PUBLIC-PRIVATE PARTNERSHIPS AS A MECHANISM OF ECONOMIC SELF RELIANCE IN KENYA.

BY

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UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

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SUMMER 2019
STUDENT DECLARATION
I declare that this is my original work and has not been presented to any other college, university or other institution of higher learning other than United States International University Africa

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I would like to acknowledge my supervisor Leonard Maumo for his remarkable guidance during the process of writing this thesis. Thank you.
DEDICATION

I would like to dedicate this thesis to all who helped during this period and would like to thank them for their excellent support during my studies and writing of this thesis. Thank you and God Bless.
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ABSTRACT

The main objective of this study was to examine the role the private sector plays in attaining economic self-reliance in Kenya. Currently Kenya is in a debt crisis due to unsustainable external borrowing. The study was guided by two theories: institutional differences and new theory of management. The study employed a mixed methodology. The study seeks to find how through the PPPs Kenya can attain economic self-reliance as well as create a sustainable approach to detach from external debt and over reliance on Aid. The study found that PPPs are a realistic alternative for Kenya distancing itself from more external borrowing, as they have the ability of creating self-reliance in the economic structures in Kenya. The study recommends that for PPPs to completely serve their purpose there needs to be a high level of transparency to reduce corrupt practices that slow down various project implementation in Kenya.
<table>
<thead>
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<th>Abbreviation</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>ACECA</td>
<td>Anti-Corruption and Economic Crimes Act</td>
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<td>EAC</td>
<td>East African Community</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>KEPSA</td>
<td>Kenya Private Sector Alliance</td>
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<td>KAM</td>
<td>Kenya Association of Manufactures</td>
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<td>KIA</td>
<td>Kenya Investment Authority</td>
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<td>KNBS</td>
<td>Kenya National Bureau of Statistics</td>
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<td>MSE</td>
<td>Medium Scale Enterprises</td>
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<td>MTDS</td>
<td>Medium Term Debt Strategy</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>PPP</td>
<td>Public Private Partnerships</td>
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<td>PFI</td>
<td>Private Finance Initiative</td>
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<td>RDT</td>
<td>Resource Dependence Theory</td>
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<td>SIAP</td>
<td>Sustainable Infrastructure Action Plan</td>
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CHAPTER ONE

1.0 INTRODUCTION

Public-Private partnership (PPP) is defined in various ways with the Organization for Economic Cooperation and development (OECD) stating that PPP is a contractual agreement that enables a private entity to provide services and goods that have traditionally been provided by the government. The Kenyan Public Private Partnership Act defines a PPP as an agreement between a contracting authority and a private authority, whereby the private body undertakes the risks of providing a public function and receives benefits in terms of compensation from a public fund or the charges collected from the users of the specific public function.

This study seeks to provide insight on how Kenya can tap into public-private partnerships to revamp the economy and shed the increasing debt burden that continues to face the country. The Kenyan government has the mandate of providing adequate infrastructure like airports, roads, power and rail and services such as health, water, sanitation (Government of Kenya, 2017). Implementation of these type of projects require huge amounts of financial investment which have proven to be beyond the country’s economic capabilities (Roehrich, 2014). Hence the government in its quest to provide quality, timely and affordable services has had to borrow large sums of money, plunging the country into a debt crisis. Kenya’s current public debt stands at USD 49 million and this is 56.4% of the country’s gross domestic product. This has increased from the 42.8% in 2008 despite the International Monetary Fund recommendation that ratios of public debt to GDP should not be higher than 40% for developing countries (World Bank, 2018). For Kenya to reduce government sovereign borrowings and associated risks there has
been the drive to the creation of local long-term funding solutions in a bid to expand the economy and stimulate job creation.

This chapter is divided into the following sections providing background information showing how PPPs have existed and have proven to work in the western world and will show how this governments have successfully found a coordinated balance between funding and PPPs. This research will be guided by two main objectives this being examining the relationship between private sector and the government and the role it plays in creating self-reliance, finding out the challenges affecting public private initiatives.

1.1 Background of the study

During the 19th Century the industrial revolution brought with it rapid urbanization which required immediate expansion of public transportation, energy and sewage systems and much of this was facilitated by the private sector through various concession agreements (Boviard, 2010). Throughout the 20th Century, involvement of the private sector declined as a result of the world wars and this halted growth and development and led to a shift from free markets to collectivism many countries. The shift to collectivism can also be attributed to the economic slump which was sparked by the oil crisis in the 1970s. PPPs have been used in the structural change of economies in recent years as an institutional approach in local economic development policies (Boviard, 2010).

Various scholars (Boviard, 2010); (Bettignies, 2004); (Farlam, 2005) are able to trace back the source of public-private partnerships from the 1960’s in the United States and they state that the phrase has come to evolve over time and has been used to describe a vast array of activities that have been undertaken by governments overtime. The phrase PPP has been used in activities
ranging from health services and joint companies for delivery of various services such as infrastructure development using both public and private efforts (Boviard, 2010). Early seminal views state that the whole construct behind PPPs could be defined as cooperation between the public-private sectors in which they work jointly to develop projects, deliver services and share risks, costs and resources which are connected to this type of cooperation (Van Ham H., 2001).

Over time the relationship between the public and private sectors have become dense and an attractive policy reform option for governments who are willing to gain from the private arm in their countries. In the early phase of the PPP policy mainly in the United Kingdom and United States of America these countries are regarded as the initiators of what has come to be a long-lasting trend (Van Ham H., 2001). PPPs were adopted by the Reagan and Thatcher governments as the main core strategy for economic and urban development. Its noted that this policy was consistent with their specific neo-liberal capitalist stances (Mitchell Weaver, 1991). The changes that have been witnessed in terms of policy regarding public-private partnerships has been remarkable despite this type of partnership dating back to the roman times in the west, it has played quite a significant role in the developmental history (Mitchell Weaver, 1991). In the United Kingdom in the 1990’s the government provided an option of private finance in delivering public infrastructure and this saw to it that it was turned into a policy preference (Barney, 1991).

The United Kingdom government in 1992 proposed that the public-private partnership was the surest way to grow the country’s infrastructure (Barney, 1991). The rationale behind this was that the government would not exceed the public sector borrowing but would ideally have a win-win situation for the private sector as well as the public sector (Robert A., 2010). The private sector would gain in having new investment opportunities and on the other hand the government
would benefit from improved infrastructure. The policy was able to ensure that the private financing provided a flexible technique which enabled the United Kingdom government to overcome political paralysis and issues of public accounting constraints and saw to it that new infrastructure was delivered.

Countries from the developing world have been relatively slower to adapt the PPP model for the purpose of development. These Governments face the challenge of meeting the growing demand for better infrastructure and public services. According to (Boviard, 2010) the available funding from traditional sources has proven to retard most of these economies and as a result a new alternative has been realized which is governments partnering with the private sector. Notably there is considerable knowledge surrounding economic, social and political aspects of PPP, the global financial crisis of 2008 did contribute to the political and economic environment and magnified the conversations surrounding PPP.

Only 276 projects that involved private participation reached the financial closure in the Sub-Saharan Africa between 2005-2015 (World Bank, 2016). Low Income Countries have made significant steps in increasing the use of PPP arrangements over the last decade as a means to circumvent the budgetary constraints faced and the insufficient investment to propel further the infrastructure development and economic growth within these states. As noted by the African Development Bank the largest obstacle when attracting private investment in the region is the business environment in these countries.

Kenya has not been left behind in the efforts of capitalizing on (PPPs) and in its efforts to do so the national treasury introduced the use of PPPs in Kenya’s infrastructure development plan and towards providing key services to its citizens. In 2013 Kenya enacted the PPP act which from hence forth paved way for capital and infrastructure projects to gravitate towards PPPs.
Over years, Kenyans had voiced their frustrations at the inefficiency portrayed by the government departments and public bodies in delivery of services. The rationale was to include the private bodies for more efficient service delivery. The PPP act aimed at transforming Kenya from an average-income country through the realization that the private sector could fund key projects to ease the burden the government is faced with. The act is responsible in providing a legal capacity from which the public and private sector can enter an agreement that will be beneficial to both sectors. Through the act there is certainty that is created for investors to fund various projects in the country (Public Private Partnership Unit, 2018).

Kenya seeks to grow its economy and reduce the levels of poverty in the country. Under the country’s national development framework vision 2030 it believes that investment in infrastructure is a high priority and the framework seeks to transform Kenya from a third world into a globally industrialized competitive middle-income country. The vision seeks to achieve and maintain an annual growth of 10% through various massive investments in infrastructure sectors especially on energy transport, telecommunications and agriculture through partnerships with private sector players (Government of Kenya, 2008).

Public-Private partnerships have the potential to transform Kenya and ensure that the country achieves it developmental project goals towards the realization of the vision 2030. PPPs allow the government to tap into the private sector’s flexibility, innovativeness and expertise towards timely conclusion of various projects. Kenya does have a huge infrastructure deficit and its important that this is filled. The country is experiencing a high demand for proper infrastructure due to the economic growth being experienced in the country and the EAC region. The Kenya vision 2030 aims to transform Kenya into an industrialized middle-income country but this in
turn requires heavy investment in sectors such as the infrastructure arm to ensure that this vision materializes (World Bank, 2018).

1.2 Problem Statement

According to the IMF Kenya’s external debt in Kenya was at 898.35 billion dollars as of September 2018 (International Monetary Fund, 2018). Kenya seeks to improve the current state of the manufacturing, universal healthcare, affordable housing, and food security with the Big Four agenda. However, with the constant over reliance on aid to grow our economy this slows down the progress of growth since with aid comes along conditionality that may stagnate and retard overall growth if not properly utilized. Globally the issues of economic self-reliance constantly are faced by states and it important to note that this is a global quagmire. Africa is working to attain economic self-reliance and model states such as south Africa and Egypt have set the precedence. The Kenyan Government hopes to double manufacturing output from the current nine per cent to 20% of Gross domestic product (GDP) by 2022. While this is a very attainable goal it remains elusive. In Kenya the output of the private sector has been growing steadily the absolute value of the private sector increased by 68% from 2000 to 2017 and this has been driving the growth of the economy. In contrast to the public sector the output has remained relatively constant for past decade and a half recording a growth rate of 26% between 2000 to 2017 (Government of Kenya, 2017). The contribution of the private sector to formal employment has steadily risen, creating most formal jobs in Kenya. The recorded annual growth rate of formal employment is approximately 3% which matches the overall government labour force growth rate between (2000-2017) (Government of Kenya, 2017).

As of 2018 Kenya’s private sector had contributed to the country’s GDP by 80% (International Monetary Fund, 2018). This makes up a substantial percentage of the total employment and a
bulk of export earnings. The Private sector has proved its resilience despite various external and internal shocks that have been experienced such as political unrests and terrorist attacks to the country. The sector has contributed greatly to the diversification of export markets. However Kenya has a public debt standing at an approximate 4.884 trillion Kenya shillings (USD 49 billion) (Kodongo, 2018).

From the Addis Ababa agenda for Action the World Bank Group embarked on efforts to assist countries to maximize finance for development responsibly without having to push the public sector into unsustainable levels of debt and contingent liabilities (Hurley, 2015). This entails pursuing the private sector to work with the public sector to ensure that they can help achieve development goals and help preserve scarce public finance for where it is most needed.

Despite there being numerous papers (Olotoch, 2017); (Weihe, 2008); (Hodge, 2005) written on the Public-Private Partnerships as a policy to be adopted by governments. This study has provided insight on how PPPs can be used as a mechanism of economic self-reliance in Kenya, as well as laid out the various challenges currently facing these partnerships and shown possible opportunities that can be realized by the government.

1.3 General Objective

This study seeks to examine the role the private sector plays in attaining economic self-reliance in Kenya.

1.4 Specific objectives

i. To Examining the relationship between private sector and the public sector in Kenya

ii. To find out how PPPs can help reduce the current debt crisis in Kenya and reduce dependency on Aid
iii. To assess the challenges affecting public-private initiatives

1.5 Research questions

i. How is the relationship between private sector and the public sector in Kenya?

ii. How can PPPs help reduce the current debt crisis in Kenya and reduce dependency on Aid?

iii. What are the challenges affecting public-private initiatives?

1.6 Significance of the study

PPP’s do take up a variety of forms with varying degrees of public and private sector involvement and have different levels of public and private sector risks. As a matter of fact, risk transfer from the public to the private sector is a primary feature of the PPPs. The goal of PPPs is to combine the best possible capabilities of the public and private sectors for one mutual benefit.

Kenya is the gateway and central business hub in the East and Central region and hence there is demand for quality services from citizens such as transport, water and sewerage, power, telecommunications and social services. The government is very keen on utilizing the clear efficiencies that sprout from the private sector in the running of public services, expanding our economy and stimulating job creation for the youth through PPPs.

In a PPP arrangement the government does remain actively involved throughout the project’s life cycle. On the other hand, the private sector has the responsibility of the commercial functions such as the project design, finance, construction and operations.

This study is relevant to the Government of Kenya as it will highlight the various levels and challenges that affect the effectiveness of PPPs and consequently to the economy. The study is
relevant to students pursuing international relations since it will provide insight to better alternative solutions away from the traditional dependency on aid to grow economies.

1.7 Definition of terms

**Public-Private Partnerships (PPP):** a risk sharing relationship that is based on a shared aspiration between the public sector and one or more partners from the private sector to ensure that the public sector delivers agreed outcome.

**Public sector:** refers to the public agencies and enterprises that are financed owned and controlled the government.

**Procurement:** this is a commissioning process that involves purchasing a service from a provider.

**Public Participation:** this is the two-way communication that is conducted by the government that involves the public when it comes to projects that directly impact the public. It involves a process of open forum discussion to collect adequate feedback from the public to ensure that the PPP projects are successful.

**PPP Unit:** this is the center that has responsibility to run all PPP ventures within Kenya and it is a specialized unit within the national treasury that was established under section 11 of the PPP Act of 2013.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature by various scholars that are in line with the research problem arranged chronologically and thematically. The subject matter reviewed is geared towards finding a coordinated balance for the Kenyan government to tap into the public-private partnerships and avoid over reliance on aid. The chapter defines Public-Private Partnerships, concepts behind PPPs, explains the history of how public-private partnerships came to be and how various governments around the world have used this approach to grow their economies. The literature provides insight to the various existing trends that surround PPPs and how various countries in the west have successfully used PPPs to create economic self-reliance and how this best practices can be applied in the global south.

2.2 Debt crisis and Management

Notably the issue of aid has been in existence since the 1980’s during this period the study witnesses that the fiscal balance in developing countries has been rising from the equivalent of 1.5 percent of GDP in 1980 to a peak of 6 percent this being in 1987 (African Development bank, 2008). In Africa the study does notice that the situation has undeniably gotten worse and the financial gap in Africa creates a serious problem when it comes to economic management. The persistent high deficits noted over time are both caused by inadequate policies which fail to moderate expenditures as there is increase in revenue.

