



UNIVERSITY OF EMBU HOSTELS PROJECT

PROJECT INFORMATION MEMORANDUM

FEBRUARY 2018





FOREWARD by the VICE CHANCELLOR

University of Embu Hostels Project will be one of the major development efforts to be undertaken with support from the Government of Kenya at the University of Embu. It involves a proposal for the construction of modern student hostels by the University.

In the development of the University of Embu Hostels Project, a number of stakeholders participated and these included the Government of Kenya, represented by the PPP Unit of the National Treasury, the University and the community.

The Transaction Advisor guided the process through provision of expert advice. This combined effort resulted in a detailed feasibility report that formed the contents of this memorandum. With the completion of the memorandum process, the University will be in a position to advertise the project with the aim of attracting potential investors.

Throughout the process, the University has worked closely with the Transaction Advisor to conduct due diligence to ensure that the construction of the hostels remains affordable and that the institution gets value for its money. The University intends to procure the required works and services for a period of 20 years under the PPP scheme as per the provisions of the PPP Act, 2013. The procurement will involve the construction of hostels with bed space capacity of 4000, including the development of corresponding bulk infrastructure and associated facilities at the University premises.

With the assistance of the Government of Kenya, the project remains a viable enterprise to the successful bidder considering that with the increase in student numbers each year and the demand for on-campus hostel accommodation continues to increase even with the participation of private developers in the sector. I therefore, take this opportunity to inform potential investors that the University fully supports hostel development on the PPP model and this document forms part of an ongoing process of interaction between the University and interested parties.

This memorandum has been prepared to inform interested parties of the hostel project development and the prospects it holds both for the contracting authority and prospective investors. Your response to this endeavour will be highly appreciated.

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University of Embu



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1. INTRODUCTION

University of Embu (UoEm) is located in Embu County, Kenya. A Feasibility Study was conducted to determine the viability of building new Hostel facilities to accommodate the student growth projected.

The UoEm Hostels Project, henceforth “the Project”, is a Public-Private Partnership (PPP) project. The project consists of hostel accommodation, support bulk infrastructure and the necessary associated facilities at UoEm.

UoEm, in coordination with the Transaction Advisor (TA), 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.



2. KENYAN CONTEXT

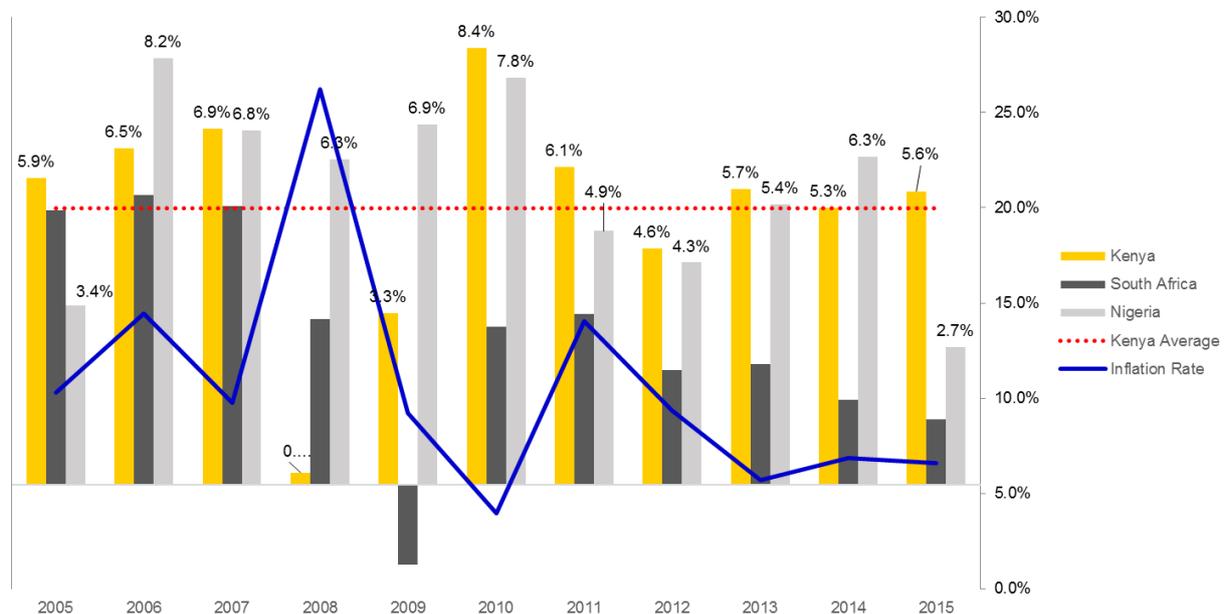
2.1 State of the Kenyan Economy

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%

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



respectively (Figure 1).

