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Contents

Chapter 18

Problems and Prospects of Public Private Partnership in Urban Housing Delivery in Nigeria

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Abstract
This Chapter examines the problems and prospects of public-private partnership in housing delivery in Nigeria. It argues that the adoption of public- private partnership is imperative for the achievement of sustainable housing delivery at all levels in the country, particularly in the areas of land acquisition, housing design, construction and supervision, housing finance and property management. It also identifies the major problems of public-private partnership in housing delivery in Nigeria to include lack of regulatory and institutional framework for adoption of public-private partnership in housing delivery, gross inadequacy of basic infrastructure for housing provision, corruption, absence of reliable data on risk and return on housing investments in Nigeria and attitude of Nigerian investors towards risk and concludes that successful implementation of public-private partnership housing projects in the country requires good regulatory and institutional framework in which the principles and procedures guiding such public-private partnerships are clearly spelt out for each class of housing schemes which are to be delivered.

Keywords: *Housing, Private Sector, Public-Private Partnership, Nigeria.*

Introduction

The Ministry of Municipal Affairs of British Columbia (MMA, 1999) defines public-private partnerships as arrangements between government and private sector entities for the purpose of

providing public infrastructure, community facilities and related services. A public-private partnership is a long-term contractual agreement between a government agency and a private partner for the delivery of goods and services (ODOT, 2006). Kirby (2004) as cited by Wettenhall (2005) argues that public-private partnerships are deals between the government and private businesses to develop infrastructure projects such as roads, hospitals and schools. He also holds the view that public-private partnership deals allow corporations such as investment banks to finance, develop and manage large contracts on behalf of the public. Public-private partnerships also involve private sector supply of infrastructure assets and services that have traditionally been provided by the government (IMF, 2004).

Genevois (2008) defines public-private partnership as a model of development co-operation in which actors from the private sector (private corporations, corporate foundations, groups or associations of business) and the public sector (ministries, local authorities and schools) pool together complementary expertise and resources to achieve development goals. Similarly, the Canadian Council for Public-Private Partnerships defines public-private partnership as a co-operative venture between the public and private sectors, built on the expertise of each partner, that best meets clearly defined public needs through the appropriate allocation of resources, risks and reward (CCPPP, 2006). Also, the South African National Treasury (SANT, 2004) defines public-private partnership as a contract between a public sector institution and a private party, in which the private party assumes substantial financial, technical and operational risk in the design, financing, building and operation of a project.

However, these definitions are not exhaustive, but a major consensus of these definitions is that, public-private partnership is a way of delivering public infrastructure and related services through the collaboration of government and private sector agencies. In an attempt to eliminate the muddle of conceptual ambiguities and confusion of terms related to public-private partnership, Farlam (2005) adopted the Southern African Development Commission (SADC) Banking Association's explanation on the distinction between public-private partnership, public procurement and full privatization as presented in Table 18.1.

Table 18.1 : Distinction between Public -Private Partnership, Public Procurement and Full Privatisation

	Public procurement	*PPP*	*Full privatisation*
Definition	• Supply by the private sector of works, goods or service as defined by the public authority.	• 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.	• Privatisation means transferring a public service or facility to the private sector, usually with ownership, for it to be managed in accordance with market forces and within a defined framework.
Main features	• Contracting authority establishes clearly what is to be built, how and by what means. • Invitations to tenders are accompanied by very detailed technical specifications regarding the type of work being procured. • Price quote is the single most important criterion in the evaluation of bids. • The procurement process is short-term in nature and does not involve long-term occupancy of infrastructure assets, and thus does not lay emphasis on the operational phase of the project.	• 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. • Price is one of the many criteria in the evaluation of bids. A lot of emphasis is on the technical and financial capability of the bidder, financial arrangements proposed, and the reliability of technical solutions used. • Given the long duration of the concession period, emphasis is on the arrangements proposed for the operational phase	• Privatisation authority prepares the divestment plan. • Involves transfer of ownership to the private sector. • Is generally a complex transaction with carefully designed contracts and a multi-stage competitive tender process. • Generally, the public sector withdraws from management of the entity on privatisation. • Almost all risks are borne by the private sector.

