SOUTH EASTERN KENYA UNIVERSITY HOSTELS PROJECT

PROJECT INFORMATION MEMORANDUM

FEBRUARY 2018
FOREWARD BY THE VICE CHANCELLOR

The South Eastern Kenya University (SEKU) is a public university that was purposely established to play a leading role in the development and expansion of opportunities for higher education and research with emphasis on agriculture, forestry, mining, energy, water and environmental sciences.

The Vision 2030 which is Kenya’s long-term development plan recognises the importance of developing the country’s Arid and Semi-Arid lands (ASALS) in promoting sustainable development. Thus, the University plays a critical role in the development of these lands through training, research, innovation and entrepreneurship.

The University through SEKU Strategic Plan 2013-2018 targets to admit 11,000 students at the end of the implementation period. However, a major challenge towards attainment of this target is lack of adequate and affordable accommodation facilities for the students. Currently, the University is able to accommodate about 2600 students.

The University recognises the vital complimentary role private partnerships play in the provision of accommodation facilities to students in its endeavour to achieve its mandate and become a world class university as spelt out in its Strategic Plan 2013-2018.

PROF. GEOFFREY M. MULUVI, PhD.
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1. INTRODUCTION

1.1 South Eastern Kenya University (SEKU) Hostels Project

South Eastern Kenya University (SEKU) is a Public University with its main campus located in Kitui County in former Eastern Province. The institution (formerly a constituent college of Nairobi University) was established in 1976. The student population has been growing over the years resulting in an increased demand for hostel accommodation. A Feasibility Study was conducted to determine the viability of building new Hostel facilities to accommodate the projected student growth.

The anticipated SEKU Hostels Project, henceforth “the Project”, is a Public-Private Partnership (PPP). This project is for hostel accommodation and necessary associated facilities at SEKU. SEKU, in coordination with the Transaction Advisor, wishes to procure the Project in a way that is commercially attractive to the market and meets the University’s objectives of supplying sufficient hostel accommodation. This Project Information Memorandum (PIM) forms part the Request for Qualifications (RFQ) document. It has been prepared to inform interested parties as to the Project’s development and proposed project structure.

1.2 Purpose of this Project Information Memorandum (PIM)

This project implementation memorandum gives brief about South Eastern Kenya University and the anticipated SEKU hostels project. The document also describes the state of Kenyan economy, socio-economic trends and business climate. The focus of PPPs in Kenya is also emphasized as provision of clear and transparent process for PPP project development in Kenya. This document provides the anticipated SEKU hostels project overview and scope covering hostel accommodation for 4500 undergraduate students and 900 post graduate students, bulk infrastructure such as additional water supply, electricity connection, road access to the new hostels and additional sewerage systems and other associated facilities such as tuck shops and additional food supply facilities. These facilities are expected to match total student population forecast of 10% per annum.

As part of the RFQ, the document also outlines the anticipated impact to the local community through creation of employment opportunities and provision of market for the local commodities which will better their livelihoods. The Proposed PPP scheme has also been outlined as a 20 year PPP scheme involving establishment of a Special Purpose Vehicle (SPV) that will enter into an agreement with SEKU as per the provisions of Kenya PPP Act, 2013.
2. KENYAN CONTEXT

2.1 State of the Kenyan Economy

**Economic Growth**

Kenya has established itself as a strong economy since independence was achieved more than 50 years ago. Over the last decade, Kenya has experienced robust growth recording a Gross Domestic Product (GDP) growth of 5.6% in 2015 and an average GDP growth of 5.3% between 2005 and 2015. This is in comparison to sub-Saharan Africa’s two largest economies, South Africa and Nigeria’s average GDP growth of 2.9% and 5.7% respectively (The World Bank, 2017).

