

Economic and Financial Review

Volume 57
Number 4 *Proceedings of the Executive Seminar On "Addressing Nigeria's Housing Deficit", for CBN Executive Staff at Transcorp Hotels, Calabar, Cross River State, October 07 - 09, 2019*

Article 11

12-2019

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Recommended Citation

Izuwah, Chidi K. C. (2019) "Unlocking the Potentials in the Housing Market through Public Private Partnerships (PPP) Investment Model," *Economic and Financial Review*. Vol. 57 : No. 4 , Article 11. Available at: <https://dc.cbn.gov.ng/efr/vol57/iss4/11>

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Unlocking the Potentials in the Housing Market through Public Private Partnerships (PPP) Investment Model

Engr. Chidi K. C. Izuwah*

I. Introduction

Nigeria is in great need of efficient public infrastructure and services as its infrastructure gap is adversely impacting the full potential of its economic growth and development. Several studies have indicated that the total amount of funds required by the Government to provide quality infrastructure in Nigeria over the next six years is in excess of US\$100 billion. However, considering the limited resources at the disposal of the Federal Government, there is need to leverage viable alternative sources of funding infrastructure provisions in the economy to achieve the objectives of the National infrastructure development as clearly articulated in the Economic Recovery and Growth Plan (ERGP).

Housing constitutes one of the most essential needs of man, and like food, its importance cannot be overemphasised. Early men took shelter in caves before they learnt how to build shelters to protect themselves from the weather, animals and get some sort of privacy. These shelters are what have evolved through time to become, at first, houses made of sun-dried bricks to mud houses, and eventually the masterpieces we have today. Housing is a basic right for citizens as stated in several International Declarations such as the Istanbul Declaration of June 1996, the Millennium Development Goals (February 2002), and the World Summit on Sustainable Development (July-August, 2002). Housing has assumed the dimension of an indicator of personal socio-economic standing in society, and a core determinant of standard of living and access to economic opportunities globally.

Housing deficit is not peculiar to Nigeria alone. It is a global problem differing only in extent. There are two markets for housing in Nigeria, the private sector, driven by economic indices and the public sector driven by Government interventions aimed at providing mass housing for the low and middle classes

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who cannot afford houses on their own. The Federal Government has over time created Ministries, Departments and Agencies such as the Federal Housing Authority, the Ministry of Works and Housing, and the Federal Mortgage Bank of Nigeria (FMBN) all with the responsibility of providing interventions on affordable housing for Nigerians. These interventions include: building of mass housing units; providing mortgage loans to people through the FMBN; among others.

In addition, the State governments have equally provided interventions in their states for affordable housing. A laudable intervention is the Lagos Homes Ownership Mortgage Scheme, which goes beyond equity payment and the spread of the balance over a period of years to also consider those who cannot afford the equity payment, and for this they introduced the 'rent and own' policy which allows an applicant to pay rent on a house which counts towards payment for the house. It also allocates by matching the housing needs with the demographics of the applicants where a bachelor will not be allocated a three-bedroom house over a family with kids.

However, despite these efforts by Government to address the housing deficit, there are still huge short-falls in the housing sector as housing delivery strategies have failed to make significant impact on the housing needs of the low-income people in Nigeria. Recent studies have shown a housing deficit of about 17 million with additional 2 million units required every year. Obviously, there are several reasons for insufficiency of housing in Nigeria. Beside the high poverty rate, massive urbanisation and regulatory bottlenecks affecting acquisition and building approvals, the main reason for insufficiency of housing in Nigeria, is the population explosion over the years, which has led to huge demand for housing to accommodate growing families in both formal and informal sectors.

It has been estimated that the Nigerian population is growing at a rapid pace of 2.6 per cent. Indeed, in 2009, the United Nations estimated that Nigeria had a population of 158 million people, but 10 years down the line (2019), there is an additional increase of 43 million people, making an estimated population of 201 million. It has been estimated by the United Nations that Nigeria with current exploding population will account for about 26.7 per cent of world population growth between now and 2050 with profound implication for people with housing needs. Furthermore, Nigeria's housing deficit is projected at 17 million units. Due to rapid urbanisation, mass housing units in the urban areas are being constructed, but the houses being built and directed at low-income earners, remain very costly. This has been attributed to high cost of building materials making the houses unaffordable.