Source: *SADC Banking Association as adopted by Farlam (2005)*

Thus, public-private partnership is not a substitute for strong and effective governance and decision making by the government and in all cases, government remains responsible and accountable for delivering services and projects in a manner that protects and furthers the public interest(MMA,1999).

Classification of Public-Private Partnership

There are several types of public-private partnership. While some are relevant to all kinds of projects, others are suitable for specific projects. However, public-private partnerships vary in the degree of risk allocated between the partners, the amount of expertise required on the part of each partner to negotiate contracts and the potential implications for ratepayers. The Ministry of Municipal Affairs of British Columbia (MMA, 1999) identified ten basic types of public-private partnership. These are discussed as follows:

Build, Own, Operate (BOO)

In this type of public-private partnership, the government either transfers ownership and responsibility for an existing facility or contracts with a private partner to build, own or operate a new facility in perpetuity. The private partner generally provides the financing.

Build, Own, Operate and Transfer (BOOT)

In this case, the private developer obtains exclusive franchise to finance, build, operate, maintain, manage and collect user fees for a fixed period to amortize investment. At the end of the franchise, title reverts to a public authority.

Build, Transfer, Operate (BTO)

In this type of public-private partnership, the government contracts with a private partner to finance and build a facility. Once completed, the private partner transfers ownership of the facility to the government. The government then leases the facility back to the private partner under a long-term lease during which the private partner has an opportunity to recover its investment at a reasonable rate of return.

Lease, Develop, Operate (LDO) or Buy, Develop, Operate (BDO)

In this type of public-private partnership, the private partner leases or buys a facility from the government, expands or modernizes it, and then operates the facility under a contract with the government. The private partner is expected to invest in facility expansion or improvement and is given a specified period of time in which to recover the investment and realise a return.

Temporary Privatization

In this case, ownership of an existing public facility is transferred to a private partner who improves and/or expands the facility. The facility is then owned and operated by the private

partner for a period specified in a contract or until the partner has recovered the investment plus a reasonable return.

Lease-Purchase

In this type of arrangement, the government contracts with the private partner to design finance and build a facility to provide a public service. The private partner then leases the facility to the government for a specified period after which ownership vests with the government. This approach can be taken where government requires a new facility or service but may not be in a position to provide financing.

Wrap Around Addition

In this case, private partner finances and constructs an addition to an existing public facility. The private partner may then operate the addition to the facility for a specified period of time or until the partner recovers the investment plus a reasonable return on the investment.

Turnkey Operation

In this arrangement, the government provides the financing for the project but engages a private partner to design, construct and operate the facility for a specified period of time. Performance objectives are established by the public sector and the public partner maintains ownership of the facility.

Design-Build

In this type of public-private partnership, the government contracts with a private partner to design and build a facility that conforms to the standards and performance requirements of the government. Once the facility has been built, the government takes ownership and is responsible for the operation of the facility.

Operations and Maintenance

The government contracts with a private partner to operate and maintain a publicly owned facility. In the past decade, international agencies have spelt out certain responsibilities for the public and private partners in a public-private partnership arrangement. A typical example of such guidelines is that of the International Monetary Fund (IMF) as presented in Table 18.2.

Table 18.2: Responsibilities for the private and public sectors under forms of private sector participation

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 licence)

* 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 pe riod of time and rent. Under a *concession agreement*, the government specifies the rules under which the company can operate locally.

***Source**: World Bank (1997) as adopted by Farlam (2005)*

Housing Situation in Nigeria

Inadequate accommodation is one of the major socio – economic problems facing Nigeria for several decades now. The policy objective of the federal government of Nigeria over the years has been the provision of housing to all classes of Nigerian citizens but its efforts are still nipped in the bud despite the various housing programmes embarked upon by it and other tiers of government in the country.