Debt management whether domestic or externally borrowed is a serious issue that should be addressed across all countries especially with focus on the global south (Roehrich, 2014). Debt
has been used by the capitalist countries to control the various economic aspects of the debtor countries and through this it formed the pillar to the neo-liberal market economies. Through this a call has been made by the public in the various countries who feel the pressure of external borrowing and the heavy taxes imposed on them. The joyride that has been created over time of the fashionable mantra of the “market knows best” is responsible for the international slip ups witnessed that plunge countries into levels of unsustainable debt (Kodongo, 2018). The debt bubble has been the cause of many economies in the south remaining stagnant for a very long time without having to conceptualize sustainable approaches of growing their economies (World Bank, 2016). In Africa governments are responsible for the financial well-being of their citizens but we cast this to depending on financial aid from other western countries and forget with aid comes along conditionalities (African Development bank, 2008). Most African leaders embody the approach of reacting tactically and not strategically when it comes to issues of debt management. This then points to the need of having effective fiscal management tools that can be adopted by governments and shred away the impetus approaches that most if not all of our African leaders poses of aligning themselves with various western countries to propel their own personal agendas (African Development bank, 2008).

Narrowing the focus of the study to Kenya, debt drives the Kenyan Economy and public or private spending accounts for just about 50 percent of the total spending in the Kenyan economy (World Bank, 2016). Most of the spending in Kenya comes in the form of debt. Kenya does borrow for the reasons of providing goods and services to its people. The imbalance in the borrowing environment that surrounds Kenya, shows that there lacks a proper legal framework that can be followed to guide the type of borrowing done.
Kenya being a capitalist society the competition that occurs for public services and resources does assume different forms of struggle between the sections of the society. In 2010 Kenya’s external debt stood at 15.36 billion dollars as of 2018 the current external debt stands at 898.35 billion dollars. Currently about 56.6 percent of the debt is owed to multilateral creditors this being ADB, IMF, IDA and EEC/EIB they cumulatively account for the largest portion of external credit (World Bank, 2018). While China, Germany, Japan and France are leading creditors in the bilateral category. The amount of debt that is still owed to other creditors does remain relatively unchanged as these debts fail to be serviced.

2.3 The Concept of Public-Private Partnerships

Literature about Public-Private Partnerships (PPP) (Boviard, 2010); (Van Ham H., 2001); (Weihe, 2008) does indicate that it is not easy to simply sprout out with one simple definition but their various angles to defining this term. The fact that PPP has been defined by various international organizations, public agencies and authors shows the elusiveness of there being a universal definition of PPP. Weihe (2008) concludes that an authoritative definition of PPP which can encompass all various variations of the concept currently being used is still not logically possible. Public Private Partnership lacks a common central definition but according to the World Bank, it is defined as the variety of arrangements that do involve the public and private entities which results into partnerships.

Farlam (2005) defines Public Private Partnerships as the long-term collaboration that occurs between the Public and the Private sectors. These partnerships are characterized by the ability to share costs, rewards and risks that are related to a certain project. Harris (2003) defines Public Private Partnerships as the contractual agreements that are made between the public and private sectors and the private sector takes up responsibility of providing services that are traditionally
provided by the public sector. OECD (2004) states that Public Private partnerships as the long-term agreements between a government and a private partner where the infrastructure deliverable objectives of a government are aligned with the profit objectives that come from the private sector.

Hodge (2005) defines PPP as the institutional cooperation that takes place between the public and private sectors designed to increase the efficiency and effectiveness of public service delivery. Hayllar (2010) defines PPP as a contractual agreement that involves the private sector in the delivery of delivery of public services that are based on a partnership approach where the responsibility for service delivery is well shared between the public and private sectors, both of which bring their complimentary skills on board. Van Ham H. (2001) defined PPP as a cooperation of some sort of the durability between public and private actors in which they jointly develop products and services and share risks, costs and resources that are connected with these products. In the United Kingdom (UK) the treasury defines PPP as a government desire that is centered to resolve financial constraints in the provision of public facilities and services which is performed by calling upon private management skills to increase efficiency, effectiveness and quality of facilities and service delivery.

Public-Private Partnership has emerged as an important model that governments use to close infrastructure gaps since it offers several benefits to a government that seeks to address infrastructure shortages or improve the efficiency when it comes to service delivery. The involvement of the private sector in the development and constant financing of public facilities and services has increased over the decade. The incentive created by this partnership of shared risks and rewards has been instrumental (Li, 2005).
PPPs are characterized by collaborations in which the public and private sectors can bring their complementary skills to a specific project under various levels of involvement and responsibility all this is towards the goal of providing public services more efficiently (Chan, 2009). PPPs are typically are made up of voluntary arrangements that involve significant levels of resource-sharing and joint decision-making (Wohlstetter, 2006).

The concept of PPP is underpinned by a government's desire to solve issues of capacity constraints in the provision of public facilities and services by calling upon private management skills to increase quality of service delivery. The level of private sector involvement will range differently and hence it becomes hard to group these partnerships in a consistent fashion (Chan, 2009).

Public Private Partnerships as defined by the PPP Act 2013 states that it’s the arrangements made between a contracting authority and a private party under which the private party.

1. Undertakes the responsibility to perform a public function or provide a service on behalf of the contracting authority.

2. Receives benefits from performing the specific set out public function by way of;
   a. Compensation from a public fund
   b. Charges or collects a fee from users or consumers of the service

PPPs provide opportunities for the development and give an opportunity to harness the private sectors abilities all this in effort for economic and social development. A PPP will integrate the private sector, the public sector and the community stake holders. Through this it is beneficial and brings together resources and sharing responsibilities.
From figure 1 it clearly shows that a PPP goes well beyond just the context of designing engineering and construction but it integrates the key stakeholders and it works when it has the ability to pool resources and share responsibilities. Alexander (2008) common elements held by PPP parties include:

i. The strong belief that through a partnership the effectiveness is more than a stand-alone approach

ii. Having a joint definition of a problem and a shared solution works effectively.

iii. Partners committing resources to a project ensures there is adequate results.

iv. Sharing of risks and rewards is the best approach.

PPPs can operate at the boundary of public and private sectors being neither privatized nor nationalized hence making them represent a third way in which governments can deliver public services (Bettignies, 2004).
2.3.1 Historical perspective of PPPs

Historical records indicate that the co-operation that takes place between the public and private sector in aspects of improving infrastructure dates to early civilization. Leung (2000) provides evidence that the Old London bridge on River Thames in the UK which opened in 1209 was constructed under a concession that was granted by King Henry the second to the St. Mary Cole-church. This provides a classic example of co-operation between the state and a non-state organization. Carnevale (2002) states that private partnership in France predate the French revolution of 1789. It is documented that many states in the pre-revolutionary Europe were able to provide various grants to private parties in efforts to raise resources for the state. At this time the co-operations that took place were not structured and distinctly different from PPPs as they are understood in the modern economies.

Structured co-operations between the public and private sectors started to become clearer in the mid-19th Century. In France (Perrot, 2000) provides evidence of infrastructure concessions as a form of PPP that had gained dominance since 1850s in projects that concerned urban development, sewer projects, sanitation and highway building operations. It is important to note at this time these efforts were not strictly referred to as PPPs as they are known in their present form. Winch (2000) notes that the involvement of the private sector in the public infrastructure during this era was mainly either as a supplier that had been contracted to provide an asset or service financed and funded directly by the public authority arm or as a provider of finances to the public authorities but could not be both.

With the modern era, scholars like Broadbent, Gill and Laughiin (2003) attribute the emergence of PPPs to policy and political changes that took place in the UK in the early 1980s. These changes saw to it that a new approach of public management emerged, and the private sector was
actively financing and developing public projects. Barney (1991) in 1992 the UK government through the chancellor Exchequer announced the introduction of the private finance initiative (PFI) this was to be a method of providing financial support for public-private partnerships. In this program of 1992, the idea was to reduce public sector borrowing for financing infrastructure. The program not only aimed to transfer the responsibility for the provision and management of public services to private firms but sought to promote a long-lasting relationship between the industry and their clients that could have the ability to bring forth innovation and ensure that cost reductions took place. It’s from this program that the PPPs are now widely used in infrastructure financing around the world.

The most common application of PPP in Europe started off in the transport and urban water supply sectors where the users were easily identified, and the revenue streams supported the investments. The Irish republic closely followed the European and British developments through supporting the concept of PPP in terms of considering it as policy and this led to improved labor skills and a decline in infrastructural deficit that had been faced. The utilization of the PPP models in the USA is observed to be more limited in comparison with the activity in Europe. The most common funding model that is used for infrastructure development in USA is through bonds from stakeholder partners (Fosler, 1982). Barney (1991) views PPPs as an initiative that can combine the strengths of both government and private sector, and this leads to an effective facilitation of projects run within a state. The government is perceived to have the strong politico-legal positions, good credit and low risk perception while the private sector provides cost efficiency and flexibility in project implementation (Laughlin, 2003).
2.3.2 Public-Private Partnership Development Globally

Globally, Public-Private Partnerships are often arranged and implemented with the intention to accelerate high-priority projects through advanced technologies that are not available through standard public procurement processes (Bettignies, 2004). Ideally the management of resources are optimized to ensure there is quality, proper cost control is performed and there is strict adherence to scheduled timelines that are set. As highlighted from the literature review above its noted that the concept of PPP in the United states and Europe has existed for Century’s, but the concept has evolved over time and in recent decades it has become more prominent in developing countries (Pierre, 1998). Scholars note that it was the United Kingdom (UK) labour government that was first to introduce the PPP concept in the 1990’s Spackman (2002) however reviewing literature shows that the PPP label has been actively been used since at least the late 1970s Fosler (1982) and that it first did make an appearance in the United States (US) urban policy literature.

The growing use of the Private Finance Initiative (PFI) has been responsible in creating inspiration to many governments worldwide to adopting PPP arrangements as governments have come to realize their value (Yuan, 2010). The Australian government has successfully used the PPP model to deliver social infrastructure projects. In Malaysia PPPs are used mainly in projects in the public transport, roads, waste management facilities, water and waste-water services (Beh, 2010).

2.3.3.1 United Kingdom

Prior to 1989 the UK government was constrained in the ability to use private capital in financing the public sector projects. Formal rules that were set out under which private finance
could be used at the end of 1989 a shift was witnessed whereby the private sector was encouraged to bring forward schemes for privately financed approaches. In 1992 the government introduced joint ventures and leasing agreements that would engage the private sector, and this resulted to the Private Finance Initiative (PFI).

The United Kingdom has led the large-scale introduction of PPPs across the economy. The government considers PPPs to cover a range of various business structures and partnership agreements that come from the Private Finance Initiative to joint ventures and concessions to the outsourcing and sale of equity stakes in state-owned businesses (Treasury, Public Private Partnerships: the Government’s Approach, 2000). They set out specific categories of public-private partnerships concerning the ownership and provision of services (inclusive of infrastructure).

The UK government used a model of changing public ownership where PPPs are concerned with the introduction of private sector ownership into businesses that are state owned. This sprouted from the privatization philosophy of the 1980s and 1990s which were introduced by the conservative thatcher government after 1979. The United Kingdom (UK) is a country that has been able to show that PPPs can work and boost the overall economic growth of a country. UK has developed the public-private partnerships since the 1990s and the government has successfully used these partnerships to develop its social infrastructure. In 2013 the country had more than 900 PPPs in the form of $300 billion Private Finance Initiative arrangements for hospitals, schools, bridges, schools, prisons, roads and military equipment (McQuaid, 2013).

Roehrich (2014) states that the infrastructure needs in the UK in the future are quite high both in terms of economy and social infrastructure. The need for economic infrastructure is expected to increase to 3-3.5% of the GDP. UK is well known as one of the countries that have great
expertise when it comes to development of PPP for social infrastructure. Despite this the country is faced with challenges in the development of the PPP model. (Roehrich, 2014) states that PFIs in the UK can be too expensive, opaque, too inflexible and too slow. In turn this has resulted the private sector to have a more pronounced advantage while the transfer of risks and future liabilities towards the public sector is quite unclear. This saw a reform being made to the PFI (often referred to as PFI2) to make necessary changes in the public equity of shares, easier renegotiation, greater transparency and faster procurement times. Its noted that the country has a friendly investment environment which has an open and clear property rights, political frameworks and judicial systems that are relatively observed to be stable and among the most attractive around the world.

The policy that relates to investment in infrastructure is relatively stable and strong. The balanced attention that is granted towards economic and social infrastructure does make the UK stronger both in economic growth and the building of nationals. The policy on infrastructure is complemented by the robust and comprehensive infrastructure plan so that the development of the social infrastructure with PPP model can fit in with the needs of nationals and the development plan that is in the country. The development of various social infrastructure projects that rely on PPP and with the availability-based payment can be termed to be one of the strengths the UK possess so that it sees to it that the level of investment trust is constantly increasing.

2.3.3.2 United States of America

United states compared to the United Kingdom can be observed as a laggard in terms of public-private partnerships. Between 1985-2011 we can observe that there were at total of 377 transportation PPP infrastructure projects that were funded in the U.S. These projects comprised just nine percent of the total nominal costs of infrastructure PPPs around the world. Europe on
the other hand leads this infrastructure PPP market with more than 45% of the nominal value of PPP’s around the world (Robert, 2015). Since 1930 the public procurement was a central economic tool for governments at all levels. The public procurement practices have been at the forefront of US financing techniques. Historically in the United States the financing, construction and design of the infrastructure was mainly pegged on the public sector although the private sector was involved the participation would be constrained to bidding for specific tasks. The PPPs have taken a while to be embraced by the government unlike other countries in UK, Canada, Australia and Asia. The American economy has fairly been slow in embracing the PPPs since there have not been many national assets that could be privatized. It’s important to recognize that the United States has not neglected the PPPs but is but a slow adopter to this finance model (McCrudden, 2004).

According to Robert (2015) there several reasons why the U.S has been relatively slow to pursue PPPs in comparison with European and Asian Countries. Most times the lack of consensus, institutional capacity and expertise to properly promote the benefits and costs of PPP deals results in the U.S lagging in growth of the PPP sector. For example, in Pittsburgh an agreement to lease the city parking operations to a whole private entity failed when the city council voted against this transaction. It’s important to note that the government acknowledges this slowed growth in tapping into PPPs and as a result of this then public participation has been considered and this enhances the government investigates potential tradeoffs with the private sectors as it reviews national interests.

The federal highway Administrators of innovative program delivery (IPD) has actively been providing case studies and best practices as well as helping various public project sponsors evaluate different financing alternatives this including PPPs. The program provides technical
assistance to project sponsors that are unable to have a clear approach to the funding and financing of a project with the U.S. With the recent enactment of moving ahead for progress project that is tailored by the U.S department of transportation to provide best practices, technical assistance and model contracts to be able to increase how PPPs are delivered (Robert, 2015).

2.3.3.3 Malaysia

Malaysia has successfully gone through an impressive curve of development and this has been possible through the cooperation between public sector and private sector. As a developing nation it serves as a very important model for other states to emulate from their best practices. Through this exhaustive cooperation between the public and private there is delivery of services and completion of projects in efficient and quality is well observed (Ismail, 2013). The PPP in Malaysia has evolved since 1981 when the country incorporated this policy it was intended to encourage some interdependence where the private sector is responsible in creating support for the commercial and economic activities. On the other hand, the public sector was responsible for the formulation of policies and provide necessary support for the success of businesses in the country (Malaysian Public-Private Partnership Unit., 2016). The country in efforts to strengthen this cooperation introduced a privatization program to provide support to the policy. As of 2009, about 500 privatized projects had been successfully been implemented in the country. Notably the Private Finance Initiative was published as part of the PPP plan for Malaysia that was able to set out key principles on the procurement and implementation processes that are performed by the public sector.

