

2025

# Foreign Investors Position Paper



Knowledge Partner:





**Disclaimer:**

This report includes survey responses from nine foreign chambers of commerce located in Kenya, representing a total of 1,062 members. It is important to note that the findings and views expressed in this report do not represent the perspectives of all foreign chambers of commerce operating within the country. The report is based solely on the input received from the chambers mentioned in this report and their members. Readers are advised to consider this context when interpreting the results and conclusions.

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# Acronyms

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<b>ACA</b>	Anti-Counterfeit Authority
<b>ACECA</b>	Anti-Corruption and Economic Crimes Act
<b>AFA</b>	Agriculture and Food Authority
<b>AI</b>	Artificial Intelligence
<b>ASAL</b>	Arid and Semi-Arid Lands
<b>ASTGS</b>	Agricultural Sector Transformation and Growth Strategy
<b>BCCK</b>	British Chamber of Commerce Kenya
<b>BETA</b>	Bottom-Up Economic Transformation Agenda
<b>BIK</b>	Business Ireland Kenya
<b>BPO</b>	Business Process Outsourcing
<b>CAK</b>	Communications Authority of Kenya
<b>CCDR</b>	Country Climate and Development Report
<b>CEPA</b>	Comprehensive Economic Partnership Agreement
<b>CET</b>	Common External Tariff
<b>COMESA</b>	Common Market for Eastern and Southern Africa
<b>COVID</b>	Coronavirus Disease
<b>CS</b>	Cabinet Secretary
<b>CTS</b>	Case Tracking System
<b>DBFMT</b>	Design, Build, Finance, Maintain, Transfer
<b>DBOT</b>	Design-Build-Operate-Transfer
<b>DFI</b>	Development Finance Institution
<b>DRC</b>	Democratic Republic of Congo
<b>DST</b>	Digital Service Tax
<b>DTA</b>	Double Taxation Agreement
<b>EAC</b>	East African Community
<b>EFTA</b>	European Free Trade Association
<b>e-GP</b>	Electronic Government Procurement
<b>EIA</b>	Economic Impact Assessment
<b>EPA</b>	Economic Partnership Agreement
<b>EPR</b>	Extended Producer Responsibility
<b>EPRA</b>	Energy and Petroleum Regulatory Authority
<b>EPZ</b>	Export Processing Zone
<b>EU</b>	European Union
<b>FAO</b>	Food and Agriculture Organization
<b>FCCK</b>	French Chamber of Commerce Kenya
<b>FCDO</b>	Foreign, Commonwealth & Development Office

<b>FDI</b>	Foreign Direct Investment
<b>FY</b>	Fiscal Year
<b>GDP</b>	Gross Domestic Product
<b>GSMA</b>	Global System for Mobile Communications Association
<b>HIV</b>	Human Immunodeficiency Virus
<b>IBM</b>	International Business Machines
<b>ID</b>	Identification
<b>IDF</b>	Import Declaration Fee
<b>IFMIS</b>	Integrated Financial Management Information System
<b>IKCC</b>	India Kenya Chamber of Commerce
<b>IMF</b>	International Monetary Fund
<b>ISTA</b>	International Seed Testing Association
<b>IT</b>	Information Technology
<b>ITU</b>	International Telecommunication Union
<b>JETRO</b>	Japan External Trade Organization
<b>KCSAP</b>	Kenya Climate Smart Agriculture Project
<b>KDEAP</b>	Kenya Digital Economy Acceleration Project
<b>KEBS</b>	Kenya Bureau of Standards
<b>KE-CIRT/CC</b>	Kenya Computer Incidence Response Team – Coordination Centre
<b>KEMSA</b>	Kenya Medical Supplies Authority
<b>KEPHIS</b>	Kenya Plant Health Inspectorate Service
<b>KES</b>	Kenyan Shilling
<b>KFC</b>	Kentucky Fried Chicken
<b>KFDA</b>	Kenya Food and Drugs Authority
<b>KNBS</b>	Kenya National Bureau of Statistics
<b>KNH</b>	Kenyatta National Hospital
<b>KPLC</b>	Kenya Power and Lighting Company
<b>KRA</b>	Kenya Revenue Authority
<b>MICE</b>	Meetings, Incentives, Conferences, Exhibitions
<b>MTP</b>	Medium-Term Plan
<b>MTRH</b>	Moi Teaching and Referral Hospital
<b>NBA</b>	National Biosafety Authority
<b>NCK</b>	Nursing Council of Kenya
<b>NEMA</b>	National Environment Management Authority
<b>NHIF</b>	National Health Insurance Fund

<b>NIFC</b>	Nairobi International Financial Centre
<b>NLBH</b>	Netherlands Business Hub Kenya
<b>NOFBI</b>	National Optic Fiber Backbone Infrastructure
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>PHF</b>	Primary Healthcare Fund
<b>POCAMLA</b>	Proceeds of Crime and Anti-Money Laundering Act
<b>PPA</b>	Power Purchase Agreement
<b>PPB</b>	Pharmacy and Poisons Board
<b>PPP</b>	Public-Private Partnership
<b>RDL</b>	Railway Development Levy
<b>RIA</b>	Regulatory Impact Assessment
<b>SADC</b>	Southern African Development Community
<b>SEPT</b>	Significant Economic Presence Tax
<b>SEZ</b>	Special Economic Zone
<b>SHA</b>	Social Health Authority
<b>SHIF</b>	Social Health Insurance Fund
<b>SIM</b>	Subscriber Identity Module
<b>SPS</b>	Sanitary and Phytosanitary Standards
<b>STEM</b>	Science, Technology, Engineering, and Mathematics
<b>TB</b>	Tuberculosis
<b>TFTA</b>	Tripartite Free Trade Area
<b>UAE</b>	United Arab Emirates
<b>UHC</b>	Universal Health Coverage
<b>UK</b>	United Kingdom
<b>UNESCO</b>	United Nations Educational, Scientific and Cultural Organization
<b>UPI</b>	Unified Payments Interface
<b>UPOV</b>	International Union for the Protection of New Varieties of Plants
<b>USD</b>	United States Dollar
<b>VAT</b>	Value Added Tax
<b>WHO</b>	World Health Organization

# About the organizations

**The British Chamber of Commerce Kenya (BCKK)** is a leading organization established in 2004 fostering trade and investment between the UK and Kenya. With a network of over 300 companies, it provides organisations with high-level access to government, industry leaders, and international partners. BCKK champions the ease of doing business, influences policy direction, facilitates market insights, and drives sustainable growth that creates jobs and prosperity making it an essential partner for businesses seeking success across the UK–Kenya trade corridor.

**The American Chamber of Commerce Kenya (AmCham)**, established in 2005, is a leading business association representing over 300 American and Kenyan companies committed to advancing trade, investment, and shared prosperity between Kenya and the United States.

**Japan External Trade Organization (JETRO)** is a government-related organization that works to promote mutual trade and investment between Japan and the rest of the world. JETRO Nairobi office was established in 1957, and it has been actively promoting Japanese business in the region in various sectors.

**European Chamber of Commerce in Kenya:** EuroCham Kenya's mission is to support European-Kenya businesses in navigating the Kenyan business environment, ultimately facilitating trade between Kenya and the EU.

**The French Chamber of Commerce Kenya (FCCK)** was founded in 2016 and is part of a global network of 125 Chambers and 34,000 companies. With 213 members across 17 sectors, FCCK connects French and Kenyan businesses through networking, support, advocacy, and economic partnerships.

**India Kenya Chamber of Commerce (IKCC):** The India Kenya Chamber of Commerce (IKCC) serves as a vital historical bridge aimed at transforming the long-standing economic ties between India and Kenya into a modern, high-tech, and industrialized future. Acting as a primary facilitator for capital and knowledge transfer, the IKCC supports Kenyan industrialization by encouraging Indian investors to transition from exporters to local manufacturers, thereby enhancing domestic

value addition and supply chain resilience. Beyond traditional sectors like pharmaceuticals and agriculture, the Chamber positions itself as a strategic partner in the digital frontier, leveraging India's leadership in digital public infrastructure to accelerate Kenya's progress in fintech, agritech, and e-governance. Through bilateral advocacy and a commitment to collaborative problem-solving, the IKCC continues to nurture an entrepreneurial partnership that has fueled Kenya's SME and industrial sectors for decades.

**Netherlands Business Hub Kenya (NLBH)** offers Dutch companies and organizations support in entering and doing business in the Kenyan market and promotes bilateral trade between the Netherlands and Kenya. NLBH opens up a strong business and social network of local contacts, supporting Dutch companies willing to start, develop and expand their activities in Kenya.

**Portuguese Business Council Kenya** promotes a bilateral Portuguese - Kenyan Business Council and enhances the ties between the two countries' business communities; and provides access to other affiliate Member Councils for the exchange of information and leverage off trade and investment strategies and practices within these territories.

**Business Ireland Kenya (BIK)** is Ireland's premier business chamber in Kenya working to promote trade, investment and commercial activity between the Republic of Kenya and Ireland. BIK was established in 2013 and facilitates business networking opportunities for members by providing a platform and support structure for sharing information on business experiences in Kenya and Ireland.

## Knowledge Partner:

**KPMG** is a global organization of independent professional services firms providing Audit, Tax and Advisory services. KPMG firms operate in 138 countries and territories with more than 276,000 partners and employees working in member firms around the world. Our clients include businesses, governments and public sector agencies, development partners and not-for-profit organizations.

# Key messages

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Trade and investment is the engine of growth, BCK's role is to ensure the environment in which our members operate is stable, transparent, and trusted. By fostering confidence for foreign direct investment, we unlock opportunities that drive business, create jobs, and strengthen the economic bridge between the UK and Kenya. This vision directly informs our Foreign Investors Position Paper for 2025, which outlines practical policy recommendations to enhance the ease of doing business in Kenya, promote regulatory consistency, and attract long-term investment. A predictable and enabling business environment is the foundation upon which sustainable Foreign Direct Investment (FDI) and inclusive economic growth are built. **British Chamber of Commerce Kenya.**

This paper is a timely affirmation of what AmCham, as partners in Kenya's investment story, know to be true — that collaboration between government and the private sector is essential to unlock the country's full economic potential. We believe that predictable, transparent, and investment-friendly policies are the cornerstone of sustainable growth. **American Chamber of Commerce in Kenya.**

A JETRO survey<sup>1</sup> has highlighted Kenya as the top African country of interest for Japanese companies, driven by its status as a key business hub in East Africa and prospects in such sectors as automobiles, energy, SEZ development, market expansion and marine transport. However, the investment climate is challenging. Over 80% of respondents reported unaddressed issues, specifically regarding the implementation of laws/regulations and fiscal/financial/exchange rate stability. Given the significant contributions Japanese firms make to Kenya's economy, we strongly urge concrete improvements to the investment environment to facilitate further expansion of investment. **Japan External Trade Organization (JETRO).**

At EuroCham, we believe that Kenya's growth and global competitiveness will be powered by foreign investment that is inclusive, sustainable, and aligned with national development priorities. This

joint initiative underscores the value of public-private dialogue, and we are proud to stand alongside a wide coalition of business associations in shaping a shared vision for Kenya's investment environment. As a chamber, we are committed to advancing EU-EFTA interests through strong partnerships with the government and local actors. We look forward to turning the insights from this paper into actionable reforms that benefit all stakeholders. **European Chamber of Commerce in Kenya (EuroCham).**

Foreign investors want to be part of Kenya's growth story, but partnership thrives on clarity. Predictable policies, fair enforcement, and transparent processes are the foundation of trust needed to accelerate investment, create jobs, and strengthen Kenya's position as Africa's preferred business destination. In this paper, foreign investors are speaking with one common voice — calling for a business environment anchored in consistency, accountability, and mutual confidence. **French Chamber of Commerce Kenya.**

Economic Reform Focus: IKCC reaffirms its commitment to advancing India-Kenya trade and investment through policy dialogue, industrial partnerships, and SME empowerment. By supporting Kenya's BETA agenda and fostering innovation, technology transfer, and investor confidence, IKCC continues to drive sustainable bilateral growth and inclusive prosperity. **India Kenya Chamber of Commerce (IKCC).**

The Netherlands remains a committed and stable business partner for Kenya. We continue to support Kenya's social and economic growth by supporting both present businesses operating in this market, as well as identifying potential business opportunities to attract foreign investment. A stable and supportive business climate is indispensable for business to enter this market, stay in it, and thrive. Together with other foreign investors, we continue our call for a predictable, stable and transparent business climate for the benefit of all business in Kenya. **Netherlands Business Hub.**

<sup>1</sup>Japan External Trade Organization (JETRO), 2024. Survey on Business Conditions of Japanese-Affiliated Companies in Africa

The smooth and timely exchange of goods and services fostering economic growth, increased exports, and enhanced economic relationships between two countries is the backbone of efficient and effective bilateral trade agreements. Streamlined procedures, well-managed and maintained infrastructure, technological cooperation and transfer, clear communication and collaboration on policies, are just a few of the key areas that foster foreign investment growth. Through this paper we look forward to working with all key stakeholders to improve and enhance these valuable building blocks that are vital to the economic growth of Kenya. **The Portuguese Business Council Kenya.**

Kenya and Ireland have shared a powerful cultural, economic, and trade bond that has existed for more than 100 years. As long-standing partners, we feel invested in the deepening of commercial ties between Ireland and the EU based on fairness, transparency, and mutual benefit for the growth of our collective economies. This Foreign Investors Paper underscores these areas for mutual benefit. Irish businesses remain excited about Kenya's continuous innovation and believe our relationship will build greater mutual prosperity. **Business Ireland Kenya.**



# Executive summary

## Introduction

This position paper is at the heart of a key policy objective in Kenya, promoting Foreign Direct Investment (FDI) to foster economic growth. It consolidates the perspectives of nine foreign business associations representing 1,062 member companies, employing over 200,000 Kenyans and holding over USD 14 billion in FDI stock in Kenya.

The paper defines and articulates the position of foreign investment in Kenya while raising awareness on key areas for improving the business environment with the goal of driving additional foreign investment into the country. Its purpose is to;

- (i) Provide a collective voice to advocate for policy and regulatory reforms that enhance predictability and competitiveness to increase and support FDI in Kenya.
- (ii) Propose clear, actionable recommendations to address key business bottlenecks faced by foreign investors, thereby strengthening investor confidence and sustainability.
- (iii) Support Kenya's Vision 2030 and Bottom-up Economic Transformation Agenda (BETA) by unlocking investment in priority sectors such as agriculture, manufacturing, healthcare and the digital economy..

By analyzing the results of a survey conducted between July and September 2025, this paper delivers insights from foreign investors into key issues related to the business environment and proposes recommendations, to inform the government's efforts to attract and retain FDI. The respondents included both resident and non-resident companies representing diverse industries including manufacturing, financial services, energy, health, infrastructure, ICT, e-commerce, tourism and travel, automotive, education/training, and professional services.

## Kenya remains an attractive investment destination

Kenya is the 6<sup>th</sup> largest economy in Africa. It boasts a stable economy and plays a pivotal role as a leading vibrant democracy. It is a key logistics and innovation hub in the region, with 4 international airports and 2 seaports, facilitating trade and tourism on the continent. Kenya has spearheaded new and emerging economic trends, particularly in the digital economy, and has established over 50 tech hubs in the country. In addition, it has a highly productive workforce making high quality human capital easily accessible to investors establishing companies in Kenya.

The Kenyan Government is leveraging multiple strategic trade agreements to boost foreign direct investment (FDI). Regional frameworks such as the African Continental Free Trade Area (AfCFTA) and the Tripartite Free Trade Area (TFTA), as well as bilateral agreements with countries such as the European Union (EU), United Arab Emirates (UAE) and United Kingdom (UK) are providing expanded market access.

Kenya has also introduced flagship initiatives to attract investment including establishing the Nairobi International Financial Centre (NIFC) to position Nairobi as Africa's premier financial hub, increasing Export Processing Zones (EPZs) and Special Economic Zones (SEZs) which offer attractive incentives and benefits, and the Konza Technopolis which is a smart city and innovation hub to encourage development in the digital space.

However, despite the inherent strengths of Kenya as an investment destination and available opportunities for trade and investment as outlined above, there are some bottlenecks that continue to hinder investors from allocating more resources towards the country.

Through the targeted survey used to develop this paper, investors identified the most pressing challenges affecting their operations and decision to make additional investments in the country while proposing a range of specific reforms to address these issues thereby increasing investor confidence and driving more investment in the country.

<sup>2</sup> Business Insider Africa: Top 10 African countries with the highest GDP in 2025.

If implemented, the reforms will create a more enabling and attractive business environment required to increase investment inflows, stimulate job creation across various sectors and contribute to economic empowerment and poverty

reduction. Moreover, these reforms will broaden the tax base and improve compliance, resulting in higher and more sustainable revenue collection for the government.

### Some of the key areas for reform are highlighted below.

**Multiple fees and levies.** 60% of respondents cited the rising government-imposed fees and levies, which act as de facto taxes and inflate business costs, as extremely challenging. For example, tea – the country's top export commodity, faces at least 15 different business compliance charges. These cumulative costs undermine Kenya's competitiveness, hinder investment and risk reducing overall tax revenue by stifling economic activity.

Streamlining taxation, fees and levies is a high priority for 72% of the respondents, including harmonizing levies by the national and county governments, and establishing a centralized e-levy platform to provide clear, up-to-date information and a one-stop collection portal for all applicable charges.

### Administrative bureaucracy and integrity.

Despite significant advancements in anti-corruption legislation in Kenya, including the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA), Bribery Act, and Anti-Corruption and Economic Crimes Act (ACECA), and Conflict of Interest Act 2025, enforcement frameworks remain weak. 49% of the respondents identified business integrity as an impediment to investment in Kenya.

Despite strides in rolling out the e-procurement platform to address procurement transparency issues, there are still gaps in state entities' compliance with the required disclosure of beneficial ownership information for companies awarded public contracts, therefore weakening accountability and enabling potential conflicts of interest. Corruption and administrative bureaucracy increase business costs and reduce operational efficiency.

69% of the respondents cited addressing corruption/rent seeking as a top priority and proposed strengthening enforcement capacity and institutional accountability to implement the existing anti-corruption legal framework. This includes adequate resource allocation to anti-corruption agencies, enhancing prosecutorial independence, and establishing clear timelines for investigation and resolution

of economic crimes. In addition, monitoring the effectiveness of the e-procurement system and addressing non-compliance by public organizations could increase investor confidence in public procurement.

### Policy uncertainty and unpredictability.

Unpredictability of the policy environment is a key obstacle to FDI, according to 42% of respondents. The National Tax Policy was enacted to address this and provide for review of tax laws every five years. However, this has not been adhered to. In reality, taxes are reviewed and updated often through Tax Laws Amendment Acts and annual Finance Acts.

The implementation of the National Tax Policy is a high priority for 63% of the respondents, including enshrining the 5-year review cycle into law, to enhance predictability. A credible and stable tax environment will support long-term economic planning and investment.

The government should also undertake Economic Impact Assessments (EIA) and Regulatory Impact Assessments (RIA) during development of significant business regulatory changes. These should incorporate feedback from the business community allowing for deeper evaluation of the potential effects of proposed regulatory changes on the economy, sector players, government revenue and social outcomes.

