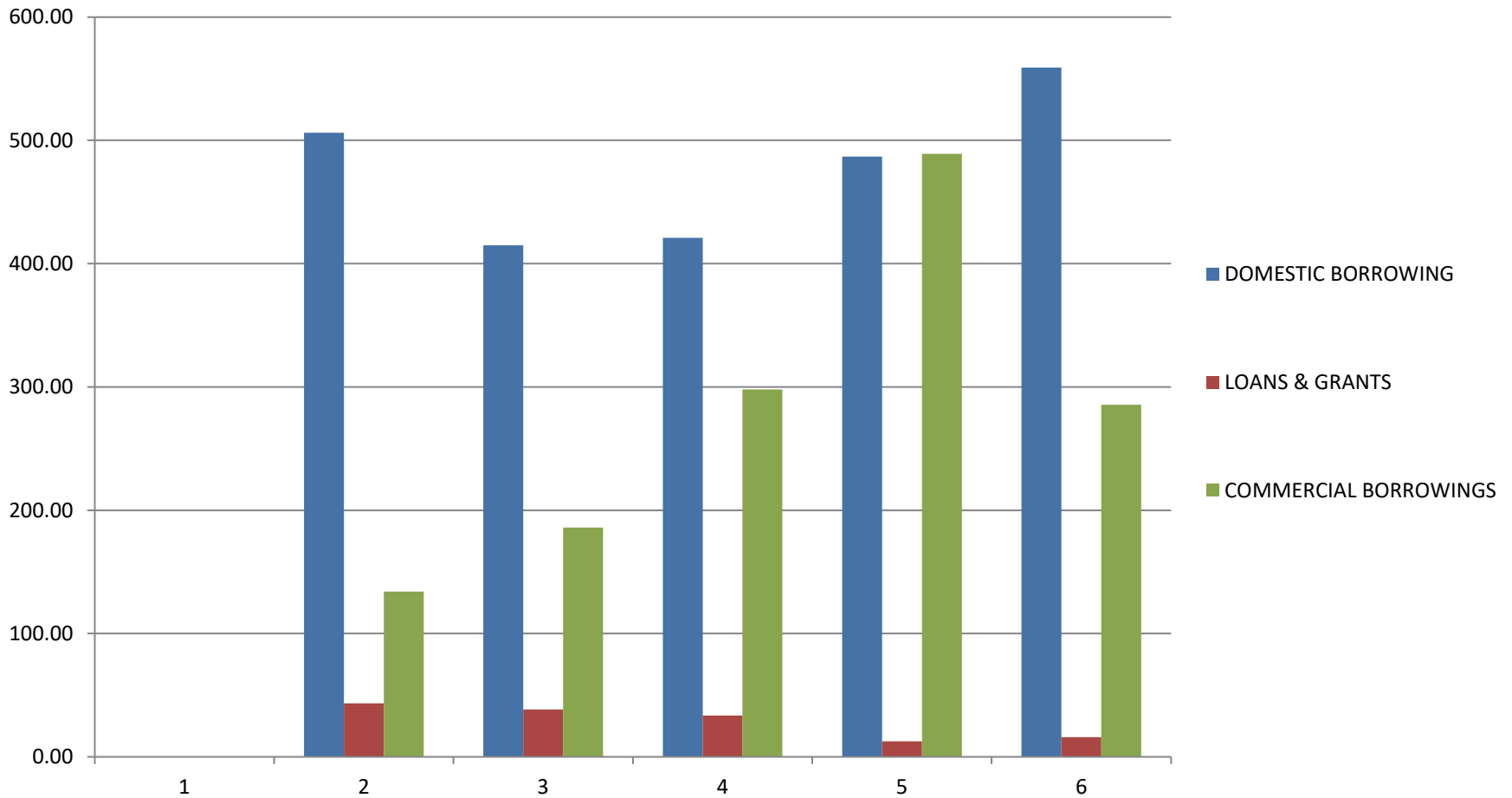


DOMESTIC BORROWING





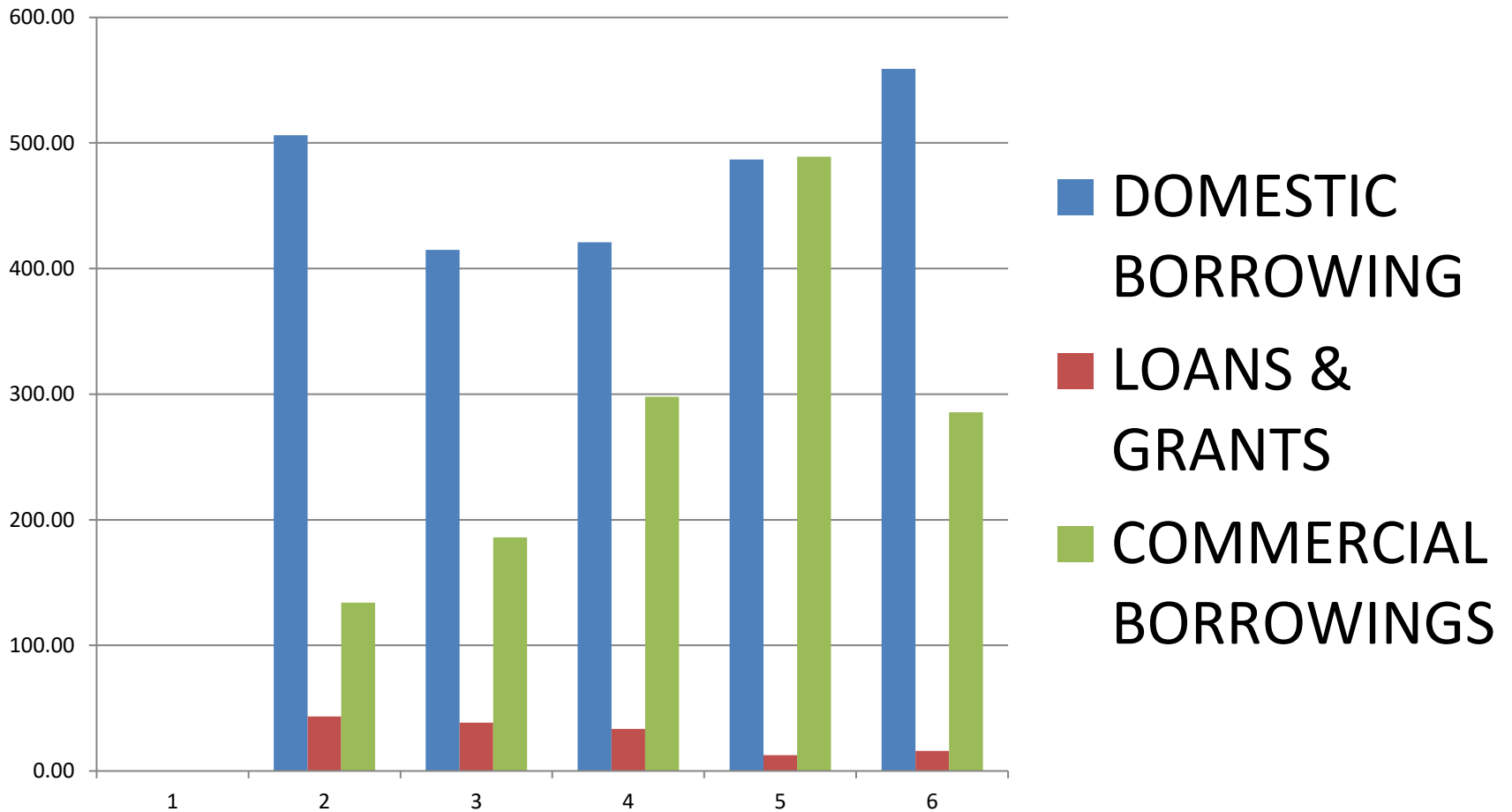
BORROWINGS AND LOANS



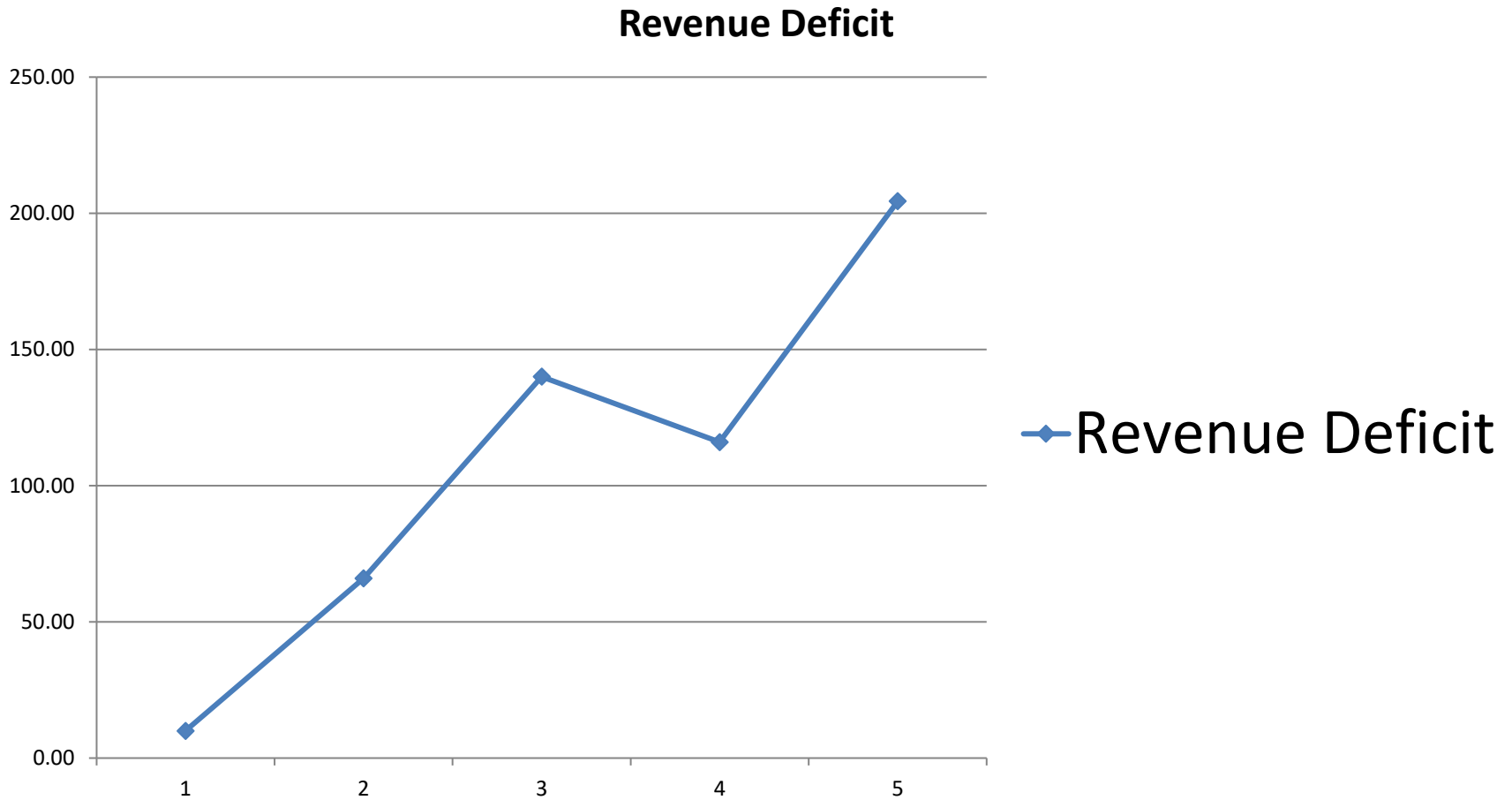
REVENUE TREND DEFICIT

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TOTAL ACTUAL REVENUE	1,853.00	2,027.00	2,169.00	2,501.00	2,529.90
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REVISED BUDGET	1,863.00	2,093.00	2,309.00	2,617.00	2,734.30
Revenue Deficit	10.00	66.00	140.00	116.00	204.40

