

## Beneficial Ownership Transparency and Economic Security in Kenya: Bridging Regulatory Gaps to Counter Financial Crimes

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### Abstract

**T**ransparency in beneficial ownership (BO) information has significant implications for economic security. In Kenya, BO opacity facilitates financial crimes such as corruption, tax evasion, illicit financial flows, and terrorism financing, undermining both national and economic stability. While previous studies have explored illicit financial flows in specific sectors, the broader link between BO transparency and economic security remains underexplored. With BO transparency as the independent variable and economic security as the dependent variable, this study, grounded in principal-agent and institutional theories, examines Kenya's BO disclosure systems, the economic impacts of BO transparency, and the challenges to effective implementation. A qualitative, phenomenological research design was adopted, using purposive sampling to gather insights from practitioners. Data were collected through interviews, semi-structured questionnaires, and document analysis involving 38 participants. The study reveals that enforcement gaps in BO laws expose Kenya to financial crimes and weaken economic resilience. Key sectors with underdeveloped BO disclosure include the real estate, extractives, and energy. Lack of accurate and current BO registers, limited inter-agency collaboration, and weak enforcement mechanisms exacerbate illicit financial flows. Yet enhanced BO transparency presents economic benefits such as improved tax compliance, greater investor confidence, and reduced corruption. Challenges include high compliance costs and resistance from private sector actors. The study recommends strengthening legal frameworks, improving enforcement, leveraging technology, and promoting inter-agency cooperation. Ultimately, BO transparency is vital to Kenya's economic security, and addressing current gaps is essential to combating financial crimes and promoting sustainable economic growth.

**Keywords:** Beneficial ownership transparency, economic security, illicit financial flows, corruption, terrorism financing, national security.

## Introduction

This research paper investigated the implications of beneficial ownership transparency information on economic security in Kenya. The ability to identify and disclose the true owners of businesses and assets is crucial in curbing financial crimes such as money laundering, tax evasion, and corruption, all of which pose significant threats to economic stability (Jalipa, & Danzi, 2020). While Kenya has implemented regulatory frameworks to enhance transparency, concerns persist regarding their effectiveness in fostering economic security. By examining how disclosure practices influence financial integrity and stability, this paper aims to provide a deeper understanding of the role of BO transparency in shaping the country's economic landscape.

To achieve this objective, the paper examines the existing mechanisms for disclosing beneficial ownership (BO) information across various sectors and assessed their effectiveness in promoting economic security. It also analysed regulatory frameworks, compliance practices, and enforcement measures to determine whether current systems adequately deter illicit financial activities. Additionally, the paper evaluated the broader economic implications of improved transparency, considering its potential to attract investment, enhance financial governance, and strengthen economic resilience. Through this analysis, the study contributes insights into how increased transparency in beneficial ownership can support Kenya's long-term economic security.

## Background to the Study

The Financial Action Task Force (FATF) sets Global Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) standards, distinguishing between basic corporate information - such as company name, registered office, incorporation details, list of directors, and shareholders - and information about a company's beneficial ownership. Traditionally, corporate registries have collected only legal ownership details. A growing number of jurisdictions, particularly in Europe, have adopted legal frameworks for collecting and publishing beneficial ownership (BO) information. The European Union's Fifth Anti-Money Laundering Directive (AMLD5) required Member States to establish centralised BO registers, many of which are publicly accessible. Countries such as the United Kingdom and Denmark have implemented fully open registers. These initiatives promote transparency and accountability in corporate ownership structures and strengthen global efforts against illicit financial flows (European Commission, 2018).

To enhance BO transparency, many countries use numerical equity ownership thresholds to trigger disclosure requirements. For example, the European Anti-Money Laundering Directives require BO disclosure when an individual owns

at least 25% of a company's shares or voting rights. Some jurisdictions impose even stricter requirements, with thresholds ranging from 5-20% or mandating disclosure regardless of ownership percentage (Tax Justice Network, 2020).