Figure 1: The Kenya Financial Sector

Source: The World Bank, 2017.

GDP growth has been driven mainly by the expansion of the mining and quarrying,

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

¹ Central Bank of Kenya. 2016. The Kenya Financial Sector Stability Report, 2015: Issue No.7. p12.

² Ibid.

³ Deloitte. 2016. Kenya Economic Outlook 2016: The Story Behind the Numbers. p15.



volatility, dropping from a high of 26% in 2008 to relatively stable levels of around 6 - 7% over the past few years. Inflation for 2016 is predicted to come in at similar levels, around 7.8%.⁴

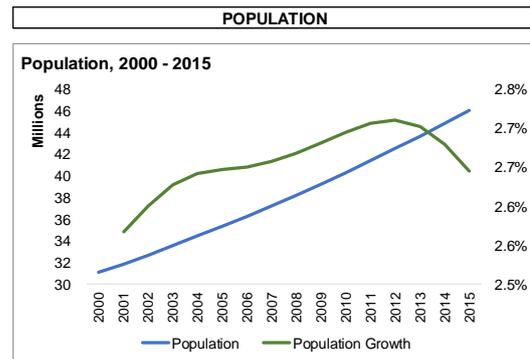
In 2016, Moody's gave Kenya positive outlook and a B1 sovereign rating amid expected continued strong growth prospects.⁵

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.

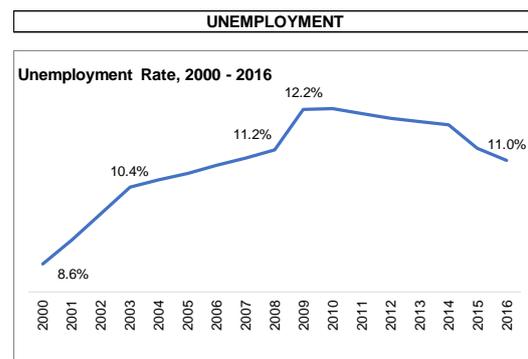
Figure 2: Kenya's Population Trend, 2000 - 2016



Source: The World Bank, 2017.

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



Source: The World Bank, 2017.

⁴ Kenya National Bureau of Statistics. *Leading Economic Indicators (January 2016)*

⁵ https://www.moodys.com/research/Moodys-affirms-Kenyas-B1-sovereign-rating-maintains-stable-outlook--PR_343617.

⁶ UNESCO Institute for Statistics. 2017. <http://data.uis.unesco.org/#>. Accessed: [30/05/2017].

⁷ International Labour Organisation. 2017. ILOSTAT database. <http://www.ilo.org/ilostat>. Accessed: [30/05/2017].

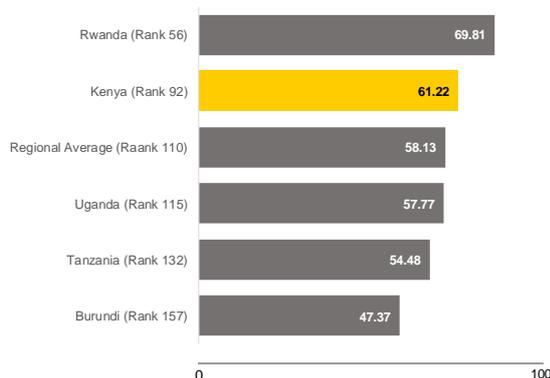


Business Climate

Kenya has taken a number of measures to improve the business environment. Some of the measures taken include: streamlining the process of getting electricity by introducing the use of a geographic information system which eliminates the need to conduct a site visit, thereby reducing the time and interactions needed to obtain an electricity connection; registering property at the land registry and cadastre is more transparent thereby simplifying the process; and electronic filing systems allow for faster payment of taxes faster for companies.

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)⁸ score of 61.22.

Figure 4: Kenya versus East African Community "Ease of Doing Business" Ranking, 2017



Source: The World Bank, 2017.