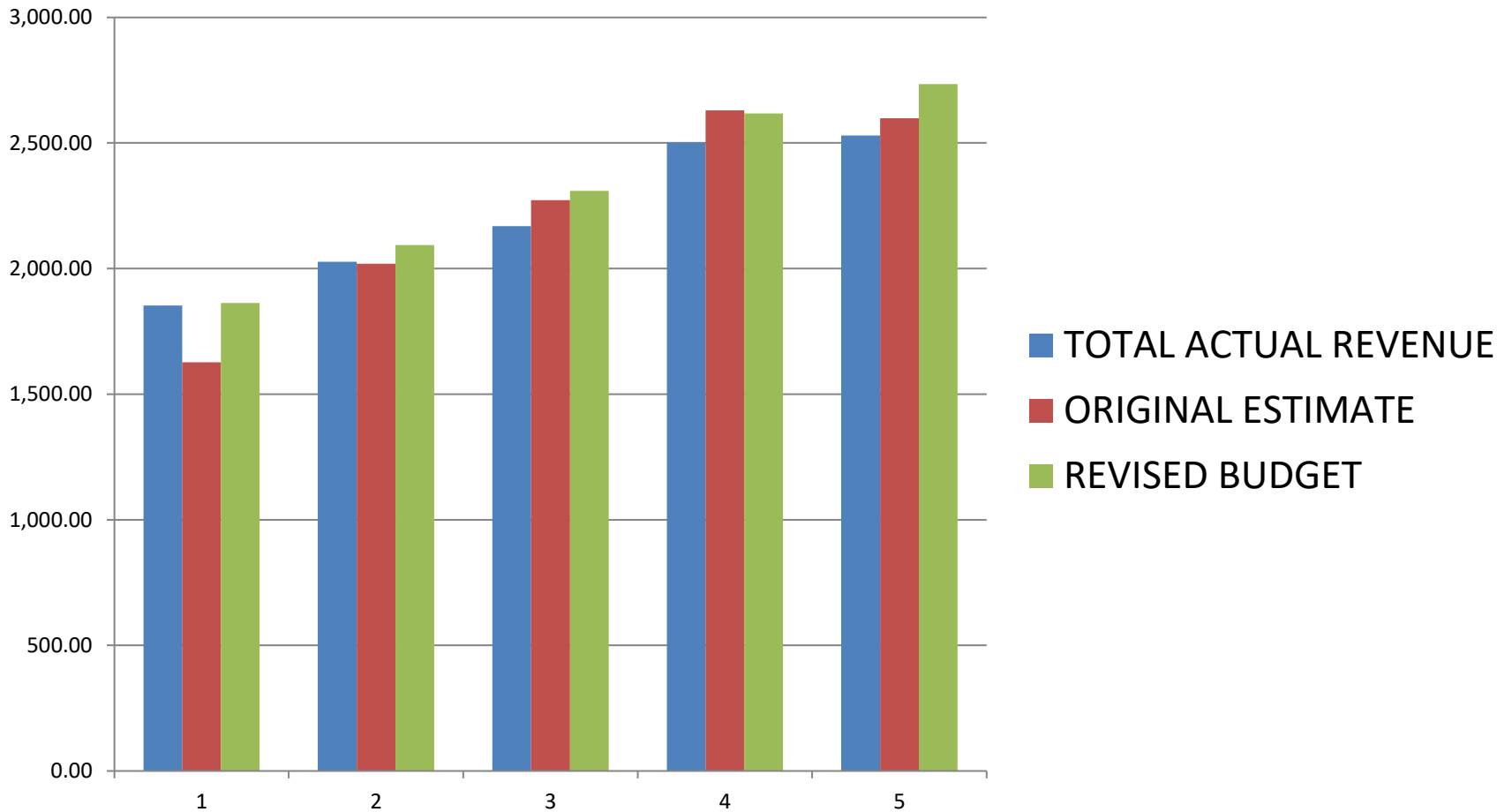
EXTERNAL RESOURCES



REVENUE DEFICIT MOVEMENT



REVENUE GAPS OVER THE YEARE



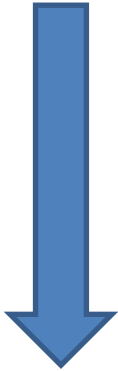
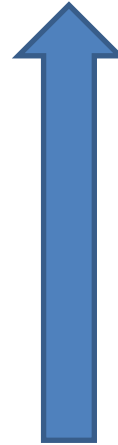
PUBLIC DEBT GROWTH

