
케냐 PPP 진출 가이드

머 리 말

‘케냐 PPP 진출 가이드’는 투자개발형 사업으로 급변하는 해외 인프라 시장에서 우리기업의 수주를 지원하는 든든한 동반자로서의 역할을 다하기 위한 KIND의 의지를 담아 작성되었습니다.

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본 가이드가 KIND의 성공적 안착과 해외 PPP시장에서 우리 기업들의 수주성으로 이어지길 기대합니다.

감사합니다.

2020년 12월
한국해외인프라도시개발지원공사 사장 허경구

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KEY ABBREVIATIONS

AfCFTA	Africa Continental Free Trade Area
AfDB	Africa Development Bank
APHRC	Africa Population and Health Research Center
ATC	Agriculture Training Centre
BCG	Boston Consulting Group
BOO	Build-Own-Operate
BOOT	Build-Own-Operate-Transfer
BOT	Build Operate Transfer
CA	Current Account
CAGR	Compound Annual Growth Rate
CAK	Communications Authority of Kenya
CBK	Central Bank of Kenya
CCI	Consumer Confidence Index
CGV	County Government of Vihiga
CGW	County Government of Wajir
CIDPs	County Integrated Development Plans
CMA	Capital Markets Authority
CMEC	China Machinery Engineering Corporation
COMESA	Common Market for Eastern and Southern Africa
CPFER	Composite political, financial and economic risk
CPR	Consumer Products and Retail
DBFOMT	Design-Build-Finance-Operate-Maintain-Transfer
DFIs	Development Financial Institutions
DTA	Double Taxation Agreement
EAC	East African Community
ECD	Early Childhood Development
ECOWAS	Economic Community of West African States
EPRC	Energy and Petroleum Regulatory Authority

ERC	Energy Regulatory Commission
FDI	Foreign Direct Investment
FMCG	Fast Moving Consumer Goods
FSP	Financial Service Providers
GAFTA	Greater Arab Free Trade Area
GDC	Geothermal Development Company
GDP	Gross Domestic Product
GoK	Government of Kenya
GPS	Global Positioning System
GSM	Global System for Mobile Communications
HDI	Human Development Index
IB	International Baccalaureate
ICA	Infrastructure Consortium for Africa
ICRG	International Country Risk Guide
IDF	Import Declaration Fee
IDR	Issuer Default Rating
IFC	International Finance Corporation
IFPPP	Infrastructure Finance and Public Private Partnership
IFRS	International Financial Reporting Standards
ILO	International Labor Organization
IMF	International Monetary Fund
IPTL	Independent Power Tanzania Limited
IRA	Insurance Regulatory Authority
ITU	International Telecommunication Union
JKIA	Jomo Kenyatta International Airport
KAIST	Korean Advanced Institute of Science and Technology
KANU	Kenya African National Union
KENGEN	Kenya Electricity Generating Company
KENHA	Kenya National Highways Authority
KeRRA	Kenya Rural Roads Authority
KETRACO	Kenya Electricity Transmission Company

KIA	Kenya Investment Authority
KIND	Korea Overseas Infrastructure & Urban Development Corporation
KMRC	Kenya Mortgage Refinance Company
KNBS	Kenya National Bureau of Statistics
KNEB	Kenya Nuclear Electricity Board
KPA	Kenya Ports Authority
KPC	Kenya Pipeline Company
KPDC	Kribi Power Development Corporation
KPLC	Kenya Power and Lighting Company
KURA	Kenya Urban Roads Authority
KWS	Kenya Wildlife Service
LAPSSET	Lamu Port and South Sudan Ethiopia Transport
LCT	Lomé Container Terminal
LTWP	Lake Turkana Wind Power
MNO	Mobile Network Operator
MoEP	Ministry of Energy and Petroleum
MoF	Ministry of Finance
MOLIT	Ministry of Land, Infrastructure & Transport
NCPD	National Council for Population and Development
NHC	National Housing Corporation
NHIF	National Health Insurance Fund
NOCK	National Oil Corporation of Kenya
NSHDF	National Social Housing Development Fund
NTB	Non-Tariff Barriers to trade
O&M	Operation and Maintenance
ODA	Official Development Assistance
PCOA	Put-Call Option Agreement
PDMO	Public Debt Management Office
PE	Private Equity
PESTEL	Political Economic, Social, Technological, Environmental and Legal
PI	Portfolio Investment

PIIP	Privately Initiated Investment Proposal
PPP	Public Private Partnership
RBA	Retirement Benefits Authority
RDL	Railway Development Levy
REA	Rural Electrification Authority
REC	Regional Economic Communities
RoI	Return on Investment
SACCO	Savings and Credit Cooperative Societies
SADC	Southern Africa Development Community
SASRA	SACCO Societies Regulatory Authority
SEZs	Special Economic Zones
SME	Small and Medium Enterprise
SSA	Sub-Saharan Africa
STP	Science and Technology Parks
TA	Transaction Advisory
TAC	Trans African Concessions
TI	Transparency International
UAE	United Arab Emirates
UHC	Universal Health Coverage
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNESCO	United Nations Education, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
USAID	United States Agency for International Development
VAT	Value Added Tax
VGF	Viability Gap Funding
WB	World Bank
WEF	World Economic Forum
WEO	World Economic Outlook
WHO	World Health Organization
WTO	World Trade Organization

Executive Summary [케냐]

□ 정치·경제·사회 동향

- 2010년 8월 국민투표를 통해 헌법을 채택, 제2공화국이 출범하였고 2013년 우후루 케냐타 대통령이 당선되었으며 2017년 선거에서도 재선 성공, 임기 수행 중
- 케냐 경제는 역내 경제통합의 가속화, 대대적인 공공투자 등에 힘입어 농업 및 관광산업(서비스업)을 기반으로 2011년 이후 꾸준히 연 4~5%의 연평균 경제성장률 기록
- 2030년까지 경제, 사회, 정치 발전을 통해 중산층 경제로 탈바꿈하겠다는 비전 2030을 수립했으며, 비전 2030¹⁾에 맞춰 4대 핵심사업²⁾ 선정

□ 사업여건

- (에너지) 현재까지 개발금융기관, 민간자본 및 기관투자자는 주로 신재생 에너지 프로젝트에 많은 투자를 했으며, 그 결과 케냐 전력의 80% 이상이 신재생 에너지가 차지하고 있음. 앞으로 더 많은 신재생 에너지 발전, 송전 및 인프라 구축에 투자될 전망
- (교통) 도로 신설 및 개량, 버스 환승 시스템 설치, 항만 및 철도사업의 개발 관심 증가. 케냐의 도로 관련 지출은 증가추세, 2018/2019년 관련 투자 규모가 19억 8000만 달러에 이름

케냐 도로공사 지출 규모 추이

(단위: US\$ 천)

회계연도	2014/15	2015/16	2016/17	2017/18	2018/19
지출 규모	876,293	806,259	1,245,012	1,736,515	1,979,275

자료: 인프라&케냐 도로위원회(Infrastructure & Kenya Roads Board)

- (도시) 사회주택, 병원, 산업단지, 물류 및 창고시설, 경제특구 개발이 계획 중

1) 2008년 케냐 정부가 발표한 중장기 전략, 현재 3차 단계(MTP III). 도로, 철도, 에너지에서 진행 중인 인프라 개발을 통해 BIG 4 아젠다를 달성하고 이를 바탕으로 3차 단계를 추진

2) BIG 4 아젠다로 일컬어지며, 우후루 케냐타 대통령 집권 2기에서 제시한 핵심 경제개발계획. 2018-2022년(5년) 동안 제조업, 식량공급, 보건의료, 서민주택 등의 4대 산업 분야를 집중지원

□ PPP 제도

- 케냐는 자금조달이 어려운 인프라 프로젝트를 PPP사업 중심으로 재편하고, PPP법(2013년)과 PPP directorate 제도를 마련하여 약 79개 PPP사업이 활성화 될 수 있는 환경을 조성하고 있음
- PPP 프로세스는 2013년 PPP법에 따라 관리되며, 국가 재무부의 PPP Unit에 의해 감독
- PPP Unit은 경쟁력 강화를 위해 국가 및 지방정부 기관과 입법자들을 참여시키고 있으며 PPP법 부칙 2에서 계약 당국이 민간 당사자와 체결할 수 있는 약정의 유형을 정의. Management 및 Performance 계약은 최대 10년, BOT/BOOT 계약은 최대 30년, BLT 및 이외 계약방식은 합의된 내용에 따름
- 다른 신흥국가들과 마찬가지로 케냐도 기업환경 및 PPP구조 개선을 통해 서서히 투자 제약에서 벗어나고 있음

□ 종합

- 케냐는 동아프리카 내 가장 높은 경제성장률, 정치적 안정성 및 높은 인프라 수요를 갖춘 투자 중심지로 평가됨
- 점증하는 인프라 수요로 민간 인프라 투자 자금 부족액(Funding Gap)이 연간 약 40억 달러에 달하며 이를 최소화하기 위한 새로운 투자 재원의 발굴이 시급한 과제로 대두되고 있으며, 이러한 관점에서 PPP의 활성화가 추진되고 있음
- PPP법(2013년)과 PPP directorate 제도를 마련하여 약 79개 PPP사업이 활성화 될 수 있는 법적 환경을 조성하고 있음

I . Introduction

1 Background and Purpose

Kenya is embracing alternative public infrastructure procurement options including Public Private Partnerships (PPP) to complement government efforts to facilitate development projects. Korea Overseas Infrastructure & Urban Development Corporation (KIND Africa) commissioned the Kenya PPP Scoping Study to better understand PPPs landscape in the country in terms of the current status, successes, challenges, opportunities and inherent risks. Findings of this study are expected to inform and assist KIND Africa to design and refine strategies to support Kenya's economic growth through PPP's.

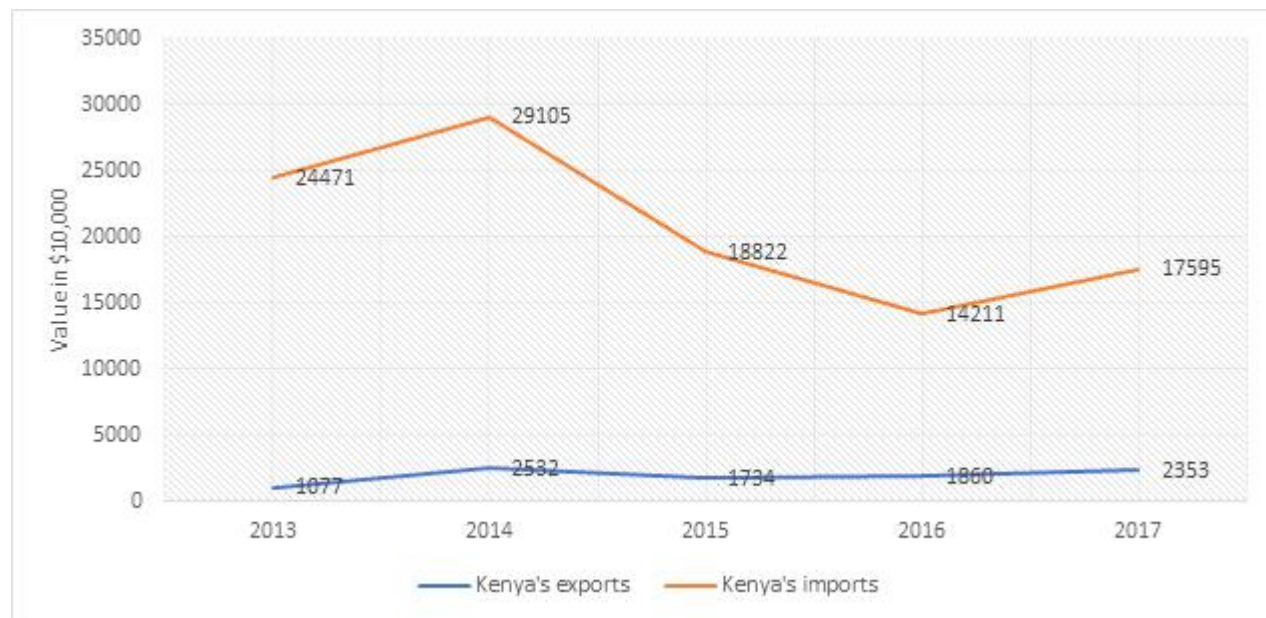
Korea is among the leading Asian countries investing in mega infrastructure projects in Africa and subsequently Kenya. Trends of import-export trade patterns between the Republic of Kenya and the Republic of Korea indicate a trade surplus in favor of Korea.¹⁾ Figure 1 shows that, the peak was year 2014 when Kenya exported Ksh 2.5 billion and imported Kshs 30 billion from Korea mainly in electrical appliances.

The Korean Government is keen to achieve mutual benefits through investments in large infrastructure projects financed by an appropriate mix of debt and equity. While identifying a pipeline of large bankable projects is important, there is a growing need to

1) Which translates to a trade deficit in Kenya's Current Account(CA) consistent between the 2013-2017 period under review.

address equity via avenues such as knowledge transfer to sustainably contribute to Kenya's socioeconomic prosperity. Indeed, bilateral relations between Kenya and Korea led to setting up of Korean Advanced Institute of Science and Technology (KAIST) in a \$100 million deal by Korean Export and Import (Exim) Bank and the Konza Techno City in Machakos County located 60 kilometers south of Nairobi City.²⁾ Further, innovations in technology such as Internet of Things (IoT) solutions are being realized through exchange programs between Korean and Kenyan youths. Korea has a Government-to-Government deal with Kenya to train a pool of Kenyan atomic technology specialists.

Figure 1: Trends of Import-Export Trade Patterns Between Kenya and Korea (2013-2017)



2) Konza Technopolis is a key flagship project of Kenya's Vision 2030 portfolio. Already, \$800 million has been committed to develop the city that will provide state of the art information, communications and technology (ICT) infrastructure to investors facilitated by a friendly business environment. Thematic solutions areas will be within ICT, Life sciences and Engineering clusters.

1. Objectives and Scope

The broad objectives of the Kenya PPP Scoping Study were to:

1. Conduct an analysis of the Political Economic, Social, Technological, Environmental and Legal (PESTEL) environment influencing Public Private Partnership (PPP) infrastructure investment in Kenya
2. Investigate trends, opportunities, weaknesses and threats for infrastructure investment via PPPs in Kenya
3. Analyze the PPP framework in Kenya
4. Conduct key informant interviews with key players

2. About KIND Africa

Korea Overseas Infrastructure & Urban Development Corporation (KIND) is a public-sector company established under the Overseas Construction Promotion Act of the Republic of Korea under the Ministry of Land, Infrastructure & Transport (MOLIT) Korea. The primary mission of KIND is to support Korean companies' venture to the global Private-Public Partnership (PPP) projects and seek mutual benefits with the countries that host these projects.

3. Acknowledgement

SKM Business Consultants would like to appreciate the input by key informants from the following institutions: KIND Africa office, the PPP Unit secretariat, the World Bank (WB), International Finance Corporation (IFC), KCB Banks, Cooperative Bank, Equity Bank Group, Citi Bank, China Machinery Engineering Corporation (CMEC), PIIP advisors (Energy), transaction legal advisor (PWC).

2 Methodology and Analytical Framework

The study was facilitated by SKM Business Consultants Limited and applied a combination of qualitative and quantitative research design techniques in data gathering and analysis. Key informant interviews were conducted between October and November 2019 to collect primary data. Respondents were drawn from in PPPs policy and investment advisory in the region, representing of a sample of up-stream and down-stream stake holders. Some of the key informants were the International Finance Corporation (IFC), the PPP secretariat-The National Treasury, World Bank, four Commercial Banks, PIIP advisors, the academia and legal advisors intranctions. Sources of secondary data included County Integrated Development Plans (CIDPs), the Kenya National Bureau of Statistics (KNBS), the Central Bank of Kenya (CBK), the National Council for Population and Development (NCPD), the World Bank, Africa Development Bank (AfDB), United Nations Development Program (UNDP), Transparency International (TI), World Health Organization (WHO), United Nations Population Fund (UNFPA), United Nations Education, Scientific and Cultural Organization (UNESCO), International Labor Organization (ILO), World Economic Forum (WEF), Africa Population and Health Research Center (APHRC), International Telecommunication Union (ITU), United Nations Conference on Trade and Development (UNCTAD) and the Communications Authority of Kenya (CAK).

Analytics included meta-analysis of literature on business and industry trends, economic and social infrastructure; bilateral Korean business relations with Kenya including Foreign Direct Investments (FDI) into Kenya. Thematic content analysis of findings from key informants was done and findings incorporated into relevant chapters

without reference to specific respondents. Internal and external country landscape was conducted using the Strengths Weaknesses Opportunities and Threats (SWOT) framework whereas a comprehensive profile of the country was made using Political, Economic, Social, Technological, Environmental and Legal (PESTEL) analytical framework.

Figure 2: Study Methodology – Step by Step Approach

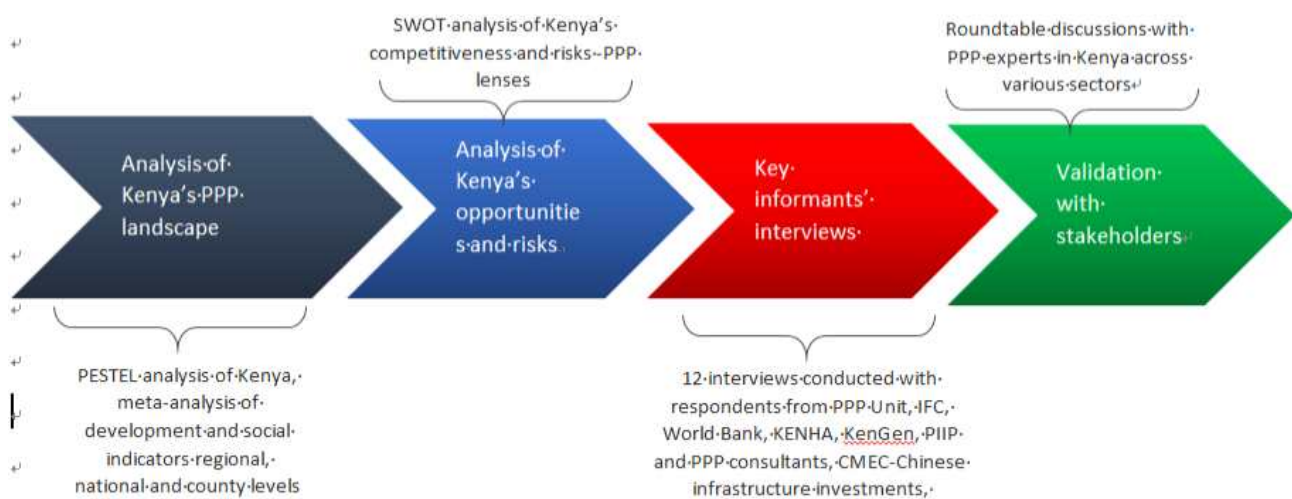
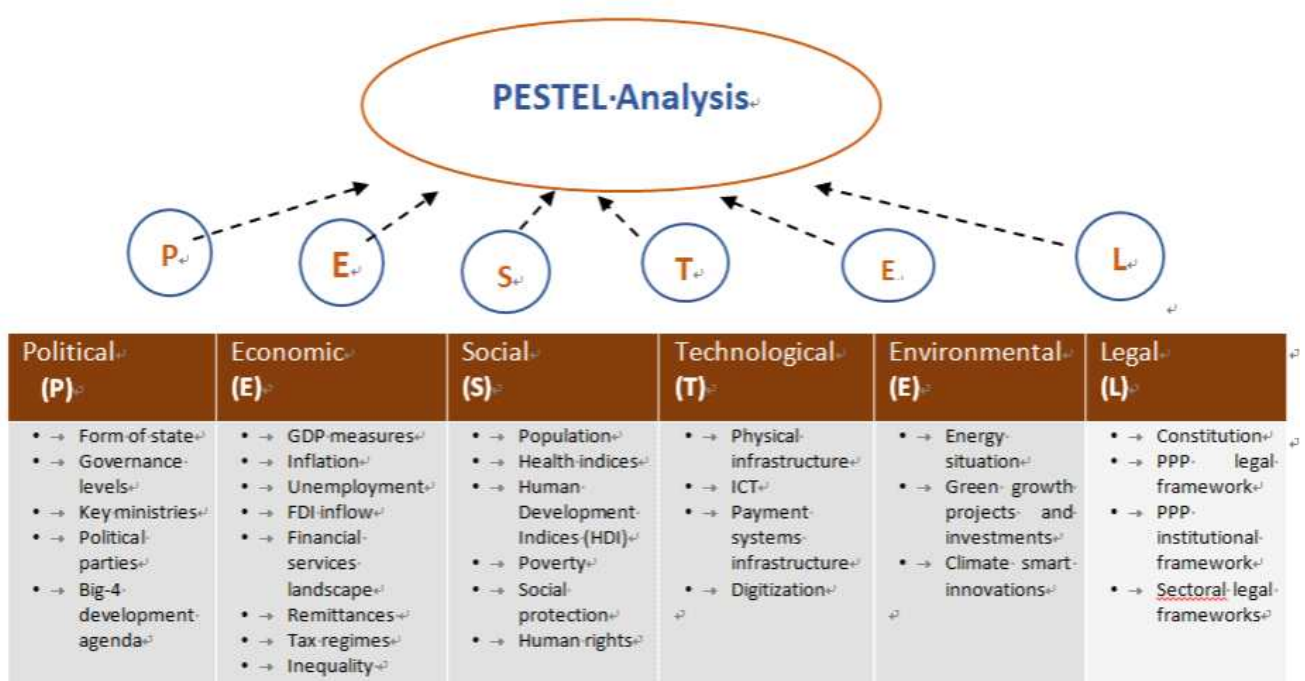


Figure 3: Issues Investigated using PESTEL Framework



Development rankings and indices that compare Kenya with the Rest of the World (RoW) were reported and analyzed with regards to infrastructure investment. These indices include: Ease of Doing Business, investments index, Fin-Access, integrity and transparency, human capital development, human development, unemployment, competitiveness, logistics performance, country risk rating among others. Based on these indices, learning points have been drawn to show what the current situation implies for potential investors willing to venture in infrastructure development projects in Kenya.

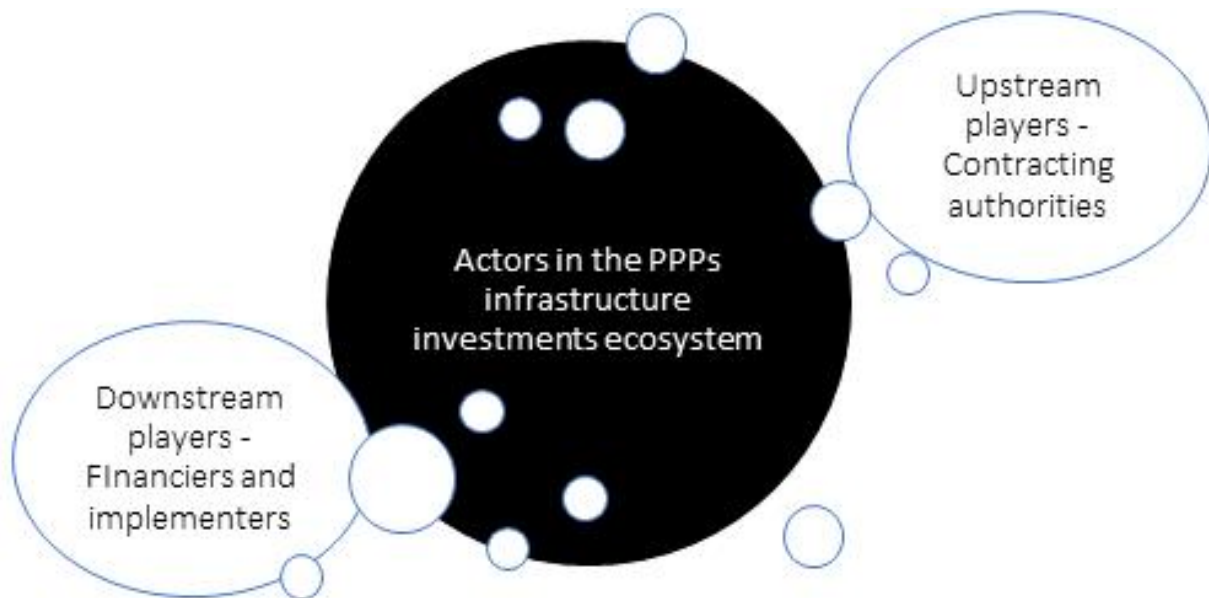
3 Rationale for PPPs in Infrastructure Development

History on development of nations indicates that, public infrastructure investments globally were largely financed by domestic resources and public debt. However due to the huge financing outlay required for infrastructure assets, domestic resources have not been adequate while public debt are reaching unsustainable levels for many countries. Complementary solutions that invite private sector participation are emerging as a good alternative to fill this important gap. In this regard, therefore, attracting private sector capital has become a critical component of modern world infrastructure procurement process through the option of Public Private Partnerships (PPPs).

The PPP ecosystem has two broad categories of actors upstream and downstream. The government and contracting authorities are the upstream players responsible for creating an enabling policy environment and selection and contracting private sector actors into

PPP deals. On the other hand, downstream players include implementers and private financing organizations who are key in the development and commercialization of the infrastructure in a PPP contract (Figure 4).

Figure 4: Upstream and Downstream Players in the PPP Ecosystem



Due to the information asymmetry, country and currency risks involved in PPP projects, the government must play a catalytic role in attracting private infrastructure. Public finance is in short supply, borrowing in international markets and safeguards on sovereign debt levels are to be used sparingly to only crowd in infrastructure investments by creating an enabling environment to attract commercial financing. Public finance can be used to provide subsidies, concessions or to de-risk private entities from negative outcomes of providing services to the public sector.

The government and contracting authorities at the upstream players are responsible for creating an enabling policy environment and

selection and contracting of PPP deals. On the other hand, downstream players include bilateral and private financing organizations who are key in the development and commercialization of the infrastructure in a PPP contract.

Government entities and private sector actors (investors) leverage each other's strengths in a PPP deal. While the private sector actors may have the expertise, capital and efficiency, public sector actors have guarantees and mandate to make contractual approvals on behalf of the beneficiary citizens. By considering the true long-term cost of service delivery in project selection, PPP identifies a project's long-term risks and negotiate with government contracting authorities on optimal ways of allocation those risks between the parties. Due to the contractual nature of PPPs, the public sector is held to account in ensuring that the infrastructure procured is well maintained. At the same time, the private sector has incentives, as their capital is exposed to performance risk, to design and build these assets considering the costs of longer-term maintenance and renewal. Governments choose from an array of different forms of privatization for infrastructure and service delivery to achieve four key goals:

1. **Fiscal benefits** from the sale or lease of state-owned enterprises (SOEs). Such benefits can imply lower subsidies to public sector or new investments government could not afford to provide on its own;
2. **Efficiency gains** typically available from the private sector, which often lead to lower prices and improved access by more of the population;
3. **Development of local financial markets;**

4. Increased private sector development (which includes broadening local participation in the economy)
 5. Risk sharing between public and private sector entities
- PPPs are different from public procurement and full privatization as explained below

Table 1: Differences between public procurement, PPPs and full privatization³⁾

	Public procurement	PPP	Full Privatization
Definition	<ul style="list-style-type: none"> Supply by the private sector of works, goods or service as defined by the public authority. 	<ul style="list-style-type: none"> PPPs introduce private sector efficiencies into public service by means of a long-term contractual arrangement. They secure all or part of the public service, call upon private funding and private sector know-how. 	<ul style="list-style-type: none"> Privatization means transferring a public service or facility to the private sector, usually with ownership, for it to be managed in accordance with market forces.
Main Features	<p>Contracting authority establishes clearly what is to be built, how and by what means.</p> <ul style="list-style-type: none"> Invitations to tenders are accompanied by very detailed technical specifications 	<p>Contracting authority establishes the specifications of a project and leaves to the private sector the responsibility of proposing the best solution, subject to certain requirements.</p> <ul style="list-style-type: none"> Price is one of the many criteria in 	<ul style="list-style-type: none"> Privatization authority prepares the divestment plan. Involves transfer of ownership to the private sector. Is generally a

3) SADC Banking Association

<p>regarding the type of work being procured.</p> <ul style="list-style-type: none"> • Price quote is the single most important criterion in the evaluation of bids. • The procurement process is short-term and does not involve long-term occupancy of infrastructure assets, and thus does not lay emphasis on the operational phase of the project. 	<p>bid evaluation. Emphasis is on the technical and financial capability of the bidder, financial arrangements proposed, and the reliability of technical solutions used.</p> <ul style="list-style-type: none"> • Given the long duration of the concession period, emphasis is on the arrangements proposed for the operational phase. 	<p>complex transaction with carefully designed contracts and a multi-stage competitive tender process.</p> <ul style="list-style-type: none"> • Generally, the public sector withdraws from management of the entity on privatization. • Almost all risks are borne by the private sector.
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Table 2: Responsibilities for the private and public sectors under forms of private sector participation⁴⁾

Option*	Asset ownership	Operations & maintenance	Capital investment	Commercial risk	Typical duration
Service contract	Public	Public and private	Public	Public	1-2 years
Management contract	Public	Private	Public	Public	3-5 years
Lease	Public	Private	Public	Shared	8-15 years
Concession	Public	Private	Private	Private	25-30 years
Build Operate Transfer	Public and private	Private	Private	Private	20-30 years
Divestiture	Private or Public and private	Private	Private	Private	Indefinite (may be limited by license)

4) The World Bank

** Under a service contract, a private firm is appointed by government to provide various services and both parties take responsibility for operations and maintenance. Under a management contract, the private operator provides managerial services and bears operational responsibility. A lease contract allows the private operator to use government property for a specified period of time and rent. Under a concession agreement, the government specifies the rules under which the company can operate.*

II. Infrastructure Investment Opportunities

1 Sub-Saharan Africa Investment Opportunities

Judging by the socioeconomic profile and regional variances, Sub-Saharan African countries are well poised to provide lucrative investment opportunities for several decades in the future. The region has outgrown the tag of a “dark continent” to one that instead offers a competitive operating environment for business and social ventures following improved social, cultural, economic and political status. Improved governance, reduced armed conflicts, improved microeconomic and macroeconomic reforms have resulted in a better business climate. Precursors to recent growth include privatization of state-owned enterprises, increased openness of trade, favorable corporate taxes, strengthened regulatory and legal systems and expanding critical physical and social infrastructure. Here below, a variety of reasons for “*Why Africa*” and “*Why Kenya*” are enumerated.

2.1.1. High population and growth

Current population of Africa is estimated at 1.2 billion with a high import bill which is an indication of large market demanding for goods and services produced both locally and globally to substitute domestic production shortfall. It is estimated that by 2030, one in every 5 people in the world will be African⁵⁾, half of the global population growth towards 2050 will be in Africa while nearly 40 percent of world population (4.4billion) will comprise Africans by the year 2100⁶⁾. African countries are recording high population growth

5) See Annex 1

rates to the extent that by 2100, Nigeria is expected to have 750,000 people, second only to India while among the top ten most populous countries from Africa will include Nigeria, Ethiopia and Tanzania.

Sub-Saharan Africa hosts 14% of the global youth bulge. Consequences of high population growth rate if un-met by similar economic growth rates is that it exerts pressure on available infrastructure, manufacturing capacity and social amenities such as water, education and health facilities. However, this means that there will be high demand for investments that seek to solve these needs thus high returns.

2.1.2 High rate of economic growth

In terms of economic performance, the opportunities in Sub-Sahara Africa (SSA) are vast and the challenges persistent. SSA is favorably positioned to become the second fastest growing region in the world except developing Asia⁷⁾. Since the year 2009, Africa was the only region apart from Asia that grew with a positive trajectory above 2% and just like the International Monetary Fund (IMF) projected, economic growth across the 54 countries of the continent has hovered within the 3%-5.8% range between 2012 and 2019 in a trajectory that is catching up with Asia. Major drivers of this growth remain mineral exports but also increase in consumption demand, services and industry contribution to the national output. The African Development Bank (AfDB,2017) attributed positive Africa' s economic outlook to strong domestic demand, improving institutions, financial sector profile and capital market activities. Other facilitating factors are improved supply conditions, good business

6) <https://www.visualcapitalist.com/animation-world-population-2100-region/>

7) <https://www.worldbank.org/en/region/afr/overview>

environment, prudent macroeconomic management, favorable external financial flows and high public spending.

Towards 2019, Sub-Saharan Africa (SSA) has been home to several of the world's fastest-growing economies: Ethiopia, Rwanda, Ghana, Côte d'Ivoire, Senegal, Benin, Kenya, Uganda, and Burkina Faso⁸⁾. GDP for the SSA region is projected to grow at 3.8% in 2019.

East Africa has been the best sub-regional performer with a 6% real GDP growth average driven by strong performance in countries like Ethiopia, Tanzania, Rwanda, Djibouti and Kenya. Indeed, on the basis of stable economic growth between years 1995-2008 and 2015-2017, Ethiopia, Rwanda and Tanzania have been categorized as established economies while Kenya, Côte d'Ivoire, Senegal and Mali are classed as improved economies.⁹⁾

2.1.3. Rise of the urban consumer, purchasing power and behavior

Sub-Saharan Africa's rising purchasing power, rapid urbanization and growing middle class in the Sub-Saharan implies a high demand and willingness to pay amongst consumers of various goods and services which in turn translates to higher returns for infrastructure investments. In 1980, less than a third of Africans lived in cities. Today, 40 percent of the continent's one billion people live in urban areas and this share is estimated to hit 50% by 2030. This proportion is only comparable to China's and is larger than India's. Africa already has more middle-class households (defined as

8) The IMF

9) World Bank Taxonomy of Countries in Sub-Saharan Africa: GDP Growth in 2015-2017 against 1995-2008

those with incomes of \$3,900 in purchasing power parity or daily expenditures between \$2 and \$20) than India¹⁰). In mid-2011, the African Development Bank noted that the number of middle-class Africans had tripled to 313 million people within thirty years. This is more than 34% of the continent's population with significant boost in the spending power.

Globally by 2022, the world will be more middle class than poor¹¹). There are mixed estimates for the size of Africa's middle class but the estimates are in the range of 60million to 300million whose consumption will hit \$2.5 trillion by 2030. East Africa's middle class is almost 15% of the continent's total and will reach \$309 billion by 2025 (Annexes 1 and 10). In Kenya, the middle class or the size of the consumer class comprises of about 8.7 million people with a Compound Annual Growth Rate (CAGR) above ten percent¹²¹³). The country is ranked as having the 8th largest consuming class behind Egypt, Nigeria, South Africa, Morocco, Algeria, Ethiopia and Angola.

2.1.4. Market size, environment and key sectors for middle-class

Most of the consumption by the middle class is going to fast moving consumer goods which intuitively implies that retail sector provides the main market for goods and services (Annex 5 and 6). In 2016, African retail spending surpassed the \$1.4 trillion mark with the fast-moving consumer goods (FMCG) sub sectors of food, beverages and tobacco accounting for two-thirds of the total¹⁴). In East Africa,

10) AfDB, 2011; <https://qz.com/africa/1486764/how-big-is-africas-middle-class/>

11) Brookings Institute – Annex 3a,b

12) <https://qz.com/africa/1486764/how-big-is-africas-middle-class/>

13) KPMG, 2016, p9. Other countries with over 10 percent CAGR include Nigeria (23.4 percent), Ghana (15.8 percent), Ethiopia (15.6 percent), Sudan (15 percent), Kenya (12.2 percent), Uganda (12.2 percent), and Cameroon (10.1 percent).

14) Economist Intelligence Unit (2017)

distribution services industry (transport and logistics) has been growing fast by about 12% in and Kenya and Tanzania and 20% in Uganda. Household consumption market in Kenya is estimated to be spending \$54.97 billion per year.

Table 3 shows that, buyer sophistication (score: 3.2 out of 7 points) and intensity of competition in the consumer market in Kenya (score: 5.5 out of 7 points) are rated as among the best in Africa¹⁵⁾. The country has a GDP per capita of \$2,010 growing at 2.82% while the urbanization rate is 4.31% per annum. Moreover, industries within the fast-moving consumer goods sub-sector in Kenya grow at an average of 12 percent per year¹⁶⁾.

Table 3 - Factors related to potential future growth in Africa's top consumer markets¹⁷⁾

Country	Household consumption (US\$ billions)	GDP per capita growth (%)	Urbanization rate (%)	FMCG sales growth (%)	Buyer sophistication (1-7)	Intensity of competition (1-7)
Nigeria	377.33	0.93	4.51	23	3.3	5.1
Egypt	275.74	0.77	2.23	8	3.1	4.8
South Africa	176.93	0.32	2.34	6	3.9	5.4
Sudan	74.37	4.60	2.80	14	-	-
Angola	74.47	0.28	5.35	34	2.33	2.6
Algeria	68.04	1.32	2.86	10	3.1	4.1
Morocco	60.02	2.03	2.26	9	3.2	5.2
Kenya	54.97	2.82	4.31	12	3.2	5.5
Ethiopia	50.80	6.97	4.92	15	3.2	3.7
Tunisia	29.94	0.52	1.43	7	2.9	5.0
Ghana	28.43	4.54	3.60	16	3.0	5.0

15) World Economic Forum Global Competitiveness Report (2017–2018)

16) KPMG, World Development Indicators (2017)

17) World Development Indicators (December 2017). Household consumption are data for 2016; average income growth and urbanization rate are annual averages over the period 2011–2016; FMCG sales growth are annual average over the period 2011–2015; “Buyer sophistication” and “Intensity of competition” are from World Economic Forum Global Competitiveness Report (2017–2018) and scored from 1 (worst) to 7 (best).

Kenya has a rapid expansion in number of retail centers, improving distribution infrastructure and fast adoption of ICT in retail business to the extent that the country's blue-print Vision 2030 described *distribution and logistics* and a “strategic sector” to watch in contributing to overall economy-wide growth.

The country has a vibrant industrial sector with products and services *made in Kenya* enabling the country to be among the top four in Africa to score “above the global average in terms of the competitiveness of products on the international market”¹⁸⁾. It is important to mention here that, an agency of the government called Brand Kenya Board in conjunction with other stake holders developed a “Made in Kenya” brand mark that will be used to help identify and authenticate locally-manufactured products targeting local and competitive global markets. In 2018, the Nielsen Consumer Confidence Index (CCI) score rose to 104 from the 2017 score of 94 whilst Nielsen noted that, the grocery basket in Kenya was “growing and consumers are opening their wallets, a sign of increasing optimism in the economy and future prospects”¹⁹⁾. Notably the typical Kenyan consumer pays for goods and services with a variety of options from cash, cards and mobile money.

