Side event on Strengthening the private sector role in the implementation of the VPoA

Statement by Honorable Mr. Ralph Pachalo Jooma, Minister of Transport and Public Works, Malawi

- Your Excellencies;
- Distinguished representatives;
- Ladies and gentlemen

It is a great honour to share experiences on how the government of Malawi is corroborating with the private sector in the implementation of the Vienna Programme of Action (VPoA). As government we recognize that partnerships are crucial in achieving and accelerating implementation of global development programmes.

We also recognize that by the very natural existence of LLDCs, their territories are not attractive for private sector investment due to challenges they encounter. Therefore, Foreign Direct Investment (FDI) flows are limited.
In all directions existing small industries are pushed to the limits and the room of growth is limited because of the following factors:

i. Domestically, they compete for a small market

ii. In regard to international markets, if ever penetrated their commodities are not competitive because they are more expensive.

There are also other compounding factors including poor infrastructure in transport, energy and ICT sectors. Since the territory is not attractive, long-term financing within the financial market which is appropriate for financing the emerging private sector in the LLDC is not available. The high risks associated with LLDCs acts as barriers to accessing financing by the private sector. Lack of research and development – due to limited financing for such undertakings.

Despite the various challenges in LLDCs there are some opportunities that can be exploited by the private sector. Most LLDCs are exporters of primary commodities which presents an opportunity for the private sector to develop
industries for value addition to the commodities and developing downstream initiatives

LLDCs are virgin territories waiting to be unlocked by a simple connection of loose ends. Even before commencement of real business there is room to be involved in investing in infrastructure including energy, ICT, pharmaceuticals, climate change and Skills development. Furthermore, with continued reduction of ODA and shift of providing financing by development partners, private sector partnerships cannot be avoided by government.

To attract private sector participation, government offers preferences and incentives including tax incentives and sovereign guarantees.

In order to realize the effective participation of the private sector there is need for convergence of interests on both sides. The fact of the matter is there is usually conflict of interest between government’s long-term objectives and private sectors short-termism sort of objectives. But I must mention that we have tried several models in Malawi
including PPPs, BOTs, IPPs in energy sector and Concessions. Some of the models have worked while some have not. With these models the government has learnt that sometimes we concede to conditions that pose fiscal risks for the sake of anticipated development initiative. This calls for thorough scrutiny of these business agreements by competent authorities.

However, very seldom does it work to the expectation because of conflict of interests between the government and the private investors. For instance, the LLDCs should not offer all preferences to a foreign multinational investor only to kill your own home-grown industry.

It worth mentioning that the private sector in Malawi is focusing on Priority 2 which is infrastructure development and maintenance. Being a virgin territory, infrastructure development and main opportunities are low hanging fruits. There is opportunity of justifying for financing by government as it can leverage the finance application by offering sovereign guarantees.
Under priority 5: Promoting structural economic transformation: the private sector is fostering a shift from commodity dependency to diversified exports hence great opportunity for manufacturing taking advantage of the available cheap raw materials and labour.

Government must do more on priority 4 which is regional cooperation and integration to scale up private sector involvement. Other initiatives may include:

a) Orientation of new investment opportunities; and
b) Bilateral and Regional agreements between LLDCs and transit countries as such would guarantee business opportunities, robust clientele across borders etc.

The governments in LLDCs should harness skills development for the labour force, development of bankable projects and Research and development from local and regional think tanks through public private partnerships.
I thank you all for your attention.