Innovative Procurement Strategies for Affordable Housing Delivery

Dr Muhammad M. Gambo
Shelter Afrique
Module Outline

General Overview
- Sustainable Development
- Sustainable Development Goals (SDGs) and the New Urban Agenda (NUA)
- Demographics, Urbanization and Housing Deficits in Africa
- Affordable Housing Delivery in Zimbabwe: Facts and Figures

Innovative project delivery systems, specifically Public Private Partnerships (PPP’s):
- PPP project landscape
- PPP Models
- PPP Contract Management
- Zimbabwean PPP laws

Innovation Strategies in Affordable Housing Delivery
- Types of Project Innovation
- Drivers/Inhibitors of Project Innovation
- Relationship of Innovation Factors with Project Procurement Modes
- Addressing Capacity Constraints for Design and Implementation in Project Innovation

Emerging Best Practices for Government
Best Practices for Private Investors
Case Study
According to the 2017 Drivers of Migration and Urbanization in Africa report by the United Nations, Sub-Saharan Africa (SSA) is often regarded as the world's fastest urbanizing region.

Urban areas in the region currently contain 472 million people, and will double over the next 25 years.

The global share of African urban residents is projected to grow from 11.3 percent in 2010 to 20.2 percent by 2050.

Source: UN (2017)
Taking into account the exponential population growth rate in African cities and the ever growing need for decent and affordable housing in the region, which stands at a current deficit of 57 million units;

Thereby the development and implementation of all-inclusive, sustainable and effective affordable housing delivery strategies becomes pertinent.

Source: Bah et al (2018)
Global & Regional Strategies for Solving Affordable Housing Challenges in Africa

- UN SDG’s
- UN New Urban Agenda
- African Union (AU) Agenda 2063
Cities are hubs for ideas, commerce, culture, science, productivity, social development and much more.

Common urban challenges include congestion, lack of funds to provide basic services, a shortage of adequate housing, declining infrastructure and rising air pollution within cities.

There needs to be a future in which cities provide opportunities for all, with access to basic services, energy, housing, transportation and more.

Source: UN SDG Knowledge Platform (2016)
The New Urban Agenda was adopted at the United Nations Conference on Housing and Sustainable Urban Development (Habitat III) in Quito, Ecuador in 2016.

The New Urban Agenda seeks to promote the development and implementation of inclusive, innovative and integrated urban development including urban renewal and low-cost housing projects.
The African Union in 2013 initiated the Agenda 2063, which is aimed at transforming the African continent into a global powerhouse of the future.

A major component of the agenda is decent and affordable housing which is expected to propel African cities to become hubs for economic and social development.
To

Sole Lagoon View Estate, Prampram, Ghana

Karibu Homes, Nairobi
Economic Overview, Urbanization and Housing Delivery in Zimbabwe: Facts and Figures

- Population: 15.1 million
- GDP Growth Rate: 6.20%
- GDP per capita: Z$9,586.68 (US$1 - 322.30)
- Urbanization rate: 32.21%
- Housing Deficit: 1.5 million Units

Sources:
Zimbabwe National Statistics Agency;
World Bank World Development Indicators;
UN Human Development Reports
The business philosophy behind public and private sector collaboration in infrastructure delivery

• Prior to the surge of private sector’s involvement in the provision of infrastructure facilities in the 1990’s, governments have presumed that the technology and economics of infrastructure provision precluded any substantial role for the private sector.

• This reason can be related to the natural monopolies in terms of the earlier known consideration that it is only the public sector that controls all forms of investments in infrastructure.

• Economies of scale, externalities and other social factors that are involved in the production and distribution of these needed infrastructure services, which these then made infrastructure services provision to be considered more suitable for public provision than for private.
However, there was widespread complaints of public sector monopoly in infrastructure delivery notably in developing countries that tended to be plagued by inefficiency and failure to expand services to meet rapidly growing demand.

Moreover, it is a known fact these nations cannot effectively cope with the huge capital investments needed for the provision of the needed infrastructure.

Consequently, this has necessitated for the private sector participation towards solving the infrastructure challenges that are facing the public sector.
PPP Infrastructure Project Delivery

• PPP is described as a means of collaboration between the public and private sector in order to pursue common goals of providing infrastructural facilities,
  ➢ while taking advantage of the resources, strengths, competencies and capabilities that do exist in the public and private sectors.