Globally, Slovakia offers a strong example of BO transparency in public procurement. Civil society groups there had long suspected corruption and conflicts of interest in public contracts, concerns that escalated after a road construction company's restructuring threatened to leave thousands of workers unpaid. Public pressure led to the enactment of the Anti-Letterbox Act in 2017 (Wessing, 2017). This law mandated that companies bidding for government contracts, receiving state or EU funds, or obtaining the extractive sector licenses register as a "Partner of the Public Sector" in a dedicated registry administered by a District Court under the Ministry of Justice. Slovakia's approach stands out for its stringent verification measures, ensuring the accuracy of reported BO information (Wessing, 2017).

The 2022 Financial Secrecy Index assessed 141 jurisdictions, including 18 African countries (Algeria, Angola, Botswana, Cameroon, Egypt, Gambia, Ghana, Kenya, Liberia, Mauritius, Morocco, Namibia, Nigeria, Rwanda, Seychelles, South Africa, Tanzania, and Tunisia). The index focused primarily on jurisdictions with significant international financial services exports or high financial secrecy. While some African nations had high secrecy scores (Angola scored 79 out of 100), their overall contribution to global financial secrecy remained minimal. Instead, major contributors to financial secrecy included the United States, Switzerland, Singapore, Luxembourg, the United Arab Emirates, and the United Kingdom, along with its overseas territories and crown dependencies (Tax Justice Network, 2020).

Nigeria provides another case study of BO transparency reform, though its journey has been more complex. Despite significant political and technical challenges, Nigeria's experience demonstrates how international commitments, policy platforms, and existing institutional frameworks can drive BO transparency reforms. A key lesson from Nigeria is the importance of collecting and publishing BO data in a structured, machine-readable format. Such an approach facilitates integration with existing data systems, reduces compliance burdens, and enhances data quality. By systematically structuring data, authorities can cross-reference datasets, identify inconsistencies, and address reporting gaps caused by policy constraints or user challenges (Andah, 2019).

Economic security in Kenya is closely linked to the transparency of beneficial ownership (BO). The ability to identify and trace the true owners of assets and companies is crucial in combating financial crimes and fostering a stable economic environment (Kenya Revenue Authority, 2023). However, Kenya's economic security is undermined by corruption, illicit financial flows, and tax

evasion – all of which are exacerbated by a lack of transparency in BO. When the actual owners of companies and assets remain concealed, engaging in illicit activities such as money laundering and terrorism financing becomes easier. This opacity hampers accountability, erodes public trust in institutions, and deters both domestic and foreign investment (United Nations Conference on Trade and Development, 2020; OECD, 2014).

A beneficial owner is an individual who ultimately controls assets held by a company, while a legal owner is the person or entity officially holding the title to those assets. In many cases, the beneficial and legal owners are the same if the legal owner holds the title on their behalf. However, in instances of illicit financial activities, the legal owner listed in official records such as company registries, land cadastres, or bank accounts may differ from the actual beneficial owner. Common methods used to obscure true ownership include complex, cross-border ownership structures, appointing informal nominees (also known as “straw men”) as company directors or shareholders, and using professional intermediaries for company administration (OECD, 2014).

In Kenya, improving BO transparency can significantly enhance economic security by curbing illicit financial activities and ensuring that the true owners of companies and assets are known. This would enable the government to regulate economic activities more effectively, enforce tax compliance, and create a fair business environment where legitimate enterprises can thrive. Strengthening BO disclosure policies could also enhance Kenya’s appeal as a regional economic hub, attracting more investment and fostering sustainable economic growth (Nyaga, 2017). Such reforms would contribute to poverty reduction, job creation, and an improved quality of life for Kenyan citizens.

## **Statement of the problem**

Globally, BO transparency has proven effective in enhancing economic security, as seen in countries like Slovakia and others that have implemented robust disclosure systems. These systems help uncover the real individuals behind companies, partnerships, trusts, and foundations, thereby curbing financial crimes and promoting accountability. However, despite these global successes, Kenya continues to face significant challenges due to inadequate BO transparency.

The lack of comprehensive and enforceable BO disclosure frameworks in Kenya has facilitated illicit financial flows, including tax evasion, money laundering, and corruption. These crimes not only undermine economic governance but also directly threaten national security. Illicit funds have reportedly supported extremist groups such as Al-Shabaab, highlighting the urgent need for reform. Despite economic growth being a top national priority, opaque ownership structures continue to erode investor confidence, limit

resource mobilisation, and obstruct efforts toward sustainable development.

