# Public Sector and Infrastructure Insight

## Adapting with purpose: Embracing change, empowering a sustainable future

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# Introduction

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**Sustainability is now at the centre of development financing, with a growing shift towards domestic resource mobilisation, stronger partnerships, and reduced reliance on traditional aid models.**

**To our esteemed clients, PS&I readers, and valued stakeholders, it is my privilege to introduce the 2026 edition of PwC's Public Sector & Infrastructure Insights (PS&I), a publication dedicated to navigating the complex and evolving public sector landscape that supports societies and economies worldwide.**

The public sector remains the cornerstone of essential services, from regulation and security to health and education, delivered by governments directly or through partnerships with private entities. In today's dynamic environment, these foundational functions are more critical than ever.

We are witnessing profound geopolitical shifts that are reshaping global order and economic priorities. The ongoing Russia–Ukraine war, alongside escalating tensions involving Iran, the United States, and Israel, has disrupted global trade, supply chains, and energy markets. These developments have compelled governments and development partners to rapidly realign strategies and resources.

A watershed moment occurred in 2025 with the U.S. government's decision to end United States Agency for International Development (USAID) funding. This abrupt change has profoundly impacted development programmes and not for profit organisations (NPOs) dependent on this support, triggering widespread operational challenges. Additional donors, such as the UK's FCDO and Nordic countries, have also reassessed priorities, instituting funding reductions that further strain the development ecosystem.

This funding realignment has accelerated a broader structural shift from traditional aid models towards an "Aid to Trade" paradigm. Sustainability is now at the centre of development financing, with donors increasingly prioritising programmes that demonstrate long term economic viability, domestic resource mobilisation, and reduced dependency on external grants. As a result, there is a growing emphasis on deeper engagement with governments through strategic partnerships, co financing arrangements, and policy driven reforms aimed at embedding development outcomes within national systems.

Alongside these shifts in financing models, expectations around transparency, accountability, and financial reporting have also intensified. Donors and development partners

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are increasingly demanding stronger, standardised reporting frameworks that enhance comparability, credibility, and trust. Initiatives such as the International Non Profit Accounting Standard (INPAS) aim to harmonise financial reporting across the not for profit sector, reducing reporting fragmentation and strengthening stewardship of resources.

At the same time, International Public Sector Accounting Standards (IPSAS) aligned approaches, often operationalised through simplified “IPSAS in a Box” toolkits, are being encouraged, particularly where programmes interface closely with government systems. Together, these frameworks signal a move towards more robust financial and programmatic reporting and closer alignment with public financial management standards, reinforcing transparency as a core pillar of sustainability and partnership based development.

Amid these structural and accountability challenges, digital transformation and technological innovation, particularly Artificial Intelligence, are advancing at unprecedented speed. The question for public sector organisations is therefore clear: how prepared are institutions to harness these technologies to evolve service delivery, strengthen resilience, and operate effectively within this rapidly changing development landscape?

This edition of PS&I explores these vital themes with thought-provoking articles like The Future is Here: Resetting Health Financing, offering innovative pathways to sustainable healthcare funding; INPAS – A New Dawn in Financial Reporting for Not-for-Profit Organisations, emphasising transparency and accountability improvements; and IPSAS in a Box, PwC’s e-learning and certification solution designed to enhance expertise in public sector accounting standards.

At PwC, we are dedicated to supporting public sector leaders in adapting to these transformations with tailored solutions that build capacity, drive innovation and maximise impact. I encourage you to explore these insights, consider their implications within your sphere, and engage with us as we shape the future of public sector and infrastructure together.

The challenges are significant - so too are the opportunities. The future is here, and it is ours to shape.

# Foreword

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**Africa's infrastructure is increasingly recognised as a cornerstone of economic growth, urban transformation, and job creation for the continent's rapidly growing and urbanising youth population. Yet, rising demand continues to outpace delivery, underscoring the limits of traditional government procurement models.**

In response, countries across Africa are turning to innovative financing solutions that can mobilise private capital, accelerate infrastructure development, and better align public and private sector interests.

In this issue, we highlight the promising role of national infrastructure funds as a key mechanism to mobilize private capital for infrastructure development in urban areas.

The article **Financing Africa's Urban Future: How National Infrastructure Funds Can Close the Urbanisation Gap** explores Kenya's recent National Infrastructure Fund Act as a groundbreaking effort.

This fund exemplifies how governments can act as catalysts by pooling resources and creating investable, commercially viable projects that attract private sector participation.

Addressing urbanisation also means tackling the escalating affordable housing deficit. The piece Real Estate Investment Trusts (REITs): A Market-Based Path to Affordable Housing and Wealth Creation Amidst Rapid Urbanisation details how REITs can be leveraged to mobilise capital from a broad investor base.

More than just financing construction, REITs offer a path to deepen capital markets and promote wealth creation when supported by effective public policies and increased public awareness.

Together, these articles illuminate the essential role governments must play - not only as financiers but as enablers of environments that foster private investment and sustainable growth. Strategic government leadership, clear regulatory frameworks, and innovative funding mechanisms are vital to bridging Africa's infrastructure and housing gaps.

In addition, we consider the impact of the winding down of USAID on Africa's health sector. We examine new health financing models in a post-USAID context, highlighting emerging bilateral

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**Strategic government leadership, supported by clear regulatory frameworks and innovative financing mechanisms, is critical to unlocking private investment and driving sustainable infrastructure development across Africa.**

agreements and the opportunity for private sector co-investment in developing commercially viable health solutions.

Artificial Intelligence (AI) is also emerging as a powerful enabler for public sector transformation across Africa - offering governments the opportunity to reimagine service delivery, improve efficiency, and unlock economic growth. As highlighted in this issue, pragmatic and phased adoption of AI can help countries leapfrog legacy constraints, strengthen institutional capability, and respond more effectively to rising citizen expectations.

Realising this potential will require deliberate investment in data, digital infrastructure, and skills, alongside clear governance frameworks that ensure responsible and inclusive deployment.

For public sector leaders, the focus must now shift from isolated pilots to scalable platforms that deliver measurable, system-wide impact. As Africa's urban transformation accelerates, the public sector faces mounting pressure to innovate and collaborate with private partners and enhance transparency in reporting.

Underlying these themes is the importance of strong public financial management and transparent reporting. Standards such as IPSAS, supported by tools like PwC's IPSAS in a Box, are strengthening consistency and accountability across the public sector, while the emergence of INPAS provides a unified framework for not-for-profit organisations, enhancing transparency and comparability.

Together, these developments reinforce better decision-making, stronger stakeholder confidence, and more effective delivery of public value.

This edition aims to provide actionable insights on how governments can harness innovative financing tools today to meet the continent's infrastructure, housing and health needs of tomorrow.

We hope you find these perspectives both insightful and inspiring.

# 01 Private sector to catalyse sustainable growth through infrastructure development

**Infrastructure development is a key enabler for national economic growth and sustainable development through easing the movement of goods and people, employment creation, environmental protection and delivery of critical services such as power, healthcare, water and sewerage networks to society.**

According to the World Bank, Kenya's infrastructure sector faces an annual financing gap of approximately $2.1 billion, which continues to weigh on the country's growth trajectory. Addressing these needs will require sustained investment of close to $4 billion per year, underscoring a significant opportunity for both public and private capital to play a transformative role.

The government currently finances infrastructure through budgetary allocations from tax revenue, concessional borrowing and multilateral and bilateral arrangements. Given fiscal constraints, it has been actively encouraging private sector participation through Public Private Partnerships (PPPs). Additionally, the government has established the National Infrastructure Fund to mobilise and channel capital into priority projects, including providing instruments such as viability gap funding for social infrastructure.

The President has highlighted infrastructure investment as a cornerstone of economic growth, pointing to transformative projects including the Nairobi–Mombasa Expressway, the 100,000-kilometre National Fibre Optic Network rollout, the Nairobi Railway City, and major airport upgrades. Collectively, these initiatives will strengthen regional integration, boost competitiveness, and create a platform for inclusive economic expansion.

