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THE STATE OF THE KENYAN ECONOMY:

CURRENT TRENDS AND FUTURE PROSPECTS

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P R O C E E D I N G S

MR. KIMENYI: All right, it's 1:30, and good afternoon. My name is Mwangi Kimenyi. I am a senior fellow here at Brookings and also the Director of the Africa Growth Initiative.

And I would like to take this opportunity to welcome you all to this event. Also, I would like to welcome those who are viewing us -- webcast viewers -- and I would like to encourage them to join the conversation on Twitter, using #KenyaEconomy.

I just would like to note that we are very pleased to be organizing this event. This is organized in collaboration with the Corporate Council on Africa, which is here in D.C., and I'm very happy to be doing this with Mr. Stephen Hayes, who will be talking later on.

This event is focusing on the Kenyan economy, particularly looking at where the economy is and where it is going, which we think is a very important country to focus on, particularly in the East African region, being sort of the anchor economy in that part.

Just a few notes -- that this is a public event, meaning that it's recorded. So whatever you say, it's on record, and it will be posted on the Brookings site. So don't say that you didn't know you were being recorded.

The Africa Growth Initiative here at Brookings seeks to highlight issues of importance to the African continent, particularly issues of economy. Of course, we know there are a lot of other intervening factors, like security, but we like to highlight these issues about Africa -- particularly also, looking at the changing dynamics in that continent and what it means to other people, to investors, because we think it's a time when the world needs to look at Africa in a different light, to see what's going on and the opportunities that the continent presents.

And Kenya is one of those countries we think that actually has a lot to offer for Africans and also Americans.

And so we look forward to this investment.

And again, I'm happy -- again, Kenya being my country also -- to be the point, the country of focus today.

We had Ghana listened to, and we hope to continue doing that.

We work with think tank partners in Africa, and today we are working with colleagues at the Kenya Institute for Public Policy, Research and Analysis in Kenya, who are also AGI's partners. And we have several other partners. And we would like to continue doing this type of discussions so that we can inform and provide better information about what's happening in the continent.

So, without taking so much time, I would like to go straight to introductions, and I'll try to be brief in terms of -- well, the bios are a bit long.

But most of these people -- I'll start with Stephen Hays, who is a co-organizer. He is seated here. He would be coming in front, but we thought that because this is a short presentation -- 10-minute presentation -- he sits there.

In his 14-year tenure as President, Stephen has led CCA to become fully engaged in most political and economic issues affecting commerce between the U.S. and Africa.

Before coming to CCA, he was engaged in the international nonprofit sector, including key positions in some of the world's largest international NGOs, such as World Alliance of YMCAs in Geneva, Switzerland, and the world's largest student exchange organization, AFS International.

In 1985, Hayes founded the American Center for International Leadership which was funded by the Rockefeller Brothers Foundation, Ford Foundation and others.

Hayes has received numerous awards for his work, including the 2008 Ron Brown Award for International Leadership, the best honor given by the U.S. Department of Commerce.

Welcome, Steve.

Steve was supposed to be heading to Kenya, but he has other issues for another event.

Then I'll introduce my colleagues. I'll start with John Omiti.

John Omiti is the Executive Director. He will also be here, and he will be speaking next.

Dr. Omiti is involved in providing technical guidance and capacity-building on policy and strategy formulation to the Kenyan government and other stakeholders with the overall aim of contributing to the achievement of national development goals.

Prior to joining KIPPRA, he was a senior research fellow at the Institute of Policy Analysis and Research, IPAR, in Nairobi, post-doctoral research fellow with the International Crop Research Institute for the Semi-Arid Tropics, a member of the World Bank and CGIAR, and worked with the Kenya civil service.

Dr. Omiti has published widely in different journals and books. His research interests are in public policy with a focus on agricultural transformation, food security, regional trade and many other things.

So I will not finish the whole bio.

And he will be coming here to say just a few words about the Institute.

Dr. Joseph Kieyah, who will start by presenting, holds a Ph.D. and an MA in economics from the University of Connecticut and University of Missouri, respectively. He holds a Juris Doctorate in law with a specialty on competition law and international trade from the University of Iowa, College of Law.

Dr. Kieyah's research interests are in law and economics, and he has been published in reputable journals such as American Law and Economic Review and Journal of Comparative Economics.

Prior to joining KIPPRA, he was a faculty member at Penn State in Pennsylvania.

So, again, thank you very much and welcome.

Before the panel comes, I will ask John to make a few remarks on the Institute and then invite Joe to join.