This research examines the role of BO transparency in strengthening Kenya's economic security. Specifically, it investigates the effectiveness of Kenya's regulatory frameworks, compliance mechanisms, and enforcement practices in addressing financial crimes linked to undisclosed ownership. The study also assesses the broader economic impact of increased transparency, including its potential to enhance governance, attract investment, and promote equitable economic growth.

By analysing the benefits and challenges of implementing stronger BO disclosure systems, the study offers practical recommendations for improving Kenya's financial governance. Ultimately, this research contributes not only to national policy development but also to the global discourse on financial transparency and security in developing economies.

## Literature Review

The disclosure of beneficial ownership (BO) information is crucial in combating global financial crimes such as money laundering, corruption, and terrorism financing. Criminals often exploit legal entities and multi-jurisdictional structures to obscure ownership, complicating efforts to trace illicit assets. Tactics like using limited liability companies or nominee directors offer a veneer of legitimacy while concealing the true beneficiaries.

Globalisation intensifies these challenges, as cross-border transactions blur jurisdictional boundaries and criminals exploit legal loopholes, making international collaboration vital. Regulatory bodies like the Financial Action Task Force call for stricter global standards to promote transparency and ensure legitimate business practices (FATF, 2021).

Transparency in BO is grounded in theories of governance and anti-corruption and enhances accountability by exposing hidden interests (Rose-Ackerman, 1999). In Kenya, corruption has flourished due to opaque structures, enabling individuals to siphon public resources. Strengthening BO disclosure could deter corruption and encourage foreign direct investment by creating a more equitable business environment (Global Financial Integrity, 2020).

Lack of transparency in BO also undermines tax collection. Beneficial owners often use complex structures to evade taxes, eroding national revenue (Alm, 1999). The Kenya Revenue Authority (2020) has estimated significant losses due to hidden assets. By improving BO transparency, the government can reduce tax evasion and increase funding for critical services like health and education. From a financial standpoint, clearer ownership structures reduce investor risk and improve market confidence (Shleifer & Vishny, 1997). In Kenya, corruption and opaque governance

deter investors. Enhancing BO transparency could attract stable, long-term investment and promote economic growth (World Bank, 2020).

BO transparency also helps combat illicit financial flows (IFFs), which are facilitated by anonymous shell companies and complex ownership networks. Transparent systems allow authorities to trace and disrupt these flows (Sharman, 2011). Kenya, like many African countries, loses billions annually to IFFs (United Nations Economic Commission for Africa, 2019). Better BO practices could boost fiscal security and strengthen governance.

### ■ *Legal and Institutional Considerations*

BO disclosure is central to compliance with international standards such as Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF), which are critical for maintaining access to global financial systems (FATF, 2012). For Kenya, BO reforms are essential to prevent economic isolation and support integration into global markets.

Improved BO transparency also enhances law enforcement. When ownership data is accessible, agencies can more effectively investigate financial crimes (Rose-Ackerman, 1999). In Kenya, better BO data would support more precise targeting of corrupt networks and would build trust in public institutions.

A strong example is found in the European Union's Fifth Anti-Money Laundering Directive (5AMLD), which requires member states to establish public BO registers. Countries like Denmark and the Netherlands have gone a step further by making ownership data fully open and machine-readable. This allows not only authorities but also journalists, civil society, and international partners to detect suspicious patterns in corporate structures. These legal frameworks have significantly improved cross-border cooperation in financial crime investigations. Kenya can draw lessons from this model by designing interoperable systems and ensuring that BO registers are accessible, verifiable, and updated in real time.

Another relevant case is Nigeria's recent legal reforms under the Companies and Allied Matters Act (CAMA) 2020, which mandates BO disclosure and establishes penalties for non-compliance. This move has aligned Nigeria with FATF recommendations and improved its standing with international financial institutions. Crucially, the reform was driven by domestic political will and institutional collaboration between anti-corruption agencies, the corporate registry, and civil society. For Kenya, adopting a similarly integrated legal-institutional approach could help overcome fragmentation in enforcement, promote transparency across sectors, and align with both regional and global financial governance standards.



