



2024 Index of Economic Freedom Results and Observations on Kenya & EAC

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Constitution, Law and Economy Programme

Outline

- a. Background
- b. Methodology
- c. Evidence on why Economic Freedoms Matter
- d. Kenya's 2024 Performance
- e. EAC Comparative Analysis
- f. Conclusion



2024 INDEX OF
**ECONOMIC
FREEDOM**

Background- Why IEA is tracking the Index?

1. CoK 2010 guarantees Economic freedoms amongst other rights
2. Index of Economic Freedom allows for comparison
3. Useful tool is assessing the Constitutional order, interaction between Kenyan citizens and state institutions
4. Economic Freedoms - Necessary for path to Economic Prosperity and structural transformation

Index of Economic Freedom

- 30th Edition
- Four Pillars of IEF
 - Rule of law (property rights, judicial effectiveness, and government integrity)
 - Government size (tax burden, government spending, and fiscal health)
 - Regulatory efficiency (business freedom, labor freedom, and monetary freedom)
 - Market openness (trade freedom, investment freedom, and financial freedom).

How the Index is Measured (1/2)

Key Aspects	Factor	Subfactors
Rule of law	Property Rights	<i>Physical property rights, Intellectual property rights, Strength of investor protection, Risk of expropriation, and Quality of land administration.</i>
	Judicial Effectiveness	<i>Judicial independence, Quality of the judicial process, and Favouritism in obtaining judicial decisions</i>
	Government Integrity	<i>Irregular payments and bribes, Transparency of government policymaking, Absence of corruption, Perceptions of corruption, and Governmental and civil service transparency.(6)</i>
Government Size	Tax Burden	<i>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.</i>
	Government Spending	<i>Expenditures represents the average total government spending at all levels as a percentage of GDP for the most recent three year</i>
	Fiscal Health	<i>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).</i>

How the Index is measured? (2/2)

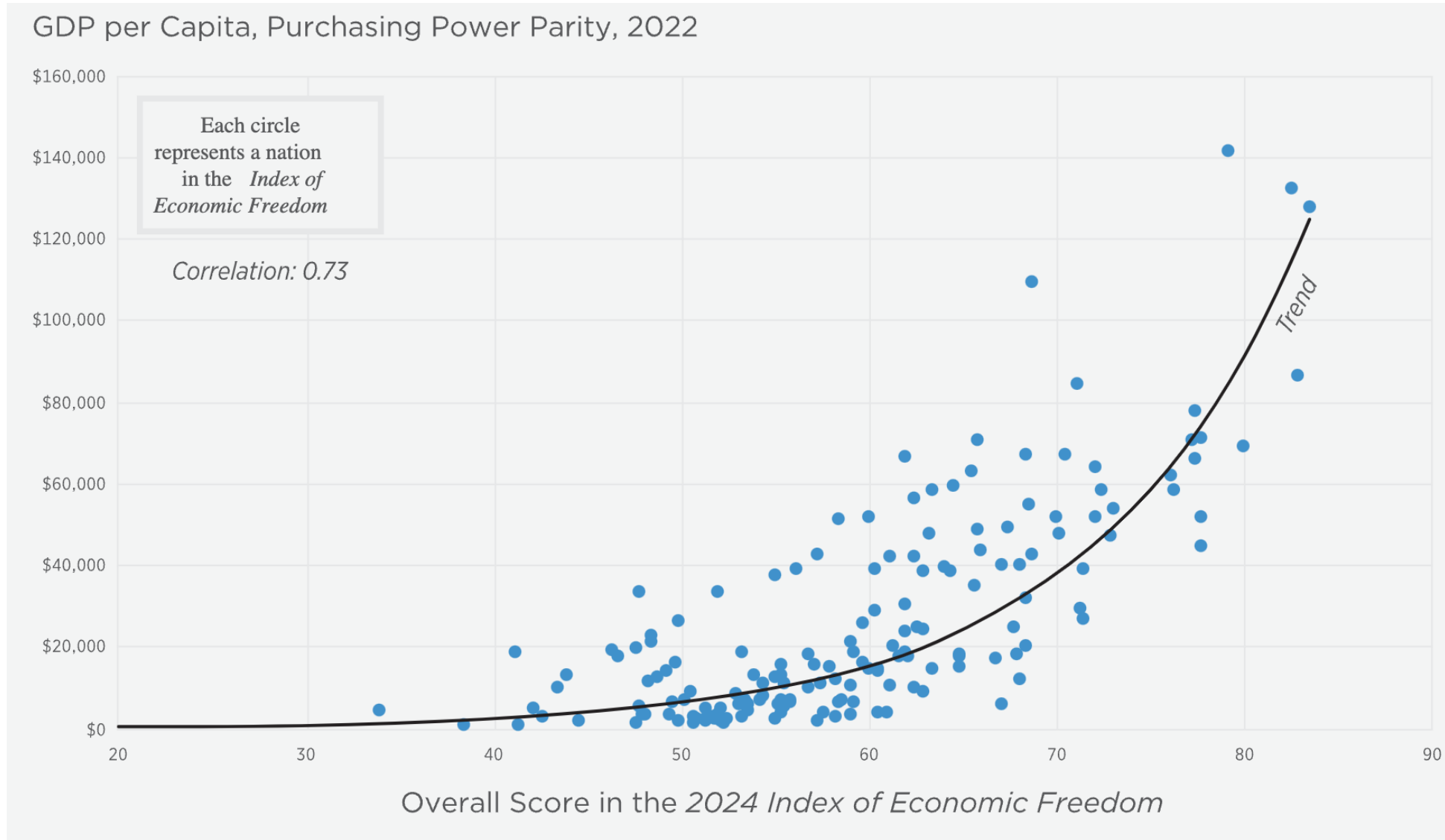
Key Aspects	Factor	Subfactors
Regulatory Efficiency	Business Freedom	13 sub-factors which include time, cost(Share of Income per Capita), procedures of setting up a business
	Labour Freedom	<ul style="list-style-type: none"> Ratio of minimum wage to the average value added per worker, Hindrance to hiring additional workers, Rigidity of hours, Difficulty of firing redundant employees, Legally mandated notice period, Mandatory severance pay, Labour force , participation rate.
	Monetary Freedom	<ul style="list-style-type: none"> 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
Open Markets	Trade Freedom	<ul style="list-style-type: none"> The trade-weighted average tariff rate, Qualitative evaluation of nontariff barriers (NTBs)
	Investment Freedom	<ul style="list-style-type: none"> 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
	Financial Freedom	<ul style="list-style-type: none"> 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

