

## 9. MONITORING STATUTORY CORPORATIONS

### 9.1 Current Status

9.1.1 Last November, the House approved a recommendation from the Ad Hoc Task Force for Parliamentary Development and Coordination that the Budget and Finance Committee should have “responsibility for oversight of the budgetary implications of statutory corporations.”<sup>9</sup> The Committee accepted that charge and took its first steps forward to monitor the activities of these state-owned enterprises.

9.1.2 Last June’s *Budget Statement* noted that these institutions are crippled with problems, although a number of them are now making profits and paying taxes and dividends to Government. The Committee’s major concern is that, historically, parastatals have been a drain on the national budget. Taxpayers’ money could be better used in pro-poor expenditures than in supporting money-losing enterprises. Many of these corporations are heavily indebted, and, according to last year’s Budget Statement, are not well managed. Parastatals are required to submit financial statements to Parliament under the current Finance and Audit Act. A number do not.

9.1.3 The instructions to the Committee in its mandate of monitoring activities of statutory corporations are as follows:

- To review annual reports and accounts of all statutory corporations
- To invite the chairs and chief executives of statutory corporations to attend reviews of their annual reports and accounts
- To monitor corporate governance in statutory bodies and recommend corrective disciplinary measures where necessary
- To institute oversight into any issues or complaints on statutory corporations
- To recommend financial resources to be allocated by Parliament to subvented statutory bodies
- To report to Parliament findings and recommendations
- To contribute to the review of that part of the Finance and Audit Act that deals with parastatals.

9.1.4 As outlined in Section 1.3 above, the Budget and Finance Committee formed a Task Force on Statutory Corporations chaired by Honourable Nelson Chuti. It met with officials of the Public Enterprise Reform and Monitoring Unit (PERMU) in the Ministry of Finance and Economic Planning. Much of the information contained in this report originates from the work of PERMU. The Committee also met with staff from the Department of Statutory Corporations.

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<sup>9</sup> In his most recent State of the Nation address, the President appealed to the House, “to play a more active role in enforcing accountability in statutory corporations through the Parliamentary Budget and Finance Committee.”

9.1.5 There are two major groups of statutory corporations. The first consists of the subvented organisations that depend solely on budgetary allocations. This would include: the University of Malawi, Malawi National Education Board, Christian Hospital Association of Malawi, Mzuzu University, the Malawi College of Health Sciences, and others. The second group is that of commercially oriented state enterprises such as Air Malawi, ADMARC, ESCOM, Malawi TelCom, and others (see Table \_\_\_). Subventions to parastatals in the 2001/02 Budget were K1,116 million<sup>10</sup>, 10% below the amount budgeted in the 2000/01 Budget. The actual amount allocated through March of this year is K1,209 million, 108% over budget.

9.1.6 In reviewing the budget ceilings for the next year's Budget, the Committee is concerned that subventions will increase by 40%. The ceilings are not to be considered as final and they did not include any donor or HIPC funding. Nonetheless, Parliament needs to receive a breakdown of the existing and proposed allocations by the Ministry of Finance and Economic Planning for subvented agencies. Parliament also needs to know the exact amounts of contingent liabilities for each subvented organization to evaluate the impact of arrears on the 2002/03 Budget.

**2002 Committee Recommendation:** The Ministry of Finance and Economic Planning should inform Parliament of the allocations for and the contingent liabilities of each subvented agency.

## 9.2 Findings

9.2.1 The Committee commends the Ministry of Finance and Economic Planning for establishing a unit (PERMU) to monitor the financial data, plans, and budgets of the various parastatals. The Committee is particularly pleased that this unit is to maintain strong links to the Budget and Finance Committee. At the present time, PERMU can only monitor the financial operations of the ten largest parastatals. These include the Agricultural Development and marketing Corporation (ADMARC), the Electricity Supply Commission of Malawi (ESCOM), Malawi Postal Corporation (MPC), Malawi Telecommunications Limited (MTL), the Malawi Development Corporation (MDC), Air Malawi and the Water Boards<sup>11</sup>. The Ministry is strengthening PERMU with additional personnel and institutional capacity to expand its operations.