	PUBLIC DEBT GROWTH		
FISCAL YEAR	1999	2003	2021
PUBLIC DEBT	502.3	633	7400

SOURCES OF REVENUE DEFICIT

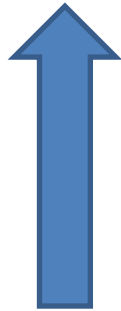
- **INCREASED EXPENDITURE**

- **SHORTAGE OF REVENUE**

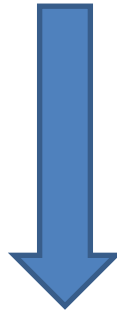


REVENUE DEFICIT

- Raise Taxes



- Cut expenses



SOURCES OF REVENUE DEFICIT

PULL FACTORS

- **Shortfall in revenue collection**
- **High rate of tax evasion**
- **Sluggish economic environment e.g due to government under spending ,government domestic borrowing**
- **Unforeseen effects e.g COVID 19**
- **Optimal tax levels /Modest tax revenue growth**

SOURCES OF REVENUE DEFICIT

PUSH & PULL

PUSH FACTORS

- **Increased expenditures**
- **Huge/bloated government structure**
- **Increased /multiple social welfare Programmes**
- **Push for Huge capital projects**
- **Growing public debt**
- **Duplication of roles**

WHAT DOES REVENUE DEFICIT INDICATE

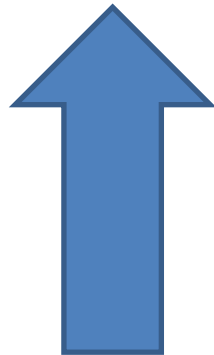
- Reduction in government asset
- Inflationary economic situation
- Huge burden to repay
- Huge future revenue deficits

MEASURES TO REDUCE REVENUE DEFICIT

Reduction in governments expenditure



Increase in governments revenue



IMPLICATION OF REVENUE DEFICIT

- **UNMET EXPENDITURE (PENDING BILLS)**
- **UNMET TARGETS**
- **AFFECTS CREDIT RATING BY INTERNATIONAL ORGANISATION**
- **INCREASE IN GOVERNMENT LIABILITY**
- **HIGHER INFLATION**
- **HIGHER FUTURE BURDENS OF LOANS AND INTERESTS REPAYMENTS**

IMPLICATION OF FISCAL DEFICIT

- **HIGH INFLATION**
- **INCREASED FOREIGN DEPENDENCY**
- **FINANCIAL BURDENS TO CITIZENS**
- **INCREASED BORROWINGS**
- **HIGH INTEREST PAYMENTS BY GOVERNMENT**
- **DEBT TRAP**

MEASURES TO REDUCE FISCAL DEFICIT

- **REDUCTION IN GENERAL PUBLIC EXPENDITURE**
- **REDUCTION IN SUBSIDIES**
- **REDUCTION IN NON PLAN EXPENDITURE**

- **INCREASE THE INCIDENCE AND BURDEN OF TAX**
- **INCREASE PROFITABILITY OF STATE CORPORATION**
- **CONTROL TAX EVASION**

DILEMMAS

- Revenue shortfall vs Debt ceiling
- Revenue shortfall vs hard economic times
- Revenue shortfall vs high demand for service
- Revenue shortfall vs huge capital investment
- Revenue shortfall vs political interest
- Revenue shortfall vs 2 tier government structure

PRACTICAL POLICY OPTIONS

SHORT TERM

- Economic Stimulus Programs
- Debt restructuring /renegotiation
- Minimize unnecessary expenditure
- Increase Public Private partnership
- Check on social welfare programs e.g
Contributory pensions etc
- Control wage bills
- Aggressive Tax collection

PRACTICAL POLICY OPTIONS

MEDIUM TERM OPTIONS

- Review of Government Structure-Structural adjustment initiative
- Cut on any wastage and duplication
- Check/Minimize Social Welfares

Thank You!

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HEAD OF EXCHEQUER OPERATIONS

Q and A