![Figure 1: Kenya, South Africa and Nigeria’s GDP growth (annual %), 2005 -2015](chart)


GDP growth has been driven mainly by the expansion of the mining and quarrying, tourism, financial services, real estate and construction sectors.\(^1\) Growth, particularly in 2015, can be attributed to the increased spending on infrastructure, improved agriculture output, and enhanced investor confidence.\(^2\)

The Kenyan economy is mainly dominated by the agricultural sector. As of 2015, the sector accounted for over 25% of the country’s GDP and over 50% of revenue from exports.\(^3\) The 2007/8 financial crisis reduced demand for its main horticulture exports. This coupled with a slowdown in other economic sectors, such as the tourism industry resulted in growth significantly decreasing in 2008 to 0.2%.

Kenya has seen a general reduction in inflation over the period 2005 - 2015, although there have been periods of volatility, dropping from a high of 26% in 2008 to relatively stable levels around 6-

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\(^2\)Ibid.

7% over the past few years. Inflation for 2016 is predicted to come in at similar levels, around 7.8%.4

In 2016, Moody’s gave Kenya positive outlook and a B1 sovereign rating amid expected continued strong growth prospects.5

The recent economic data thus show that the Kenyan economy is relatively stable at present, with moderate inflation expectations and good growth projections for the future. A sound economic environment such as this provides a strong foundation for future investments.

**Socio-economic Trends**

Kenya’s population has been growing at a rapid pace, doubling over the last 25 years. As of 2015, the population stood at 46 million with a growth rate of 2.6% per annum. Approximately 74%6 of the population lives in rural areas. Increased education levels, particularly amongst women may delay the childbearing age leading to a slower growth in the population in the long run.

*Figure 2: Kenya’s Population Trend, 2000 - 2016

Kenya’s “Ease of Doing Business” is ranked 92 out of 190 countries globally. Amongst its East African Community (EAC) peers, Kenya is ranked second with a distance-to-frontier (DTF) score of 61.22.8

Informal sector makes up a majority of the jobs created. Total unemployment in 2016 was 11% (Figure 3). The employment to population ratio, i.e. the percentage of the population aged 15 years and older that is employed, is 60.1%.7

*Figure 3: Kenya’s Unemployment Trend, 2000 - 2016

Kenya has been experiencing high rates of youth unemployment and underemployment. The

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8 An economy’s distance-to-frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier.
Figure 4: Kenya versus East African Community “Ease of Doing Business” Ranking, 2017


2.2 Kenyan Education Sector

The Landscape of Tertiary Education

University education in Kenya began in 1963 with just 571 students enrolled in Nairobi University College (currently known as the University of Nairobi). The Vision 2030 introduces a policy shift for tertiary education in Kenya, moving towards greater government involvement in the universal provision of tertiary education for Kenyan society.

In particular, increased student transition from secondary to tertiary education and the corresponding increase in student enrolment and the expansion of tertiary education institutions forms a primary means in achieving the Government of Kenya’s (GoK) goal of providing “globally competitive quality education, training and research for sustainable development”.⁹

The rapid expansion of tertiary education among the youth has been resulted in the promotion of universities from colleges to full university status. The total number of public universities in Kenya increased by 30.4% to 30 in 2016 after granting charters to seven university colleges to full university status.¹⁰ Expansion has occurred in all public universities and in private, for-profit providers of tertiary education.

Along with growth in the number of universities, has come huge growth in enrollments. The enrollment figures for 2014 show that there were 443,783 students enrolled at all universities across Kenya, more than double the 2012 enrollment number. Approximately 215,000 (48%) of those students were enrolled in private university institutions.

There are current efforts to improve the quantity and quality of hostel accommodation at a number of Government universities/colleges in the country. The Kenya Infrastructure Finance and Public-Private Partnership Project (IFPPP) is a World Bank-funded credit facility that seeks to promote increased private investment in the Kenyan infrastructure market. With the assistance of the IFPPP, a number of public universities/colleges are looking to address the growing shortfall in hostel accommodation through a PPP arrangement.

While public universities have made efforts to provide additional teaching space to accommodate the increasing number of students, partly due to cost constraints, less emphasis has been placed on developing additional hostel facilities. This has created a situation where many students have no option.

⁹ Kenya Vision 2030 pg. 98
but to look for accommodation space outside the universities’ premises, generally in poorly developed private accommodation alternatives.