MR. OMITI: Good afternoon. Thank you for honoring the invitation from AGI to grace this occasion where we'll be presenting our report on the Kenyan economy.

I'll briefly say something about KIPPRA for those who don't know KIPPRA. KIPPRA stands for Kenya Institute for Public Policy, Research and Analysis. It's a semi-autonomous think tank based in Nairobi, where we operate under an act of parliament to protect our autonomy. We have four mandate areas to work on.

One is to conduct public policy research in various areas of social and economic research, such as macroeconomics, agriculture, private sector, infrastructure, social sector, education and health and governance. The overall aim of this research that we conduct is aimed at improving Kenya's medium-term and long-term development goals.

The second mandate that we are required by law is to conduct capacity-building for government and the private sector in areas of policy. So we train young economists and political scientists so that they can also take over from us in the same areas.

We are governed by a board. The board is drawn from three main areas -- government, academia, like universities, and private sector.

We are funded mainly by three sources. One is the Government of Kenya. Second is the private sector. And, international organizations.

Our annual budget is just a few million dollars. Depending on the year, it can be between four and six million dollars.

The report that we're going to present to you today is the sixth in our series. Now this one focuses on an area that our colleague is going to talk about.

The Kenya government, or the people of Kenya, decided about two years ago to have a new constitution. That constitution sets two tiers of government. We have a national government and a county government.

So our focus this year is how to attract investments in the counties.

So we're one of the six think tanks, as professor Kimenyi mentioned. We have other think tanks. We also share with Brookings based on South Africa, Uganda, Ghana, Nigeria and Senegal.

So our last mandate -- so the third mandate area is to network and partnership. That's why we have this linkage with Brookings.

And then the last mandate area is to make the kind of work we research on to be known through dissemination.

So our function this afternoon is to disseminate what we have been researching the last one year.

And, for your information, the Institute I lead, Mwangi Kimenyi was the founding director, and I'm the fourth director down the line.

Ladies and gentlemen, I now invite my colleague, Professor Joseph Kieyah, to present the report.

Thank you.

(Applause)

DR. KIEYAH: Good. Once again, my name is Joseph Kieyah, and I'm a principal person at least at KIPPRA.

And, before I dive into my presentation, let me take this moment and thank you all for coming and to tell you how delighted I am to be here this afternoon, to share with you briefly the brief overview of the Kenyan economy.

Now let me comment briefly on the outline that I'll be covering this afternoon. First of all is to -- I know some of you have varied information about Kenya. So I want to try to put this presentation in some historical context. Then I'll talk a little bit of the trends, economic drivers, emerging technologies, as well as new development.

There are two very distinct phases in our look at the Kenyan economy.

You have the post-independence, and the main characteristic of this distinct phase was that we inherited centralized government from the British, with a single-party system. Obviously, that led to stagnation of the economic performance. We had 7 percent in 1986. Then that turned to -2 percent in 2002.

Obviously, this triggered some kind of demand for a democratic process that led to, or that gave birth to, a multi-party democracy in 1992.

Shortly following that, about 10 years later, we were able to consolidate our democracy and elect a democratic government that improved the economic performance as well as developed some economic development blueprint that improved the GDP on an average of 6 percent between 2002 to 2007.

Obviously, this didn't last very long. I'm sure you're all aware what happened in 2004. We had what you call the post-election violence that slowed our growth.

And, obviously, this also led to electoral anxiety amid 2012 to 2013.

What I would like to do in this slide is basically to bring to your attention some of the sectorial contributions that basically contributed to a big chunk of the economy. As you can see, the marginal contribution of these sectors, with the exception of agriculture and forestry, all these contributions were negative.

The big message I'd like to point to you here is that you can see agriculture had a positive to marginal contribution, and it still remains a major, important mainstay of the Kenyan economy that provides opportunities for private investment.

On the other slide there are about three statistics that I would like to draw your attention to.

The first one is for projection of growth. As you can see, it remains quite high. Obviously, the projections of this number again demonstrate that this is a problem that we need to deal with.

GDP growth -- as you can see, those numbers seem to paint a positive picture of an economy on a strong recovery with this year's projected growth to be 6.3 percent as well as next year's growth being around 7 percent.

And, finally, poverty remains an issue. As you can see, some of these statistics have been stuck at 50 percent. This is not withstanding some 50 years' lack of government commitment to try to combat poverty.

The other key economic drivers that I would also like to share with you:

You had very stable macroeconomics.