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

⁹ Kenya Vision 2030 pg. 98

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). From this humble beginning the enrollment has grown to a total of 443,783 students for the 71 accredited Universities as at 2017¹¹. 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 the 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 resulted in the promotion of Colleges to full University status. The total number of Public Universities in Kenya increased by 30.4% in 2016 after the granting charters to 7 University Colleges to full University status.¹⁰ Expansion has occurred in all Public Universities and in Private for-profit providers of tertiary education.

¹⁰ Kenya National Bureau of Statistics. 2017. Economic Survey. p40.

¹¹Copyright University World News 2007-2014



Along with growth in the number of Universities, has come huge growth in enrollments. The enrollment figures for 2017 show that there was a total of 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 Universities.

Student admission to public universities in Kenya is tied to the universities' capacity to absorb new students, influenced primarily by teaching space. Hostel availability was delinked from admissions, but challenges persists.

There are current efforts to improve the quantity and quality of hostel accommodation at a number of Government Universities and 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 and 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 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



Source: Kenya National Bureau of Statistics, 2017.

The Education sector contributed for 4.9% of Kenya's GDP in 2016. The gross



recurrent expenditure for the Ministry of Education is expected to rise by 13.5 per cent.¹¹ 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 blue print 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'.¹² 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.

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

¹¹ Kenya National Bureau of Statistics. 2017. Economic Survey. p2.

¹² Kenya Vision 2030



households and improves the living conditions of a nation.¹³

In order to meet this need, GoK will have to seek out different modes of financing. PPPs provide one alternative, where private sector finance can be integrated into 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 published in 2014 and provided more detailed operational directions on how PPP projects will be prepared, tendered, approved, and implemented, and what the roles and 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.

¹³The World Bank (2015). Global Infrastructure Facility Gets to Work. Online: <http://www.worldbank.org/en/programs/global-infrastructure-facility>

¹⁴ Kenya PPP Unit Website. <http://www.pppunit.go.ke/index.php/home> Accessed on 10 December 2015



3. OVERVIEW OF THE PROJECT

3.1 Introduction to University of Embu

The University of Embu (UoEm) was established as a Constituent College of the University of Nairobi via Legal Notice No. 65 of 2011 by His Excellency, President Mwai Kibaki. The University College was granted a Charter on 7th October 2016 to full- fledged University status - The University of Embu.

The objective of the University is to develop and expand opportunities for higher education in Kenya. This is in line with its Vision, “A dynamic epicentre of excellence in training and research for service to humanity” and the Mission, “To generate, advance and disseminate knowledge through training, research and innovation for the development of humanity”.

Currently, UoEm offers various programmes at Doctoral, Masters Bachelors’, Diploma and Certificate, levels. In addition, the University offers short term courses, seminars and field days for various stakeholders.

3.2 Project Scope

UoEm is seeking to engage a private party to finance, build and operate student accommodation facilities

A detailed feasibility study has been conducted which clearly outlined the rationale for UoEm 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.

Based on the TAs analysis, and discussions with UoEm Management, it is envisaged that hostels developed under this project will be designed to provide accommodation for 4,000 students within the University.

The biggest challenge currently facing UoEm is provision of adequate and modern infrastructure to meet students’ needs. Despite inheriting dilapidated infrastructure, the University has refurbished and expanded the facilities. Due to limited national resources the Government encourages Universities to focus infrastructural development on core mandate (teaching, research and extension) which excludes students’ hostels. There is thus a need to seek alternate sources of funding for the development of student hostels.

The project’s scope 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 UoEm student population. This is the core of the project 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 UoEm is as follows:

- Hostel accommodation for 4,000 students (including 3,500 undergraduate and 500 postgraduate) equipped with beds and mattresses, storage wardrobes, study tables and chairs
- Hostel blocks to be equipped with the required sanitary facilities
- Common rooms for students
- Kitchenettes per block
- Laundry facility per block
- Management offices per block
- Centralized modern kitchen and dining hall to serve the student population

Bulk Infrastructure

The functionality of the hostel accommodation is reliant on certain bulk infrastructure. The existing infrastructure is sufficient to meet the current student population. The Needs Analysis provided the detail on the enhancements of the bulk infrastructure services required to accommodate the anticipated increase in

students residing on campus. Based on an assessment of the existing bulk infrastructure at UoEm, the required supporting infrastructure is as follows:

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

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 is an important consideration as it will enhance the commercial viability of the project.

