

QUARTERLY FINANCIAL REPORT ON PARASTATALS FOR THE PERIOD TO 31st DECEMBER, 2000

INTRODUCTION

This report focuses on the financial performance of nine key parastatals against the budgeted levels for the period to 31st December, 2000. The parastatals of paramount importance in this case are ADMARC, Air Malawi, ESCOM, MDC, MHC, MPC, MTL, CRWB, NRWB and SRWB. Originally, the report was to cover ten parastatals including ADMARC which failed to submit the management accounts. It specifically centres on the deviation of actual performance in such variables as net profit, revenue and expenditure from their respective budgeted levels and where information has been provided, the report advances reasons for the variances. In addition, the report touches on balance sheet position in order to reflect the solvency of the corporations.

Due to differences in financial years of the parastatals, the periods covered vary from one parastatal to another. Therefore, the time span under consideration is from April to 31st December, 2000 in most cases. However, the period for other parastatals is shorter than nine months.

KEY FINDINGS

By and large, the performance of the parastatals during the period under study was not satisfactory. Virtually all the nine parastatals included in this report recorded losses in their profit and loss accounts. A number of reasons were advanced justifying this position including exchange rate fluctuation, high maintenance costs and fall in income, among others. However, going through the accounts reveals substantial increases in expenditure and slight increases or declines in revenue collection over the period. ESCOM and MTL were unexceptional in this regard. The two corporations in that order made net profits of MK875.1 million and MK1.2 billion, respectively.

In general, poor financial performance by the parastatals shows lack of prudent and sound financial management. There is in fact lack of aggressiveness to generate enough income for the corporations. On the other hand, there is lack of financial discipline to control and contain expenditure within the predetermined limits.

Looking at the balance sheet accounts, the picture is slightly different in that almost all corporations were solvent except for MTL, MHC and MPC which

recorded negative net current assets. Financing of the balance sheet items was largely done by long-term loans and share capital. Reliance on long-term loans is a good option if the corporations are investing in productive programmes and if there is a possibility of containing expenditure. Otherwise, if the current trend of over-expenditures and insignificant increases in income in the parastatals continue, long term loans will further increase the burden on the budgets in terms of interest payments. Specifically, it is important to note that for NRWB and SRWB, government contributions played a significant role in total financing. For instance, government contribution contributed 67 and 38 percent of the total financing in NRWB and SRWB, respectively.

METHODOLOGY

The requests to get the management accounts of the corporations were made in earlier part of 2001. However, the corporations did not co-operate in sending the reports. Some had not prepared their accounts for the period in question. In response to this, an officer from the Public Enterprise Reform and Monitoring Unit went around in March, 2001 to get management accounts, which in some cases were not yet complete. For ADMARC, management accounts are yet to be submitted while ESCOM and CRWB only submitted profit and loss accounts without any balance sheets.

The Unit, therefore, analysed the accounts and prepared this report. The analysis gives the variances both in percentages and sometimes in absolute terms by comparing two figures of two different periods.

AIR MALAWI

PROFIT AND LOSS ACCOUNT

Income

The airline incurred a net loss before tax of MK27.3 million against the budgeted profit of MK 31.6 million for the nine-month period ending 31st December, 2000. This came into being because total expenditure increased by 24 percent from the MK884.9 million while the revenue grew by 17 percent during the period under study. Hence, MK1.07 billion was realised in revenue exceeding the budgeted figure of MK916 million and total expenditure increased from MK884.9 million in the budget to MK1.1 billion. Of the total revenue, about 71 percent came from the carriage of passengers and cargo.

Other sources, such as charters and handling, contributed 29 percent of the total revenue.

Expenditure

Total expenditure increased by 24 percent from MK884.9 million. However, total direct operating costs alone overshot the budgeted figure of MK503.8 by 25 percent. Despite the fact that the airline overspent in almost all items, the main contributing factors were aircraft hire, commissions, fuel and oil, and aircraft maintenance which increased from the budgeted figures by 12, 26, 36 and 49 percent to MK105.7 million, MK63.7 million, MK187.9 million and MK44.7 million, respectively. During the period, the ATR aircraft broke down and a foreign aircraft and engine were hired at a cost of MK15.4 million and MK2.5 million, respectively, to maintain freight services which together accounted for about 21 percent of the direct operating costs. In addition, the exchange rate fluctuations resulted in a MK15.5 million net loss. In addition, there are numerous allowances which represent a significant contribution to the total expenditure.

