Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized

KENYA ECONOMIC UPDATE

November 2026 | Edition No. 34



Special Focus on Governance Constraints to Economic Growth and Job Creation

WORLD BANK GROUP

Special Focus on Governance Constraints to Economic Growth and Job Creation

© 2026. World Bank Group

This work is a product of the staff of the World Bank Group with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of the World Bank Group, its Board of Executive Directors, or the governments they represent.

The World Bank Group does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of the World Bank Group concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Rights and Permissions

The material in this work is subject to copyright. Because the World Bank Group encourages dissemination of its knowledge, this work may be reproduced, in whole or in part, for noncommercial purposes as long as full attribution to this work is given.

Any queries on rights and licenses, including subsidiary rights, should be addressed to the Office of the Publisher, the World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2422; e-mail: pubrights@worldbank.org.

TABLE OF CONTENTS

ABBREVIATIONS i

ACKNOWLEDGEMENTS iii

EXECUTIVE SUMMARY iv

THE STATE OF KENYA'S ECONOMY

1. Recent Economic Developments 2

1.1 Context 2

1.2 Global and regional economic developments 2

1.3 Recent economic developments 3

Kenya's growth strengthened in early 2026, driven by industry and services 3

Labor market conditions improved, but poverty risks persist 3

External pressures increased, but buffers remain strong 4

Inflation rose but remained within the target range 5

Financial conditions eased as credit and markets strengthened 6

Fiscal slippages delayed progress toward debt reduction 7

High debt and financing pressures continue to constrain fiscal space 9

1.4 Outlook, risks, and policy recommendations 11

Growth outlook has improved but remains below potential 11

Risks remain firmly tilted to the downside 14

Policy recommendations 15

SPECIAL FOCUS

2. Governance Constraints to Economic Growth and Jobs Creation 17

2.1 Motivation: Why governance matters for Kenya's economic transformation 17

2.2 Key features of governance performance in Kenya relative to peers 18

2.3 Impact channels: How governance constraints impact fiscal management and the business environment 23

Governance challenges contribute to wider fiscal deficits and higher borrowing costs 24

Governance constraints increase backbone costs for businesses 27

Integrity challenges and costs in the power sector 27

Integrity challenges and costs in logistics 29

Direct impacts of corruption and collusion on firms and domestic and foreign investment 32

Governance constraints impacting earnings and opportunities in the informal sector 37

2.4 Kenya's policy, legal, and institutional framework to address corruption 39

2.5 Estimated growth and jobs benefits of addressing corruption and policy recommendations 41

REFERENCES 48

ANNEX 51

LIST OF FIGURES

Figure 1: GDP by expenditure 4
Figure 2: Sectoral contribution to GDP 4
Figure 3: PMI 4
Figure 4: Employment growth by sector5 4
Figure 5: Current account 5
Figure 6: Financial account 5
Figure 7: Official reserves and import cover 5
Figure 8: Monthly average exchange rates 5
Figure 9: Inflation breakdown 6
Figure 10: Monthly lending rates, policy rate, and private sector credit growth 6
Figure 11: FY2025/26 budget and outturn 7
Figure 12: Total expenditure by ministries, departments, and agencies (MDAs): percentage deviation of final supplementary budget from original budget 8
Figure 13: Decomposition of total expenditure 8
Figure 14: Interest payments 10
Figure 15: GDP growth projection 11
Figure 16: Formal versus informal employment 17
Figure 17: Exports of goods and services (percentage of GDP) 17
Figure 18: Private investment (share of GDP) 17
Figure 19: FDI inflows (percentage of GDP) 17
Figure 20 (a)–(d): WGI: Comparisons across countries and over time 19
Figure 21: BTI integrity indicators - Kenya and comparator 19
Figure 22: Transparency and integrity (Use of public office for private gain) - Kenya and aspirational peers 19
Figure 23: Frequency of protests and riots (2010–2025) 22
Figure 24: Declining trust in institutions (2014–2024) 22
Figure 25: Perceived socioeconomic impacts of corruption 22
Figure 26: Perceived impact of corruption on job creation opportunities 22
Figure 27: The cost of governance constraints: impact channels 23
Figure 28: Tax revenue and perceived corruption 24
Figure 29: Revenue forgone due to tax exemptions (Kenya versus SSA average) 24
Figure 30: Willingness to pay taxes if corruption is reduced in specific areas 25
Figure 31: Country risk indexes (2025) and public sector corruption 26
Figure 32: LPI scores and corruption 30
Figure 33: LPI performance - Kenya versus comparators 30
Figure 34: Evolution of corruption perceptions among firms (2013–2025) 32
Figure 35: Firms' corruption perceptions 33
Figure 36: Corruption in licensing, tax, and utilities in Kenya versus SSA versus middle-income countries 33
Figures 37 and 38: Efficiency versus integrity in tax administration and policy 34
Figures 39 and 40: Firm perceptions of the court system in Kenya 35
Figure 41: Corruption and new businesses registered 35
Figure 42: Firms that experience corruption exhibit lower performance 36
Figure 43: Composition of gross fixed capital formation 37
Figure 44: TI bribery index - findings by employment group 38
Figure 45: Incidence of bribes paid to the police among traders, hawkers, and vendors (2023) 38
Figure 46: The probability of paying a bribe to the police increases with the level of 'lived poverty' 39
Figure 47: Modeled impacts of anti-corruption reforms on GDP, 2026–2035 42
Figure 48: Estimated impacts on total public debt-to-GDP ratio 42

LIST OF TABLES

Table 1: Summary of Key Recommendations vi
Table 2: Fiscal outturn and FY2026/27 budget, percentage of GDP 10
Table 3: Medium-term macroeconomic projections 13
Table 4: Key policy priorities to address Kenya's underlying macroeconomic and structural challenges 15
Table 5: Cost of electricity - Kenya and comparators 27
Table 6: Percentage of firms expected to give gifts to public officials 'to get things done' 36

LIST OF BOXES

Box 1: Keeping budget changes exceptional by limiting the use of supplementary budgets 8
Box 2: Spending better—creating fiscal space in Kenya's counties 9
Box 3: El Niño could bring localized economic disruption; a nationwide shock is unlikely 12
Box 4: Linkages between frontline corruption and systemic governance challenges 21
Box 5: The visible costs of corruption 23
Box 6: High-cost IPPs and conflicts of interest 28
Box 7: Strengthening integrity in KRA to improve the business environment and revenue collection 34
Box 8: Social media reports from informal market stall operators 38

ABBREVIATIONS

ACA	Anti-Counterfeit Authority
ACLED	Armed Conflict Location and Event Data
AGOA	African Growth and Opportunity Act
AI	Artificial Intelligence
ARA	Asset Recovery Agency
BAK	Boda Boda Safety Association of Kenya
BOI	Beneficial Ownership Information
BOP	Balance of Payments
BROP	Budget Review and Outlook Paper
BRS	Business Registration Service
BTI	Bertelsmann Transformation Index
CAD	Current Account Deficit
CAK	Competition Authority of Kenya
CBR	Central Bank Rate
CBK	Central Bank of Kenya
CFS	Container Freight Station
CLIAR	Country-Level Institutional Assessment Review
CPI	Consumer Price Index
CPPI	Container Port Performance Index
DCI	Directorate of Criminal Investigations
EACC	Ethics and Anti-Corruption Commission
EAC	East African Community
e-GP	Electronic Government Procurement
EMDE	Emerging Markets and Developing Economies
EPRA	Energy and Petroleum Regulatory Authority
eTIMS	Electronic Tax Invoice Management System
FDI	Foreign Direct Investment
FRC	Financial Reporting Center
GDP	Gross Domestic Product
GDC	Geothermal Development Company
GFS	Government Finance Statistics
GHG	Greenhouse Gas
GOSR	Gross Operating Surplus Ratio
H1/H2	First Half/Second Half
ICT	Information and Communications Technology
IDF	Import Declaration Fee
IEA	Institute of Economic Affairs
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPP	Independent Power Producer
IT	Information Technology
JUPITER	Justice Pillars Towards Evidence-Based Reforms
K3PS	Kenya Policy Perceptions and Preferences Survey
KAM	Kenya Association of Manufacturers
KEBS	Kenya Bureau of Standards
KenGen	Kenya Electricity Generating Company
KenHA	Kenya National Highways Authority
KenInvest	Kenya Investment Authority
KeRRA	Kenya Rural Roads Authority
KETRACO	Kenya Electricity Transmission Company
KPA	Kenya Ports Authority
KNBS	Kenya National Bureau of Statistics
KNTC	Kenya National Trading Corporation
KPLC	Kenya Power and Lighting Company
KRA	Kenya Revenue Authority
LCPDP	Least Cost Power Development Plan
LIMS	Land Information Management System
LMIC	Lower-Middle-Income Country
LPI	Logistics Performance Index
MDAs	Ministries, Departments, and Agencies
MFMod	Macro-Fiscal Model
MPC	Monetary Policy Committee
MSMEs	Micro, Small and Medium Enterprises
NCAJ	National Council on the Administration of Justice
NCPB	National Cereals and Produce Board
NIF	National Infrastructure Fund
NPL	Non-Performing Loan
NTSA	National Transport and Safety Authority
OAG	Office of the Auditor General
ODA	Official Development Assistance
ODPP	Office of the Director of Public Prosecutions
OECD	Organisation for Economic Co-operation and Development
PAC	Public Accounts Committee
PFM	Public Financial Management
PFR	Public Finance Review
PIMIS	Public Investment Management Information System
PMI	Purchasing Managers' Index
PMR	Product Market Regulation
PPA	Power Purchase Agreement
PPAD	Public Procurement and Asset Disposal Act

PPIP	Public Procurement Information Portal
PPRA	Public Procurement Regulatory Authority
PPP	Public-Private Partnership
QEBR	Quarterly Economic and Budgetary Review
R&D	Research and Development
RDL	Railway Development Levy
SACCO	Savings and Credit Cooperative Organization
SCEA	Shippers Council of Eastern Africa
SEZ	Special Economic Zone
SGR	Standard Gauge Railway
SHIF	Social Health Insurance Fund
SOAS	School of Oriental and African Studies
SOE	State-Owned Enterprise
SSA	Sub-Saharan Africa
SWF	Sovereign Wealth Fund
TFP	Total Factor Productivity
TI	Transparency International
TISA	The Institute for Social Accountability
UMIC	Upper-Middle-Income Country
UNODC	United Nations Office on Drugs and Crime
VAT	Value Added Tax
WEO	World Economic Outlook
WGI	Worldwide Governance Indicators
WJP	World Justice Project

ACKNOWLEDGEMENTS

The Kenya Economic Update (KEU) is a World Bank report series produced twice a year that assesses recent economic and social developments and prospects in Kenya and places these in a longer-term and global context. Through special topics, the KEU also examines selected policy issues and medium-term development challenges in Kenya. It is intended for a wide audience, including policymakers, business leaders, financial market participants, and the community of analysts and professionals engaged in Kenya's changing economy.

The production of the KEU is led by the Kenya Fiscal Policy and Growth team (EAEM1). The first part— Macroeconomic Developments—was produced by Geraldine Kyalo, Richard Walker, Angélique Umutesi, and Stanley Mutinda. The second part—Special Focus on Governance Constraints to Economic Growth and Jobs Creation—was led by the Governance team for Kenya (EAEG1). The team comprised Verena Fritz, Christine Anyango Owuor, Jorge Tudela Pye, Diane Zovighian, Lisa Elges and Izak Atiyas. Impact modeling was done by Remzi Tercioglu (WKPES). Vera Oloo Rosauer managed communications and stakeholder engagement, while Robert Waiharo helped with the design. Logistical assistance during the preparation of this report was provided by Lynn Wagechi and Clare Juma.

The report was prepared under the overall guidance of Abha Prasad (Practice Manager, EAEM1), Manuel Vargas (Practice Manager, EAEG1), Rama Krishnan Venkateswaran (Practice Manager, EAEG1), Marek Hanusch (Lead Economist, EAEM1), Aghassi Mkrtchyan (Lead Economist, EAEM1), Hassan Zaman (Regional Director for Eastern and Southern Africa), Qimiao Fan (Division Director for Kenya, Rwanda, Somalia, and Uganda, AECE2), and Anne Margareth Bakilana (Manager, Operations, for Kenya, Rwanda, Somalia, and Uganda, AECE2). The report benefited from excellent reviews and comments from Rohan Longmore (Senior Economist, OPSCE), Francesca Recanatini (Lead Economist, ELCG2), and Juan Pablo Guerrero (Senior Public Sector Specialist, WKPGP) and from valuable regular discussions with officials at the National Treasury, President's Council of Economic Advisers, Central Bank of Kenya, Kenya National Bureau of Statistics, and International Monetary Fund. We also want to thank Mark Dutz and the Policy Workshop Class SPI 591g from the Princeton School of Public and International Affairs.

The findings, interpretations, and conclusions expressed in this report do not necessarily reflect the views of the Executive Directors of the World Bank or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of the World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

For questions about this report, email gkyalo@worldbankgroup.org; rwalker3@worldbankgroup.org and vrosauer@worldbankgroup.org.

For information about the World Bank and its activities in Kenya, visit: https://www.worldbank.org/en/country/kenya

EXECUTIVE SUMMARY

Kenya's economy strengthened in early 2026 after modest growth in 2025. Real gross domestic product (GDP) growth slowed slightly to 4.6 percent in 2025 from 4.7 percent in 2024, before accelerating to 5.2 percent year-on-year in H1 2026 from 4.9 percent in H1 2025, as stronger industry and services offset slower agricultural growth. Employment expanded by 4.0 percent in 2025, but 83.8 percent of jobs remained informal, limiting productivity gains, earnings growth, and poverty reduction.

Fiscal slippage continued in FY2025/26, weakening budget credibility and delaying consolidation. The deficit widened to 6.8 percent of GDP, well above the original target of 4.7 percent and the FY2024/25 outturn of 6.0 percent. Revenue reached 17.3 percent of GDP, falling 0.2 percent of GDP short of the original target, while expenditure rose to 24.1 percent of GDP against the original budget of 22.2 percent of GDP, reflecting higher operations and maintenance, development spending, and interest costs. More realistic budgeting and tighter control of supplementary budgets are essential to restore fiscal credibility.

Public debt remained elevated at end-June 2026, with growing reliance on domestic financing increasing fiscal and financial sector risks. Gross public debt stood at 69.9 percent of GDP, with domestic debt reaching 56.2 percent of total debt, as net domestic borrowing financed most of the deficit. Greater reliance on domestic borrowing has increased banks' exposure to government debt, deepening the sovereign-bank nexus and raising the risk that government borrowing could crowd out private sector credit. Interest costs also remained high at 5.8 percent of GDP, limiting fiscal space as Kenya remained at high risk of debt distress.

Reserve buffers remained strong, but Kenya's external position weakened as higher import costs and softer remittances widened the current account deficit (CAD). In the 12 months to August 2026, the CAD increased by 59.4 percent and the trade deficit widened by 20.8 percent, as imports grew faster than exports and remittances declined. However, reserves remained robust at US$14.7 billion in October 2026 equivalent to 5.9 months of import cover, while the Kenyan shilling remained broadly stable.

Inflation increased in 2026, prompting the Central Bank of Kenya (CBK) to pause monetary easing. Headline inflation rose to 7.3 percent in October 2026 from 4.6 percent a year earlier, driven by higher energy (up 10.4 percent) and food (up 10.2 percent) prices. Core inflation increased in October, while CBK maintained the policy rate at 8.75 percent after February 2026. Despite the risks associated with rising sovereign exposure, near-term financial sector indicators improved. Private sector credit growth reached 10.6 percent in September 2026, alongside stronger banking sector asset quality and equity market performance.

Growth is projected to remain resilient but below 5 percent over the medium term. Despite an upward revision of 2026 growth by 0.3 percentage points, reflecting stronger-than-expected growth in H1 2026, risks remain firmly tilted to the downside. Further fiscal slippage and elevated debt service costs could increase financing needs, crowd out private credit, and weaken investment. Variable rainfall associated with expected El Niño conditions could disrupt agriculture, damage infrastructure, affect connectivity, temporarily raise food prices, and slow poverty reduction. A prolonged conflict in the Middle East could keep fuel and shipping costs high, intensify inflationary pressures, erode household purchasing power, and widen the CAD, which is projected to rise from 2.8 percent of GDP in 2025 to 4.3 percent in 2026.

Kenya's central policy challenge is to preserve macroeconomic stability while addressing the governance and structural constraints that hold back private investment, productivity, and the creation of better jobs. Governance and structural weaknesses are already visible in macroeconomic outcomes. Fiscal slippage has persisted and repeated supplementary budgets have raised spending above original allocations. These pressures keep the deficit high and constrain the fiscal space available for investment, even as growth remains resilient and inflation is contained. Addressing these weaknesses would not only support faster economic growth but also contribute directly to fiscal sustainability and improved development outcomes.

Governance challenges are increasingly limiting Kenya's prospects for faster and more broadly shared growth, with corruption as the key binding constraint. Kenya performs at an intermediate level on most macro-governance indicators compared to Sub-Saharan Africa (SSA) averages—including in terms of government effectiveness, regulatory quality, and voice and accountability—and the quality of its institutions and governance has been good enough to move the country from low income to lower-middle income. Yet the country still significantly underperforms relative to structural and aspirational peers. Moreover, control of corruption remains an area of significant underperformance compared to all peer groups. Further improvements in governance will therefore be essential to support structural transformation, private investment, and broad-based growth.

The observed governance and integrity weaknesses are linked to the fact that access to state resources remains central to political coalition management. Preferential licensing, politicized appointments to state-owned enterprise (SOE) management, non-competitive procurement and power purchase agreements (PPAs), and other economic policy and administrative levers are used to build and sustain shifting elite coalitions. On the positive side, power has remained more dispersed, and rent-sharing and cooptation of rising leaders have contributed to relative political stability. On the downside, elite capture and rent management have a substantial economic and social cost and significantly constrain Kenya's pace of economic transformation and ability to accelerate investments and growth.

The special focus section of this economic update examines four economy-wide impact channels through which governance challenges constrain economic transformation in Kenya. It shows that these challenges have substantial and economy-wide impacts on the country's fiscal and debt situation, private sector growth and performance, and livelihoods and job creation, including through the following:

(a) **The fiscal channel:** Corruption weakens revenue collection, reduces spending efficiency, widens fiscal deficits, and raises borrowing costs. Governance constraints create distortions in tax policy to the benefit of politically connected firms, facilitate tax evasion, and decrease citizens' tax morale and compliance, resulting in overall lower tax revenues. They also harm the efficiency of fiscal spending, particularly in the procurement of infrastructure projects. Together, these effects widen annual fiscal deficits by an estimated increase of 2 percentage points of GDP. In addition, weaker governance raises the sovereign risk premium and borrowing costs.

(b) **The cost of backbone services:** Governance challenges contribute to higher costs in industries such as power and logistics, which are especially critical for the agriculture and manufacturing sectors. While Kenya has made impressive gains in expanding access to electricity, power remains costly compared to structural and aspirational peers—more than double the price in Viet Nam and close to 50 percent higher than in Uganda for business users. Governance challenges feed into these higher costs: the absence of a comprehensive and competitive framework for granting PPAs, conflicts of interest, and a lack of transparency in contract management create an environment conducive to higher-cost PPAs. Governance challenges also contribute to higher transportation and logistics costs. Multiple inspections and associated corruption risks have contributed to the low competitiveness of Mombasa port—which is ranked 375 out of 403 ports in the World Bank's Global Container Port Performance Index (CPPI). Within-country transport costs and time are elevated due to numerous stops and formal and informal charges at county-level cess payment points that target transport of agricultural goods and construction materials.

(c) **Firm performance:** Corruption and collusion harm performance and investments in productive sectors. Evidence from successive Enterprise Survey rounds and surveys of foreign investors document significant corruption challenges, including rising corruption perceptions and bribery incidence in tax administration, licensing and regulations, public utilities, and courts. For example, 39 percent of firms in Kenya considered corruption a major or severe constraint to business in 2025—an increase from 25 percent in 2013, and 36 percent of firms in Kenya report having experienced at least one bribery request in the past year—a proportion that is higher than that in structural and aspirational peers. This impacts firm behavior: Firms exposed to bribery are over 30 percent less likely to introduce innovations

and exhibit lower rates of growth in labor productivity and sales (by 2 to 4 percentage points). There is also evidence that collusion and the role of connected firms limit competition, investments and innovation (see KEU32). Corruption especially affects medium-size firms in Kenya—in the Enterprise Survey, 48 percent report that they are expected to give gifts to 'get things done', compared to 36 percent for small and 31 percent for larger enterprises; this is also more than twice as frequent as the SSA average, hobbling an important potential growth, innovation, and job engine.

(d) **The livelihoods of informal workers:** Frontline corruption diminishes the earnings and livelihoods of informal workers. Informal workers account for 83.8 percent of Kenya's workforce and face a number of challenges, ranging from raising initial capital to coping with volatile incomes. Corruption compounds these challenges, most importantly by lowering 'post-corruption' earnings, and by increasing uncertainty. Informal workers face frequent demands for bribes from frontline institutions such as traffic police and municipal inspectors—it is estimated that informal workers can lose up to 20 percent of their daily earnings to these kinds of bribes.

Additional governance challenges not considered in depth, including land administration, integrity issues in the justice system, and regulatory and corporate governance of state-owned entities, compound these impacts.

Modeling suggests that the potential economic and social payoffs from anti-corruption reforms are substantial—and the required improvements are reachable. By 2035, implementation of moderate anti-corruption reforms could increase GDP by 8.7 percent relative to a non-reform scenario, rising to 22.3 percent with stronger measures. The former would contribute significantly to bringing public debt under control, with a potential impact of reducing the debt-to-GDP ratio by up to 18 percent relative to continuing the status quo. Better control of corruption would also translate into sizable impacts of more and better jobs for up to 7.7 million people, and up to 27 percent greater household consumption. Moreover, the required improvements are within reach: The improvements assumed under the moderate and even stronger scenarios are within the range already achieved by several peer countries, including Tanzania, Côte d'Ivoire, and India. In earlier decades, anti-corruption and public administration reforms laid the foundation for economic transformation in fast-growing economies in Asia—initially in Singapore and the Republic of Korea and later in Malaysia and Viet Nam. For Kenya to progress toward its long-term development vision, 'Road to Singapore', embarking on a governance transformation will be critical.

Progress will require sustained political leadership, effective implementation of existing reforms, and targeted action at the points where corruption imposes the greatest economic costs. Kenya has adopted relevant legal and policy reforms, including the enactment of the 2025 Conflict of Interest Act, which marks progress toward better regulation of vested interests and competition. Going forward, greater traction can be enabled by incorporating key lessons from other middle-income countries, including establishing a clear and consistent set of performance, efficiency, and accountability expectations and incentives by top leadership; streamlining and further digitizing regulations and administrative processes with clear recourse mechanisms for companies; ensuring accountability for following up on audit findings; encouraging better public-private dialogue and follow-up on collective agreements; pursuing enhanced transparency, including for specific 'pain points' such as PPAs, public procurement, tax exemptions, and beneficial ownership (BO) information; and addressing remaining gaps in the formal anti-corruption framework.

Table 1: Summary of Key Recommendations

Priority	Recommendation
Restore fiscal and debt sustainability	Enforce fiscal rules and realistic budget baselines, limit supplementary budgets, strengthen expenditure controls and debt management
Make fiscal policy more equitable	Review tax expenditures, improve tax progressivity, better target social assistance, and protect priority social spending
Strengthen governance in revenue, procurement, and public accountability	Transparent Kenya Revenue Authority (KRA) assessments and audits; full electronic government procurement (e-GP) rollout; systematic, publicly reported follow-up on Office of the Auditor General (OAG) recommendations
Increase transparency of ownership and public investment	Verified BO register linked to procurement, transparent reporting on major public investment projects and public-private partnerships (PPPs)
Lower business costs and support private investment and job creation	Competitive, transparent procurement in energy sector (for example, PPAs), reduce port and inland logistics costs, simplify business regulation and administrative processes

Source: World Bank Group

The State of Kenya's Economy



Photo: © Kenya Ports Authority

1. Recent Economic Developments

1.1 Context

Kenya has remained resilient despite repeated shocks; managing to sustain solid growth and improve several macroeconomic indicators. However, persistent fiscal deficits, elevated public debt, and rising debt service costs expose the economy to vulnerabilities. These pressures underscore the need for stronger fiscal discipline and deeper structural reforms to support private investment, productivity, job creation, and economic transformation.

Over the last four years, the economy has demonstrated considerable resilience in the face of successive domestic and external shocks. These shocks include drought, elevated global commodity prices, exchange rate pressures, tighter global financial conditions, and rising public debt vulnerabilities. Growth averaged about 5 percent over 2022–2025, supported by a recovery in agriculture; strong performance in tourism, financial services, and information and communications technology (ICT); and continued growth in transport and logistics. While a weaker global environment has moderated domestic demand and growth, most macroeconomic indicators have strengthened. Inflation has eased from its post-pandemic highs, the exchange rate has stabilized following the sharp depreciation in 2023, and foreign exchange reserves have strengthened, reflecting prudent monetary policy, tourism earnings, and improved access to external financing. As a result, Kenya remains one of the fastest growing economies in Sub-Saharan Africa (SSA).

Kenya's economy is diversified, but structurally uneven. Services account for more than half of the gross domestic product (GDP) and have been the main driver of growth, while agriculture remains critical for food security, export earnings, and household livelihoods. Industrial growth has strengthened recently, but manufacturing continues to face high financing, energy, logistics, and regulatory costs. As a result, resilient headline growth has not translated into sufficiently productive jobs or rapid gains in household incomes. Most new jobs remain concentrated in low-productivity informal activities, while productivity growth and poverty reduction remain slow. It also leaves the economy exposed to weather, commodity prices, financing, and governance shocks, which can weaken household welfare, private investment, and fiscal outcomes.

Recent reforms have helped strengthen macroeconomic stability, but important fiscal and structural challenges remain. The government has pursued a reform agenda aimed at preserving macroeconomic stability and strengthening public finances, including tax administration reforms, efforts to improve public financial management (PFM), liability management operations to reduce refinancing risks, and initiatives to enhance the business environment and attract private investment. These measures have helped improve market confidence and external liquidity. However, fiscal deficits remain elevated at 6.8 percent of GDP in FY2025/26, public debt stood at 69.9 percent of GDP in June 2026, and interest payments continue to absorb a large share of government revenues (33.6 percent), limiting fiscal space for development spending. Sustaining faster and more inclusive growth will ultimately require stronger productivity growth, greater export diversification, and the creation of more and better jobs for Kenya's rapidly expanding workforce.

Against this backdrop, Kenya's central policy challenge is to strengthen fiscal sustainability while accelerating structural reforms that support private investment, productivity, job creation, and economic transformation. Meeting these objectives will require, among other things, stronger governance, greater transparency and accountability in the management of public resources, and sustained efforts to improve the business environment and public sector effectiveness. Part 2 examines how governance constraints limit Kenya's economic potential and identifies reforms to address them.

1.2 Global and regional economic developments[1]

The conflict in the Middle East conflict has weakened the global outlook. Higher energy prices, renewed inflationary pressures, and tighter financial conditions are weighing on consumption, investment, and trade. Global growth is projected to slow in 2026 compared to 2025, with growth in advanced economies and emerging markets and developing economies (EMDEs) also easing. Global growth is expected to improve in 2027–28 once energy supplies normalize, monetary easing resumes, and trade recovers, though downside risks remain substantial.

[1] *Adapted from World Bank 2026, Global Economic Prospects, June 2026.*

Global trade is slowing, although resilient trade flows and artificial intelligence (AI)-related demand provide some support. Trade growth is projected to fall in 2026, as shipping disruptions, higher transport costs, and heightened uncertainty weigh on cross-border activity. Commodity prices are projected to rise, driven by sharp increases in energy and fertilizer prices, raising production costs and food security risks. Countries have also drawn down inventories, expanded fuel subsidies, and, in some cases, rationed energy use to cushion the impact, though these buffers are increasingly stretched thin.

SSA growth is projected to moderate in 2026. Moderate non-energy commodity prices provide partial support, but higher fuel, fertilizer, and transport costs; tighter global financing conditions; declining official development assistance; elevated debt; and limited fiscal policy space weigh on the outlook. Growth is expected to recover gradually as global conditions improve, although risks remain tilted to the downside, including a prolonged conflict in the Middle East, further commodity market disruptions, persistent trade policy uncertainty, and adverse weather shocks.

1.3 Recent economic developments

Kenya's growth strengthened in early 2026, driven by industry and services

After a modest performance in 2025, Kenya's growth accelerated in early 2026. Growth reached 4.6 percent in 2025, a small decline from 4.7 percent in 2024, but accelerated to 5.2 percent in H1 2026 (year-on-year), compared to 4.9 percent in H1 2025, growing by 5.3 percent in Q1 2026 and 5.1 percent in Q2 2026. Despite broadly stable macroeconomic conditions, including stable inflation, accommodative monetary policy, and a gradual recovery in private sector credit, growth across key demand components remained moderate in 2025. Private consumption, which accounts for nearly three-quarters of GDP, grew by 4.7 percent, while gross fixed capital formation expanded by 5.6 percent (Figure 1).

Industry and services growth accelerated in H1 2026, offsetting a moderation in agricultural activity (Figure 2). Agricultural growth slowed to 4.2 percent in H1 2026 from 4.7 percent in H1 2025 (year-on-year), reflecting below-average short rains that weighed on crop production. By contrast, industrial growth accelerated to 4.9 percent from 4.3 percent, supported by stronger construction activity (+6.3 percent from +5.9 percent)—particularly in the cement and galvanized sheet industries—and improved manufacturing performance (+3.3 percent from +2.1 percent), driven by food and beverages production and vehicle assembly. Mining and quarrying remained robust, although growth eased from 13.2 percent to 7.4 percent. However, business conditions softened during the second quarter amid rising uncertainty linked to the conflict in the Middle East. The Purchasing Managers' Index (PMI) remained below the neutral threshold between March and June but improved in Q3 2026, rising to 51.3 in July, easing slightly to 49.7 in August, and recovering to 51.3 in September. This points to a gradual pickup in private sector activity, notwithstanding continued volatility in business conditions (Figure 3).[2]

Services growth remained broadly stable at 5.2 percent in H1 2026, compared to 5.1 percent in H1 2025 (year-on-year), supported by tourism, financial services, and education. Accommodation and restaurant activities recorded a strong growth of 11.1 percent from 10.4 percent a year earlier, benefiting from continued recovery in tourism. Other subsectors that recorded solid growth include information and communication activities (6.1 percent), education services (5.7 percent), and real estate (5.2 percent), wholesale and retail trade (4.4 percent), and transport and storage activities (4.0 percent). In contrast, growth moderated in public administration (6.3 percent), health services (4.4 percent), and administrative and support services (3.1percent), while financial and insurance activities remained broadly unchanged at 6.2 percent.