According to Malaysian Public-Private Partnership Unit (2016) the PPP ensures to it that the responsibility of the private sector is held in a contract that is signed by both the government and the private entity. The private entities that are interested in delivery of public infrastructure-based
services will be required to fund the whole or part of the project based on the agreement reached between the two entities. The government on the other hand will offer to pay back the private entity in full of an additional interest to these monies paid. The Malaysian government uses this approach to ensure there is utmost accountability in the project being run by the private sector. Examples of projects that have been successfully been implemented from this approach is the Children Specialist Hospital in Universiti kebangsaan., Universiti Teknologi, Kuala Lumpur Outer Ring Road (KLORR) Highway among many other successful projects.

The government of Malaysia has been able to realize the benefits of PPPs and this is evident from the overall improvement of living conditions of the people within the country. Before the intense involvement of the private sector the economic structure of the country was mainly dominated by the agricultural sector, mining and quarrying which is referred to as the primary sector. However, with the economy maturing the country sets out to be a developed country and this can be contributed by the service sector that contributes to the increase of shares to the economic Growth Domestic Product (Malaysian Investment Development Authority., 2015). Industries that have basis for new growth in the country are education and training services, health tourism, waste management, Information Communication Technologies (ICT).

2.3.3.4 Africa

Africa is a continent that is extremely rich when it comes to natural resources and it has a large young ambitious and entrepreneurial minded population. If well harnessed this could realize a new period of sustained economic growth and increased wellbeing for Africans. However, the lack of modern infrastructure happens to be a key challenge to Africa’s economic development, and it constitutes a significant impediment to achieving the Sustainable Development Goals (Fida R, 2018).
Africa has been slow to implement PPPs compared to other developed countries. Sheppard (1977) states that the Sub-Saharan Africa gets a small share of private funds which are targeted for investment in infrastructure. This is as a result of the difficulty of accessing project finance due to the low creditworthiness of most African countries and as a result of this there is a lag in PPP implementation. Notably the continent’s ability to attract more private foreign currency funding infrastructure projects is pegged upon the ability to reduce foreign exchange risks.

Alexander (2008) states that donors who are critical in Africa’s PPPs envision that public-private partnerships (PPPs) is an effective means through which the continent can improve its infrastructure as well as service delivery to citizens. The World Bank (WB) through its private sector arm, the International Finance Corporation (IFC) supports the PPPs in Africa through the Sustainable Infrastructure Action Plan (SIAP). The Action Plan called for building 10 water systems under the PPP arrangement in Benin and this was between 2006-2007. This action plan sought 10% of the rural water supply managed by the local private operators this plan went ahead to be implemented in Rwanda, Madagascar and Niger.

It’s noted that the developing economies in Africa are seeking to tap into PPPs the reason behind this is that the current infrastructure state calls for massive adoption of the PPP model to accelerate infrastructure delivery. Despite this its noted that few African countries namely South Africa, Nigeria, Morocco, Tanzania, Rwanda, Ethiopia, Ghana, Ivory Coast, Uganda and Kenya are deeply concentrated in the PPP approach for development of infrastructure projects. Together this countries account for 48% of the total 335 PPP infrastructure projects that have run in the past 25 years. In the past five years PPP infrastructure projects in the region has been mainly concentrating towards the energy sector followed by transport and water and sanitation. Some
African countries are hesitant to embark on PPPs as a result of prior experiences that turned out not so fruitful due to less competent PPP project sponsors (Fida R, 2018).

Between 2004 and 2007 thirty African countries have adopted laws regarding Public-Private Partnerships (PPP). If this was to be added to the countries that have implemented the PPP policies and the countries that are in the works of drafting PPP laws the overall tally would rise and this shows that though Africa has been taken some time to embrace the PPP’s as an alternative finance approach for projects, its slowly realizing its importance due to the deep short falls in national budgets experienced. If the Sub-Saharan infrastructure gap is narrowed this could have a significance growth on the GDP per capita for the region would increase by an estimate of 1.7 percent per year this is according to the World bank report of April 2017. From the last 10 years the continent has welcomed partnerships example of this is the Henri Konan Bedie Bridge in Cote d’Ivoire, Lake Turkana wind power project in Kenya, Senegal’s Dakar-Diamniadio Road, power and water projects in Nigeria, Rwanda and Ghana among many other projects.

2.3.3.5 Kenya

The Kenyan Government seeks to develop its financing mechanisms that intend to bring together the public and private sectors. Kenya’s Economic growth blueprint that is set for the Vision 2030 aims for having a globally competitive and prosperous country that has a high quality of life for its citizens. Under the economic pillar of the vision, infrastructure has been given priority since its regarded as a key factor in enabling the vision (Beh, 2010). From the vision it states that Kenya must be a nation that is firmly interconnected through a network of roads, railway, ports, airports, telecommunication and waterways. To achieve this there needs to be deliberate efforts to increase the private sector investments towards infrastructure development.
Public Private Partnerships (PPP) represent the way in which the government relate with the private sector and the PPP Act, 2013 for Kenya provides the proper legal pathway for this cordial relationship to be formed. Having a strong legal basis for the partnership can unlock many potential partnerships between these two sectors (Olotoch, 2017). The government of Kenya seeks to solidify its partnerships with the private sector through this policy and through this enhance the pace of development by attracting more resources, availing investments opportunities to the private sector and supporting the prudent public debt management in the country. The enactment of the PPP Act of 2013 has successfully created a strong demand by public entities in the country both at county and national level in delivering projects through the PPP model (Harris S., 2014).

Kenya is working to develop programs that will foster private sector participation in various infrastructure investments in efforts to address the funding gap that exists in the country. The World bank group has provided 90 million USD to kick-start the Kenyan public-private partnership programs. Kenya currently faces a significant infrastructural financing deficit that is estimated to be at 2.1 billion dollars annually, which in turn puts a constrain on the growth and development of the country (World Bank, 2018).

The country currently has sustained expenditures of almost 4 billion dollars that are needed to meet its infrastructural needs. Currently Kenya has a public debt standing at 57 percent of GDP and this deficit cannot be met by public resources. The country urgently needs to mobilize the private sector to fill this financial gap it’s faced with. The world bank predicts that if there is an increase in infrastructural financing Kenya’s per capita growth rate would increase (World Bank, 2018).
Kenya got an IDA loan of 40 million in 2012 and this helped in the establishment of the PPP law and this was able to enhance the governments capacity in management of PPPs. Kenya now has a PPP unit and a committee that has responsibility in the management of projects in line with the set regulations in line with the PPP act. The country set up local PPP practices at the county level and an associated capacity-building program that has been responsible for training over 2000 people on how PPPs work. Through the IDA loan it helped create a robust and multisector pipeline of PPPs that could be financed by the private sector and hence enable economic growth and provide employment (Public Private Partnership Unit, 2018).

The Kenyan government has been very active in identifying projects that are suitable for a user-payer approach meaning that revenues collected can be used to service the debt raised by the private sector to undertake the project. The World Bank Group seeks to mobilize domestic institutional investors with the aim of encouraging the private sector in Kenya to work with the government through having incentives that ensure that the private sector stands to benefit from these partnerships formed (Kodongo, 2018).

Relative to other African countries, Kenya’s economy is diverse and the transportation, telecommunication and financial hub of East Africa. Kenya’s formal private sector happens to be well split across various activities. Tertiary activities do dominate and increase the importance that is driven primarily by trade and transport activities. The primary sector remains an integral base for employment but is gradually shrinking in importance. Almost half of Kenya’s exports are sold to African countries and Kenya benefits greatly from trading with its regional neighbors (Robert A., 2010).

The structure of Kenya’s Private sector is best understood from analyzing the country’s major economic sectors and their contributions to the GDP, employment and exports. From the
Economic survey of 2017 show that the country’s economy is categorized under four main sectors; i.) Non-Monetary economy ii.) Monetary Economy iii.) Government Services iv.) Private households. The monetary economy does take up the largest share of the country’s GDP and contributed 83% of the GDP in 2015 and 84% between 2016 and 2017. Since the Private sector does take place under the monetary economy this implies that the sector dominates the country’s economic activities (Government of Kenya, 2017). The five sectors that majorly contributed to the GDP in Kenya under the private sector between 2015 and 2017 were as follows:

i) Trade, restaurants and hotels, which contributed 29% in year 2015, 30% in 2016, and 31% in 2017.

ii) Agriculture, which contributed 22% of the monetary GDP in 2015, 20% in 2016, 18% in 2017

iii) Manufacturing, which contributed 16% in 2014, 15% in both 2015 and 2016, and 16% in 2017

iv) Finance, Insurance, real estate and business services, which contributed 12% in 2014, 11% in 2015, 10% in 2016 and 11% in 2017

v) Transport, storage and communications, which contributed 9% in both 2014 and 2015, and 10% in both 2016 and 2017.

Combined, these five sub-sectors took 87% of the Monetary Economy’s GDP in 2014, 85% in 2015, 84% in 2016, and 86% in 2017. In terms of employment, the country’s total formal employment grew from 1,695,300 employees in 2014 to 1,677,200 in 2015, 1,699,700 in 2016,
and to 1,727,700 in 2017. The private sector contributed the bulk of this employment, at 1,002,800 or 59% in 2014, 1,018,700 or 61% in 2015, 1,040,900 or 61% in 2016 and 1,068,600 or 62% in 20. Kenya’s GDP growth has seen a marked improvement in recent years, and this mainly attributed to the private sector (Kodongo, 2018). The economy achieved 5.5% GDP growth in 2010 and this is a steady step in meeting the goal of a target of 10% GDP growth per annum under the Vision 2030 will require a business environment that enables the growth and swift development of the Private sector working with the Public sector (Yuan, 2010). Despite there being several setbacks in the overall growth of our GDP the country strives to grow economically and with enactment of the PPP Act of 2012 shows the level of commitment towards this (Kodongo, 2018).

2.4 Models for Implementation of Public Private Partnership Projects

There are different models that are used for implementation of PPP projects that vary from having short-term contracts to long-term. The models vary by ownership of different capital assets, assumptions of risk, responsibility for investment and duration of contract (African Development bank, 2008). This study highlights and explains some relevant models that can be adopted by the Kenyan government in its PPPs.

2.4.1 Management of Contracts and Variants

This is an agreement for the management of a part or a whole of a public enterprise by the private sector for a certain period of about 2-5 years (African Development bank, 2008). The government in this model retains ownership of the entity and the responsibility for service provision it also does take up the bulk of the risk and capital investment. The private sector is responsible for management, authority and control an application of its expertise, notably the
private company in this model has no role in financing the project. Upon provision of a service the private party gets a compensation which is in form of a fixed fee for provision of personnel or it could be performed based which entails fulfilment of set out targets set out in the contract.

Due to the short-term nature of this contracts there is a tendency of repetitive bidding which pushes bidders to maintain low costs to win the bids. Through this then bidders are encouraged to be efficient in their performance to continue providing their service to the government entity. Since the public sector in this model is responsible for tariff setting and oversees assets the model has a loop hole since it become vulnerable to politics and there can be redundancy in this model from the contracted private entities (Alexander, 2008).

2.4.2 Leases

These are long-term contracts that range from 8-15 years (The Institute for Public-Private Partnerships, 2009). The agreement is characterized by the private sector leasing government property such as port facilities and the private sector takes up full responsibility for operations and takes up partial responsibility in investments. In this module of agreement, the private entity gets incentives to implement procedures such as fee collection, implementation of policies that are aimed at expanding the service coverage in a bid to increase revenue and in turn reduce the operating costs in order to maximize on the profits. Because the private entity seeks to maximize on profits gained it then takes up much of the responsibility in operating the project and ensure the output is of utmost value. The government retains ownership of the asset and is responsible for financing, planning capital investments and the rehabilitation of the asset held by the government (Fida R, 2018).
2.4.3 Build-Operate-Transfer Contracts and Variants

These contracts are designed for projects such as infrastructure that require extensive rehabilitation of school, hospitals etc. Under this module the private partner is responsible for designing the facilities, construct and operate facilities for a limited for a period of fifteen to thirty years. At the end of the lease period the private partner will hand over all the facility rights to the government (Farlam, 2005).

In Kenya under the Privatization Act No.2 of 2005 which was granted Presidential Assent despite some delays on the 13th October 2005. Its important to note that according to the Act it applies a concept of inter alia in contract management. This means that the services the government wishes to contract the private sector to undertake on its behalf are guided by this act. Under the PPPs the private sector is given authority to only act within set boundaries and this involves procedures of resource mobilization and procurement. Under this model the private sector has the responsibility of financing, construction, operation and maintenance of the development projects and involve the simple procedure of build-own and operate, build-own-operate and transfer to the government at the end of the contract term (Boviard, 2010).

2.4.4 Concessions

This are long term agreements that are made to last between 15-30 years. This agreement involves that the private sector has overall responsibility for the services which includes construction, maintenance, operation, management and capital investments for service renewal as well as the expansion of the service/project over the stipulated time. During the contract time the private entity does receive revenue directly from users during the contract period (African Development bank, 2008) this is meant to serve as an incentive to the private sector to immerse itself in working with the government. The concession agreements are guided by a contract that
clearly lays out the expected standards, performance incentives and the various arrangements for capital investments.

2.4.5 Joint venture

This module is structured to be an alternative to full privatization (African Development bank, 2008). The government and the Private sector come together and form a joint venture company, from this the government invites a strategic investor through competitive bidding to be responsible of project implementation for a period of about 20 years. Through the subsequent phases of the project the strategic investor who is from the private sector has responsibility of implementation of the project. In a joint venture module, the government takes up responsibility of being an owner and the regulator. A joint venture is most appropriate when the initial risk of a public investment is high and lacks assurance that the private sector will follow. In this module it noted that the project is co-owned, financed and operated by both the public and private sector. A joint venture is a very strategic alliance because it creates an environment where the public and private sectors are able to agree to pool their expertise, financial resources, skills, experience and knowledge in project being pursued. The partners can lay out their financial commitment upfront and it’s important to note that joint ventures are not open ended but cease to exist upon project completion. Each member of the joint venture can share expenses of the set-out project and also retains ownership of this project (Alexander, 2008).

2.5 Theoretical Framework

This study is anchored on the theory of Institutional differences and the new theory of Management. The theory of institutional differences shows why there is friction between the public and private sectors and this theory breaks down why the public and private sectors are unable to work hand to hand due to issues such as hierarchy that arise. The private sector seems
to work in an extremely fast-tracked manner compared to the government. These differences have an impact on the type of partnerships that are formed. The New theory of Management supports the institutional difference theory by highlighting the importance of treating employees well in an organization since they directly affect the output. The theory highlights how inconsistencies in how employees are treated pave way for weak institutions that are plagued by corruption and incompetence when it comes to project delivery.

These two theories are of utmost significance to this study because the first shows how differences in institutional structures in the private and public sectors can hinder the implementation of concrete and fruitful partnerships. The second theory recognizes that employees are responsible for all output and keeping employees satisfied and treating them with respect will see to it that PPPs are well implemented and work in Kenya.