These international examples demonstrate that BO transparency is not merely a technical or regulatory issue but a strategic governance reform with far-reaching implications. For Kenya, adopting similar legal and institutional mechanisms would require more than just legislative change; it demands sustained political commitment, cross-agency coordination, and robust civic engagement. Embedding BO reforms into Kenya's anti-corruption and national security agendas can help align fragmented efforts and ensure consistent enforcement. Moreover, aligning domestic laws with international best practices would not only improve Kenya's reputation globally but also unlock access to international financial assistance, trade partnerships, and investment opportunities. As seen in countries like Nigeria and the Netherlands, effective BO regimes strengthen state capacity, deter financial crimes, and ultimately contribute to economic resilience - outcomes that are increasingly urgent for Kenya in the face of rising fiscal pressures and security threats.

### ■ *Gaps in Implementation*

Empirical research highlights ongoing challenges despite legal reforms. Even with legal reforms, complex ownership structures still hinder the detection of illicit financial activities. Etter-Phoya (2020) notes that wealthy individuals often exploit shell companies to evade taxes and conceal corruption. Loopholes such as exemptions for listed companies or state-owned enterprises undermine disclosure laws. Enforcement across borders is further complicated by inconsistent international regulations.

Cervantes (2019) argues that a narrow definition of BO limits the effectiveness of disclosure regimes. He recommends expanding the concept to cover tactics such as treaty shopping, which corporations use to lower tax obligations. A broader scope would enhance Kenya's ability to combat tax evasion and financial crime. However, not all scholars agree that stricter disclosure laws alone are sufficient. Fenwick and Vermeulen (2020) suggest that in today's digital age, information is harder to hide regardless of regulations. They argue that while BO laws are necessary, they must address systemic weaknesses to be effective. Jurdant (2019) emphasises the importance of both judicial and non-judicial mechanisms to ensure accurate BO disclosures. Van der Merwe (2021) adds that enforcement remains low even with registries in place and recommends penalties to improve compliance.

In Kenya, despite government reforms, corporate crime persists. Legal entities such as shell companies and nominee directors continue to obscure true ownership. Etter-Phoya (2020) emphasises that proper implementation of BO disclosure can uncover corruption and aid asset recovery. However, exemptions and legal loopholes reduce impact. Cervantes (2019) supports a more comprehensive BO definition, including treaty shopping and other financial

manoeuvres. Closing these loopholes could strengthen Kenya's efforts to fight corruption and tax evasion. Fenwick and Vermeulen (2020) caution that increased transparency must be backed by effective enforcement and realistic expectations in the digital era.

The FATF (2012) identifies weak BO frameworks as major risks for financial crime in Kenya. These undermine fair competition and public trust and they lead to substantial revenue loss. Transparency in BO could mitigate these risks and contribute to economic growth by encouraging fair practices and investor confidence. Corruption continues to harm Kenya's economy, particularly in procurement and land deals. BO opacity facilitates these activities (Global Witness, 2019). Transparency International (2021) highlights how corruption distorts resource allocation and discourages investment. Global Financial Integrity (2020) estimates that illicit financial flows cost Kenya billions annually, weakening public services and governance.

Devolution under Kenya's 2010 constitution aimed to reduce corruption by decentralising governance. Yet, results have been mixed. Some counties improved service delivery, while others experienced rising corruption due to limited oversight (GoK Treasury, 2023). Effective local governance depends on transparency and accountability (Martinez-Vazquez & McNab, 2006; Mutie, 2014). As an example, the Kenya Revenue Authority (2020) has attributed major tax losses to BO opacity. Greater transparency would help close the tax gap, supporting investments in infrastructure and social services. Tanzi (1998) found that transparency leads to higher tax compliance and lower evasion across countries.

### ■ *Policy and Reform Opportunities*

Investor confidence is also linked to BO transparency. The World Bank (2020) reports that investors prefer transparent markets. In Kenya, improving BO systems could enhance FDI and contribute to stable, long-term economic development (Gisore, 2017).

