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The role of public sector in infrastructure development – Dylan van Wyk

Infrastructure is an essential ingredient to economic growth and prosperity in any country. Recently the case has been made that state-led infrastructure investment is needed to boost growth, especially in the current times of recession and high unemployment. This type of spending directly stimulates the economy by creating employment and drives growth through the multiplier effect it has on other sectors of the economy. Creating new and enhancing existing infrastructure also boosts economic productivity allowing an economy to produce more efficiently with its given resources.

Traditionally, infrastructure investments have been financed with public funds. However, government deficits and high debt to GDP ratios have limited the capital available for these projects, a global development which Namibia is not exempt from. This has increased the need for increased private investment to address the infrastructure gap plaguing many emerging market economies.

Project finance has become the vehicle of choice to attract private capital as debt and equity investments can be split, and risk can be distributed. Equity investments are normally taken by corporate sponsors and developers while debt funding has been primarily provided by banks in the form of syndicated loans. However, there are a myriad of parties which have an interest in investing in infrastructure, including pension funds, insurance companies and sovereign wealth funds.

Additionally, the public-private partnership model has allowed the public sector to maintain control of the planning and regulatory role. The public sector may also become the off taker of goods or services produced by the project, allowing them to reap the benefits of higher efficiencies and higher cost effectiveness associated with the private sector.

With a strong demand and supply of private capital and expertise, as well as the proper structures in place for cooperation, the largest challenge becomes attracting and maintaining private investors.

A survey conducted by Allen & Overy demonstrates which factors investors consider when embarking on infrastructure projects. Surprisingly, financial support and guarantees from government are very close to the bottom of the list. Instead investors look for stable regulatory settings and minimal political interference. In fact, uncertainties in the regulatory and political environment as well as renegotiation of contracts are risks investors feel most uncomfortable with. The role of public sector in infrastructure development becomes clear: Provide a conducive investment environment for the private sector by minimising policy uncertainty, curtailing political interference and promoting a transparent and stable regulatory setting.

Published in Business 7 – 23 August 2017