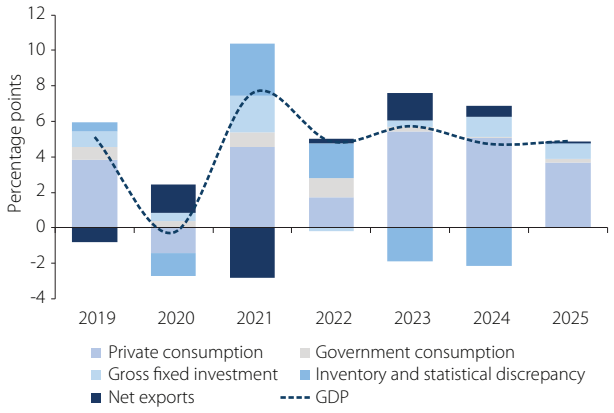
Labor market conditions improved, but poverty risks persist

Labor market conditions improved in 2025, with total employment expanding by 4.0 percent, supported by job creation in both the informal and formal sectors (Figure 4). Informal employment remained the main source of jobs, accounting for 83.8 percent of total employment, while formal employment accounted for 16.2 percent.[3] The sectoral gains were mirrored in labor market outcomes. Formal wage employment grew by 3.1 percent in 2025, up from 1.8 percent in 2024, driven by gains in industry and service sectors, particularly manufacturing, financial services, and electricity. Real wage earnings also recovered, rising by about 2 percent, reflecting the positive gains from industry and services sector performance in household incomes. Despite these improvements, poverty risks remain elevated. Higher fuel

[2] *The PMI is a diffusion index that measures business conditions in the private sector. A PMI reading above 50 indicates an expansion in business activity relative to the previous month, while a reading below 50 indicates a contraction. A reading of 50 signals no change in activity.*

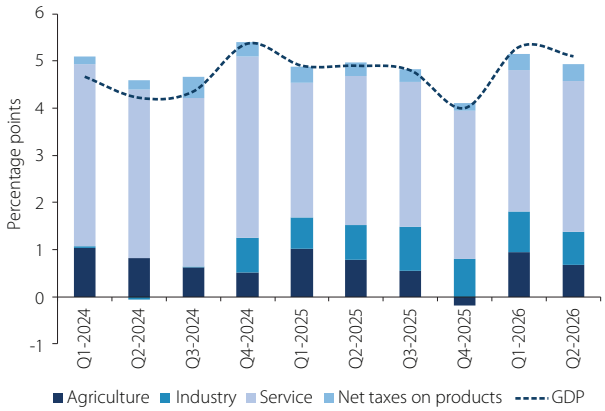
[3] *2026 Economic Survey.*

Figure 1: GDP by expenditure



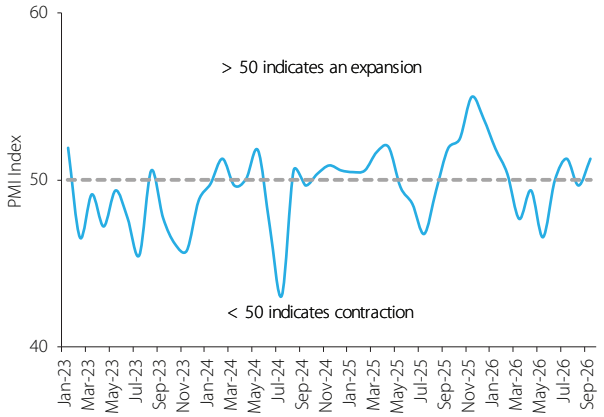
Source: Kenya National Bureau of Statistics (KNBS) and World Bank.

Figure 2: Sectoral contribution to GDP



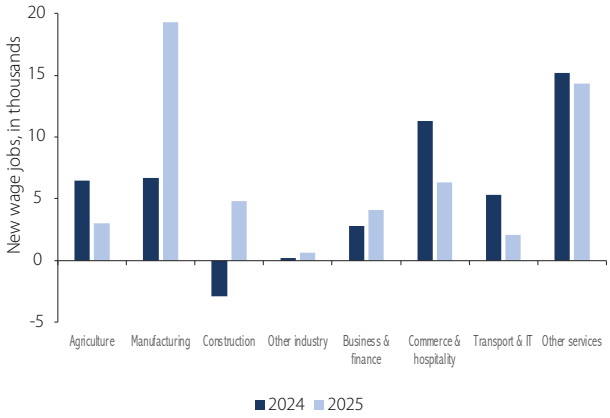
Source: KNBS and World Bank.

Figure 3: PMI



Source: Stanbic Bank.

Figure 4: Employment growth by sector[5]



Source: KNBS and World Bank.

prices associated with the conflict in the Middle East are expected to increase the cost of living, with simulations suggesting that an additional 1.0 to 2.4 million Kenyans could fall below the international poverty line in 2026, particularly in urban areas.[4] While employment growth remained positive, the continued dominance of informal employment highlights persistent challenges in generating sufficient formal, productive jobs to absorb Kenya's growing labor force. This underscores the importance of reforms that support private investment, firm growth, productivity improvements, and structural transformation.

External pressures increased, but buffers remain strong

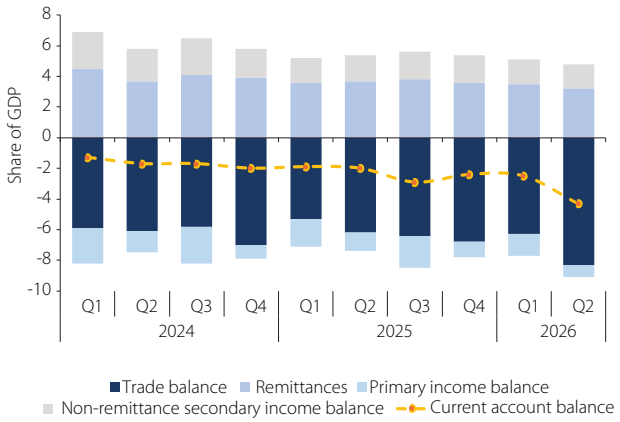
The onset of the conflict in the Middle East in early 2026 exerted significant pressure on Kenya's external position. Higher fuel import costs, rising transportation expenses, and softer external demand, driven by disruptions to global oil markets and heightened geopolitical uncertainty, contributed to a 59.4 percent increase in the current account deficit (CAD) in the 12 months to August 2026. The trade balance deteriorated by 20.8 percent during this period, as the 11.8 percent growth in goods exports was overshadowed by a 15.8 percent increase in the goods import bill. Looking at specific sectors, agricultural exports, such as horticulture and tea, recorded growth of 10.9 and 8.9 percent, respectively, while the petroleum import bill and machinery and transport equipment grew by 13.5 percent and 16.4 percent, respectively, reflecting the impact of higher global energy prices due to the conflict in the Middle East. Diaspora remittances declined by 0.9 percent to US$5.1 billion in the 12 months to August 2026, further weighing on the external position (Figure 5).

The financial account continued to provide partial financing for the widening CAD. Foreign direct investment (FDI) inflows rose by 170.5 percent to a record US$2.74 billion in the 12 months to September 2026, reflecting sustained investor confidence in Kenya. Portfolio inflows increased by 54.6 percent during the same period, driven mainly by stronger nonresident investment in government and corporate bonds, as well as state privatization proceeds (Figure 6).

[4] *Kenya Economic Update, Edition 33.*

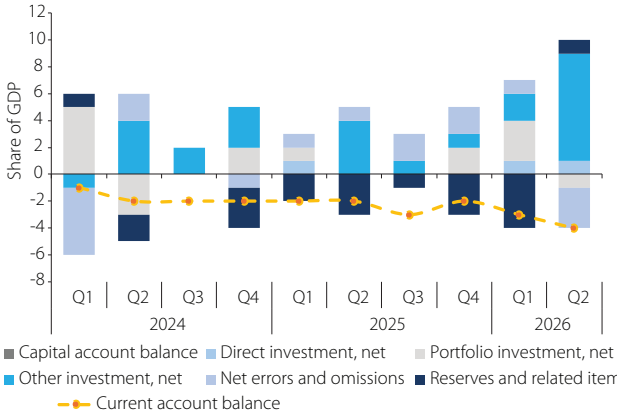
[5] *Other industry includes the mining, electricity, and water sectors; business and finance include financial, insurance, real estate, and professional services; commerce and hospitality include wholesale, retail and trade, and accommodation and food services; other services include administrative, public administration and defense, education, health, arts, activities of households, extraterritorial activities, and the rest of the services sector.*

Figure 5: Current account



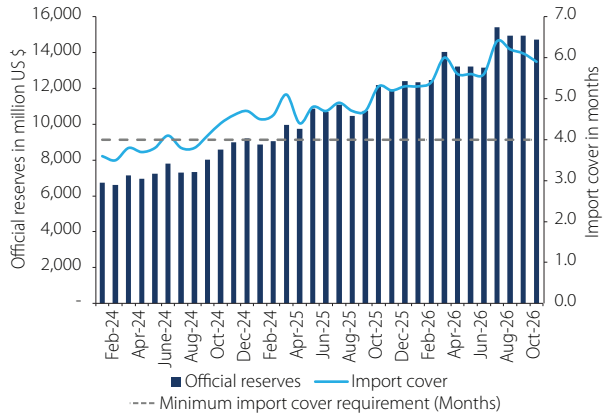
Source: CBK.

Figure 6: Financial account



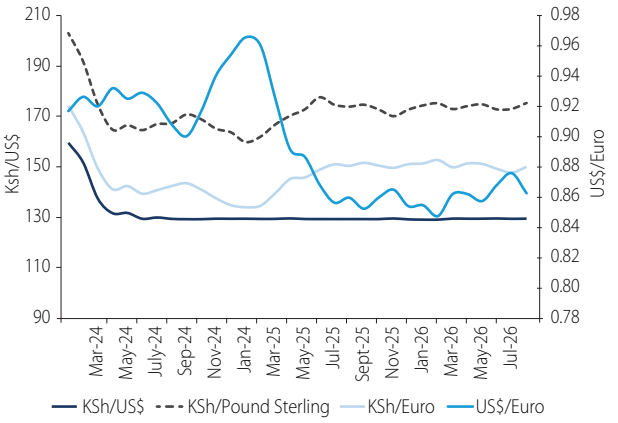
Source: CBK.

Figure 7: Official reserves and import cover



Source: CBK

Figure 8: Monthly average exchange rates



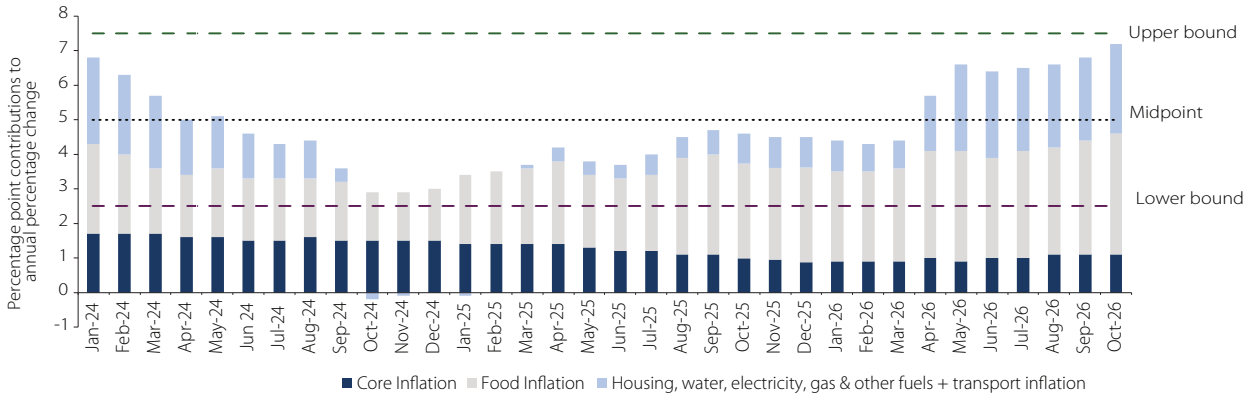
Source: CBK and European Central Bank.

Foreign exchange reserves strengthened, while exchange rate pressures remained contained. Reserves reached US$14.7 billion in October 2026, equivalent to 5.9 months of import cover, and have exceeded the statutory threshold of 4.0 months of import cover since October 2024 set by the Central Bank of Kenya (CBK) (Figure 7). In July 2026, reserves peaked at US$15.4 billion (equivalent to 6.4 months of import cover), the highest level since March 2022, supported by the World Bank's US$750 million Development Policy Financing disbursement and payment of the Safaricom privatization proceeds. Exchange rate pressures remained contained over the last year, with the Kenyan shilling broadly stable against major currencies, reflecting the stronger foreign exchange reserve buffers, sustained capital inflows, and resilient export and tourism earnings (Figure 8).

Inflation rose but remained within the target range

Headline inflation picked up due to higher fuel prices and weather-related supply disruptions but remained within the CBK target band. Headline inflation rose to 7.3 percent (year-on-year) in October 2026, up from 4.6 percent a year earlier, but remained within the CBK's target band of 5 ± 2.5 percentage points (Figure 9). The increase was primarily driven by higher energy and food prices. Energy-related inflation—encompassing housing, water, electricity, gas and other fuels, and transport—accelerated sharply to 10.4 percent in October 2026 from 3.4 percent a year earlier, reflecting higher global oil prices and elevated fuel import costs amid supply disruptions and heightened geopolitical tensions due to the conflict in the Middle East. Consequently, the contribution of energy-related components to overall headline inflation increased from 18.7 to 36.2 percent. Food inflation edged up to 10.2 percent in October 2026 from 8.0 percent a year earlier, driven by weather-related supply constraints and higher transportation costs associated with increased fuel prices. Core inflation, which excludes food and energy prices and serves as a measure of underlying demand-side pressures, increased in October 2026.

Figure 9: Inflation breakdown



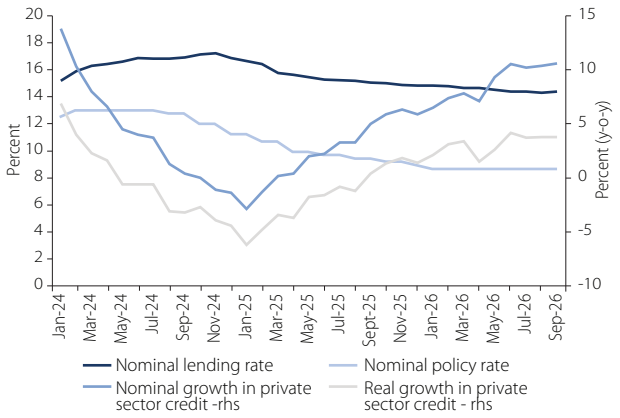
Source: KNBS.

After easing monetary policy through 2025, the CBK shifted to a hold stance in 2026, keeping the policy rate unchanged despite mounting inflationary pressures. Having lowered the Central Bank Rate (CBR) cumulatively by 250 basis points from 11.25 percent in January 2025 to 8.75 percent in February 2026, the CBK held the rate steady at its April, August, and October Monetary Policy Committee (MPC) meetings (Figure 10). The MPC judged that keeping interest rates unchanged was appropriate to manage inflationary pressures and support exchange rate stability, while continuing to monitor risks from developments in the domestic and global economies.

Financial conditions eased as credit and markets strengthened

Easing financial conditions, underpinned by a reduction in the policy rate, supported a broad recovery in private sector credit growth. Commercial bank lending rates declined to 14.4 percent (year-on-year) in September 2026 from 15.1 percent in September 2025, reducing borrowing costs and supporting credit demand. Credit to the private sector expanded to 10.6 percent in September 2026, a marked improvement from the 5.0 percent recorded the year before. Credit growth was particularly strong in mining and quarrying (+58.8 percent), agriculture (+32.5 percent), finance and insurance (+28.6 percent), and trade (+19.2 percent). Credit to the building and construction sector also continued to expand, albeit at a more moderate pace of 12.9 percent in September 2026, from an average of 32.8 percent in H1 2026. Credit to the manufacturing (–1.8 percent) and real estate (–3.9 percent) sectors contracted in September 2026 (year-on-year), which was in line with slow growth in credit to these sectors over the last year. Despite the expansion in manufacturing output, the contraction in credit to the sector suggests that firms may have relied on non-bank financing and internal resources rather than additional bank borrowing.

Figure 10: Monthly lending rates, policy rate, and private sector credit growth



Source: CBK and World Bank.

The banking sector's near-term asset quality, capital, and liquidity indicators improved, but sovereign exposure vulnerabilities remain. The ratio of gross non-performing loans (NPLs) to gross loans declined to 13.9 percent in September 2026 from 17.6 percent in August 2025. NPLs declined across financial services, trade, agriculture, energy, and water sectors. Banks continued to maintain adequate provisions for impaired loans, supporting banking sector resilience. Capital and liquidity ratios remained comfortably above regulatory requirements. The total capital adequacy ratio stood at 20.0 percent in June 2026, exceeding the statutory minimum of 14.5 percent. The average liquidity ratio stood at 61.2 percent in June 2026, more than three times the 20 percent minimum requirement.[6] The banking sector also remained profitable, providing additional buffers against potential shocks.

[6] *The capital adequacy ratio shows banks' financial buffers against potential losses while the liquidity ratio measures the ability to meet short-term obligations. Higher ratios indicate better resilience to financial shocks.*

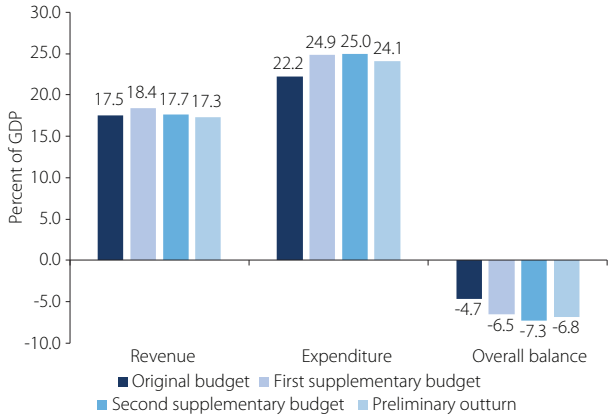
Equity market performance remained strong, supported by improving investor sentiment and robust corporate earnings. The NSE 20 Share Index reached 4,325.6 points by end-August 2026, having crossed the 4,000-point mark for the first time in nearly a decade in July 2026. Market capitalization reached a record KSh 4.17 trillion, up from KSh 2.68 trillion a year earlier, reflecting rising equity valuations amid stronger corporate earnings, particularly in the banking sector, improved macroeconomic stability, and investor confidence, supported by the partial privatization and listing of the Kenya Pipeline Company, alongside increased market activity. Structural reforms also supported market activity, including the introduction of single-share trading, which lowered entry barriers and widened retail investor participation.

Fiscal slippages delayed progress toward debt reduction

Fiscal performance weakened in FY2025/26. The overall fiscal deficit reached 6.8 percent of GDP, significantly above the original budget target of 4.7 percent of GDP and the FY2024/25 outturn of 6.0 percent of GDP (Table 2). The primary balance also deteriorated compared to its level in FY2024/25, declining by 0.9 percentage points to a deficit of 1.0 percent of GDP. This outturn reflects revenue collection shortfalls and continued expenditure pressures from debt service costs and operations and maintenance, and a pickup in development spending.

Repeated slippages weaken fiscal credibility and constrain fiscal consolidation efforts. Supplementary budgets have repeatedly widened the gap between approved budgets and fiscal outturns. In FY2025/26, two supplementary budgets were approved in response to higher-than-anticipated recurrent spending including debt service, public sector compensation, and financing needs in health, education, and security. The revenue projection was revised from 17.5 percent of GDP in the original budget to 18.4 percent and subsequently 17.7 percent of GDP, while the preliminary outturn reached 17.3 percent of GDP (Figure 11). Over the same period, expenditure allocations increased from 22.2 percent of GDP in the original budget to 24.9 and 25.0 percent of GDP in the supplementary budgets, with actual expenditure reaching 24.1 percent of GDP. The divergence between approved budgets and fiscal outturns contributed to a deterioration in both the overall fiscal balance and the primary balance, increasing financing needs and delaying progress toward debt reduction. Strengthening budget realism and expenditure discipline will be critical to restoring fiscal credibility and supporting debt sustainability (Box 1).

Figure 11: FY2025/26 budget and outturn



Source: The National Treasury.

Tax revenue collection as a share of GDP in FY2025/26 fell below the original budget target and the previous year's level. Low revenue collection reflected weak income tax and value added tax (VAT) receipts, despite these remaining the largest sources of revenue, representing 79.4 percent of tax revenue. Revenue performance was also partly affected by the conflict in the Middle East. Higher global fuel prices increased the value of taxable imports and supported customs-related revenues, with import duty collections reaching KSh 180 billion—exceeding the original target by 10.5 percent. However, given that the government introduced temporary fuel price stabilization measures—including a reduction in the VAT rate on petroleum products from 16 percent to 8 percent in April 2026 and the use of subsidies financed through the Petroleum Development Levy Fund to cushion households and firms from higher energy costs—the VAT reduction resulted in VAT collections falling by 6.4 percent below the original target. Consequently, sustained efforts to broaden the tax base, improve compliance, and strengthen non-tax revenue mobilization are critical to support fiscal consolidation.

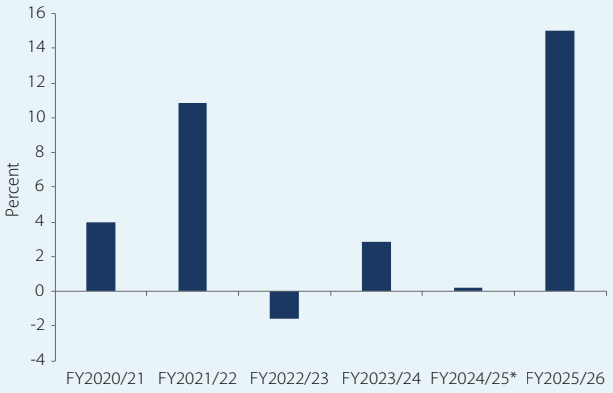
Expenditure pressure continues to rise. Total expenditure reached 24.1 percent of GDP in FY2025/26, above the original budget target of 22.2 percent of GDP. Higher operations and maintenance spending, as well as a pickup in development spending, drove the increase, while there was continued pressure from interest payments (Figure 13). While expenditure on wages and salaries as a share of GDP has remained broadly contained over the past five years, it still absorbs substantial resources and limits flexibility when other recurrent costs rise.

Box 1: Keeping budget changes exceptional by limiting the use of supplementary budgets

Kenya's Constitution allows the government, under Article 223, to incur expenditure before parliamentary approval when an urgent need arises or when existing budget allocations prove insufficient. This flexibility is important in responding to genuine emergencies and unforeseen events. However, evidence suggests that supplementary budgets and Article 223 expenditures have increasingly become a routine feature of budget execution rather than an exceptional measure. Requests for Article 223 spending have risen substantially over time, and a significant share of supplementary expenditures are often incurred before Parliament considers and approves them.

This trend raises concerns about budget credibility and fiscal discipline. Kenya's Public Finance Management Act Regulations (2015) (Regulation 40 (3) and (4)) are clear that supplementary budgets should be reserved for unforeseen and unavoidable expenditures and shouldn't be used to finance activities that were already known during budget preparation or could reasonably have been anticipated. Yet, in practice, supplementary budgets have frequently been used to accommodate spending pressures that appear predictable at the start of the fiscal year. When large spending decisions are made outside the original budget process, it weakens the role of the approved budget as the government's primary policy and fiscal planning tool, reduces public scrutiny, and makes it harder to maintain a credible path of fiscal adjustment (Figure 12).

Figure 12: Total expenditure by ministries, departments, and agencies (MDAs): percentage deviation of final supplementary budget from original budget

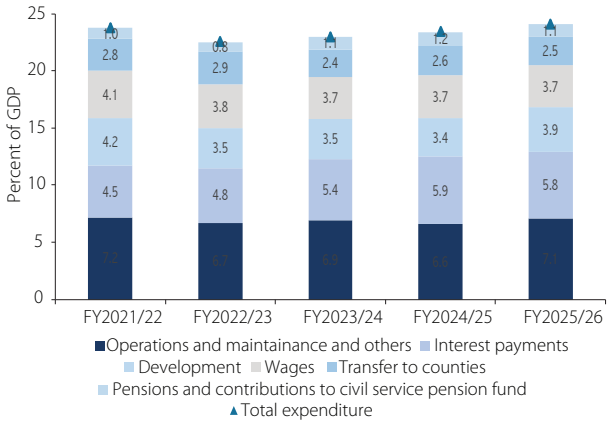


Source: World Bank calculations based on National Treasury data (Program Based Budget). Note: In FY2024/25 there were three supplementary budgets, while in other years the government passed two supplementary budgets*

Strengthening the framework for supplementary budgets would help improve transparency, accountability, and fiscal sustainability. Requests for additional spending must be supported by clear evidence demonstrating that the expenditure is genuinely unforeseen, unavoidable, and that it cannot be met through existing budget reallocations. Parliament should be notified promptly when such requests arise, rather than primarily after the expenditure has already occurred, and supplementary proposals could be subject to a level of scrutiny and public disclosure comparable to that applied during the preparation of the original budget. Clear reporting on purpose, cost, and expected results of supplementary expenditure would also strengthen public confidence in the use of public resources.

Over time, Kenya can further strengthen budget credibility by tightening the definition of eligible Article 223 expenditures, improving transparency and reporting, and reinforcing accountability for compliance with budget rules. A more disciplined approach to supplementary budgets would help ensure that fiscal policy remains aligned with approved priorities, support ongoing fiscal consolidation efforts, and enhance the credibility of the budget as a reliable guide to government spending.

Figure 13: Decomposition of total expenditure



Source: World Bank calculations based on the National Treasury data.

Fiscal pressures extend beyond the national government to the county level. Although transfers to counties have increased in nominal terms, they have declined as a share of GDP, falling from 2.9 percent in FY2022/23 to 2.5 percent in FY2025/26 (Figure 12). Counties retain primary responsibility for delivering devolved services including health, agriculture and water among others. With limited scope for expanding transfers or raising county-level revenues, counties will need to generate fiscal space primarily through improvements in spending efficiency and effectiveness. Recent analytical work suggests significant gains are achievable through stronger expenditure management, governance, and service delivery efficiency at the county level (Box 2).

Box 2: Spending better—creating fiscal space in Kenya's counties

Since devolution, county governments have become the primary providers of frontline services, but shrinking fiscal space is straining service provision. These services include primary health care, early childhood education, agriculture, water, and local infrastructure, but the resources. Yet the resources available to finance these functions have not kept pace with growing demands. County revenues declined from 4.0 percent of GDP in FY2013/14 to 3.1 percent in FY2024/25 despite increasing nominally, reflecting slower growth in both transfers and own-source revenues relative to the growth of the economy. Counties remain heavily dependent on national transfers, which account for 88–90 percent of total revenues, while their own-source revenues contribute only 10–12 percent. With public support for additional taxation weakening following the withdrawal of the Finance Bill 2024, improving the use of existing resources has become increasingly important.

County-level spending efficiency analysis suggests that counties could generate significant fiscal space. Counties could unlock resources equivalent to approximately KSh 181 billion (1.04 percent of GDP) across health, education, and public administration if they operated as efficiently as best-performing counties. Health is the area with the largest potential gains. In addition, bringing county wage bills into compliance with the statutory ceiling of 35 percent of revenue could generate savings equivalent to a further 0.4 percent of GDP. Combined, these potential gains exceed the estimated county own-source revenue gap of 1.33 percent of GDP—counties currently collect only 20–23 percent of their estimated own-source revenue potential—highlighting that expenditure reforms can be as important as revenue mobilization in strengthening county finances.

Significant inefficiencies continue to reduce the impact of public spending and hinder development outcomes. High-wage bills crowd out development spending and frontline services, while weak payroll and procurement controls, fragmented cash management systems, pending bills, and governance weaknesses undermine expenditure effectiveness. Counties with higher reported bribery also tend to exhibit lower levels of efficiency. Further, more efficient counties appear better able to protect households during periods of economic and social stress, suggesting that spending efficiency can improve development outcomes and create fiscal space.

Realizing these gains will require action and reforms in several areas. Priorities include stronger PFM, expenditure controls, procurement, and accountability systems. At the same time, spending efficiency can be supported on two other fronts: (a) mobilizing revenue more effectively through improved revenue administration and greater reliance on property taxation and (b) improving transfer predictability to strengthen counties' planning, budget execution, and service delivery.

Source: World Bank Policy Note (2026). Creating Fiscal Space for Improved Service Delivery in Kenya's Counties: Spending Better and Mobilizing Revenue More Effectively.

High debt and financing pressures continue to constrain fiscal space

Domestic borrowing remained the principal source of deficit financing in FY2025/26. Favorable domestic market conditions and declining interest rates supported increased domestic borrowing. The deficit was primarily financed by net domestic borrowing of 5.3 percent of GDP (2.1 percentage points higher than budgeted), while net external financing reached 1.4 percent of GDP. Liability management operations reduced refinancing pressures on domestic debt through bond buybacks and longer maturity bond swaps, while the conversion of US$3.5 billion of China Exim Bank debt into yuan financing and a US$2.25 billion bond issuance that partially retired the 2028 and 2032 Eurobonds helped reprofile external debt and lower rollover risks.

Public debt remains elevated, with domestic debt accounting for a growing share of the debt portfolio. Kenya's public debt stock remained stable at 69.9 percent of GDP in June 2026, despite a decline in external debt reflecting lower external borrowing and gains from a stable exchange rate (Table 2). However, domestic debt increased in FY2025/26 and accounted for 56.2 percent of total debt, amid increased domestic borrowing. This trend has deepened sovereign-bank linkages, increased refinancing risks, raised interest costs, and may constrain the availability of credit to the private sector. Kenya remains at high risk of debt distress, underscoring the need for a sustained fiscal consolidation and prudent debt management to rebuild fiscal buffers.