IFFs, often enabled by anonymous entities, cost Kenya and other African nations significant sums each year (United Nations Economic Commission for Africa, 2019). Transparent BO structures would limit these flows and improve fiscal stability (Sharman, 2011).

However, political resistance and fragmented enforcement remain key barriers. According to Transparency International (2021), powerful elites oppose reforms that could expose their financial misconduct. Regulatory overlap among institutions like the KRA, FRC, and EACC also leads to inefficiencies (Tax Justice Network, 2020).



Despite these hurdles, opportunities exist. International frameworks such as FATF standards and the digitalisation of company registers can support reform (OECD, 2019; Open Ownership, 2020). Civil society groups, including Transparency International, also play a vital role in pushing for greater BO transparency and accountability.

## **Theoretical Framework**

The study employed both principal-agent theory and institutional theory to explore how beneficial ownership (BO) transparency can enhance economic security in Kenya. Principal-agent theory highlights the challenges arising from conflicting interests and information asymmetry between owners (principals) and managers (agents), emphasising the need for accountability mechanisms (Jensen & Meckling, 1976). In contrast, institutional theory focuses on how organisations respond to norms, rules, and expectations to gain legitimacy and stability (DiMaggio & Powell, 1983; Scott, 2008).

Together, these theories underscore that transparency reduces corruption and mismanagement by aligning individual behaviour with broader institutional norms. Principal-agent theory suggests that opaque ownership enables agents to act in self-interest, often leading to corruption, tax evasion, and financial instability - persistent issues in Kenya (Shleifer & Vishny, 1997). Clear ownership structures reduce these risks by limiting opportunities for misuse of power.

Institutional theory adds that systemic corruption thrives in weak regulatory environments. In Kenya, enhancing BO transparency strengthens institutional frameworks, discouraging illicit financial flows and promoting trust in public and private institutions. This shift supports long-term economic growth and fiscal stability.

The relevance of these theories lies in their dual focus: individual incentives and structural conditions. Principal-agent theory advocates for reducing asymmetry through transparency, while institutional theory stresses embedding transparency within legal and cultural norms. When combined, they position BO disclosure as a key mechanism for improving economic security by fostering accountability, regulatory compliance, and institutional reliability.

## **Methodology**

This study employed a phenomenological research design within a qualitative framework to explore the lived experiences of individuals involved in disclosing or assessing beneficial ownership (BO) information. According to Creswell and Poth (2018), phenomenology is appropriate for capturing participants' lived experiences. This approach enabled an in-depth understanding of how BO transparency impacts economic security in Kenya, offering practical

insights for policy reform.

A qualitative approach was appropriate for capturing the complex social and institutional dynamics surrounding BO transparency (Flick, 2020). It allowed for an exploration of context, motivations, and governance challenges without relying on numerical data. Data collection methods included interviews, document analysis, and case studies. These methods align with the constructivist paradigm, which views transparency as shaped by legal frameworks, institutional cultures, and stakeholder perceptions (Bryman, 2016).

The study was conducted primarily in Nairobi, Kenya's financial and administrative centre. A total of 38 participants were drawn from diverse institutions, including government agencies, regulatory bodies such as the BRS, KRA, FRC, and EACC, as well as financial institutions, law firms, and civil society organisations. These stakeholders offered diverse perspectives on the practical implementation and effectiveness of BO transparency initiatives. Purposive sampling was used to ensure that individuals with direct knowledge and experience informed the research.

The study drew on qualitative insights from a broad group of stakeholders: 76% male and 24% female participants, with 40.5% possessing 10–20 years of experience. Respondents included government officials (54.1%), investigative personnel (21.6%), financial experts (13.5%), legal professionals (8.1%), and regulatory specialists (2.7%). This diversity provided a comprehensive view of how BO disclosure systems function in practice across various sectors. While a majority (97%) of participants were at least somewhat familiar with BO regulations, the split between those who were *very familiar* (48%) and *somewhat familiar* (49%) indicated uneven depth of understanding. This highlighted the need for further capacity building and harmonisation of practices across sectors to ensure consistent and meaningful compliance.