Foreign investors focused on the ICT and financial sectors can leverage regulatory investor sandboxes offered by the Communications Authority of Kenya and Capital Markets Authority. These authorities should increase awareness on existence of the sandboxes and use these platforms to engage with foreign investors on regulatory and policy issues, obtaining instant feedback and insights, and addressing identified gaps.

### Beyond the aforementioned issues, foreign investors also highlighted other areas for reform including:

**Delays in VAT refunds.** Businesses often experience prolonged verification and payment processes for VAT refunds which limit their ability to reinvest, expand operations, and meet

financial obligations. 36% of the respondents recommended prioritizing VAT refunds, supporting favourable offsets and adhering to timelines as a high priority.

**Unreliable legal and judicial system.** 25% of the respondents indicated that unreliability of the legal and judicial system was a major challenge. Key issues include prolonged litigation processes, limited enforcement capacity, fragmentation and unpredictability. Improving the judicial system (fairness and consistency in rulings, duration of hearings, implementation of rulings) was identified as a high priority by 43% of the respondents. Key recommendations include; accelerating automation of court processes; consistent interpretation of laws across courts; expanding specialized commercial courts; building the capacity of judicial officers especially in commercial, land and tax matters; and implementing strict timelines for determination and enforcement of rulings.

**Weak intellectual property protection:** 18% of respondents identified counterfeiting and illicit trade as posing significant challenges to investment. Counterfeit products and illicit trade undermine investor confidence, and additionally pose risks for consumer health and safety, disrupt market dynamics, increase tax evasion, and diminish trust in genuine brands. Consequently, strengthening enforcement against counterfeits and illicit trade is a top priority for at least 42% of the survey respondents. Key recommendations include stronger inter-agency coordination to intensify enforcement against illicit trade; stricter border surveillance, and digital product verification enhancing consumer awareness through sensitization campaigns.

### Proposals on the way forward

For Kenya to retain its position as a premier destination for FDI, the foreign investors engaged for this paper prioritized the following key areas for addressing in the immediate to medium term, supported by a high-level action plan indicating implementation activities and timelines.

- **Enhancing predictability of the business environment:** This covers the tax policy, regulatory requirements and administrative processes.
- **Reduce cost of doing business:** This includes the cost of multiple fees and levies, energy, and corruption that increase the cost of doing business and impact

Kenya's competitiveness compared to regional peers.

- **Uphold the rule of law:** This pertains to application of laws, adherence to court rulings, and addressing corruption. Strengthening the rule of law will increase accountability and transparency, promote fairness and enhance investor confidence in contract enforcement and property rights.

To track progress of recommended reforms and foster a responsive investment climate, respondents proposed the establishment of a platform for structured engagement and regular dialogue between foreign investors and the government. This engagement platform can be institutionalized within an appropriate government agency.

### Sector opportunities

The paper further provides deep dives into the agriculture, manufacturing, healthcare and technology sectors which were identified as key priority sectors for both foreign investors and the Government aligning with Vision 2030 and the Bottom-Up Economic Transformation Agenda (BETA). These sectoral deep dives highlight the investment climate, trends and opportunities for investment within these sectors as well as proposing recommendations to address the challenges that have been identified to affect these sectors.

### Conclusion

This paper provides insights from foreign investors clearly prioritizing predictability, cost competitiveness and the rule of law as key pillars for attracting and sustaining FDI. By implementing the recommendations and addressing emerging issues, Kenya will create an enabling business environment, positioning itself as a predictable, competitive and innovation driven economy.

Ultimately, foreign investment translates into job creation, skills and technology transfer, revenue enhancement and inclusive growth. Delivering these reforms is therefore critical in ensuring that Kenya achieves its ambitious target to raise annual FDI inflows to USD 5.079 billion by FY 2028/29, capturing the full benefits of FDI and strengthening Kenya's global investment standing.

# Chapter 1: Introduction

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# Chapter 1: Introduction

Kenya serves as an attractive destination for foreign investment in East Africa and a regional hub for trade logistics and innovation. Its strategic location, diversified economy, skilled workforce, and strong digital infrastructure make it a natural gateway for investment into East and Central Africa.

Foreign direct investment (FDI) is a critical driver of Kenya's economic transformation, contributing capital inflows, technology transfer, and job creation. Yet, despite this, Kenya's FDI inflows remain modest compared to its ambitions. Foreign investors face persistent barriers such as policy and regulatory unpredictability, multiple levies, and bureaucratic inefficiencies, hampering the full realization of Kenya's foreign investment potential.

Kenya is at a pivotal moment. Bold and coordinated reforms can transform its investment landscape to position the country as Africa's premier destination for foreign capital. Predictability, transparency and partnership between government and the private sector will be the cornerstone of this transformation.

This position paper consolidates the perspectives of nine foreign business associations representing 1,062 member companies, employing over 200,000 Kenyans and holding USD 14 billion in FDI stock. The paper defines and articulates the position of foreign investors in Kenya while raising awareness of the challenges and concerns related to the business environment for investment. Its purpose is to:

- Provide a collective voice to advocate for policy and regulatory reforms that enhance predictability and competitiveness to increase and support FDI in Kenya.

- Propose clear, actionable recommendations to address key business bottlenecks faced by foreign investors, thereby strengthening investor confidence and sustainability.
- Support Kenya's Vision 2030 and Bottom-up Economic Transformation Agenda (BETA) by unlocking investment in priority sectors such as agriculture, manufacturing, healthcare and the digital economy.

The participating organizations include British Chamber of Commerce Kenya (BCCCK), American Chamber of Commerce Kenya (AmCham), Japan External Trade Organization (JETRO), European Chamber of Commerce in Kenya, French Chamber of Commerce Kenya, India Kenya Chamber of Commerce (IKCC), Netherlands Business Hub Kenya, Portuguese Business Council Kenya and Business Ireland Kenya, with KPMG serving as the knowledge partner.

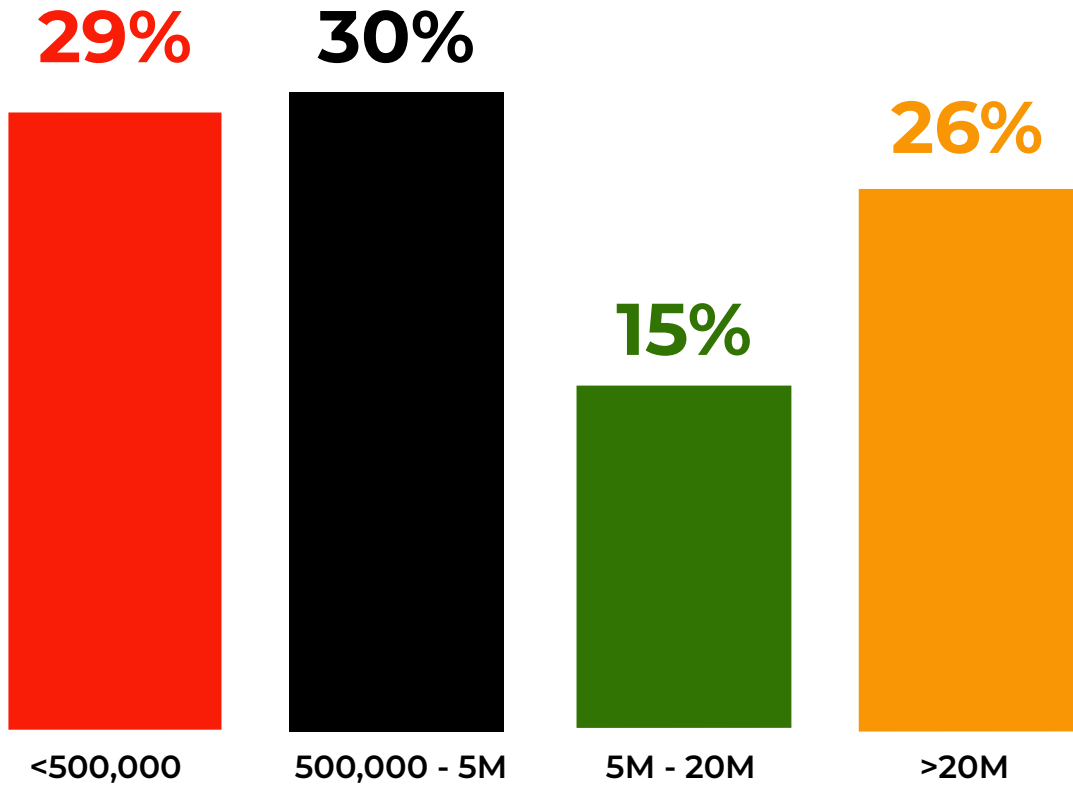
## Research scope and methodology

An online survey was conducted among the members of the organizations between July and September 2025 to uncover the challenges faced by foreign investors and proposed recommendations. Responses were received from members of 9 organizations. Further insights were obtained from reports shared by the organizations including member surveys, sector studies and government reports, as well as desk research.

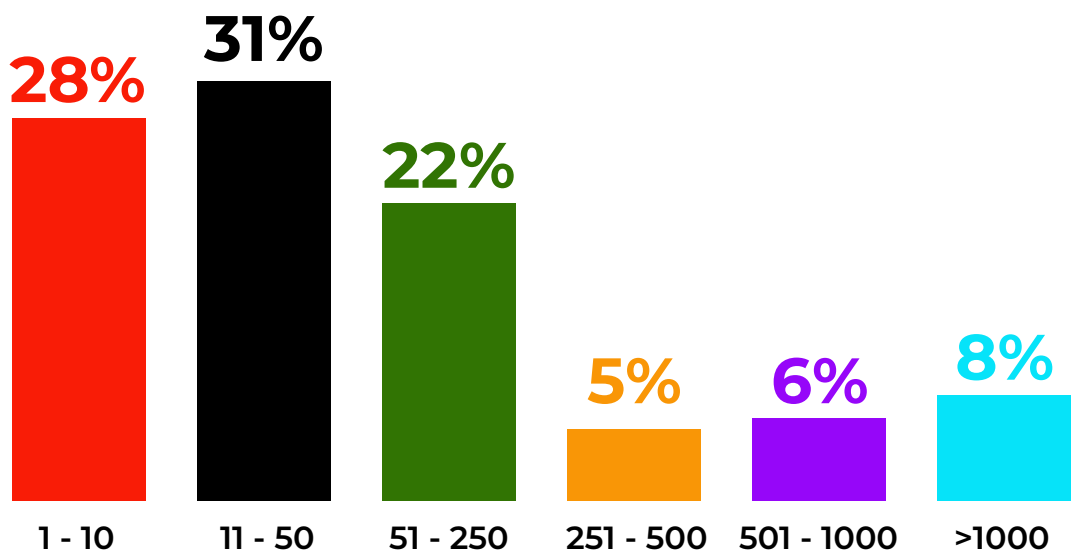
The respondents included both resident and non-resident companies representing diverse industries including manufacturing, financial services, energy, health, infrastructure, ICT, e-commerce, tourism and travel, automotive, education/training, and professional services.

The respondents' distribution in terms of scale of investment and number of employees is illustrated in the figures below.

**Approximate scale of investment in Kenya (USD)**



**Estimated number of employees in Kenya**



# Chapter 2: Kenya as an investment destination

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## Chapter 2: Kenya as an investment destination

Kenya is the 6<sup>th</sup> largest economy in Africa. It boasts a stable economy and plays a pivotal role as a leading vibrant democracy. It is a key logistics and innovation hub in the region, with 4 international airports and 2 seaports, facilitating trade and tourism on the continent. Kenya has spearheaded new and emerging economic trends, particularly in the digital economy, and has established over 50 tech hubs in the country. In addition, it has a young, trainable and highly productive workforce, making investors establishing companies easily access high quality human capital.

Foreign investment is a pivotal driver of Kenya's economic growth, providing capital inflows, technology transfer, employment and improving connectivity to global markets. The Kenyan government's National Investment Strategy presents an ambitious target to raise annual FDI inflows to USD 5.079 billion in FY 2028/29 from USD 1.504 billion in the baseline year (2023/24).<sup>3</sup>

In recent years, as shown in Figure 1, Kenya's foreign direct investment (FDI) inflows have remained relatively flat highlighting the need

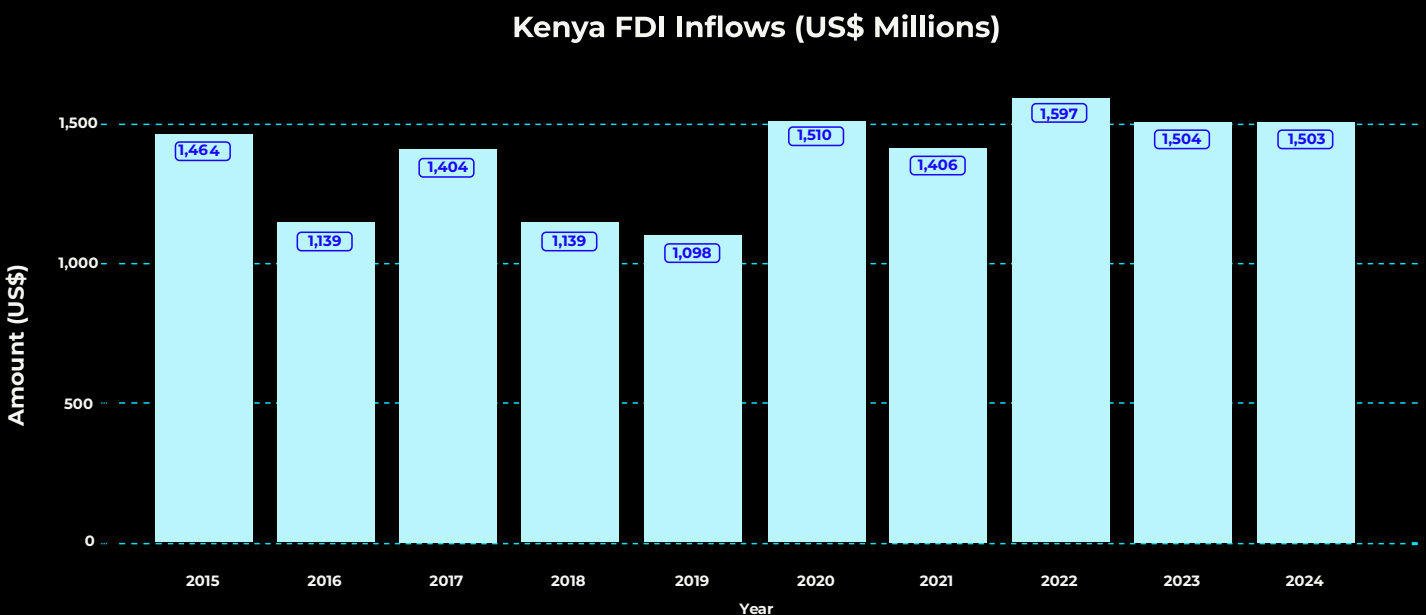
for urgent strategic interventions. In 2024, Kenya attracted USD 1.503 billion in FDI, a slight decline from recorded inflows of USD 1.504 billion in 2023.<sup>4</sup> This flat trend can be attributed to a range of factors including global geopolitics and financial market instability highlighting that foreign investment in Kenya is influenced by shifting global market trends and an evolving policy and regulatory framework.

Key sources of FDI to Kenya include United Kingdom, Netherlands, United States, France, India, Mauritius and South Africa with investments concentrated in finance and insurance, manufacturing, information and communication, wholesale and retail trade sector.<sup>5</sup>

These patterns reflect Kenya's strong regional hub position but also reveal untapped potential in emerging sectors.

Figure 1 illustrates the trajectory of FDI inflows to Kenya over the past decade.

Figure 1: Kenya FDI inflows



Source: UNCTAD World Investment Report 2025

<sup>3</sup> Ministry of Investment, Trade and Industry (MITI), 2024. Draft National Investment Strategy.

<sup>4</sup> UNCTAD, 2025. World Investment Report 2025: International Investment in the Digital Economy.

<sup>5</sup> Kenya National Bureau of Statistics (KNBS), 2024. Foreign Investment Survey Report 2024.

## Strategic partnerships driving growth

To sustain and grow these FDI inflows, Kenya is leveraging strategic partnerships and trade agreements that open new markets and reduce barriers. Notable partnerships and trade agreements include:

- A new UK – Kenya Strategic Partnership Agreement 2025 – 2030 which builds on the existing Kenya-UK Economic Partnership Agreement and focusing on green growth, climate and nature, science and technology, and security and stability.
- The Comprehensive Economic Partnership Agreement (CEPA) with the United Arab Emirates (UAE), removing trade barriers and unlocking opportunities in energy, agriculture, health, logistics and ICT.
- Regional frameworks such as the AfCFTA, SADC-EAC-COMESA Tripartite Free Trade Area, and the EU-EAC Economic Partnership Agreement, all providing duty-free, quota-free market access and boosting exports.

Whilst these agreements expand market access, Kenya needs strong domestic enablers to attract and retain investment.

## Flagship initiatives for competitiveness

Beyond these trade agreements, Kenya has introduced flagship initiatives to strengthen its competitiveness and create an enabling environment for investors. These include:

- The Nairobi International Financial Centre (NIFC) which aims to position Nairobi as Africa's premier financial hub through providing an efficient, conducive environment for financial services and innovation with an efficient operating framework, predictable tax incentives and full foreign ownership for certified firms.
- Export Processing Zones (EPZ) and Special Economic Zones (SEZs) offer incentives

such as exemptions on excise duty, import duty, import declaration fees, stamp duty on legal instruments, withholding tax on dividends; reduced corporate taxation over a specified period and other benefits.<sup>6</sup> As of March 2024, there were 101 gazetted EPZs with 174 enterprises operating within them, employing 72,034 individuals, and attracting cumulative investment of USD 1.15 billion.<sup>7</sup>

These conditions make EPZs a compelling choice for foreign investors seeking cost-efficient manufacturing hubs with full foreign-ownership rights, and preferential access to export markets.

- Similarly, SEZs attracted USD 546.15 million in investments, licensed 26 enterprises, and created 1,913 jobs.<sup>8</sup> SEZs present foreign investors with a well-regulated, infrastructure-ready, and competitive gateway to regional markets.
- The Konza Technopolis, Kenya's flagship smart city and innovation hub, is designed to host ICT, IT-enabled services, research and development, advanced manufacturing, and emerging technology enterprises. Investors benefit from the fiscal incentive package, which includes preferential corporate tax treatment, and exemptions on levies as well as dedicated facilitation and one-stop-shop support.
- Privatization of State-Owned Enterprises (SOEs) to attract private sector investment. On 14 February 2024, the Cabinet approved privatization of seven SOEs in the hospitality sector aimed at revitalizing the tourism industry to stimulate employment and business opportunities while broadening private sector participation.<sup>9</sup>

These reforms and infrastructure projects lay the foundation for investment in priority sectors that align with Kenya's development agenda. Investors can tap onto high potential sectors that drive inclusive growth and regional integration.

<sup>6</sup> Kenya Investment Authority (KenInvest), 2025, Incentives.


<sup>7</sup> Export Processing Zones Authority (EPZA), 2024, Performance of Key EPZ Indicators

<sup>8</sup> Auditor-General's Report on SEZA (FY 2023/2024)

<sup>9</sup> UNCTAD, 2024. Kenya: Approval of Privatisation of State-Owned Enterprises in the Tourism Sector.