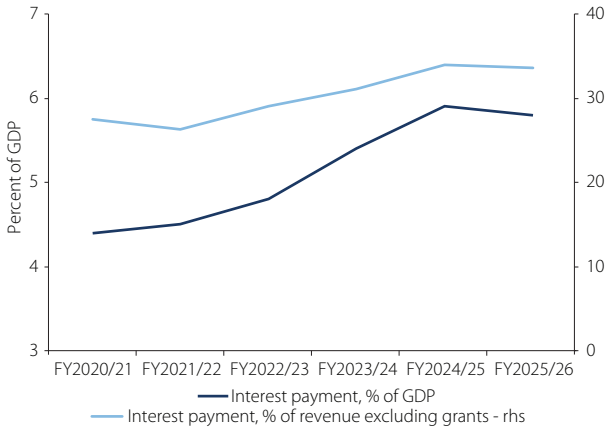
Debt service costs continue to constrain the fiscal adjustment. Interest payments remained elevated at 5.8 percent of GDP in FY2025/26, driven largely by the growing share of domestic debt in the public debt portfolio. While external debt service costs have declined since 2024—supported by exchange rate stability, reduced reliance on external commercial borrowing, and liability management operations that have lowered refinancing risks—debt servicing continues to absorb a significant share of government revenues and limits fiscal space for development spending.

Table 2: Fiscal outturn and FY2026/27 budget, percentage of GDP

Priority	FY2023/24	FY2024/25	FY2025/26	FY2025/26	FY2026/27
	Actual	Actual	Original Budget	Prel.	Budget
Total revenue and grants	17.4	17.5	17.5	17.3	17.7
Tax revenue	13.4	13.0	13.3	12.8	13.4
Income tax	6.7	6.5	6.7	6.3	6.6
VAT	4.1	3.9	4.0	3.9	4.0
Import duty	0.9	0.9	0.8	1.0	0.9
Excise duty	1.8	1.7	1.7	1.7	1.8
Non-tax revenue	3.9	4.3	4.0	4.3	4.1
Grants	0.1	0.2	0.2	0.1	0.2
Expenditure and Net Lending	23.0	23.5	22.2	24.1	23.2
Recurrent	17.1	17.4	16.3	17.6	17.1
Wages and salaries	3.7	3.7	3.4	3.7	3.4
Interest payments	5.4	5.9	5.7	5.8	6.0
Domestic interest	4.0	4.6	4.4	4.6	4.7
Foreign interest	1.4	1.2	1.3	1.1	1.3
Pensions	1.1	1.2	1.2	1.1	1.2
Operations and maintenance	6.9	6.6	5.9	7.1	6.5
Development	3.5	3.4	3.4	3.9	3.6
Transfers to counties	2.4	2.6	2.5	2.5	2.4
Overall balance including grants	–5.3	–6.0	–4.7	–6.8	–5.5
Adjustment to cash basis	0.3	0.0	0.0	0.0	0.0
Discrepancy	–0.1	0.1	0.0	–0.1	0.0
Primary balance	0.0	–0.1	1.0	–1.0	0.5
Net financing	5.2	6.1	4.7	6.7	5.5
Net foreign financing	1.4	1.1	1.5	1.4	1.2
Net domestic financing	3.8	5.1	3.2	5.3	4.3
Debt gross	67.5	69.9	66.9	69.9	68.0
External	33.0	32.5	30.4	30.5	28.6
Domestic	34.5	37.4	36.5	39.3	39.4

Source: The National Treasury: Quarterly Economic and Budgetary Review (QEBR) Q4 FY2025/26, Budget Review and Outlook Paper (BROP) 2026.

Figure 14: Interest payments



Source: World Bank calculations based on the National Treasury data.

Privatization and divestiture are emerging as important elements of the government's infrastructure financing strategy. In March 2026, the government sold a 65 percent stake in the Kenya Pipeline Company through an initial public offering, raising KSh 112.4 billion (about 0.5 percent of GDP), of which KSh 103.5 billion was transferred to the National Infrastructure Fund (NIF) for strategic infrastructure investments.[7] The government also divested a 15 percent stake in Safaricom PLC to Vodacom, generating about KSh 204 billion (around 1.0 percent of GDP) and reducing the state's shareholding from 35 percent to 20 percent. The proceeds were earmarked for the NIF to finance infrastructure investments without increasing

[7] *The NIF was established by the National Infrastructure Fund Act, 2026, to scale up and accelerate development of national infrastructure; mobilize private capital and non-traditional sources of infrastructure finance, including domestic pension funds, collective investment schemes, sovereign wealth funds (SWFs), and climate finance; reduce the reliance on public debt for the financing of commercially viable infrastructure investments; and strengthen the national capacity for origination, structuring, and execution of large and complex infrastructure projects.*

public debt, but this divestment has been challenged in court, with the appeal process still ongoing. The development impact of these transactions will depend on robust governance of the NIF and the efficient allocation of proceeds to well-prioritized, bankable infrastructure investments. While directing privatization proceeds to infrastructure could help address Kenya's infrastructure gap, allocating part of the proceeds to retire high-cost debt could reduce interest costs, lower refinancing risks, and strengthen debt sustainability. The government has also relied on securitization of future revenue streams to support development projects, but the fiscal implications of such transactions require careful monitoring.

Managing fiscal risks from state-owned enterprises (SOEs) and contingent liabilities remains a key priority. Guaranteed debt from SOEs reached KSh 83.2 billion (0.5 percent of GDP) at the end of FY2024/25, while non-guaranteed debt was estimated at KSh 44.9 billion (0.3 percent of GDP). The enactment of the Government Owned Enterprises (GOE) Act (2025) and Privatization Act (2025) is expected to strengthen SOE oversight and restructuring and private sector participation, while helping to reduce contingent liabilities and future fiscal pressures. However, in the short run, financial weaknesses in certain SOEs continue to pose risks that could translate into higher public debt and budgetary costs if they materialize. Therefore, prioritizing the implementation of these acts will be critical to mitigating existing fiscal risks and preventing the further accumulation of contingent liabilities, thereby strengthening fiscal and debt sustainability.

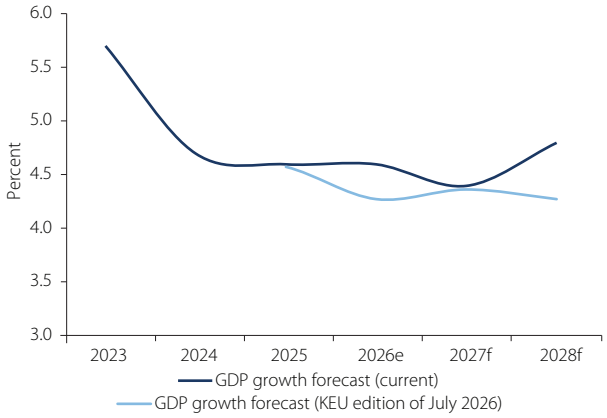
1.4 Outlook, risks, and policy recommendations

Growth outlook has improved but remains below potential

Although growth is projected to remain below 5 percent over the medium term (Table 3), the forecast is higher than in the July 2026 Kenya Economic Update (Figure 15). The baseline assumes that energy market disruptions gradually ease by end-2026, El Niño-related rainfall does not cause widespread economic disruption, and the fiscal deficit narrows modestly over the medium term. Improving credit conditions and resilient external demand are expected to continue supporting private investment and exports. The upward revision for 2026 reflects stronger-than-expected GDP growth in the first half of the year, while the higher forecast for 2027–28 reflects a more favorable investment outlook, supported by recovering private-sector credit, resilient FDI inflows, and continued export growth.

Despite this improvement, growth is expected to remain below potential. The energy shock, due to the conflict in the Middle East since Q2 2026, and likely erratic El Niño rainfall toward the end of the year will likely weigh on activity in 2026 and early 2027 (Box 3). Household consumption is anticipated to soften as energy and transport costs rise, although strengthening credit growth and foreign investment should continue to support private investment. Export growth is expected to be driven by agricultural commodities, stronger regional demand, and the African Growth and Opportunity Act (AGOA) extension. However, the CAD is projected to widen in 2026 as higher fuel and capital goods imports more than offset export gains, before narrowing gradually as energy prices ease. The fiscal deficit is projected to fall over the medium term, reflecting tighter spending controls and improvements in revenue administration.

Figure 15: GDP growth projection



Source: World Bank.

Although growth is expected to exceed averages in peer countries, poverty reduction will be gradual. Kenya's medium-term growth is expected to surpass the SSA average of 4.5 percent, but remain below the East African Community (EAC) average of 5.2 percent. Modest per capita growth and limited income gains among poorer households will constrain poverty reduction. At the US$3.00-a-day poverty line in 2021 purchasing power parity terms, the poverty rate is projected to ease to 43.0 percent in 2026 and 41.4 percent by 2028. The slow decline reflects structural constraints, including widespread low-productivity informal employment, spatial disparities in arid and semiarid regions, and a fiscal system that taxes poorer households more than it transfers to them.

Box 3: El Niño could bring localized economic disruption; a nationwide shock is unlikely

El Niño raises the risk of unusually heavy rainfall during Kenya's October–December 2026 short-rains season. Its interaction with a forecast positive Indian Ocean Dipole, which can further amplify rainfall, is expected to bring above-average rains across much of the country. Similar conditions contributed to exceptionally heavy rainfall in 1997 and 2023.

Kenya remains highly exposed, although it enters the season with important buffers. More than 98 percent of agricultural and rangeland areas depend on rainfall, while pastoral livelihoods, flood-prone infrastructure, and rapidly growing cities remain particularly vulnerable. However, the harvest from the long-rains season has largely finished, limiting immediate risks to national food supply. The electricity system is also more resilient, with geothermal providing roughly half of electricity generation and hydropower providing only about 27 percent.

The main economic effects are likely to be through agriculture, food prices, infrastructure, and household welfare. Excessive rainfall could cause localized crop and livestock losses, post-harvest damage, and disruptions to transport-dependent value chains. Flooding may damage roads, bridges, drainage systems, and logistics corridors, while supply disruptions could temporarily raise food prices. Poor households, farmers, and pastoralists in arid and semiarid counties are likely to bear the largest costs because their livelihoods are climate sensitive and their capacity to absorb shocks is limited.

The most likely outcome is a costly localized disruption, requiring rapid emergency response, rather than nationwide economic shock. Under a favorable scenario, additional rainfall could improve water availability, pasture conditions, and agricultural production. However, given expectations, flooding in exposed counties is likely to cause localized agricultural losses, disruptions to transport, temporarily higher food prices, and a modest drag on growth and poverty reduction. In cities, El Niño-enhanced flash floods could trigger severe localized flooding, damaging property, and endangering lives.

The policy and institutional focus should be on sustained preparedness, and longer-term resilience. Immediate priorities include maintaining early warning communication; continually clearing urban drainage; inspecting vulnerable roads and bridges; protecting critical power, water, and health infrastructure; and pre-positioning agricultural and veterinary support in high-risk regions. Emergency financing, county response systems, and shock-responsive social protection can be readied for rapid activation. Over time, the economic costs of increasingly erratic rainfall could be reduced through expanded water storage to better manage water during floods and drought, increased irrigation, more resilient infrastructure, improved urban flood management, and diversified pastoral livelihoods.

Source: Kenya Meteorological Service Authority; World Bank Group, Kenya Country Climate and Development Report 2023.

Despite subdued household consumption, investment is expected to remain resilient. Private consumption growth is projected to slow to 4.1 percent in 2026 as higher energy and transport costs constrain household purchasing power, before recovering to 4.8 percent by 2028. The recovery in credit to the private sector, aided by accommodative monetary policy, and the continued implementation of digital infrastructure and technology-related projects will support sustained levels of annual investment growth exceeding 5 percent. A stable exchange rate, underpinned by sound monetary policy and the government's ability to meet upcoming debt repayment obligations (both domestic and foreign), should help sustain this momentum. Government consumption and investment are, however, expected to moderate, reflecting the government's plan for gradual fiscal consolidation.

On the production side, growth is projected to be broad-based. Agricultural growth is expected to strengthen to 4.2 percent in 2026 and 4.5 percent in 2027 and 2028, supported by above-average rainfall associated with El Niño across much of the country. Industry is projected to grow by 4.7 percent in 2026, driven by construction and housing investments, including under the government's Affordable Housing Program, the ongoing work on the Rironi-Mau Summit dual carriageway, the extension of the Standard Gauge Railway (SGR), upgrades at Jomo Kenyatta International Airport, and the continued settlement of pending bills, which is expected to improve liquidity for contractors and suppliers. Over the medium term, services growth is expected to be supported by continued digitization, including the delivery of public services, the lagged effects of monetary policy easing on financial sector services, and stronger trade activities.

Inflation is expected to remain within the CBK's target range over the medium term. Consumer price inflation is projected to increase from 4.1 percent in 2025 to 5.5 percent in 2026 as the energy shock raises transport and production costs. As these pressures gradually subside, inflation is expected to moderate to 5.0 percent in 2027 and remain at that level in 2028. With inflation expectations remaining anchored, the CBK may have scope for further monetary policy easing, supporting lower borrowing costs and continued growth in private sector credit.

The CAD is projected to widen in 2026 before narrowing gradually thereafter. The increase in CAD, from 2.8 percent of GDP in 2025 to 4.3 percent in 2026, reflects higher fuel prices and rising capital goods imports associated with stronger investment activity. The CAD is then expected to narrow to 3.7 percent and 3.3 percent in 2027 and 2028, respectively, as agricultural exports, tourism, and regional export demand strengthen. The recent extension of AGOA is likely to support exports of apparel and other manufactured goods to the US market, helping to sustain export growth over the medium term. Rising financial inflows, including privatization, infrastructure investments, and private inflows, are expected to help finance the CAD, while reserve buffers remain adequate.

Table 3: Medium-term macroeconomic projections

	2023	2024	2025	2026 e	2027 f	2028 f
Real GDP growth, at constant market prices	5.7	4.7	4.6	4.6	4.4	4.8
Private consumption	7.5	6.2	4.7	4.1	4.2	4.8
Government consumption	2.0	0.9	8.0	5.1	5.0	4.3
Gross fixed capital investment	1.9	6.4	5.6	5.3	5.1	5.4
Exports, goods and services	11.7	5.3	0.1	0.1	6.2	8.0
Imports, goods and services	1.3	2.6	0.9	0.5	5.8	7.2
Real GDP growth, at constant factor prices	5.9	4.9	4.6	4.6	4.4	4.8
Agriculture	6.6	4.4	3.1	4.2	4.5	4.5
Industry	2.0	1.1	4.7	4.7	4.2	4.4
Services	6.8	6.2	5.0	4.7	4.5	5.0
Employment rate (% of working-age population, 15 years+)	63.2	63.4	63.6	63.6	63.7	63.8
Inflation (consumer price index)	7.7	4.5	4.1	5.5	5.0	5.0
Current account balance (% of GDP)[c]	–3.7	–2.5	–2.8	–4.3	–3.7	–3.3
Net FDI inflow (% of GDP)	0.2	0.0	0.5	2.3	1.1	1.2
Fiscal balance (% of GDP)[a,b]	–5.7	–5.9	–6.5	–6.1	–5.7	–5.7
Revenues (% of GDP)	17.0	17.5	17.6	17.5	17.7	17.8
Debt (% of GDP)	69.4	69.0	70.6	71.1	70.1	69.4
Primary balance (% of GDP)	–0.6	–0.2	–0.6	–0.2	0.5	0.7
International poverty rate (US$3.00 in 2021 PPP)c,d	45.0	43.7	43.3	43.0	42.3	41.4
Lower-middle-income poverty rate (US$4.20 in 2021 PPP)[d,e]	65.1	64.6	64.4	63.7	63.2	62.5
Upper-middle-income poverty rate (US$8.30 in 2021 PPP)[d,e]	89.9	89.7	89.5	89.1	88.8	88.4

Source: World Bank, Fiscal Policy and Growth Department. Emissions data are sourced from Climate Analysis Indicators Tool.(CAIT) and Organisation for Economic Co-operation and Development (OECD).
Notes: e = estimate; f = forecast; PPP = Purchasing power parity.
a. Calendar year fiscal data have been estimated from the corresponding fiscal years. For example, 2023 = average of FY2022/23 and FY2023/24.
b. Fiscal data from Kenya's National Treasury, revised per Government Finance Statistics (GFS) 2014. Numbers may vary from official estimates due to GDP projection differences.
c. Balance of Payment (BOP) data are sourced from the International Monetary Fund (IMF) World Economic Outlook (WEO), October 2025. According to the IMF WEO (2025), BOP historical data are currently provisional, and reflect revisions to official external sector statistics and staff adjustments.
d. Projections use a microsimulation methodology. Actual data: 2022. Nowcast: 2023–2025. Forecasts are from 2026 to 2028.
e. Poverty projections are estimated using a new microsimulation method that projects household-specific consumption using income and consumption profiles from the 2022 Kenya Continuous Household Survey, combined with sectoral growth and inflation projections. This differs from the standard Macro Poverty Outlook method, which applies a single uniform growth rate and inflation rate to all households.

Fiscal consolidation is expected to narrow the fiscal deficit, but public debt will remain elevated. The fiscal deficit is projected to decline from 5.9 percent of GDP in FY2027/28 to 5.4 percent in FY2028/29, supported by spending controls and expenditure rationalization and improved revenue mobilization. Expected revenue increases are underpinned by gains from tax administration reforms, including digital tax systems (such as the greater use of the Electronic Tax Invoice Management System [eTIMS] and enhancements to the Integrated Customs Management System); integration of Kenya Revenue Authority (KRA) systems with third-party platforms; stronger compliance and enforcement; and greater use of data analytics, artificial intelligence, and machine learning to improve taxpayer profiling, audits, debt collection, and the detection of revenue leakages. These measures, together with possible additional tax policy measures, are expected to raise revenues by about 0.1 percent of GDP annually over the medium term. Total expenditure is expected to decline from 23.6 percent of GDP in FY2027/28 to 23.3 percent of GDP in FY2028/29, supported by tighter expenditure controls and efficiency-enhancing reforms, including e-procurement, Treasury Single Account expansion, accrual accounting, payroll and pension digitalization, greater use of PPPs, and zero-based budgeting. Public debt is, nevertheless, projected to increase to 71.1 percent of GDP in 2026 before easing to 69.4 percent in 2028.

Risks remain firmly tilted to the downside

The outlook is subject to significant downside risks from external shocks, fiscal pressures, political and climate-related vulnerabilities, and slower investment growth. A further escalation of geopolitical tensions, particularly in the Middle East, could sustain elevated fuel and shipping costs, intensify inflationary pressures, widen the CAD, and further erode household purchasing power. A weaker global or regional growth environment could also dampen demand for Kenya's exports, slow tourism activity, and reduce foreign investment inflows, weakening growth prospects.

Fiscal and debt-related vulnerabilities remain elevated. The projected decline in fiscal deficits depends on continued improvements in revenue administration, stronger expenditure controls, and greater transparency and accountability in the management of public resources. Weaker-than-expected revenue mobilization, expenditure pressures, weaknesses in PFM, procurement, expenditure oversight, or delays in fiscal reforms could increase financing needs, slow fiscal consolidation, and place public debt on a less favorable trajectory. Higher borrowing requirements could raise financing costs, crowd out private sector credit, weaken investor confidence, and undermine the projected recovery in private investment and domestic demand.

Political uncertainty associated with the approaching 2027 elections could affect reform momentum. In the near term, heightened political competition may increase spending pressures, delay fiscal consolidation efforts, and divert attention from implementation of key reforms. Election-related uncertainty, including the risk of violence and post-election disruptions, could weaken investor confidence, delay private investment decisions, reduce private and foreign investment inflows, disrupt tourism and trade, and weigh on economic growth. Prolonged political contestation could slow progress in addressing Kenya's underlying structural challenges.

Climate-related shocks are a major source of uncertainty. El Niño conditions and the likelihood of erratic rainfall could disrupt agricultural production, damage infrastructure, increase food price volatility, and weaken rural incomes (as discussed in Box 3). More severe flooding or adverse weather events could also disrupt transport and supply chains, reduce export earnings, and increase inflationary pressures. Given agriculture's important role in employment and livelihoods, climate-related shocks could slow poverty reduction and weigh on overall economic growth.

Weaker-than-expected investment could weigh on growth. The outlook assumes a continued expansion of private sector credit alongside resilient foreign investment inflows. However, tighter financial conditions; weaker business sentiment; a less favorable business environment, including regulatory uncertainty; and governance challenges could slow investment growth, dampen domestic demand, and weaken overall economic activity. Addressing these risks will require not only sound fiscal and structural policies, but also stronger governance, transparency, and accountability—issues examined in greater depth in Part 2.

Growth could exceed current projections if private investment and exports outperform expectations. A faster recovery in private sector credit, stronger FDI inflows, and greater investment in infrastructure and housing could boost domestic demand. Stronger regional demand for exports, improved agricultural export performance, and continued expansion of financial, transport, and trade services could further support growth and strengthen external resilience.

Policy recommendations

Sustaining macroeconomic stability while accelerating growth and creating more and better jobs will require mutually reinforcing fiscal, structural, and governance reforms. Fiscal adjustment needs to be credible and growth friendly, protecting priority spending while improving the efficiency and transparency of public expenditure. At the same time, reducing the costs and uncertainty facing firms will require lower infrastructure and logistics costs, more predictable and transparent administration, and improved access to finance. Across these priorities, stronger governance and accountability are critical to successful implementation, particularly in revenue administration, procurement and public investment, and at key interfaces between government and businesses. Key policy priorities are presented in Table 4—these build on reform progress that the government has already made in several of these areas.

Kenya's recent macroeconomic performance demonstrates the economy's resilience and the benefits of continued efforts to preserve stability. However, the analysis in Part 1 also shows that growth remains below potential, fiscal pressures remain elevated, and job creation continues to lag the needs of a rapidly growing workforce. Many of these challenges are linked not only to macroeconomic conditions but also to deeper governance constraints that affect fiscal management, public sector effectiveness, private investment, and productivity growth. Part 2 examines these linkages in greater detail, exploring how governance weaknesses shape economic outcomes and how addressing them could unlock faster growth, stronger job creation, and greater fiscal sustainability.

Table 4: Key policy priorities to address Kenya's underlying macroeconomic and structural challenges

Policy Priority	Recommendation
Restore fiscal and debt sustainability	• Enforce fiscal rules and realistic budget baselines • Limit supplementary budgets • Further strengthen expenditure and commitment controls • Prioritize high-return spending Strengthen debt management and oversight of contingent liabilities
Make fiscal policy more equitable and efficient	• Increase the progressivity of the tax system • Rationalize poorly targeted or ineffective tax exemptions and incentives • Better target social assistance • Protect priority spending on health, education, and services benefiting poorer households.
Raise productivity and private investment, and create better jobs	• Improve access to affordable private-sector credit • Lower power and logistics costs • Continue to simplify regulatory and administrative processes that raise the cost and uncertainty of doing business.
Strengthen governance, transparency, and accountability	• Fully roll out e-GP and digital revenue systems • Strengthen SOE governance, oversight, and fiscal risk management • Implement the new Conflict of Interest framework and strengthen beneficial-ownership transparency • Strengthen oversight of securitizations and contingent liabilities • Establish robust governance and investment frameworks for the NIF

Source: World Bank

SPECIAL FOCUS



Photo: © Bonney Tunya/World Bank

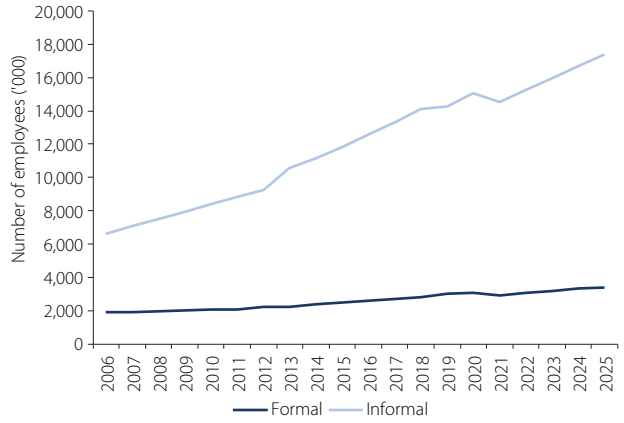
2. Governance Constraints to Economic Growth and Jobs Creation

2.1 Motivation: Why governance matters for Kenya's economic transformation

Despite moderate growth since reaching lower-middle income levels 2014, Kenya has yet to realize its potential for a faster transition to upper-middle-income status. The vast majority of Kenyans continue to work in the informal sector, and growth in wage employment has been mainly driven by an expanding public service (Figure 16). Even though Kenya hosts East Africa's biggest port, exports have been declining as a share of GDP (Figure 16), are lower than in other lower-middle-income countries (LMICs), on average (17.1 percent of GDP, compared to 27.2 percent), and remain predominantly agricultural and raw material-based. Private investment as a share of GDP has stagnated since 2000 and remains well below the levels of structural and aspirational peers (Figure 18). FDI has also been less than 0.5 percent of GDP since 2018, on average, far below the average of 1.5–2.0 percent for LMICs (Figure 19). These trends indicate that Kenya's further transformation and progress toward upper middle-income status are seriously constrained.

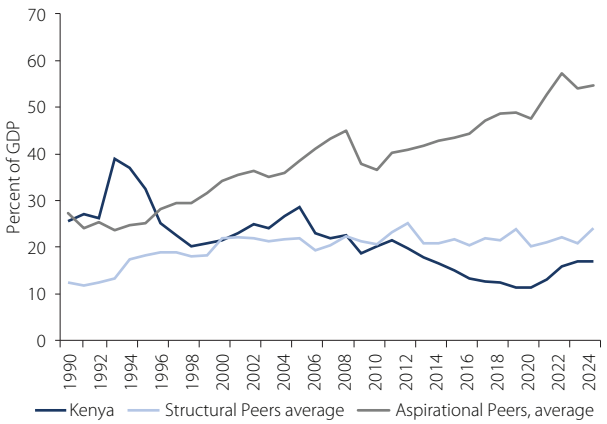
Governance challenges are increasingly recognized as one of the key factors holding back more dynamic and broad-based growth in many middle-income countries, including Kenya. Acemoglu and Robinson (2012) have highlighted the importance of 'inclusive institutions' for enabling broad-based and sustained growth. However, many LMICs have incumbent business and political elites that limit access to economic opportunities (North et al. 2007). In countries with high governance constraints, corruption and rent-seeking increase the cost of goods and services provided by the government, burdening the fiscal balance and negatively affecting domestic and international investors through increased costs and uncertainty and through potential distortions favoring connected companies and hindering others (Dercon 2022; North 1990; World Bank 2017, 2024). Ultimately, these effects slow economic transformation and the creation of more and better jobs.

Figure 16: Formal versus informal employment



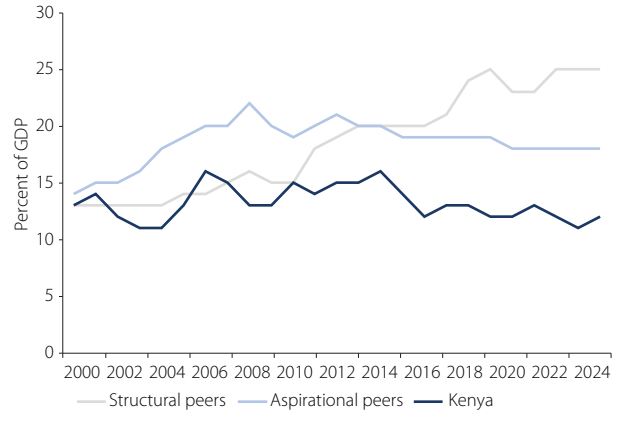
Source: World Bank based on KNBS data.

Figure 17: Exports of goods and services (percentage of GDP)



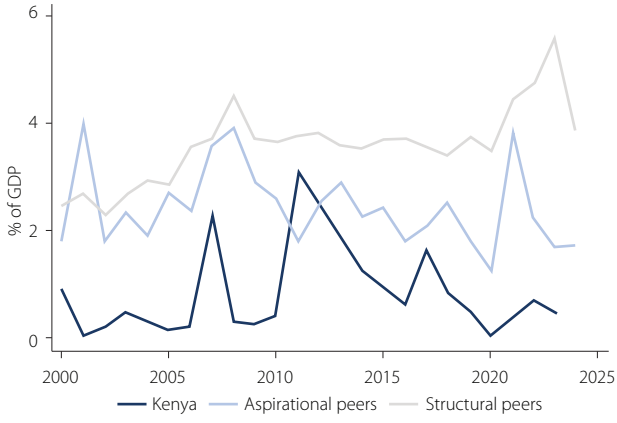
Source: World Bank Development Indicators.

Figure 18: Private investment (share of GDP)



Source: World Bank Scorecard.

Figure 19: FDI inflows (percentage of GDP)



Source: World Bank Development Indicators.

Improving governance conditions to create a more enabling environment for businesses and achieve greater fiscal efficiency is challenging but possible. When governance constraints are deeply embedded in a country's political and economic structure, regulatory bias toward connected companies or widespread bribery practices can be difficult to shift, even for committed decision-makers. However, the recent experience of countries such as Viet Nam, Armenia, Namibia, and Rwanda—and the earlier governance shifts alongside economic transformation in Korea and Singapore—indicate that significant improvements are possible and have had substantial payoffs in investment, growth, and jobs. The experience of Côte d'Ivoire shows that even initial governance improvements can have substantial economic benefits: Since the early 2020s, the country has achieved moderate reductions in corruption and growth rates exceeding 6 percent.[8]

The potential economic and social payoffs from undertaking reforms to reduce corruption could be substantial within the coming decade. With ambitious but feasible reforms, modeling presented in Section 2.5 suggests that GDP could be more than 20 percent larger by 2035 relative to the non-reform baseline. Households could see a boost to their consumption by more than a quarter above the baseline. Significant fiscal space to fund urgently needed services and infrastructure could be achieved. Even if reforms are only moderate rather than ambitious—targeting levels of corruption currently observed in Ethiopia, India, or Tanzania—GDP could still expand significantly faster and be around 13 percent larger by 2035 compared to maintaining the status quo.

This special focus considers critical governance constraints in Kenya, their impacts on growth and jobs, and ways to improve. It complements the previous KEU 32 (World Bank 2025b), which focused on constraints to competition. It provides an overview of Kenya's governance performance relative to peer countries[9] (Section 2.2), explores key impact channels through which governance constraints affect Kenya's fiscal and economic performance and opportunities for job creation (Section 2.3), and reviews the strengths and limitations of existing laws and institutions dedicated to improving governance and curbing corruption (Section 2.4). Identifying specific channels of 'economic harm' allows the setting out of tailored recommendations for reducing the identified constraints and unshackling greater dynamism in Kenya's investments, productivity gains, and progress toward higher incomes. Part 2 concludes with a set of recommendations of feasible and impactful steps forward to support and accelerate Kenya's economic transformation.