Mobile wallet usage for payments, remittance, banking, saving and spending has been described as a success story in the world. In 2012 the number of mobile money accounts registered in Kenya (22 million) crossed the number of adult Kenyans so that in a country of 47.5 million as of 2019, 82.9% of Kenyans are formally financial included courtesy of mobile money²⁰⁾. This success story in mobile

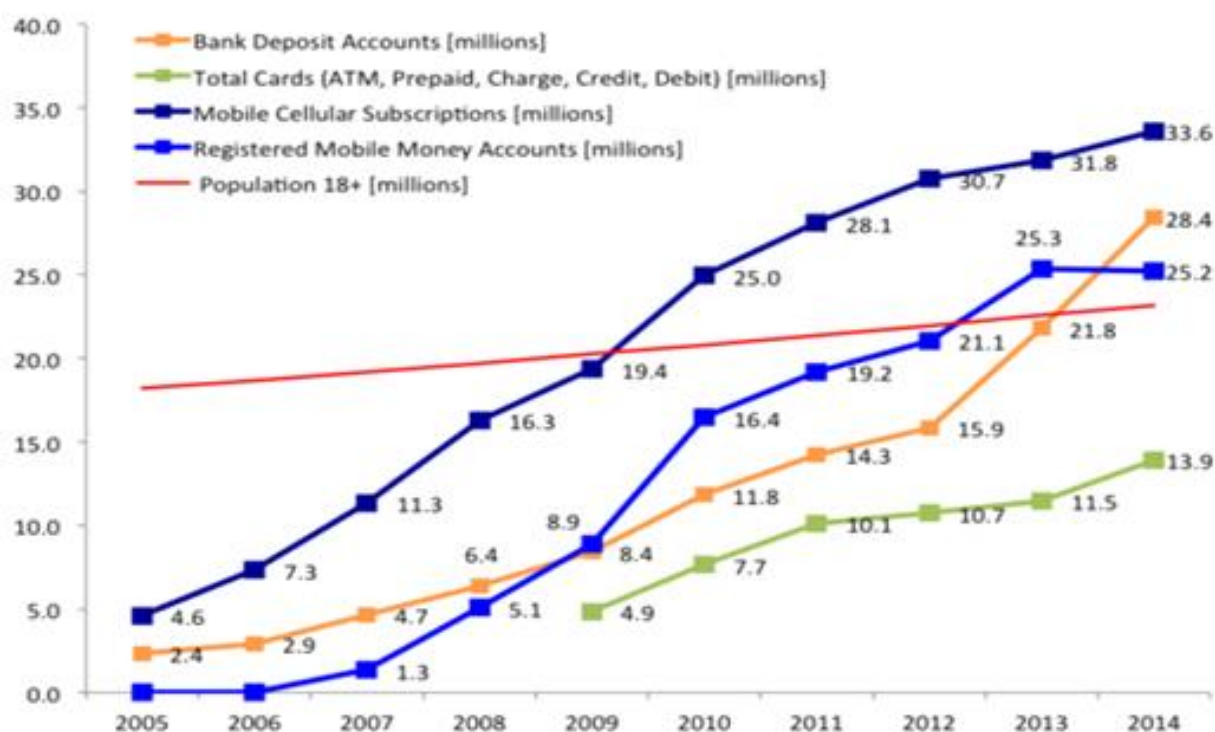
18) KPMG 2015, p.13. Other countries in the top five according to the analyses cited include Seychelles, Ghana, and Zambia.

19) Nielsen – <https://www.nielsen.com/ke/en/press-releases/2018/consumer-confidence-index-kenya-q2-2018/>

20) FinAccess, FSD Kenya 2019

money usage is partly attributed to a Kenyan adventurous, innovative spirit and the urge to keep a breast with the world in terms of technology adoption. Also, some people tend to have more than one mobile hand set which also explains why their mobile penetration rate in the country is above a hundred percent. Compared to the rest of Africa, Kenyan consumers have been found as willing to pay premium for luxury fast moving consumer goods (such as beer, wine, spirits, chocolates and candy, automobiles and baby products).²¹⁾

Figure 5: Type of account ownership by channel (2005-2015)



Source: FSD Kenya (2015)

2.1.5. High returns to investment

Returns to investment in the region are significantly high due to, among others, information asymmetry, risk and non-reliability which

²¹⁾ Boston Consulting Group (BCG) –Africa Consumer Sentiments Survey(2018)

reduce concentration of competing firms. Majority of sectors and industries can be described as *oligopolistic* which is a market structure characterized by few sellers (suppliers or producers) and many buyers (consumers) of goods and services. Typically, operators in such kind of market structures are bound to enjoy relatively high returns mainly going to early-stage investors.

Over 70% of SSA countries rank in the bottom half of countries “globally on the perceived intensity of local competition and on the existence of fundamentals for market-based competition.” Accordingly, monopolies (single producer market), duopolies (two producer market), and oligopolies are relatively more prevalent compared to other regions of the world²²⁾. According to the World Bank, “a single operator holds over half the market share in telecommunications and transport sectors” in at least four in every ten African countries. This situation has prompted countries like Kenya, Egypt, South Africa and Zambia to step up enforcement of competition laws to protect consumers.

For example, Safaricom Limited is one of the high-brand-value corporations in East and Central Africa that has dominated the five Mobile Network Operators (MNOs) in Kenya with two thirds (63%) market share of subscribers at the end of 2018. This dominance has caused complaints among competitors many times across the years upon the company’ s attempts to diversify portfolio²³⁾. Similarly, the energy sector has been marked by few multinationals as the major importers and distributors of petroleum products. The Energy and

22) World Bank – <https://www.worldbank.org/en/news/feature/2016/07/27/africa-competition>

23) <https://www.standardmedia.co.ke/business/article/2001342243/implement-dominance-report-departing-ca-boss-now-urges>

Petroleum Regulatory Authority (EPRA), successor to the Energy Regulatory Commission (ERC) was established under the Energy Act, 2019 to, among other mandates, manage production, conversion, distribution, supply, marketing and use of renewable and non-renewable energy. This entails regulating retail prices upstream for petroleum products to cushion consumers from anticompetitive pricing by oligopolistic market suppliers. In the financial services sector, the Central Bank of Kenya had to result to interest rate capping policy to regulate commercial banks from overpricing loans but this resulted to shrinking credit that was available to retail sector hurting growth of Small and Medium Enterprises (SMEs). Hence this policy is being repealed.

In terms of economic management, many countries in Sub-Saharan Africa are either capitalistic societies edging closer to free-market ideologies of market enterprise as opposed command system or government control mechanism. This is the case despite the fact that, in countries like Kenya, government is a major consumer of goods and services but in countries like Kenya, private sector is large while households comprise up to 75 percent of national expenditure.

Also, a rising global demand for commodities from oil, natural gas, minerals and food combined with availability of arable land in Africa has worked in favor of entrepreneurs based in the continent.

2.1.6. Social and political reforms

Partly due to globalization and progress towards to the UN Sustainable Development Goals (SDG) 2030 agenda that balances economic growth with social and environmental sustenance, Africa has been engulfed by social and political reforms sweeping through the continent,

resulting in improved business environment for foreign direct investment. Notable case studies are Tanzania's transformation to an open market economy, diversification of cotton-dependent economy, setting up of regional governments in post-war Sierra Leone, fiscal accountability and transparency in Liberia and Nigeria, increased access to water in rural Cameroon, Ethiopia and Madagascar, reduction in malarial and HIV incidence among others. Eritrea and Zambia reduced malaria related deaths by 80% and 37% respectively between 2001 and 2008 while's and antiretroviral therapy coverage rose by over 70% in the past decade²⁴). Many countries are embracing a climate-smart approach to economic management in line with environmental sustainability concerns.

This nexus of socioeconomic and political reforms has permeated in Kenya. Kenya attained independence from British rule in 1963 and became a republic in 1964. In terms of governance, the country has three arms of government: the executive, the legislature and the judiciary. The legislative branch includes the National Assembly and the Senate²⁵). The country's political landscape post-independence has been marked by three major constitutional reforms affecting political rule.

In 1969, the federal and parliamentary system of a two-house (bicameral) legislature was replaced by a unitary, semi-presidential state system with a strong presidency and a single-house parliament. This move curtailed some of the protected bill of rights in the country. The second reform came in the 1990s when due to popular pressure by a powerful media and civil society led to amendments to

24) <https://blogs.worldbank.org/african/african-successes-listing-the-success-storiesW>

25) Kenya profile | Timeline. Retrieved November 22, 2019.

the constitution towards a more inclusive and democratic system²⁶). So, in 1992, the then Kenya African National Union (KANU) regime yielded to external pressure from local and international community to allow for multi-party elections. Clamor for power for personal gain kept building tension among ethnic communities during elections every 5 years in 1992, 1997, 2002 and 2007 when a major post-election violence erupted. A coalition government was formed to calm the situation whose outcome was the third major reform: adoption of a new constitution approved through a referendum in 2010.

As a result, a new – rather liberal – constitution was passed in 2010 which established a presidential republic in which sovereignty is exercised by the people through democratically elected representatives. Kenya's constitution states that it is a multi-party democratic state founded on the national values and principles of governance referred to in Article 10²⁷). The new constitution resulted in a curtailment of presidential powers, establishment of a new system of sub-national government with 47 local counties, which effectively replaced the previous eight provinces and 46 districts. This move also infused a greater degree of oversight over branches and levels of government.

Kenya's powerful media, social, environmental and civil rights movements are highly influential in scrutinizing government and development projects which sometimes have resulted to delays in implementation due to court cases. Among the most recent examples of projects which have been affected is the Standard Gauge Railway (SGR) project which runs from Mombasa to Naivasha passing through

26) <https://oxfordbusinessgroup.com/overview/moving-forward-new-constitution-has-ushered-era-political-change>

27) 2010 Constitution of Kenya | Republic of Kenya. Retrieved November 22, 2019

Nairobi National Park. Such activism is likely to improve government accountability and guarantees provided to private investors in PPP projects.

2.1.7. Improving infrastructure

With the example of Lagos City's Bus Rapid Transit system, South African sub-way system and planned Mombasa-Kigali railway line, countries are pursuing aggressive and widespread development of critical social and physical infrastructure to link the populace, boost trade and local production activities. Rural electrification programs²⁸⁾. In terms of mobile communication, Africa witnessed a high mobile phone penetration estimated at 67% in 2019. These and similar infrastructural development projects have very desirable ramifications to the business community.

Kenya has a relatively well developed physical infrastructural facilities including four international airports (Jomo Kenyatta International Airport – JKIA [Nairobi], Moi International Airport [Mombasa], Eldoret International Airport and Kisumu International Airport), an extensive road and railway network (establishment of 178,335 kilometers of which 61,936km are classified roads)²⁹⁾, a

28) It is worth noting that, North Africa has electricity connectivity of nearly 100%

29) The Ministry of Roads manages and develops the road network through Kenya National Highways Authority (KeNHA), Kenya Rural Roads Authority (KeRRA), Kenya Urban Roads Authority (KURA) and Kenya Wildlife Service (KWS) (KRB, 2013). Kenyan roads are classified in a continuum of categories from A to E with Class A being International Trunk Roads, Class B being National Trunk Roads linking nationally important centres (provincial headquarters), Class C are primary roads linking important centres to each other (District headquarters), Class D are Secondary Roads linking divisional headquarters and Class E being minor roads. Categories "G", "L", "R", "S", "T" and "W" are Government Roads, Settlement Roads, Rural Access Roads, Sugar Roads, Tea Roads and Wheat Roads while Class U refers to all other unclassified public roads and streets. Annex 7 shows the various classifications of roads in Kenya, entities responsible for maintenance and length of sections that are paved or unpaved.

modern deep sea port at Mombasa capable of handling bulk and other containerized cargo (capacity of 2.5 Million Twenty foot Equivalent Units, TEUs per year), an expanding³⁰⁾, liberalized energy sector and digital telecommunication networks. Kenya, therefore, continues to develop as financial, logistics and services hub for the East and Central African region.

2.1.8. Improving quality of labor

The quality of labor has substantially improved courtesy of provision of free basic education, establishment of more universities and world-class tertiary institutions. The continent recorded a 300% increase in the number of university graduates between 1999 and 2009 to reach 4.9 million while overall, the human resource capacity and skill set is now more refined especially in Sub-Saharan African countries where the international community has supported education initiatives³¹⁾. Other than East and South Asia, Sub-Saharan Africa has the highest regional proportion of youth population at 14% UN Habitat (2013). It is viewed that, with the current rise in universal access to education, Africa may reap from the demographic dividend (Mason, 2005 and AfDB, 2011) as cohorts of youth enter the labor force with enhanced skills. Africa's pool of increasingly youthful and skilled workers is largely English and French speaking with 24 countries choosing English, and 21 having French, as their official languages³²⁾³³⁾. Yet the availability of personnel skilled to converse in other international languages is widespread.

30) New port under development in Lamu with capacity of up to 20 million TEUs annually when complete.
Lamu's 10Km shore length has the capacity to accommodate up to twenty-three (23) berths

31) World Bank

32) http://www.britishcouncil.org/map_of_countries_where_english_is_an_official_language.pdf

33) <http://www.worldatlas.com/french.htm>

2.1.9. Natural resource endowment

Africa has almost 60 percent of the world's uncultivated arable land and a large share of the natural resources off and on-shore (UNEP, 2014). The continent produces over half of world's cobalt and diamond (57% and 53% respectively) produced in DRC, Zambia, Morocco, Botswana, South Africa, Angola and Namibia. Other minerals available in Africa countries include Manganese, Phosphate, Gold, Bauxite, Nickel and Copper. Discovery of minerals is happening in almost every country to add to the list of well-known oil rich nations (see Appendices 5 and 6 for details) a list of mineral deposits in Eastern Africa). In the era of good governance, the focus right now is to exploit mineral deposits in a win-win pattern to benefit both the investor and the host nations sustainably in a manner that doesn't result in the infamous *resource curse*.

2.1.10 Integration of small national markets to trading blocs

The recent trend in the continent has been to coalesce many small, landlocked markets to solid Regional Economic Communities (RECs) or trading blocs that have larger markets. The creation of free trade zones typically necessitates elimination of tariffs, import quotas and non-tariff barriers to trade (import licensing, valuation of goods at customs/pre-shipment inspection, rules of origin) which will be a boost especially to investments of manufacturing nature (WTO)³⁴. These include the African Free Continental Trade Area ratified by most countries, ECOWAS, ECCAS, SADC, COMESA, CENSAD, AMU. Table 4 summarizes the status of integration for major regional economic communities.

In terms of regional economic community memberships, Kenya

34) http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm9_e.htm

belongs to three trading blocs: EAC, COMESA and IGAD which means firms producing in the country have access with benefits to over 20 countries in the continent.

Table 4: Key Regional economic communities in Africa³⁵⁾

REGIONAL AU BLOCs	Free Trade Area	Economic & Monetary Union (customs union, single market and currency union)	Free Travel	Political Pact
ECOWAS	Yes	Partially done	In force	In force
ECCAS	Yes	Partially done	Proposed	In force
EAC	Yes	Partially done	Proposed	Proposed
SADC	Yes	Partially done	Proposed	-
COMESA	Yes	Partially done	Proposed	-

2.1.11. Kenya Attractiveness Index

In 2017, EY Africa ranked Kenya as number two second only to Morocco on country attractiveness index based on improved business environment and ease of doing business. The top ten countries were listed as shown:

1. Morocco

6. Uganda

³⁵⁾ The following economic communities have a membership of African countries:

COMESA (Common Market for Eastern and Southern Africa): Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

ECOWAS (Economic Community of West African States): Benin, Burkina Faso, Cape Verde, The Gambia, Ghana, Guinea, Guinea Bissau, Ivory Coast, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.

GAFTA (Greater Arab Free Trade Area): Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates (UAE) and Yemen.

SADC (Southern Africa Development Community): Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

EAC (East African Community): Kenya, Uganda, Tanzania, Rwanda, Burundi and pending member states such as South Sudan.

- | | |
|-----------------|------------------|
| 2. Kenya | 7. Cote d' Ivore |
| 3. South Africa | 8. Mauritius |
| 4. Ghana | 9. Senegal |
| 5. Tanzania | 10. Botswana |

2 Kenya' s Key Opportunities and Strengths

Kenya' s opportunities and strengths in relation to regional investment competitors portend quick wins for Public Private Partnership (PPP) infrastructure investors in terms of portfolio selection, estimation of demand and can give insights in appropriate financial deal structures. This section details why PPP investors should be interested in Kenya. Kenya is making remarkable changes to the regulatory environment for doing business to enhance a conducive environment for private sector investors. Major reforms have been undertaken to aid in starting a business, dealing with construction permits, automating processes to encourage compliance with statutory requirements and to facilitate trading across borders. In the latest World Bank Ease of Doing Business 2020 report released on October 24th, 2019, Kenya climbed five places to position 56 out of 190 countries world over.

The East African second most populous country is among top 4 countries in Africa with the most favorable doing business environment after Mauritius, Rwanda and Morocco (ranked position 13, 38 and 53 respectively). Among the top nine African countries making it to the first 100 are Tunisia at position 78, South Africa (84), Zambia (85), Botswana (87) and Togo (97). Moreover, Kenya

was highlighted as one of the most improved countries globally because of making regulatory changes to facilitate businesses in dealing with construction permits by automating the process and lowering fees charged. Kenya has also improved access to credit and access to electricity “by investing in substations, automatic air brake switches and ring main units” . Measures have also been taken to protect minority investors in companies registered in the country while resolving insolvency and paying taxes has been smoothened.

With a population of 47.5 million and growing at 2.5%, Kenya is East Africa’ s leading economy, playing a pivotal role in the East African Community, the number-one African common market. Running a market-based economy with a liberalized external trade system, the country boasts a diversified agriculture and expanding services sector (transport, telecommunications and financial services³⁶). Agriculture contributes about 34.6 percent of the GDP, industry 16.4 percent and services- 43.6 percent of the national output³⁷). The country has a marked improvement in business and governance climate, fast-growing population and emerging middle-class equivalent to 44.9% of the population (people who spend \$236.70 – \$1,999.99 each month). Kenya enjoys a relatively skilled workforce with good passion for work. The country has an established technology infrastructure, vibrant manufacturing sector with capacity for expansion of export-led production.

Finally, the country enjoys good bilateral and multilateral relations with the international community including bilateral relations with

36) Transport hub of the region – Well connected by ports, air and roads

37) Kenya National Bureau of Statistics (2019)

trading partners like the Republic of Korea. In 2018, Kenya's imports from South Korea were valued US\$187.41 million comprising organic chemicals, iron and steel, machinery and electronics, staple fibers among other commodities³⁸⁾.

3 Sustainable Development and Infrastructure Needs

The African continent is transforming in ways that brings the promise of many development gains and the possibility of accelerating the UN Sustainable Development Goals (SDGs). While lives of millions of people in Africa are changing for the better, economic development needs to be broad based, inclusive and pro-employment³⁹⁾. Moreover, significant levels of innovative financing to address the investment gaps ought to be catalyzed more quickly. Some of the critical challenges and investment needs to underscore include:

- Africa's working-age population is projected to increase from 705 million in 2018 to almost 1.0 billion 2030. As millions of young people join the labor market, the pressure to provide decent jobs will intensify⁴⁰⁾. Sub-Saharan Africa will need to create about 18 million quality jobs each year until 2035 to accommodate female and young labour market entrants and take advantage of the potential youth dividend.
- Natural disasters and extreme weather events, often linked to climate change can have disproportional impact in more fragile countries, with a more acute impact on agricultural

38) United Nations COMTRADE database on international trade

39) IMF

40) EIB, Resilient Africa, Opportunity for Action

production, small and medium enterprises, and underserved and poor segment of the population, which remain high across most of Sub-Saharan Africa. Rising geopolitical tensions could further cloud the future for Africa.

- Rising debt level across the continent, together with resource sector shock (commodity prices and international demand) and may hamper economic growth and negatively impact foreign exchange rates and reserves.
- While, some 21 countries, mainly the region's more diversified economies, are expected to sustain growth at 5 percent or more and remain on the growth path they have been on since the early 2000s, 24 other more resource-dependent economies, including the largest (Nigeria and South Africa), the growth looks set to remain anemic in the near term. With some two-thirds of the region's population residing in these countries, this implies much slower improvement in standards of living for many in these countries⁴¹).
- While gender equality is evolving in Africa, households headed by women could remain disproportionately poor and less likely to have access to digital or financial services.

Impact-tailored investment vehicles and strategies must be put in place on the continent that will consider the urgency, magnitude and complexity of challenges faced in Africa, the opportunities and to sustain development impact. Africa's failure to attain the SDGs will have implications everywhere on the planet, since some SDGs possess a transboundary nature, for example climate change, life

41) IMF, Sub-Saharan Regional Economic Outlook

below water and effective partnerships⁴²⁾.

While progress has been made in address development challenges and improving the quality of life, the SDGs remain highly relevant, particularly in emerging and low income countries many of which are in Sub-Saharan Africa, to address poverty reduction, economic development, food security, human health and education, climate change mitigation and a range of other objectives across the economic, social and environmental pillars⁴³⁾. Some indicators to illustrate the challenge include⁴⁴⁾:

- About 783 million still live on less than \$1.90 per day and more than half of the world extreme poor live in Sub-Saharan Africa.
- The number of undernourished people rose to 815 million in 2016 as the progress made to flight hunger is being reversed due to conflict, drought and disaster linked to climate change.
- In 2015, 29% of the global population lacked safely managed drinking water supplies and 61 per cent were without safely managed sanitation services.
- The challenge of 3 billion people cooking with polluting fuels and stoves is especially severe, causing 4 million deaths a year. Closing the gaps in access to sustainable energy is essential to sustainable development and promoting economic opportunity.
- In 2018, 20 per cent of the world' s youth were not engaged in either education, employment or skills development training.

42) UNCTAD

43) UNDP

44) UN Sustainable Goals Report 2018

In sub-Saharan Africa, an estimated 573 million people lack access to electricity (44.6% of African people). Without electricity, women and girls have to spend hours fetching water, clinics cannot store vaccines for children, many schoolchildren cannot do homework at night, and people cannot run competitive businesses or invest in new markets. Of the people live without electricity, 87% live in rural areas.

- Only 17.5% of all final energy consumption comes from renewable energy sources.

Reading from progress against socio-economic indicators of Sustainable Development Goals (SDGs), Kenya, Rwanda and Seychelles are among the best performers in the East African region⁴⁵). Regionally, countries in the East African region – Kenya included – are likely to fall short of development targets along SDG 3 (good health and wellbeing), SDG 4 (education), SDG 9 (infrastructure) and SDG 16 (peace and strong institutions) which are areas requiring partnerships for investment. The country has performed well along SDG 13 (climate action) and SDG 12 (responsible consumption and production). In the horn of Africa, Somalia and South Sudan, countries suffering from political instability, lack of rule of law, and conflict, are in the bottom of the continental ranking, with progress along many of the SDG goals off track.

Some of the key challenges include infrastructure development gaps, minimal mechanization of agriculture and heavy dependence on rain-fed farming which exposes the sector and the economy at large to weather related output and income shocks. Some sectors like health and specialized careers manifest skills shortages. Persistent

45) SDG Africa (2019)

corruption has been reported as negatively impacting institutional efficiency with impacts in the business world. Other challenges include high levels of unemployed youth and gaps in technical skills required to support growth in the manufacturing sector. The country's political leadership has a five-year cycle and elections are marked by intense campaigns that often results in tension permeating different markets. Indeed, fluctuation in Kenya's long-run growth trajectory illustrates a business cycle whose macroeconomic indicators such as investment trends swing from peak to trough and back oscillating around the election years.

Infrastructure needs

Therefore, in order to truly contribute to the achievement and sustainability of these goals, public resources, impact investors and private institutional investors must raise and direct new capital to address these pressing economic, social and environmental issues and opportunities and will need to deploy increasing amounts of investment capital to relevant sectors and projects. Institutional and impact investors, in particular, can make an important contribution in sectors such as infrastructure and clean energy given the evolving and vast opportunities, introduction of new technologies and significant capital requirements to address this gap.

The monetary value of SSA's infrastructure needs amount to \$130–170 billion a year, with a financing gap in the range \$68–\$108 billion⁴⁶⁾. Public sector funding capabilities alone will be insufficient to meet demands across all SDG-related sectors and reaching the SDGs will require a step-change in both public and private

46) Africa Development Bank

investments. For low income countries, in addition to using existing resources better, financial support will be needed from bilateral donors, international financial institutions, philanthropists and private investors.

Kenya' s gaps in access

Infrastructure gaps such as inequalities in access to quality and affordable public services in Kenya means that investors can achieve higher impact through project outcomes that have positive spill-over to other sectors of economic growth.

KEY DEVELOPMENT GAPS IN KENYA
43% of people have access to electricity
31% of people have access to clean water
National Human Development Index (HDI) is 0.59 (which means average access to health, education...)
40% of business productivity is lost due to infrastructural constraints
36% of people are living below poverty (\$1.9 a day)
National GINI co-efficient is 40.8% (indicates presence of skewed income inequalities)
16% of youth and 9.3% of all Kenyans are unemployed

An estimated 36% of people in the country live below the poverty line, driven by inequalities in access to services (GINI 40.8%) and Human Development Index of 0.59. The inequalities are highest in access to water and sanitation, quality healthcare, affordable housing, roads, energy and job opportunities. Moreover, high unemployment rates especially among the youth could have implications on the political stability with political volatility tied to a 5-year election cycle and risk of terror attack by Al-Shabaab just slowly fading away. Africa' s vulnerability to climate-related

disasters could have repercussions for Kenya requiring attention to clean-technologies in Kenya's infrastructure projects.

Kenya is responding is embracing alternative public infrastructure procurement options including Public Private Partnerships (PPP) to complement government efforts to facilitate development projects. The PPP Directorate under the National Treasury-Ministry of Finance is confident that PPPs provide a win-win strategy for infrastructure investment while catalyzing private capital participation⁴⁷⁾.

4

Infrastructure Investment Opportunities in Sub-Saharan Africa and Kenya

2.4.1. Overview

Over half of Africa's 1.2 billion people live without access to electricity and is a major constraint to Africa's economic development⁴⁸⁾. With the modernizing of Africa's economies and increasing urbanization and industrialization, demand for energy will grow annually by 6% to 2040 - meeting this demand will require power generation capacity to increase to 700 gigawatts. Enterprises in lower-income countries - of which a significant number are in Sub-Saharan Africa - face significantly more electricity and water outages per month than those in higher income countries; these outages lower enterprises' productivity and increase costs. Unpredictable and frequent electricity outages are particularly

47) PPP Unit-Role in driving the PPP Agenda in Kenya includes policy regulation, approval and deal structuring

48) The Infrastructure Consortium for Africa

expensive to overcome – firms in low- and middle-income countries currently face costs of \$300 billion per year from reduced utilization rates due to outages. These costs create barriers for firms to enter markets, reduce business growth and increase the risks of entrepreneurship, ultimately affecting household income growth, consumption and vulnerability to macroeconomic shocks⁴⁹).

Africa accounts for 16% of the World's population, but for only 2% of global trade and intra-regional trade remains very low. To significantly improve these indicators requires, in part, adequate transport and other forms of economic (for example, special economic zones) infrastructure. And with Africa population is growing and becoming predominately urban centric, present further challenges (and opportunities) for transport related infrastructure and affordable housing. The growth of mobile phones across Africa has been a notable success story, leading to improvements in the quality of life for millions, both urban and rural. However, 75% of the population of Africa are still offline (only approximately 15% of households have full and stable internet access), denying access to knowledge, information and services. Moreover, access to the internet can play an important role, advancing skills and capabilities, and increasing awareness.

By 2020, slums in sub-Saharan Africa will host more than 200 million people, according to a 2014 United Nations report. At this rate, the number of people living in slums will double within the next 15 years. While in most of the world, the number of people living in slums has dropped or, at least, remained fairly constant over the past 10 years, sub-Saharan Africa's slum population grows by five

49) Brookings, Africa infrastructure needs are an investment opportunity.

million people every year. Over 300 million people in Africa do not have access to clean drinking water while over 700 million live without access to good sanitation. Lack of access to clean water and sanitation has a major negative impact on poverty reduction and economic development – for example, Sub-Saharan Africa loses 5% of its GDP annually because of a lack of water, contaminated water or poor sanitation. Further, 40 billion hours of otherwise productive time is spent each year on just collecting water.

To unlock the manufacturing potential and regional free trade opportunity, significant investments will be required in ‘industrial infrastructure’, including Special Economic Zones (SEZs) – currently there are only an estimated 237 SEZs in Africa, many still under construction, along with more than 200 single-enterprise zones.

Regional infrastructure investments: Africa accounts for 16% of the World’s population, but for only 2% of global trade and intra-regional trade remains very low. To significantly improve these indicators requires, in part, adequate transport and other forms of economic (for example, special economic zones) infrastructure. And with Africa population is growing and becoming predominately urban centric, present further challenges (and opportunities) for transport related infrastructure and affordable housing.

Cross-border infrastructure is emerging as the key to unlocking intra-Africa trade in line with the Africa Continental Free Trade Area (AfCFTA) goals. Kenya is set to become a hub for intra-regional trade in Africa requiring infrastructure development in the EAC with mega-projects: Lamu Port and South Sudan Ethiopia Transport (LAPSSET) a new corridor for increased trade opportunities with Kenya’s northern Neighbors of South Sudan and Ethiopia. In 2019, Kenya and Ethiopia have agreed to form a

cross-border free trade area around the border town of Moyale. To address some of these deficiencies, significant investments will be required for:

- a) new power generation capacity and transmission lines, with investments focus on national grid, mini-grid and off-grid solutions, as well cross boarder transmission;
- b) completion of the intraregional fiber-optic backbone network and continental submarine cable loop; interconnecting cities, building ports and border crossings, and a road network for secondary cities;
- c) Access to enable farmers and rural enterprises to access to markets for Africa' s high-value agricultural land;
- d) industrial infrastructure, such special economic zone, to support expansion in manufacturing, processing and regional and international trade.
- e) affordable healthcare in line with universal health coverage global goals;
- f) affordable housing to support migration into urban centers and reduce growth of slums; and
- g) global systems mobile voice signal and public access broadband to 100 percent of the population⁵⁰).

2.4.2. Sectoral Opportunities

Infrastructure

Sub-Saharan Africa (SSA) infrastructure funding gap is \$108 billion and the region won' t be able to compete with other world regions without good roads, rail and air connectivity, affordable and reliable electricity, enhanced Information and Communications Technology (ICT). The continent has low participation in global trade yet one of

50) The Infrastructure Consortium for Africa

the slowest road freights with major ports suffering lack of capacity. Moreover, the SSA region has one of the lowest investment rates which is reflected in minimal budget allocation to infrastructure.

National budget for infrastructure % of GDP (2013)⁵¹⁾

There are extreme differences in the level of internal budgetary funding on infrastructure by different countries of Sub-Saharan Africa (SSA) with some having nearly zero allocation while others allocate infrastructure up to 8% of the national budget. Governments are funding transport and energy sectors up to 40% but allocating the least money to telecoms. Most of the infrastructure development is happening in the cities which is leading to surge in urbanization at the expense of the rural areas. Critics have decried the state of the serendipitous infrastructure development planning in many SSA countries leading to imbalanced sub-national development.

Nonetheless, vast projects to develop road and rail networks, water and sanitation and public housing have been undertaken in Southern, Eastern and Western Africa. Just to highlight, the North South Corridor (NSC) Aid for Trade Programme, a brainchild of the COMESA, SADC and EAC are constructing 10, 647 km of road spanning 8 countries from Dar es Salaam in Tanzania to Durban South Africa. Mmamabula-Walvis Bay Trans-Kalahari Rail Line will be about 1,500 kilometers long from the landlocked Botswana's, undertaken by the World Bank, Namibia and Botswana governments. The Grand Ethiopian Renaissance Dam will produce the largest 6,000MW hydroelectric power plant in Africa⁵²⁾⁵³⁾. Financial and technical assistance from non-traditional partnership regions such as

51) ICA (2014)

52) <http://edition.cnn.com/2013/10/10/business/tech-cities-dams-africa-infrastructure/>

53) <http://www.frontiermarketnetwork.com/article/1827-big-infrastructure-projects-in-africa#>.

China have become front-runners in these projects. Nevertheless, according to World Bank's (2008) Africa Country Infrastructure Diagnostic study, the continent requires about \$80 billion annually to cover for additional infrastructure needs.

Roads

While appreciating the massive network expansion of roads in Sub-Sahara Africa, World Bank (2008) acknowledges much still needs to be done. The bank estimates that a third of Africans living in rural areas are “within two kilometers of an all-season road, compared with two-thirds of the population in other developing regions”. Hence there is an additional need for efficient and effective mass transport road networks which translates to vacancy for civil and structural engineering contractors as well as suppliers of inputs.

Rail transport and ports

About 80% of world merchandise trade is carried by ships (AfDB, 2010)⁵⁴⁾ but Africa's 15 countries are landlocked thus need cargo trade facilitation via rail. The major ports are: Durban, South Africa with 59 effective berths and annual throughput of over 80 million tones; Mombasa, Kenya with 21 berths and annual throughput of over 8 million tones; Dar Es Salaam, Tanzania with 3 berths and a current handling capacity of 200,000 20-foot equivalent units (TEUs) per annum; Port of Beira, Mozambique with 11 berths; Djibouti; Suez Canal, Egypt; Lagos, Nigeria and Walvis Bay Namibia⁵⁵⁾. While countries with port services potential may require developing their

54) http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African%20Development%20Report%202010_CH%202.pdf

55) <http://www.arabianbusiness.com/africa-s-top-10-ports-50442.html#.Uyl4PPIYqt8>

capacity, land locked nations have more need for pipeline works hinterland and rail development such as rehabilitation, expansion to link cities and modernization of suburban railway services and cross-country networks.

Public housing and property development

Shelter Afrique, Pan-African Housing Finance Institution established by the AfDB and African Governments to finance affordable housing estimates that there exist up to USD500bn of investment requirement for new housing supply⁵⁶). Part of this is demand from “high net worth end user finance from a rapid urbanizing population” . Suitable housing investment opportunities include:

- a) Development of residential property (all the way from low cost housing, high rise luxury apartments, retirement villages and holiday homes)
- b) Construction of industrial parks
- c) Development of commercial establishments such as regional shopping centres/malls, offices, accommodation and warehousing facilities. For example, growth of the middle class, intense NGO activity away from cities and spread of universities needs supply of guest houses in the neighborhoods

Shelter Afrique has a Pan African Housing Fund that aims to stimulate supply of affordable housing by financing investments across the continent. Since 2005, the company has also issued housing related bonds: 20bn CFAF raised from the UEOMA zone Capital Market to finance activities in French West Africa; 10bn Ksh bond issue on the Nairobi Securities Exchange and plans for future

56) Shelter Afrique is the only specialist housing finance institution on the continent with a share capital \$300m

issues proposed on the Johannesburg, Lagos Markets.

Countries like Kenya have prioritized construction of affordable housing as the annual national housing demand requires over 200,000 new units which results in a huge deficit against a limited supply estimated at 50,000 new units per year.

Energy – Renewable energy

According to UNEP⁵⁷⁾ and the World Bank (undated⁵⁸⁾) Africa's largest "infrastructure deficit" exists in renewable energy innovation: "The 48 countries of Sub-Saharan Africa (with a combined population of 800 million) generate roughly the same amount of power as Spain (with a population of 45 million)". The World Bank Fact Sheet report noted that, Africa's 24 kilowatt hours per capita per year is below that of another developing world. Africa is already leapfrogging into renewable energy: Geothermal, Wind, Solar and Hydro. The Lake Turkana Wind Power project Africa's largest wind farm project expected to provide 300 MW to Kenya's national grid.

Mining sector

Several African countries have vast deposits of mineral resources that have been left largely unexploited because of a lack of technical knowhow, as well as the financial incapacity to embark on capital-intensive projects. A case study is Nigeria's hugely underdeveloped mining industry. The country also has a wide array of mineral resources which include iron ore, coal, bauxite, gold, tin,

57) <http://www.un.org/apps/news/story.asp?NewsID=47207&Cr=green+economy&Cr1=#.UyrIePIYqt8>

58) <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/0,,contentMDK:21951811~pagePK:146736~piPK:146830~theSitePK:258644,00.html>

lead and zinc which have been neglected because of the country's preoccupation with its massive oil deposits. The Democratic Republic of Congo, Tanzania, Namibia, and Zambia are other examples of African countries that also have unexploited high-value reserves of diamond, cobalt, gold, copper and other resources (Ghana Investment Promotion Council, Undated).

Kenya is one of the new entrants in mining sector. Recently explorations have discovered deposits of Oil in Turkana county while the North, Eastern and Coast regions have Soda Ash, Fluorspar, Coal and Titanium (Kenya, 2010)⁵⁹).

Oil and gas

Nigeria, Angola, Libya and Algeria are the leading Africa's oil rich nations with a total of almost 10% of global oil production. The top natural gas producers with proven un-tapped reserves are Nigeria, Algeria and Egypt with about 7% of world's capacity.

Agriculture – Food Security

Food and Agriculture Organization (FAO, 2009) suggests that developing countries require significant investment in primary agriculture and necessary downstream services such as agricultural institutions, extension services, roads, ports, power, storage and irrigation systems, storage and processing facilities to match population growth⁶⁰). Sub-Sahara Africa countries are prioritizing the following areas for agricultural development:

- a) Production of agricultural inputs such as fertilizers, machinery and seeds;

59) http://webcache.googleusercontent.com/search?q=cache:YKIBUCLxbaQJ:industrialization.eac.int/index.php%3Foption%3Dcom_docman%26task%3Ddoc_download%26gid%3D147%26Itemid%3D141+&cd=12&hl=rw&ct=clnk&client=firefox-a

60) http://www.fao.org/fileadmin/templates/wsfs/docs/Issues_papers/HLEF2050_Investment.pdf

- b) Provision of storage facilities and haulage services;
- c) Expansion of irrigation facilities and schemes;
- d) Technological and support services from factory building technology to supply and installation of cold chain storage equipment;
- e) Distribution services ranging from post-production transport services to packaging;
- f) Standards, training and certification - capacity building for management and market-oriented enterprises as well as market intelligence research;
- g) Agricultural finance and insurance;
- h) Large scale farming of crops;
- i) Value addition/processing;
- j) Supply of farm and industrial machinery and equipment.

In response to food security challenges, Kenya plans to develop 700,000 acres of land for farming various food crop value-chains by end of the year 2022 when the ruling term for the current regime will elapse.

Tourism

United Nations World Tourism Organization observed that over 49 million tourists visited Africa in 2010, and the figures for arrivals exceeded the 50 million mark in 2012. Even though this is only 5% of the global visitation, Africa recorded the highest growth (apart from Asia and Pacific whose combined growth was 6.2%). The 49.5 million international tourist arrivals to Africa in 2011 chose top ten destinations as: Morocco, South Africa, Tunisia, Zimbabwe, Algeria, Kenya, Uganda, Namibia, Senegal and Mauritius⁶¹). In all such countries, quality accommodation and transport services (multi-hotel

61) http://en.wikipedia.org/wiki/World_Tourism_rankings

resorts, single-hotel resorts, business hotels, lodges and inns, motels, hostels, camping sites et cetera) are crucial (Christie et al., 2013). As such, investing in the following would be recommendable: food and beverage services, entertainment and shopping, leisure and sports, meeting facilities to serve conference tourism, Tourist travel, financial and medical services and tourism financial services and training institutions for the tourism sector.

Manufacturing

More than any other manufactured goods category, Fast Moving Consumer Goods (FMCG) may be the category with leading demand. According to the World Bank and McKinsey Global Institute, Africa's consumer spending is in the region of \$1 trillion. Africa Development Bank projects that consumer spending will double within the next decade to 2020, catalyzed by population growth, urbanization, increased middle-class, improved trade and technology (see Annexes 3a, 3b and 4). Africa's expanding middle class (over 300 million people) needs to be serviced with new FMCG products. Food processing, agro-processing, pharmaceuticals, high value textiles and garments, manufacture of electrical and electronic products present the most lucrative opportunity for the "early-bird" investor.

Services

Information and Communications Technology

Africa's mobile phone market has in five years grown to exceed the size in EU or USA with cell-phone users on the continent grew from 11 million in 2000 to almost 700 million today (World Bank)⁶².

⁶²<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTINFORMATIONANDCOMMUNICATIONANDTECHNOLOGIES/0,contentMDK:23325885~pagePK:148956~piPK:216618~theSitePK:28>

The proportion of Africans living within range of a GSM signal rose tenfold in seven years from 5% to 57% by 2006 (World Bank's Fact Sheet on Sub-Saharan Africa). The mobile phone penetration (nearly 70%) provides a powerful platform to communicate or even transact business via mobile. Best practices in ICT application are: Malawi's climate change adaptation project on a forestation using GPS, Kilimo Salama program in Kenya that provides crop insurance for farmers using M-PESA payment system and Mali's telemedicine using IKON tele-radiology program that is helping overcome the lack of trained healthcare workers and specialists in rural areas.

There are countries in the transition phase especially in Western and Eastern regions that are keen to investment in Science and Technology Parks (STPs). Among Africa's Technology Cities in the pipeline is Konza City, a \$9.2 billion dollar technology and financial metropolis project located southeast of Nairobi. Dubbed the "African Silicon Savannah" the project is part of "Vision 2030", a national planning blue print. Technology hubs across Africa include iHub and NaiLab in Kenya, Hive CoLab and AppLab in Uganda, Activspaces in Cameroon, BantaLabs in Senegal, Kinu in Tanzania or infoDev's mLabs in Kenya and South Africa. Africa's Internet bandwidth has "increased 20-fold in the past five years, supported by over 68,000 km of submarine cable and 615,000 km of national backbone networks. The challenge is to scale up these innovations and success stories for greater social and economic impacts across Africa over the next decade," (Jamal Saghir, World Bank Director for Sustainable Development in the Africa Region).

