



# **2021 Index of Economic Freedom**

**Results and Observations on Kenya, EAC & Select SSA Economies**

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The   
Heritage Foundation

HIGHLIGHTS OF THE  
2021 INDEX OF  
**ECONOMIC  
FREEDOM**



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with Patrick Tyrrell

# Outline

- Introduction
- Methodology
- Summary of Results
- 2021 Kenya Results
- Kenya & EAC economies
- Kenya and select SSA Economies
- Conclusion

# Introduction

- Basic Definitions
- IEF has been published by the Heritage Foundation since 1994
- IEF covers 12 economic freedoms
- The 12 economic freedoms are grouped into 4 categories: Rule of Law; Government Size; Regulatory Efficiency; Open Markets

# Methodology

1. **Rule of Law** (Property rights, government integrity, judicial effectiveness)
2. **Government Size** (Government spending, tax burden, fiscal health)
3. **Regulatory Efficiency** (Business freedom, labour freedom, monetary freedom)
4. **Open Markets** (Trade freedom, investment freedom, financial freedom)

# How the Index is Measured (1/2)

<b>Key Aspects</b>	<b>Factor</b>	<b>Subfactors</b>
<b>Rule of law</b>	<b>Property Rights</b>	Physical property rights, Intellectual property rights, Strength of investor protection, Risk of expropriation, and Quality of land administration.
	<b>Judicial Effectiveness</b>	Judicial independence, Quality of the judicial process, and Favouritism in obtaining judicial decisions
	<b>Government Integrity</b>	Irregular payments and bribes, Transparency of government policymaking, Absence of corruption, Perceptions of corruption, and Governmental and civil service transparency.(6)
<b>Government Size</b>	<b>Tax Burden</b>	The top marginal tax rate on individual income, The top marginal tax rate on corporate income, and The total tax burden as a percentage of GDP.
	<b>Government Spending</b>	Expenditures represents the average total government spending at all levels as a percentage of GDP for the most recent three year
	<b>Fiscal Health</b>	Average deficits as a percentage of GDP for the most recent three years (80 percent of score) and Debt as a percentage of GDP (20 percent of score).

# How the Index is measured? (2/2)

Key Aspects	Factor	Subfactors
Regulatory Efficiency	Business Freedom	13 sub-factors which include time, cost(Share of Income per Capita), procedures of setting up a business
	Labour Freedom	<ul style="list-style-type: none"> <li>Ratio of minimum wage to the average value added per worker, Hindrance to hiring additional workers, Rigidity of hours, Difficulty of firing redundant employees, Legally mandated notice period, Mandatory severance pay, Labour force , participation rate.</li> </ul>
	Monetary Freedom	<ul style="list-style-type: none"> <li>The weighted average inflation rate for the most recent three years ,Qualitative judgment on extent of government manipulation of prices through direct controls or subsidies</li> </ul>
Open Markets	Trade Freedom	<ul style="list-style-type: none"> <li>The trade-weighted average tariff rate, Qualitative evaluation of nontariff barriers (NTBs)</li> </ul>
	Investment Freedom	<ul style="list-style-type: none"> <li>National treatment of foreign investment, Foreign investment code, Restrictions on land ownership, Sectoral investment restrictions, Expropriation of investments without fair compensation, Foreign exchange controls, Capital controls</li> </ul>
	Financial Freedom	<ul style="list-style-type: none"> <li>The extent of government regulation of financial services, Degree of state intervention in banks and other financial firms through direct and indirect ownership, Government influence on the allocation of credit, The extent of financial and capital market development, Openness to foreign competition</li> </ul>

# Interpretation of Economic Freedom Scores

Category	Score
Free	80-100
Mostly Free	70-79.9
Moderately Free	60-69.9
Mostly Unfree	50-59.9
Repressed	0-49.9