Interpretation of Economic Freedom Scores

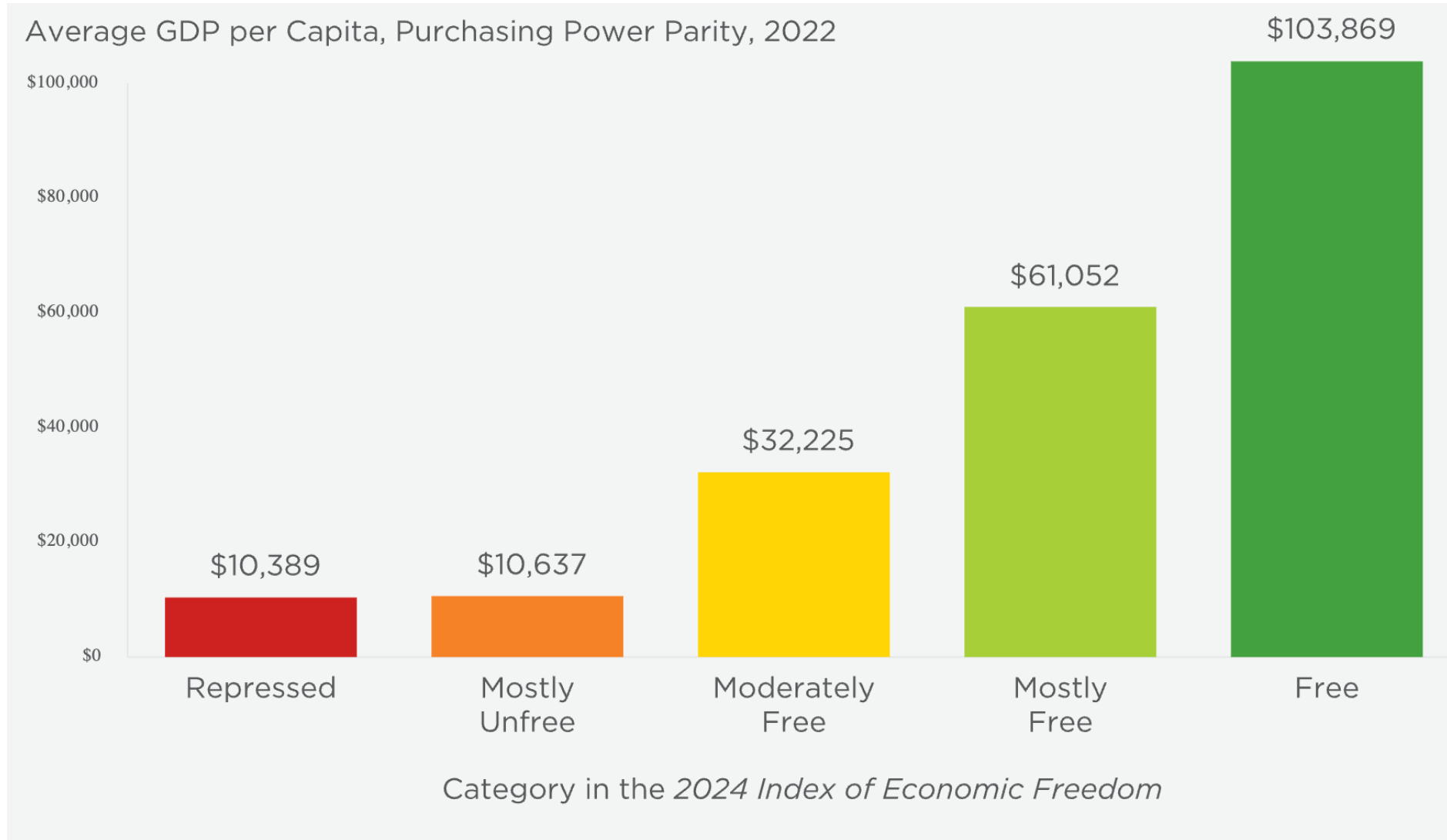
Category	Score
Free	80-100
Mostly Free	70-79.9
Moderately Free	60-69.9
Mostly Unfree	50-59.9
Repressed	0-49.9

Evidence on Why Economic Freedoms Matter.

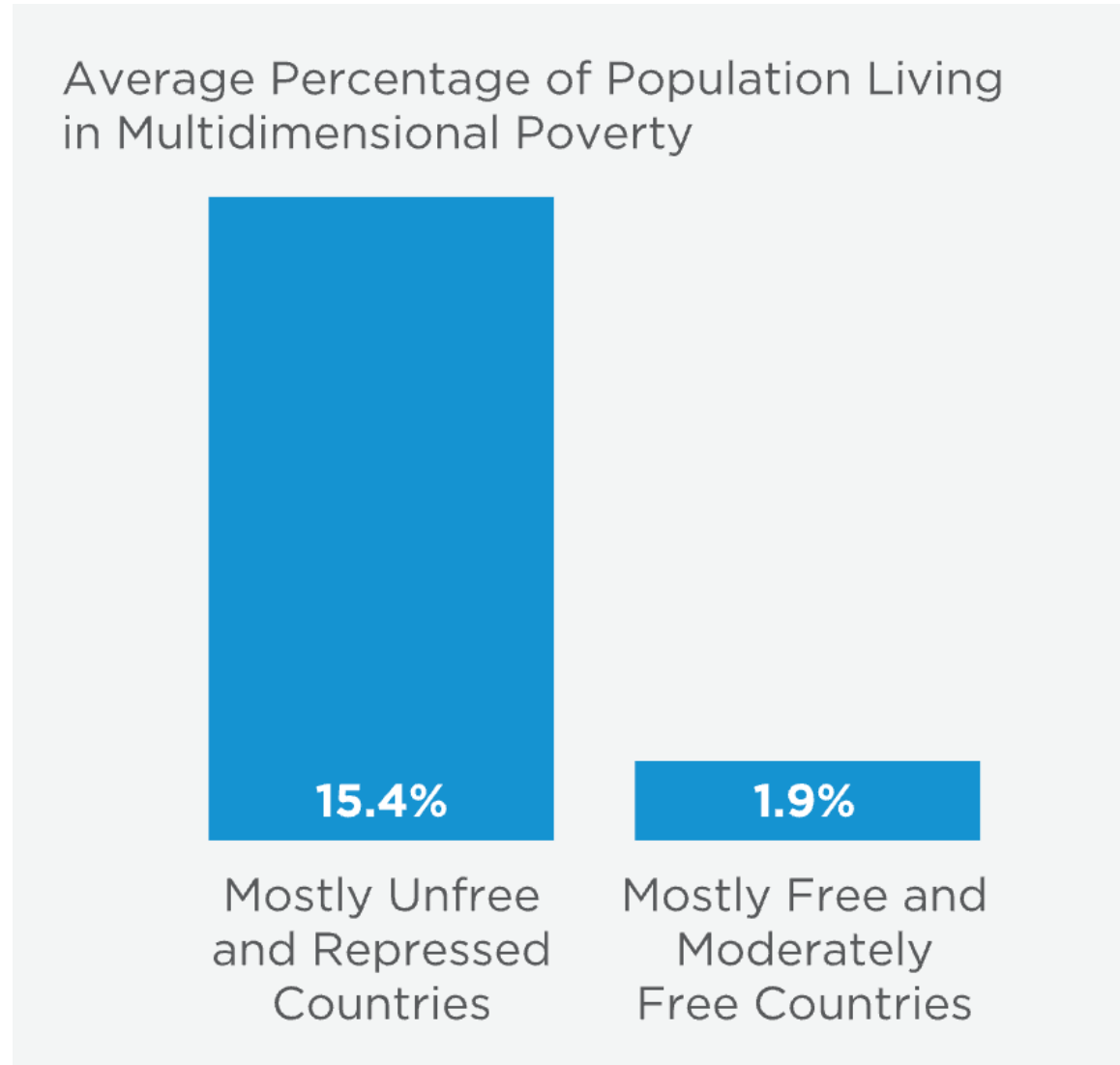
Standard of Living Correlates Strongly with Economic Freedoms



