



# STUDY TO ESTABLISH THE SIZE OF ILLICIT FINANCIAL FLOWS IN KENYA



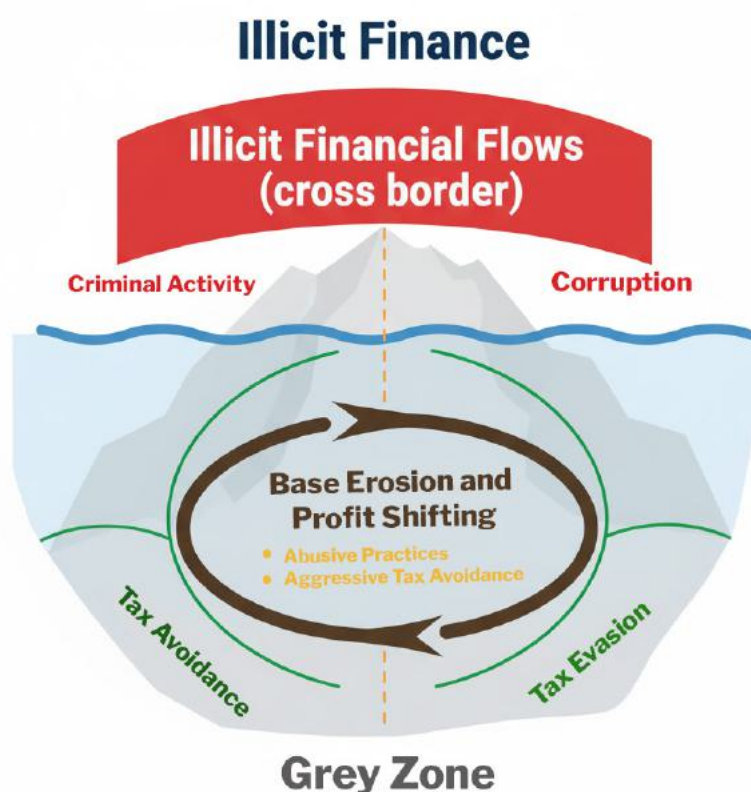




# STUDY TO ESTABLISH THE SIZE OF KENYA'S IFFs

## POLICY BRIEF

Illicit Financial Flows (IFFs) pose a major obstacle to Africa's economic development by draining essential resources needed for development. According to various reports including by UN Trade and Development (UNCTAD) and the African Union/ UN Economic Commission for Africa (AU/ UNECA) Report on Illicit Financial Flows from Africa, (2015) (Mbeki Panel Report), IFFs have significantly weakened domestic resource mobilisation (DRM), financial stability, and economic performance across African countries. Africa is estimated to lose up to \$88.6 billion annually through IFFs, exceeding the total foreign direct investment (FDI) and official development assistance (ODA) it receives.



These outflows stem from transnational commercial activities, criminal enterprises, and corruption and the stakeholders involved in addressing IFFs can be categorised relative to the legal and policy frameworks governing commercial activities, crime and corruption.

The Addis Ababa Action Agenda (2015) and the Mbeki Panel Report both recommend stronger national regulations, international cooperation, and institutional reforms to combat IFFs. However, implementation has been weak, and reliable data on the actual scale of IFFs remains insufficient.

IFFs are characterised by financial flows across borders comprising an exchange of value which are illicit in origin, transfer or use.

Figure 1 depicts the interplay between the different forms of IFFs and highlights the large grey zone relating to the absence of clear defining lines between tax avoidance and tax evasion.

Source: [https://www.un.org/esa/ffd/wp-content/uploads/2017/02/Illicit-financial-flows-conceptual-paper\\_FfDO-working-paper.pdf](https://www.un.org/esa/ffd/wp-content/uploads/2017/02/Illicit-financial-flows-conceptual-paper_FfDO-working-paper.pdf)

Assessing the ways in which IFFs happen including their size is critical for being able to stem them effectively.

This policy brief summarises the study to estimate the size of IFFs from Kenya. The study assesses the legal, policy and institutional frameworks related to addressing IFFs and estimates the amounts lost through commercial, criminal and corruption means. There being no study which estimates the size of IFFs from criminal, commercial and corrupt means in Kenya, it attempts to do so by making use of incidence data complimented by qualitative responses from key stakeholders. Based on the availability of data within the study time period it estimates the amounts of IFFs from Kenya specifically in relation to corruption, illicit trade in counterfeit goods and trade-based IFFs using the UNCTAD partner-country method (PCM) which compared import and export trade balances.