9.2.2 The Committee is not convinced there is significant overlap between PERMU and the Department of Statutory Corporations (DSC). DSC is responsible for administrative issues concerning parastatals. Its mandate also reaches beyond the parastatals covered by PERMU to include practically all state-owned enterprises (including the subvented ones).

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<sup>10</sup> The Budget Document No.4A includes a total of K1.113 billion when the Financial Statement (Budget Document No.3) has a total of K1.125 billion. The allocation of K1.116 billion is the one reported by the Ministry of Finance.

<sup>11</sup> Blantyre Water Board, Southern Region Water Board, Lilongwe Water Board, Central Region Water Board and Northern Region Water Board.

9.2.3 Without doubt, there are some minor overlaps and duplications in the activities of both PERMU and DSC. However, the two agencies are currently working together to streamline their terms of references to prevent duplications and overlaps.

**2002 Committee Recommendation:** Both PERMU and DSC should continue to function as separate agencies because their roles and functions are different.

### 9.3 Performance of Statutory Corporations

9.3.1 Historically, parastatals have performed poorly as businesses. The profit and loss accounts of most of the parastatals have registered negative balances over the years. Some must rely on Government to bail them out of their financial difficulties. There are a number of reasons for their poor performance. The World Bank cited the following: lack of prudence and sound financial management, lack of aggressiveness to generate sufficient income, political interference in the activities of the parastatals and poor quality of managers and board members<sup>12</sup>. The table below shows 'pre-tax' profit and loss accounts for the major parastatals. ESCOM is the only parastatal that has managed to make pre-tax profits since 1994. However, looking at the pre-tax profit alone does not give the whole story about the financial soundness of these institutions.

Grade	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
<b>ADMARC</b>	22.1	22.7	33.4	-37.2	100.4	-853.9
<b>MDC</b>	26.3	32.1	34.8	6.5	-54.5	-142.0
<b>ESCOM</b>	19.6	243.1	96.3	63.7	67.7	-80.0
<b>Air Malawi</b>	-18.6	18.2	-17.6	-145.0	-89.0	-118.0
<b>MHC</b>	-31.8	-1.4	29.6	40.2	33.9	-15.0
<b>BWB</b>	-27.6	10.0	19.4	18.2	32.4	50.0
<b>LWB</b>	-102.6	-22.8	26.1	-56.9	-147.8	26.0
<b>PCC</b>	-51.8	202.1	13.0	7.9	3.3	281.8
<b>TCC</b>	-0.2	6.1	5.1	131.2	11.6	44.8

*Source:* Malawi Government Economic Reports and Budget Statements.

9.3.2 For the 2001/2002 financial year, there is improvement for a number of statutory corporations, which have, for the first time ever, paid dividends to Government. Quarterly reports provided by PERMU for the two quarters ending December 2001 present the following picture:

<sup>12</sup> World Bank Report on Malawi Public Expenditures (Issues and Options) September 2001.

<b>Table 15: Quarterly Profit/Loss for the Ten Largest Parastatals (in millions of Kwacha)</b>		
<b>Parastatal</b>	<b>Quarter ending Sept. 2000/01</b>	<b>Quarter ending Dec. 2001/02</b>
ADMARC	-164.4	-225.6
Air Malawi	74.38	-25
Central Region Water Board (CRWB)	23	Not available
ESCOM	833.6	1000
Malawi Housing Corporation (MHC)	34.9	-46.1
Malawi Property Corporation (MPICO)	17.6	Not available
Malawi Telecoms. Ltd	250	971 (before tax)
Northern Region Water Board	-9.8	-10 (before tax)
Southern Region Water Board	6.03	12.6 (after tax)
MDC		157
<i>Note:</i> Pre-Tax Profits Unless Stated Otherwise		
<i>Source:</i> PERMU, Ministry of Finance and Economic Planning		

#### 9.4 ADMARC

9.4.1 ADMARC, the largest parastatal, continues to incur major losses. For the nine-month period ending December 2001, it registered a net loss of K225.6 million. The projection for the financial year ending 31 March, is that ADMARC will lose K232 million. Further, the corporation was not capable of paying all its creditors in the event of simultaneous demands for payment, according to PERMU. Nonetheless, the Committee believes ADMARC plays an important role in the economy. There is reason to believe that the Corporation can perform if it were not for structural bottlenecks that must be dealt with. Some of the reasons for the poor performance of ADMARC include the following:

9.4.2 ADMARC is called upon to perform social functions such as preserving food security. This includes maintaining some 200 non-performing rural and remote markets where there are no private traders. It distributes imported maize when private traders fail to deliver, and ADMARC was called upon to participate in the packing and distribution of the Starter Pack and the Targeted Input Programme. Government must compensate ADMARC for such functions. However, payments are not made on timely basis, which disrupts the commercial activities and the cash flow of the corporation.

