

A REPORT ON BORROWING AND
LOAN REPAYMENTS BY
PARASTATALS

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APRIL, 2001.

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1.0 INTRODUCTION

The purpose of this paper is to give a picture on how parastatals are fairing in terms of borrowing and repayments of loans to both Government and other creditors. The report focuses much on Government loans to the parastatals and how the parastatals are reimbursing Government. In addition, some efforts were exerted to capture the loans which the parastatals procured and how they were repaying directly to creditors. It should be mentioned here that this report, being the first of its kind, has information gaps due to lack of data from the parastatals.

Generally, the performance of the parastatals in terms of debt servicing and amortisation during the period from September to December, 2000 was poor. The parastatals accumulated arrears over the period. Among others, ESCOM, Blantyre Water Board, Air Malawi, MDC and ADMARC failed to pay back dues to Government. The reasons for the failure are not given in most cases. In addition, the failure to service debts by ESCOM and MTL/MPTC forced the Government, as the guarantor, to assume the role of repaying the debts.

An attempt was made to look at the loans which parastatals are servicing directly to the creditors. In this regard, debts to ESCOM and MDC were captured. As regards ESCOM, most of the debts were not serviced possibly because the grace period was still on. On the other hand, MDC serviced its debts accordingly.

2.0 METHODOLOGY

The Department of Debt and Aid Management was the main source of data on borrowing and debt servicing by parastatals. In some instances, some papers directly from the parastatals were used. It is worth noting that data on some of the ten key parastatals was not available. For example, data on debt servicing for MTL and MPC could not be readily available. Maybe, it is because these have just been separated from their union, Malawi Posts and Telecommunications Limited. The same applies to the three Water Boards, that is, Central Region, Northern Region and Southern Region Water Boards, which were also recently established. Hence, the report captures other parastatals including Blantyre Water Board, Lilongwe Water Board, Malawi Broadcasting Corporation and Sugar Corporation of Malawi, to mention a few.

It is the hope of the Unit that the report covering the quarter starting January, 2001 will give better picture than this particular one because parastatals are likely to provide detailed data on borrowing, among others. The report, therefore, does not give a comprehensive picture of the parastatal sector due to some information gaps.

3.0 BORROWING BY THE PARASTATAL BETWEEN SEPTEMBER AND DECEMBER, 2000.

According to the data available, no parastatal procured any fresh loan during September-December, 2000 period. However, debt stock for parastatals remained a concern to Government because of the defaulting element. If Government loan to parastatals/corporations is considered during the period in question, the corporations owed the Government over MK4 billion, including the Government loans to ADMARC and others whose data were not in access by the Ministry.

Considering the debts which the Government is servicing on behalf of the parastatals and those which the parastatals are repaying directly to the creditors, the debt stock becomes significantly high. Particular reference should be made to Section 4 where details of debts to parastatals are provided.

4.0 DEBT SERVICE BY PARASTATALS

Generally, the performance of the parastatals in terms of debt service to Government as well as other creditors was not satisfactory. As at 31st December, 2000 about 2 percent of the total debt was paid back to Government. This did not compare well with the level of arrears accumulated during the same period. About 14 percent of the parastatal loans to Government was in arrears. The ratio of the amount paid back to Government to the amount in arrears during the period was 29 percent.

The situation portrayed above becomes critical when the amount of debt service and amortisation by Government on behalf of the parastatals is considered. For a period under study, Government had repaid MK127.5 million to PTA Bank on behalf of ESCOM and MTL due to their inability to repay the loans. In addition, Government repaid MK580.3 million to PTA Bank from July, 2000 to January, 2001.

4.1 Debt Service by Parastatals to Government

The original amount owed by eleven parastatals to Government was at MK3,789 of which MK119.3 million was paid back. The bulk of the loan was held by ESCOM, Blantyre Water Board and Air Malawi which contributed 89, 5 and 3 percent to the total debt stock as at 31st August, 2000 (Table 1). Hence, the three parastatals contributed 97 percent to the total loans while the other eight collectively owed the Government about 3 percent.

Table 1 : The Amount of Government Loans Parastatals, Amounts Recovered and Outstanding Balances as at 31st August, 2000.

Name of Parastatal	Original Amount	Amounts Received by Government	Outstanding Balance as at 31 st August, 2000
Air Malawi	120,745,000	7,733,000	113,012,000
Blantyre Water Board	188,143,393	10,649,950	182,995,829
Dwangwa Cane Growers Co. Ltd.	3,421,715	958,081	2,463,634
ESCOM	3,325,119,437	71,664,532	3,253,454,905
Lilongwe Water Board	97,039,929	2,581,509	94,458,419
MDC	15,842,264	13,080,453	2,761,811
MBC	482,636	429,972	52,664
KFCTA	5,920,362	-	5,920,362
MHC	15,801,396	10,323,090	5,478,306
MALDECO	15,408,936	1,540,893	13,868,042
SUCOMA	1,117,576	335,273	782,303
Total	3,789,042,644	119,296,753	3,669,745,891

Source: Department of Debt and Aid Management, Ministry of Finance and Economic Planning.