## LEGAL AND POLICY FRAMEWORKS

The legal frameworks governing IFFs comprise national, regional and global frameworks across the different forms of IFFs and are categorised generally within criminal, commercial and corruption themes as follows:

CRIMINAL – ILLEGAL MARKETS, EXPLOITATION TYPE AND TERRORISM FINANCING	COMMERCIAL – ILLICIT TAX AND COMMERCIAL PRACTICES	CORRUPTION
<b>UN Convention against Transnational Organized Crime (2000)</b>	UN Model Double Taxation Convention between Developed and Developing Countries, (2021), OECD Model Tax Convention on Income and on Capital, (2017), ATAF Model Tax Agreement	UN Convention Against Corruption (UNCAC), (2003)
<b>Proceeds of Crime and Anti-Money Laundering Act (POCAMLA), Act, (2013)</b>	Multilateral Convention on Mutual Administrative Assistance in Tax Matters, 1988	African Union Convention on Preventing and Combating Corruption (AUCPC), 2003
<b>Anti-Corruption and Economic Crimes Act, (2003)</b>	Multilateral Convention to Implement Tax Treaty-Related Measures to Prevent Base Erosion and Profit Shifting	International Code of Conduct for Public Officials – resolution 51/59
<b>National Counter Financing of Terrorism Strategy and Action Plan 2022</b>	Tax Information Exchange Agreements	Constitution of Kenya, 2010 – Articles 10, 73, 74, 75 and 232 set out the Principles of Governance and National Values which bind all state organs, state and public officers and Chapters 6 and 12 provide for Leadership and Public Finance respectively
<b>National Anti-Money Laundering Strategy and Action Plan</b>	OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (2022)	Ethics and Anti-Corruption Commission Act and the National Ethics and Anti-Corruption Policy, 2018
<b>Bribery Act, 2016</b>	Companies Act, 2015 and its Beneficial Ownership Regulations	Public Officer Ethics Act 2003, and Public Officer Ethics (Management, Verification and Access to Financial Declarations) Regulations, 2011

<b>Banking Act, (1989) and Central Bank of Kenya Guideline on Money Laundering/ Terrorism Financing Assessment (2018)</b>	Treaty Making and Ratification Act, 2012	Leadership and Integrity Act, 2012
<b>Prevention of Terrorism Act, 2012 and Prevention of Terrorism (Implementation of the United Nations Security Council Resolutions on Prevention, Suppression and Disruption of Proliferation Financing) Regulations</b>	Income Tax Act (revised), 2021, and Transfer Pricing Rules, 2023	Conflict of Interest Act, 2025
<b>Counter-Trafficking in Persons Act, 2010</b>	East Africa Community (EAC) Customs Management Act, 2019	Lifestyle Audit Bill, 2019
<b>Narcotic Drugs and Psychotropic Substances (Control), Act, 1994</b>	Capital Markets (Amendment) Act, 2012	Public Finance Management Act, 2012
	Tax Procedures Act	
<b>THE INSTITUTIONAL STAKEHOLDERS</b>		
<b>CRIMINAL</b>	<b>COMMERCIAL</b>	<b>CORRUPTION</b>
<b>Office of the Director of Public Prosecutions (ODPP)</b>	Kenya Revenue Authority (KRA): Transfer Pricing Unit	Ethics and Anti-Corruption Commission (EACC)
<b>Asset Recovery Authority (ARA)</b>	Business Registry Service (BRS)	Commission on Administrative Justice (CAJ)/ Ombudsman
<b>The Judiciary: Tax Appeals Tribunal (TAT), Court of Appeal</b>	Global Forum on Transparency and Exchange of Information for Taxation Purposes	
<b>Director of Criminal Investigations (DCI)</b>		
<b>The Anti-Counterfeit Authority (ACA)</b>		
<b>Kenya Wildlife Service (KWS)</b>		

Table 2: Institutional Stakeholder involved in addressing IFFs in Kenya



Cross-cutting oversight bodies include the Office of the Auditor General (OAG), the Parliamentary Accounts Committee (PAC), the Central Bank of Kenya, among others.

The above legal and policy frameworks and institutions demonstrate that Kenya has a robust statutory framework and institutions for addressing IFFs. The extent of their implementation and practical capacity for enforcement is discussed below.

### KEY FINDINGS

Interviewees shared their perspectives on the size, trends and forms of IFFs as follows:

#### Estimation of Size and Trends in the Forms of IFFs

1. They corroborated that the Mbeki Panel Report findings which categorised and ordered in size the forms of IFFs still stands – that commercial forms of IFFs dominate IFFs flows followed by IFFs as a result of corruption, followed by criminal forms of IFFs.
2. In terms of methodology for assessing IFFs, they proposed that trade-based IFFs would provide the most accurate form of assessing the size of IFFs as existing trade data is not aligned with reality and that criminal and commercial forms could be derived from incidental reports but that they would encounter the challenge of estimating trends because they would not necessarily relate to specific years as discovery can happen years later.
3. Indicators of larger size IFFs which go undetected, and which may not be able to be included in the scope of this report but for potential research later include real estate (and the role of lawyers as both real estate agents and conveyancing actors), cryptocurrency, and international wildlife trade (IWT) among others.
4. IFF areas that stakeholders have not explored which could also form further research include:



## Regulatory Improvements

5. Section 4A of the LSK Act provides for the role of lawyers in anti-money laundering (AML) but the regulations to operationalise this remains pending. While lawyers are being trained, there needs to be a focus on lawyers specifically interacting with IFFs to be able to forward suspicious transaction reports (STRs) to law enforcement. The Institute of Certified Public Accountants Kenya (ICPAK) and financial institutions have been playing their role but lawyers have yet to be fully onboarded. They hold monies for their clients and they can claim client confidentiality.
6. We need more use of beneficial ownership (BO) provisions including in real estate and land ownership.
7. The use of e-tims has significantly reduced IFFs in the form of tax evasion.
8. We should enhance deterrence strategy. When people see assets being recovered, and when IFFs become unprofitable as a result, this would deter it. Instead, people involved in money-laundering are awarded high positions which erodes trust in the criminal justice system and promotes impunity.
9. Tax incentive IFFs are big in manufacturing including through capital allowances and exemptions under value added tax (VAT). The value of goods imported are inflated. Investments of about KES five billion should be sufficient, however, we see figures between KES 13 – 18 billion indicating that the stated value of imported goods may be fraudulent for tax abuse purposes.
10. In terms of estimating the size of tax-related IFFs should be about 2-3% GDP. We are losing through invoices without goods. From Business to Consumer (B2C) reporting, there is purporting to purchase to claim inputs. We lose about KES 4.5 billion every month in VAT.
11. STRs are reported but not actioned.
12. The Financial Reporting Centre (FRC) is highly dependent on getting information from banks whereas they should develop a system of integrating with FIs. The FRC should be able to see transactions.
13. The Ministry of Lands should also report as there are significant amounts of untitled land being developed.
14. The Central Bank of Kenya (CBK) has a role to play as money is moving in foreign currency which means we are not adequately monitoring foreign currency. Similarly, forexes are being able to transact like banks and these should be better regulated.
15. There should be high penalties for not reporting.

## Other Recommendations

16. IFFs are a moral, leadership and culture issue. The biggest beneficiaries of IFFs and ML are politically exposed persons (PEPs) and that has been a stumbling block for fighting IFFs. It is not easy for a person without means – political and economic – to carry out AML crimes. It is at the highest and elite level that it happens, through established channels. Even with all these laws, implementation will remain a challenge because of the political economy of IFFs. The report on Kenya being a transit hub for the transport of gold demonstrates the role of PEPs.<sup>4</sup>

1. Rudich, D., Kenya Illicit Finance Risks and Assessment, The Sentry, (October 27, 2021), <https://thesentry.org/2021/10/27/6393/sentry-report-kenya-illicit-finance-risks-assessment/>

In estimating the size of IFFs from Kenya this study finds the following:

## A. IFFS RELATING TO CORRUPTION

A review of the EACC reports over the last six years, from FY 2018/2019 to FY 2023/ 2024 finds the following:

1. That the conviction rate of cases on corruption and unethical conduct rose from 51.5% in 2018 to 53.7% in 2023,
2. The value of corruptly acquired assets recovered by the Commission increased from KES 3.565 billion in 2018 to KES 28.0 billion in 2023,
3. The value of loss of public funds averted through proactive investigations rose from KES 19.7 billion in 2018 to KES 39.2 billion in 2023.
4. In the same period, illegally acquired and unexplained assets with an estimated value of KES 6.63 billion were traced, while assets with an approximated value of KES 3.8 billion were recovered. The Commission also conducted proactive investigations which averted a possible loss of public funds estimated at KES 4.7 billion.

While the estimation of the size and trend of corruption related IFFs could not provide regular trends over the analysis period, the number of reported corruption related cases shows a marginal increase.

Financial Year	Reports	Accepted Reports	No. of Active Investigation	Corruption Disruption (KES Bn)	No. of Cases finalized in court convictions	Asset Tracing (No-KES Bn)	Asset Recovery Suits (No-KES Bn)	Actual Assets Recovered (KES Bn)	Conviction Rate (%)
2023/24	5,151	2,207	534	2.9	45-12	26-16	47-9.2	2.994	26
2022/23	5,252	1,916	512	4.74	62-27	40-6.63	62-8.73	4.212	36
2021/22	5,054	1,916	457	4.0	60-30	33-11.2	24-7.78	1.776	50
2020/21	4,894	2,029	529	8.0	26-21	23-5.07	74-2.31	6.5	74
2019/20	6,021	2,225	620	10.0	87-39	88-25.3	23-5.0	12.12	41
2018/19	9,308	3,482	1,593	14.5	78-51	12-2.7	22-4.0	4.5	65
<b>Totals</b>	<b>35,680</b>	<b>13,775</b>	<b>4,245</b>	<b>44.14</b>	<b>358-180</b>	<b>222-66.9</b>	<b>252-37.02</b>	<b>32.10</b>	

