GOVERNMENT OF MALAWI

2019/20 CONSOLIDATED REPORT FOR STATE OWNED ENTERPRISES IN MALAWI

MINISTRY OF FINANCE

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EXECUTIVE SUMMARY

This consolidated State Owned Enterprises (SOE) report focuses on the aggregate financial and non-financial performance of the twenty-eight Commercial SOEs. The report also narrows down to the individual commercial SOE performance based on the audited accounts for 2019/20 financial year.

Overall, the aggregate financial performance of the SOEs indicates that profitability was volatile in the period between 2016/17 to 2019/20 financial years. Looking at the SOEs at sector level, the agriculture, water and energy sector continue to dominate the SOE sector with their assets constituting about 70 percent of total assets, 93 percent of total liabilities and 84 percent of the total revenues. Given their size and diversity across all sectors in the economy, these require special attention from a fiscal risk perspective.

In terms of cost recovery, SOEs in the education sector, transport sector and those involved in public works were operating below cost recovery and specifically the trading SOEs were the most affected. All in all, SOEs in trading have been consistently registering low returns on assets as well as on equity investment. This was generally due to implementation of tariffs that were below cost recovery which have hindered growth and hence re-investment of the anticipated profits. The most affected sector was the water sector where there were cross subsidies within the different categories of customers as a result of non-cost reflective tariffs. This outturn points to the need for the sector Ministries to consider reviewing the policy environment that safeguards the review of tariffs. As expected, the performance of the regulatory SOEs has been good with almost all registering increasing levels of surpluses throughout the years under review.

The narrow base for private customers also restricts business with the Public Institutions among the trading SOEs which subjects the SOEs to liquidity challenges as debt collection days exceeds the recommended international thresholds hence tying up the much needed revenues. This further resulted in operating on overdrafts while putting efforts to collect the public institutions debt. This has resulted in a vicious cycle, as the SOEs fails to meet their debt and statutory obligations such as remittances of taxes, pensions and payments to their suppliers of goods and service. In general, the report reveals that the level of tax remittance by SOEs remained subdued during the period under review meanwhile the SOEs were accumulating arrears with the Malawi Revenue Authority.

This outcome calls for more prudent measures that should avert fiscal risks arising from the unserviced obligations. The proposed policy measures include installation of prepaid meters for utility companies. Owing to the cash flow challenges, the report indicates that the shareholder failed to realise returns during the period under review as the SOEs could not remit the dividends as per statutory requirements. It is therefore, recommended that the national budget should clearly provide resources where the Government requires the SOEs to undertake public service obligations and that structural reforms should be undertaken where the SOEs are taking both commercial and social obligations to reduce cross subsidies and unplanned for bail outs. Lastly, there is need for strengthened SOE oversight function to ensure efficiency and effectiveness which are key to the success of the SOE sector. Thus, the Government should strengthen and capacitate the structures for efficient monitoring of the entities.

LIST OF ACRONYMS

ADMARC ……………………………………. Agricultural Development and Marketing Corporation
ALP ……………………………………………………………………...Agricultural Labour Practices
ACM ……………………………………………………………………...….. Air Cargo Malawi Limited
ADL…………………………………………………………………….. Airport Development Limited
AG ……………………………………………………………………………………..Auditor General
AHL ………………………………………………………………….….Auction Holdings Limited
BWB ……………………………………………………………………………. Blantyre water Board
CRWB ………………………………………………………...…….Central Region Water Board
COSOMA ………………………………………………………….………Copyright Society of Malawi
DSR……………………………………………………………………………….. Debt Service Ratio
EGENCO…………………………………………….. Electricity Generation Company Malawi Limited
ESCOM ……………………………………………...……..Electricity Supply Corporation of Malawi
FCTC ………………………………………….…..……..Framework Convention on Tobacco Control
GAP ………………………………………………...…...……………Good Agriculture Practices
GDP ……………………………………………………………….…………..Gross Domestic Product
IPP………………………………………………………….. ………... Independent Power Producer
ISBP……………………………………………………... ……..Integrated Strategic Business Plan
IMF……………………………………………………….………… International Monetary Fund
LIHACO………………………………………………………………….. Lilongwe Handling Company
LWB………………………………………………………………………… Lilongwe Water Board
MAB……………………………………………………………………... Malawi Accountants Board
MBC ………………………………………………………..……...Malawi Broadcasting Corporation
MBS……………………………………………………….…….…… Malawi Bureau of Standards
MCS ……………………………………………………………….…….Malawi Catering Services
MCA ………………………………………………………………...Malawi College of Accountancy
MACRA……………………………………………….. Malawi Communications Regulatory Authority
MDRRP ………………………………………...Malawi Drought Recovery and Resilience Project
MERA…………………………………………………………. Malawi Energy Regulatory Authority
MGB …………………………………………………….……………………Malawi Gaming Board
MHC …………………………………………………………….……..Malawi Housing Corporation
MIM……………………………………………………………….… Malawi Institute of Management
MK ……………………………………………………………...……………Malawi Kwacha
MPC ……………………………………………………….…………... Malawi Posts Corporation
MRA ………………………………………………………………….. Malawi Revenue Authority
MTL ……………………………………………………………………… Malawi Telecom Limited
MT ……………………………………………………………………..,…….. Metric Tonnes
MCC ………………………………………………………………. Millennium Challenge Corporation
MDA ………………………………………………….…… Ministries Departments and Agencies
MOF ……………………………………………………….………………… Ministry of Finance
NBM ………………………………………………………….……… National Bank of Malawi
NCIC ………………………………………………..………. National Construction Industry Council
NEEF …………………………………………………..……National Economic Empowerment Fund
NFRA ………………………………………………………………….. National Food Reserve Agency
NLB ………………………………………………………………………. National Lotteries Board
NOCMA ……………………………………………………..…..……… National Oil Company
NRWB ……………………………………………………….……. Northern Region Water Board
OMC ……………………………………….………………… …..Oil Marketing Companies
PMRA ………………………………………………… Pharmacy and Medicines Regulatory Authority

PPA ……………………………………………………….……………. Power Purchase Agreement
PSO …………………………………………………………...……….. Public Service Obligations
QFA ……………………………………………………………….………. Quasi Fiscal Activities
RAP ……………………………………………………..……………… Resettlement Action Plan
ROA ………………………………………………………..…………………..Return on Assets
ROE ……………………………………………………………….…………..Return on Equity
RSA …………………………………………………….……………Revenue Sharing Agreement
SAPP ……………………………………………………………………….Southern Africa Power Pool
SRWB ……………………………………………………………....Southern Region Water Board

1. INTRODUCTION

1.1 IMPORTANCE OF SOE OVERSIGHT

The government faces fiscal risks when State Owned Enterprises (SOEs) do not perform well financially. If a SOE is operating less than efficiently, its financial returns decline, its debt increases, and its solvency could be at risk. This may result in lower financial returns from SOEs and/or additional fiscal costs to the budget and an unsustainable level of debt for the individual SOE. Contingent liabilities for SOE debt become the responsibility of the Government as the owner of SOEs.

The government's goal in managing SOE-associated fiscal risks is mostly to identify the nature and source of these risks, their magnitude and the likelihood of them occurring so that they can be effectively managed. To do this, comprehensive information is needed on SOEs as a group and on individual SOEs.

1.2 SCOPE

This report highlights the fiscal performance and potential areas of financial stress facing SOEs in Malawi and proposes mitigation measures. It serves to flag potential fiscal risks to management in the Ministry of Finance (MOF) to take adequate corrective measures to mitigate these risks in conjunction with the Boards of the SOEs.

Due to data limitations, this report may not fully quantify the size of these risks and the probability of their occurrence, but it still serves as an important first step for discussions between SOEs Boards, the MoF and Line Ministries.

In compiling this report, the Ministry used both secondary data as well as validating the same through engaging the management of the 28 Commercial SOEs. Data was obtained from the audited financial statements, Performance Management Plans and Budgets (PMPBs), Annual Economic Reports and SOE Annual Reports.

1.3 STRUCTURE OF THE REPORT

Following the Introduction (**Section 1**), there are three main sections to the report. **Section 2** provides aggregate analysis of the Commercial SOE sector in Malawi and is subdivided into seven sub-sections (Table 1).

Section 3 provides analysis for each of the SOEs using three broad features of financial oversight based on different thresholds of 15 selected financial performance indicators[1]. A summary assessment of each SOE contains four sections:

(i) Overview of financial performance
(ii) Overview of financial risks
(iii) Financial flows with the Government
(iv) Policy specific issues

In **Section 4**, in-depth analysis is provided for three (3) high risk SOEs, which are generally larger, have sizable long-term liabilities, receive direct or indirect support from the government and are showing signs of financial distress. The case studies contain six sections:

(i) Company profile
(ii) Summary of financial performance
(iii) Main Fiscal risks and Proposed policy recommendations

[1] These are listed and defined in Annex 1.

Table 1: Structure and analytical content of the report sections, sub-sections and analysis

Section		Sub-section	Analysis	Importance
1	Introduction	1.1 Scope	Overview	Outlines the scope of the SOE oversight, purpose and methodology and structure of the report.
		1.2 Purpose and methodology	Methodology	
		1.3 Structure of the Report	Breakdown of report sections	
2	Aggregate analysis	2.1 Overview of the State-Owned Enterprises Sector in Malawi	Relation to GDP Sector and function analysis	Reflects the size and composition of the sector in relation the economy and therefore the possible magnitude of fiscal risk
		2.2 SOE Financial Performance	2.2.1 Performance (Profits and Surpluses) 2.2.2 Cost recovery 2.2.3 Return on Assets (ROA) 2.2.4 Return on Equity (ROE)	Profitability is important for SOEs to be able to service their debt, provide funds for capital expenditure and provide sufficient returns to the budget through dividends.
		2.3 SOE Debt	2.3.1 Size and composition of SOE Debt 2.3.2 Debt to Equity 2.3.3 Debt Service Coverage	All SOE debt is an explicit or implicit contingent liability of the government. Knowing the total amount of SOE debt and the capacity of SOEs to service it is crucial for assessing fiscal risk
		2.4 Fiscal Flows between SOEs and budget	2.4.1 Government Transfers to SOEs 2.4.2 Taxes and Dividend Payments remitted by Commercial Entities	High SOE dependence on budget funding compromises the government's fiscal position. If Public Service Obligations (PSOs) are not sufficiently compensated for this can worsen financial performance. Commercial SOEs should provide an adequate return to the Budget. Revenue is foregone by exemptions from payment of income tax and dividends
		2.5 Arrears between SOEs and with government	2.5.1 Government arrears to SOEs 2.5.2 Intra-Arrears between the SOEs	Government arrears to SOEs; intra-arrears between the SOEs; and implications these have on their operations
		2.6 Cross-cutting issues	2.6.1 Tariff and pricing policies 2.6.2 Fiscal flows and Arrears (subsidies, overdraft, debt, remittance of dividends) 2.6.3 Institutional arrangements (separation of PSO,	This section outlines the main categories for cross-cutting issues, including

Section		Sub-section	Analysis	Importance
			staffing and restructuring) 2.6.4 SOE Oversight function (capacity and coverage)	
		2.7 Critical policy recommendations	2.7.1 Repayment of loans 2.7.2 Subsidies for PSO 2.7.3 Public Investment risks 2.7.4 Institutional arrangements 2.7.5 SOE Oversight function	Outline related recommendations from the cross-cutting issues
3	Individual SOE analysis and data input sheets	• Overview of financial performance • Overview of financial risks • Financial flows with the Government • Policy specific issues		Provides senior management with specific areas to follow up with individual SOEs based on financial indicator analysis.
4	High Risk Case Studies incorporated as part of the individual SOE chapter	ADMARC BWB ESCOM	1.1 ADMARC 1.2 BWB 1.3 ESCOM	Trend and forward-looking analysis for the three (3) high risk SOEs.
Annex 1	List of SOEs in Malawi (2019)	Including Governance and compliance issues		
Annex 2	Financial indicators for Statutory body oversight	15 indicators include: 1) profit after tax; 2) Return on Assets; 3) Return on total equity; 4) Cost recovery; 5) Gross profit margin; 6) Operating Profit margin; 7) Asset turnover; 8) Debt to equity; 9) Current ration; 10) Quick ratio; 11) Accounts receivable days; 12) Debt servicing ratio; 13) Accounts payable days; 14) Government transfers as a proportion of total revenue; 15) Dividend Payout Rate.		Heat map used to monitor the financial performance of the SOE sector.
Annex 3	Indicators, Calculations and thresholds	15 Indicators, Calculations and thresholds for monitoring SOE Financial Performance		

2 AGGREGATE ANALYSIS

2.1 OVERVIEW OF THE STATE-OWNED ENTERPRISES SECTOR IN MALAWI

SOEs in Malawi play a significant role in the economy. In accordance with the 2003 Public Finance Management Act, a State Owned Enterprise (SOE), is defined within the broad spectrum of a statutory body as a corporate or unincorporated body that has been set up as a specific entity to provide a specific good and/or service[2]. This includes any corporation or subsidiary of a corporation where Government directly or indirectly; controls the composition of any board of directors, controls more than fifty per cent of the voting power of the body or holds more than 50% of any of the issued share capital of the body either directly or through another agency or statutory body. SOEs are a channel that government uses to address its strategic economic and social objectives and/or its commercial objectives.

This report covers 28 commercial SOEs comprising 14 traders, 5 service providers and 9 regulators. **The "Public Enterprise Sector",** however, is larger than this as it also includes semi subvented and wholly subvented organisations totalling to 75 institutions**.** However, the analysis in this report is based on the 28 commercial SOE data only.

Figure 1: Public Entreprises Sector in Malawi

Figure 1a: Structure of the SOE Sector in Malawi

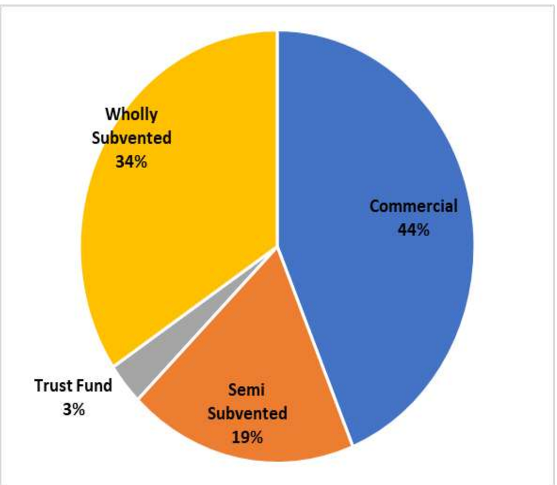
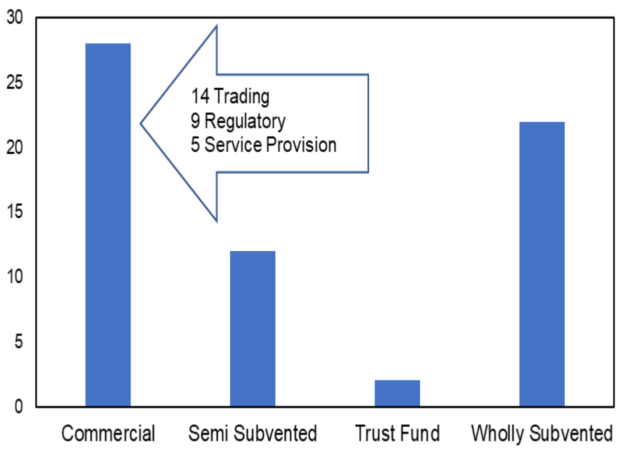


Figure 1b: Composition of the Commercial SOEs



Source: 2020 Public Sector Institutions Table (PSIT).