One other thing that I think Kenya has done very successfully is to conduct an effective monetary policy that has been able to tame inflation to a single digit as well as ensuring a stable exchange rate.

Information communication technology is another area that has been very critical. The promotion of competition within the telecommunication sectors has resulted in developmental ICE infrastructure as well as innovation that triggered the revolutionary mobile money transfer properly known as M-Pesa. (Inaudible), which I think there is a single, you know, foreign currency honored as we speak.

Tea and horticultural sectors have also been very important as well as regional integration.

Obviously, we all know that Kenya is a financial hub well as the Gateway of East Africa, and obviously, that has contributed to improved trade within-this-region partners, and this has also been well complemented by the foreign policy that the government is pursuing based on peace and economic diplomacy.

Obviously, I've painted a very rosy picture, and I must note withstanding this very optimistic economic outlook there are some challenges the government has tried to address, one of them being the fiscal deficit that is being driven by the wage bill. Obviously, as we speak, the wage bill is about 50 percent of the budget, which is quite unsustainable. Debt, or public debt, is increasing as well as the trade -- we've been running a trade deficit for quite some time.

The macro issues, like security, both international as well as regional -- a case in point is South Sudan as well as Somalia.

We have a serious challenge with youth unemployment. As you might be aware, our population is very young. I think between 35 years old and below constitute about 70 percent.

There's also the climate change that has really serious implications on our food security.

There is new development that seems to provide some opportunities and is likely to structurally change the economy, and one of them is the new constitution.

Basically, what the new constitution has done is to create, you know, more accountability.

I can put it a little more -- in a more succinct way. Our constitution is like a tsunami in the making. The difference is tsunamis are random. This one we designed, and it's very providing in terms of the likely impact to the economy.

Obviously, the key thing I would like to underscore here is to show you that the new constitution has improved political representation, but at the same time it has really increased the size of the government.

Let me give you a sobering statistic. We have about 416 members of parliament, which we call the General Assembly and Senate, representing about 42 million people.

Benchmark that against the U.S. case, where you have about 35 (sic) million Americans being represented by 500 -- between 527-528 members of Congress and Senate.

So the only thing you can draw here is that in the Kenyan case we have been overrepresented, and obviously, this has come with a huge cost.

There are county governments that the constitution has created, and obviously, these county governments are supposed to be the centers of development as well as investment. They provide competition on investment because each county is trying to attract investment, and they're more likely to improve the investment climate and also provide opportunities for domestic and international investment.

Thank you all. I'll stop there, and in case there are any of you who need more information, I'm happy to provide that with my colleague.

Let me give one more minute. There's one subject I forgot to mention, which I think is very, very important.

There will be a discussion tomorrow on oil and gas, but this is one area that I think we've been very lucky that we have discovered oil and gas. Obviously, these will probably create some resources for investment in clutch areas like agriculture and infrastructure and more likely to reduce the cost of doing business, in particular in energy, and provide new investment that's a value addition and probably diversification.

Obviously, there's a need of caution. As we have learned from resource-rich countries, there are oil costs as well as Dutch Disease that somehow as a country we have to be very cautious about and make sure that we're able to avoid that.

So thank you, again.

(Applause)

MR. KIMENYI: Okay. Good. Thank you very much.

It's quite difficult, of course, to cover all the issues within a short time, but those are the highlights.

And I guess what I would add is that, as I mentioned before, the Kenyan economy is actually the largest within the East African community. So it's like an uncle economy within the region.

And, for the United States, there has been quite a big interest in looking at even relationships between not just the countries but also trade within the community. So that's quite important.

I'm going to ask Stephen to make a few comments. Then we will have a few discussions here before I open it up.

Stephen.

MR. HAYES: Because this is on webinar, I'll just take one minute or so to talk about what the Corporate Council on Africa is and particularly in the context of this report.

We have roughly -- I guess the official number as of today is 176 companies. Visa and FedEx have just joined CCA. We are four years of consecutive growth, which all indicates that there's a strong, growing interest in Africa. That membership does represent about 85 to 90 percent of all current U.S. private investment in Africa, and I anticipate we will continue to grow.

What we've also done is begin to add African countries and certainly African board members. We hope to be able to announce within two weeks a very key Kenyan business leader; I would say a young business leader from Kenya, as part of the board as well. Aliko Dangote, Tony Elumelu and Jabu Mabuza of South Africa, who is the Chair of Telkom, are all members of the Corporate Council on Africa.

