

The GLOCEPS

Commentary Today

Development Pillar

Tough times for Kenyan businesses and households as the FY 2022/23 budget is unveiled

Michael Owuor



Kenya's budget for Financial Year (FY) 2022/23 has been delivered against the backdrop of an upcoming general election in August 2022, recovery from the COVID-19 pandemic and the Ukraine-Russia war. Themed as accelerating economic recovery for improved livelihood, the general prospect was relief for struggling businesses and households. However, a review of the budget statement and the Finance Bill 2022 dims these expectations. The government is projecting to finance one of the biggest expenditure in post-independence Kenya as she faces stifling debt and rising cost of living.

Spending priorities favor allocations to projects under the Big Four agenda, security, education and the general elections. For instance, Universal health coverage, affordable housing, support for the manufacturing sector, enhancement of food and nutritional security, and the Independent Elections and Boundaries Commission are earmarked for Ksh 146.8 billion, 27.7 billion, 10.1 billion, 4.7 billion and 21.7 billion, respectively. The education sector received the biggest chunk of the budget at Ksh 544.4 billion to support programs on the recruitment of teachers, and support for free primary and secondary education.

The security docket has a proposed allocation of Ksh 317.8 billion while social protection and affirmative action programs have been allocated Ksh 39.5 billion. While infrastructural development received Ksh 212.5 billion, supplemental financing through public-private partnership initiatives is a cause for concern. Due to these endeavors' significant investment levels and inability to fully self-finance, the government provides guarantees to plug the deficits. Thus, these partnerships and preferences for debt financing of the national budget will significantly add to the country's debt predicament.

Analysis of the budget speech and Finance Bill, 2022 indicate significant challenges in fully financing the proposed allocation while enhancing livelihoods. There is a considerable fiscal balance of Ksh 862.5 billion which will be debt-financed, predominantly, from the internal market. Local businesses will be subjected to higher lending rates as they compete with the government for credit. Resultantly, struggles by local enterprises will curtail the creation of job opportunities.

The apparent budgetary gap is due to a ballooning public expenditure of Ksh 3.3 trillion against a projected revenue collection of Ksh 2.4 trillion. At these rates, it is expected that the gap will exceed the Ksh 862 billion estimates. Experts including the Parliamentary Budget Office (PBO) have stated that the proposed revenue-raising measures and targets are both ambitious and unclear in the present environment. Revenue levels of between Ksh 1.8 trillion to Ksh 2 trillion are considered practical. Proposed revenue-raising measures are projected to only raise an additional Ksh 50.4 billion. When these



new tax collections are added to the FY 2021/2022 tax collection estimates of Ksh 2.125 billion, the projected revenues for the FY 2022/2023 will be closer to the PBO estimates rather than those of the Treasury. These realities inform the need for fiscal prudence and balanced budgeting by the Treasury and Parliament. Policy action is needed to cap the budget at the current figure of Ksh 3.3 trillion for the next two to three budgets. This will allow public revenue to rise to a substantial level thus reducing the need for debt financing in the budget. Moreover, discourses on privatization of non-performing and non-essential state-owned enterprises need reintroduction.

On the business front, the proposed measures are anticipated to hurt the business community. In both the 2021/22 and 2022/23 budget statements, the Treasury Cabinet Secretary noted the ambiguity, complexity and uncertainty created by the current tax code and practices. These concerns would have been substantially addressed by the adoption of a National Tax Policy by the 12th Parliament. The policy would have enhanced predictability, efficiency and fiscal discipline in the Kenyan tax system. Thus, as a matter of national priority, the 13th Parliament must insist that the incoming Cabinet Secretary for Treasury finalizes the policy and presents it to parliament for enactment.

Ambiguity in the business environment has been exacerbated by proposal on the tax administration procedure. There is a proposal to amend the Tax Appeal Tribunal Act, 2013. This would require a 50% deposit of disputed revenue in a specialized account at the Central Bank of Kenya. This amendment is considered troubling as tax experts opine that it risks killing small businesses with insufficient financial muscles. Kenya's lengthy judicial and appeal procedure in relation to the resolution of tax disputes will deprive businesses of critical cash flows. This proposal is considered prejudicial to businesses and ultimately raises the cost of doing business.

At the household levels, the muted conversation of tax measures targeting essential commodities has been revealed in amendments contained in

the Finance Bill 2022. The proposal of a 16% value added tax on maize, cassava and wheat flour will definitely increase the cost of living. This amendment is likely to prove unpopular among parliamentarians seeking re-election, leading to its possible deletion. A similar proposal relates to empowering the Commissioner General of the Kenya Revenue Authority to exclude certain commodities from excise duty. With pressure to increase revenue collection this proposal will not provide the necessary safeguards against taxation of essential commodities.



In conclusion, Kenya's budget for FY 2022/23 has both legacy and transition implications. While tough times lie ahead, it is imperative that the budget question is dealt with in a honest and prudent manner. The centrality of discourses on the budget must supersede temporal and emotional rhetoric especially during the ongoing political campaigns. The debate should be grounded on the National Tax Policy that has to be finalized and enacted by the 13th Parliament to provide a reliable and predictable tax code for both the citizens, businesses and government.

Michael Owuor is GLOCEPS Research Fellow for Development Pillar.



THE GLOBAL CENTRE FOR POLICY AND STRATEGY
(GLOCEPS)
Research | Knowledge | Influence
Off Kiambu Road, Nairobi Kenya
P.O. Box 27023-00100, Nairobi.
Telephone: 0112401331
Email: info@gloceps.org
Web: www.gloceps.org