Through the development of adequate residence facilities at these places of learning, the GoK hopes to improve the successes of higher education institutions and meet national education and development priorities. This is in line with the National Strategic Vision 2030, which obligates universities to meet the increasing demand for higher education and to improve the welfare of students.

**National Education Policy Priorities in Kenya**

Historic underinvestment in education systems is a feature of most developing countries. This has been true in Kenya as well, where the demand for quality education outstrips supply. Affordability concerns also make the provision of universal education a national challenge.

Figure 5: Economic Sector Contribution to Kenya’s GDP, 2016

![Economic Sector Contribution to Kenya’s GDP, 2016](image)


The Education sector contributed for 4.9% to Kenya’s GDP in 2016. The gross recurrent expenditure for the Ministry of Education is expected to rise by 13.5 per cent. Past budget cuts have made this an increasingly difficult task to achieve. Shortages in the number of lecturers also affect growth in quality standards and leads to growing student to faculty ratios.

Tertiary education is seen as playing an important role in reaching Kenya’s national development goals. The GoK has made investment in education core to its development policy over the past two decades. The government’s Poverty Reduction Strategy Paper (PRSP) advocated six areas of focus for investment over the period 2001 to 2004, one of which was human resource development. This was followed by the GoK’s Economic Recovery Strategy (ERS) which detailed the government’s strategy for wealth and employment creation for the period 2003 to 2007. Four pillars supported the implementation of the ERS, one of which was investment in the human capital of the most vulnerable members of society.

These strategies culminated in the creation of a long-term blueprint for Kenya’s national development path, contained in the GoK’s Vision 2030. The aim of Vision 2030 is to transform Kenya into a ‘middle-income country by providing a high-quality of life to all its citizens by the year 2030’.

Identified as core to the success of the Vision, is the continued development of the education and training sector.

Understanding the current situation that characterizes tertiary education in the country is important to inform our understanding of the kinds of intervention and investment that is required going forward. Aligning the existing needs that this project seeks to address, with the broader national goals for tertiary education will ensure that resources are used where they are most needed.

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12Kenya Vision 2030.
2.3 PPPs in Kenya

Infrastructure is fundamental to economic growth, with long-lasting effects on the economic growth and development potential of a country. In contrast, a lack of infrastructure is closely related to high levels of poverty and low levels of equality. This is because infrastructure, particularly basic infrastructure most needed in fragile and developing economies, enables countries’ populations to become more productive, provides basic services to households and improves the living conditions of a nation.13

In order to meet this need, the GoK will have to seek out different modes of financing. PPPs provide one alternative, where private sector finance can be crowded in to national development priorities. A PPP is a long-term contract between a private party and a government agency, for providing a public asset or service, in which the private party bears significant risk and management responsibility.

It is within this context that the GoK has introduced PPPs into its national development approach. This began in 2009 with the establishment of an institutional and regulatory framework that supported the use of PPPs, which was subsequently reviewed and updated a year later.14 This was followed by an official GoK PPP Policy statement that articulated the GoK’s commitment to PPPs and aimed to provide the basis for the enactment of legislation surrounding the use of PPPs.

Following from the PPP Policy was the passing and coming into effect of the Public Private Partnership Act, No. 15 of 2013 (‘PPP Act’), which details the process through which PPPs must be undertaken in Kenya. GoK PPP Regulations were produced in 2014 and provided more detailed operational directions on how PPP projects will be prepared, tendered, approved, and implemented, and what the roles and the responsibilities of the parties involved in PPP transactions are.

Kenya’s PPP Policy focuses on the following parameters:1

- Providing a context for PPPs in Kenya and outlining the potential goals and benefits of the PPP framework;
- Providing the foundation for: the establishment of institutions to drive the PPP agenda; the mobilisation of international and domestic private sector investments; and the support that will be provided by GoK to PPP projects; and
- Providing a clear and transparent process for PPP project development in Kenya.

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3. OVERVIEW OF THE PROJECT

3.1 Introduction to South Eastern Kenya University

SEKU is a public university located within Kitui County, about three hours’ drive and approximately 143 Kms from Nairobi City.