Financial services

Access to finance is critical to industry in Africa. Governments are interested in innovative financial inclusion strategies. SONATEL, a subsidiary of Orange has recently launched a money transfer service that enables 200,000 subscribers to send and receive money using mobile phones in Senegal. This is a success story best illustrated by M-Pesa (a product of Safaricom) whose innovations towards financial inclusion of the unbanked in East Africa have roped in other financial institutions as partners.

Education

According to a United Nations Educational, Scientific and Cultural Organization (UNESCO) report, Sub-Saharan Africa spends 5% of gross domestic product (GDP) on education. That is the second highest regional proportion after North America and Europe's 5.3%. IFC Education Investment Guide (2010) indicates that the quality of state education in Africa and Arab states is low but rising wealth and ability to pay has led many parents to seek alternatives to the state sector. The demand for private education in these regions could be over \$400 billion. There is there is a "growing thirst for private schooling" using local and internationally recognized curriculum such as International Baccalaureate (IB) and A Levels (United Kingdom system) even at high cost. In Nigeria and Kenya, the penetration of private schools is around 40 percent. According to UNESCO, the gap for teachers across Sub-Saharan Africa is more than 1.1 million. Ultimately, there is an observed clear chance to fill a gap that will address a "middle class need" for education. A survey of 81 countries by the IFC has found that in all but four it was legally possible to have private universities. Public policy on private education was found to be good or very good in three quarters of the study countries. Opportunities exist in provision of

e-learning services, private basic and tertiary education and infrastructure services, among others.

Health

IFC estimates that over the next decade, \$25-\$30 billion worth of new investment will be needed to meet Africa's health care demand⁶³). World Health Organization (WHO) advocates that future interventions should aim to strengthen national health systems as platforms for sustained, long-term health improvements Africa⁶⁴). According to IFC, remarkable efforts to fight HIV/AIDS, tuberculosis, and malaria have been made so that the gaps now lies in health care infrastructure and shortage of trained medical personnel. Particularly, the report finds considerable demand for over half a million additional hospital beds, better production facilities and distribution/retail systems for pharmaceuticals and medical supplies, about 90,000 physicians, 500,000 nurses, and 300,000 community health workers. Investment is therefore needed in the areas of affordable specialized care, medical equipment and drugs, bio-medical research, training of specialized experts who are in great demand and health insurance. IFC works with local businesspeople, financial intermediaries, policymakers, donors, and other stakeholders in the international community to create an equity investment vehicle for health care entrepreneurs and businesses, partnering with financial institutions to improve access to long-term debt for health care organizations, providing advisory

63) Health Care In Africa: IFC Report Sees Demand for Investment. Retrieved on 20th March 2014 from

http://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/industries/financial+markets/news/healthafricafeature

64) MDGs 4 (Reduce child mortality), 5 (Improve maternal health) and 6 (Combat HIV/AIDS, malaria and other diseases) are referred to as Health MDGs

services to build the capacity of local financial intermediaries and health care companies, help expand education of health care workers, encourage development of health insurance companies among other initiatives.

5 Competitiveness, Weaknesses and Risks

2.5.1. Sub-Saharan Africa Global Competitiveness, Weaknesses and Risks

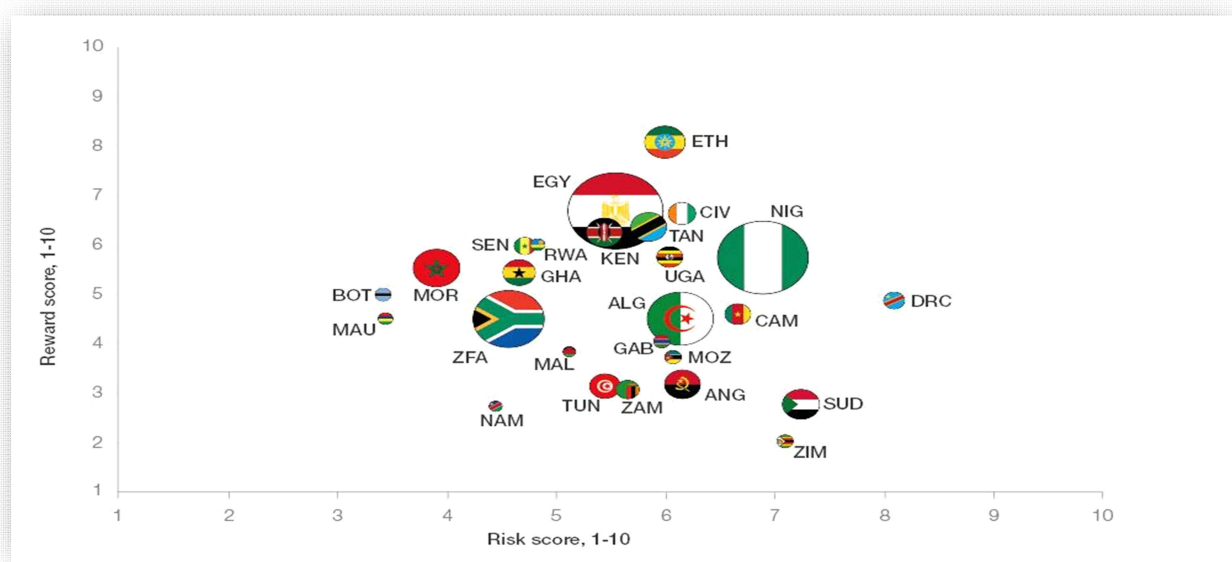
The business competitiveness environment in the Sub-Saharan Africa (SSA) has improved in the last 5 years. Even though most SSA countries in the still lag, five of the 10 most improved countries in the World Bank's Doing Business index 2020 and one-third of all reforms recorded globally were from Africa. Rwanda, Mauritius and Morocco were ranked 13, 38 and 53 respectively in the World Bank Ease of Doing Business (2020)⁶⁵. At continental level, Africa has declined in overall competitiveness is reflected in subdued growth rates below 3 percent with gross capital formation being at the lowest levels for the last decade. The 2018 Global Competitiveness Index had countries like Mauritius and Rwanda well positioned at position 45 and 58 respectively. Also featuring in the top 100 slots are Botswana, South Africa, Morocco, Kenya and Egypt. The most improved African countries are Madagascar, Gambia, Kenya, and Senegal mainly because of an improved macroeconomic environment (Madagascar and Senegal) or efficiency of markets (goods, labor and financial markets in Gambia and Kenya).

Many countries of SSA are ranked between risky and extremely risk on country risk rating by Euromoney, Fitch and International

⁶⁵) World Bank (2019)

Country Risk Guide (ICRG). Country risk ratings assess political, financial and economic risks arising from possible changes in the business environment that may adversely affect operating profits or the value of assets in the country. For example, financial factors such as currency controls, devaluation or regulatory changes or stability factors such as mass riots, civil war and other potential events contribute to companies' operational risks. Political risk analysis providers and credit rating agencies use different methodologies to assess and rate countries' comparative risk exposure. Figure 6 shows that Kenya is ranked among the cluster with the highest return of 6.5 out of 10 points while Ethiopia has the highest (8 out of 10 points) in Africa.

Figure 6: Country Risk-Reward Ranking



Source: Havard (2019)

Many countries of SSA are ranked bottom of the 2018 Global Competitiveness Index with Mauritius and Rwanda leading at position 45 and 58 respectively. Table 5 below shows that, Kenya is ranked position 91 with a competitiveness index of 3.98 which implies quite

a bit of work needs to be done to improve competitiveness to attract more investors. The Global Competitiveness Index 2017-2018 presents a framework and a corresponding set of indicators in three principal categories (sub-indexes) and twelve policy domains (pillars) for 137 economies.

In SSA, the most improved African countries are Madagascar, Gambia, Kenya, and Senegal mainly because of an improved macroeconomic environment (Madagascar and Senegal) or efficiency of markets (goods, labor and financial markets in Gambia and Kenya). This is positive news for trade as it implies easier movement of goods, capital and labor within the domestic market and between Kenya and international markets. Sub-Saharan Africa's competitiveness gained slightly between 2011 and 2015 but has declined towards 2018. Only four countries (Ethiopia, Senegal, Tanzania and Uganda) improved performance consistently. At continental level, Africa declined in overall competitiveness is reflected in subdued growth rates below 3 percent with gross capital formation being at the lowest levels for the last decade.

Table 5: Global Competitiveness Index 2017–2018 rankings – Selected SSA Countries⁶⁶⁾

Country	Position	Score
<i>Switzerland</i>	<i>1</i>	<i>5.86</i>
<i>United Kingdom</i>	<i>8</i>	<i>5.51</i>
<i>China</i>	<i>27</i>	<i>5.00</i>
<i>India</i>	<i>40</i>	<i>4.59</i>
Mauritius	45	4.52
Rwanda	58	4.35
Botswana	63	4.30

⁶⁶⁾ World Economic Forum (2018)

South Africa	61	4.32
Morocco	71	4.24
Kenya	91	3.98
Egypt	100	3.90
Tanzania	113	3.71
Uganda	114	3.70
Ethiopia	108	3.78
Burundi	139	3.21

2.5.2. Challenges and Risks in Sub-Sahara Africa and Kenya

Risks are an important variable in the investment-return equation. While the focus for investors is not in avoiding the risk, measuring the risk to identify projects that fall within risk appetite and devising appropriate risk mitigation strategies is of utmost importance. Despite the myriad of lucrative openings for social and commercial investment in Africa, there exist some difficulties to overcome. In 2012, IMF warned of significant risks from global financial volatility that could subdue demand and private inflows of capital (FDI and remittances) into Africa. But this is supply side factor which does not necessarily minimize demand for goods and services in the continent. The World Economic Outlook (WEO) forecast a slump in global growth concentrated in the developed world (IMF, 2012). It emerged that while Sub-Sahara Africa's financial system is insulated from global financial markets but exports, aid and tourism would be hampered by economic stagnation in the US and Euro zone since they are a market of. African governments and firms alike will find safety to diversify the market for their commodities. Exploitation of local market for domestic goods may be necessary.

Recent political and religious based turmoil in Arab league nations

such countries as Algeria, Yemen, Egypt, Libya, Morocco, Bahrain, Syria and Tunisia and the middle East oil producing countries caused instability in regional Sub-Saharan Africa economies (Tang, 2012) from ripple effects of oil supply shocks and trade, as mentioned in the background section. It is only hoped that this won't turn to a common occurrence. The Regional Economic Outlook (IMF, 2012) is of the view that, a future surge in oil prices would rekindle inflation, reduce growth and worsen fiscal and external balances among oil importers. The Regional Economic Outlook 2012 report also worries about the rapid expansion of pan-African financial institutions that are not matched well by rigid supervisory capacity. Accordingly, such regional groups could provide a platform to spread undesired effects cross-border, a phenomenon that IMF describes as a "contagion" .

Other risks for growth in Sub-Saharan Africa emanate from a shrinking global official development assistance (ODA), slowdown in investment by governments, volatility in trends of macroeconomic variables, high intra-Africa trade logistics costs, weak institutions, post-election conflicts resulting in uncertainty and rising debt. Indeed, public debt in the SSA region has continued to rise amid large/widened fiscal deficits and weak growth. The median general government gross debt-to-GDP ratio stood at 48 percent in 2016, more than 10 percentage points above the level in 2014⁶⁷⁾

67) Macro Poverty Outlooks, Africa Region, World Bank (2017)

Table 6: Kenya's International Risk Rating (Fitch, 2018)⁶⁸

Kenya	B+	Highly speculative
Ghana	B	Highly speculative
Rwanda	B+	Highly speculative
Nigeria	B	Highly speculative
Cameroon	B	Highly speculative
Angola	B-	Extremely speculative
South Africa	BB	Lower medium grade
DRC Congo	CCC+	Substantive risks
Zambia	CCC+	Substantive risks

Kenya is rated stable and IDRs at B+ by Fitch ratings with the recent revised outlook of its Long-term foreign and local currency Issuer Default Rating (IDR). This fitch rating is interpreted to mean that Kenya can service its long-term and short-term obligations undertaken in the course of financing its large infrastructure projects such as PPPs. Moreover, Kenya fiscal risks have reduced as a result of positive fiscal measures taken by the Central Bank of Kenya. This positive trend was driven by:

- Positive trajectory of public debt/GDP and recovering GDP growth from fiscal and political shocks and fiscal consolidation measures. Whilst preceding years were characterized by increased capital expenditure and government borrowing in support of large infrastructure projects, 'Fitch expects that debt/GDP will increase slightly to 59% of GDP in FY18, and then level off as the primary budget balance approaches the debt-stabilizing level, which Fitch estimates at approximately

68) Fitch (2018). Fitch rating is an independent New York-based credit rating agency

<https://www.businessdailyafrica.com/economy/Fitch-Ratings-says-Kenya-able-to-service/3946234-5095040-11piwkaz/index.html>

<https://www.fitchratings.com/site/pr/10020013>

-3% of GDP' . Further it is expected that the deficit will shrink as major infrastructure projects are being completed and tax administration reforms raise government revenue.

- Macroeconomic stability, which will be supportive of its medium-term growth outlook. The Kenyan shilling has held stable, trading between KES102-104 per US dollar: this reflects both the strength of the Central Bank of Kenya's (CBK) policy credibility and stable external financing flows.
- Low CPI inflation from 12% to 5% within CBK target of 5%.

Figure 7: Key macroeconomic concerns in the 10 largest economies of SSA in 2018⁶⁹⁾

	Government	Current account	Exchange rate	Inflation	GDP Growth
Angola	○	●	○	●	○
Cote d'Ivoire	○	○	○	○	○
DRC	●	○	○	○	○
Ethiopia	●	○	●	●	○
Ghana	○	○	○	●	○
Kenya	○	●	○	●	●
Nigeria	●	○	●	●	○
South Africa	○	●	●	○	○
Tanzania	●	○	○	○	○
Zambia	●	●	●	●	●

● Deteriorating
● Stable
● Improving
 Longer term outlook
 Current situation

The Kenyan economy is experiencing low private sector credit growth, which is due to a combination of a weaker credit environment, increased domestic debt issuance by the government,

69) EY analysis, Turning Tides, EY Attractiveness-Africa (2018)

<https://www.ey.com/za/en/issues/business-environment/ey-attractiveness-program-africa-20>

and the effects of the just ended lending rate cap period. Overall, the banking sector is healthy, with Kenya's largest banks being sufficiently capitalized, liquid and profitable. Fitch emphasizes the importance of maintaining peace and political stability to maintain this rating.

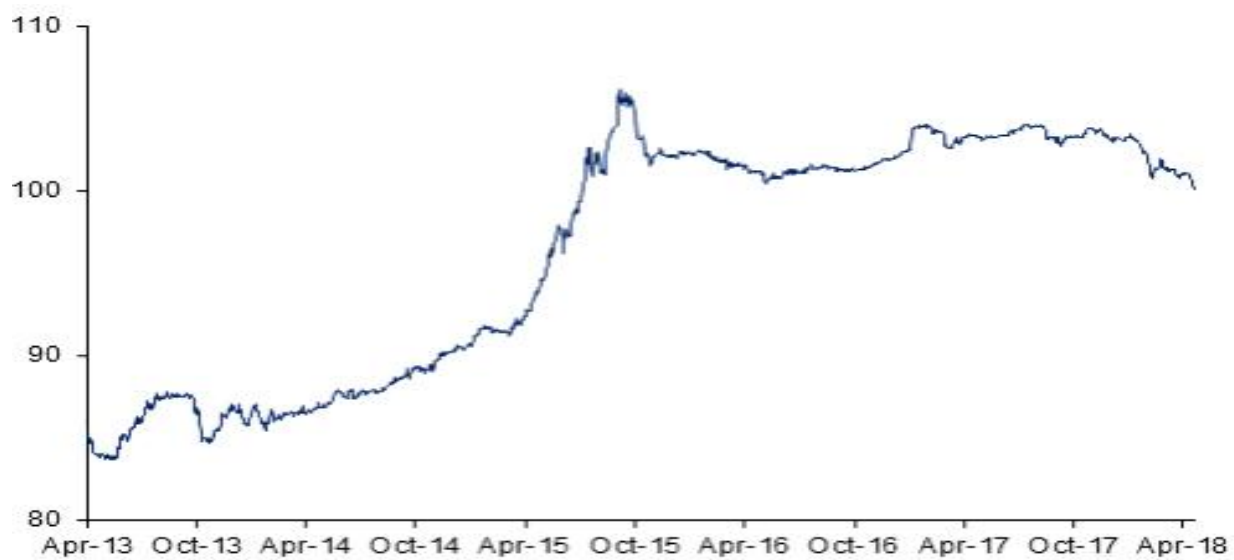
This rating comes amid concerns by Moody's of Kenya's sovereign creditworthiness from a notch lower due to rising liquidity risk, increased external vulnerability and higher reliance on commercial external debt. ⁷⁰⁾ Overall, Kenya is rated as a *moderate* risk country by some sources while others rate it as *reasonable* which is a fairer rating than the rest of Sub-Saharan Africa (outside of Botswana and South Africa) whose rating is mainly *risky* and *extremely risky*. The country's currency has enjoyed recent stability as shown by Figure 8, however, it can be assumed to carry a component of substantial currency risk especially in the case of long-term PPPs up to 20–30 years.

Kenya is one of the countries whose business competitiveness ratings have been recognized by the World Bank among other entities as evidenced by Ease of Doing Business and other international indices/rankings. Explanations for this improvement range from deepening financial services sector, developing affordable electricity infrastructure for domestic and commercial production, restructuring governance and improving legal and institutional framework for investors to various sectors of the economy.

70) Moody is a sovereign credit rating agency

<https://www.the-star.co.ke/business/kenya/2019-09-05-moodys-concerned-over-kenyas-rising-debt-and-corruption/>

**Figure 8 : Trends in the value of 1US \$ against the Kenyan currency
(April 2013-April 2018)⁷¹⁾**



⁷¹⁾ Central Bank of Kenya (2019)

Country risk refers to the risk of investing or lending in a country, arising from possible changes in the business environment that may adversely affect operating profits or the value of assets in the country. For example, financial factors such as currency controls, devaluation or regulatory changes, or stability factors such as mass riots, civil war and other potential events contribute to companies' operational risks. Political risk analysis providers and credit rating agencies use different methodologies to assess and rate countries' comparative risk exposure. The International Country Risk Guide (ICRG) rating comprises 22 variables in three subcategories of risk: political, financial and economic. The Political Risk index is based on 100 points, Financial Risk on 50 points, and Economic Risk on 50 points. The total points from the three indices are divided by two to produce the weights for inclusion in the composite country risk score. The composite scores, ranging from zero to 100, are then broken into categories from Very Low Risk (80 to 100 points) to Very High Risk (zero to 49.9 points). Composite Political, Financial, and Economic Risk Rating remains unchanged. The political risk rating contributes 50% of the composite rating, while the financial and economic risk ratings each contribute 25%. The following formula is used to calculate the aggregate political, financial and economic risk

$$\text{CPFER (country X)} = 0.5 (\text{PR} + \text{FR} + \text{ER})$$

Whereby:

CPFER = Composite political, financial and economic risk ratings

PR = Total political risk indicators

FR = Total financial risk indicators

ER = Total economic risk indicators

The highest overall rating (theoretically 100) indicates the lowest risk, and the lowest rating (theoretically zero) indicates the highest risk.

Very High Risk	0.0 to 49.9 points
High Risk	50.0 to 59.9 points
Moderate Risk	60.0 to 69.9 points
Low Risk	70.0 to 79.9 points
Very Low Risk	80.0 to 100 points

Drivers of risk ratings for Kenya

Reasons leading to this relatively fair country risk rating include:

- High reliance by governments on sovereign bond issuance targeting global financial markets as a key financing strategy for domestic investment. Sustained increases in global interest rates may reduce the ability of Kenya government to raise

money through sovereign bonds. But this portends an opportunity for seeking private capital injection as exemplified by PPP infrastructure procurement models.

- **Weakened economic growth in advanced economies** reducing demand for exports from Kenya, depressed commodity prices and erratic FDI inflows.
- **Shrinking global official development assistance (ODA)** which means the country has limited supplementary funding for social development spending.
- **Slowdown in infrastructural investment expenditure** by the Kenya Government due to greater financing of recurrent expenditure rather than development expenditure.
- **High cost of investable funds.** Cost of acquiring investable funds defined as brokerage costs, search costs incurred by borrowers and lenders in the process of finding each other is high. Contract enforcement costs is considered high so that commercial lenders (including banks) in Kenya may have to be prepared to enforce them through the legal system leading to skyrocketing costs for financing partners in PPP projects.
- **Weak institutions and public investment management systems.** Weak institutional setting is a challenge in Kenya alongside most of SSA marked by inefficient market information symmetry, sometimes weak administration of justice, corrupt practices including aspects of principal-agent contract enforcement. Corruption and some weaknesses in the legislative frameworks continue to undermine the business environment but this is unique to Kenya. In a 2016 US

Department of State report, investors identified corruption, particularly among Customs and immigration agents and traffic police, as an obstacle to investment in Tanzania. Inefficient market information is a major issue in financial intermediation as it facilitates transformation of savings and loans into investment within the private sector. When lenders have information on loanable funds which is not within reach of borrowers this affects access to funds for investment negatively. With regards to PPPs, Kenya has a stable PPP Legal framework including the PPP Policy, PPP Act 2013 and PPP Regulations. The Public Private Partnerships Act No. 15 of 2013 provides for “the participation of the private sector in the financing, construction, development, operation, or maintenance of infrastructure or development projects of the Government through concession or other contractual arrangements; the establishment of the institutions to regulate, monitor and supervise the implementation of project agreements on infrastructure or development projects and for connected purposes” .

- **Lack of harmonized regional trade integration including missing infrastructure interconnectivity** leading to high trade logistic costs. Even though Kenya leads in Foreign Direct Investment (FDI) inflows which grew to \$1.6 billion in 2018, FDI in the EAC declined in 2015 due to the failure by the member states to promote the region as a single investment destination. A 2015 draft trade report by the EAC Secretariat shows that the level of FDI in the region dropped by 16 per cent to \$7.2 billion in 2015, from \$8.6 billion in 2014. East African countries exhibit varying investment climates that make it difficult to

attract investments.

- Unbalanced budget planning without diversified financing options causing high indebtedness (Debt to GDP ratio which for Kenya is 57% although it is lower than for countries like Mozambique and Congo Brazzaville whose Debt to GDP ratio is above 75 percent. For comparison purposes, Botswana's Debt to GDP ratio has been below 20% for years). Again, this challenge presents an opportunity for alternative financing channels for public sector infrastructure development through PPPs and other modes.
- Underperformance and macroeconomic instability in aggregate economic variables such as growth in national output (Kenya's GDP has oscillated between 0% and 7% between 1990s and 2018 when the year ended at 5.7%), erratic food inflation (even though overall inflation has been below double digit of 10%) and unemployment (youth unemployment is rated highest in the EAC by World Bank at 18% in 2016).
- Potential for civil unrest and post-election conflicts leaning from the infamous Post Election Violence (PEV) of 2007 all which contribute increasing regional volatility and uncertainty. This coupled with occasional terror threats by organizations like the Al-Shaabab from neighboring Somalia has been contributing to a not-so-desirable country rating for foreign capital investments.

Risk mitigation strategies

Overall, Kenya and SSA region have their share of hurdles to conquer but the changing dynamics of demographics, economic and

political improvement have presented better opportunities for investors now more than ever. Economies are becoming more integrated and great progress is happening at the East African Community to improve cross-border trade, labor is becoming more skilled and while governments are keen to improve their Ease of Doing Business index. Return on capital is high relative to other world regions but it is the investor that grabs the early prospects who stands to gain most. Nonetheless, it is imperative to highlight important risk mitigation especially for early-stage opportunities.

These risk mitigation strategies can be thought alongside innovative financing structure such as foreign-currency denominated agreements, government guarantees, partial risk guarantees, insurance and forex hedging products. while leveraging insurance and partial risk guarantees available in the market. For examples, ARM-Harith Infrastructure Fund in Nigeria \$868 million transaction to invest in the 459 MW-Azura-Edo IPP projects was underpinned by financial guarantees from the Nigerian government through a Put-Call Option Agreement (PCOA) and World Bank Partial Risk Guarantee, political risk insurance from the Multilateral Investment Guarantee Agency (MIGA). Other hedging products and strategies include leveraging on:

- a) **The Currency Exchange Fund (TCX)** is dedicated at providing hedging solutions to support development capital in emerging markets for over 50 currencies with more than \$4Billion in DFI loans converted into local currencies, enabling developers to eliminate currency mismatches between the financing the development cost.
- b) **MFX Solutions** was established in 2009 to support smaller scale actors (primarily microfinance) and has hedged over \$1.8

billion in 50 currencies of between \$50,000-\$50 million in quantum lending with no collateral.

- c) **GuarantCo** guarantees local currency debt, enabling financial robust local currency projects/ companies to establish stable local financing and brings local currency bonds to the market for investors. For example, Nigeria, GuarantCo guaranteed a 7.5 billion long term Naira denominated bond, with an additional unguaranteed 2.3-billion-naira tranche in which the African local currency Bond was the main participant. Blended currency facilities could work magic for investments in Africa to reduce reliance on one currency say US Dollar or Euro.
- d) **Proxy hedging through assets** such as land to avoid currency volatility
- e) **Back to back loans:** This strategy requires investors in different countries to take equivalent, off-setting hard currency loans with each other or an international lender in the other corresponding country. The loans are denominated in home currencies as a hedge against current fluctuation risk.

III. Kenya Country Overview

1 Kenya Country Profile

Table 7(a): Key Development Indicators

Development indicator	Index	Components/ Methodology/ Framework	Kenya	Sub-Sahara Africa(SSA)	Data Source (2017-2019)
Population	Population size	Number of people who are resident	47.6 million	1,078,306,520 (1.07 billion)	UNFPA
National output	Real GDP constant price	Income, expenditure, value added	\$90 billion	\$ 1.7 trillion	World Bank, KNBS
Economic growth	GDP growth	Change in annual national output	5.7%	3%	
Price stability	Inflation	Annual change in general prices	5.5%	8%	
Budget balance (% GDP)*	Budget balance: GDP ratio	(Expenditure-revenue) ÷ GDP*100%	-6.3%	NA	World Bank, CBK, KNBS
Current AC bal. (% GDP)	CA - GDP ratio	(Exports - Imports) ÷ GDP*100%	-5.3%	NA	
Public debt (% GDP)	Public debt - GDP ratio	(Public debt ÷ GDP*100%	56.9%	50%	
Integrity	Corruption perceptions index		144	NA	Transparency International
Income parity	Income inequality	GINI Inequality index (2015); Kenyans living on less than US\$1.90 per day	40.8%	42%	World Bank (WB)
Poverty incidence			35.6%	47%	
Human development	Human Development Index (HDI)	A long and healthy life, access to knowledge, decent standard of living	0.590 Medium	0.537	UNDP
Competitiveness	Global Competitiveness Index	Rank Score	91/190 3.5/7	NA	World Economic Forum (WEF)
Labor productivity	Human capital index (HCI)	Contributions of health and education to worker productivity	94 rank 0.52 score		World Bank
Health	Maternal mortality ratio	Modeled estimate, per 100,000 live births	362	534	APHRC
Education	Literacy rate	Literacy rate, adult total (% of people age ≥ 15 years)	78.18%	66%	UNESCO
Ease of doing business	Doing Business Index	Objective measures of business regulations and their enforcement	56/190	NA	Doing Business World Bank
Access to finance	Account ownership at a financial institution or with a mobile-money-service provider (% of population ages 15+)		69%	42.6%	WB, AfDB, FSD, globalfindex, CGAP

Table 7(b): Key Development Indicators

Development indicator	Index	Components/ Methodology/ Framework	Kenya	Sub-Sahara Africa (SSA)	Data Source (2017-2019)
Unemployment	Unemployment rate (%)	% of 15 - 64-year-old without work	7.4%-9.3%	6%	ILO, KNBS
Access to finance	Account ownership at a financial institution or with a mobile-money FSP (% of population ages 15+)		69%	42.6%	WB, AfDB, FSD, globalindex, CGAP
Mobile penetration	% of people with a mobile phone handset		100%	67%	ITU, CAK
Access to electricity	% of population accessing elec.		63.8%	44.6%	
Cost of energy	Cost of KWH		\$0.15	\$0.25*	ERC, AfDB
Urban population	% Kenyans living in urban areas		30%	40.17%	World Bank
Urbanization	Urban residents ÷ Population * 100%		4.3%	4%	World Bank, NCPD
Access to clean water	Population using clean water (%)	Population using clean water (%)	31%		
Investment returns	Risk-reward index	Economic growth, size, structure, demographics, risks	Rank: #6/26 countries Score: 6.27/10 points	NA	Oxford Economics
Logistics performance index	Ease of arranging competitively priced shipments (1=low to 5=high)			2.49	World Bank
	Quality of trade and transport-related infrastructure (1 to 5)			2.29	World Bank
	Efficiency of customs clearance process (1 to 5)			2.36	World Bank
FDI inflows	FDI % of GDP		1.8% \$1.6 b (2018)	1.9%	UNCTAD
Trade development index	Score on the index			290	UNCTAD
UNCTAD B2C E-commerce Index, 2019	World ranking		88		UNCTAD
Trade % of GDP	Trade % of GDP			57.91%	World Bank
Risk Rating	Country Risk Rating	Political, financial, and economic	Moderate	Very risky -Extremely risky	Euromoney

This section tracks recent indicators of Kenya's socio-economic

development metrics, drawing comparison with Sub-Saharan Africa. The implication of these indicators is critical in discussing the PPP investment landscape in the country which is done next from Section 3.2 using a Political, Economic, Social, Technological, Environmental and Legal (PESTEL) framework. Tables 7(a) and (b) present key development indicators for Kenya and SSA.

One of the most famous countries in Africa, Kenya is in East Africa bordering the Indian Ocean to the South West (Coast), Tanzania to the South East, Uganda to the South East, Sudan to the North East, Ethiopia and Somalia to the North, Ethiopia and Somalia to the North East. A member of the East African Community (EAC), Kenya is considered the economic, financial, commercial and logistical hub of the East African region with a national annual output (GDP) of \$ 91 billion. The current population of Kenya is 53,864,942 as of Sunday, August 2, 2020, based on Worldometer elaboration of the latest United Nations data. This population comprises a labor force with strong entrepreneurial tradition and a significant number of well-educated English-speaking and multi-lingual professionals. The country is relatively ‘young’ with almost 70% of the population being under



the age of 35. A third of the population living in the urban areas with an urbanization rate of 4% in tandem with most of Sub-Saharan Africa (SSA). The economy is mostly formally banked with 70% of population above age 15 having account ownership at a financial institution or with a mobile-money-service provider. This is higher than the average in in Sub-Saharan Africa which has only 42.6% of the same population that is formally banked.

As of 2019, an estimated 36% of people in the country live below the poverty line with nominal GDP per capita is approximately \$2,010. Kenya has maintained a stable macroeconomic stance with single digit inflation hovering around 6%, one US \$ selling for a hundred Kenya shillings at the money market, well developed capital markets, moderate country risk rating. Nevertheless, the country is marked by a relatively higher unemployment rates than rest of SSA region (unemployment in Kenya is 9.3% in the total labor force and about 16% among the youth segment) which coupled with political volatility following a 5-year election cycle, risk of terror attack by Al-Shabaab and high debt to GDP ratio of 59.2% may explain the country risk rating. Production in the Kenyan economy is anchored primarily on agriculture which contributes about a third of the national output and employs over 40 per cent of the total population and more than 70 per cent rural residents. The trade sector contributes 50.96% of GDP while manufacturing accounts for 8.4%. Services sector is growing more rapidly than industry which is unlike the path taken by most developing countries. Like many Sub-Saharan Africa countries, Kenya runs a significant current account deficit, which has been offset to some degree by donor assistance and private domestic and Foreign Direct Investment (FDI). In 2018, FDI flows to Kenya swelled by 27% to \$1.6 billion or 1% of GDP, attributable to increased investment in manufacturing, hospitality,

chemicals, oil and gas. The country is expected to rise into a regional hub for energy, services and manufacturing “as these explorations comes to fruition” (UNCTAD, 2019).

Social human development indicators by the United Nations Development Program (UNDP) and World Bank (WB) indicate the country is fairly positioned. Income parity and poverty are average with Kenya GINI inequality index of 40.8% (2015) and 36.5% of Kenyans living on less than US\$1.90 per day. The country’ s Human Development Index (HDI) is medium at 0.59 against 0.53 in SSA. HDI is developed along the measures of a long and healthy life, access to knowledge, decent standard of living with 1.0 being the most desirable score.

Regarding investment returns, doing business and trade facilitation, the country ranked position 6 out of 26 countries in 2018 on risk-return index (Score: 6.27/10 points) whose calculation looked at economic growth, size, structure, demographics and imminent risks. Kenya ranks average on logistics performance index with a score of 2.49 out of 5 points in ease of arranging competitively priced shipments. The country was ranked position 89 on the UNCTAD B2C E-commerce Index, 2018 and position 91 out of 290 (a score of 3.5 out of 7) on the Global Competitiveness Index by the World Economic Forum (WEF). The fastest growing sectors are finance, construction, real estate and technology partly attributed to a growing middle class and expansion in infrastructural development. The country’ s internet access rate is one of the highest in sub-Saharan Africa with rapid rise of 4G and 4G LTE services plus growth in smartphone usage leading to e-commerce and innovation.

Overall the above indices paint the profile of young, zealous emerging country that is struggling towards lower middle-income status by 2030 as espoused by the national development blueprint, famously called Kenya Vision 2030. Despite this positive trend, businesses operating in Kenya face several challenges associated with corruption, unemployment, security, land titles and property rights (for some sectors). The following section presents the investment landscape using a Political, Economic, Social, Technological, Environmental and Legal (PESTEL) perspective.

2 Political and Legal Profile

3.2.1. Legal Profile

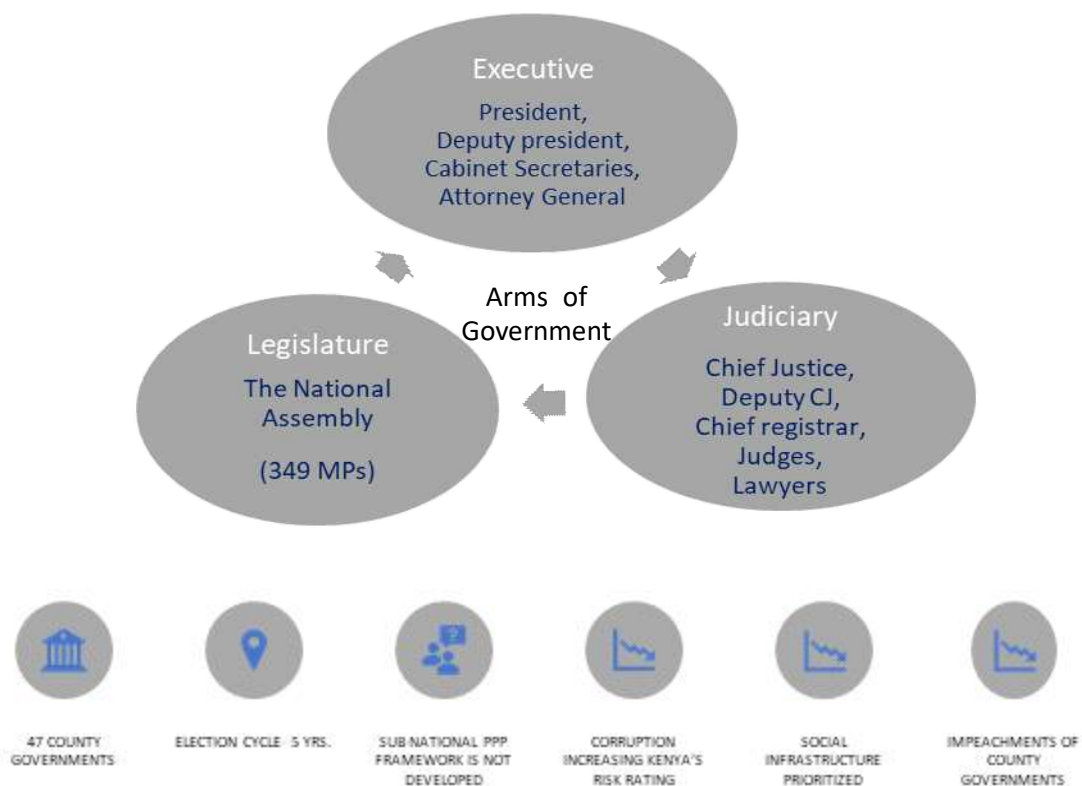
The Kenya 2010 constitution devolved the government judicial and administrative arms of government. Kenya's judicial system is efficient and has made landmark rulings such as the declaration of the 2017 general election as null and void leading to a repeat election. The judiciary has also supported the fight against corruption by requiring adherence to the law on disclosures public participation among other transparency provisions. This speaks confidence to the private sectors that the law and PPP contracts can be enforced within Kenya's jurisdiction. Notably, the country index in enforceability of contracts has increased as evidenced in the improved ranking (to position 56 globally) in the Ease of doing business survey 2019.

The PPP law enacted in 2013 is clear on the process of PPP at different levels. A common challenge lies in the harmonization of

laws, procedures and practices across government institutions (line ministries) and levels of government (federal/national and subnational). For example, the water bill is still pending to be tabled in parliament and is expected to unlock investment opportunities in the sector, water and sanitation and agriculture through installation of sectoral based regulations, in alignment with the PPP Act.

3.2.2. Political profile

Kenya is a unitary state with three independent arms of government comprising of the executive, the legislature and judiciary. In 2010, the country enacted a new constitution which gave rise to two layers of governance with a federal (national) government and below it 47 county governments. Election for presidential and parliamentary elections (including all elective political positions) are conducted every 5 years at national and county levels.



Kenya's Government development agenda underscores the role of infrastructure to create immediate wins economically and socially across all sectors. The vision 2030 which aims to transform the country into a middle-income economy by year 2030 through: economic, social and political development as the key pillars. To realize this, the country targets to achieve a 10% per annum until 2030; create just, cohesive and equitable social development in a clean and secure environment while steering towards an issue-based, people-centered, result-oriented and accountable democratic system. The key enablers are macroeconomic stability, infrastructural development, science, technology and innovation, land reforms, human resources development, security and public sector reforms⁷²).

The current government regime has prioritized four pillars of development to guide its planning in the 2018-2022 planning period and in line with other national development plans such as SDGs and the Vision 2030. A summary of these four pillars is presented under Table 8 below. The Big-4 Plan was allocated The Big-4 Plan was allocated 128.3 Billion in the (2020/21 budget). Due to budget constraints reallocations have been considered to ensure that the government allocates adequate resources towards realization of the Big Four promise. While public resources are not adequate to finance the infrastructure required to realize the above goals, Private investors are invited to support the agenda. Aligning with the government strategies means that a faster PPP approval process can be achieved due to the high political goodwill in such projects.