It is necessarily selective. One aspect that this note touches on only briefly is land governance. Given the complex challenges (including fake land title deeds, land grabbing, and bribes to access land services) and the importance of land for financial sector development, this topic may be taken up in a forthcoming KEU. The analysis also does not drill into specific sectors such as construction and real estate, urban transport, waste management services, health sector financing and management, or public sector recruitment, for all of which governance constraints have been noted.

The analysis is based on enterprise and citizen surveys as well as fiscal data, global and regional benchmarking of Kenya's governance performance, official reports, and other public sources. It builds on surveys of firms and citizens that have been carried out over time, comparative global indexes, on public procurement and tax exemptions, and other relevant sources. It also draws on available reports and information from Kenya's existing accountability institutions—such as the Office of the Auditor General (OAG) and the Ethics and Anti-Corruption Commission (EACC)—as well as from think tanks and triangulated information from reputable media sources.[10]

2.2 Key features of governance performance in Kenya relative to peers

Governance indicators show that Kenya's governance performance is intermediate In several aspects but very weak on control of corruption (Figure 19 a–d). Broadly, this reflects what Kenya has achieved so far: The quality of its institutions and governance has been good enough to move from low- to lower-middle-income status. Areas of relatively good performance include government effectiveness, regulatory quality, voice, and accountability. However, (a) Kenya significantly underperforms relative to aspirational peers, indicating a need for further improvement and (b) control of corruption shows significantly lower performance than all peer groups

[8] *Côte d'Ivoire's consumer price index (CPI) ranking improved from 104 (2020) to 76 (2025); during the same period, Kenya experienced a backsliding from 124 to 130.*

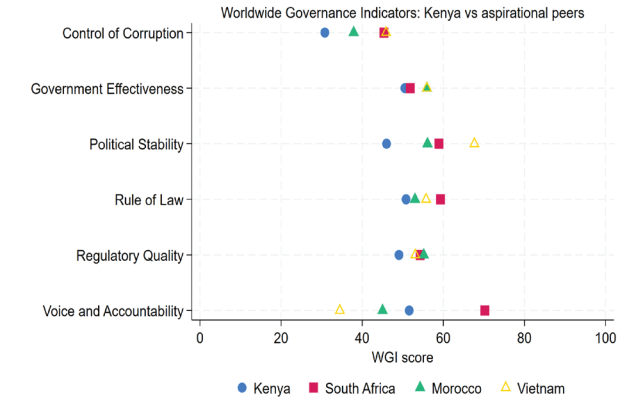
[9] *See World Bank (2025c) for the selection of structural and aspirational peers.*

[10] *Recent think tank reports include the Institute of Public Finance (2025), The Institute for Social Accountability (TISA) (2025a and b), Transparency International (TI) (2025), and various publications by the Institute of Economic Affairs (IEA).*

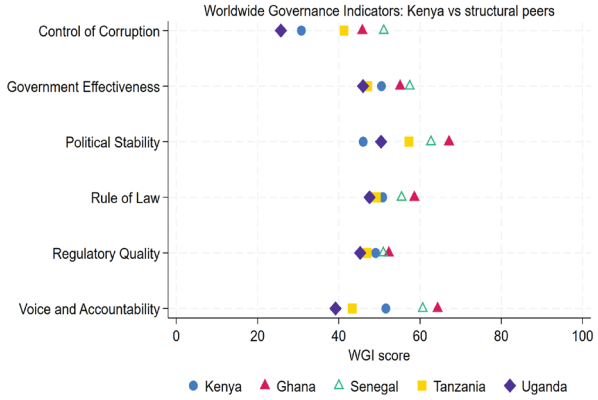
and nearly all comparators, suggesting that it is the most significant constraint.[11] Considering trends over time, Bertelsmann Transformation Index (BTI) data on integrity—somewhat similar to the Worldwide Governance Indicators (WGI) series—indicate gradual improvement over 2009 to 2020, followed by a renewed downward trend in recent years (Figure 20).[12] In a similar vein, World Justice Project (WJP) indicators show a particular underperformance on the 'use of public office for private gain' in the executive and the legislative (Figure 22).

Figure 20 (a)–(d): WGI: Comparisons across countries and over time

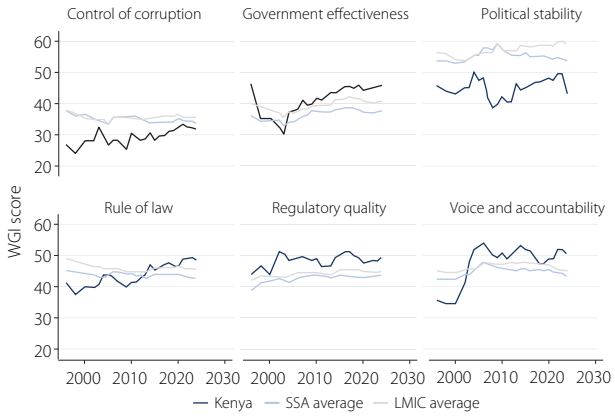
a. Kenya vs aspirational peers



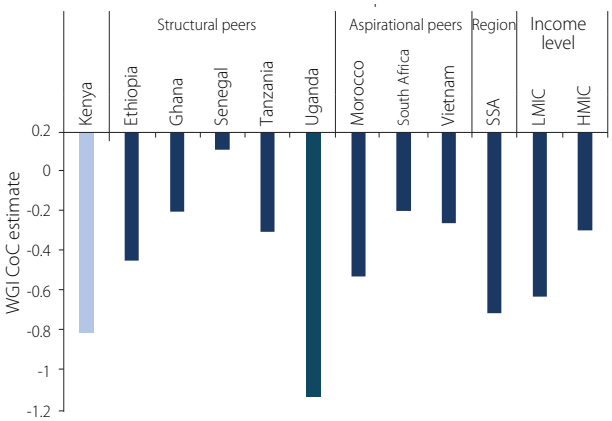
b. Kenya vs structural peers



c. Kenya vs Sub-Saharan Africa vs LMIC

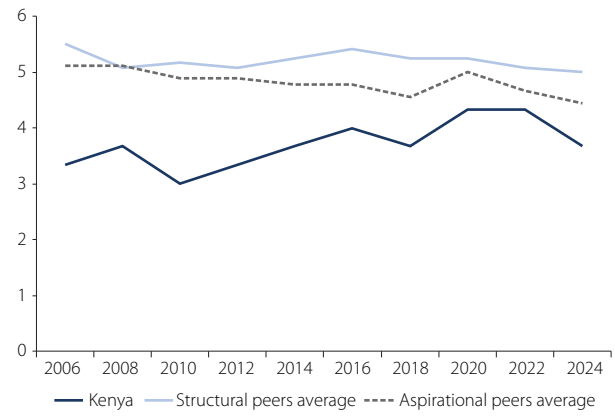


d. Control of corruption



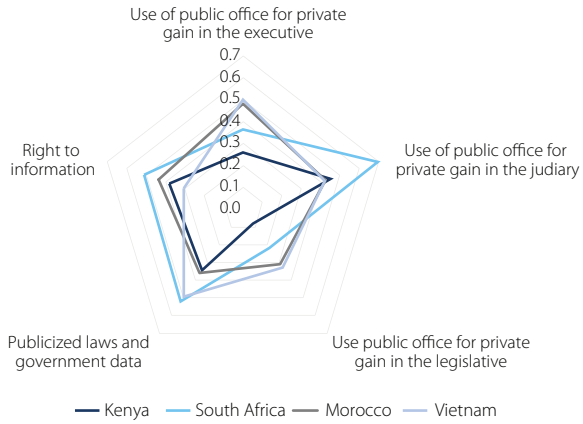
Source: WGI 2024.
Note: Structural peers comprise Ethiopia, Ghana, Senegal, Tanzania, and Uganda, while aspirational peers include Bangladesh, Morocco, South Africa, Thailand, and Viet Nam.

Figure 21: BTI integrity indicators - Kenya and comparator



Source: BTI.

Figure 22: Transparency and integrity (Use of public office for private gain) - Kenya and aspirational peers



Source: WJP.
Note: All values fall between 0 (weakest score) and 1 (strongest score).

[11] *As WGI data are aggregated from various data sources, they are too broad to pinpoint the specific type of corruption. However, a very low score suggests that multiple underlying data sources—covering different dimensions of corruption—are rated as performing poorly.*

[12] *The BTI Integrity Index corresponds to BTI's measure of 'Resource Efficiency', which captures experts' assessment of anti-corruption policy, efficiency in the use of public assets, and policy coordination.*

Opinion survey data, from Afrobarometer and Kenya's EACC, corroborate that corruption is widely perceived as a key—and potentially worsening—problem. The frequency with which corruption is seen as one of the top three problems in the country has increased in recent Afrobarometer survey rounds compared to earlier ones. In every Afrobarometer round conducted over the past decade, a majority of Kenyans have responded that corruption has 'increased a lot' or 'somewhat' over the past year; in the most recent round those shares reached 43.5 and 16.3 percent, respectively.[13] Concerningly, despite Kenya's relative civic openness, 78.7 percent of respondents say that ordinary citizens risk retaliation if they report incidents of corruption (Afrobarometer).

While widespread corruption is the 'stand out' governance constraint in Kenya, it interacts with other aspects of public sector management such as SOE governance, institutional fragmentation, and regulatory complexity. For example, deepening fiscal constraints, as discussed in Part 1, have given rise to a proliferation of frontline charges in the form of levies and fees,[14] which in turn increase the risk of associated bribe demands. Also, when regulatory independence and SOE governance are affected by political calculations, the focus on meritocratic competency, managerial stability, and performance orientation is reduced. Furthermore, institutional fragmentation and complexity in public sector procedures (licensing requirements, inspections, and so on) create opportunities for bribe demands and unequal treatment of firms.

On the rule of law—another critical component for the business environment—Kenya achieves only middling to low performance, and surveys suggest that integrity challenges hold back better performance of the judiciary. The WJP scores Kenya as 102 out of 143 assessed jurisdictions,[15] while Kenya's aspirational peers score considerably higher.[16] The performance of the justice system intersects with corruption challenges on the one hand, and with low levels of efficiency as well as continuing access problems. The average case duration in Superior Courts is about 1,000 days, far longer than in neighboring Tanzania, representing a significant drag on businesses' ability to resolve disputes in a timely manner. As further evidenced in the Justice Pillars Towards Evidenced-Based Reforms (JUPITER) Assessment (Ramos Maqueda 2026), perceptions of corruption and unequal treatment are high, with a strong belief that the court system treats influential or politically connected litigants differently from ordinary citizens. About 33 percent of Afrobarometer respondents assess 'most or all' judges and magistrates as corrupt, and a further 58 percent say that 'some' are. Limited trust and lengthy court processes reduce the important potential contribution of Kenya's judiciary to improving governance constraints and giving businesses recourse against unfair competition or administrative decisions considered unfair or partial.

The intensity of corruption, the use of office for private gain, and limited rule of law indicate that these challenges are systemic. 'Competitive clientelism' in Kenya creates structural incentives for petty and grand forms of corruption (Box 4). In a clientelist setting, political alliances are forged through rent-sharing among (competing) elite groups, and through informal, closed deals and collusion rather than open competition. Generating rents can take various forms: non-competitive procurements, preferential allocations of licenses to connected business groups, politically motivated allocations of management positions in SOEs, and broad-based bribe collection and distribution using the regulatory powers of the state (Cheeseman et al. 2020; Dercon 2022; Pritchett et al. 2017; Tyce 2019). Clientelism also skews politicians and bureaucrats' incentives to distribute public goods to citizens, as politicians seek to provide direct tangible benefits to 'their' voters rather than focusing on broader policy improvements (Opalo 2022).

A growing literature describes Kenya's political settlement as a competitive, broadly dispersed order in which no single group commands a majority and in which access to state resources remains central to coalition management.[17] Elections are genuinely competitive, but winning power intertwines opportunities for realizing policy visions and advancing the economic interests of narrow groups as control of the executive still confers substantial discretion over appointments, contracts, land allocation, and regulatory decisions. Devolution has redistributed power and resources to counties, but it has also created new arenas for patronage and rent extraction. On the positive side, power has remained more dispersed,

[13] https://www.afrobarometer.org/online-data-analysis/. *Similarly, in EACC's 2024 survey, 62.5 percent of respondents noted an increase in corruption and unethical conduct compared to the previous year.*

[14] *A sample of levies and fees newly introduced, increased, or expanded in scope since 2024 includes the Import Declaration Fee (IDF), Railway Development Levy (RDL), and Road Maintenance Levy (increased), Affordable Housing Levy (re-introduced), Export and Investment Promotion Levy (EIPL), Air Ticket Levy, and Tourism Levy (expanded), Petroleum Regulatory Levy (increased), and a Standards Levy payable by manufacturers (increased).*

[15] *Regionally and by income group, Kenya's performance is 13 out of 34 regional and 13 out of 35 income peers.*

[16] *Morocco (91), Viet Nam (83), and South Africa (60).*

[17] *Kelsall et al. 2022.*

and rent-sharing and cooptation of rising leaders have preserved relative peace. On the downside, elite capture and rent management have a substantial economic and social cost and significantly constrain Kenya's pace of economic transformation.

While a degree of clientelism is common across middle-income countries, the stronger rent-seeking and distribution are, the higher the risk of stifling growth (Khan 2010; Stokes 2021). The key challenge is to (a) avoid excessive costs and constraints on economic dynamism and (b) ensure further progress toward broader-based and more inclusive opportunities. Research suggests that barriers to entry—protecting politically connected and often inefficient incumbents—lead to lower private sector dynamism (González and Prem 2020; Mahmood and Ait Slimane 2018). Policy distortions hinder market competition; divert private investments toward sectors with higher rent-seeking potential; and disincentivize innovation, productivity growth, and job creation. Opalo (2022), Tyce (2019), and others have shown how the concepts of limited access and partially captured state-business relationships apply to Kenya.[18]

Governance challenges contribute to declining trust in institutions and heightened social discontent. The number of protests and riots in Kenya has accelerated since 2021 (Figure 23), reflecting increasing levels of dissatisfaction with the government, dwindling levels of trust in institutions (Figure 24), and highly negative perceptions about the country's economic conditions and future (over 6 out of 10 Kenyans report negative perceptions of the country's present and future). Large-scale corruption scandals in various sectors—from health to infrastructure to taxation—and the everyday impact of corruption on the cost and quality of public services contribute to citizens' negative perceptions of public integrity and their distrust of institutions (Box 5).

Citizens express strong concerns that corruption and collusive practices have negative impacts on their economic prospects. Among the respondents to the 2025 EACC survey, 54.3 percent say that their incomes would double if corruption decreased by half (strongly agree and agree), and 56.5 percent highlight economic impacts in their responses about the main effects of corruption (hampering economic growth, increasing poverty levels,

Box 4: Linkages between frontline corruption and systemic governance challenges

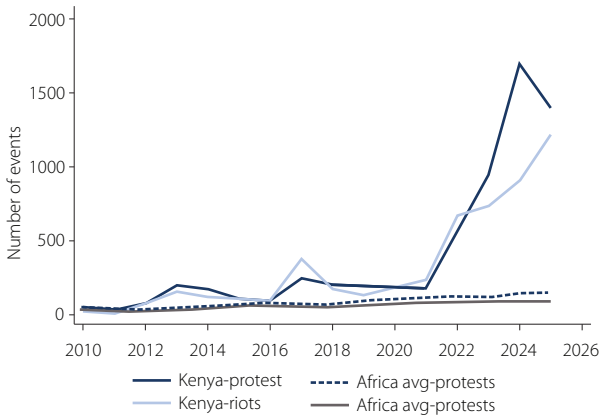
Corruption comes in different forms. It can involve direct bribery or 'facilitation money' paid by a citizen or business to a government official. At frontline levels of service delivery, this is often referred to as 'petty corruption'—which may still involve large sums at an aggregate level (see Section 2.4).

When rent-seeking and collusive state-business relationships are widespread or systemic, this is also referred to as grand corruption or 'state capture'. Collusive state-business relationships and rent-seeking are economic concepts describing the pursuit of 'rents' or 'protected' income streams by manipulating the social or political environment (for example, lobbying for subsidies, tariffs, or regulations) rather than creating new wealth, improving productivity, and competing fairly with others in the economy. They can involve business groups, organized crime groups (especially in countries heavily affected by illicit drug production or trade), or political elites who seek to accumulate economic clout by using a range of regulatory levers of the state. For example, discretionary and nontransparent tax exemptions create risks of abuse of discretion or discriminatory application. Similar dynamics are at play in public procurement, where kickbacks to win contracts or disclosures of confidential bidding information to politically connected suppliers create unfair competition and undermine confidence in procurement authorities and processes. Some reports also suggest that connected firms enjoy a higher likelihood of getting paid for work or services delivered to government entities when payment arrears are widespread.

Against this backdrop, petty corruption—bribes paid by informal workers to police or inspectors, facilitation payments in licensing and service delivery—is best understood as the frontline expression of deeper structural incentives. The same institutional features that sustain rent seeking also create the conditions in which everyday corruption is pervasive. For example, according to an EACC report, police corruption is not just an individual collection of small bribes but also involves payment for positions in the police service and the setting of targets for the collection of bribes, which are then shared upward with senior officers and commanders.

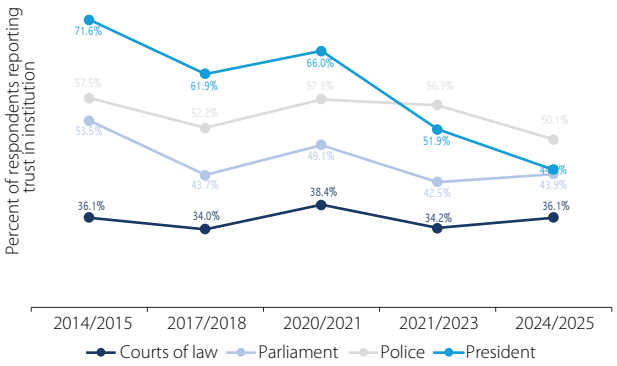
[18] *Atiyas and Dutz (2026) summarize the academic literature of the nature of political settlements in Kenya and how they create pressures toward clientelist state-business relations. They also discuss examples of more productivity-oriented state-business relations in specific industries such as garments and horticulture, where Kenya has exhibited a relatively successful increase in exports.*

Figure 23: Frequency of protests and riots (2010–2025)



Source: Armed Conflict Location and Event Data (ACLED).

Figure 24: Declining trust in institutions (2014–2024)



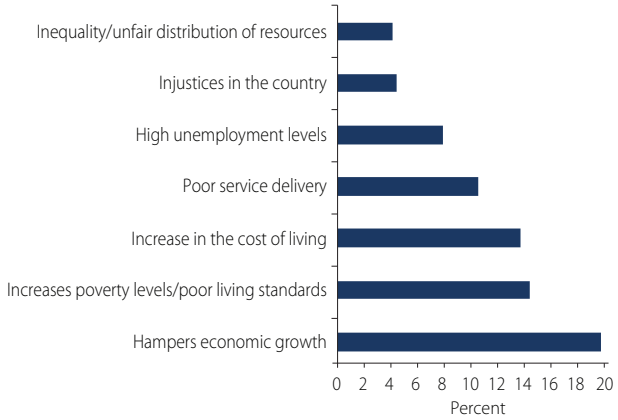
Source: Afrobarometer.

increasing cost of living, and increasing unemployment levels). Other effects of unethical conduct and corruption were poor service delivery, high unemployment levels, injustices in the country, unfair distribution of resources, and loss of confidence in the government, among others (Figure 25). The 2026 Kenya Policy Perceptions and Preferences Survey (K3PS) shows even more starkly that 50.1 respondents perceive that corruption holds back job creation 'a great deal', and a further 28.3 percent 'to a significant extent' (Figure 26). According to the EACC survey, a combined 61.1 percent disagree or strongly disagree that the government is committed to improving the business environment by curbing corruption.

The Kenyan Government has committed to fighting corruption. It has highlighted the importance of employing technologies to detect corruption and has called for decisive action against corrupt officials. The government has tightened legislation by adopting the Conflict of Interest Act in 2025 and is in the process of deploying various digital systems that will enhance transparency, including the e-GP system. As discussed further in Section 2.4, these efforts build on foundational institutions already in place for addressing corruption. However, institutional coordination and efficacy are still nascent.

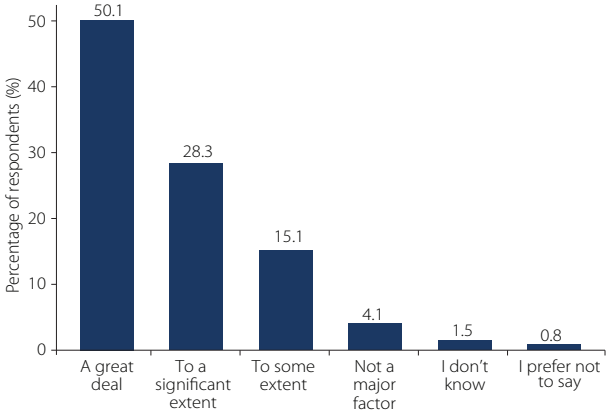
The following section discusses specific impact channels through which high levels of corruption weaken public spending, reduce private investments, and lower job creation and household incomes. Section 2.4 highlights existing and emerging mechanisms for addressing corruption. The special section concludes by summarizing the potential positive economic impacts of reducing corruption and recommends specific steps to be taken.

Figure 25: Perceived socioeconomic impacts of corruption



Source: 2025 EACC survey.

Figure 26: Perceived impact of corruption on job creation opportunities



Source: 2026 K3PS survey (6,299 respondents).

Box 5: The visible costs of corruption

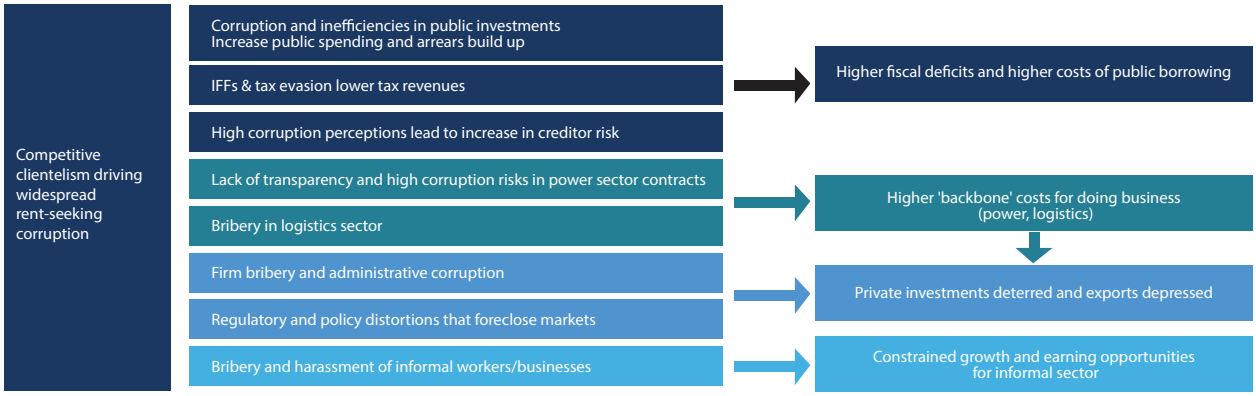
In the health sector, the National Hospital Insurance Fund was widely identified as suffering from fraud and corruption linked to fraudulent claims as well as overpriced procurement, contributing to a deficit of over KSh 30 billion. However, the replacement system, the Social Health Insurance Fund introduced in October 2024, has also suffered from misuse that has been linked to collusion between providers and responsible government entities. In tax administration, integrity challenges exist at the interface between individual tax officials and taxpayers, but also at a larger scale involving substantial revenue losses—for example, in early 2026, KRA announced that between 2022 and 2024, 24 million excise stamps had been stolen from its vaults through the involvement of officials. An OAG report noted that KRA fraudulently issued tax compliance certificates to businesses and individuals with large-scale arrears.[19] In 2019, 75 KRA officers were arrested over abetting tax evasion and fraudulently clearing cargo.[20]

Estimates of annual losses due to bribes, fraudulent schemes involving public and private parties, and overcharging in public procurement are substantial (between 1.2–4.0 percent of GDP).[21] Large-scale fraud and bribery cases have been brought forward in education, tourism fund projects, the health sector, road construction, energy (including SOEs such as the Geothermal Development Company [GDC] and the Kenya Pipeline Company [KPC]), and imports by public companies (Kenya National Trading Corporation [KNTC]—cooking oil with losses of KSh 6.6 billion and the imports and distribution of fake fertilizers by the National Cereals and Produce Board [NCPB] in 2024).[22] In road construction and maintenance, corruption convictions and investigations concern collusion, overpricing, and bribery involving both foreign and domestic connected companies—multiple Kenya Rural Roads Authority (KeRRA) and Kenya Highway Authority (KenHA) officials have been investigated for awarding tenders to connected companies, resulting in excessive charges and acceptance of poor quality road works.[23]

2.3 Impact channels: How governance constraints impact fiscal management and the business environment

Governance constraints hold back economic and social development through several channels. The impact channels reflected in Figure 27 are highlighted due to their importance for Kenya's business environment as well as on income opportunities. They include corruption contributing to (a) increased fiscal deficits and higher sovereign borrowing costs; (b) higher backbone costs, notably of power and logistics; (c) bribery and regulatory distortion costs directly impacting businesses, deterring competition, investments, job creation, and innovation; and (d) bribery and harassment affecting the earnings of workers in the informal sector, reducing their earnings and investment opportunities. These impact channels focus on selected key areas but are not exhaustive: As other reports have highlighted, there are also significant impacts on land management as well as costs of a variety of products and services (Shipley 2021; Transparency International 2011 and 2018; World Bank 2016).

Figure 27: The cost of governance constraints: impact channels



[19] https://www.kra.go.ke/images/publications/KRA-AUDITED-FIN-STMTS-FY2024-25.pdf.

[20] https://www.kra.go.ke/news-center/press-release/497-staff-interdicted-for-abetting-tax-evasion#:~:text=10th%20May%2C%202019,ethical%20practices%20amongst%20KRA%20staff.

[21] *According to EACC surveys, OAG findings, court cases, TISA report (2025), and the African Development Bank 2025 (estimates of KSh 194 billion/US$1.5 billion in annual losses). A significantly higher figure of KSh 608 billion lost annually due to corruption was cited by Prime Cabinet Secretary Mudavadi at a Supply Chain and Procurement Forum held in 2024 in Mombasa—amounting to 3.8 percent of GDP at the time.* https://www.the-star.co.ke/counties/central/2024-08-16-kenya-loses-sh608bn-to-corruption-annually-mudavadi.

[22] *Cooking oil imports were initiated in late 2022, with corruption allegations made in late 2023, and being investigated in 2024-25; for the fertilizers, three NCPB officials were charged in 2024.*

[23] *One foreign company, Shikun and Binui International (SBI), was fined US$70 million in 2024 for bribes related to road construction in Kenya between 2008 and2016.*

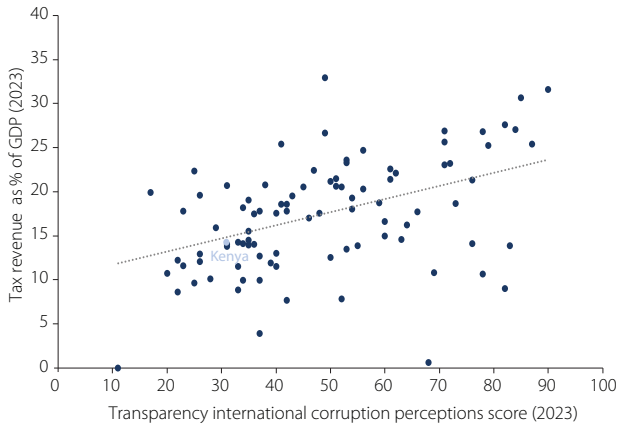
Governance challenges contribute to wider fiscal deficits and higher borrowing costs

The first economy-wide impact channel is that widespread corruption and rent-seeking contribute to wider public deficits and higher borrowing costs. As highlighted in Part 1, Kenya has struggled with elevated deficits, keeping debt levels high. Governance challenges contribute to this in several ways: first, through decreasing revenue collection; second, through increasing fiscal costs especially for any infrastructure projects, expanding the size of fiscal deficits and associated borrowing needs (see also World Bank 2025c); and third, through increasing country risk ratings, which feed into borrowing costs. This contributes to a higher share of resources being consumed by interest payments (accounting for about one-third of total revenues collected), which in turn a drag on further development spending and public investments in human capital, with indirect effects also on the cost of private investment.

Successive cross-country studies have shown that higher levels of corruption are associated with lower tax revenue. In an earlier study, Tanzi and Davoodi (2000) found significant effects of corruption on tax revenue both for direct and indirect taxes; a 1 percentage point increase in corruption (on a 0–6 scale) was associated with a 1.5 percentage point decline in the total revenue to GDP ratio. Baum et al. (2017) confirmed and deepened these earlier findings. Figure 28 shows the relationship between perceived corruption and revenue collection for 2023 across countries. While this indicates correlation rather than a causal relationship as such, survey data suggest that perceived high corruption reduces tax morale (Boly et al. 2021; Jahnke and Weisser 2019). Furthermore, cross-national research suggests that corruption also limits taxation through the impact on tax administrations and the relationship between the administration and taxpayers (collusion facilitating tax evasion, distorted enforcement) (UNODC 2025).