Kenya is strategically located, with the port of Mombasa serving as the gateway to the northern corridor, which transports nearly 66% of East African freight. To enhance the movement of goods, the government has partnered with private sector players to expand key sections of the corridor, including the Rironi–Mau Summit highway and the extension of the Standard Gauge Railway from Naivasha to Kisumu, with a further proposed extension to Malaba.

Additionally, the LAPSSET Corridor is catalysing new opportunities in regional sea transport, anchored by Lamu Port. This deep-water port can accommodate Post-Panamax and Ultra-Large Container vessels. Its first three berths are operational, representing the initial phase of a 32-berth master plan. The port is set to be linked to the proposed Lamu Special

**According to the World Bank, Kenya's infrastructure sector faces an annual financing gap of approximately $2.1 billion, while addressing needs will require sustained investment of close to $4 billion per year.**

Economic Zone, which is envisioned as a hub for manufacturing, value-added processing and logistics. The LAPSSET corridor will provide vital sea access for landlocked South Sudan and Ethiopia, establishing a competitive trade route for East Africa.

Kenya has also established dominance in regional air transport. Its location has cemented Jomo Kenyatta International Airport (JKIA) as a critical nexus for regional travel and commerce. Passenger traffic reached c. 9 million by the close of 2025, far exceeding the airport's design capacity of c. 7.5 million.

The government is planning a major expansion to accommodate a projected c. 23 million passengers by 2045. Additionally, cargo throughput is estimated to grow to c. 777,000 tonnes from a current throughput of c. 390,000 tonnes by 2045. This signals faster cargo demand than existing infrastructure. Key initiatives to address these constraints include two rapid exit taxiways, terminal upgrades, a second independent runway, new passenger terminals, and supporting infrastructure. The Kenya Airports Authority is exploring PPP arrangements, opening significant opportunities across airport infrastructure.

Kenya is among the global leaders in clean energy, with over 90% of its firm electricity generated from renewable sources. According to Energy and Petroleum Regulatory Authority (EPRA), peak demand in 2025 surged from 2,316 MW in February to 2,439 MW in December. In contrast, installed capacity stands at approximately 3,840 MW, with limited growth in the last 5 years. This widening supply-demand gap, combined with high grid tariffs, has created a market for Commercial & Industrial captive power solutions. Kenya's abundant solar and wind resources enhance the viability of off-grid and behind-the-meter projects, creating opportunities in solar PV, battery energy storage systems, smart energy management, and carbon credit advisory.

Just as energy security is foundational, so too is water management. The government's national strategy prioritises bulk water infrastructure, creating pathways for private sector involvement in these capital-intensive projects.

This is underpinned by the Water (Amendment) Bill, 2023, which provides the legal framework for partnerships and empowers county governments to enter into direct agreements with private partners for local water and sanitation services. WASH sector investments potentially require blended finance structures, given water is a social good with subsidised tariffs that are often not cost reflective. Patient and first-loss capital, such as that channelled through the National Infrastructure Fund, can play a catalytic role by providing viability gap funding.

Building on its 'Silicon Savannah' reputation, Kenya is positioning itself as the leading data centre hub in East Africa. Initiatives such as Konza Technopolis Smart City underscore this priority, while the real opportunity lies with private players developing facilities to meet growing demand for data-intensive services. The government is streamlining the deployment of fibre cables along roads and power lines, creating opportunities across data centre construction, network engineering, cybersecurity, and last-mile internet solutions.

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Additionally, Kenya presents a highly attractive environment for private sector participation through Public-Private Partnerships (PPPs), supported by a strong regulatory framework under the PPP Act, 2021, and an active PPP Directorate with the capacity to originate, structure, and implement projects.

The country has an established track record of PPP delivery and a robust pipeline across different sectors, reinforced by government support mechanisms such as letters of support and guarantees that enhance project bankability.

Macroeconomic factors, including a relatively stable local currency and availability of local currency guarantees, help mitigate foreign exchange risks, while well-defined risk allocation frameworks ensure risks are borne by the party best positioned to manage them. Combined with diverse investment opportunities and fiscal pressures that incentivise private sector participation, PPPs serve as a critical tool for financing infrastructure and driving Kenya's long-term economic growth.

In conclusion, the investment narrative across Kenya's key infrastructure sectors is remarkably consistent. In each area, from transport and energy to WASH and digital, a clear gap between current capacity and future demand exists. The government is responding with ambitious strategies that encourage private capital and expertise, creating opportunities for investors through PPPs and direct investments to capitalise on Kenya's long-term growth.

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# 02 The future is here: resetting health financing

**The global health sector is undergoing a structural reset. Declining development assistance, rising sovereign debt, climate shocks, and geopolitical fragmentation have converged to constrain the fiscal space available for health, particularly in low and middle income countries.**

The World Health Organization and the World Bank confirm that progress towards universal health coverage has slowed significantly since 2015, with 4.6 billion people still lacking access to essential services and more than 2.1 billion facing financial hardship from out of pocket health spending. This context signals not a temporary funding dip, but a long term shift in the global financing environment, one that requires fundamental reform of how health is financed, governed, and delivered.

Crucially, this shift has arrived at a moment when the limitations of the prevailing model are no longer theoretical. Reduced funding has exposed, rather than caused, deep structural misalignments: fragmented aid flows, short term project cycles, parallel delivery systems, and accountability mechanisms oriented more towards external partners than domestic institutions. The question confronting the sector is therefore not how to restore a previous equilibrium, but whether it will use this period of constraint to redesign the system, or default to managing scarcity through incremental adjustment.

This reality has catalysed a new generation of reform agendas that explicitly challenge legacy aid models. Among the most influential is the Accra Reset, launched in 2025 under the leadership of African heads of state. The Accra Reset argues that the prevailing global development architecture, characterised by fragmented aid, rigid conditionalities, and donor driven priorities, is no longer fit for purpose in a post SDG, fiscally constrained world. Health is deliberately positioned as the entry point and proof of concept for a broader transformation centred on sovereignty, workability, and shared value. Rather than calling for more aid, the Accra Reset calls for new governance and financing models that enable countries to build self sustaining health systems, reduce dependency, and mobilise investment at scale.

Importantly, the Accra Reset reframes reduced global funding not as a crisis to be mitigated, but as an opportunity to accelerate health sovereignty. It explicitly links health outcomes to domestic investment, regional manufacturing, workforce development, and smarter use of capital. This framing reflects lessons from the COVID 19 pandemic, which exposed the fragility of global supply chains and the risks of over reliance on external actors for essential health goods. In doing so, the Accra Reset moves beyond technical reform

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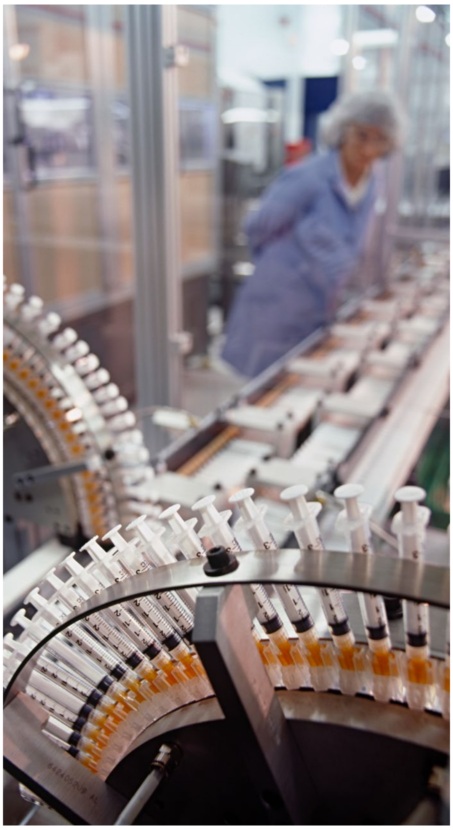

and directly challenges the political economy of global health, questioning who controls resources, who sets priorities, and who bears risk when systems fail.

Running in parallel, and complementary in intent, is the Lusaka Agenda, launched in December 2023 following a 14 month, country led consultation process co-chaired by Kenya and Norway. The Lusaka Agenda focuses specifically on reforming the role of Global Health Initiatives (GHIs) as a lever for transforming the wider health financing ecosystem.