72) KenInvest; Vision 2030

Table 8: Big Four Agenda key Items indicators

1. Food and nutritional security

- a) Agriculture : 30 % GDP
- b) Kenya is food insecure ; irrigated farming
- c) Smallholder unviable parcels, low productivity
- d) Government will place an additional 700,000 acres through PPP under maize, potato, rice and feeds production; expand irrigation schemes and secure water towers and river ecosystems.
- e) TARGET: grow share of GDP to 15% by 2022

2. Affordable and decent housing

- a) Shortage: 200,000 housing units annually; 300,000 units by 2020
- b) Growth in supply: 50,000 new units p.a.
- c) TARGET: Develop 150,000 housing units annually

3. Universal and affordable healthcare

- a) National Health Insurance Fund (NHIF) only covers a small percent of the population
- b) High out-of-pocket expense: %
- c) Needs: strengthening county supply chain management systems, and enhancing coordination in disease prevention, detection and response

4. Employment creation through manufacturing

- a) Manufacturing is mainly agri-based
- b) Industries operate below capacity - underutilization
- c) Need to increase processed goods, diversified exports, reduced import bills

a) Food and nutritional security

The country plans to grow enough food to feed the people at affordably. GDP from Agriculture in Kenya increased to 351,397 Million KES in the first quarter of 2020 from 204,251 Million KES in

the fourth quarter of 2019. The agricultural sector is a major driver of the economy contributing at least 30 percent of the gross domestic product (GDP) (Kenya National Bureau of Statistics, 2017), yet Kenya is still classified as a food deficit country. Food production has been declining due to dependence on rain-fed agriculture, low adoption of technology including biotechnology, frequent attacks by pests and crop diseases, adverse weather, degradation of agricultural land, encroachment of urbanization into arable land, and rural-urban migration of the young people. To improve on food and nutrition security, efforts are shifting to promoting indigenous food consumption and diversifying the staple foodstuffs; enhancing reduction of food wastage and food loss; strengthening the supply chains and linkages to value addition; improving on food information market systems; and increasing investment in agriculture infrastructure.

b) Employment Creation through Manufacturing

Manufacturing has the potential to advance socio-economic development through increased and diversified exports, reduced import bills and enhanced employment creation. As such, policy interventions towards promoting the competitiveness of the manufacturing sector are aimed at enhancing product diversity and complexity, improving the business environment, developing relevant infrastructure, enhancing credit and market access, strengthening technology transfer and innovation and building an industrial culture.

c) Affordable and decent housing

The country's urban dwellers experience a shortage of 200,000 housing units annually projected to reach 300,000 units by 2020. The current rate of increase in supply estimated at 50,000 new housing

units annually meaning the shortfall is 150,000 units per year hence the need to increase the supply of affordable housing, access to affordable financing for housing.

d) Universal healthcare

Up scaling of insurance scheme to all Kenyans is considered as an imperative step in realizing universal healthcare coverage. Insurance penetration is estimated at 3% amongst Kenyans countrywide⁷³). Currently, the National Health Insurance Fund (NHIF) only covers a small percent of the population, but other initiatives are being implemented to enhance universal healthcare coverage such as the Linda Mama free maternity service. Partnership and collaboration between levels of government and working closely with the health service providers in the private sector is key in the realization of universal healthcare coverage. Other policy interventions could include development of adequate healthcare workforce, equitable distribution of healthcare human resources, reduction of reliance on external support, strengthening of county supply chain management systems, and enhancing coordination in disease prevention, detection and response.

Financial Year 2018-2019 Budget Allocations and Goals of the Big Four Agenda

The Financial Year 2018/2019 fiscal strategy is premised on the theme “Creating Jobs, Transforming Lives and Sharing Prosperity” with the Big Four Agenda in mind. It is widely seen as a balancing act of implementing the strategic Big Four agenda that is intended to spur economic growth. While trying to achieve this, the government is also looking at ensuring that the public debt remains

73) 2018-2019 reports by the Association of Kenya Insurers (AKI) and Insurance Regulatory Authority (IRA)

on a sustainable path. Cumulatively, the ‘Big Four’ agenda areas have been allocated Kshs. 1.065 Trillion out of a total budget of Kshs. 2.55 Trillion.

Table 9: Budgetary allocation to the Big Four Implementers and enablers in the Financial Year 2018/19

The “Big Four” Plan summary	Allocation (Ksh) FY 2018/2019	Enablers of the “Big Four” Plan	Allocation (Ksh) FY 2018/2019
Support Value Addition and Raise the Manufacturing sector’s share to GDP to 15% by 2022	Ksh 2.4 billion	Enhanced Security for investment, Growth and Employment Investing in infrastructure to unlock growth potential	Ksh 57.5 billion Ksh 273.8 billion
Enhancing Food and Nutrition Security to all Kenyans by 2022	Ksh 20.25 billion	Enhancing access and transforming Educational system. Environment Management and protection, flood control and water Harvesting	Ksh 200.6 billion Ksh 60.4 billion
Providing Universal Health coverage to guarantee quality and affordable healthcare to all Kenyans	Kshs 44.6 billion	Environment Management and protection, flood control and water Harvesting Equity, poverty reduction & social protection for vulnerable groups	Ksh 60.4 billion Ksh 68.9 billion
Provision of Affordable and Decent Housing for all Kenyans	Ksh 6.5 billion	Leveraging on Information, Communication and Technology	Kshs 22.1 billion

Goals of the Big Four Agenda and Budgetary Allocations in FY 2018/19

The aims of the big four development agenda are to address the following key thematic areas.

a. Support Value Addition and Raise Manufacturing sector' s share of GDP to 15% by 2022

Kenya Government targets to raise contribution of manufacturing sector to GDP to 15% by 2022, hence increasing manufacturing sector jobs by more than 800,000, accelerate economic growth and reduce poverty. To achieve these targets special emphasis will be put on the following industries:

- (1) Textile and Apparels;
- (2) Leather products;
- (3) Agro – processing;
- (4) Manufacturing of construction materials.

Other important sectors will be Oil, Mining and Gas; Iron and Steel; ICT; and Fish Processing.

Strategies for Employment Creation Through Manufacturing

On manufacturing sector, Kenya plans to increase the contribution of the manufacturing sector to GDP to 15 percent by 2022 which will add US\$ 2-3 billion to the GDP. This is expected to increase manufacturing sector jobs by more than 800,000. The *strategies* to achieve this include the following:

- a. Establishing leather parks and textile industries in various parts of the country.
- b. Reviving and transforming industries such as the blue economy and manufacturing of construction materials
- c. Re-establishing the automobile industry which to make new

vehicles more affordable

- d. Targeting investors that are ready to invest in specific areas by providing tailor made incentives, for instance under the Special Economic Zones (SEZ)
- e. Providing land for potential investors interested in setting up their activities in the SEZ to benefit from the standard gauge railway (SGR) and cheap geothermal power generated nearby.
- f. Removing Non-Trade Barriers (NTB) within the East African Community (EAC)
- g. Implementing the EAC Non-Tariff Barriers Act, 2017.
- h. Establishing an online reporting mechanism for non-tariff barriers.
- i. Reviewing the Common External Tariff to enhance protection of industries in the region
- j. Reducing the cost of off-peak power by half to reduce the cost of production for manufacturers
- k. Reviewing work permits to accommodate expatriates whose skills support Kenya's development agenda.
- l. Continue expanding infrastructure and land access targeting manufacturing zones.
- m. Dealing with illicit and counterfeit trade which divert the country's resources

b. Enhancing Food and Nutrition Security to all Kenyans

To achieve food security and improved nutrition, the Government will focus on three broad areas, namely: enhancing large-scale production; boosting smallholder productivity and reducing the cost of food.

- (i) To enhance large scale production; the Government will place an additional 700,000 acres through PPP under maize, potato, rice and feeds production; expand irrigation schemes and

secure water towers and river ecosystems.

- (ii) To enhance agricultural productivity among smallholder farmers, the Government will upscale crop and livestock insurance with the goal of cushioning farmers against climate related risks.
- (iii) To reduce cost of food, the Government will provide affordable energy; enhance market distribution infrastructure and avail incentives for post-harvest technologies to reduce post-harvest losses by 5% to 15%.

Strategies for attaining Food and Nutrition Security

Kenya plans to attain food and nutrition security through enhancing large-scale production. The strategies to attain this include:

- a. Placing additional 700,000 acres of land through PPP
- b. Promoting investments in post-harvest handling
- c. Adopting contract farming and other commercial off-taking arrangements
- d. Supporting development of agro parks or hubs to serve as a link to farmers and markets
- e. Supporting smallholder farmers by upscaling crop and livestock insurance
- f. Promoting use of appropriate farming techniques
- g. Availing affordable credit facilities.

c. Providing Universal Health Coverage

The Government targets Universal Health Coverage (UHC) for all households by 2022. This will guarantee access to quality and affordable health care for all Kenyans. This will be achieved by:

- (i) Increasing NHIF enrolment from the current 16.5 million to 25 million Kenyans by the end of 2018;
- (ii) Expansion of the “Linda Mama” programme to mission hospitals

and private hospitals;

- (iii) Provision of specialized medical equipment and increasing the number of health facilities.

Strategies for Providing Universal Healthcare

Kenya plans to roll out universal health coverage to all households by 2022, so as to guarantee access to quality and affordable health care. The strategies to do this are to:

- (1) Reconfigure the National Hospital Insurance Fund (NHIF)
- (2) Reform the governance of private insurance companies to align them to the universal health coverage.
- (3) Provide a comprehensive NHIF medical scheme for secondary school students.
- (4) Work with the 47 counties to scale up the provision of specialized medical equipment and increase the number of health facilities at the community level, including mobile health services, in order to increase access to specialized healthcare.
- (5) Expand the “Linda Mama” program (free maternity program) to mission hospitals and private hospitals and to enlist community health volunteers to help in healthcare service provision at the grassroots level.
- (6) Source specialized skills from outside Kenya to address existing personnel gaps.

d. Provision of Affordable and Decent Housing for All Kenyans

Kenya Government is keen on delivering 500,000 housing units by 2022 to enable more Kenyans own decent and affordable houses. Measures are already in place to reduce the cost of mortgages, cut the cost of construction, and raise low-cost funds from private and

public sector for investment in large-scale housing construction.

- (i) To increase access to affordable credit, the Kenya Mortgage Refinance Company (KMRC) was incorporated in April 2018.
- (ii) KMRC will make it easier for banks to access long-term finance for home loans.

A scoping review of County Integrated Development Plans (CIDP, 2018-2022) reveal that many counties hope to provide their urban planning and decent housing via Public Private partnership (PPP) and Privately Initiated Investment Proposal (PIIP) dealings.

Strategies for Providing Affordable Housing

The country targets to provide adequate and affordable housing through the following strategies.

- (1) Partnering with the private sector to develop homes in order to increase supply of affordable houses.
- (2) Reforming property registrations, access to affordable financing and adoption of new low-cost building technologies.
- (3) Establishing the Kenya Mortgage Refinance Company (KMRC) (jointly owned by the Government, the private sector and select development partners with a view to extending long term loans to financial institutions.
- (4) Developing a comprehensive housing package that will incentivize the private sector (including PPP partners) in the construction of low-cost housing. This includes reduction of corporate tax rates to 15 percent for developers who construct at least 100 units per year.
- (5) Establishing a National Social Housing Development Fund (NSHDF)
- (6) Strengthening the National Housing Corporation (NHC) to take up more strategic roles in resource mobilization.
- (7) Management of tenant purchase schemes and provide alternative

financing strategies for low cost housing and the associated social and physical infrastructure.

- (8) Amending the Employment Act to provide that an employer shall contribute to the National Housing Development Fund, in respect of each employee' in his or her employment 0.5% of the employee' s gross monthly emolument subject to a maximum of five thousand shillings while the employee will contribute 0.5% of their monthly gross earnings.

3 Social Profile

Kenya has a population of 47.5 million according to the KNBS 2019 census. With a near balance gender split, the county' s youthful population with a median age of 18 years. Social human development indicators by the United Nations Development Program (UNDP) and World Bank (WB) indicate the country is fairly positioned. The country' s Human Development Index (HDI) is medium at 0.59 against 0.53 in SSA. HDI is developed along the measures of a long and healthy life, access to knowledge, decent standard of living with 1.0 being the most desirable score. In 2018, Kenya ranked 91 (medium score of 0.52 on the Human Capital Index (World Bank, 2018). However, the country grapples with income disparity and poverty with a GINI inequality index of 40.8% (2015) and 36.5% of Kenyans living on less than US\$1.90 per day.

Also, despite government commitments on integrity, Kenya ranks 144 / 180 on corruption index internationally which indicates that the country' s progress in reducing corruption is disheartening⁷⁴).

Infrastructure projects such as Kimmerer and Aror dams have been halted or cancelled due to allegations of inflation of land compensation bills as well unsupported procurement activities and payments. Such inequalities and gaps in accessing basic public services may imply that large infrastructure projects must support community project initiatives while focusing on creating decent jobs, access to water, sanitation and agribusiness to raise the quality of life of the people affected by the projects.

Social trends implications on PPP projects

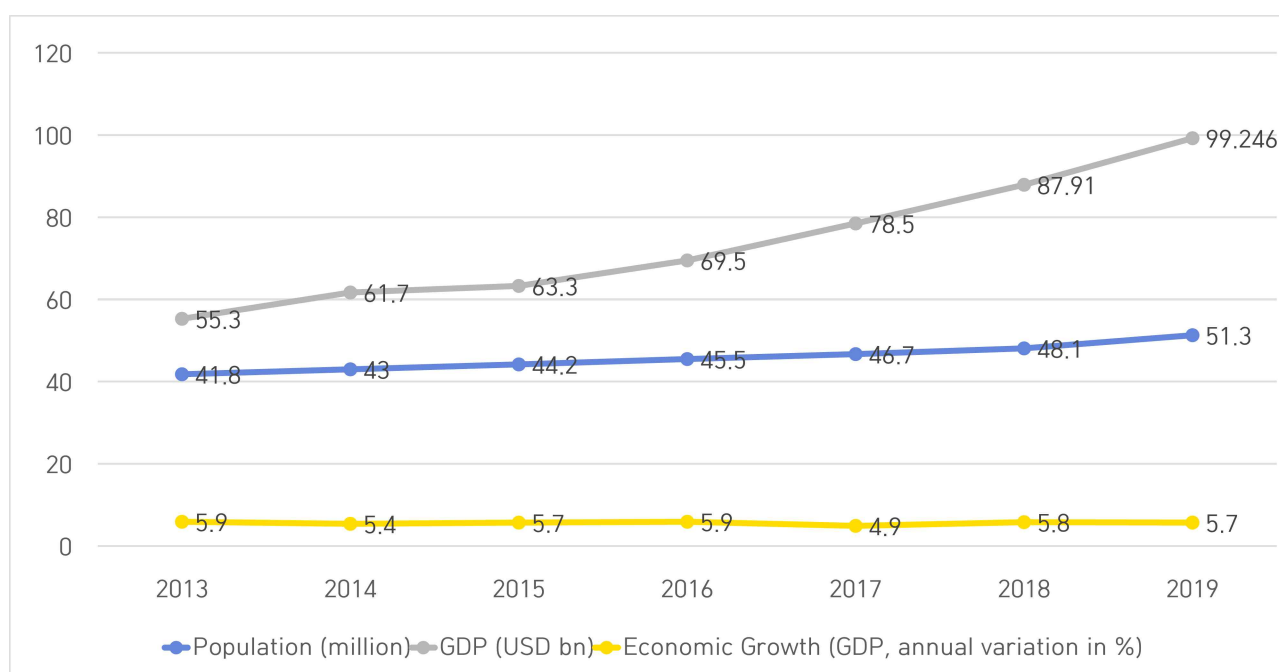
- The high population who are excluded or without access to basic public services is a ticking bomb and social returns should be mainstreamed in priority government projects
- Vibrant civil society and media whose advocacy could impede timely implementation of PPP infrastructure projects and commercialization especially where affordable is not well considered at the feasibility phases.
- Kenya is advanced in environmental conscience among communities and media. The host of the United Nations Environmental Program headquarters, has robust environmental assessment laws and oversight by the National Environmental Management Authority (NEMA)
- Environmental concerns have taken high stakes in key projects such as the Standard Gauge Railway (SGR) which passes through Nairobi National Park due to interventions by media and environmental activists. The Lamu Coal plant project has also recently received a no-investment decision by the AfDB whose investment strategy is to focus on renewable energy projects in the region.
- Investment projects that lack social buy-in from immediate communities are likely to fail. Example, Dandora's solid-waste management project faced challenges due to the many slum residents earning livelihoods from the dumpsite.
- Infrastructure projects are required by contracting authorities to conduct social, environmental and economic impact assessment.
- Land issues have driven the cost of implementation for key infrastructure assets high due to delays and substantial hikes in land compensation plans. Government can offer land for priority PPPs however; they too can be influenced by politics.

74) Transparency International (2018)

4 Economic Profile

The economic development of Kenya is critical in assessing PPP projects viability in terms of *value for money*, *user willingness to pay*, and *optimal risk allocation*. Kenya represents 6% Sub-Sahara Africa GDP which is accurately interpreted as size of potential markets share of investment opportunities in Africa. While Nigeria, South Africa and Ethiopia are leading, Kenya presents a unique mix of strategic advantages and investment value propositions for investors with varying risk-reward acceptance levels. Consistent economic growth rate which is higher than population growth rate is an indication of high demand for public services targeted by PPP projects.

Figure 9: Trends in Key Macroeconomic Indicators (2013-2019)⁷⁵⁾



⁷⁵⁾ KNBS and CBK (2018, 2019)

Kenya is a market-based economy with liberalized trade systems and vibrant private sector. Key economic indicators show that the economy has recovered and is in line with the long-run growth targets such as 10% GDP growth rate by 2030. The economic sectors are diversified, as a result, varied options of PPP projects can be generated with overall impacts on economic outcomes. The economy is reliant on agriculture but transforming towards services especially in telecommunications, financial services. However, Kenya lacks agricultural technology and resources to venture in non-rainfed agriculture. Agricultural produce exports from Kenya are mainly tea, coffee and horticultural products many of which are not processed. To diversify its exports there is need to build logistics infrastructure (warehousing), value-addition of agricultural produce and mechanization of farming activities to increase productivity. The services sector growth in Kenya is driven by highly skilled talent and adoption of technology. Technology initiatives can drive higher impact in agricultural sector through climate smart farming and agro-processing.

Kenya is position 95 on global competitiveness index and among the most improved in the Global Competitiveness Index 2017-2018 presents a framework and a corresponding set of indicators in three principal categories (sub-indexes) and twelve policy domains (pillars) for 137 economies⁷⁶).

Kenya's ease of Doing Business is one of the most improved globally, with remarkable changes made to the regulatory environment for doing business such as starting a business, dealing with construction permits, automating processes to encourage compliance with statutory requirements and to facilitate trading across borders. In the latest World Bank Ease of Doing Business

⁷⁶) World Economic Forum, 2018

2020 report⁷⁷⁾, Kenya climbed one place to position 56 out of 190 countries world over. The country is 3rd ranked in Africa with the most favorable doing business environment after Mauritius, Rwanda. (ranked position 13 and 38). Kenya has also improved access to credit and access to electricity and protecting minority investors.

Regarding investment returns, doing business and ease of trading across borders, the Kenya ranked position 117 out of 190 countries in 2020 whose calculation looked at economic growth, size, structure, demographics, imminent risks as well as :

- Time to export (Borders compliance-Hours)
- Cost to export (Border compliance -USD)
- Time to export (Documentary compliance-Hours)
- Cost to import (Border compliance-USD)
- Time to import (Documentary compliance-Hours)

The country was ranked position 89 on the UNCTAD B2C E-commerce Index, 2018 and position 91 out of 290 (a score of 3.5 out of 7) on the Global Competitiveness Index by the World Economic Forum (WEF). This is evidenced by increasing inflows of Foreign Direct Investments (Development Finance, Impact Funds and Private Equity) into the country.

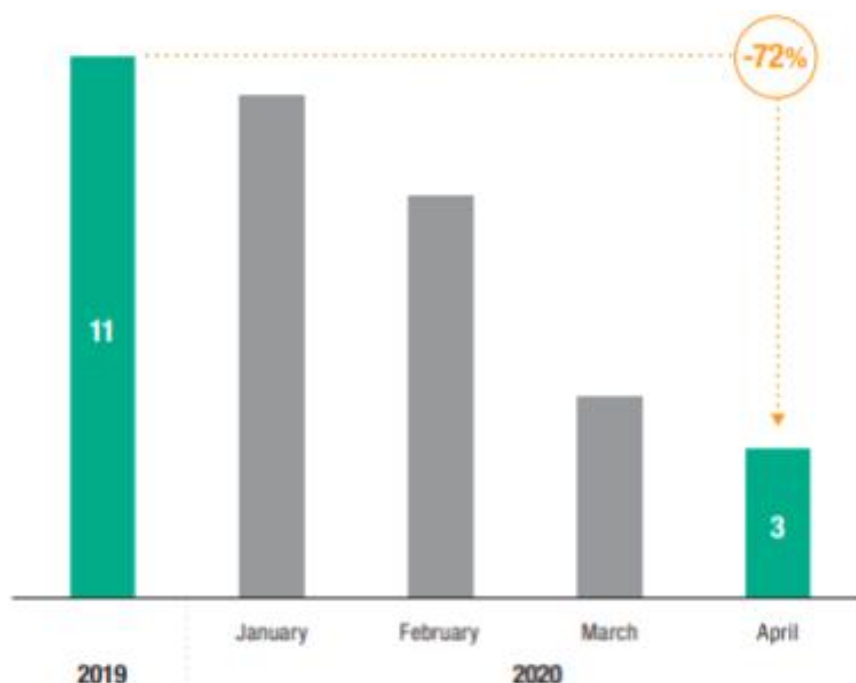
Capital inflows into Africa show that Kenya is one of the major deal recipients with a 27% increase in FDI inflows to \$1.6 billion in 2018 which went to different sectors: energy, manufacturing, hospitality and chemicals, oil and gas. Consistent growth in GDP per capita, from \$1,322 in 2013 to \$2010 in 2018, implies higher purchasing power of the people and ability to pay for public services under

77) <https://www.doingbusiness.org/content/dam/doingBusiness/media/Profiles/Regional/DB2020/SSA.pdf>

user-pay PPP models. The country has a sound macro-economic conditions are also boosting confidence among investors thus attracting foreign capital into the country.

FDI prospects for Africa in 2020 remain negative amid the pandemic, the economic impact of which is being compounded by extremely low oil prices. UNCTAD's forecast of a 25-40 per cent decline is based on GDP growth projections as well as a range of investment-specific factors. Projected GDP growth for the continent has already been downgraded from 3.2 per cent to -2.8 per cent, and trade is also set to contract (IMF, 2020a). Due to the widespread economic uncertainty and restrictions in movement, many announced and planned investment projects are likely to be either shelved or put on hold. As of April 2020, the number of cross-border M&As targeting Africa had declined 72 per cent from the monthly average of 2019 (Figure 10).

Figure 10: Average monthly number of cross-border M&A, 2019 and January-April 2020 (Number)

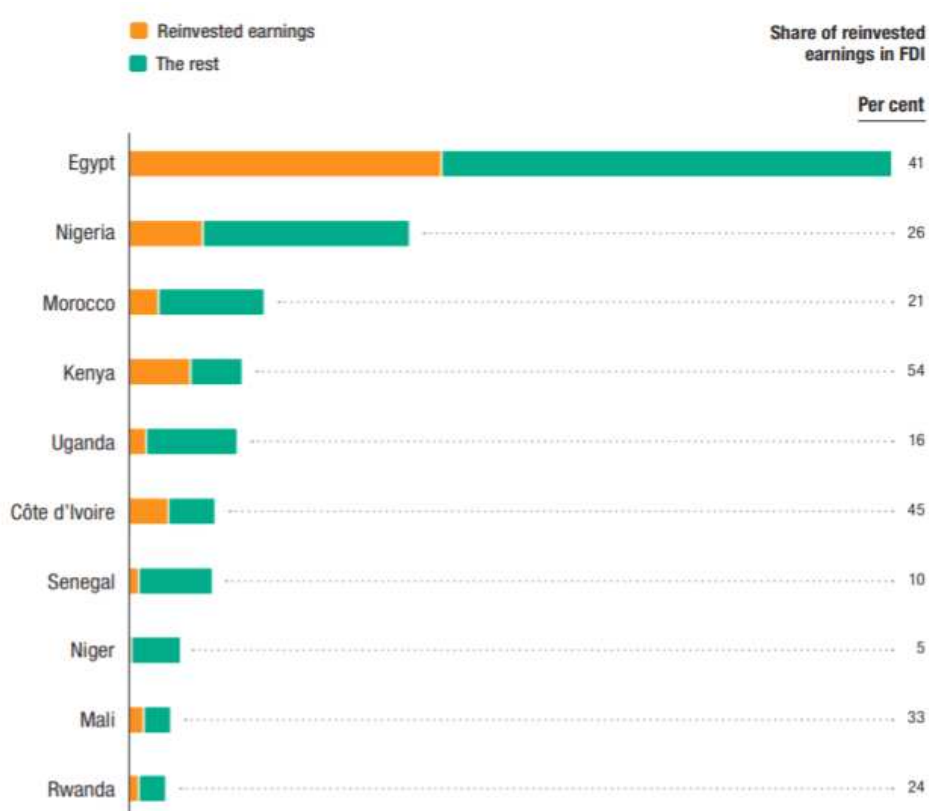


Although the pandemic will affect all industries, several services industries are being hit disproportionately, including aviation, hospitality, tourism and leisure. These industries cumulatively contributed to approximately 10 per cent of the \$77 billion in announced greenfield projects in Africa in 2019.

The economic and investment implications for FDI of the pandemic in Africa will be further compounded by the oil glut in global markets, which is causing extremely low oil prices as well as declining commodity prices in general. A large part of FDI to Africa is resource seeking, with 40 per cent of all greenfield project announcements in 2019 targeting industries directly linked to natural resources. The expected earnings of African MNEs that are among the world's 5,000 largest MNEs have been revised down by 27 per cent since the start of the pandemic. The expected earnings of MNEs from the five largest investors in Africa (the Netherlands, France, the United Kingdom, the United States and China) have also been downgraded significantly. Reinvested earnings of MNEs account for a notable share of FDI inflows in the major recipient economies on the continent, including Egypt (41 per cent) and Nigeria (26 per cent) (figure II.3, on the next page). Therefore, the downward revision of earnings projections will have a tangible impact on investment flows to Africa in 2020. Despite the immediate negative prospects for FDI to Africa, some mitigating factors could limit the extent of the investment decline and help stimulate a recovery in 2021 and beyond. One is the higher value being assigned to investment ties to the continent by major global economies, primarily the United States and China but also the United Kingdom, the Russian Federation and France. Some of the investment initiatives supported by these countries are focused on infrastructure, especially those from China. Others also target natural resources and

manufacturing capacity. The new French initiative, Choose Africa, for example, is designed specifically for small and medium-sized projects that contribute to local manufacturing capacity and employment generation.⁷⁸⁾

Figure 10-2: African FDI Inflows and reinvested earnings in 2019
(Volume and per cent)⁷⁹⁾



Foreign investment incentives have been declared to *crowd-in* more private capital which is a good thing for receiving economies. One such is the declaration that ‘ ‘ Under the Investment Promotion Act of 2004, the Kenya Investment Authority (KIA) will issue an investment certificate to a foreign investor that commits at least \$100,000, under the further condition that the investment is lawful and beneficial to Kenya’ ’ .

78) https://unctad.org/en/PublicationChapters/WIR2020_Regional_FDI_at_a_glance_Africa.pdf

79) <http://www.unctad.org/fdistatistics>

Just behind Ethiopia, FDI flows to Kenya increased by 27% to \$1.6 billion in 2018 from \$505million in 2013.

“The country will further rise into a regional hub for energy, services and manufacturing as these explorations comes to fruition”

– UNCTAD (2018)

Financial Services Structure

Kenya’s financial services sector is one of the most diverse, structured and complex in Africa. The national treasury is responsible for Kenya’s financial ecosystem by providing overall policy oversight for the financial sector. Financial services are one of the key sectors factored within the economic pillar of Kenya Vision 2030. Financial service providers are diverse they include 42 commercial banks, 49 insurance companies 12 deposit taking microfinance banks and 199 registered Savings and Credit Cooperative Societies (SACCO’s). The activities in the various sub sectors are distinct and have separate laws that guide their operations. Growth in the sector is mainly driven by mobile financial services. There are five main actors regulating the financial sector activities: the Central Bank of Kenya (CBK), Insurance Regulatory Authority (IRA), Capital Markets Authority (CMA), Retirement Benefits Authority (RBA) and the SACCO Societies Regulatory Authority (SASRA)⁸⁰.

80) **The Central Bank of Kenya (CBK):** Regulates the Banking sector by formulation of monetary policy to achieve and maintain stability; Supervises commercial banks through enforcement of the Banking Act regulations; Facilitates and provides oversight on national and regional payment systems. **The Insurance Regulatory Authority (IRA):** Licenses insurance and reinsurance companies, insurance brokers, agents, assessors, adjustors and health management organizations (HMOs) In accordance with the Insurance Act regulations; Regulates, supervises and develops the insurance industry in Kenya. **Capital Markets Authority (CMA):** Licenses and supervises all the activities of capital market intermediaries; Ensures proper conduct of all licensed persons and market institutions } Regulates the issuance of the capital market products (bonds, shares etc.). **Retirement Benefits Authority (RBA):** Regulates and supervises the establishment and management of pension schemes; Protects the interest of members and sponsors of retirement benefits schemes } Develops and promotes the retirement benefits sector. **SACCO Societies Regulatory Authority (SASRA):** Licenses SACCO societies to carry out deposit-taking business in accordance with the SACCO Act; Regulates and supervises deposit taking savings and credit cooperative societies.

Table 10: Summary of the Tax, Legal, Regulatory and Accounting Considerations⁸¹⁾

Item	Details
Overview of the tax regime in Kenya	<p>Below is a highlight of the tax obligations that investors need to comply with:</p> <ul style="list-style-type: none"> • Corporation Tax - The established entity will be liable to income tax on its taxable income. The tax rates will be 30% for a locally incorporated company and 37.5% for a branch. Annual corporate tax obligations will include filing of self-assessment returns and payment of instalment taxes as applicable. • Value Added Tax (VAT) - The CRM services to be provided would qualify as taxable services under the Value Added Tax Act, 2013 (VAT Act). This being the case, the established entity would need to register for VAT in Kenya if it expects its annual turnover to be at-least KES 5 million (approx. USD 50,000). Once registered, the entity will need to charge VAT at the following rates: <ul style="list-style-type: none"> ○ At the standard of 16% where the services are provided to a person and that person consumes the services in Kenya; and ○ At 0% in the case of exports - i.e. where the services are consumed outside Kenya. <p>The entity will also need to comply with VAT filing requirements on a monthly basis.</p> <ul style="list-style-type: none"> • Employee Taxes - Employees in Kenya are subject to Pay as You Earn (PAYE), which the employer is required to account on a monthly basis. The top tax rate on an employee's emoluments is currently at 30%. The employer will also be required to account for other statutory deductions such as social security contributions and health insurance contributions. Foreigners/ expatriates must obtain work permits in order to provide employment services to a Kenyan employer.
	<p>Below is a highlight of the tax obligations investors need to comply with:</p> <ul style="list-style-type: none"> • Withholding Income Tax - Irrespective of the investment vehicle established in Kenya, the established entity will be required to withhold tax at the appropriate rates on certain payments such as management or professional fees, royalties, interest, dividends and rent. The applicable withholding tax rates on some of the major payments is as below: • Reduced rates may apply where payment is made to a non-resident based in a country that has a Double Taxation Agreement (DTA) with Kenya. • Customs Duties - Taxes and levies charged on imports include import duty, excise duty, import VAT, Railway Development Levy (RDL) and Import Declaration Fee (IDF). <ul style="list-style-type: none"> ○ Import duty normally ranges from 0% to 25% of the cost insurance and freight (CIF). Other sensitive products may attract duty above 25%. ○ Excise duty on the other hand applies on only a few items such as vehicles. The applicable duty may be specific or ad valorem. ○ Import VAT applies on the CIF value plus excise duty (if any). The rate of VAT may be NIL or 16% depending with the nature of the imported products. ○ RDL applies at 1.5% of the CIF value of all imports; and ○ IDF applies at 2% of the CIF value of the imports.

81) Investors should anticipate a few variances that will manifest differently from sector to sector

Item	Tax considerations
Transfer pricing considerations	<ul style="list-style-type: none"> • Transactions between a resident person and a related non-resident person should be documented in a transfer pricing policy to ensure adherence to the arm's length principle. • All transactions between resident entities and their related or affiliated non-resident parties should also adhere to the arm's length principle.
Social labour laws applicable in Kenya	<ul style="list-style-type: none"> • Kenya's social labour laws are anchored in the Employment Act, 2007. The Act provides among other things that: <ul style="list-style-type: none"> • An employee should have at least one rest day in every period of seven days; • An employee is entitled to annual leave of at-least 21 days in a 12-month period; • A female employee is entitled to at least 3 months maternity leave; • A male employee is entitled to at least 2 weeks paternity leave. • After two consecutive months of service, an employee would be entitled to sick leave of at least seven days with full pay and thereafter to sick leave of seven days with half pay, in each period of twelve consecutive months of service; • An employer is responsible in ensuring that an employee has been provided with reasonable housing accommodation, sufficient supply of water and food and access to medical attention. • That either party can terminate an employment contract upon giving the stipulated notice or making payment in lieu of notice.
The applicable accounting rules	<ul style="list-style-type: none"> • The established entity will need to comply with the requirements of the International Financial Reporting Standards (IFRS), as Kenya has fully adopted these standards. • The first accounting period of a company can range from six months to 18 months. The subsequent accounting periods should however be 12 months. • The directors of a company are responsible for the preparation of the company's financial statements and ensuring that the financial statements are audited in accordance with the Companies Act, 2015 and the International Standards of Auditing.

Amendment of the Rate of Tax Remissions (April, 2020)

Taxes play a fundamental role in Kenya's sovereignty. Kenya Revenue Authority(KRA) significantly funds its national budget through Taxes. To mitigate the effects of COVID - 19 to the Kenyan economy, the Government has proposed various measures including the following:

- Reduction of Personal Income Tax top rate (PAYE) from 30%

to 25%

- 100 % Tax Relief for persons earning up to Ksh. 24,000
- Reduction of Resident Corporate Income Tax rate from 30% to 25%
- Reduction of Turnover Tax rate for SMEs from 3% to 1%
- Immediate reduction of VAT rate from 16% to 14%

Further to this, the Government has implemented the following measures:

- Suspension of all listing for all persons including companies at Credit Reference Bureau (CRB)
- Lowering of Central Bank Rate (CBR) to 7.2%
- Lowering of Cash Reserve Ratio (CRR) to 4.2%
- Central Bank of Kenya to offer flexibility to banks on loans that were active as of March 2020 to maintain liquidity levels
- Facilitating expedited payment of VAT Refunds by allocating an additional Ksh. 10B
- Setting up a fund to which players in the Public and Private Sector are contributing in support of Government efforts

Kenya Revenue Authority(KRA) is also encouraging taxpayers to access tax services on our online platforms.

- For Domestic Taxes and all frequently requested services, log on to <https://itax.kra.go.ke/KRA-Portal/>
- For Customs related taxes, log on to iCMS (Integrated Customs Management Systems) and the Simba System
- For Supply Chain Management (SCM) or e-procurement, log on to <http://www.kra.go.ke/en/tender>
- For additional support, call our Contact Centre on Tel: 020 4 999 999, 0711 099 999 or Email: callcentre@kra.go.ke

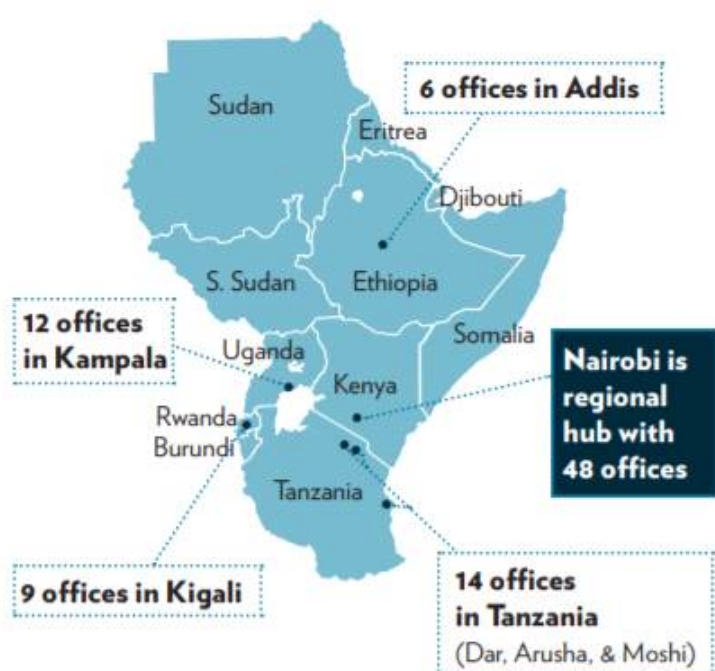
Kenya Foreign Liabilities

According to the Kenya National Bureau of Statistics (KNBS, 2018), Kenya had foreign liabilities equivalent to Ksh 1,381,197 million (Ksh 1.4 trillion or \$ 13.81 billion) in 2017 due to FDI and other investment. These investments are broadly categorized into Foreign Direct Investment (FDI), Portfolio Investment (PI), Financial Derivatives and Other Investment (OI). Foreign Direct Investment and Portfolio Investment comprise equity and investment fund shares and debt instruments/securities, while OI includes other equity, currency and deposits, trade credit and advances, loans, insurance, pension and standardized guarantees and other accounts payables. Moreover, the East African Community (EAC) region has nearly USD 2.5 billion in capital committed to member countries most of which may be deployed in Kenya than any other EAC partner state.

This increase in impact investing activity in Kenya, however, represents only a small part of the overall capital landscape. Commercial banks, SACCOs and chamas together have almost USD 39 billion in total assets under management and there are other sources of capital, such as commercial private equity funds, hedge funds, and others, that even further increase assets under management. Banks had more than USD 17 billion in loans outstanding in 2013 alone, which is almost 27 times the disbursements made by non-DFI impact investors and more than 4 times more than disbursements made by all impact investors over the same period. Trends in the industry include consolidation of smaller banks to meet capital ratio thresholds set by the Central Bank of Kenya and expansion of Kenyan Banks to countries like Rwanda, Uganda, DRC, Burundi, Tanzania, South Sudan and Ethiopia.

Almost half of all impact capital disbursed in East Africa has been placed in Kenya—representing at least USD 650 million of non-DFI capital and more than USD 3.6 billion of DFI capital. Nairobi is so central to the impact investing industry in East Africa that some impact investors have begun to voice concerns that the Nairobi market may be saturated.

Figure 11: Impact investors with local offices



Source: Open Capital Research

Overall, the regulatory climate in Kenya supports foreign investment across several dimensions:

- Repatriation of profits and dividends
- Foreign exchange controls
- Leasehold structure for foreign land ownership
- Local ownership requirements:

Kenya does not restrict foreign investors from owning shares in a company for few specific industries such as insurance (wherein foreign ownership is capped at 66.7%), telecommunications (80%),

mining (65%), shipping (49%), fisheries (49%) and publicly listed companies (75%). Also, foreign brokerage companies and fund management firms are only allowed to participate in the Kenyan capital market through locally registered companies, which must have Kenyan ownership of 30% and 51% respectively⁸²). On a good note, there are no prohibitions on the acquisition of Kenyan firms by foreign-owned firms or on joint venture arrangements between Kenyans and foreigners.

5 Technological Profile

On technology, Kenyans are tech savvy and the country is a global leader in adoption of mobile financial services. Kenya's high digital connectivity means that user-pay PPP projects can be more feasible if well positioned in terms of solving user needs at an affordable price range.

Key recent trends on technology in Kenya

- Successful analogue to digital transition in 2014-2015 means that Kenyans have access to a wide array of global content
- Mobile money-remittances across regions and internationally through MPESA which is inter-operable with facilities such as Western Union. This has enabled e-commerce trade with 50% of Kenyans in urban residents being online.
- Technological disruption in Kenya has permeated all sectors including: financial services, transport, health, education, agriculture
- The digitalization of government public services is a model for service delivery which can be replicated in other countries
- Telkom fiber optic sea-cable infrastructure project by Telkom Kenya

⁸²) This regulation pertains specifically to public markets, and does not apply to private placements common for impact investors.

The FinAccess 2019 shows 83% of Kenyans have access to a formal financial account. This growth is driven by mobile money innovation. Innovations in technology include adoption of alternative business channels by Financial Service Providers (FSPs) such as agency banking which has enabled access to financial services. Leading retail banks in Kenya facilitate up to 85% of transactions outside the banking halls. Other innovations in banking include internet banking, mobile banking, trade financing and instant mobile loans. The country has also witnessed proliferation of digital lending technology using evolving credit scoring models.