## Priority sectors for investment


Kenya's enabling environment creates strong opportunities across high potential sectors:




**Agriculture:** The agriculture sector offers growing investment opportunities in cold chain hubs, dairy processing, climate-resilient irrigation, agroforestry, regenerative farming, and agri-fintech solutions.

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**Manufacturing:** The manufacturing sector presents a wide range of investment opportunities in agro-processing, County Aggregation and Industrial Parks (CAIPs and export-oriented manufacturing through SEZs and EPZs.




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**Healthcare:** The healthcare sector offers investment opportunities driven by Universal Health Coverage reforms and rising demand from a growing population. Key areas include local pharmaceutical and vaccine manufacturing, diagnostics networks, primary-care franchising, health tech solutions and health supply chain logistics.

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**Technology:** The technology sector offers investment opportunities in broadband expansion, upgrading 4G and 5G networks, data centres, and cybersecurity systems.



These sectors align with Vision 2030, the Bottom-up Economic Transformation Agenda (BETA) and Kenya's AfCFTA implementation strategy, offering investors a clear roadmap for growth.

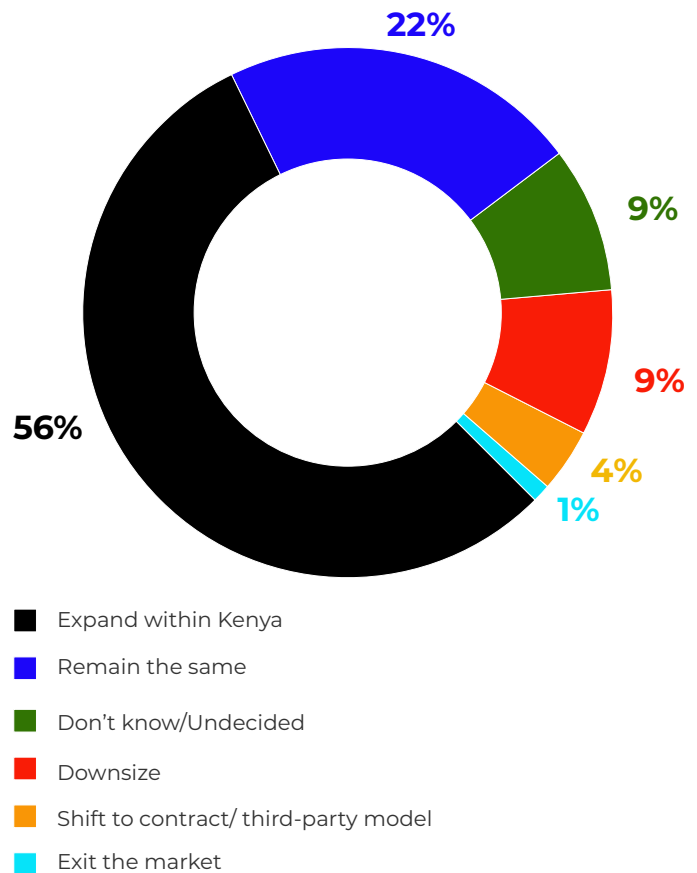
Other priority sectors include construction and housing (green construction and smart cities), ICT and business process outsourcing (BPO) (fintech, digital infrastructure, e-commerce, and technical

support services), tourism and hospitality (eco-tourism, parks, conservancies, and meetings, incentives and conferences and exhibitions (MICE), as well as emerging sectors such as renewable energy, mining (critical minerals and rare earths), the blue economy, forestry, education, financial services, and the creative economy.

## Investor outlook and confidence perception.

Survey insights reinforce Kenya's strategic position highlighting market size, growth potential, regional hub position, labour availability, political stability and infrastructure as key factors that influenced decisions to invest in Kenya.

- 84% of the respondents identify Kenya as their regional hub supporting their operations in Tanzania, Uganda, Ghana, Ethiopia, Rwanda, DRC and South Sudan.
- 43% of the respondents hold a positive outlook for the next 2 -5 years with 56% planning to expand within Kenya during the same duration.



Unlocking Kenya's full potential requires addressing persistent challenges such as policy unpredictability and bureaucratic inefficiencies, issues which are explored in Chapter 3.

# Chapter 3: Driving investment into Kenya

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CBK  
PENSION  
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# Chapter 3:

## Driving investment into Kenya

### Overview

Through a targeted survey, the paper gathered insights directly from foreign investors operating in Kenya, to uncover the most pressing challenges affecting their operations and decision to make additional investments in the country. In the survey, the respondents also identified a range of specific reforms to address these issues and increase investor confidence, thereby driving more investment in the country.

This section highlights the findings from the survey. In summary, the key concerns identified by investors participating in the survey included the unpredictable policy and legal environment, high cost of doing business due to multiple fees and levies at the national and county level, and bureaucratic inefficiencies and lack of transparency. Additionally, counterfeiting and illicit trade, delays in VAT refunds and unreliable judicial system were identified as other issues causing investor apathy in the country.

To address these challenges and improve Kenya's attractiveness as an investment destination, investors cited the need to review and streamline the current fees and levies to eliminate

duplication as an important area for reform. Further, implementation and adherence to the National Tax Policy was viewed as a necessary step to enhancing predictability and certainty on the tax regime which currently sees alterations on an annual basis. Finally, the need to create a platform for structured dialogue between the government and foreign investors in the country, where issues can be deliberated and resolutions can be co-created, was viewed as an important step towards increasing accountability and building trust.

Based on the survey findings and the analysis of the business environment in Kenya, the paper proposes some specific interventions for these recommendations.

These reforms, if implemented, will create a more enabling and attractive business environment thereby increasing investment inflows, stimulating job creation across various sectors and contributing to economic empowerment and poverty reduction. Moreover, these reforms will broaden the tax base and improve compliance, resulting in higher and more sustainable revenue collection for the government. The detailed findings from the survey are provided in the next section.

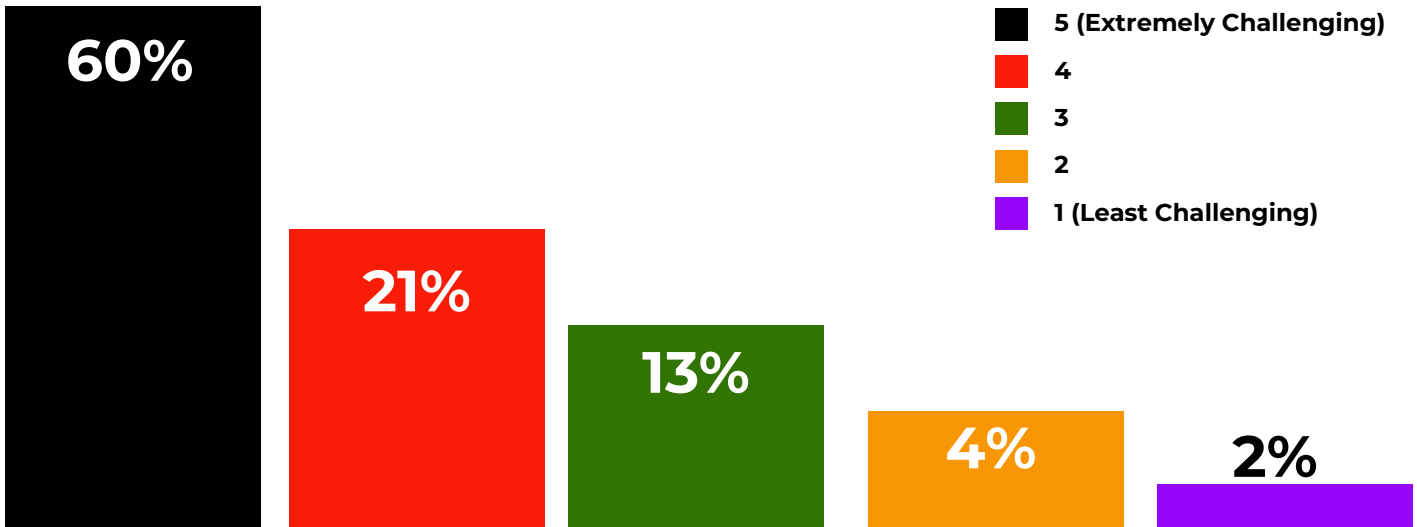


**Based on the survey findings and our analysis of the business environment in Kenya, we have proposed some specific interventions for these recommendations.**



## Key challenges and recommendations from the survey

### 1. Multiple fees and levies



**60%** of respondents cited the rising government-imposed fees and levies, that act as de facto taxes and inflate business costs, as extremely challenging.

Various Regulations under The Crops Act 2013 such as the Nuts and Oil Crops Regulations 2020 and the Horticultural Crops 2020 impose a 2% import levy on raw materials and a 0.25% export levy on finished goods whilst the Finance Act 2023 introduced a new Export and Investment Promotion Levy on various products whose rates have changed overtime through subsequent Finance Acts and Tax Laws (Amendment) Acts. Importers must also pay a 2.5% Import Declaration Fee and a 2% Railway Development Levy under the Miscellaneous Fees and Levies Act.

Tea, the country's top export commodity, faces at least 15 different business compliance charges. 14 of them being levies paid to county governments and one of the levies, Green leaf Cess, being paid to the Tea Board of Kenya

County governments are imposing duplicative annual business permit fees on telecommunications and digital infrastructure sites averaging USD 766 (KES 100,000) per site despite operators already paying planning, construction and regulatory licensing fees. This duplication has created an additional industry burden of approximately USD 2.5 million (KES 330 million) annually, increasing network rollout costs and slowing digital inclusion.

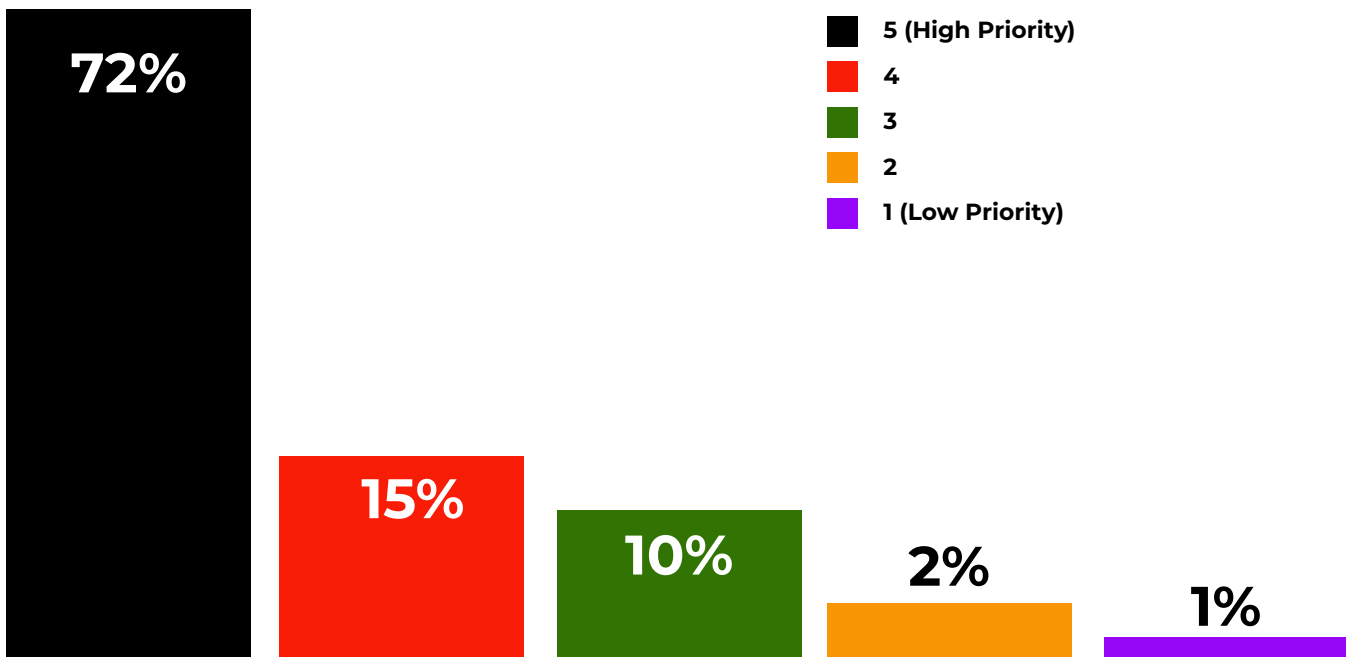
In some instances unclear, charges at both the national and county government levels, combined with electricity related levies, create complexity and unpredictability for investors. These cumulative costs undermine Kenya's competitiveness, discourage investment and risk reducing overall tax revenue by stifling economic activity.

Addressing these fiscal inefficiencies through streamlined levies and transparent processes is critical to restoring investor confidence and reducing the cost of doing business.



**This duplication has created an additional industry burden of approximately USD 2.5 million (KES 330 million) annually, increasing network rollout costs and slowing digital inclusion.**

### Recommendation: Streamline and rationalize taxation, fees and levies



**72%** of respondents identified the rationalization of taxes, fees and levies as a top priority and recommend:

- a. Comprehensive review and harmonization:** Undertake a thorough review existing taxes, fees and levies to consolidate overlapping charges and harmonize requirements between national and county governments. Combined with improved inter-agency coordination, these actions will ease compliance, improve predictability and lower the overall cost of doing business in Kenya.
- b. Centralize information platform:** Establish a centralized e-levy portal, potentially integrated into the e-Citizen platform, to provide clear, up-to-date information on

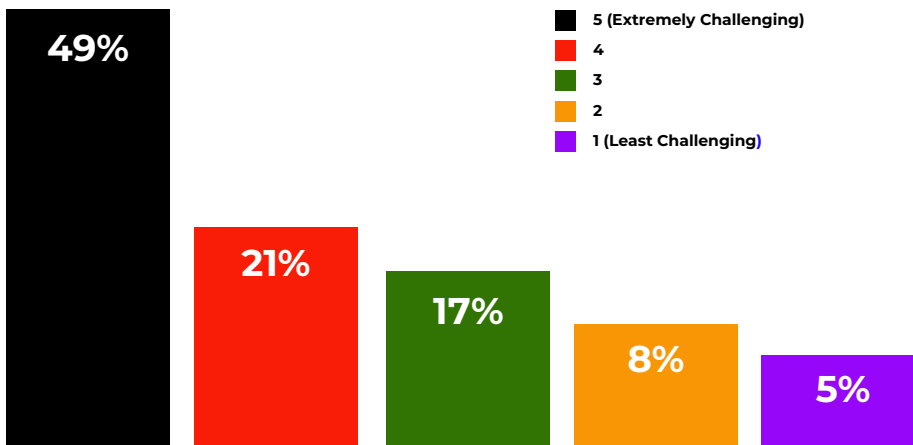
all applicable charges. The platform should allow disaggregation by sector, county and any other relevant characteristics, with direction to the relevant office for each applicable charge. Quarterly publication of all national and county level charges in the Kenya Gazette would complement this initiative and promote transparency, easing business planning.

- c. One-stop-collection model:** Introduce a one-stop collection system for all applicable charges, supported by revenue reimbursement agreements between national and county governments. This approach will eliminate the need for investors to visit multiple offices, streamline compliance and ensure equitable revenue sharing. Transparency in collection and reimbursement processes will be critical to securing buy-in from all stakeholders.



**Quarterly publication of all national and county level charges in the Kenya Gazette would complement this initiative and promote transparency, easing business planning.**

## 2. Administrative bureaucracy and business integrity



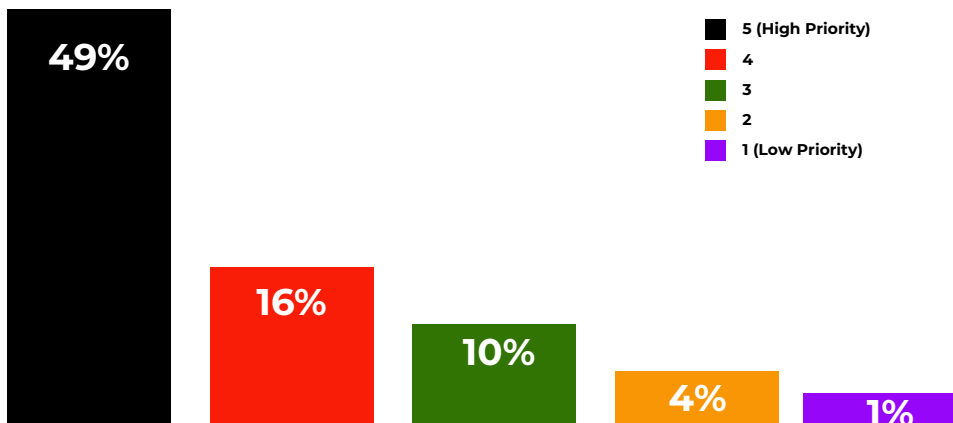
Administrative bureaucracy and corruption remain significant challenges to investment in Kenya for at least 70% of the respondents. Investors associate high levels of rent-seeking with increased business costs and operational inefficiencies, deterring FDI.

Administrative bureaucracies such as delays in obtaining work permits make it challenging to onboard personnel with key unique skills,

impacting business operations. One respondent reported that it took them 8 months to obtain a class D work permit, despite high application fees of more than USD 7,000.

Delays and inefficiencies caused by administrative bureaucracies and rent-seeking are costly to investors, and reduce investor confidence, hindering transfer of skills and technology.

### Recommendation: Strengthen institutional and enforcement capacity of anti-corruption frameworks to safeguard investor confidence



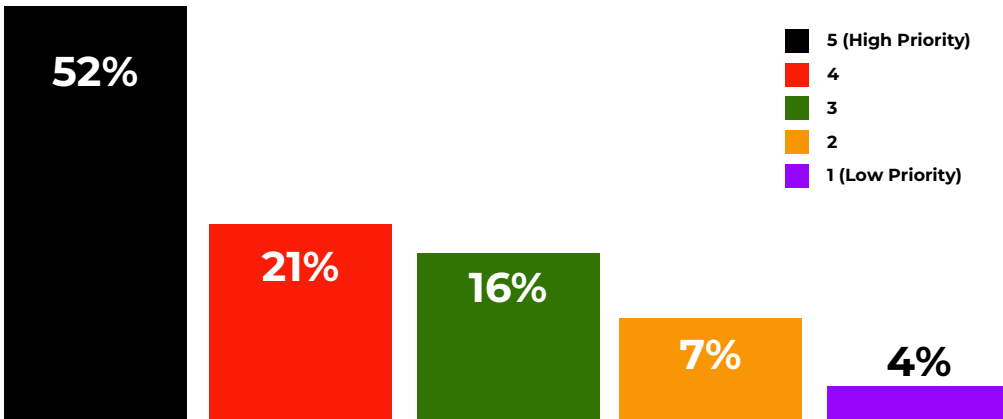
Addressing integrity is a top priority for 69% of the respondents. Whilst Kenya has made significant advancements in establishing anti-corruption legislation, enforcement remains weak.

Investors recommend strengthening enforcement capacity and institutional accountability to complement the existing anti-corruption legal framework. This includes adequate resource allocation to anti-corruption agencies, enhancing prosecutorial independence, and establishing clear timelines for investigation and resolution

of economic crimes. Visible and consistent enforcement, including prosecution of high-level offenders, is essential to restoring investor confidence, lowering perceived business risks, and positioning Kenya as a trustworthy destination for foreign direct investment.

