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**The Effectiveness of Using Public Private Partnerships (PPPs)
to ensure Housing Delivery in Nairobi Metropolitan Region**

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Introduction

- ❑ Kenya is party to international conventions, protocols and treaties which emphasis provision of adequate, decent, quality and affordable housing for citizens; they include: Universal Declaration of Human Rights,1948; ICESCR, 1966;ILO, 2002, SDG, Goal 11 target 11.1 and the New Urban Agenda (NUA);
- ❑ The Constitution of Kenya (2010) article 43 1 (b) accords every Kenya rights for affordable, decent and accessible housing in sanitary environments.
- ❑ NMR and Kenya in general has been experiencing rapid and high population growth rate, high urbanization rates, resulting in high poverty and hence majority of residents cant afford decent housing = slums and informal settlements.

Housing Supply challenge for NMR

- ❑ Housing demand in NMR have exceeded annual housing supply; Countrywide, only 50,000 housing units are produced per annum against an estimated demand of 250,000 hence a deficit of 200,000 per year. Reports from GoK estimate the backlog so far to be 1.85 million housing units as at 2017;
- ❑ Public sector hasn't kept pace with such huge demand for housing. Housing problems = access, adequacy, decency and affordability;
- ❑ Kenya Vision 2030 commits Govt to facilitate construction of 200,000 housing units p.a, MTP I,II has showed govt hasn't delivered close to this target
- ❑ Stakeholders have to find alternative ways of housing delivery – addressing housing demand and supply factors, modern technology, cheaper financing, appropriate building materials among others; and one such way is through Public Private Partnerships (PPPs).

What is PPPs?

- ❑ No clear and globally accepted definition of PPPs. Jurisdictions and countries have their own definitions depending on country context, stage of PPP maturity and socio political environment.
- ❑ Canadian PPP council see PPPs as collaborative ventures, b/n public and private entities built on expertise of partners and it must meet clearly defined public needs and attain appropriate allocation of resources, risks, and rewards
- ❑ PPP Act, 2013 of Kenya defines PPPs to mean “ arrangement b/n a contracting authority(CA) and a private entity, where the private party preforms a public function or provide a service on behalf of CA. Private party receives benefits for such an undertaking thro’ compensation by user fees, charges, annuity payments or a combination. Private party takes over much risks”. This has implication of the Principal Agency Theory (PAT) developed by Laffont and Tirole, 1993. The Principal (Public) contracts the private party entity(Agent) to perform its core functions. Principal incentivizes the agent to gain efficiency for better service delivery.

Rationale for PPPs in Housing

- ❑ There is a ideological shift from a public sector led approach to housing provision to one which incorporates private entities in shelter delivery; shift in policies towards private sector infrastructure provision and financing; this has been due to: - technological changes, increased appreciation of existing linkage btn incentives structures = operational efficiencies, general acceptance of “user pay” principles = competitiveness in infrastructure supply;
- ❑ Globalization requires provision of adequate, accessible and affordable infrastructure = more private entities required to bridge gap; financial crises of 80’s and 2008’s, fact that infrastructure central to international competitiveness prompted more shifts to PPPs through legislations, restructuring and privatization in some cases;
- ❑ PPPs have been used with success in countries like: USA, UK, Ireland, Canada, Malaysia, Singapore, Egypt, Nigeria, Mozambique, South Africa, China, Russia, Greece, Australia, etc

PPPs in Housing

- ❑ Some countries have used Joint Venture(JVs) approaches to PPPs, with joint ownership of assets and joint risk sharing; other models may be used too like: BOT, BOOT, BLT, BOST, Concession, Turnkey etc
- ❑ Private party brings flexibility of design, financing, costs and ideological shifts faster than public entities; private party have more capital hence easing govt financial burdens; have more skills and technical know how and can infuse better technology in housing delivery
- ❑ Through PPPs, housing quality, quantity, projects are completed on time, on budget as compared to traditional procurement prone to delays, cost overruns and stalling of projects
- ❑ PPPs fall between privatization and nationalization and under it govt retains strategic control of assets and can monitor and ensure value for money for citizens

PPPs bring value for money(VfM)

- ❑ VfM looks at the impact the project has on the exchequer and other national funds. VfM is obtained through getting the best mix of quality and effectiveness of service delivery;
- ❑ VfM defined by risk transfer, long term nature of contracts, focus on output specifications rather than on inputs, competition, performance measurement and incentive/infusion of private sector managerial skills in projects, which are key value drivers under PPPs.
- ❑ Risk transfer and competition key in PPPs and make value for money be achieved as more risks = more innovation in design, construction, operation and maintenance
- ❑ VfM brings about 3 E's of: Economy, efficiency and effectiveness in projects