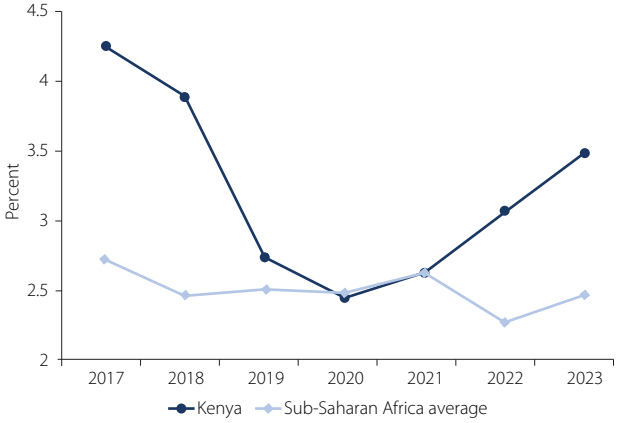
Taxation and revenue collection have been a long-standing challenge in Kenya. Businesses complain about tax policy volatility, distortions, and long delays in refunds; government entities point to problems with significant tax evasion and underreporting; and citizens express high unwillingness to pay and distrust regarding how funds are used. Tax expenditures have been on an upward trend over the past years (Figure 29), increasing from 2.2 to 3.38 percent of GDP since 2020 (IMF 2025; World Bank 2025c), while the government reported reducing them again in 2024.[24] On the Global Tax Expenditure Transparency Index, Kenya ranks 49 out of 102 countries, reflecting that aggregate reports have been published since 2021, but so far lack detailed reporting and impact analysis.[25] As raised in the 2025 Public Finance Review (PFR), one component has been the proliferation of Special Economic Zones (SEZs), with limited gains so far seen in manufacturing and exports and potential distortions concerning, which companies are able to register in SEZs. At the same time, KRA has raised concerns about tax evasion: For example, US$90 million evaded customs revenue annually (KRA n.d.), as well as large-scale losses from VAT and personal and corporate income taxes—with only 16 percent of registered firms declaring and paying corporate income taxes in 2021/22.[26]

Figure 28: Tax revenue and perceived corruption



Source: World Development Indicators; TI CPI Score.
Note: Countries further to the left, with a lower score, have higher perceived corruption.

Figure 29: Revenue forgone due to tax exemptions (Kenya versus SSA average)



Source: Global Tax Expenditures Database https://gted.taxexpenditures.org/.

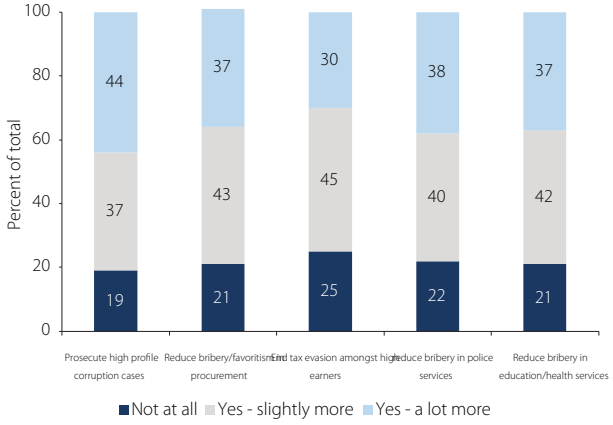
[24] *Council on Economic Policies 2024 and https://www.imf.org/-/media/files/publications/dp/2025/english/tessaea.pdf; in 2025, the Government reported a drop in tax expenditure to below 2 percent of GDP. National Treasury. 2025. Tax Expenditure Report.*

[25] *CEP, Kenya's Tax Expenditure Reports: A Comprehensive Review 2024 and National Assembly, Report on the Inquiry into Irregular and Illegal Grant of Tax Exemptions to a Company under the Special Operating Framework Agreement 2024 (on SEZs and Special Operating Framework Agreements [SOFAs]).*

[26] *https://www.kra.go.ke/news-center/blog/1869-tax-avoidance-and-tax-evasion-a-tale-of-two-errors.*

Perceived collusive state-business relationships and corruption have contributed to low tax morale. Perceived and actual preferences for some businesses and frequent reports about the misuse of public funds limit the willingness of informal traders and citizens to shoulder an increased tax burden (World Bank 2025c). This was exemplified by the backlash against proposed tax increases in 2024. Conversely, a large majority of citizens express a greater willingness to pay more taxes if corruption is significantly reduced (Figure 30).

Figure 30: Willingness to pay taxes if corruption is reduced in specific areas



Source: K3PS survey.

Governance weaknesses also increase the cost of goods and services purchased by governments—and notably so the cost of public infrastructure—contributing to already elevated expenditure pressures (see Part 1). Kenny (2006) estimated that global corruption increases the cost of infrastructure by 5 to 20 percent. Collier et al. (2015) indicate a 15 percent higher cost of road infrastructure in LMICs with above median corruption levels as measured by the WGI.

Public procurement in Kenya is widely seen as one of the public-private interfaces that has been strongly affected by a lack of transparency, corruption, and rent-seeking (World Bank 2025c). First, transparency of public tenders and contracts has remained limited, despite the creation of transparency mechanisms such as the Public Procurement Information Portal (PPIP), established in 2018. According to Kenya's Public Procurement Regulatory Agency, around 10 percent of GDP is spent through public procurement.[27] However, the maximum amount of published information about public procurement ever made available was KSh 410 billion or 2.5 percent of GDP in FY2024/25, for which at least some data are available through the PPIP. For the same fiscal year, more detailed information, including bid winners and contract amounts, is available for KSh 186 billion or 1.15 percent of GDP.[28] Following the transition to the eGP in 2025, published procurement plans amount to KSh 347 billion or about 2 percent of GDP.

While reforms have been initiated, Kenya's procurement architecture has long been characterized by fragmentation across platforms and institutions, limiting effective control and oversight. Data interoperability has been limited, particularly with tax authorities, the business registry, and financial institutions, and procurement datasets are often incomplete and require manual extraction. The procurement module in the Integrated Financial Management Information System (IFMIS)—in use before the rollout of a dedicated eGP system beginning in mid-2025—was marked by frequent system downtime and manual workarounds.[29] These constraints have limited the ability to conduct comprehensive risk analysis and reduced the effectiveness of oversight mechanisms. The transition to an e-GP system is a positive step expected to reduce risks and costs going forward, but it remains to be fully rolled out and integrated with other relevant systems to effectively increase commitment controls, enhance competition, and improve the management of conflicts of interest.

A number of EACC investigations, court cases, and parliamentary inquiries have documented how corruption increases the cost of public infrastructure projects. Notable cases include the construction of the SGR, with rent-seeking allegations raised over procurement, land acquisition, and the markups of inputs.[30] Corruption concerns have been raised, and cases have also been brought over dam and pipeline projects;[31] road infrastructure development;[32] and, most recently, the construction of a major new stadium.[33] Misuse of funds has also been discovered in the shift to a new health insurance

[27] https://ppra.go.ke/capacity-building-levy/

[28] https://data.open-contracting.org/en/publication/147#:~:text=The%20Public%20Procurement%20Regulatory%20Authority,made%20on%20a%20daily%20basis

[29] https://masharikirpc.org/assessing-the-vulnerabilities-of-integrated-financial-management-information-system-ifmis/

[30] OAG reports; https://mountkenyatimes.co.ke/exposing-the-true-cost-of-kenyas-sgr-a-deep-dive-into-over-budgeting-corruption-and-economic-losses/.

[31] In 2019, several senior officials were arrested over alleged misuse of funds in the amount of KSh 63 billion for the construction of Arror and Kimwarer dams, but were acquitted in late 2023; in 2024, EACC initiated preventive action focused on dams (https://eacc.go.ke/en/default/sealing-the-leakage-in-dams/).

[32] Examples include an inquiry into allegations of procurement irregularities in Tender No. KURA/ DEV/314/2020-2021 for Construction of Tarbaj Town roads, awarded to Baraki International Limited in FY2020/21; land inquiries into allegations of procurement irregularities and conflict of interest against employees of KeRRA associated with 15 companies that received irregular payments between FY2014/15 and FY2023/24.

[33] The OAG audit report on the construction of Talanta Stadium, noting an unexplained cost variation of KSh 10.85 billion (approximatelyUS$84 million).

system (collusion in registering fictitious entities), [34] education (various construction projects),[35] public water and power utilities, and others.[36] County governments have also been implicated in a number of schemes.

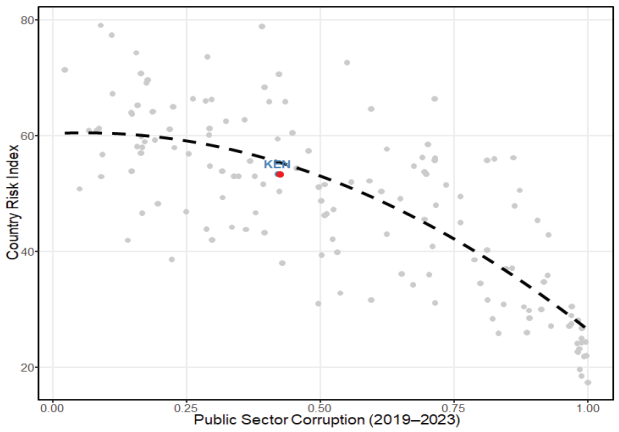
Kenya's SGR—with two segments built so far—has been significantly costlier compared to similar projects in neighboring countries. The line connecting Mombasa to Nairobi cost US$7.6 million per km (diesel powered); compared to US$5.7 million per km for the Dar es Salaam to Dodoma line in Tanzania (electrified), and US$5.3 million per km for the Djibouti to Addis Abeba line (electrified).[37] With the same cost metric as the Tanzanian line, Kenya could have saved up to US$900 million in initial construction costs. Of this amount, at least 30 percent is considered attributable to governance challenges—the preference for direct contracting rather than competitive tendering; land speculation; and outright fraud around titling, valuation, and compensation payments—rather than topographic or technical differences.[38] The project has also been highlighted in a 2026 TI Kenya report using the Infrastructure Corruption Risk Assessment Tool (ICRAT) as particularly vulnerable to corruption.[39]

Direct rather than competitive procurements and public-private partnership (PPP) projects emerging from unsolicited proposals without full transparency remain common. One particular feature of Kenya is that the awarding of contracts to connected parties—such as companies owned by public officials—has been long-standing, initially condoned in 1971 by the Commission of Inquiry on Public Service Structure and Remuneration. More recent legislation and the 2010 Constitution in principle restrict these practices but have faced challenges in implementation.[40] Once contracts are awarded to connected companies, this also raises the likelihood of further collusion and cost markups during project execution.

A lower-bound estimate of additional costs of public investments and other public procurement, combined with lower revenue collection,[41] indicates that corruption and collusion are likely to have increased annual deficits by 2 percentage points of GDP. This translates into substantial additional borrowing needs accumulating over time. Assuming that greater impacts on excess expenditures and reduced revenue collection resulting from decreased voluntary compliance and greater opportunities for evasion would increase the impacts on deficits and, ultimately, the borrowing need.[42]

In addition, corruption risks contribute to a higher cost of borrowing—in the context of elevated public debt and already high domestic interest payments (see Part 1). Governance risks increase the cost of public debt by elevating perceived creditor risk, creating a 'governance premium' on sovereign borrowing due to potential instability and an increased risk of default. This risk is reflected in sovereign credit ratings, which act as a primary transmission mechanism to market spreads (Abate 2021; Panizza 2017). Simulations based on this literature and Cantor and Packer (1996) suggest

Figure 31: Country risk indexes (2025) and public sector corruption



Sources: Country-Level Institutional Assessment Review (CLIAR) Database (Public Sector Corruption Index, 2019–2023) and Country Risk Index from Fitch Ratings (Bhatia 2002). Note: The Public Sector Corruption Index is inversely related to corruption—higher scores reflect lower corruption levels. In contrast, higher Fitch Country Risk Index values correspond to greater country risk, including higher sovereign borrowing risk.

[34] https://www.medicalbrief.co.za/kenyas-nhi-loses-billions-to-fraud/.

[35] *EACC inquiries into construction projects at Moi University and at Jaramogi Oginga Odinga University.*

[36] *Investigation of procurement irregularities at Lake Victoria North Water Works Development Agency, Tana Athi Water Works Development Agency, and Athi Water Works Development Agency.*

[37] *While each rail line has specific cost drivers, all three lines are single track, and the Kenyan line was not electrified. The Ethiopian line also had to overcome a much greater elevation gain and more mountainous topography. Construction years were 2011–2016 (Djibouti-Addis Ababa; altitude gain: approximately 2,300 m), 2014–2017 (Mombasa-Nairobi, altitude gain: approximately 1,600 m), and 2017–2024 (Dar es Salam-Dodoma; altitude gain: approximately 1,060 m). See also Wissenbach 2019.*

[38] *Land acquisition costs are significantly higher in Kenya, which contribute to but do not fully explain the higher cost, especially as the Tanzanian line was built a few years later and to a higher specification, including electrification.*

[39] *TI. 2026. Corruption Risk Assessment of Infrastructure Projects in Kenya.,* https://tikenya.org/2026/06/22/ti-kenya-launches-report-exposing-corruption-risks-in-major-infrastructure-projects/.

[40] *2015 Public Procurement and Asset Disposal Act (PPAD Act); Leadership and Integrity Act; 2025 Conflict of Interest Act.*

[41] *Assuming a 5 percent difference in actual to potential revenue with improved governance.*

[42] *This is limited to direct costs of infrastructure development. In addition, there is a concern that high levels of corruption can contribute to lower quality standards of construction, leading to higher maintenance and replacement costs over time.*

that an improvement in Kenya's Corruption Perceptions Index score by one standard deviation (reaching a level similar to Côte D'Ivoire, Ghana, or Senegal) could reduce external borrowing costs by 50–100 basis points yielding a significant fiscal dividend—amounting to savings of US$50–100 million annually, given outstanding external bonds and commercial borrowing of around US$10 billion as of early 2026.[43]

Reduced leakage of expenditure, improved revenue collection, and lower interest costs due to reduced corruption would have sizable fiscal benefits. The existing debt stock—including the additional volume due to corruption—is an accumulated burden. However, improving control of corruption could significantly reduce future borrowing needs. For example, reducing expenditure leakage from procured items by 10 percent could reduce total spending in 2026/27 by around KSh 120 billion[44] (US$930 million), and assuming a higher willingness to pay taxes could yield a 10 percent increase in personal income tax revenue of around KSh 50–60 billion (US$388–465 million). Combined with KSh 12.8 billion from lower interest rate payments, these changes alone could save KSh 192.8 billion per year, or about 18 percent of the planned budget deficit for FY2026/27. Additional positive impacts, for example, from reduced tax expenditures and reduced tax losses due to reduced collusion and fraud, could yield further gains. Thus, the fiscal benefits of improving expenditure and revenue governance could be utilized to improve fiscal balances substantially without any reduction in service delivery.

Governance constraints increase backbone costs for businesses

A second key impact channel is that governance constraints contribute to the costs of backbone industries such as power and logistics. These costs impact most other industries and especially manufacturing—that is, an engine of growth and jobs that Kenya has been keen to 'rev up'.

Integrity challenges and costs in the power sector

Improving access to electricity has been an important policy goal of successive governments in Kenya, with impressive gains made. At about 75 percent of the population, access to electricity in Kenya is substantially higher than the average of SSA (53.3 percent in 2023) and is on track to reach universal access by 2030. Kenya is regarded as a pioneer in attracting the private sector to the industry and in developing substantial and diversified renewable energy capacity (hydro, geothermal, wind, solar, and biomass). Kenya's grid power sector involves four main SOEs: KenGen (own generation and purchases from independent power producers [IPPs]), GDC, Kenya Electricity Transmission Company (KETRACO, transmission), and Kenya Power and Lighting Company (KPLC, distribution to customers and billing) (see also Bosa-Rincón et al. 2026; World Bank 2025b).

However, high power costs have remained a persistent challenge. Kenya's power is costly compared to structural and aspirational peers. Power costs are more than double those in Viet Nam and other Asian countries and close to 50 percent higher than those in Uganda for business users (Table 5).

Opaque and rent-generating power purchase agreements (PPAs), stemming from governance weaknesses in the procurement of electricity from private providers, have contributed to high costs in the electricity sector. Early PPAs were issued in response to declining hydropower due to droughts in the late 1990s and again the late 2000s. While this involved unavoidable cost increases, emergencies are also often misused in various ways by rent-seeking interests, as demonstrated during the global COVID-19 pandemic.[46] Furthermore, even though Kenya has substantial experience with competitive PPA procedures, these have not been consistently followed over successive PPA rounds (Eberhard et al. 2018), indicating limited improvements over time. A report prepared by the Energy, Environment

Table 5: Cost of electricity - Kenya and comparators

		Kenya[45]	Viet Nam	Morocco	South Africa	Uganda
Cost per kwh in US¢	Regular households	22.0	7.8	11.9	19.8	17.2
	Businesses	17.5	7.8	10.9	10.0	11.8

Source: https://www.globalpetrolprices.com/electricity_prices/.

[43] *As of the end of 2024, Kenya's US dollar sovereign bond spread stood at approximately 438.85 basis points. As a result, the simulated reduction would represent a 6–26 percent narrowing of the total risk premium.*

[44] *Assuming total spending channeled through public procurement totals KSh 1.2 trillion.*

[45] *Detailed information on retail electricity prices for Kenya differentiated by type of connection, user, and volume can be found at https://www.epra.go.ke/sites/default/files/2026-03/Biannual%20Statistics%20Report%202025-2026_1.pdf. The highest charges are for small commercial and small commercial industrial users.*

[46] *See for example, https://nation.africa/kenya/business/origins-of-kenya-power-tariffs-madness-and-energy-ministry-as-a-perennial-crime-scene-4209266, accessed February 19, 2026. Risks associated with urgent procurements became globally apparent during the COVID-19 emergency (see for example, Griffore et al. 2023).*

and Development (EED) Advisory and the Energy for Growth Hub in 2021 stated that out of 42 PPAs signed by Kenya Power, only 24 percent were known to have gone through a competitive process. In the case of solar projects, for example, international evidence shows that competitively procured projects are about 47 percent cheaper than directly negotiated deals.[47] A Renewable Energy Auction Policy was drafted in 2021 to provide a more competitive framework, but it has not yet been put into practice.[48]

Several inquiries demonstrate the presence of governance concerns in the power sector. The integrity of PPAs has been investigated by the Presidency and the National Assembly.[49] For several IPPs, public officials involved in the approval of the projects were later employed by or owned relevant generation companies, raising concerns about conflicts of interest.[50] Limited transparency about beneficial ownership (BO) of companies involved in contracting with the government increases the risk of conflicts of interest.[51] For example, while the Business Registration Service (BRS) provided the Parliamentary Committee with a list of IPP owners and shareholders, the majority listed foreign corporations as their shareholders, leaving the ultimate beneficial owners unknown, despite the fact that the Companies Act (2015) requires all companies, including those registered in other jurisdictions, to disclose their beneficial owners to BRS. As emphasized by Bosa-Rincón et al. (2025), this opacity reflects weak *de facto* enforcement of de jure rules. Available evidence also suggests that amendments to PPA contracts were favorable to the providers without public disclosure or clear and transparent justifications. Box 6 highlights examples of PPAs involving unusually high costs relative to the source of power generation.

Box 6: High-cost IPPs and conflicts of interest

On the thermal power side, some deals have raised concerns. Thermal power plants are the most expensive form of energy in Kenya, contracted to provide a flexible baseload, but the cost of power purchased by KenGen varies across thermal power plants.[52] Generally, PPAs include take-or-pay clauses, which provide revenue certainty for developers, but the specific terms of guaranteed charges ('capacity charges') differ significantly across contracts. Some high-cost thermal power plants are known to involve conflicts of interest, for example, with ownership held by a former energy regulator and KenGen and GDC board member.[53] This has led to repeated calls to renegotiate contracts with especially high costs.

Governance concerns have also been raised with regard to some projects and contracts for renewable power. Some renewable projects were contracted without a competitive process and despite not being part of Kenya's Least Cost Power Development Plan (LCPDP). For some of these, the negotiated prices are high relative to similar projects in other countries that emerged from competitive auctions, for example, in South Africa (Eberhard et al. 2016).

Governance problems in the power sector have been highlighted in the OAG audit reports,[54] as well as in investigations by EACC, which, in at least one case, recommended the prosecution of several officials for conspiracy to commit an economic crime, abuse of office, conflict of interest, and willful failure to comply with the law relating to procurement.[55] OAG reports have flagged excessive fuel purchasing costs as one driver of high power costs. In addition, a Presidential Task Force on PPAs led an inquiry into high power prices from 2021 to2023, and, among other things, recommended a forensic audit of IPPs. This was followed by a parliamentary inquiry in 2025. The Parliamentary Committee Report recommends an investigation into "fast-track approval process of the PPA despite concerns raised by the National Treasury…" (Kenya National Assembly Departmental Committee on Energy 202410).[56] Collectively, the governance issues that have been identified point to collusive practices between the government and regulatory entities, energy SOEs, and IPPs that have contributed both to technical challenges (high transmission losses and slow completion of new transmission lines to connect new generation capacity) and directly to higher contract costs, with negative impacts on commercial and private consumers.

47 *World Bank 2025b, p. 87.*

48 *https://energyforgrowth.org/wp-content/uploads/2021/10/Enhancing-Public-Participation-in-Kenyas-Power-Purchase-Agreement-Process.pdf; Report by a Parliamentary Committee that investigated the existing PPAs (Kenya National Assembly Departmental Committee on Energy, 2024).*

49 *A moratorium on new PPAs was put in place for seven years, from 2018 to 2025, due to concerns about the quality of power sector deals and resulting costs.*

50 *An earlier report by a Presidential Task Force https://kplc.co.ke/storage/01J6V8AZ8F20NK3EJ8W48S8ZN7.pdf similarly found that state institutions and parastatals were performing overlapping roles in the procurement and approval of PPAs.*

51 *According to TISA 2025b, the beneficial owners of nine IPP companies were not disclosed even when requested by the Energy Committee of the National Assembly.*

52 *Take-or-pay clauses and permitting fuel cost charges to be passed to consumers contribute to high costs.*

53 *Sources: https://africauncensored.online/blog/2025/05/05/power-plays-the-insider-deals-and-offshore-companies-behind-kenyas-high-energy-costs/; see also: World Bank 2012.*

54 *See: https://www.oagkenya.go.ke/wp-content/uploads/2025/07/The-Kenya-Power-And-Lighting-Company-PLC.pdf.*

55 *https://kenyaforum.net/investigative/lake-turkana-wind-power-ksh18499-billion-fraud-allegations/ and https://www.citizen.digital/article/eacc-recommends-prosecution-of-suspects-behind-ksh184b-payment-to-lake-turkana-wind-power-n325333*

56 *In addition, there were allegations that the land for the project was acquired 'unprocedurally' and that delays in the construction of the transmission line resulted in the government paying the equivalent of US$150 million due to the take-or-pay clauses (or 'Deemed Generated Energy Penalties') for energy that was never used.*

Conflicts of interest and non-competitive contracting have intersected with challenges in overall sector management. This has included excessive demand projections on the one hand (see World Bank 2022), and failure to consistently reduce system losses on the other. Given the high cost of contracted power, demand growth remained well below projections for over a decade—before eventually 'catching up' to available supply in more recent years while further PPAs were stalled. Furthermore, transmission and distribution losses have remained stubbornly high at over 23 percent, relative to a target of 16.5 percent set by the Energy and Petroleum Regulatory Authority (EPRA)[57] and 15 percent by 2029/30,[58] due to a combination of underinvestment in grids, rapid access expansion in rural areas, and theft and billing anomalies enabled by collusion.[59] As identified by EACC audits and investigations focused on several managerial and technical staff since 2023, integrity challenges at KPLC include systemic issues with employees demanding substantial bribes for illegal reconnections or manipulating prepaid/postpaid systems to divert millions of Kenyan shillings.[60]

Governance challenges in the power sector have major repercussions for Kenya's overall economy. The high cost of power has been a long-standing complaint by struggling manufacturers.[61] While Kenya's manufacturing sector mainly exports within the EAC region, power costs are substantially higher as shown in Table 5. Furthermore, the controversies surrounding the PPAs and the consequent seven-year moratorium have resulted in a renewed deficiency in generation capacity, leading to load shedding in the face of unmet demand for electricity, creating additional costs for both households and industry.[62]

Improving sector governance to enable lower electricity costs could generate permanent gains in GDP, investment, and wages. To assess the macroeconomic impact of cheaper electricity, we simulate a permanent increase in total factor productivity (TFP) in the Kenyan economy through a permanent 10 percent reduction in electricity costs, starting in 2026 using the World Bank Macro-Fiscal Model (MFMod) (see Burns et al. 2021). Under conservative assumptions appropriate for lower-middle-income economies, GDP could increase by about 0.27 percent relative to the baseline, private investment could rise by 0.33 percent, and the real wage bill could increase by 0.29 percent. Results remain positive across a range of assumptions, indicating that cheaper electricity consistently supports higher output, investment, and incomes over the medium term.[63]

Integrity challenges and costs in logistics

Logistics costs are high in Kenya[64] Shipping a 20 ft container from China to Mombasa carries a cost of around US$2,000, while the onward inland transport from Mombasa to Nairobi (480 km) adds a cost of US$850–1,250 (US$2.2 per km)—that is, around one-third of the total. Transporting the same type of container in Europe over an equivalent distance and modality (trucking) incurs a cost of around US$720 (US$1.5 per km), despite higher fuel and labor costs.

International data indicate a systematic relationship between countries with higher levels of corruption and lower performance on overall logistics performance. Figure 32 shows the substantial underperformance of high- and medium-to-high corruption jurisdictions on the Logistics Performance Index (LPI) compared to low-corruption ones. While this indicates correlation rather than causation, there are several likely causal mechanisms, such as higher costs and time delays related to bribe requests, as well as greater challenges with efficient public investments (as noted in Section 2.3.1), contributing to lower logistics performance in higher-corruption environments. Figure 33 indicates that Kenya's LPI underperforms relative to aspirational (upper-middle-income countries [UMICs]) as well as regional peers, especially on customs, infrastructure, and international shipments (that is, those requiring the use of ports or airports).

Logistics costs increase due to a combination of constraints. These include problems with Mombasa port management and congestion, intentional and unintentional administrative delays, and official and unofficial checkpoints affecting inland transport.

---

57 *For FY2025/26; EPRA Biannual statistical report 2026.*

58 *See Kenya National Energy Compact 2025–2030 (draft) and EPRA Biannual Statistical Report 2026.*

59 *IEA 2024.*

60 *EACC 2024.*

61 *See also KAM (Kenya Association of Manufacturers) 2026.*

62 *https://nation.africa/kenya/business/electricity-supply-shortfall-fuels-fresh-load-shedding-5254678; https://www.semafor.com/article/11/21/2025/kenya-eyes-new-energy-deals-as-power-cuts-intensify.*

63 *The shock is implemented as a permanent increase in trend TFP, using a log-log elasticity linking electricity costs to productivity. Given uncertainty in the literature, four elasticities are used to bracket the results: –0.02 (LMIC base case, empirically anchored in firm-level evidence from India), –0.03 (low-income country), –0.05 (UMIC), and –0.13 (High-income country). These correspond to permanent TFP increases ranging from about 0.21 percent to 1.38 percent following a 10 percent electricity cost reduction.*

64 *https://www.theelephant.info/analysis/2024/02/08/why-kenya-risks-losing-its-grip-as-the-regional-logistics-hub/.*

Mombasa port remains the largest in the East Africa region, but as part of the state-owned Kenya Ports Authority (KPA), it has struggled with good management practices and efficiency. In 2022, Mombasa ranked 326 of 348 ports assessed by the World Bank's Global Container Port Performance Index (CPPI); for the 2024 round, its ranking dropped further to 375 out of 403 ports included in the index.[65] In contrast, Dakar Port in Senegal saw the greatest efficiency gains in SSA, rising from 371 to 108 place in the CPPI within two years, and Tanger-Med Port in Kenya's aspirational peer Morocco ranks as the fifth most efficient port globally.[66] For businesses, port congestion translates into greater uncertainty, additional costs, and foreclosed opportunities.

Management of the KPA has been affected by managerial instability and rent-seeking—reducing momentum for upgrades and improved efficiency. KPA has had five different managing directors over the past decade, including two acting managing directors between 2020 and 2023, reflecting the risk that SOE management becomes part of patronage (re-)allocations of positions that undermine stability and longer-term planning. As freight volumes have outgrown core port capacity in the late 2000s, private dry ports have been licensed around the city (Lamarque 2019). Both the licensing itself and the management of these Container Freight Stations (CFSs) has been flagged as (a) influenced by connectedness rather than competition[67] and (b) increased risks of collusion, mismanagement, and corruption—contributing to additional costs and increasing the risk of undetected counterfeit goods imports and 'legitimizing' them through tax stamps/labels.[68]

Moreover, companies using the port face a multiplicity of inspections, recurrent system downtime, rising fees, and demands for bribes—all of which increase delays and costs. In 2025, the Shippers Council of Eastern Africa (SCEA) noted that the cost of logistics at the port remains "alarmingly high" at an estimated 35 to 42 percent of the total landed cost of goods.[69] It notes that the number of agencies charged with inspections keeps expanding, resulting in more and higher fees charged, greater risks of delays due to downtime in various systems, and demands for bribes. The US Trade Facilitation Report notes 'inconsistent application of classification and valuation decisions' as well as 'unnecessary transit inspections' (US 2024 Trade Facilitation Report).

A number of cases in recent years have highlighted integrity problems. In 2022, EACC arrested the Head of Verification at the KRA Regional CFS at Mombasa Port and an inspection officer from the Kenya Bureau of Standards (KEBS) for demanding bribes of KSh 200,000 and KSh 20,000, respectively, to clear goods valued at KSh 1,100,000—indicating a combined 'bribe cost' of 20 percent, to be paid in addition to official charges of KSh 500,000.[70] In 2020, a KRA manager was investigated over the sources of substantial wealth (KSh 597 million).[72] In December 2024, KRA reported dismissing 25 staff for

Figure 32: LPI scores and corruption

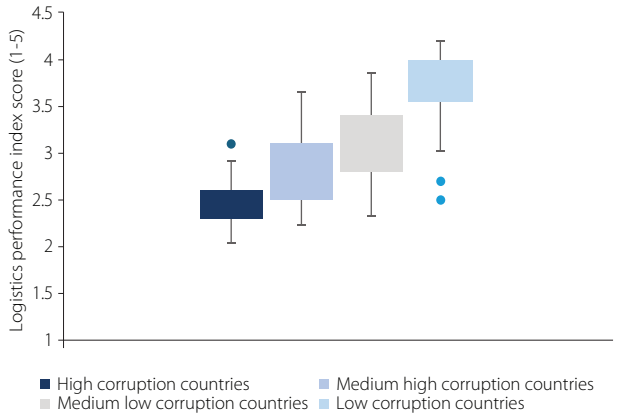
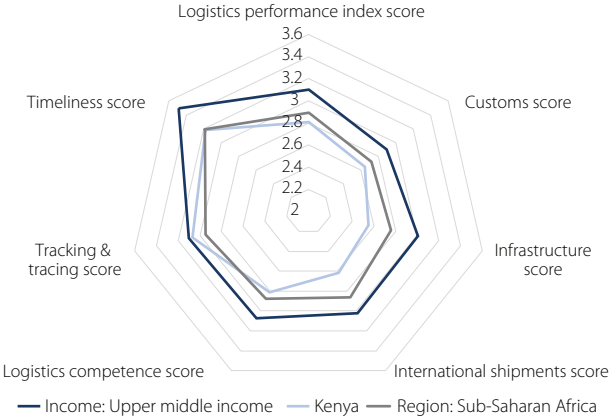


Figure 33: LPI performance - Kenya versus comparators



Source: LPI (2023 for Figure 32, and 2018[71] for Figure 33) and WGI Control of Corruption.