2.5.1 Theory of Institutional Differences

Researchers have suggested that a successful plan in the management of PPPs can only be reached by identifying the various obstacles that may hinder its application (Chris F, 2004) investigated the various obstacles that are found in efforts of PPP implementation and this includes; poor levels of partners engagement and representation, competition among partners (ideological differences) poor decision making, lack of clarity on roles, inadequate trust among partnerships. The proponents of this theory were Thorstein Velben in 1899 and later the theory was refined by Walton Hamilton in 1919. According to (Siemiatycki, 2010) the inadequacy of failing to set the correct parameters for public-private partnerships results in these partnerships not fulfilling their primary task of economic development.

This theory states that institutional differences that occurs between the public and private sectors affect the effectiveness, performance and management of PPP projects (Mann, 2011). One such
institutional difference is the phenomenon of the “classical division” that occurs between the public and private sectors which evidently have substantial implications for PPPs both in theory and practice (Mann, 2011). It’s been suggested that the current existing government organizations are not capable of developing concrete partnership schemes because the public sector is based on hierarchical demand mechanisms and is not willing to abandon its formal superior position (Klijn E-H, 2000). This argument is furthered by (Tierney W, 2010) confirming that the presence of partners differences that sprout from cultural and geographical settings as well as partners miscommunication and misunderstanding contribute to the lack of concrete partnerships being formed.

Mann (2011) state that the public sector is very apprehensive about the private sectors fast track and the public sector most times feels that its often misunderstood in terms of its processes. The private sector is always complaining about the governments slow processes and the bureaucracy that is held by the government institutions. It has further been noted that prolonged conflicts and tensions have the possibility of arising during the implementation phases due to the type of interdependency and competing self-interests that is held by the two sectors (Siemiatycki, 2010). Yet, (Brinkerhoff DW, 2011) have cautioned that though there is dominance by the public sector, partners may undermine the expected benefits that are derived from PPPs. For a cordial relationship between the public and private sector neither should have their interests dominating the expected benefits that are to be derived from the partnerships there should be a proper balance between the partners.

2.5.2 New Theory of Management

This theory suggests that the type of employee relations that exists in the public and private sectors should be centered around employees as this will create a space where employees are
either motivated or discouraged and this does affect the output. The theory suggests that primarily the employee should be given first consideration since they determine the type of service delivered to clients this meaning that the working environment should constantly motivate the employee. The proponents of this theory are Andrew Sikula, Sr., Kurt Olmosk, Chong W. Kim, and Stephen Cupps (Sikula, Olmosk, Kim, & Cupps, 2010). The theory provides precise insight on how the public sectors and private sectors need to be centered on a belief system that will enhance output. A principle of human worth and dignity guides this theory stating that employees should be treated with courtesy and respect. Through abuse and neglect can destroy and would result to sabotage being performed by the employees who would feel undervalued. Unconstructive criticism should be shelved by management towards employees since running an organization on fear and intimidation will only result in resentment being built across the employees. A principle that highlights that employees form organizations that serve individuals and it is important to note that employees will adapt to the environment that exists within an organization and this will determine the type of output the organizations have. Employees should constantly be empowered and treated more as entrepreneurs and the approach that is constantly held of supervision and evaluation lacks sustainability in organizations (Tokudo, 2005).

The theory is centered on key assumptions that ethics are more important than profits and this ties to the constant crisis of corruption faced in Kenya and how the lack of ethics slows down growth. Attitude is more important in an organization than ability meaning that employees who are constantly hoping to learn can bring more input to the organization. Means are as important as ends; this should be keenly observed because private sectors are constantly victims of sectors that disregard means in which they use to attain profits. The applicability of this assumption to
the study is very central because it provides an angle of the importance of following the correct procedures to ensure transparency is well observed. Unity is more important than diversity for public and private sectors to work efficiently and deliver through various projects under PPPs. The theory has its weakness as it fails to address aspects in which economic self-reliance can be attained through PPPs. However it provides clear insight on how to ensure the structures within the public and private sectors will work efficiently and it breaks down how employees are the central catalyst to any success hence why the study has considered it as a key supporting theory.

2.6 Conclusion

This chapter has presented a review of the literature on the history of Public-Private partnerships and how they have been used globally by various countries to grow their economies. This chapter has looked at the concepts behind Public-Private Partnerships and from this the study has looked at the various models that have been used over time to solidify these partnerships. In support of the literature review theory of Institutional differences this being the central theory of the study and New Theory of Management has been the supporting theory that explains the central role of employees in the public sector and private sector, this will determine the success of PPPs or its failure. The literature review has provided insight into the study problem that sought to create self-reliance in Kenya through reducing the current debt crisis and tapping into the PPPs as an alternative finance approach to the various projects that contribute to the economic growth of Kenya. The literature reviewed gives insight to the study in that their various approaches to PPPs and various countries have incorporated different approaches to grow their economies. The study finds that it is important to note that not all best practices that have been incorporated in the west will work for the global south. Kenya is among the few countries in Africa actively participating and seeking to tap into the PPPs in Africa. The study
finds that from the literature reviewed that much extensive research has been done on PPPs as a policy but there is scarcity of information as to how PPPs can be used to create self-reliance and break away from the unsustainable borrowing that slows economies in the global south through this research then this gap in literature will be addressed through the various findings presented.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents a detailed description of the strategies used in the research study. It focuses on the research design, population study, data collection, sampling techniques, sample size and data analysis techniques.

3.2 Research design

The study adopted a mixed approach research design using qualitative and quantitative methods to gather information about the areas under research. The study was carried out in two phases. The first phase utilized secondary data pertaining Public-Private Partnerships from a global perspective and down to local perspective in Kenya, exploring how the PPPs are working in Kenya and analyzing how they can be used to attain economic self-reliance. The second phase of the data collection used in-depth interviews involving officials from KEPSA who are tasked with the responsibility of connecting the government with private companies on various projects.
3.3 Population and sampling design

A research population generally includes collection of information from individuals that are selected to take part in a research due to their knowledge contribution. The target population for this study involved 84 members of the Kenya Private Sector Alliance (KEPSA) who are most active. From this target population of the most active in public private partnerships the research employed purposive sampling to achieve desired representation from the various of subgroups in the target population.

The sample frame consisted of officials and management persons from Kenya Private Sector Alliance (KEPSA). Purposive sampling ensured that individuals dealing with Public-Private partnerships were contacted and information relevant to the research was collected through face to face interviews.

3.4 Data Collection

Data collection is the procedure of gathering and measuring of information on specific variables of interests in a systematic procedure that answers the stated research questions (Leedy and Ormrod, 2001). The research utilized both primary and secondary data.

3.4.1 Primary Data

The primary data was collected using in-depth interviews. The respondents who took part in this information gathering provided key information on the various challenges affecting the effectiveness of PPP implementation in Kenya.

Oral interviews and telephone calls were utilized. Interviews gave the researcher a chance to establish a rapport with the participants and therefore gaining their cooperation. Through
interviews the researcher was able to clarify ambiguous answers when appropriate and sought follow-up information where necessary.

3.4.2 Secondary Data

Secondary data was collected from journals, books, Government documents and other relevant publications available.

3.5 Data Analysis

The data collected from the research was analyzed using narrative analysis and this involved making sense of the various information that was gathered through the interviews held. This involved comparison of different feedback received from the various interviewees from KEPSA sector. From this the research connected all these various experiences and derived a concrete insightful conclusion of the state of PPPs in Kenya.

3.6. Ethical issues

The research requested approval from the Institutional Review Board (IRB) before the start of the field work. At the start of any collection of the data by the researcher, the respondent was well explained to the purpose of the research and how the data collected will be used. Respondents have been informed of their rights to withdraw at any stage they feel uncomfortable. Anonymity has been highly upheld during this research; privacy of the has been assured to all respondents. The real name of the respondents will not be used to observe confidentiality the researcher will not release any information that will link back to any respondent.
3.7 Limitations of the study

The major limitation of this study in collecting secondary data in terms of the literature available, though information on PPPs is available it is very scattered in various credible publications and the researcher had a task of arranging this information to answer the various study objectives which was quite tiresome. Obtaining primary data for the study was collected from various KEPSA officials was initially a challenge due to the nature of their working environment as the researcher had to schedule interviews in between lunch breaks, with the officials to get information that was relevant to the study. Initially some respondents were not very cooperative in giving constructive data and this forced the researcher to constantly visit KEPSA consistently to get relevant information that would contribute to the study.

Some respondents avoided giving their direct feedback and opted to refer the researcher to get information from various KEPSA reports that had been published. This was a key challenge encountered by the researcher because this information was readily available but lacked current figures that were up to date. The researcher however was successful in convincing the respondents on the importance of the face to face interviews and what it meant for the study and out of this the study successfully interviewed eight respondents out of a set out ten. The two respondents the study hoped to reach were unfortunately extremely busy as they act as managerial liaison officers between the government of Kenya and KEPSA.
CHAPTER 4

4.0 DATA PRESENTATION, ANALYSIS, FINDINGS AND RESULTS

4.1 Introduction

The main study objective was to examine the role the private sector plays in attaining economic self-reliance in Kenya. The study was guided by the following specific objectives: To examine the relationship between the private sector and the public sector in Kenya; to find out how PPPs can help reduce the current debt crisis in Kenya and reduce the dependency on Aid and finally to find out the challenges affecting public private initiatives. The findings are organized and presented as per each specific objective of the study. The analysis of this objectives was done thematically. The Data collected from the study is represented in various graphs. The data collected from this study involved the use of face to face interviews as well as secondary resources that have enabled the researcher to gather concrete data to answer the research question.

4.2 Response Rate

The initial target population for this study was the 384 organizations listed under KEPSA but the researcher took into consideration that not all organizations listed under KEPSA were actively
participating in PPPs. The study narrowed down the sample frame to first focusing on the 254 active members from this the study then reduced the sample size to organizations that work actively with the government and the study found that this are 84 organizations. From this sample size the study chose to focus on the organizations that work with the government on big scale projects and the sample size reduced to 30 organization. From this sample size of 30 organizations the study employed purposive sampling and was able to access 10 organizations from the umbrella body of KEPSA. From this sample size the study sought to interview 10 desk officers who directly engage with this organizations from KEPSA. The response rate was good since out of the 10 desk officers the researcher was able to interview 8. The response rate conforms to Mugenda Mugenda (1999) stipulating that a response rate of 50% is adequate for analysis and report.

Table 4.1: Population sample

<table>
<thead>
<tr>
<th>Population</th>
<th>Sample Frame of members</th>
<th>Sample of active members working with the government directly</th>
<th>Sample of active members working with the government on big scale projects</th>
<th>Purposive sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>384</td>
<td>254</td>
<td>84</td>
<td>30</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Constructed by author from field data
4.3 Demographic characteristics

The study sought to establish the duration of work in the institution of the respondents.

Table 4.2: Years of service of the respondents under KEPSA

<table>
<thead>
<tr>
<th>Years of experience</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-5 years</td>
<td>3</td>
<td>37.5</td>
</tr>
<tr>
<td>6-10 years</td>
<td>2</td>
<td>25</td>
</tr>
<tr>
<td>Over 11 years</td>
<td>3</td>
<td>37.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Constructed by author from field data

The table 4.2 shows that from the sample size within the institution the selected respondents 3 (37.5%) had over 11 years work experience 2 (25%) had work for 6-10 years and 3 (37.5%) had worked at KEPSA for 5 years. This study therefore establishes that the respondents were in best position to provide response that best answers the questions in the research instrument.

This data can also be represented in the chart below:
4.4 Respondents awareness of PPPs

The study sought to find out whether the respondents the researcher had considered for the interviews understood PPPs and whether they had been involved in any PPP arrangements.

**Table 4. 3: Respondents Awareness of PPPs**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>8</td>
<td>100</td>
</tr>
<tr>
<td>No</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>100</td>
</tr>
</tbody>
</table>

From the research conducted the findings in table 4.3 indicate that the respondents were fully aware of the existence and PPP arrangements in Kenya. The respondents indicated that working
for KEPSA did enable them to fully understand the importance of PPPs and their contribution to
the growth of the Kenyan Economy and the respondents indicated that the level of participation
was mostly at the inception of the projects.

4.5: The relationship between the Private sector and the Public sector in Kenya

The first objective of this study was to understand the type of relationship that currently exists
between the private sector and the public sector. Through understanding the relationship that
exists the study would be able to provide concrete suggestions that should be enacted in efforts
of achieving economic self-reliance in Kenya.

Through the face to face interviews conducted by the researcher sought to understand what the
respondents understood by Public Private Partnerships and how these sectors interact this was
the feedback collected;

  Respondent 1: “Public Private Partnerships are the various agreements made between the
government and the private entities in efforts of improving various services such as
improved road infrastructure”

  Respondent 2: “When the government agrees to work with the private sector through
various projects this can be termed as PPPs most times the private sector will only partner
with the government in projects it has extensive expertise in such as Safaricom working
with the government in installing CCTVs across Nairobi ”

  Respondent 3,4,5- did give similar feedback on what they understood about PPPs in
Kenya and how these two sectors interact.

85% of the respondents had a clear understanding on what PPPs entailed and what made them
successful and this could be attributed to the fact that these respondents all were under the
research and project implementation office in KEPSA. 15% of the respondents did understand
PPPs however lacked detailed understanding on the various aspects that exist within PPP arrangements.

The research found out that according to Boviard (2010) in chapter 2 of the study the engagements that exist between the public and private sectors in Kenya have improved significantly over recent years. Through the formation of KEPSA which has taken up the role of providing a unified voice for the private sector which has been responsible to engage and influence policy formulation and implementation.

Respondent 4 stated that: “KEPSA has been responsible creating various forums such as the Presidential sector Working Forum (PPSWF) and the Presidential Round Table (PRT)”

Despite these constructive steps made by KEPSA the study found that there lies a disconnect between the public and private sectors this being in the lines of communication and the implementation of various government programs that are directly aimed at the development of the private sector this findings are well in line with (Kodongo, 2018) who states that what slows down PPPs in Kenya is the poor communication lines. This disconnect occurs because of bodies such as KEPSA who are the principal representation for the private sector predominantly are
representatives of the big businesses in Kenya. There is limited representation of MSMEs which account for a solid 80% of employment in the country.

The private sector in Kenya has proved to substantially contribute to the country’s economic development process. From the literature reviewed on PPPs in Kenya key aspects have shown that for the success of PPPs there is need of having a favorable external environment that is able support the formulation process of PPPs (Beh, 2010). From this section in the study the main elements that directly influence the relationship between the private sector and the public sector. In line with (Harris S., 2014) perspective, the relationship between the private sector and the public sector is subdivided into three groups. This being; (1) the formal legal and regulatory arrangements, (2) organizational/ administrative structures (3) strategic aspects of how to organize and control the formulation of PPP projects.