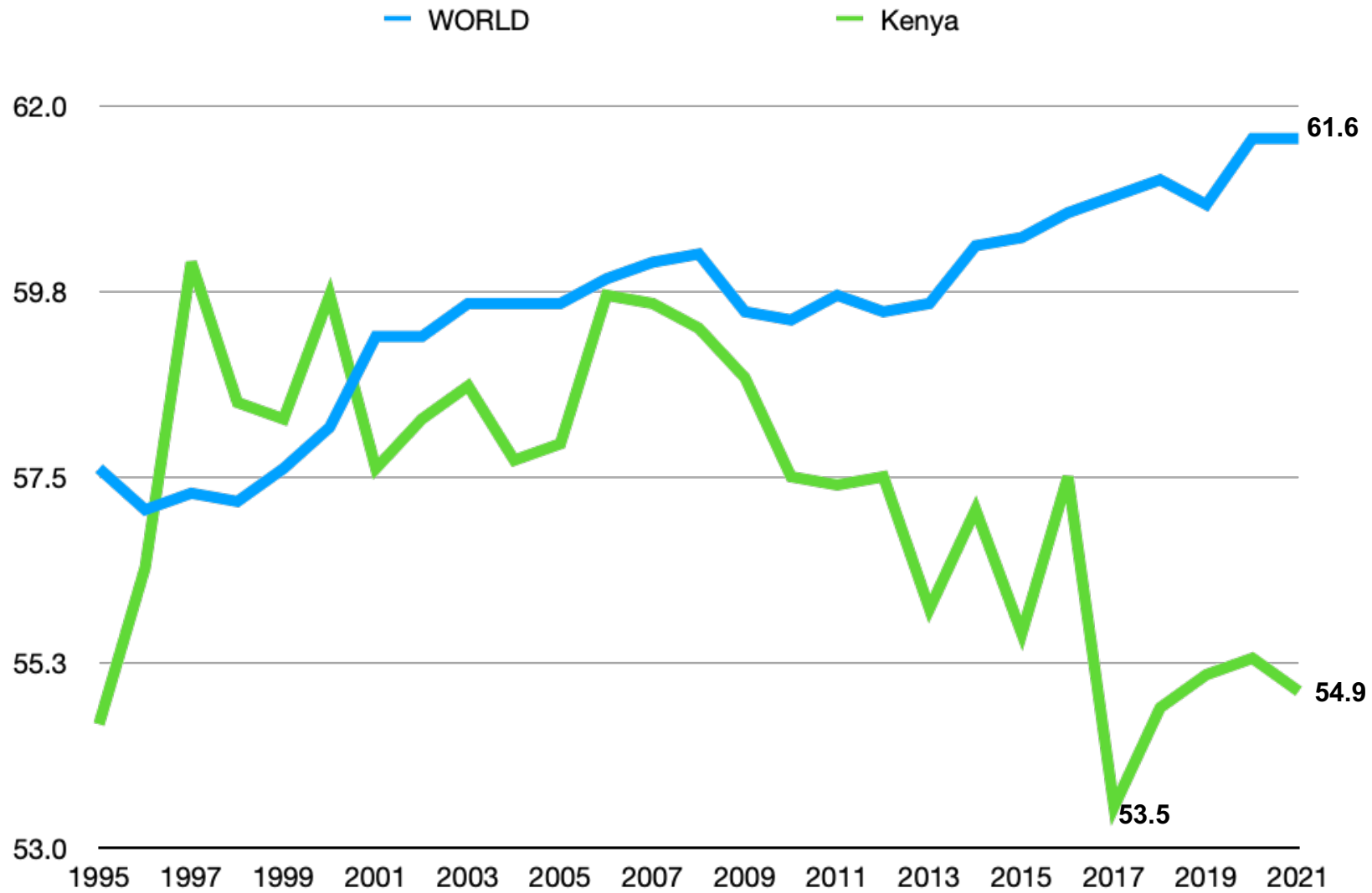
# Summary of Index of Economic Freedom Results (1/2)

- Kenya's Score: 54.9
- Sub-Saharan Africa Average Score: 55.7
- World Average score: 61.6
- Kenya's global rank: 138/180
- Kenya's Sub-Saharan rank: 28/47
- Kenya's major obstacles to economic freedom include;
  - Poor government integrity
  - Grave problems with fiscal health
  - Lack of Judicial Effectiveness

