



Unlocking Private Sector Growth in Kenya

Evidence from the 2025 World Bank Enterprise Survey

Executive Summary

Kenya's private sector shows moderate growth but faces systemic constraints that limit productivity, competitiveness, and job creation. The World Bank 2025 Enterprise Survey reveals that tax burden, access to finance, informality, and corruption remain the most binding constraints.

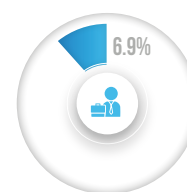
Key Findings of the Survey

- o Tax rates are the top constraint for 33% of firms
- o Access to finance is a major obstacle (14.5% overall; higher for large firms)
- o 54% of firms compete with informal businesses, distorting markets
- o 33.2% of firms report bribery incidence, indicating governance challenges
- o 74.6% experience electricity outages, affecting productivity

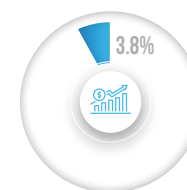
If left unaddressed, these constraints will continue to:

- o Suppress firm growth (especially SMEs)
- o Reduce investment and innovation
- o Undermine Kenya's industrialization agenda

Positive Growth Indicators - Kenya Private sector



EMPLOYMENT GROWTH



SALES GROWTH



MANAGEMENT QUALITY INDEX

Why This Matters for Policy

Kenya's private sector is resilient but operating below potential. The data suggests not a lack of entrepreneurial capacity, but policy and institutional friction. Effectively this could suggest that growth is happening despite the system, not because of it.

I: Key Constraints & Policy Implications

High Tax Burden and Regulatory Pressure

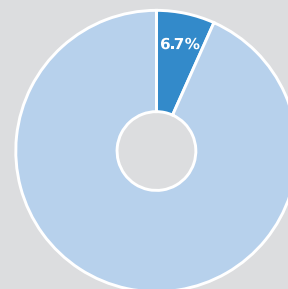
- o Tax rates are the single biggest obstacle across all firm sizes
- o Firms spend 6.7% of management time dealing with regulations

Policy Implication:

The issue is not just tax levels but complexity and compliance costs.

Recommended Actions:

- o Simplify tax codes and reduce compliance steps
- o Expand digital tax systems to reduce administrative burden
- o Introduce SME-friendly tax regimes



Regulatory burden 6.7%
Management time lost dealing with regulations

Limited Access to Finance

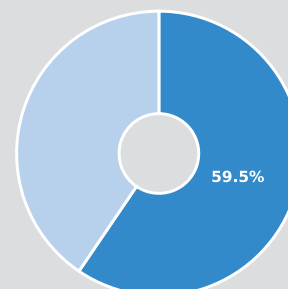
- o Only 42% of firms use banks for investment financing
- o 59.5% of investments are internally financed

Policy Implication:

Financial markets are not effectively intermediating capital.

Recommended Actions:

- o Strengthen credit guarantee schemes for SMEs
- o Promote alternative financing (venture capital, fintech lending)
- o Improve credit information systems



Internally financed 59.5%
Investments financed internally

Informality and Unfair Competition

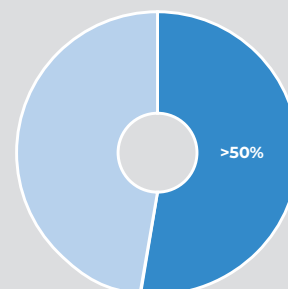
Over half of firms face competition from informal firms

Policy Implication:

Formal firms are effectively penalized for compliance.

Recommended Actions:

- o Incentivize formalization (tax breaks, simplified registration)
- o Reduce regulatory burden to make formalization attractive



Informal competition >50%
Firms competing with informal sector

Corruption and Governance Weaknesses

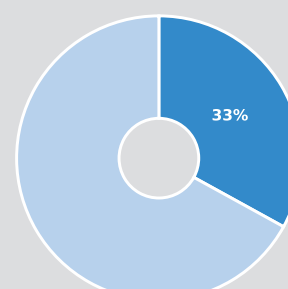
- o 1 in 3 firms reports bribery requests
- o Bribes commonly occur in Construction permits and tax interactions

Policy Implication:

Corruption acts as an unofficial tax and distorts firm behavior.

Recommended Actions:

- o Digitize licensing and permit systems
- o Strengthen anti-corruption enforcement
- o Increase transparency in tax administration



Report bribery 33%
Firms reporting bribery requests

II: Strategic Policy Priorities

Reduce the Cost of Formality

Make it easier and cheaper to formalise

A

Focus Areas:

- o Tax simplification
- o Streamlined licensing
- o Digital government services

Unlock SME Financing

SMEs are constrained not by ideas, but by capital.

B

Focus Areas:

- o Credit access reforms
- o Risk-sharing mechanisms
- o Financial innovation (fintech ecosystems)

Strengthen Governance and Accountability

Reduce “hidden costs” of doing business.

C

Focus Areas:

- o Anti-corruption enforcement
- o Transparent regulatory processes
- o Reduced discretion in public service delivery

Improve Infrastructure Reliability

Electricity is foundational for industry and enterprise growth and should not be considered as optional.

D

Focus Areas:

- o Power reliability upgrades
- o Faster connection times
- o Energy sector reforms

Support Firm Productivity and Innovation

Encourage firms to scale and compete globally.

E

Focus Areas:

- o Skills development and training (only 36% of firms offer training)
- o Innovation incentives (only 11.6% invest in R&D)
- o Export promotion strategies including Value Addition

Data and Analysis

The researcher used insights from the World Bank's Enterprise Survey 2025 data. This is publicly available on <https://microdata.worldbank.org/catalog/8150>

III. Conclusion

Kenya's private sector is not constrained by lack of capability but by systemic inefficiencies.

If reforms focus on:

01

Lowering compliance costs

02

Improving access to finance

03

Strengthening Governance

Kenya can unlock significant gains in



Productivity



Employment



Economic Growth

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