To complement these, there is an urgent need to enhance transparency in public procurement and contracting to reduce opportunities for rent-seeking behaviour.

**Recommendation: Increase accountability and transparency in government procurement and other processes/systems**

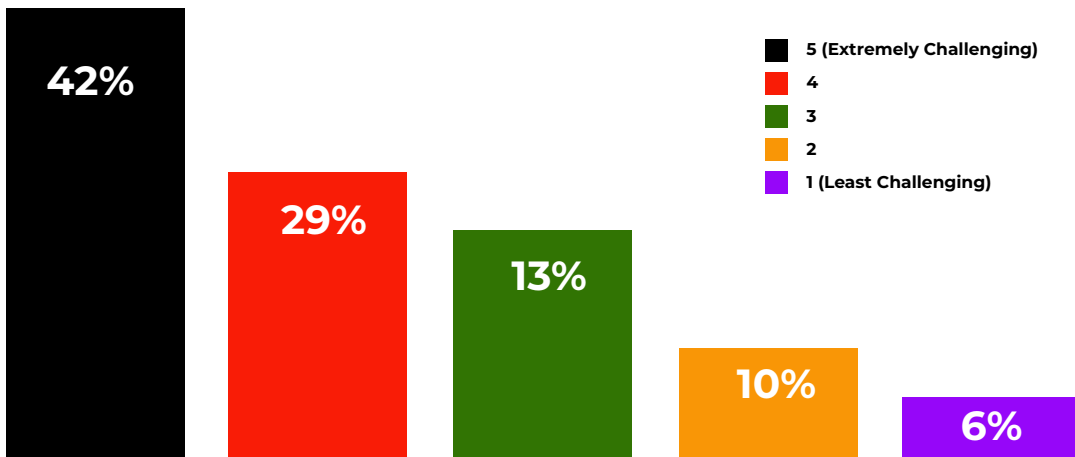


52% of the respondents identified enhancing accountability and transparency in government procurement and other processes/systems as a high priority action. Critical gaps continue to undermine effectiveness of Kenya’s procurement transparency reforms. Despite legal requirements, over 90% of state entities remain non-compliant with the disclosure of beneficial ownership information for companies awarded public

contracts, weakening accountability and enabling potential conflicts of interest.

The government should enforce adoption, monitor, evaluate and report on the effectiveness of the electronic government procurement (e-GP) system and the Integrated Financial Management Information System (IFMIS), addressing all emerging gaps to fully realize their benefits in enhancing accountability and transparency.

**3. Unpredictable policy environment**



42% of the respondents cited unpredictability of the policy environment as a key obstacle to FDI. The National Tax Policy aims to enhance predictability and transparency in tax policies and proposes comprehensive review of tax laws every five years. In reality, taxes are reviewed and updated often through Tax Laws Amendment Acts and annual Finance Acts, as illustrated in

the excise duty example below. Drastic and sudden tax increases pose significant challenges for businesses, undermining their ability to plan, invest and remain competitive in the market. The case study below on the energy sector also shows that this unpredictability extends beyond taxation to other policy areas.

### Rapid escalation of excise duty

As seen in the Tax Laws Amendment Act 2024, for example, the excise tax on spirits was increased significantly by 170.8%, rising from KES 356 per liter to KES 964 per liter. Similarly, the excise duty on white refined sugar (excluding the pharmaceutical sector) increased from KES 5 per kg in Finance Act 2023 to KES 7.5 per kg in 2024, representing a 50% rise.

The excise duty on imported sugar confectionery illustrates the volatility of Kenya's tax environment. The rate has increased sharply over a short period - from KES 20/kg in 2020 to KES 35/kg in 2021, revised to KES 36.74/kg in November 2021,

raised again to KES 40.37/kg in 2022, and further to KES 42.91/kg, and currently doubled to KES 85.82/kg. This cumulative increase of over 100% in just four years has created significant policy uncertainty, constrained investment decisions, eroded margins, reduced sales volumes, and exposed the sector to job losses and market contraction. Instead of broadening the tax base, such unpredictability threatens revenue stability. A more sustainable fiscal approach would be to maintain a predictable tax regime by reducing the excise duty to KES 37.91/kg to preserve government revenue, support business continuity, and safeguard value chains in manufacturing and retail.

### Case Study: Navigating Kenya's Energy Sector Moratorium and Strategic Shift

#### Background and timeline

A company initiated development of a solar energy project in Kenya in 2016. In 2019, the company signed a Power Purchase Agreement (PPA) to advance deployment. However, subsequent policy interventions significantly disrupted progress.

#### Power purchase agreement (PPA) moratorium in Kenya

In 2018, the Government of Kenya imposed a moratorium on new PPAs to allow for comprehensive review of existing contracts. In February 2023, the Cabinet lifted the moratorium. However, the National Assembly reinstated it shortly thereafter, citing the need for further scrutiny. In mid-2025, government officials from the Ministry of Energy indicated plans to lift the moratorium by June. Following prolonged debate on the matter, the moratorium was lifted in late 2025 following Parliament's adoption of the National Assembly Departmental Committee on Energy Addendum Report on the Inquiry into the Matter of the Reduction of Electricity Costs in the Country.<sup>10</sup>

#### Impact on the business and strategic response

The moratorium has created prolonged uncertainty around regulatory approvals, project timelines, and capital deployment. The company now anticipates commissioning the project by end of 2026, several years behind schedule. This unpredictability prompted a strategic shift: Its approach has moved from an aggressive, high-exposure investment posture to a more cautious, opportunistic approach, prioritizing engagement only when regulatory clarity and risk mitigation are assured. Whilst the company remains committed to Kenya, the policy environment has necessitated recalibration of its investment strategy and risk appetite.

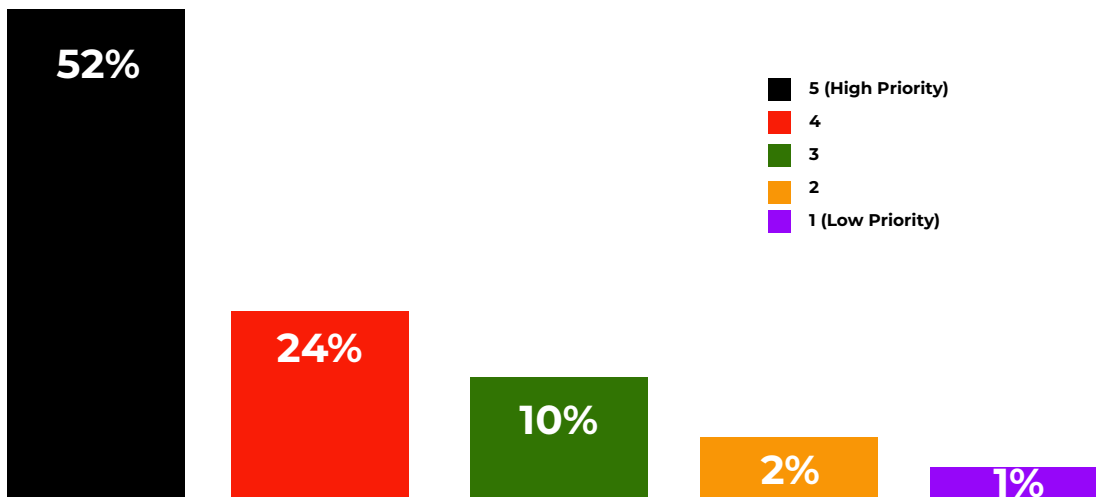
#### Key lessons and policy implications

This case underscores the critical importance of a predictable and stable regulatory environment for sustaining investor confidence. Sudden policy reversals – such as the PPA moratorium – can derail investment momentum, escalate financing costs and deter long-term commitment.

For policymakers, this company's experience highlights the need for consistent regulatory signaling, timely decision making and coordination between the executive and legislative arms to avoid policy volatility that undermines Kenya's attractiveness as an investment destination.

<sup>10</sup> <https://bowmanslaw.com/insights/kenya-turns-the-lights-back-on-power-purchase-agreements-moratorium-lifted/>

### Recommendation: Stabilize the business policy environment to enhance predictability



#### a. Enshrine the National Tax Policy review cycle into law

63% of the respondents urged for the implementation of the National Tax Policy as a top priority, including enshrining the 5-year review cycle into law, to enhance predictability of the business environment. A credible and stable tax environment will support long-term economic planning and investment.

#### b. Undertake and Publish Economic Impact and Regulatory Impact Assessment

The government should undertake and publish Economic Impact Assessments (EIA) and Regulatory Impact Assessments (RIA) during development of significant business policy and regulatory changes. EIAs and RIAs should be adopted for both tax adjustments and changes in other business-related policies. These assessments should be made publicly available for scrutinization and feedback from the business community allowing for deeper evaluation of the potential effects of proposed regulatory changes on the economy, sector players, government revenue and social outcomes.

#### c. Increase interaction between regulators and investors through Regulatory Investor Sandboxes

The Communications Authority of Kenya and Capital Markets Authority offer regulatory sandboxes focused on ICT and financial sectors.

These sandboxes provide platforms that can increase engagement between regulators and investors.

The two authorities should increase awareness on existence of these sandboxes. Further, use these platforms to engage on regulatory and policy issues, obtaining instant feedback and insights directly from foreign investors, and addressing identified gaps.

#### What does Kenya need to do differently to position itself as the preferred investment destination in Africa?

“To position itself as Africa’s top investment destination, Kenya must move from potential to predictable delivery. This means fixing the basics - reliable infrastructure, affordable energy, and streamlined bureaucracy - while aggressively tackling corruption and offering radical transparency. The country should sharpen its positioning as a Pan-African hub for innovation, services, and green enterprise, supported by consistent policy, investor protections, and a clear, focused narrative. Incentivising local capital, aligning talent development with industry needs, and marketing Kenya as a brand - not a brochure - will be key to unlocking sustained investor confidence and long-term growth.

## Additional issues and recommendations

**Delays in processing and settlement of VAT refunds:** 27% of the respondents cited delays in processing VAT refunds as a key concern. Businesses experience prolonged verification and settlement processes for VAT refunds, limiting their ability to reinvest, expand operations, and meet financial obligations.

The Kenya Revenue Authority (KRA) should review the VAT refund process and adhere to published timelines, fast-track VAT refunds for compliant taxpayers through automated systems and dedicated funding, and support favorable offsets.

**Inefficient and unreliable legal and judicial system:** 25% of the respondents indicated that unreliability of the legal and judicial system was a major challenge. Key issues include prolonged litigation processes, limited enforcement capacity, fragmentation and unpredictability.

Improving the judicial system (fairness and consistency in rulings, duration of hearings, implementation of rulings) was identified as a high priority by 43% of the respondents.

There is need to enhance judicial efficiency, transparency, and institutional accountability to improve Kenya's attractiveness as an investment destination. Key recommendations include:

- Accelerating automation of court processes.
- Consistent interpretation of laws across courts.
- Expanding specialized commercial courts.
- Building the capacity of judicial officers especially in commercial, land and tax matters.
- Implementing strict timelines for determination and enforcement of rulings.

Reforms such as the implementation of the e-filing system and Case Tracking Systems (CTS)

have enhanced efficiency and streamlined case management, increasing transparency in judicial processes. In addition, increased adoption of out-of-court settlements through mediation, arbitration and negotiation has facilitated expeditious resolution of disputes. These are commendable steps to improve the performance of the judicial system

**Weak intellectual property protection:** 18% of respondents identified counterfeiting and illicit trade as posing significant challenges to investment. This is corroborated by a Consumer Level Survey by the Anti-Counterfeit Authority (ACA) in which 60% of its respondents reported having purchased counterfeit products, often unknowingly.

Counterfeit products account for approximately one-fifth of all products sold in the Kenyan market, contributing to economic losses exceeding USD 6.15 billion annually.<sup>11</sup> This pervasive illicit trade undermines investor confidence, posing a serious challenge to Kenya's business environment and economic growth. The economic impact of counterfeits is compounded by consumer health and safety risks, disrupted market dynamics, tax evasion, and diminished trust in genuine brands.

Consequently, strengthening enforcement against counterfeits and illicit trade is a top priority for businesses especially manufacturers. Key recommendations include:

- Stronger inter-agency coordination to intensify enforcement against illicit trade.
- Stricter border surveillance, and.
- Digital product verification. Strengthening consumer awareness through joint sensitization campaigns

These measures are critical to protecting legitimate businesses and fostering a fair and predictable business environment.



<sup>11</sup> Anti-Counterfeit Authority, 2025. Consumer-Level Survey Report.



# Chapter 4:

## Way forward

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# Chapter 4:

## Way forward

The Government of Kenya's medium-term objectives are focused on creating jobs, expanding the tax base, improving foreign exchange balances, bringing down the cost of living, eradicating hunger and fostering inclusive growth.

To achieve these, the government seeks to promote investment in the Bottom-up Economic Transformation Agenda's (BETA) core pillars including agriculture, healthcare, digital economy, housing, Micro, Small and Medium Enterprises (MSMEs), and enablers such as manufacturing, infrastructure, blue economy and the services economy, among others, through a value chain approach that entails enhancing production, value addition and market access, and attracting local and foreign investments.<sup>12</sup>

### 4.1 Key priority areas

Foreign investors engaged for this paper prioritize the following actions in the immediate to medium term.

- **Predictability of the business environment:** This covers the tax policy, regulatory requirements and administrative processes. Frequent and rapid changes to policies and regulations are detrimental to long-term planning for foreign investors. These

changes often occur without any public knowledge/consultation and sufficient impact assessments. Furthermore, these changes are introduced without sensitization of stakeholders to facilitate smooth implementation.

- **Cost of doing business:** This includes the cost of energy, multiple fees and levies, and corruption that increase the cost of doing business and impact Kenya's competitiveness compared to regional peers.
- **Rule of law:** This pertains to application of laws, adherence to court rulings, and addressing corruption. Strengthening the rule of law will increase accountability and transparency, promote fairness and enhance investor confidence in contract enforcement and property rights.

### 4.2 High level action plan

The following actions are proposed to address the key priority areas. This high-level action plan includes suggested timelines for implementation, taking into consideration the urgency and complexity of the interventions.

Key priority area	Immediate	12 months	12 – 24 months
Predictability of the business environment	Ensure that proposals not included in a Bill or introduced during public participation undergo consultations with the affected/ concerned stakeholders prior to incorporation into the final Act.	Introduce legislative measures to strengthen implementation of the National Tax Policy and the recommendations contained therein.	Strengthen the public participation process by providing clear reasons as to why proposals are included despite significant stakeholder opposition  Currently, the process risks being perceived as merely a formality, as some proposals advance despite significant stakeholder opposition.
	Provide adequate transition periods before enforcing new procedures, supported by proactive sensitization forums through Business Member Organizations (BMO) and Chambers.	Publish Economic Impact Assessments (EIA) and Regulatory Impact Assessments (RIA) for proposed policy and regulatory changes to support public participation, enhancing transparency and trust.	

<sup>12</sup> 2025 Budget Policy Statement: Consolidating Gains under Bottom-Up Economic Transformation Agenda for Inclusive Green Growth

Key priority area	Immediate	12 months	12 – 24 months
Predictability of the business environment (continued)	Establish and enforce a structured engagement platform particularly for foreign investors, requiring regular, formal dialogue between investors and relevant government agencies to capture real-time feedback, systematically track and resolve issues, and ensure timely alignment of policies, regulations, and administrative practices with investor needs.	Introduce clear performance metrics to track issue resolution and investor confidence, and conduct an annual investor confidence review to demonstrate impact, guide reforms, and communicate progress to stakeholders.	
	Enforce Service Level Agreements (SLAs) across government agencies with clear internal mechanisms for non-compliance and further complement this with regular performance reviews to enhance accountability.		
Cost of doing business		Implement the National Tax Policy proposals, including 5-year review cycles for tax laws and incentives.	Close implementation gaps of the County Government (Uniform Procedures) Act by fast-tracking subsidiary regulations seeking to harmonize fees and eliminate charges imposed on goods merely transiting through counties..
			Review state agencies to identify those with overlapping and duplicate roles that result in multiple licensing requirements with fees, levies and charges associated to them which increase the cost of doing business.
Rule of law	Strengthen institutional capacity of judicial agencies to clear case backlog and manage caseloads effectively for commercial disputes.	Establish a scorecard tracking settlement of cases/disputes as a performance tool for accountability of the judicial system.	Conduct regular reviews and updates of laws and regulations to address gaps and adapt to evolving business environment.
	Ensure consistent and equal application of the law, including impartial prosecution of offenders.		
	Fast track enactment of the Whistleblower Protection Bill, 2023 to safeguard disclosure of improper conduct.		

### 4.3 Structured engagement with foreign investors

48% of respondents recommended prioritization of structured and regular dialogue between investors and the government to track progress of proposed reforms, foster a responsive investment climate, enhancing accountability by all key stakeholders and increasing investor confidence. These engagement forums are to be institutionalized within an appropriate government agency, such as the CS of the Ministry responsible for investment matters, Kenya Investment Authority, or other relevant agency, providing a platform for expressing policy concerns, clarifying regulatory changes and co-creating solutions to investment barriers, ultimately boosting Kenya's competitiveness as a preferred investment destination.

### 4.4 Conclusion

Kenya is at a critical point in its journey to becoming Africa's premier investment destination. This paper provides insights from foreign investors clearly prioritizing predictability, cost competitiveness and the rule of law as key pillars for attracting and sustaining FDI.

The proposed high-level action plan offers a practical roadmap for immediate, medium-term and long-term interventions. Structured and continuous engagement between government and investors, institutional accountability and consistent implementation of policies that foster trust and confidence will drive the success of these interventions. By implementing these recommendations and addressing emerging issues, Kenya will create an enabling business environment that reduces business risks, is responsive to investor needs, accelerates investment approvals and guarantees fair application of laws, positioning itself as a predictable, competitive and innovation driven economy.

Ultimately, foreign investment translates into job creation, skills and technology transfer, revenue enhancement and inclusive growth. Delivering these reforms is therefore critical in ensuring that Kenya achieves its ambitious target to raise annual FDI inflows to USD 5.079 billion in FY 2028/29, derives the benefits of FDI, strengthens its global standing and builds a resilient economy.



An aerial photograph of a farm. In the foreground, there is a field of young green corn plants in neat rows. To the right, several large, cylindrical blue metal grain silos are visible, some with conical roofs. A concrete area is partially visible on the right side. The image is overlaid with a semi-transparent red rectangle in the center, which contains the text 'Sector deep dives'.

# Sector deep dives



## A1. Agriculture

### 1. Investment climate

Agriculture remains at the heart of Kenya's economy and society, contributing about 20–33% of GDP, accounting for approximately 65% of export earnings, and employing over 40% of the population most of whom are smallholder farmers.<sup>15</sup> It also provides raw materials for agro-industries and contributes to food security. Kenya's global profile as a leading exporter of tea, coffee, cut flowers, and horticultural produce demonstrates its comparative advantage in agriculture.

Kenya's agricultural sector is dual in nature: a modern, export-oriented subsector (tea, flowers, coffee, vegetables) and a traditional, smallholder-dominated subsector producing maize, beans, and other staple crops for domestic consumption. While the export subsector has attracted foreign investment and developed global competitiveness, the domestic subsector faces productivity constraints due to limited mechanization, climate change, and land fragmentation.