The required facilities at UoEm have been identified as follows:

- Tuck shops in the hostels,
- Hair dressing salons and barber shops,
- Parking areas,
- Recreation facilities.

3.3 The Demand for Hostel Accommodation

The proposed provision of additional hostel accommodation for UoEm is premised on a view that the current hostel



accommodation is insufficient for the needs of the current and future student population.

In reality this implies majority of the students live in private hostels and experience various challenges such as:

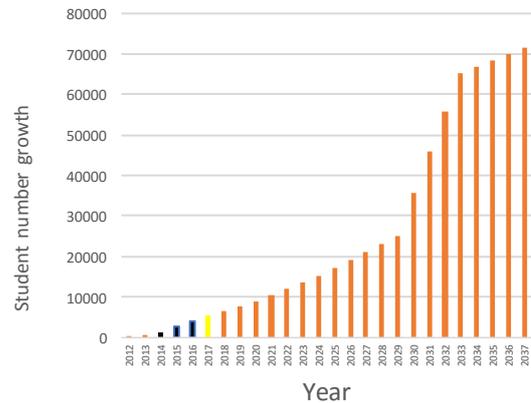
- Sanitary services
- Accessibility to on campus services e.g. library and computer labs.
- Insecurity
- Congestion
- Long commutes

By April, 2013 when its first batch of students reported, the facilities were adequate. However, UoEm has since experienced rapid increase in enrolment to over 5000 students currently. However, the on-campus hostel capacity has remained constant at 752.

The implementation of this project will assist UoEm address the shortage of residence space through the development of additional hostels, thereby meeting the accommodation needs of current and future students.

UoEm Management anticipates a rapid growth trajectory in the total number of student enrollment. Over the next 20 years, the total student population is estimated to grow by average of 16% each year. Student population is thus, expected to grow from the current 5444 (2017) to about 69,000 in 2037.

Figure 6: Historical, Current and Projected Student Population, Main Campus, 2010 - 2030



Source: University of Embu, 2017. Note: blue bars represent actual past enrolment numbers; the yellow bar represents current enrolment number and purple bars represent student population projections.

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

The institution currently has 5,444 students. With the current hostel capacity, this means that only 752 (13%) of these students reside on campus.

There is currently an accommodation gap at University of Embu which is likely to increase in future.



4. PROPOSED PPP SCHEME

UoEm 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 UoEm, under the provisions of the Kenya PPP Act, 2013.

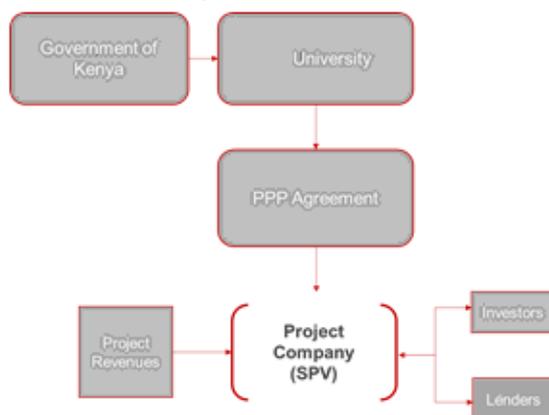
It is envisaged that the project’s capital costs will be financed by the Project Company through a mix of shareholder equity and long-term debt financing.

The primary revenue source for the project will be revenues generated from the hostels, as well as the 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 diagram of the anticipated project structure.

Figure 7: 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.

Table 1: PPP Scheme Risks and Responsibilities

Risk category	Project Company	Contracting Authority
Design	✓	
Land Availability		✓
Construction	✓	
Operations & Maintenance	✓	
Demand		✓
Financing	✓	
Performance	✓	
Exchange Rate Risk	✓	
Inflation Risk		✓
Interest Rate Risk	✓	
Force Majeure Risk	✓	✓
Political Risk		✓



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 by the investing Consortium.

Further details on the project's scope, structure and risk allocations will be provided in the Request for Proposals and PPP Project Agreement which will be provided to Prequalified Bidders.



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 University of Embu (UoEm) or any of its employees or advisors, or on behalf of UoEm, 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 UoEm to the Prospective Bidders or any other person. UoEm, 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 UoEm 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 UoEm, 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. UoEm accepts no responsibility for the accuracy or otherwise of any opinion or interpretation of law expressed herein.

UoEm, 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.

UoEm 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, UoEm, 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.