It articulates five critical shifts, including stronger alignment with country priorities, greater coherence across financing channels, increased domestic financing, a renewed focus on primary health care, and mutual accountability between countries and partners. Collectively, these shifts aim to move global health financing away from fragmented, vertical programmes towards integrated, system strengthening approaches.

Crucially, the Lusaka Agenda does not reject external financing. Instead, it redefines its purpose. External resources are expected to play a catalytic role - supporting transition, strengthening public financial management, and financing global and regional public goods, rather than perpetuating parallel delivery systems.

This repositioning is particularly salient in a context of declining donor budgets, where the effectiveness and alignment of each dollar matters more than ever. The Agenda's subsequent endorsement by the G20 signals that these principles are gaining political traction beyond technical health circles, even as their operationalisation remains uneven.

At the macro financing level, the Compromiso de Sevilla for Action reinforces this direction. Adopted at the Fourth International Conference on Financing for Development in 2025, the Sevilla outcome recognises a widening global financing gap and explicitly calls for reforms to the international financial architecture, debt relief mechanisms, and innovative financing instruments to expand fiscal space for social sectors, including health.

It affirms that domestic public resources must sit at the centre of sustainable development financing, while international partners align behind country led strategies such as Integrated National Financing Frameworks. The Lusaka Agenda and Accra Reset can be understood as health sector expressions of this broader consensus.

Taken together, these frameworks converge on a shared diagnosis: the historical model of health financing, characterised by short term grants, earmarked funding, and upward accountability to donors rather than domestic institutions - is misaligned with today's fiscal and epidemiological realities.

Reduced global funding has simply made this misalignment more visible and more consequential. Evidence from the WHO and World Bank consistently shows that countries making sustained progress towards universal health coverage rely more heavily on pooled public

**The defining question for the global health community is therefore not whether reform is necessary, but whether this moment will be seized to reset the system—or allowed to pass with its structural failures intact.**

financing, strong primary health care systems, and effective purchasing arrangements. Where systems remain fragmented, households absorb the shock through out of pocket spending.

Within this context, operational insights from surveys by firms such as PwC provide useful but secondary evidence. They document how donors and implementers are responding tactically to funding pressure, by consolidating portfolios, demanding clearer results, and prioritising flexibility.

These responses, however, largely echo the structural reforms already articulated in the Lusaka Agenda and the Accra Reset. The core challenge is not organisational efficiency alone, but systemic redesign: aligning financing instruments, governance arrangements, and accountability mechanisms with country led health strategies.

A defining implication of both the Accra Reset and the Lusaka Agenda is the renewed centrality of domestic resource mobilisation. This is not presented as an immediate substitute for aid, particularly in fragile or conflict affected settings, but as a deliberate, phased transition.

The Lusaka Agenda explicitly calls for clearer transition planning, co financing arrangements, and stronger integration of external funds into national budgets and systems. Without such planning, abrupt funding withdrawals risk service disruptions and reversals in coverage, an increasingly likely scenario in the current fiscal climate.

Equally important is the emphasis on flexibility and predictability. Both agendas challenge rigid funding cycles and earmarking practices that undermine system integration. Multi year financing, pooled funds, and outcome oriented approaches are framed not as optional innovations, but as prerequisites for resilience.

This aligns with the Sevilla commitment to predictable and accessible financing, as well as WHO guidance on protecting essential services during periods of fiscal stress.

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The reform agendas also place regional institutions at the centre of the future health architecture. The Lusaka Agenda's Africa specific roadmap, developed with Africa CDC, explicitly promotes regional public goods such as surveillance, regulatory harmonisation, pooled procurement, and manufacturing.

The Accra Reset similarly emphasises regional platforms and "deal rooms" to mobilise investment across health, climate, and food systems. These approaches recognise that efficiency, sovereignty, and scale are not mutually exclusive, but mutually reinforcing when organised at the appropriate level.

In sum, reduced global health funding has accelerated a convergence of thinking that was already underway. The Accra Reset provides the political narrative and ambition; the Lusaka Agenda offers a concrete reform pathway for health financing; and the Sevilla framework anchors these shifts within a broader global financing architecture. Together, they signal a move away from managing scarcity towards redesigning systems for sustainability.

This moment, however, is neither neutral nor open ended. The current period of constraint has created a rare alignment of political recognition, reform ideas, and institutional momentum. Credible alternatives to the historical financing model now exist, and there is growing acknowledgement that incremental adjustment will no longer suffice.

But this window will not remain open indefinitely. If these agendas are not operationalised with discipline and coordination, the system will not revert to abundance; it will settle into fragmented scarcity, managed through crisis response rather than strategic reform.

The defining question for the global health community is therefore not whether reform is necessary, but whether this moment will be seized to reset the system - or allowed to pass with its structural failures intact.

# 03 Financing Africa's urban future: how national infrastructure funds can close the urbanisation gap

**Africa is urbanising at an unprecedented rate, with its urban population estimated to increase by over 900 million people by 2052. This rapid growth is outpacing the capacity of existing financing mechanisms to fund essential infrastructure such as roads, water, housing, power, and transport.**

African cities face underinvestment in essential infrastructure, with inadequate water systems forcing millions to rely on costly informal vendors, overburdened transport networks creating significant congestion costs, and housing deficits pushing families into informal settlements that lack basic sanitation and electricity. The funding gap is equally daunting. The African Development Bank (AfDB) estimates the continent requires between USD 130-170 billion annually in infrastructure investment, yet current spending covers only USD 68-108 billion.

National infrastructure funds offer a compelling solution: they pool disparate revenue sources into dedicated vehicles capable of financing the large-scale, long-term urban transformation that Africa's future demands through use of innovative instruments. A national infrastructure fund is a ring fenced, professionally managed vehicle that deploys capital to priority infrastructure projects. It may be designed to attract institutional and private investors' participation in infrastructure projects, beyond the government's own capital contributions.

A national infrastructure fund may consolidate revenues from multiple sources e.g., privatisation proceeds, asset recycling (benefiting from the proceeds of mature assets), development charges, government allocations and donor contributions, into a single dedicated vehicle, creating a critical mass of capital that individual projects could not assemble independently.

This pooling is particularly transformative for rapidly growing cities, enabling them to access equity and quasi-equity financing for networked infrastructure across entire urban corridors rather than struggling to fund isolated projects. Kenya has recently approved such a fund, designed to leverage sovereign contributions and attract private sector capital. The approach reflects recognition that fragmented funding streams cannot meet the scale of Africa's urbanisation demands, and that strategic, centralised allocation of capital to areas of greatest need is more effective than leaving cities to compete individually for limited resources.

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According to AfDB, Africa holds over USD 2.1 trillion in assets under management (AuMs) through institutional investors and sovereign wealth funds, yet less than 5% is currently invested in infrastructure, representing an untapped pool of domestic capital.

Pension funds are particularly well-suited for infrastructure investment, as their liabilities stretch decades into the future, matching the 15-to-30-year tenors that infrastructure assets typically require, terms that commercial lenders in emerging markets are often unwilling to provide.

Infrastructure projects tend to be exposed to multiple risk factors; political instability, currency volatility, regulatory uncertainty, and lengthy payback periods. Such characteristics often make them unattractive to private capital. Urban projects are particularly challenging, with additional complications around land acquisition, informal settlements, and the need to coordinate networked horizontal infrastructure.

Consequently, only around 10% of African infrastructure projects reach financial close. National infrastructure funds can bridge this gap by absorbing risks through mechanisms such as project preparation facilities, guarantees, first-loss capital, and blended finance structures. By taking on early-stage risk or enhancing creditworthiness, these funds make otherwise unbankable projects viable.

National infrastructure funds may provide the funding stability that insulates long-term projects from the budget volatility of political cycles, giving investors' confidence that projects will not be abandoned mid-construction.

They can finance the often-overlooked project preparation phase, which is where many projects fail despite capital being available. Further, they can demonstrate that urban infrastructure can deliver commercially attractive returns, building a track record that secures investor confidence and attracts further capital.