PPPs are effective in housing Delivery

- ❑ PPPs award contracts which combined design, finance, construction, operation and maintenance for longer periods hence creating innovation and incentivizes the private party= more efficiency, reduction of overall costs and operational effectiveness, due to focus on overall life cycle in project design;
- ❑ PPPs endorsed by major international organizations, countries for housing devpt = Enabling markets to work strategy of the World Bank of 1993, Global strategy for shelter, 2000, UN Habitat, 2007 = effective partnerships for service delivery
- ❑ PPPs for housing have been successful, can facilitate housing development, contribute to increased housing stock through addressing govt challenges in housing delivery – finance, technology, skills, innovation, cost reduction, timely delivery on budget;
- ❑ Housing PPPs address affordability, inclusivity, trust/cooperation, stability& predictability, Accountability& risk mgt and infrastructure financing maximization

Legal framework for PPPs utilization in Housing delivery

- ❑ PPP policy 2011 provides rationale and need for PPPs in Kenyan infrastructure development. PPP Act, 2013 legalizes private sector participation in infrastructure provision through various models, establishes key institutions 4 PPP developments like PPP Committee, PPP Unit, PPP nodes;
- ❑ PPP Regulations 2014 and 2009 provides a procedural process on how to tap and apply PPPs in infrastructure development and operationalizes PPP Act, 2013;
- ❑ Sessional paper no. 3 of 2004 on housing policy (under review) envisages housing provision thro PPPs. S.3 of Housing bill 2017 envisages PPPs utilization in housing devtp; s.33 of Urban Areas and Cities Act, 2011 (under review) and s.6 (3) of the County Governments Act, 2012 all provides for county authorities and agencies to enter into PPP arrangements for service delivery