Table 3: Analysis of corruption related IFFs

Source: Authors, compiled from EACC reports from FYs 2018/2019 – 2023/2024

1. Kenya loses an estimated KES 253 billion annually through commercial and criminal activities such as bribery and corruption.
2. IFFs arising from corruption over the last six years as investigated by EACC was estimated at KES 66.9 billion; out of which a total of KES 32.1 billion was recovered.



## B. IFFS FOCUSING ON ILLICIT TRADE IN COUNTERFEIT PRODUCTS

The Sustainable Development Goal (SDG) target 16.4. calls for countries to significantly reduce illicit financial flows and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organised crime.

### Forms of Illicit Trade and their effects

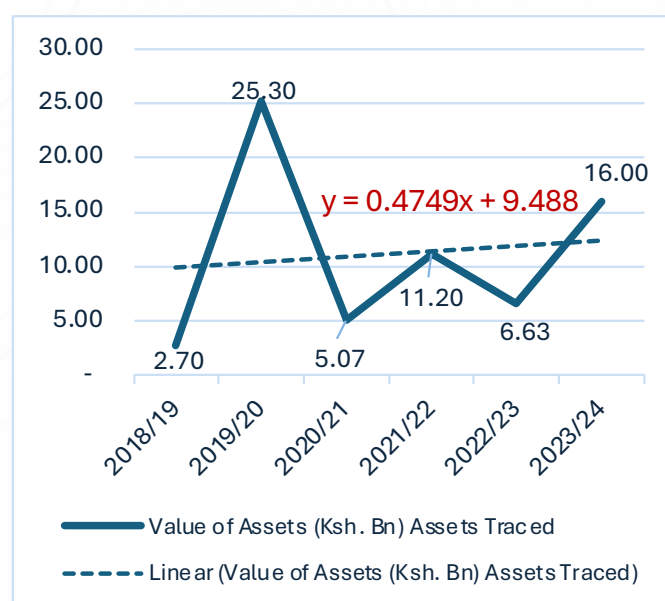
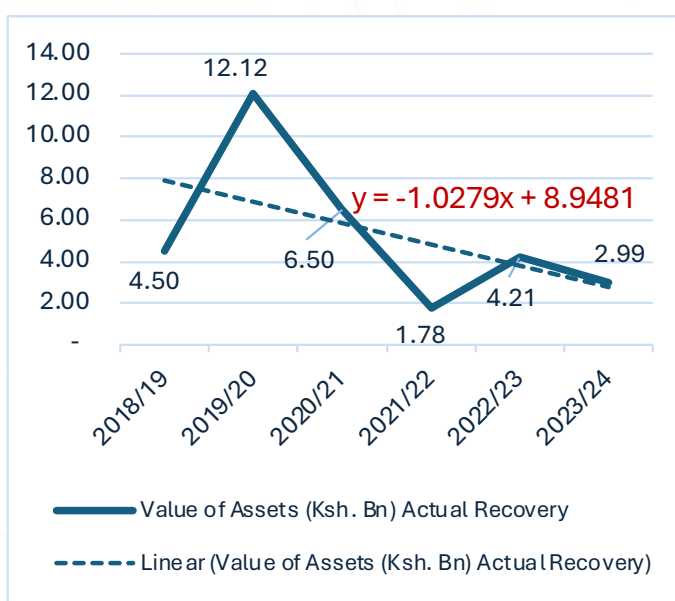
Illicit trade networks are compounded by smuggling, counterfeits, infringement of intellectual property rights and tax evasion which undermines brand integrity, erodes consumer trust, and causes significant economic losses.

One out of every five products sold in the Kenyan market is counterfeit, and that Kenya loses over KES 100 billion annually due to counterfeit goods, which directly translates into job losses and reduced government revenue from taxes.

Research from manufacturers and other sectors players established that there is an existing huge presence of illicit and counterfeit goods which contribute towards illicit financial flows in Kenya. These illicit goods deny government revenues estimated at KES 153 billion annually, according to the 2025 KAM report on illicit goods representing 6% of the total government taxes for the same year.<sup>4</sup>

The Anti-Counterfeits Authority (ACA) reported in 2021 that Kenya loses an estimated KES 100 billion annually through counterfeits and other illicit products. The dominant illicit products include alcoholic drinks, cigarettes, textile, pharmaceuticals and motor spare parts.