9.4.3 In the current Budget, Parliament voted a statutory expenditure of K1,000 million to be paid to ADMARC. However, it appears that this payment was not made. The Committee would like to know why such a large expenditure was not made.

9.4.4 For a number of years, ADMARC financed the operations of the money-losing Grain & Milling Company, Shire BusLines, Cold Storage, and David Whitehead & Sons. ADMARC returned the management of these parastatals to Government, effective last April. The GOM will now be forced to pay the money due ADMARC for subsidising these operations. Government contracted with Peat Marwick KPMG to prepare audit reports of all four companies, but they were not made available to the Budget and Finance Committee or to the public.

9.4.5 ADMARC's management needs to streamline the company's core functions and improve the level of efficiency. ADMARC also needs to enhance its debt collection operations and see to it that all the debtors pay as soon as possible.

## 9.5 Privatisation of ADMARC

9.5.1 The question of the privatisation of ADMARC is one of the more contentious issues between Malawi and its co-operating partners. Arguments put forward by the proponents of the immediate privatisation of ADMARC ignore the fact that the Corporation plays a vital role in the food security equation in Malawi. There are reasons to believe that the National Food Reserve Agency (NFRA) cannot handle the problem of food security single-handedly without the compliment of ADMARC.

9.5.2 The Budget and Finance Committee raised this issue with the IMF during its most recent mission to Malawi. A Fund representative explained that their priority is transparency and not wholesale privatisation without a proper goal. The IMF indicated it has no problem with ADMARC operating as an efficient commercial operation while undertaking social functions. However, Government should pay ADMARC for such activities, and such costs should be included in the Budget.

9.5.3 The Concluding Statement of the IMF Mission dated 14th May 2002 reads:

*" However, the parastatal sector will continue to pose risks to the successful implementation of the 2002/03 budget. Government interventions in the food and other agricultural markets ultimately led to the NFRA and ADMARC taking heavy recourse to budgetary financing, crowding out more productive spending.... We encourage the authorities to increase transparency by clearly budgeting any subsidies to parastatals and, in the case of liquidations, consider alleviating the social impact of retrenchment".*

**2002 Committee Recommendation:** ADMARC should continue to play a role in safeguarding food security, and should not be privatised.

9.5.4 The Committee welcomes Government's move to find buyers for Grain & Milling, Cold Storage, and David Whitehead & Sons. However, the Committee strongly recommends that Government maintain majority ownership in Shire Buslines because of the social function it performs in serving rural routes that private transporters abandon.

**2002 Committee Recommendation:** Government should maintain a majority ownership in Shire Buslines to insure that rural routes are served.

## 9.6 Government Arrears to Parastatals

9.6.1 Government Ministries and Departments have accumulated almost K1 billion in arrears to ten of the largest parastatals. Most of the arrears are for unpaid utility bills, water, electricity, telephones and rentals. The actual amount of arrears is likely to be larger and the Committee recommends that a study be conducted to establish the exact amount.

<b>Statutory Body</b>	<b>Amount</b>
Lilongwe Water Board	90
Blantyre Water Board	200
Southern Region Water Board	85
Central Region Water Board	23
Northern Region Water Board	57
Malawi Housing Corporation	87
MPICO	140
Malawi Telecoms. Ltd (as of September, 2001)	252
ESCOM (as at September 2001)	7.5
Air Malawi (90 days & over)	5.9
Total	947.4 or (0.68% of GDP)
<i>Source:</i> PERMU, Ministry of Finance and Economic Planning	

9.6.2 The accumulation of Government arrears is characteristic of a "Commitment Control System (CCS)" that is not working well. A condition laid down by the IMF and the World Bank is that Government not accumulate new arrears.