4.5.1 Formal, legal and regulatory arrangements in Kenya for Public Private Partnerships

The supreme law in Kenya successfully enacted the PPP Act in 2013 which was a key step in the fast-growing PPP environment that lacked a specific legal framework. Through this Act the Kenyan government aims at creating an environment that is attractive for the implementation of PPPs. From this framework key elements include; provision of an enabling legal environment within the country, ensuring that PPP initiatives are clearly part of the reform agenda and preparation of PPP bankable transactions resulting in a PPP pipeline. It’s important to note that the move to tighten the legal and regulatory framework that revolves around the PPPs began in March 2009 when the government adopted an institutional framework through the Public Procurement Disposal regulations. In 2010 there was an enquiry into the country’s legal regulatory framework which did recommend the enactment of a PPP law that would be responsible in identifying gaps, conflicts between the private and public sector, inconsistencies
and any existing overlaps in laws at that point. In December 2011 the government of Kenya successfully approved the PPP policy statement which later came into effect in 2012. From this policy it has provided a foundation for the establishment of institutions that are championing the PPP agenda, providing necessary government support for PPP projects and creating a clear and transparent process for various projects being developed. The key elements of the PPP policy are:

i) Establishment of a central institution that is responsible to push the PPP agenda with a steering committee that consist of senior officials to guide the policy process and promote relevant awareness. The PPP secretariat who is housed within treasury serves as a resource point to access expertise and best practices to help improve the PPP agenda.

ii) Mobilization of domestic and international private sector investors- creating a clear process for project selection, having a level playing field with clear rules of engagement, procurement and implementation with projects being evaluated at each stage having clear cut objectives and a specific criterion for selection and evaluation.

iii) Creating support for MDAs to encourage the various development of PPP projects that are responsible for providing value for money in Kenya. Through various project funding, assessing gap grants, providing easier access to the government for technical assistance from the secretariat.

The Government of Kenya received financial support from the World Bank on December 5th, 2012 for the Infrastructure Finance and PPP project. The aim of the project was to create an increase and interest by the private sector into the Kenyan infrastructure market (Robert, 2015). The Public Private Partnership Act came into effect on the 8th February 2013 the act sought to fill
in a gap that was there in Kenya which had previously attempted to be filled by the Public Procurement and Disposal Act. The act sought to provide for proper participation of the private sector in financing, development, construction, operation and maintenance of infrastructural development projects of the government. This was to be achieved through concessions and other contractual agreements and establishment of institutions that would be responsible in regulating, supervising and monitoring project agreements on infrastructure and development projects. The PPP act states that projects should follow a process of identification, prioritization, conceptualization, preparation, tendering, negotiations, award, approval, implementation, monitoring and evaluation, and finally the process of handing the projects back to the government.

Under the Act the following institutions have been put in place to facilitate implementation of PPPs; PPP node, PPP Unit and the PPP committee. The PPP node is a committee that falls under the contracting authority which has a responsibility of identifying and screening projects after which they under-take the tendering process and keenly after monitor the implementation of the agreements made concerning the project at hand. The PPP Unit has been established under the department of the National Treasury. The Unit is responsible in conducting civic education and provide recommendations on the approval or rejection of various projects prior to submission to the PPP Committee. The PPP Committee has an overall responsibility of reviewing the legal, institutional and regulatory framework of PPPs and approve various projects submitted to it by the PPP Unit.

4.5.1.1 PPP Steering Committee

From the research conducted, the PPP Steering committee consists of; the permanent Secretary to the treasury, the Attorney-General or his Representative, Permanent Secretary for the Ministry
of Planning. Officers from the committee of Kenya vision 2030 and three other members who are not public servants that are selected from a list of nominees from private sector bodies approved by the cabinet. The research found this steering committee to be very well rounded and it clearly highlights that the government was in fact inclusive in nature. From one of the interviews conducted in a bid to understand how the three representatives are chosen and if these representatives are on rotational basis. The study found out that the committee will keep the representatives for a period of one year and conduct a shuffle so as to ensure that they have new ideas and contributions being brought to the committee. This seemed very appropriate, but the study was unable to uncover whether the representation from the private sector was influenced by bureaucracy or was a clear and transparent process. The interviewer selected by the researcher was unable to comfortably give this information. The study did go ahead to understand the various responsibilities held by the PPP steering committee.

The functions of the PPP committee:

a) To spearhead the public and private partnership process and promote understanding and awareness of the Public Private Partnership among key stake holder groups. The study found this to be an important function because stake holders are the owners of the means of operation and they need to understand to depth what their roles are in the partnerships so as to avoid overlapping.

b) To review various challenges that constrain participation, or the realization of the full benefits held from Public Private Partnerships and to formulate time bound solutions to address the challenges and to create an enabling environment.
c) Ensure that proper public private partnerships standards, guidelines and procedures including the various development standard procedures for identification, conceptualization, prioritization, development of Public Private Partnership projects.

d) To ensure proper review is conducted on direct and indirect liabilities and perform contingent liability risk and provide necessary advice to the government to the acceptable levels of direct and indirect liabilities.

e) To ensure that all the proposed public private partnership projects are consistent with the country’s national priorities that are well outlined in various policy documents. This ensures that the projects proposed and implemented directly help the country.

f) Responsibility to coordinate with the Public Procurement oversight Authority to ensure that all tenders conform to the procurement best practices. The committee ensures this is done thoroughly to ensure the level of transparency is well observed and also ensure that there is accountability upon approving various projects submitted to the committee in accordance with the provisions of the regulations for PPP.

4.5.1.2 PPP Secretariat

The secretariat is set up within the Ministry of finance and it is set out to provide support to the PPP initiatives driven by the PPP steering committee. The secretariat is set out to serve as a resource center for the best practices that should be included in supporting the Kenyan public private partnerships. The secretariat is responsible for planning, coordinating and contract monitoring of the ongoing public private partnerships.

4.5.2 Organizational/ Administrative structures

The study finds that in the PPP formulation stage in Kenya there is high-level bureaucracy in the public sector that directly affects various decision-making processes. (African Development
report indicates that there is lack of distinction between practice guidance and restrictive regulation and this in turn leads to excessive standardization in various contractual clauses between the private sector and the public sector which impedes the PPP design process. From interviews conducted on a one on one basis show that the problems that are associated with organizational and human capacity do interfere with the application of the legal requirements and strategic plans that are set for the formulation of the PPP projects. To have smooth relationships and organizational structures that function there requires a set of guidelines to highlight roles and responsibility, defining a clear communication procedure among all stakeholders. (Kodongo, 2018) in the organizational structure set out for PPPs in Kenya there is absence of project parameters and comprehensive output and scope specifications of the services that are required from the project. It has been identified by the study that from the organizational structures there lacks proper public and private experience and skills for structuring, coordination and management of PPPs.

4.5.3 Strategic aspects of how to organize and control the formulation of PPP projects

To ensure that the relationship between the public sector and the private sector is smooth there is need for formulation of PPP strategic arrangements and processes that offer solutions to provide guidance mechanisms in various projects. For the proper growth of PPPs in Kenya the various agreements made need to have clear risk allocation and management procedures to guide the contract negotiations between the two sectors which can point out the value for money and elaborate assessment during the formulation stage. The public sector has a mandate of drafting clear PPP objectives, cost and time overruns during the pre-contract stage. Through this then there is cohesiveness when the Public and Private sectors interact during the project period.
4.6: How PPPs can help reduce the current debt crisis in Kenya and reduce dependency on Aid

In Kenya just like other developing countries the role of the government in the economy is quite substantial. The number of public services that have been contracted to be delivered by private companies between 2014-2018 has remained very low despite the evident growth of the private sector in the country. From the interviews conducted on how PPPs can be successfully used to reduce the current debt crisis four respondents out of 8 stated the following;

Respondent 1: “There are many opportunities to deepen social expenditures and increase the use of the private sector in financing the economy and services in Kenya”

Respondent 2: “The pressure that has been experienced from external borrowing and aid received that comes along with conditionalities that slow down the ability of the country to be independent has resorted in the country focusing on how the private sector can help in revamping the economy”

Respondent 3: “Extensive research conducted by Kenya Private Sector alliance shows that service provision in the country has remained largely monopolistic and evidence suggests that where the private sector bears major risks it delivers results than any credible public sector alternative”

Respondent 4: “From the research conducted the private sector in Kenya currently is contributing to 68% of formal employment in the country”

From these responses it validates that the private sector in Kenya has the capability of successfully reducing the current debt burden faced by the Kenyan government this is in line with (Kodongo, 2018) who states that PPPs are a great alternative to create economic self-reliance. According to African and regional standards the Kenyan private sector is large and the
current output from the private sector exceeds the total GDP of each of the neighboring economies (KNBS Economic Survey, 2012).

Table 4.4 Average growth of the Private sector 2011-2017

The table above illustrates the growth rate that has occurred in the private sector between 2011-2017. The Private sector has steadily contributed to Kenya’s GDP as well as it has a strong foothold in sectors such as tourism, Manufacturing and Transport and communication. These statistics are part of the enablers of having the PPP Act. The government has realized that the private sectors potential is great, and they could tap into this through partnerships.
Table 4. 5 Contribution of the private sector versus the public sector to the GDP 2017

Source: Constructed by author from field data

Table 4. 6 Employment created by private sector and public sector

Source: Constructed by author from field data

From data collected from table 4.5 and 4.6 illustrates clearly that the private sector does contribute significantly to the Kenyan economy and the public sector could stand at a better
place if it chooses to tap into the best practices that have been employed by the private sector. The performance of the private sector in Kenya confirms that we can achieve economic self-reliance. From table 4.5 highlights that the private sector provides formal employment at 68% this being over 840000 while the public sector provides formal employment at 32% (KEPSA Economic Report, 2016).

4.6.1 Structure of the private sector in Kenya

The study finds that to be able to successfully tap into the private sector in Kenya it is important to understand the structure that currently exists. Upon understanding the private sectors structure informed input has been provided by the study as to how the public sector can tap into the wide pool of resources found from the private sector. The private sector in Kenya is dualistic in nature meaning it comprises of the one side which is the productive formal sector of big business and on the other hand it comprises of an informal sector (Boviard, 2010). According to KNBS it states that almost 9 out of 10 working Kenyans are employed in the informal sector of which most happen to be traders in the wholesale and retail trade sector (see table 4.7 below). Through this study the researcher understands that the links that exits between the formal and informal sectors are weak. From the research conducted it shows that there exists little comprehensive understanding of the structure, composition and the various activities in the informal sector. Such indicators that were used for this study include the lack of an official definition that describes the “informal sector” successfully. Having these definitional uncertainties results in descriptors such as the “informal sector” and Micro and Small Enterprises (MSEs) often being interchangeably being used and this does causes confusion.
Table 4. GDP growth over time

![Graph showing GDP growth over time with different sectors like Manufacturing, Construction, Wholesale and retail trade, Transport and communication, Community, social and personal services, and Other.]

Source: Genesis Analytics, 2012 (adapted from KNBS Economic Survey 2012)

Note: agriculture is not included in the measure for informal sector employment, as KNBS observes the ILO definition of the informal sector, which excludes primary activities.

The study shows that Medium Scale Enterprises (MSEs) are mainly dominated by artisans (Jua Kali) street vendors, small transport service providers and small farmers. A working definition generated from this study related to MSEs a “formal” MSE is considered if it fits the set out criteria; a) registered; b) have acquired a license to operate; c) are registered and submit KRA returns; d) comply with the Kenyan core business legislation e.g labour laws. The study refers to the Micro and Small Enterprises Act of 2011 that provides clarity by stating that an enterprise is any that successfully undertakes a business concern in the market whether formal or informal and is engaged in production of goods or provision of services. The contribution made by the informal sector to the economy is not well documented. However, in 2009 KIPRA estimated that MSEs contribute to as much as 25% to the GDP. The study shows that if the informal sector was
to be formalized the Kenyan tax base would increase to more than 79 billion Kenyan shillings. This provides an indicator that the informal private sector can contribute massively to aiding the Kenyan government this finding supports (Harris S., 2014) who states that ignoring the informal sector is a major downfall for the Kenyan government.

![Diagram of the dualistic structure of the Private Sector in Kenya](image)

**Figure 2: The dualistic structure of the Private Sector in Kenya**

Source: Genesis Analytics, 2012

From figure 2 the high level of informality in the Kenyan Private sector shows that many entrepreneurs feel that from informality they can derive lower rates of taxation, inspection and licensing burdens and from their perspective this allows them to maximize on their profits.

**4.6.2 Debt and Aid management strategy for Kenya**

According to Kodongo (2018) states that Kenya can successfully tap into PPPs if it is able to implement a consistent step by step approach to address the issues on debt and aid dependency. Kenya does recognize the impact debt and continuous over reliance on aid to the countries overall economic growth and through this the research sought to find out if there any mechanisms that are set out to act on this key issues. The study found out from one of the
interviews conducted that Kenya has an existing ad hoc policy that is centered around debt management and which seeks to achieve self-reliance. The policy is guided by the principles of minimizing the cost and risks associated with external borrowing from the interviews conducted it's clear that the government has the debt management policy to inform the various strategies it involves itself that pertain borrowing. The principles that guide the debt management strategy are as follows:

i. The overall objective that surrounds the debt management policy of Kenya is to meet the central government's financing requirements at the most optimal borrowing costs observing all risks that surround this. The policy also aims to facilitate the Government of Kenya with access to the financial markets as well as developing a well-functioning domestic financial market.

ii. The Government will only borrow externally on concessional terms this is a strategy that is used for minimizing the borrowing costs for external loans and the loans should have a minimum grant element of 35% so as to be considered by the government.

iii. A review is performed on a continuous basis on the strategy of domestic debt issuance and it is agreed upon between the treasury and CBK. All this is done in efforts to ensure there is transparency and credibility of government debt.

iv. The government will only borrow up to the limits set by the parliament. Under the External loans and credit Act (Cap422).

v. A key responsibility of the government debt management policy is to promote utmost transparency in its operations. Through this the government has the responsibility of publishing various reports in its efforts to release information to the public about the current state of the country’s debt.
The economy of Kenya has tried to remain resilient despite the various shocks it has experienced over a long period of time. Despite there being a cloud of uncertainty in the growth of the Kenyan economy the researcher was able to uncover that there was an average growth of 4.7 percent in the first three quarters of 2017 (World Bank, 2018). The government seeks to focus on the “Big Four” and this will ensure that the country does witness an increase in investments in key strategic areas: food security and nutrition, Universal health coverage, Manufacturing and Affordable housing. In the efforts of the country developing strategies to manage the growing debt portfolio and achieve the set-out goals under the big four agenda there has been the creation of the Medium Term Debt Strategy (MTDS). Ismail (2013) supports this by stating that the MTDS informs that investors and the general public of the various strategic plans set out to meet the governments financing needs at lowest possible costs and at considerable risk level.

4.6.3 Public and Private sectors approach on sustainability in Kenya

From the interviews conducted for the purpose of this study one respondent brought up a key issue of sustainability.

    Respondent 3 stated: “the main reason the private sector has been able to thrive is because it has tapped into the aspect of sustainable growth which the government needs to borrow a leaf from.”

Currently Kenya is having an external debt of 898.35 billion dollars by September 2018 (Kodongo, 2018). All this is a resort of not having a proper financing model for projects which results to unsustainable borrowing which plunge the country into a state of Aid dependency. From the literature review in chapter two (Fida R, 2018) states that aid can only be used as a catapult but can never ensure a country is fully independent. This study has analyzed the various
information gathered on the lines of achieving sustainability and how through this we can shed off the Aid dependency and ensure through PPPs we attain self-economic reliance.