[65] World Bank 2025d.

[66] *Key drivers for rapid performance improvements are political commitment and streamlined procedures, combined with physical investments. See* World Bank 2025d.

[67] *For example, ownership by incumbent or former officials.*

[68] *For example, in September 2025, KRA averted an attempt to defraud the government of KSh 123 million in taxes through irregular clearance of 161 containers of rice at one of the CFS in Mombasa.* https://www.kra.go.ke/news-center/press-release/2296-kra-thwarts-kshs-123-m-tax-fraud-involving-irregular-clearance-of-rice-containers.

[69] https://shipperscouncilea.org/2025/09/01/multiplicity-of-state-agencies-and-port-delays-hurting-trade-through-mombasa-shippers/.

[70] https://www.citizen.digital/article/kra-kebs-officials-arrested-soliciting-bribe-to-clear-ksh11m-cargo-at-mombasa-port-n302590.

[71] *2018 used as the LPI 2023 does not include Kenya.*

[72] https://nation.africa/kenya/news/revealed-kra-manager-s-sh597m-wealth-was-built-from-port-bribes-1341742.

corruptly facilitating cargo clearance.[73] In September 2025, business operators filed a complaint with EACC over a junior KEBS official who had worked at the port since 2009, alleging that she demanded illicit payments ranging from KSh 1 50,000 to KSh 2 million for clearances. Apart from KRA and KEBS, officials of the Anti-Counterfeit Authority have also allegedly requested bribes to clear goods.[74]

In addition to increased costs at the port, businesses face hurdles with inland transportation. In its 2025 report, KAM notes: "Logistical inefficiencies, including exorbitant transport costs (accounting for 30–40 percent of export values for perishable goods) and inadequate cold chain infrastructure, severely erode the profitability of high-potential sectors like horticulture and dairy." [75]Counties operate a system of cess payments for the transport of agricultural goods and minerals to offset the cost of road repairs due to heavy vehicles use. In addition, trucks have to stop for multiple weighbridges and police checks. This is part of a two-way integrity problem: Operators often overload vehicles, causing greater damage, poor road safety, and lower speeds, while officials involved in these checks often seek to collect informal in addition to formal fees. Agricultural producers have flagged these as a significant cost—for example, for a 90k g bag of maize, transport amounts to 40 percent and cess payments amount to 16 percent of the final cost to consumers.[76] The 2026 Roadblock Reduction Initiative by the government acknowledges the problem and is seeking to reduce the number of police checkpoints between Mombasa and Malaba from the current 22–27 to a maximum of five gazetted stops and to reduce travel times by about half (from 80 to 36–40 hours).

International evidence suggests that reducing logistics costs can yield high economic benefits. Reductions in such costs tend to raise aggregate productivity, both through improved allocation across firms and regions as well as through within-firm efficiency gains.[77] These effects are especially large in developing economies as high logistics costs hinder specialization and keep resources in low-productivity activities.[78]

Beyond the cost of power and logistics, corruption affects other 'backbone' costs for companies in Kenya. Notably, this concerns integrity problems in land management. These take several forms—frontline corruption for basic land-related administrative services (land documentation registration, transfers, records searches), fraudulent records that appear genuine due to private-public collusion, and land grabs and illegal land allocations that transfer property rights at scale in illicit ways. Corruption and lack of transparency surrounding land management have also had significant social and environmental costs. These problems—creating administrative opacity, enabling elite capture, and perpetuating marginalization of vulnerable groups from land rights protections—have been documented through court cases, EACC prosecutions, Directorate of Criminal Investigations (DCI) investigations, and think tanks and academic studies.[79]

Uncertainty about land tenure and about being able to confirm rightful ownership administratively or through the justice system adds to the risks and cost burden for businesses as well as households. Enterprise Survey data suggest that this burden is especially frequently noted by smaller firms on the one hand, and by foreign-owned firms on the other. Among foreign firms, nearly one-third (30.8 percent) report access to land as a 'major or very severe constraint', compared to 24 percent across SSA, and 15 percent of such firms globally. EACC surveys reflect that the Ministry of Lands and Housing and the National Lands Commission continue to be seen as prone to frontline corruption demands. Land fraud—typically involving collusion between private and public administration perpetrators—concerns agricultural land and land in urban areas, which can put large sums at stake (for example, over KSh 1 billion in the case of a land fraud scheme in Nairobi/Loresho triggering a court case in 2025, involving former Nairobi Deputy Provincial Commissioner, various Ministry of Lands officials, and private entities). Apparently deliberate bureaucratic inefficiencies lead to slow and opaque public land allocation procedures which create heavy backlogs and high costs for citizens and investors.

---

73 *Although approximately KSh 549 million was reportedly recovered from them, there is no indication that any criminal charges were pursued (People's Audit report).*

74 *Interview with embassy officials, various countries.*

75 *https://kam.co.ke/reports/Route-to-Market-Strategy-2025-2.pdf.*

76 *https://www.asnet.or.ke/wp-content/uploads/2024/12/ASNET-Publication-2024.pdf.*

77 *For example, Donaldson (2018) finds that railroad expansion in colonial India increased real income by about 16 percent, while Donaldson and Hornbeck (2016) show that improved market access from transport infrastructure substantially boosts regional incomes. In international trade, Arkolakis et al. (2012) show that even moderate reductions in trade costs can generate large increase in productivity and income, particularly in settings with initially high frictions. Even at the firm level, improvements in transport infrastructure reduce input costs and inventory needs (Branco et al. 2023; Datta 2012;).*

78 *Gollin and Rogerson 2014; Tombe 2015.*

79 *Kenya Land Alliance 2022; recent EACC cases regarding Mombasa Island, Karura Forest, land acquisition for Ruaraka High School, and others.*

Uncertainty about whether land titles are genuine or fraudulent also affects the use of land as collateral, increasing risks and transaction costs for financial institutions and potential borrowers. To ensure that a collateral pledge is legally valid, borrowers and financial institutions have to retrace the historical roots of current titles, rather than simply rely on current land registers. They have to ensure that all past transactions for a given parcel were legitimate, including proper degazetting if the land was previously publicly owned, and the absence of spousal claims that could render a previous sale invalid.[80] Such extensive due diligence is both costly and time-consuming, especially in the context of continuing inefficiencies in land registration and administration.

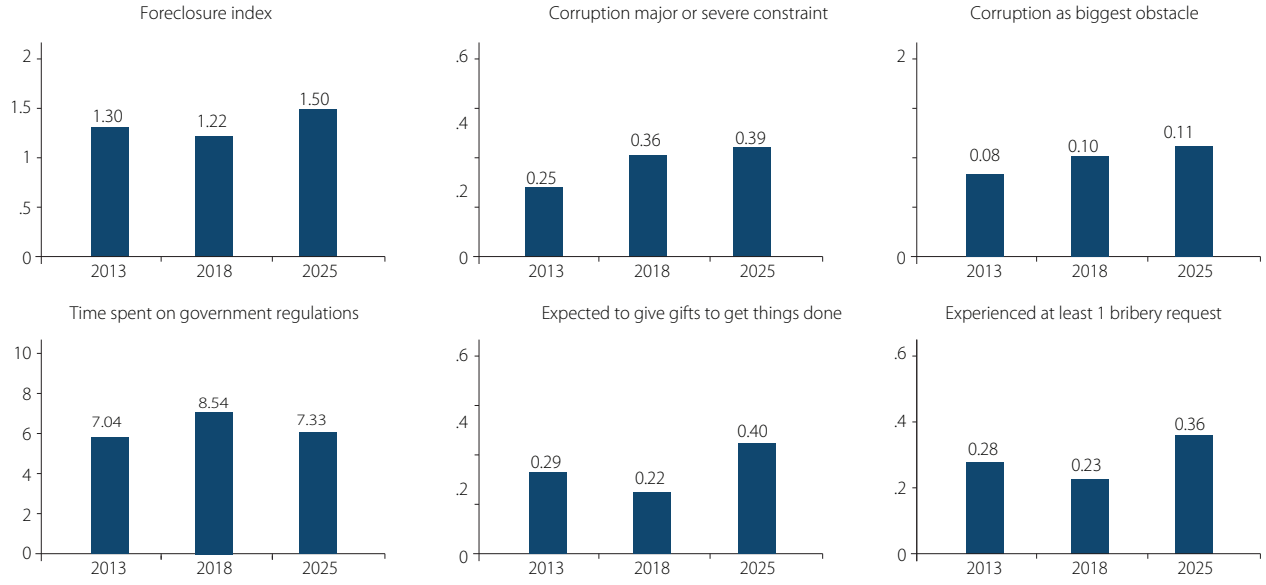
Reforms to land management have been initiated since the 2000s, but the speed and efficacy of reforms are constrained in the context of systemic governance challenges. Vested political and economic interests appear to hinder greater progress on comprehensive land management reforms. Digital Land Information Management Systems (LMIS) have been piloted in Nairobi and in a few other counties since 2021 but remain incomplete.[81] As with other public-facing systems, submission of requests (for example, for title searches) in LIMS will not consistently result in a response within stipulated timelines—and may require identifying staff to contact and paying informal fees. At the same time, construction permits have been issued for land that was marked as riverbanks, exposing buildings to direct flood risks and subsequent mandatory demolition. Given the complexity and importance of land-related challenges, these will be explored further in future KEU editions.

Direct impacts of corruption and collusion on firms and domestic and foreign investment

Firm performance and investments in productive sectors are constrained by a combination of corruption and collusion risks in Kenya. Evidence from successive Enterprise Survey rounds, as well as surveys of foreign investors, documents significant governance challenges. The frequency of collusion, rent-seeking, and capture is less systematically documented than perceptions of corruption are, but available data suggest that connected firms have a significant footprint in the economy—limiting opportunities for more efficient and innovative investors.

Firms' corruption perceptions and experience indicate an upward trend, with especially high levels experienced by medium-size companies. According to Enterprise Survey data, 39 percent of firms considered corruption a major or severe constraint to business in 2025, an increase from 25 percent in 2013. The foreclosure index, which captures unequal access to critical inputs,[82]

Figure 34: Evolution of corruption perceptions among firms (2013–2025)



Note: The bars show the means of the indicators in the respective years. Between 2013-2018 the changes in the following variables are statistically significant: Corruption major or severe constraint, time spent on government regulations, expected to give gifts and experienced at least 1 bribery request. Between 2018-2025, the same is true for the forclosure index, time spent on government regulations, expected to give gifts and experienced at least 1 bribery request."

[80] https://mmsadvocates.co.ke/land-titles-as-loan-security-what-recent-supreme-court-rulings-mean-for-bank-mortgages-in-kenya/

[81] Hoefslot and Gateri 2024. https://journals.sagepub.com/doi/pdf/10.1177/02637758241254943.

[82] *The foreclosure index is the sum of five binary variables of firms citing land, finance, transportation, electricity, tax, and business licensing as major or severe constraints. It ranges between 0 and 6. In 2025, the foreclosure index in Kenya (1.50) was a bit lower than the average of structural peers of Ethiopia, Ghana, Senegal, Tanzania, and Uganda (1.57), but almost double of the average of aspirational peers of Bangladesh, Morocco, South Africa, Thailand, and Viet Nam (0.76). While it does not directly measure perceptions or incidence of corruption, one would expect that in environments where state-business relations are subject to closed and disordered deals, that a larger percentage of firms would perceive access to critical inputs as major or severe constraints.*

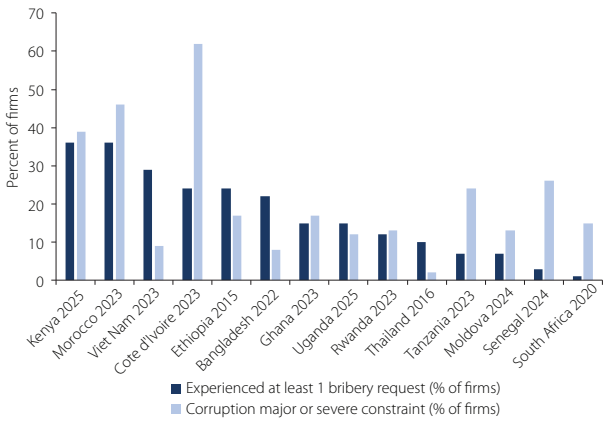
has also increased by 25 percent from 1.2 in 2018 to 1.5 in 2025.[83] Frontline corruption affecting firms is also trending upward: In 2025, 40 percent of firms reported making informal payments 'to get things done', up from 29 percent and 22 percent in 2013 and 2018, respectively (Figure 34). Among firms, medium-size businesses (with 20–99 employees) report the highest levels of requests for 'gifts to get things done' (48.2 percent), while large firms are somewhat less affected (30.7 percent). The frequency is significantly higher than in SSA on average (20.9 percent for medium size and 21.6 percent for large-size firms) and far exceeds global levels (12–13 percent).

The pervasiveness of bribery is a recurring challenge for foreign and domestic firms. Nearly 36 percent of firms in Kenya report having experienced at least one bribery request in the past year—a proportion that is higher than that in its structural and aspirational peers (Figure 35). Firms in Kenya are also, on average, substantially more likely to report that gifts are expected in meetings with tax officials, to get access to electricity, or to get construction permits and licenses than firms in the broader SSA region, or among lower- and upper-middle-income countries (Figure 36). According to the 2024 US Report on Foreign Trade Barriers, US firms routinely report direct requests for bribes from all levels of the Kenyan Government.

Issues with regulatory quality contribute to increasing corruption risks, with some, but still limited progress due to digitization. Discretionary and opaque procedures, together with fragmented regulatory frameworks, create opportunities for bribes, informal payments, and privileged treatment of connected firms in government-to-business service delivery—especially in licensing and tax administration. Efforts have been made to enhance the transparency and digitization of Kenya's business registration and licensing systems. Digital reforms such as eCitizen and iTax have helped reduce discretion and improve access to information, but their impact remains uneven because manual processes and 'workarounds' persist and implementation varies across counties. In some cases, partial automation has shifted rather than eliminated opportunities for illicit payments. Upgrades to the Business Registry Service and the Kenya Investor Portal are streamlining digital applications, e-payments, and data sharing between national and county agencies, with the objective of reducing delays and closing the loopholes that enable corruption (World Bank 2025b). However, many of these reforms are yet to be fully implemented and applied consistently to all businesses before they result in tangible improvements.

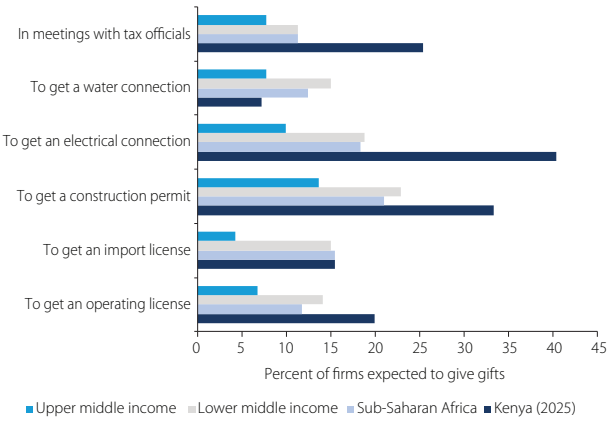
Further improving Kenya's tax administration is particularly urgent to improve the business environment and contribute to increasing tax revenues. Enterprise Survey data indicate that almost all firms file and pay taxes online—higher than in other countries in SSA, and in lower-middle- and upper-middle-income countries (Figure 37). Yet, despite this progress, firms in Kenya are substantially more likely than firms in SSA, LMIC, or UMIC to consider the tax administration as a constraint or pay gifts in meetings with tax officials (Figure 38). This is echoed by data from the 2025 EACC survey, according to which 47.4 percent of respondents believe that all or most KRA officers are involved in corruption. According to EACC, applying for a personal identification number, which is supposedly issued online for free, requires paying a bribe of, on average, KSh 6,000. Foreign firms, including Nordic and US companies, also report encountering difficulties with the tax administration (US 2024 Report on

Figure 35: Firms' corruption perceptions



Source: Enterprise Survey 2025.

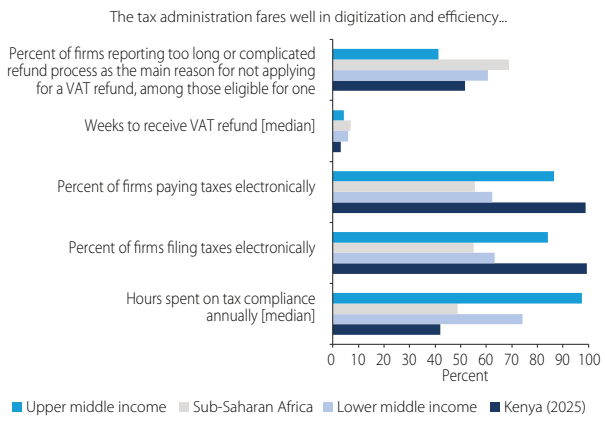
Figure 36: Corruption in licensing, tax, and utilities in Kenya versus SSA versus middle-income countries



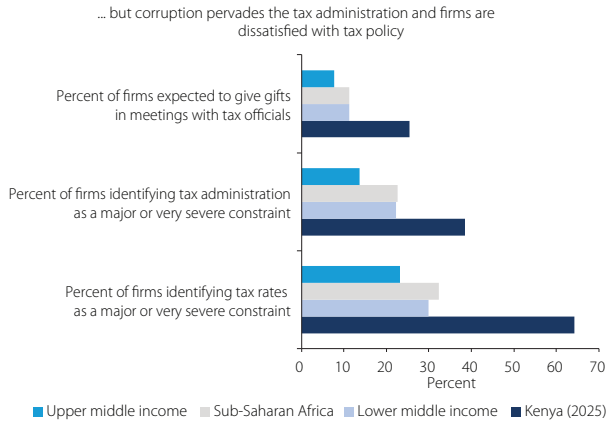
Source: Enterprise surveys

[83] *Time spent by management on government regulations has also increased since 2013, with a significant increase between 2013 and 2018, followed by a slight decrease between 2018 and 2025.*

Figures 37 and 38: Efficiency versus integrity in tax administration and policy



Source: Enterprise survey.



Source: Enterprise survey.

Box 7: Strengthening integrity in KRA to improve the business environment and revenue collection

Kenya has made progress in modernizing tax administration. KRA has digitized core processes through systems such as iTax and eTIMS, expanded electronic taxpayer services and data integration, and strengthened mechanisms to manage compliance and integrity risks. These efforts are supporting improved KRA collections: revenue reached KSh 2.84 trillion in FY2025/26, up 10.6 percent from the previous year (as discussed in Part 1).

However, EACC and enterprise surveys, as well as various cases, indicate significant integrity gaps. These gaps involve revenue losses due to collusion between private actors and officials on the one hand, and overly aggressive pursuit of compliant businesses on the other. In addition to the large-scale theft of excise stamps (see Box 5) vulnerabilities include suspected VAT fraud and outstanding tax liabilities among taxpayers issued Tax Compliance Certificates. At the same time, integrity issues also affect compliant firms: EACC has repeatedly arrested KRA officials for soliciting substantial bribes to resolve audit issues or assessment disputes. Threats of classifying even minor errors as fraud, imposing a block on a PIN, or withholding a Tax Compliance Certificate, which can in turn trigger a freeze of bank accounts or entire business operations, are powerful levers to potentially request side payments and to extract additional revenue to fulfil revenue quotas or to make up for losses from evading or connected firms.

The next phase of reform should therefore focus on moving from increasingly digital tax administration to genuinely data-driven, risk-based, and more transparent administration. A modern tax administration needs to be able to combine information from tax returns, electronic invoices, customs declarations and third-party sources to identify where revenue is most at risk and target its resources accordingly. Priorities include integrating and better governing taxpayer data; strengthening centralized, risk-based selection of audits and other compliance interventions; automating routine, low-risk processes; using analytics more systematically to detect fraud and non-compliance; and strengthening internal controls and digital audit trails to reduce unnecessary discretion and make decisions more transparent and traceable.

Some rebalancing of the 'burden of proof' that a tax assessment is accurate—anchored in the Tax Procedures Act and the Tax Appeal Tribunal Act—may also be warranted. While the burden of proof rests primarily with taxpayers in many jurisdictions, a strong assumption of KRA accuracy, even if an assessment is not very factually detailed, as well as procedural restrictions and requirements, makes it harder for taxpayers in Kenya relative to those elsewhere to dispute an assessment perceived as unfair. This can especially burden smaller and medium-size formalized businesses that have limited in-house legal capacity or the ability to resort to contracting high-end accounting and legal services.

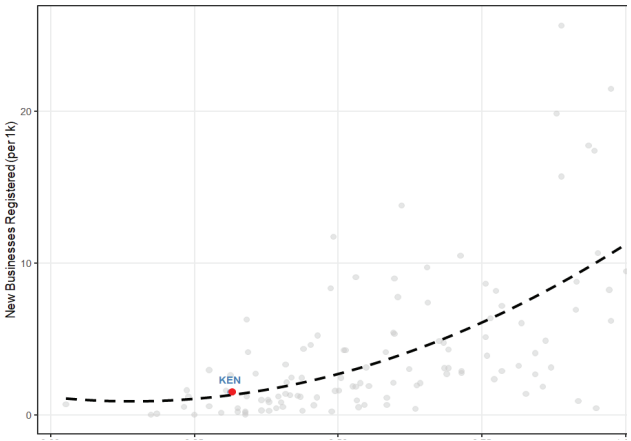
Foreign Trade Barriers, Nordic Business Climate Survey). Despite similar tax rates as in neighboring countries (25–35 percent corporate income tax [CIT] rates across most SSA and 30 percent in Kenya), Kenyan firms are far more likely to identify these as a major or very severe constraint—suggesting differences in how rates are applied. A 2022 business integrity survey of over 200 companies indicates that ambiguous policies and ad hoc revisions increase disputes with implementing agencies (67 percent identified this as among the most disruptive integrity issues), while 53 percent highlighted unclear tax assessments and arbitration by KRA.[84]

[84] *Business Integrity Market Survey Kenya 2022.*

Integrity gaps are compounded by enforcement gaps and political interference impacting judicial effectiveness and fairness. In practice, firms in Kenya are more likely to consider courts a constraint to doing business than the SSA or middle-income averages (Figure 39 and less likely to trust the independence and impartiality of courts (Figure 40). These concerns are echoed in foreign investors' reports. According to the US 2024 Report on Foreign Trade Barriers, although judicial reforms in Kenya are progressing, bribery, extortion, political interference, and corruption perceptions continue to affect court decisions, leading to delays and increasing legal risks and costs for both foreign and domestic investors. Business Sweden (2023) similarly finds that the judiciary struggles to consistently uphold the rule of law, particularly in high-profile cases involving business and political elites, which reinforce perceptions that legal accountability can be avoided through bribery. The 2022 Business Integrity Survey similarly highlights 'Court cases are slow in progress and can last many years' as a key driver of corruption (identified by 70 percent of responding firms as a key driver of corruption). Meanwhile, The the People's Audit highlights systemic noncompliance with court orders as a major threat to judicial authority and the low enforcement of a significant share of judgments against government agencies. These challenges compound long delays in adjudication noted in Section 2.2 (Ramos Maqueda 2026).

Corruption hinders firm creation and competition. As shown in Figure 41, higher levels of corruption are associated with lower registration of new businesses, suggesting that corruption creates barriers to the entry of new formal businesses. Kenya ranks low on both (control of) administrative corruption and new firm registration. This is in line with global evidence, which shows that corruption creates barriers to entry that protect politically connected—and less efficient—incumbents, by fostering an unlevelled playing field between incumbent firms and new ones (González and Prem 2020; Mahmood and Ait Slimane 2018) and creates risks of market concentration, especially in highly regulated sectors (Rijkers et al. 2017). Some of these dynamics that stifle fair competition are at stake in Kenya: As shown in KEU 32, Kenya's legal and regulatory framework remains more restrictive to competition. With an overall Product Market Regulation (PMR) score of 2.92—the highest and most restrictive among countries with available PMR data—Kenya also exceeds the average score for middle-income countries (2.27). Consistent with this, Kenya's relatively high and rising gross operating surplus ratio (GOSR) indicates that limited competition is enabling firms to capture economic rents at the expense of workers and consumers.

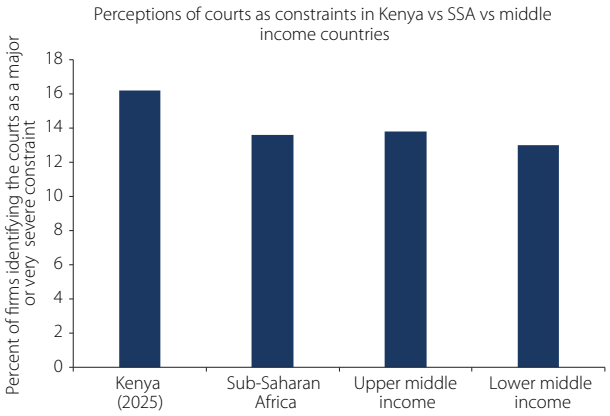
Figure 41: Corruption and new businesses registered



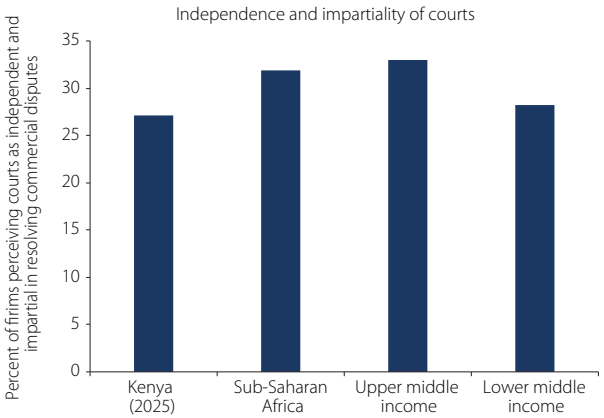
Sources: CLIAR Database (Administrative Corruption Index, 2019–2023) and World Bank Entrepreneurship Data (New Business registered per 1,000 people ages 15–64).

Interpreted: The corruption index is inverted so that higher values indicate lower levels of administrative corruption. The dashed line indicates a quadratic regression fit with Kenya highlighted for comparative context. The graph suggests lower levels of administrative corruption are correlated with higher level of business formation per capita, as is consistent with the economic literature.

Figures 39 and 40: Firm perceptions of the court system in Kenya



Source: Enterprise Survey.



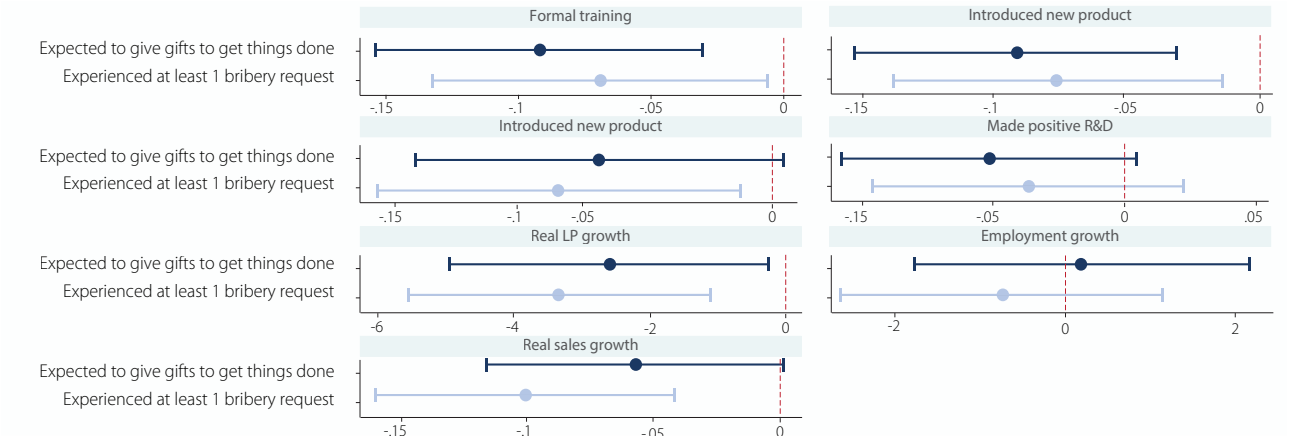
Source: Enterprise Survey.

One particularly problematic feature of direct impacts of corruption on firms is that medium-size enterprises are targeted especially strongly. For medium-size firms, the ratio of those reporting that they are expected to 'give gifts' to public officials is over twice as high as in SSA on average, and four times as high as in all economies. This puts such firms at a significant competitive disadvantage. This stifles, in particular, an important transition path to greater formalization in the economy and to the generation of new formal jobs that are most likely to be created by expanding medium-size firms. Key reasons for heavily targeting medium-size firms appear to be that as companies grow, interactions with public institutions increase. Growing firms will need more permits, licenses, and access to land compared to smaller firms. Furthermore, they can become attractive targets for public officials who identify them as having more resources to pay bribes, but less protection and direct access to higher-level decision-makers compared to large firms.

Corruption is also associated with lower firm performance in terms of firm-level innovation, productivity, and growth. Analysis of the Enterprise Survey (2025) microdata shows that firms which were expected to give gifts to get things done or experienced bribery requests were also less likely to provide formal training to their workers, introduce process or product innovation, or undertake research and development (R&D) investments, and were less likely to experience real labor productivity or real sales growth (Figure 42). The magnitude of these effects is substantial. For example, the top two graphs in Figure 41 show that enterprises that were expected to give gifts and that experienced at least one bribery request were between 5 and 10 percentage points less likely to undertake formal training or introduce a new product. Given that the overall share of firms that provided formal training and introduced a new product were 40 percent and 30 percent, respectively, reductions of 5 to 10 percentage points are quite high. Firms that experienced at least one bribery request also experienced, on average, a 5 percentage point decline in the probability of introducing a new process, relative to firms that did not experience a bribery request. Given that the overall share of firms that introduced a new process was 17 percent, this means a decline of close to one-third. Firms that experienced bribery requests or informal payments also exhibited, on average, lower rates of growth in labor productivity and sales. Again, the magnitudes are quite large, between 2 and 4 percentage points (against an average labor productivity growth rate of –3.8 percent for all firms and an average sales growth rate of 1.7 percent).[85]

Improvements in governance—particularly stronger control of corruption—can generate significant economic gains by reducing the costs and uncertainties faced by firms. When investors believe a country's institutions are weak or corruption is high, they demand extra compensation or a premium for the added risk. In terms of governance, red tape can slow project funding, and if project oversight or auditing is lacking, potential

Figure 42: Firms that experience corruption exhibit lower performance



Note: The figures display estimates of regression coefficients and 95% confidence intervals of OLS regressions of enterprise performance variables on indicators of corruption. Each regression includes one corruption indicator and controls for enterprises having more than one worker, age of the enterprise, region and sector.