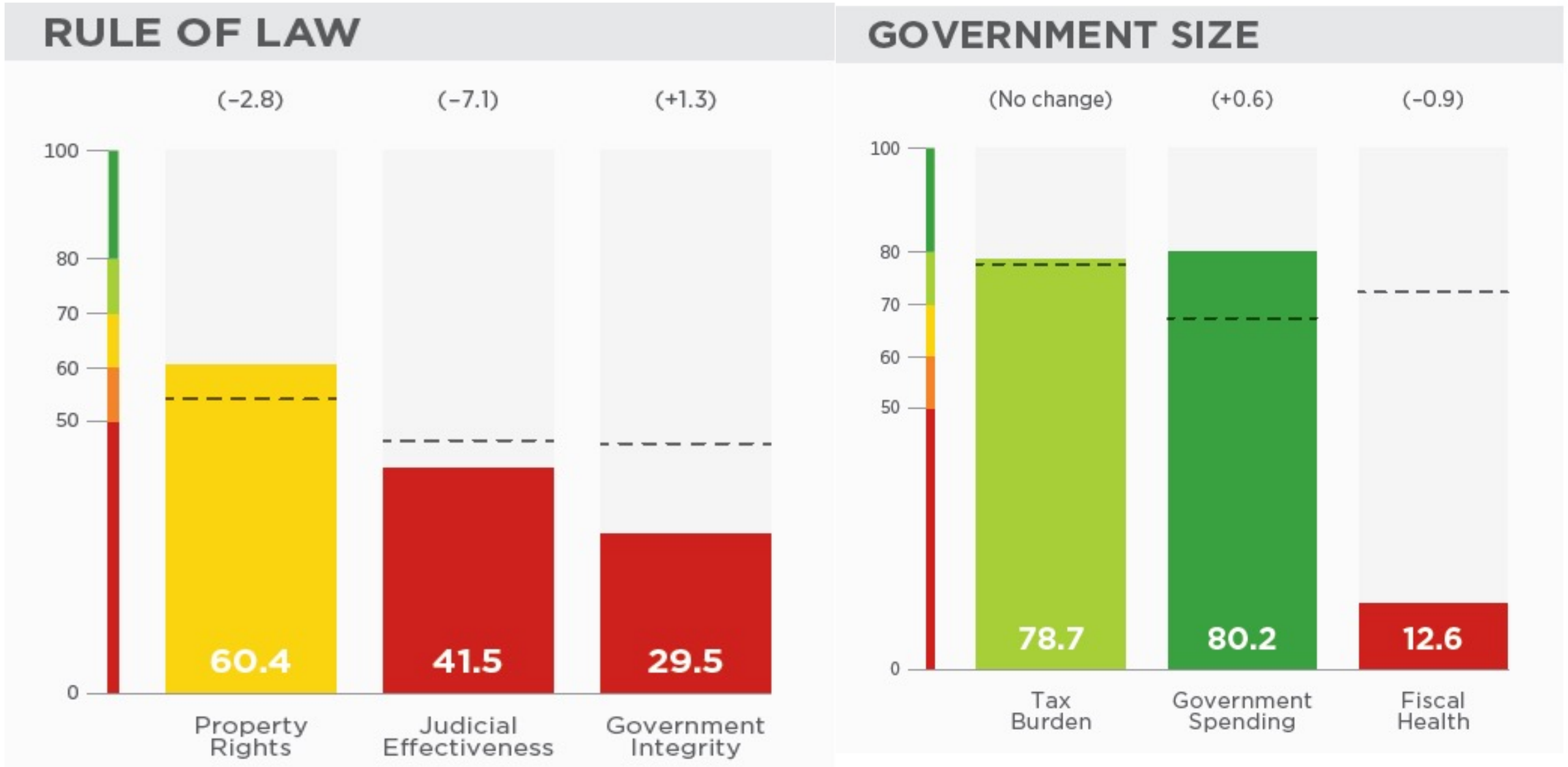
# Summary of Index of Economic Freedom Results (2/2)

- Singapore ranked as the Freest Economy
- Other Countries in the top category include: New Zealand, Australia, Switzerland, Ireland, Taiwan, United Kingdom and Estonia.
- 5 countries in the free category
- 32 countries in mostly free category
- 58 countries in the Moderately free category
- 62 countries in mostly unfree category
- 17 countries considered repressed