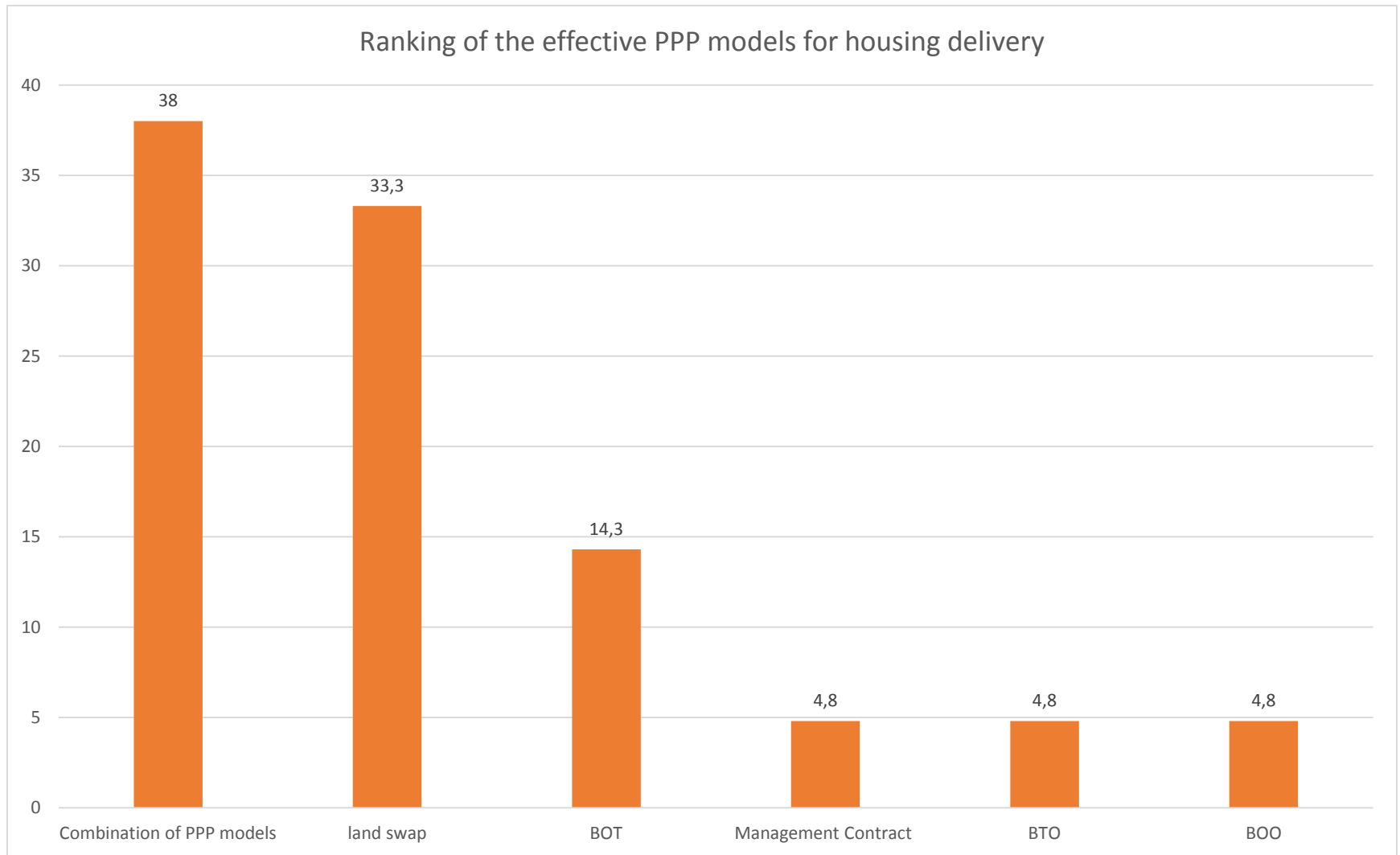
Methodology

- ❑ Stratified sampling method utilized, 36 questionnaires administered to 6 organizations – State Department of Housing, PPP Unit, NHC, Nairobi City County and Athi River township of Machakos County, interviews also conducted with senior state department of Housing officials to gain deeper understanding on PPPs and housing
- ❑ Rationale for their selection being that they were at various stages of implementing projects using PPPs;
- ❑ All questionnaires returned (100%) and data analysed and presented via pie charts, bar graphs and statistical tables
- ❑ Findings, discussions and recommendations were provided based on research findings