However, these funds do not operate in isolation. Several complementary implementations and financing mechanisms can strengthen the broader urban infrastructure ecosystem.

Public-private partnerships (PPPs) enable governments to leverage private capital and expertise for projects, though they require sophisticated legal frameworks and careful risk allocation to avoid excessive costs or fiscal liabilities. Development impact fees could shift infrastructure costs to

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property developers whose projects generate demand, creating a direct link between urban growth and funding. Blended finance improves project viability by combining concessional donor funding with commercial capital, though fragmented donor support remains a challenge best addressed through pooled financing facilities.

Whilst the financing challenge is immense, national infrastructure funds offer a powerful mechanism to mobilise capital, provided they are properly designed with safeguards such as independent boards, merit based and performance-based allocation, and transparent project selection to mitigate risks of misgovernance, politicisation, and crowding out of government finance.

The urgency is clear. Every year that passes without adequate urban infrastructure investment locks in patterns of informal settlement, inadequate services, and constrained economic productivity that will prove costly to reverse. National infrastructure funds cannot solve every challenge, they require complementary reforms in land management, urban planning, and municipal governance. However, they can provide the patient, pooled capital that urban infrastructure demands.

The question is no longer whether such funds can work, but whether governments will summon the political will to establish and sustain them before Africa's urban transformation overwhelms its infrastructure capacity.

# 04 Africa's AI moment: how governments can turn algorithms into public value

## A continent at an inflection point

Africa's governments face a defining moment. With rising citizen expectations, public budgets that are stretched thin, and an urgent development agenda, Artificial Intelligence (AI) offers something powerful: the chance to leapfrog legacy bottlenecks and build modern "AI-native" public systems from the ground up.

The opportunity is huge. Pragmatic, phased AI adoption in the public sector can deliver three powerful and mutually reinforcing benefits: stronger government efficiency, better public services, and accelerated economic growth. Critically, the cost of inaction is rising. Governments that delay risk widening the gap between citizen expectations and institutional capability.

## Wins Africa cannot afford to miss

The potential gains are striking. Studies suggest that adopting AI across the public sector could increase real GDP by up to 4% by 2035, help reduce government deficits, lower unemployment by up to 1.5 percentage points, and raise household incomes by 2%. Crucially, only about 40% of jobs in emerging economies are "AI-exposed," compared to 60% in advanced economies - meaning Africa faces lower disruption risk while standing to gain the most from productivity gains.

The global outlook reinforces the urgency. AI is expected to make international trade faster, cheaper, and more efficient potentially expanding global GDP by 12–13% by 2040. This is a wave of opportunity that African economies simply cannot afford to miss.

## The four building blocks of Africa's AI future

For AI to translate into measurable impact, governments must invest in a set of core enabling capabilities. Building on leading global practices and PwC's public sector experience, four foundations are critical:

The first is a cloud-first, AI-ready policy stance. Affordable and secure access to scalable computing power, whether through emerging regional cloud hubs or established global providers which can dramatically shorten delivery timelines while signaling confidence to private investors hungry for African opportunities.

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Equally important is skilling at scale. Capability-building must be deliberately tiered: from foundational AI literacy across government ministries, departments and agencies, to a strong base of practitioners who can deploy solutions, to a carefully nurtured pipeline of homegrown innovators. Nonprofit organisations are also advancing the digital skilling agenda, and this offers a launchpad to scale these efforts efficiently.

The third building block is modern data systems. AI is only as good as the data behind it, and for Africa this means investing in representative, well-governed datasets that capture the continent's rich diversity of languages, cultures, and lived realities - supported by trusted cross-border data-sharing arrangements that enable regional collaboration.

Finally, none of this is sustainable without enabling policies. A coherent national AI strategy, a central coordinating authority, and continuous feedback loops are what ultimately keep momentum alive, ensure accountability, and most importantly earn the trust of the citizens AI is meant to serve.

Together, these four enablers form the scaffolding on which Africa can build an AI-powered public sector that is not only efficient and innovative, but also inclusive and trusted.

## Knowing where you stand: the four AI readiness archetypes

No two African governments are starting from the same place when it comes to AI adoption, and understanding your starting point is the first step toward building a realistic strategy. A helpful diagnostic framework groups countries into four readiness archetypes:

- Explorers are those in the early stages, still building the basic digital foundations, skills, and policies needed to support AI. Their priority should be laying the groundwork - investing in connectivity, data systems and digital literacy.

- Infrastructure Ready are those that have solid digital backbones such as reliable internet, data centers and cloud capacity, but still lack the governance frameworks to

**Governments that act decisively now will not only improve service delivery today but will shape the operating model of the African state for the next decade.**

deploy AI responsibly. Their next step is developing clear policies, ethical guidelines, and regulatory structures.

- Governance Ready are those who have strong policies, laws and institutional frameworks in place, but need to strengthen their technical infrastructure and talent pipeline to put those policies into action.
- Leaders are those that have aligned both infrastructure and governance. Their focus shifts to scaling AI solutions, driving innovation, and sharing lessons across the region.

So how do you know where you fit? A self-assessment that honestly evaluates four key areas which include digital infrastructure, data availability, governance and policy maturity, and human capital can reveal your archetype.

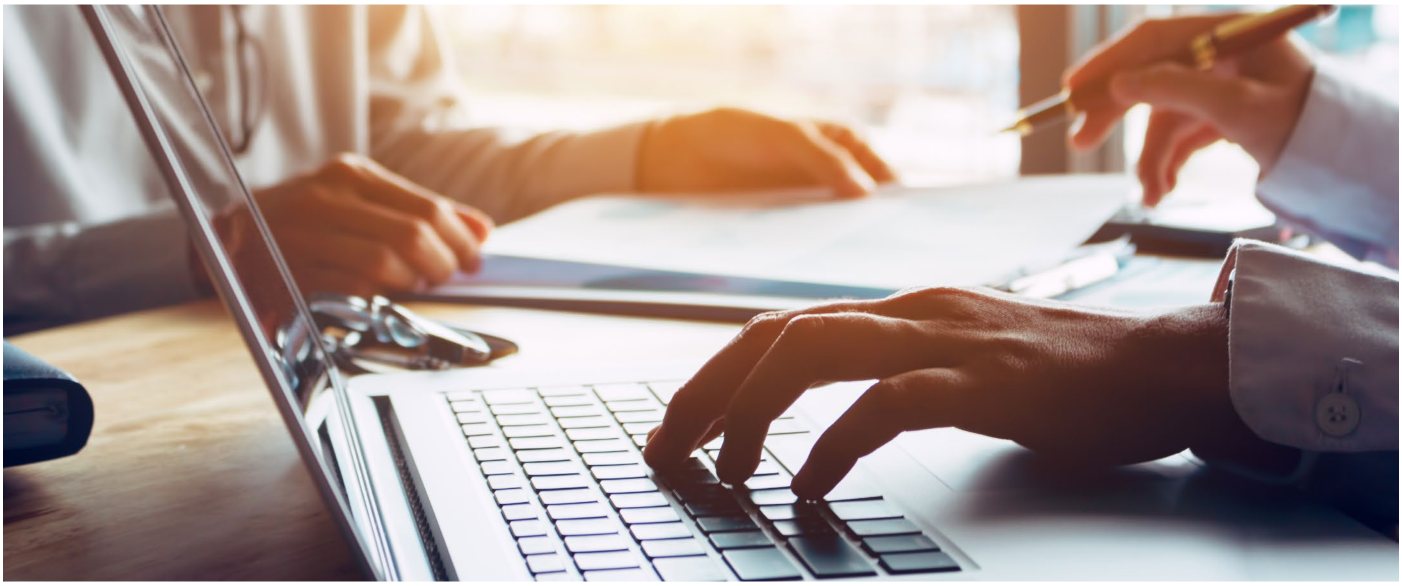
From there, leaders can prioritise the right investments instead of trying to fix everything at once. This focused approach helps governments avoid the costly trap of "boiling the ocean" and instead make targeted progress that builds momentum over time.