SOEs in Malawi operate across strategic economic sectors including agriculture, communications, education, energy, financial, health, labour, lands and housing, trade and tourism, transport and public works, and water. The revenues of the SOEs account for 8 percent of GDP for FY 2019/20, Gross liabilities of the sector for the same FY account for 11 percent of GDP while SOE assets accounted for 18 percent of GDP in Malawi (**Table 2).**

[2] According to OECD Guidelines on Corporate Governance of State-Owned Enterprises (2015) and IMF GFSM framework (2014), SOEs are defined as government owned or government-controlled entities whose assets are held in corporate form and which generate the bulk of revenues from the sale of goods and services.

Table 2: SOEs Assets, Liabilities and Revenues (MK'Million and Percent of GDP)

	2017 Audited	2018 Audited	2019 Audited	2020 Audited
Total assets	635,263,220	898,201,434	1,319,540,934	1,426,311,367
Total Liabilities	303,296,769	502,089,047	832,269,677	913,472,818
Total Revenue	239,617,266	333,636,207	630,617,223	644,438,463
As a % of GDP				
Total assets	9%	12%	17%	18%
Total Liabilities	4%	7%	11%	11%
Total Revenue	3%	4%	8%	8%

Source: 2020 Audited Financial Statements and Annual Economic Report 2022

The agriculture, water and energy sectors dominate the SOE sector (Table 3). These sectors account for 79 percent of total assets, 88 percent of total liabilities and 89 percent of the total revenues. Given their size and diversity across all sectors of the economy, these require special attention from a fiscal risk perspective.

Table 3: SOE Assets, Liabilities and Revenues for FY2019/20 (By sector and category)
(Percent of total)

Sector	Assets	Liabilities	Revenue
Agriculture	9%	8%	6%
Communication	3%	3%	5%
Education	0%	0%	0%
Energy	50%	58%	73%
Financial	1%	1%	0%
Governance	0%	0%	0%
Health	0%	0%	0%
Lands and Housing	9%	1%	1%
Trade and Tourism	1%	0%	1%
Transport and Public Works	4%	1%	3%
Water	22%	27%	10%
Grand Total	**100%**	**100%**	**100%**

Category	Assets	Liabilities	Revenue
Regulatory	6.42%	5.32%	6.33%
Service Provision	3.09%	2.73%	2.18%
Trading	90.50%	91.95%	91.50%
Grand Total	**100.00%**	**100.00%**	**100.00%**

Source: 2020 Audited Financial Statements.

2.2 SOE Financial Performance

2.2.1 Performance (Profits and Surpluses)

The Dividend and Surplus Policy for Statutory Bodies in Malawi (2019) is very clear regarding financial performance. It requires commercially oriented SOEs to strive to be efficient and effective as they are required to operate on a private sector model to ensure their long-term financial sustainability. However, it also takes cognizance of the fact that most of these SOEs also provide social services while fulfilling their commercial objectives. The social services aspect in a way subdues the level of profitability. However, strides are being pursued to have cost reflective tariffs while being mindful of the social obligation requirement.

SOEs undertaking commercial functions depict variabilities across their distinct categories with extreme swings from low profitability to high profitability and vice versa in some entities. However, generally the position has steadily deteriorated largely among the trading SOEs. Despite Commercial SOEs being market oriented entities, the number of loss making entities remained relatively has been on the rise from three in 2017 to thirteen in 2020 while among the regulators or service providers, the position has largely remained constant averaging three across the years under review. Overall, 46 percent of all the commercial SOEs registered losses/deficits in 2020 an increase from 23 percent in 2019 (**Figure 2).**

Figure 2: Profit and loss/Surpluses and deficits making SOEs (number of entities)

Figure 2a: Trading SOEs

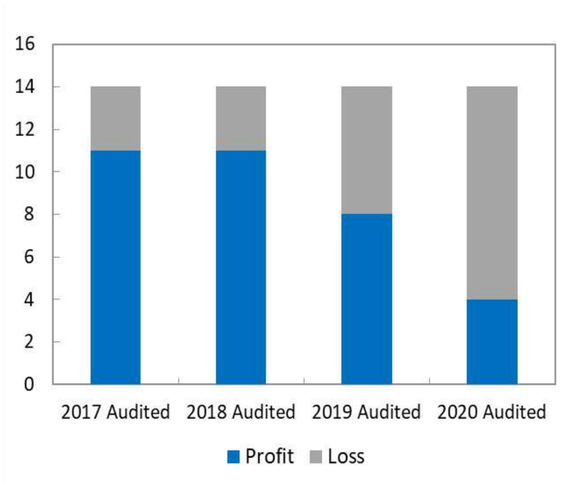
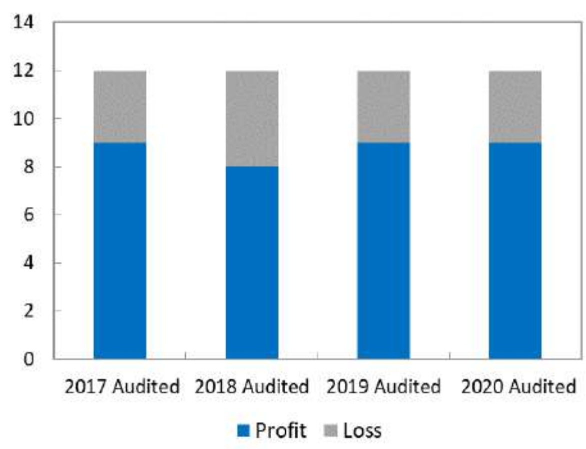


Figure 2b: Regulators and Service Providers



Source: 2020 Audited Financial Statements.

Specifically, among the trading SOEs, the number of loss making trading SOEs increased from 5 in 2019 to 10 in 2020. Three of these entities were Water Boards reflecting their worsening operating environment especially with regard to non-cost reflective tariffs. Similarly, three trading SOEs in the energy sector namely ESCOM, NOCMA and EGENCO also registered losses in 2020. On the other hand, performance of the regulatory SOEs was good with almost all registering increasing levels of surpluses over time despite the level of surpluses declining in 2020.

Meanwhile, the performance of the service provision SOEs has mostly been at breaking even apart from 2019 whereby two entities namely, NFRA, TC and NEEF have worsened with sharp decline to loss-making position in 2020 **(Table 4 and Figure 3).** Generally, service providers are expected to breakeven to ensure that they are not a drain on the national budget.

Table 4: Profit and loss /Surpluses and deficits making SOEs (FY2017 - FY2020) (By entity) (MK' Millions)

Row Labels	Values 2017 Audited	2018 Audited	2019 Audited	2020 Audited
Trading				
ACM	159	179	-202	-165
ADL	5,477	6,296	7,129	7,780
ADMARC	-23,309	14,345	1,997	-1,762
BWB	-5,451	-2,379	-3,310	-7,946
CRWB	163	43	-1,465	-1,449
EGENCO	2,825	11,035	15,222	-5,082
ESCOM	11,994	-12,963	-8,011	-18,536
LIHACO	549	85	119	-593
LWB	3,410	2,458	4,773	2,702
MHC	210	13	11	9,965
MPC	1,496	440	224	-3,276
NOCMA	-893	-1,206	733	-12
NRWB	1,226	171	-827	-3,778
SRWB	597	838	684	125
Regulatory				
MAB	11	-23	17	18
MACRA	5,735	8,001	5,482	5,436
MBS	1,056	2,299	2,687	1,894
MERA	2,216	3,164	2,845	1,965
NCIC	4	43	54	55
NLB-MGB	79	51	468	93
TCC	1,306	305	89	-81
TEVETA	-392	440	171	634
PMRA	306	121	-74	54
Service Provision				
MBC	-573	-201	-369	61
MCA	25	-275	-5	109
MIM	-354	-338	-224	-440
NFRA	689	6,336	231	-318
NEEF	-962	2,605	-840	-2,678
Grand Total	**7,598**	**41,883**	**27,610**	**9,965**

Source: Audited Financial Statements

Overall, the aggregate performance of the trading SOEs in 2020 depicts a sharp decrease in the profitability level attained in 2019 and 2018 **(Figure 3).** This performance continued to be driven by the Agriculture, Energy, Water and Communication sectors which registered significant decline. In 2020 alone, the energy sector alone accounted for almost K23.6 billion in losses in the three energy SOEs (ESCOM, EGENCO and NOCMA.

The onset of the Covid-19 pandemic also significantly affected the performance of SOEs in the Education and Transport sector particularly the civil aviation which registered losses with the exception of ADL that remained profitable in 2020.

Figure 3: Profitability of Trading SOES by function and by sector (Kwacha Millions)

Figure 3a: Trading SOEs (aggregate)

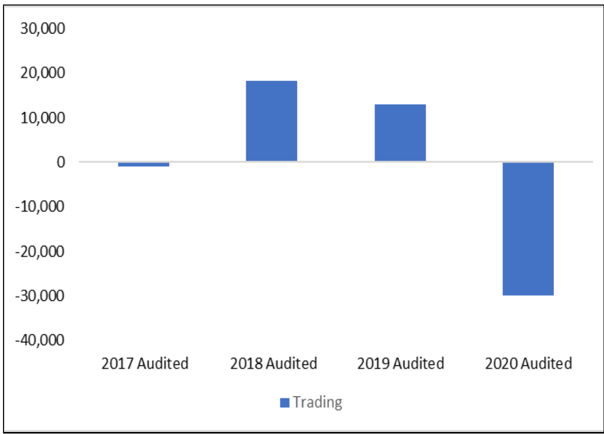
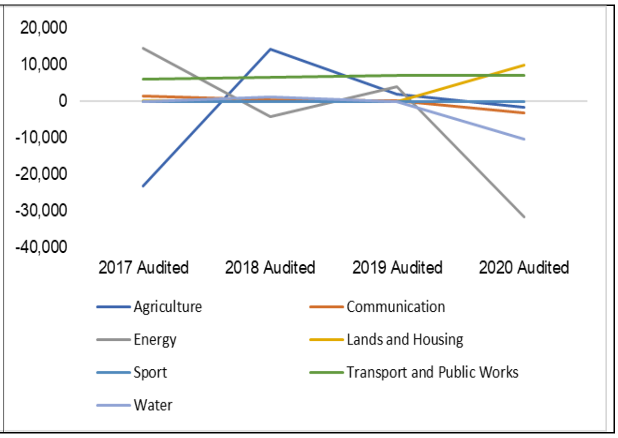


Figure 3b: Trading SOEs by sector



Source: Audited Financial Statements and Performance Management Plans and Budgets

Overall, the period between 2017 to 2020, the Agriculture and Energy sectors illustrate the biggest swings and registering losses among the trading SOEs in 2020. Similarly, the performance of the Water sector has been deteriorating over the same period

Figure 4: Profitability Regulatory and Service Provision SOES by function and by sector (Kwacha Millions)

Figure 4a: Regulators and Service Providers SOEs (aggregates)

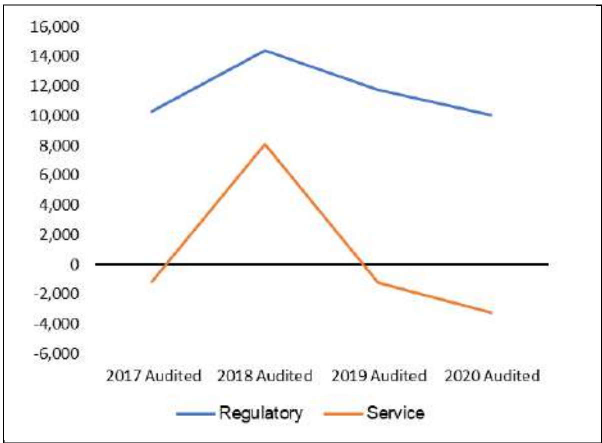
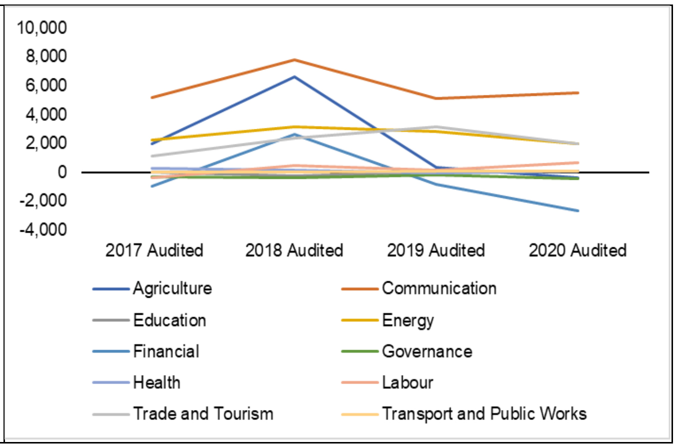


Figure 4b: Regulators and Service Providers by sector



Source: Audited Financial Statements and Performance Management Plans and Budgets

The Regulatory SOEs continued to register surpluses although at a declining rate (Figure 4). On the other hand, the performance of the SOE in the service provision continued to decline at the aggregate level, largely driven by the financial sector SOEs.

2.2.2 Cost recovery

Cost recovery reflects the ability of a corporation to generate adequate revenue to meet operating expense[3]. The ratio should generally be higher than one hundred percent. Cost recovery performance according to functions of the SOE, only two sectors of Transport and Water were above 100 percent threshold in 2020.

Figure 5: Cost Recovery for Trading SOEs (Percent)

Figure 5a: 2020 only

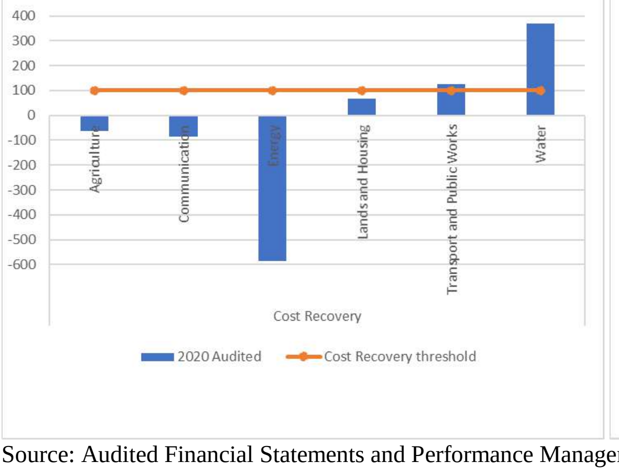
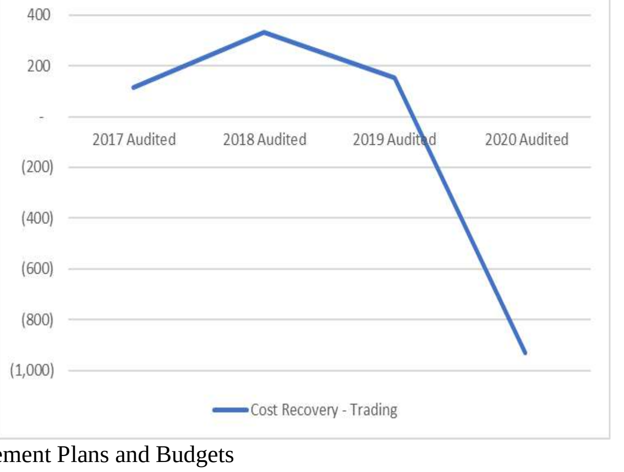


Figure 5b: Trend analysis (2017-2020)



Source: Audited Financial Statements and Performance Management Plans and Budgets

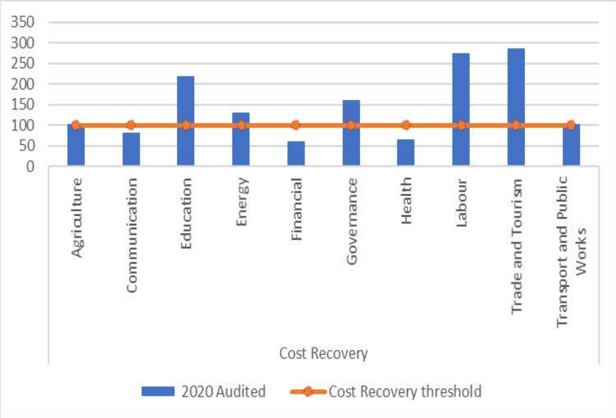
In aggregate terms, the majority of the trading SOEs registered a significant downward decline in 2020 **(Figure 5).** However, the performance by sector within the trading SOEs was a mixed bag as measured by the cost recovery risk thresholds of low risk (green), moderate risk (yellow), high risk (orange) and very high risk (red). Cost recovery performance ranged from negative position of 586 percent to 370 percent in 2020**.** Specifically, SOEs in the energy, agriculture, communications and lands sectors operated at a very high risk. On the other hand, SOEs in Transport sector registered moderate risk while SOEs in Water registered low risk on cost recovery threshold in 2020.