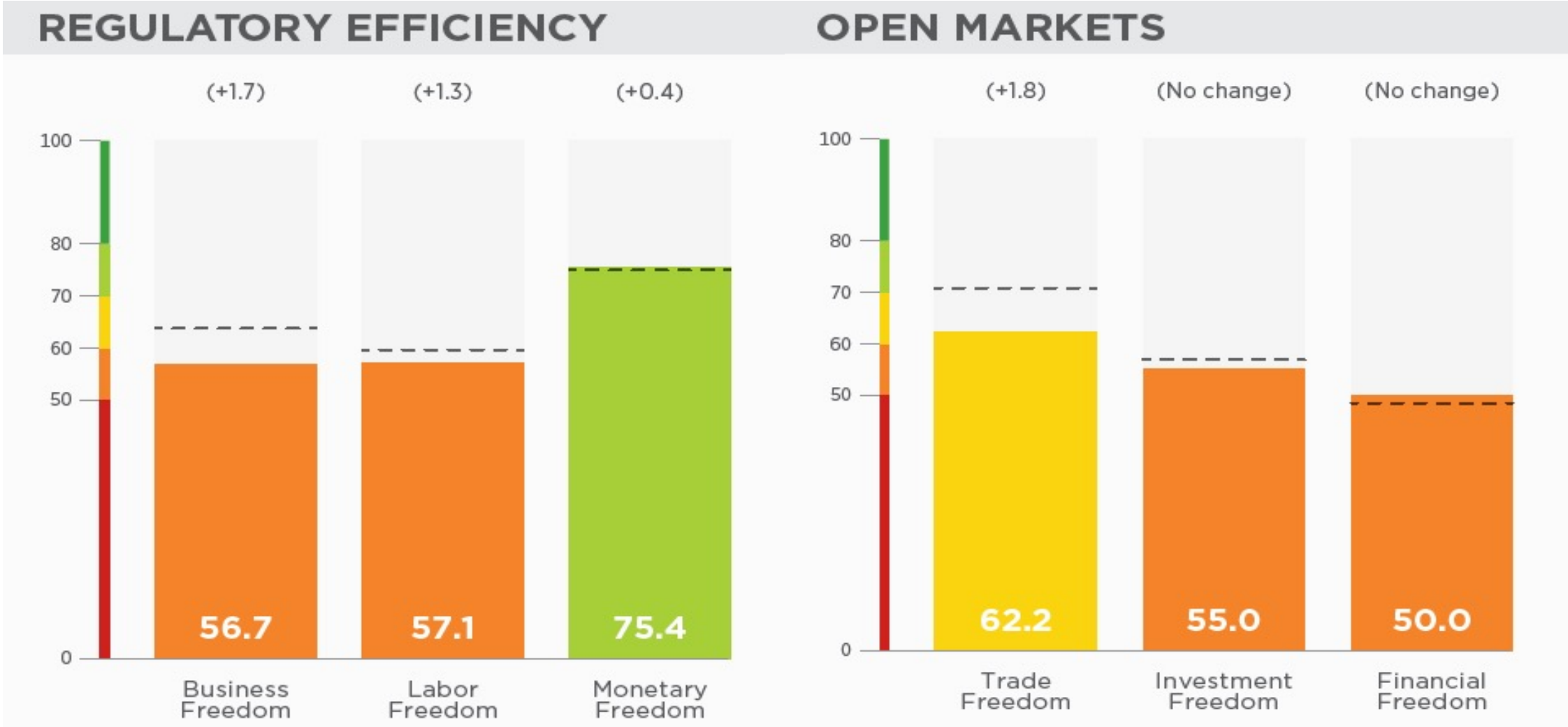
# 2021 Kenya Economic Freedom



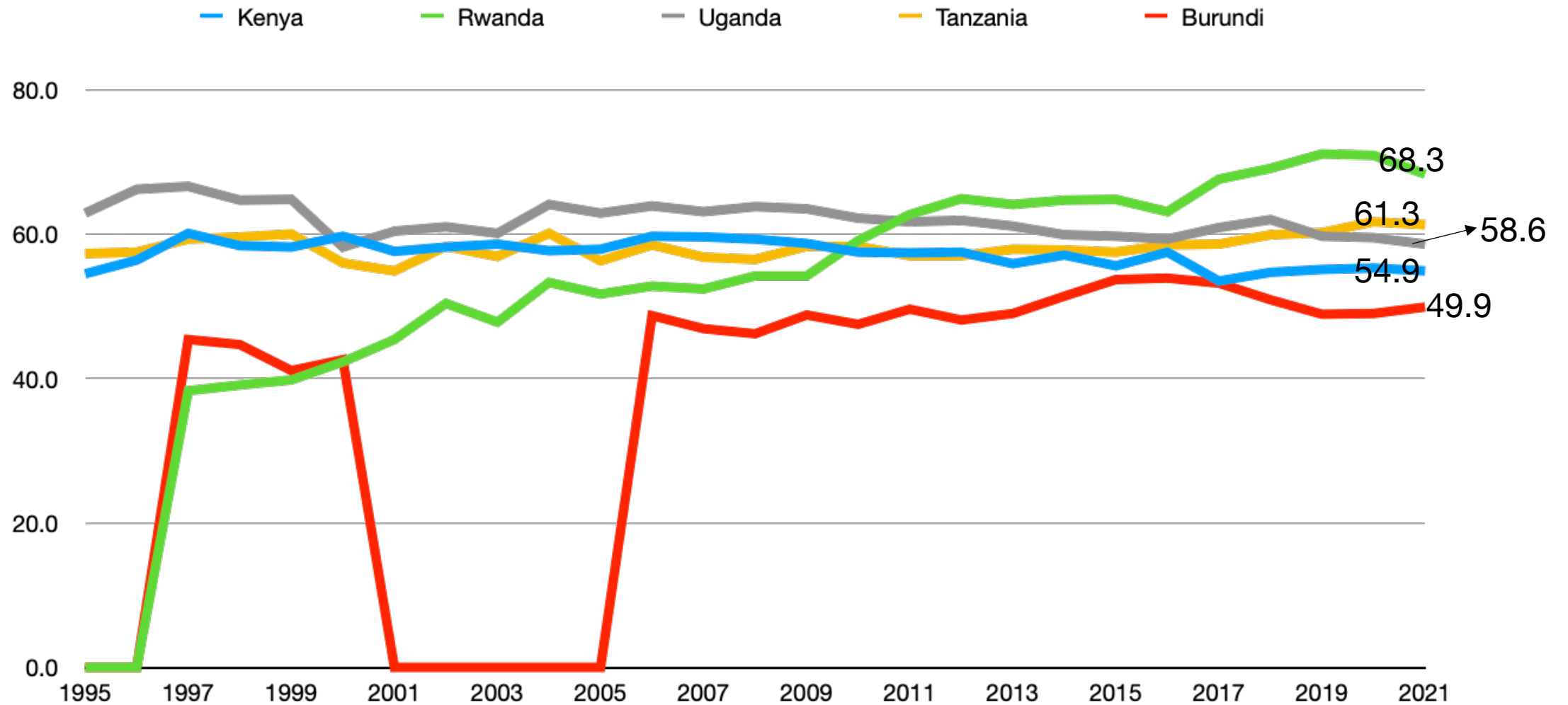
# 2021 Kenya IEF: Rule of Law & Government Size