So what we're trying to do is -- the strategy is to link business to business, African business leaders to U.S. business leaders, because I think, ultimately, any investment, which was noted as a key to this report, is going to have to come through partnerships, and so particularly indigenous partnerships. So that's where we're working.

The report, I think, was beyond excellent. I was impressed by the thoroughness. I was also impressed by the candor.

I think that you may feel that -- Mr. Kieyah may feel that it was a rosy report. Certainly, I don't feel that the overall economic report was as rosy as it was factual and really addressing some of the key challenges as well.

I thought it was very transparent, and I also thought it was very holistic in its integration -- that you can't do economic development without good governance and so forth, and health systems and so forth.

So I think the report was very integrated, and I would encourage everyone to look at the full report because I don't think the synopsis, or the abridged version, does justice to the depth of thinking that goes into that report. It was just really exceptional.

The issues I would say that I got out of it -- and, again, as a manager, what I said last time when we were doing the same thing for Ghana is it's okay to look at what's good, but I think that where you really grow is understanding what's not working well and address those issues. And I think the report, in fact, does address those issues very comprehensively.

Certainly investment is seen as a key driver to Kenyan development, but there's also a note that it's not going to happen unless there's a considerable amount of capacity-building throughout the nation -- capacity-building in terms of entrepreneurship.

Certainly, the education system is a weak link although regionally it's still ahead of many other countries, but it's an issue.

Social cohesion is also an issue in Kenya as it is in a number of countries; I would say including the United States.

And they also address the need for significant structural change.

If there is one criticism of the report -- and, again, I'm very, very high on this -- it is that that type of structural change needs to be explained more; what really needs to be addressed.

There's also talk about the need for a coherent legal and policy framework. You can have good laws, but also, those laws need to be enacted evenly and across the board.

Again, it was talked about deepening structural reforms, but those reforms, I think, needed to be spelled out a bit more.

The per capita growth level is low, which still indicates not a significant move from poverty overall, and I think the Achilles heel is the population growth and particularly high youth unemployment. It is going to be -- I think that's an extraordinarily vulnerable point that really has to be addressed through education and has to be through capacity-building. Those need to be major priorities.

The report did know a poor performance in rule of law and corruption, but again, in the context of the region, Kenya is showing improvement.

So those were some of the points that I picked up that I think if I, as an investor, were looking at -- I'm looking at long-term investment, and I think we really have to.

From the U.S. side and any other point, I think we need to think of long-term investment as also a means of developing the country and then also protecting the investment climate. So I don't think any company should come in to look and be rapacious.

We talked about oil being a blessing. I hope that proves to be the case. It hasn't been so in many other areas. It does add a lot to the economy in real numbers, but in terms of distribution of wealth, and even in Ghana so far, it hasn't been the stimulus that one might hope for at times and at many times throughout.

So I think those are the issues that -- I mean, there are others.

And, again, I want to say this was an extraordinarily good report in my view. I haven't read the sectorial points as much I would like to, but I think the report throughout is just one outstanding piece of research that's more comprehensible than most U.S. government documents, frankly. So I think it's very good.

Thank you.

MR. KIMENYI: Thank you very much, Stephen. That's very good.

(Applause)

MR. KIMENYI: Thank you so much for those comments.

I'm going to -- before we open the floor, I'm going to ask one quick question, and I'm going to ask my colleagues from Kenya from my former institution.

Okay. So, very good, as Stephen says, about this report.

I think what worries me -- if you look at the poverty statistics, as Stephen just mentioned, you are getting this growth and you are getting just marginal, literally leaving the population at 49 percent of the poor.

So I would like to ask, and I'm going to ask you, John, first.

So, when you sit with the Kenyan government, the ministers and all that, what are you telling them?

Are they -- you know, I always think that they don't get it, myself. I always wonder whether they worry about how inequality is because it's growing.

I mean, what do you feel is the mood? Do they understand that inequality in Kenya can delay all these plans?

DR. OMITI: Thank you very much. Thank you for the nice observations about our report and the critique thereto.

I think the big challenge about growth in Kenya, like other countries, is not just growth; it's the distribution.

So, in some sectors, even when you see phenomenal growth, like in horticulture, flower exports, we ask ourselves, does this growth permeate to the rest of society?

I think it's the issue we have to deal with in the structure of the economy. Even when we talk about inequality in Kenya and maybe perhaps in other countries, we have different types of inequalities.

The biggest one is income inequalities.

The second one is regional inequalities. The 47 counties we talk about -- they have different potentials.