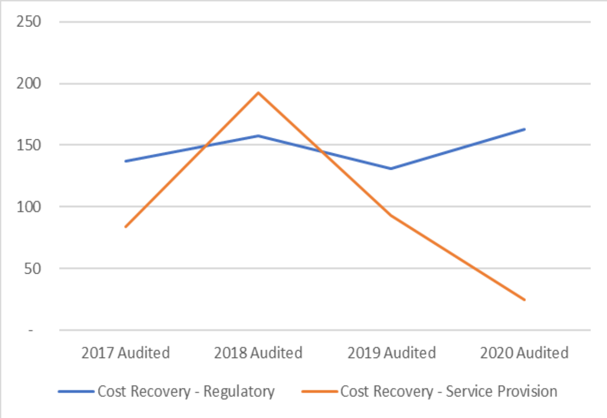
Regulatory SOEs registered improvements in cost recovery position with all of them ranging from moderate risk to low risk. On the other hand, declining trends were registered in Service Provision SOEs largely on account of declining revenues registered by NEEF in 2020.

[3] Operating revenue equals total revenue less government grants and equity injections; and operating expenses are less gross interest expense.

Figure 6: Cost Recovery for Regulators and Service Providers (Percent)

Figure 6a: 2020 only | **Figure 6b: Trend analysis (2017-2020)**





Source: Audited Financial Statements and Performance Management Plans and Budgets

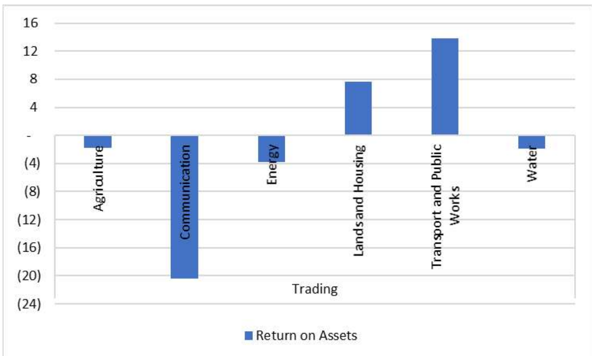
2.2.3 Return on assets

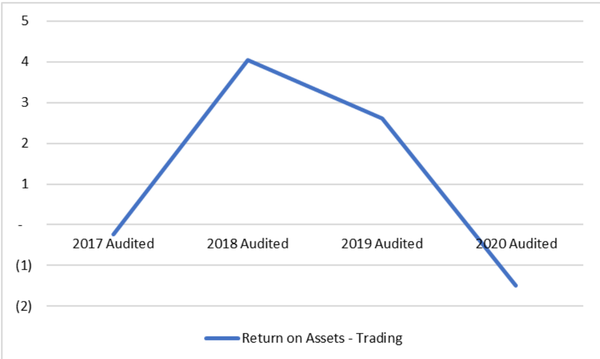
Return on assets indicates how well management of a Company is employing its total assets to make a profit. The Regulatory function has been performing well over the years, way over the Return on assets threshold of 5% **although with a decline from 10 percent in 2019 to 9 percent in 2020.** This was not the case with the trading and service provision SOEs that were on aggregate terms below the threshold in 2020 **(Figures 7 and 8)**.

The aggregate position on return on assets for Trading SOEs continued to be below the recommended threshold of 5 percent over the review period and worsened to negativeposition in 2020 on aggregate. This was largely on account of the communication sector at negative 20 percent while energy and water sectors both registered 2 percent in 2020 thereby posing high financial risks. However, good performance was registered in SOEs within the Transport and Public Works as well as the Lands and Housing sector with 14 percent and 8 percent registered, respectively.

Figure 7: Return on Assets for Trading SOEs (Percent)

Figure 7a: 2020 only | **Figure 7b: Trend analysis (2017-2020)**





Source: Audited Financial Statements

On the other hand, all Regulatory SOEs apart from TC continued to register good returns on assets albeit with significant decline over 2018 from 21 percent to 9 percent in 2020, largely on account of reduced revenues surpluses in MACRA. Service providers on the other hand were still at high risk position of below zero percent in 2020 from a high position of 23 percent in 2018 mostly on the back of the losses registered by NEEF, NFRA and MIM in 2020 thereby driving the overall position from low risk to very high risk **(Figure 8).**

Figure 8: Return on Assets for Regulators and Service Providers (Percent)

Figure 8a: 2020 only

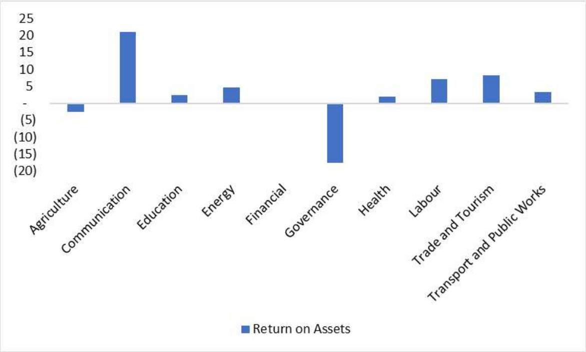
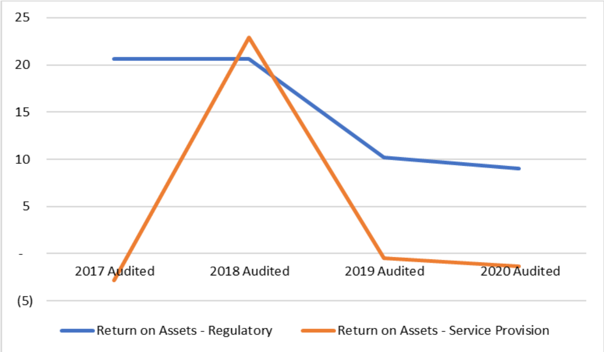


Figure 8b: Trend analysis (2017-2020)



Source: Audited Financial Statements

2.2.4 Return on equity

The Return on Equity (ROE) is a measure of how much profit is generated with the funds invested by shareholders plus accumulated profits not paid to the shareholder. A rough international benchmark is above 15% **(Figure 9).** In 2020, SOEs in trading category continued to register low and declining levels of return on equity as compared to regulatory SOEs who have maintain return on equity of over 15% throughout the period under review albeit at a declining rate.

On aggregate terms, returns on equity for trading SOEs registered an aggregate of -8 percent in 2020 down from 9 percent registered in 2019. This low aggregate performance signifies very high risk and it was largely driven by SOEs in energy sector, communication sector and water sectors which registered an aggregate of -14 percent, -42 percent and -10 percent, respectively. However, SOEs in Agriculture registered 5 percent, Transport registered 14 percent while Lands and Housing registered 8 percent which are moderate risk scores.

Figure 9: Return on Equity for Traders (Percent)

Figure 9a: 2020 only

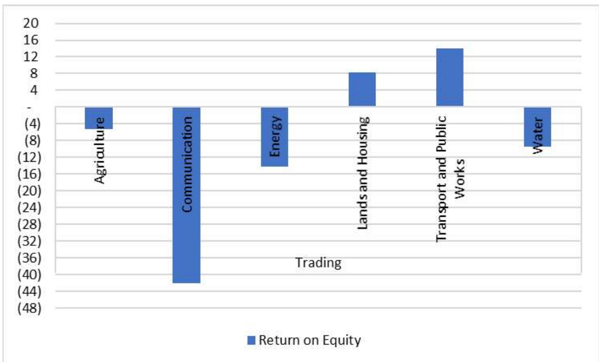
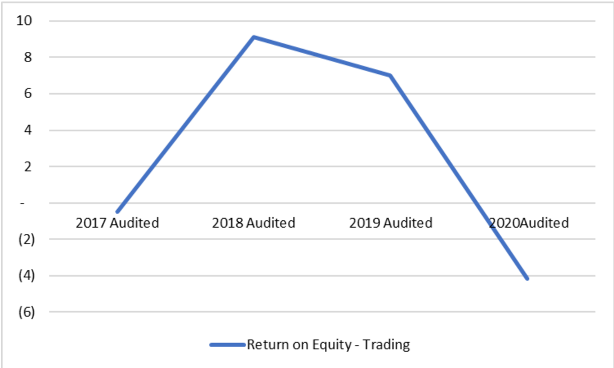


Figure 9b: Trend analysis (2017-2020)



Source: Audited financial Statements and Performance Management Plans and Budgets

On the other hand, Regulatory SOEs continued to register good returns to equity with an aggregate 2020 position of 18 percent though down from 25 percent registered in 2019 due to reduced surplus levels registered by MACRA, MERA and other regulators.

For service provision SOEs, return of equity further plummeted from a high risk position of -1 percent in 2019 to -3 percent in 2020. This was on account of deficits reported by SOES in Governance sector **(Figure 9).**

Figure 10: Return on Equity Regulators and Service Providers (Percent)

Figure 10a: 2020 only

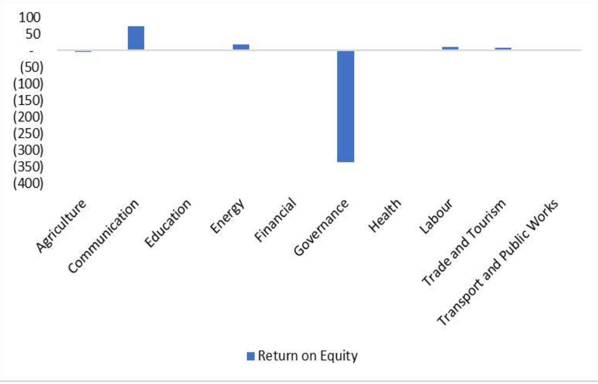
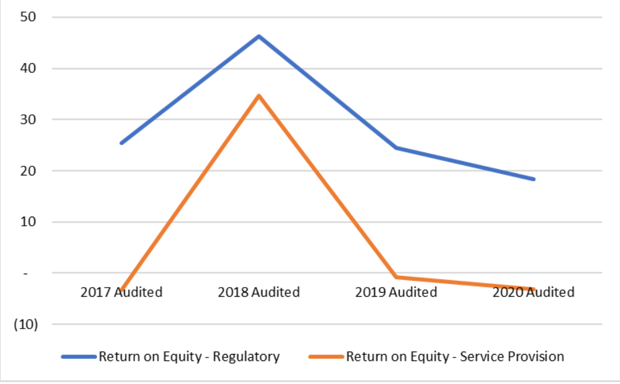


Figure 10b: Trend analysis (2017-2020)



Source: Audited financial Statements and Performance Management Plans and Budgets

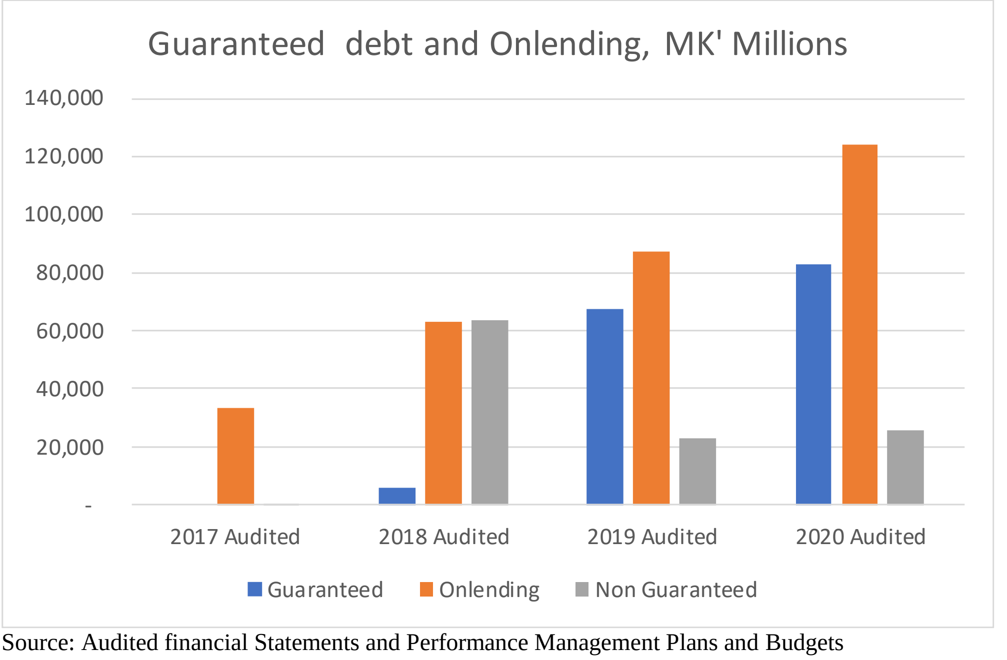
2.3 SOE DEBT

2.3.1 Size and composition of SOE Debt

Loans accessed by SOEs comprise of guaranteed debt, non-guaranteed debt (where only consents are issued), and on-lending. In 2020, total liabilities inclusive of these debt categories remained 11 Percent of GDP, the same position as in 2019 (Table 1). These amounts include long-term loan to the various sectors as well as a combination of support through specific direct and on lent loans, guarantees from bilateral and multilateral institutions and non-interest bearing debt. Among others, these loans were targeted towards the construction and rehabilitation of infrastructures, improving energy transmission and developing the water supply networks in the water supply areas.

However, on lending remains the highest form of debt that SOEs use to finance their development projects. On lending in 2020 stood at MK119.9 billion and increase from MK108.1 billion registered in 2017. On the other hand, there was a significant increase in the level of guaranteed debt in 2020 which increased to MK51.7 billion from MK16.8 billion in 2019 **(Figure 11).** The other debt comprises the non-guaranteed debt which is commonly contracted by the SOEs with prior approval of the Ministry of Finance.