• From a broader perspective PPP is seen as a range of possible relationships among public and private entities in the context of infrastructure delivery and other services,
  ➢ which involves the allocation of the tasks, obligations, and risks among the public and private partners in an optimal way.
Key objectives of adopting PPP in Affordable Housing

The fundamental strategy underlying the adoption of PPP as an implementation strategy for delivering affordable housing is to:

- combine and leverage on the strengths and capabilities of the private sector with the regulatory and leadership mandate of the public sector to achieve superior outcomes and value for money.

However, the success of the PPP affordable housing strategy will majorly depend on designing PPP implementation structures that make an;

- appropriate allocation of risks, responsibilities, rewards and;
- Importantly, create the incentives for value creation (achieving the VfM objective)
Traditionally, PPP is considered as a source of private financing for a project. In this arrangement, the private sector is required to provide commercial funding seeking a fair return on investment for affordable housing.

This arrangement could take the form of financing to cover the construction costs involved, subject to recovery, in lump sum or instalments, of the investment with a reasonable return upon successful delivery of the housing for purchase by the end users, where already exists an offtake guarantee by the government.
The issue of availability and cost of well-located and serviced land is central to achieving the objectives of affordable housing.

Depending on status (zoning and available infrastructure) and project location, land costs can vary anywhere between 20 to 60% of the total project cost, as such the need for having a well serviced land becomes imperative.

In the PPP arrangement, governments can offer well-located, serviced land at scale, and can facilitate necessary approvals.
PPP projects typically adopt an output-focused contract which links payments to performance. This specifies project results in terms of the quality delivered, rather than how assets or services are provided.

The private sector can be expected to contribute to efficiency gains in the development of land, construction, operations and maintenance for affordable housing through the use of technology, better management and construction practices.

In addition, the private sector should be expected to bring economies of scale from large projects and by involving a larger number of private partners.
PPP Profile – Zimbabwe

- **Definition:**
  - The Government recognizes that through Public Private Partnerships the private sector has a role in financing infrastructure development.

- **PPP Law**
  - No dedicated PPP Law
  - PPP Guidelines are under review by the Government

- **Agencies**
  - There is no dedicated PPP unit;
  - PPPs are implemented by the Ministry of Finance and relevant line departments
Active investments in PPP – $266 million
Active PPP Projects – 5
Roads - Beitbridge Border Post, Limpopo Toll Bridge
Power - Uhuru Energy Solar Plant, Kupinga small hydropower
Railway - Beitbridge - Bulawayo Railway
Innovation is described as the “actual use of nontrivial change in a process, product, or system that is novel to the institution developing the change.”

Beneficial innovations at the project level manifest themselves in increased efficiency, competitiveness, and quality, and increased technical feasibility of the project undertaking (Slaughter, 1998).
## Types of Project Innovation

<table>
<thead>
<tr>
<th>Product Innovations</th>
<th>Process Innovations</th>
<th>Organizational/contractual innovations</th>
<th>Financial/revenue innovations</th>
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<tbody>
<tr>
<td>Advanced construction plants (components, materials, etc) and their assemblies</td>
<td>Use of advanced technologies/methods, measuring and assembling devices</td>
<td>Use of information technology tools in project management</td>
<td>More efficient capital/operating costs improvements and programming</td>
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<tr>
<td>Novel designs and concepts</td>
<td>Off-site fabrication and methods leading to reduced off site activities</td>
<td>New or significantly improved organizational practices, eg computerized inventory control, novel work certification and approval processes</td>
<td>Creative project financing strategies and techniques e.g bond financing, etc</td>
</tr>
<tr>
<td>Use of advanced technology and systems in the operating and maintenance phase</td>
<td>Creative service delivery methods</td>
<td>Negotiation of assignment of risks, development of contractual terms dealing with performance based revenue or payment mechanism</td>
<td>Innovative revenue streams</td>
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• Promote strong institutional frameworks and integrated policymaking: The policymaking process is expected to create a conducive environment for development, including establishing stable regulations and predictable policies.