Table 6: Percentage of firms expected to give gifts to public officials 'to get things done'

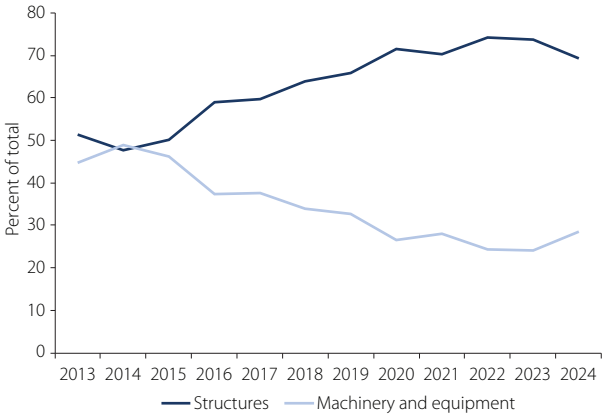
	Kenya	SSA	All economies
Small (5–19 employees)	35.7	17.8	10.5
Medium (20–99 employees)	48.2	19	11.9
Large (100+ employees)	30.7	19.5	11.5

[85] *See Atiyas and Dutz (2026) for additional analysis of governance and corruption-related results of the 2025 Kenya Enterprise Survey.*

costs might arise and damage the business environment. In turn, when corruption declines, businesses face fewer informal payments, lower transaction costs, and a more predictable regulatory environment, which improves the returns to investment through reduction of the abovementioned risk premium. Empirical estimates suggest that if Kenya were to have similar levels of control of corruption to those of the average UMIC, its sovereign risk premium could fall by about 5.4 percentage points.[86]

An increase in control of corruption is also likely to improve the composition of investment. In Kenya, the shares of machinery and equipment and of 'structures' in total fixed capital formation were almost equal in 2015, but by the 2020s, the share of the former declined to below 30 percent while the share of the latter increased to around 70 percent (Figure 43).[87] Such a change in the composition of investment reflects an increased flow of resources to activities that are typically richer in rents (for example, construction) and is often associated with a decline in the quality of the growth process, as captured by the decline of the contribution in productivity growth to overall economic growth mentioned at the beginning of this section.[88]

Figure 43: Composition of gross fixed capital formation



Source: KNBS, Economic Survey, various issues.

Governance constraints impacting earnings and opportunities in the informal sector

A fourth impact channel concerns how frontline governance constraints affect the earnings and livelihoods of informal workers. As set out in Part 1, informal workers account for 83.8 percent of Kenya's workforce. Informal work takes a variety of forms across rural and urban areas and across sectors, including agriculture, transport, services, domestic help, informal markets and shops, and others.

Two prominent types of informal employment are boda boda riders and goods and food sellers in informal markets. The number of boda boda riders in Kenya is estimated to be 1.6 to 2 million (Boda Boda Safety Association of Kenya [BAK] and National Transport and Safety Authority [NTSA] data). The number of informal market stalls is harder to estimate given that they do not need to register, but past surveys and estimates of microenterprise numbers suggest that the number of stalls is at least double the number of boda boda riders. Boda boda riders earn around KSh 1,100 per day depending on their location and costs (owning versus renting motorcycles, fuel versus electricity, and so on).[89] Informal market stalls have average net earnings ranging from around KSh 300 to 1,500 per day, depending on the type of goods sold and the location of the stall.

Informal workers face a number of challenges. These include raising initial capital, volatile incomes, health and safety challenges, and limited opportunities for training/learning and for business expansion. They also face intense competition in most locations, given the continuous pressure from new entrants. Although informal, many still have to meet some regulatory requirements, such as having valid driver's licenses and NTSA registration in the case of boda boda or matatu drivers, and paying daily market space or cess fees to county authorities in the case of small vendors.

Governance constraints contribute to the challenges of informal workers, most importantly by lowering 'post-corruption' earnings, and increasing uncertainty. Informal workers face demands for bribes from frontline institutions such as traffic police, inspection services, and municipal agencies. Reports put the share of bribe fees paid by riders at 5–20 percent of daily earnings (KSh 50–100 daily, plus occasional larger bribe demands).[90] These payments shrink take-home pay, coming on top of other costs such as fuel taxes, import taxes on motorcycles, and county and Savings and Credit Cooperative Organization (SACCO) fees.

[86] *We estimate a model where the risk premium is a function of governance effectiveness and control of corruption, using the WGI database. Estimates are obtained based on Bayesian inference through Markov Chain Monte Carlo (MCMC) sampling, where each run of the model yields posterior mean, median, and credible intervals of regression coefficients. To assess the macroeconomic impacts of this enhanced control of corruption, use the MFMod (see Burns et al. 2021). In the simulation, these effects build gradually over a 10-year period, reflecting the phased reduction in financing costs and the gradual accumulation of capital.*

[87] *KNBS, Economic Survey, various issues. Machinery and equipment include transport equipment, ICT equipment, and 'other machinery and equipment'. Structures include dwellings, buildings other than dwellings, and other structures.*

[88] *Acemoglu and Ucer (2020) highlight a similar development in Türkiye, whereby an increased role of the construction sector, supported by cheap credit to the private sector, was paralleled by low productivity growth.*

[89] *https://www.mogo.co.ke/esg/pdf/boda-boom-report.pdf.*

[90] *World Bank 2025b estimates the total payments to the traffic police at KSh 88 billion per year.*

Box 8: Social media reports from informal market stall operators

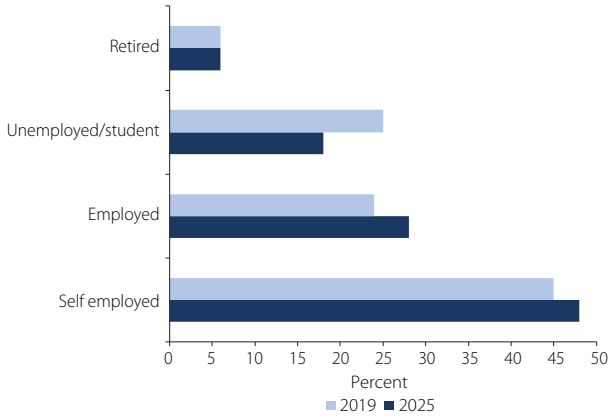
"The county askaris are constantly harassing small traders in Dagoretti Market. The total amount of money mama mbogas (fresh produce vendors) are forced to pay to askaris per year is more than what they are required to pay. What has our MP done to protect these hustlers from exploitation and create a conducive environment for them to thrive?"

"I face constant harassment from local authorities. The city council collects money weekly, and if I don't have it, they threaten to shut down my stall or fine me. It's exhausting, and it puts a massive strain on my finances. I often have to borrow just to cover the bribes and still manage to feed my family and pay business rent[91] (vegetable vendor)."

Opportunity for bribery arises from the enforcement powers that both police and city inspectors have. Police have leverage over boda boda and other drivers as they can threaten to report a criminal offence and impound vehicles. Under the Nairobi City Inspectorate Act (2017), inspection officers can arrest individuals without a warrant for violating county laws, such as trading without a license, operating in restricted areas, or obstructing streets. Such threats of arrest can be leveraged to demand bribes. City officials and the Nairobi county-level government have defended the need for inspections on safety grounds and have also demanded the arrest of those who seek to record inspection and arrest activities.

Systematic survey evidence of how corruption affects the livelihoods of workers is still sporadic, but frequency and incidence in Kenya appear high compared to other countries. TI's bribery index shows an increase in the frequency of bribing among those who are employed and an especially high share of the self-employed who pay bribes (48 percent in the 2025 survey round) (Figure 44). Cross-country comparisons show that the likelihood of paying a bribe conditional on contact is especially high in Kenya—only exceeded by Uganda (Figure 45).

Figure 44: TI bribery index - findings by employment group
(2019 and 2025 survey Results) (Proportion of Those Who Interacted with Institutions within the Past 12 Months and Paid a Bribe)

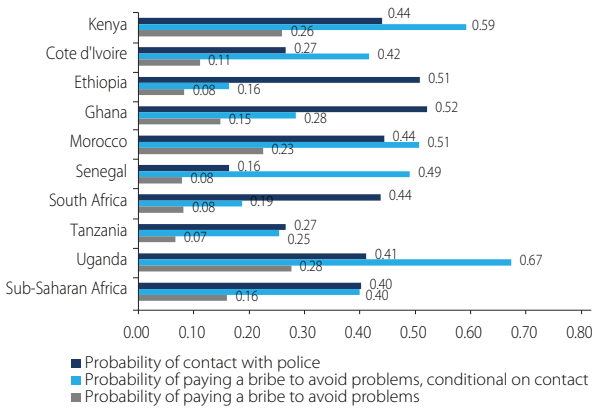


Source: TI Kenya 2025 Bribery Index.

One recent survey was carried out in Kisumu County in western Kenya, with a focus on boda boda drivers. Within the survey sample of 296 informal workers, boda boda drivers made up 25.3 percent, followed by general traders with 21.6 percent.[92] Among drivers, 46.8 percent reported facing police harassment, mostly threats of arrest and fines. When faced with such threats, an overwhelming majority (78.7 percent) paid bribes to avoid further police action. Informal traders faced harassment less frequently, but when it happens, most resort to paying bribes to avoid further police action.

Analysis of 2024 Afrobarometer data for Kenya indicates that bribery has a regressive incidence, with poorer individuals more likely to pay a bribe to the police. Figure 46 shows the predicted probability of paying a bribe to the police 'to avoid a problem' for respondents who had a police encounter not initiated by the respondent to ask for help. The graph shows that, on average, a respondent in the fourth quartile—reflecting the highest level of 'lived poverty'—is 14 percentage points more likely and a respondent in the third quartile is 10 percentage points more likely, and a respondent in the third quartile is 10 percentage points more likely, to pay a bribe relative to a respondent in the first quartile.[93]

Figure 45: Incidence of bribes paid to the police among traders, hawkers, and vendors (2023)



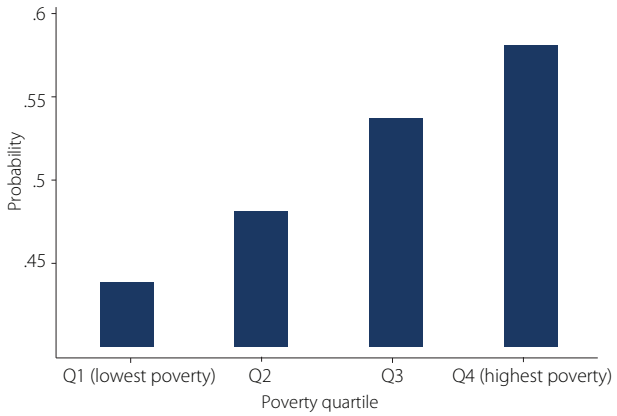
Source: Afrobarometer 2023 and 2024 survey rounds.

[91] *World Bank 2025b estimates the total payments to the traffic police at KSh 88 billion per year.*

[92] *https://www.lawyershub.org/Digitalpercent20Resources/Reports/BodaBodapercent20Lawpercent20Projectpercent20Report.pdf.*

[93] *Using the same source, for visiting a clinic or hospital, the probability of paying a bribe increases by 10 percentage points when moving from the lowest to the highest quartile of lived poverty.*

Figure 46: The probability of paying a bribe to the police increases with the level of 'lived poverty' [94]



Source: Calculated from Afrobarometer Round 10 Kenya 2024.

In addition to bribe requests from enforcement agencies, citizens and households face bribe requests to access utilities and public services, with a heavier burden on the poor. The 2022 EACC report highlights the Nairobi Water and Sewage Company and county government offices as especially prone to demanding bribes to provide services, and the NTSA, KRA, and business permitting as likely to demand bribes to provide a service.[95] Substantial bribes have to be paid for power connections, the release of impounded goods, or driving tests. TI's bribery surveys indicate that bribe demands have increased across most institutions in recent years, but the increase has been especially strong for Huduma Centers, tax services, and medical and health services (Table 7). Afrobarometer data indicate that when visiting a clinic or a hospital, the probability of paying a bribe increases by 10 percentage points from the lowest to the highest quartile of lived poverty.

Overall, widespread corruption contributes to lower earnings and purchasing power among informal workers, reducing consumption as well as business expansion opportunities. This is likely to explain the strong link that citizens draw in surveys between corruption and jobs/economic opportunities as shown in Section 2.2. Given low incomes relative to living costs in most locations for the majority of informal workers in Kenya (< KSh 20,000 per month), even losing 5–10 percent of earnings to corruption is a major additional burden. Moreover, the 2025 EACC survey indicates an average bribe size of KSh 6,724 across a range of administrative services. Accordingly, many poor Kenyans either have to forgo a substantial share of their income whenever they require such services or go without the registration, licensing or other services required—in turn further exposing them to bribe demands from enforcement agencies or higher insecurity in their property rights.

2.4 Kenya's policy, legal, and institutional framework to address corruption

Improving the enabling conditions for growth and jobs requires integrity and good management across public institutions.[96] Institutions directly working with businesses and investors—CAK, BRS, and Kenya Investment Authority (Keninvest)—have a critical cross-cutting role. Also, the quality of counties and Parliament matters, as does their willingness to create a level playing field for local investments and facilitate cross-county transport and business operations. KRA and various inspection bodies are critical for streamlining compliance burdens and for addressing corruption risks inherent to their powers, as set out earlier. Regulatory and oversight bodies—such

Table 7: TI - Kenya bribery surveys, successive years

Institution/Service	Aggregate Index 2017	Aggregate Index 2019	Aggregate Index 2025	Change
Police	83.4	64.0	84.0	0.6
Land services	41.7	32.2	45.0	3.3
Motor vehicle licensing	—	21.3	43.7	
Judiciary	44.0	69.0	40.8	–3.2
Civil registration	24.9	27.7	34.7	9.8
Medical and health services	16.0	17.9	30.9	14.9
Business licensing	20.5	20.5	30.0	9.5
Education services	24.5	13.7	29.7	4.2
Tax services	12.9	12.4	28.4	15.5
Huduma Center	10.7	12.3	26.4	15.7

[94] *The x-axis reflects the degree of 'lived poverty' constructed from responses to questions inquiring about instances and frequency of deprivations of food, water, income, and so on.*

[95] *https://eacc.go.ke/en/default/wp-content/uploads/2024/04/National-Ethics-and-Corruption-Survey-2022.pdf.*

[96] *Overall, the Kenya National Ethics and Anti-Corruption Policy 2018 identifies more than 30 agencies involved in combatting corruption. These are grouped into law enforcement bodies, policy regulatory institutions, oversight organizations, partnership arrangements, and other related institutions.*

as the Public Procurement Regulatory Authority (PPRA), EPRA, the ICT Authority, and others—must focus on fair and effective competition in procurement, on improving efficiency and performance of the power sector, and on Kenya's digital systems.

Within this overall institutional network, dedicated anti-corruption institutions are mandated to prevent, curb, investigate, and sanction integrity risks. These include EACC, Judiciary, Police (including the DCI), Asset Recovery Agency (ARA), OAG, and the Financial Reporting Center (FRC). These institutions are established and governed by various pieces of legislation, including the Constitution, Anti-Corruption and Economic Crimes Act, Office of the Directorate of Public Prosecutions Act, Proceeds of Crime and Anti-Money Laundering Act, Witness Protection Act, Public Audit Act, and the Office of the Controller of Budget Act. Tables A.1–3 in Annex 1 provide an overview of their specific mandates.

The effectiveness of Kenya's anti-corruption institutions is limited by coordination, capacity, and autonomy constraints. First, institutional and functional overlaps have resulted in inefficient use of limited resources, inconsistent decision-making, and delayed justice. These issues are evident in corruption investigations (EACC versus DCI), prosecution (EACC versus Office of the Director of Public Prosecutions [ODPP]), asset recovery (EACC versus ODPP versus ARA), anti-counterfeiting and tax evasion (KRA versus ACA versus DCI), and risk assessments (Internal Audit versus Auditor General). Although the Multi-Agency Team was created to promote collaboration, these problems persist. Second, despite the mandate to do so, some institutions do not fully perform their oversight and enforcement roles. For example, there has been a notable decline in the implementation of recommendations from oversight institutions. The adoption rate for OAG audit recommendations decreased from 45 percent in 2015 to between 18 percent and 21 percent by late 2025. The Public Accounts Committee (PAC) of the National Assembly is, on average, four to five years behind schedule in reviewing the OAG audit reports, and approximately 79 percent of recommendations made by the PAC during FY2020/21 are still pending implementation. Similarly, only 25 percent of recommendations made by the Public Investment Committee in its FY2022 report have been implemented.[97] Third, inadequate capacities (skills, personnel, and modern investigative tools) limit the ability of key institutions to handle complex investigations. There are notable gaps within EACC in terms of forensic and investigative capacities needed for high-level corruption cases.

Successive policy and legislative reforms have strengthened Kenya's anti-corruption framework and improved integrity and efficiency through digitization. Notable changes include the imposition of more stringent penalties for graft, resulting in significant fines levied against individuals convicted of corruption.[98] There has been a consistent increase in enforcement actions, particularly in asset recoveries, attributable in part to improved capacity for complex asset tracking and investigative efforts by agencies such as EACC, ARA, FRC, and others. Digitization of many government services has reduced corruption previously prevalent in administrative services. The Judiciary has also taken measures to improve case management (for example, the establishment of an e-case tracking system, digitization of administration of justice processes, and the revision of outdated jurisprudence).

The 2025 Conflict of Interest Act is an important step toward protecting greater competition. The act repeals the previous Public Officer Ethics Act (2003) and establishes a robust, modern framework that requires public officials to proactively disclose and manage private interests and specifically targets the use of public office for private gain. It establishes a more robust framework for preventing, identifying, and addressing conflicts of interest, introduces stricter prohibitions, and grants wider enforcement powers to the EACC. If consistently implemented, it could have a substantial deterring effect against collusive state-business relations.

The legislative framework for the protection of witnesses and whistleblowers remains weak. The Witness Protection Act 2022 is yet to be fully implemented due to underfunding of the Witness Protection Agency and limited independence from other government institutions, which makes the protection of witnesses in sensitive or state related cases difficult. A Whistleblower Protection law is yet to be enacted, with limited protections provided through existing legislation such as the Bribery Act 2016, Anti-Corruption and Economic Crimes Act 2003 and the Conflict of Interest Act 2025. Robust witness and whistleblower protection is needed to protect individuals who expose corruption, fraud, and misconduct against retaliation.

97 *OAG Annual Corporate Report 2024–2025.*

98 *Republic v. Grace Sarapay Wakhungu and Others (ACC 31 of 2018); Republic v. Ferdinand Ndungu Waititu Babayao and 12 others (ACC. 22 of 2019); Republic v. Mukuria Ngamau and another (ACC no. 13 of 2016); Republic v. Moses Kasaine Lenolkulal and 10 Others (ACC 3 of 2019).*

Despite this architecture, enforcement has weakened rather than strengthened over the past decade. While the volume of initiated public prosecutions for corruption has remained significant over the last 10 years, delays and limited convictions have dented public confidence. According to the National Council on the Administration of Justice (NCAJ) annual reports, the ODPP processed an average of 100 corruption-related cases per year between 2016 and 2024.[99] Nonetheless, delays in the conclusion of cases, lower conviction rates for prominent cases, and perceptions of politicization (particularly during periods of administrative transition) have contributed to a decline in public confidence in these processes. In practice, legal and judicial processes are often complex and protracted, particularly relating to grand corruption or high-profile corruption cases. In FY2024/25[100], average clearance rates in the magistrates' court were close to 100 percent, while high court clearance rates were only around 50 percent, attributed to frequent delays arising from ungrounded applications for judicial review, adjournments, and appeals. In addition, conflicting data exists on actual conviction rates for corruption. As noted in the Peoples Audit: Reclaiming Kenya's Fiscal Sovereignty Report (2025), convictions were reported to be below 10 percent due to weak case preparation, witness intimidation, and procedural delays. EACC annual reports indicate improvements, with convictions rising from 12 to 33 cases between FY2023/24 and FY2024/25, with recent years seeing conviction rates exceed 80 percent in concluded cases. These improvements have been attributed to stronger investigations and closer collaboration between EACC and ODPP.

2.5 Estimated growth and jobs benefits of addressing corruption and policy recommendations

Kenya's governance has been sufficient for the transition to lower-middle-income status but needs to improve further to enable faster growth and better job creation. Extensive corruption and collusive relationships have become a significant drag on growth and incomes—through increases in debt service costs and input costs (power, logistics, and others), impacts on the business environment, and imposition of a 'bribe tax' that reduces earnings and economic opportunities for informal workers.

Addressing governance constraints represents a significant and low-cost opportunity for accelerating growth—as needed to achieve upper-middle income status—and incomes. Reducing the governance 'drag' on the economy can help to sustain and improve dynamism, even during a phase of limited fiscal space, as it directly helps doing 'more with less', while anti-corruption reforms themselves are mostly low-cost. International headwinds discussed in Part 1 reinforce the urgency of addressing growth constraints over which the government and other stakeholders have control. Given Kenya's substantial strengths as a financial and logistics hub in East Africa, lowering governance constraints has a high potential to leverage increased domestic and foreign investments. Making progress on governance can thus directly contribute to the Government of Kenya's commitment to economic transformation and moving towards upper-middle income status.

The potential economic and social payoffs from anti-corruption reforms are substantial and attainable. If Kenya improved its control of corruption to the levels of Ethiopia or India, its economy could be over 13 percentage points larger by 2035 compared to maintaining the status quo.[101] Pushing harder and reducing corruption to the levels observed in Senegal or São Tomé and Príncipe could boost GDP by more than 20 percentage points relative to the nonreform baseline by 2035. Household consumption could improve even further and be 27 percent larger compared with the baseline under a scenario of ambitious anti-corruption reforms, as households benefit from the overall GDP boost as well as from a lower 'corruption tax' affecting informal activities specifically.

As Figure 47 indicates, the impacts of anti-corruption reforms are substantial in any scenario, but 'ambitious but realistic' reforms could be especially transformative. The figure reflects three scenarios: a modest improvement by 0.3 standard deviations in corruption performance as reflected in global indexes (for example, to the levels of Togo or the Philippines), an intermediate improvement by 0.5 standard deviations to the level assessed for Ethiopia, or a full standard deviation improvement to control of corruption as observed in Senegal or São Tomé and Príncipe. All of these countries are realistic peers, and

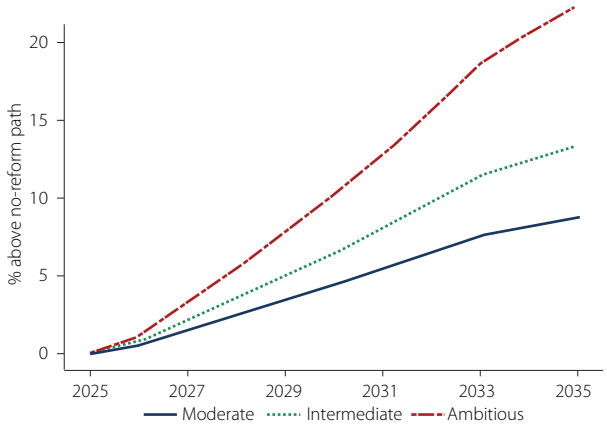
[99] *The majority of investigations opened by EACC (over 1,500 per year) do not proceed to actual prosecution.*

[100] *State of the Judiciary Annual Report FY2024/25.*

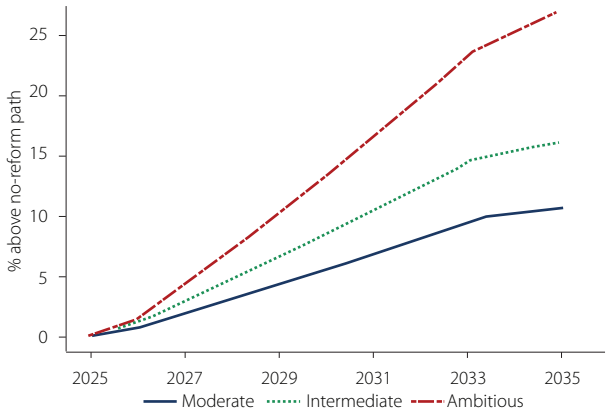
[101] *Calculated by estimating the impacts of improved control of corruption by three scenarios: 0.3, 0.5 and 1 standard deviation on the WGI Control of Corruption indicator and modeling the combined impacts of the main channels outlined in this note.*

Figure 47: Modeled impacts of anti-corruption reforms on GDP, 2026–2035

a. GDP



b. Household consumption



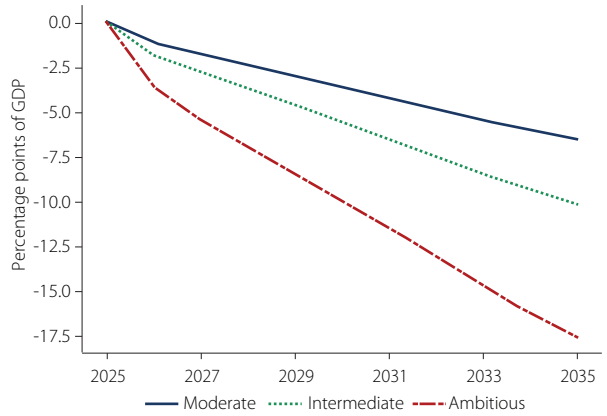
Note: Blue: Impacts of moderate reforms (0.3 standard deviations in corruption performance—that is, Kenya moves up by roughly 10 places in global percentile rankings of corruption); Green: Impacts of intermediate reform efforts (0.5 standard deviations—moving up about 17.3 percentile places to around Ethiopia's/Albania's, and India's level), and Red: Ambitious reform efforts (1 standard deviations—improving performance to around Senegal and São Tomé and Príncipe). The lines show additional GDP growth beyond the baseline.

performance improvements to these levels are well within reach for Kenya with committed government action. By comparison, reaching the levels of 'control of corruption' in Singapore would require an improvement of 2.77 standard deviations and, hence very decisive and sustained action for a decade or more. However, even reining in corruption to the level seen in continental peers can boost investments and productivity across the economy and, as a result, lift economic growth as well as household incomes and consumption. Moving from being a laggard to being a leader within Africa on this dimension also has the potential to significantly boost Kenya's economic weight and broader influence in the region (Cohen 2026). Reducing corruption would also contribute to addressing the country's fiscal challenges. Growing the economy faster would lighten the burden of existing debt and enable greater revenue generation. Moreover, anti-corruption reforms will enable greater revenue collection through improved tax administration, facilitated by a greater willingness to pay, increased the efficiency of public spending as resource leakage is reduced, and lower borrowing costs due to a reduction in Kenya's risk premium. Initial improvements in the overall fiscal balance would materialize early on (Figure 48a).

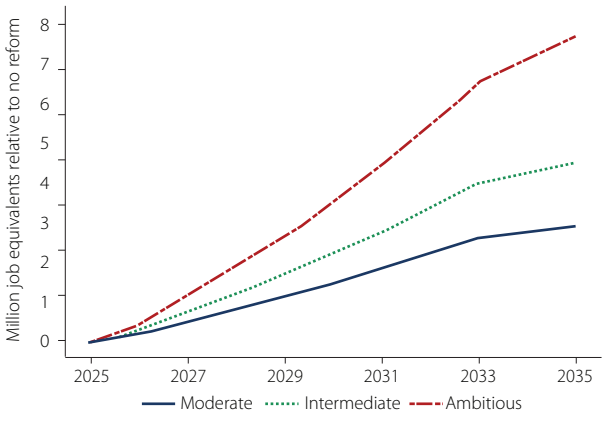
Most critically, tackling corruption can make a significant contribution to creating more and better job in Kenya at scale. Even in a gradual reform scenario, Kenya would have nearly 3 million additional jobs by 2035 compared to the baseline. This rises to 7.7 million more and better jobs if ambitious anti-corruption reforms are implemented, relative to an estimated 40.5 million working-age Kenyans, and about 28.4 million actually working at that time.[102] Thus, up to 27 percent of Kenyans likely to be working by 2035 could benefit in terms of better income opportunities (10.4 percent in the gradual and 16 percent in the intermediate reform scenarios) (Figure 48b).

Figure 48: Estimated impacts on total public debt-to-GDP ratio

a. Total public debt/GDP



b. Joint reforms: more and better jobs (MB)



Note: Blue: Impacts of moderate reforms (0.3 standard deviations in corruption performance); Green: Impacts of intermediate reform efforts (0.5 standard deviations), and Red: Ambitious reform efforts (1 Standard Deviation). The lines show additional jobs beyond the baseline of no improvement in corruption.

[102] *Based on KNBS estimates (working-age population = ages between 15 and 64); currently around 65 percent of those of working age actually work in the formal or informal sector.*

Specific steps are set out in the table 8, identifying critical actions, their specific economic and jobs impacts, and timing and feasibility aspects. They are grouped into five broad categories, cross-cutting and following the specific impact channels as identified.

Reforms should start as soon as possible and be sustained over time—as demonstrated in earlier decades by Singapore and other fast-growing economies—to maximize benefits for growth and jobs. The earlier tangible, substantial reforms start, the earlier economic and social benefits can be reaped through the impact channels outlined in this special section

In terms of sequencing, reforms should start with a combination of the following: (a) accelerating and fully implementing existing reform efforts, (b) tackling 'lower hanging fruit' of new reform initiatives, and (c) preparing more complex reforms, followed by sustained implementation over a two—five-year time horizon. Existing reform efforts include the implementation of electronic government procurement and of conflict-of-interest provisions, as well as new open access regulations in the power sector, and ensuring transparency and competition in new PPAs. 'Lower hanging fruit' of new reform initiatives include a reduction in the number of roadblocks for inland transport, constraining the discretion of inspections of informal vendors, and strengthening complaints mechanisms against overly aggressive tax audits. Preparing more complex reforms includes administrative streamlining, such as one-stop shops for customs and other inspections in ports with clear service standards and greater transparency; greater insulation of accountability institutions; and a drive toward greater efficiency and integrity of the judiciary.