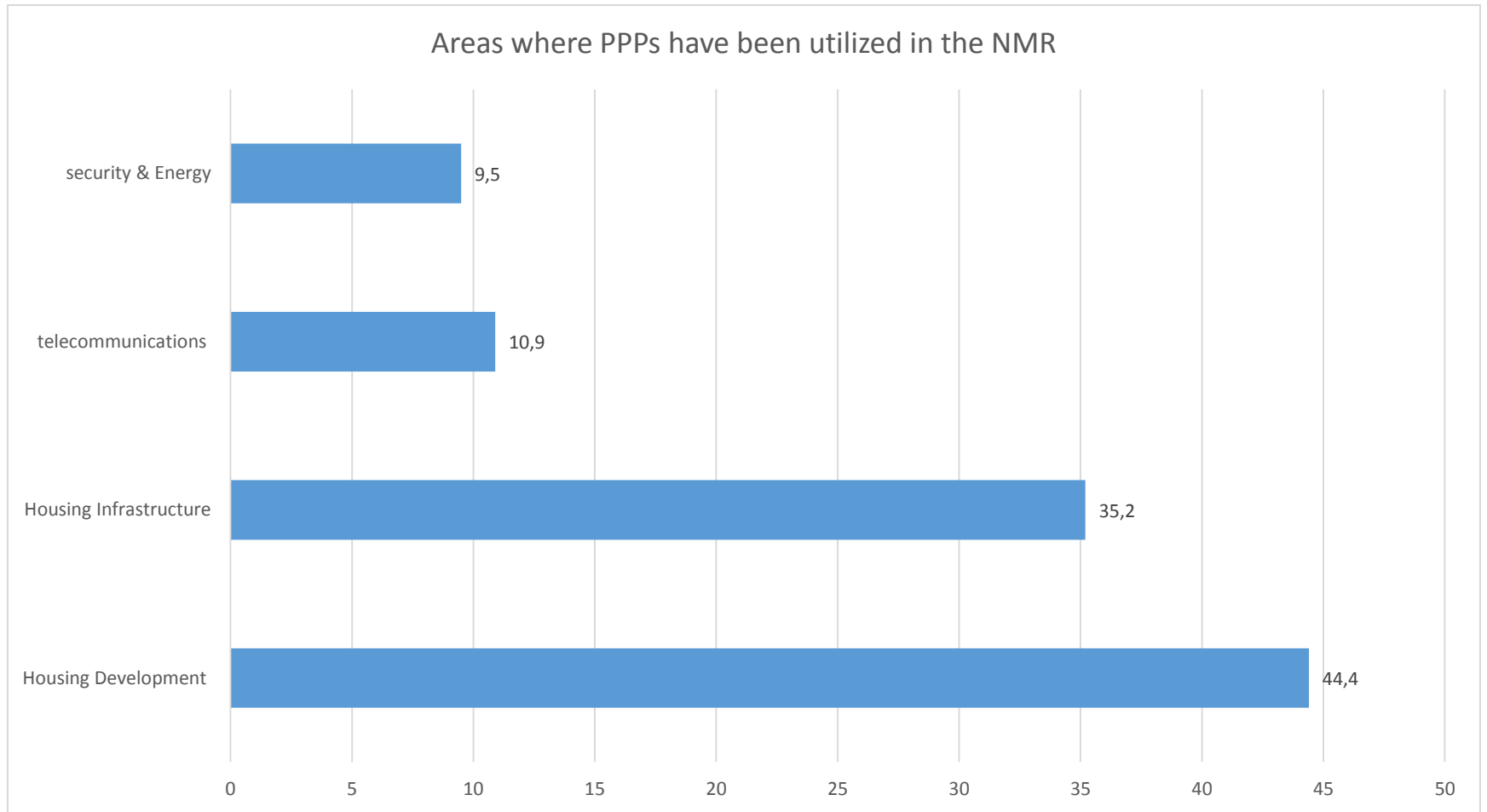
Findings

- ❑ 81% stated that they had knowledge of the effectiveness of PPPs in housing delivery;
- ❑ PPP models suggested for housing within NMR are: Mgt contract, 24.7%, Concession 33.9%, Land swap,11.4%, with BOOT, BOT, Combined models and Output Performance based each at 7.5%
- ❑ combining the models(DOT,ROT,BOOT and Concession) was found to be effective at 38%; Land swap at 33.3% due to huge land possessed by public institutions, BOT 14.3%, while BOO, BTO and Concession mgt contract at 4.8% each on the effectiveness in application for housing delivery in NMR

Findings

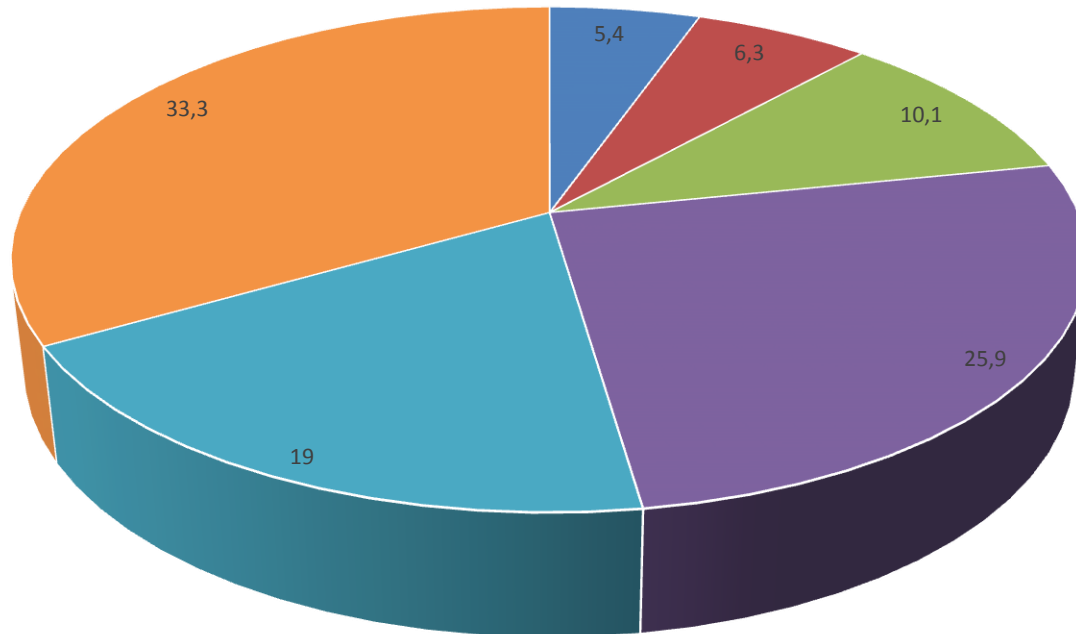


Findings



Findings

Challenges of PPPs application in Housing



- serviced land
- inadequate financing PPPs
- lack of DRM in PPPs
- Inadequate PPP regulations
- lack of institutions
- lack of awareness

Conclusions and recommendations

- ❑ The challenges identified in PPPs for housing have solutions in the research findings like creating enabling environment through institutions, laws, special funds for PPPs, providing serviced land
- ❑ PPPs were found to be effective to ensure housing delivery in NMR, it's a brilliant idea, long over due and there is some enabling environment for its application, there are many benefits for using PPPs – capital, innovation, technology, managerial skills, risk optimization, efficiency, effectiveness
- ❑ Major recommendation is for the NMR and Kenya in general to embrace the application of PPPs to ensure housing delivery. Public entities should embrace PPPs because there is demand and they have land which they can leverage while private sector has capital for investments.
- ❑ Public entities should undertake sensitization and create awareness on PPPs, amend existing laws to suit PPPs in housing and create special funds as envisaged under section 68 (4) of PPP Act, 2013 to promote bankable, viable PPP projects like housing in NMR.