6 Environmental Profile

Kenya is globally recognized as a champion on sustainable development by the United Nations. Kenya's climate action agenda will prioritize PPP projects focused on the following outcomes:

- Reduced greenhouse gases emission
- Increased access to clean energy
- Transition from fossil to clean energy
- Energy efficiency

Kenya is leading in transition to clean energy with four fifths of its electricity being generated from renewable energy sources. The PPP pipeline as of October 2019 shows that, majority of the PPP projects at various stages are green. These projects include the following:

Table 11: A Sample of Green PPP Project Pipeline in Kenya

Project Name	Description	Status	PPP Model
35MW Sosian Menengai Geothermal Power Plant Project	Green field geothermal electricity generation project whose objective is to increase the installed national capacity by 35MW from geothermal resources	Commercial Close	BOO (Build-Own-Operate) PPP model for 20 -25 years.
35MW Quantum Menengai Geothermal Power Plant Project	The project is a green field geothermal electricity generation project whose objective is to increase the installed national capacity by 35MW from geothermal resources	Commercial Close	BOO (Build-Own-Operate) PPP model for a period of 20 -25 years.
140 MW Geothermal Olkaria VI	140MW project	Tender/Procurement	Build-Own-Operate-Transfer (BOOT) term of 25 years
Nanyuki Bulk Water Supply	Establishment of a 32m high embankment dam on the Likii Central River, with 3.9Mm3 of storage; The project also includes increasing the capacity of the treatment facility to 21,600m3/day, expansion and rehabilitation of the water distribution network in Nanyuki town.	Ready for tender	Build Operate Transfer (BOT) PPP arrangement for a period of 30 years
40MW Solar Power Plant at Muhoroni, Kisumu County	Procure an independent power producer for generation of 40MW solar energy at the Muhoroni area of Kisumu County.	Proposal stage	
Transmission Expansion Programme	Development of a pilot 94 KM of transmission lines on a PPP basis. The five priority lines are Malindi (Weru)- Galana (51 KM, 220 KV), Rongai-Keringet (43 KM, 220 KV)	Provision of transaction advisory (TA) Services- Preparation is underway for procurement of TA to undertake PPP Feasibility Study and support CA during project tender, through to Commercial and Financial Close.	
400MW Wind Plant at Meru/Isiolo	Development of a 400MW wind farm power plant at Meru, occupying an area of about 18,000 acres, through private sector participation as Independent Power Producers (IPPs).	Awaiting guidance from the contracting authority	

It is clear from the above highlight that the country is keen on following a development path that is in harmony with environmental sustainability in various sectors of the economy besides energy. Key opportunities in PPP projects in future are likely to focus on green housing, green industrial parks, wind, solar and tidal energy generation among others.

IV. A Spotlight on Sectoral Opportunities

1 Opportunities for Investment in Energy Infrastructure

Energy has been termed as the key to unlocking the next frontier of growth in Africa. Sub-Sahara Africa has an average higher demand of electricity than supply. This is constrained by the low household electrification rates where about 65% are estimated to have no access to electricity. Although Sub-Saharan Africa consumes less electricity than Brazil, by 2040 its demand will reach a level equal to 2010 consumption in Latin America and India combined. Only eight countries—Cameroon, Côte d’Ivoire, Gabon, Ghana, Namibia, Senegal, Kenya and South Africa—have electricity access rates exceeding 50%. Moreover, even where there is access to electricity, there may not be enough to go around without outages.

Sub-Saharan Africa is incredibly rich in potential renewable power-generation capacity, and offers a unique combination of transformative potential and attractive investment opportunity. Excluding solar, Mckinsey estimate there is 1.2 terawatts of capacity; including solar, there is a staggering 10 terawatts of potential capacity or more. There is potential for about 400 gigawatts of gas-generated power, with Mozambique, Nigeria and Tanzania alone representing 60 percent of the total capacity. SSA has potential for about 350 gigawatts of hydro, with the Democratic Republic of the Congo (DRC) accounting for 50 percent of it. Moreover, the region has about 300 gigawatts of coal capacity, with Botswana, Mozambique, and South Africa representing 95 percent of this; and 109 gigawatts of wind capacity, while proven geothermal resource

potential is only 15 gigawatts, but this is an important technology for Ethiopia and Kenya which hold 80 percent of it.

Even in the absence of active incentives, more than 25% of total energy in 2040 would come from clean sources—geothermal, hydro, solar, and wind—compared with 21 percent today, most of which is from hydroelectric sources. If Sub-Saharan Africa aggressively promotes renewables and clean energy solutions, it could significantly advance access to electricity and energy, and could potentially obtain significant reduction in CO2 emissions.

Electricity consumption and economic development are closely linked because growth will not happen without a step change in the power sector. Success will propel economic growth of the continent and greatly enhance the lives of hundreds of millions of people, as well as potentially create a thriving electricity-supply industry and an associated 2.5 million temporary and permanent jobs across the continent⁸³).

4.1.1. Energy Sector Situation in Kenya

Kenya has 2.3 GW of installed on-grid capacity across 42 plants, plus an additional 11.5 MW in 19 off-grid stations in remote parts of the country (Energy Regulatory Commission (ERC), 2015). Kenya's installed capacity consists of 85% renewable sources, with enormous potential to expand that base (see Table 12 for energy mix breakdown). According to the Ministry of Energy and Petroleum (MoEP), the country has the potential to produce 10,000 MW of geothermal power from the Rift Valley Basin. Most of the electricity generation for on-grid stations is concentrated in Nairobi, central,

⁸³) Mckinsey, Powering Africa

coast and western regions of the country. The installed capacity in power stations located in these regions range from 3MW to over 120MW. Eastern and Upper North Eastern regions of the country are largely served by off-grid electricity whose capacity is below 3MW. However, the Eastern hydro power stations and Lake Turkana Wind Power projects which are biggest energy projects in Kenya and the largest wind farm in Africa are located in the Eastern and North Eastern regions respectively.

Table 12: Kenya Electricity Generation Map - Country Energy Mix (2019)⁸⁴⁾

Source of Electricity	Capacity (MW)	Percentage (%)
Hydro	818	45%
Geothermal	707	39%
Thermal	254	14%
Wind	26	1%
Total	987	100%

The United Nations Environment Program (UNEP) further estimates that Kenya's wind capacity could be as high as 3,000 MW. Around 30% of Kenya's installed capacity is owned and operated by Independent Power Producers (IPPs) across 15 plants, including 3 small-scale hydro plants, 1 geothermal plant, 1 biomass plant and 10 fuel oil plants. The remaining 70% capacity is owned and operated by KenGen.

Even though in terms of per capital electricity consumption Kenya is ahead of larger economies of Sub-Sahara Africa such as Nigeria, the country is still way behind South Africa (USAID data). Kenya has an installed capacity of 2,500MW with population of 47 million while South Africa's installed capacity 45,000MW for a population of 58 million. The energy sector in Kenya is still dominated by petroleum,

84) USAID Kenya power sector assessment report, April 2013; CSL research; ERC, 2015

with wood fuel providing the basic energy needs of the rural communities, urban poor and the informal sector. Wood fuel and biomass provide 68% of the total energy consumption whereas 36% of the population lack access to electricity in 2019. In 2014, 17.7 percent of energy was imported while 17.38 percent of energy was derived from fossil fuels. In the era of sustainable development, Kenya has embarked on the path of exploration of crude oil for export and tapping geothermal and wind for renewable energy.

Table 13: Selected trends in the Kenyan energy sector (demand and supply side)⁸⁵⁾

Aspect	Period 2014/15	Period 2020 (projections)
Penetration (population with access to on-grid electricity)	46%	70-80%
Per capital power consumption	161 kWh compared to 126 kWh in Nigeria	
Installed generation capacity	2,300MW	5,000MW
Independent Power Producers (IPPs)	30%	80%
Geothermal	26%	50%
Additional transmission lines	4149km	4,200km

⁸⁵⁾ Power Africa (2019)

On the demand side, it costs the average customer approximately Ksh 35,000 (\$350) to connect to the national grid and about \$0.15 per kWh of electricity service which are relatively high costs that impair the speed of expansion of electricity connections to low-income households and rural areas. This, therefore presents an opportunity which suppliers of decentralized alternative sources of energy, such as solar are keen to exploit. Even though in terms of per capital electricity consumption Kenya is ahead of larger economies of Sub-Saharan Africa such as Nigeria, the country is still way behind South Africa. Kenya has an installed capacity of 2,500MW with population of 47 million while South Africa's installed capacity is 45,000MW for a population of 58 million.

The country's power sector is regarded as success story in sub-Saharan Africa region in terms of rapid growth in electricity connectivity (access), development of renewable sources and a strong enabling environment for innovation in off-grid solutions. This success is attributed to strong leadership at the highest levels of Government and huge participation of the private sector in generation of electricity. The policy and regulatory environment in Kenya are fairly advanced, with significant and growing IPP presence, unbundling and partial privatization of national utilities and cost reflective tariffs.

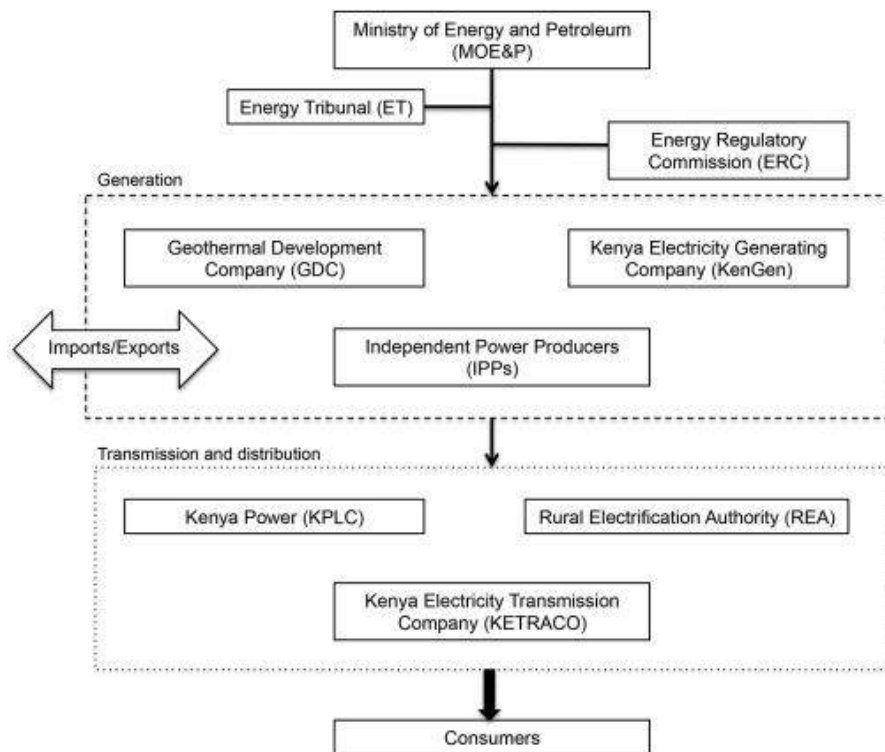
4.1.2. Kenya's Electricity Sub-Sector Structure⁸⁶⁾

Kenya's power structure comprises of generation, transmission and distribution. On the generation side there are three categories of actors: Geothermal Development Company (GDC), KenGen and

⁸⁶⁾ Government of Kenya. 10 Year Power Sector Expansion Plan 2014–2024. Nairobi; 2014. The Energy Regulatory Commission (ERC) is now called the Energy and Petroleum Regulatory Authority (EPRA)

private sector including Development Finance Institutions (DFIs).

Figure 12: The Organization Structure of Kenya's Electricity Sub-Sector



The transmission is done by Kenya Electricity Transmission Company (KETRACO). Distribution is undertaken by the Kenya Power (Formerly KPLC) facilitated by the Rural Electrification Authority (REA), the national treasury, the Government of Kenya and the private sector. Geothermal Development Company (GDC) is domiciled in the Ministry of Energy and Petroleum (MoEP). GDC was created following the unbundling of the energy sector into entities that are focused on the various stages of the energy value chain as provided for by the Energy Act of 2006. All players are assigned clearly defined roles. Other agencies within the MOEP include: The Energy and Petroleum Regulatory Authority (EPRA) formerly called Energy Regulatory Commission (ERC), Kenya Electricity Generating

Company (KenGen), Kenya Power and Lighting Company, the Rural Electrification Authority (REA), Kenya Electricity Transmission Company (KETRACO), Kenya Nuclear Electricity Board (KNEB), Kenya Pipeline Company (KPC), National Oil Corporation of Kenya (NOCK) and the Kenya Petroleum Refinery Limited.

4.1.3. Investment Opportunities for Cross-Border Trade Between Net Power Producers

South Africa, Ethiopia, Angola, Ghana, Cote d' Ivoire and Kenya are among the net producers of electricity in SSA with net power consumers being Nigeria, Mozambique, Tanzania and Zimbabwe. However, the transmission and distribution infrastructures requisite for facilitation of the cross-border trade is lacking and would require large and long-term capital investments. Decomposition of electricity demand and supply in Sub-Sahara Africa is shown by Table 14.

Table 14: A Listing of Net Power Producers and Net Consumers in SSA

Eastern Africa		Southern Africa		West Africa	
Ethiopia	3.7	South Africa	40.1	Nigeria	-13.6
Uganda	1.2	Mozambique	-1.3	Cote D'Ivoire	2.1
Tanzania	-1.5	Namibia	-1.2	Cameroon	0.2
Rwanda	0.1	DRC	-0.9	Ghana	3.8
Kenya	0.3	Zimbabwe	-0.8	Liberia	0
		Botswana	0.3	Mauritania	0.1
		Zambia	-0.8	Senegal	0.1
		Malawi	-0.5	Sierra Leone	-0.1
		Angola	10.5	Guinea	0.8
		Lesotho	-0.4	Gambia	-0.3
		Eswatini	-0.6	Togo	0.2
				Benin	-0.3
				Mali	0.2
				Guinea Bissau	-0.1
				Burkina Faso	-0.7
				Niger	-0.4

Many countries experience a shortage in electricity supply. These countries include Nigeria (-13.6 MW) Tanzania, Mozambique, Namibia among others. The regulation on policy requirements in generation, transmission and distribution varies among SSA economies. In Nigeria, the regulation allows standalone and captive energy projects whereby an investor can sell the energy to the retail market households at a market rate tariff off the national grid. However, in Kenya, generation, transmission and distribution regulation requires investors to engage in Public Private Partnerships or off-taker agreements with the mandated agencies. Here is a spotlight on Kenya's energy sector opportunities. Kenya's energy regulatory structure constitutes of generation, transmission and distribution government corporations: KenGen, Kenya Electricity Transmission Company (KETRACO), Kenya Power (Formerly KPLC) and Rural Electrification Authority (REA) in charge of distribution. For Geothermal, the Geothermal Generation Corporation (GDC).

Low understanding among energy sector professionals about PPPs is among the key constraints when building a pipeline of bankable energy projects. According to key informants, Kenya has many professionals in the energy sector however they are largely qualified in technical skills. What is missing is the business capacity to undertake business case modelling and how to pitch infrastructure development proposals to potential partners. At the county level, more capacity building support will be required to develop viability of pipeline detailed below.

2 County Level PPP Pipeline⁸⁷⁾

Kenya has 47 sub-national (county) governments which have a devolved legislature and executive devolved government units since 2013 under the 4th schedule of the 2010 constitution. At that level, PPP regulations are being drafted to achieve clarity on the roles of national and county government in PPP planning and implementation of projects cutting across. Water bill and other supportive regulations are ongoing to unlock PPPs in health, education, water, sanitation sectors. Opportunities at the county level are manifesting increasing accountability and improved decision-making at the county level. Capacity building is required to build quality PPP Pipelines.

The following pipeline of proposed PPP projects is drawn from the County Integrated Development Plans (CIDPs) of 11 counties Vihiga, Nairobi, Nakuru, Machakos, Kisumu, Bungoma, Wajir, Mombasa, Embu, Uasin Gishu, Lamu selected simply randomly on the basis of geographical spread. While the sectors are quite diverse, there is markable concentration on roads, energy, housing, industry, tourism and solid waste management sectors. Even though overall counties are still learning the ropes about the position of PPPs in infrastructure procurement, three counties stand out as having a better to take advantage of PPPs for planned projects: Vihiga, Nakuru and Kisumu.

87) <https://cog.go.ke/downloads/category/106-county-integrated-development-plans-2018-2022>

4.2.1. County Projects with High Potential PPP roll out

Granted that the pipeline at national level shows that virtually all counties have potential for PPPs, out of the counties sampled by this report, only two projects are mapped for implementation by the PPP Unit that are under the contracting authority of county governments:

(1) Nairobi Solid Waste Management

- Project is at proposal stage. It will result in collection, transporting, recycling, sorting, landfill and generation of power for the solid waste management for Nairobi by the private party.

(Contracting Authority: Nairobi City County government.)

(2) Nakuru Integrated Solid Waste Management

- Project is at feasibility study stage and its environs an Integrated Solid Waste Management by enhancing the Solid Waste Re-use, Recycle and Reduction (3Rs) principles in Nakuru, Naivasha, Molo, Njoro, Mai Mahiu, Mau Narok, Gilgil and Kabazi areas.

(Contracting Authority: Nakuru County government.)

Other county level PPP projects mapped by PPP unit but outside the sampled counties of Vihiga, Nairobi, Nakuru, Machakos, Kisumu, Bungoma, Wajir, Mombasa, Embu, Uasin Gishu, Lamu are⁸⁸):

⁸⁸) This list is as of March 2020 so it is by no means exhaustive. New projects are coming up literally every day

No.	Project	Sector	Contracting Authority	Status / Description
1	Nanyuki Bulk Water Supply	Water	Laikipia County	<ul style="list-style-type: none"> • Status - Ready for tender • Description - Establishment of a 32m high embankment dam on the Likii Central River, with 3.9Mm3 of storage using the Build Operate Transfer (BOT) PPP arrangement for a period of 30 years; The project also includes increasing the capacity of the treatment facility to 21,600m3/day, expansion and rehabilitation of the water distribution network in Nanyuki town.
2	Development of Murangá Water Supply	Water	Murang'a County	<ul style="list-style-type: none"> • Status - Feasibility complete; Pending Approval • Description - Rehabilitation of the existing water system and laying of a new 15 km water system within Murang'a Town/Mukuyu via a PPP framework in an effort to facilitate the supply of clean, quality and affordable water to its residents, while benefiting from the operational efficiencies of the private sector. The project structure is an Operator Contract for a period of 10 years.
3	Development of Nyamira County 350-Bed Specialty Hospital	Health	Nyamira County	<ul style="list-style-type: none"> • Status - Provision of Transaction Advisory (TA) Services- Preparation is underway for procurement of TA to undertake PPP Feasibility Study and support CA during project tender, through to Financial Close. • Description - Development of a new 350 Bed Specialty Hospital, adjacent to the existing Nyamira Level 5 Referral Hospital.
4	Development of a 200 Bed Amenity Wing at the Kisii Teaching and Referral Hospital	Health	Kisii County	<ul style="list-style-type: none"> • Status - Preparation is underway for procurement of TA to undertake PPP Feasibility Study and support CA during project tender, through to Commercial and Financial Close. • Description - Development of a 200 Bed Amenity Wing at the Kisii Teaching and Referral Hospital (KTRH).
5	Development of a Cancer Care Center at the Meru Level-5 Referral Hospital	Health	Meru County	<ul style="list-style-type: none"> • Status - Preparation is underway for procurement of TA to undertake PPP Feasibility Study and support CA during project tender, through to Commercial and Financial Close. • Description - Development of a Cancer Care Center at the Meru Teaching and Referral Hospital.
6	Development of Muguga Agri-City	Urban planning	Kiambu County	<ul style="list-style-type: none"> • Status - Proposal stage • Description - Development of an agriculture-focused industrial park, the Muguga Agri-City. The project components would include an aggregation center; modern slaughterhouses and processing facilities for dairy, pork, and poultry; Fruit processing plant; Banana processing plant and animal feed processing plant.

Table 15: PPP Pipeline Projects in Vihiga County

Sector	Project	Objectives	Partners ⁸⁹⁾	Budget (Ksh m)
Tourism	Promote establishment of a tourist hotels in the County	To increase tourism accommodation and recreation (eco lodges)	CGV PPP	250
	Create a recreational park	To facilitate and avail recreational facilities for Improved social wellbeing	CGV PPP	200
	Mapping of potential and rehabilitation tourist sites	To identify, map and develop potential tourism sites	CGV PPP	200
Agriculture	Establishment of Agriculture Training Centre (ATC)	To facilitate training of farmers and stakeholders	CGV GoK PPP	300
Industry	Establish granite products processing and value addition factory in the county	To promote investment in granite processing and value addition, job creation and increased incomes from granite products	CGV PPP, GoK	900
	Establishment of industrial parks	Increased industrial investment; Improved incomes	CGV PPP	850
	Promote establishment of a water bottling plant in the County	Increased industrial investment; Improved incomes	CGV EPZ PPP	100
	Promote cottage industry	Increased industrial development; Improved incomes	CGV PPP	100
	Promotion of industrial development	To accelerate industrial development	CGV DPs PPP	500
	Establishment of warehouses in the County	Increased trade	EPZ	300
	Revive Jebrok Coffee factory	To promote coffee farming and improved farmers livelihoods	CGV PPPs	150
Education	Construction, completion and equipping of new and existing ECD centres	To promote access to ECDE	CGV DPs PPP	500
	Capitation of ECD centres	To improve ECDE services	CGV PPPs	200
	Capitation in vocational training centres	To improve VCT services	CGV PPPs	500
Energy	Completion of hydro power generation plant at Kaimosi dam	To generate hydroelectricity	CGV GoK PPP	250
Environment	Waste management project	To facilitate investment in recycling of waste, Reduced waste dumping and littering	CGV DPs PPP	500
	Construction of sanitary facilities	To promote use of sanitary facilities, Reduced health hazards and environmental pollution	CGV PPP	300
	Urban areas beautification	To improve public aesthetic appeal	CGV PPP	100
	Cleaning of urban areas	To improve sanitation and	CGV PPP	300

		cleaning of urban centres		
	Reclamation of degraded land	To regenerate degraded land	CGV PPP	200
	Forestation campaign	To establish tree nurseries in public institutions and tree planting days	CGV PPP	100
Housing	To promote housing project	To improve housing, Affordable housing	GoK DPs PPP	600
	Establishment of town management offices and urban committees and municipality	To improve town management and service provision	CGV PPP	100
Youth, Gender, Sports, Culture and Social Services	Promotion of green jobs	To promote green jobs creation across all county sectors, Youth and gender prioritised for green jobs	GoK DPs PPP	100
	Upgrading of sports grounds	To improve sporting amenities	GoK DPs PPP	500

Table 16: PPP Pipeline Projects in Nairobi City County

Sector	Project	Objectives
Urban renewal	Street benches£	Improved order in the built environment; Advertising platform
	Bus shelters*	Improved order in the built environment; Advertising platform
	Shoeshine booths £	Effective & efficient siting of structures for business operations and managing congestion within City streets.
Environment and Climate Change	Solid waste management (management of waste collection and disposal)	There is need for private organizations to take up critical functions like recycling, transportation and Solid Waste Management. - Nairobi County generates over 2400 tons of garbage per day projected to be 3200 tons per day by year 2022. Under the current scenario only about 60% of generated waste ends up to the final disposal. Approximately 10% of generated waste is recycled with the rest ending up in rivers and other undesignated places. Electronic and Hazardous waste though not the mandate of sector has been of recent found its way to Dandora dumpsite.
Health Access and Nutrition	Modernization of Mbagathi Hospital	New medical wards Constructing modern medical wards
Finance		The county has two major sources of revenue; internal and external. The average revenue from the local sources amounts to Ksh. 10.9 Billion annually as per the last CIDP. This has constituted, averagely, about 48% of the total County budget. Equitable share from the national government has been a major revenue source and constituted an average of 52% of the entire County budget in the implementation of the previous CIDP.

89) Refers to proposed partners: Less than a tenth of projects at county level have been approved for PPP.

Table 17: PPP Pipeline Projects in Nakuru County

Sector	Project	Objectives	Partners ⁹⁰⁾
Energy, Infrastructure and ICT sector	Tarmac 79 Kms of road; gravel 3500Km of roads		
	Install 3000 streetlights		
	Construct four (4) fire-stations, a high capacity underground storage tank and acquire two fire engines for disaster management		
Housing (Urban Renewal & Development of Housing)	Construct 3000 new housing units	Provision of affordable housing in line with the Big-Four Agenda · Promoting appropriate building technologies · Rehabilitation of County Estates · Construction of new housing stock under PPP arrangements	CGN, PPPs
	Rehabilitation of County Estates and construction of new housing stock for improved human settlement patterns	· Development of PDPs for other urban areas Action plans etc. · Implementation of Nakuru County Spatial Plan 2015-2025, Naivasha and Nakuru IUSDPs 2014-2044 and Kenya Urban Support Program · Big Four Agenda on expansion of housing units	CGN, PPPs, Development Partners, State Department of Housing
Environment	Nakuru Solid Waste Management Contracting	Implementation of an Integrated Solid Waste Management by enhancing the Solid Waste Re-use, Recycle and Reduction (3Rs) principles in the following urban areas: Nakuru, Naivasha, Molo, Njoro, Mai Mahiu, Mau Narok, Gilgil, and Kabazi.	
Health	Upgrade five health facilities to Level-4, upgrade Naivasha Sub County Hospital to Level-5 and Nakuru PGH to Level-6	Contribute towards achieving universal health care for all, while reducing disease burden associated with environmental health risk factors and unhealthy lifestyles.	
Agriculture	NARIG - P	Increased agricultural productivity and profitability of targeted rural communities	

90) Refers to proposed partners: Less than a tenth of projects at county level have been approved for PPP.

Table 18: PPP Pipeline Projects in Kisumu County

Sector	Project	Objectives	Partners ⁹¹⁾	Budget (Ksh m)
Tourism	County destination marketing Program	Increased tourist arrivals Increased domestic bed nights	PPP	50M
	Development of Niche Tourism Products	New Monuments and Heritage sites established, Homestays developed across the County, Promoted and marketed Cultural tourism through festivals and Cruise Tourism facilities	PPP	100M
	Business and Conference Tourism Initiative	Increased no. of business and conference facilities, New Convetion Centres developed	PPP	200M
	Development of Lake Recreational Beaches, jetties and recreational centers	Increased tourism activities along the shores of L. Victoria	PPP	100M
	Park/Aqua Parks	An enabling environment for leisure visitors	PPP	50M
	Establish a Kisumu County Tourism Excellence Award Scheme	Motivated tourism sector offering world class services	PPP	50M
	Kisumu County Branding	Positioning Kisumu county as a unique destination	PPP	30M
Sports	Construction of an International Sport center / stadium	An international stadium capable of hosting continental and world games	PPP	2B
Energy	County Climate Change complex (Research, innovation and resource center)	Innovation and Resource center Equipped library Innovation center Greened center Developed media programs Web-based information	PPP	200M
Housing	Redevelopment of old Government housing/Urban renewal	Modernization of government housing	PPP	1.5B
	Estates/Urban Renewal - Kibuye and Lumumba estates	To provide decent and affordable housing to residents of Kisumu	PPP Water	3B
ICT	Security Surveillance System		PPP	200M
Water	Lake front development	To improve business activities along the lake	PPP	?

Table 19: PPP Pipeline Projects in Wajir / Bungoma / Uasin Gishu County

County	Sector	Project	Objectives	Partners	Budget (Ksh m)
Wajir	Agriculture	Establishment of Feed formulation plant		CGW, PPP	20M
		Hides, Skin and Leather Value Addition Equipment and Infrastructure	Purchase of assorted equipment for leather handling and processing	CGW, PPP	50M
		Export abattoir	Completion and equipping of export slaughter house	CGW, PPP	400M
		Purchase of gum & resins materials		CGW, PPP	60.4M
Bungoma	Industry	Cottage industry development			
	Agriculture	Purchase of milk cooler	To promote value addition	PPP	45M
		Livestock development	Disease prevention, dairy output optimization	PPP	>100M
		Establishment of a poultry slaughter house	To promote value addition	PPP	100M
Uasin Gishu		Entrench value addition in markets			

91) Refers to proposed partners: Less than a tenth of projects at county level have been approved for PPP.

Table 20: PPP Pipeline Projects in Mombasa / Lamu / Embu County

County	Sector	Project	Objectives	Budget (Ksh m)
Mombasa	Tourism	Number of full operational International Convention Centres (PPP)		300M
		Green energy generation and utilization		?
Lamu	Agriculture	Promotion and establishment of livestock export zone in Bargoni Budhei area	Establishment of disease-free compartment for processing livestock export	20M
	Fishing	Establishment of fish processing plant/factory	Increase the value of fish and fish product; The works will involve construction and completion of a building to the standards provided for in the National standards on Fish processing establishment. It will accommodate several production lines as per the identified species of interest.	200M
Embu	Housing	Establish low cost housing units within Embu towns	To inject housing units to the market which will be rented at low cost; Built 5000 units of houses through PPPs	570M
	Energy	Embu Solar park	Generate Power using renewable sources of energy; A station with a generation capacity of at least 500KW	250M
	Tourism	Eco lodges constructed	Increase tourist arrivals; open new routes	330M
	Recycling	One waste to energy plant	Convert solid waste into energy using gasification	50M
	Fisheries	Fish farming Productivity improvement	Facilitate PPP in seed and feed production; Construction of 1,000 fish ponds; Purchase of 1m fingerlings	150M

3 National Level PPP Pipeline

The national pipeline of projects is enumerated by the PPP Unit as 79 by September 2019 of which 68 were listed under the national government⁹²⁾. The projects cut across all sectors of the economy from health to transport, education, industry, housing and agriculture. Some of the more renowned investment projects in infrastructure under the history of PPP arrangements in Kenya include the following:

Ongoing projects

USD 14.5 billion Konza Technology City “Silicon City” IT hub to be built on 5000 acres of land in Machakos County

USD 5.5 billion Lamu Port Southern Sudan - Ethiopia Transport (LAPSSET) Corridor Construction of Lamu Port headquarters is in progress.

USD 654 million Jomo Kenyatta International Airport expansion comprises of a 178,000m² facility complemented by Nairobi Commuter Rail Service linking the city center to the airport.

Completed projects

USD 3.6 billion Standard Gauge Railway links Kenya’s Indian Ocean port city of Mombasa to the capital Nairobi

USD 366 million The Port of Mombasa harbour channel was deepened by 15 meters and widened to 500 meters to accommodate larger vessels.

USD 360 million Construction of the eight-lane controlled-access 50km Nairobi- Thika superhighway was completed in 2012. It has led to the emergence of new

Under “ongoing projects” above is **LAPSSET**, one of the flagship infrastructure projects under Kenya Vision 2030. LAPSSET involves mega development of a transport corridor linking a new and modern Port of Lamu (Coast region) with the Northern region of Kenya and horn of Africa (Garissa, Isiolo, Maralal, Lodwar and Lokichogio and

92) <http://www.pppunit.go.ke/ppp-pipeline/#>

branching at Isiolo to Moyale at the border with Ethiopia and proceeding to the border with Southern Sudan). The corridor to comprise of: (1) Standard gauge railway line; (2) Road network; (3) Oil pipeline (Crude and product); (4) Oil refinery (at Isiolo and Lamu); (5) International Airports (Lamu, Isiolo and Lokichogio); (6) Port at Lamu (Manda Bay) and (7) Resort cities (Lamu, Isiolo and Lake Turkana). The project was conceived under the immediate previous political regime which governed from 2002 to 2013 with some of the projects still ongoing under the current political leadership.

V. Financing Infrastructure in Kenya

1 Financing Infrastructure in Sub-Saharan Africa

Investments are flowing into Africa but this pattern is consistent mainly in leading economies: Nigeria, Ethiopia, Ghana and South Africa. While the spread of these investments is uneven across different parts of the continent, a look at Foreign Direct Investments (FDI) to Africa indicates that remittances continue to be gaining importance in different economic sectors. Foreign direct investments and private equity transaction, funded in part by Development Finance Institutions are on an upward long-term trajectory. Although official development assistance (ODA) has been important to Africa's development over the decades and remains important to support development in lower income countries and more fragile segments, ODA flows remain, overall stagnant.

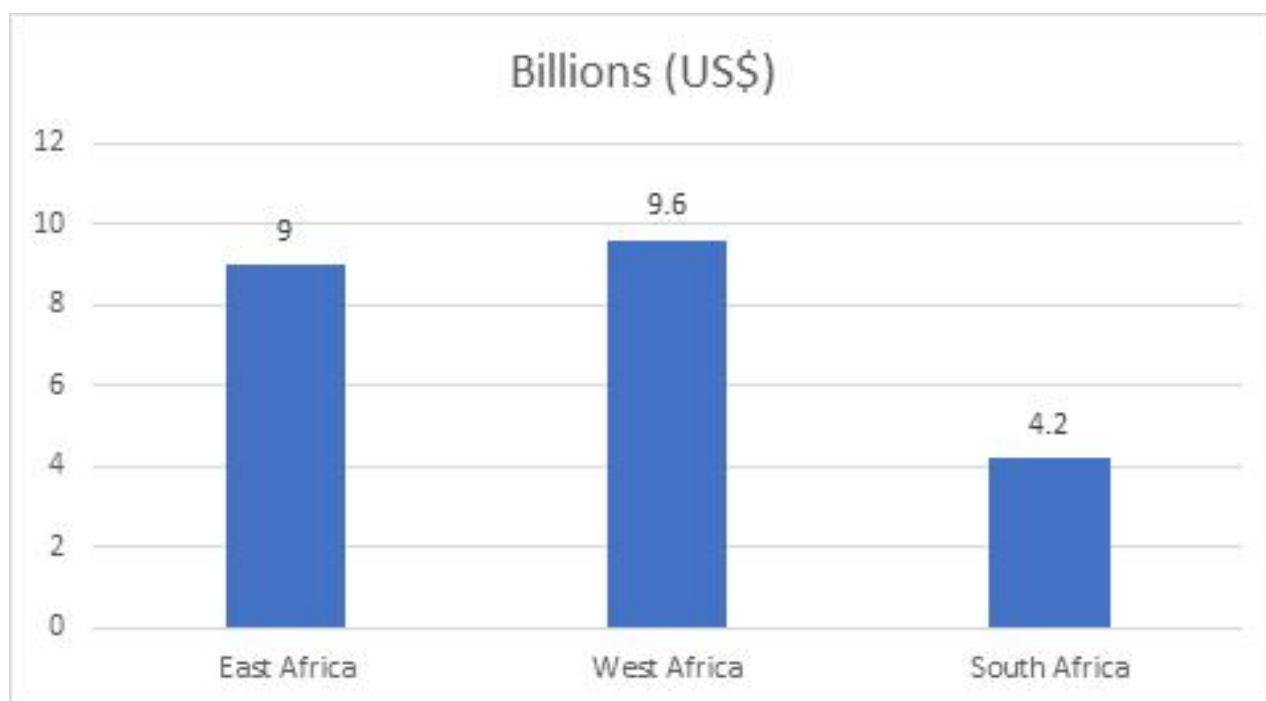
5.1.1. Foreign Direct Investments⁹³):

While in 2018 FDI flows to Africa were slightly lower – \$75 billion supporting over 700 projects and created some 170,000 jobs – over the last four years FDI flows to Africa have averaged \$82 billion per year and supporting some 700 projects per year and creating close 150,000 on an annual basis. In terms of regional highlights, Southern Africa received \$4.2 billion after net divestment of \$925 million the previous year. FDI held steady at \$9 billion in East Africa, the fastest-growing region of the continent. Ethiopia topped the region, even as flows to the country declined by 18%, to \$3.3 billion. Flows to Kenya swelled by 27% to \$1.6 billion. FDI to West

93) McKinsey, Foreign Direct Investment in Africa & EY, Africa Attractiveness Survey 2019

Africa declined by 15%, to \$9.6 billion, largely due to Nigeria where flows plunged by 43% to \$2 billion. Flows to Ghana also dipped, albeit by a more moderate 8%, to \$3 billion.

Figure 13: Reginal FDI Inflows to SSA (2018)



China was the largest investor in terms of total capital, investing more than twice the dollar amount of France or the U.S Traditional investors are partially driven by strong historical relationships: France, for instance, is a key investor in francophone Africa as United Kingdom is in anglophone Africa. Emerging partners, including China, the United Arab Emirates (UAE), and India, are playing an increasingly important role in Africa, accounting for 34 percent of total projects and over 50 percent of jobs created and capital investments. Additionally, intra-African investment continued to grow in 2018: South Africa remained the most extensive investor in other African countries while Kenya and Nigeria contributed significant FDI to East and West Africa respectively.

It is becoming certain that Africa economies are new frontier markets for high return investments offering good rates of return. In terms of sectors, extractives attracted a large portion of inbound capital in 2018 (36%) but, most projects and jobs created were in the services and industry sectors. Telecoms, media and technology, and Consumer Products and Retail (CPR) sectors gained are gaining increasing prominence. FDI in the consumer segment has been driven by the demands of Africa's rapidly urbanizing population with rising income levels, while investment in technology has been driven by the increasing trend of global technology companies establishing a presence in Africa.

Looking ahead, growing demand and a corresponding rise in the price of commodities, of which Africa is a key producer, are expected to prop up FDI flows in the near term. Closer regional integration aided by the AfCFTA should also draw additional FDI flows in the coming years, and investment in manufacturing and services is likely to be sustained, although confined to a few countries in Southern Africa and the emerging manufacturing hubs in East Africa. Private equity investors are showing positive signs about business prospects in African economies. According to African Venture Capitalist Association, in the first half of 2019, the total value of fundraising closed by Africa-focused private equity firms reached \$1.7 billion, according to a report from AVCA the last three years, fund raising averaged around \$3 billion a year, and about 50 exits in 2017.

While institutional and private investors are mainly investing in South Africa, DFIs remain the predominant investors in private

equity funds that focus in other regions of Sub-Saharan Africa. Given Sub-Saharan breath and scope and potential, more needs to be done to catalyze and unlock private long-term capital to other high-growth economies like Kenya. Impact investments have been on the rise financing key infrastructure projects due to growing need for responsive investments that balance commercial returns with social outcomes. Key drivers for impact investments include: growing need for responsible investment; growing recognition of private capital potential to supplement government and donor funding; increase in domestic savings and remittances as potential for investment capital⁹⁴; inequalities – exclusion of vulnerable groups such as women and youth, evidenced by the low HDI of which access to health and education are key determinants. Other reasons include limited access to education, healthcare, water and sanitation, food security challenges, poor access to cooking energy, low global competitiveness index, low business productivity and unemployment, poor access to basic financial services, low access to affordable housing alongside other indicators of Sustainable Development Goals (SDGs).