The rapid population growth in the country has undoubtedly resulted in excessive increase in demand for housing and related basic services and infrastructures. Over the years, the housing situation in the country has been so serious with its associated problems such as high occupancy rate, difficulty in acquiring land, organic growth of slums and blighted areas, spiraling rents compared to the tenants' wage levels and large household size among others. Nigeria's housing problem has quantitative and qualitative dimensions. Quantitatively, the available housing stock is inadequate for the region's population. Qualitatively, most of the houses occupied by the low-income earners are unsafe as a result of poor construction, poor ventilation and unsanitary environmental conditions. The housing situation in Nigeria is further compounded by the

poverty level in the country. Current statistics show that an average of about 78% of the country's population are poor (NBS, 2009). Due to their low-income level, most households in the country (about 59.2%) cannot afford the rents for flats, maisonettes and detached houses and as such prefer to occupy tenements which are let on single-room basis (NBS, 2011). The percentage distribution of households by type of dwelling units in the country is presented in Table 18.4. Recent statistics provided in the Africa Housing Finance Year Book (2016) published by the Centre for Affordable Housing Finance in Africa indicate that the cost of a modest housing unit in Nigeria is $ 10, 000 (equivalent to ₦ 3.8 million as at 7th June, 2017, based on the exchange rate of ₦ 380 to $1) and only 48.1% of urban households in the country can afford this. This implies that over 50% of urban households in Nigeria cannot afford most of the housing units available in urban areas of the country. The housing situation in Nigeria is summarised by the statistics

Table 18.3: Nigeria's Housing Situation

Estimated housing deficit	17 million housing units
Cost of housing units required to curb the deficit	US $ 363 billion
Growth in the Estimated housing deficit	2 million houses per year
Estimated number of housing units required annually to bridge the deficit	1 million houses per year
Urbanisation rate	4.39%

Source: *Centre for Affordable Housing Finance in Africa (2016)*

Based on the statistics provided in Table 18.3, the government alone cannot provide affordable houses to curb the current housing deficit in the country, considering the competing demand on its limited financial resources by other sectors of the economy. On the other hand, the private sector alone cannot meet the housing needs of the nation's homeless population. Therefore, there is need for public-private partnership in the provision of affordable housing in the country if the current housing deficit must be eliminated within reasonable time and cost.

Table 18.4: Percentage Distribution of Households in Nigeria by Type of Housing Unit, 2009

State	Single room	Flat	Duplex	Whole Building	Other Types
Abia	44.1	6.3	-	49.3	0.3
Adamawa	89.2	0.8	-	9.9	-
Akwa Ibom	39.0	8.0	0.3	52.6	-
Anambra	43.7	11.0	0.3	44.7	0.2
Bauchi	96.7	1.0	-	2.3	-
Bayelsa	57.3	13.5	0.6	24.6	4.0
Benue	62.1	13.0	1.3	21.3	2.3
Borno	73.9	5.7	-	19.1	1.2
Cross River	62.8	7.2	-	30.0	-
Delta	69.8	10.7	-	18.9	0.6
Ebonyi	18.6	2.8	-	78.0	0.6
Edo	66.1	9.6	-	20.2	4.1
Ekiti	81.8	6.0	0.1	11.9	0.3
Enugu	40.2	0.6	5.1	54.2	-
Gombe	90.6	-	-	9.4	-
Imo	23.9	0.8	0.4	74.5	0.4
Jigawa	49.4	-	0.3	48.5	1.9
Kaduna	91.6	3.4	-	5.0	-
Kano	96.3	2.5	0.1	1.1	-
Katsina	93.0	0.8	-	6.0	0.2
Kebbi	95.7	1.4	-	2.9	-
Kogi	86.6	5.0	0.9	7.6	-
Kwara	74.4	4.5	-	20.4	0.7
Lagos	81.0	13.1	0.7	2.0	3.2
Nassarawa	57.9	17.2	0.2	24.2	0.5
Niger	78.7	3.1	-	18.1	-
Ogun	86.9	6.6	0.2	5.7	0.5
Ondo	75.7	2.2	-	22.1	-
Osun	77.9	8.4	0.2	13.5	-
Oyo	67.0	15.6	0.3	16.7	0.4
Plateau	84.3	7.4	-	8.2	0.1
Rivers	68.0	8.6	0.4	21.9	1.1
Sokoto	66.5	0.6	-	33.0	-
Taraba	71.3	3.7	0.4	13.9	10.7
Yobe	83.6	2.5	0.2	12.5	1.3
Zamfara	21.4	0.1	-	78.3	0.2
FCT	41.4	15.0	3.4	40.2	-
Sector					
Urban	65.8	12.7	0.7	19.9	0.9
Rural	55.4	4.1	0.2	39.6	0.7
National	59.2	7.2	0.3	32.4	0.8