II. Public Private Partnership (PPP) Housing Imperative

In view of the huge housing deficit in the country, it has become expedient to adopt a more pragmatic approach. It is obvious that Government alone cannot provide all the housing needs of the people that is affordable, qualitative, available and sustainable. Consequently, one viable option for the provision of adequate housing for every household is the adoption and utilisation of Public Private Partnership (PPP) model. PPPs are a veritable vehicle for the development of the Nation's infrastructure. The involvement of the private sector in the development and financing of public facilities and services has increased substantially over the past decade.

PPP as an alternative procurement method has been successfully utilised by most developed countries of the world to solve their infrastructure problems including housing. In Africa today, lesson abound in countries like South Africa, Kenya, among others, who not only embraced PPP as a viable alternative means of financing their infrastructure needs but have strategically incorporated this model into their National economic blueprint. PPPs are aimed at promoting a contractual relationship between public sector as a grantor and private sector as an asset creator and service provider which may take different forms such as finance, build, renovate, construct, operate, maintain, and/or manage a facility or system.

While the public sector usually retains ownership of the facility or system, the private party may be given responsibility for major elements of the facility. Nigeria's policy on PPPs is aimed at putting in place a robust legal, regulatory and institutional framework that enables the private sector to play a key role in the provision of infrastructure, whilst Ministries, Departments & Agencies (MDA) focus on planning, structuring and monitoring the projects. Indeed, in Nigeria, the private sector plays a major role in the provision of housing through turnkey model and sites and services model. The Scheme involves the provision of serviced land for housing and commercial development with the provision of infrastructure such as roads, drainages, water supply, electricity and other urban services.

The underpinning idea in PPP housing is that the Government should act as an enabler, by providing an environment for the private sector to participate in the actual provision and management of housing and social infrastructure. The primary objective of the enabling approach is to improve the efficiency and effectiveness in the housing sector by allowing the public sector to concentrate on providing the legal, regulatory and funding framework and support that will guarantee effective participation of private sector organisations in actual construction and management of housing units and associated services. This

approach is meant to address the housing needs in both formal and informal sectors, as it was obvious that previous efforts were focused on the formal sector whereas the critical need is in the informal sector.

III. Social Housing or Public Rental Housing

The introduction of social housing or public rental housing by Governments across the globe as part of housing delivery strategies is an important mechanism that will provide solution to housing shortages. Social housing or Public rental housing means affordable housing that will provide accommodation that is affordable to people on low-incomes. Globally, this policy has provided the foundation and opportunity for intense participation of the private sector to partner with Government on PPP housing projects because it creates an avenue for more business and job opportunities.

To achieve this objective, Government will need to provide incentives both to the public and private sector by:

- giving tax breaks or holidays, reducing Government charges on building permits and other ancillary charges;
- empowering the newly created Government Efficiency Unit in the Federal Ministry of Finance to help in negotiating discounted prices for building materials to be used for building; and
- introducing different home ownership schemes such as:
 - Help to buy
 - Rent to buy
 - Shared ownership
 - HOLD – Home Ownership for People with Long-Term Disabilities
 - Discounted sales
 - Self-build schemes

These schemes provide mixed equity contribution that will be an area of interest to financial and mortgage institutions for the consideration of long-term mortgage investment opportunities. The success of PPP housing projects also depends on the country's economic, political, public acceptability and cultural circumstances. For example, it is a cultural practice in Nigeria to pass on a house to family members as inheritance rather than transfer it back to Government, especially if the tenure of ownership (lease) is for 25 or 30 years. Most Nigerians will not be interested in such PPP housing arrangements.

IV. Some Suitable PPP Models for Housing

There are different PPP models that may be suitable for housing projects in Nigeria:

- **Build Own Operate.** The private sector finances, builds, owns and operates a facility or service in perpetuity. This is best suitable for housing PPP projects because it is internal orientated rather than public orientated. For example, building staff quarters on government land for Federal Government workers. Another example is building of hostels on land belonging to universities and higher learning institutions for affordable and decent student living. The government's constraints are stated in the PPP agreement and there is on-going regulation.
- **Design-Build-Finance-Maintain-Operate/Build Operate Transfer:** The private sector designs, builds and finances an asset, provides hard and/or soft facility management services, as well as, operates under a long-term agreement. This PPP model can be suitable for public buildings, offices or headquarters of Ministries, Departments and Agencies (MDAs).
- **Operation and Maintenance Contract:** A private operator, under contract, operates a publicly-owned asset for a specified term. Ownership of the asset remains with the public entity. For example, Government enters into a management contract to manage its asset and facilities and provide services to the users of such facilities.