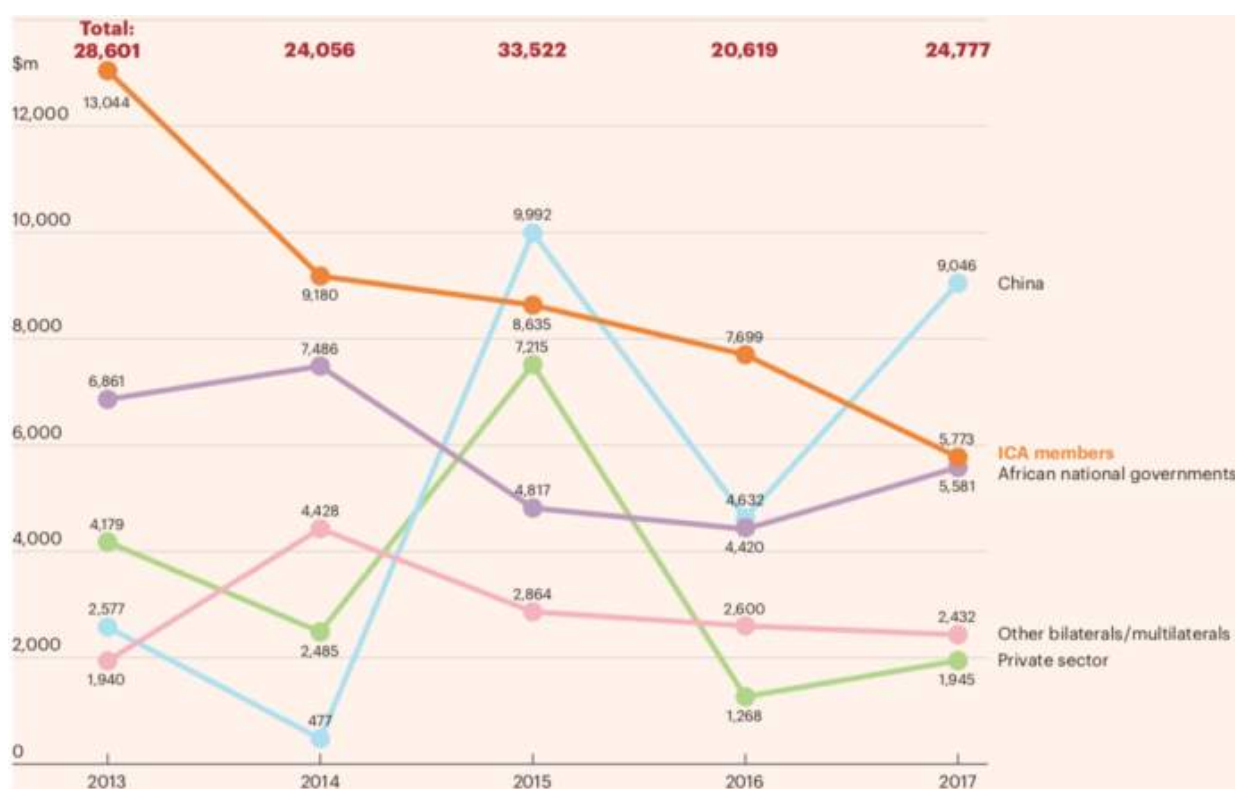
5.1.2. Infrastructure Financing Sources and Key Sectors of Focus

Infrastructure financing in Africa is growing especially in transport and energy infrastructure financed by local governments, China, Infrastructure Consortium for Africa (ICA) members (World Bank, African Development Bank (AfDB)) and Private sector. In 2018, ICA recorded a \$100.8bn total commitments increasing by 24% from previous year. Energy is a leading sector when it comes to

94) In 2018, remittances by Kenyans in diaspora to the country surpassed Ksh 200 billion (US\$ 2 billion) a year which is more than total multilateral official development assistance (ODA) received.

infrastructure investments in Africa.

Figure: 14: Sources of Infrastructure Financing in Africa⁹⁵⁾



Whilst China and the private sector grew their investments in energy, the Development Financial Institutions (ICA members) shifted to invest more in transport infrastructure and at reduced total values, energy, water and sanitation. Region-wise North, East, West and Southern Africa (excluding South Africa) attracted more infrastructure investments while central and south Africa declined in value of infrastructure commitments. China is the leading energy investor in Africa with its investments comprising loans (97%) and equity investments (3%). Among ICA members, the World Bank Group contributed the highest amount (\$2.7bn), followed by the AfDB (\$1.4bn) (ICA, 2017).

⁹⁵⁾ AfDB (2018)

In 2017, West Africa was the most popular destination for funding with commitments of \$8.5bn, representing 34% of the total. This is significantly higher than the commitments for other regions. North Africa received \$4.9bn (19.8% of the total), Southern Africa \$3.8bn (15%), East Africa \$3bn (12%), South Africa \$2.2bn (9%), and Central Africa \$2.1bn (8%). Private sector infrastructure funding grew from \$1.2 bn to \$1.9 bn in 2016 and 2017 respectively.

The popular China penetration into Africa's large scale and high value investment activity may be viewed as bordering neo-imperialist invasion⁹⁶). In the twentieth century, China has facilitated infrastructure development from building railways in Kenya and roads in rural Ethiopia to running mines in the Congo, China has been providing financial and technical assistance to Africa's pressing developmental needs. At the turn of the millennium to year 2006, China lent nearly \$125 billion to Africa and recently pledged \$60 billion at the 2018 Forum on China-Africa Co-operation. Trade between China and Africa has grown from \$10 billion in 2000 to \$190 billion by 2017 and it is estimated that, \$500 billion or 12 percent of Africa industrial production is carried out by Chinese firms. This is virtually half of Africa's internationally contracted construction market. McKinsey & Company reported in 2017 that, there were over 10,000 Chinese-owned firms operating in Africa. In Kenya Chinese investments are largely in form of debt financing but also increasingly equity and technical assistance especially in early stage financing of infrastructure projects. The investments are also likely to focus to soft infrastructure projects as part of the

96) Neo-imperialism is the practice of using capitalism and globalisation to influence goings-on in a developing country instead of direct military control (imperialism) or indirect political control (hegemony) which was previously practiced

initiatives to boost its bilateral relations with Kenya.

Several new African focussed private infrastructure funds have come up in the recent a demonstration that the infrastructure capital in Africa is growing. Exits remains a sticky point in most African markets because it takes longer to exit in Africa although the market cycles are shortening. Between 2015-2017, about 272 exit deals have been closed in Sub-Saharan Africa through strategic sales and increasingly through secondary sale and public markets. Some of these investment funds are keen on identifying bankable infrastructure projects in Kenya with preference for private initiated PPPs. Examples of Africa-focussed infrastructure funds:

- **Actis Long Life Infrastructure Fund (“Allif”)** invests in mid-tier infrastructure investments mostly in renewable energy and real estate in Africa. The fund brings together committed responsible (ESG) investors for equity investments with a market return. The fund portfolio \$750 million in Africa.
- **Emerging Markets Infrastructure Fund** managed by Investec Asset Management attracts multi-donor organisations and the World Bank. The fund has a total investment of \$20 billion and private sector commitments of \$1.2 billion by 2018.
- **AIIF2-Africa Infrastructure Investment Fund II** is a \$1 billion equity investment fund established by African Infrastructure Investment managers (AIIM) is a joint venture with Macquarie Africa and Old Mutual Investment Group. Initial investment by IFC of \$100 million is expected to attract more investors targeting infrastructure projects in all sectors. AIIM also manages the Africa Infrastructure development fund III (AIIF

3) with a \$45 initial million investments by CDC Group and other investors. Overall AIIM manages \$2.2 billion equity under its management in Sub-Saharan Africa.

- **Africa50 Fund** was established by AFDB to focus on high-impact and regional infrastructure projects in Africa has 28 African states, International investors and institutional investors such as pension funds and private investors. The fund has over \$870 million of committed capital.
- **Meridiam Infrastructure Africa Fund** is a \$90 million investments focussed in earlier stage project development, greenfield transactions, transport infrastructure and in Francophone West Africa.
- **Indigenous African infrastructure funds** such as **ARM-Harith Infrastructure Fund (ARMHIF)** have also focused on infrastructure and have mobilised local capital from Nigeria pension funds. The fund closed 459 MW-Azura-Edo Independent Power Producer project for \$868 million in Nigeria. Local funds can obtain higher bargains in government concessions such as Put-Call Option Agreement (PCOA) on electricity generation projects.

2 Financing Infrastructure Investment in Kenya

Public infrastructure investments in Kenya were largely financed by

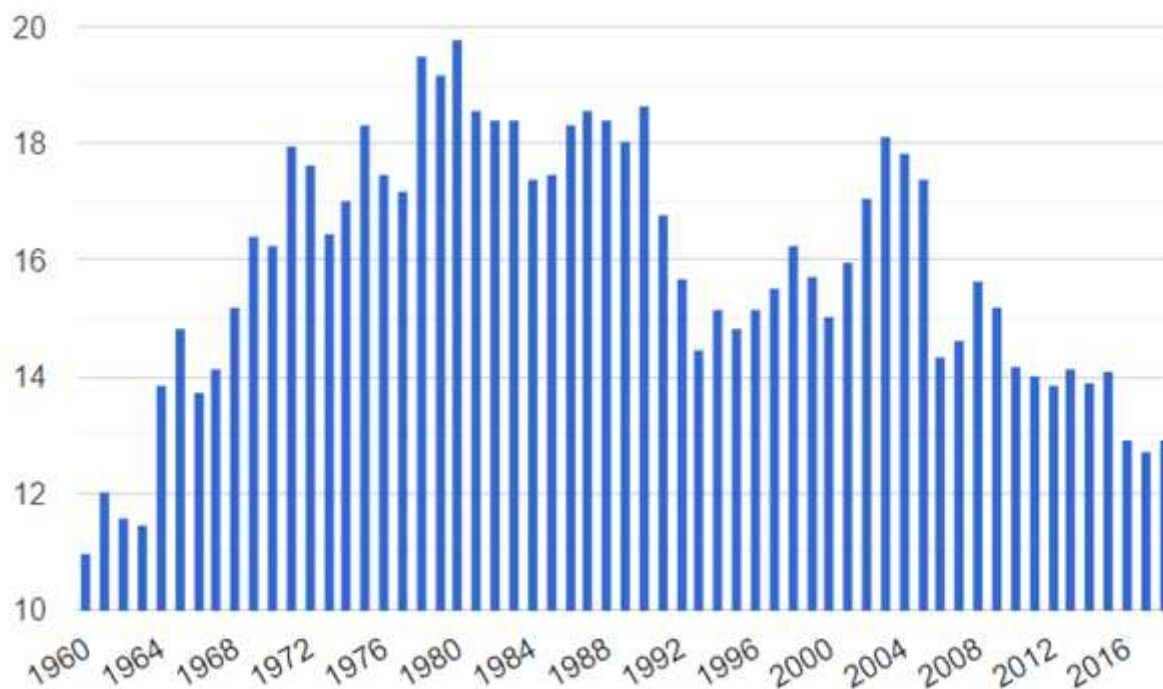
domestic resources (mainly tax revenues) and public debt. However due to the huge nature of financing requirements of developing infrastructure, limited domestic resources and a rising public debt which is almost 60% of GDP, questions of sustainability have been raised as to whether the country can continue financing infrastructure from public funds. The Kenya government is now convinced that the solution lies in private sector participation. In this regard attracting private sector capital has become a critical component of infrastructure procurement process through Public Private Partnerships (PPPs). Through the PPPs, the Kenya government is able to cover the funding gap for infrastructure deficit in the country which is conservatively approximated as US\$ 4 billion per year⁹⁷).

Kenya government's spending share of GDP is a bell-shaped curve for the period between 1960 towards 2019 (Figure 15). The average value for Kenya during that period was 15.88 percent with a trough of 10.96 percent in 1960 and a peak of 19.8 percent in 1980. In recent decades, the proportion of domestic revenues allocated to government spending has been on a downward trajectory and is ranked position 87 out of 121 countries⁹⁸). The shortfall is completed by heavy domestic and foreign borrowing (for example thorough sovereign bonds) as well as private capital.

97) Kenya Bankers Association (2016)

98) https://www.theglobaleconomy.com/rankings/Government_size/

Figure 15: Kenya Government (% of GDP) from 1960 to 2016



Source: The World Bank, TheGlobalEconomy.com)

Reports from various quarters including the office of the Auditor General, World Bank and budget allocations indicate that, most of the government spending has been recurrent with less than 30% of the budget at national and county levels going to development and infrastructure spending.

5.2.1. Regulation on Financing Infrastructure in Kenya

The issuance of the 2019 Debt Obligation and Public Borrowing Framework anchored on the Public Finance Management Act, 2012 is a manifestation of the government's commitment to manage the level and composition of national public debt, national guarantees and other financial obligations for sustainable debt control.

The authority to borrow for the entire Government of Kenya

borrowing rests with the Cabinet Secretary for the National Treasury. All borrowings are subject to Parliament approval. Under the Public Borrowing Framework, the Public Debt Management Office (PDMO) shall review all documents and independently assess the cost/benefits analysis submitted and evaluate the sources of financing. County governments are authorized to borrow under guarantee as per the Kenyan Constitution; can issue securities (regulated by the National Treasury and are permitted to seek a loan guarantee from the Cabinet Secretary and to lend funds to county entities. In cases “where PPP financing arrangement requires support by the National Government” , the National Treasury Cabinet Secretary shall in consultation with PDMO and PPP unit, “give a project support as deemed necessary” . The framework also provides that the PDMO will participate in the assessment and approval of fiscal risks and contingent liabilities associated with a project based on project feasibility studies submitted by the PPP unit” . The PDMO is mandated to manage fiscal risks in public debt, “fiscal commitments and contingent liabilities in PPPs” .

This is likely to impact the financing structures and the maximum possible guarantees that the government can give for PPP projects to attract private capital. The government financing options are nearly narrowing to more of catalyzing private capital to infrastructure learning from South Africa whose 70% of its infrastructure projects are financed through PPP models.

The autonomy of the county governments to engage in financing deals with the private sector is also limited due to the fiscal risk bearing on sustainable national debt controls. As a result, county

governments PPP projects must be approved by the National Treasury which lengthens the process for county infrastructure projects.

Public infrastructure project financing in Kenya is done via optional modes:

- a. Government borrows concessional loan from Bretton wood institutions (DFIs) like the World Bank.
- b. Government issues a sovereign bond like the infamous Eurobond. Interest rates are incumbent on country risk ratings where Kenya is ranked under moderate risk towards stable.
- c. Government takes debt locally (for example issuing long term infrastructure bonds) but this option can crowd out private sector lending as has been happening lately prompting repeal of interest rate capping laws. In any case local commercial banks in Kenya are only able to lend for up to 10 years which is a short horizon for infrastructure project financing to pay back.
- a. Engage in Public Private Partnerships (PPPs) and venture in the foreign markets for private capital or equity funds. Foreign markets provide high chances of getting investors with long-run appetite for investment returns.

The first three options have reduced popularity given the country's debt-GDP ratio tipping over 60% mark. The fourth option offers Kenya the best approach to infrastructure procurement method whereby repayment of finances used in development projects can be done via public financing mechanism (government pays) or user-pays principle as well as annuity.

3 Trends in Kenya' s Investment Landscape

Preference for Kenya as an investment destination is growing fast. In 2018, a total of \$1.6 billion foreign capital was injected into projects in Kenya, up from \$505 million in 2013. According to the number of FDI projects, Kenya emerges as the leading destination of

foreign capital inflows into the East African region. In 2017, the country received 67 out of the total 197 projects (equivalent to 34% of FDI projects) in East Africa.

Figure 16: Foreign Direct Investments (FDI) to Kenya (2013, 2018)

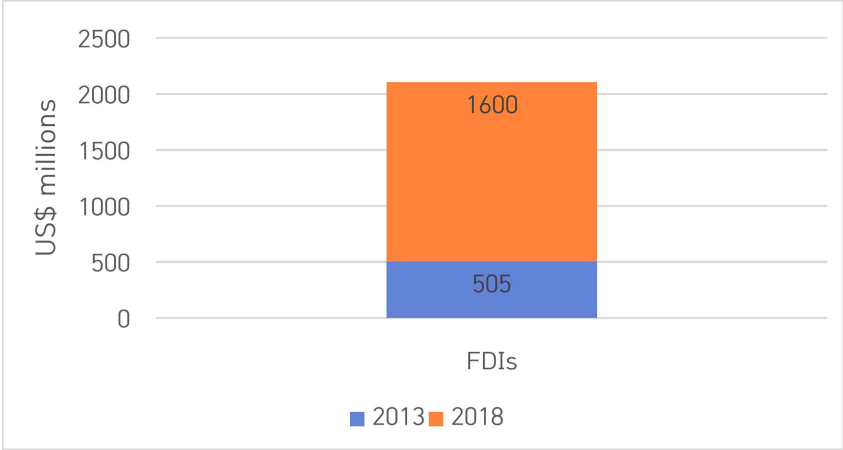
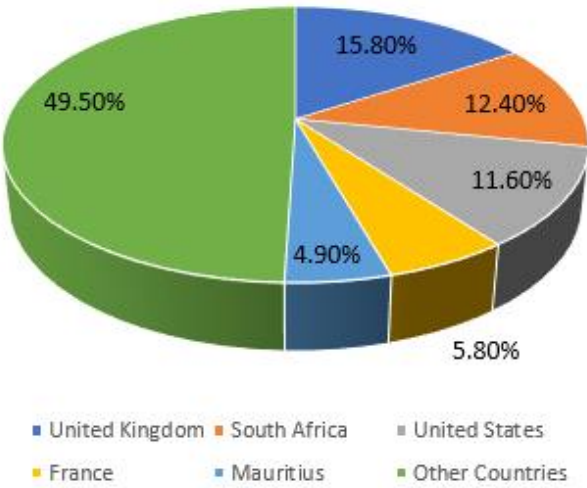


Figure 17: Sources of Foreign Direct Investments (FDI) to Kenya (2017)



Further, investor confidence is demonstrated by oversubscriptions in floated Euro bonds in the international market due to increased government accountability and managed debt levels. Kenya alongside Ghana, Nigeria are among Sub-Sahara African countries which have successfully traded Eurobonds. Sources of Kenya’s foreign capital have diversified from the traditional European investors to emerging markets and African investors such as China, India, Mauritius and

South Africa respectively.

The country's attention from impact funds and Development Financial Institutions (DFIs) is growing due to the widening gaps in access to public services and the potentially high impact of development initiatives such as new infrastructure projects. Almost half of all impact capital disbursed in East Africa has been placed in Kenya. At least USD 650 million of non-DFI capital and more than USD 3.6 billion of DFI capital. Kenya had foreign liabilities equivalent to Ksh 1.38 trillion in 2017 (\$138 billion). Excluding DFIs, more than 100 impact capital vehicles are active in Kenya. Non-DFI impact investors in Kenya have committed at least USD 240 million to investments in the country.

Despite the increase in impact investing activity in Kenya, it represents a small share of the overall investment landscape. Commercial banks, SACCOs and *Chamas* have a joint close to US\$ 40 billion in capitalization⁹⁹). Kenyan banks remain risk averse and are usually unwilling to invest in start-up or early-stage projects, a gap which is merely being covered by impact funds and DFIs such as World Bank and Africa Development Fund. ACTIS UK through its infrastructure fund financed through equity one of the largest real estate investments in 2015 called 'Garden City Mall' along Thika Road.

99) Kenya is one of the countries with a deeply entrenched cooperative approach to savings and credit schemes that is regarded as a success stories in the world. Recently there has been a trend for people to coalesce into largely informal savings and investment social groups called *chamas*. The operating model of *chamas* is such that members of a group pool money together for business or social protection goal in mind. In some groups part of the money saved is rotated as loans without need for collateral among members while for some groups all of the money is either saved or invested.

Commercial banks participation in project financing is majorly through government securities for infrastructure whose values has increased from Kshs 90 billion to 288 billion in 2019. The government is also the largest borrower of commercial loans, a trend which was more magnified in the interest rate capping policy which made government a more secure borrower than private clients. Following the repeal of the interest cap in October 2019, a more liberalized credit market is anticipated which means private sector investments such as PPPs will be considered by the leading international and local commercial banks in Kenya. Kenya Commercial Bank financed the Ngong Kiserian road, while Co-operative Bank has financed real estate projects such as the Two-Rivers and Thika Road (TRM) malls. Local pension funds in Kenya represent over \$2.14 billion pool of investable resources. However, their participation in public infrastructure projects is limited due to largely low awareness.

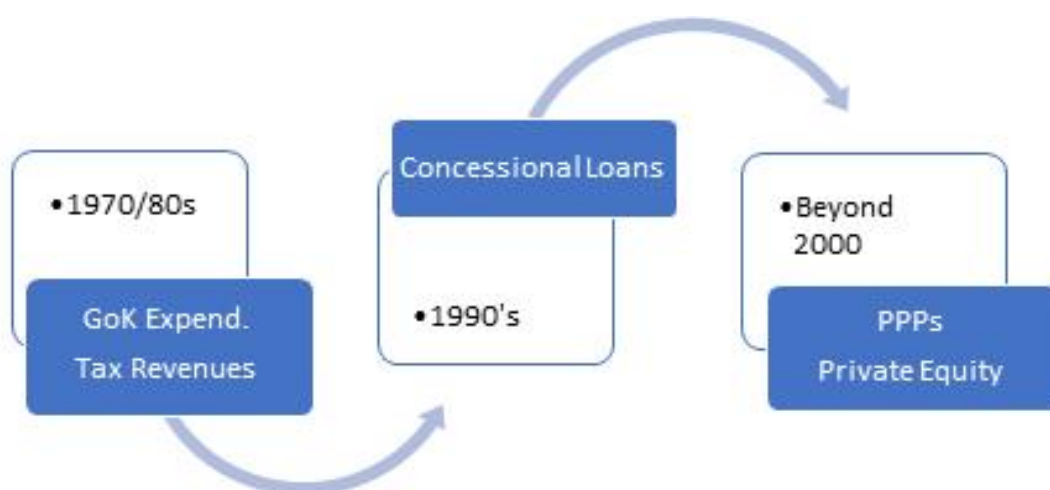
The Kenya Bankers Association (2018) estimated that, the country requires \$4 billion annually to meet its infrastructure financing needs, Kenya's ability to attract long-term patient equity from foreign investors will be key in realizing the next mile of infrastructure development. The private equity market is unable to amass the required capital muscle for infrastructure projects due to the large values involved and because such projects may take up to 15-20 years to attain commercialization. Public resources utilization should be geared to catalyzing private capital and de-risking their investments and build a large pipeline of PPP projects, according to the PPP unit directorate. The Public Private Partnership (PPP) financing model is among the strategies that have worked globally, and Kenya is leading the region in making PPP work albeit with

challenges.

5.3.1 Evolution in public infrastructure financing options in Kenya

Kenya's focus on PPPs depicts an evolution of infrastructure financing from concessional loans, and domestic funding for the period preceding the 1990s. However, concerns about viability of recent government infrastructure projects resulted to innovation in financing models to leverage private sector effectiveness in public procurement for infrastructure projects. As a result, the PPP financing model came in the early 2000's to attract long-term partnerships with the private investors which also increases government accountability. While the PPP financing market is in its nascent stages, transparency and flexibility between the private investor and the government has been underscored as critical to establish a balance of the private and public interests in structuring PPP deals. Kenya's PPP law only came into being in 2013, however public private partnerships have been happening even before.

Figure 18: Evolution in public infrastructure financing in Kenya



Source: Author (2019)

4 PPP Financing in Kenya

Private sector capital has become a critical component of infrastructure procurement process through Public Private Partnerships (PPPs). Through the PPPs, the Kenya government can cover the funding gap for infrastructure deficit in the country which is conservatively approximated as US\$ 4 billion per year¹⁰⁰). The PPP policy framework in Kenya is considered enabling despite teething challenges as discussed in a later section of this report.

The government and contracting authorities at the upstream players are responsible for creating an enabling policy environment and selection and contracting of PPP deals. On the other hand, downstream players include bilateral and private financing organizations who are key in the development and commercialization of the infrastructure in a PPP contract. Government leverages Private sectors as private investors leverages government in a PPP partnership. PPPs are more efficient than public procurement. By considering the true long-term cost of service delivery in project selection, PPP identifies a project's long-term risks and the allocation of those risks between the public and private sectors. Due to the contractual nature of PPPs the public sector is held to account in ensuring that the infrastructure procured is well maintained. At the same time, the private sector has incentives, as their capital is exposed to performance risk, to design and build these assets considering the costs of longer-term maintenance and renewal. Governments choose from an array of different forms of privatization for infrastructure and service delivery to achieve four

100) Kenya Bankers Association (2016)

key goals:

- (1) Fiscal benefits from the sale or lease of state-owned enterprises (SOEs). Such benefits can imply lower subsidies to public sector or new investments government could not afford to provide on its own;
- (2) Efficiency gains typically available from the private sector, which often lead to lower prices and improved access by more of the population;
- (3) Development of local financial markets;
- (4) Increased private sector development (which includes broadening local participation in the economy)
- (5) Risk sharing between public and private sector entities

5.4.1. Kenya' s PPP Framework – Policy, Act, Regulations and Project Facilitation Fund

With regards to PPPs, Kenya has a stable legal framework that includes the [PPP Policy Statement 2011](#), [PPP Act 2013](#) and complementary [National PPP Regulations 2014](#) and the [Project Facilitation Fund \(PFF\) Regulations 2017](#). The PPP policy provides for:

- (1) Goals and benefits of PPPs to the country
- (2) Foundation for institutions to support PPP agenda
- (3) Mobilization of domestic and international private finance
- (4) The range of government support to PPP Projects
- (5) Establishment of clear mechanism for project origination, development and execution.

- (6) Articulation of mechanisms for stakeholder engagement in delivery of PPP Projects.

PPP Act 2013 is the primary law on PPPs and provides both a clear legal process of undertaking PPP projects as by:

- (1) Defining PPPs, their scope and types of PPP arrangements recognized in Kenya
- (2) Providing a clear process for identification, prioritization, conceptualization, development, procurement, negotiations, award, approval, execution, monitoring and evaluation of operations phase and eventual hand over to government where this is applicable.
- (3) Establishing various institutions in-charge of policy direction on PPPs, championing and technical support on PPPs, development of projects at Contracting Authority level and determination on any petitions arising from procurement of PPP projects.
- (4) Providing for financial security instruments to support PPP projects among them Letters of Support and Political Risk Guarantees.
- (5) Establishing a Project Facilitation Fund (PFF) to support development of projects provide Viability Gap Funding (VGF) as may be required by some projects as well as meeting any contingent liabilities that may arise from PPP Projects which have been implemented.

Finally, the PPP Regulations 2014 provide details on how projects will be prepared, tendered, approved and implemented. The regulations also detail on the roles and responsibilities of parties involved in transactions involving PPP projects¹⁰¹⁾.

The country's legal system is based on Common Law which is conducive for PPP development backed by a new Constitution (2010) that provides for democratic and governance institutions (stability). There is a conducive regulatory framework in the utility sectors to facilitate PPPs within energy, ICT and Transport sectors. Judiciary is undergoing structural reforms to improve business climate and ensure a strong Contract law under which contracts are honored. Government, as a first step, issued PPP Regulations, March 2009 and a PPP Act in 2013 which guides all PPP public infrastructure investments in the country.

The Public Private Partnerships Act No. 15 of 2013 provides for “the participation of the private sector in the financing, construction, development, operation, or maintenance of infrastructure or development projects of the Government through concession or other contractual arrangements; the establishment of the institutions to regulate, monitor and supervise the implementation of project agreements on infrastructure or development projects and for connected purposes” .

Kenya government has made efforts to improve the PPP climate which can be summarized chronologically as follows:

- Establishment of an institutional framework through regulations issued under the Public Procurement Disposal Regulations of

101) PPP Unit - <http://www.pppunit.go.ke/legal-framework-2/>

2009;

- A review of Kenya's legal and regulatory framework which recommended the enactment of a PPP Law to address identified gaps, inconsistencies, conflicts and overlaps in 2010;
- The approval of a PPP Policy Statement by the Government of Kenya in 2010;
- An agreement with the World Bank in December 2012, where the Government of Kenya received a credit from the World Bank for the Infrastructure Finance and Public Private Partnership (IFPPP) Project, with an overall objective of increasing private industry investment in the Kenyan infrastructure market and to improve the enabling environment so as to generate a pipeline of bankable PPP projects; and
- The PPP Bill approved by the Kenyan Parliament in December 2012, which received Presidential Assent on 14th January 2013. This resulted in the Public Private Partnership Act, No. 15 of 2013, published in the Kenya Gazette supplement No. 27 of 25th January 2013. Consequently, the PPP Act came into effect on 8th February 2013.

The PPP Act has several guarantees which comes as a reprieve for investors in Kenya in the areas of risk mitigation (Letters of Support, Guarantees (Demand/Traffic Guarantee) and subsidies; inflation and interest rate indexation; performance monitoring mechanisms; addressing legal gaps, removing conflicts and overlaps in law; direct agreement and step-in rights to lenders; compensation

for termination/ extra-ordinary events/ direct impact of change of Laws/political event; establishment of a Viability Gap Fund to support economically viable projects which may not be financially viable without Govt support; minimum PPP contractual provisions and ensuring a clear institutional framework – parliament, cabinet, PPP committee, PPP Secretariat, contracting authorities and the national treasury.

5.4.2. PPP Institutional Framework – PPP Committee, PPP Unit and PPP Nodes

The PPP committee, mandated to guide PPP policy formulation, approve projects and oversee monitoring and evaluation of the PPP Program, is the apex organ on matters relating to PPPs in Kenya. The committee is chaired by the Principal Secretary at the National Treasury while the PPP Unit Director serves as the Secretary. The committee has membership from Principal Secretaries in line ministries (Transport, Devolution, Lands, Energy, Planning and Infrastructure), and a representative from the Attorney General’s office in addition to four (4) members representing the private sector¹⁰²).

The PPP Unit is mandated to serve as the technical arm of the PPP Committee. PPP Unit provides technical, legal and financial) to various government agencies (contracting authorities) enabling them to “identify, appraise, procure, negotiate, contract and monitor” the operation phase of PPP projects¹⁰³).

Pursuant to Section 17 of the PPP Act (2013), each PPP Project

¹⁰²) PPP Act (2013), Section 7.

¹⁰³) PPP Unit (2019)

Contracting Authority “keen to implement PPP Project(s)” is required to establish a PPP Node which shall be in-charge of a Contracting Authority’s PPP Program. The chair of the PPP Node is the Accounting Officer within the Contracting Authority. This node has in its membership in persons in charge of Legal, Finance, Procurement, Technical functions or any person skilled in a manner that the Contracting Authority may deem necessary¹⁰⁴⁾. A PPP Node is responsible for project selection and development, procurement and contracting as well as the day to day management of a project. The Node reports administratively to the Contracting Authority and functionally to the PPP Unit.

5.4.3. PPP Financing in Key Sectors

From the onset, it is important to clarify the definition of the terms “Financing” versus “Funding” as used in this report. Financing is the sourcing of money required up-front to meet the costs of constructing infrastructure, typically sourced by the government through surpluses or government borrowing (for traditional infrastructure procurement) or by the private sector raising debt and equity finance (for PPPs). Funding, on the other hand, refers to the source of money required to meet payment obligations. In a PPP context, funding refers to the source of money over the long-term to pay the PPP private partner for investment, operating and maintenance costs incurred in the project. Funding is typically sourced from taxes (in government-pays PPPs) or from user charges (in user-pays PPPs).¹⁰⁵⁾

Kenya has intensified the push towards adopting public private

104) PPP Unit (2019)

105) PPP Certification Guide PPIAF Enabling Infrastructure Investment

partnerships (PPPs) to deliver increased demand for quality and affordable services by citizens who seek improved transport, water and sewerage, telecommunications, power among other social services. PPPs also believed to offer additional benefits including:

- Provide a new source of investment capital for required infrastructure projects
- Reduce government sovereign borrowings and associated risks
- Drive the creation of local long-term funding market
- Utilize efficiencies of private sector in running public services
- Expand economy and stimulate job creation

According to the PPP Regulatory Frameworks (PPP Act 2013; Energy Act and others), proposed PIIIP projects must:

- (1) Rhyme with priorities of the Government of Kenya
- (2) Be Affordable
- (3) Accommodate optimal risk allocation between the private sector proposer and the public

The country's \$4-5 billion infrastructure financing requirements are estimated to go to largely the energy (50%) and roads (25%) subsectors and the rest to other sectors. The fact that Kenya's PPP pipeline is dominated by energy projects is not intentional although key informants to this study indicated that energy sector is one of the best structured in terms of legal and institutional framework. The government is keen to draw private sector interest to other sectors as well. Analysts argue that the financial model for an energy project is clearer and much easier to structure than say road or social projects. In the transport sector, for instance, Kenya is yet to record a successful road tolling financial model although a few PPPs are in the pipeline such as the JKIA-James Gichuru road

being financed by the Chinese government and is expected to be funded through toll levies on road users.

5 Spotlight on PPP Financing in Key Sectors Kenya

Kenya has 76 PPP projects in its pipeline, in different sectors and at different stages both in national and county government levels as reported by the PPP Unit¹⁰⁶). More than half of these projects 43 out of 76 (or 56%) are either awaiting guidance from contracting authority or at the proposal stage. A tenth of them are at contract negotiations stage while 13% are at commercial close stage. Another 15% of projects are either at tendering stage or ready for tendering. In this section, a spotlight is shone on projects in the energy and transport sectors.

Table 21: Summary by Stage of PPP Project Pipeline (2019)

Stage of PPP project	No. of National Government Projects	No. of County Government Projects	Total Number of Projects per Stage	Percentage (%)
Projects at Financial Close	1	0	1	1%
Projects at Commercial Close (PPP Contracts Signed)	10	0	10	13%
Projects at Contract Negotiations	8	0	8	10%
Projects in	5	0	5	6%

106) The National Treasury and Planning, through the PPP Unit– Kenya’s Updated PPP Pipeline

Tender/Procurement				
Projects Ready for Tender/Procurement	6	1	7	9%
Projects with Completed Feasibility Study Reports, Pending Approval	0	1	1	1%
Projects at Feasibility Study Stage (Ongoing Studies)	3	1	4	5%
Projects at Proposal Stage including those whose procurement of Transaction Advisor is underway	14	4	18	23%
Projects Awaiting Guidance from Contracting Authority	21	4	25	32%
Total	68	11	79	100%

Source: PPP Unit (2019)

5.5.1. Energy Sector

a. Background

Kenya's per capita power consumption in 2015 161KW and is expected to increase with the establishments of malls and large infrastructure projects and a growing middle class who will afford electric home appliances. With a total of 42 power generation plants, the country has 2,295 MW of installed on-grid capacity plus an additional 11.5 MW in 19 off-grid stations in remote parts of the country supplied by both KenGen and Independent Power Producers (IPPs). Electricity generation from renewable technologies has been the key focus of energy infrastructure projects done in Kenya since

2000s. Out of active the PPP active projects in Kenya, majority are focused on energy generation with successful projects such as the Lake Turkana Wind Power (LTWP) attaining a production capacity 310MW.

Kenya aims at hitting 2,700 MW of new generation capacity and on- and off-grid last mile electricity connectivity for all by 2020 through leveraging the PIIPs and PPP models. PPP experts who spoke into this issue remarked that, Privately Initiated Investment Proposals (PIIPs) are no different from PPPs except that they are privately initiated. However, they must attain certain requirements to be approved by the government.

b. Regulatory Framework

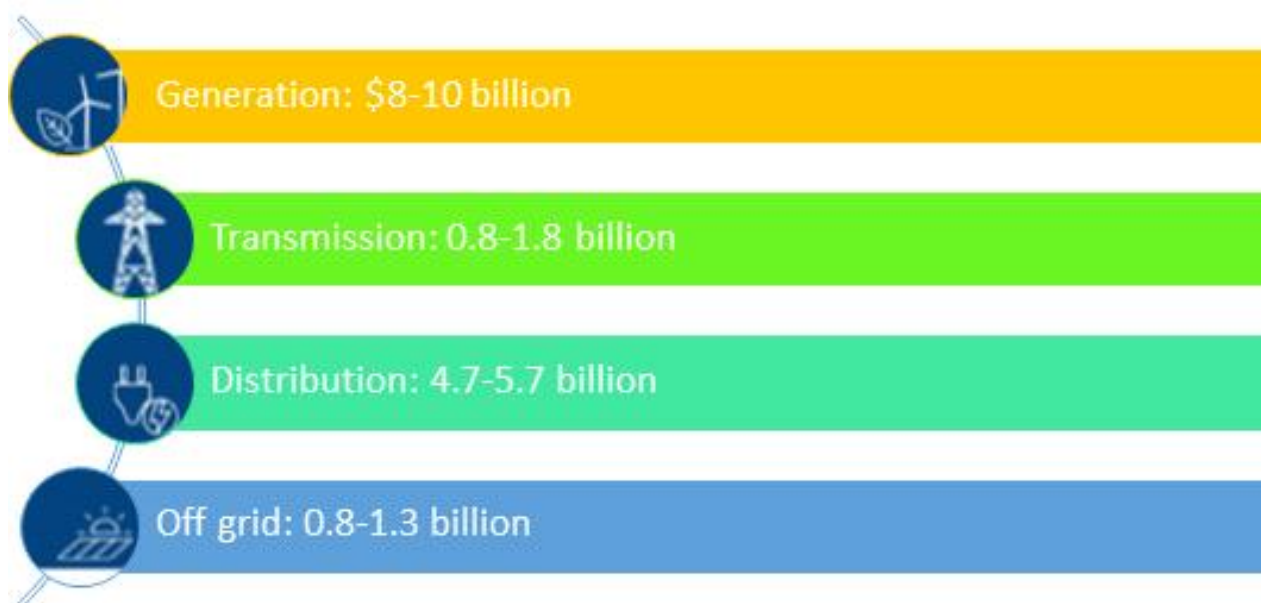
The energy regulatory framework guiding investments in the sub-sector in Kenya constitutes of generation, transmission and distribution government corporations with KenGen, Kenya Electricity Transmission Company (KETRACO), Kenya Power (Formerly KPLC) and Rural Electrification Authority (REA) being the main actors in generation, transmission and distribution respectively. For Geothermal, the Geothermal Development Corporation (GDC) does the production.

c. Investment Gap

In terms of investment funding gap, the opportunity for electricity generation, transmission and distribution infrastructure are estimated to be a total of 14-18 billion by the USAID (2018) which can be covered through additional budget allocations by the government, procuring concessional loans from partners like the world bank, undertaking Public Private Partnerships (PPPs) including PIIPs or

even equity investment via KENGEN, KETRACO or Kenya Power companies. Over half of funding is needed for generation and distribution infrastructure development.

Figure 19: Financing Gaps in the Electricity Sub Sector



Source: Power Africa (2018)

Whereas the Kenyan government has a track record of honoring PPP contracts including paying penalties, more innovative solutions are called for to meet the 14-18 funding gap in the sector. Other financing models include Development financial institutions (DFIs) and private investors but many of such models come in handy at operation and commercialization phases of projects.

d. PPP Projects in Energy and Petroleum Sector

Project name	35MW Menengai Phase I (Sosian)
County	Nakuru
Contracting Authority	Geothermal Development Company (GDC)
Parties	Sosian Menengai Power (SMGP) Limited

Project cost (Value)	KES 8009.98M (USD79.15M)
Description	The project is a green field geothermal electricity generation project whose objective is to increase the installed national capacity by 35MW from geothermal resources on a BOO (Build-Own-Operate) PPP model for 20 -25 years.
Phase	Post-procurement.
Project Milestones	(2014) 30 October - Power Purchase Agreement (PPA) Signed.

Project name	35MW Quantum Menengai Geothermal Power Plant Project
County	Nakuru
Contracting Authority	Geothermal Development Company (GDC)
Parties	Quantum Power East Africa
Project cost (Value)	KES 8009.98M (USD79.15M)
Description	The project is a green field geothermal electricity generation project whose objective is to increase the installed national capacity by 35MW from geothermal resources on a BOO (Build-Own-Operate) PPP model for a period of 20 -25 years.
Phase	Post-procurement.
Project Milestones	(2014) 30 October - Commercial Close. Power Purchase Agreement Signed.

Project name	1050 MW Lamu Coal-Fired Power Plant Project
County	Lamu
Contracting Authority	Ministry of Energy.
Parties	Amu Power Company
Project cost (Value)	KES 182750.1 million (US\$ 1833 million)
Description	25-year PPA on BOO basis. The project is a greenfield combined cycle coal power plant located in Manda Bay, in Lamu
Phase	Post-procurement.
Project Milestones	(2014) 27 January - RFP Issued by the Ministry of Energy and Petroleum. (2017) 04 August - Commercial Close (A Project agreement has been executed by the parties.)

Project name	140 MW Geothermal PPP Project at Olkaria
County	Nakuru
Contracting Authority	Kenya Electricity Generating Company (KenGen)

Project cost (Value)	KES 64113.6 million (US\$ 637.3 million)
Description	140MW project for Build-Own-Operate-Transfer (BOOT) term of 25 years. K&M Advisors and its consortium were appointed as Transaction Advisors (TA) on 31st May 2016 to provide transaction advisory services for Phase 1- 140MW Geothermal Olkaria VI. The TA finalized the project Feasibility Study consistent with the PPP Act, 2013. The Feasibility Study Report was approved by the PPP Committee. Preparations for project tender/procurement are being finalized. Request for Qualification (RFQ) of private party to be launched soon.
Phase	Procurement.
Project Milestones	(2013) 27 November - Project Proposal Approved (2014) 31 March - Project Reached Feasibility Study (The Project is currently at the feasibility study stage.)

