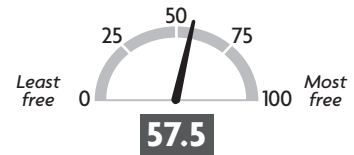


# KENYA

## Economic Freedom Score



World Rank: **101**

Regional Rank: **13**

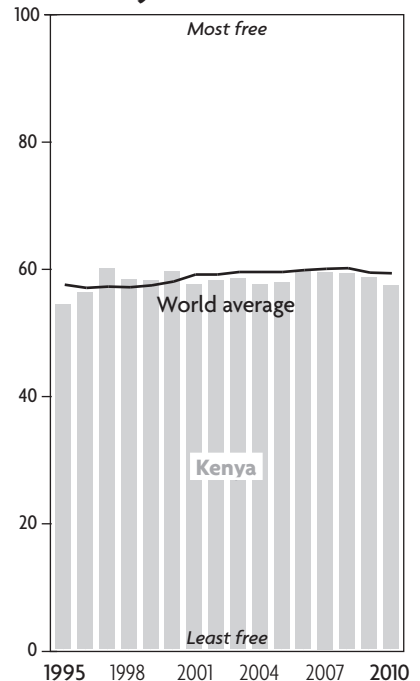
**K**enya's economic freedom score is 57.5, making its economy the 101st freest in the 2010 *Index*. Its score has decreased by 1.2 points since last year, reflecting slight deterioration in trade freedom, monetary freedom, and business freedom. Kenya is ranked 13th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

Kenya is one of Africa's most developed economies and has a tradition of private-sector entrepreneurial activity. Domestic debt as a percentage of GDP has been declining incrementally in recent years, and there have been a number of initial public offerings and some divestment of state-owned enterprises. Reforms in public financial management have continued, though progress has been sluggish.

Lax property rights and extensive corruption limit Kenya's overall economic freedom. Corruption is perceived as pervasive, giving Kenya one of the world's lower scores in this vital area. Non-transparent trade regulations and customs inefficiency hurt overall trade freedom. As in many other Sub-Saharan African nations, Kenya's judiciary is underdeveloped and subject to political influence.

**BACKGROUND:** Kenya was a one-party state until 1992. Widespread violence followed the 2007 election when both Mwai Kibaki, who had won the presidency in 2002, and rival Raila Odinga claimed victory. After months of negotiations, they agreed to a power-sharing arrangement. Corruption remains commonplace despite government pledges to combat it. Kenya is the transportation, communication, and financial hub of East Africa. Economic growth, hindered for decades by government mismanagement, counterproductive economic policies, and corruption, was improving before the instability that followed the 2007 election. Civil service reform has been slow, and the government employs about one-third of the formal labor force. According to the Kenya Bureau of Statistics, nearly 80 percent of employment is informal. Agriculture accounts for about a quarter of GDP and employs a majority of the population.

## Country's Score Over Time



## Quick Facts

**Population:** 38.5 million

**GDP (PPP):** \$61.3 billion

3.6% growth in 2008

5.3% 5-year compound annual growth

\$1,590 per capita

**Unemployment:** 40%

**Inflation (CPI):** 13.1%

**FDI Inflow:** \$96.0 million

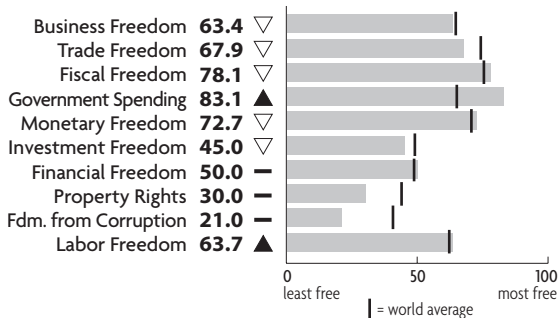
2008 data unless otherwise noted

Data compiled as of September 2009

### How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

## KENYA'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 63.4

The overall freedom to start, operate, and close a business is relatively respected under Kenya's regulatory environment. Starting a business takes an average of 34 days, compared to the world average of 35 days. Obtaining a business license requires less than the world average of 18 procedures. Closing a business is lengthy and costly.

### TRADE FREEDOM — 67.9

Kenya's weighted average tariff rate was 8.6 percent in 2008. Import and export bans and restrictions, import and export taxes, import and export licensing requirements, non-transparent and restrictive regulations, opaque government procurement, subsidies, weak enforcement of intellectual property rights, and customs corruption add to the cost of trade. Fifteen points were deducted from Kenya's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 78.1

Kenya has moderate income and corporate tax rates. The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and a tax on interest. In the most recent year, overall tax revenue as a percentage of GDP was 19.7 percent.

### GOVERNMENT SPENDING — 83.1

Total government expenditures, including consumption and transfer payments, are relatively low. In the most recent year, government spending equaled 23.7 percent of GDP. A special panel has been formed to oversee the divestment of 16 state-owned enterprises.

### MONETARY FREEDOM — 72.7

Inflation has been high, averaging 12.4 percent between 2006 and 2008. Price controls were officially dismantled in 1994, but the government reserves the right to set maximum prices in certain cases and influences prices through agricultural marketing boards and state-owned utilities and enterprises. Five points were deducted from Kenya's monetary freedom score to account for policies that distort domestic prices.

### INVESTMENT FREEDOM — 45

Foreign and local investors generally receive equal treatment, but there are exceptions. The government screens

private-sector projects to determine their viability and implications for national development. Private foreign and domestic investments are constrained in certain sectors to include those where state corporations have a statutory monopoly. There is a minimum foreign investment threshold, and foreign investors must sign an agreement defining training arrangements intended to phase out expatriates. Poor infrastructure, restrictive labor laws, burdensome regulation, inefficient bureaucracy, and crime are disincentives. Residents and non-residents may hold foreign exchange accounts. There are no controls or requirements on payments and transfers. Most capital transactions are permitted, but the sale or issue of capital and money market instruments may require government approval. Real estate purchases by non-residents are subject to government approval.

### FINANCIAL FREEDOM — 50

Kenya's financial system remains vulnerable to government influence and inadequate supervision. The five largest banks account for just over 50 percent of assets. The government owns or holds shares in several other domestic financial institutions and influences the allocation of credit. Non-performing loans, particularly from state-owned banks to state-owned enterprises, remain a problem but have been declining. The 45 financial institutions include two Islamic banking institutions that came into operation in 2008. About 20 percent of the adult population has bank accounts and access to formal financial services. The Microfinance Act took effect in 2008. Capital markets are relatively small, and just over 50 companies are listed on the Nairobi Stock Exchange. Foreign investors may acquire shares in the stock market, subject to specified limits.

### PROPERTY RIGHTS — 30

Kenya's judicial system is modeled on the British system. Commercial courts deal with commercial cases. Enforcement of property and contractual rights is subject to long delays. The process for acquiring land titles is often non-transparent and cumbersome. Courts generally do not permit sales of land by mortgage lenders to collect debts. Protection of intellectual property rights is weak.

### FREEDOM FROM CORRUPTION — 21

Corruption is perceived as pervasive. Kenya ranks 147th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Corruption has led to foreign disinvestment and has drained resources needed for education, health, and infrastructure. Kenyans view the police as the most corrupt public institution. Corruption involving food and fuel oil may have far-reaching consequences as the administration of President Kibaki tries to tackle a looming food crisis. The government has taken some halting steps to address judicial corruption.

### LABOR FREEDOM — 63.7

Labor regulations are relatively rigid. The non-salary cost of employing a worker is relatively low, but dismissing an employee can be costly.