Considering the quarter under study, the situation did not significantly improve. In terms of proportions, ESCOM, Blantyre Water Board and Air Malawi had significant shares in the total debt portfolio by 31st December, 2000 as well.

Out of eleven parastatals, only three (Blantyre Water Board, ESCOM and MDC) had reimbursed MK7.3 million to Government (Table 2). On the other hand, the parastatals defaulted to pay MK251.5 million to Government, representing 14 percent of the total debt as at 1st September, 2000. Decomposing the arrears, the parastatals defaulted to pay MK157.2 million and MK94.3 million in interest and principal, respectively.

Blantyre Water Board failed to repay MK96.6 million in interest and MK53.3 million principal, representing 60 percent of total arrears accumulated by the parastatals. ESCOM too had arrears amounting to MK87 million, including MK48.8 million and MK38.2 million arrears in interest and principal, respectively. If Air Malawi, which had arrears amounting to MK11.6 million, is included in this category, the three parastatals contributed 99 percent of total arrears.

Table 2 : Amounts Received by Government, Arrears and Balances as at 31st December, 2000.

Name of Parastatal	Opening Balance as at 1 st September, 2000	Amount Received by Government	Arrears for the Period	Outstanding Balance as at 31 st December, 2000
Air Malawi	113,012,000	-	11,600,000	113,012,000
Blantyre Water Board	182,995,829	1,486,320	149,856,996	181,971,719
Dwangwa Cane Growers Co. Ltd.	2,463,634	-	-	2,463,634
ESCOM	3,253,454,905	5,778,192	86,965,247	3,250,190,322
Lilongwe Water Board	94,458,419	-	-	94,458,419
MDC	2,761,811	-	681,282	2,761,811
MBC	52,664	23,730	-	30,993
KFCTA	5,920,362	-	-	5,920,362
MHC	5,478,306	-	2,429,279	5,478,306
MALDECO	13,868,042	-	-	13,868,042
SUCOMA	782,303	-	-	782,303
Total	3,669,745,891	7,288,242	251,532,804	3,670,937,913

- Data not available or nothing declared.

Source: Department of Debt and Aid Management, Ministry of Finance and Economic Planning.

Negotiations were undertaken between MDC and Government on repayment of the loans to Government. It is, therefore, expected that reimbursement by MDC to Government would resume.

4.2 Debt Service on Defaulted Loans by Government on behalf of the Parastatals

This section deals with the Government guaranteed loans, which the parastatals failed to pay back to creditors. In this respect, Government, as a guarantor, took over the responsibility of servicing the debts as per appended part of the schedule for loan repayments for ESCOM and MTL loans (Table 3). As can be observed in the schedule, Government was supposed to pay back US\$155,180, JPY20 million and DEM216,341 for ESCOM and US\$2.3 million, JPY38.3 million and DEM1.7 million for MTL from September to December, 2000.

Table 3 : The Rescheduled Loan Repayments for ESCOM and MTL/MPTC

Date/Month	Parastatal	CURRENCY			
		USD	JPY	DEM	GBP
March	ESCOM	-	-	330,920	99,674
	MTL	1,718,760	-	-	-
June/July	ESCOM	564,588	45,519,689	513,998	77,499
	MTL	1,551,414	27,583,621	1,209,891	-
Sept/Oct.	ESCOM	155,180	20,030,789	216,310	-
	MTL	793,799	15,087,396	661,902	-
December	MTL	1,469,248	23,201,282	1,017,642	-

- Data not available or nothing declared.

Source: Department of Debt and Aid Management, Ministry of Finance and Economic Planning.

Actually, Government paid back MK35.5 million to PTA Bank on behalf of ESCOM (Table 4). However, if a period from July, 2000 to January, 2001 is considered, debt service by Government to PTA Bank amounted to MK176 million as illustrated in Table 5.

Table 4 : Debt Service by Government on Defaulted PTE Loans on Behalf of ESCOM and MTL, October, 2000.

Name of the Parastatal	Foreign Currency Of Transaction	Amounts Paid in Foreign Currency	Amount Paid in Malawi Kwacha
ESCOM	EUR	110,598	7,270,115
	GBP	25,817	2,818,369
	JPY	20,030,770	13,873,311
	USD	155,180	11,581,126
Total			35,542,921
MTL	EUR	338,425	22,246,275
	JPY	15,087,397	10,449,531
	USD	793,800	59,241,361
	Total		
Grand Total			127,480,088

Source: Department of Debt and Aid Management, Ministry of Finance and Economic Planning.

Similarly, Government repaid MK91.9 million to PTA Bank on behalf of MTL on 2nd October, 2000. As the case was with ESCOM, Government transacted MK404.3 million to PTA Bank during July, 2000 to January, 2001 period on behalf of MTL (Table 5).

Table 5 : Debt Service by Government on Defaulted PTE Loans on Behalf of ESCOM and MTL, July, 2000 to January, 2001.