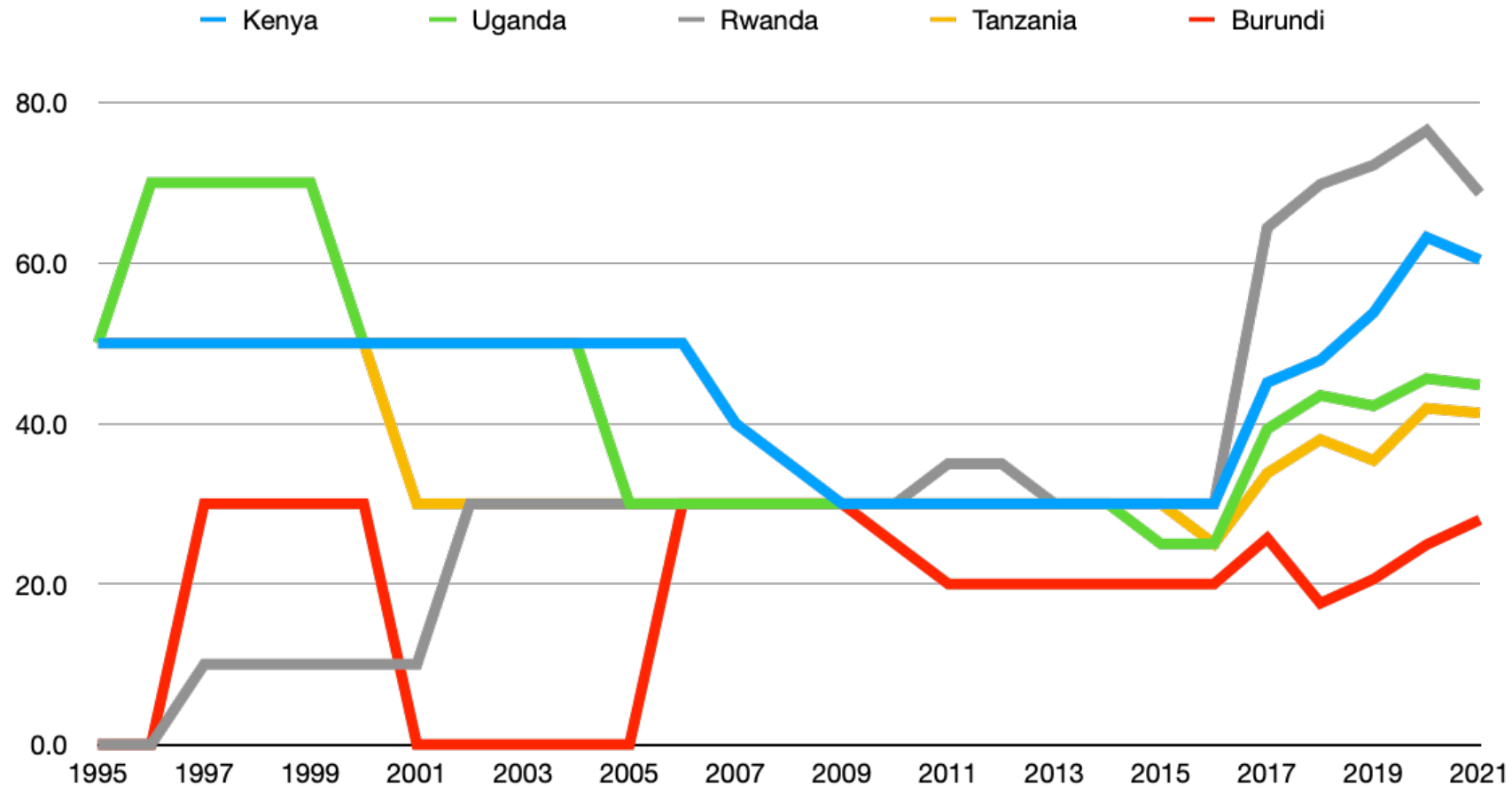
# 2021 Kenya IEF: Regulatory Efficiency & Open Markets