The other one is gender inequalities.

The other one, which I'm investing in itself, is inequalities in opportunities.

And that's where the difference is. Does the political leadership address itself to the different forms of inequalities that we face?

And I will say so. The current administration, having come on a strongly pro-youth election agenda last year in March, they are, I think, doing tooth and nail to address the issues of youth and employment. I think we'll be discussing this on Friday.

Opportunities for youth, education, entrepreneurship, for gender, the women and their associations -- now the government is committing itself to 30 percent of public procurement to go to youth, women and persons with disabilities.

Including our own organization, we have to report quarterly, what are we doing about our procurement to address those?

Then for -- as we will address tomorrow, there are new training programs in entrepreneurship where the private sector organizations are involved, building new skills to match the market requirements.

I'll leave it there.

But the issue of social cohesiveness -- it's being addressed in different ways. First, it's based on: How do you build trust between different groups of society? How does the rule of law encourage entrenchment of trust and dividends for maintaining trust?

Thank you.

MR. KIMENYI: Okay. I think I will ask you another question, Joe, so that we move on.

I think since the focus here is on devolution, and we say -- and we think -- some of us been writing on this, on devolution, why Kenya needed a devolved system for a long time.

But there's also a danger in a devolved system, which is the elite capture, and it could actually nullify all what we call the benefits of devolution.

Now, in your evaluation, Joe, how do you evaluate the county governments? Are they on the right track?

We see a lot of things in the newspaper.

Are they actually going to be able to attract investors like we may have in this room, which is one of the goals of this system?

What's your evaluation?

DR. KIEYAH: Thank you.

I might say that devolution is something that I think the government is quite recommitted. However, one of the problems that has not been clearly defined is whether this relationship is vertical or horizontal between the national government and county government.

And my sense is that the way the counties have taken -- have evolved, they are more likely, or they seem to perceive themselves as autonomous from the national government. And what has happened is that most of them have taken advantage of the weakness of that clause to be able to engage more on the current expenditures in development.

So I think while the concept is very, very good, I think the jury here is out because there are certain things, fundamental things, that we are still struggling with.

There's also a struggle between the county government and the Senate. As we speak, one of the governors has been impeached by the Senate, and the governor has gone to the court to ask the court to define, what is this relationship between the county government and the national government?

So, in answering your question precisely, I think the concept is good; the government is committed, but I think there is this teething problem that I think we have to deal with as a country.

MR. KIMENYI: Thank you.

I will open, but I would like Stephen to comment. Since you are now in the private sector and the investors, what is the single most problem that you hear from investors as relates to Kenya? What's the most important?

So that our colleagues, when they go back, they can be telling the government, what is the most important problem to investors in Kenya?

MR. HAYES: On one hand, companies are seeing Kenya as a strong investment destination. For instance, general electric is making some very major investments there, particularly in infrastructure.

I think you're also seeing the consumer sector also invest -- Proctor & Gamble, for instance -- more in Kenya because, as this report also pointed out, the consumer sector growth is one of the most -- one of the largest right now in Kenya. I can't remember the exact figure, but it was something like 52 percent, as I recall, representing the total growth.

Up against that is a consistent, understandable practice of rule of law and transparency in governance and how foreign investors are dealt with. This is not, again, unique to Kenya, but it's also -- it is a problem that our companies are grappling with.

I think it requires a much deeper discussion because I think there's also the need to understand the cultural context in which they're working much more, as well. It's not a one-sided area.

Cultures operate differently. We call -- we sometimes label that as corruption. Yet, I think it's not corruption quite often. That issue does exist, but it exists in the United State as well.

MR. KIMENYI: Good. Thank you very much.

I would like to open now to the floor.

Thank you very much, all of you.

You can -- now we will get some questions from the floor. So I'll take like three questions, and then I'll have the panelists respond.

Now don't feel offended if I say "you" because I don't know all the names.

The gentleman at the back and then -- yes, and Lawrence.

SPEAKER: Hello. John Simon with Total Impact Advisors.

MR. KIMENYI: Oh, it's John.

SPEAKER: Yes. Good to see you.

MR. KIMENYI: Man, I'm losing my sight here.

SPEAKER: I have a question about the role of Kenya in the regional economy. How important is regional integration to Kenya's future economic growth, and given your point that there's, in fact, a growing trade deficit in Kenya, is there political support for continuing regional economic growth within the country?

MR. KIMENYI: Thank you, John.

This gentleman here and then Laurence.