The University is made up of the main campus located within Kitui County, and other subsidiary campuses such as Machakos Town Campus, Wote Town Campus, Mitto-Andei Campus and Kitui Town campus.

SEKU was first established in 1976 as Ukambani Agricultural Institute (UKAI) and later became a constituent college of Nairobi University through the legal notice No. 102 dated 15th July, 2008. SEKU became a full-fledged University through award of charter on 1st March 2013.

Under the 2008 Order, all rights, liabilities and assets held by or by anybody on behalf of UKAI, existing at the commencement of the 2008 Order were automatically and fully transferred to the South Eastern University College.

Following the award of Charter on 1st March 2013, SEKU is now a fully-fledged public university with the mandate to play a leading role in the development and expansion of the opportunities for higher education and research, with emphasis on agriculture, forestry, mining, energy, water and environmental sciences.\(^5\)

3.2 Project Scope

SEKU is seeking to engage a private party to finance, build and operate student accommodation on its behalf.

A detailed feasibility study has been conducted which clearly outlined the rationale for SEKU to embark on this project, as well as providing the most feasible site and design option, which have been technically, financially and economically appraised.

Based on the outcomes of the feasibility study the Transaction Advisors (TA) recommended that the procurement of the project be pursued as a PPP, as this provides the best value for money for the University.
The project scope is a concise outline of the set of requirements that frame the project. It presents a description of the main expected outputs to ensure that this project meets SEKU’s objectives.

The project’s scope for each campus covers three components –hostel accommodation, bulk infrastructure and associated facilities.

**Hostel Accommodation**

The hostel accommodation scope relates to the specific hostel accommodation needs for the growing SEKU student population. This is the core of the project’s scope and outlines the number of students for whom hostel accommodation must be provided, as well as the necessary accompanying features. Based on the needs analysis, the required accommodation infrastructure for SEKU is as follows:

- Hostel rooms for 5,400 students (4,500 undergraduate; 900 postgraduate), equipped with beds, storage wardrobes, study tables and chairs;
- Hostel blocks to be equipped with the required bathroom and toilet facilities;
- Common study rooms for students;
- Facilities management offices per block.

**Bulk Infrastructure**

The functionality of the hostel accommodation is reliant on certain bulk infrastructure. In most cases, the existing infrastructure is able to just meet the needs of the students currently residing in SEKU hostels. Based on an assessment of the existing infrastructure at SEKU, the required supporting infrastructure is as follows:

- Additional water supply for the new hostels;
- Electricity connection for the new hostels;
- Additional sewerage systems to support the existing sewer system;
- Road access to the new hostels.

The bulk infrastructure improvements are expected to be standardised regardless of the technical design chosen. The enhancements in bulk infrastructure must be ‘fit for purpose’ to support the increased student population of 5,400.

**Associated Facilities**

In addition to the essential hostel accommodation and required supporting infrastructure, certain facilities may be included in the scope of the project. This will be to enhance the residential service provided to students. The associated facilities may also have a commercial element as some of the facilities will be provided to students at an additional charge to their accommodation fees. This is an important consideration as it will enhance the commercial viability of the project.

The proposed additional facilities at SEKU have been identified as follows:

- Additional food supply facilities (e.g. a food court);
- A tuck shop in the hostels;
- A number of small rental shops.

Based on the TAs analysis, and discussions with SEKU Administration, it is envisaged that hostels developed under this project will be designed to provide accommodation for 5,400 additional students on campus.

4500 beds for undergrads

900 beds for postgrads
3.3 The Demand for Hostel Accommodation

The proposed provision of additional hostel accommodation for SEKU is premised on a view that the current hostel accommodation is insufficient for the needs of the current and future student population.

SEKU Administration, in its proposal to the National Treasury of Kenya, Proposed Student Hostel under Public Private Partnership at SEKU University (2013), outlined the need for additional hostel development, with the University requesting an additional 8,000 bedspaces (1,000 post graduate and 7,000 undergraduate).