Figure 11: Composition of SOE debt



Source: Audited financial Statements and Performance Management Plans and Budgets

2.3.2 Debt to equity

The debt to equity ratio is a measure of the extent that the entity is dependent on external funding for its ongoing operations. A safe threshold is considered to be at 40 percent, which was exceeded in 2018 by the following sectors; Agriculture, Communication, Energy, Governance, Health and Water sectors. **(Figure 12).** However, in 2020, the international threshold was exceeded by the following sectors Agriculture, Communication, Energy, Governance, Health and Water sectors;

Figure 12: Debt to Equity by Sector (Percent)

Figure 12a: 2019 and 2020

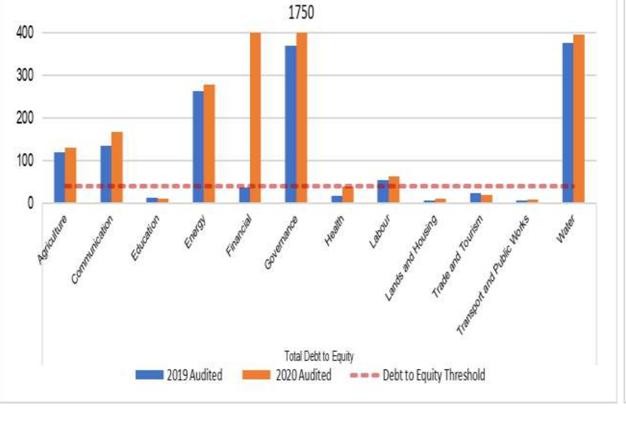
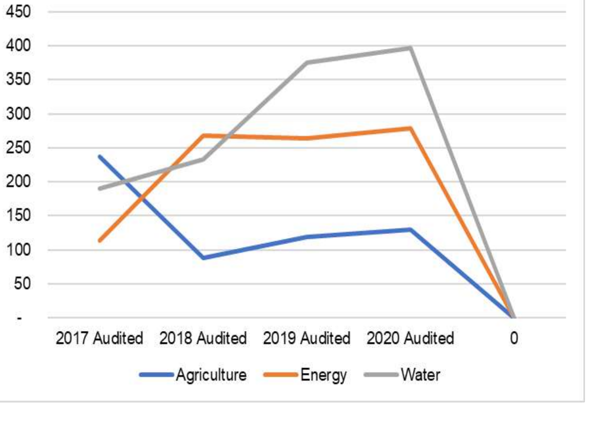


Figure 12b: Trend analysis (2017-2020)



Source: Audited financial Statements and Performance Management Plans and Budgets

2.3.3 Debt Service Coverage

The Debt Service Ratio (DSR) demonstrates the share of company's available cash flow that is devoted to covering interest payments. A lower ratio indicates lower risk while a ratio higher than 0.5 may indicate that the company will have problems meeting interest charges. DSR also serves as an indicator of a company's capacity to take on additional debt.

Figure 13 demonstrates that there was a steady increase in the portions of the Trading SOEs cash flow that was used for debt service during the period under review, namely 2017 to 2020. This proportion significantly increased in 2020 to 4.5 percent from 0.11 percent in 2019 indicating a high risk position on aggregate terms as it shows that institutions were facing challenges in meeting interest payments. This was mostly on account of agriculture, lands and housing sector, water as well as the transport and public works sectors.

Figure 13: Debt Servicing Ratio by Function and Sector

Figure 13a: DSR (2020)

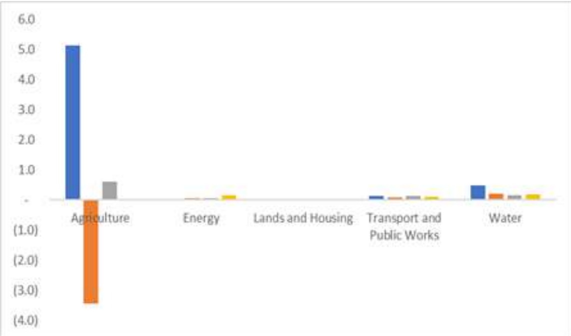
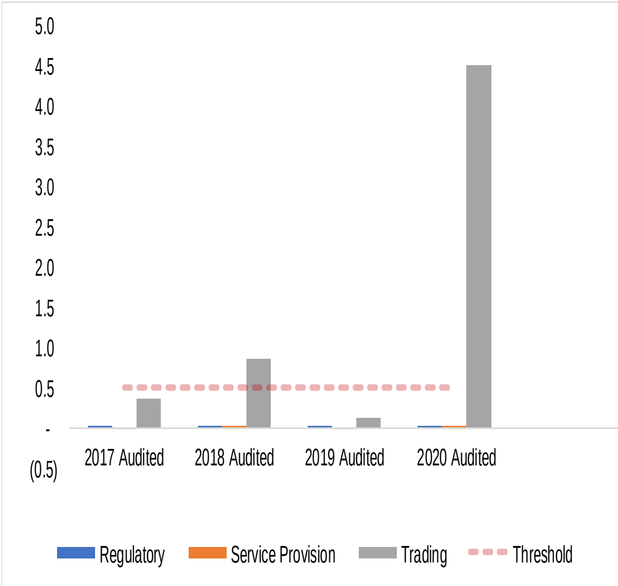


Figure 13b: DSR Trend analysis (2017-2020)



Source: Audited Financial Statements and Performance Management Plans and Budgets

2.4 Fiscal Flows between SOEs and Budget

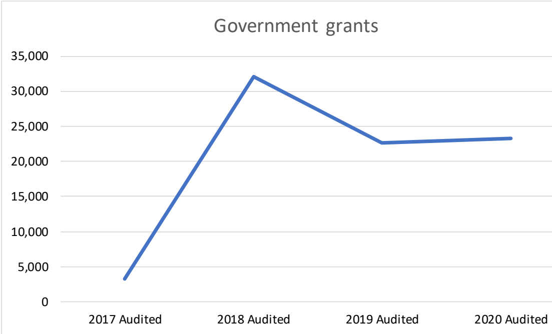
2.4.1 Government Transfers to SOEs

Financial support to SOEs through grants, subsidies and capital injections are concentrated in the agriculture, communication, energy and water sectors. However, government grants significantly peaked in 2018 and plummeted back in 2019 before slightly picking up in 2020 **(Table 5 and figure 15).** Agriculture sector received the most grants in 2020 followed by Communication Sector largely to support Public Service Obligations (PSOs) in these sectors. However, Public Service Obligations in some sectors exist in the form of non-cost reflective tariffs in public utilities such as water and electricity, existence of non-economic markets as the case is in Postal Services and ADMARC.

Table 5: Financial Support (Grants) to Commercial Entities by Sector (MK' Millions)

Sector	2017 Audited	2018 Audited	2019 Audited	2020 Audited
Agriculture	1,333	25,323	14,487	19,996
Communication	1,600	1,661	1,880	3,100
Energy	0	0	842	0
Health	68	0	0	0
Water	298	5,046	5,488	225
Grand Total	**3,300**	**32,030**	**22,698**	**23,320**

Figure 14: Trend analysis (2017-2020)



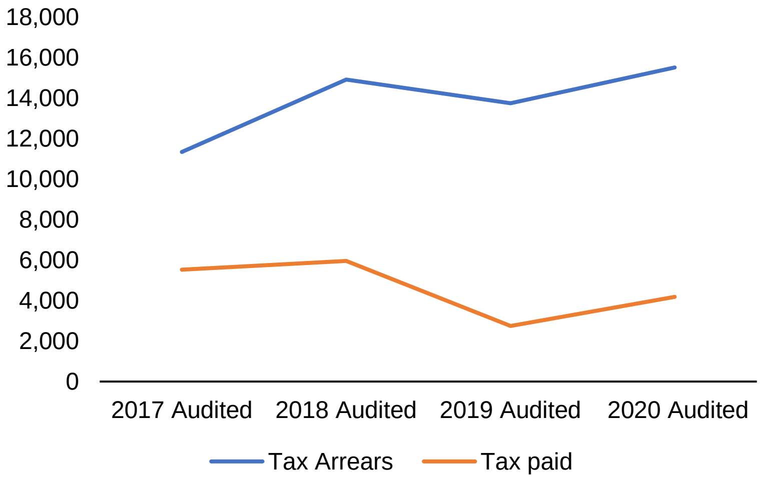
Source: Audited Financial Statements and Performance Management Plans and Budgets

2.4.2 Taxes and Dividend Payments remitted by Commercial Entities

The tax payments by SOEs increased in 2020 to approximately K5billion. However, tax arrears also rose sharply during the same period. The gap between tax payments and the actual arrears build up was largely on account of liquidity challenges emanating from high trade receivables from both public and private debtors. (Figure 15).

Generally, tax arrears pose a significant fiscal risk for meeting revenue collection targets by the Malawi Revenue Authority (MRA) and normally leads to a vicious circle of payment arrears particularly where the SOEs are owed money from other government institutions, such as the outstanding public debt to the water and power utility companies**.**

Figure 14: Tax Payments vs. Tax arrears by Commercial Entities (Kwacha Million)



Source: Audited Financial Statements and Performance Management Plans and Budgets

Similarly, remittance of surpluses and dividends by SOEs into the consolidated account further declined in 2020 compared to 2019 and 2018. The aggregate profit level for SOEs recording profit decreased to approximately MK30.9 Billion in 2020 from MK42.9 Billion in 2019. In accordance with the dividend and surplus policy for statutory bodies in Malawi, statutory dividend requirements declined from MK24.4billion in 2019 to MK18.5 billion in 2020. However, over this period, actual remittances were still below the statutory requirements at MK7.7 billion in 2020, down from MK9.3 Billion in 2019 (Figure 16). As a result, the dividend pay-out ratio moved from 22 percent in 2019 to 25 percent in 2020**.** This declining trend is largely due to cash flow challenges experienced by SOEs especially due to increasing trade debtors especially public institutions.

Figure 15a: Surpluses and Dividends remittances Actual vs. Statutory Dividends (MK'Million)

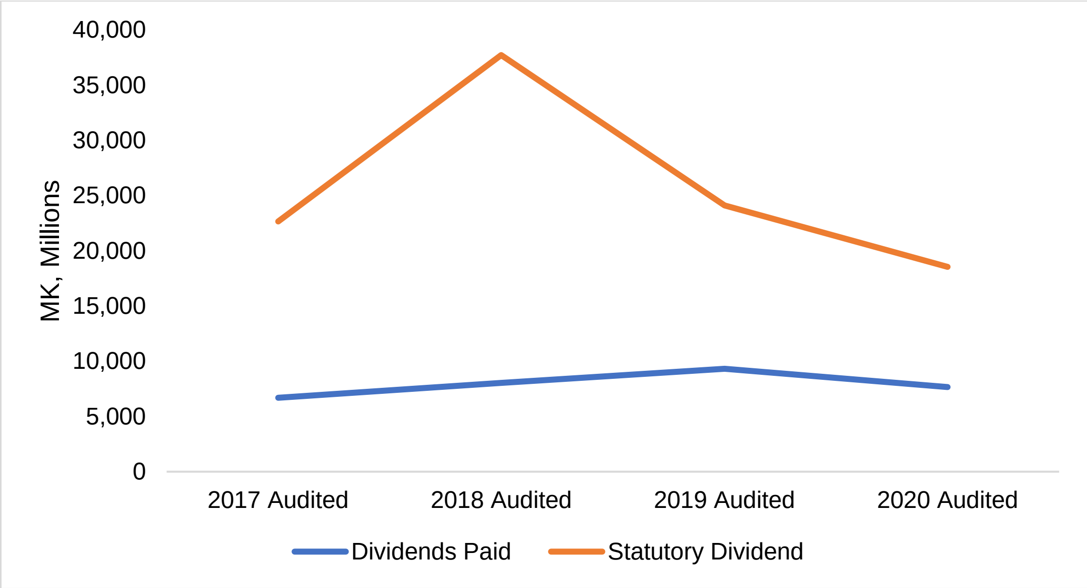


Figure 16b: Surpluses and Dividends remittances Actual vs. Statutory Dividends and Pay-out ratio (MK'Million) (Regulatory and Service Provision SOEs)

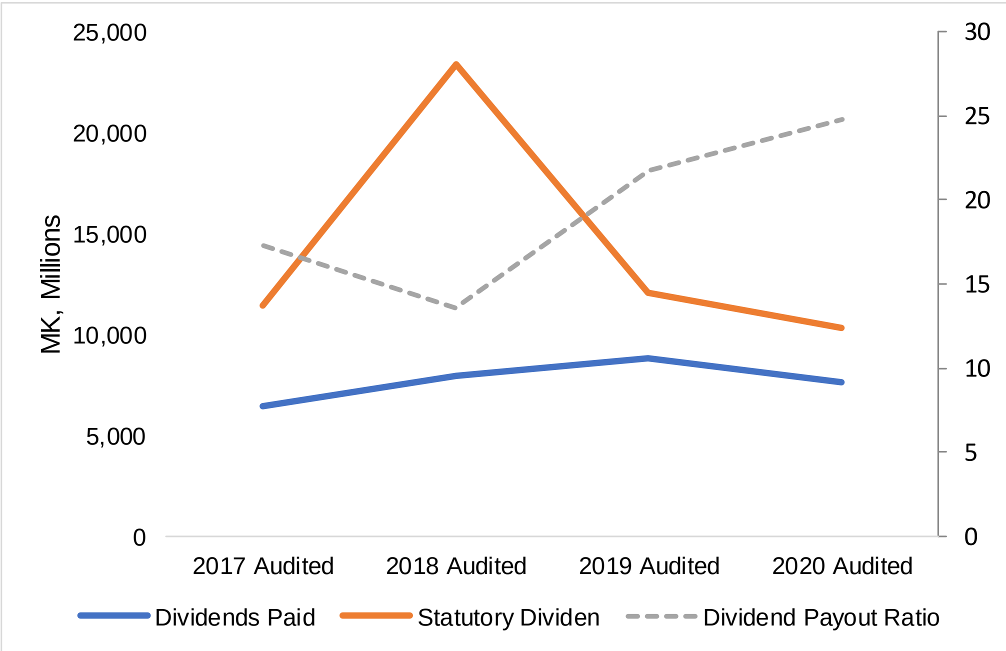
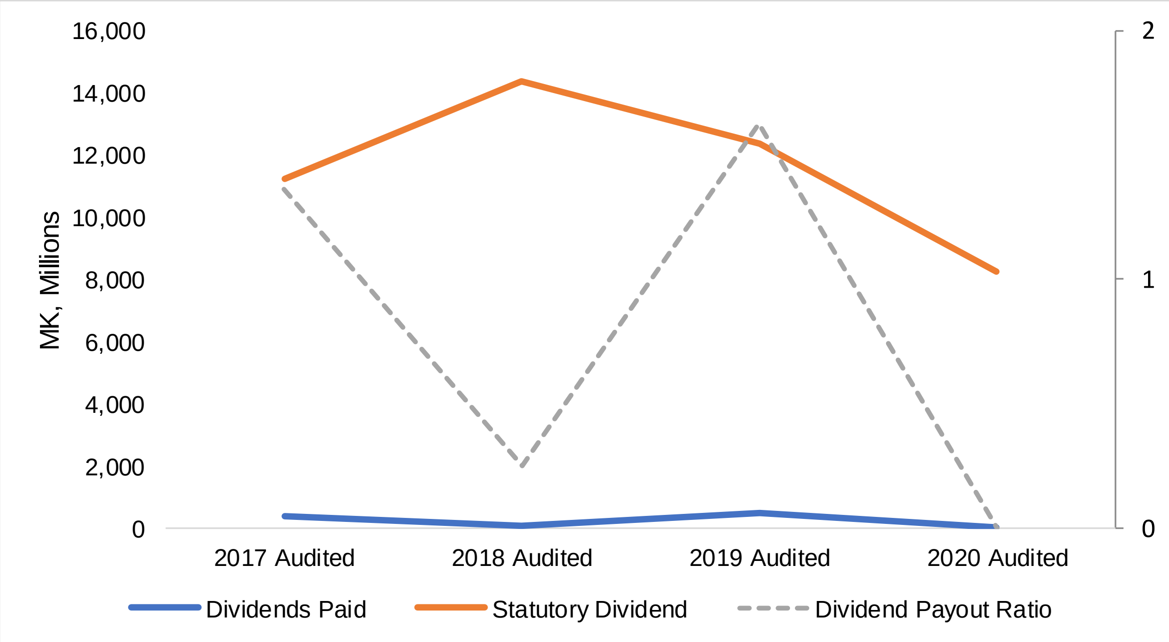


Figure 16c: Surpluses and Dividends remittances Actual vs. Statutory Dividends and Pay out ratio (MK'Million) (Trading SOEs)