I can take that one, too.

SPEAKER: David Grillick, with International Green Structures.

I was looking at all the indexes and details and charts. I didn't see anything on housing, and I was curious. I would like the panel to discuss about what effect the housing deficit has on the economy and broader implications for, of course, poverty and all that.

MR. KIMENYI: Thanks.

Lawrence, and then this gentleman.

Lawrence.

SPEAKER: Lawrence Freeman from the Africa Desk, EIR.

Some of the figures, at a glance in the report and that were mentioned, have also been discussed in a report that your institution, the Africa Growth Initiative, and a young lady delivered last year -- Kenya at 50. And she showed that from Kenyatta 1 to Kenyatta 2 agricultural production dropped, manufacturing remained the same, and the only thing that went up was finance and service industry.

Isn't that exactly the danger that you don't want because of this per capita wealth question?

If you don't provide the physical wealth for the people, in food and energy and production, the focus on the financial sector is not going to solve that problem.

Some people want to make Kenya into the new Wall Street of East Africa. And compare this now; what would be the relationship to Ethiopia, which is on a track to become an energy exporter even though they're a much poorer country to start with?

So this seems to me a fundamental question that has to be dealt with if Kenya is going to actually grow in the way necessary.

MR. KIMENYI: Thanks.

Let me take another one, the gentleman at the corner, next to the lady, my lady there.

SPEAKER: Thank you.

Jose Biaou with FRB Realty Capital. We are a commercial real estate capital markets firm based here in D.C., arranging debt and equity capital for commercial real estate projects. We're actually looking at Sub-Saharan Africa as a new platform.

The gentleman mentioned housing. I looked at the brief summary. I did not see commercial real estate or residential real estate, which is a key aspect in terms of building long-term wealth for any society.

So I'd like to get your perspective maybe on the larger -- in the larger file, there's a real estate section, but just the brief economic environment in terms of capital flowing into real estate. I know there are lots of interesting things happening in Kenya right now, and I'd appreciate your perspective on that.

MR. KIMENYI: Okay. So we have -- so I think that's a very real one, the question on housing, given the urbanization trends -- actually quite important. So you should answer those two questions from the gentleman -- the last two gentlemen.

Then Lawrence is more geared to sort of more infrastructure and more energy.

And John's is on integration.

Just, quick comments on these.

And, Stephen, you are free to comment on these, too.

DR. KIEYAH: Okay, let me take the role of Kenya on integration.

Obviously, we are the major economy in East Africa. We are the hub as well as the gateway. So it is our own interest to make sure that East Africa integration works, and we have taken some steps in doing that by trying to amend our laws in compliance with some of the protocols that have been given, for instance, the protocol of the common market. We have also removed some of the travel restrictions in some of the countries, particularly Rwanda and in Uganda.

So, strategically, I think the government is aware that if East Africa has to integrate we have to take the lead. And I think that, combined with a new policy that we are pursuing based on peace and economic diplomacy, seems to provide the evidence that East Africa is important to us.

And we are getting a dividend from that. I think most of the firms that are relocating to Africa -- GE is a case in point. We have some other international organizations that have really come to Nairobi as their headquarters.

So, again, this is an indication that -- you know, China is another key player -- whoever wants to take advantage or exploit the network within East Africa, Kenya is the right place.

Thank you.

DR. OMITI: Thank you for the questions. I'll be very brief.

Housing -- we have not reported it in this particular edition, but last year's edition, which was covering what we call cost of living in Kenya, extensively covered the housing sector whereby, for example, we feel that in terms of the hierarchy of household expenditures: Food was number one in terms of expenses. Number two was housing. Number three was transport. Number four was school fees. So, in terms of how households spent their money.

So, already, the private sector in Kenya -- they have identified real estate and the stock markets as investment areas of very high returns.

Indeed, going by the UN standards, nobody should spend more than 28 percent of their salary on housing costs.

So the government is putting a lot of emphasis. And, if you come to many urban centers, especially with now devolved county governments, private individuals are building houses for rentals although it expands our competitiveness, whether it's rentals or what.

Second, declining agriculture. I'll be very brief.

In terms of the theory that we have borrowed, they say as countries develop the relative contribution of agriculture to GDP has to decrease although the total value of agriculture can continue increasing.

So it is desirable that agriculture's relative contribution to GDP declines, and the emphasis in agriculture -- now what the government does then on what we call Kenya's Vision 2030 is to make the agricultural sector a business-like enterprise. There are two quick challenges there.