V. Challenges and Solutions to PPP Housing

Undoubtedly, PPP has gained tremendous acceptability in many developing and developed countries across the globe as an effective and efficient strategy for housing delivery. However, PPPs in the delivery of homes have been known to be complicated due to the nature of different Government policies and support for the provision of housing such as social housing or low-cost housing. Consequently, in providing an enabling environment for PPPs to thrive in the housing sector, Government must be prepared to do the following:

- Conduct a needs assessment to determine what design of houses are needed; what segment of the population need such houses; and the demand from various States and the Federal Capital Territory on shortage of affordable housing;

- The review of the administration of the Land Use Act is critical to PPPs at the Federal level because the Federal Government does not own land except the one it acquires from the State or granted by the State and there is no provision for freehold land ownership;
- Reviewing the high cost involved in obtaining, transferring and exchanging land or titles documents (Certificate of Occupancy) often discourage Private Sector Developers to partner with Government for the development of housing schemes on long-term basis;
- Provide market incentives that will encourage indigenous production of quality building materials that will drive down costs;
- Investment in vocational training schools for the acquisition of vocation skills in the building sector; and
- Introduction of freehold land or real property ownership (combined with the existing leasehold ownership) to enhance intense private sector participation in the housing sector, thus, making land accessible.

VI. Public Private Partnership Financing in Nigeria

Partnership between the public sector and private entities for the financing, design, build, maintenance of infrastructure and delivery of associated services is the preferred means by the Federal Government of Nigeria, of meeting the need for modern and efficient infrastructure, and for reliable cost-effective delivery of public services, as envisioned in its National Vision 20:2020, as well as, the Economic Recovery Growth Plan (ERGP) of the present Administration.

The private sector, both locally and internationally, has a large pool of resources from which they can seek funding, which governments may not have access to, or the capacity to access. For this reason, there has been a marked increase in cooperation between the public and private sectors in the development and operation of infrastructure in a wide range of economic activities in recent times. Governments all over the world, have come to recognise that the collaboration between public and private sectors is crucial to securing dependable and sustainable funding for infrastructure and reducing the pressure on fiscal budgets. PPP arrangements have engendered acceleration of infrastructure provision, faster implementation of projects, and reduced whole life costs of projects.

The demand for housing is a function of price, income, affordability and convenience. The major demand-side problem in Nigeria is affordability and poor access to housing finance by low-income earners in both formal and informal sectors. Therefore, the demand-side solution to housing problem in Nigeria will be one that enhances access to finance for all categories of income

earners. This will require an effective and efficient mortgage system that addresses the housing finance needs of those in the formal sector, including organised private sector, as well as, home microfinance for the self-employed and low-income individuals in the informal sector. On the other hand, an appropriate PPP model targeted at increasing quantity, improving quality, at low cost, is offered as a supply-side solution.

Indeed, an appropriate framework for PPPs in Nigeria is already in place and activated, and is expected to contribute to addressing the infrastructure deficit and operational constraints. However, the urgency of the need to rebuild some critical and rapidly deteriorating infrastructure makes PPP interesting, but challenging, at least in the near-term. While advocacy for the use of PPP mechanisms as part of the solution for funding of commercially viable infrastructure continues, there is an immediate need to develop other sources, particularly of short- and medium-term funding to respond to the challenge, as the PPP mechanism will only augment FGN's efforts and resources.

In determining a project's suitability for PPP financing, the following criteria are used:

- Existence of appropriate policy, legal, and institutional frameworks for PPP in the sector;
- Ability to establish captive revenue stream from the project;
- Ability to deliver a positive rate of return for investors;
- The scale of the project is enough to justify the additional transaction costs of procuring as a PPP project; and
- Ability to appropriately allocate project risks.