## AI in action across Africa: solutions making a real difference

Across Africa, artificial intelligence is moving beyond buzzwords and into everyday life. From farms to classrooms to clinics, AI is being applied across key thematic areas which include agriculture, education, climate, healthcare, urban planning and social development, to solve real problems in practical ways.

Here are some examples:

- **Agriculture:** smarter farming for a farming continent - with agriculture being the backbone of most African economies, AI tools are making a real difference on the ground. Farmers can now snap a photo of a sick plant on their smartphone to identify diseases instantly, while platforms like Google Earth Engine help them monitor crop health and detect climate-related threats early.
- **Education:** bringing math tutors to every student - in the education space, an AI-powered math tutor is now reaching junior secondary school students through simple SMS messages. The beauty of this approach? Students don't need a smartphone or internet connection to learn, showing that AI can meet people exactly where they are.
- **Social and economic impact:** empowering non-profits through the generative AI accelerator. This is equipping non-profit organisations with generative AI tools to expand their impact on areas like community health outreach, classroom learning and farming support.
- **Climate:** predicting floods before they hit - as climate change makes weather harder to predict, AI-driven flood forecasting tools are giving vulnerable countries early warnings. These predictions help communities prepare, evacuate, and protect lives and property before disaster strikes.



- **Healthcare:** catching tuberculosis through a cough - in healthcare, AI is being trained to detect tuberculosis simply by analyzing the sound of a person's cough. This low-cost, easy-to-access screening method could be a gamechanger for early diagnosis in communities with limited medical infrastructure.
- **Urban planning:** mapping the unmapped - Google's Open Buildings project uses AI to map structures across Africa that were previously invisible on official records, supporting better urban planning, tax systems, and disaster response.

**So how do you know where you fit? A self-assessment that honestly evaluates four key areas which include digital infrastructure, data availability, governance and policy maturity, and human capital can reveal your archetype.**

## Sequencing the roadmap

Smart adoption sequences use cases into three tiers:

1. **Foundational catalysts –** quick wins like document automation and chatbots in ministries.
2. **Capability builders –** mid-complexity tools (e.g., AI tutors and customs automation).
3. **Transformational bets –** AI-native tax administration, digital judiciary platforms, and integrated health systems.

Start with quick wins; build towards systemic transformation.

## A playbook for African public sector leaders

1. Assess your starting point by conducting an AI readiness assessment.
2. Invest in data, talent, technology and governance.
3. Prioritise high impact use cases by sectoral relevance and readiness.
4. Build a tiered AI skills pipeline across the civil service.
5. Embed responsible AI principles - ethics, transparency and human oversight - from day one.
6. Leverage regional cooperation to scale data, talent and infrastructure.

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## Conclusion: From pilots to platforms

Africa has a unique opportunity to define a new model of governance - one that is digital, intelligent, and citizen-centric by design.

The next phase of AI adoption must move beyond isolated pilots toward integrated platforms that deliver system-wide impact. Governments that act decisively now will not only improve service delivery today but will shape the operating model of the African state for the next decade.

The opportunity is generational. The time is now.

## How PwC helps governments unlock AI value

PwC supports governments and public sector organisations in harnessing AI to drive efficiency, enhance citizen services, and accelerate economic growth. Our approach combines deep industry expertise with leading technology capabilities to help clients move from strategy to execution.

We work with governments to assess AI readiness, define high-impact use cases, build AI powered applications and design scalable operating models underpinned by robust data governance and responsible AI principles.

Through our global alliances and local delivery expertise, PwC helps build the foundational enablers - from cloud and data platforms to workforce upskilling - ensuring AI investments translate into sustainable, measurable public value.

# 05 INPAS: a new dawn in financial reporting for not-for-profit organisations

**For decades, Not-for-Profit Organisations (NPOs) around the world operated without a unified financial reporting framework. Unlike the corporate and public sectors - which benefit from globally recognised standards such as the International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS) - NPOs relied on donor specific templates, country-specific regulations, and organisation designed policies and reporting formats.**

For entities operating in multiple jurisdictions, this patchwork of requirements eroded comparability, created inconsistencies, and significantly increased the workload involved in financial reporting. In many cases, teams prepared several sets of financial statements for donor reporting and another for consolidation or statutory purposes, often duplicating work and consuming time and resources that could have been channeled towards mission-focused activities.

This fragmented landscape is finally changing. On 20 October 2025, the Not-for-Profit world witnessed a milestone: the launch of the International Non-Profit Accounting Standard (INPAS) - the first comprehensive global financial reporting standard specifically designed for NPOs. INPAS is expected to transform how non-profits prepare, present, and communicate financial information by enhancing transparency, strengthening credibility, and easing the burden of multi-grant and multi-donor reporting.

The standard was developed through the International Financial Reporting for Non-Profit Organisations (IFR4NPO) project, led by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Humentum, a global consultancy for non-profits and non-governmental organisations (NGOs).

The standard is the product of an extensive six-year consultative process involving stakeholders from more than 40 countries. This process generated one of the most comprehensive bodies of feedback ever collected for NPOs financial reporting. Research conducted during the project revealed widespread support for a global standard: 72% of respondents agreed that an international framework would greatly benefit the sector.

Importantly, the development approach relied on several advisory groups - technical, consultative, and practical - to ensure that the emerging guidance balanced theoretical

**One of the most persistent blind spots under the IFRS for SMEs standard was how NPOs should account for resources they give away, i.e. grants, donations and similar transfers made to partners and beneficiaries.**

**Research conducted during the project revealed widespread support for a global standard: 72% of respondents agreed that an international framework would greatly benefit the sector.**

rigor with real-world feasibility. This approach ensured that technical considerations of the standard made sense to the real world.

The preparation of financial statements is crucial for ensuring accountability, facilitating informed decision making and sustaining public trust. Yet, traditional accounting standards have often fallen short in addressing the unique characteristics of NPOs. INPAS is specifically designed to address the unique characteristics of NPOs and the types of transactions they undertake.

For instance, one of the most persistent blind spots under the IFRS for SMEs standard was how NPOs should account for resources they give away, i.e. grants, donations and similar transfers made to partners and beneficiaries.

INPAS closes that gap with Section D2, which sets out a clear, decision-tree approach to recognising and presenting grant expenses, both with and without enforceable fulfilment rights. Fulfilment rights are a grantor's enforceable right to have the grant recipient satisfy its delivery obligation in a manner specified in the grant agreement or be required to address the consequences specified in the agreement.

If no fulfilment right exists, the expense is recognised when the NPO loses control of the resource. If a fulfilment right exists - such as a requirement for specified outcomes - the expense is recognized only when that right is extinguished. Until then, the NPO records a liability or, where relevant, a prepayment asset. INPAS also aligns presentation of these flows with fund accounting whereby expenses are charged to restricted or unrestricted funds as appropriate. It further requires transparency on principal - agent arrangements and any rights to refunds when conditions are not met. The result is comparability and audit-ready clarity in an area once governed by policy analogies and donor conventions rather than common rules.

Equally, NPOs have long wrestled with how to define, allocate, and disclose the cost of raising funds, i.e. what cost belongs in fundraising versus programmes, whether to net fees against income, and how to treat multi-purpose campaigns. INPAS Section D3 standardises this and defines the scope of fundraising activities, from appeals and events to grant-application effort and donor stewardship.

It requires costs to be presented gross and not netted against income, and mandates consistent allocation of direct, shared and support costs using methods that faithfully represent the full cost of fundraising.

INPAS also addresses edge cases, such as investment management costs which should be included when returns fund the mission, and multi-purpose activities, where costs must be split on a reasonable basis or, only where splitting involves undue cost or effort, assigned to the primary purpose with a disclosure of that judgement.

Required note disclosures then explain categories, allocation bases, and any exemptions applied, a move that shifts the conversation from debate to disclosure.

The two examples above are based on new INPAS sections which have no equivalent to the IFRS for SMEs Accounting Standard.

