

Provision Of Down Market Urban Housing In Kenya Through Strategic Application Of PPPs

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Abstract: The provision of adequate, decent, quality and accessible housing has been provided for in many international and national policy documents. The Constitution of Kenya 2010, in article 43 1 (b) obligates the state to endeavour to provide housing for all Kenyans. Despite these provisions in the supreme law of the land, it has been found out that there are many challenges which face the provision of housing and more specifically, the housing for the low income urban households (down market urban housing). The key challenge which relate to the provision of down market urban housing includes the application of outdated technologies, inadequate innovation, inadequate financing and low application of efficiency, effectiveness and economy considerations in the development of down market urban housing, which has resulted in backlogs in housing supply. Stakeholders have therefore scouted for alternative methods of addressing these gaps and PPPs have been cited as one of the possible ways through which down market urban housing can be provided in Kenya.

Keywords: Public Private Partnerships (PPPs); down market urban housing; public and private sector; housing affordability/challenges and provision.

I. INTRODUCTION

Housing is a fundamental human need which is required in huge quantities throughout the world as a result of the rapid pace of urbanization, and its provision and development has been cited as a major challenge for most people. The problem of housing provision and its attendant variables like adequate, decent, affordable and quality housing, is more acute for the down market urban households in the Sub Saharan Africa (SSA) region, Kenya included. Inadequate supply of housing to the low income urban households, which makes people to live in squalid conditions has a potential for causing class and wider societal upheavals in the majority of informal settlements and neighbourhoods throughout the world (Tipple, 1994). SSA African countries have experienced housing deficits at alarming levels of 75% of urban residents who were living in slums and other informal settlements, which do not offer adequate living conditions and situations. These poor housing conditions are degrading to the human dignity, which is a right protected by national and international legal instruments. In Nigeria for example, housing shortage was

estimated at eight million housing units between the year 1991 and 2001 (Taiwo et al, 2016; Olotuah and Bobadoye, 2009; UN Habitat, 2001; Achinine, 1993).

Affordable housing discourse is gradually taking the central place in the national and international organizations and countries. Many countries have included housing provision for all categories, low income urban households included in their national development agenda. In Kenya, housing is one of the government's big four agenda for the next five years. Stakeholders in the provision of down market urban housing have been sourcing for alternative strategies of funding such housing programmes away from the traditional and conventional ways which have registered dismal performance, evidenced by the ever increasing growth of slums and informal settlements (Mohamed, 2017). Over the years, the high population growth, high urbanization rates, concentration of people in urban areas and corresponding demand for urban housing necessitates a change of strategy (Mohamed, 2017; Muhammad and Ado, 2014; Brockerhoff, 2000; Pessoa, et al., 1998). This is coupled with the need for urban areas authorities to improve the quality of existing

housing stock while lessening the construction costs and time for housing projects implementation (Mohamed, 2017; Pomeroy, et al., 1998 (Gopalan and Venkatarama, 2015; Witboi, 2015 and Dube, 2013).

This paper takes a critical look at the application of PPPs in the provision of down market urban housing. The country has proposed to intensely use PPPs in the development of down market urban housing since it has been established that the public sector is inadequately prepared to address the ever increasing housing shortage in the country. The application of PPPs is well within what many researches and international organizations like the World Bank, IMF and African Development Bank (AfDB) have since advocated for. PPPs have been proposed as an alternative for the financing of down market urban housing because it promotes the innovative financing approaches, adequate application of technology, risk transfer, efficiency, effectiveness, economic considerations and strategic partnerships which can provide the much needed solutions to housing challenges, especially for the low income urban households. The outcome of this evaluation supports the application of PPPs in the development of down market urban housing due to the many advantages, but also cautions authorities on blanket application of the concept without adequate structuring, establishment of legal, regulatory and institutional arrangements to make PPPs effective in the long run.

II. THE HOUSING CHALLENGE IN KENYA

By recognizing housing as a basic human rights, public authorities all over the world have been focusing on ways through which they can provide their citizens with adequate, affordable, quality and decent housing (Gopalan and Venkatarama, 2015). Public entities have faced numerous challenges to deliver down market urban housing due to inadequate finances, land and other constraints associated with the government operations. Direct and indirect government facilitation or construction of down market urban housing has been dwindling over time (Kutana, 2017; Khakhi, 2009). Public authorities have failed to leverage its many assets like land to provide down market urban housing (Sheko et al., 2015). The public sources of funds have failed to deliver down market urban housing units. It has been found out that in cases where the authorities have attempted to provide such housing units, inadequate down market urban housing quantities, which are in most cases expensive, and such high cost housing units developed for the down market urban households which ends up being taken over by the middle income urban households (Brown et al., 2006).