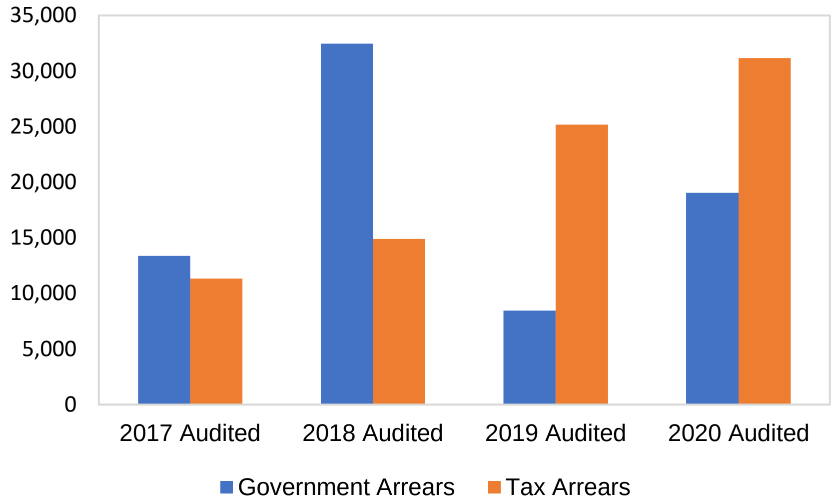
Source: Audited financial statements and Performance Management Plans and Budgets

2.5 Arrears between SOEs and with government

2.5.1 Government arrears to SOEs

Government arrears to SOEs is a big drag on their balance sheets as they negatively affect cash flows of the parastatals which leads to a vicious cycle of inefficiencies in the economy. In to 2020, Government arrears to SOEs steadily increased from MK4.2 billion to MK19.0 billion. Relatively, tax arrears by SOEs to MRA registered an increasing trajectory from MK29.3 billion in 2019 to MK50.3 billion in 2020 **(Figure 17).**

Figure 16: Government Arrears to Commercial Entities (MK' Million)



Source: Audited financial statements and Performance Management Plans and Budgets

2.5.2 Intra-Arrears between the SOEs

The period under review also had intra-SOE arrears among themselves, including EGENCO and ESCOM, BWB and ESCOM, NOCMA and ESCOM, MERA and ESCOM, ADL and LIHACO. These were worsened with the vicious cycle arising from public Institutions resultantly affecting remittances of taxes to MRA and dividend remittance to Government**.**

Summary of fiscal flows between the budget and SOEs

In summary the period under review revealed that

- The National Budget continued to receive insufficient resources in terms of dividends in light of increasing profits from SOEs and the statutory requirements based on the Dividend and Surplus Policy for statutory bodies in Malawi;
- The outflows to SOEs from the National budget were still significant. As such, structural deficiencies still need to explored further for those SOEs still heavily reliant on the national budget to undertake social obligations;
- Government arrears to SOEs continues to be a big drag on their balance sheets, which requires government efforts to ensure that Public Institutions pay outstanding utility bills but also supporting initiatives such as installation of prepaid meters.

2.6 CROSS-CUTTING ISSUES

2.6.1 Tariffs and pricing policies

There is still need for policy intervention to ensure that the tariffs, fees and charges implemented by the SOEs are cost reflective. In circumstances where the Government was allowing for tariffs below cost recovery, it is becoming increasingly necessary for the subsidy level to be clearly spelt out and provided for so that the subsidy does not affect the operations of the SOE.

2.6.2 Fiscal flows and Arrears

Most SOEs were still heavily indebted taking into account trade receivables. However, though significant, the interest-bearing debt was still low but needs to be kept in check as it has a bearing on the national budget. Interest bearing debt needs to be analysed to ensure their viability and the SOEs ability to pay back overdrafts and other debts. There is need for deliberate policies to address the issue of increasing public debt to SOEs including fast tracking the installation of prepaid meters for water and power utilities. On the other hand, implementation of the dividend and surplus policy needs to be strengthened to ensure that the budget receives enough support from the investments made in the SOEs.

2.6.3 Institutional arrangements

Government needs to clearly separate the commercial functions of SOEs from the Public Sector Obligations (PSO) that they undertake on behalf of Government to avoid stifling the operations of the SOEs. This may require considering issues of staffing as well as restructuring the entities for the separation to clear. Furthermore, where the obligations have been identified, there is need for Government to provide for the obligation in the National Budget

2.6.4 SOE Oversight function

Government is continually strengthening the governance, tools and processes, and capacity of the SOE oversight institutions to ensure that they are delivering on their mandate effectively and efficiently.

2.7 Critical Policy Decisions

2.7.1 Repayment of Loans and Arrears

Debt servicing by the SOEs requires close monitoring to avoid bail outs that may arise when the SOEs fails to meet the obligations. Installation of prepaid meters that has already started in MDAs should continue and cover the whole public sector to avoid increasing public debt arrears.

2.7.2 Subsidies for Public Service Obligations

The budget should clearly provide resources where the Government requires the SOEs to undertake public service obligations.

2.7.3 Public Investment Related Risks

Government through the Ministry of Finance should ensure that all investments undertaken are viable and do not have potential fiscal risks. This requires formulating a robust Investment Framework for the SOEs.

2.7.4 Institutional Risks

Structural reforms should be undertaken where the SOEs are taking both commercial and social obligations to reduce cross subsidies and unplanned for bail outs.

2.7.5 SOE oversight function

An efficient and effective SOE oversight function is key to the success on the SOE sector hence need for Government to strengthen and capacitate the structures for efficient monitoring of the entities.

3 INDIVIDUAL SOE ANALYSIS

3.1 AGRICULTURE SECTOR

3.1.1 Agricultural Development and Marketing Corporation (ADMARC)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	(23,308,604)	14,344,895	1,997,083	(1,762,274)
2	Return on assets	-23%	13%	5%	-2%
3	Return on total equity	-113%	26%	5%	-5%
4	Cost recovery	101%	397%	122%	75%
5	Gross profit margin	-19%	77%	53%	55%
6	Operating Profit Margin	-242%	24%	14%	-5%
7	Asset Turnover*	0.37	1.08	0.87	0.95
8	Debt to equity	368%	101%	166%	188%
9	Current ratio	0.48	1.01	0.67	0.73
10	Quick ratio	0.11	0.54	0.57	0.50
11	Accounts Receivable days	282	397	333	615
12	Debt service ratio	1.17	-0.85	0.00	0.00
13	Accounts Payables days	530	853	655.8	684.7408301
14	GoM transfers/Rev.	11%	117%	82%	139%
15	Dividend payout ratio	0%	0%	0%	0%

Overview of financial performance

The performance of ADMARC Limited over the last five years varied across the past five years due to unique circumstances that prevailed in each respective year. Revenues in 2019/20 increased over the 2018/19 position with K33.5 billion recorded against K32.2 billion reported in 2019. Of these revenues, actual sales were K13.2 billion while K19.8 billion of the 2020 revenues were other revenues of which a large proportion were invoiced to Government for undertaking social obligations on its behalf. Total expenditures were K35.3 billion, translating into a net loss of K1.8 billion.

In 2020, ADMARC did not secure funding for commodity purchases in time. Furthermore, it had no commodities in stock for most part of the period as such ADMARC was exposed to consecutive months of low sales and low purchases on one side, and on the other hand, high overhead costs. The company survived through overdrafts and loans to meet its obligations during this period.

Overview of financial risks

Generally, ADMARC has been heavily dependent of external financing for its ongoing operations rather than own generated resources over the period. With very little commercial trading, ADMARC was not in a position to meet its financial obligations with both current and quick ratios below required benchmarks. The liquidity of position of ADMARC in 2019/20 financial year was barely on the margins at a current ratio 0.73:1 indicating the Corporation struggled to meet its short term obligations as they fell due. The Corporation was also highly indebted at 188 percent as measured by debt /equity positions.

Furthermore, considering the indebtedness of the company, the debt service coverage ratio posed significant risk to the lenders as the company was not generating adequate cash flows to support interest payments.

Additionally, the high debt to equity position also indicates that most of the operations were being financed by debt compared to equity.

Overview of financial flows with the government

Over the last two financial years, government provided significant amount of resources required for ADMARC for undertaking the social obligations.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy recommendations
Revenue Sales	There is need for Government to follow up on the usage of the guarantees issued to ADMARC to ensure that they generate required income from trading	• Government needs to clearly separate the Commercial Functions of the entities and the Public Service obligations to boost up the commercial drive and allow resources to be properly allocated.
Borrowing	High indebtedness of ADMARC has resulted in bail out in the past, hence need to closely monitor borrowings	Need to monitor loan performance

3.1.2 National Food Reserve Agency (NFRA)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	688,754	6,335,751	230,818	(317,852)
2	Return on assets	4%	23%	1%	-1%
3	Return on total equity	6%	36%	1%	-2%
4	Cost recovery	103%	287%	78%	23%
5	Gross profit margin	7%	67%	12%	-14%
6	Operating Profit Margin	7%	67%	12%	-14%
7	Asset Turnover*	0.89	0.53	0.11	0.13
8	Debt to equity	43%	53%	39%	33%
9	Current ratio	10.69	4.14	6.12	8.32
10	Quick ratio	0.73	0.91	0.76	0.60
11	Accounts Receivable days	7	11	47	43
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	0	685	775.2382	337.8784
14	GoM transfers/Rev.	4%	7%	32%	89%
15	Dividend payout ratio	0%	0%	0%	0%

Overview of financial performance

The National Food Reserve Agency (NFRA) performed poorly in 2019/20 with a decline from the 2018/19 position. NFRA reported a net deficit of K317.9 million as compared to a net surplus of K230.8 million in 2019. This was largely on account of reduced level of maize purchases. However, the levels of own generate resources, however exhibit a steady positive trajectory. Correspondingly, NFRA also handling lower tonnage of maize of maize in 2020 and has seemingly registered dismal levels of storage losses over the years.

The liquidity position for NFRA increased to 8.32 in 2020 from 6.12:1 in 2018/ 2019 financial year and 4.14:1 in 2017/18 financial year. This meant that the institution was capable of meeting its short term obligations when it fell due. The debt-to-equity position slightly reduced to 34 percent from 33 percent registered in 2018/19 . This indicates low risk as the Agency was to a large extent being financed through owner's equity than debt.

Overview of financial risks

Despite the its cost recovery being consistently below the average healthy position, NFRA depicts low levels of financial risks, evident from healthy current ratios, suffice to say that this is partly due to heavy reliance on subventions. Sustainable levels of subventions have enabled NFRA stay afloat, with current ratio above the required benchmarks. NFRA further maintains significant amounts in reserves by holding ready resources in form of grain stock and funds, to as enable the company deliver its mandate of maintaining strategic grain reserve.

Overview of financial flows with the government

In the year 2019/20, Government transfers to NFRA's consisted of 73.7 percent of its total revenue approximately K602 million as Government subvention, this was an increase from 32 percent in2018/19

3.1.3 Tobacco Commission (TC)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	1,306,402	305,490	89,178	(81,359)
2	Return on asse	27%	3%	2%	-8%
3	Return on totA	45%	9%	2%	-2%
4	Cost recovery	724%	407%	316%	369%
5	Gross profit m	86%	75%	68%	100%
6	Operating Pro	25%	6%	3%	-11%
7	Asset Turnove	1.68	0.84	0.90	1.09
8	Debt to equity	58%	51%	36%	38%
9	Current ratio	1.66	1.24	1.03	0.91
10	Quick ratio	1.63	1.08	0.99	0.86
11	Accounts Rece	56	90	59	46
12	Debt service ra	0.16	0.10	0.01	0.00
13	Accounts Paya	134	195	154	#DIV/0!
14	GoM transfers	0%	0%	0%	0%
15	Dividend payout ratio	0%	16%	56%	-77%

Overview of Financial Performance

The overall performance of the Tobacco Commission (TC) in 2019/20 financial year declined over 2018/19 financial year. Although, the Commission reported a 12 percent increase in revenues to K3.96 billion compared to K3.4 billion reported in 2018/19 financial year, on the other hand, expenditures grew by 36 percent to K4.1 billion from K2.9 billion resulting into a loss of K81.3 million compared to a profit of K89.2 million reported in 2018/19.

Overview of Financial Risk

Liquidity levels for the Commission barely on the margins in 2019/20 as measured by the current ratio of 1:1, slightly improving from 0.9:1 in 2018/19. This indicates that the Commission is barely able to meet the current liabilities. However, this picture is only bad due to the accounting revenue recognition polices of the commission.

The leverage position of the Commission has improved over the years as measured by debt/equity which is expected to close at 38 percent, signifying that the Commission's assets are to a large extent funded by owner's equity than debt.

Overview of Financial Capital Flows with the Government

In the year 2020, the Commission remitted about K62.6 million to Government and increase over 2018/19 when the Commission remitted K50 million, representing 56% of its total surplus, as surplus to the Government that amounted.

Policy specific issues for the Public Body

Policy area	**Source of fiscal risk**	**Proposed Policy Recommendation**
Sales Revenue	Increased expansion of regulations and taxation with some countries targeting 2030 as the year to eliminate cigarette smoking.	The Commission should continue to strengthen regulatory framework, enforcement to ensure compliance with merchants' requirements (GAP and ALP issues) and ensure a balance between trade requirements and supply.

3.2 COMMUNICATION SECTOR

3.2.1 Malawi Communications Regulatory Authority (MACRA)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	5,735,213	8,000,781	5,481,597	5,436,447
2	Return on assets	40%	41%	28%	25%
3	Return on total equity	61%	71%	53%	53%
4	Cost recovery	163%	174%	143%	139%
5	Gross profit margin	100%	100%	100%	100%
6	Operating Profit Margir	33%	43%	30%	28%
7	Asset Turnover*	1.88	1.65	1.76	1.91
8	Debt to equity	53%	71%	93%	114%
9	Current ratio	3.83	1.57	1.34	1.27
10	Quick ratio	3.81	1.56	1.12	1.05
11	Accounts Receivable da	151	128	97	98
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	n/a	n/a	n/a	#DIV/0!
14	GoM trAFsfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	87%	75%	119%	83%

Overview of financial performance

Malawi Communications Regulatory Authority (MACRA) continued to report increases in surpluses over the past five years though with a slight decline in 2018/19 due to continuous drop in incoming international call minutes which is a basis for circulation of international call termination fees and also the implementation of the Universal Service Fund (USF) where the Authority is required to apportion 20 percent levy receivable from operations to USF.

In the year 2019/20, revenues only increased to K19.6 billion, a 6% growth over 2018/19 position. However, expenditures grew by 28% in 2019/20. This lead to decline in surpluses remitted to Government in 2019/20 amounting to K4.5billion compared to K6.5 billion remitted in 2018/19 financial year.

Overview of Financial Risk

MACRA's debt to equity ratio has remained above the average benchmark of 40%. The debt to equity ratio has worsened from 93% in 2018/19 to 114 percent in 2020 with most of its debt is more from its short-term liabilities other than long term liabilities.

The liquidity position of MACRA was still good remains health and capable of meeting short term obligations as they fall due, as measured by a current ratio of 1.5:1 in 2020. Additionally, the Authority's working capital was adequate to support to finance its day-to-day operations.