Source: *National Bureau of Statistics (2011)*

The housing situation in Nigeria is bedeviled with several challenges. These challenges have been highlighted in the Vision 2020 Report of the National Technical Working Group on Housing (NTWG, 2009) to include inefficient mechanisms for transferring property, dearth of long term housing finance for home buyers, absence of a clearly stated foreclosure law, lack of adequate infrastructure, inadequate urban planning system, weak enforcement of development control covenants, lack of adequate capital for mass housing projects, absence of enabling operational environment, lack of identifiable model/system of housing delivery that best suits Nigeria, most projects are not end-user driven, lack of post construction management in planning projects, absence of basic standards for both specifications and building materials, over reliance on imported building materials as a result of inadequate development of local building materials, lack of adequate capital for mass housing projects, absence of enabling operational environment and absence of basic standards for both specifications and building materials.

The critical nature of the deteriorating housing situation in Nigeria, especially at the urban centres requires multi-faceted approach which cannot be implemented by the government alone (Ajanlekoko, 2001). Therefore, greater private sector involvement is required in solving the nation's housing problem. This makes the adoption of public-private partnership imperative for the achievement of sustainable housing delivery at all levels in the country.

Public-Private Partnership in Nigeria's Housing Sector

Public-private partnership is yet to be fully adopted in housing delivery in Nigeria. At the federal level, only very few housing schemes are currently being implemented through public-private partnership. Most states and local governments have no housing projects developed through public-private partnership arrangements. This may be attributed to the various challenges bedeviling the use of public-private partnership in housing delivery in the country. However, given the nature of the Nigerian housing situation, aspects of the housing delivery process which require the adoption of public-private partnership arrangements are:

Land Acquisition

The Land Use Act of 1978 vests the ownership of land in each state of the federation on the Governor of that state. Sections 21 and 22 of the Act prohibit any transfer of interest in land without the consent of the Governor. This has made land acquisition cumbersome, particularly when large hectares of land are required for mass housing development. A public-private partnership arrangement will facilitate private sector developers' access to land for mass housing development.

Housing Design, Construction and Supervision

Since most of the construction industry professionals are based in the private sector, public-private partnership will make them more involved in the housing development projects initiated by public housing agencies in the country.