The government has prioritized agriculture under Vision 2030, the Bottom-up Economic Transformation Agenda (BETA), and the Agricultural Sector Transformation and Growth Strategy (ASTGS). These policy frameworks recognize that foreign investment is crucial for achieving food security, creating jobs and fostering inclusive economic growth.

### Anchoring Kenya's Agribusiness in Natural Policy

The Government of Kenya's **Bottom-Up Economic Transformation Agenda (BETA)** (2022-2027) positions agriculture as one of its five key pillars for driving inclusive growth and job creation. Within this pillar, BETA prioritizes investment in specific value chains, including **maize, rice, dairy, cotton, horticulture, edible oils and the blue economy**, as the engines for food security and industrial linkages (Government of Kenya, BETA Statement, 2022). To attract both domestic and foreign investment into these sectors, the government emphasizes the use of **insurance and de-risking instruments** such as blended finance, credit guarantees and agricultural insurance schemes (Government of Kenya, BETA Agriculture Pillar-Delivery Unit, 2023; Government of Kenya Budget Policy Statement 2025). Furthermore, BETA explicitly commits to **mobilizing private sector participation and international investment** as a core strategy to unlock financing for agribusiness and rural transformation (Government of Kenya, Fourth Medium Term Plan 2023-2027; Government of Kenya BETA Statement, 2022).

Foreign investors bring capital, technology, managerial expertise, and access to global markets. Over the past decade, Kenya has attracted foreign investment from Europe (Netherlands, UK), the Middle East (UAE, Israel), Asia (China, India), and North America. Investment models include joint ventures, contract farming, long-term leases, and Public-Private Partnerships.

<sup>15</sup> FAO, 2024, Kenya at a Glance

**Policy and regulatory framework:** Agriculture is a priority under Kenya's Vision 2030, Bottom-Up Economic Transformation Agenda (BETA), and the Agricultural Sector Transformation and Growth Strategy (ASTGS). These strategies aim to enhance food security, create jobs, and improve value addition. Foreign investors are encouraged through incentives such as tax exemptions for agricultural equipment, zero-rating of some inputs, and the establishment of special economic zones (SEZs).

**Trade agreements and market access:** Kenya's agricultural investment climate is strongly influenced by its access to global and regional markets. The country benefits from a network of bilateral and regional agreements that reinforce its export competitiveness and shape investor decisions.

- Recent deals such as the UAE–Kenya Comprehensive Economic Partnership Agreement (CEPA) expand duty-free access for horticultural and processed food exports to Gulf markets.
- The UK–Kenya Economic Partnership Agreement (EPA) secures post-Brexit trade terms, ensuring continued preferential access for tea, flowers, and fresh produce.
- Under the EU–EAC trade framework, Kenya enjoys duty-free and quota-free access to the EU, its largest horticultural market.
- Regional integration frameworks expand opportunities for scaling agribusiness.

The African Continental Free Trade Area (AfCFTA) facilitates access to Africa's 1.3 billion consumers, the EAC to 300 million and COMESA to 640 million.

Together, these agreements shape Kenya's attractiveness as an investment destination by guaranteeing export markets and anchoring investor confidence.

#### Investment trends

Kenya's agricultural sector has attracted significant amounts of FDI over the years. While traditional areas such as tea and horticulture continue to dominate, new investment frontiers in agro-processing, climate-smart technologies, and agritech are gaining traction.

- Horticulture and floriculture: Dutch and Israeli investors dominate the cut flower industry. The UAE has shown interest in large-scale horticultural production for export.
- Agro-processing: New investments in tea, coffee, dairy, and edible oil processing aim to move Kenya up the value chain.
- Climate-smart projects: DFIs have supported solar-powered irrigation, regenerative farming, and cold storage facilities.
- Agritech: Mobile-based platforms for farmer finance, insurance, and traceability are expanding, attracting venture capital.



<sup>14</sup> Ministry of Agriculture, Livestock & Fisheries, Kenya. Kenya National Dairy Master Plan 2010–2030.

<sup>15</sup> Situma, E., 2021. Digitization seeds opportunities for Eastern Africa's rural farmers. International Finance Corporation.

- **New value chains:** Value chains like Irish potato are gaining traction with investments along the entire value in verticals including seed all the way to processed frozen chips making investments attractive. Today multinationals like KFC source locally produced frozen chips for their operations, thanks to enhancements in the sub-sector.

### Emerging investment opportunities

Beyond traditional strengths in tea, coffee, and floriculture, Kenya's agriculture sector is opening new frontiers for investment. These include:



**Cold chain hubs for horticultural exports** – critical to reduce 20–30% post-harvest losses and supported under ASTGS and World Bank's KCSAP (2019, 2020).



**Dairy processing** – with domestic consumption growing at 5% annually and anticipated regional demand under AfCFTA, opportunities exist for new processing facilities.<sup>14</sup>



**Climate-resilient irrigation in ASAL counties** – supported under Vision 2030 flagship projects and World Bank CCDR (2023), offering scalable PPP models.



**Agroforestry and regenerative agriculture** – promoted by FAO and Kenya Forestry Service as pathways for climate mitigation and sustainable land use.



**Agri-fintech solutions** – Kenya's leadership in digital agriculture provides opportunities for expanding credit, insurance and digital marketplaces for smallholders.<sup>15</sup>

Understanding these concerns is critical for designing reforms and interventions that can improve the sector's attractiveness and competitiveness. The most pressing constraints based on available data and investor experiences are outlined below.

### A. Regulatory and policy issues



**Fragmented and inconsistent policy and legal framework:** Kenya's agriculture sector operates within a fragmented and inconsistent policy and legal framework that continues to constrain growth and investment. Overlapping laws, outdated regulations, and poorly aligned mandates between national and county governments have created confusion in licensing, taxation, and oversight, increasing the cost of compliance for producers and agribusinesses.

Specifically, the reintroduction of commodity-specific laws and boards such as the Pyrethrum Act (2013), Tea Act (2020), Coffee Bill (2023), and Horticultural Crops Authority Bill (2020) has created overlaps with the Agriculture and Food Authority Act (2013) and the Crops Act (2013). Combined with overlapping mandates between KEPHIS and KEBS on SPS enforcement and quality certifications, this has resulted in regulatory duplication, multiple licenses, and an unpredictable operating environment. Uncertainty over the retention of the Agricultural Sector Transformation and Growth Strategy (ASTGS) under MTP IV (2023–2027) further clouds medium-term sector direction, raising compliance costs and deterring investment.

## 2. Key issues and concerns

Despite Kenya's potential, investors face structural, policy, and operational challenges that constrain the sector's ability to attract and retain foreign capital.

While devolution was intended to improve service delivery, it has instead exposed gaps in coordination and accountability, with instances of double taxation, conflicting directives, and regulatory duplication. For investors, this translates into uncertainty, inefficiency, and elevated risk especially across key value chains.

**Multiple agencies and lack of coordination:** The multiplicity of regulatory bodies within Kenya's agricultural sector and overlap in mandates such as those between the Agriculture and Food Authority (AFA), the National Biosafety Authority (NBA), and various commodity-specific directorates, not only leads to duplication of functions but also creates uncertainty for sector stakeholders.

Additionally, there is overlapping mandates between KEPHIS and KEBS in enforcing sanitary, phytosanitary, and quality standards result in duplicate inspections, re-certification of compliant imports, and delays at entry ports. This duplication increases logistics costs and acts as a non-tariff barrier, reducing Kenya's agricultural competitiveness.

This regulatory clutter impedes timely decision-making, inflates compliance costs, and discourages private sector participation, particularly in high-potential areas like biotechnology, horticulture, and agro-processing. The absence of a clear delineation of roles between national and county institutions further exacerbates these challenges, resulting in multiple, and sometimes contradictory, approvals and oversight processes.

**Land tenure restrictions:** Foreigners cannot own agricultural land, limiting long-term security of investment. Presidential exemptions are rare, forcing reliance on structures such as leases, which are increasingly becoming a challenge for foreigners, or JVs.

**Policy unpredictability:** Export bans on maize, sugar, and avocado and frequent changes in subsidies undermine investor confidence.

## B. Taxation



**Multiple levies:** A major challenge in Kenya's agricultural sector is the imposition of numerous levies and fees, compounding the already heavy regulatory burden. The 2025 Manufacturing Priority Agenda by the Kenya Association of Manufacturers highlighted the various fees, levies charged in the sector. For example, a total of 15 levies are imposed on the tea sector, 14 of them being levies paid to county governments and one of the levies, Green leaf Cess, being paid to the Tea Board of Kenya. The sheer number of levies not only increases the cost of doing business but also poses a significant barrier to investment and growth within the sector.

**Regular changes in taxation:** Frequent changes in tax policy, particularly in the VAT classification of agricultural products and inputs, create uncertainty for sector stakeholders. Each Finance Bill often shifts products between zero-rated, exempt, and standard-rated categories. For instance, while locally consumed tea is currently VAT-exempt and packaging materials for tea and coffee are zero-rated, inputs such as fertilizers, pesticides, and seeds remain VAT-exempt. However, this status is subject to change with each fiscal cycle, creating regulatory unpredictability. Such volatility can undermine investor confidence and dampen long-term investment in the agricultural sector.

**High tariffs:** The East African Community Common External Tariff has an import duty of 35% on seed imports. This has increased the cost of improved seeds not locally available, thus raising production costs and limiting access to climate-resilient technologies.

### C. Other challenges



**Data gaps:** The evidence base that investors and policymakers rely on remains fragmented. Much of the available data is aggregated, outdated, or limited to specific subsectors such as tea and horticulture. Investors require reliable, disaggregated, and forward-looking data to make informed decisions on entry strategies, risk management, and partnership models. Similarly, policymakers and development partners need robust evidence to design interventions that attract and retain quality investment.

**Infrastructure deficits:** Poor rural roads, limited cold chain, and unreliable electricity cause post-harvest losses of up to 30%.

**High costs and limited finance:** Fertilizer and other inputs are costly due to import dependence. Commercial loan rates average 15–18%, and long-term financing is scarce.

**Climate risks:** Droughts (2020–2023) and El Niño floods (2023) caused massive crop and livestock losses. Climate change increases costs of resilience and insurance.



## The 2025 Manufacturing Priority Agenda by the Kenya Association of Manufacturers highlighted the various fees, levies charged in the sector.

### 3. Recommendations

Addressing the constraints to foreign investment in agriculture requires targeted reforms and strategic actions. Recommendations must balance investor interests with national priorities such as food security, inclusive growth, and environmental sustainability. They provide practical, actionable steps that government, development partners, and private investors can consider to improve the investment climate, enhance competitiveness, and build resilience in the sector.

**Harmonize regulatory structure:** There is a compelling need to rationalize the regulatory architecture through the consolidation of laws and institutions, clarify inter-agency mandates, and align county-level regulatory functions with national policy to create a more predictable, efficient, and investor-friendly agricultural environment.

To resolve the inefficiencies caused by overlapping mandates, Kenya should streamline its agricultural regulatory framework by consolidating related statutes and aligning agency functions. A single-window system for approvals would ease compliance, while clear delineation between National and County mandates is essential to avoid jurisdictional conflicts. A simplified, coordinated regulatory environment will enhance efficiency, attract investment, and support sustainable growth in the sector.

The government should also streamline sector regulation by consolidating commodity-specific laws under a coordinated Agriculture and Food Authority-led framework, harmonizing levies and licensing, clarifying agency mandates, and recognizing international standards to reduce duplication, improve predictability, and enable large-scale agribusiness investment.

Specifically, to solve the overlap between KEPHIS and KEBS, the government should provide clarify and harmonize sanitary, phytosanitary, and quality standards (SPS) oversight by delineating mandates between agencies, eliminating duplicate certification, and adopting mutual recognition of international standards such as International Seed Testing Association (ISTA), the International Union for the Protection of New Varieties of Plants (UPOV), and the Organisation for Economic Co-operation and Development (OECD).

**Streamline fees and levies:** To address the issue of multiple levies and fees, all fees and levies could be paid to the national government then distributed to the county government under the equitable sharing method in Article 202 of the Constitution of Kenya. The County Licensing (Uniform Procedures) Act 2024 that was passed into law was intended to standardize fees, levies, and charges at the county level, reducing duplication and simplifying the regulatory frame. However, the Act and subsidiary regulations have failed to accomplish this objective due to counties not being able to agree on the framework.

**Zero rate agricultural inputs:** The government should also consider zero rating all agricultural input products in a bid to ensure farmers and investors are able to recover their input costs therefore reducing the cost of production.

**Reduce import duty:** The government should engage the EAC Secretariat to reduce or eliminate the tariff on imported seeds and classify seeds as essential agricultural inputs in line with regional food security objectives.

**Provide agro-processing incentives:** Provide tax breaks, duty exemptions, and accelerated depreciation for agro-processing and cold chain investments.

**Policy stability:** Develop and publish a five-year agricultural policy roadmap to reduce unpredictability in export and subsidy regimes.

**Land reforms:** Standardize long-term lease agreements, establish transparent land banks at county level, and fast-track approvals under the Land Commercialization Initiative. The Government should protect the sanctity of titles issued by land registries to give investors comfort that land they are buying will not be the subject of a fake title claims or land grabbing.

**Blended finance:** Scale up concessional credit, guarantees, and crop insurance with DFIs to reduce financing costs and mitigate risks.

**Climate-smart incentives:** Promote solar irrigation, water-efficient technologies, regenerative agriculture, and climate-resilient crops through fiscal incentives and grants.

**Infrastructure PPPs:** Partner with private investors to build cold storage, packhouses, rural roads, and logistics hubs.

**Address data gaps:** Bridging key data gaps is critical for enhancing transparency, reducing uncertainty, and strengthening investor confidence. For example, data on land mapping of available agricultural land parcels including size, suitability, tenure status, infrastructure access could be useful to investors and other stakeholders. As would a publicly accessible database that tracks agricultural policy shifts in real time, such as export bans, subsidies and tax incentives. Closing information asymmetries will also help Kenya benchmark itself against regional competitors and unlock a more predictable and evidence-driven investment environment.





## A2. Manufacturing

### 1. Investment climate

Kenya aspires to build a strong, diversified, and globally competitive manufacturing sector. This industry is central to driving socio-economic progress through job creation, attracting foreign direct investment, and enhancing foreign exchange earnings. According to the Kenya National Bureau of Statistics (KNBS) 2025 Economic Survey, the sector's real value added grew by 2.8 percent in 2024, an improvement from the 2.2 percent recorded in 2023, and contributed 7.3 % of the GDP.<sup>16</sup> The sector's output expanded by 4.4 percent in 2024, up from a growth of 2.1 percent in 2023, mainly fuelled by the manufacture of food products and agro processing.

Through the Bottom-up Economic Transformation Agenda (BETA), the Kenya Kwanza Government has rolled out several initiatives that directly or indirectly promote the growth of the manufacturing sector. These initiatives include County Aggregation and Industrial Parks (CAIPs)

whose main objective is to grow manufacturing and agro-industrial investments to enhance the competitiveness of the agriculture sector sustainably. This is intended to create inclusive decent jobs, promote productivity at the firm level, increase farmers income; increase exports, increase foreign exchange and grow the economy, and provide a platform for stakeholders' engagement in promoting industrialization in the country.

Kenya Kwanza's Industrial Value Chain Strategy, which focuses on developing and strengthening sectoral value chains, particularly those led by Kenyan Micro, Small, and Medium Enterprises (MSMEs), involves value chain mapping to identify strengths, weaknesses, and opportunities, aiming to transform these value chains into larger industries to increase in-country value-addition, create jobs, and reduce the cost of living. Key priority sectors include leather, textiles, and agroprocessing, with efforts to attract investment, improve infrastructure, and leverage digitalization to foster industrial growth and economic transformation.

<sup>16</sup> Kenya National Bureau of Statistics, Economic Survey 2025

Kenya's SEZs and EPZs provide a powerful array of incentives and infrastructure advantages that enhance the competitiveness of the manufacturing sector. Some of the EPZ flagship projects include Eldoret - Uasin Gishu County, Sagana - Kirinyaga County, Kabati - Muranga County and Nasewa - Busia County. Key fiscal benefits include a 10-year corporate income tax holiday, reduced tax rates thereafter, exemption from import duties, VAT, stamp duties, and customs duties on inputs and machinery. They also offer procedural and regulatory efficiencies: one-stop-shop facilitation, streamlined licensing, faster project approvals, and less bureaucracy. On the infrastructure side, EPZs/SEZs come with ready factories/warehouses, serviced land, utility connections (electricity, water, roads) and enhanced logistics, which reduce set-up time and running costs. The zones also promote export orientation, helping manufacturers to access foreign markets, benefit from profit repatriation, and improve foreign exchange earnings and on employment and value-addition, EPZs have been shown to contribute a sizeable share of manufacturing employment and output, as well as fostering skills and technology transfer and backward integration with the domestic economy.<sup>17</sup>

Kenya is actively positioning itself to benefit from the African Continental Free Trade Area (AfCFTA) through its National Implementation Strategy 2022–2027, which targets, among other goals, a 5% annual growth in manufacturing value addition. AfCFTA opens up a continental market of over 1.4 billion people, offering Kenyan manufacturers expanded opportunities for scale and export diversification. Already, Kenya has made historic shipments under AfCFTA preferences, including car batteries and tea to Ghana in 2022. Exports to African countries rose by 15.7% in 2022, with sales to the EAC alone growing by 17.7%, reflecting AfCFTA's potential to deepen intra-African trade.<sup>18</sup> The pact also encourages value addition and industrial upgrading by shifting from raw commodity exports to processed goods, thereby stimulating investment in factories, industrial parks, and skills development. However, challenges remain: Kenya's relatively high cost of production could limit competitiveness against other African producers, while tariff liberalization is expected to reduce government revenue by about KES 22.5 billion.



<sup>17</sup> [Export Processing Zone Authority. Investment Opportunities in Kenya's EPZ Program \(Sagana, Kabati, Eldoret and Nasewa EPZs\).](#)

<sup>18</sup> Ministry Of Industrialisation, Trade and Enterprise Development State Department for Trade and Enterprise Development, Kenya's National AfCFTA Implementation Strategy 2022 – 2027, Policy Brief

The Kenya–UAE Comprehensive Economic Partnership Agreement (CEPA), signed in January 2025, is expected to significantly boost Kenya's manufacturing sector by enhancing market access, attracting investment, and encouraging value addition. The UAE is already a key trade partner, with bilateral trade valued at about KES 445 billion in 2023, and CEPA will remove or reduce tariffs on over 80% of goods, simplify customs, and lower non-tariff barriers. This creates opportunities for Kenyan manufacturers in agro-processing, textiles, leather, and other value-added industries to expand exports while meeting UAE's growing demand, particularly for processed and halal-certified goods. The agreement is also likely to attract foreign direct investment from the UAE into manufacturing, technology transfer, and infrastructure, further strengthening competitiveness.<sup>19</sup>

Agro-processing through agriculture remains the backbone of Kenya's economy, contributing roughly 21.2% of GDP and employing more than 70% of the rural population<sup>20</sup>. This strong base creates vast potential for agro-processing industries to add value to raw produce such as tea, coffee, horticulture, dairy, and cereals. Agro-industrialization not only diversifies exports and raises foreign exchange earnings but also creates significant rural employment and strengthens food security. It is also a key priority area for development partners, with agencies like the FCDO, EU, and the World Bank channelling major support into value chain development, market access, and agribusiness financing.