Overview of financial flows with the government

Over the years, the authority has been able to remit surpluses to the Government each consecutive year with its highest remittance being in 2018/19 where it remitted 119% of its profit to Government while in 2020, MACRA remitted 83 percent of its surplus. As a regulator, MACRA is expected to remit 100% of its surplus but due to investment requirements the transfers were reduced.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	Declining revenue from International Call Termination Levy	The authority need to explore new revenue streams

3.2.2 Malawi Broadcasting Corporation (MBC)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	(572,995)	(200,507)	(368,616)	60,634
2	Return on assets	-22%	-6%	-11%	1%
3	Return on totAF equity	48%	10%	18%	-2%
4	Cost recovery	41%	52%	52%	43%
5	Gross profit margin	-19%	-5%	-9%	100%
6	Operating Profit Margin	-19%	-5%	-9%	1%
7	Asset Turnover*	-5.23	-1.91	-2.05	-1.96
8	Debt to equity	-274%	-269%	-263%	-248%
9	Current ratio	0.91	1.19	0.89	0.44
10	Quick ratio	0.56	0.90	0.89	0.31
11	Accounts Receivable days	146	189	170	600
12	Debt service ratio	1.00	0.00	0.00	-0.01
13	Accounts Payables days	0	35	40.09119	#DIV/0!
14	GoM transfers/Rev.	55%	45%	44%	267%
15	Dividend payout ratio	0%	0%	0%	0%

Overview of financial performance

The performance of Malawi Broadcasting Corporation (MBC) further improved in 2020 compared to the position reported in 2018/19. MBC registered a surplus of K60.6 million from a loss of K368.6million registered in 2018/19.

Overview of financial risks

MBC's liquidity position was also poor in 2020 as its current ratio reduced from 0.89:1 in 2019 to 0.44:1 in 2020, meaning that the corporation could not meet its short them obligation when they fell due. This was as a result of high debtor days which grew from 170 days to 600 days in 2020 as most of its cash was being held up by debtors thereby impacting its cash flow position. It was therefore imperative for the Corporation to put in place measures of improving revenue collection.

Overview of financial flows with the government

Being a semi-subvented organisation MBC receives part of its resources from Government to assist in its operations.

Policy specific issues for the Public Body

Policy area	**Source of fiscal risk**	**Proposed Policy Recommendations**
Sales Revenues	Low income levels from advertising	MBC should intensify revenue generating measures through advertising and other revenue streams
Tax Arrears	Cash flow challenges due to poor revenue collection from customers	Need to employ aggressive method of revenue collection

3.2.3 Malawi Posts Corporation (MPC)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	1,496,499	439,543	224,204	(3,276,259)
2	Return on assets	-1%	-3%	4%	-20%
3	Return on total equity	20%	6%	2%	-33%
4	Cost recovery	102%	109%	79%	-144%
5	Gross profit margin	92%	92%	100%	103%
6	Operating Profit Margin	-3%	-8%	28%	-102%
7	Asset Turnover*	0.60	0.63	0.31	0.41
8	Debt to equity	88%	97%	98%	106%
9	Current ratio	0.60	0.64	0.57	0.28
10	Quick ratio	0.52	0.56	0.51	0.23
11	Accounts Receivable days	170	276	322	284
12	Debt service ratio	0.06	-0.02	0.00	0.00
13	Accounts Payables days	430	415	430	-23734.507
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	2%	0%	0%

Overview of financial performance

The performance of Malawi Posts Corporation (MPC) was poor in the year 2019/20 compared to the position reported in 2018/19. The revenues increased by 21 percent to K4.2 billion in 2019/20 from K3.5 billion in 2018/19. On the other hand, expenses slightly decreased by 5 percent in 2019/20 to K4.6 billion from K4.8 billion during the same period 2018/19 financial year, resulting in a loss of K3.2 billion.

Overview of financial risks

MPC's liquidity position also worsened with a current ratio of 0.28:1 reported in 2020 from 0.57:1 in to 2018/19 signifying that MPC was not able to meet its current debt obligations as they

fell due as current liabilities for the Corporation significantly increased to K9.9 billion in 2019/20 from K6.9 billion reported in 2018/19 financial year.
On the other hand, trade payables which mostly comprise tax arrears and pension arrears were at K8.5 billion in 2020. These arrears are largely on account of running 120 non-economic post offices as a social obligation. Government therefore included a subvention to MPC to cover the social services offered by MPC.

The debt-to-equity position also worsened to 206 percent in December 2020 from 98 percent in June 2020. This was largely due to loans and overdrafts acquired by MPC to finance working capital requirements.

Overview of financial flows with the government

The fiscal flows between Government and MPC were in form of subvention provided to the Corporation by Government.

Policy specific issues for the Public Body

Policy area	**Source of fiscal risk**	**Proposed Policy Recommendations**
Sales Revenue	The Postal trading revenue is declining in view of trends in postal services globally	The MPC should supplement traditional postal services explore modern and new revenue streams
Tax and pensions Arrears	Serious liquidity challenges affecting remittance of pension arrears	MPC should employ aggressive strategies to collect its receivables

3.3 Education Sector

3.3.1 Malawi College of Accountancy (MCA)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	24,542	(275,108)	(5,422)	109,153
2	Return on assets	1%	-11%	0%	2%
3	Return on total equity	1%	-13%	0%	3%
4	Cost recovery	234%	218%	239%	218%
5	Gross profit margin	100%	100%	100%	100%
6	Operating Profit Margir	2%	-17%	0%	5%
7	Asset Turnover*	0.64	0.78	0.50	0.51
8	Debt to equity	15%	23%	11%	9%
9	Current ratio	0.62	0.20	0.29	0.54
10	Quick ratio	0.62	0.20	0.29	0.20
11	Accounts Receivable da	22	19	19	36
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	n/a	n/a	n/a	n/a
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%

Overview of financial performance

The Malawi College of Accountancy (MCA) registered a profit of K109.1 million in 2019/20 financial year which was an improvement from the previous year where it registered a loss of K5.4 million largely due to closure of the school in line with Government measures to curb the impact of Covid 19.

Overview of Financial Risks

Liquidity position for MCA plummeted in 2019/20 financial year to 0.54:1 from 0.29:1 registered in 2018/19 indicating that MCA's inability to meet its short term obligations. The College's debt-to-equity was at 9 percent in 2019/20 financial year showing that MCA is largely financed by owners' equity.

Overview of financial flows with the government

MCA did not declare any dividend to Government and it does not receive Government subventions.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenues	Low profitability emanating from inadequate revenue generated as a result of inadequate teaching infrastructure to enable increased enrolment	There is need for government to invest in infrastructure for teaching to enroll more students

3.4 ENERGY SECTOR

3.4.1 Electricity Generation Company Malawi Limited (EGENCO)

No.	Indicator	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	9,141,912	15,221,690	(5,082,104)
2	Return on assets	5%	10%	4%
3	Return on total equity	6%	10%	-4%
4	Cost recovery	130%	324%	118%
5	Gross profit margin	100%	79%	48%
6	Operating Profit Margin	21%	16%	15%
7	Asset Turnover*	0.41	0.93	0.46
8	Debt to equity	74%	59%	70%
9	Current ratio	2.30	5.22	4.36
10	Quick ratio	2.02	4.23	3.54
11	Accounts Receivable days	258	238	210
12	Debt service ratio	0.05	0.05	0.07
13	Accounts Payables days		89	45
14	GoM transfers/Rev.	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%

Overview of financial performance

Since its inception in 2017/18 financial year, the Electricity Generation Company (EGENCO) has maintained its profitability however in 2020 EGENCO registered a loss K5.1 billion largely on account of huge tax out lay of K15.1 billion which was paid out 2020 arising from reversals of capital allowances recognized during company set up.

Overview of financial risks

There is a sustained positive working capital position in the Company which puts it at advantage including higher creditability in banks as well as creating a good supplier relationship. However, debt to equity percentage of 70 in 2019/20 shows that over half of its operations are financed externally.

EGENCO's debtor days were still very high at 210 days in 2019/20 which is way above the agreement in the power purchase agreements of 30 days. Despite this challenge, the liquidity position for EGENCO was healthy with current ratio of 4.6:1 in 2020. which was a good indication of the Company's ability to meets its obligations as they fall due.

Overview of financial flows with the government

Government allowed EGENCO defers payments on the Kapichira Concession fee in 2018/19 and 2019/20 financial years with the understanding that this will be turned into equity.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	There is need to continue following up on the accumulated arrears with ESCOM.	Schedule of repayments with ESCOM being agreed for easy monitoring.
Borrowing	EGENCO borrowed 3 billion in concession Fees on Kapichira.	Government needs to follow up with EGENCO and make sure that the 3billion concession fees has indeed been turned to equity

3.4.2Electricity Supply Commission of Malawi Ltd (ESCOM)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	11,993,727	(12,963,386)	(8,010,660)	(18,536,084)
2	Return on assets	5%	-11%	-5%	-9%
3	Return on total equity	21%	-29%	-28%	-123%
4	Cost recovery	134%	-331%	201%	-213%
5	Gross profit margin	82%	50%	45%	158%
6	Operating Profit Margin	8%	-20%	-9%	-15%
7	Asset Turnover*	1.49	2.17	5.24	11.08
8	Debt to equity	114%	302%	940%	1822%
9	Current ratio	1.77	0.85	0.91	0.68
10	Quick ratio	1.36	0.60	0.77	0.51
11	Accounts Receivabledays	98	118	91	73
12	Debt service ratio				
13	Accounts Payable days	631			
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	2%	0%	-6%	0%

Overview of financial performance

The performance of Electricity Supply Corporation of Malawi (ESCOM)deteriorated in 2019/20 (draft audited accounts) registering a loss after tax of K18.5 billion compared to a loss of K8.0 billion registered in 2018/19. The Corporation maintained the average end user tariff of MK92.44 per kilowatt hour following a 20 percent base tariff adjustment in 2018/19 financial year.

Overview of financial risks

The liquidity position of the Corporation was weak as indicated by current ratio of 0.68:1 in 2019/20 financial year, a worsening from 0.91:1 in 2018/19. This is largely attributed to in ability to convert sales into cash as Government institutions and Quasi-Government institutions owed

ESCOM approximately K20 billion in electricity bills in 2020 contributing to the high debt collection days of 73 days in 2020. The low liquidity level poses a serious challenge to the operations of the Corporation as most suppliers' accounts fall to over 200 payable days due to insufficient cash flow. ESCOM continued to owe its major suppliers namely EGENCO Ltd, NOCMA and Aggreko International Projects Ltd. These suppliers make up 90% of the payables.

Other challenges faced by the ESCOM include inadequate working capital and cash; limited capacity supply from the IPPs to meet the nation's electricity demand; low access to electricity by the general public; and negative publicity arising from the inadequate service delivery. The Corporation expects an improvement with the implementation of the turnaround strategy including migration of the remaining postpaid customers including Government institution to pre-paid meters which will improve the liquidity position.

Overview of financial flows with the government

There were no fiscal flows between ESCOM and the Government in 2019/20.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenues	Low revenues due to non-cost reflective tariffs in the year and high cost of sales	There was need timely effect the base tariff levels agree with the regulator and also a need to review the PP on the electricity charge methodology
Borrowing	The company's debt to equity ratio The company is highly geared continues to worsen reflecting highly geared operations	Restrict further borrowing, monitor repayment of current debt portfolio
Cash Flow Challenges	High levels of receivables from public institutions and also the private customers	Migrate all customers to prepaid system and develop a robust and more realistic cash flow plan. Regularly monitor cash flow performance

3.4.3 Malawi Energy Regulatory Authority (MERA)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	2,216,000	3,164,393	2,844,930	1,964,887
2	Return on assets	13%	7%	4%	5%
3	Return on total equity	13%	37%	26%	19%
4	Cost recovery	168%	449%	161%	133%
5	Gross profit margin	100%	100%	100%	100%
6	Operating Profit Margir	41%	50%	38%	25%
7	Asset Turnover*	0.56	0.74	0.69	0.76
8	Debt to equity	40%	446%	496%	312%
9	Current ratio	1.78	1.95	1.65	2.03
10	Quick ratio	0.70	1.18	1.65	2.02
11	Accounts Receivable da	21	1322	1562	677
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	n/a	n/a	n/a	n/a
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	47%	14%	18%	123%

Overview of financial performance

The performance of Malawi Energy Regulatory Authority (MERA) registered slight growth in revenues in 2020 with revenues registering a 5 percent growth to K7.9 billion in 2020 from K7.5 in 2019. However, expenditures grew 27 percent to K5.9 billion in 2020 from K4.7 billion in 2019. Thus, due to the increase in expenditure which was very higher than the increase in income, the surplus for the Authority for the year 2019/20 reduced by 31 percent to K1.9 billion from a surplus of K2.8 billion attained in 2018/19 financial year. The Authority used most of the surplus to invest in construction of office complex that was still under way during the 2019/20 financial year.

Overview of financial risks

The liquidity position for the Authority was good with current ratio at 2.03:1 in 2019/20 financial year.

Overview of financial flows with the Government

MERA has been remitting surpluses to Government over the reporting period, however, its payout ratio has persistently been below the statutory payout ratio of 100%. In the year 2018/19, the surplus payout ratio was only 18% of the surplus and the majority of it was used to invest in construction of office complex that was still under way during the 2018/19 financial year.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Surplus payment	The level of surplus remittance has been low compared to the surplus realised	There is need for Government to strengthen compliance to remittance of surpluses by MERA

3.4.4National Oil Company of Malawi (NOCMA)

No.	Indicator	2017 Audited	2018 Unaudited	2019 unaudited	2020 Unaudited
1	Profit after tax	(893,431)	(1,206,029)	732,648	(11,721
2	Return on assets	-5%	-2%	0%	-1%
3	Return on total equity	-11%	-17%	9%	0%
4	Cost recovery	358%	65%	102%	103%
5	Gross profit margin	0%	-4372%	3%	3%
6	Operating Profit Margin	-16%	-70%	0%	-1%
7	Asset Turnover*	1.17	0.32	20.87	18.47
8	Debt to equity	142%	1108%	1594%	1059%
9	Current ratio	1.45	1.00	1.01	1.00
10	Quick ratio	0.32	0.68	0.90	0.83
11	Accounts Receivable days	2785	5457	155	123
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	756	188	232	178
14	GoM transfers/Rev.	0%	0%	1%	0%
15	Dividend payout ratio	-7%	0%	0%	0%

Overview of financial performance

NOCMA's performance in 2019/20 was poor with the unaudited accounts registering K11.7million loss compared to a profit of K K732.6 in 2018/19. This is mainly due to reduced fuel imports due to the impact of covid-19 pandemic on the demand of fuel products.

Overview of financial risks

NOCMA liquidity position was on the margins with a current ratio of 1.00:1 in 2020 a slight decline to 1.01:1 registered in 2018/19. which shows that NOCMA is barely able to meet its short term liabilities, hence the need to be cautious and work on further improving the cash flow position.

However, with the prospects of 50-50 fuel import arrangements supported by the various fuel importation facilities, NOCMA has good prospects for future growth and profitability.

Overview of financial flows with the government

There were no fiscal flows between NOCMA and Government in 2020.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	Revenues were very low due to holding of fuel stock in depots for strategic purposes	Provision of an enabling policy environment particularly in regulation to allow NOCMA off-load the fuel.

Cash Flow	NOCMA had cash flow challenges which affected remittance of levies to MERA and loan repayments	Introduction of Strategic Fuel Management levy to enable NOCMA have working capital to operationalise the reserves

3.5 Financial Sector

3.5.1 National Economic Empowerment Fund (NEEF)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	(961,990)	2,604,987	(839,512)	(2,678,104)
2	Return on assets	-59%	57%	4%	0%
3	Return on totAF equity	-49%	68%	-30%	-1999%
4	Cost recovery	17%	644%	110%	100%
5	Gross profit margin	-487%	84%	9%	0%
6	Operating Profit Margir	-487%	68%	9%	0%
7	Asset Turnover*	0.22	1.00	0.61	19.81
8	Debt to equity	38%	19%	36%	7181%
9	Current ratio	1.89	5.89	5.30	1.85
10	Quick ratio	1.56	0.40	0.83	0.32
11	Accounts Receivable da	2379	7	104	66
12	Debt service ratio	#DIV/0!	0.00	-0.03	0.00
13	Accounts Payables days	0	0	0	53
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%

Overview of financial performance

The Malawi Enterprise Development Fund (NEEF) in 2019/20 registered a further loss after tax of K2.7 billion compared to a loss of K839.5million registered in 2018/19.

