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Public-Private Partnerships – What can we expect? Klaus Schade

The first Public-Private Partnership was established in 2000 with the launch of the Walvis Bay Corridor Group. The WBCG consists of a diverse range of stakeholder including various ministries and private sector associations involved in the logistics sector. The concept received more attention with the signing of the SADC Protocol on Finance and Investment in 2006, since Annex 1 to the protocol required SADC Member States among others to facilitate the use of PPPs for the development of the region. This resulted finally in the establishment of the PPP Unit in the Ministry of Finance and the recruitment of a director during the 2014-15 Financial Year.

The PPP Policy was adopted in 2015 and the PPP Act gazetted in July 2017, while the regulations are expected to be gazetted before the end of this year. At the same time, Government is developing the capacity to manage PPPs. The institutional, policy and legal frameworks are required to attract private sector investments that involve millions and billions of Namibia dollar. PPPs often focus on infrastructure development in the area of transport, water, electricity, health etc. The Minister of Finance in the Medium-term Budget Review referred also to PPPs as a potential source of funding for necessary infrastructure projects.

However, PPPs in particular when they are established to address major infrastructure shortages usually take time to materialise. The critical part of PPP negotiations is allocating and managing risks. These risks include political and legal risks (such as changes in tax laws, but also public opposition), currency risks (the foreign investor prefers payment in foreign currency and a guarantee to repatriate profits, while fees and charges are paid in local currency), cost and time overruns, change in demand for the services provided, potential competition, etc. While these risks are inherent in most large projects, PPPs require the allocation of risks or a specific portion of the risk to the partners involved; ideally to the partner that is in the best position to manage the risk. Agreeing on the allocation of risks requires a careful balancing of the potential costs and benefits, keeping in mind that the opportunity costs for the country of not implementing the project are often several times higher than accepting a higher than initially planned risk. This is, of course, not to say that Government should agree to bad deals.

While PPPs certainly hold benefits for Namibia and can improve the infrastructure beyond what Government coffers would be able to afford, they are no quick-fixes to close infrastructure gaps. This is in particular true for Namibia that needs to develop the skills in negotiating, implementing and monitoring the outcome of PPPs. Starting with the careful selection of less complex PPPs and building on the experience could help avoiding costly pitfalls.

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