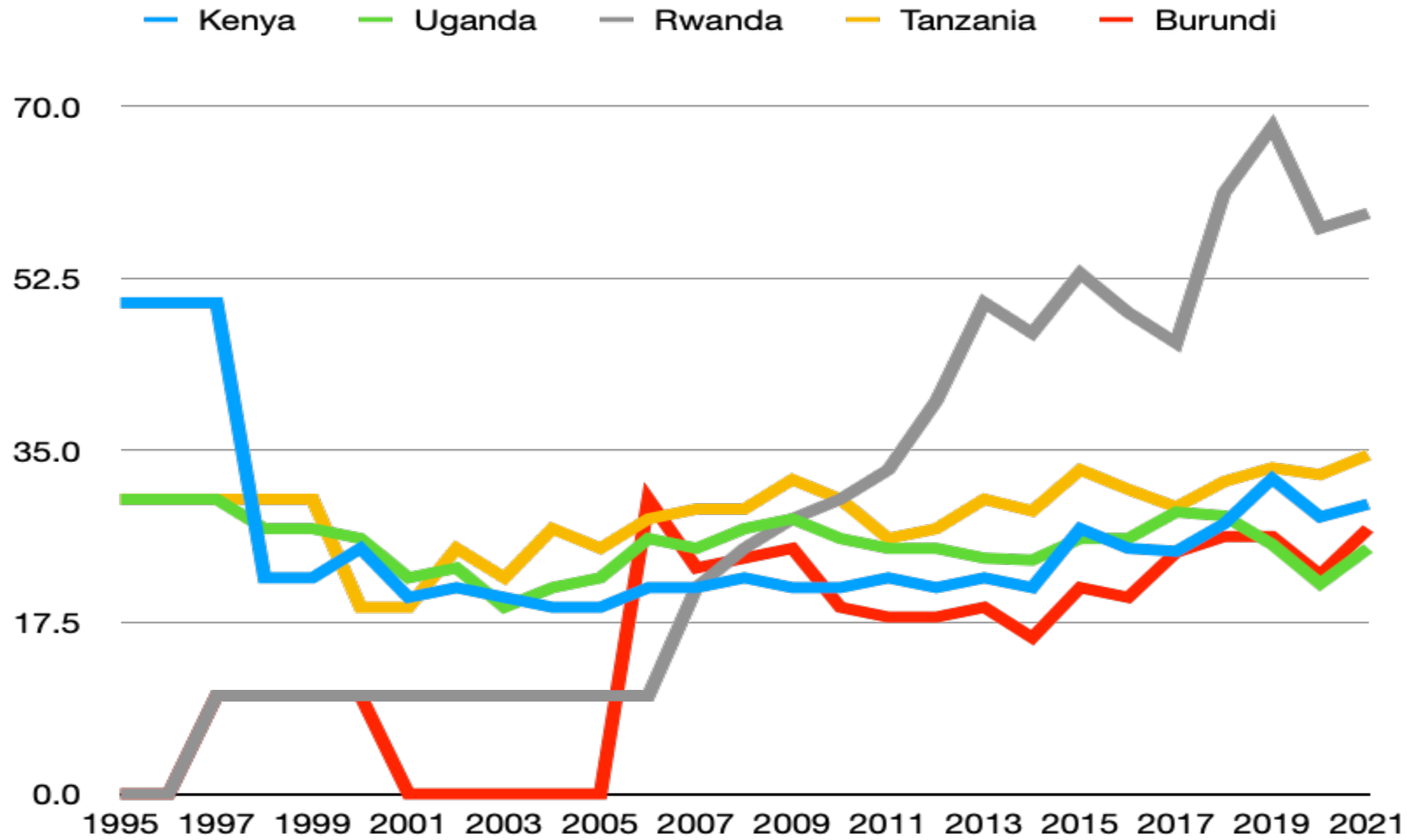
# Comparing Kenya and EAC Economies (Overall)