Project name	The Transmission Grid Expansion Programme
County	Bomet, Kajiado, Kilifi, Kisumu, Nakuru
Contracting Authority	Kenya Electricity Transmission Company Ltd (KETRACO)
Project cost (Value)	KES 44492.3 million (US\$ 434.92 million)
Description	Development of a pilot 94 KM of transmission lies on a PPP basis. The five priority lines are Malindi (Weru)- Galana (51 KM, 220 KV), Rongai-Keringet (43 KM, 220 KV)
Phase	Pre-procurement.
Project Milestones	(2017) 01 May - Project Proposal Approved (Project proposal stage.)

5.5.2. Transport – Roads Sub-sector

a. Background

Roads are a priority infrastructure development area for Kenya since it's the most commonly used mode of transport followed by air, water and rail transport in terms of significance in share value of output contribution to GDP as shown below. Series data from Economic Surveys (2003-2018) indicate that road transport has contributed between 60% and 70% of the national output¹⁰⁷⁾. Air is second most important transport subsector with almost 20% percent

¹⁰⁷⁾ Kenya National Bureau of Statistics

output contribution followed by water transport and pipeline and finally railway transport. Notably railway transport is picking up following completion of the Standard Gauge Railway (SGR) that links the port of Mombasa with the capital city of Nairobi. Between January and December 2018, the SGR ferried 898,673 tons of cargo from Mombasa to Nairobi¹⁰⁸).

b. Kenya’ s Road Network

Out of an estimated 61,936 kilometers of classified roads in Kenya, only 8,869 KM, or 15%, is currently paved. Responsibility for the management of Kenya’ s roads was established under the Kenya Roads Act of 2007, which established the legal and institutional framework for the sector, as summarized below.

c. Funding Gap

The roads sub-sector has a funding gap estimated at US\$ 44 million (Ksh. 40 billion) per year¹⁰⁹). The country’ s funding gap for routine maintenance of roads is about Kshs. 15 billion¹¹⁰), majorly financed by the exchequer, donors and the Roads Maintenance Levy Fund (RMLF) for construction, rehabilitation and maintenance.

d. Roads Regulatory Framework

Policy-wise, the roads sector is guided by the Sessional Paper No. 5 of 2006 on the “Development and Management of the Road Sub-Sector for Sustainable Economic Growth’ ; the Public Road and Tolls Act (CAP 407) of 2007 and the Roads Act of 2007. The institutions responsible for construction, rehabilitation and maintenance of roads include the Kenya National Highways Authority

108) Kenya National Bureau of Statistics (KNBS, 2019)

109) PPP Unit

110) Kidenda, 2015

(KeNHA), Kenya Urban Roads Authority (KURA), Kenya Rural Roads Authority (KeRRA), the Kenya Roads Board, Mechanical and Transport Department, Materials Testing and Research Department and the Kenya Institute of Highways and Building Technology (KIHBT). KeNHA is responsible for the development and maintenance of class A, B and C roads while KeRRA is mandated to develop and maintain all rural and small-town roads of Class D and below including Forest Roads, Special Purpose Roads and unclassified roads. On the other hand, KURA is managing and maintains all roads within cities and major municipalities. Established by Kenya Roads Board Act 1999, the Kenya Roads Board is responsible for funding maintenance of all roads including approval of maintenance work programmes, technical and financial audits of works funded by the Board.

With respect to public-private partnerships (PPP), Section 22 of the Roads Act 2007 empowers the above-named roads agencies to enter into any arrangement with private sector, state corporations or other entities to promote/secure the provision or improved provision of any service/facilities and for the payment, collection or apportionment of any tolls, rates, charges. Continuous policy and institutional changes in the roads subsector are being done to ensure the success of PPPs in bridging the finance-gap.

Table 25: Mandate of Government Authorities on Roads in Kenya

Government Authority	Mandate (Also See Annex 7)
Ministry of Transport, Infrastructure, Housing and Urban Development (MOTIHUD)	Policy and strategy including regulatory matters such as technical standards. Also approves development budgets of the implementing agencies
Kenya Roads Board	Funds (through the Fuel Levy) maintenance of all

(KRB)	roads, approves Roads Maintenance Levy Fund (RMLF) funded maintenance work and carries out technical and financial audits of the maintenance works.
Kenya National Highways Authority (KeNHA)	Development, management and maintenance of national highways and interurban roads. In charge of Classified A, B and C roads
Kenya Urban Roads Authority (KURA)	Development, management and maintenance of urban roads in urban centres.
Kenya Rural Roads Authority (KeRRA)	Development, management and maintenance of rural and small-town roads, special purpose roads and unclassified roads
Kenya Wildlife Service (KWS)	Development, management and maintenance of roads in National Parks and National Reserves as well as access roads allocated to it by the Ministry
National Construction Authority	Regulation of construction industry
National Transport and Safety Authority	Regulation of Road Transport System

Nairobi Southern Bypass is a 4-lane dual carriageway, Nyali Bridge, Thika superhighway and Nairobi-Nakuru-Mau Summit are the PPP pipelines under discussion when it comes to tolling road projects. Kenya's National Surface Transport Policy outlines user pay principle that stipulates how road projects can be tolled as detailed below.

- (1) Tolling will be implemented once the road is put into service or O&M contractors are in place, for those already in service
- (2) A third-party private sector tolling operator will be procured through an international process to design, supply, finance, install, roll-out and operate tolling across all the projects

- under a performance-based operations and maintenance contract procured under the PPP Act
- (3) Bidders for the road PPPs may also, if they wish, bid for the Tolling Operator PPP
 - (4) Tolling technology will be appropriate to the particular project but Government's policy is towards electronic free flow tolling
 - (5) A draft Tolling Policy is imminently to be considered by Cabinet and after approval will be supported by necessary legislation
 - (6) A National Toll Fund will be established into which toll revenue from all of the four PPP projects will be paid and out of which Service Payments will be made to the Special Purpose Vehicle
 - (7) Toll levels will be consistent with international norms and will be set taking into account ability and willingness to pay, user benefits and costs imposed on the projects by different categories of users
 - (8) There will be no free alternatives, but social impact will be moderated through use of local and frequent user discounts

e. PPP Projects by Transport and Infrastructure

I. Post-Procurement / Procurement Phase

Project name	Road Annuity Programme Lot 33 : Kajiado-Imaroro and Ngong-Kiserian-Isinya
County	Kajiado
Contracting Authority	Kenya Rural Roads Authority (KeRRA)
Parties	Intex Raf 1 Limited
Project cost (Value)	KES 9882 million (US\$ 96.89 million)
Description	The project involves the construction of the roads from Ngong to Isinya ("Ngong-Kiserian-Isinya") and from Kajiado to Imaroro ("KajiadoImaroro") on a finance, Design-Build-Finance-Operate-Maintain-Transfer (DBFOMT) with

	an approximate length of 90.55km; funded through annuity payments for a period 10 years.
Phase	Post-Procurement
Project Milestones	(2014) 26 July - RFQ Issued in July (2014) 01 October - RFP Issued in October (2016) 21 November - Commercial Close attained (2018) 13 February - Financial Close attained.

Project name	Roads Annuity Programme Lot 3 : Samatar-Wajir(B9) and Rhamu-Madera(B9) Roads
County	Mandera, Marsabit, Wajir
Contracting Authority	Kenya National Highways Authority (KeNHA)
Parties	
Project cost (Value)	KES 18213 million (US\$ 180.33 million)
Description	The project is the construction and rehabilitation of the roads to augment the existing roads from Wajir-Habaswein-Samatar (68Kms) and Rhamu-Mandera (75Kms) on a Design - Build - Finance-Operate- Maintain -Transfer (DBFOMT) PPP model funded through annuity payments for a period of 10 years.
Phase	Post-Procurement
Project Milestones	(2014) 26 July - RFQ issued (2014) 01 October - RFP issued (2016) 21 Novemver - Commercial Close attained

Project name	Roads Annuity Programme Lot 15 : Select Urban Roads in 6 Counties : Nyeri, Kirinyaga, Murang'a, Embu, Tharaka Nithi
County	Embu, Kirinyaga, Laikipia, Murang'a, Nyeri, Tharaka Nithi
Contracting Authority	Kenya Urban Roads Authority (KURA)
Project cost (Value)	KES 6824 million (US\$ 65.81 million)
Description	The project involves the construction and rehabilitation of the 28km roads to augment select urban roads in 6 Counties: Nyeri (9.5km), Kirinyaga (2km), Murang'a (5.5km), Embu (4km), Tharaka Nithi (4km) and Laikipia (3km) on a Design - Build - Finance - Operate - Maintain-Transfer (DBFOMT) PPP model funded through annuity payments for a period of 10 years.
Phase	Procurement
Project Milestones	(2014) 26 July - RFQ issued (2014) 01 October - RFP issued.

Project name	Roads Annuity Programme Lot 18 : Select Urban Roads in 4 Counties : Kakamega, Vihiga, Bungoma and Busia
County	Bungoma, Busia, Kakamega, Vihiga
Contracting Authority	Ministry of Transport and Infrastructure (MOTI)
Project cost (Value)	KES 5431 million (US\$ 52.37 million)
Description	This involves the construction and rehabilitation of the 32km roads to augment select urban roads in 4 Counties: Kakamega (12.5km), Vihiga (3km), Bungoma (12.5km) and Busia (4km) on a Design - Build - Finance - Operate - Maintain-Transfer (DBFOMT) PPP model funded through annuity payments for a period of 10 years.
Phase	Procurement
Project Milestones	(2014) 01 October - RFP issued.

Project name	Roads Annuity Programme Lot 32 : ILLASIT-NJUKINI-TAVETA Road
County	Kajiado, Taita Taveta
Contracting Authority	Kenya National Highways Authority (KeNHA)
Project cost (Value)	KES 6749 million (US\$ 65.52 million)
Description	The project is the construction and rehabilitation of 67 km road to augment the existing road network from Illasit to Taveta through Njukini on a Design - Build - Finance - Operate - Maintain-Transfer (DBFOMT) PPP model funded through annuity payments for a period of 10 years
Phase	Procurement.
Project Milestones	(2014) 26 July - RFQ issued (2014) 01 October - RFP issued

Project name	Likoni Crossing Aerial Cable Car ☞ Transport and Infrastructure, Privately Initiated Investment Proposals (PIIPs)
County	Mombasa
Contracting Authority	Kenya Ferry Services Limited (KFSL)
Project cost (Value)	KES 14377.8 million (US\$ 141.1 million)
Description	The project aspires to design, construct, equip, operate and maintain a passenger cable car system as an alternative transport system across the Kilindini Channel at Mombasa's Likoni area. The cable car system shall be 600 meters in length, operating 16 hours a day and capable of moving over 170,000 persons per day. The concession is a Design - Build - Finance - Operate - Maintain-Transfer (DBFOMT) PPP model for a period of 25 years.

Phase	Procurement
Project Milestones	(2015) 01 January - Project Proposal Received. (Proposal admitted into the PPP Pipeline in 2015).

Project name	Nairobi - Nakuru - Mau Summit Highway Project
County	Nakuru
Contracting Authority	Kenya National Highways Authority (KeNHA)
Project cost (Value)	US\$ 700 million
Description	The Project consists of widening, improvement, operation and maintenance of various sections of highway between Nairobi and Mau Summit and includes: (i) Widening of 175 km of the A8 highway between Rironi and Mau Summit to become a 4 Lane dual carriageway; (ii) Strengthening of 57.8 km of the A8-South highway between Rironi and Naivasha; and (iii) Operation and maintenance of 12.43 km of the A8 highway between Gitaru and Rironi. The project structure is Design - Build - Finance - Operate - Maintain Transfer (DBFMOT) PPP model for a period of 30 years.
Phase	Procurement
Project Milestones	(2016) 04 November - Project Feasibility Study Approved (2016) 09 November - RFQ issuance (2017) 17 February - RFQ submission (2018) 30 April - RFP submission.

Project name	Roads Annuity Programme Lot 8 : Bomas - Kiserian - Magadi (C58), Bomas - Karen - Dagoreti - Ruiru (Bomas - Dagoretti Market)(C63), Uplands - Githunguri - Ngewa-C65 and other link Roads.
County	Kajiado, Nairobi
Contracting Authority	Kenya National Highways Authority (KeNHA)
Project cost (Value)	KES 25675 million (US\$ 256.75 million)
Description	The project is the construction and rehabilitation of the 71.5 km roads to augment the existing roads from Bomas to Magadi; Bomas to Ruiru via Dagoreti and other link roads on a Design - Build - Finance - Operate - Maintain-Transfer (DBFOMT) PPP model funded through annuity payments for a period of 10 years.
Phase	Procurement
Project Milestones	(2014) 26 July - RFQ issued

	(2014) 01 October - RFP issued.
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Project name	2nd Nyali Bridge Project
County	Mombasa
Contracting Authority	Kenya Urban Roads Authority (KURA)
Project cost (Value)	KES 20444 million (US\$ 200 million)
Description	The proposed project seeks to apply a PPP arrangement for the development of a 2nd Nyali Bridge and connecting roads. The Bridge shall connect the Mombasa Island with the North mainland to ease congestion on the existing Nyali Bridge and to make the traffic less dependent on a single channel crossing. The bridge is 600 meters in length. The project structure is a Design - Build - Finance - Operate - Maintain-Transfer (DBFMOT) PPP model for a period of 30 years.
Phase	Procurement
Project Milestones	The project Feasibility Study was completed and approved by the PPP Committee. The request for qualification (RFQ) was issued on 28th July 2017 and closed 9th November 2017. RFQ evaluation was finalized. Three firms/consortia were shortlisted and shall be issued with the RFP. The firms are; (i) Nyali Connect Consortium (Meridiam Infrastructure, Vinci Highways, Vinci Concessions) (ii) IHI-Join-Acciona Consortium (IHI, Acciona Construction, JOIN(Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development) (iii) Strabag AG Provision of Transaction Advisory (TA) Services - Process is underway to procure TA to support the RFP process through to Commercial and Financial Close. EOI for TA was published in January and closed on 6 th March 2020. The TA is to support RFP bidding stage for the project, through to Financial Close. Evaluation of the EOI is underway.
Project name	Nairobi- Mombasa Highway Project
County	Mombasa
Contracting Authority	Kenya National Highways Authority (KeNHA)
Project cost (Value)	US\$ 2350 million
Description	The 485 km Mombasa-Nairobi Highway (A109), which forms part of the longer Trans-African Highway (Northern Corridor), is the main transport route serving East and Central African countries from the Indian Ocean seaport of Mombasa. The proposed project seeks to apply a PPP arrangement for the upgrading, capacity expansion and subsequent operation and maintenance of the heavily trafficked Highway. The project structure is Design, Finance, Build, Operate and Transfer (DBFMOT) PPP model for a period of 30 years.
Phase	PricewaterhouseCoopers Ltd and its consortium were

	appointed as Transaction Advisors (TA) on 28th Jan 2015. The TA finalized the project Feasibility Study consistent with the PPP Act, 2013. The Feasibility Study Report was approved by the PPP Committee. Project is ready for tender.
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ii. Pre-Procurement Phase

Project name	Development of the Lamu-Garissa-Isiolo Highway Project
Contracting Authority	Kenya National Highways Authority (KeNHA)
Description	The project is a Design, Finance, Construct, Operate and Maintain PPP contract for the Lamu-Garissa-Isiolo Highway PPP basis for a period of 30 years.
Project Status	Privately Initiated Investment Proposal (PIIP) is currently under negotiation.

Project name	Lot 6 of Road Annuity Programme
Contracting Authority	Kenya National Highways Authority (KeNHA)
Description	The project is the construction and rehabilitation of a total 233.3 km comprising of Kilgoris - Lolgorian (B3) Kehancha - Lolgorian, Turbo - Shikhendu - Endebess Kakamega - Ingotse -Namukoye - Nzoia River -Musikoma(JN C33) Road, Ugunja - Ukwala - Ruambwa, Ruambwa - Port Victoria and Kimaeti - Malakisi - Lwakhakha through Njukini on a Design, Finance, Build, Operate and Transfer (DBFOMT) PPP model funded through annuity payments for a period of 10 years.
Project Status	Tender evaluation is underway

Project name	Nairobi-Thika Highway O&M Toll Road
Contracting Authority	Kenya National Highways Authority (KeNHA)
Description	Construction of the eight-lane 50 km superhighway, starting from Nairobi and running up to the outskirts of Thika, was completed in Nov, 2012. The project structure is an Operation and Maintenance (O&M) PPP model for a period of 10 years. It includes modest capex additions.
Project Status	Intercontinental Consultants and Technocrats Pvt. Ltd and its consortium were appointed as Transaction Advisors (TA) on 28th Jan 2015. The TA finalized the project Feasibility Study consistent with the PPP Act, 2013. The Feasibility Study Report was approved by the PPP Committee. Project is ready for tender.

Project name	O&M of Nairobi Southern Bypass
Contracting Authority	Kenya National Highways Authority (KeNHA)
Description	The construction of the 28.6 km dual carriageway done under the China Road and Bridge Corporation (K) under the Operation and Maintenance (O&M) PPP scheme, whereby the private party, awarded through a competitive bidding process, was to operate and maintain the road.
Project Status	Ready for tender.

Project name	O&M of the Shimon Port
Contracting Authority	Kenya Ports Authority (KPA)
Description	The proposed components of the project include Development of a commercial merchant shipping port, Industrial Fishing, Cruise Business Development, Marina Business Development and Development of Dry Bulk handling facilities. A landlord port model is proposed, with KPA investing in the development of infrastructure while the private sector installs the requisite superstructure and equipment as well as operates the port for a period of 25 years.
Project Status	Maritime & Transport Business Solutions (MTBS) and its consortium were appointed as consultants in January 2017. The TA finalized the project Feasibility Study consistent with the PPP Act, 2013. The Feasibility Study Report was approved by the PPP Committee. KPA is working on developing the project. The PPP shall be for the Operation and Maintenance (O&M) phase.

Project name	Development, Operation and Maintenance of Lamu Port Berths 4-21 and the adjacent Special Economic Zone (SEZ)
Contracting Authority	Kenya Ports Authority (KPA)
Description	(i) Berths 4-21 and the adjacent Special Economic Zone (SEZ) : Development, Operation and Maintenance of Berths 4-21 (ii) Special Economic Zone- The proposed area to establish the Special Economic Zone (SEZ) within the Lamu Metrolopolis will be strategically/optimally adjacent to the port site. The land is free from any encumbrances. The Special Economic Zone shall provide an environment that attracts investment in manufacturing and other industries including logistics and service related activities. The suitable purpose would include light industrial development or services focused on low environmental impact / green industries as well as ancillary residential and commercial development.

Project Status	In November 2018, Maritime & Transport Business Solutions (MTBS) and its consortium were appointed as Transaction Advisors to undertake feasibility study consistent with the PPP Act, 2013 to a standard that shall enable the Contracting Authority (CA) to establish the technical configuration, affordability, commercial attractiveness and bankability of the proposed PPP Project. The TA shall also support the CA during the project tender stage through to financial close. The Feasibility Study is being finalized.
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Project name	Nairobi Commuter Rail Project
County	Nairobi
Contracting Authority	Kenya Railways Corporation (KRC)
Indicative Value	KES 32232.52 million (US\$ 322 million)
Description	The project entails the rehabilitation of existing 100km railway line, and doubling of sections and support infrastructure. Additional services include: Rehabilitation of 4 existing stations and construction of 13 new stations, including a new station at JKIA; Construction of 5-7 Km of new track from Nairobi Central Station to JKIA; Construction of new tracks, depots, bridges and other facilities throughout the rail network; Introduction, operation and maintenance of new, modern purpose built rolling stock (locomotives and coaches); and Commissioning of a new signaling system.
Project Status	Pre-Procurement

6 Challenges facing PPP projects in Kenya

The challenges can be policy related, project related or financing related.

a. PPP policy and process challenges

- The short-term institutional capacity of the National Treasury PPP Unit to provide feasibility oversight of an ambitious pipeline of projects that have been identified by the national government.

- The institutional capacity of government institutions (other than the Treasury) to establish the required PPP nodes (in-house PPP units) that will work closely with the Treasury to ensure that PPP projects are feasible, sustainable, and meets the expectations for “Value for Money”
- The institutional challenges created by the recent devolution and decentralization of PPP “autonomous” PPP authority to the 47 county governments.
- Inadequate experience of Kenyan financial institutions regarding domestic Private Industry funding of local PPP projects.
- Limited knowledge among developers and other stakeholders in the Kenyan construction industry about PPPs.
- Ongoing revisions needed to beef up the PPP Act 2013 in regard to transparent procurement procedures – specifically those regulating unsolicited PPP procurements.

b. Project life cycle challenges

The project related challenges vary at each stage.



At the proposal stage, identifying the right international consultants, engineers and equipment to conduct a sound feasibility study is very expensive. Further obtaining transaction advisory is priced at a premium. Delays in the PPP approval process can lead to anxiety in terms of putting together the right resources.

At the development phase the challenge is more on identifying the right construction partner and working in collaboration with the contracting authority. Finding the right team and skills to oversee the development phase is also critical.

At the operations and commercialization phase the enforcing the contracts with the public entities. In Kenya, the government has been known to honor PPP contracts and has maintained good relationships with the large lender institutions.

c. Financing related challenges

At the proposal stage the financing needs include the costs of hiring/leasing and international consultant, engineers and equipment to conducting a feasibility study, hiring a qualified transaction advisor. Development stage, the project investors are looking at identifying a qualified SPV to develop the infrastructure.

Key private finance considerations for selection of PPP Infrastructure investments in Africa:

- (1) Political stability;
- (2) A continuous pipeline of bankable projects;
- (3) Transparent and efficient procurement;
- (4) Enforceability of contracts;
- (5) Equitable sharing of risks with the public sector; and
- (6) Certainty of the envisaged future cash flows.

Major Concerns of Project Lenders

- Certainty about the project cash flows needed to meet debt service requirements;
- Sufficiency of the project cash flows for making the expected (or a reasonable) profit for the equity investor;
- Creditworthiness of the public sector (in terms of meeting its obligations);
- Soundness and stability of the legal framework for PPPs;
- Effectiveness and enforceability of the PPP contract and related agreements;
- Confidence in the regulatory regime;
- Right to step in if a project fails, and availability of alternative contractors;
- Ability of contractors to perform and the quality of their management;
- Creditworthiness of the contractors and the quality of their guarantees;
- Risks must be understandable, controllable, finite, and appropriately allocated;
- Acceptability of the termination regime (providing enough protection to the debt);
- Reputation impact of the project (environmental and social) ^[80]; and
- Availability and effectiveness of insurance coverage¹¹¹⁾

111) *Source:* Adapted from World Bank – Farquharson, Torres de Mästle, and Yescombe, with Encinas (2011).

VI. Case Studies

1 Introduction

This section presents regional cases from Southern Africa, Cameroon, Mozambique, Uganda and Tanzania with selected projects drawn from three sectors: transport, water and energy as summarized in Section 6.2. Case studies from Kenya are presented in Section 6.3.

2 Regional Case Studies

Table 32: Regional Case Studies¹¹²⁾

Nature of Project	Type of financing	Deal structure	Key challenges and lessons
[Case 1] N4 Toll Road from South Africa to Mozambique. A partnership between the South African and Mozambican governments through a private consortium, Trans African Concessions (TRAC)	PPP- Build and operate for 30 years	Contract value R3 billion. Financing was-20% equity by project sponsors and 80% debt from South African banks, SA infrastructure fund	<ul style="list-style-type: none"> • The project faced demand risk <ul style="list-style-type: none"> - Traffic estimates were based on regional trade and economic growth which was not realized as projected. User payment risk in Mozambique as the poor communities were unable and unwilling to pay. • Solutions - Cross-subsidization of Mozambique toll fees by charging higher on the SA side, and Toll discounts to local users and public transport on both sides of the border.

¹¹²⁾ Sources:

N4 Toll Road – https://www.esc-pau.fr/ppp/documents/featured_projects/south_africa_and_mozambique.pdf; West and Central Africa Transshipment Hub-Lomé – <https://www.niras.com/projects/container-terminal-in-lom%C3%A9-togo/>;
Port of Maputo – <https://africaports.co.za/maputo/>

<p>[Case 2] West and Central Africa Transshipment Hub-Lomé Container Terminal (LCT) handling 2.2 million TEU.</p>	<p>Debt</p>	<p>IFC led a consortium of financiers raising a \$116.21 million loan, while facilitating a total packaged of \$300 million from international lenders. Terminal will have an annual handling capacity of 2.2 million twenty-foot equivalent units (TEUs)</p>	<p>● Impact: The project created 1,200 direct jobs and up to 3,000 indirect jobs during construction and 700 new direct jobs and up to 2,500 local indirect jobs during operation</p>
<p>[Case 3] 15-year concession to finance, rehabilitate, operate and upgrade the Port of Maputo.</p>	<p>Mozambican national ports and rails authority CFM formed a joint venture with a private consortium. Owned 51% by the consortium and 49% by the government. Financiers- Standard Corporate and Merchant Bank, the Development Bank of Southern Africa, the development finance companies of the Netherlands and Sweden as well as the Nordic Development Fund and Finland's Finnfund.</p>		

Outside transport, energy and water sectors have useful cases of PPP projects implemented in Cameroon, Uganda and Tanzania with important lessons on pre-implementation preparation such as feasibility assessment, structuring the deal for market and management of the projects.

Case 4: Kribi 216 MW Gas-fired Power Plant and 100Km transmission line Kribi Power Development Corporation (KPDC) in Cameroon

Description

- The project aimed at Increasing power generation capacity; efficiency & sustainability is at the heart of the Government of Cameroon's Vision 2035 to transform Cameroon into an industrialized emerging economy.
- The technology investment partner was Wartsila engines: 13 x 18V50DF-gas reciprocating engines of 16.6MW gross capacity each and Siemens-KEC JV: 100km 225kV double circuit transmission line; step-up 11/225kV sub-station. The generation was from offshore Sanaga Gas field located near coastal city of Kribi, in the South Province of Cameroon. Off-taker: AES Sonel, integrated power utility for Cameroon. KPDC ownership is The AES Corporation (56%); Republic of Cameroon (44%).

Kribi confirmed as the next least cost investment in the power sector

The Kribi Project will:

- Significantly expand the country's energy generation capacity
- Help bridge the period before further hydropower developments
- Provides much needed low-carbon thermal complement to hydro-based system
- Catalyze the first commercial development of Cameroon's gas reserves
- Benefit 163,000 households (equivalent)

As the second IPP in Cameroon and one of few IPPs in Africa, the Project:

- Serves to demonstrate a replicable IPP model
- Successful example of a Public Private Partnership in the power sector
- Broad and diverse lender group
- Prospective DFI lenders include IFC, African Development Bank (AfDB), European Development Bank (EIB), FMO, Proparco, BDEAC
- Standard Chartered Bank led local bank syndicate backed by WB partial risk guarantee
- First private long-term local currency project finance for an infrastructure project

EPC Procurement:

- Fixed price EPCs Wärtsilä & Siemens T&D /KEC International (KEC) - selected on a competitive basis
- Power Purchase Agreement / Connection Installation Agreement: 20-year off-take with AES-Sonel for 100% of the power;
- Licenses: 20-year sales & generation licenses issued by Minister of Energy upon recommendation of ARSEL;
- Gas Supply Agreement: With SNH (National Petroleum Agency), with Perenco as the upstream operator;
- Government Commitment Agreement: Agreement through which RoC commits its support to the Project

Case 5: Bujagali Hydropower Project-IFC MIGA, GoU- 250 MW hydropower project in Uganda¹¹³⁾

Description

- 250 MW hydro power project, a hydroelectric power station across the Victoria Nile that harnesses the energy of Bujagali Falls - in Uganda. Bujagali Energy Limited (BEL) is owned by SG Bujagali Holdings Ltd (an affiliate of Sithe Global Power LLC).
- The Interconnection Project involved the construction of about 100 kilometers of high voltage electrical transmission line to interconnect the power generation facility (the Bujagali project) to the national electric grid. Structured as IPP, BEL then was to sell the electricity to UETCL, under a 30-year Power Purchase Agreement (PPA).

Financing structure

- US\$900 million non-recourse/largest IPP project financing in SSA
- US\$700 million long-term debt:
- 16-year facility from EIB, AfDB, DEG & IDA PROG
- Covered: Barclays/Absa & Standard Chartered
- 20-year facility from IFC, Proparco & FMO
- US\$180 million private equity (Blackstone & Aga Khan Foundation) & US\$20 million public equity investment

PPP Model

- A 30-year Build-Own-Operate-Transfer (BOOT) concession with availability-based PPA - full & capped pass-through elements within PPA tariff

Project constraints and risks

- The project was subject to river hydrology variations and regional drought risks
- Power shortage addressed through 100 MW expensive emergency power with an additional 50 MW on tap - short-term fix at best
- Power sector in a weak operational and financial state - only 55% of the electricity generated is commercialized
- Average retail electricity tariffs doubled to 17 ¢/kWh despite a large annual tariff subsidy by the government

113) Sources:

https://www.ifc.org/wps/wcm/connect/ad189766-9e18-4898-a5a7-2cc299524d56/6_Distribution+and+Generation+PPPs+in+the+Power+Sector+-+Uganda+-+A+Case+Study+on+Risk+Mitigation+Through+PPP+Structuring+-+.pdf?MOD=AJPERES&CVID=jgqc5Vr;

<http://documents.worldbank.org/curated/en/546131539715898602/pdf/Bujagali-ICR-Report-10102018.pdf>

Risks and challenges of the Bujagali Hydropower Project

- Citizens and local organizations filed a complaint with the World Bank Inspection Panel, raising concerns about Environmental issues, Hydrological and climate change Risks, Involuntary resettlements, cultural and spiritual values.
- There was no enough water to sustain and ensure that the project would generate its designed capacity of 250MW and due to the decline in water of the Victoria Lake it has continuously contributed to the inefficiency of the dam
- World Bank Inspection Panel (2010) established that the project's economic viability was overestimated in relation to hydrological risks; the impacts of the project on the changing levels of Lake Victoria were not assessed; the project preparation and assessment reports did not address climate change and its possible impact on power production at Bujagali
- Bujagali PPP scheme according to them found many policy violations with regard to the Social impact to the communities and people's way of life mainly in regards to settlement resettlement process.

Case 6: Tanzania City Water Services Limited PPP Project¹¹⁴⁾

Description

- The project was established in Tanzania in 2003, involved the engagement of a private operator by the Dar es Salaam Water and Sewerage Authority (DAWASA) to provide water supply and sewerage services in Dar es Salaam.
- It took 6 years to identify a suitable private sector partner with the delay caused by differences between parties - Parastatal Sector Reform Commission (PSRC), DAWASA, the Ministry of Finance and the Ministry of Water.

PPP model and partners

- Earlier in 1998, the DAWASA Divestiture Team assisted by the World Bank had explored various options of possible PPP models to adopt for the project. Ultimately, they settled for a lease contract, where the operator would provide equity for working capital while the bulk of investment capital would come from donors.
- The PPP contract was awarded to Biwater Gauff Tanzania Limited (BGT) and a Tanzanian investor, Super Doll Trailer Manufacture Company Limited (STM). These two created a firm called City Water Services Limited (CWS) through which to implement the PPP. BGT owned 51% shareholding and Super Doll the remaining 49% of CWS. DAWASA was the asset holder and Leasor while CWS became the Operator.
- A contract, running for 10 years, was then signed between DAWASA and CWS (the Operator) in February 2003 before CWS began operations in August, 2003.

Operation

- In terms of the operation framework, CWS assumed the exclusive right and obligation to provide water supply and sewerage services and maintain assets within its area of operation.
- CWS was also responsible for maintenance and repair of some specified assets (for example, water pipes up to 300 mm in diameter and six meters in length), replacement of small equipment, and purchase and replacement of operating equipment such as vehicles, operating tools and office equipment).
- To cover as well as recover its costs, CWS would charge users for water and sewer services through a regulated tariff.
- The project failed.

114) Source - Triche, 2012

Challenges and Lesson

- One of the reasons for the failure of the project is that when CWS assumed operations, its target could only be met if it identified and regularized thousands of unregistered connections, introduce a new billing system, reduce water losses from an estimated 70% to 44% in the first three years, and increase monthly collections from Tshs 720 million (the amount collected in August 2003) to Tshs 1.8 billion within 12 months (Triche, 2012).
- This was a difficult task, for it called for a change in culture on the part of the operating staff and many of the customers. However, CWS was unable to create these conditions, as it failed to meet many of its obligations almost from the start and, by December 2003, was already facing serious cashflow problems.
- The performance of CWS was also poor relative to expectations; its average monthly collections in 2004/05 reached only 52% of projections and were 21% lower than what DAWASA had been able to achieve in 2002/03.
- Another big problem was Government arrears for water and sewerage services, which had amounted to US\$ 1.5 million by May 2005, equivalent to about 40% of CWS's total billing.
- CWS also failed to fulfil several of its contractual obligations, which included failing to pay the rental fee to DAWASA leading ultimately to the collapse of the CWS PPP project.

Key lessons from the regional experiences

The above cases bring important lessons on how they should be properly structured to manage risks. These lessons include the following:

- (1) Sector reform efforts under PPPs can be easily undermined if there is a weak accountability framework between parties.
- (2) There is need to ensure that user preferences and attitude are adequately captured at project design stage. Consultation with users for an assessment of willingness to pay or accept changes might have resulted in the design of a realistic program for the CWS PPP project for example.
- (3) There is need for vested interests to be assessed early in the reform for explicit strategies to be developed to counter them.
- (4) For PPP projects that involve water and sewerage, proven experience in introducing culture change and using performance incentives should be a pre-requisite.

3 Case Studies from Kenya

From Kenya, cases presented here are drawn from roads and energy sectors. Cases are summarized in terms of brief project description, PPP model applied, parties, funding, risk allocation, challenges and key lessons.

6.3.1. Roads Case Study: Nairobi - Nakuru - Mau Summit Sh180 billion Highway

Location and length

The Nairobi - Nakuru - Mau Summit Highway (A8) and A8 South Road at Gitaru junction is approximately 58 km in length.

Traffic load

The average number of vehicles per day between Nairobi and Mau Summit on both routes - the A8 and the A8 South - amounts to 16,000 vehicles. The traffic peak is around Nakuru town with daily traffic levels exceeding 40,000 vehicles. Traffic on the A8 comprises mainly cars (43%), freight (27%) and 14-seater PSVs (Matatus) - privately owned minibuses (18%). Freight traffic is mostly (63%) through traffic reflecting the importance of the project road as an international trade corridor, whereas the origin and destination of cars are mostly (64%) within the Project Road. Traffic is projected to increase further in the coming years because of continuing growth of the population and a rising middle class who can afford to buy cars. The total construction costs for the scope of work is indicatively estimated at around USD 550 million.

PPP model

A 30-year Design Build Finance Operate Maintain Transfer PPP scheme involved the Successful Bidder establishing a dedicated Special Purpose Vehicle to enter into a Project Agreement with KeNHA, all under the provisions of Kenya's PPP Act, 2013. Payments to the Project Company was through performance-related Service Payments (obtained through toll revenues) largely linked to Project Road availability.

Funding

In order to fund the Project Road, tolling was considered through a third-party private toll operator to establish tolling systems and subsequently collecting the tolls and a government to cover any deficits. It is anticipated that the project's construction costs to be financed by the Project Company through a mix of shareholder equity contributions and long-term bank/financial institution debt. The Government engaged with development and commercial banks to gauge interest and facilitate financing support.

Design work



The road to be done under a PPP will feature a dual carriageway of four lanes to be increased to six with increased traffic and an elevated road (Nakuru Expressway) being proposed in Nakuru town.

Risk Allocation formula

Rights, Responsibilities and Risks	Project Company	Contracting Authority
Design	✓	
Land Acquisition		✓
Necessary Approvals	✓	
Construction	✓	
Financing	✓	
Force Majeure	✓	✓
Traffic Volume - Cost Implications	✓	
Axle Overloading		✓
Revenue		✓
Operations and Maintenance	✓	
Performance	✓	
Local Currency Inflation		✓
USD/KSH Exchange Rate		✓
Local Currency Interest Rate		✓
Political		✓

Challenges

Despite award to the Rift Valley Connect (RVC) consortium, which is composed of Vinci Highways, Meridian Infrastructure Africa Fund and Vinci Concessions, a Public-Private Partnership (PPP) committee dismissed allegations that KeNHA had engaged in a non-transparent bidding process that interfered with fair competition.

6.3.2. Energy Case Study - Lake Turkana Wind Power Project

Description

Lake Turkana Wind Power (LTWP) project is one of large-scale renewable energy projects in Africa, located in Kenya, Loiyangalani District, Marsabit County, Kenya. It comprises of 365 wind turbines, each with a capacity of 850kW, and a high voltage substation that has been connected to the Kenyan national grid through a transmission line constructed by the national Government. With a total capacity of 850kW and current installed capacity of 310 megawatts, LTWP is the largest wind park on the Africa continent and the biggest single private sector investment in Kenya's history accounting for 17 percent of the country's installed energy capacity.

Credence

LTWP has been regarded as a global show case of large-scale investing in renewable energy, community engagement and opening an impoverished region through a single transaction (Boston Consulting Group). The project has reached operations phase and is able to pay its investors above market IRR, and its attracting new investors to buy off the stake of early stage investors and at a market rate premium return.



Financing

The debt comprises 475 million euros (Sh54.9 billion) out of a total project cost of 630 million euros (Sh72 billion) borrowed from 13 international DFIs with the key ones being finfund, Norfund, MLAs, ECA and banks. In the IPP contract, the principle of take-or-pay is universally acceptable, that is, LTWP will produce power that must either be taken or if not, for whatever reason, then LTWP gets paid as an underlying securitization of receivables.

The financing was on a moratorium on repayment during the construction period and subsequently, semi-annual repayments of 37 million euros.

Inaugurated in 2019 by the president, nearly 15 years after it was first conceptualized, Lake Turkana Wind Power project encountered challenges from securing financing to project implementation delays, and still faces dissatisfaction from some stakeholders over its interactions with affected communities.

PPP process

LTWP reached financial close and broke ground in 2014. In an arrangement involving sixteen partners, the LTWP consortium led the development of the project, which cost USD \$680 million. Six contractors provided technical expertise, project management, and construction and equipment services. LTWP financed the project through a complex mixture of private equity, commercial debt, development finance and risk guarantees. The financing was comprised of 70 percent senior debt, 25 percent equity and 5 percent mezzanine debt from private equity and a syndicate of banks led by the African Development Bank as the senior lender. Notably, the World Bank declined to participate due to its reservations over the project's power purchase agreement with the Government of Kenya (GoK).

Challenges

Despite extensive engagements with community stakeholders, LTWP faced backlash from some of the communities over claims of land grabbing, lack of consultation, and failure to live up to their commitments for community development. A Kenyan court declined an application by residents to stop the project but did confine it to 87,500 acres of the initially acquired 150,000 acres. The GoK faced similar challenges when constructing the new power line to off-take energy from the wind farm. The project had drawn attention, and it was reported that manyattas (traditional huts) "sprouted overnight from nowhere, slowing the contractors' access to the right of way" leading to delays in line construction.

Delays in the transmission onto the grid of the already completed wind power plant, resulting contractor issues with Kenya Electricity Transmission Company (KETRACO) 272 miles new line project led to the penalties as provided for in the Power Purchase Agreement (PPA) regardless of the status of the line; as LTWP had obligations to begin repaying its loans and needed the money.

- LTWP built the wind farm and was ready in accordance with the terms of contractual arrangements starting from January 27, 2017. However, the delay in the transmission line by the government resulted to LTWP charging the government 46 million euros (Sh5.7 billion). Although the cost of the penalties was transferred to consumers through increased

tariffs, the government honored the PPP contract and in good faith to the lenders to LTWP who are also large lenders to other public and private projects in Kenya and a failure to honor the LTWP agreements would trigger cross-default clauses that would affect projects worth hundreds of millions of dollars.