With global shifts toward sustainability, Kenya's manufacturing sector can tap into carbon markets, renewable energy adoption, waste recycling, and eco-friendly product innovations. Carbon trading frameworks and emerging environmental

compliance standards are opening up new investment avenues, while government policies such as the Climate Change Act and commitments to net-zero targets enhance investor confidence. Circular models such as recycling plastics into building materials or turning agricultural waste into bioenergy can reduce costs, create green jobs, and align manufacturing growth with climate resilience.

Healthcare manufacturing is also a great opportunity to enhance the manufacturing sector. The COVID-19 pandemic exposed Kenya's reliance on imported medical supplies, but it also accelerated investment into local pharmaceutical and medical device production. Recent flagship projects include new vaccine manufacturing initiatives and pharmaceutical industrial parks supported by both government and private investors. With rising healthcare demand across East and Central Africa, Kenya is strategically placed to become a regional hub for pharmaceuticals, diagnostics, and health technologies. Strengthening this subsector not only improves health security but also reduces import dependency and creates skilled jobs in biotechnology and chemical engineering.

Small and medium enterprises (SMEs) form the majority of Kenya's manufacturing players, yet most remain informal and face challenges accessing credit, technology, and markets. Targeted financing schemes such as the Hustler Fund, SME guarantee facilities, and tax reforms, alongside governance and regulatory streamlining, provide pathways for SMEs to scale up. Formalizing and strengthening SME manufacturers can boost domestic value chains, create resilience against import dependence, and stimulate inclusive growth by enabling youth and women-owned enterprises to thrive in the sector.



<sup>19</sup> Ministry of Foreign and Diaspora Affairs, State Department for Foreign Affairs, 14 January 2025. Kenya and UAE Sign Landmark Comprehensive Economic Partnership Agreement.

<sup>20</sup> KNBS 2024. Kenya Census of Agriculture Pilot Report For 2024/2025.

## 2. Key issues and concerns

**Tax and regulatory landscape:** The manufacturing sector in Kenya operates within a complex regulatory environment shaped by a range of national laws, sector-specific regulations, and oversight by multiple government agencies. These regulations cover areas such as taxation, standards and quality control, environmental compliance, licensing, labour, and trade. While the intent of this regulatory framework is to ensure safety, fairness, and environmental sustainability, in practice it often results in overlapping mandates, inconsistent enforcement, and high compliance costs. This fragmented landscape presents significant challenges for manufacturers, particularly small and medium enterprises, by creating uncertainty and increasing the cost and time required to do business.

**Policy and regulatory uncertainty:** The Sustainable Waste Management (Extended Producer Responsibility) Regulations, 2024 (EPR Regulations) reflect growing regulatory unpredictability and compliance risk. Key terms remain undefined, enforcement processes lack clarity, and duplicative fees are imposed across agencies. The introduction of a blanket KES 150 levy per imported item without economic justification further burdens industry and risks non-compliance. Manual and inconsistent procedures at NEMA complicate implementation, increasing operational costs and regulatory delays. This environment reduces investor confidence, threatens manufacturing competitiveness, and undermines Kenya's attractiveness as a regional investment destination.

**Multiple regulatory bodies:** Multiple regulatory bodies including KRA, KEBS, NEMA, and county governments oversee Kenya's manufacturing sector, often with overlapping mandates. This results in duplicated inspections, numerous permits, and inconsistent enforcement across counties, increasing compliance costs and delays. Such inefficiencies create uncertainty and reduce the sector's competitiveness.

**High fees and levies:** Imports into Kenya are subject to an Import Declaration Fee (IDF) of 2.5% and a Railway Development Levy (RDL) of 2% on the customs value of goods. The IDF was reduced from

3.5% to 2.5% in 2023, and although an increase was proposed in 2024, it was shelved following public opposition. The RDL was increased from 1.5% to 2% in late 2024. Inputs and raw materials imported by pharmaceutical manufacturers remain exempt from the RDL. Despite the reduction in IDF, these levies continue to raise costs for importing industrial raw materials and inputs, increasing overall production expenses for manufacturers.

**High cost of energy:** Energy and fuel prices in Kenya are regulated by the Energy and Petroleum Regulatory Authority (EPRA). The March 2024 Energy (Electricity Market, Bulk Supply and Open Access) Regulations opened the electricity market to private sector players, ending the long-standing monopoly of Kenya Power and Lighting Company (KPLC) in transmission and distribution of electricity. Despite this, high energy costs remain a significant barrier to manufacturing and investment, compounded by delays in new electricity connections and inflation-linked charges that increase costs.

The Finance Act 2023 introduced a 16% VAT on petroleum products and levies on fuel and electricity, further driving up energy expenses for manufacturers. Although the Ministry of Energy introduced Time-of-Use (ToU) tariffs to reduce electricity costs during off-peak hours, uptake is low due to strict eligibility criteria requiring at least 6% consumption growth over six months. Additionally, EPRA's February 2025 price schedule shows substantial levies and VAT on petroleum products, highlighting the ongoing inflationary pressure on energy costs that undermine the competitiveness of Kenyan manufacturers.

**Counterfeit imports or local products:** Counterfeiting and other forms of illicit trade continue to heavily undermine Kenya's manufacturing sector and wider economy. In 2018 alone, the country lost KES 826 billion to illicit trade with KES 153 billion in government revenue lost, KES 89 billion in sales wiped out, and about KES 123 billion in potential investment opportunities forgone. The sector also suffered significant employment losses, with over 44,000 jobs cut, nearly a fifth of which were directly linked to counterfeiting. Further, about 30% of firms surveyed reported their products were being counterfeited and sold in the market.<sup>21</sup>

<sup>21</sup>Anti-Counterfeit Authority National Baseline Survey on Counterfeit and Other Forms of Illicit Trade in Kenya

### 3. Recommendations

**Enhance policy and regulatory certainty:** A stable and predictable policy environment is essential to build investor confidence, especially for medium- and long-term investments. Frequent regulatory changes and overlapping policies create uncertainty and hinder planning. Harmonizing legislation across counties such as standardizing licensing and tax requirements will reduce duplication and regulatory burdens, enabling companies operating in multiple jurisdictions to plan efficiently and operate smoothly.

Additionally, on the EPR Regulations, Parliament should consider amendments to define key terms including “item,” “imported finished goods,” “raw materials,” and “intermediate goods” to remove ambiguity. The definitions could be aligned with the EAC Common External Tariff to ensure regional consistency. They should also eliminate duplicative EPR-related fees and harmonize charges across agencies and introduce differentiated eco-modulated fees based on environmental impact instead of a blanket levy. The government should also adopt a phased implementation roadmap with clear compliance guidance and Digitize NEMA’s EPR import certification processes to reduce delays. In relation to the fees, the government should consider conducting a transparent Regulatory Impact Assessment on the KES 150 levy.

**Maintain a stable macroeconomic environment:** To attract and sustain investment, the government should commit to fiscal consolidation by gradually reducing the fiscal deficit, stabilizing the exchange rate regime to avoid sharp currency fluctuations, and controlling inflation to single digits. Additionally, fostering favourable domestic interest rates will lower the cost of borrowing for manufacturers and investors, making capital more accessible and affordable. These macroeconomic measures create a predictable environment conducive to growth and investment.

**Strengthen governance and enforcement:** Effective implementation of regulations requires strong enforcement mechanisms. The government should prioritize cracking down on counterfeit goods through coordinated efforts involving customs, law enforcement, and industry stakeholders. Protecting intellectual property rights is vital to incentivize innovation and maintain competitiveness. Establishing specialized courts or fast-track mechanisms for IP disputes can enhance enforcement efficiency.

**Improve trade controls and compliance:** As a regional economic leader, Kenya should model adherence to East African Community (EAC) trade regulations by strengthening customs

enforcement and ensuring imported goods comply with agreed standards. Enhancing import controls on products that can be produced locally will protect domestic industries from unfair competition. Increased collaboration with regional partners to combat counterfeit and substandard goods both imported and locally made will safeguard consumer safety and foster a healthier trade environment.

**Promote Public-Private Partnerships (PPPs):** Given government resource constraints, PPPs are crucial for financing and implementing critical infrastructure projects, such as industrial parks, power generation, and transport networks. Encouraging transparent and mutually beneficial partnerships will enable long-term investments in manufacturing infrastructure, support innovation, and improve supply chains. Establishing clear PPP frameworks and streamlined approval processes can attract more private sector participation.

**Reduce the cost of doing business:** To boost Kenya’s competitiveness, the government should target the major cost drivers in manufacturing, especially energy and electricity costs. Expanding and promoting tariff structures like Time-of-Use (ToU) tariffs for industries can lower electricity bills. Additionally, streamlining project approval processes by cutting red tape, reducing multiple licensing requirements, and implementing one-stop service centers will shorten timelines and reduce bureaucratic delays. These measures will lower operational costs and enhance the investment climate.

**Streamline VAT refunds:** To address the persistent challenge of delayed VAT refunds, particularly for exporters and manufacturers, the government should establish a fast-track refund mechanism specifically for sectors dealing in zero-rated supplies. Prioritizing these businesses whose operations are heavily reliant on liquidity will enhance competitiveness and support export growth. To streamline this, the Kenya Revenue Authority could consider designating a specialized VAT refund unit within the Authority focused solely on processing VAT refund claims from zero-rated sectors with specialized staff trained to handle the unique aspects and urgency of these claims.

Additionally, the Kenya Revenue Authority should adopt a risk-based audit approach, allowing compliant taxpayers with strong filing histories to access refunds more quickly, while directing scrutiny toward high-risk claims. To sustain this process, the National Treasury must allocate adequate and predictable resources to the VAT refund fund within the national budget cycle, ensuring that delays are not driven by cash flow constraints within the government.



## A3. Healthcare

### 1. Investment climate

The Social Health Insurance Act, 2023 (No. 16) established the Social Health Authority (SHA), to provide the legal basis for universal health coverage (UHC). Under the Act, three new funds were established: the Primary Healthcare Fund (PHF), Social Health Insurance Fund (SHIF), and the Emergency, Chronic and Critical Illness Fund. The Social Health Insurance Fund (SHIF) replaced the National Health Insurance Fund (NHIF) and aims to widen coverage and establish new funds and benefit packages to support primary care and financial protection.

The government has committed to increase public health expenditure with an increase of 8.74% to KES 138.1 billion in the 2025/26 budget from the previous year's KES 127 billion allocation. This is estimated to be approximately 3.3% of the total national budget. The national budget for UHC creates a more predictable and larger market for health services and products. With the expanded role and capacity to cover more Kenyans and provide more services, healthcare is expected to be more affordable and predictable, which will attract investment into expanding coverage and services. The increasing focus on primary and preventive

care, especially for non-communicable diseases, and the need for wellness, health promotion and early detection will open avenues for investments. A growing middle class and a youthful population presents a large market for healthcare services which creates demand for investments.

The government has developed a local manufacturing strategy to expand domestic production with a particular emphasis on essential medicines and vaccines to improve health security and reduce import dependence. Vaccine manufacturing initiatives and partnerships are underway with the goal of producing the first locally manufactured vaccine by 2027. Reforms at the Kenya Medical Supplies Authority (KEMSA) and increased scrutiny of procurement and distribution processes are a major focus for the Ministry of Health and Parliament. Procurement transparency, stock management and predictable supplier payments are priority issues. The financial space for health workforce was estimated at USD 2.29 billion in 2021 and is projected to rise to USD 3.58 billion by 2030. <sup>22</sup>

Multilateral finance and project support continue to flow into Kenya's health sector to strengthen primary health services, supply chains and institutional capacity. The support aims to make public-sector procurement and health product

<sup>22</sup> PubMed, 2025. Modelling the health labour market outlook in Kenya: Supply, needs and investment requirements for health workers, 2021-2035.

distribution more reliable and to catalyze private-sector collaboration. In recent years, multilateral support to Kenya's health sector has included a USD 215 million World Bank funding to strengthen capacity of key institutions and support progress towards universal health coverage and USD 400 million annually from the Global Fund to fight HIV, TB and Malaria.

However, even with these initiatives the sector still faces challenges and gaps including funding and financial constraints, shortage of health workforce, infrastructure and access issues, policy and implementation gaps. The recent reduction of donor funding in Kenya's health sector has also impacted access to essential services and disrupted health programs like HIV, TB, and maternal and child health, potentially increasing public health crises and disease resurgence. The devolved nature of the health system has resulted in fragmented financing and service delivery, creating inefficiencies that make investment more complex.

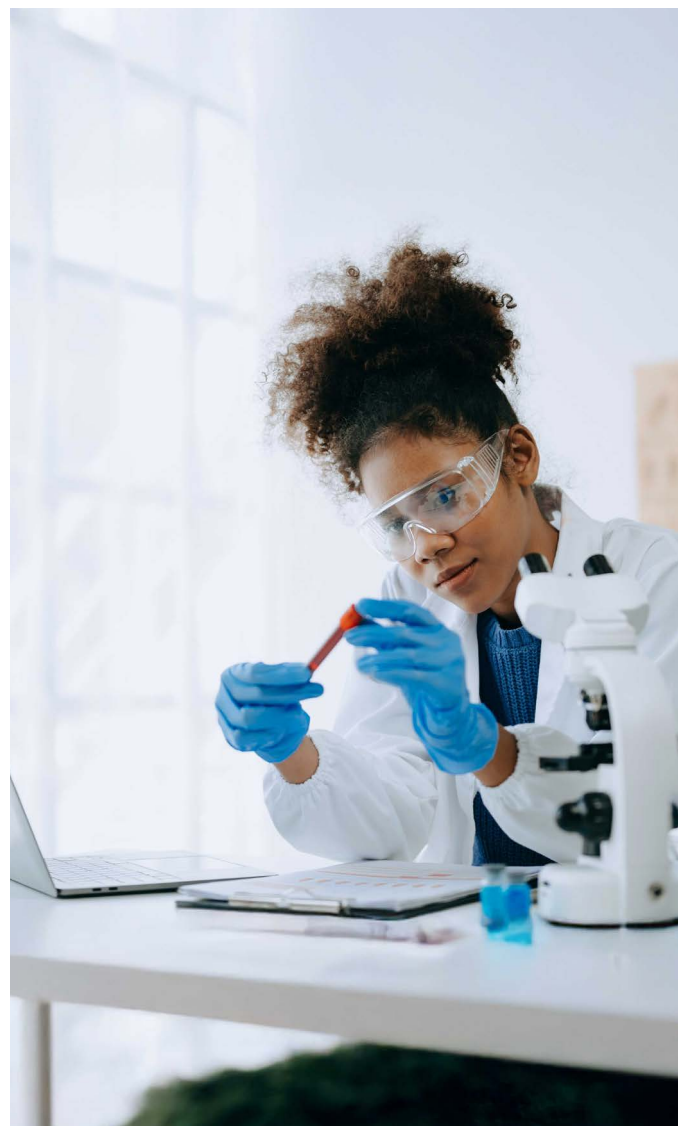
To increase investments in the sector, the government has developed incentive packages such as capital allowances, VAT exemptions for certain inputs and products, and targeted tax incentives for large investments. Investors undertaking capital expenditure on buildings or machinery used for manufacturing (including hospital equipment) are eligible for a **100% investment deduction prorated yearly**. Hospital buildings and hospital equipment receive a **50% first-year allowance**, with residual allowance in subsequent years at 25% per year.

There is growing use of Public-Private Partnerships (PPPs) to expand the capacity of hospitals, diagnostic networks, clinics, and digital platforms. The government has signaled interest in partnering to unlock underused assets and attract private capital for equipment and service delivery. Some of these initiatives include:

- Kenyatta National Hospital's plan to build a 300-bed private wing block under a PPP ("build-operate-transfer") model, which private investors will finance, build, operate and maintain for a period, before transferring ownership back to KNH.<sup>23</sup> Under the same PPP push, KNH is also planning a 600-bed children's hospital (cost ~ KES 5 billion) and staff accommodation houses.

- In July 2025, the Government launched a tender for an ultra-modern medical training complex at Moi Teaching and Referral Hospital (MTRH), Eldoret under a DBFMT (Design, Build, Finance, Maintain, Transfer) PPP model. The partner will design, finance, construct, equip, operate, and maintain academic & residential facilities.

Proposed 2,000-bed capacity facility adjacent to Pwani University, including a Centre of Excellence in Health Management & Research, Tropical Medicine Centre, Telemedicine & Informatics Unit, etc., under a 30-year DBOT (Design-Build-Operate-Transfer) PPP.



<sup>23</sup> Constructionreview, 2021. KNH to construct a 300-bed private hospital in Nairobi, Kenya.

## Investment opportunities

**Local pharmaceutical and vaccine manufacturing:** Kenya's heavy reliance on imported medicines and vaccines presents a strong opportunity for local pharmaceutical production. With government support on reducing import dependency, private investors can tap into manufacturing of essential generics, biologics, and vaccine fill/finish capacity. Such investments would not only strengthen national health security but also enable Kenya to serve as a regional pharmaceutical hub in East Africa.

**Diagnostics and laboratory networks (public-private partnerships to decentralize testing):** Access to reliable and affordable diagnostics remains limited outside major urban centres. PPP models to establish laboratory networks and expand point-of-care testing into counties could significantly reduce diagnostic delays and improve health outcomes. Private players can bring in capital, technology, and operational efficiency while the government provides policy and infrastructure support.

**Primary-care franchising and outpatient network expansion (affordable private clinics):** There is growing demand for affordable and quality outpatient services among Kenya's urban and peri-urban populations. Franchised models of primary care clinics offer scalability, standardized care, and affordability, while relieving pressure on overburdened public facilities. Private investors can partner with local entrepreneurs and health professionals to establish networks that bridge the access gap at the community level.

**HealthTech:** telemedicine, e-pharmacy, mobile health wallets, clinical decision-support, and diagnostics-as-a-service: Kenya's high mobile penetration and digital adoption make it an ideal environment for health technology solutions. Opportunities exist in scaling telemedicine platforms, digital pharmacies, mobile-based health wallets for payments and insurance, and AI-powered clinical decision-support tools. Additionally, diagnostics-as-a-service models that leverage digital platforms can expand access to specialized care, particularly in underserved rural areas.

**Medical devices assembly, maintenance, and calibration services:** The Kenyan health sector is heavily dependent on imported medical devices, many of which face high downtime due to poor maintenance and lack of local servicing capacity. Investors can enter the market by setting up assembly plants, providing after-sales support, and offering calibration services for both public and private providers. This not only lowers costs for facilities but also extends the useful life of critical equipment.

**Public procurement and logistics improvement services (warehouse, distribution, cold chain):** Weak supply chains and inefficiencies in procurement remain a major bottleneck in Kenya's health system. Private sector participation in warehouse management, distribution, and last-mile delivery, including cold chain logistics for vaccines and temperature-sensitive products, can drive significant improvements. Partnerships with government and donors to strengthen public procurement systems present a high-impact investment opportunity.