Housing Finance

The crux of an efficient and equitable housing delivery system constitutes institutions and instruments for the mobilization of financial resources and the extension of long-term credit (FGN, 1981). Major interventions in housing finance by the government since 1971 include the conversion of the Nigerian Building Society into the Federal Mortgage Bank of Nigeria in 1977, licensing of Primary Mortgage Institutions (PMIs) to operate in the country through the enactment and implementation of the Mortgage Institutions Act of 1989 and the establishment of the National Housing Fund (NHF) in 1992. Despite these, access to finance is one of the major constraints to housing delivery in the country. Concerning the housing finance situation in Nigeria, Sanusi (2003) explained that:

> ...there is evidence of declining activities in housing finance generally. The average share of GDP invested in housing declined from 3.6 percent in the 1970s to less than 1.7 percent in the 1990s. In addition, between 1992 and 2001, the volume of savings and time deposits with the banks and nonbank financial institutions grew by 604.94 percent from ₦ 54 billion to ₦ 385.2 billion. However, the proportion held by the housing finance institutions declined from 1.4 percent to 0.22 per cent in 1998, indicating a fall in the flow of funds into the housing finance sector.

Primary Mortgage Institutions (PMIs), insurance companies and commercial banks in the country are operated by the private sector. Public-private partnership could facilitate the establishment of collaborative housing funds, i.e. a combination of funds from public sources and private finance initiatives to obtain the huge capital required for mass housing development in the country.

Property Management

The aim of every real estate investor is to obtain optimum returns for his investment. This may not be achieved if it is not managed effectively. Public-private partnership could enhance sustainable

housing maintenance and management to generate optimum returns to the parties involved in the ownership and operation of the assets.

Potential Benefits of Public-Private Partnership in Housing Delivery in Nigeria

There are potential benefits of public-private partnership in housing delivery in Nigeria. Prominent among these benefits include cost-effective design and construction, risk sharing, project acceleration, cost saving, general economic benefits and more efficient implementation of housing schemes.

Cost-effective design and construction

The private partner brings the competences and innovations of the private sector to the job. Because funding is available up front, major infrastructure projects do not have to be phased in as funds become available, thus greatly reducing overall cost and time. Also, the design meets the performance standards at the lowest possible construction cost, and this can result in significant cost savings compared to traditional methods (ODOT, 2006)

Risk sharing

With public private partnership, government can share the risks with a private partner. Risks could include cost overruns, inability to meet schedules for service delivery, difficulty in complying with environmental and other regulations, or the risk that revenues may not be sufficient to pay operating and capital costs (MMA, 1999).

Project acceleration

Housing projects can be delivered years ahead of when they might otherwise be available. There are often stipulations that construction is completed on time and within budget, thus eliminating cost overruns and delays.

Cost saving

With public private partnership, government may be able to realize cost savings for the housing development projects as well as the operation and maintenance of services. For example, construction cost savings can be realized by combining design and construction in the same contract. The close interaction of designers and constructors in a team can result in more innovative and less costly designs. The design and construction activity can be carried out more efficiently, thereby decreasing the construction time and allowing the houses to be put to use more quickly. Overall costs for professional services can be reduced for inspections and contract

management activities. As well, the risks of housing project overruns can be reduced by design-build contracts.

General economic benefits

Increased involvement of government in public private partnerships can help to stimulate the private sector and contribute to increased employment and economic growth. Local private firms that become proficient in working in public-private partnerships can "export" their expertise and earn income outside of the country (MMA, 1999

Problems of Public-Private Partnership in Housing Delivery in Nigeria

The major problems of public-private partnership in housing delivery in Nigeria include lack of regulatory and institutional framework for adoption of public-private partnership in housing delivery, gross inadequacy of basic infrastructure for housing provision, absence of reliable data on risk and return on housing investments in Nigeria and attitude of Nigerian investors towards risk.

Lack of regulatory and institutional framework for adoption of public-private partnership in housing delivery

The successful implementation of public-private partnership housing projects require good regulatory and institutional framework in which the principles and procedures guiding such public-private partnerships are clearly spelt out for each class of housing schemes which are to be delivered. At present, there is no regulatory and institutional framework for adoption of public-private partnership in housing delivery in Nigeria. The present practice where each tier of government in the federation adopts its own guidelines creates multiple arrangements for interested private partners, particularly foreign private partners who may be interested in housing delivery across the states of the federation.