Looking into the public sector notably there very many unsustainable practices that generate anxiety and concern among the citizens. (Kodongo, 2018) suggest that on the issues of sustainability within the public sector there is need to have a system through which the public sector can borrow from the best practices of the private sector which involve; a) Identification and analysis of public accounts; b) contextualizing various risks situation encountered; c) identifying various cultural meanings and associations linked to specific risk areas; d) articulating various policy objectives such as improving equity within the sector, creating institutional trust and reducing the inequality and vulnerability held; e) ensuring that various programs are designed that involve joint decision making; f) designing programs that facilitate the evaluation of various risks management and organizational structures within the sector this will help in the process of monitoring and risk control.

According to Hayllar (2010) it’s important to note that the private sector has this best practices and on a more general level aspects of how the public can learn from the private sector have not been well researched and documented in Kenya. On the other hand (Boviard, 2010) states that, matters on policy and implementation are well researched on and primarily focused on and this has created a gap when it comes to the PPPs being tapped into as a tool of attaining self-reliance. From a neo-institutional perspective, the private sector ensures that it sets up structures that have sustainability and this is motivated by the need to make more profit margins every year. The private sector ensures that any external constrain that may hinder profit margins is well examined and quick solutions are realized towards this. In Kenya the umbrella body KEPSA contributes significantly to the smooth operation of the private sector companies under it. KEPSA is
responsible for organizing various stake holder consultation forums that enable the development of Kenyan vision 2030. Through this body the private sector presents itself as unified and the interactions it makes with the public sector through PPPs are well analyzed and prioritized.

4.7 Challenges affecting public-private initiatives

The study did find out that the diversified nature of the Kenyan private sector does bolster its ability to handle external shocks and has thrived in a very competitive global market. From the research conducted it is very clear that the private sector drives growth and employment in Kenya. The private sector is vibrant and does benefit from a well-educated and entrepreneurial workforce that successfully incorporates various best practices from various regions. The private sector in Kenya has proven over time to be developed in terms of scale and sophistication compared to the public sector. Through this it has contributed in making the private sector stand out and be more competitive and even on a regional basis the sector is relatively well performing better than other private sectors in the region of East Africa. In the global market the Kenyan private sector does perform relatively well in exportation of tea, cut flowers, leguminous vegetables and cements. The public sector has invested and continues to invest in the improvement of transport infrastructure. According to Bettignies (2004) the tertiary sector in Kenya cannot be overlooked as it is constantly growing and contributes significantly in providing jobs within Kenya. Kenya has an extremely fast developing ICT industry which has enabled financial services to be easily accessible. From the interview one of the respondents attributes the growth of the private sectors to fast reliable financial services.

Respondent 6 stated: M-Pesa has enabled very small scale businesses to thrive due to the flexibility they provide and quick access to loans that enable this business to contribute to the bigger picture of the private sector.
From the interview it emerges that Kenya has emerged in the region as a business hub that ensures businesses run smoothly which in turn has seen to it that many investors have come into the country to do business.

The study realized due to the disruptive political cycle and a mediocre but improving business climate the private sector suffers and its performance is not at its all-time best. Kodongo (2018) states the political uncertainty that comes along during the election period which is associated with a lot of volatility can be looked at as the main handbrake on having a sustained performance in the private sector and hinders the private sector on attaining it utmost potential. With the lack of smooth government transitions the private sector will continue to underperform against its long-term potential. Looking into the small businesses in Kenya the study notes that this businesses account for the highest employment rates of up to 77 percent (Kenya National Bureau of Statistics , 2017) despite being faced by challenges such as corruption, political interference and business patronage. The informal private sector is very much misunderstood and poorly documented. From the interviews conducted it is clear there is lack of adequate government support in this sector. From the research conducted there lacks clear empirical evidence to show the great disconnect that is experienced between the formal and informal sectors in Kenya.

4.7.1 Lack of transparency and competitiveness in the procurement process

From the research conducted the study realized public procurement is the process that involves the acquiring of goods, works and services involving the use of public funds to accomplish a specified public purpose. The process entails identification of a specific need and it ends with the completion of a contract.
From the interviews conducted the respondent 1,2,3 and 6 stated that it is important to understand the public procurement process to understand where the government fails.

The Kenyan procurement process is guided by the public procurement and assets disposal act and regulations. The procurement process involves identification of requirements; procurement planning; defining specific requirements; evaluation and selection of the required vendor; awarding of contract; implementation of the contract; payment for goods and services. Under this procedure the research was able to discover that there are five different types of procurement. These include open tendering, restricted tendering, direct procurement, request for proposals and request for quotations. One respondent stated that it important to note that despite their being corrupt practices in the public procurement process under section 45(2) of the Anti-Corruption and Economic Crimes Act (ACECA) criminalizes any breach related to public procurement processes. The Government of Kenya has constantly faced increased spending of public funds and the output of this spending translates to mediocre projects that are always given too much attention than they deserve to cover up for the corrupt practices in the system. For fraud to be detected and prevented in procurement there is need to understand the basic elements that surround corruption. Alexander (2008) confirms that corruption that is experienced in the public procurement process covers an array of irregularities and various illegal acts that are characterized by intentional deception within the system.

Respondent 7 stated that fraud within the procurement process can take place at all points within the procurement process.

To address this key issue of corruption within procurement there is need to focus on the whole entire procurement process and through this develop a critical understanding the most high risk areas in the procurement process that are very much prone to fraud. Due to the various responses
received during this research then therefore the research sought to analyze the public procurement and assets disposal act and regulations.

For a procurement process to be quantified as transparent there is the need of rejection of bribes or any other forms of corruption that would be related with the initiation, procurement and implementation of the set out project. For this to work there is need to have the following elements i) there is no form of involvement of a potential bidder in the design of the set out bid criteria ii) the set out bid should not be designed to favor any party iii) there is need to ensure that no artificial entry requirements are brought up to disqualify a bidder who has already met the set out criteria iv) there should be no collaboration to leak inside knowledge to favor a particular party v) project design should not be revisited and altered so as to accommodate any party. The research found that these guidelines have well been stipulated in the Kenyan PPP Act.

The research found that in Kenya the bidding of PPP projects has constantly been painted with the picture that certain private firms are given priority than others. Out of such claims it has resulted in appeals being made to the Public Procurement oversight Authority to investigate these claims that have been made and ideally these results into delays in project implementation. This has been a constant allegation that has been made by various interested parties in the private sector that there lacks adequate transparency and this in turn harms the partnerships made between the public sector and the private sector. From one of the interviews conducted one respondent states that in 2015 there was public outrage over the manner in which Safaricom Limited was awarded a multi-billion tender to install CCTV cameras in Nairobi, via a simple phone call from the president. The Company was meant to install the CCTV cameras and after it was supposed to train police officers on how to use the system before they handed it them. The parliament had to actively step in and suspend this tender because the president had side lined the
regulatory bodies that were meant to perform this function of procurement and this is to show that a lot of tenders are issued without following necessary procedures and in turn this results to failed projects. Olotoch (2017) informs the study that for PPPs to work and thrive in Kenya we need to ensure that due process is followed to ensure there is proper accountability and smooth project implementation. From the example highlighted above on the tender that was meant to be granted to Safaricom Limited there was need for the due process of Procurement to be followed failure to this then projects experience unnecessary delays that can be avoided.

4.7.2 Lack of political support

PPPs have faced a continuous struggle of introducing private firms in the provision of public services due to potential political opposition that sprouts from public service officials who stand to benefit from this exclusion of the private sector. Opposition from the public sector is presented in various forms of concerns such as including the private sector in provision of public services will result in job losses for locals and an influx of foreigners. Such claims are very misguided and sprout from a point of lack of proper understanding of the importance of including the private sector in provision of public services. For instance, in Kenya we have constantly struggled with the issue of introduce toll roads because as from history people are used to free access to roads and therefore introduction of this is not welcomed. Failing to understand through collection of toll fees the roads will be well maintained, and this will also serve as a source of revenue to benefit the government and the private sector. From the interviews conducted a respondent highlighted that political leaders use such propaganda to get into office and present ideas such as toll stations across highways as a method the government will use to rob citizens of their hard earned money. Olotoch (2017) states in chapter 2 of the study that the lack of political
good will for a project will result in it quickly collapsing even when the project has been designed to make standards of living better. From this the study does realize that political perception can quickly influence how far a project will go and whether it succeeds or fails.

From the interviews conducted it is clear that there fails to be enough public participation when it comes to PPP projects and due to this the public are denied the public knowledge of how some projects will improve their livelihoods. Instead political leaders ride this wave and use various project agendas to gain popularity to be elected into office. Currently in Kenya the jubilee administration led by the current President has devoted a considerable amount of resources towards the construction of the standard gauge railway from Nairobi to Mombasa. This has been coupled up with a myriad of challenges because in 2015 claims were made that the cost of the project had been inflated and there was a public uproar that the tendering processes that was done to include the private sector was flawed. As a result of this the project was delayed and investigations were conducted. Failure to be transparent eventually does cost the government because projects will not start at the right time and this creates a room for leaders who seek to gain political mileage to comfortably use such opportunities.

### 4.7.3 Corruption

In Kenya it is customary to find that various individuals within institutions will constantly look out for various loopholes in which they can make an extra coin from the institution (Harris S., 2014). A direct violation of the free market operations automatically leads up to corruption at all levels in the economy (World Bank, 2016). Corruption in Kenya does extend from the levels of the individuals working within the institution to the structural levels. In Kenya corruption stems from the structure in which the society is set up upon and as a result these trickles down to the type of individuals who are selected for government offices. The government structures are
constantly rendered incompetent due to the weak nature from where they are founded upon leaders who are meant to be transparent are the key masterminds in the embezzlement of public funds (Robert A., 2010). According to the National anti-corruption Plan (NACP), due to the nature of leaders elected in Kenya there is poor institutional governance. The overall atmosphere within the country of impunity has driven the country into having miserable efficiency levels and morale. All these factors contribute to an environment in which corruption continues to thrive in.

The lack of public accountability and ethical leadership within Kenya results in driving the public to believe that corruption is a way of life and one must adjust. From the interviews conducted respondent 1 stated that:

“Kenya has made corruption seem very normal that citizens don’t believe that government service can be granted to them without having to dig back into their pockets and provide a small bribe and this has affected how PPPs are operationalized”

The study found out that the issue of personalized power and weak institutions are not the only factors that nurture corruption within the country but a wide range of secondary elements make corruption cascade down to the society. High incidences of bribery within the country on delivery of services such as; getting a national identity card, government contracts given to the private sector among others.

The Public Private Partnerships were ideally set out to help speed up the delivery of public goods to citizens beyond the capacity held by the state. The state has the responsibility to ensure that basic public services are well provided. Kenya is struggling as it tries to implement the PPP act without having successfully ensured there is utmost transparency in the government structures. Corruption can simply be understood as the misuse of for any form of private gain and can be at one’s own instigation or under various incitements by various external factors. According to
Olotoch (2017) for one to determine that a corrupt practice has taken place there will be bribery, embezzlement and fraud which inhibits the delivery of a service.

From the interviews conducted the researcher was able to get information on how corruption has directly undermined the impact PPPs would be having in Kenya. The government of Kenya has a 25-year concession plan that involves construction of the northern corridor road network that is targeted on linking (Burundi, Democratic Republic of Congo, Rwanda and Uganda to the Mombasa port in Kenya) this project has consistently received setbacks from consistent embezzlement of funds. In 2013 an investigation was launched and three top officials from the ministry of Roads and Public Works were suspended because from the investigation it revealed the individuals had transferred over 200 million Kenya Shillings to their private accounts. Such enormous scandals discourage the private sector into getting into partnerships with the government because they lack confidence with the public sector.

4.7.4 Barriers in the Public Private Partnership Act

In Kenya we face a great challenge when it comes to PPPs because we lack a favorable legal framework. A favorable legal framework should ideally provide; for judicial enforcement of contractual rights, clear set laws and regulations that are able to assign, responsibilities and provide specifications concerning matters of bidding and approval of projects (Fida R, 2018). Kenya’s PPP legal framework fails to have a clear and efficient dispute resolution mechanism, it lacks in having non-discriminatory taxation and regulation. The framework does not provide legitimate recovery of costs and profits that are proportional to the risks that are undertaken by the private sector. Having a proper functioning legal and regulatory framework does reduce the various opportunistic tendencies since the framework acts as a buffer against any form of
political interference from leaders who wish to exploit any form of PPPs and also guards the projects from any government agency interference.

From the interview conducted the researcher was able to get an in-depth explanation as to how having a poor legal framework affects projects. The Nairobi Commuter Rail project in Nairobi city has been a victim of poor legal framework under the PPPs. The capital city of Kenya does experience large amounts of traffic due to the use of outdated road and rail infrastructural systems that were built during the colonial era and were not designed to support the current population of 3.5 million people in the city.

The Kenya Railway Corporation decided to sign a joint development agreement in 2009 InfraCo Africa to develop the Nairobi Commuter Rail. The project had been expected to cost about USD 328 million and it was set to rehabilitate the 67km railway line and build another 8km which would link the city to Jomo Kenyatta International Airport. This would see to it that the Commuter train would improve its capacity from 19000 to 100,000 passengers per day. The joint agreement would see to it that InfraCo would play a key role in the development of the project by undertaking feasibility studies and performing a commercial structuring plan. A tendering process for an operator was done by the Government of Kenya and attracted 17 investors from China, Europe, South Korea and South Africa. Under the Public Private Partnership Act which was later enacted in 2013 the contracting bodies had the responsibility of developing the project. The law under the PPP Act however failed to take into account that the joint development agreement that had been previously been made between the parties and this did lead to disagreements. InfraCo had invested heavily into the project and wanted to have a say when selection of an operator was being done during the tendering process and this collided the PPP Act and as a result of this the project has stalled.
4.7.5 Public Private Partnership Financing

The PPPs aim to reduce the financial burden that is on the government and this achieved by including the private sector to lend assistance when it comes to delivering various public services (Boviard, 2010). The attractive financial instruments such as equity, debt and supplier and purchaser credit are very much important for the private sector to finance various PPP projects. Having an unattractive financial market for instance where there is much political instability and extreme high interest rates will hinder the success of any form of PPP project. The research found out that most of the current big scale PPPs in Kenya are financed through various overseas investments. In recent times this has changed because as Kenya’s financing starts to mature an interest in PPP financing has grown. Since PPPs in Kenya have long thrived by receiving finance through direct financial investment debt this type of finance approach is provided through internationally tradable currencies such as the American Dollar. Local banks in Kenya that fail to have access to international currencies in large sums due to the nature of this currencies being extremely volatile with high inflation rates have rarely participated in PPP projects that involve infrastructure and this results in the PPP projects being left to be dealt with by those with major capital muscle. The research found that institutional investors dismiss financing PPPs due to the long-term nature of the projects. This investors preference short-term liquid assets such as the 91-day government treasury bills.