Thematic analysis was employed to analyse the qualitative data collected, following Braun and Clarke's (2006) six iterative stages. This process began with repeated reading of transcripts and documents for familiarity, then systematically coding data segments that reflected institutional bottlenecks, legal ambiguities, enforcement challenges, and successes in beneficial ownership (BO) disclosure. Related codes were clustered into broader themes, which were refined to ensure coherence and grounding in the data. From this process, three overarching themes emerged: regulatory effectiveness, public awareness, and the impact of BO transparency on accountability and economic stability. Regulatory effectiveness captured concerns about weak enforcement mechanisms, regulatory loopholes, and inconsistencies across sectors. Public awareness reflected both citizens' limited comprehension and professionals' uneven technical expertise. The

influence of BO transparency was further linked to economic determinants such as financial integrity, ease of doing business, and resilience against corruption and money laundering, aligning with assumptions in prior research that greater transparency correlates with stronger institutional trust and reduced illicit financial flows (OECD, 2021; Saunders, Lewis, & Thornhill, 2019). This approach enabled the identification of trends and associations, allowing for nuanced insights into how BO information is managed in practice and its broader implications for governance and economic security in Kenya.

Ethical considerations were observed throughout, particularly in managing sensitive information and safeguarding participant confidentiality. Publicly available sources such as policy reports and legal documents complemented the primary data.

## Findings

The following discussion examines the transparency of BO in Kenya, focusing on sector-specific disclosure practices, stakeholder insights, and compliance challenges. It also explores how improved BO transparency can enhance economic security by addressing financial crimes and fostering a more stable investment environment.

### ■ Sectoral Review of Disclosure Practices

Kenya's sectoral systems and practices for disclosing beneficial ownership information reveal both progress and persistent gaps. While certain sectors exhibit strong compliance and awareness, others lag behind due to regulatory weaknesses or lack of enforcement. Findings from the study reveal that Kenya's legal framework for beneficial ownership disclosure is grounded in key statutes, notably the Companies Act (2015, amended in 2019) and the Beneficial Ownership Information Regulations (2020). Approximately 48% of respondents reported being highly familiar with these laws, suggesting a moderate to high level of awareness among stakeholders, particularly within the financial services and insurance sectors. These sectors have demonstrated a strong adherence to BO disclosure requirements, reflecting maturity in compliance and alignment with international anti-money laundering (AML) and counter-terrorism financing (CTF) standards.

However, the effectiveness of BO disclosure varies considerably across other sectors. Notably, real estate, extractive industries (oil, gas, and mining), and Energy sectors show significant gaps in compliance, largely due to weaker enforcement mechanisms and sector-specific regulatory loopholes. These inconsistencies point to the need for sector-tailored strategies that address enforcement challenges and promote consistent application of BO disclosure regulations.

In sectors such as public procurement, respondents emphasised the importance of transparency in curbing corruption and promoting accountability. This sector benefits from relatively stronger policies and oversight frameworks, serving as a potential model for others. Conversely, sectors like real estate and extractives were identified as high-risk due to opaque ownership structures and insufficient oversight, making them more vulnerable to financial crimes such as money laundering and tax evasion.

The study also highlighted awareness of additional legislation relevant to BO, including the Limited Liability Partnerships Act (2011), the Partnerships Act (2012), the Trustees (Perpetual Succession) Act (Cap 164), and the Tax Procedures Act (2015). Familiarity with these frameworks, while commendable, varies significantly across sectors, reinforcing the need for enhanced regulatory guidance and training, particularly in under-regulated industries.

Emerging sectors such as the digital economy, agriculture, legal services, and motor vehicle trade are increasingly recognised as areas that could benefit from improved BO disclosure systems. As these sectors expand, their exposure to financial risks also increases, making it essential to proactively integrate robust transparency practices from the outset.

### ■ **Stakeholder Insights and Compliance Challenges**

The findings of this study point to a clear need for a more nuanced and sector-specific approach to BO transparency in Kenya. While some industries, particularly within the Financial and Insurance sectors, have made significant strides in aligning with international standards, others continue to face structural and compliance-related challenges. A one-size-fits-all strategy is unlikely to address these diverse realities effectively.