Gross inadequacy of basic infrastructure for housing provision

The basic infrastructures necessary for successful housing delivery in Nigeria are grossly inadequate. These include water supply facilities, electricity and good road networks. These facilities are necessary to attract private sector partners to collaborate with the government in the business of housing development.

Absence of reliable data on risk and return on housing investments in Nigeria

Housing investment, like other forms of investment attract risk and return. Prospective private

partners in any public-private partnership housing project would want to compare the risk with return before venturing into such investment. Their decision to invest or not to invest can only be based on informed analysis of the risk and return on comparable housing investments in similar location. Data on risk and return on housing investments in most cities in Nigeria are presently unavailable. This has made it difficult for private investors and professionals to impeccably assess the viability of housing investments in major cities in the country with respect to risk and return.

Attitude of Nigerian investors towards risk

Public-private partnerships in Nigeria are prone to so many kinds of risk. Some of these risks include political risk, legislation risk, legal risk, planning risk, environmental risk, design and construction risk, risk of obsolescence, among others. In public-private partnerships, some of these risks will be transferred by the government to the private sector partner. In Nigeria, housing development is prone to these risks and investors are risk averse.

Prospects of Public-Private Partnership in Housing Delivery in Nigeria

Despite the various problems of public-private partnership in housing delivery in Nigeria, there are prospects for adoption of public-private partnership arrangements in housing delivery in the country. These include:

- ***Establishment of ICRC***

The establishment of the Infrastructure Concession Regulatory Commission (ICRC) by the federal government will in no small measure facilitate the adoption of public-private partnership in the development and management of public infrastructures and enterprises in the country. This will also facilitate the adoption of public-private partnership in other critical sectors of the economy, including the housing sector.

- ***Shift in Government's Economic Policy***

The federal government is gradually shifting from pseudo-socialism to private sector-driven economy. This implies that private sector involvement in housing delivery in the country will be greater in the nearest future than now.

- ***Increased Awareness on the benefits of public-private partnership***

Greater awareness on the benefits of public-private partnership in housing delivery in the country has been created at several fora, symposia, workshops and conferences on housing in the country. This has sustained the interest of public and private housing agencies on the adoption of public-private partnership in the housing sector.

- ***Increased Public Expenditure with Reduction in Government Revenue***

In the past four decades, there has been increase in public spending in Nigeria. This is due to increase in demand for basic infrastructures and services as a result of population growth and urbanisation. Also, the dwindling oil revenue to the government in recent times has affected its revenue base. This may be part of the reasons for government's renewed interest in collaborating with the private sector in the provision and maintenance of basic infrastructures in the country hitherto handled by the government, including housing delivery.

Conclusion

The government alone cannot provide affordable houses to curb the current housing deficit in the country, considering the competing demand on its limited financial resources. Therefore, greater private sector involvement is required in solving the Nigerian housing problem. With public-private partnership, government may be able to realise cost savings for housing development projects as well as the operation and maintenance of services. Also, increased involvement of government in public-private partnerships can help to stimulate the private sector and contribute to increased employment and economic growth. Thus, the adoption of public- private partnership is imperative for the achievement of sustainable housing delivery at all levels in the country.

There are potential benefits of public-private partnership in housing delivery in Nigeria. Prominent among these benefits include cost-effective design and construction, risk sharing, project acceleration, cost saving, general economic benefits and more efficient implementation of housing schemes. However, the major problems of public-private partnership in housing delivery in the country include lack of regulatory and institutional framework for adoption of public-private partnership in housing delivery, gross inadequacy of basic infrastructure for housing provision, absence of reliable data on risk and return on housing investments in the country and attitude of Nigerian investors towards risk. In conclusion, the successful implementation of public-private partnership housing projects in the country requires good

regulatory and institutional framework in which the principles and procedures guiding such public-private partnerships are clearly spelt out for each class of housing schemes which are to be delivered.

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