33%
PROPORTION
of small and medium-sized enterprises that are women-owned in Kenya

Higher taxes will hurt telco services uptake

TAXATION

KENNETH BASANGA
Commentator on the ICT industry

Kenya is oscillating between learning to live with Covid-19. We are now experiencing the sixth wave of the pandemic.

Access to the Internet since the onset of this pandemic has emerged as a necessity. It is what kept the global engine moving, with a heavier reliance on remote work and online communication driving a dramatic surge in global Internet usage. Digital environments usurped every day in-person interaction, enabling business owners, employees, teachers, students – the fortunate few who had access to the Internet and other professionals to minimise their movement, meet their contractual, professional, business or educational obligations.

As corporates and start-ups recover from the pandemic shocks, including the loss of more than a million jobs, a post-Covid-19 era unwittingly offers Kenya the opportunity to not only rebuild but also reimagine its economy, with digitisation at the forefront – all this powered by access to the Internet.

However, this projection may have hit an obstacle. The havoc the pandemic wreaked on economies all over the world resulted in shrinking tax bases. This prompted several tax authorities across the globe to seek alternative income sources.

In Kenya, the signing into Law of the Finance Bill 2021, resulted in a five-percentage point rise in telecoms and Internet services, from 15 to 20 percent.

The cost of communication rose by Sh0.30, straining further an average Kenyan.

Any taxes on data and communication services make them either too expensive or less attractive to invest in, for individuals and corporates. Such taxes will also be detrimental, especially in a country where access to mobile telephony and Internet services is a critical tool for socio-economic growth.

Imposing further excise duty will penalise individual Kenyans as well as impact the growth of the market and the industry.

Further, in a country with extensive rural areas with limited network coverage, these taxes would discreetly disenfranchise poor and disadvantaged groups who would otherwise benefit the most from access to affordable mobile data.

@ Letters

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It's time home developers changed tack

Like many industries globally, the real estate industry in Kenya has gone through a major evolution over the past 10-12 years.

A deeper dive into the causes and the nature of the changes shed interesting insights.

Since 2010, Kenya has experienced a variety of macro-economic events, which have had mostly detrimental effects on the real estate industry. We've had multiple terror attacks, witnessed the collapse of major banking and supermarket brands and the Covid-19 pandemic.

We are now experiencing soaring inflation of building materials, weakening shilling and very tense poll campaigns.

A myriad of mega projects have also been launched but delivered poorly or not delivered at all. Unfortunately, in the process, many Kenyans have had their fingers burnt investing in the seemingly lucrative local real estate market.

The industry has shifted from an absolute 'seller's market' to a 'buyer's market' in which developers have had to adapt their approach and strategies to remain competitive and relevant.

I moved back to Kenya in 2010, at a time when developers and organised developments were so scarce that almost any project in any location would sell at attractive margins. It was not uncommon for developments of mediocre quality and design and often with minimal marketing materials to be sold out far before the completion of the homes. While many investors benefited

Kenya's real estate sector has become competitive. --JOSEPH KANYI

from price appreciation in an ever-rising market, a majority suffered from either long delivery delays or had sub-standard homes delivered.

Unfortunately, because demand hugely outstripped supply, buyers had no choice but to agree to biased, one-sided clauses in the legal documents and therefore had very little recourse in such scenarios. Fast forward 12 years and the situation is very different. The business model of real estate projects has changed.

Competition in the market today is stiff. The number of companies, local and foreign players, whose core existence and focus is real estate has risen dramatically. This is a change from the large number of 'part-time' or casual real estate developers whose main business was not real estate. These developers were simply looking to develop so they could unlock the value of the land they were sitting on.

They built their developments and sold their units with ease, effectively cashing in on the wave of the booming real estate market between 2008-2014.

The gradual rise in competition over the years has led to lower profit margins as developers battle for precious customers. A one-time attractive industry where margins of 35-45 percent were the norm has changed to an industry where developers have to be content with margins closer to 20-25 percent.