One, the youth don't want to be involved anymore in agriculture. It's not interesting. So you face an aging population involved in farming.

Three (sic), many of the people are moving away from the rural areas. So there are opportunities for land to expand, and therefore, people can commercialize and modernize the agriculture -- have tractors, have modern farming methods.

So agriculture is our future, but its contribution to the economy as relative to other must decrease.

MR. HAYES: I wanted to stay out of it, but let me step into it.

I think there's -- well, all these issues are far more complex. The housing issue is, also. It's an issue throughout Africa, frankly -- in some ways, connected to the land ownership issue, and in some ways, connected to the issue of rent, which is a little different historically in different parts of different African countries.

But the -- and it represents a great business opportunity, and it's also badly needed in terms of human development. But it's far more complex than simply, let's build some houses, particularly culturally.

The devolution issue, I think, is -- I would agree that it's a great idea, and I think it potentially empowers people, which the key is how well you use power, using power wisely and how well you communicate.

And we've had similar problems -- we just call the issue, states' rights -- in between central government and the individual states.

So, again, it's not unique historically, but it is unique to each country in a different way.

And I also say that another major issue still, but it's less so in Kenya than many other countries, is the lack of infrastructure that needs to be built throughout. China is helping in some ways. In other ways, there's much, much more that is needed, particularly in IT. And that comes back to capacity-building again.

MR. KIMENYI: Thanks.

I think Stephen did touch on the question related to what Lawrence was interested in, particularly connecting Ethiopia and the huge investments that the country is making on infrastructure.

I think Kenya is doing quite a bit of that now. It has really changed with quite a bit of focus on infrastructure.

I think -- again, I'm not an author of this report, and I'm not too clear, but I would maybe say they probably didn't title it as housing. I would assume it's under construction. I think they've blocked everything under construction.

Okay, let me take a few quick questions. I'll start with these two ladies quick, then the gentleman and the lady back there.

If you can make them short, at least we'll get the answers because we have very few minutes.

SPEAKER: Okay. Jambo. My name is Kelly Paige Schipparelle. I am a consultant broker and a professor for international business, and representing investors as well, and so I wanted to ask more specific questions in terms of investment.

I understand the real estate investment, agriculture, et cetera. But, what might be some of the investment opportunities in the 100 to 300 million dollar range related to maybe tourism or factory development or that housing issue that was raised, et cetera?

And I think for me, specifically, when we talk about investors in the room, just helping that linkage for investors to those actual opportunities with the emphasis of counties as well, I know that might be something as well.

SPEAKER: I am Marilyn Sephocle, and I am the President of the Women Ambassadors Foundation, and I'm also with IDEAS, Inc.

You mentioned earlier in the report that about 30 percent of procurement will be devoted to women, the disabled and also the youth, yes.

And my question is, why such a low number, particularly with regards to women? Since women represent more than 51 percent of the population and also since there is such a vibrant entrepreneurship spirit among women in Kenya, why such a low number for Kenyan women?

MR. KIMENYI: The gentleman at the back and the lady here.

SPEAKER: Thank you. Thank you very much.

I'm Aloysius -- Aloysius Ordu. I'm from the World Bank, just one of your neighbors here.

Like Stephen said, I'd like to congratulate Joseph and the authors of this report because it really -- it goes to show for many investors here and all of us that Africa has continued to come a long way.

I think we have ridden on a couple of tail winds -- the commodity prices and some of the macro stability that have arisen out of reforms across the continent. So these are all good.

For the authors of the report, I'm really looking forward to reading it, and I just wondered because looking at the summary I think there are some really challenging issues facing Kenya right now.

We talked about how far the country has come and which is evident. But harnessing the economic stability that enabled Kenya, like many African countries, to withstand the shock of 2008-2009, I think it would have been good to have a little bit more of what the country is doing to reap the development dividends of policies that have been in place since the 80s.

The second is infrastructure. I know it's listed, and Stephen mentioned that this is important. But, in Kenya actually, if you think back to the independence, compared to South Korea, Japan, all these countries were really no match for Kenya. Kenya was ahead.

So, when you think of consumption of electricity at 155 kilowatts compared to 4,000 in South Africa, I just wonder whether the report has really touched the tip of the iceberg in terms of challenges for Kenya.

The second (sic) is integration, which was raised earlier, which makes a lot of sense for the continent. Now Kenya is at the epicenter of regionalism in East Africa, Southern Africa and the heart of Africa, the center. The 2008 post-election crisis showed very clearly how when Kenya stopped almost 15 countries in the region stopped.