While KRA's seizures of smuggled illicit goods for the period 2023 and 2024 were insignificant compared to the volume of illicit trade, the indicative growth in the volume provides the trend of this class of IFFs. KRA reported in 2025 that there was a growth on the value of goods seized from KES 200 million in 2023 to KES 243 million in 2024 indicating a growth of illicit trade of 21.5%<sup>5</sup> for the period under review.



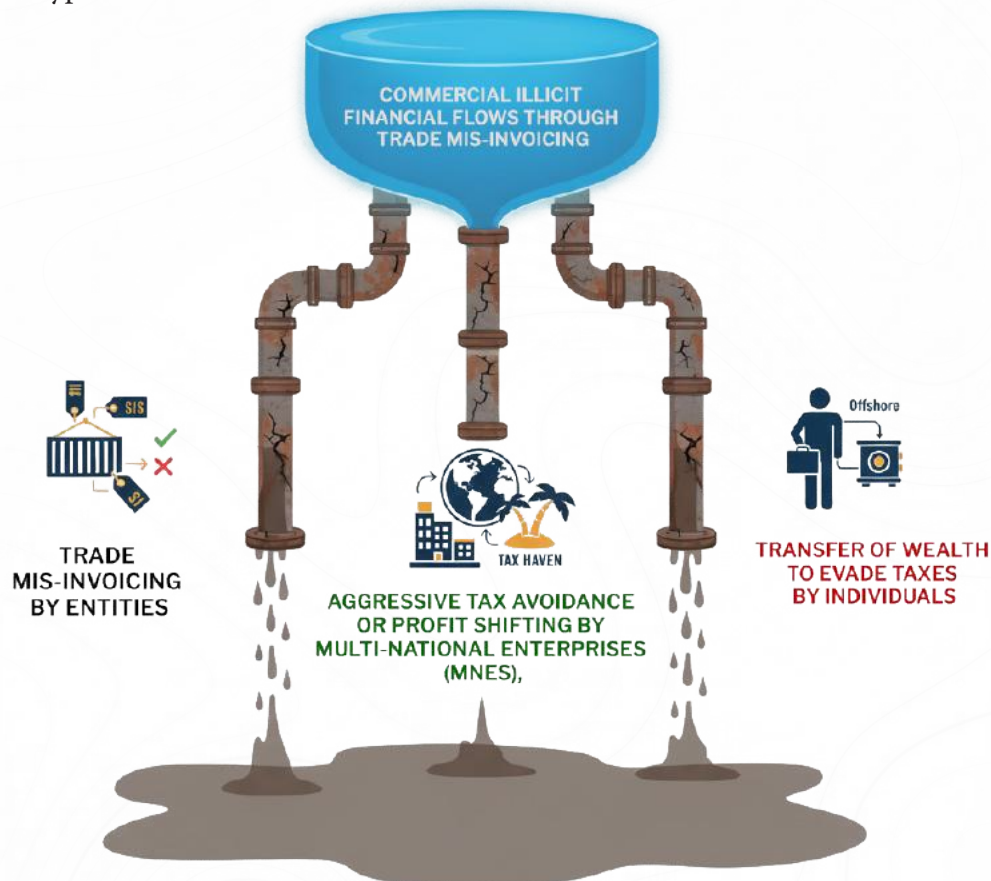
Figures 2A (left) showing the value of assets illicitly acquired (KES billions) and actually recovered and 2B (right) the value of assets illicitly acquired traced (KES billions) and actually traced  
Source: EACC reports 2018/2019 – 2023/2024

2. According to National Treasury figures, KRA collected KES 2,400 trillion in 2024 against illicit loss of KES 147 billion reported by KAM  
3. The illicit value was KES 200 in 2023 and grew by 2024 to KES 243 million, indicating a growth of 21.5%  $((43/200) \times 100 = 21.5\%)$

The size and trend of commercially-driven IFFs arising from mis-invoicing and illicit products on the other hand indicate annual upward trend. Trade in illicit goods as reported by ACA and KAM indicate that the value of illicit goods in the market grew from an estimated KES 100 billion in 2021 according to ACA to KES 153 billion in 2024 as estimated by KAM clustered into various sectors.

## C. COMMERCIAL ILLICIT FINANCIAL FLOWS THROUGH TRADE MIS-INVOICING

UNCTAD developed a guideline on the measurement of IFFs and proposes six methods of estimation. The methods are three types:



These methods are dependent on the availability and accuracy of data and Kenya, just like many countries lacks comprehensive and accurate data integration. This study attempted to estimate the size and trend of IFFs in Kenya using method one (partner country method), which compares inter-country trade statistics. In some studies, this method has been referred to as mirror image of exporting and importing partner states and derives conclusions based on the variation of trade values. Several adjustments are made to reflect changes made to consignments while on transit such as transshipments, transit and goods returned to exporting partners.