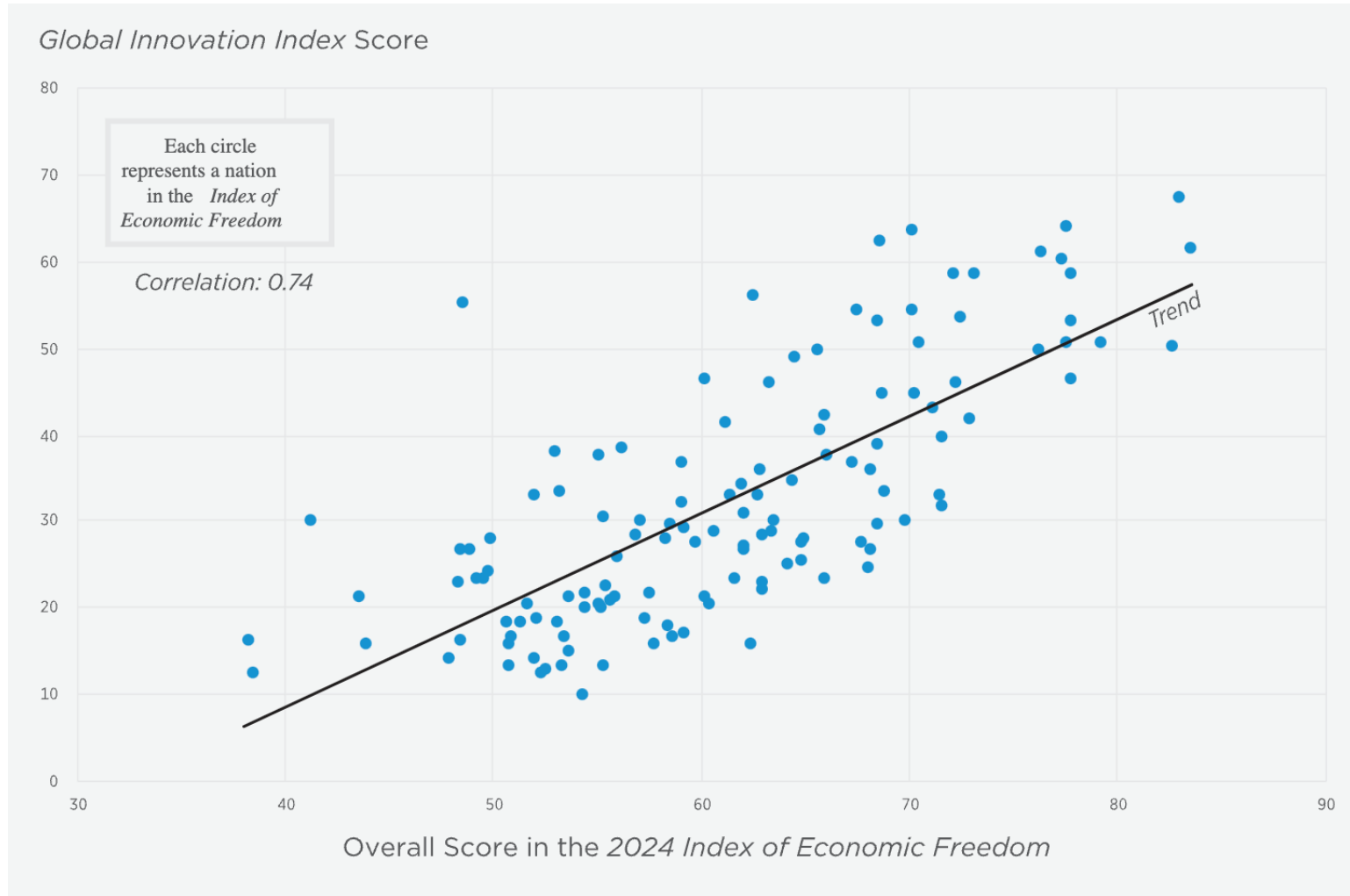
Incomes and Economic Freedoms



Poverty Intensity & Economic Freedoms

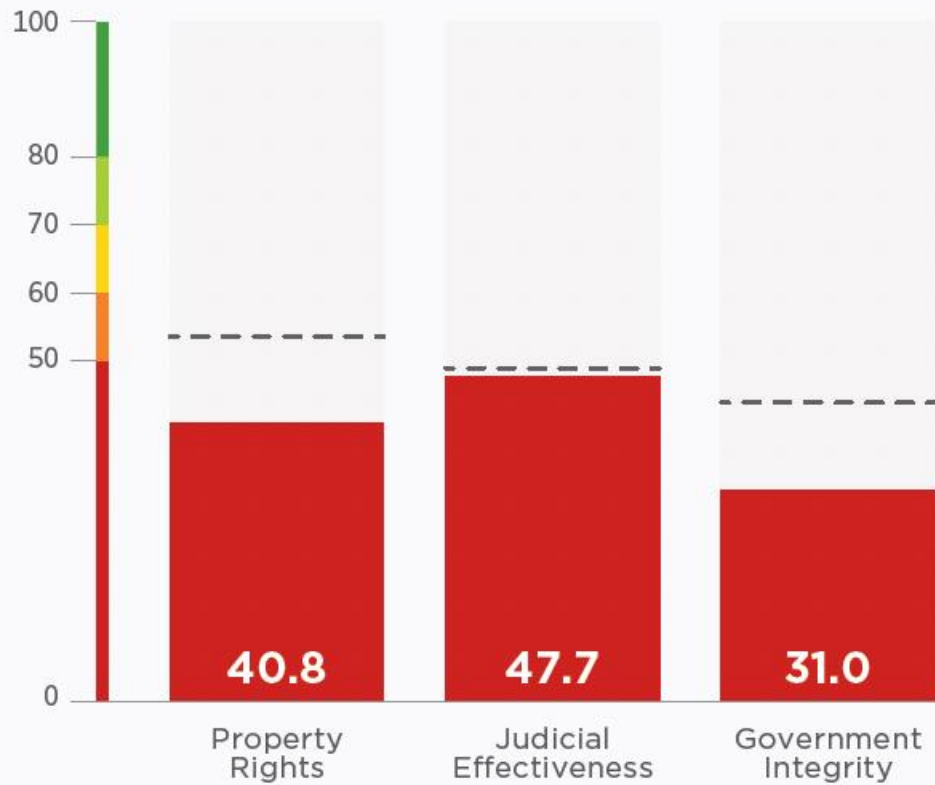


There is even a stronger correlation between Global Innovation & Economic Freedoms

