

EU injects €161 million into Malawi's ailing economy

The European Union, mid last week, announced the approval of €161 million (approximately MV 34 billion) that will go towards a package of six strategic programmes. This assistance is in line with Malawi's 2010 Annual Action Programme under the 10th European Development Fund (EDF). About €12 million (approximately MKW 2.8 billion) of this money will go towards a new Capacity Building Programme for Trade and Private Sector Development.

 By Gregory Gondwe 23 May 2011

The resources could not have come at a better time. If President Bingu wa Mutharika of Malawi were asked about the state of his country's economy today, he would still insist that it is high flying. However, the country's pump stations are now characterised by long queues and government has failed to give out a convincing answer to the problem.

Civil servants have also gone for months without receiving their salaries, while medicines in public health facilities are scarce.

While economic experts have said these are signs that the government is bankrupt, officials have not made any communication but instead they have started using all means to rake in resources for day-to-day running of government operations.

Just two years ago, Malawi was touted as the world's second fastest growing economy but a report last year by the International Monetary Fund (IMF) showed Malawi had dropped to position 17.

Repercussions of repressive media laws

Finance Minister Ken Kandodo warned of serious repercussions soon after Malawi's major donors had announced that they will be withholding more than US\$400 million in aid in protest over government's repressive media laws and bad governance three months ago. A grouping of donors under the Common Approach to Budgetary Support (CABS) had also sent a warning shot over the same issue around the same time.

"The decision by the four nations [to freeze donor funds] has had serious implications on the country's economy..." Kadondo had said at the time. Malawi amended and passed Section 46 of the Penal Code which empowers the minister of information to ban any publication seen to be outside public interest.

A significant proportion - some 40% - of Malawi's national budget is donor supported. CABS comprise the European Union (EU), Britain, Germany, Norway, the World Bank and the African Development Bank. *Free World Economic Report* of 12 May 2011 has also noted that the Malawi economy depends on substantial inflows of economic aid from the International Monetary Fund (IMF), the World Bank (WB), and individual donor countries.

The report notes that in 2006, Malawi was approved for relief under the Heavily Indebted Poor Countries (HIPC) program. In 2005, the government exhibited improved financial discipline under the guidance of the then finance minister Goodall Gondwe which led to the signing of a three-year Poverty Reduction and Growth Facility worth US\$56 m with the International Monetary Fund (IMF).

But now President Mutharika has been calling names at all donors who have accused him of poor governance. The British High Commissioner, whose cable that described Mutharika in the same vein was leaked to the press, was subsequently expelled from the country.

Assistance could not have come at a better time

The European Union's assistance could therefore not have come at a better time as it will support the road sector and rural infrastructure development and assist the government in its efforts to reduce poverty through the promotion of economic growth.

"Malawi is categorised as a least-developed country but has recorded high levels of economic growth in recent years," said EU ambassador to Malawi, Alexander Baum. He said the adopted EU support builds on the good to excellent results that external evaluation and monitoring exercises have attributed to EU development cooperation with Malawi.

"These programmes will make a significant contribution to the development of Malawi," said Baum, who also doubled as the head of the EU delegation to Malawi.

ABOUT GREGORY GONDWE

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