Currently the University is able to accommodate about 2,600 undergraduate, and Technical Vocational Education and Training (TVET) students accommodated at the main campus. The University projects to admit an additional number of students annually and according to the University Strategic Plan, it is expected that the University shall have 11,000 Students in the Main Campus by the end of the strategic plan period (2013-2018).

As such, there is a need to construct more hostels to meet the demand for the increased number of students against the available accommodation space.

The proposed hostel accommodation will be located on SEKU's main campus, which stands on 10,000 acres piece of land within an agricultural neighborhood. It is situated near the Machakos-Kitui Highway and close to the Kitui Campus of Kenyatta University.

Over the last five years, from 2011 to 2015, the SEKU student population has risen sharply almost five-fold from 1,172 in 2011 to 6,996 in 2015. Currently, the student population is 8,113. This is an average annual growth rate of 66% (except for 2013 where the student population grew by just 7%). The previous, current and future student population projections are presented in the figure below.

![Student Population Chart](chart.png)

Source: SEKU, 2015. Note: green bars represent actual past enrolment numbers; the brown bar represents current enrolment number; yellow bars represent student population projections.

The total student population is forecast to grow by an average of 10% per annum. SEKU Administration projects that the number of students will increase from current levels to a total population of 20,160 by the 2025 academic year, and will continue to increase to 30,000 students enrolled by 2030.

The supply of hostel accommodation for students is currently provided through a combination of on-campus provision by SEKU and private hostels that are within the vicinity of the university.

SEKU's current hostel capacity can accommodate a maximum of 2,600 students. Currently, only 1st and 2nd year students are provided with accommodation. Once students' progress to the third year of study they are required to find accommodation off-campus.

SEKU has nine blocks offering accommodation for students. This translates to 600 rooms which are fully occupied, and which are built to accommodate 2,685 students. Due to pressure to provide hostel accommodation to students, SEKU's hostels are overcrowded, and in reality, the University provides accommodation to approximately 3,000 students.
The rooms are spread across nine blocks. The rooms are split into two categories – housing eight or 14 students. The eight bed rooms are approximately 168 square feet, and the 14 bed rooms are approximately 278 square feet; these rooms are not big enough to properly accommodate the number of students they contain. SEKU is forced to overcrowd rooms due to the lack of alternative hostel accommodation on campus. There is no additional accommodation capacity coming online from SEKU.

Assuming that SEKU is unable to provide any further accommodation, and that private hostel accommodation grows by 10%, the total available hostel capacity in 2030 will be 16785. This will be substantially below the projected student population in that year of 29 224. Thus, the accommodation gap is expected to be 12 439 in 2030 (see the figure below).

Figure 7: SEKU Student Accommodation Gap - Including Private Sector, Main Campus

The project is expected to provide bed space to 5400 additional students on campus; 4500 beds for undergrads and 900 beds for post grads.

The project is also expected to create employment opportunities during construction which will lead to increased income and improved livelihood. To this end local people will be given first priority in employment for non-technical positions. This will also be done in compliance with the Employment Act, 2007 and Regulation of Wages order 2009.

The project will also provide market for building materials as materials will be sourced from certified vendors from the neighborhood.

The negative impacts of vegetation clearing, generation of solid and liquid waste, noise and dust pollution, soil erosion and sedimentation which will be countered with; selective vegetation clearance, waste reduction and recycling and appropriate pollution reduction measures among others are also anticipated.

The proposed hostel capacity meets the current accommodation gap while making room for a balance of students that are currently living off-campus to move onto campus. It also provides accommodation capacity for future growth in student enrolment numbers; the hostel is designed to meet a significant proportion, but not all, of the expected future accommodation supply gap. Anticipated Impact
4. PROPOSED PPP SCHEME

SEKU intends to procure the required works and services through a 20 year PPP scheme which will involve the successful bidder establishing a dedicated special purpose vehicle (SPV) that will enter into an agreement with SEKU, under the provisions of the Kenya PPP Act, 2013.