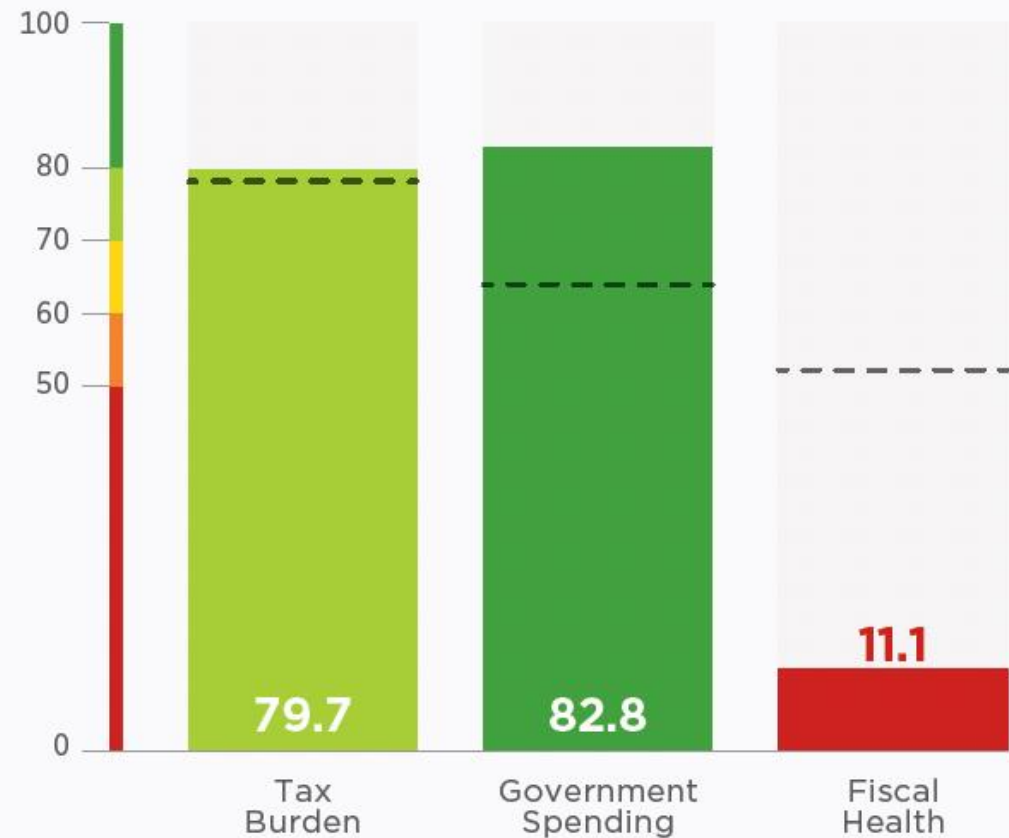


Kenya's Performance....Economic Freedoms

RULE OF LAW

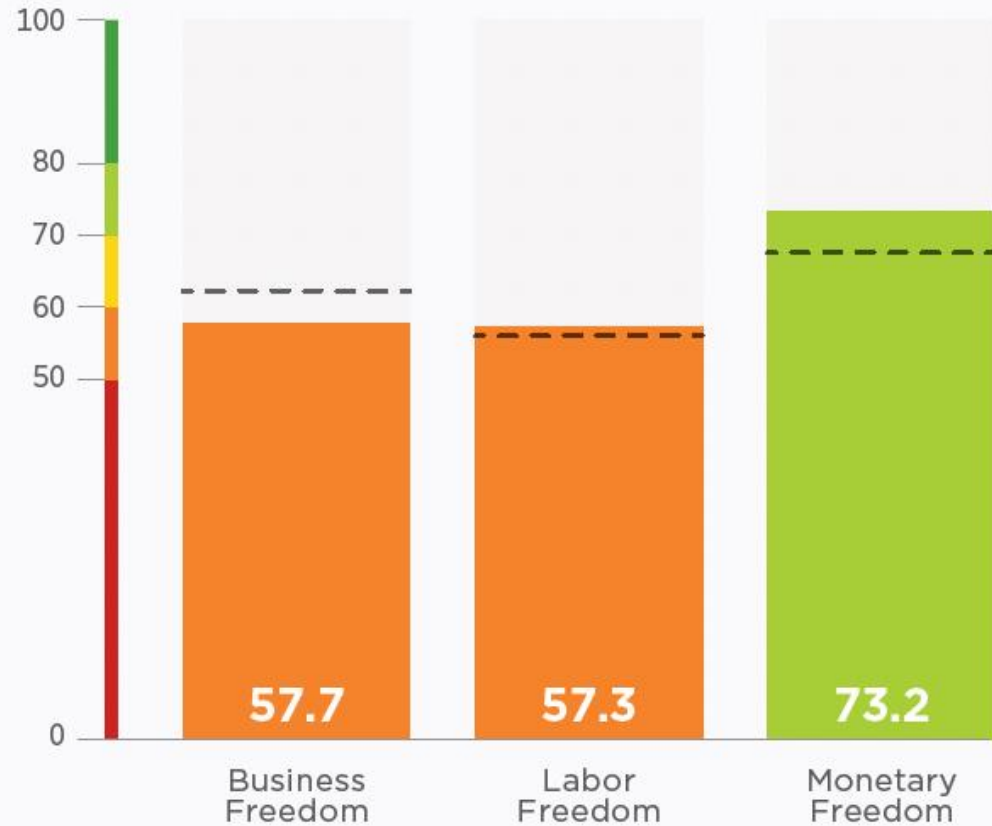


GOVERNMENT SIZE

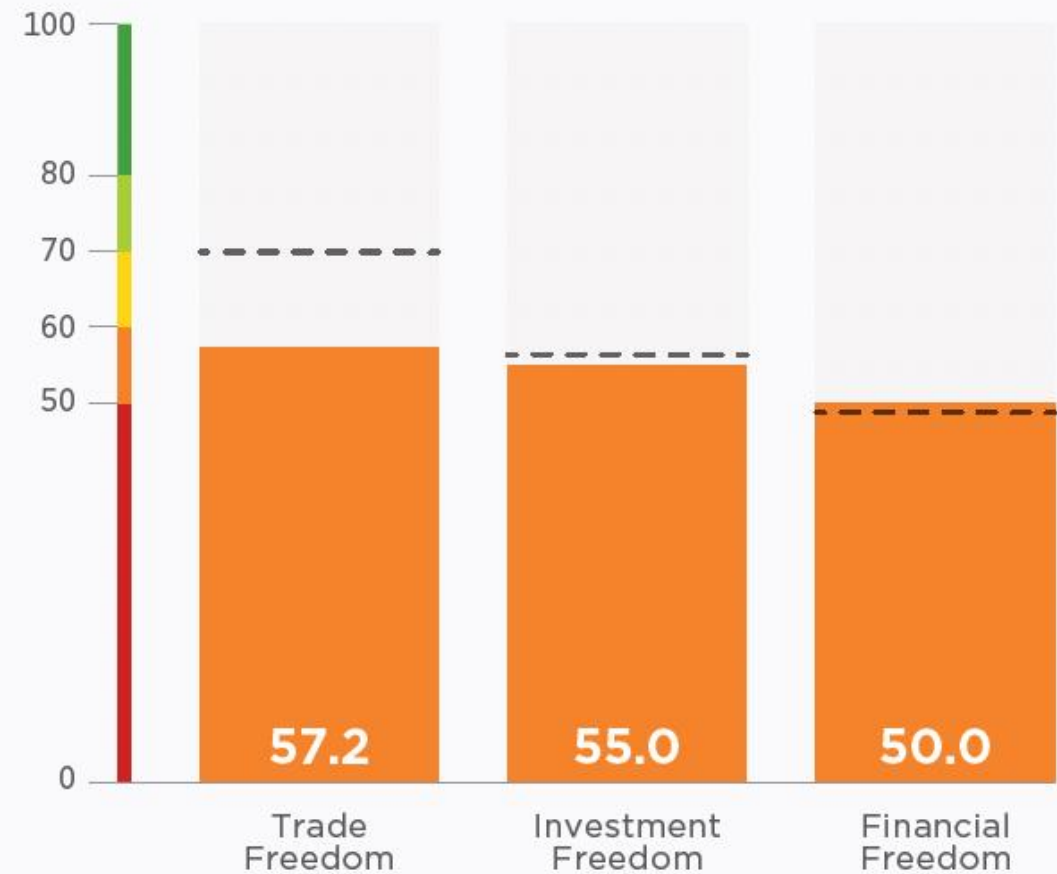


Kenya's Performance... Economic Freedoms

REGULATORY EFFICIENCY



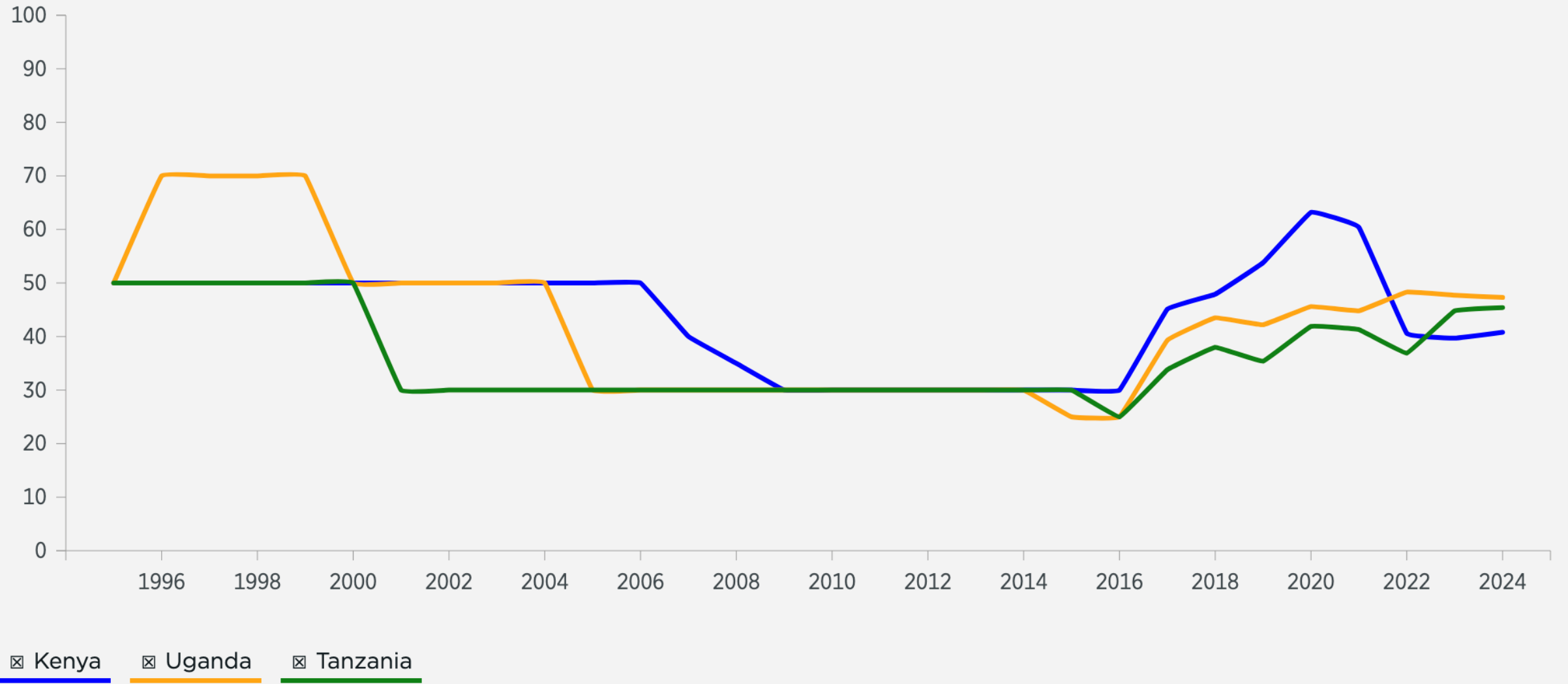