## 2. Key issues and concerns

**Policy and regulatory uncertainty:** The health sector has experienced rapid policy changes, most notably the shift from the National Hospital Insurance Fund (NHIF) to the Social Health Insurance Fund (SHIF), the introduction of digital health regulations, among others. While SHIF has increased enrolment, uncertainty persists around reimbursement rules, benefit entitlements, and contracting terms between the government and hospitals. This lack of clarity complicates long-term business planning and return on investment forecasts for investors and service providers. Without regulatory stability, investors face challenges in committing capital to large-scale projects.

**Fragmentation of regulation oversight on quality control:** Quality control of imported medicines, health technology solutions, and pharmaceutical products in Kenya is currently overseen by multiple agencies. The agencies include the Kenya Bureau of Standards (KEBS), the Pharmacy and Poisons Board (PPB), and the Nursing Council of Kenya (NCK). This fragmented framework creates bureaucratic redundancies, import clearance delays, and higher business costs, ultimately slowing approvals and limiting both access to essential medicines and penetration of health technologies.

To address these challenges, the Kenya Health Products and Technologies Regulatory Authority Bill (HPT Bill), 2022 proposes the creation of a unified regulator (the Kenya Health Products & Technologies Regulatory Authority) to replace the PPB. The Bill also seeks to establish a National Quality Control Laboratory for the examination and testing of health products. The Bill was passed by the National Assembly on 7 November 2024 and has been before the Senate for consideration since 2 December 2024.

**Tax uncertainty:** Kenya's annual Finance Bills often introduce new tax measures that directly affect healthcare investors. The Finance Bill, 2025 had proposals subjecting medicines, medical equipment, clinical trial kits, and specialised hospital construction equipment to 16% VAT, reversing their previous VAT-exempt or zero-rated status. However, this proposal did not make it to the final Finance Act, 2025. Nonetheless, uncertainty persists due to frequent shifts in tax treatment and ongoing issues around misclassification of medical equipment under the

East African Community Common External Tariff (EAC CET, 2022). For example, surgical beds and surgical lamps have at times been classified by the Kenya Revenue Authority (KRA) as general-use equipment rather than medical equipment. This has resulted in higher import/customs duties, raising investment costs in the healthcare sector, despite medical instruments being intended for duty exemption under the tariff framework. Uncertainty over VAT treatment for medical products, changes to tax deductibility rules, and revisions to existing incentives alter investment economics midstream.

**Procurement, transparency, and payment delays:** The credibility of public procurement remains a significant concern, with the Kenya Medical Supplies Authority (KEMSA) facing recurrent controversies over transparency and efficiency. Delayed payments to suppliers further undermine investor confidence. For companies participating in public tenders, this not only increases working capital pressures but also raises reputational risks, as association with flawed processes can affect brand trust.

**Health workforce constraints and industrial action risk:** Kenya continues to face shortages of skilled health professionals in certain cadres, including specialists and nurses. Additionally, recurrent industrial actions by doctors and other cadres have disrupted service delivery across both public and private facilities. Such unpredictability in service provision undermines revenue stability for facilities, making the sector less appealing for investors whose business models rely on continuous service delivery.

**Market access and regulatory approvals:** Lengthy and sometimes opaque regulatory processes create bottlenecks for introducing new medicines, diagnostics, and devices. Product registration through the Pharmacy and Poisons Board, as well as conformity checks by KEBS and Pre-Export Verification of Conformity (PVoC) requirements, can significantly delay market entry. These lags add to inventory and working-capital costs, making it harder for companies to compete or scale quickly.

**High taxes and costs for health products and logistics:** The final landed cost of medical devices, diagnostics, and medicines in Kenya is often inflated by multiple layers of import duties, taxes, and verification fees. Coupled with high logistics costs, this makes healthcare products

less affordable and compresses investor margins. For firms relying on economies of scale, such cost pressures undermine competitive pricing and long-term sustainability.

**Affordability and demand-side constraints:**

Although Kenya is reforming its health financing system, out-of-pocket spending remains substantial, and universal uptake of SHIF is not yet guaranteed due to the self-registration nature of non-salaried population. Limited affordability among patients dampens demand for some private services and reduces predictability in patient volumes and reimbursement flows. This demand-side fragility affects revenue stability and discourages large-scale private investment in certain service segments.

**ESG and reputation risks:** Private equity and development finance institution (DFI) investments in Kenyan hospitals have occasionally drawn public scrutiny over issues such as pricing transparency, service quality, and clinical governance. Investors must proactively address community perceptions, enforce quality standards, and adopt responsible pricing strategies. Without careful management of environmental, social, and governance (ESG) factors, healthcare investors risk reputational damage and loss of their social licence to operate.

**Lack of World Health Organization (WHO) Maturity Level 3 (ML3) status:**

The World Health Organization (WHO) assesses the strength of national regulatory authorities through its Global Benchmarking Tool, which provides a pathway for countries to progress towards ML3, a globally recognized standard that signals a well-functioning regulatory system. For Kenya, which is currently assessed at ML2, achieving ML3 status is both a public health imperative and a strategic enabler of economic growth, innovation, and investment. It would enhance the country's capacity to safeguard patients, improve the competitiveness of the local health sector, and position Kenya as a regional leader in medical product regulation. Kenya's Health Products and Technologies Authority Bill, 2022 (HPT Bill) presents a pivotal opportunity to modernize the country's regulatory environment.

The Health Products and Technologies Bill traces its evolution from the Kenya Food and Drugs Authority (KFDA) concept in 2015, later amended to the Kenya Drugs Authority Bill, and eventually to the current HPT Bill. The Bill was passed by the National Assembly in November 2024 and has been before the Senate since December 2024. It has however taken long to finalize the law-making process of the Bill, there have been over 90 amendments considered in the National Assembly before passage, The Senate completed public participation and the first reading. The second reading and Committee stage is still pending before it returns to the National Assembly for concurrence.

Failure to attain ML3 has had tangible investment consequences. In part, it informed US biotech firm Moderna's decision to pause its planned USD 200 million vaccine production facility in Kenya. The Ministry of Health has also cited the absence of ML3 status as a reason for delays in establishing the state-run Kenya BioVax Limited "fill-and-finish" vaccine facility in Nairobi.

Although manufacturers of vaccines and pharmaceutical products enjoy generous tax incentives, such as exemption from Railway Development Levy (RDL), VAT zero-rating for medical supplies, and capital allowances, limited regulatory maturity restricts their ability to fully exploit these incentives.

The Pharmacy and Poisons Board (PPB) has recently initiated a WHO Global Benchmarking Tools audit to move towards ML3 compliance. If Kenya achieves ML3 status, it would strengthen investor confidence and likely catalyse new capital inflows into vaccine production and health technology. Kenya has a strategic opportunity to become a regional hub for pharmaceutical and medical technology manufacturing. Achieving WHO Maturity Level 3 (ML3) for the Pharmacy and Poisons Board will unlock global investment, regulated exports, and technology transfer.

### 3. Recommendations

**Policy and regulatory reforms and harmonization:** To attract and sustain private investment in healthcare, Kenya must streamline licensing and approvals for private health facilities, public–private partnerships, and medical products. Reducing bureaucracy and costs will make it easier for investors to establish and scale operations. Fast-tracking the enactment of the Health Products and Technologies Authority Bill, 2022 would modernize the country’s regulatory environment. The Committee should consider addressing some gaps in the Bill before enactment, this includes, adding how technology-enabled approaches could be leveraged to combat counterfeit medical products, and by strengthening provisions for diagnostics and medical devices to ensure comprehensive regulatory oversight.

The government should also ensure strong provisions for devices, diagnostics, and anti-counterfeit technology as a strategic approach to combating counterfeit products in the health sector.

Equally important is the harmonization of health regulations across counties to create a predictable and uniform investment environment, as inconsistencies currently complicate compliance. Establishing a one-stop investment facilitation desk within the Ministry of Health or the Kenya Investment Authority would further enable healthcare investors to navigate approvals, incentives, and policy requirements with greater ease and confidence. Introducing a single-window approval system for importers and investors would reduce bureaucracy and improve efficiency in market access, creating a more predictable environment for private sector participation.

**Address policy and regulatory uncertainty (SHIF Transition):** The transition from NHIF to the Social Health Insurance Fund (SHIF) has created uncertainty for private and mission hospitals, as well as for potential investors in healthcare. To provide clarity and stability, structured stakeholder engagement platforms between government, private providers, and mission hospitals should be institutionalized, with a focus on reimbursement timelines, benefit entitlements, and contracting rules. Publishing clear reimbursement guidelines and standard contracts would reduce ambiguity, facilitate business planning, and foster trust between regulators and providers. In addition, introducing transitional policy stability measures,

such as phased implementation and grace periods, would reassure investors of Kenya’s commitment to long-term policy predictability, while allowing health facilities sufficient time to adapt to the new financing framework.

**Address tax uncertainty (VAT and misclassification):** Frequent changes in the tax treatment of essential healthcare inputs, coupled with inconsistent tariff classification, create significant uncertainty for investors and providers. To maintain stability, major tax proposals such as the application of VAT on medicines and equipment should be subjected to full stakeholder consultation before implementation. Greater alignment of the Kenya Revenue Authority’s tariff interpretations with the East African Community Common External Tariff would also help ensure consistency, supported by specialised technical committees for medical equipment. Introducing binding advance tariff rulings for medical products would provide importers with certainty and prevent arbitrary reclassification. Finally, institutionalizing regular government–industry tax dialogues would offer a structured mechanism to resolve emerging disputes and safeguard Kenya’s competitiveness as a healthcare investment destination.

**Implement fiscal and financial incentives:** The government can unlock significant investment by offering targeted tax incentives, such as VAT exemptions, tax holidays, and accelerated depreciation allowances, especially for investors in priority areas like diagnostics, pharmaceuticals, and digital health. Expanding credit guarantee schemes and blended finance mechanisms would help de-risk private sector investments, particularly for small and medium-sized enterprises that often face financing constraints.

**Health sector Public-Private Partnerships (PPPs):** A clear and predictable national framework for health-related PPPs is essential to crowd in private capital. This should include standardized contracts, transparent risk-sharing models, and credible dispute resolution mechanisms that build trust with investors. Priority areas for PPPs include health facilities such as hospitals and imaging centers, medical supply chain systems, and digital health platforms that can expand service delivery across the country. In addition, fast-tracking land allocation and approvals for private health projects through better coordination between county and national governments would reduce delays and encourage faster investment execution.

**Infrastructure and enabling environment:** The creation of specialized health zones or hubs — such as medical cities or health innovation hubs — equipped with pre-built infrastructure and investor incentives would position Kenya as a regional healthcare hub. Strengthening digital infrastructure, including broadband connectivity and harmonized health data standards, is equally critical to support the expansion of e-health and telemedicine services. Moreover, ensuring reliable utilities such as power, water, and transport in priority health investment areas would reduce operational risks and enhance Kenya's competitiveness as an investment destination.

**Health workforce development:** Kenya's growing healthcare needs require deliberate investment in human resources. Government should partner with private training institutions to expand the capacity for training medical and allied health professionals while upholding rigorous quality standards. Public support in the form of co-financing or subsidies for continuous professional development programs, delivered in partnership with private providers, would ensure that the workforce remains skilled and responsive to emerging needs. At the same time, establishing more favourable visa and licensing regimes for foreign health professionals would help bridge critical skills gaps, especially in specialized areas where domestic supply remains limited.

**Enhance governance and transparency:** For investors to participate confidently in Kenya's healthcare sector, transparency in procurement and tendering must be improved to ensure a fair and competitive process for private providers. Institutionalizing regular public-private dialogue platforms at both national and county levels would provide investors with a structured avenue for engagement and policy feedback. Finally, strengthening health data and information systems to generate reliable market intelligence would allow investors to make evidence-based decisions, while also helping government and regulators to align policy interventions with real sector needs.

**Address WHO Maturity Level 3 (ML3) Status:** Kenya's aspiration to position itself as a regional hub for pharmaceutical investment and vaccine manufacturing is constrained by the absence of WHO Maturity Level 3 (ML3) regulatory status.

To bridge this gap, completing the WHO Global Benchmarking Tools audit and implementing a clear, time-bound roadmap to attain ML3 should be a priority. Targeted funding and technical capacity-building are essential to strengthen regulatory systems and align with WHO standards. Public-private partnerships can play a catalytic role in accelerating readiness, with investors directly engaged in shaping compliance and oversight structures. Linking progress towards ML3 with investment promotion—through clear communication of milestones would also help restore global investor confidence and signal Kenya's seriousness in building a competitive pharmaceutical manufacturing base.





## A4. Technology

### 1. Investment climate

Digital economy has become one of the strongest engines of global growth, reshaping how businesses, governments, and individuals create and exchange value. From e-commerce and mobile payments to artificial intelligence and cloud services, digital technologies are no longer just tools but core drivers of productivity, efficiency, and innovation. Globally, this shift is visible in the rising contribution of digital activities to GDP, trade, investment, and employment. In Africa, the impact is even more striking because digital tools are helping countries leapfrog traditional barriers to development. Mobile money has revolutionized financial inclusion, tech startups are creating new markets in health, education and agriculture, and digital infrastructure is opening access to global trade.

Kenya has positioned itself as a regional digital leader through several major initiatives that create a favourable investment environment. Its digital economy is expected to generate 9.24% of

total GDP by 2025. This is almost double Africa's continental projection of 5.2% within the same period. (UNESCO, 2022)<sup>24</sup>. This favourable climate has drawn major global tech players such as Google, Amazon Web Services, IBM, and Microsoft, who have already made significant investments and established development centers in the country a trend that was further boosted by the 2023 removal of the 30% local ownership requirement for foreign ICT firms.

Fintech and mobile money remain the signature drivers. M-Pesa's ubiquity underpins payments, lending, savings, insurance, and merchant solutions, with strong growth in mobile data and M-Pesa revenue reflected in operator results, even as macro headwinds persist. E-commerce, logistics, edtech, agritech, and digital health continue to expand, leveraging ubiquitous mobile access and improving last-mile networks. In early 2025, the country recorded 68.8 million active cellular mobile connections equivalent to 121% of the total population and 27.4 million individuals using the internet (penetration ~48%)<sup>25</sup>, highlighting the scale of digital adoption. Regional momentum is reinforced by flagship initiatives like the Kenya

<sup>24</sup> UNESCO and Huawei, 2021. White Paper: ICT Talent Cultivation for Kenya's Digital Economy.

<sup>25</sup> DataReportal, 2025. Digital 2025: Kenya.

Digital Economy Acceleration Project (KDEAP), a USD 490 million World Bank-supported program that seeks to expand broadband infrastructure, improve delivery of digital public services, and develop future-ready digital skills through 2030. (World Bank, 2022) <sup>26</sup>.

Digging deeper into Kenya's funding landscape reveals a clear shift in focus from fintech to climate and agricultural technologies. Unlike other African markets where fintech continues to dominate, Kenya's startup ecosystem in 2024 has leaned heavily into cleantech and agritech, carving out a distinct identity. Agritech has become a cornerstone of Kenya's funding achievements. This sector thrives by addressing the practical needs of Kenya's significant agricultural workforce. While agritech funding across Africa dropped, Kenya managed to defy this trend, maintaining robust investment levels.

The policy environment is comparatively mature and reform oriented. The country's digital agenda is guided by multiple strategic frameworks including Vision 2030, the Bottom-Up Economic Transformation Agenda, the National AI Strategy and the Digital Economy Blueprint. These collectively identify several initiatives that shape the investment landscape in the technology sector. Central to these is the expansion of the Digital Superhighway through large-scale fibre-optic rollout, lowering connectivity costs and enabling broad access to digital services. Alongside this, digitization of government services and public administration is creating stronger demand for tech-enabled solutions while signalling efficiency and transparency. Fintech inclusion remains a cornerstone, with mobile money and digital financial services expanding access to capital for SMEs and underserved groups. The frameworks also emphasize nurturing innovation and entrepreneurship ecosystems through hubs, incubation, and access to financing, supported by robust efforts in digital skills development to build a competitive workforce. Finally, the National AI Strategy places Kenya at the frontier of emerging technologies, promoting responsible AI adoption, data governance, and digital assets. Together, these priorities reinforce Kenya's position as a regional leader and present significant opportunities for

digital economy investment.

Kenya is also taking a leading role in driving regional digital integration through its engagement in the AfCFTA Protocol on Digital Trade. The protocol aims to create unified rules and shared principles for areas such as digital identity, cross-border payments, data flows, and the adoption of emerging technologies, while laying the groundwork for a Pan-African digital trade hub. For Kenya, aligning with AfCFTA opens the door to expanding its digital services market, reducing transaction costs, and providing local innovators with a fair platform to scale their solutions across the continent. The country has further demonstrated leadership by committing to increase cross-border fibre links from 8 to 14, improving redundancy and resilience in regional connectivity (World Bank, 2022). These efforts not only strengthen Kenya's role as a digital hub for East Africa but also position it to capture growing demand for interoperable digital services, fintech solutions, and e-commerce platforms across the continent.

### Investment trends

Kenya's technology sector has become the leading destination for foreign direct investment (FDI), surpassing traditional industries such as banking, manufacturing, and retail. According to the Kenya National Bureau of Statistics' 2024 Foreign Investment Survey, foreign inflows into the tech sector rose by 71% to KES 64.7 billion (USD 500.9 million) in 2024, accounting for more than a quarter of the country's total KES 242.6 billion (USD 1.8 billion) inflows (KNBS, 2025) <sup>27</sup>. At the same time, access to finance remains a major challenge for startups and smaller enterprises, which continue to struggle in securing growth capital. The gap is most severe for early-stage ventures, where seed-to-Series A conversion rates stand at just 5% far below the global average of 35% (GSMA, 2024) <sup>28</sup>. This limits innovation pipelines and raises barriers for new entrants, even as later-stage firms draw substantial investment.

<sup>26</sup> The World Bank, 2023. Kenya Digital Economy Acceleration Project (P170941). Project Information Document.

<sup>27</sup> KNBS, CBK, and KenInvest, 2024. Foreign Investment Survey Report.

<sup>28</sup> GSMA, 2024. Annual Report 2024.

Table 1: Funding Stage Performance in Africa 2023-2024

FUNDING STAGE PERFORMANCE IN AFRICA	2023	2024	Change
Seed	\$518 M	\$482 M	-7%
Series A	\$547 M	\$503 M	-8%
Series B	\$642 M	\$413 M	-36%
Growth	\$573 M	\$840 M	+47%

Source: Kenya Startup Funding Trends 2025 - Tech In Africa

Evidently, Kenya's investment landscape in 2024 reveals a strong preference for later-stage startups over early-stage ventures, mirroring trends across the continent. Growth-stage investments have seen a major uptick across the region. Funding for these deals jumped from USD 573 million in 2023 to USD 840 million in 2024 – a 47% year-over-year increase. Kenya reflects this trend with larger deal sizes and solid revenue performance. The average growth-stage investment climbed by 15% to USD 39.8 million, and these deals now represent 38% of total funding, up from 25% in 2023. Even in a challenging economic climate, investors are focusing on companies with proven revenue.<sup>29</sup>

Digital Infrastructure needs present significant opportunities for investment and private sector engagement. Achieving universal broadband coverage by 2030 would require more than USD 4.1 billion in investment between 2019-2030, with most allocated to mobile infrastructure including 4G upgrades and 5G deployment (World Bank, 2022). The government's approach of leveraging public-private partnerships through matching investments, where public funds unlock commercial infrastructure investments in a ratio of roughly 2:3, creates structured opportunities for private sector participation.