There is, therefore, need to strengthen revenue generation mechanisms and most importantly, design measures to contain expenditure within the budget levels. In particular, there is a need to rationalise the number of allowances offered to staff members.

BALANCE SHEET

Assets

As at 31st March, 2000 the fixed assets were at MK1.3 billion. However, by 31st December, 2000 fixed assets declined by 5 percent to MK1.2 billion. Regarding current assets, the decline was 12 percent from the budget figure of MK890.6 as at 31st March, 2000. This combined with a slight decrease in current liabilities contributed to the fall of the net current assets from MK433.5 million on 31st March, 2000 to MK419.6 million as at 31st December, 2000.

Liabilities

The decrease in liabilities of 3 percent was four times less than 12 percent decline experienced in the current assets above. The decline was attributable to the fall of trade creditors and bank overdraft by 69 and 1 percent, respectively. Otherwise, other components of liabilities registered growth during the period under study. For instance, sales in advance of carriage and provisions and accrued charges increased from MK149 million and MK82 Million in March,

2000 to MK195.4 million and MK91.3 million in December, 2000, respectively. This needs to be strengthened further in order for the airline to generate more income.

Financing

Financing came from four elements. In terms of proportions, share capital, deferred taxation, long-term provisions and retained profit contributed 36, 30, 15 and 13 percent to the total financing. However, there was limited reliance on long-term loans in financing the development work as this only contributed about 7 percent of financing.

ELECTRICITY SUPPLY COMMISSION OF MALAWI (ESCOM)

PROFIT AND LOSS ACCOUNT

Income

The Commission registered a profit of MK875.1 million for the period ending 31st December, 2000. This fell short of the budgeted profit of MK985.5 million by 11 percent. One of the factors leading to this decline was the fall in revenue from MK2 billion to MK1.8 billion, representing 1 percent decrease. This might be a result of accumulation of debtors over the period.

Expenditure

Total operating expenditure comprising electricity business operating expenditure and other operating expenditure was less than the budget by MK91.3 million, representing a 17 percent fall. All the items were less than their budgeted levels. Interest payments and depreciation remained constant at MK404.1 million and MK144.8 million, respectively.

BALANCE SHEET

ESCOM failed to submit the balance sheet data for the nine-month period ending 31st December, 2000.

MALAWI DEVELOPMENT CORPORATION

PROFIT AND LOSS ACCOUNT

Income

The Corporation made a loss after taxation of MK84 million for the period ending 31st December, 2000. This compares unfavourably with both the budgeted profit of MK7 million and last year's performance, a loss of MK79 million. The difference between the loss and budgeted profit was attributed to unbudgeted foreign exchange losses which amounted to MK64.6 million and unrealised profit from sale of investments budgeted at MK104.7 million, among others.

Total revenue fell short of the budget by MK24 million, representing about 11 percent decrease in revenue. Sources of revenue comprised the dividends, interest, bad debts recovered and other income. Total dividend income substantially exceeded the budget by 125 percent. This was attributed to higher than anticipated dividends declared by MPICO Ltd. Interest income fell below the budget by a 41 percent due to unrealised income from debts that were considered to be non-performing and delayed disbursement of loans to new projects. Other income to the tune of MK104 million was expected to be realised from the sales of its investment in Commercial Bank of Malawi (CBM), National Insurance Company (NICO), PIM, and Import and Export during the six-month period ending 30th September, 2000 and part of the disposal proceeds to be used to finance equity in Namiwawa Hotel Project. However, the delayed implementation of the project resulted in curtailment of sales of some investment portfolios. Despite stoppages in sales, shares in the NICO, PIM and Import and Export Ltd were sold realising a profit of MK40 million.

Expenditure

On operating expenses, all items except for office expenses registered favourable variances due to cost savings arising from secondment of staff to various subsidiaries of the corporation in line with the restructuring process and financial prudence. The office expenses increased by 21 percent over the budget of MK10.6 million. This increase was a result of unanticipated rent and borrowing rate hikes which the corporation experienced during the period.

The margin between the profit in the budget and the loss actually realised is significant. Analysis of both revenue and expenditure reveals that there are financial management problems at MDC. This is evidenced by a fall of 24 percent in revenue below the budget and an increase of 21 percent in expenses

over and above the budgeted figure. Despite the reasons advanced, there is a need to control expenditure in MDC.

BALANCE SHEET

Assets

Fixed and current assets for the Corporation as at 31st December, 2000 were at MK1.9 billion and MK64.7 million, respectively. The reported figures were lower than those in the budget for fixed and current assets by 18 and 60 percent, respectively. Despite the declines, the Corporation recorded net current assets and net assets of MK171.4 million and MK1.7 billion, respectively.