VII. Financing Affordable Housing

The 2007-2008 global financial crisis made significant changes in the financial landscape for PPPs around the world, which has had its impact on Nigeria. Most governments have tighter budgets and fiscal constraints, which have led to limited spending thus, encouraging the adaptation of PPP models as an alternative solution to provide infrastructure. There is also stringent access to private sector financing and credit conditions, which have created cautious trends for investors and financial institutions to embark on more projects with due diligence on the investment destination country.

Consequently, government must find innovative ways of attracting private sector capital for PPP housing projects such as providing adequate long-term funding for PPP housing projects that will be transmitted to the primary mortgage institutions in Nigeria. This will make mortgages available for house purchases

over a long period of time with a single digit interest rate for low-income group (LIG) and middle-income group (MIG) earners. A source of finance for the Government, we can explore is unlocking land value in prime urban areas in which land is provided in partnership with the private sector developers for real estate developments for the high-income group (HIG) and profits from the project will be used to finance LIG and MIG housing projects. Other financial incentives are, capital grants, revenue guarantees, foreign exchange risk and loan guarantees that will make Nigeria a good investor market must be explored by the Government.

The fundamental strategy for affordable and decent housing for all in Nigeria would require the adoption of appropriate PPP model and the need to engage the full potential and resources of all actors in the housing sector based on their areas of competency and comparative advantages in the production of housing units and associated infrastructure and services. This would need not only an appropriate legal and regulatory environment, but a favourable housing finance regime that brings out the best of private sector organisations in the provision of housing. The basic ingredients such as good policy, regulatory and institutional frameworks, as well as, input, including land, finance, labour and building materials should be available for housing development. These will form the enabling environment for PPP in housing.

It has been observed that many housing policies and programmes in the country could not achieve set objectives because the programmes failed to address the issue of affordability among low-income earners. This is because the high cost of units produced is traceable to source and nature of funding for the housing projects. PPP can only succeed in providing low-cost housing for low and middle-income earners if the funding is right. Therefore, there is a need for the creation of a sustainable housing finance system that guarantees cheap access to housing finance for developers and subscribers. To achieve this, Government must take some steps. These include:

- Mobilise resources – both public and private – for housing development;
- Ensure transparent, comprehensive and accessible land rights and tenure system;
- Promote equal access to appropriate and affordable housing finance for all;
- Provide adequate incentive to encourage the private sector and not-for-profit institutions and other actors to develop affordable rental and ownership housing;

- Demonstrate strong political will and commitment in promoting the supply of affordable housing by ensuring appropriate regulatory measures and market incentives; and
- Encourage community-based, cooperative and non-profit rental and owner-occupied housing programme.

VIII. The Infrastructure Concession Regulatory Commission (ICRC) and Nigerian PPP Framework

The Infrastructure Concession Regulatory Commission (ICRC) was inaugurated in November 2008, as a way of addressing the huge infrastructure deficit in Nigeria and the decrepit state of existing infrastructure. The ICRC Act 2005, which established the commission, also empowers the Federal Ministries, Departments and Agencies (MDAs) to utilise Public Private Partnerships (PPP) as a procurement vehicle of choice, where suitable, to rapidly turn around the country's infrastructural insufficiency. The ICRC is tasked with providing guidelines and regulations that will create an enabling environment for the private sector to enter into partnerships with Government in the financing, operation and management of infrastructure and allied services.

Since inauguration, the Commission has developed the National Policy on PPP (N4P) and associated operational guidelines, which provide best practice guidelines and procedures for the effective development and competitive procurement of PPP Projects. In carrying out its mandate, the ICRC has worked closely with Ministries, Departments and Agencies (MDAs) in the process of building and regulating an internationally competitive PPP market in Nigeria.

In accordance with its mandate, the Commission has taken custody of and reviewed some major concessions entered into by the Federal Government before its inauguration and has developed a robust database of concessions already entered into by the FGN through the MDAs. In addition, the ICRC has established a framework to address the complex issues arising from these "legacy concessions" and has intervened in a number of disputes between the MDAs and their private sector partners with a view to getting the parties to negotiate a mutually acceptable resolution.