The question is, are Kenya and its leaders prepared to play the role that Sir Jean Monnet played to forge ahead with European integration of the type we know today -- because it's okay to say integration is important, but I just wondered whether the responsibilities on Kenya, whether the leadership has recognized that there is just so much on your shoulders.

And the final one -- I think we'll run out of time -- is the youth. The youth was mentioned, and Joseph projected the population rising from 42 percent to 66 percent by 2030. And we know that the youth constitutes a giant share of this bulge, and they will create future demands, of course, but -- that "but" that Stephen mentioned.

I just wondered whether the authors can say a little bit more because that's quite worrisome. That's quite worrisome.

Thank you very much.

MR. KIMENYI: Very quickly.

SPEAKER: Yes, quick, I promise.

Hi. I'm Clare Allenson, and I'm with Eurasia Group. I cover East Africa. We're a political risk consulting firm.

And the question is simple, on the wage bill that you highlighted rightly, at the 50 percent mark, looking a little worrying. I was wondering if you could just comment further on policy priorities to bring that down, not just for the MPs in the Senate but also for parastatals and ministry consolidation that has occurred, and where you can see ways for polices to bring that wage bill down.

Thanks.

MR. KIMENYI: Thank you very much.

Can we start with Joe?

Just answer one, just one minute, so that we are not cut off.

DR. KIEYAH: All right. Let me deal with the question that was raised about the procurement.

I think you are absolutely right, but I think this 30 percent is precisely for the same issue you have raised.

With our new constitution, what has happened is we have created this accountability that never used to be there before. So women -- people understand and the government understands they are critical players, and so consequently, the 30 percent is coming as the realization that women are also a critical force. But may I also remind you; they are not also excluded from the 70 percent.

Then, on the investment opportunities. Energy is one of them. I think manufacturing is a critical place. We keep on talking these youth and employment, and the only critical sector that ideally has to play this role is manufacturing. And the government seems to be very receptive on those areas.

On the wage bill, I think there are some few things that the government has really taken in place. There is already an audit that has been directed by the President to ensure that you don't have these ghost workers within the civil service.

Thank you.

MR. KIMENYI: Just a minute. Sorry for cutting you. I think the webcast will be off in a minute.

DR. OMITI: Because the webcast is going to be off, I'll say we can continue the discussion on investment areas. Others are housing estates, export marketing and export processing.

We're building social capital as a country, as a nation, learning from our past failures to forge forward.

MR. HAYES: Okay. On agriculture -- is the one I would like to just address, really briefly. I think that the flight away from farms is not good. I think that what you're creating is a greater urbanization, which is a problem, and I think that we need to look at ways in which the rural area becomes far more attractive.

CCA is working with MIT and Harvard in Ghana to create an agribusiness knowledge center to address some of this.

Although that's only one small step, but I think it's important. Particularly, if you're going to the county governments, then that's going to more and more critical.

Rather than draw down from the populations which county governments would support, it is to find ways in which agriculture is strengthened, not weakened.

MR. KIMENYI: Okay. So maybe the final add now that the time is coming up -- running out, just a brief point.

I think for the current Kenyan leadership one thing I know they seem to understand very well is regional integration. The President actually speaks numbers straight about intra-Africa trade and how much we would benefit, and the team seems to understand that Kenya is really going to benefit most for a smoother running East Africa community. So I think that will be sustained, and it seems like the President seems to be very focused on the regional integration question.

There are obviously problems within East Africa. Many of you may know that we were ahead of the European Union in the 1960s. We had an East Africa community that was running. We had an East African air base. We had East Africa railways and harbors, post and telecommunication. We were very far ahead.

But then, of course, it broke down, and the main issue was, of course, differences in institutions. You had Idi Amin in one side. You had Nyerere on the other side. You had Kenyatta, the capitalist, and a socialist there and there.

So it didn't work, but there was always a feeling by Tanzania that Kenya was the one benefitting. And I think one of the real issues for what Kenya needs to do in managing is to make sure Tanzania remains -- feels that it will benefit from the integration because there is a tendency for Tanzania to sort of slow down the process.

So I think that I would say I'm getting a notice to shut up.

So thank you very much once again.

I think we can follow up, but I can tell you, particularly those interested in investment, not because I'm a Kenyan -- I actually speak for Africa, not Kenya -- but that's a good place, and I think people should give it a second thought, particularly now.

Thank you very much, all of you.

(Applause)

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