It is envisaged that the project’s capital costs will be financed by the Project Company through a mix of shareholder equity and long-term debt financing. The primary revenue source for the project will be revenues generated from the hostels, as well as any ancillary facilities.

The institution will retain the responsibility for the collection of rentals from students. Further information on likely student rental affordability limits will be provided to shortlisted bidders. The institution will also consider providing a minimum revenue payment to the private party.

The figure below provides a simplified illustrative schematic of the anticipated project structure.

Figure 8: Project Structure

To enhance the commercial viability of the project, the Government is currently exploring potential financial support to be provided to the project, either through an initial capital injection and/or an annual unitary payment. Where a unitary payment approach is adopted, the payment mechanism will be based on indexed periodic payments from the Contracting Authority over the concession period. Such payments will be contingent on the availability of the contracted service, at agreed upon standards.

The table below provides an indication of the intended allocation of the main responsibilities and risks associated with the PPP scheme.

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A Preliminary Environmental Impact and Social Assessment (PESIA) study was conducted for the proposed project. For the purpose of applying for an Environmental Impact and Social Assessment (ESIA) license from the National Environment Management Authority (NEMA), a detailed Environmental Impact and Social Assessment Study for the project will be carried out by the investing Consortium.

Further details on the project’s scope and structure will be provided in the Request for Proposals and draft PPP Project Agreement which will be provided to prequalified bidders.
5. DISCLAIMER

The information provided to Prospective Bidder(s) or any other person, in this Project Information Memorandum (PIM) and any other information, whether verbal or written, provided by South Eastern Kenya University (SEKU) or any of its employees or advisors, or on behalf of SEKU, is provided to Prospective Bidders on the terms and conditions set out in the RFQ and such other terms and conditions as may be set out from time to time.

The PIM is not an agreement and is neither an offer nor an invitation by SEKU to the Prospective Bidders or any other person. SEKU, its employees and advisors are not bound by any of the contents of this PIM. The purpose of the PIM is to provide interested parties with information that may be useful to them in preparing their Qualification Documents pursuant to the RFQ. The RFQ includes statements that reflect various assumptions and assessments arrived at by SEKU in relation to the Project. Such assumptions, assessments and statements do not purport to contain all the information that each Prospective Bidder or any other person may require. The PIM may not be appropriate for all persons, and it is not possible for SEKU, its employees or advisors to consider the investment objectives, financial situation and particular needs of each party who reads or uses this PIM. The assumptions, assessments, statements and information contained in the PIM and any other associated documents may not be complete, adequate, accurate or correct. Each Prospective Bidder should, therefore, conduct its own investigations and analysis and should check the completeness, adequacy, accuracy, correctness, and reliability of the assumptions, assessments, statements and information contained in this PIM and obtain independent advice from appropriate sources.

Information provided in the PIM is on a wide range of matters, some of which may depend upon interpretation of law. The information given is not intended to be an exhaustive account of statutory requirements and should not be regarded as a complete or authoritative statement of law. SEKU accepts no responsibility for the accuracy or otherwise of any opinion or interpretation of law expressed herein.

SEKU, its employees and advisors make no undertaking, assurance, representation or warranty and shall have no liability to any person, including any Prospective Bidder, under any law, statute, rules or regulations, tort, principles of restitution or unjust enrichment or otherwise, for any loss, damages, cost or expense that may arise from or be incurred or suffered on account of anything contained in the PIM or other information provided to Prospective Bidders or any other person, including the completeness, adequacy, accuracy, correctness, and reliability of the PIM and any assessment, assumption, statement or information contained therein or deemed to form part of the PIM or arising in any way from participation in the Bidding Process.

SEKU may, in its absolute discretion, but without being under any obligation to do so, amend, update, or supplement the information, assessments or assumptions contained in the PIM. However, SEKU, its employees and advisors shall not be liable to any Prospective Bidder (including to the Pre-Qualified Bidders) in respect of any failure to (i) disclose or make available any information, documents or data; (ii) amend, update, or supplement the PIM; or (iii) provide any information regarding any inaccuracy, error, omission, defect or inadequacy in the PIM.