9.6.3 The accumulation of arrears should therefore be discontinued. Revisions to the Finance and Audit Act are needed because of the financial imprudence of Controlling Officers. In the proposed Public Financial Management Act (see page 8) that will replace the existing Finance and Audit Act, Controlling Officers who over-spend will be disciplined. As an interim solution, the Accountant General's Department is directly paying utility bills for all ministries and government departments.

## 9.7 Parastatal Loans and Arrears to Government

9.7.1 Government has lent parastatals over K3 billion (3½ % of GDP). As of December 2001 only K83 million had been repaid while parastatals continued to accumulate additional arrears of K315.2 million to Government as of 20 May. These

loans are either local loans or external loans that the Government guarantees and lends to the parastatals.

<b>Grade</b>	<b>Principle</b>	<b>Interest</b>	<b>Total</b>
<b>ESCOM</b>	10.8	47.4	58.2
<b>Lilongwe Water Board</b>	11.3	37.0	48.3
<b>Blantyre Water Board</b>	53.3	96.6	149.9
<b>Malawi Housing Corp.</b>	2.3	0.2	2.5
<b>Small Holder Tea Authority</b>	1.1	1.2	2.3
<b>KFCTA</b>	3.6	0.0	3.6
<b>Air Malawi</b>	15.5	32.5	48.0
<b>Total</b>	100.1	215.2	315.3

Source: DAD, Ministry of Finance

9.7.2 Further, some parastatals do not remit their taxes to the Malawi Revenue Authority (MRA). The Committee is aware of K500 million that MRA claims are overdue remittances of Pay As You Earn (PAYE) tax deductions from employees. The parastatals are also supposed to pay corporate tax.

9.7.3 For example, MTL has outstanding arrears to MRA of K256 million. Some of these were inherited from the parent enterprise of Malawi Posts and Telecommunications Company (MPTC). Other parastatals also owe taxes. Non-payment, if unchecked, amounts to an indirect transfer from Government to the parastatal concerned.

9.7.4 The repayment of loans by parastatals constitutes a source of revenue to Government. Forecasts of such repayments are not always included in the budget, but the Debt and Aid Management Division has projected repayments for 2002/03 in the amount of K308 million. Details of the forecasted repayments are as follows:

<b>Grade</b>	<b>Principle</b>	<b>Interest</b>	<b>Total</b>
<b>ESCOM</b>	14.9	33.0	47.9
<b>Lilongwe Water Board</b>	13.0	8.4	21.4
<b>Blantyre Water Board</b>	60.8	15.8	76.5
<b>Air Malawi</b>	7.7	10.1	17.8
<b>Malawi Housing Corp.</b>	2.7	0.5	3.2
<b>MDC</b>	2.7	0.1	2.8

<b>Dwangwa Cane Growers Ltd.</b>	0.1	0.3	0.4
<b>Small Holders Tea Authority</b>	0.3	0.1	2.8
<b>KFCTA</b>	2.1	0.2	2.2
<b>Madelco Fisheries Ltd.</b>	0.5	0.6	1.1
<b>Total</b>	238.9	68.9	307.8
Source: DAD, Ministry of Finance			

9.7.5 Government has conducted financial operations aimed at netting out the amounts owed to parastatals and vice versa. Such operations were conducted with ESCOM, MTL, and other parastatals. In each case these operations should only be carried out in complete transparency.

## **9.8 Appointment of Board Members and Chief Executives**

9.8.1 Last year's Budget Statement raised the issue concerning the quality of Board Members and the need "for the composition and qualification of Board Members to be relevant and in line with the objectives or missions of the parastatal...."

9.8.2 The current appointment process for parastatal Board Members is as follows: Line Ministries are required to suggest the names of candidates to serve on the Boards. The names are submitted to the Department of Statutory Corporations, which screens them and prepares a shortlist that is submitted to the Office of President for approval. Some Ministries have apparently discarded this process and appoint board members without the involvement of the Department of Statutory Corporations.

<p><b>2002 Committee Recommendation:</b> The appointments of parastatal board chairs and chief executives should be subject to review by Parliament's Public Appointments Committee.</p>
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