Liabilities

Liabilities were at MK236.1 million as at 31st December, 2000. The factors contributing to this level of liabilities were creditors, interest payments, short-term debts and overdrafts, and other unclassified liabilities.

Financing

Financing was mainly achieved by loan-term loans and share capital including reserves, which contributed 44 and 56 percent, respectively, to the total financing of MK1.7 billion.

MALAWI HOUSING CORPORATION (MHC)

PROFIT AND LOSS ACCOUNT

Income

MHC incurred a loss after taxation of MK15.2 million against a budgeted profit of MK8.3 million. The loss was a result of declines in income and sharp increase in expenditure items. Taking revenue as one of the contributing factors, income from sitting tenants project and ground rent fell sharply from MK32.8 million and MK3 million in the budget to MK14 million and no income at all, respectively. No explanation was given to that effect. However, total income declined by 3 percent from MK248.9 million in the budget to MK241.8 million. So there was no significant change in this regard.

Expenditure

The expenditure comprising administration and staff costs, operational expenses, depreciation and municipal and city rates exceeded the budget by 9 percent to MK255.7 million. This was attributed to a sharp increase in operating expenses by 48 percent to MK87.3 million. Under-performances were recorded in administration and staff costs, depreciation and municipal, and city rates.

BALANCE SHEET

Assets

The performance regarding assets was not very sound. MHC recorded negative net current assets amounting to MK57.8 million. Besides, net assets were at MK1.3 billion as at 31st December, 2000. Net current assets and net assets forecasts were at negative MK4.2 million and MK1.4 billion in the budget, respectively. Despite the decrease in net current assets, current assets improved by 3 percent from MK180 million recorded in the budget for the period.

Liabilities

Liabilities increased substantially from the budget of MK184.2 million to MK243.8 million representing a growth rate of 32 percent. This increase was much higher than 3 percent growth recorded in the current assets over the budgeted figures. This was attributed to significant growth registered in sale of house and plot deposits and taxation which increased by 457 and 63 percent from MK12.5 million and MK52.6 million, respectively. Each of the two contributed 29 and 35 percent to total liabilities.

Financing

MHC relied very much on retained profit and revaluation reserves as main sources of financing. These contributed 13 and 85 percent to the total financing which was at MK1.4 billion. Long-term loans were only 2 percent of total financing.

MALAWI POSTS CORPORATION (MPC)

PROFIT AND LOSS ACCOUNT

Income

During the period from October to December, 2000 MPC incurred a loss of MK33.3 million which does not compare well with the budgeted loss of MK2.4 million forecast in the budget. The total income fell by 45 percent from the budgeted figure of MK243.5 million to MK135 million. Sources of income included postage, stationary, MSB Agency fees and government subvention. Income from sales of postage stamps and stationery contributed heavily to the fall because they were far much below their budgeted levels. Income from the sales of postage stamps and stationery declined by 78 percent and 96 percent to MK38 million and MK97.8 thousand, respectively. However, there were no significant changes in MSB Agency fees and government subvention except for an increase of 60 percent in other income from MK51.7 million to MK82.6 million.

Expenditure

The decrease of 45 percent in total income compared unfavourably with a decline of 34 percent in expenditure. This partly explains the increase in loss from the budgeted loss of MK2.4 million to MK33.3 million. In short, total expenditure fell from a budget of MK243.5 million to actual figure of MK161.7 million. The change in expenditure was attributed to a number of factors. For instance, expenditure on services, supplies and sundries; maintenance; and cost of sales declined by 64, 37 and 41 percent to MK33.5 million, MK15.3 million and MK7.1 million, respectively. Despite sound financial management exercised in the preceding expenditure items, cost of depreciation remained constant at MK2.4 million and interest payment increased tremendously. Thus, the decrease in total expenditure was not that much as to avoid worsening off of the loss from MK2.4 million in the budget to MK33.3 million.

BALANCE SHEET

Assets

Fixed and current assets for the Corporation as at 31st December, 2000 were at MK428.4 million and MK109.7 million, respectively. The Corporation recorded negative net current assets and net assets of MK64.8 million and MK363.6 million, respectively.

Liabilities

Liabilities were at MK174.5 million as at 31st December, 2000. The factors contributing to this level of liabilities were tax arrears to Malawi Revenue Authority, trade creditors, a loan to Malawi Savings Bank and pension arrears to the Old Mutual.