OPEN MARKETS



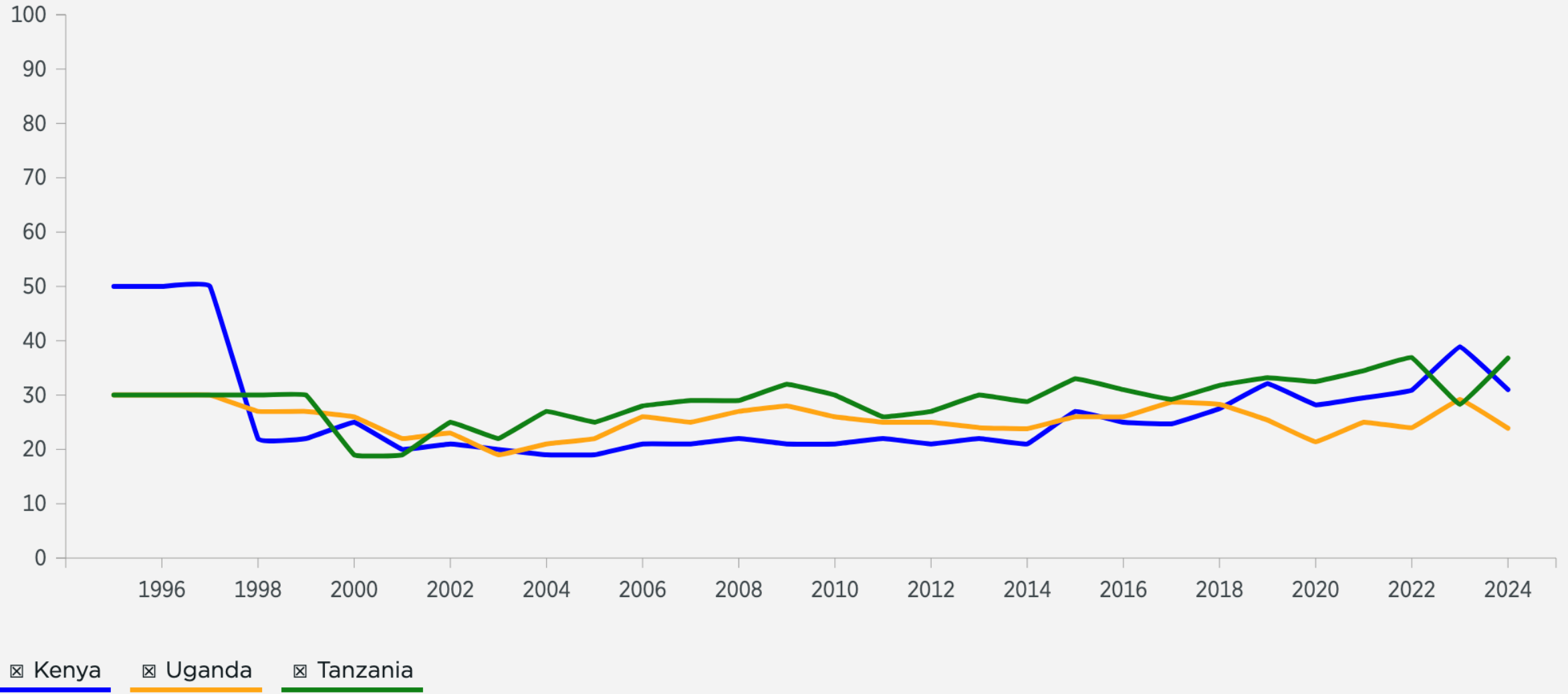
EAC 3 Comparative Analysis

Select Indicators

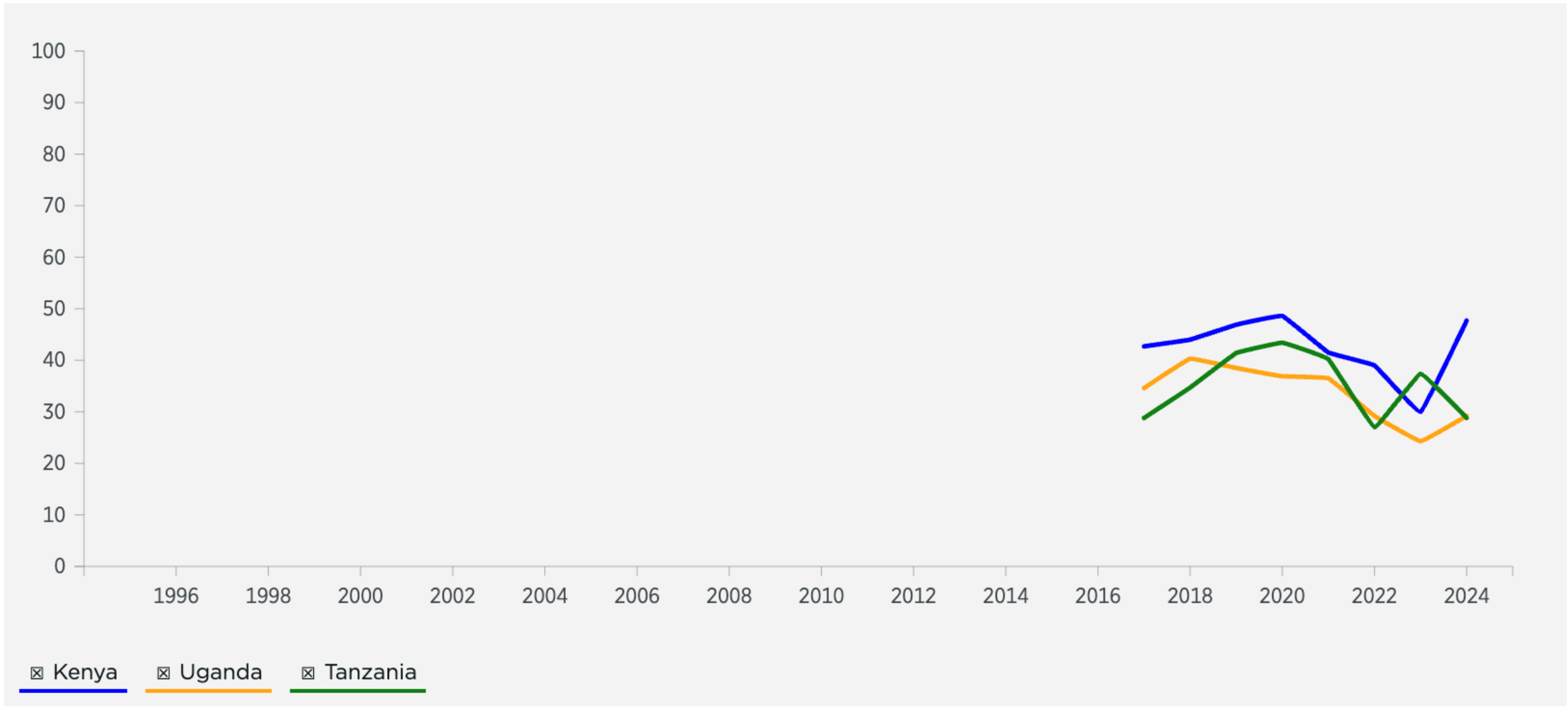
Property Rights



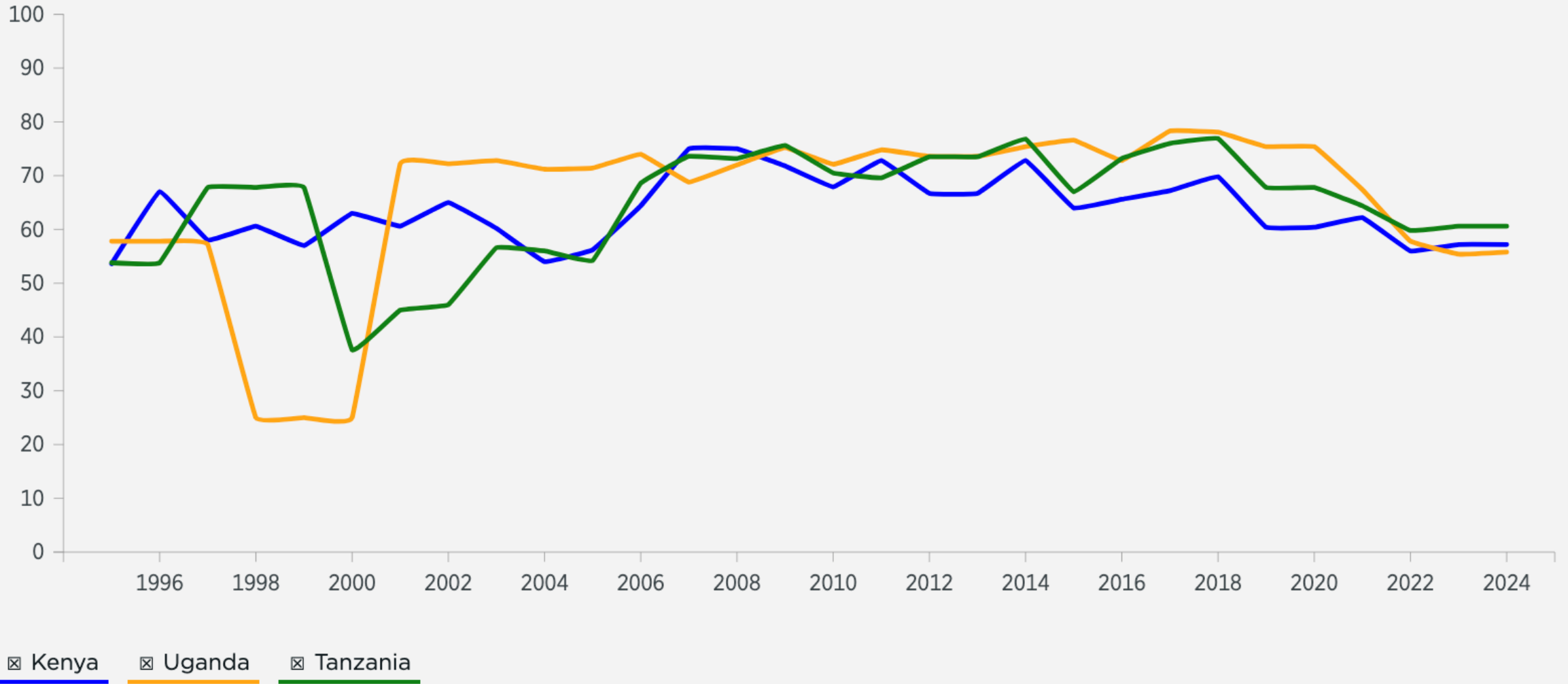
Government Integrity



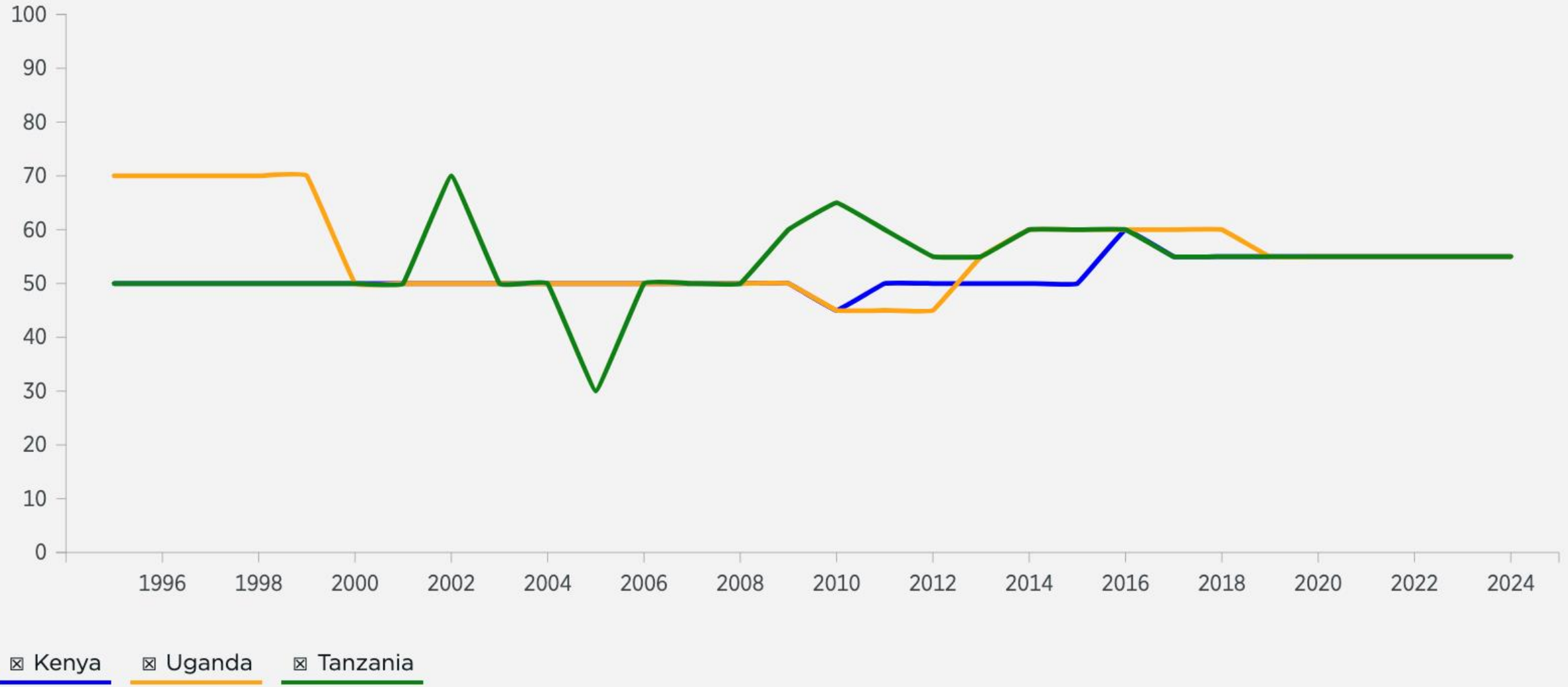