**The launch of the International Non-Profit Accounting Standard (INPAS) marked the first comprehensive global financial reporting standard specifically designed for NPOs.**

The INPAS standard was developed to meet three key objectives of (a) improving the quality, transparency and credibility of financial reports for non-profits, (b) supporting the provision of financial information for decision-making and accountability for preparers and users; and (c) addressing specific issues to promote comparability of non-profits' reports.

INPAS is set to provide a consistent, accrual-based financial reporting framework tailored to the needs of non-profit entities. It addresses issues that traditional standards often overlook, such as the recognition of grants and donations, the distinction between restricted and unrestricted funds, and the importance of narrative reporting to show both financial sustainability and mission achievement.

The INPAS standard also recognizes that the NPO sector is made of NGOs that operate in diverse settings and with varied levels of financial reporting complexities. The standard's initial focus is on those NPOs where accrual-based financial reporting is needed to recognize and measure assets and liabilities and a range of more complex transactions and activities.

Although INPAS is a new stand-alone standard, it draws heavily from established international accounting frameworks that promote the use of general-purpose financial statements and other financial reporting.

The three international financial reporting frameworks that have been used in developing INPAS are the third edition of the IFRS for SMEs Accounting Standard (the IFRS for SMEs Accounting Standard), full IFRS Accounting Standards, and International Public Sector Accounting Standards (IPSAS).

The foundational framework of INPAS is, however, the IFRS for SMEs Accounting Standard. This means that INPAS incorporates this framework generally without amendment where an NPO-specific reporting solution to an accounting issue is not required or has not been developed; or the financial reporting solution provided by the IFRS for SMEs Accounting Standard is comprehensive and provides appropriate guidance for NPOs.

Where the IFRS for SMEs Accounting Standard does not meet the needs of NPOs, INPAS draws on its own concepts and pervasive principles, full IFRS Accounting Standards, IPSAS and their respective conceptual frameworks to provide sector-specific reporting solutions through modifications to the IFRS for SMEs Accounting Standard. While this is the case, it does not mean that any changes made to the IFRS for SMEs Accounting Standard, full IFRS

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Accounting Standards, IPSAS and jurisdictional-level standards will automatically apply to INPAS. Such developments will be considered for future editions of INPAS to determine whether changes for subsequent editions are required.

The Technical Advisory Group (TAG) reviews INPAS and related documents such as interpretations of INPAS specifications. The Chartered Institute of Public Finance and Accountancy (CIPFA) approved the first edition of INPAS prior to the creation of the International Non-Profit Reporting Foundation (INPRF), the body charged with responsibility for maintaining and promoting the standard.

Locally in Kenya, momentum towards adoption has already begun. The Institute of Certified Public Accountants of Kenya (ICPAK) issued a technical advisory on the adoption of INPAS to guide financial reporting for the Not-for-Profit sector in Kenya on 21 October 2025.

In this advisory, ICPAK confirmed that the new standard would be adopted in Kenya with a detailed INPAS adoption roadmap to be issued following receipt of feedback on adoption readiness, support and feedback on the proposed timelines by the standard. This development positions Kenya among the early adopters of the new global standard, a commendable step for a country with a vibrant and diverse non-profit ecosystem.

In conclusion, the arrival of INPAS represents one of the most significant advancements in global financial reporting for the not-for-profit sector. It represents a long-awaited harmonization of a sector known for its diversity but previously hindered by inconsistent reporting practices. For NPOs, the benefits go beyond improved compliance. They extend deeper accountability, increased trust, and more meaningful demonstration of impact.

INPAS carries the promise to elevate the financial reporting landscape and strengthen the credibility of a sector that plays a vital role in social and economic development. Its promise is clear: more transparency, more comparability, and a stronger foundation for telling the real story behind the numbers.

# 06 Blended finance for development: getting the guardrails right

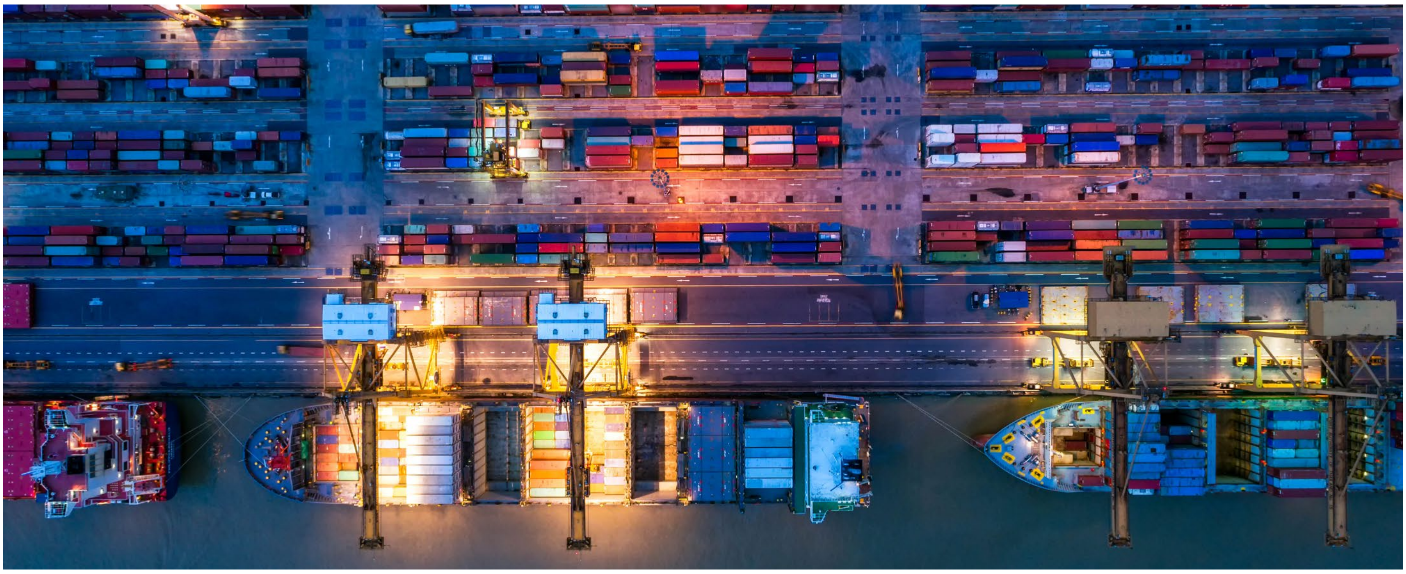
**County governments sit at the frontline of development in Kenya, delivering services that shape everyday life, from primary healthcare and county roads to water, drainage, markets, agriculture and urban management. They manage budgets of about KES 600 billion annually, making them central to service delivery and local economic transformation.**

Yet counties are being asked to deliver more in a constrained fiscal environment. In FY 2024/25, counties spent KES 470.74 billion against an approved budget of KES 601.69 billion, an absorption rate of 78%. Of this, 74% went to recurrent expenditure, while only 26% went to development, with development absorption reaching just 57% of the approved budget. This was compounded by a 23% shortfall in own-source revenue against target and rising pending bills with 23 counties failing to meet the 30% development spending threshold.

At the same time, development pressures are intensifying. Kenya's urban population stood at approximately 31.2% in the 2019 Kenya Population and Housing Census, increasing demand for roads, drainage, waste management, water systems and public health infrastructure. Counties are also on the front line of climate risks. The result is a widening gap between county responsibilities and their ability to finance long-term service improvements.

This is where blended finance can bridge the gap. With recurrent spending absorbing most available resources, counties often lack the upfront capital needed to prepare and implement projects at scale. Blended finance can close part of this gap by using public or concessional resources as seed funding to de-risk projects, improve affordability and catalyse private capital into sectors that are socially important but not immediately commercially viable on their own. This may include technical assistance, guarantees, grant support or concessional financing to improve project bankability and crowd-in additional investment.

Its relevance is clearest in sectors such as water and sanitation, waste management, agricultural aggregation and storage, and climate adaptation infrastructure, where public need is high, but revenue streams may be partial or uneven. Carefully structured seed financing can absorb early-stage risk, support project preparation and improve viability, making it easier for private investors and lenders to participate. It can also reduce the overall cost of projects through concessional financing, improving affordability and viability,



particularly for socially important projects where service delivery is a greater priority than commercial returns. Effective risk-sharing arrangements can further improve the financing mix by enabling greater use of lower-cost debt relative to equity.