Other areas that the Commission has recorded considerable progress include promoting the development of funding sources and instruments with long tenure for financing infrastructure projects in the country. The ICRC is also working with the National Planning authorities to integrate infrastructure provision into the National Planning framework as sustainable infrastructure development must be anchored on a coherent and consistent economic planning framework.

Although the ICRC Act limits the Commission's jurisdiction to federal projects, it is recognised that aligning the PPP framework of States with the Federal framework will be an important pre-condition for the development of a coherent and robust National PPP market in Nigeria. It is likely to deepen the capacity of PPP practitioners in the country and enhance the attractiveness of Nigerian projects in an increasingly competitive global PPP market. Thus, the ICRC has established collaborative relationship with PPP agencies in a number of States, including Lagos, Cross River, Niger, Benue, Rivers, Kaduna, Kogi, Imo, Edo, Delta and Bayelsa States, and will continue to encourage such linkages with other states and assist them when required to establish or strengthen their PPP institutions.

IX. Concluding Remarks

In view of the huge housing deficit in Nigeria, a combination of hybrid approaches to PPP delivery in housing is imperative. This would require the public and private sectors working in synergy to address housing challenge in Nigeria. It would also require sharing of risks and rewards. In other jurisdictions such as UK, USA, Ireland, Canada and Australia where PPP in housing has been a successful model in which the public sector typically contributes significant funds for the project, it allows the public sector to retain significant control over the planning and development stages of the partnership while making use of the private sector's resources and expertise in design, construction and maintenance.

Similarly, in these countries, a range of financial mechanisms and incentives in reducing overall housing and debt services costs for the private partner have been a significant and key strategy that has been used to deliver PPP housing projects successfully. These are important tools for low-income housing projects that depend on some form of public subsidy to keep prices at affordable levels.

Developing countries across the globe are beginning to use PPPs to deliver housing and meet up with the demand for housing, especially in urban areas where there has been a steady rise in urbanisation. Nigeria can also take advantage of using PPPs to deliver decent living and accommodation. However, it should be noted that the successful countries mentioned (UK, USA, Ireland, Canada and Australia) have social housing or public rental housing schemes which is part of their governments' housing policies, and the foundation of providing housing through PPPs.

Undoubtedly, the success of PPP projects in housing delivery in Nigeria as the prominent approach to housing will also depend on the economic and political strength, as well as, the housing tradition. Currently, there is no social housing or

public rental housing schemes in Nigeria that will provide affordable homes. Therefore, new policies and programmes should be designed and developed for the implementation of social housing, public rental housing and affordable mix housing schemes for PPPs to thrive in the housing sector in Nigeria as in other jurisdictions.

PPP housing is a co-operative venture for the provision of housing infrastructure or services, built on the expertise of each partner that best meets clearly defined public needs, through the most appropriate allocation of resources, risks, and rewards. Therefore, the public sector should concentrate on providing legal, regulatory, funding framework, oversight and quality assessment role, while the private sector should focus on financing, construction, management of housing units and other associated services. This has become the method of choice by governments throughout the world, for infrastructure service expansion and improvement.

Besides filling the resource gap in project delivery and operation, PPP arrangements does engender acceleration of project delivery, a faster implementation of projects, and reduced whole life costs of projects. It also offers better risk allocation between public and private sectors, offers better and sustainable incentive to perform, engender accountability in fund utilisation, and improve the overall quality of service. Evidence also abound that it leads to the generation of additional revenue and overall value for money for the entire economy.

Consequently, to address the huge gap in the provision of affordable housing in Nigeria, massive infusion of private investment through PPP is imperative. Traditionally, governments have been the sole financiers of infrastructure projects and have often taken responsibility for construction, operations and maintenance of infrastructure. The National fiscal budgets have therefore been the principal sources of financing infrastructure development, which in recent years, has proven to be unsustainable.

Therefore, it is time for the public and private sectors in Nigeria to synergise efforts to address the housing and other infrastructure challenges in the country through appropriate PPP models and arrangements for the benefits of Nigerians. Adopting this strategy will not only increase the housing stock, quality and address the burgeoning housing crisis, but will enhance decent and affordable housing for millions of people in Nigeria with low-income in both formal and informal sectors. However, PPP can only have good prospects for housing for the low and middle-income earners in Nigeria if the policy, institutional, regulatory and funding frameworks are adequate, relevant and effective.

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