Judicial Effectiveness



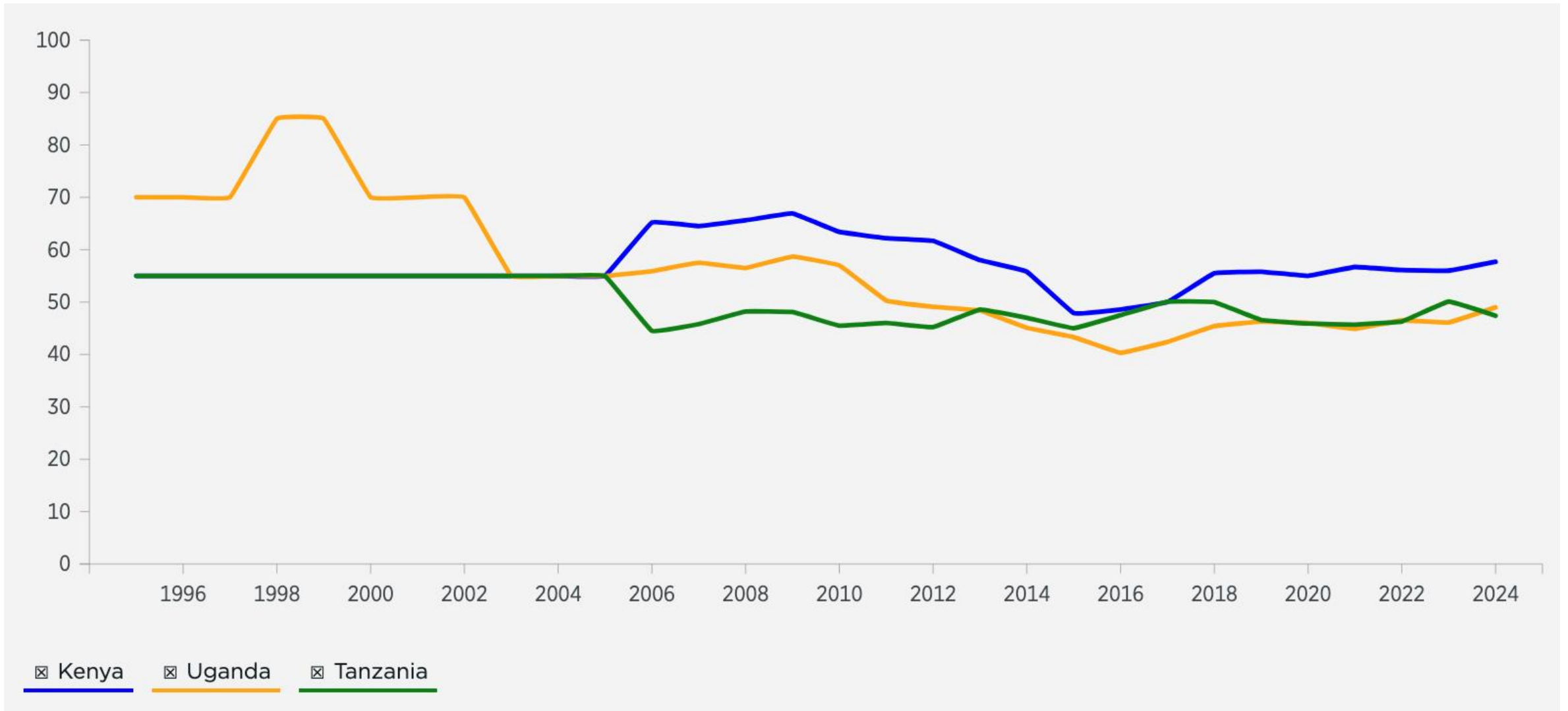
Trade Freedoms



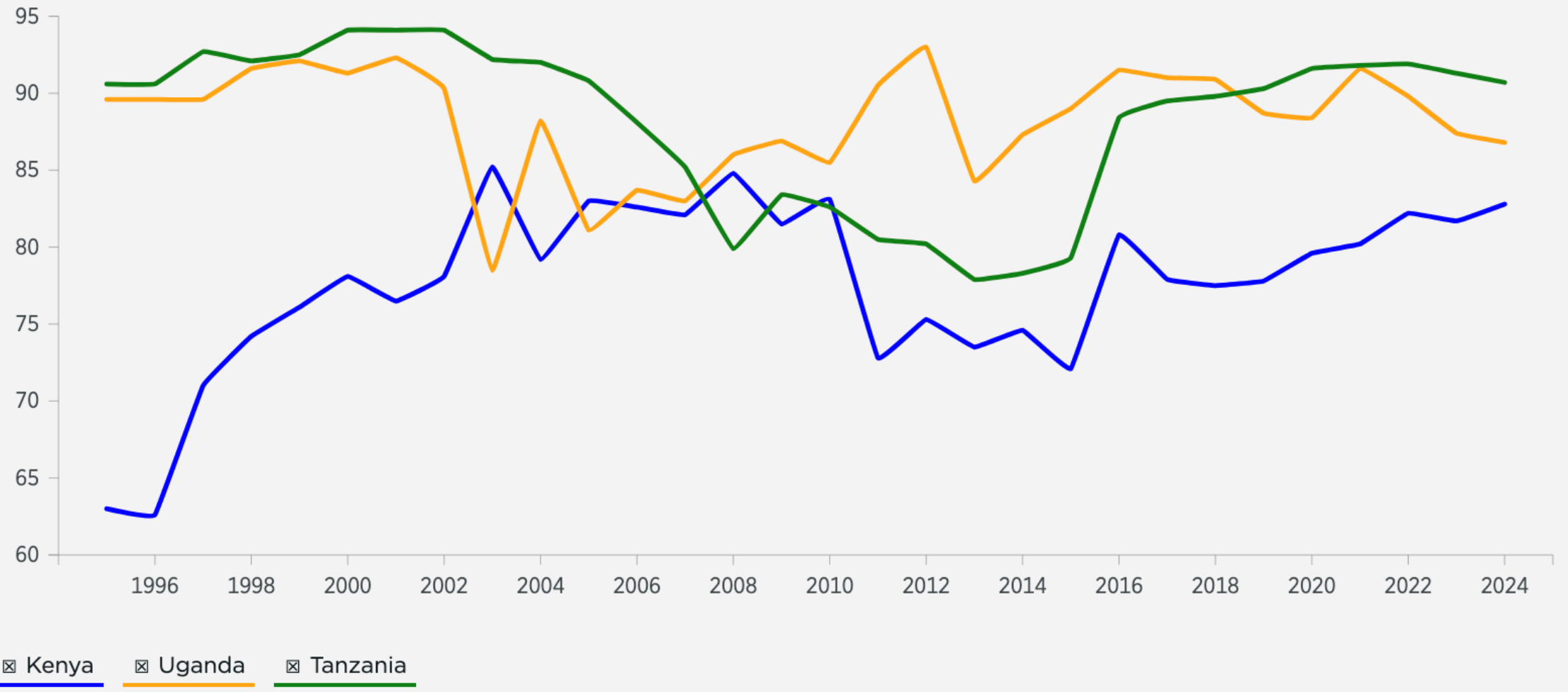
Investment Freedom



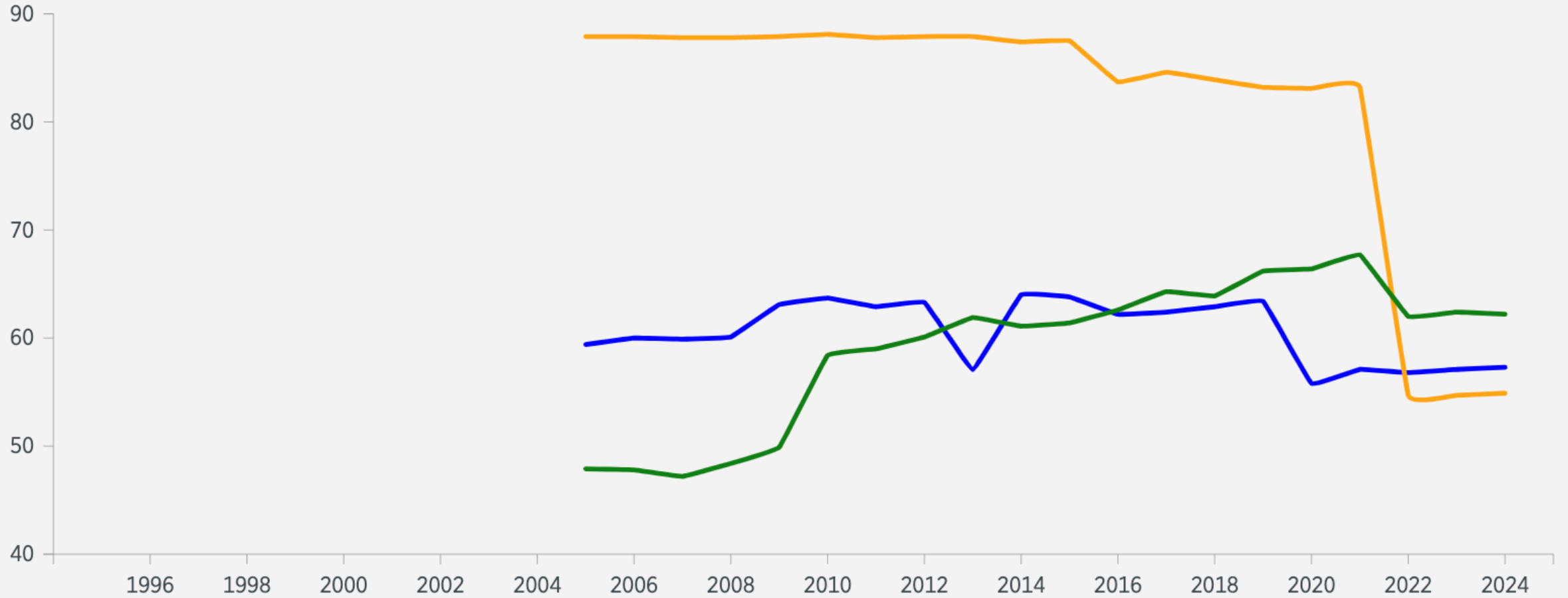
Business Freedom



Government Spending

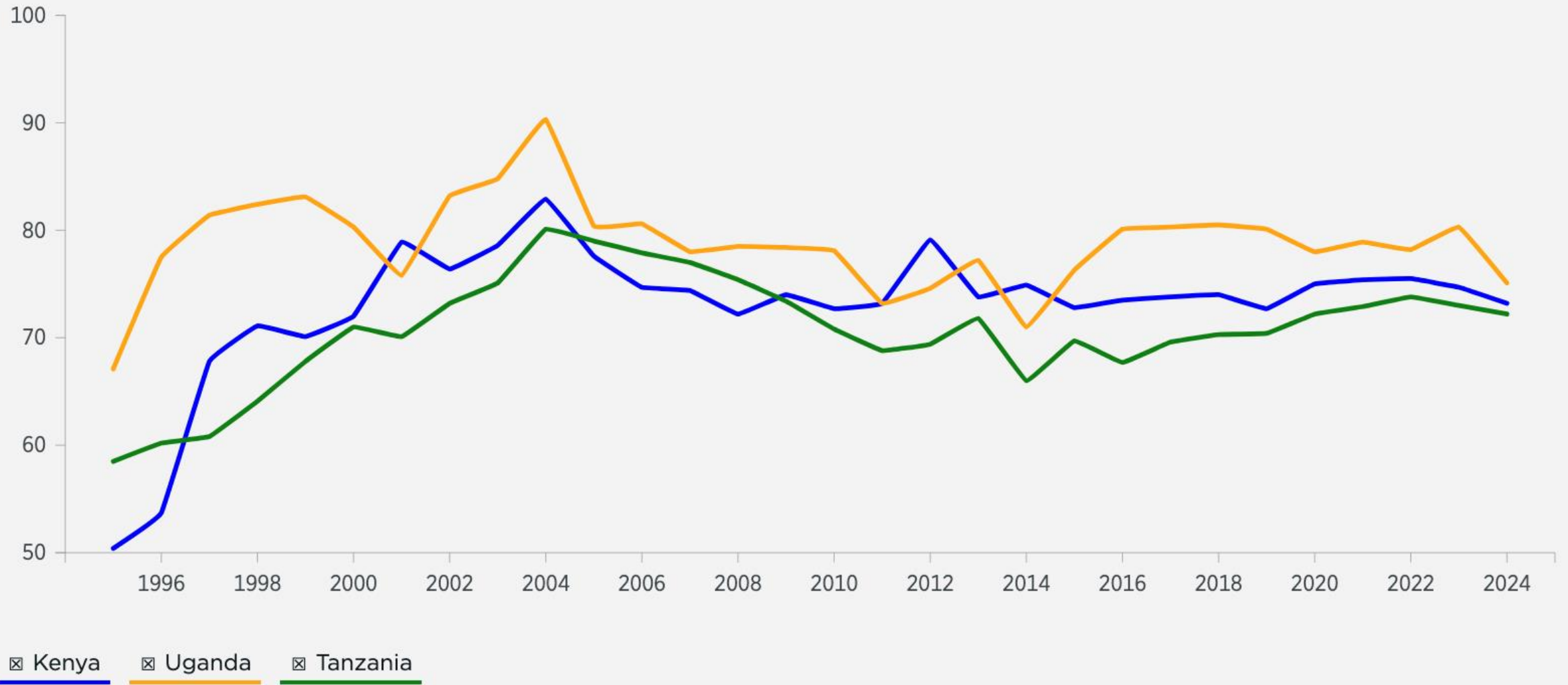


Labour Freedom