Financing

MPC failed to produce financing information.

MALAWI TELECOMMUNICATION LIMITED (MTL)

PROFIT AND LOSS ACCOUNT

Income

For the nine-month period ending 31st December, 2000, MTL realised a net profit of MK1.2 billion. Actual revenue for the period was MK2.2 billion against the budgeted figure of MK1.5 billion. The increase in revenue by 43 percent was attributable to a number of factors including increase in the number of telephone lines following the commissioning of Telecom II Project in Lilongwe; and exchange rate gains on international calls which are billed in US Dollars. There was also increased usage of lines due to the proliferation of Internet browsing.

The sources of revenue for MTL range from monthly telephone rentals, metered calls, operator connected calls, installation fees and customer premises equipment, among others. However, the metered calls had a largest proportion of the total revenue realised during the period under study. Hence, the metered calls contributed about 70 percent of total revenue for the nine-month period and 60 percent for the month of December, 2000. The international calls became second in order of importance. They contributed 12% to the total revenues. The balance of 18 percent was shared amongst the other sources of revenues as listed above.

Expenditure

Operating expenses are categorised into payroll, services and supplies, transport, maintenance costs and the profit and loss adjustment figures, that is, depreciation, interest and exchange fluctuations. Services and supplies constituted 32 percent of the total expenses followed by the payroll (25 percent),

interest (22 percent) and the rest contributed 21 percent of the total revenue. On the payroll, salaries took up 44 percent while pensions contributed 41 percent.

BALANCE SHEET

Assets

The fixed and current assets for MTL were at MK2.9 billion and MK1.8 billion, respectively, as at 31st December, 2000. Major contributing factors for fixed assets as at that point in time were telecommunication plant and capital work in progress which were 17 and 75 percent of the total fixed assets, respectively. On the other hand, debtors contributed 95 percent of current assets. However, the corporation registered a negative net current assets figure of MK704 million and positive net assets of MK2.2 billion.

Liabilities

The liabilities comprised three main components namely bank overdraft, trade creditors and other creditors not related to trade. Hence, the significance of bank overdraft, trade creditors and other creditors to liabilities was in the proportions of 4, 63 and 33 percent, respectively. It is important, therefore, that MTL reduces short-term loans which in total contribute 96 percent of the current liabilities.

Financing

The financing, which was MK2.2 billion, was mainly achieved by long-term loans, share capital and a government grant which contributed 298, 57 and 0.3 percent of the total financing, respectively. Long-term loans contributed significantly to the total financing, that is, 298 percent. This may lead to some financial difficulties in future. It is, therefore, important that MTL and the shareholder of the company should monitor and control borrowing to avoid a financial crisis owing to amortisation and interest payment.

CENTRAL REGION WATER BOARD (CRWB)

PROFIT AND LOSS ACCOUNT

Income

The Board submitted management accounts for the quarter ending 30th September, 2000 and it registered a loss before depreciation of MK1.9 million

against a budgeted profit of MK2.7 million. The loss came in because the revenue registered a negative growth of 28 percent from MK27 million to MK19.5 million and the rate was greater than 12 percent, which is the rate of decrease in total expenditure falling from MK24.3 million to MK21.5 million. The main sources of income were water sales and service charges which contributed 95 percent and 5 percent, respectively.

Expenditure

The Board performed within the budget ceilings in almost all expenditure items. For instance, under-performances were recorded in a number of budget items (Table 1). It should be noted that only under-expenditures which fell below the budget by 80 percent and above have been recorded in this table in order to reflect their significance in pulling down the level of total expenditure.

Table 1: Some of the Budget Items which Registered Under-Expenditures – for Quarter Ending 30th September, 2000.

BUDGET ITEM	ACTUAL EXPENDITURE (MK)	BUDGETED EXPENDITURE (MK)	PERCENTAGES (-)
Leave grant	51,850	254,069	80
Travel allowance	34,445	465,900	93
Gratuity provisions	290	170,400	100
Water provision to staff	31,450	124,320	75
Bicycle allowance	15,500	54,620	72
Field allowance	-	41,688	100
External travel allowance	282,198	1,008,000	72
Chemicals	393,000	1,112,196	65
Pump spares	114,708	561,772	80
Refreshments and consumables	78,768	216,211	64
Licences	22,459	68,535	67
Water quality control	-	129,213	100
Insurance	780	100,593	99
Postage	18,991	100,902	81
Staff welfare and bereavement	31,850	196,051	84
Library and magazines	7,400	76,749	90

On the other hand, over-expenditures were registered in a number of items. For example, the actual expenditure figures for bank charges, transport and mileage

claim, donations/subscriptions, property maintenance and professional fees overshot the budget by 522, 265, 180, 159 and 144 percent, respectively. These might be as a result of under-budgeting or lack of prudent financial management. Therefore, CRWB needs to exercise financial prudence in their activities by developing a detailed budget and control expenditure where necessary.