Overview of financial risks

Liquidity of the Fund has generally been good throughout although it tends to fluctuate through the years. In 2019.20, NEEF had a current ratio of 1.85: 1 which was a decline from 2018/19, which was 5.3:1 which still implies NEEF's ability to meet its short term obligations but caution need to be taken to avoid reducing the position further.

The Fund's debt-to-equity was at 36 percent in June 2020 showing that NEEF is largely financed by external borrowing than from owners' equity which is completed eroded. On the other hand, the accounts receivable days continues to remain high with 2020 which was still above the 66 days benchmark.

Overview of financial flows with the government

Over the reporting period, NEEF was not able to remit any dividend to Government due to the perpetual deficits as well as the negative reserves which indicates total erosion of the equity investment.

Policy specific issues for the Public Body

Policy area	**Source of fiscal risk**	**Proposed Policy Recommendations**
Sales Revenue	NEEF loss making status mostly due to lack of capitalisation, reliance on debt financing for working capital and old non-performing loans	There was need for government to inject capital and write off non-performing loans from the Books of accounts

3.6 GOVERNANCE SECTOR

3.6.1 Malawi Accountants Board (MAB)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	11,029	(22,836)	16,997	18,356
2	Return on assets	3%	6%	5%	5%
3	Return on total equity	3%	-7%	5%	5%
4	Cost recovery	84%	90%	133%	118%
5	Gross profit margin	-19%	-11%	25%	16%
6	Operating Profit Margin	6%	11%	6%	6%
7	Asset Turnover*	0.54	0.64	0.80	0.84
8	Debt to equity	3%	9%	3%	7%
9	Current ratio	31.22	9.68	27.64	12.02
10	Quick ratio	31.22	9.68	27.64	12.02
11	Accounts Receivable days	69	128	129	247
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	0	44	19	38
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	12%

Overview of financial performance

The Malawi Accountants Board (MAB) registered a surplus of K18.3 million in 2019/20, an improvement from the previous year where it registered a surplus of K17 million.

Overview of financial risks

Liquidity position for MAB has generally been good throughout with 2019/20 registering a current ratio of 12.0:1 indicating a further improvement in MAB's ability to meet its short term obligations. The Board's debt-to-equity was at 7 percent in 2020 showing that MAB is largely financed by owners' equity.

The Board's receivable days continued to grow over the years with a slight increase from 247 days in 2020. This increase in days shows that its income was being held up by debtors for a longer period which could eventually lead to cash flow challenges if not timely controlled.

Overview of financial flows with the government

There were no financial flows between Government and MAB in 2019/20 financial year.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations

Sales Revenue	Low revenues generated due to limited streams	There is need for Government intervention to redefine the revenue sharing arrangements on the regulatory bodies in the sector

3.6.2 Malawi Institute of Management (MIM)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	(354,273)	(338,064)	(223,854)	(439,502)
2	Return on assets	-33%	-16%	-9%	-22%
3	Return on total equity	-14%	-82%	-114%	187%
4	Cost recovery	74%	173%	205%	191%
5	Gross profit margin	-35%	42%	51%	48%
6	Operating Profit Margin	-35%	-36%	-14%	-35%
7	Asset Turnover*	-3.23	2.28	7.51	-5.28
8	Debt to equity	56%	413%	1015%	-955%
9	Current ratio	0.40	0.29	0.28	0.16
10	Quick ratio	0.27	0.25	0.25	0.12
11	Accounts Receivable days	107	107	96	52
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	0	0	230	234
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%

Overview of financial performance

Malawi Institute of Management (MIM) continued to post losses even though at a declining rate. In 2019/20 MIM reported a loss after tax of K439.5 million against a loss of K223.9 million reported in 2018/19 financial year. The losses are largely due to MIM incurring increased expenditures annually against dwindling revenue generation sources owing to low patronage of MIM short courses and academic programmes as well as failure to attract high value consultancies as clients currently prefers to hire individual consultants.

Overview of financial risks

The Institute's liquidity remained very weak with a current ratio of below the minimum recommended level of 1. This position means that MIM was not capable of meeting its current liabilities as they fall due with existing current assets. Furthermore, the Institute has maintained a high debt-to-equity position over the years and also the debt collection days are also high as most of its resources are tied up in unpaid bills with its customers.

To curb this challenge, MIM developed strategies to turn around the institution which includes the quarterly advertisement of all programmes in various media houses such as newspapers, radio, and television, online, social media (MIM Facebook and Twitter); Intensified door-to-door marketing of short-term training programmes; Selection of appropriate venues for short term courses with incentives; Investing and use of alternative learning modes for both MIM degree programmes as well as short-term programmes in the wake of the covid-19 pandemic; Intensify online advertisement of short courses; Development and distribution of promotional materials e.g. prospectus, brochures, fliers and diaries; Organising Customer Symposiums to show case MIM's products and services; Investing in more on MIM branded training material packaging; Allowing more time between selection of students and commencement of classes to allow the students source the required fees and Negotiating for review of fee payment mode with University of Bolton.

Overview of financial flows with the government

Malawi Institute of Management has not been able to remit dividend to government due to persistent losses over the last eight years.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy recommendations
Sales Revenue	Low sales revenue due to low patronage of programmes	There is need to improve revenue generation sources, need to follow up on austerity measures put in place to reduce expenditure.
Tax Arrears	Nonpayment of PAYE arrears and other obligations to government.	There is need for monitoring all obligations were being fulfilled

3.7 Health Sector

3.7.1 Pharmacies and Medicines Regulatory Authority (PMRA)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	306,171	121,240	(74,144)	53,624
2	Return on assets	15%	5%	-3%	2%
3	Return on total equity	16%	6%	-4%	3%
4	Cost recovery	120%	110%	96%	104%
5	Gross profit margin	22%	9%	-4%	4%
6	Operating Profit Margin	26%	9%	-6%	4%
7	Asset Turnover*	0.61	0.65	0.63	0.71
8	Debt to equity	10%	11%	16%	39%
9	Current ratio	4.44	1.68	0.73	0.68
10	Quick ratio	4.38	1.36	0.70	0.66
11	Accounts Receivable days	87	20	7	17
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	73	68	90	196
14	GoM transfers/Rev.	11%	0%	0%	0%
15	Dividend payout ratio	10%	0%	0%	0%

Overview of financial performance

The performance of the Pharmacy and Medicines Regulatory Authority (PMRA) improved during the 2019/20 financial year as it registered a surplus of K53.6 million from a deficit of K74.1 million recorded in the 2018/19 financial year. The major reason for the down turn was low level of regulatory fees and fees under-collection. Even though in practice, licence holders are supposed to renew their licences by 30th June but compliance to the collection policy on fees was weak.

Overview of financial risks

Due to the poor financial performance, the liquidity position of the Commission remained weak with current ratio of 0.7:1 in 2019/20 resulting in failure to meet some cash flow requirements. To address this challenge, the Authority will continue with the efforts to fully start implementation of the new PMRA Act. Currently, the Authority was developing Regulations. In addition, the regulatory fees have been revised and approved by the Board awaiting to be gazetted before implementation. In the revised fees, PMRA will introduce penalties to enforce prepayment of regulatory fees. These interventions will help to improve the financial performance of the Authority in the near future.

Overview of financial flows with the government

There hasn't been any financial flows between Government and PMRA including the Authority's inability to remit any surplus to Government over the years due to its cash flow challenges.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy recommendations
Revenue under collections	Lack of sanctions by non-compliance license holders	There was need for revision of the license fees gazette order.
	Low Product fees due to outdated gazette order	

3.8 LABOUR SECTOR

3.8.1 Technical, Entrepreneurial, Vocational Education and Training Authority (TEVETA)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	(391,976)	440,058	170,891	634,445
2	Return on asse	-8%	3%	7%	7%
3	Return on tota	-11%	8%	4%	11%
4	Cost recovery	94%	103%	102%	287%
5	Gross profit m	-6%	3%	2%	65%
6	Operating Pro	-6%	3%	2%	5%
7	Asset Turnove	1.74	1.59	25.81	2.23
8	Debt to equity	49%	32%	53%	61%
9	Current ratio	2.70	3.27	1.94	2.42
10	Quick ratio	2.69	3.27	1.93	2.42
11	Accounts Rece	168	188	130	189
12	Debt service ra	-0.56	0.00	0.00	0.00
13	Accounts Paya	67	54	56	233
14	GoM transfers	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%

Overview of financial performance

TEVETA continued to register good performance with a surplus of K634.4 million in 2019/20 financial year. Despite registering a 27 percentage increase in the total revenues of the Authority, there was also a corresponding 23 percent increase in the expenditure which resulted in a surplus increase above the previous financial year.

Overview of financial risks

The Authority's current ratio improved in 2019/20 to 2.42 from 1.94:1 in 2018/19 financial year. Although this was the case, it still shows that the Authority is able to meet its short-term obligations as they fall due.

Financial leverage as measured by debt to equity ratio increased to 61 percent in 2019/20 indicating that the Authority uses its own resources compared to external resources to finance its assets.

Overview of financial flows with the government

The only fiscal flows in the year 2020 was an amount of subvention transferred to TEVETA as TEVET Levy from the Government.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Revenue under collection	Low remittance of TEVET levy by Government institutions leading to build up of arrears	Need to review the regulatory environment with regards to TEVET levy for the public sector

3.9 LANDS AND HOUSING SECTOR

3.9.1 Malawi Housing Corporation (MHC)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	210,000	12,534	11,036	9,964,652
2	Return on assets	0%	13%	10%	8%
3	Return on total equity	0%	0%	0%	8%
4	Cost recovery	114%	71%	69%	72%
5	Gross profit margin	12%	-41%	-45%	-40%
6	Operating Profit Margin	8%	364%	300%	269%
7	Asset Turnover*	0.05	0.04	0.04	0.03
8	Debt to equity	6%	5%	6%	9%
9	Current ratio	0.88	1.05	0.81	0.70
10	Quick ratio	0.37	0.63	0.46	0.43
11	Accounts Receivable days	136	193	84	111
12	Debt service ratio	0.00	0.04	0.02	0.01
13	Accounts Payables days	149	122	79	127
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	80%	0%	0%

Overview of financial performance

Malawi Housing Corporation's (MHC) financial performance slightly improved in 2019/20 financial year with revenues increasing by 32 percent to K4.9 billion from K3.7 billion in 2018/19. However, MHC's expenditure was still higher than revenues at K5.2 billion, hence the loss of K259.9 million as of June 2020 (this is loss before property revaluation, which is the basis for the Profit after tax in table above). The 2020 poor performance was largely affected by the failure to increase rentals resulting in stagnated revenue for three consecutive years, lost income due to delayed completion of 254 house construction projects and low income from plot sales due to delays in plot development and slow regularisation of encroached areas during the first half when only 12% of the budgeted revenue was generated.

Overview of financial risks

Besides the poor performance in revenues, the Corporation also continued to incur challenges in collecting rentals mostly from public institutions who occupies 85 percent of the Corporation's houses and had an average collection day of 111 days in 2019/20 financial year. This resulted in the liquidity position of the Corporation to remain below average at 0.70:1 as at June 2020 making it difficult for the Corporation to meet its short-term obligations as they fall due. Furthermore, the working capital remained in the negative indicating the Corporation's inability to finance its day-to-day operations including taxes

Overview of financial flows with the government

There were no financial flows between Government and MHC in 2020.

Policy specific issues for the Public Body

Policy area	**Source of fiscal risk**	**Proposed Policy Recommendations**
Sales revenues	Low revenues due to below the market rentals; Under collection due non-payment of rentals by public institutions	Strict enforcement of the tenancy agreements and intensifying collections from house rentals and ground rentals.

3.10 TRADE AND TOURISM SECTOR

3.10.1 Malawi Bureau of Standards (MBS)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	1,055,580	2,298,523	2,686,975	1,893,741
2	Return on assets	22%	24%	16%	9%
3	Return on total equity	24%	27%	19%	11%
4	Cost recovery	140%	161%	153%	329%
5	Gross profit margin	28%	38%	35%	70%
6	Operating Profit Margin	28%	50%	40%	23%
7	Asset Turnover*	0.85	0.55	0.47	0.41
8	Debt to equity	10%	15%	17%	12%
9	Current ratio	5.59	2.70	2.31	2.83
10	Quick ratio	2.43	2.68	2.30	2.81
11	Accounts Receivable day	14	14	75	92
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	60	160	205	350
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	33%	60%	65%	29%

Overview of financial performance

The Malawi Bureau of Standards (MBS) performance in 2019/20 financial year was good though revenues declined by 3 percent to K6.4 billion from K6.5 billion in 2018/19. On the other hand, expenditures increased by 18 percent to K5.2 billion from K4.4 billion in 2017/18 which translated to a surplus of K1.9 billion in the 2019/20 financial year, a 15 percent decrease. The Bureau invested a significant portion of the surplus in the construction of new MBS offices and modern laboratory currently under way but was also able to remit surplus to the government during year.

Overview of financial risks

The Bureau's liquidity improved to a current ratio of 2.8:1 in 2019/20 up from 2.3.:1 in 2018/19. Despite the decline, the reported position still indicates that MBS is capable of meeting its current liabilities as they fall due with existing current assets.

Overview of financial flows with the government

In the year 2020, Government funded MBS towards the project for the construction of new MBS offices and modern laboratory. On the other hand, the Bureau has also been remitting surplus to the government.

3.10.2 Malawi Gaming Board (MGB)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	78,711	51,416	467,887	93,390
2	Return on assets	10%	6%	24%	4%
3	Return on total equity	11%	7%	48%	12%
4	Cost recovery	125%	120%	148%	232%
5	Gross profit margin	20%	16%	32%	100%
6	Operating Profit Margin	12%	6%	32%	8%
7	Asset Turnover*	0.97	1.11	1.48	1.19
8	Debt to equity	15%	23%	99%	140%
9	Current ratio	4.10	2.59	1.08	0.97
10	Quick ratio	4.07	2.56	1.04	0.97
11	Accounts Receivable da	104	59	190	331
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	0	82	357	#DIV/0!
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	76%	53%	6%	59%

Overview of financial performance

The Malawi Gaming Board (MGB) continued to perform well in 2019/20 financial year with a total revenue slightly increased by 2 percent from K917.3 million in 2018/19 to K 937.2 million during 2019/20 financial year. The increase was largely as a result of better performance of Colony Casino and Marina Casino. The Board consequently posted a surplus of K 93.4 million a decline from K467.9 million reported in 2018/19financial year.

Overview of financial risks

The Board's liquidity remained reasonable with a current ratio of 0.9:1 in 2019/20 implying that MGB is barely capable of meeting its current liabilities as they fall due with existing current assets. The Board continued to maintain a low debt-to-equity position over the years.

Overview of financial flows with the government

MGB has continuous remitted dividend to the Government.

3.11 TRANSPORT AND PUBLIC WORKS SECTOR

3.11.1 Air Cargo Malawi Limited (ACM)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	158,850	179,161	(201,759)	(165,476)
2	Return on assets	19%	14%	-20%	-12%
3	Return on total equity	14%	21%	-29%	-32%
4	Cost recovery	159%	166%	158%	150%
5	Gross profit margin	35%	40%	37%	33%
6	Operating Profit Margin	6%	5%	-7%	-5%
7	Asset Turnover*	7.22	5.25	6.27	8.36
8	Debt to equity	52%	92%	110%	206%
9	Current ratio	1.55	1.74	1.45	1.12
10	Quick ratio	1.14	1.20	0.96	0.68
11	Accounts Receivable days	41	66	58	54
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	98	70	98	84
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	40%	0%	0%	0%

Overview of financial performance

Air Cargo Malawi Limited (ACM) reported a loss of K165.5 million in 2019/20. Total revenues slightly increased by 3 percent to K4.4 billion from K4.3 billion in 2018/19. On the other hand, expenditures grew by 1 percent to K4.6 billion from K4.5 thereby giving rise to a net loss after tax of K165.5 million from a loss of K202 million reported in 2018/19.