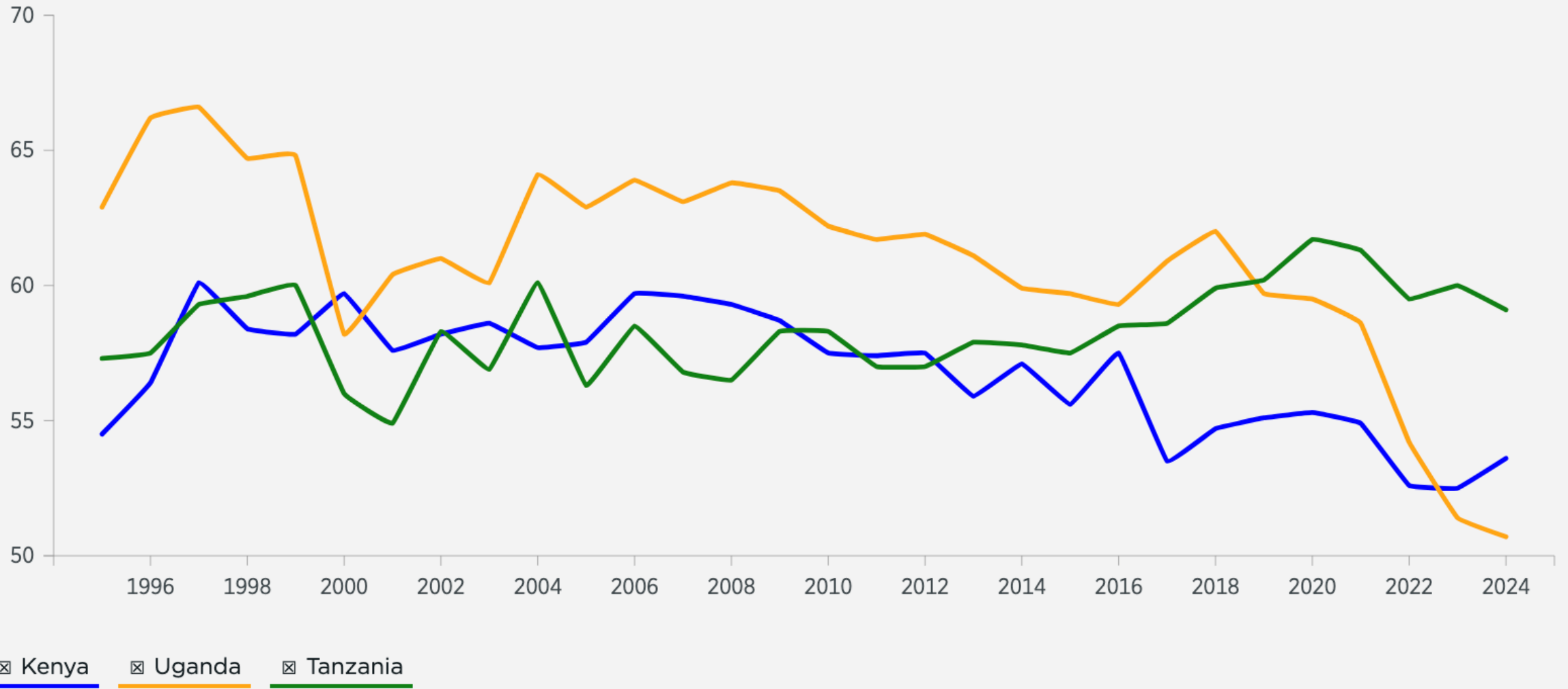


☒ Kenya ☒ Uganda ☒ Tanzania

Monetary Freedom



Overall IEF Score



Conclusion

- Economic Freedom > Extend of Govt involvement in the economy
- Priority Reform areas; Property Rights, Fiscal Health, Judicial Effectiveness & Govt Integrity
- SOE's undermine dynamic private sector development
- Low Hanging Fruits; Kenya's Moderate performance in Trade, Labour, Investment, Financial and Business

References

1. Anthony B. Kim (2024). 2024 Index of Economic Freedom. Heritage Foundation

End!

Thank you!

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