Hayllar (2010) in chapter 2 highlights that PPPs continue to struggle with the aspect of financing due to how hard it is to access commercial debt due to the unwillingness of the commercial institutions who are willing to take up any political associated risk which is initiated by the state. However there few instances the study uncovered where commercial institutions have financed projects without political risk insurance. An example of such a project is the Kwale Sugar
cogeneration project, this project was set up to produce power which would eventually be sold to 
Kwale Sugar Refinery and the excess would be sold to the state owned Kenya Power and 
Lightening Company (KPLC). The project received USD 100 Million from Kenyan Local banks 
and Mauritania and this project succeeded because the project was mandated to sell the excess 
power to KPLC the majority being sold to the private entity. In most cases for commercial 
institutions to participate in any PPPs ask for political risk insurance or partial risk guarantee. 
Such a case is the Thika Thermal Power Plant Project this project is an 87MW power station that 
uses oil commissioned in 2014. The project received finances from International Finance 
Corporation, African Development bank and South African subsidiary of Barclays Bank. It is 
important to note that these institutions only invested in the project after the World Bank and the 
Multilateral Investment Guarantee Agency (MIGA) provided letters of credit then the institutions 
committed their finances to the project. The world Bank took up the missed payments by KPLC 
which ideally would have had the government compensate this missed payments, the MIGA 
provided guarantee to cover any missed payment and political risks like any change of law or 
political instability that would occur during the project time. Such a project shows the financing 
challenges that are faced by Kenya in securing finances for PPPs.

4.7.6 Huge Risks Associated with PPPs

The research found that one of biggest PPPs face in Kenya is the high level of risk that is 
involved due to the complexity that is held by various projects and the diverse players who are 
involved in the project. To be able to manage risks it is important to identify the risks the project 
faces from the identified risk then the project can be allocated to a party with the necessary 
financial capabilities and technical capacity willing to manage this risks, from this the party
should charge a fair and appropriate premium for taking on the risks. For a PPP to work there needs to be bridging done to mitigate the various risks each side has.

The study was able to identify the various risks that are associated with PPP agreements some of them include;

**Table 4. 8 Risks that are associated with PPP agreements**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completion risk</td>
<td>This is the possibility of a project installation or construction is delayed with various additional costs among other unforeseen implications.</td>
</tr>
<tr>
<td>Cost overrun risk</td>
<td>This occurs during the design and construction phase the actual project costs exceed the initial projected costs.</td>
</tr>
<tr>
<td>Design Risk</td>
<td>This is when the private entity contracted has its design not achieving the required specified criteria for the project.</td>
</tr>
<tr>
<td>Exchange rate/ Forex risk</td>
<td>The possibility that the set-out exchange rate fluctuates, and this impacts the cost of the imported inputs of the project causing the</td>
</tr>
<tr>
<td><strong>Project</strong></td>
<td><strong>Description</strong></td>
</tr>
<tr>
<td>------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Force majeure</td>
<td>This is the occurrence of certain unexpected events that happen to be beyond the control of both parties in the partnership. These events could be man-made or natural that affect the project.</td>
</tr>
<tr>
<td>Interest rate</td>
<td>Fluctuations that occur in the rate at which the project will borrow money.</td>
</tr>
<tr>
<td>Market/demand risk</td>
<td>This is the demand that is present for the services generated by the project. Sometimes it may end up being less than initially projected.</td>
</tr>
<tr>
<td>Operating risk</td>
<td>These are other factors away from Force Majeure this being skills requirements, labour disputes, operating expenditure, employee fraud.</td>
</tr>
<tr>
<td><strong>Political risk</strong></td>
<td>This is the unforeseeable conduct held by a government institution that adversely affects the projects return on equity, debt service or overall costs of running the project. This includes nationalization and expropriation.</td>
</tr>
<tr>
<td><strong>Regulatory risk</strong></td>
<td>Consent that is meant to be obtained from the government authorities or different independent regulatory agencies are not obtained and as result end up resulting the project to incur additional costs.</td>
</tr>
<tr>
<td><strong>Utilities risk</strong></td>
<td>The most important utilities (water, electricity and gas) are not available for the project.</td>
</tr>
</tbody>
</table>

Source: Reconstructed by author from the (Kenya Private Sector Alliance Manual on PPPs, pp 63-66)

Projects face risks that are quite diverse and will vary according to; the location of the project, the scale of the project and the PPP model being used to implement the project. The risks
highlighted on table 4.8 were experienced in the Lake Turkana Wind Farm this saw to it that numerous delays were caused before necessary action was taken up to mitigate the risks. The research found this case of Lake Turkana to be informative and critical in explaining how various risks will hinder PPPs.

The Lake Turkana Wind Farm was developed by a company called Anset Africa Ltd in 2006 the company later on established the Lake Turkana Wind Power Limited in the same year and the purpose was to undertake feasibility studies for the set out project. In 2010 a company with prior knowledge to such a project were brought on board this being Aldwych and their work was to assist in the development of the project due to having prior experience in Wind Farming. Anset Africa the company responsible for developing the project contracted another company KP&P whose responsibility in the project was to negotiate a Power Purchase Agreement with Kenya Power and Lightening Company for the power that would be generated from the wind farm. Additional to the construction of the Wind Farm the company would see to it that a road would be developed to serve as a transmission link to the farm since Lake Turkana is located in a remote area. The project was faced with several risks as follows; design risks faced the project in that the initial studies that had been conducted by the Lake Turkana Power Limited had to be re-drafted severally in abid to conform to the International Finance Corporation Performance Standards this dragged the project and saw them been achieved in 2012. Several investors to the project pulled out due to the issue of having unresolved land rights for the purposes of laying the transmission lines. Finance risks faced the project in regard to the withdrawal of the World Bank from the project as it refused to commit itself in providing partial risk guarantee if the government of Kenya failed to construct the set out transmission lines. This actions by the World Bank did discourage private lenders and put the project at a tight spot of a risk of failing. The
The project was saved when the African Development Bank stepped in and provided the guarantee the World Bank has failed to provide initially. The project was further delayed for two years as it awaited the construction of the transmission lines which would connect the farm to the set national grid. This example shows how various risks can slow down PPP agendas and eventually see a project fail to come into existence.

4.7.7 Incomprehensive Feasibility Studies

For a PPP project to succeed it is important that a proper feasibility study is done to examine the various elements of the project from technology, manpower and necessary materials are available (Harris S., 2014). Before the public sector considers involving the private sector the feasibility study should include other options possible that are beneficial to the government and the end user. For a PPP to be achieved it needs to take a “value for money” procurement model. The “value for money” model is designed to assess the costs and savings that can be made from a PPP model in comparison with the traditional approaches of project planning and implementation that are used by the government. This model focuses on the quality of work that will be delivered by the private sector and is not swayed by the lowest bidder approach. The value for money is well delivered through innovation, asset utilization and risk transfer. The study found that this is a great challenge for many PPP projects in Kenya since poor feasibility studies are performed and as a result the projects end up incomplete due to this.

4.7.8 Inadequate Public Sector Capacity

The research found that the Public sector in Kenya has an insufficient approach when it comes to identifying skills, assessing, procuring and implementing and in this respect slow down the implementation of PPP projects. Comparing the public sector to the private sector you find that
the private sector in Kenya outperforms the public sector and they tend to have better skilled personnel since they have the capacity to offer bigger remuneration packages (Olotoch, 2017). The study finds out after the enactment of the Public Private Partnership Act which saw to it that there were institutions created such as the PPP unit who are committed to championing the PPP interests. The PPP unit under the National Treasury and PPP nodes that are found in the various ministries and parastatals have successfully employed people who are skilled in this area of development. Despite these commendable steps taken by the government it still faces issues of capacity. The PPP unit is understaffed and unable to attend to the various projects that are constantly being submitted to them and they are over stretched. For the PPP nodes they lack proper training on PPPs they lack the ability to decipher which projects are appropriate to be developed through PPP and as result of this they end up forwarding most of the project proposals to the centralized PPP unit leading to backlogs. According to a World Bank report states that projects that were submitted to the PPP institutions in 2014 will most probably reach transaction stage in 2017 and this indicates they are way behind in making steps that will ensure that PPPs contribute significantly to growing the Kenyan economy.

4.7.9 Citizen Engagement

Involvement of citizens, labour unions, government agencies, civil society and the media is crucial in implementation of a PPP project reason being that they are key stakeholders who will be directly affected by the projects. Hurley (2015) in chapter 2 of the study states that having negative Public opinion against a project can slow down the project and even put it at a risk of coming to a complete stand still. The public need to understand the importance of a PPP project and this can only be achieved through involving the communities and leaders especially if the project set in place directly affects their livelihoods. Through ensuring the public is well
involved helps clear the misconceptions commonly held by citizens. Successful involvement of the public is achieved through public outreach and transparency in selection of bidders, public disclosure of the PPP agreements made, communication and decision-making process.

From the interviews conducted at KEPSA its important to note that the module of Kenya’s PPP greatly comes from India. Kenya has tried to use the best practices from India to improve its PPP model. In the PPP act it states that the community must be consulted when it comes to projects that involve land acquisition and the community leaders must consent to the project in areas this unfortunately does not happen since most projects in Kenya rarely involve citizen participation and this results in conflict and a delay in projection implementation. A perfect example of this is clash between the community and the project implementers is a Wind Farm in Kinangop. This is a project that received USD 114 million from the Norwegian Private Equity Norfund, South African asset manager Old Mutual and Sydney based fund Macquarie. The project location is in the rich Kinangop valley in central province the project came to a standstill when it received major opposition from farmers who were supposed to surrender their lands. The farmers claimed that the information about the project had been handled with much secrecy and this left them in speculation that the project was fraudulent. The farmers highlighted that project had compensated the farmers in an unfair manner, analyzing this situation shows that the conflict came about when the farmers felt they had been excluded and their opinions were not considered when putting up the wind farm. The farmers did feel that they were being short changed, and they were giving up their fertile land for a project that had little benefit to them. The research found this case to be very unique and posed as an important example to show how lack of adequate citizen engagement would result in poor project implementation.
4.7.10 Regulation of Private sector

The government needs to ensure that it has well set out parameters for the private sector actors to ensure they meet their agreed performance targets under the PPPs (Boviard, 2010). This is important because the services the government allows the private sector to provide are important to the citizens. It is important for the government to be aware of the areas they welcome the private sector to invest in because some areas have natural monopolies. Areas the government needs to be very keen with the private sector under PPP projects include; offering services that are of inferior quality, overpricing of services, public access to information that pertains quality and issues of environmental standards, health and public safety.

Respondent 8 stated that; “Kenya faces a key issue when it comes to privatization of public functions”

The study finds that the delegation of public functions to private entities does produce a sense of ‘democracy deficit’ since it is evident that the private sector has learnt how to avoid traditional accountability mechanisms such as the judicial reviews. Most Decisions in the private entities are made by the bureaucrats and if there lacks proper public control mechanisms there will be corruption and public welfare will be disregarded.

4.8 Conclusion

This chapter has presented the findings of the study based on the objectives of the study. This chapter has looked at the relationship that exists between the public sector and the private sector focusing on what brings these sectors together, it has focused on the structure that makes up the private sector in Kenya and the various contributions made by the private sector. The study has examined the various challenges that face the implementation of PPPs in Kenya. The objectives
of the study have been achieved by analyzing the different sources of information that surround PPPs in Kenya.

In line with the main objective of the study on the role the private sector plays in attaining economic self-reliance in Kenya. PPPs can be a source of strength with the goal at hand of creating self-reliance in our economic structures. The diversified nature of the private sector in Kenya keeps the sector competitive against the global market. The status the private sector possess in the East African Community is undeniable since it can compete on various export sectors. The Government of Kenya is keen on improving the overall transport infrastructure to have Kenya presenting itself to the world with an added advantage relative to its neighbors. Adding to strategic geographical position held will consistently put the country a step ahead in the region. The study realizes that there is a widespread intellectual appreciation that has been realized within the government of Kenya that the private sector is a key arm and a sector that will contribute significantly to the growth of the country’s economy. The table below summaries the key strengths per the main sectors found in Kenya.

**Table 4. 9 Key strengths held in the various sectors in Kenya**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Strengths</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport</td>
<td>• Regional dominance held in the transport services, with well-regarded brands (e.g. Kenya Airways placed 4th in Africa at 2012 World Airline Awards).</td>
</tr>
<tr>
<td></td>
<td>• Superior transport infrastructure, relative to the region, with ongoing government investment in road, rail, air and ports (e.g Construction of the standard gauge railway)</td>
</tr>
<tr>
<td>Sector</td>
<td>Key Points</td>
</tr>
<tr>
<td>---------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Agriculture         | • Significant excellence in certain product areas (e.g. tea, cut flowers, leguminous vegetables), resulting in competitive production and export (predominantly to European markets).  
                       | • Labour absorbing sector (largest formal and rural employer).  
                       | • Extensive government support provided to this sector (financial and technical).                                                                                                                                 |
| Communications      | • Overall reduced costs and greater penetration (especially mobile telephony and internet data) due to improved ICT infrastructure and industry competition.  
                       | • Source of growth and innovation (e.g. enabling greater access to financial services).  
                       | • Focused government support for ICT innovation partnering with the Private sector                                                                                                                                  |
| Wholesale and Retail Trade | • Competitive formal retail industry, due to the large informal retail sector.  
                       | • Low barriers to entry.  
                       | • Labour absorbing (largest informal sector employer).                                                                                                                                                          |
| Manufacturing       | • Pockets of excellence in certain product areas (e.g. soaps, cements, apparel, flat-rolled iron), resulting in competitive production and export (predominantly to African markets).  
                       | • Investment incentives offered by government.                                                                                                                                                                |
| Financial Services | • Highest average growth rate between 2011 and 2016.  
• A well-developed financial system, relative to most African countries. Reforms led by the Central Bank that have enhanced sector efficiency and stability, and improved access to finance. |
|-------------------|--------------------------------------------------|
| Tourism           | • Significant foreign exchange earner.  
• Well known and regarded tourism products e.g. Masai Mara safaris and Mombasa coastal resorts.  
• Strategic support from government e.g. national marketing. |

Source: Constructed by author from field data

The study realized despite the commendable steps made by Kenya in uniting the Private sector and the Public sector it is important to realize that the disruptive political cycle in Kenya does impede the growth of the private sector. The Macro-economic volatility found in the country is a challenge when it comes to doing business in Kenya. The high Capital costs and inflation rates are a major hinderance to private owned businesses growing and making an impact to the overall growth of the country’s economy.

Despite the commendable efforts made by the government to improve infrastructure the high energy costs and constant interruptions in the supply of power continues to cripple manufacturing business. The divide found in the Private sector is a weakness because the difference between formal and informal is poorly understood and documented. The study found that there is limited empirical evidence that explain the big difference found between the private sector in Kenya. Despite these indifferences the PPP Act is a positive factor that promotes a more transparent form of interaction between the Private sector and the Public Sector. Through
the PPPs the Act hopes to create a stable economic environment that encourages the private sector to invest. Hence the vision held of having a more inclusive, growing and wealth creating private sector can be realized if the government is keen on implementing policies that concern PPPs with utmost efficiency.