Name of the Parastatal	Date of transaction	Amount Paid in Malawi Kwacha
ESCOM	July, 2000	77,945,983
	October, 2000	35,542,921
	January, 2001	94,538,654
Total		176,039,558
MTL(MPTC)	July, 2000	137,983,199
	October, 2000	91,937,167
	January, 2001	174,386,374
Total		404,306,740
Grand Total		580,346,298

Source: Department of Debt and Aid Management, Ministry of Finance and Economic Planning.

Therefore, Government spent MK580.3 million in debt servicing to PTA Bank from July, 2000 to January, 2001. In addition, Government undertook to service the debts for KFCTA and STA because of the financial difficulties culminating from poor sales. MHC is also affected financially. It has been unable to service its debts.

Total Government loan, excluding interest thereon, to ADMARC was MK8.4 million prior to 2000/2001 financial year. By 30th June, 1999 ADMARC repaid MK1.1 million to Government. This left a balance of MK7.3 million. To-date, ADMARC has not paid anything to Government. It is alleged that Government owes the corporation some money. Therefore, ADMARC is reluctant to pay back the loan to the Government.

This situation is worrisome to Government because the funds are diverted from priority activities in the public sector to debt service activities which could have been undertaken by the parastatals themselves.

4.3 Debt Servicing by Parastatals Direct to Creditors

Despite the failure by parastatals to service Government guaranteed loans, parastatals have obligations to service other debts directly to the creditors. ESCOM and MDC are in such a category.

However, most of the debts to ESCOM had not reached maturity periods yet. As such, ESCOM had not started servicing such debts amounting to MK1,482 million and MK399.2 million, respectively to CDC and PTA Bank. By 31st December, 2001, debt obligations increased to MK1,554.6 million and MK421.3 million, representing 5 and 6 percent, respectively, in parity gains (Table 6).

Table 6 : The Guaranteed Loans to Parastatals and Amounts Paid Back Directly to the Creditors.

Name of the Palastatal	Creditor	Currency	Opening Balance as at 1 st September, 2000	Repayments	Balance as at 31 st October, 2000.
ESCOM	CDC	ECU	810,039		810,039
		GBP	13,643,398		13,643,398
		NLG	16,903,170		16,903,170
		ZAR	4,207,500		4,207,500
		MK (TOTAL)	1,482,024,996	-	1,554,591,496
	EIB	ECU	5,201,150	-	5,060,050
		CHF	1056480	-	1056480
		GBP	233,506	-	233,506
		JPK	108,715	-	108,715
		MK (TOTAL)	393,694,142	7,969,390	393,276,963
	PTA	GBP	313,858	-	313,858
		DEM	1,968,952	-	1,968,952
		JPK	130,094	-	130,094
		USD	2,822,970	-	2,822,970
		MK (TOTAL)	399,230,350	-	421,277,151
Grand Total ESCOM		MK	2,274,949,488		2,369,145,610
MDC**	EIB	BEF	5,149,592	1,668,243	3,481,349
		CHF	231,468	57,479	173,989
		EURO	2,600,930	-	2,600,930
		DEM	249,160	80,716	168,444
		USD	72,573	23,555	49,017

- Data not available or nothing declared.

** MDC Period is from September to December, 2000.

Source: Department of Debt and Aid Management, Ministry of Finance and Economic Planning.

However, ESCOM repaid MK8 million to the European Investment Bank to which it owed MK393.7 million as of 1st September, 2000 and MK393.3 million as of 31st October, 2000.

On the other hand, MDC serviced part of the debt to European Investment Bank in currencies shown in Table 6 above.

MPC had a total debt of over MK193.1 million to pay back to its creditors. About 53 percent of the loan was payable to the Malawi Savings Bank. The main cause of this situation is the fact that MPC sells its services and products at subsidised prices. For instance, the cost for procuring and marketing a stamp is MK10 while the stamp is sold at MK2, reflecting a loss of MK8. In this case, MPC is unable to generate enough resources for daily operations and debt servicing. MPC is, therefore, asking for financial assistance from the Government.

5.0 CONCLUSION AND RECOMMENDATIONS.

Parastatals were/are having difficulties in servicing their debts. ESCOM, MPC and MTL/MPTC are special cases in that the loans were transacted long time before their restructuring. In addition, MPC offers its services at subsidised rates. On the other hand, Government of Malawi is denied access to much needed funds in terms of debt arrears by parastatals and amounts of financial resources spent on debt servicing and amortisation on behalf of the parastatals.

It is important, therefore, to track down the causes of the problems affecting the parastatal sector in debt servicing and amortisation. In addition, it is recommended that Government should closely monitor borrowing by parastatals and maintain the policy of not guaranteeing loans to the parastatals. The policy encourages the corporations to procure loans for productive activities and exercise financial prudence. Otherwise, the parastatals, which lack sound financial management, would become bankrupt due to high cost of debt servicing and insufficient financial resources for day-to-day operations.

REFERENCE

MPC Business Plan, 2000.