• Shift the focus from financing gaps to investment opportunities: The Government, private sector and international development partners should collaborate to promote partnerships;
  ➢ That in turn, could support attracting funding from financial markets, remittances, global resilient infrastructure funds and other innovative mechanisms, while ensuring that projects are bankable.
Scaling up opportunities for “green” affordable housing

➢ To support Africa’s environmentally friendly development path, but also to maximize the potential of its abundant renewable resources.

➢ Projects should be designed to tap into global resilient infrastructure funds by designing projects and programmes that fit the scope of these funds.
Developing effective capacity building and training systems

➢ Developing training systems tailored to the needs and priorities identified in infrastructure and industrialization strategies.

➢ Capacity development programmes focusing on design and implementation of projects must be put in place, just as fostering technology-focused programmes and also target support to small and medium-sized initiatives.

Source: UNECA 2017
Emerging Best Practices for achieving Effective Housing PPP Strategies

Emerging Best Practices for Government

➢ Understand and nurture the idea that increased private investor involvement in the infrastructure space is necessary and useful, for financing and skill-set reasons.
➢ Establish a solid legal framework, and guarantee its enforcement and stability.
➢ Enhance individuals capabilities with training, and build institutional capabilities in specialized PPP units.
Emerging Best Practices for Project Development

- Set up co-funding of feasibility studies and other development expenses.
- Work with the right combination of partners.
- Maintain precise documentation, and aim for balanced deals.
- Set clear rules of engagement for discussion of financial stability.
Emerging Best Practices for Project Implementation

➢ Ensure structured management by establishing clear milestones and deadlines, and a project management office (PMO) with direct access to decision makers.
➢ Plan the handover from construction to operation well in advance.
➢ Create adequate maintenance plans, and ensure their execution.
## Fleurhof Mixed-income Housing Development – Johannesburg, South Africa
https://calgrom3.com/index.php/fleurhof

### Project Facts and Figures

<table>
<thead>
<tr>
<th>Organisation</th>
<th>International Housing Solutions (IHS)</th>
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<tbody>
<tr>
<td>Number of units:</td>
<td>9 000</td>
</tr>
<tr>
<td>Proportion of affordable housing:</td>
<td>Estimated at 66%</td>
</tr>
<tr>
<td>Land type:</td>
<td>Government owned land</td>
</tr>
<tr>
<td>Total Development cost:</td>
<td>R2.8 billion (US$350 million)</td>
</tr>
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The housing development was a PPP arrangement developed between the private sector and the public sector.

- **Public Entity: City of Johannesburg**
  - **Role:**
    - Provided land
    - Provided the bulk and link infrastructure which includes the Fleurhof Drive & Fleurhof Drive bridge, reservoir & bulk water pipeline and a sub-station.

- **Private Sector parties:**
  - International Housing Solutions (IHS), a private equity manager focused on affordable housing projects
  - Calgro M3, a listed property development company specialising in mixed-income residential construction
Case Studies

Roles:
IHS has provided the majority of the equity financing and performs the financial structuring, while Calgro M3 manages and oversees the project.
Case Studies
Lessons Learnt

**Inclusivity**

Inclusivity involves the identification and engagement of all project stakeholders in the stakeholder participation process.

The importance of end users and other stakeholders to the success of PPP projects are two–fold especially in direct user charge projects such as tolled road.

End users and other stakeholders are the main revenue stream of the project and in a way part of the project financiers. Their continued support and patronage to the facility are vital for the success of the PPP project (Amadi et al; 2014).
Transparency

Transparency of the PPP scheme has been identified as a key factor that inhibits public support (Ortiz and Buxaum 2008).

Transparency implies adequate opportunities for the public and other stakeholders to make an input during the decision-making process (Zhao et al. 2011).
Real Partnership

Real partnership requires collaboration between the public sector, private entities and the general public at every stage of the PPP scheme from conception to operation and maintenance in a participatory manner.

An all-inclusive stakeholders management framework that ensures the concerns of all interested parties are considered in a transparent and consensus atmosphere is needed.

Centre for Affordable Housing Finance in Africa, 2019.


Zimbabwe National Statistical Agency http://www.zimstat.co.zw/
Thank You