BALANCE SHEET

The Central Region Water Board failed to submit the required data under this sub-topic.

NORTHERN REGION WATER BOARD (NRWB)

PROFIT AND LOSS ACCOUNT

Income

During the quarter starting from October to December, 2000, total income increased from a budget of MK25.4 million to MK25.7 million. The increase was a result of 126 percent growth in other revenues from MK1.3 million MK2.9 million. However, water sales decreased from the budget figure of MK24.1 million to MK22.9 million, representing a fall of 5 percent. If nine-month period is considered, water sales income decreased by almost the same rate and income declined by 4 percent from the budget of MK72.4 million.

Despite the slight increase in total income, the Board registered a loss of MK3.8 million against a budgeted profit of MK3.4 million. This was mainly due to significant growth in operating expenses from the budget of MK17.3 million to MK22.6 million, representing 30 percent increase.

Expenditure

As stated earlier on, total operating expenses grew significantly by 30 percentage points. A number of factors contributed to this poor financial performance including high growth rates of 100, 69 and 44 percent in the cost of plant and vehicle operations, electricity bills, and administration and general costs. Interest payment on long term loans and depreciation increased during the three-month period from MK3.8 million and MK943,500 to MK5.5 million and MK1.5 million, respectively. As is the case with others, NRWB needs strong financial management in order to curtail this trend.

BALANCE SHEET

Assets

NRWB had total fixed assets of MK245 million as at 31st December, 2000. The capital work in progress contributed 77 percent to the total. This came about because the Board was in the process of expanding and rehabilitating the water supply system and constructing of office blocks. The current assets were at MK72.1 million. The performance was sustainable in that the Board registered net current assets of MK36.8 million.

Liabilities

The level of current liabilities was at MK35.3 million as at 31st December, 2001. The main components were bank overdraft and creditors, accruals and provisions. The bank overdraft alone contributed 17 percent while creditors, accruals and provisions were 83 percent of the total liabilities.

Financing

Total financing reached MK281.7 million, which comprised government capital contribution, long-term loans and grants. Government contribution was the largest source of financing during the quarter, contributing 67 percent while long-term loans and grants share to the total financing were 28 and 3 percent, respectively.

The long-term loans were procured to finance an array of development projects such as expansion and rehabilitation of the water supply system and construction of the office blocks.

SOUTHERN REGION WATER BOARD (SRWB)

PROFIT AND LOSS ACCOUNT

Income

The profit and loss account for Southern Region Water Board was not healthy during the six months, from July to December, 2000. SRWB registered a loss of MK3.4 million compared to the budgeted profit of MK23.3 million representing an unfavourable variance of MK26.7 million. This was partly due to under-performance in revenue generation. Total income dropped by 34 percent from the budget of MK102 million. The contributing factors to the fall were

underperformances in water sales, reconnection and agency fees, and interest earned which fell by 34, 23 and 51 percent, respectively. Income from water sales alone contributed 95 percent to both budgeted and actual levels of income. Hence, 34 percent decrease in water sales had a greater impact on the fall of total income than others.

Expenditure

The under-performance in income generation was compounded by the failure to control expenditure. In fact, total expenditure hardly changed as indicated by 10 percent decrease from MK78.7 million. Major contributions to this modest decline in expenditure came from the fall in rent, training and external travelling, interest payment and depreciation, among others. Depreciation alone, which remained constant, contributed 22 percent to the total outlays in the budget and actual figures of MK78.7 and MK78.6 million, respectively.

BALANCE SHEET

Assets

SRWB had over the period performed better than most of the corporations under study. This is depicted by the growth of both total assets and total current assets during the period. For instance, total assets and total current assets increased by 14 and 54 percent from MK1.2 billion and MK53 million, respectively. However, total net fixed assets grew slightly by 8 percent. Thus, the growth in total assets was mainly attributed to the growth in total current assets. The main contributing factors to the growth of total current assets were the water debtors and stocks and stores which increased by 60 and 64 percent over the period. Water debtors and stocks and stores contributed 65 and 23 percent to the total current assets as at 31st December, 2000. The growth of total current assets led to the growth of net current assets by 42 percent from MK35.8 million as at 30th June, 2000. Considering the impact water debtors could have on levels of income, there is a need for SRWB to strengthen debt collection.