Partner Country Method (PCM) reviews bilateral discrepancies in reported trade flows, i.e. what country A reports as its imports from country B is cross-checked against country B's exports into country A. The discrepancies, which could be attributed to issues such as undervaluation, misdeclarations, misclassification and other possible means are identified to establish the estimated value likely to be classified as commercial IFF.

Kenya relies on imports of goods to meet the domestic demand. Annually, Kenya imports 67% of goods from ten countries and 33% from the rest of the world. This indicates a delicate risk position for Kenya, in the sense that loopholes created by any of the top ten countries has a significant impact on collections of duties and levies.

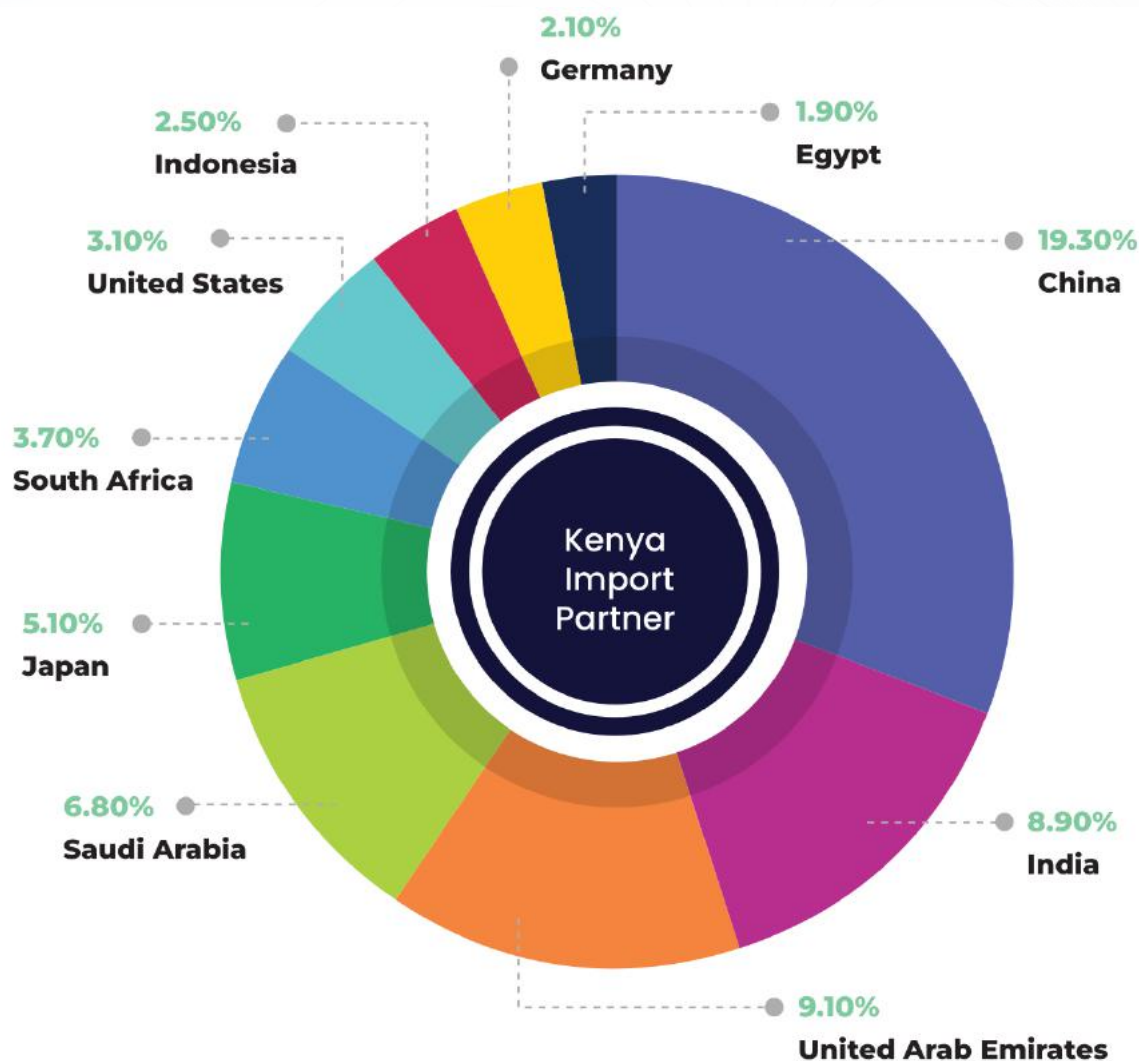


Figure 4: Kenya's imports by country (% of import contribution)  
Source: Exim Trade Data

### Import Data Analysis from Comtrade

The size of value mismatch on international trade, established through PCM similarly shows an increasing disparity, hence value of mis-invoicing from a net value of KES 1 billion in 2016 (0.24%) to a value of KES 180 billion in 2024 (19.81%).