The Housing shortage in Kenya has been estimated at an accumulated 2 million units, which has proved a tough task to accomplish given the prevailing situations. It has been noted that to close this huge gap, approximately 250,000 housing units across many market segments must be provided per year, but the current annual supply of such housing stands at 50,000 units. The rate of urbanization in the country has been such that the rate at which various urban infrastructure is developed cannot keep pace with the demand. The total country population is estimated to be 48 million, 27% of whom are

already in urban areas, while the urbanization rate remains 4.4% above the global average of 2.1%. The proportion of the urban population is expected to be half the country's population by 2050. It has been pointed out that having more urban population is good for the overall growth of the economy through poverty reduction, access to jobs and services. On the same length, high urbanization rates bring incremental pressure on housing provision and construction. Out of this 61% of the Kenyan urban households live in slums where housing is inadequate in terms of its durability, tenure security, service provision and the overall urban management and attendant costs of slum upgrading on the part of government (World Bank, 2017; Republic of Kenya, Draft National Urban Policy, 2016).

Owing to the failure of the market forces to supply down market urban housing, researchers have therefore focused on ways through which the supply of down market urban housing can be increased from the current levels, and the emerging concept has been the stimulation of the private sector involvement to develop down market urban housing in Kenya (Whitehead, 2007; Brown, Orr and Luo, 2006 and Susilawati and Armitage, 2004). The engagement of the private sector in the provision of down market urban housing has taken many forms but the most common and emerging one is the PPPs, which has been cited as having the potential to provide long term and sustainable strategy through which public funds can be utilized effectively (Kung'u, 2009; Brown, Orr and Luo, 2006). Through PPPs, partners can pool expertise, technologies, skills, managerial and capital resources together in a cooperative rather than competitive manners, which in turn improves levels of service delivery (UN Habitat, 2011; Moskalyk, 2008). Countries like Nigeria, Australia, Malaysia, China, UK, Singapore, US, Mexico, Egypt, India, Pakistan and Canada have used PPPs to provide down market urban housing (Kutana, 2017; Khaled Mohammed Al Shareem, 2014; Abdul-Azis, 2011).

Despite the strong private developers in the country, the private sector has concentrated in the middle and upper income groups and have since saturated this market. The government of Kenya has faced serious financial constraints including inability to raise debt for housing development and also in direct intervention measures. Provision of housing infrastructure estimated to be between 30 -40% of the project cost. The inability of the public and private entities when acting alone to deliver down market urban housing has made stakeholders to recommend the application of PPPs in the development of housing to low income urban households (World Bank, 2017).

III. SUCCESSFUL APPLICATION OF PPPS IN THE PROVISION OF DOWN MARKET URBAN HOUSING

According to the Affordable Housing Institute (2018), the government of Ethiopia launched a PPP programme to develop 300,000 high rise flats in the urban areas of the capital Addis Ababa for the low income urban households. The housing project was completed but there were issues of funds needed to keep the project from proceeding beyond the units constructed. Many other governments have embarked on the

provision of down market urban housing but such programmes have often ended in being put on paper and other strategic plans without being finalized. Since the major challenge facing the development of down market urban housing, any plan to utilize PPPs in developing down market urban housing should have inbuilt sound financial considerations in choosing the model to be used to achieve the housing demand. The financing model should consider that development of housing more so down market urban housing is faced by many risks – like political, financial, construction, operation and maintenance, market, legal and revenue, due to the long concession period. The sound financing model recommended for PPPs for down market urban housing should have an appropriate mix of equity and debt ratios, adequate costing of the risks, due considerations for the project unique conditions and environment. The financing strategy should factor in the sources of funds and there should be some minimum levels of the public sector support for such down market urban housing project to give more confidence to private developers (Affordable Housing Institute, 2018; Mohammed et al., 2018; Kwak et al., 2009).

Successful application of PPPs requires favourable existence of political, legal, economic and commercial environments to allow optimum participation of the private sector in developing down market urban housing. The public sector is well placed more than the private sector in creating enabling environments to make sure that private players are free to invest in public functions and services, this also eliminates the chances of risks like expropriation and nationalization (Mathonsi, 2012). Ismail (2013), Cheng (2007) and Li (2003) have cited eighteen critical success factors for PPPs: stable macro-economic conditions; favourable legal and regulatory frameworks; sound economic policies; availability of financial markets; existence of multi-benefits objectives; appropriate risk apportionment and sharing; commitments by the partners; existence of capable, strong and efficient private sector; application of good governance principles; the projects to use PPPs should be technically feasible; the partners must share authorities; political support; social and community support; organized and committed government entities; undertake competitive procurement process; government guarantees; thorough assessment of the costs and benefits; and transparent procurement process (Ismail, 2013). PPPs can provide many benefits to the government hence the key drivers for PPPs in down market urban housing includes the need to involve the private players in service delivery and to address the budgetary deficits of the governments. This also includes the need for application of greater efficiency, creativity, bridging the infrastructure and service supply gaps (Kutana, 2017; Mathonsi, 2012; UN Habitat, 2011).