For instance, it is evident that sectors such as real estate, extractives, and energy would benefit from more targeted enforcement mechanisms. These industries, often characterised by complex ownership structures and relatively lax oversight, require tailored interventions that reflect their specific risks and operational dynamics. Regulatory agencies could develop sector-focused guidelines and strengthen inspection frameworks to improve compliance where it is currently weakest.

Alongside enforcement, there is a pressing need for broader capacity building. The study revealed that while most stakeholders are aware of existing regulations, the depth of understanding varies. This suggests an opportunity to enhance training and awareness initiatives, particularly for emerging sectors like the digital economy, agriculture, and motor vehicle trade. These sectors are expanding rapidly and becoming more vulnerable to financial crimes, making early

investment in compliance capacity crucial for long-term economic security.

Lessons from the Financial and Insurance sectors offer valuable insights. Their relatively high level of BO transparency, driven by strong Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) obligations, demonstrates the importance of regulatory clarity, inter-agency collaboration, and institutional commitment. These elements can serve as a blueprint for other sectors seeking to improve their transparency frameworks.

In addition, harmonising the various legal frameworks that govern ownership disclosure - such as company, partnership, and tax laws - could close existing loopholes and ensure a more consistent application of the rules across all sectors. This legal alignment would also help prevent regulatory arbitrage, where entities exploit inconsistencies between laws to obscure ownership or avoid scrutiny.

The role of technology also cannot be overstated. Strengthening centralised BO registries and ensuring data is accessible to relevant oversight bodies will be key in making disclosure practices more transparent and traceable. A well-integrated digital infrastructure can enhance real-time data sharing, streamline compliance checks, and improve the overall effectiveness of enforcement.

### ■ ***Economic Implications of Improved Transparency in Beneficial Ownership on Economic Security in Kenya***

This study finds that improved transparency in BO has far-reaching implications for Kenya's economic security. Transparency in ownership structures reduces the risk of financial crime, fosters investor confidence, and strengthens institutional oversight, all of which are essential for a secure and stable economy.

The data show that 78.4% of respondents believe that increased BO transparency enhances investor confidence and attracts FDI. Investors are more likely to commit capital in environments where ownership is clear and financial practices are accountable. This points to a direct link between transparency and the creation of a predictable, low-risk investment climate, which is critical for sustained economic growth and resilience.

Another major implication of enhanced transparency is the reduction of IFFs. An overwhelming 97.3% of respondents agreed that opaque ownership structures are a key enabler of financial crimes such as money laundering, tax evasion, and corruption. These activities significantly undermine economic security by draining public resources, weakening institutions, and eroding public trust. Transparent BO information helps regulatory bodies detect, prevent, and respond to these threats more effectively, reducing their impact on national financial stability.

Improved BO disclosure also strengthens Kenya's alignment with global AML and CTF frameworks. This alignment is essential for protecting the integrity

of the national financial system and maintaining access to international financial markets. A transparent and compliant system improves Kenya's global standing and reduces the reputational risks that can deter foreign investment and trade partnerships.

The study highlights that economic security is closely tied to effective regulation and enforcement. When authorities have access to accurate BO data, they are better positioned to identify irregularities, investigate misconduct, and hold perpetrators accountable. This increased capacity for oversight contributes to a more robust financial ecosystem and reduces systemic vulnerabilities, especially in sectors historically prone to opacity, such as real estate, extractives, and transport.

Moreover, transparent ownership structures promote greater accountability in public procurement, corporate governance, and service delivery. Knowing who owns companies bidding for government contracts helps curb favouritism and misuse of public funds. This strengthens fiscal responsibility and ensures that public resources are allocated more efficiently, contributing to economic resilience.

The analysis also reveals that uneven enforcement across sectors poses a risk to national economic security. While some industries, such as financial services and insurance, demonstrate strong compliance due to stringent regulations, others, particularly in the real estate and extractives sectors, show significant gaps. These disparities can be exploited by criminal actors and politically exposed persons, creating entry points for economic destabilisation. Addressing these inconsistencies is crucial to ensure that the benefits of transparency are felt economy-wide.