- In the initial feasibility stages the financing challenge was a huge one as most large lender did not have technical assistance funds to support project preparation costs that precede financial close. The transaction advisory costs are high. Development Financial Institutions such as AfDB World Bank and others should support the independent power investors and local entrepreneurs to develop a pipeline of bankable infrastructure projects.
- There are also concerns that many other IPPs, the off-taker and the Energy Regulatory Commission (ERC) have a delicate job of managing supply and demand and considering future plants and how long these will take to come on stream.
- LTWP project came into scrutiny by the media as 'good for the environment but hurting community' due to the vast concessions of over 600km squared. As a result, the LTWP has established a range of community projects to avoid ambivalence towards the project.
- Despite the challenges the LTWP is testament that not only can projects be successfully implemented but that the government's policies are pro-investor - without which, there is either no access to capital or it is costly to obtain.

Impact

Through adjacent facilities built around the LTWP, a study commissioned by Finfund established that the project had achieved social outcomes for the community as below:

- Rehabilitation of 208 km of rural road between Loiyangalani and Laisamis that reduced the transport time from 1-2 days to 4 hours, increased passenger transport by nine times and freight transport three times and reduced the price of transport between 16 and 37%.
- Increased traffic and lower transport prices have led to 20-30% price decrease for certain foods at local market, and three times increase in incomes for local fishermen.
- LTWP and sub-contractors provided approximately 1 800-1 900 jobs for local people during construction. The impact of the salaries paid to the local communities was beyond the scope of the study.
- In addition, there is anecdotal evidence in increased access and quality of health and education facilities.
- When connected to the national grid, the study estimates that LTWP will reduce outages by 10-15% and 13% decrease in the cost of electricity

Learning points from the Kenyan Cases

Even though the cases cited here are both successful, there are important lessons to take away:

- (1) LTWP saw the need for planning and engaging local communities early in the PPP life cycle, right during the planning phase to forestall unexpected problems. Tensions that persist reflect the need for continued engagement with stakeholders throughout the site's construction and operational phases.
- (2) It is imperative to developing a credible post-award guideline to guide subsequent phases during operation and commercialization.
- (3) Even privately initiated investment proposals (PIIP) like the LTWP project work smoothly when anchored on proper public procurement, risk quantification and allocation and financial modelling.
- (4) Learning from the Nairobi-Nakuru-Mau Summit road project, it is crucial for the PPP process to conduct adequate and transparent process especially at the bidding stage to avoid time costly court cases.

4 Key Lessons from Case Studies

Some of the PPPs have faced challenges ranging from poor contracting, politics and demand risks. An example of a bad case study is the Tanzanian government's state-owned electricity company Tanesco signed a power purchasing agreement with Independent Power Tanzania Limited (IPTL), a joint venture between a Malaysian company and a local investor for the purchase of 100MW of power from diesel generators for 20 years. The project which cost \$40 million in capacity payments⁸¹ alone and has functioned at less than 10% capacity in the first year and charges the government 12 US cents per unit while consumer price is 7-9 cents. This is in addition to the \$3 million in statutory costs. There has been a public outcry and hot parliamentary debates over IPTL, with evidence of corrupt payments to government officials.

This is to show that even IPP deals are vulnerable to corruption, especially in the absence of a proper bidding process. In the case of the IPTL, a proper feasibility study would have questioned the need for the Independent Power Producer (IPP) on the grounds of cost, value for money, technology and power demand. Other lessons that can be drawn from the case studies are:

- (1) The need for a clearly spelt out commercial risk-sharing between parties as demonstrated by the Nairobi-Nakuru Mau Summit and Lake Turkana Wind Project.
- (2) Linkage with other infrastructure projects. The N4 road stimulated private investment in other sectors leading to more traffic on the roads.

- (3) Governments tend to deflect public complaints about high fees to the concessionaire, making high prices their responsibility.
- (4) Defining the investment obligations of the private consortium
- (5) Positive experience with a PPP in a country opens doors and builds knowledge making it easier to structure deals much faster in future.
- (6) As the African infrastructure investments market matures, there is bound to be more opportunities for exit deals at a close to market and market-rate returns. Emerging Markets Private Equity noted that Africa's infrastructure funds such as Adenia Partners closed deals with Phatisa, an international venture fund, generating an internal rate of return of more than 50 percent for Phatisa, which originally invested in Kanu in 2016 through the African Agriculture Fund¹¹⁵).
- (7) All PPP projects in Kenya are implemented at County level even if the contracting authorities are an entity of the National Government. However, there is limited awareness on PPPs especially at County levels. Also, PPP Frameworks are not fully established at the County Government levels which points to capacity building gaps.

¹¹⁵) EMPEA (2018)

Vii. Conclusion and Recommendation

1 Conclusion

From the foregoing, Public Private Partnerships (PPP) are a prolific vehicle for foreign investors to partake in infrastructure development in Kenya as they are gaining popularity and wide acceptance in the country amongst other countries of SSA. Between competitive bidding PPPs and non-competitive PIIPs, the Kenya government is in favor of competitive bidding process.

There are six considerations made by private finance entities for selection of which PPP infrastructure investment projects and which countries they prefer in Africa. Such countries attract more investments if they portend:

- (1) Political stability;
- (2) A continuous pipeline of bankable projects;
- (3) Transparent and efficient procurement;
- (4) Enforceability of contracts;
- (5) Equitable sharing of risks with the public sector¹¹⁶; and
- (6) Certainty of the envisaged future cash flows.

On the other hand, regulators have their set of conditions for private sector actors. The Kenya PPP Act (2013) regulation on privately initiated proposals for procurement of infrastructure investments, Privately Initiated Investment Proposals (PIIPs) can proceed with a “non-compete process” only if they comply with Sections 61(1, 3):

¹¹⁶ These risks often include: Completion risk, cost overrun risk, design risk, exchange and FOREX risk, force majeure, interest rate, market/demand, operating risk, political risk, regulatory risk and utilities risk.

- (1) Proposed projects under PIIPs must rhyme with priorities of the government. For example the Government of Kenya (GoK) has prioritized housing, food security, manufacturing and universal healthcare under the Big-4 Agenda. Nonetheless there are PPPs in the pipeline under other sectors including education.
- (2) The proposed private financing model be affordable to the off-takers
- (3) The financing deal must accommodate optimal risk allocation between the private sector proposer and the public
- (4) Only one person or firm can undertake the project, maintain the proposed facility or provide the service. Alternatively, such person or firm “has exclusive rights over the use of the intellectual property, trade secrets or other exclusive rights necessary for the construction, operation or maintenance of the facility or provision of the service” . In other circumstances, the intellectual property rights of engaging any other entity may be substantially expensive.

PPPs remain Kenya’ s best chance for infrastructural procurement as the government’ s external and domestic borrowing capacity is increasingly constrained and the PPP Unit is considering ways to trigger an increase in the quantity and quality of PPP projects crossing the finish line, including restructuring PPP tenders through a consultative approach to draw PPPs that can be commercialized sustainable.

A bureaucratic and slow PPP approval process is the biggest challenge for private investors. There is an amendment Bill in parliament aiming at reducing the approval steps in the PPP approval process. Second biggest challenge is access to the right capital to finance early stage project needs since investors perception of risks and ability to quantify returns is limited at this stage. Private investors can utilize appropriate gearing and hedging strategies to not miss an opportunity for high return and high impact investments.

Kenya's PPP environment is straightforward with an enabling policy and PPP Unit dedicated to offer technical support as well as oversee all PPP projects throughout the deal process. Experts noted that the industry is in its nascent stage and it is hard to draw conclusions on the key success factors, however, successful PPPs mainly in the energy sector are good lessons that can be replicated in other sectors. Questions such as how to identify suitable projects, gauge the risks involved and test the likelihood of success need to be answered on sectoral or project basis and should not be generalized to the whole country.

In addition, selecting the most qualified project developer for a specific project can be a tricky task when the pool of investors with capacity for PPPs is limited. The legal framework for PPPs at the subnational level is work in progress and should be supported to support a range of PPPs projects geared to immediate community needs and are anticipated to set the parameters for awarding and contracting PPPs at the county level.

PPPs are largely intended to be driven by Contracting Authorities in

the public sector, such as the authorities in the roads, power, health and housing sectors. Hearteningly, the PPP Amendment Bill, 2017 (“Bill”), contains specific provisions for county governments to enter PPPs, in acknowledgement of the abundant PPP opportunities at the county level. One recurring concern with the Contracting Authorities is their capability to procure and manage PPPs effectively. The PPP Unit is charged with providing technical support to the Contracting Authorities, but they still have to engage transaction advisors which comes at a high cost. The Transaction Advisors can provide much needed support, but the Contracting Authorities still need to make decisions for which responsibility cannot be delegated. Contracting suitably qualified Transaction Advisors is also a challenge. The Bill proposes a new requirement for Contracting Authorities to consult the PPP Unit when engaging Transaction Advisors, to ensure that the Transaction Advisors are up to task. At any rate, PPP capacity building for Contracting Authorities remains a priority, and the county level Contracting Authorities will need technical capacity building and handholding as they are new to the world of PPPs.

2 Lessons and PPP Best Practices

Cross-cutting lessons from case studies:

- (1) Linkage with other infrastructure projects. For example, the N4 road stimulated private investment in other sectors leading to more traffic on the roads.
- (2) Governments tend to deflect public complaints about high

fees to the concessionaire, making high prices their responsibility.

- (3) Defining the investment obligations of the private consortium
- (4) Positive experience with a PPP opens door and builds knowledge making it easier to structure deals much faster in future.
- (5) As the African infrastructure investments market matures, there will be more opportunities for exit deals at a close to market and market-rate returns.

Key lessons from the regional experiences:

- (1) Sector reform efforts under PPPs can be easily undermined if there is a weak accountability framework between parties.
- (2) There is need to ensure that user preferences and attitude are adequately captured at project design stage. Consultation with users for an assessment of willingness to pay or accept changes might have resulted in the design of a realistic program for the CWS PPP project for example.
- (3) There is need for vested interests to be assessed early in the reform for explicit strategies to be developed to counter them.
- (4) For PPP projects that involve water and sewerage, proven experience in introducing culture change and using performance incentives should be a pre-requisite

Key take-aways from the Kenyan experience:

- (1) It is imperative that capacity building to be done on local staff to enable them to take active roles, including transaction advisory, in structuring PPPs deals for different sectors.
- (2) Financing of PPPs in Kenya has been foreign dominated but there is a case of a road project that has been financed by a local commercial bank. This means that there is possibility to mobilize local infrastructure investment capital whose owners have a medium to long-term risk appetite where parties can have greater control of different processes of the PPP life cycle.
- (3) There is need for planning and engaging local communities early in the PPP life cycle, right during the planning phase to forestall unexpected problems. Tensions that persist reflect the need for continued engagement with stakeholders throughout the site's construction and operational phases.
- (4) It is imperative to developing a credible post-award guideline to guide subsequent phases during operation and commercialization.
- (5) Even privately initiated investment proposals (PIIP) like the LTWP project work smoothly when anchored on proper public procurement, risk quantification and allocation and financial modelling.
- (6) Learning from the Nairobi-Nakuru-Mau Summit road project,

it is crucial for the PPP process to conduct adequate and transparent process especially at the bidding stage to avoid time costly court cases.

3 Recommendations and Strategies

A suitable PPP investor in Kenya should consider the following:

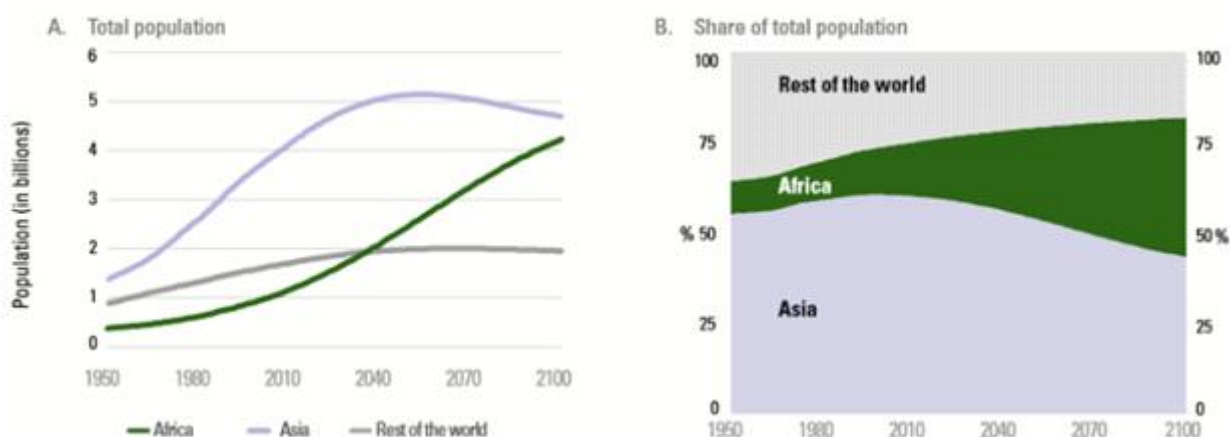
- I. **A credible pipeline of projects** - mobilizing for PPP projects from a private sector perspective is quite expensive both at the procurement and implementation stage. Investors should build a pipeline of credible and consistent pipeline within a country to justify costs and refine key contractual provisions in subsequent projects.
- II. **Real demand for the service** - if the end users are going to directly pay for the service, then the demand and willingness to pay for the service must be real and not perceived. If, however government is the payer, then the contracts must not be ambiguous in addition to an actual demand being there for the service because if the demand is false, it won' t be long before the government gets 'bored and tired of paying the private sector for a service with no demand' .
- III. **Environmental & Social considerations** - responsible and sustainable investing is a consideration that has gained priority amongst many international investors and quite rightly so because we all have an obligation to preserve the environment

for future generations. Many projects have stalled because of a half-hearted attempt at mitigating Environmental & Social issues.

- iv. **Multilateral Development Bank Involvement** – quite often, the affordability and bankability of projects is difficult and multilateral development agencies often play a critical role in providing viability gap funds, political/credit guarantees and a very unquantifiable confidence boost to crowd in capital from private investors. Development Financial Institutions can de-risk PPP projects by offering insurance cover against country risk and currency risks.
- v. **Currency fluctuations** – majority of projects in the energy and transport sector have a currency mismatch brought about by loans & their repayment being in hard currency whilst project revenues and government revenues/taxes being in local currency. Over the life of projects, local currencies typically depreciate against the hard currencies especially with local currency financing, service/off take payments in local currency and the inclusion of local capital markets (e.g. pension funds, insurance funds) that are highly liquid and looking for long term assets to match their long-term liabilities.
- vi. **Responsible Private Investors**– Transparent, well-structured projects aligned with sector regulations and with appropriate risk allocation between public and private parties. – Build strong consortia (Technical, Operational, Financial) to compete on privatization and concession offerings. – Investments and Service Innovations in the distribution sectors

Annexes

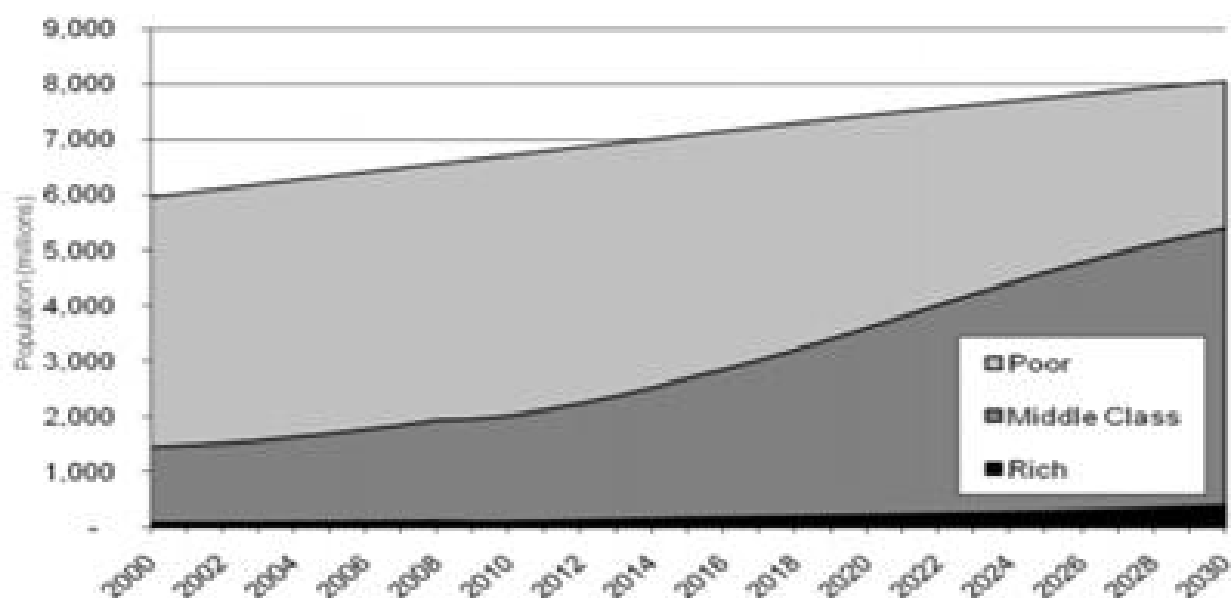
Annex 1 Total Population by Region, 1950–2100



Annex 2 Most Admired Brands in Africa

Rank	Brand	Industry Group	Country of Domicile
1	Samsung	Electronics / Computers	South Korea
2	Nike	Sport and Fitness	USA
3	Adidas	Sport and Fitness	Germany
4	Coca-Cola	Non-alcoholic Beverages	USA
5	Apple	Electronics / Computers	USA
6	LG	Electronics / Computers	South Korea
7	Nokia	Electronics / Computers	Finland
8	Toyota	Auto Manufacturers	Japan
9	MTN	Telecommunications	South Africa
10	Airtel	Telecommunications	India
11	Puma	Sport and Fitness	Germany
12	Sony	Electronics / Computers	Japan
13	Etisalat	Telecommunications	UAE
14	Tecno	Telecommunications	China
15	Nestlé	Consumer, Non-Cyclical	Switzerland
16	Glo/Globacom	Telecommunications	Nigeria
17	Pepsi Cola	Non-alcoholic Beverages	USA
18	Orange	Telecommunications	France
19	BMW	Auto Manufacturers	Germany
20	Guinness	Alcoholic Beverages	Ireland

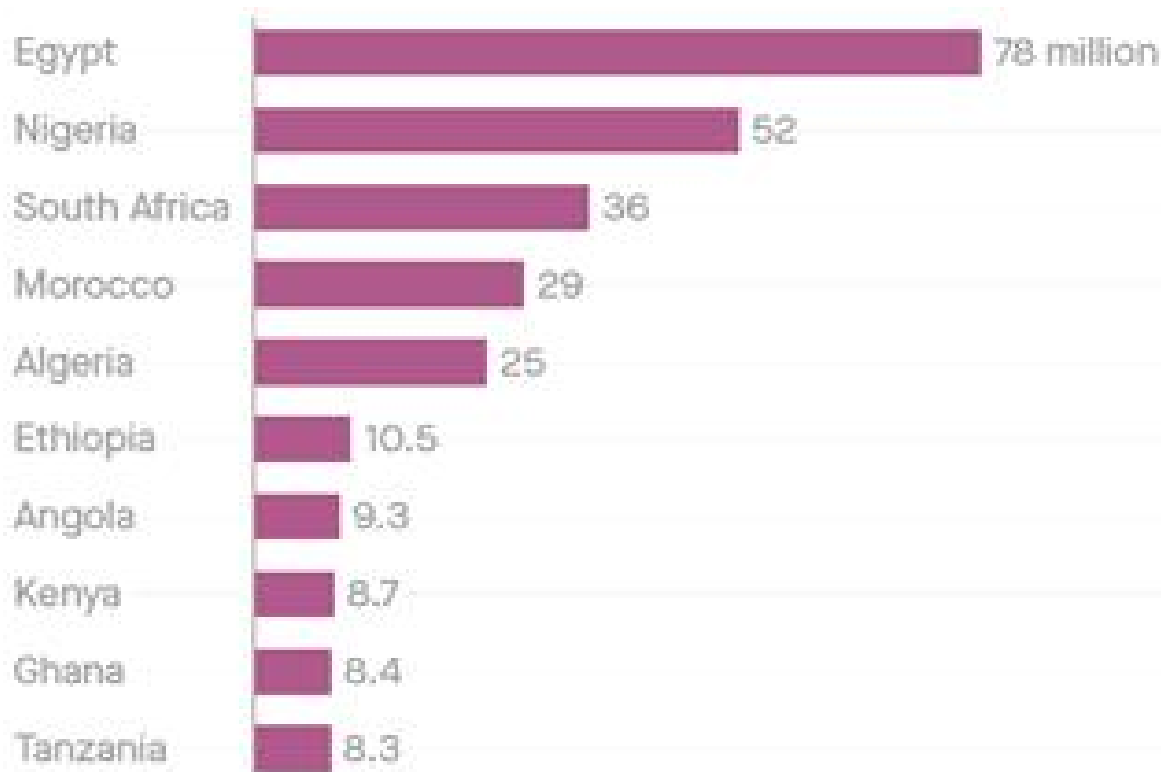
Annex 3a A Surge in the Global Middle Class



Annex 3b Size of the Middle Class, Regions

	2009		2020		2030	
North America	338	18%	333	10%	322	7%
Europe	664	36%	703	22%	680	14%
Central and South America	181	10%	251	8%	313	6%
Asia Pacific	525	28%	1,740	54%	3,228	66%
Sub-Saharan Africa	32	2%	57	2%	107	2%
Middle East and North Africa	105	6%	165	5%	234	5%
World	1,845	100%	3,249	100%	4,884	100%

Annex 4 Size of Consumer Class Population (Africa)



Annex 5 Share and value of household consumption in Africa

Country	Regional %, 2015	US\$ billion, 2015	Regional %, 2025	US\$ billion, 2025
Nigeria	26	369.2	22	454.3
Egypt	16	227.2	17	351.1
South Africa	13	184.6	12	247.8
East Africa	14	198.8	15	309.8
North Africa*	13	184.6	13	268.5
Sub-Saharan Africa**	18	255.6	21	433.7
TOTAL	100%	\$1,420	100%	\$2,065

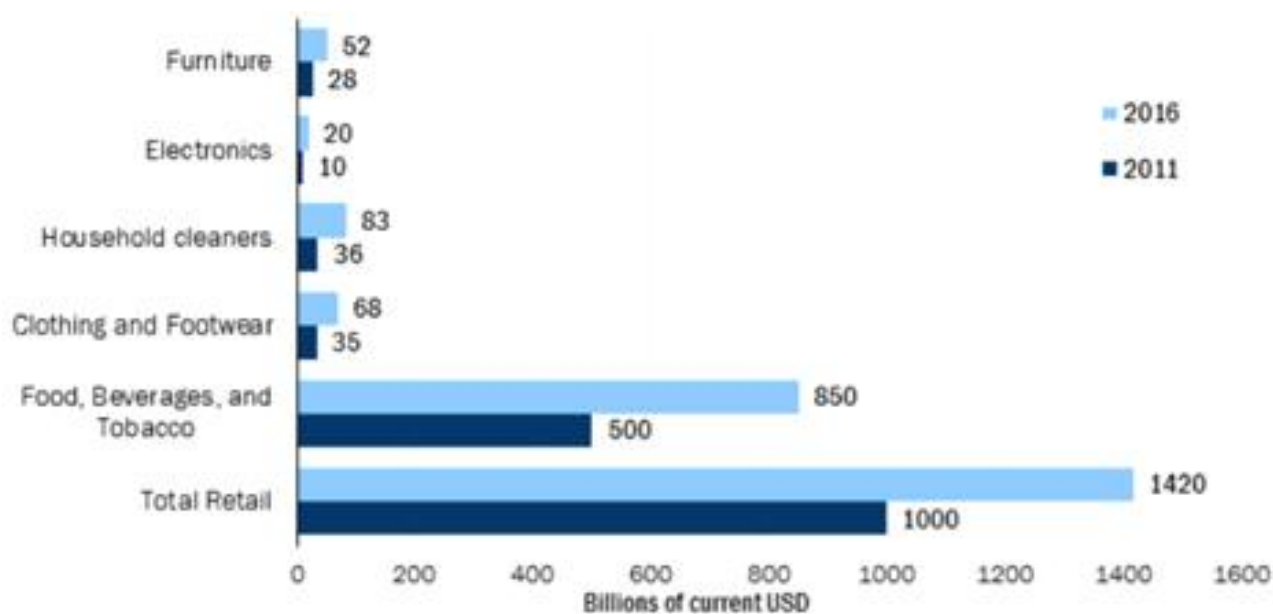
Source: Oxford Economics, IFS, African Development Bank, and McKinsey Global Institute analysis, McKinsey & Company, 2016, p. 8.

*Excludes Egypt

**Excludes Nigeria, South Africa, and East Africa

Annex 6

Africa consumer expenditure in major retail sub-sectors, 2011 to 2016



Source: Economist Intelligence Unit

Annex 7 Kenya's Road Network

Network	Responsibility		Designation	Paved km	Unpaved km	Total km
Classified A, B and C roads	(Ministry of Roads) Kenya National Highways Authority	9 Provincial Departments and 71 Districts (part only)	A	2,886	869	4,114
			B	1,432	1,366	2,695
			C	2,487	5,180	8,021
	Sub-total A B, and C			6,805	7,415	14,830
Classified D and E roads	DRCs (planning) and MoR [KURA, KRRRA] (execution)	71 DRCs and DREs	D			
			E			
	Sub-total D and E			1,918	35,846	37,723
Classified 'Special' roads		71 DRCs and County Councils, 71 Municipalities and Nairobi City	G, L, R, S, T, W	214	11,090	11,252
Total all classified roads				8,937	54,351	63,805
Urban roads	Municipalities (for all adopted streets) MoR/KURA (for classified roads in urban areas) and County Councils for roads in townships	75 Municipalities, Nairobi City, 58 Town Councils and 71 County Councils	Adopted and Unadopted streets	2,490	12,040	14,530
Unclassified rural roads	County Councils and DRCs	71 County Councils and DRCs	Mostly tracks and footpaths (extent largely unknown)		100,000 (est.)	100,000 (est.)
Roads in National Parks and Game Reserves	Kenya Wildlife Services and MoR (for Classified roads in parks)	25 National Parks	Game trails and administrative roads		4,409	4,409
	County Councils and MoR (for classified roads in Game Reserves)	34 Game Reserves some run by several County Councils	Game trails and administrative roads		2,736	2,736
	Total network in National Parks and Game Reserves				7,145	7,145
Forest roads	Forest Department	Forest Reserves	Access, Feeder and Plantation roads		6,800	6,800
Total Network				11,427	180,336	192,280
Total 'Public' Road Network				11,427	166,391	178,335

Annex 8

Ongoing road projects in Kenya

No.	Project Name/Activity	Region/ County	Length (Lane KM)	Acc. Lane Km	Physical Progress
1	Loruk - Barpelo (B17)	Baringo/Elgeyo Marakwet	132	82	91.0%
2	Nuno-Modogashe (A13)	Garissa	270	153.6	77.5%
3	Eldoret Bypass	Uasin Gishu	64	0.3	7.1%
4	Construction of Kibwezi - Mutomo - Kitui	Makueni/ Kitui	384	156.26	51.5%
5	Mombasa - Mariakani Contract 1: Mombasa - Kwa Jomvu Rd (A109)	Mombasa	80	21	50.0%
6	MPARD Package 2: Mwache - Mteza	Mombasa	35.84	0	0%*
7	MPARD Package 3: Mteza - Kibundani	Mombasa/Kwale	27.44	0	0%*
8	Construction of Western bypass	Nairobi/Kiambu	70.8	0	0.0%
9	Upgrading of Kalobeiyei River - Nadapal	Turkana	176	18.16	13.1%
10	Upgrading of Lokitaung Junction - Kalobeiyei River	Turkana	160	20.96	12.9%
11	Upgrading of Lodwar - Lokitaung Junction	Turkana	160	31.86	33.3%
12	Upgrading of Loichangamatak - Lodwar	Turkana	100	14.8	18.7%
13	Kisii - Ahero -Isebania (A1) Lot 1: Isebania - Kisii	Kisii/Migori	368	46.58	20.0%
14	Kisii - Ahero -Isebania (A1) Lot 2: Kisii - Ahero	Kisii/Kisumu	384	96.54	28.8%
15	Kitale - Endebes - Suam	Busia/Bungoma	90	0	13.5%
16	Chiakariga - Meru (C92)	Meru	110	94.6	74.0%
17	OljoOrok - Dundori (B20)	Nyandarua	70	18	98.0%

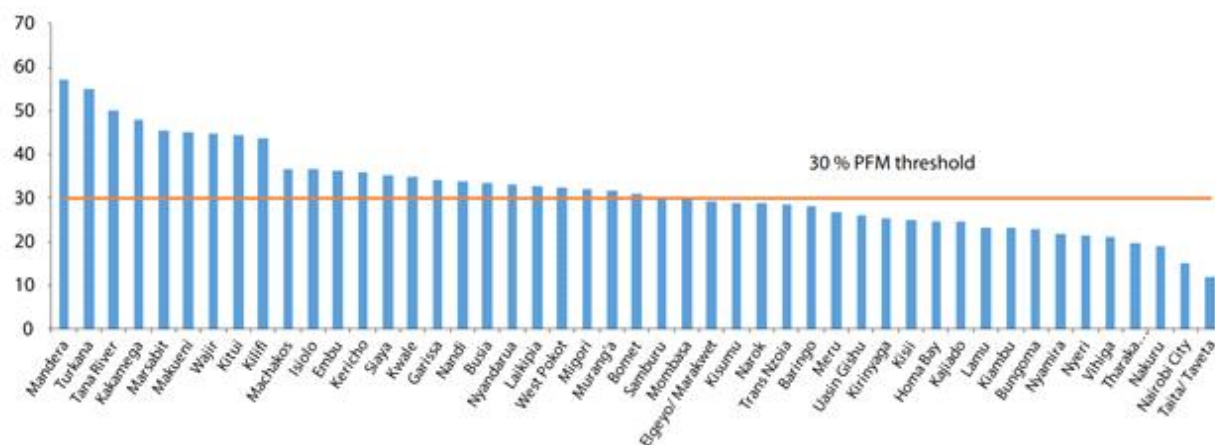
No.	Project Name/Activity	Region/ County	Length (Lane KM)	Acc. Lane Km	Physical Progress
18	Garsen - Lamu - Witu	Lamu	270	27.92	30.0%
19	Uplands - Githunguri	Kiambu	94	2	18.0%
20	Nyaru - Iten	Elgeyo Marakwet	64	3	35.0%
21	Ugunja-Nyadorera-Ruambwa	Siaya	26.7	10	69.3%
22	Mau Narok-Kisiriri (B18)	Narok	34	0	26.6%
23	Busia - Malaba	Busia	28	35	53.7%
24	Posta(Naibor)-Kisima-Maralal	Laikipia/Samburu	65	0	32.0%
25	Narok - Sekenani	Kajiado	164	67	65.5%
26	James Gichuru- Rironi	Nairobi/kiambu	156	29.3	18.0%
27	Kisumu - Kakamega	Kisumu/Kakamega	152	136.3	99.0%
28	Kakamega-Kaburengu(Webuye) New	Kakamega	80	52.43	84.0%
29	Kisumu Boys - Mamboleo	Kisumu	18.4	23.13	86.0%
30	Magogo - Kwa Jomv	Mombasa	16	0	0%*
31	Access Link Road to New Lamu Port	Lamu	13	0	0%*
32	Dualling of Athi River - Machakos Turnoff	Machakos	40	44.8	60.0%
33	Construction of Interchange at Kericho Jn (B1/C23)	Kericho	N/A	63.30%	63.3%
34	Construction of Interchange at Ahero Jn (A1/B1)	Kisumu	N/A	72.00%	72.0%
35	Wei Wei Bridge	Baringo	N/A	8.00%	8.0%
36	Marigat Bridge	Baringo	N/A	16.00%	16.0%
37	Endau Bridge	Baringo	N/A	6.00%	6.0%
38	Garden City/School of Monetary Studies	Nairobi	N/A	20.16%	20.2%
39	Witeithie/Mang'u Foot Bridge	Kiambu	N/A	30.70%	30.7%
40	Lomut Bridge	Baringo	N/A	8.00%	8.0%

PLANNED PROJECTS AS AT 31ST MARCH 2019

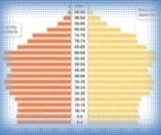
No	Name of Project /Road No	Funding	Intervention	Location (County)	Constituency	Length (Km)
1	Mombasa - Mariakani Contract 2: Kwa Jomvu - Mariakani (A8)	KfW & EIB	Dualling	Mombasa/Kilifi	Rabai, Kaloleni	30
2	Upgrading of Loichangamatak - Lokichar	World Bank	Upgrading	Turkana	Turkana South	40
3	Dualling of Kenol - Sagana -Marua		Dualling	Murang'a/Embu/ Kirinyaga/Nyeri	Maragwa South, Mwea West, Kirinyaga West,Mathir a East	84
4	Malindi - Mombasa - Lunga lunga (B8/A14)-Phase 1:Mombsa-Mtwapa	AfDB	Dualling	Mombasa/Kilfi	Nyali, Kisauni, Kilifi South	13
5	JKIA - Likoni Road - James Gichuru	PPP	Upgrading	Nairobi/Machak os	Westlands/E mbakasi	18

Annex 9

Kenya' s Actual development expenditure as a percentage of total expenditure in 2016/17



Source: Office of the Controller of Budget, Annual County Governments Budget Implementation Review Report, FY 2013/14, FY 2014/15, FY 2015/16, and FY 2016/17.

POPULATION	ECONOMY	SOCIAL MEDIA	ENERGY	AGRICULTURE
				
1.2 Billion	\$ 1.8 Trillion GDP in 2012	650 Million Africans were mobile phone users as of 2012	0.3% A solar power facility covering 0.3% of North Africa can supply all of the energy EU region needs	65% of Africa's labor force is in agriculture
500 Million Labor Force	\$ 2.6 Trillion GDP in 2020	167 Million Internet users as of 2013		32% SSA GDP is agri-based
200 Million Africans will enter the consumer goods market by 2015	\$ 1166 Billion Banking assets in Africa 2008	\$ 60 Billion The size of Africa mobile telecom market 2013	16 GW the installed offshore and onshore wind power by year 2035	\$ 313 Billion The size of food markets in Africa
2/5 or 40% Africans live in cities	\$572 Billion Africa exports to the world 2011	15% Mobile traffic share of internet traffic in 2012	95% of Africa hydropower are untapped	230 Million tones Net Sub-Sahara food production p.a.
45% Africans aged 15-44	\$44 Billion tourism revenues 2012		125 Billion Barrel Proven reserve of crude oil 2012	200 Million Africans eat fish as main protein source
54% Africans have per capita annual GDP exceeding \$ 1300			550 Trillion Cubic Ft Proven reserve of Africa's natural gas	

SOURCES: - Worldbank.org, United Nations Economic Commission for Africa, World Trade Organization (wto.org), nepad.org, Africa Development Bank Group, internetworldstats.com, Mc-Kinsey.com, Deloitte.com, KPMG.com,

Annex 11

Market Linkages for Infrastructure Investor to Kenya

SERVICE AREA	LEAD OR KEY INSTITUTION(S)	PHYSICAL ADDRESS AND CONTACTS
Public sensitization, PPP policy regulation, approval and deal structuring as well as advisory	Public Private Partnership (PPP) Unit National Treasury	Reinsurance Plaza, Central Business District P.O. Box 3007 - 00100 Nairobi, Kenya Tel: 020 - 2252299 info@pppu.redhousestage.com ; www.pppunit.go.ke
Advisory on Doing Business in Kenya including Trade Procedures Advise on Export of Kenyan Goods	Kenya Investment Authority (KenInvest)	UAP Old Mutual Tower, 15th Floor, Upper Hill Road. P.O. Box 55704 - 00200 City Square, Nairobi, Kenya +254 (730) 104-200 +254 (730) 104-210 inquire@iinvest.go.ke ; http://www.invest.go.ke/#
	Export Promotion and Branding Agency (Brand Kenya)	Anniversary Towers and NHIF Towers https://brand.ke ; https://epc.go.ke
	Ministry of Trade, Industry and Cooperatives	Social Security House, Block A, 17th, 23rd Floor P.O. Box 30418-00100, Nairobi, Kenya Telephone: +254 20-2731531, Fax: +254 20-2731511 Email: ps@industrialization.go.ke cs@industrialization.go.ke www.industrialization.go.ke
Regulators on Financial Services for Investors in Kenya	Central Bank of Kenya (CBK)	Haile Selassie Avenue. Mailing Address: P.O Box 60000 - 00200, Nairobi, Kenya. Tel / Fax: +254 20 286 0000. Phone: +254 20 286 1000, +254 20 286 3000, +254 709 081 000, +254 709 083 000; https://www.centralbank.go.ke
	Capital Markets Authority (CMA)	Embankment Plaza, 3rd Floor. Longonot Road, off Kilimanjaro Avenue, Upperhill Tel: +254 20 2264400/ 2264900/ 2221910/ 2221869; Cell: 0722 207767/ 020 2611464 https://www.cma.or.ke

SERVICE AREA	LEAD OR KEY INSTITUTION(S)	PHYSICAL ADDRESS AND CONTACTS
Regulators in construction	National Construction Authority (NCA)	9th Floor, KCB Towers Kenya Road, Upper Hill Area, Nairobi ☎ +254 709 126 102/172/173 ✉ info@nca.go.ke , feedback@nca.go.ke https://nca.go.ke
Regulators in Standards for Consumer Goods	Kenya Bureau of Standards (KeBS)	Kenya Bureau of Standards Popo Road, Off Mombasa Road P.O. Box 54974-00200, Nairobi; (020)6948000, 0722202137 and 0734600471; info@kebs.org ; https://www.kebs.org
Tax Revenue Administrator	Kenya Revenue Authority (KRA)	Times Tower, Haile Selassie Avenue, P.O.Box 48240 - 00100 GPO Nairobi Tel: 020-310300, 020-281000 Fax: 341342 Call Center details Tel:020-4999999, 020-4998000 Cell:0711-099999 Email: callcentre@kra.go.ke ; https://www.kra.go.ke
Bilateral trade relations between Kenya and Korea	Embassy of the Republic of Korea in Nairobi	P.O. Box 30455-00100, Nairobi. Telephone: 020-3749931, 3749932, 3749933 and 3749934. Fax (020)3741337.
	KIND Africa	Nairobi Embankment Plaza, 11th Floor P.O BOX 16697-00100; +254 712856626 www.kindkorea.or.kr ; Africa@kindkorea.or.kr
Member Private Sector Associations	Kenya National Chamber of Commerce and Industry (KNCCI)	First floor suite 102. Nyerere Road , Opposite G4S Likoni https://www.kenyachamber.or.ke
	Kenya Association of Manufacturers (KAM)	5 Mwanzi Road opp West Gate Mall, Westlands, Nairobi, Kenya. E: info@kam.co.ke ; M: +254 (0) 722201368, 734646004/5; T: +254 (020) 232481 kam.co.ke
	Kenya Private Sector Alliance (KEPSA)	5th Floor, Shelter Afrique Building, Mamlaka Rd. P.O. Box 3556-00100 Nairobi, Kenya. Phone. +254 202730371 2 2727936 883. +254 720 340949 735 999979 https://kepsa.or.ke

Important policies for foreign investors to Kenya

Policy Name	Downloadable version	Overview
Kenya Investment Policy (2017)	https://kepsa.or.ke/download/kenya-investment-policy/	<p>These specific objectives are achieved as follows:</p> <ol style="list-style-type: none"> 1. Improve ease of doing business reforms to become a top 50 country in ease of doing business from 92 (2017) and achieve a distance to frontier score of 65 from 61.22 by the year 2020; 2. Increase the level of public and private investment to at least 32% of the country's GDP by the year 2030 while increasing the level of private sector investment to 24% of GDP by the year 2030; 3. Become the premier destination for at least 50% of multinationals establishing their continental headquarters in Africa. 4. Increase the FDI and DDI share of GDP.
Kenya Foreign Policy, 2014	http://www.mfa.go.ke/wp-content/uploads/2016/09/Kenya-Foreign-Policy.pdf	