Based on the past lessons, today's buyers are much more cautious in their approach to investing in real estate. Many buyers now prefer to wait and see a sample unit before investing or insist on paying the majority of the price upon the completion of the development.

Only truly exceptional projects manage to fully sell out by the completion of construction, and most developers are satisfied with 60-70 percent of units sold out upon completion. These factors have a crucial effect on project financing.

In the past, it was common for developers to finance the majority of their projects through buyer's deposits and subsequent instalment payments. However, due to slower sales velocities and buyers opting for more cautious payment plans, developers are now forced to pump in more equity or look for expensive debt financing. Higher equity stakes and debt both cause lower Internal Rate of Return and profitability.

Inevitably, lower profits mean a less attractive industry and a larger capital requirement needed to deliver project results in larger barriers of entry for new entrants. In attempts to minimise the capital outlay, some developers have partnered with landowners and formed a joint venture.

Increased competition together with more educated and savvy customers have meant developers have had to raise their game. Buyers can now easily compare developments locally and internationally online in a matter of minutes. The rise and popularity of platforms like Instagram and Pinterest mean anyone can access world-class projects and finishes with ease.

While the industry is becoming increasingly tough to make attractive returns, buildings and developments are still popping up from every corner of the city, indicating developers' appetite to build their dream projects continues to be very healthy.

Kavit Shah, Co-CEO of Tilisi Developments PLC

SUPPLY CHAIN

Make tendering work for women business owners

PROCUREMENT

MOSES WERE,
Supply Chain Director at Bamburi Cement PLC

In Kenya, 98 percent of businesses are small to medium-size enterprises (SMEs). Women-owned SMEs account for 33 percent of this critical sector which translates to a 20 percent contribution to the gross domestic product (GDP), according to the World Bank's private equity fund, the International Finance Corporation IFC. The picture is even worse in the global arena since only one percent of procurement spend by large corporations goes to women-owned SMEs.

By 2013, only seven percent of the recorded contracts had been awarded to women despite the government compelling institutions to offer 30 percent of the contracts to women, the youth, and the disabled through the Access to Government Procurement Opportunities programme.

The inequality in the supply chain has inhibited the potential women have in business

Evidently, not much has changed since then, pointing to a huge gap between the number of women-owned and male-owned businesses awarded high-valued tenders in both government and private institutions.

The inequality in the supply chain has inhibited the potential women have in business. The inflation due to the rise in fuel prices and the recurring losses due to the negative impacts of the pandemic could dampen their survival and lead to an economic crisis in Kenya.

Since women entrepreneurs, specifically in developing nations, are often small, they don't have the economic muscle to adapt to changing market conditions and requirements. Limited access to information on what and how corporate buyers purchase, corporate procurement requirements, how to position their businesses to meet the requirements and limited access to affordable and effective use of finance to bid on larger procurement contracts are among the barriers that limit women-entrepreneurs' access to procurement opportunities.

Most women are credit constrained because they have less physical and reputational collateral such as land,that can be used to secure credits from lenders.

They mostly depend on family contribution and savings, which sometimes is not enough to bid for the tenders.

In addition, women have roles that they can't abandon, like taking care of the family. In an estimate, women spend twice as much time as men on home unpaid tasks. Due to the numerous tasks, women lack time to network with other business leaders hence missing critical lessons and possible business opportunities.

Also, the rampant cases of gender violence and sexual harassment continue to weigh down women-led businesses, especially in rural areas.

Private companies also have a role to play through practising 'gender-inclusive sourcing', which involves proactively addressing gender gaps in the procurement operations of corporate supply chains. Most firms are not keen on a gender-inclusive supply chain. This makes it hard to spot gender gaps and barriers to women's participation in procurement because there are no deliberate actions towards gender inclusivity in procurement.

The benefits of having a diverse work environment are well known, and to enjoy them similar initiatives should be implemented in other manufacturing industries. All opportunity seekers deserve an equal chance of winning.