From a structural standpoint, increased transparency supports fair market competition. When ownership is hidden, certain firms may gain unfair advantages through corrupt networks or monopolistic behaviour. Transparent BO frameworks level the playing field, encouraging competition, supporting small and medium-sized enterprises, and broadening economic participation.

## Conclusion

This paper examined the impact of beneficial ownership (BO) transparency on economic security in Kenya, highlighting how the disclosure of ownership information can enhance economic stability, reduce illicit financial flows, and build a more trustworthy business environment. While Kenya has made progress with regulations like the Companies Act (2015) and the Beneficial Ownership Regulations (2020), challenges in enforcement and regulatory gaps, especially in sectors such as real estate, extractives, and energy, remain significant. These gaps



expose the economy to risks such as money laundering, corruption, and tax evasion, which undermine stability and investor confidence. The study further revealed that the lack of up-to-date and reliable BO data hinders the identification of ultimate beneficial owners (UBOs). Complex ownership structures continue to obscure true ownership, especially in sectors with opaque practices. Additionally, the limited technological infrastructure and lack of specialised personnel in regulatory agencies impede effective tracking and verification of ownership structures. Despite these obstacles, the study identifies opportunities for improvement, such as investing in real-time data systems, enhancing inter-agency communication, and fostering cross-sector collaboration. Continuous stakeholder education and stronger enforcement mechanisms are essential for overcoming these barriers. Ultimately, the research concludes that while the regulatory framework for BO transparency is in place, addressing enforcement challenges, improving data accessibility, and overcoming political resistance are key to realising its full potential. Only by tackling these issues can Kenya strengthen its economic integrity, reduce financial crimes, and create a more stable investment climate.

## Recommendations

The study highlights the critical need for strengthening legal frameworks to improve beneficial ownership (BO) transparency in Kenya. The study emphasises that existing laws, such as the Companies Act (2015), should be amended to address gaps in the BO disclosure system. Specifically, the ownership threshold for mandatory reporting should be lowered, and the definition of BO should be expanded to include individuals with indirect control over companies. These changes would help close loopholes that allow illicit actors to hide behind opaque ownership structures, thus improving the fight against financial crimes such as money laundering, tax evasion, and corruption. Respondents also called for the alignment of Kenya's BO regulations with international standards to enhance compliance and promote investor confidence, ensuring Kenya's integration into the global financial system.

Incorporating technology into the BO transparency framework was another significant recommendation. The study advocates for the establishment of a centralised digital BO register that integrates with key regulatory bodies such as the Kenya Revenue Authority (KRA), Financial Reporting Centre (FRC), and financial institutions. By utilising technologies such as artificial intelligence (AI), machine learning, and blockchain, Kenya can ensure real-time verification and monitoring of BO data. These innovations would help detect fraudulent ownership structures, flag suspicious activities, and prevent manipulation of records. Training government and private-sector stakeholders on the use of these technologies is crucial to enhancing the accuracy and efficiency of the system.

Political will and strong government commitment were identified as essential for the successful implementation of BO transparency measures. To overcome resistance from various sectors, respondents emphasised the need for continuous training, modernisation of tools, and institutional reforms. Moreover, clear guidelines must be established to balance data protection with transparency, ensuring that sensitive information is not misused while still enabling effective oversight. Political support is necessary to navigate these reforms, making BO transparency a priority in Kenya's broader anti-corruption and anti-money laundering efforts.

Finally, the study underscores the importance of stakeholder engagement, particularly through public sensitisation programs. These initiatives would foster compliance, reduce resistance to BO transparency reforms, and encourage civic participation in monitoring the system. Public awareness campaigns could be launched through various media platforms to educate citizens about the role of BO transparency in combating corruption and enhancing economic security. Additionally, collaboration with Civil Society Organisations (CSOs) and the private sector could help improve reporting mechanisms, bolster investigative efforts, and provide greater scrutiny over corporate activities. These efforts would ensure that the benefits of BO transparency, including improved governance, economic growth, and investment confidence, are fully realised.

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