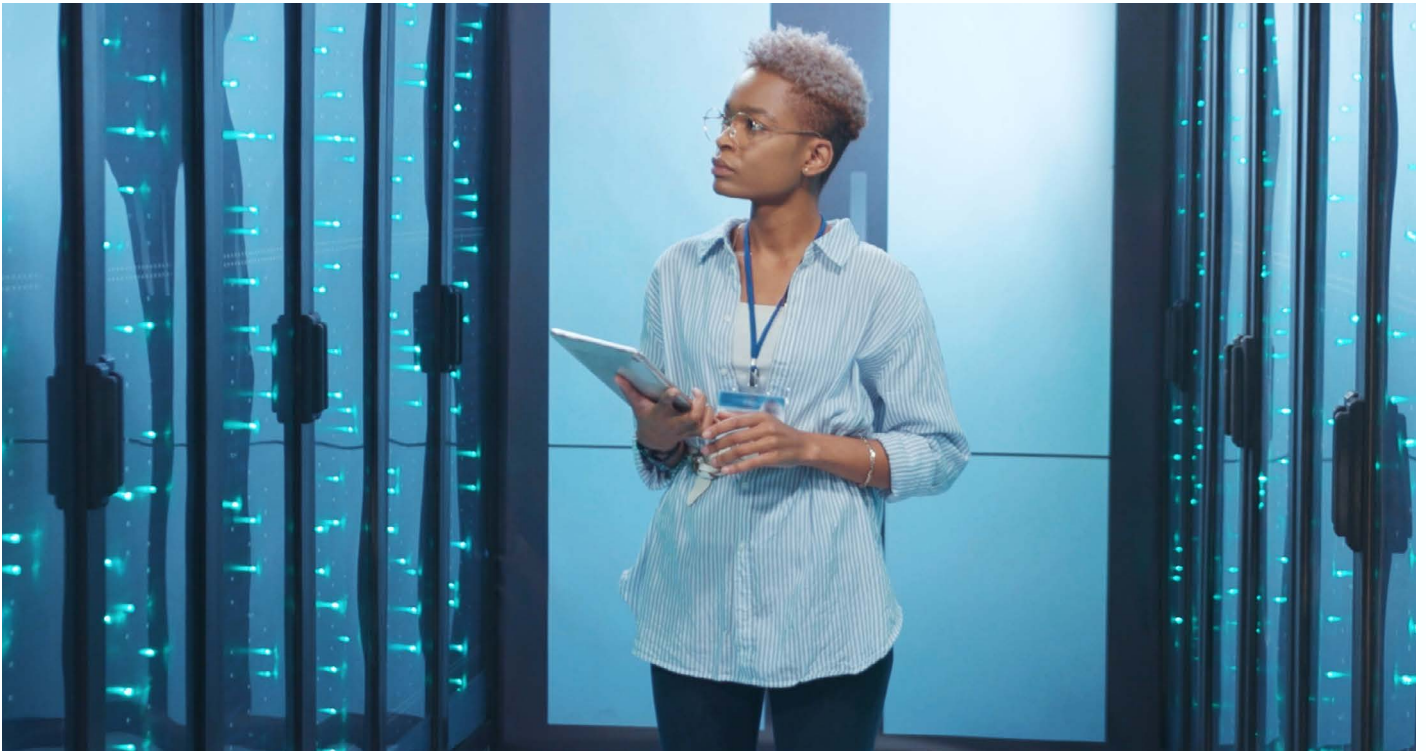
Job creation potential is substantial, with approximately 9 million individuals expected to enter Kenya's labour force between 2015 and 2025, requiring creation of an average of one million new jobs annually (World Bank, 2022). The 2024 GSMA report, *Driving Digital Transformation of*

*the Economy in Kenya*, forecasts the creation of 300,000 new jobs and an increase in tax revenues by Ksh150 billion.<sup>30</sup> Beyond direct employment in tech firms, digitalization is transforming traditional sectors, including agriculture, by connecting farmers to markets, improving supply chain efficiency, and enabling access to financial services. Informal workers and small businesses also gain new opportunities through platforms that allow them to offer services online, reach wider markets, and scale operations. By fostering digital skills and encouraging entrepreneurship across e-commerce, fintech, healthtech, agritech, and other innovative sectors, the digital economy can absorb Kenya's expanding workforce while driving inclusive growth and enabling economic participation across urban and rural communities.

The digital economy offers strong opportunities for investment across infrastructure, policy, finance, and skills development. Key areas include expanding broadband, upgrading 4G and 5G networks, building data centers, and enhancing cybersecurity to support growing sectors such as fintech, e-commerce, healthtech, and agritech. Policy reforms, including clearer regulations for fintech, data protection, and startup incentives, provide a predictable environment that reduces investor risk. In finance, there is high potential for venture capital and blended finance to support early-stage startups, addressing current funding gaps. Investment in digital skills training and reskilling platforms can also help Kenya's young workforce participate in the knowledge economy.

<sup>29</sup> Tech In Africa, 2025. Kenya Startup Funding Trends 2025.

<sup>30</sup> GSMA, 2024. Kenya's Digital Economy to Contribute KSH 662 Billion to GDP by 2028, Driven by Policy Reforms.



## 2. Key issues and concerns

**Infrastructure and access challenges:** The Communications Authority of Kenya (CAK) notes that while 4G network coverage now extends to 96% of the population, actual usage lags significantly, especially in rural areas where affordability and device access remain barriers (CAK, 2023). The International Telecommunication Union (ITU) further highlights that broadband penetration in Kenya remains below 40%, far from the universal access targets, creating market limitations for digital service providers (ITU, 2023). This gap undermines investment returns, as startups and platforms struggle to scale in areas with weak connectivity and limited consumer purchasing power. Kenya's broadband backbone infrastructure also suffers from operational inefficiencies. The National Optic Fibre Backbone (NOFBI), built in phases through multiple vendors, faces maintenance coordination challenges, which reduces uptime reliability (World Bank, 2022). For investors, this creates uncertainty around service continuity and increases operational costs.

**Skills and human capital constraints:** Kenya's universities produce thousands of ICT graduates annually, but industry leaders highlight a persistent shortage of advanced digital skills, particularly in areas such as cloud computing, AI, and cybersecurity. The World Bank (2022)

notes that while the Digital Literacy Program distributed over one million devices to schools, a lack of teacher training, digital content, and internet connectivity limited impact. Gender disparities further exacerbate the talent gap: only 17% of Kenyan STEM students are female, and internet usage among women lags 11 percentage points behind men (World Bank, 2022). This shortage inflates wages, slows innovation, and forces many firms to import talent or outsource specialised functions, increasing operational costs and dampening local job creation potential.

**Market maturity and adoption challenges:** Despite Kenya's reputation as a fintech leader, e-commerce adoption remains limited with Statista (2024) estimating Kenya's e-commerce market at just above KES 100 billion, ranking seventh in Africa. Only 4% of Kenyans above age 15 had ever purchased items online, revealing low trust and weak uptake (KNBS, 2019). Last-mile delivery challenges including poor addressing systems, high logistics costs, and prevalence of counterfeit goods undermine consumer confidence (GSMA, 2024). Moreover, digital commerce remains largely urban, concentrated in Nairobi, Mombasa, and a few secondary cities, with rural adoption lagging far behind. This fragmentation constrains scalability for digital commerce platforms.



**Cyber security and financial risks:** Kenya's rapid digitisation has heightened exposure to cybercrime, with the National KE-CIRT/CC recording over 200 million threat incidents in 2023, up from fewer than 4 million in 2018 (CAK, 2023). These include phishing, ransomware, and financial fraud, which significantly raise operational risks for digital businesses. The Communications Authority further estimates that cybercrime costs the economy nearly 0.4% of GDP annually, underscoring ongoing concerns about the resilience and security of digital transactions.

**Political and macroeconomic stability:** Kenya's political and macroeconomic context has a direct impact on technology investment. Rising public debt and fiscal constraints have fuelled inflation and currency volatility, which particularly affect the tech sector given its reliance on imported devices, software, and cloud services (IMF, 2024). For startups, this means higher operating costs and shrinking margins, while for global firms, it complicates revenue repatriation and pricing models. Policy unpredictability during election cycles also creates risks for technology investors. Shifts in priorities such as changes in data protection enforcement, tax policy on mobile services, or digital ID implementation can disrupt ongoing projects and delay market entry (Brookings, 2023).

For example, the suspension of earlier digital ID programs and the subsequent rollout of Maisha Namba required private sector actors to reinvest in compliance adjustments, raising costs and eroding confidence in policy continuity. In addition, concerns about political interference in procurement of large-scale ICT projects, including cloud infrastructure and connectivity contracts, can discourage transparent competition and limit opportunities for diverse technology providers. These macro-political risks compound sector-specific challenges, shaping investor perceptions of Kenya as a promising yet uncertain digital market.

**Shift from Digital Service Tax to Significant Economic Presence Tax:** The Digital Service Tax (DST) at 1.5% was repealed in 2024 and replaced by the Significant Economic Presence Tax (SEPT) at an effective 3%, which is 10% of revenue assumed to be taxable income subjected to 30% tax, with the Finance Act 2025 updating the types of businesses subject to SEPT to include businesses carried out over the internet or electronic network, in addition to those carried through a digital marketplace. Further, the Finance Act 2025 deleted the exemption from SEPT accorded to non-residents with an annual turnover of less than KES 5 million (2024).

The amendments aim to broaden the scope

and tax base of businesses subject to SEPT. This transition occurred amid an unpredictable and escalating digital tax environment. In 2024, Kenya introduced multiple new taxes affecting digital services and platforms, including a 5% Withholding Tax for residents and 20% for non-residents on digital marketplace payments, a Minimum Top-Up Tax of 15% for qualifying multinational enterprises, and higher Excise Duty rates for non-resident digital service providers. The cumulative effect of these measures has resulted in higher operating costs, slower market expansion, diminished competitiveness for Kenya as a digital hub, and reduced attractiveness for foreign direct investment and innovation. Local startups who rely on digital platforms may experience high fees to compensate the tax charged on non-residents who supply services to Kenyan consumers through internet or e-network and the digital marketplace. Additionally, being applicable to cross-border transactions since all non-resident entities are now subject to SEPT, there is a risk of double taxation since existing Double Taxation Agreements are yet to catch up and do not address SEPT as a new form of taxation in the digital economy space.

**Excise duty on Mobile Services:** Kenya's taxation environment poses affordability challenges. Excise duties on mobile services rose from 10% (2018) to 20% (2021) before being revised to 15%, one of the highest rates in Sub-Saharan Africa. Devices face a heavy tax burden of 25% import duty, 16% VAT, 10% excise duty, plus additional fees, and a SIM card levy. The Finance Act 2021 introduced a 20% excise duty on mobile services, which was later revised to 15%, making Kenya one of the highest-taxed digital service markets in Sub-Saharan Africa (GSMA, 2024). AmCham Kenya (2024) argues that such tax burdens discourage uptake of mobile internet and digital platforms, directly constraining the addressable market for investors.

**Excise duty on internet infrastructure:** The Kenya Revenue Authority seeks to impose excise duty on internet infrastructure with active disputes currently ongoing at the Tax Appeals Tribunal. There has been an increased surge in the need for interpretation of excise duty on internet data services. The issue arises from an ambiguity in legislation on the meaning of internet data services and its distinction with the infrastructure used to provide internet services. KRA does not classify internet data services and internet infrastructure as distinct products yet these two are distinct. The Excise Duty Act imposes excise on

Telephone and internet data services under Part II of the First Schedule at a rate of fifteen percent of their excisable value. There is no explicit mention of excise on internet infrastructure. This confusion would have an impact on the tech investment sector.

**Compliance bottlenecks:** In relation to compliance, one of the major challenges is in software licencing. Under software licencing, the expanded definitions of royalties now include the recurring software licence fees, which increase compliance burdens for tech firms. The Tax Laws Amendment Act 2024 expanded the definition of 'royalty' to include a payment made as a consideration for the use or right to use any software, proprietary or off-the-shelf, whether in the form of license, development, training, maintenance or support fees; and information concerning industrial, commercial or scientific equipment or experience and any gains derived from the sale or exchange of any right or property giving rise to that royalty. This change increases tax and compliance obligations for businesses using or trading in intellectual property and software.

**Data privacy and cybersecurity compliance:** Cross-border digital trade remains hampered by fragmented regulations. Many African countries lack harmonized data protection and cybersecurity frameworks, forcing firms to navigate conflicting rules across markets (AmCham Kenya, 2024). TechCabal (2024) reports that startups often face compliance bottlenecks when scaling regionally, diluting the scalability benefits that should come with integration under the African Continental Free Trade Area (AfCFTA). This regulatory fragmentation reduces investor confidence in regional expansion opportunities.

### 3. Recommendations

**Guarantee policy and regulatory stability:** Predictable rules on taxation, data protection, and fintech are essential to attract long-term capital. Sudden policy shifts and ambiguous compliance requirements currently deter investors. Policymakers should adopt multi-year frameworks with clear timelines and stakeholder consultation to reduce risk and build confidence. India's experience with Unified Payments Interface (UPI) shows the impact of such stability. By 2025 it processed 15 billion monthly transactions and drew USD 20 billion in fintech investment (ICLE, 2025). Kenya can achieve similar results through consistent and transparent regulation.

**Rationalize digital taxation to expand market access:**

A comprehensive review of digital taxation is needed to balance revenue objectives with the imperative of expanding digital inclusion. Specifically, the Excise Duty Act should be amended to clearly distinguish between internet data services and internet infrastructure, preventing inappropriate taxation of foundational infrastructure investments. Reducing the overall tax burden on connectivity and devices would accelerate adoption, broaden the consumer base, and ultimately generate greater economic activity and tax revenue over time.

**Accelerate digital infrastructure rollout:**

Expanding last-mile broadband, 5G networks, and reliable energy access will dramatically increase market penetration, especially in rural and peri-urban areas. Investors are ready to co-finance this expansion through well-structured PPPs that leverage matching investment models can mobilize the necessary capital while distributing risk appropriately. These infrastructure investments are foundational to unlocking new consumer segments, enabling digital service delivery across the country, and solidifying Kenya's position as East Africa's digital hub. Prioritizing infrastructure projects that connect marginalized areas and establish shared access points would dramatically expand the market for digital services while advancing inclusive growth objectives.

**Build world class cybersecurity and data trust frameworks:**

With cyber-related crimes costing nearly 0.4% of GDP annually and threat incidents surging dramatically, establishing comprehensive cybersecurity standards and enforcement mechanisms has become urgent. Clear implementation of the Data Protection Act, harmonization with international best practices, and development of national cybersecurity protocols would provide the assurance investors need that their operations, customer data, and intellectual property are adequately protected. This is particularly critical as Kenya positions itself to serve regional markets and attract global technology firms. Strong data

governance frameworks that enable secure cross-border data flows while protecting privacy rights would enhance Kenya's competitiveness as a trusted digital services hub.

**Invest in digital skills to power growth:** A digitally skilled workforce is Kenya's strongest competitive advantage, yet, the country faces persistent skill gaps in critical areas such as cloud computing, artificial intelligence, cybersecurity and data science. This inflates operational costs, limits innovation capacity and forces companies to import talent or outsource specialized functions. Addressing this requires targeted investments in advanced technical education, corporate-led training programs, and partnerships between industry and educational institutions. Developing specialized curricula in emerging technologies, supporting apprenticeship programs that provide hands-on experience, and creating pathways for continuous upskilling would build the deep talent pool necessary to sustain growth. Particular attention should be paid to expanding participation among women and underrepresented groups, addressing current gender disparities in STEM education.

**Unlock financing and innovation ecosystems:**

Kenya's startup ecosystem suffers from severe capital constraints, particularly at the seed and early growth stages where funding gaps are most acute. Addressing this requires developing risk capital mechanisms specifically designed for early-stage digital ventures. Blended finance structures that combine concessional and commercial capital can de-risk investments and catalyze private sector participation. Establishing challenge funds that incentivize solutions to local development challenges, providing anchor investments to emerging venture capital funds, and creating regulatory sandboxes that allow controlled testing of innovative business models would strengthen the entrepreneurial ecosystem. Tax incentives for angel investors and venture capital funds focused on technology startups would further mobilize domestic and foreign capital toward high-potential ventures in fintech, agritech, healthtech,

and e-commerce. A successful example comes from Peru's 2024 Agroforestry Carbon Financing Initiative, where blended finance and digital tools enabled 11,500 smallholder farmers to access carbon markets, boosting incomes by up to 30% and attracting USD 5 million in commitments. This model illustrates how tailored financing and ecosystem-building can unlock scalable innovation in emerging markets (Acorn).

**Harmonize regional digital trade regulations:**

Cross-border expansion of digital services remains hampered by fragmented and conflicting regulatory requirements across African markets. As Kenya engages with the AfCFTA Protocol on Digital Trade, it should champion harmonized standards for data protection, cybersecurity, digital identity, and cross-border payments. Clear, consistent regional frameworks would reduce compliance costs, enable efficient scaling, and enhance the investment case for digital platforms and services. Supporting the development of interoperable digital public infrastructure, including payment systems and digital identification, would facilitate seamless regional integration. Kenya's leadership in establishing these frameworks would not only benefit its own digital economy but also position Kenyan companies and investors to capture opportunities across the continent, leveraging regional markets to achieve scale and sustainability.

**Promote SME digital readiness and market integration:**

Small and medium enterprises represent the backbone of Kenya's economy but often lack the resources, knowledge, and tools to participate effectively in the digital economy. Supporting SME digital transformation through accessible training programs, affordable digital tools, and practical guidance on e-commerce, digital marketing, and cybersecurity would expand the market for digital services while strengthening the broader business ecosystem. As more SMEs adopt digital tools and platforms, they create both demand for technology services and opportunities for innovation, generating a

virtuous cycle that benefits investors and the broader economy.

**Clear interpretation of the scope of SEPT within the evolving digital landscape:**

Transition to Significant Economic Presence Tax (SEPT) from the Digital Service Tax (DST) was aimed at aligning with the global changes on taxation of the digital marketplace and to broaden the scope of taxation within the digital economy. The National Treasury should consider returning the exemption that applied to non-residents with an annual turnover of less than KES 5 million. Non-residents providing digital services who come to establish in Kenya as tech startups for instance would have to face additional compliance burden which is also a market entry barrier, hence the need to revert to the previous exemption since the tax is also higher than DST which would likely impact tech startups and startups that utilize the digital marketplace for business facilitation. Further, the government should also consider providing for the applicability of SEPT in the existing Double Taxation Agreements (DTAs) by having discussions with the counterpart countries on the same where SEPT could be clearly classified under the Article on Business Profits in the various DTAs, allowing it to fit within the traditional DTA construct. This would prevent double taxation which is a likely risk in taxation of the digital space.

While Kenya has undertaken significant and commendable reforms, such as the Kenya Cloud Policy (2025), the Kenya National AI Strategy (2025–2030), and the 2025 KEBS Standards for AI and Digital Technologies, there remains a need for forthcoming laws and policies to offer clearer, investor-friendly frameworks that support innovation and growth. In particular, the anticipated Data Governance Policy and the National AI Policy should provide clarity, predictability, and supportive regulatory conditions that strengthen Kenya's competitiveness as a destination for digital and technology investment.

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