Liabilities

Liabilities sector registered a higher growth than that recorded in total current assets. As at 30th June, 2000 the liabilities were at MK17.1 million and this grew by 80 percent to MK30.8 million by 31st December, 2000. The main factors leading to such significant and high growth were trade creditors, accruals and bank overdrafts, among others, which grew by 54, 56 and 42 percent from MK5.7 million, MK2.7 million and MK5 million, respectively.

Financing

Long-term loans and government contribution played a vital role in terms of financing. The former, which was 61 percent of total financing by 31st December, 2000 increased by 14 percent to MK1.4 billion. The other factor, which contributed 38 percent to the total financing grew from MK449.8 million to MK516.4 million representing a growth rate of 15 percent. However, retained profit dropped from MK6.2 million to MK2.8 million over the period.

CONCLUSION AND RECOMMENDATIONS

Virtually, all the nine parastatals made losses in their profit and loss accounts. Analysis of the accounts reveals substantial increases in expenditure and slight increases or declines in revenue collection over the period. This shows some degree of laxity in financial management by the parastatals. There is in fact a lack of aggressiveness to generate enough income for the corporations. In addition, there is, in general, a lack of financial discipline to control and contain expenditure within the predetermined limits.

Looking at the balance sheet accounts, the picture is slightly different in that almost all corporations were solvent except for MTL and MPC which recorded negative net current assets. Financing of the balance sheet items was largely done by long-term loans and share capital. However, reliance on long-term loans is a good option if the corporations are investing in productive programmes and if there is a possibility of containing expenditure. Otherwise, if the current trend of over-expenditures and insignificant increases in income in the parastatals continue, long term loans will further increase the burden on the budgets in terms of interest payments.

Therefore, based on the analysis and the need to improve financial performance, parastatals should develop measures to check over-spending. Or if the ways are in place, they should make sure that they implement them. Specifically, the parastatals should:

Cut down expenses on fringe benefits to the executive staff. This means realistic and necessary allowances should be awarded. There are some cases where too many allowances, which contribute to the drain of resources, are awarded. This could be avoided by offering better salaries and very few important allowances. Fuel allocation should be in line with the actual demand not the derived one. In addition, they should effect the allocation of direct telephone lines to very senior officers only;

Award promotions based on the performance of staff. Otherwise, promotions for the sake of it will further lead to financial difficulties because they will add to the costs;

Not propose any form of salary increases to government for approval if they have not made profits or if they are at break-even point. The approval of such increases directly means aggravating the loss making process and indirectly it means government subventions to the parastatals in question. It is, therefore, recommended that approval of salary increase by government should only be awarded to the parastatals which have made or are likely to make profits and not otherwise. To make sure this works, the approval could be awarded in two phases. First, approval could be based on previous year's performance, that is, if they made profits to justify the increase. Second, the final approval could be given based on financial performance during the first quarter or first two quarters in which profits were made;

Be penalised if total expenditure grows by more than 10 percent of the budget figure without giving valid reasons to the Board of Directors. Mechanisms to ensure that this is done could be designed at a later stage; and

On the other hand, parastatals should be aggressive in selling their services and products. In order to achieve this, the mentality of being government-owned should be eradicated and they should be business oriented. Hence, there is a need to:

Increase productivity levels in order to cut costs and increase profit margins;

Improve the quality of their services and products; and

Embank on aggressive advertisement campaigns of their services and products.

Unless these or some of these measures are implemented, the financial performance of the parastatals would not improve and government could continue supporting them without any due cause. It is, therefore, important for government to take a bold stand on parastatals to ensure that there are hard-working spirit; control of expenditure and if possible more income is generated by the parastatals. Government should also device a system of penalising chief executives of the parastatals which have significant financial irregularities. Otherwise, poor performance by parastatals could be a common practice, which is costly to government.

Parastatal loans are increasingly becoming a concern to government in that

servicing of these debts becomes a problem. In some instances, government has taken over the responsibility of servicing the debts. MPC is a classical example where government is servicing the loans it had with the Malawi Savings Bank. In order to contain this situation, there is a need to revise the borrowing criteria used by the parastatals. The Ministry of Finance and Economic Planning in liaison with the Reserve Bank, Department of Statutory Corporations and the National Economic Council is to develop the system of borrowing by the parastatals.

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