For the period of nine years of review,<sup>4</sup> there was an estimated total import value of KES 711 billion which could not be matched against the statistics of exporting partner states to Kenya, representing 7.9% of the nine-year average. It is only in the year 2016 that mirror values presented a minimal variation with only about KES 1.5 billion difference.

<sup>4</sup> This period presented a comprehensive comparative data of imports and mirror values.



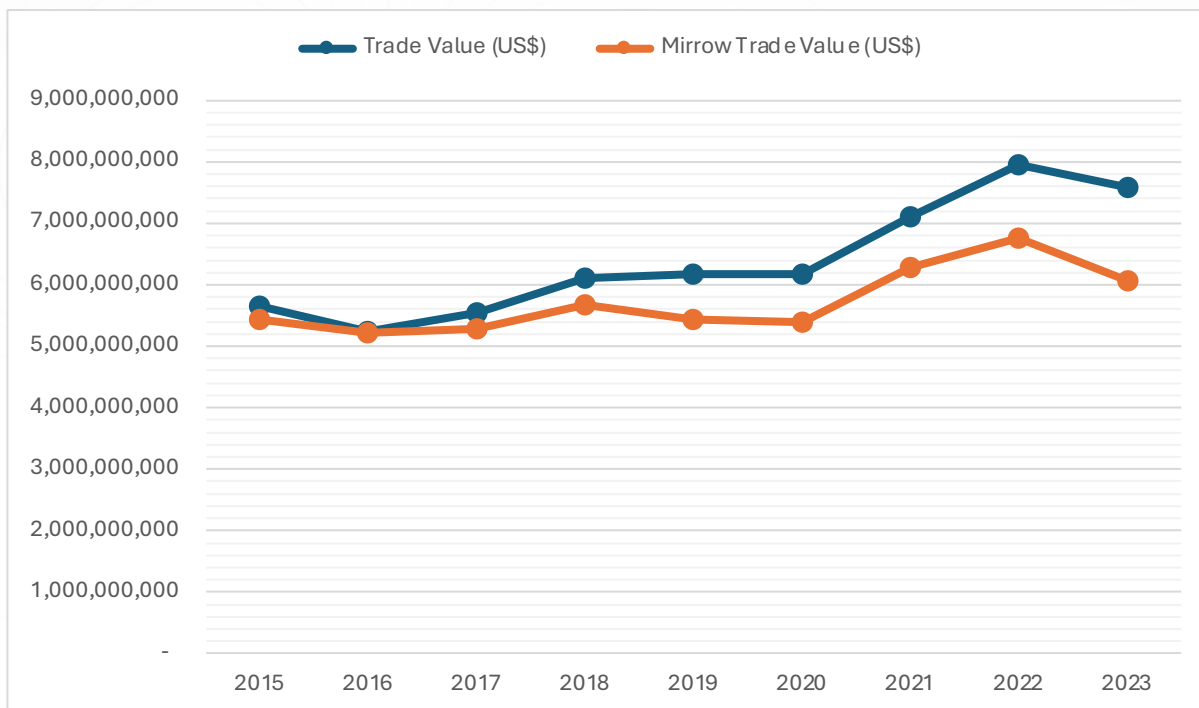


Figure 3: Trade Values (US \$) relative to Mirror Trade Values (US \$)  
Source: Exim Trade Data

Further analysis on the trend of the PCM data indicate a widening variance and an increasingly lower values declared in Kenya than is being reported by the exporting countries. The years 2022 and 2023 presents the highest growth in variances 15% and 20% respectively and as a result could deny the Government the relevant import duties and distort trade statistics. Even with the assumption that some of the variances are contributed by the value of re-export arising from transshipment and transits, the widening gap could indicate an underlying problem related to commercial IFFs.

PCM analysis on gross value of imports declared by Kenya and consolidated exports into Kenya by other countries shows that Kenya's values significantly varies downwards. In the case of China and India, for instance, Kenya reported only between 3-5% of the gross exports reported from China and India destined to Kenya. This could however be influenced by factors such as transit, transshipment, re-shipment and cancellation of exports from China and India. Kenya on the other hand declared 5.8% imports from USA on top of the actual declared exports By USA into Kenya. Similarly, Kenya declared between 53-69% of goods imported from Russia and Germany. This finding somehow validates the variation of values from other major trading partners as Kenya imports mostly tax-exempt machinery from the above three countries.

### UN Comtrade County-By-Country Customs Data Analysis

The data of raw export and import data, as reported by the top trading partners with Kenya, was extracted for the last 12 years. The purpose of this analysis was to identify the size and trend of absolute variation in import values indicating potential size and trend of commercial related IFFs.