Closely tying together reform announcements and credible implementation steps that yield tangible improvements for formal and informal businesses is critical. The economic benefits from these anti-corruption measures depend on the trust of businesses that the investment climate is improving and becoming more predictable, and that corruption-related additional transaction costs are indeed sustainably reduced. Keeping announcements and tangible actions closely linked will build credibility and thus create trust that scaling up investments is likely to make business sense.

The outlined governance reforms combine frontline and upstream institutional dimensions. Frontline dimensions are those that businesses directly experience in their day-to-day operations—for example, ensuring fairness in KRA audits, operationalizing open access provisions in the power sector, or streamlining port inspections. Upstream institutional dimensions include greater insulation of accountability institutions, regular public reporting on recommendations made by such institutions, and implementing BO reporting. Intermediate dimensions include increasing transparency in public investments, procurement, and PPPs; improving the operation of the judiciary; improving digital systems; and establishing documented follow-up to public-private dialogue are.

Finally, the outlined reforms emphasize reducing corruption opportunities but also include making the anti-corruption framework more effective. Reducing opportunities for corruption through regulatory and administrative streamlining and enhanced transparency requirements is an important avenue, especially when starting from systemic and entrenched governance constraints. However, sustaining such an effort also requires changes in how wider governance systems operate, including more effective and fair detection and prosecution. Singapore; Hong Kong SAR, China; and other fast-growing economies in Asia instituted strong anti-corruption agencies as part of their earlier efforts to tackle systemic governance constraints.

Table 7: Recommendations

Key issue	Required actions	Economic and jobs impact	Timing and feasibility
Cross-cutting improvements	**Establish BO transparency as a core anti-corruption instrument across procurement, land, and key sectors.** • Public procurement systems, land registries, and sectoral licensing—especially in energy, logistics, and natural resources—should be linked to a verified, publicly accessible BO register. Disclosure requirements for companies winning public contracts, holding large landholdings, or operating in rent-prone sectors would make conflicts of interest more visible, strengthen deterrence, and reduce the competitive advantage of politically connected firms relative to more productive, labor-intensive ones. BO transparency will enable greater integrity and efficiency across identified impact channels. • The BO register must be comprehensive, enable public access to key information, and be integrated with procurement systems; wealth and asset declarations required by the 2025 Conflict of Interest Act need to be credibly verified, with reasonable public access. **Professionalize key technocratic functions and insulate oversight institutions from political capture.** • Senior appointments in core economic management, revenue administration, procurement oversight, and regulatory institutions should be made through transparent, merit-based processes with clear tenure protections. • This logic should also extend to oversight institutions themselves: multi-stakeholder appointment panels should be established for the heads of EACC, the Controller of Budget to minimize executive interference, and the budgets of these institutions should be ring-fenced to prevent mid-year cuts from being used as tools of political pressure.	BO transparency will improve the perceived and de facto business environment if appropriate restrictions on conflict of interest are followed. Improving the likelihood of merit-based appointments and adequate funding can significantly improve tax administration and the effective role of regulatory bodies, which will, in turn, support trust in an improving investment climate and more effective recourse mechanisms.	A combination of implementation of existing legislation and further strengthening will be required over a 1–3 year horizon. Ensuring meritocratic appointments can happen within 12–18 months for many critical institutions; adequate financing will be enabled by improved revenue collection through the set of measures outlined and commitment, and is feasible within 18–24 months.
Addressing governance constraints contributing to the fiscal deficits and the cost of debt	**Reduce expenditure leakage and build taxpayer trust through the following measures:** • Fully roll out e-GP and ensure comprehensive and publicly accessible coverage of procurements, prioritize competitive bidding, and systematically enhance transparency around public contracting and project implementation. • Apply contracting terms and BO transparency and competition also to PPPs and other non-traditional contracting modalities. • Accelerate real-time and comprehensive publication of public project data through the full roll out of the Public Investment Management Information System (PIMIS) across government, complemented by county public information management dashboards and enhanced public-facing transparency. • Establish documented follow-up to OAG recommendations, with regular reporting to parliament and the public.	Overall, reducing leakage to half of its current level has the potential to contribute to substantial fiscal savings both directly and indirectly, for example, in major planned new infrastructure as well as in smaller-scale projects; combined with opportunities to lower interest costs for government borrowing. Demonstrated improvements in transparency, efficiency, and anti-corruption will decrease resistance to expanding direct taxation.	***Feasibility***: medium - requiring sustained demand • Growing fiscal pressures create incentives to reduce fiscal costs of corruption. ***Timing***: Opportunity to start immediately, building on existing reform efforts; building greater taxpayer trust will involve time lags. • EGP reforms have already started.

Key issue	Required actions	Economic and jobs impact	Timing and feasibility
Addressing governance constraints in backbone costs (power and logistics)	**In the power sector, focus on competition, transparency, adherence to rules, and reducing conflict of interest risks.** • Enhance competition for the market: operationalize the new Open Access regulations allowing large-scale customers to purchase power directly from (lower cost) suppliers, and ensure that permitting processes are streamlined through a 'one-stop' modality. • Adopt and implement a competitive and transparent auction framework with transparent evaluation criteria for new PPAs. • Ensure that the PPAs are consistent with energy plans. • Strengthen transparency and conflict of interest control; report all beneficial owners of IPPs, publish terms for extensions of existing PPAs, implement transparency and stricter oversight of heavy fuel imports to ensure fair fuel pricing; and publish demand forecasts and cost plans. • Improve the governance of energy sector SOEs (KenGen, GDC, Kentraco, and KPLC) leveraging the recent 2025 Government Owned Enterprises Act. • Enable OAG, parliament, as well as business associations to play a positive role by requesting regular follow-up on evidence of progress achieved. Logistics governance: • Improve the governance of ports: streamline customs and inspections through simplification of inspection and clearing procedures and rules, technological upgrades/ digitization, systematic monitoring, as well as significant changes in staffing and performance incentives for management and staff of KPA, customs, and inspection services. (World Bank 2020). • For inland logistics, set clear standards and agreements on reducing road blocks/control points in collaboration with counties, combined with an agreement with associations of trucking companies to reduce overloading. • Enable regular, evidence-based dialogue between government (national and counties) and private sector on progress made; commit to and report on follow-up steps.	Improving governance contributes to lowering costs in the power sector, improving the environment for manufacturing, and hence should be a key pillar of Kenya's industrialization policy. Dedicated port reforms have a double benefit: reducing costs and uncertainty for compliant businesses, as well as better detection of smuggling, that is, improving the business environment while improving revenue collection and fair competition.	***Timing***: Some constraints for reforms in the power sector linked to the duration of existing contracts, but opportunities for short- and medium-term improvements.

Key issue	Required actions	Economic and jobs impact	Timing and feasibility
Reducing the direct cost of corruption for businesses and opening competition	**Reduce integrity constraints and the cost of capture directly affecting businesses through (a) further improvements in tax administration and policy, (b) general simplification of regulation and administrative processes, and (c) increasing judicial integrity and efficiency.** • For KRA, create a more standardized and transparent approach to assessments by embedding integrity safeguards in the design and use of tax administration processes, reducing discretion, and strengthening detection of anomalous practices. Reforms should combine institutional changes that centralize, automate, and monitor high-risk functions with process reforms that minimize unnecessary taxpayer-officer interaction and ensure that decisions are transparent and traceable. Allow taxpayers to electronically track the status of refunds, audits, objections, and other compliance cases, including requests, deadlines, and decisions, and provide clear channels to escalate unresolved cases to higher KRA authorities or the appropriate Ombudsman. • Initiate and implement comprehensive administrative simplification to reduce the number of permits and licenses needed, as well as to reduce associated legal disputes (see also KEU 32 on the importance of such measures to boost market competition). • Address weaknesses and gaps in IT to reap efficiency and integrity benefits for businesses, and action existing Auditor General recommendations for the eCitizen platform; publish information on the performance of key government digital systems to reduce downtime and processing delays. **Alongside 'supply side' improvements, there is a need for more effective recourse mechanisms for businesses, both individually and collectively, to address both corruption and rent-seeking or capture challenges.** • Enable clear and rapid recourse channels for businesses facing licensing or other decision delays or bribe demands and publish information on progress made, disaggregated by institution and process. • Ensure further digitization and transparency of judicial decisions to increase the speed of settling cases and trust in the fairness of decision-making. Engage regularly and proactively with business associations and demonstrate clear follow-up to cross-cutting concerns.	Key contribution to Kenya's business environment, attracting greater domestic and FDI into productivity enhancing assets (equipment, innovation); higher exports, and lower costs for consumers.	***Feasibility***: medium – with 'follow-up' on agreed measures as the key challenge. ***Timing***: Key measures can be implemented immediately.
Reducing the costs of corruption for informal businesses and workers	**Reduce the burden of corruption on informal businesses through constraining bribe demands by frontline agents such as the traffic police and county inspection services.** • Set out agreed actions between national and county governments. • Fully implement reforms to decriminalize minor traffic offenses, and deploy a system of instant fines. • Clarify and publicize rules for informal economic activity. • Reduce the discretion of relevant inspection bodies and introduce staff rotations and 'four eyes' principles. • Engage with associations of vendors, drivers, and others; ensure and report on actions taken to address identified concerns.	The reforms will enhance incomes by poorer groups, enabling investments by micro and small enterprises create greater earnings and expand employment opportunities as micro, small, and medium enterprises (MSMEs) are able to expand toward hiring others; greater investment in assets, such as improving market stall structures and stocks, upgrading motorcycles, and so on. Opportunities for enhanced tax revenue and social insurance contributions. Opportunities to sustain or increase consumption and build greater resilience to shocks among households.	***Feasibility***: medium – with 'follow-up' on agreed measures as the key challenge; opportunity for counties with committed leadership to take a lead and demonstrate improvements. ***Timing***: short and medium term - some action toward instant fines is already ongoing; action on restraining discretion will need to be agreed and based on regulatory frameworks.

Key issue	Required actions	Economic and jobs impact	Timing and feasibility
Making the anti-corruption framework more effective	**The regulatory framework should be completed and key accountability institutions and follow-up strengthened.** • Fully implement the recently strengthened conflict of interest framework. • Adopt the already prepared Whistleblower Protection Bill (2026) and enhance whistleblower reporting channels. • Adopt amendments to the ACECA and its regulations to disqualify state officers from public office upon being charged with corruption offenses (with appropriate safeguards against potential abuse) and enhance asset recovery. • Strengthen follow-up on recommendations issued by accountability institutions. • Create stronger data analytics in EACC for identifying fraud and collusion risks, and closer links with CAK's focus on competition. • Automate the Commission on Administrative Justice complaints system. • Limit political interference and safeguard the independence of all oversight bodies	*Impact*: Actions will contribute to the credibility of efforts to constrain corruption and enhance the fiscal compact between taxpayers and the state; simplification and digitization will directly contribute to improvements in the business environment.	*Feasibility*: medium for further improving digital tools; low to medium due to concern about prosecutions.

REFERENCES

Abate, A., et al. 2021. *"Economic Governance Improvements and Sovereign Financing Costs in Developing Countries."* Policy Research Working Paper 9649, World Bank, Washington, DC.

Acemoglu, D., and Robinson, J. 2012. *Why Nations Fail: the Origins of Power, Prosperity, and Poverty*. Crown Publishers.

Acemoglu, D., and M. Ucer. 2020 "High-Quality Versus Low-Quality Growth in Türkiye - Causes and Consequences" in *Turkish Economy at the Crossroads*, edited by A. S. Akat and S. Gürsel. World Scientific Publishers.

Arkolakis, C., A. Costinot, and A. Rodríguez-Clare. 2012. "New Trade Models, Same Old Gains?" *American Economic Review 102* (1): 94–130.

Atiyas, I., and M. A. Dutz. 2026. "State-Business Relations, Growth and Jobs: A Framework Applied to Kenya." SIPPG Working Paper, Strathmore Institute for Public Policy and Governance, Strathmore University Business School, Nairobi, Kenya https://sbs.strathmore.edu/strathmore-institute-for-public-policy-and-governance-2/.

Bertelsmann Stiftung. 2026. *BTI 2026. Country Report*: Kenya.

Bhatia, A. V. 2002. "*Sovereign Credit Ratings Methodology: An Evaluation*." IMF Working Paper 02/170, International Monetary Fund, Washington, DC. https://doi.org/10.5089/9781451858433.001.

Boly, A., M. Konte, and A. Shimeles. 2021. "*Corruption Perception and Attitude towards Taxation in Africa*." Journal of African Economies, 30 (1): i140. https://academic.oup.com/jae/article/30/Supplement_1/i140/6395208.

Boone, C. 2014. Property and Political Order in Africa: Land Rights and the Structure of Politics. Cambridge: Cambridge University Press.

Bosa-Rincón, J., Bryant, S., Churchill, S., Coblentz, B., Dunphy, J., Kashir, M., Manoo, B., Moslimani, M., Perez, A.M., Rajap, H. 2026. *Governance, Entrepreneurship, and Job Creation in Kenya: Strategies for Unlocking Productivity and Growth*. Princeton University.

Branco, C., D. C. Dohse, J. Pereira dos Santos, and J. Tavares. 2023. "*Nobody's Gonna Slow Me Down? The Effects of A Transportation Cost Shock on Firm Performance and Behavior*." Journal of Urban Economics 136: 103569.

British Chamber of Commerce Kenya. 2022. Business Integrity Market Survey.

Burns, A., C. Jooste, and G. Schwerhoff. 2021. "*Climate Modeling for Macroeconomic Policy: A Case Study for Pakistan*" Policy Research Working Paper Series 9780. World Bank.

Business Sweden. 2023. *Navigating Corruption in Kenya*. Inside Perspectives from Nordic Companies on Dealing with Corruption in Kenya.

Canen, N., and L. Wantchekon. 2022. "*Political Distortions, State Capture, and Economic Development in Africa*." Journal of Economic Perspectives 36 (1): 123–146.

Cantor, R., and F. Packer. 1996. "*Determinants and Impact of Sovereign Credit Ratings*." Economic Policy Review 2 (2): 37–53.

Cheeseman, N., et al. 2020. The Political Economy of Kenya. [Publisher not specified].

Cohen, Jared. 2026. "*The Two Africas: Who Will Benefit from the Continent's Investment Boom?*" Foreign Affairs 105 (5).

Collier, P., M. Kirchberger, and M. Söderbom. 2015. "*The Cost of Road Infrastructure in Low- and Middle-Income Countries*." World Bank Economic Review.

Datta, S. 2012. "*The Impact of Improved Highways on Indian Firms*." Journal of Development Economics 99 (1): 46–57.

Dercon, S. 2022. *Gambling on Development: Why Some Countries Win and Others Lose*. Hurst Publishers.

Donaldson, D. 2018. "*Railroads of the Raj: Estimating the Impact of Transportation Infrastructure.*" American Economic Review 108 (4–5): 899–934.

Eberhard A., K. Gratwick, E. Morella, and P. Antmann. 2016. Independent Power Projects in Sub-Saharan Africa: Lessons from Five Key Countries. World Bank Group.

Eberhard, A., K. Gratwick, and L. Kariuki. 2018. "*Kenya's Lessons from Two Decades of Experience with Independent Power Producers.*" Utilities Policy 52: 37–49.

Gollin, D., and R. Rogerson. 2014. "*Productivity, Transport Costs and Subsistence Agriculture*." Journal of Development Economics 107: 38–48.

González, F., and M. Prem. 2020. "*Losing Your Dictator: Firms during Political Transition*." Journal of Economic Growth 25 (2): 227–257.

IEA (Institute of Economic Affairs). 2025a. Applying Cost-Effectiveness Analysis to Address Kenya's Case Backlog Crisis.

IEA. 2025b. Political Economy Analysis of Taxation Policy in Kenya.

Institute of Public Finance. 2025. Kenya Shadow Governance Diagnostic Report. https://ipfglobal.or.ke/wp-content/uploads/2025/11/KENYA-SHADOW-GOVERNANCE-DIAGNOSTIC-REPORT.pdf.

IMF (International Monetary Fund). 2020. *Digitalization and Governance: Implications for Corruption*. IMF.

IMF. 2025. Tax Expenditures in Sub-Saharan Africa.

Jahnke, B. and R. Weisser. 2019. "How Does Petty Corruption Affect Tax Morale in Sub-Saharan Africa." European Journal of Political Economy 60.

Kelsall, T., N. Schulz, W. Ferguson, D. vom Hau, S. Levy, and B. Rocha Menocal. 2022. Political Settlements and Development: Theory, Evidence, Implications. Oxford: Oxford University Press.

Kenny, Charles. 2006. "*Measuring and Reducing the Impact of Corruption in Infrastructure.*" World Bank Policy Research Working Paper 4099.

Kenya Land Alliance. 2022. "*Corruption and Land Governance in Kenya: Factors, Accountability and Transparency Strategies*." Nairobi: Kenya Land Alliance.

Kenya Office of the Auditor General. 2025. Annual Corporate Report 2024–2025.

Khan, M. 2010. *"Political Settlements and the Governance of Growth-Enhancing Institutions."* SOAS Working Paper.

KNBS (Kenya National Bureau of Statistics). 2026. Economic Survey 2026. Nairobi: KNBS. https://www.knbs.or.ke/reports/2026-economic-survey/.

Lamarque, H. 2019. *"Profitable Inefficiency: The Politics of Port Infrastructure in Mombasa, Kenya."* Journal of Modern African Studies 57 (1): 85–109. https://enactafrica.org/enact-observer/will-kenyas-port-expansion-encourage-illicit-profiteering.

Mahmood, S. A., and M. Ait Slimane. 2018. Privilege-Resistant Policies in the Middle East and North Africa: Measurement and Operational Implications. World Bank.

North, D. 1990. Institutions, Institutional Change, and Economic Performance. Cambridge University Press.

North, D. C., J. J. Wallis, and B. R. Weingast. 2007. *"Limited Access Orders in the Developing World: A New Approach to the Problem of Development."* World Bank Policy Research Working Paper 4359. https://documents1.worldbank.org/curated/en/906591468315558892/pdf/WPS4359.pdf.

Office of the United States Trade Representative. 2024. National Trade Estimate Report on Foreign Trade Barriers. https://ustr.gov/sites/default/files/2024%20NTE%20Report.pdf.

Opalo, K. O. 2022. *"Formalizing Clientelism in Kenya: From Harambee to the Constituency Development Fund,"* World Development. Vol. 152.

Panizza. 2017. U. The Use of Corruption Indicators in Sovereign Ratings. IDB.

Pritchett, L., K. Sen, and E. Werker. 2017. Deals and Development: The Political Dynamics of Growth Episodes. Oxford University Press.

Ramos-Maqueda, Manuel. 2026. *The Path to People Centered Justice in Kenya: A 2025 JUPITER Assessment*. Washington, DC: World Bank.

Republic of Kenya, The Judiciary. 2025. The State of the Judiciary and the Administration of Justice: Annual Report 2024/2025.

Shipley, T. 2021. Curbing Corruption in Land Governance: Sector Reform Experience and Strategies. Curbing Corruption. https://curbingcorruption.com/wp-content/uploads/2021/06/210618-Curbing-Corruption-in-Land-1.pdf.

Stokes, S. 2021. "Clientelism and Development: Is There a Poverty Trap?" WIDER Working Paper 2021/91.

Tanzi, V., and H. Davoodi. 2000. "Corruption, Growth, and Public Finances." IMF Working Paper.

TISA (The Institute for Social Accountability). 2025a. The Peoples' Audit: From Hustle to Hardship. https://tisa.co.ke/peoples-audit-from-hustle-to-hardship/.

TISA. 2025b. Stealing the Future.

The Institute of Public Finance. 2025. Kenya Shadow Governance Diagnostic Report.

The National Treasury. 2026a. Quarterly Economic and Budgetary Review (QEBR), Fourth Quarter FY2025/26. Nairobi: Government of Kenya. https://www.treasury.go.ke/sites/default/files/QEBRs/4th%20QEBR%20Report%202025-2026.pdf.

The National Treasury. 2026b. Budget Review and Outlook Paper (BROP) 2026. Nairobi: Government of Kenya. https://www.treasury.go.ke/sites/default/files/BROP%20-%20Budget%20Review%20Outlook%20Paper/2026%20Budget%20Review%20and%20Outlook%20Paper....pdf.

The Star. 2023. "State Lifts Ban on Issuance of Mining Licenses." The Star. https://www.the-star.co.ke/business/2023-10-04-state-lifts-ban-on-issuance-of-mining-licenses.

Tombe. 2015. "The Missing Food Problem: Trade, Agriculture, and International Productivity Differences." American Economic Journal: Macroeconomics 7 (3): 226–258

Transparency International. 2011. Corruption in the Land Sector.

Transparency International. 2018. Forceful Evictions: An Intersection Between Corruption, Land, and Human Rights. https://tikenya.org/2018/10/23/ti-kenya-publishes-paper-on-forceful-evictions/.

Transparency International. 2025. Civil Society Report on the implementation of Chapter II (Prevention) & Chapter V (Asset Recovery) of the United Nations Convention Against Corruption.

Tudela Pye, Jorge, and Marek Hausch. 2026. "*Prosperous Kenya.*" Background Paper for the Kenya Country Growth and Jobs Report, July.

Tyce, M. 2019. "The Politics of Industrial Policy in a Context of Competitive Clientelism: The Case of Kenya's Garment Export Sector." African Affairs 118 (472): 553–579.

UNODC (United Nations Office on Drugs and Crime). 2025. Integrity in Taxation: Strategies to Combat Corruption in Tax Systems. https://track.unodc.org/uploads/documents/corruption/Publications/2025/Integrity_in_Taxation_-_Strategies_to_Combat_Corruption_in_the_Tax_System.pdf

Wissenbach, U. 2019. "Kenya's Madaraka Express: An Example of the Decisive Chinese Impulse for African Mega-Infrastructure Projects." In Duality by Design: The Global Race to Build Africa's Infrastructure, 315–352.Cambridge University Press.

World Bank Group. 2023. Kenya Country Climate and Development Report. Washington, DC: World Bank. https://openknowledge.worldbank.org/entities/publication/b59c453d-c2cb-421d-909d-7c05cb0d4580.

World Bank. 2016. Kenya Land Governance Assessment Report.

World Bank. 2017. World Development Report 2017 – Governance and the Law. World Bank.

World Bank. 2024. World Development Report 2024 – The Middle-Income Trap. World Bank.

World Bank. 2025a. CLIAR (Country Level Institutional Assessment Review) Dashboard.

World Bank. 2025b. Kenya Economic Update, Edition 32. World Bank.

World Bank. 2025c. Beyond the Budget: Public Finance Review. World Bank.

World Bank. 2025d. Container Port Performance Index 2020–2024. Trends and Lessons Learned. World Bank.

World Bank. 2026a. Global Economic Prospects, January 2026. World Bank.

World Bank. 2026b. Global Economic Prospects, June 2026. Washington, DC: World Bank. https://openknowledge.worldbank.org/entities/publication/e96798d7-a81d-44ea-8287-1b4d6ea83f75.

World Bank. 2026c. Kenya Economic Update, Edition 33: *Sustaining Macroeconomic Gains, Advancing Fiscal Reforms*. Washington, DC: World Bank. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099070826101539235.

ANNEX

Annex: Anti-corruption institutions and legal framework

Table A.1: Policy regulatory institutions

Institution	Legislation	Mandate
1. The Presidency	Articles 130-146, Constitution of Kenya 2010	Provide political leadership for fighting corruption and setting the country's agenda for good governance and anti-corruption.
2. Office of the Attorney General and Department of Justice	Article 156, Constitution of Kenya, 2010; Office of the Attorney General Act,2012	Provide legal advice to the MDAs and act as the central authority for mutual legal assistance.
3. The National Treasury	Article 22, Constitution of Kenya, 2010; Public Finance Management Act ,2012 and Regulations 2015; and the Government Owned Enterprises Act 2025	Design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting (including state corporations).
4. State Corporations Advisory Committee	Article 22, Constitution of Kenya, 2010; Public Finance Management Act ,2012 and Regulations 2015; and the Government Owned Enterprises Act 2025	Advise on the establishment, control, governance, performance, and ownership of government-owned enterprises.

Table A.2: Law enforcement agencies

Institution	Legislation	Mandate
1. Ethics & Anti-corruption Commission (EACC)	Article 79, Constitution of Kenya, 2010; and Anti-corruption and Economic Crimes Act, 2003.	Combat and prevent corruption, economic crime, and unethical conduct through law enforcement, prevention, public education, and the promotion of standards and practices of integrity, ethics, and anti-corruption.
2. Office of the Director of Public Prosecutions (ODPP)	Article 157, Constitution of Kenya, 2010; and Office of the Director of Public Prosecutions Act, 2013.	Institute and undertake prosecution of criminal matters and other related incidents.
3. Judiciary		Adjudicate civil disputes and conduct hearings on criminal proceedings, including corruption.
4. The National Police Service (NPS)	Chapter 14 and 15, Constitution of Kenya, 2010; and National Police Service Act, 2011.	Detect, prevent, and investigate crime, especially through the DCI.
5. Kenya Revenue Authority (KRA)	Kenya Revenue Authority Act Cap 469	Collect revenue on behalf of the national and county governments (upon request) and investigate and enforce tax laws.
6. Asset Recovery Agency	Proceeds of Crime and Anti-Money Laundering Act, 2009; The Prevention of Terrorism Act, 2012.	Trace and recover stolen assets and proceeds of crime.
7. Financial Reporting Centre (FRC)	Proceeds of Crime and Anti-Money Laundering Act, 2009.	Assist in the identification of the proceeds of crime and the combating of money laundering; avail information to investigating authorities, supervisory bodies, and any other relevant bodies to facilitate the administration and enforcement of laws; exchange information with similar bodies in other countries regarding money laundering activities and related offences; and ensure compliance with international standards and best practice in anti-money laundering measures.
8. National Intelligence Service (NIS)	Article 242, Constitution of Kenya 2010; and National Intelligence Service Act, 2012.	Provide security intelligence and counterintelligence for all government MDAs.
9. Witness Protection Agency	Witness Protection Act, 2006.	Protect threatened and intimidated witnesses to ensure successful identification, apprehension, investigation, and prosecution of perpetrators of serious crimes.

Table A.3: Oversight agencies

Institution	Legislation	Mandate
1. Parliament and Committees (National Assembly and Senate) e.g. Public Investment Committees and Public Accounts Committees	Chapter 8, Constitution of Kenya, 2010; and National Assembly (Powers & Privileges) Act, 2017	Make laws, provide oversight over the operations of government, and represent their constituents at the national level.
2. County Assemblies	Chapter 11, Constitution of Kenya, 2010; and County Governments Act, 2012.	Make laws, provide oversight over the operations of government, and represent their constituents at the county level.
3. Office of the Auditor-General (OAG)	Article 229, Constitution of Kenya, 2010; and Public Audit Act, 2015	Audit and report on the use and management of public resources by public entities.
4. Office of the Controller of Budget (OCOB)	Article 228, Constitution of Kenya 2010; and Office of the Controller of Budget Act, 2016.	Oversee implementation of the budgets of both national and county governments.
5. Independent Electoral and Boundaries Commission (IBEC)	Article 88, Constitution of Kenya 2010; and Independent Electoral and Boundaries Commission Act, 2011.	Conduct referendums and elections to any elective body or office established under the Constitution (including approval of candidates for elective office).
6. Judicial Service Commission (JSC)	Article 171, Constitution of Kenya 2010; and Judicial Service Act, 2011.	Handle judicial appointments and terms of service, advise on improving the efficiency of the administration of justice and recommend removal of judicial officers for (among others) corruption.
7. Public Service Commission (PSC)	Article 233 and 234, Constitution of Kenya 2010; and Public Service Commission Act, 2017.	Handle public service appointments, exercise disciplinary control over and remove persons holding or acting in those offices and promoting the values and principles in the Constitution.
8. Kenya National Commission on Human Rights	Article 59, Constitution of Kenya 2010; and Kenya National Commission on Human Rights Commission Act, 2011.	Act as a watchdog of the government on human rights and provide key leadership in moving the country toward a human rights state.
9. Public Procurement Regulatory Authority (PPRA)	Public Procurement and Disposal Act,2015	Regulate public procurement by MDAs (the procuring entities) in Kenya.
10. Internal Audit Department of the National Treasury	Public Finance Management Act, 2012	Support accounting officers and AIE holders in MDAs in the effective discharge of their responsibilities by measuring, evaluating, and reporting on the effectiveness of internal control systems.
11. Responsible Commissions	Conflict of Interest Act, 2025.	Exercise disciplinary control over their employees, and keep custody of declaration of assets, income, and liabilities of public officers.
12. Commission on Administrative Justice (CAJ)	Commission on Administrative Justice Act, 2011.	Investigate conduct in state affairs or public administration that may be prejudicial or may result in impropriety, and investigate complaints of abuse of power, unfair treatment, manifest injustice or unlawful, oppressive, unfair, or unresponsive official conduct.
13. Inspectorate of State Corporations	State Corporations Act Cap 446.	Advise the Government on all matters affecting the effective running of state corporations.
14. Council of Governors	County Government Act, 2012.	Offer a collective voice on policy issues, share information on the performance of the counties, initiate preventive or corrective action, facilitate capacity building, and receive reports and monitor the implementation of inter-county agreements on inter-county projects.
15. Kenya Investment Authority	Investment Promotion Act, 2004	Handle investment promotion, facilitation, certification, policy development, advocacy, and management of investment sites.
16. Competition Authority of Kenya (CAK)	Competition Act, 2012	Regulate market conduct, control mergers and acquisitions, protect consumers, and handle related enforcement and sanctions.

Source: National Ethics and Anti-corruption Policy 2018 and www.kenyalaw.org.

World Bank Group
Delta Center
Menengai Road, Upper Hill
P. O. Box 30577 – 00100
Nairobi, Kenya
Telephone: +254 20 2936000
Fax: +254 20 2936382
http://www.worldbank.org/en/country/kenya

WORLD BANK GROUP

KENYA ECONOMIC UPDATE

Join the conversation:
Facebook and Twitter
@Worldbankkenya
#KenyaEconomicUpdate

Produced by

Fiscal Policy and Growth, and Governance Teams.