But blended finance is not a shortcut around fiscal constraints. If poorly designed, it can create hidden fiscal obligations, weak value for money and financing decisions driven more by bankability than by citizen need. These risks matter even more in a context where Kenya's public debt stands at approximately KES 12.86 trillion, or 69.4% of GDP. The key question is therefore not whether counties should consider blended finance, but how they can use it to optimise risk allocation, reduce financing costs and attract investment without compromising public accountability.

It requires a disciplined framework.

It begins with a clear public value test. The problem the project is seeking to solve needs to be clearly defined, alongside why blended finance is the most appropriate instrument and what public benefit justifies the use of concessional or fiscal support. This is important because not every funding gap requires blending. In some cases, direct public financing, grants or conventional procurement may be more efficient. Blended finance should only be used where it addresses a genuine market failure, improves affordability or unlocks outcomes that would not otherwise happen.

Strong project preparation is equally critical. Many projects fail not because capital is unavailable, but because feasibility studies, demand analysis, affordability assessments, legal structuring and implementation planning are weak. Well-prepared, investment-ready projects are generally more likely to attract private and blended finance. Good preparation also strengthens negotiation and reduces the risk of poorly structured deals.

Fiscal risk management matters just as much. Blended finance must sit within Kenya's broader public financial management framework. Under the Public Finance Management Act, 2012 and the Public Finance Management (County Governments) Regulations, 2015, counties may only take on borrowing or similar long-term financial obligations for development purposes, subject to County Assembly approval and National Treasury oversight. This

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means that guarantees, minimum revenue commitments, payment undertakings and other contingent liabilities associated with blended structures must be properly assessed, disclosed and reflected in county budgeting, reporting and oversight processes.

Transparency is another essential safeguard. Counties should disclose the project rationale, financing structure, public commitments and risk-sharing arrangements in ways that county assemblies, oversight institutions and citizens can understand. Where financing structures are complex, transparency becomes the main safeguard against weak scrutiny, poor decisions and disputes later in implementation.

Success should be judged by outcomes, not mobilisation alone. The real test is whether blended finance expands access to services, improves affordability, reaches underserved communities, strengthens resilience or supports local economic activity. Mobilising private capital is useful, but it is not an end in itself. Public value remains the benchmark.

Underlying all of this is institutional capacity. Counties need the capacity to originate, assess, negotiate and monitor blended finance transactions, including financial analysis, procurement discipline, legal review, contract management and performance monitoring.

Building that capacity will require more than one-off training. Practical avenues include project preparation support, transaction advisory assistance, standardised toolkits for assessing fiscal risk and value for money, and targeted capacity-building led by institutions such as the National Treasury, the Council of Governors and development partners.

Kenya's own experience offers useful lessons. The Lake Turkana Wind Power project is one example of blended finance, having combined private equity, development finance debt, grant funding and risk mitigation instruments to support one of the country's largest renewable energy investments. The financing structure helped mobilise capital that may not otherwise have been available for a project of that scale and risk profile.

At the same time, the project highlights the importance of strong governance, community engagement, land rights protections, social safeguards and coordinated public-sector implementation. Disputes relating to land acquisition, community consultation and transmission infrastructure delays illustrate that successful financing mobilisation alone does not guarantee successful development outcomes.

Both the financing structure and the broader social, environmental and institutional dimensions of implementation matter. More broadly, Kenya's infrastructure and energy experience demonstrates both the potential and the risks of blended financing approaches when public value, accountability and implementation readiness are not considered alongside financial mobilisation.

Blended finance is therefore not a shortcut around fiscal constraints. For counties, it is a strategic tool that can help bridge the gap between rising development needs and limited capital spending, while lowering financing costs and improving project viability.

However, it can only deliver sustainable development outcomes if it is designed with discipline, transparency, strong public oversight and a clear focus on public value.

# 07 IPSAS in a box: PwC's e-learning, e-certification and knowledge management solution

## What are IPSAS?

IPSAS (International Public Sector Accounting Standards) are accounting and financial reporting standards developed by the International Public Sector Accounting Standards Board (IPSASB) for use by governments and other public sector entities around the world. As the adoption of IPSAS accelerates, often as part of a wider finance reform, the need for IPSAS capacity building, certification and continuous professional development grows.

## What is IPSAS in a Box?

IPSAS in a Box is a high-quality IPSAS e-learning, e-assessment and knowledge management solution developed by PwC IPSAS experts. It capitalises on their cumulative experience applying these standards to governments and international organisations around the world.

## Who is IPSAS in a Box for?

IPSAS in a Box is designed for public sector accountants, public sector auditors, practitioners and non-practitioners, government officials and other public sector decision makers, students and academia as well as for anyone interested in IPSAS and the wider public accounting debate.

## How does IPSAS in a Box work?

Users can subscribe to access all functionalities of the application in a flexible manner throughout their subscription period.

## What are the use cases?

IPSAS in a Box is a one-stop shop that meets all Client's needs in terms of IPSAS learning, certification and continuous professional development. IPSAS in a Box can also be used as a handy working tool by all public sector accountants in their daily duties.

## What does the e-learning include?

The e-learning includes modules and lessons dealing with accounting topics. It will guide users' understanding of IPSAS requirements and accounting and help them with the

**IPSAS in a Box is a one-stop shop that meets all clients' needs in terms of IPSAS learning, certification and continuous professional development.**

operational implications of IPSAS adoption. It follows a hands-on approach, from principles to practice.

Illustrative examples, implementation tips and practical exercises/case studies are available to test users' IPSAS knowledge on each relevant topic. The online self-study programme takes about 40 hours to complete on average. A Certificate of attendance can be delivered to users as they complete their learning for the various IPSAS modules and can give the right to earn CPD credits.

IPSAS in a Box also includes an outline of the standards and recommended practice guidelines (RPGs), information on IPSAS developments and other useful resources relating to the wider public financial management domain.

The content about accrual-basis IPSAS is structured around 8 modules, with one additional module devoted to cash-basis IPSAS.