No.	Country	Export (US\$)	Imports (US\$)	Variance (US\$)	Percentage (%)
1.	<b>China</b>	71,608,305,200	1,956,054,808	69,652,250,392	<b>97.27%</b>
2.	<b>India</b>	33,641,918,403	1,467,586,455	32,174,331,949	<b>95.64%</b>
3.	<b>United Arab Emirates</b>	15,630,043,960	3,796,441,738	11,833,602,222	<b>75.71%</b>
4.	<b>Japan</b>	10,723,190,346	818,352,100	9,904,838,246	<b>92.37%</b>
5.	<b>USA</b>	7,625,767,743	8,070,573,773	(444,806,030)	<b>-5.83%</b>
6.	<b>Malaysia</b>	7,604,944,344	261,164,734	7,343,779,610	<b>96.57%</b>
7.	<b>South Africa</b>	7,581,623,726	282,021,367	7,299,602,359	<b>96.28%</b>
8.	<b>Saudi Arabia</b>	4,771,568,235	963,654,644	3,807,913,591	<b>79.80%</b>
9.	<b>Germany</b>	4,283,490,785	2,232,209,831	2,051,280,954	<b>47.89%</b>
10.	<b>Russian Federation</b>	1,752,832,797	1,192,136,640	560,696,157	<b>31.99%</b>
	<b>Grand Total</b>	<b>165,223,685,540</b>	<b>21,040,196,090</b>	<b>144,183,489,450</b>	<b>87.27%</b>

*Table 3: Exports to (US \$), Imports from (US \$) and Variances in US \$ and percentages with Kenya's top trading partners  
Source: UN Comtrade*

Table 3 above shows the absolute values of exports and imports and their variances in (US \$) and percentages to and from Kenya's top trading partners. The variance between import and export flows to and from Kenya and its trade partners was US\$144,183,489,450 over the last 12 years.

The highest import-export value discrepancy for the 12 years under review are China, India and UAE. The three countries are also the top three export partners to Kenya. China leads the pack in value discrepancy with an estimated average of 97% for the 12 years. Germany and Russia show relatively lower discrepancies of reported exports from the country of origin as compared with values declared as imports from the same destination by Kenya with 48% and 32% respectively. The USA presented a rather a different trend where the value declared as exports to Kenya is actually overstated on the Kenyan side. This could arise where importers of exempt goods declare higher values to claim it as relief such as investment deduction or machinery and installation wear and tear relief.

The overall picture of the Partner Country Method approach for the top importers to Kenya indicate a situation of possible IFF facilitation by mis-valuation and misdeclaration of imported goods.

# CONCLUSIONS AND RECOMMENDATIONS

Improved data collection, including determining the amounts of revenues lost through IFFs, evidence-based policymaking, and public awareness are necessary to effectively tackle IFFs. Strengthening administrative capacity, enhancing legal frameworks, and increasing transparency will support DRM and help finance the Sustainable Development Goals (SDGs).

## THIS STUDY RECOMMENDS:



1. Review of the tax exemptions regime for imported goods and alignment of import incentives with those provided for by the exporting partners,



2. Enhancing capacity and skills of those responsible for investigations and revenue collections and enforcing beneficial ownership and transparency rules for companies,



3. Adapting the legislative, regulatory and institutional frameworks to include stricter sanctions against price manipulation and non-compliance with tax obligations,



4. Ensuring a high level of integrity among those responsible for mobilising tax revenue,



5. Promoting the visibility of information/transactions, particularly from large trading partners. This can be done through data integration,



6. Enhancing international cooperations through mutual legal assistance for information exchange,



7. An effective measure of size the of IFFs should adopt a wider data integration of all possible IFFs sources,



8. Investigative agencies should exhaustively investigate all cases reported in order to recover as many illegally wealth as possible,



9. The Government, through extensive bilateral and multilateral agreements, should establish data exchange protocols to validate declaration values between trade partners,



10. For the criminal cases, all cases reported should be fully investigated and all assets acquired are seized and reported. There should be efficient co-ordination between the independent institutions such as the ODPP, EACC, judiciary and other investigative agencies to ensure appropriate measures are implemented to quicken the process before perpetrators dispose or transfer assets acquired through corruption.



11. Kenya should secure data exchange protocols to allow full disclosure of all imports from major trade partners. It is also critical that Kenya establishes appropriate valuation methodology for imported goods for purposes of minimizing outward IFFs from commercial transactions.







**National Taxpayers Association**  
**14 Riverside Dr, Daphton Court, Hse No. A6**  
**P.O. Box 4037-00506 Nairobi, Kenya**  
**Phone: +254-701-946557 / +254-734-500940**

**E-mail: [admin@nta.or.ke](mailto:admin@nta.or.ke)**

**     @ntakenya**