The Affordable Housing Institute noted that PPPs which succeed are based on true partnership ideals between the public and private parties. For the partnerships to be true, they must have inbuilt partners' trust, transparency and the partnership should be such that they have the capabilities to develop and implement the agreed project goals and objectives. The contracts should be well designed and catering for all issues likely to feature throughout the project cycle, the proponents should make attempts to receive many qualified

bidders which enables the evaluation team to settle on the best of the bidders, and which has the potential of producing value for money and superior products at the end. There should be adequate communication between the parties, with the structure of the partnership expected to be detailed, flexible and one which incorporates the sharing of responsibilities, shared control of the decision making process by the parties and shared economics, such that both partners have a stake in the project (Affordable Housing Institute, 2018).

In conclusion, it has been found out that the success or failure of a down market urban housing depends on four major factors namely the capabilities possessed by the public sector desirous of using a PPP to develop such a project; the ways through which the partner to the public sector is selected or identified and the method of PPP applied; the process of identifying, quantifying, costing, allocating and compensating the best party which is able to handle such risks in a down market urban housing programme, and in most cases which turns out to be the actual risk allocation between public and private parties; and the financial package which the partnership has put in place and which must be sound and more advanced than the traditional procurement method which is full of wastages and underutilization of resources. It has been concluded also that the role of government is very key if PPPs are to be effective in the provision of down market urban housing and thereby reduce the huge backlog cited by the Kenyan government sources to be currently at 1.85 million. The government should strive to provide an enabling environment for optimum working of the private sector and which allows investments to be directed to the housing development. It should establish adequate and favourable legal and regulatory environment to make the private investors be comfortable that contracts will be honoured. The government should ensure that the private entity which is finally selected to undertake down market urban housing has the capacity to do so. The government should also ensure adequate coordination and be actively involved throughout the project cycle to ensure adequate safeguards, compliance with standards and adherence with agreed project specifications and outputs (Mohammed et al., 2018; Kwak et al., 2009).

IV. RECOMMENDATIONS

The government of Kenya recently announced an ambitious plan to develop 500,000 housing units in the next five years through the appropriate application of PPPs. This means that the government must work towards allocation of land and undertaking the adequate risk identification, quantification, allocation and costing, where the private sector is incentivized for performing the act of constructing down market urban housing despite the inherent risks. The public sector can avail quality serviced land in appropriate locations which can be used for developing down market urban housing. The government in Ivory Coast allocated such land and saw housing units sell at US\$ 25,000 while that of Cameroon saw the houses developed under such appropriated land selling at under US\$ 40,000 (Affordable Housing Institute, 2018).

This paper recommends the application of PPPs in the development and provision of down market urban housing in

Kenya going forward. The government should undertake adequate structuring, assessment and detailed contractual engagements with those private entities which have been evaluated and found to have the necessary capabilities key in the development of down market urban housing through PPPs. PPPs have been found to work if the laws and enabling environment issues are sorted, therefore the paper recommends that the stakeholders undertake a thorough audit of the current legal system with a focus of amending or making the laws more adequate and suitable in softer sectors like down market urban housing.

V. CONCLUSION

This paper intended to carry out an analysis of the application of PPPs in the provision of down market urban housing in Kenya. The paper proceeded from the challenges facing the provision of down market urban housing, which ranges from financial, technological, innovations, risk sharing and the enabling environment which has been lacking when the public and private entities act alone, but challenges which are solved when these entities work together in a collaborative manner. Through PPPs, the partners are able to bring their best capabilities while minimizing their weaknesses and in the process delivering superior and quality housing units for the low income urban households, which require down market urban housing. It has picked on the success issues which have made many countries to be attracted to the application of PPPs in developing their infrastructure, more particularly the provision of down market urban housing. The African Affordable Housing Institute (2018) has noted that many governments are abandoning the direct or government provider approach in housing development and have since favoured the application of PPPs to develop down market urban housing going forward. The Institute noted that through PPPs, the public sector is able to leverage on the land, the land registration process and the effective demand from citizens for down market urban housing and this combines with the private sector's innovative finance mobilization skills, technology, effectiveness and economical use of resources and inherent assets to develop down market urban housing.

Based on these inherent advantages of the application of PPPs, it has been concluded that for the time being, PPPs have shown to be more collaborative and being able to combine the best of the public and private entities to develop down market urban housing. The government should undertake legal, regulatory, institutional and economic reforms which will create an enabling environment for the application of PPPs to develop down market urban housing and thereby address the

huge backlog in the housing sector. Since the country has a broad PPP Act, 2013, the government should undertake formulation of regulations based on this act to favour the development of down market urban housing through PPPs and at the same time, it should come up with adequate incentives structures to attract and incentivize the private entities to bring more innovations and flexibility in the sector.

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