# Comparing Kenya & EAC Economies on Property Rights

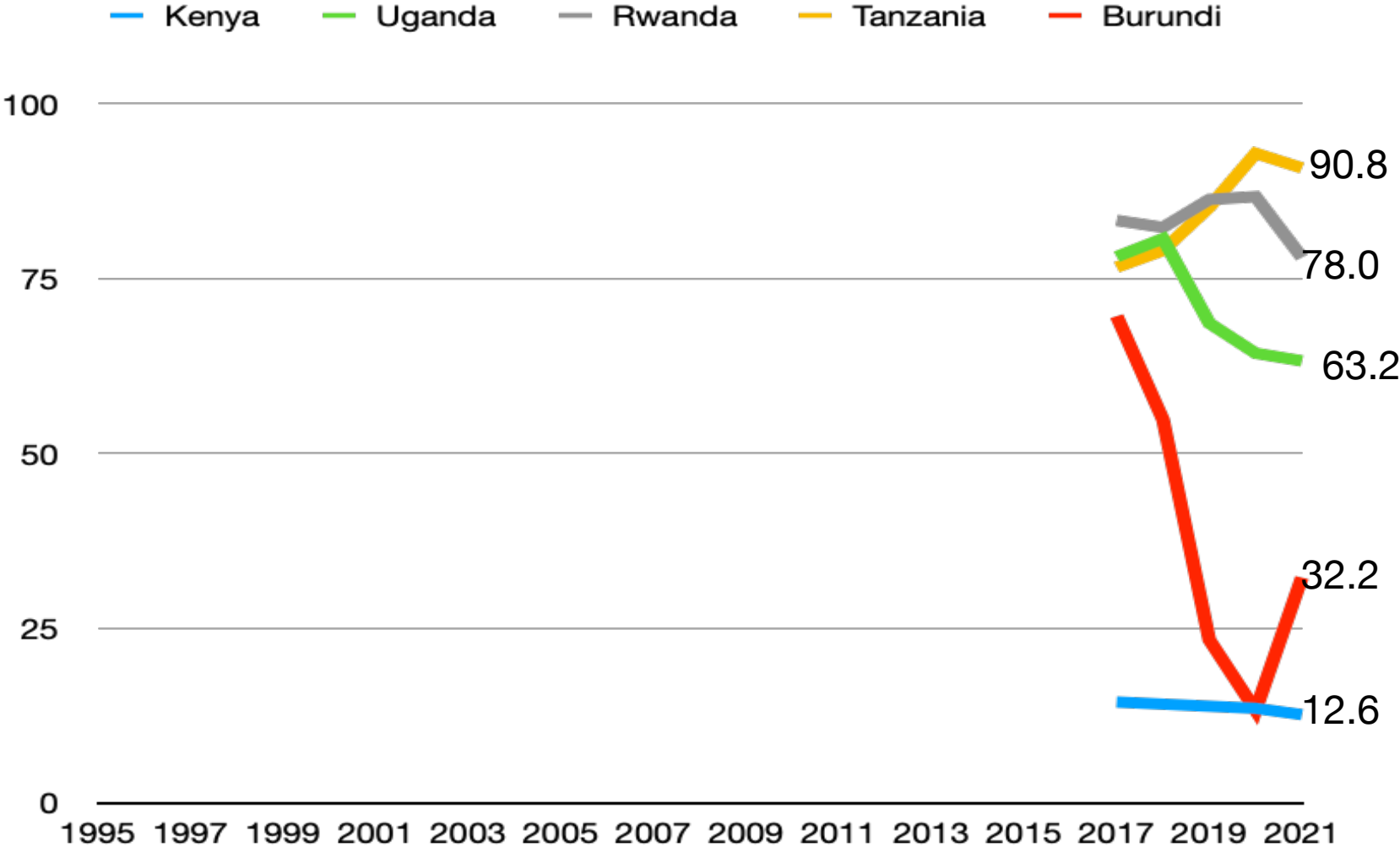


# Comparing Kenya & EAC Economies on Govt Integrity

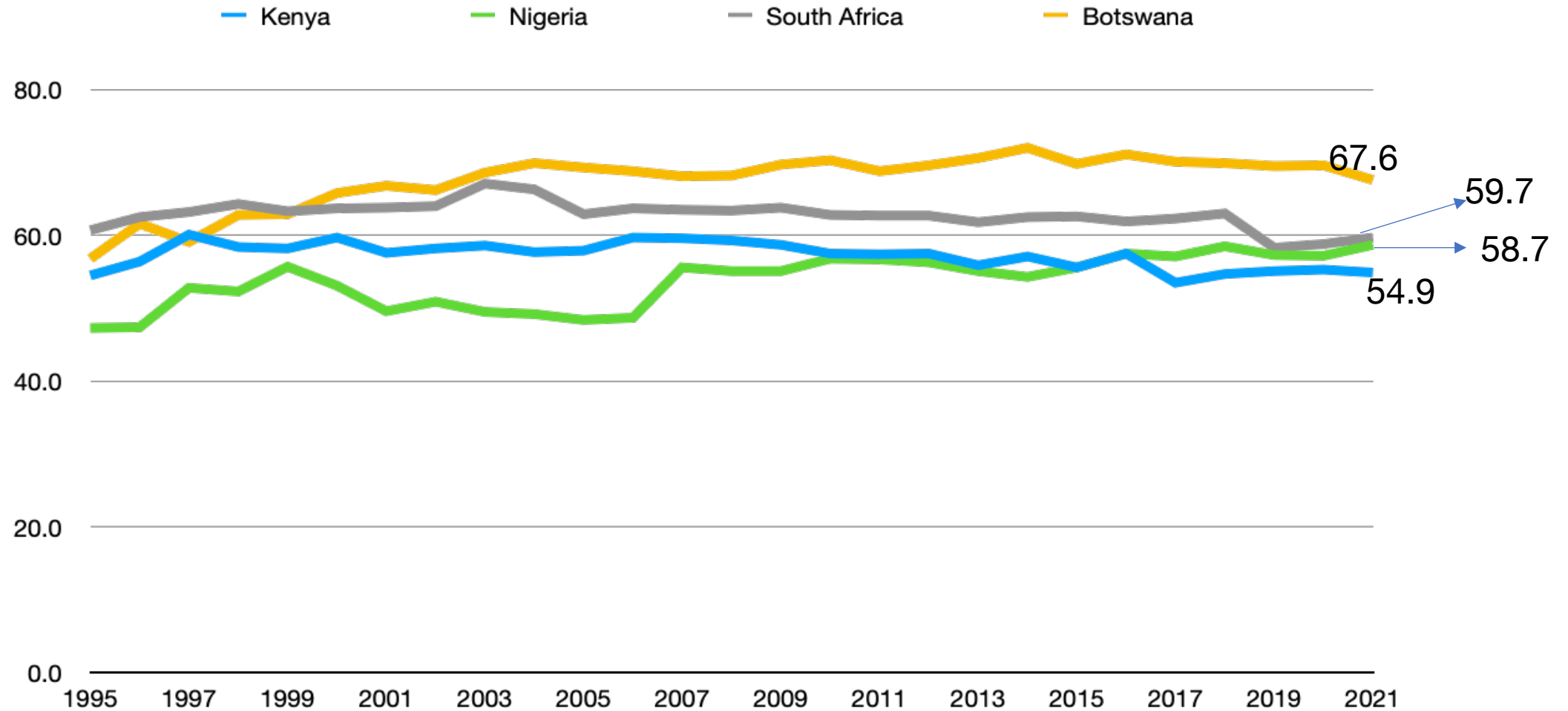




# Comparing Kenya & EAC Economies on Fiscal Health



# Comparing Kenya and SSA Economies



# Why the IEF Matters

- Tucker (2015) [argues](#) that one point decline in Economic Freedom Index rating is associated with a reduction in the long term growth of GDP between 1.0 and 1.5 percentage points annually

## Demonstrating Economic Loss using Kenya's decline in IEF (Authors Own Calculations)

- Kenya's IEF declined by 4 percentage points decline btw 2016 & 2017.
  - The corresponding economic loss is between 4 & 6 % of GDP
  - In 2017 the size of Kenya's Economy was Ksh 8.17 trillion (KNBS Economic Survey 2020 pg. 10)
  - Kenya's economy lost an output of between Ksh 326.8 billion and Ksh 490.2 billion.

# Conclusions

- Kenya's Ranking continue to worsen.
- Other EAC members whose ranking continue to worsen include Uganda, Burundi
- Wherever economic freedoms decline, economic output is lost
- Kenya needs to make quick improvements on Judicial Effectiveness, Fiscal Health and Government Intergity
- Economic prosperity can be explained largely by level of Economic Freedoms
- Botswana continues to make considerable progress in economic freedoms in the Continent

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The End.

Thank You!

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