The study did realize that there are many opportunities that the government can tap into through the PPPs and through this will ensure that the government can be held to account in delivery of various services by the private sector through the partnerships made. Such opportunities that present themselves through PPPs include an attractive domestic market within Kenya that continues to appeal to foreign investors particularly in the ICT, manufacturing and financial service sectors. The innovations that are constantly emerging from the ICT industry have proven to provide efficiency in the delivery of services and through this then projects can be executed swiftly and partnerships between the private sector and public sector will be resourceful. The governments intentions to involve the private sector in large infrastructural projects enhance the public-private partnerships and through this involvement by the private sector growth in the economy will be witnessed since the private sector will ensure that projects have high returns. Through this the Small Enterprises in the private sector can easily contribute to enhancing the output in PPPs because umbrella bodies such as KEPSA give this Small Enterprises a platform to partner with well-established private companies.
CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter provides a summary, that draws relevant conclusions and made recommendations for further improvement based on the findings of the study. The chapter provides a section for areas of further research, that future studies should be conducted.

5.2 Summary

The research conducted shows that Kenya has taken very bold steps in embracing the PPP concept and it has tried to fine tune the regulatory and institutional framework that embodies the PPPs. The main objective of the study was to examine the role the private sector plays in attaining economic self-reliance in Kenya. The specific objectives of this study: (1) To examine the relationship between private sector and the public sector in Kenya; (2) To find out how PPPs can help reduce the current debt crisis in Kenya and reduce dependency on Aid; (3) To find out the challenges affecting public-private initiatives.

In terms of literature review the study focused on scholars who have written extensively on PPPs and focus of the study has been PPPs in Kenya. The subject matter on the literature review ties on to the problem statement of the study which seeks to find how Kenya can achieve self-reliance as it reduces the current debt crisis. From the literature the study provides a clear understanding of the current debt crisis that faces Kenya as well as how the continuous borrowing is not sustainable. The literature is arranged thematically and chronologically and seeks to provide an understanding on what PPPs are and gives a historic perspective of PPPs.
The literature review was divided into various parts. The first part being the debt crisis that is the source of Kenya’s slow growth economically and how the debt crisis should be managed. The literature explains the concept that surrounds PPPs and its historic origin, the study further seeks to understands countries that have successfully incorporated PPPs into their models of growth. The study explains the various models that exist under PPPs and through this models they inform the study to realize on why some models can work while other models can prove to be problematic for Kenya. There are different models that are used for implementation of PPP projects that vary from having short-term contracts to long-term. The models vary by ownership of different capital assets, assumptions of risk, responsibility for investment and duration of contract.

This study was anchored on the theory of Institutional differences between partnering organizations and the New Theory of Management. The theory of Institutional differences shows why there is significant friction between the public and private sectors and this theory breaks down why sometimes the public and private sectors are unable to work hand to hand due to issues such as hierarchy and issues that arise whereby the private sector seems to work in an extremely fast tracked manner compared to the government.

The major assumptions of this New Theory of Management suggests that the type of employee relations that exists in the public and private sectors should be centered around employees as this will create a space where employees are either motivated or discouraged and this does affect the output. The theory suggests that primarily the employee should be given first consideration since they determine the type of service delivered to clients this meaning that the working environment should constantly motivate the employee.
These two theories are of utmost significance to this study because the first shows how differences in institutional structures in the private and public sectors can hinder the implementation of concrete and fruitful partnerships. The second theory recognizes that none of the sectors can fully function without having employees who are committed.

In terms of methodology the study was anchored on the use of qualitative method by using both primary data that was collected through face to face interviews and phone calls. Secondary data was well used in this research and the sources include books, journals, government policy papers, research papers, reports both official and unofficial and web-based materials. The primary data collected was analyzed through content analysis.

The major limitation of this study was that literature available is quite scattered since PPPs are a relatively new point of discussion and arranging them to derive constructive information was quite a tiresome process. Collection of some primary data did prove to be tiresome due to the nature of various respondents being extremely busy.

The findings of the study were explained as per objective of the study. They are well divided from the information collected from the respondents pertaining PPPs, to explaining the relationship that presently exists between the public and private sector, the study seeks to explain approaches that should be considered to reduce the current debt crisis facing Kenya and finally the research lists challenges that affect PPP initiatives.

5.3 Conclusions

The study envisaged that there are many factors that contribute to the success of PPPs in Kenya and the efforts of creating economic self-reliance. Given that the study does not dismiss these factors but choose to create some principal success factors that group the success of PPPs in Kenya this being 1) Effective PPP implementation procedures 2) Effective Procurement
processes 3) Government commitment. This study creates a hypothesis that if PPPs are well coordinated and implemented there would be enough self-reliance in Kenya, and this would mean a reduced state of debt that stagnates the Kenyan Economy.

5.3.1 Effective PPP Implementation procedures

Kenya has been bold in embracing the PPP concept and its important to state that the government acknowledges that PPPs could be a solution towards creating economic self-reliance. The government has worked in ensuring that the regulatory institutional framework is well fine-tuned. The greatest challenge in Kenya’s PPP implementation process is corruption, the government is keen on overcoming this great hurdle though it is taking quite a while. If Kenya commits the growth of its economy through PPP financing, it could achieve significant steps which will see to it that vision 2030 is attainable. From the interviews conducted the study found respondents to share a common thought process of having a proper concrete legal frame work that is well followed will regulate and manage the process of PPP implementation in Kenya. Respondents stated that having a clear and definite process of implementation that is not plagued with corruption will encourage PPPs in Kenya. From the interviews conducted having a solid framework of operation will ensure that reputable bidders both local and foreign follow the clear bidding process set in place for PPP projects. Having a clear transparent bidding process will ensure that confidence is created to potential bidders from the private sectors and this will increase the overall number of private entities seeking to participate in PPP initiatives. The PPP model is working in other developing and developed countries such as the UK and Canada and as shown in the literature review PPPs aid the government in service delivery and attaining self-reliance.
The study finds out that in Kenya the vast understanding of the PPP model is not well understood by the general public, hence it will be very effective if proper sensitization was done on the importance of PPPs. With proper understanding then the informal sector under the private business umbrella will realize the importance of this and as highlighted in the findings in chapter 4 not many informal business see the need to work with the government. Despite the informal sector contributing to over 70% of employment in Kenya (Kenya National Bureau of Statistics, 2017) they are still excluded by the big private sector organizations on the grounds they lack enough capital muscle to work with the government.

The study revealed that there needs to be a point of concern since most of the private sector involved in the country’s PPP projects are not locally based companies, but most are from European countries. Through this the study was able to understand why there has been an increase in PPP participation in Kenya, but this does not reflect into the economy of the country. Having most investors coming from the foreigner’s pool means that the projects will mainly be run by them as the invested capital in the projects is refunded to them. This is in fact extremely harmful to the Kenyan economy since for the project period the foreign economy will be built from a project that is found in Kenya and being aware that some projects have concession periods of up to 50 years only shows that the local private organizations need to invest in this projects more to see a significant change in our economy.

The study revealed that PPP models used are determined by the type and nature of the proposed project, the expected value for money that will be gained from the project and the degree of public interest that exists. This shows that ignoring public interest is a quick way to make a project unsuccessful. The study found that if the public deem the project to be beneficial to them then there is assurance that the project will be beneficial and impactful and this should be an
important aspect that is considered when coming up with PPP projects. This is because eventually the public will have to refund the private sector either directly or indirectly for the investment made. It is important to note that PPP projects are very sustainable since both parties involved seek to constantly make profit gains and this ideally drives the projects.

5.3.2 Effective Procurement Process

The study found that for PPPs to be effective there is need to have an effective procurement process that cannot be easily flawed and advocates for transparency. Having a well streamlined bidding process allows the project to be well managed and helps ensure the project sets out to achieve value for money. This is achieved through a thorough and realistic assessment of the various costs and benefits that pertain the specific project. The study found that having a transparent procurement is critical for the success of a PPP project, respondents stated that corruption and unorthodox business practices were quite high in Kenya which revealed that most times contractual terms were conducted as a mere formality. From the interviews conducted the study realized that the success of PPPs will involve having to separate the procurement process as through this proper transparency and due diligence can be fulfilled adequately. The study finds that if the procurement process is transparent then a ripple effect occurs since the private sector will be willing to be involved in PPP projects because of the fair procurement process that exists. According to (United Nations Economic Comission, 2017) having a inefficiency in governance will result in failure of PPPs in any country. Good governance within a state can be quantified by the level of transparency that exists within the structures and the ability to question the government on various issues that pertain growth of the state economically. Kenya has been very active in making steps to ensure that PPPs work and aid the government, the PPP unit in
Kenya has consistently been building its advisory team and have been working on frameworks that will seek to incorporate the best practices across the world into Kenya’s PPP model.

5.3.3 PPPs Reducing the current Debt burden

One of the study objectives was to find a way in which PPPs can be used to reduce the current debt crisis in Kenya and shred the dependency on aid that has been formed over time. According to (Harris S. , 2014) the availability of having flexible and attractive financial instruments such as debt, equity, supplier and purchaser credit and securities is well considered as an important enabler to the private sector to finance the PPP projects. The study finds Kenya to be an attractive market for both local and foreign investors and the evidence to this is the growing population and booming capital markets. The country needs to realize that it can look inwards for financing solutions rather than focus on getting more debts. The private sector in Kenya is already contributing significantly to the GDP of the country and this confirms that the potential in this sector is very much undermined and untapped by the government. The PPPs are providing a long-term solution to the crisis that awaits Kenya if the country sticks to unsustainable borrowing. As it stands the country has over 60% loans that are not paid for (United Nations Economic Comission, 2017) and the country continues to borrow more.

5.3.4 Government Commitment

The findings from the study suggest that PPPs will not succeed if there is no government guarantee provided this is a critical success factor. It is viewed that having government guarantee is an important factor to having successful implementation of PPP projects in Kenya. The visible support that is provided by the government in form of minimum traffic guarantee, minimum revenue guarantee or partial risk guarantee is very crucial in encouraging the investment into
various projects by the private sector. Government commitment that comes forth in the form of political support is a factor that encourages PPPs and shows adequate support into this venture. One respondent stated that the political ups and downs in Kenya can be blamed for the slow growth of PPPs since many leaders will politicize projects that sometimes are under PPPs and this results in delayed delivery. The change of government also affects the consistency of PPP projects since with every new regime comes different priorities. Through such inconsistencies over time the private sector will choose to distant itself from these projects due to the nature of them having inadequate government support. The study realizes that if the government was to establish a strong structure under the PPP unit and ensure that politics do not interrupt delivery of projects then PPPs would work to ensure that the economy of Kenya grows and the private sector is consistently participating.

5.4 Recommendations

Given that PPPs are unique from country to country simply adopting the success factors held by one country and trying to implement this in Kenya may not be realistic due to the different actor’s present.

i. The study realizes that specific factors that are relevant to PPPs will vary from country to country, sector to sector. It is important to acknowledge that Kenya is still learning how to tap into the PPP model since it is relatively still a new field for Kenya. The country is still at the strategic stages of; Introducing legal frameworks, having a central PPP unit and developing program ideas. As a result, the study found that there is not much information on the topic, and this leads to a deficit in the academic literature and limited data to which new hypothesis can be tested. From this the study makes its first recommendation that there is need for the PPP unit to develop documents that give a
historical background of PPPs in Kenya. These documents will be instrumental in providing accurate data that can be used by scholars to conduct comprehensive case studies which contain subsequent meaningful inferences.

ii. The second recommendation is for the public sector and private sectors need to consider training and provide experience gaining opportunities to the staff. This should involve conducting workshops that provide new knowledge that surrounds PPP’s and this will see to it that the skills will be diversified and expertise is created in procurement, financial management and legal. This acquisition of knowledge and experience will see to it that the projects that are run will have a high rate of being implementable. The corrupt behavior experienced from both private and public sectors especially during the procurement processes results in the cost of business being high, creates an unfair competition space and results in PPPs being left for large firms to participate and this sidelines small players who would have interest in participating in PPPs.

iii. The study provides the third recommendation in a bid to fight this corruption that slows down growth of PPPs. The government should computerize government processes to increase transparency and close avenues that allow corruption to take place. Policies on ethics need to be strengthened and conflict of interest that arises from politicians politicizing projects to push their individual interests need to well be addressed and guidelines generated on the code of conduct for politicians. Whistle-blower protection needs to be strengthened to allow citizens to have the courage to point out any unethical practices. The government needs to strengthen its public procurement oversight authority arm to ensure that issues of corruption are quickly addressed. The study recommends that there should be a separate non-aligned private sector funded organization that serves as a
corruption watch dog entity body for both the private sector and public sector under PPP’s to ensure that both sectors are held accountable.

5.5 Areas of future Research

Future researchers should consider research on PPPs as a mechanism of attaining economic self-reliance on areas such as creating creation of representative bodies for the informal sector under the private sector. Further researchers need to examine the possibility of having a non-aligned private sector funded organization that serves as a corruption watchdog entity for both the private sector and public sector under PPPs.
REFERENCES


Improvement Program EQUIP1 of the US Agency for International Development:
http://www.iiep.unesco.org/en


APPENDICES

INTRODUCTION AND CONSENT

My name is Morgan Maina Mwangi a final year student in USIU undertaking a master’s degree in international Relations. I am conducting a study on how public-private partnerships can be used as a mechanism of economic self-reliance in Kenya. The research project is required as part of fulfilment for the award of a master’s degree in International Relations.

Your involvement and participation in the study is voluntary.

I pledge to treat the information you provide to me with confidentiality. The information will not be used for any other purpose other than the objectives of this study.

INFORMATION ABOUT THE ORGANIZATION

1. How long has KEPSA operated in Kenya?
2. How many people have been employed under KEPSA?
3. How Many members make up KEPSA?
Instructions to interviewee

Occupation…………………………

(Use a √ where applicable)

1) What is your work experience in the industry?
   i. 0-5 [ ]
   ii. 6-10 [ ]
   iii. 11-20 [ ]

4) Have you heard of PPPs?
   i. Yes [ ]
   ii. No [ ]

5) Have you been involved in any of the PPP projects?
   i. Yes [ ]
   ii. No [ ]

INTERVIEW GUIDE QUESTIONS

1. The relationship between private sector and the public sector in Kenya
   • What do you understand by Public Private Partnerships?
   • Are you aware of the PPP Act?
• How can you describe the history of Public Private Partnerships in Kenya?
• How does the private sector and public sector interact?
• How can Kenya benefit from the interaction between private and public sector?

2. What challenges are faced through Public Private Interactions?
• What opportunities can be realized from the Public and Private sectors interacting?
• How can Kenya benefit from the interaction between private and public sector?
• How does the relationship between the two sectors affect how the PPP Act is implemented?
• How well does the Government of Kenya support PPP initiatives?
• PPPs can help reduce the current debt crisis in Kenya and reduce dependency on Aid
• Does the private sector perform better than the public sector?
• What role can the private sector play in helping attain economic self-reliance?
• Which avenue can the private sector contribute?
• How can the public sector benefit from the private sectors high profit returns?
• What can the public sector learn from the best practices of the private sector?
• Can Kenya achieve to reduce its debt margin through PPPs?
• What measures can Kenya take up to avoid the increase in debt?

3. Challenges affecting public-private initiatives

• Do various political regimes affect effectiveness of PPPs?
• Are PPPs affected by the various tax regimes?
• Since the private sector contributes significantly to the GDP does this affect how it interacts with the public sector?

• Does the private sector share similar challenges as the public sector?

• What are the challenges the private sector face interacting with the public sector?

• What are the platforms that exist to table out the challenges that are faced within PPP interactions?