Module 1 - Introduction, conceptual framework and general principles

Module 2 - Presentation of financial statements and disclosure standards

Module 3 - Fixed assets

Module 4 - Inventories and revenue

Module 5 - Liabilities and expenses

Module 6 - Financial instruments and foreign currency transactions

Module 7 - Consolidation

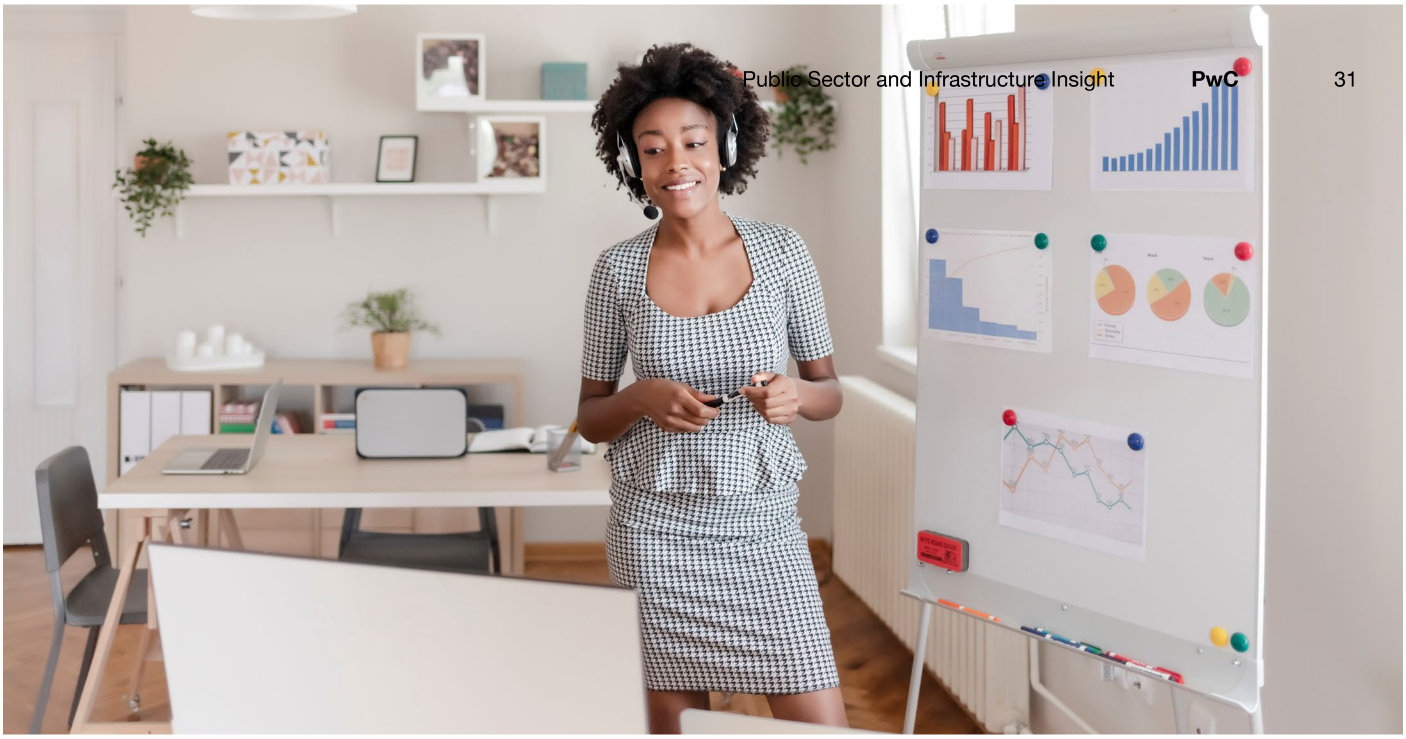
Module 8 - First-time adoption of accrual basis IPSAS

Module 9 - IPSAS and the cash basis of accounting

## Can users get a Certificate in IPSAS?

The e-assessment may be taken at any time although users are highly encouraged to do it once they have completed all the modules. They are granted up to three attempts to complete the 30 multiple choice questions.

The pass rate is 50%. Those achieving 70% or 90% can be awarded a distinction or great distinction. Users can earn a IPSAS Certificate certified, as Client sees fit, by ICAEW (Institute of Chartered Accountants of England and Wales) and/or the entity of the Client's choice (e.g., the National Accountancy Institute).



40

hours is the average time required to complete the online self-study programme.

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A foundational e-assessment can also be taken which grants access to a Certificate in IPSAS (foundational level). Three attempts are authorised to complete the 20 multiple choice questions. The pass rate is 50%.

## What are the benefits of using IPSAS in a Box?

- Regularly updated to take IPSAS latest developments into account.
- Can be consulted from anywhere at any time. Available on any device, desktop, laptop or mobile (application to download).
- Addresses the needs of a large population of users (in terms of learning and certification).
- Is an affordable way to populate the IPSAS knowledge to a large population of accountants. Can easily be combined with classroom training and reduces the overall capacity building cost.
- Can be made available in any language (including English and French).
- Very intuitive and user-friendly, offers maximal flexibility to the users.
- Can be tailored to Client's needs (IPSAS in a Box plus).
- Client admin and dashboard functionalities.

## Can the content be tailored to the specific needs of Client's organisation?

Tailoring functionalities are available in IPSAS in a Box plus, the premium version of IPSAS in a Box.

## Can IPSAS in a Box also be used if the standards deviate from IPSAS?

Yes. Addressing deviations of your own accounting standards or policies from IPSAS is also possible in IPSAS in a Box plus.

## Pricing

The subscription fee is per user. Volume discounts are available.

## IPSAS in a Box microsite

Further information can be found here: https://www.pwc.be/IPSASinaBox

# 08 Real Estate Investment Trusts (REITs): a market-based path to affordable housing and wealth creation amidst rapid urbanisation

**An estimated 50,000 new houses are built every year in Kenya, lagging annual demand of about 250,000 houses according to the State Department of Housing and Urban Development.**

High urbanisation rates only exacerbate an already strained situation with the impact felt most by low- and middle-income households, who are perpetually priced out of the buyers' market due to high unit prices. This is evident in the extremely low mortgage uptake, low home ownership with just over 30,000 active mortgage accounts as per the Kenya Mortgage Refinance Company (KMRC) with home ownership remaining below 30%.

The government, through the Affordable Housing Program (AHP) has set an ambitious target to close the affordable housing gap by building 200,000 houses annually financed through the Affordable Housing Fund (AHF). While progress has been made, alternative innovative solutions are still required to mobilise resources required to close the gap.

REITs offer a powerful platform to mobilise affordable capital and scale affordable housing in Kenya. REITs are regulated vehicles that pool investor capital into a trust, allowing collective investment in income generating real estate and delivering returns through rental income or asset sales.

The key types of REITs are D-REITs and I-REITs. D-REITs finance the construction or redevelopment of properties while I-REITs hold finished assets and deliver steadier rental income at lower risk. When well designed, REITs can help ease structural constraints in affordable housing delivery.

High financing cost is the most cited challenge by private developers. Tested REIT structures have helped developers lower overall cost of capital. Such a structure includes integrating I-REITs with D-REITs financed by a mix of concessional and commercial capital.

Once development is complete and occupancy stabilises, the assets transition to an I-REIT which can attract investors and lenders at affordable rates because the properties now earn stable rent. This approach lowers development costs and improves project viability by reducing the cost of capital and matching each phase with the most efficient source of funding.



50,000

new houses are built every year in Kenya, lagging far behind the annual housing demand of about 250,000 units.

**In major cities like Nairobi and Mombasa, land cost amounts to 40%–60% of total project costs.**

The cost benefits can also be passed down to property buyers. As observed over the last 5 years in the region, potential options to pass on this benefit are rent-to-own options or affordable mortgages negotiated between the REIT promoter and mortgage refinance companies and anchored by stabilised cashflows from the I-REIT.

Lower credit risk, supported by stable cashflows, can reduce financing costs. The latter option allows investors to access invested capital early for reinvestment further strengthening their balance sheets.

Regionally, D-REITs and I-REITs have been used to promote student housing, leveraging both commercial investment from promoters and concessional capital from development partners. Governments can similarly catalyse investment by derisking development with concessional loans and equity support, attracting more private capital.

Private developers also point to the lack of basic horizontal infrastructure, as a major constraint to affordable housing development resulting in some developers building this infrastructure themselves, raising project costs and eroding already thin margins.

While it may be argued that such infrastructure costs could be passed on to end buyers, doing so risks pushing unit prices to levels where demand becomes highly elastic, effectively pricing out the very households these schemes are intended to serve.

The government can play a pivotal role in de-risking D-REITs by developing dedicated public infrastructure to support institutional grade affordable housing projects where this infrastructure lacks. Such interventions can transform areas that would otherwise be unattractive to institutional grade developers, unlocking private capital and concessional capital.

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High land prices remain another major structural hurdle for private developers. In major cities like Nairobi and Mombasa, land cost amounts to 40% - 60% of total project costs.

The government has routinely provided land for private sector led affordable housing projects with success including the Pangani Housing Projects. This too can be extended to affordable housing focused REITs. Government can also provide credit guarantees through the KMRC, which can stimulate demand by lowering mortgage risk for lenders.

This helps stabilise projects and accelerates the early recovery of capital, enabling developers to reinvest more quickly. The government can maintain an oversight role to ensure the affordability goals are met.

REITs go beyond affordability for developers and property buyers; they democratise real estate investment by facilitating fractional investment for retail investors who may otherwise be locked out of the asset class further deepening capital markets. There are already existing frameworks under which the government is partnering with the private sector, but deepening and expanding the market requires trying more than one approach, REITs being one of them.

While REITs hold great potential, for the promise of affordability to be achieved, all key stakeholders have a role to play. Proper development costing, proper demand sizing, clear structures, elaborate stakeholder agreements and transparent approval processes are necessary to achieve the promise of affordability with REITs.

# Public Sector and Infrastructure Insight

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