This outturn was largely due to reduced volumes of cargo uplifted in 2020 whereby a total of 1.04 million kilogrammes was uplifted during the financial year against a total of 1.1 million Kilogrammes uplifted in 2019. The major challenge to the business was the negative impact of the COVID-19 pandemic particularly in the last quarter of the year where the company experienced depressed revenues following world wide shut down. From March 22nd 2020, the company's main business partner (Emirates Sky Cargo suspended freighter operations into and out of Malawi thereby curtailing the company's freight revenues which comprise 76% of the company's total revenues as at 31st March 2020. As a matter of fact, the company did not get any freight revenues for the months of April and May. For the month of April, 2020, the company's actual revenues were a mere K24.2 million against the preceding quarter's (January to March 2020) average monthly revenues of K260 million.

Additionally, the company continued with its bad debt cleaning exercise that resulted into an additional bad debt provision of K29.5 million during the year (2019: K163.3 million).

Overview of financial risks

ACM's liquidity position slightly plummeted in 2019/20 to a current ratio of 1.12:1 compared to 1.45:1 in 2018/19 implying that the Company was barely capable of meeting its current liabilities as they fall due with existing current assets.

Overview of financial flows with the government

There were no financial flows between ACM and Government in the year 2019/20.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	Heavy reliance on the Emirates as the main revenue generating stream exposing the institution to reduced margins	There was need to start exploring other means of generating revenue streams

Airport Development Ltd (ADL)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	5,476,885	6,296,447	7,129,480	7,779,858
2	Return on assets	21%	18%	17%	16%
3	Return on total equity	22%	18%	17%	16%
4	Cost recovery	257%	105%	461%	474%
5	Gross profit margin	97%	85%	97%	98%
6	Operating Profit Margir	79%	313%	74%	77%
7	Asset Turnover*	0.27	0.06	0.23	0.21
8	Debt to equity	3%	3%	3%	3%
9	Current ratio	2.12	1.28	1.23	1.12
10	Quick ratio	1.81	1.14	1.09	1.04
11	Accounts Receivable da	230	151	154	178
12	Debt service ratio	0.20	0.14	0.08	0.12
13	Accounts Payables days	627	519	894	1687.85472
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%

Overview of financial performance

Generally, the performance of the Airport Development Limited (ADL) in 2019/20 financial year improved. Operating Revenues increased to K2.6 billion compared to K2.4 billion reported in 2018/19 financial year. On the other hand, operating expenditures grew to K2.9 billion from K2.1 billion in the previous year translating into a loss after tax of K180 million. The non-receipt of the planned concession on agriculture activity by GBI significantly affected the revenues. The K7.8 billion profit reported is due to accounting treatment which took into consideration the revaluation of assets.

Overview of financial risks

ADL's liquidity remained barely good with a current ratio of 1.12:1 in 2019/20 from 1.22:1 in 2018/19. As at midyear, the current ratio further increased to 1.15:1 and is projected to increase further to 1:20:1 at the end of the 2020/21 financial year, implying that the company is able of meeting its current liabilities as they fall due with existing current assets. The high debtors collecting days were affecting the operations of the company and reducing these could improve ADL's liquidity position.

Overview of financial flows with the government

In 2019/20, ADL was not able to pay dividend to Government due to the cash flow challenges in the company.

Policy specific issues for the Public Body

Policy area	**Source of fiscal risk**	**Proposed Policy Recommendations**
Cash flow challenges	Liquidity challenges due to increased trade debtors especially for public institutions resulting in buildup of payables	There was need to explore ways of strengthening debt collection to improve cash flow position

3.11.2 Lilongwe Handling Company Limited (LIHACO)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit ACter tax	548,631	85,146	119,113	(593,191)
2	Return on assets	39%	8%	9%	-29%
3	Return on total equity	86%	12%	14%	-252%
4	Cost recovery	229%	195%	182%	142%
5	Gross profit margin	56%	49%	45%	30%
6	Operating Profit Margir	21%	5%	6%	-33%
7	Asset Turnover*	4.78	4.17	-3.66	2.56
8	Debt to equity	156%	169%	130%	740%
9	Current ratio	1.13	0.83	1.09	0.49
10	Quick ratio	0.71	0.40	0.88	0.22
11	Accounts Receivable da	71	68	108	59
12	Debt service ratio	0.18	0.11	-0.59	0.17
13	Accounts Payables days	130	184	128.1061	195.4486
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	8%	0%

Overview of financial performance

The Lilongwe Handling Company (LIHACO) performance declined in 2019/20 with total revenues declining to K2.4 billion from K3.2 billion in 2018/19. The impact of Covid 19 greatly affected LIHACO's revenues with expenditures at K3.3 billion in 2019/20 resulting in to a loss of K593.1 million down from a profit ofK119.1 million registered in 2018/19 financial year.

Overview of financial risks

LIHACO's liquidity position worsened in 2019/20 to a current ratio of 0.49:1 compared to 1.09:1 in 2018/19 implying that the Company was not capable of meeting its current liabilities as they fell.

Overview of financial flows with the government

LIHACO could not remit any dividends to Government in 2020 due to loss position.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Cash flow challenges	Increased trade receivables days	There was need to explore ways of strengthening debt collection to improve cash flow position

3.11.3 National Construction Industrial Council (NCIC)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	4,358	43,277	54,122	55,386
2	Return on assets	0%	3%	3%	3%
3	Return on total equity	0%	4%	4%	4%
4	Cost recovery	105%	100%	100%	102%
5	Gross profit margin	5%	0%	0%	100%
6	Operating Profit Margin	0%	2%	2%	2%
7	Asset Turnover*	1.65	1.41	1.73	1.86
8	Debt to equity	12%	10%	17%	18%
9	Current ratio	3.90	3.21	1.27	1.20
10	Quick ratio	3.90	3.21	1.27	1.16
11	Accounts Receivable days	83	50	34	19
12	Debt service ratio	0.05	0.03	0.00	0.04
13	Accounts Payables days	14	13	21	#DIV/0!
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	60%	60%	0%	95%

Overview of financial performance

The National Construction Industry Council's (NCIC) financial and operational performance has been reasonable over the years with surpluses registered throughout. There was a slight increase in surplus recorded in June 2020 compared to the previous year at K55.3 million compared to K54.1million in 2018/19 largely on account increase was on account of growth on construction levy by 6%, subscription fees by 10%, registration fees by 17%, and rental income by 18% over the previous year.

Overview of financial risks

The liquidity position of the Council remained healthy at 1.20:1 as of June 2020 indicating that the Council was able to manage its working capital with barely sufficient resources to pay its debt obligations as they fall due.

On the other hand, the debt/equity ratio was still very low at 18 in 2020 signifying that the Corporation is to a large extent financed by owner's equity compared to debt.

Overview of financial flows with the government

In the year 2019/20, NCIC remitted a dividend of 95% of its surplus to Government that amounted to K52.5 million.

3.12 WATER SECTOR

3.12.1 Blantyre Water Board (BWB)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	(4,461,787)	(2,942,321)	(3,309,855)	(7,945,844)
2	Return on assets	-2%	11%	-8%	-10%
3	Return on total equity	42%	13%	41%	-114%
4	Cost recovery	88%	130%	136%	-126%
5	Gross profit margin	26%	63%	46%	36%
6	Operating Profit Margin	-18%	21%	-25%	-46%
7	Asset Turnover*	-0.98	-1.39	-2.27	2.63
8	Debt to equity	843%	383%	-766%	1134%
9	Current ratio	0.20	0.20	0.34	0.30
10	Quick ratio	0.18	0.17	0.24	0.12
11	Accounts Receivable days	201	84	109	66
12	Debt service ratio	0.23	0.00	-2.78	0.36
13	Accounts Payables days	1321.79	765	312.977501	430.4120793
14	GoM transfers/Rev.	0%	0%	4%	0%
15	Dividend payout ratio	0%	0%	0%	0%

Overview of financial performance

Blantyre Water Board's financial performance further deteriorated in 2019/20 financial year with the audited accounts indicating a loss of K7.9 billion compared to K3.3 billion loss reported in 2018/19 FY. Overall, the performance of the Board worsened largely due to non-implementation of the cost reflective tariffs which have not been adjusted in the last three years, high Non revenue water levels due to dilapidated pipeline systems and very high electricity costs which were averaging K1 billion per month representing approximately 65 percent of operating expenses. These challenges have significantly compromised the operations of the Board.

Non-Revenue Water (NRW) was still very high at an average of 53 percent in 2020. However, the Board plans to slightly reduce this through conducting water balancing and timely repair all leaks in the transmission and distribution network and uprooting of illegal connections, among others. In an effort to reduce electricity bills the Board commenced the process of developing an alternative source of power and plans to maximize the pumping from Nguludi plant which uses gravitational force thereby reducing pumping at Walker's Ferry.

On overall, the Board's profitability was still poor as indicated by the operating profit margin of -33.04 percent in 2020, meaning that for every Kwacha sale, the Board loses K33.04 after tax. BWB's working capital positioned worsened and continued to be in the negative putting the Board at a disadvantage including lower creditability in banks as well as creating poor supplier relationships.

Overview of financial risks

The liquidity position of BWB continued to be weak as demonstrated by a current ratio of below desirable levels of more than 1. This is also demonstrated by the insolvent state of the Board as it continued reporting worsening negative working capital over the years. The Board reported a liquid ratio of 0.30:1 meaning that it was still unable to cover its current liabilities as they fall due.

To slove these challenges, the Board intensified debt collection by conducting periodic mass disconnection campaigns on all accounts over 30 days and cleaning up of customer data-base

through customer verification exercises. Installation of prepaid meters to all its customers including Public Institutions was also a key strategy being used by the Board to reduce the receivables.
In terms of its efficiency to use its assets, the Board has a very weak financial leverage position which is too vulnerable to any downturns as revealed by high debt ratio which stood at 1134 percent in 2020 meaning that Board was fully financed by debt rather owner's equity.

Overview of financial flows with the government

Over the review period, Blantyre Water Board was not able to remit any dividend to Government due to continued losses.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales revenue	High Non-Revenue Water, non-cost reflective tariffs	Old Pipe replacement, implement cost reflective tariffs,
Tax and pension arrears	Cash flow challenges	Disconnections and prepaid meters installation, settle all outstanding statutory obligations

3.12.2 Central Region Water Board (CRWB)

3.12.3 Central Region Water Board (CRWB)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	163,164	42,806	(1,464,883)	(1,449,275)
2	Return on assets	1%	0%	-6%	-4%
3	Return on total equity	3%	-8%	49%	33%
4	Cost recovery	126%	117%	96%	176%
5	Gross profit margin	21%	14%	30%	43%
6	Operating Profit Margin	3%	-2%	-21%	-20%
7	Asset Turnover*	0.60	-6.78	-1.33	-0.94
8	Debt to equity	183%	-2972%	-615%	-526%
9	Current ratio	1.10	0.73	0.40	0.45
10	Quick ratio	2.06	0.70	0.38	0.42
11	Accounts Receivable dAYs	246	299	215	307
12	Debt service ratio	0.25	0.01	0.08	0.00
13	Accounts PAYables dAYs	0	254	409	637.2710336
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend pAYout ratio	0%	0%	0%	0%

Overview of financial performance

Central Region Water Board's financial performance worsened in the 2019/20 financial year as it registered an increased loss of K1.4 billion in 2019/20 financial year compared to a loss of K1.46 billion in 2018/19 FY. The Board still had major challenges affecting sales including high non-revenue water which was at 31% due to the frequent pipe bursts, presence of a high number of stuck and aged meters which were under-registering sales volumes. leakages of old tanks such as Dwangwa, Kaphatenga and Kochilira, frequent breakdown of aged water distribution infrastructure low response to preventive maintenance due to financial constraints, and illegal water connections.

Overview of financial risks

The Board continued to face liquidity challenges as demonstrated by current ratio deteriorating to 0.45:1 in 2019/20 financial year. The worsening liquidity position points to the fact that Board has insufficient cash flow hence unable to meet its obligations as they fall due, such as remittance of taxes, pension and suppliers of goods and services. The Board was cushioning the cash squeeze through bank overdrafts.

This liquidity squeeze largely arose from delayed bill payment by public institutions and slow recovery of water bills from private customers which affected cash inflow resulting in ineffective infrastructure maintenance and renewal and low investment in new water supply systems, delays in developing of new water sources in Bunda which had inadequate capacity to meet demand.
In addition, the continued negative working capital position of the Board puts the Board at a disadvantage including lower creditability in banks as well as creating poor supplier relationships.

Similarly, the Board continues to have a very weak financial leverage with a debt ratio showing that the Board's activities are to a higher degree financed by creditor's funds as compared to owner's equity. To solve thesese challenges, the Board planned to put in place revenue collection strategies to improve collection from trade debtors through use of prepaid meters for institutional and commercial customers.

Overview of financial flows with the government

There were no financial flows between the Board and Government during the year under review.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales revenue	Reduced sales volumes dur to drying up of some dams and increase in Non-Revenue Water	• Development of additional groundwater sources in Bunda and Lifuwu, and boreholes under Malawi Drought Recovery and Resilience Project (MDRRP); • Rehabilitation of aged infrastructure including pipe network and storage tanks;

		• Use of backup diesel power supply in Salima Lakeshore, Kasungu, Bunda, Dwangwa, Ntchisi, Ntcheu, Nkhota-kota and Mponela schemes (diesel generators); and • Use of solar energy on 16 boreholes, 13 of which are under MDRRP.
Tax and pension arrears	Cash flow challenges due to high trade debtors both from private and public entities	Intensifying on debt collection
Public Debt	Nonpayment of water bills by public institutions due to use of Postpaid meters	Install prepaid meters

3.12.4 Lilongwe Water Board (LWB)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	3,410,116	2,458,286	4,773,177	2,702,289
2	Return on assets	10%	8%	8%	2%
3	Return on total equity	14%	9%	14%	7%
4	Cost recovery	152%	130%	152%	113%
5	Gross profit margin	34%	23%	34%	47%
6	Operating Profit Margin	31%	25%	30%	11%
7	Asset Turnover*	0.64	0.64	0.64	0.64
8	Debt to equity	99%	98%	152%	207%
9	Current ratio	2.83	3.44	7.64	3.25
10	Quick ratio	2.47	3.12	4.32	2.77
11	Accounts Receivable days	174	208	198	217
12	Debt service ratio	0.09	0.14	0.19	0.25
13	Accounts Payables days	45	49	32	157
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%

Overview of financial performance

Lilongwe Water Board (LWB) registered a profit after tax of K2.7 billion in 2019/20 financial year which was a 48 percent lower than the K4.8 billion profit after tax registered in 2018/19. This was as a result of higher expenditure growth of 35 percent in 2019/20 relative to only 1percent increase in revenues in the same year. The declining performance of LWB was largely attributed to increase in losses due to high Non Revenue Water Level at 41.4% in 2020 compared to the target of 35%, impact of unrevised water tariffs against increased production costs, coupled with the COVID-19 Pandemic impacts particularly on water sales volume due reduced water consumption particularly amongst the commercial and institutional customer categories also had an adverse impact on the sales volume. Generally, water production volume declined in 2019/20 compared to 2018/19 financial year.

Overview of financial risks

The liquidity position for LWB was still good though it declined from the 2018/19 financial year position of 7.64:1 to 3.25:1 in 2019/20 financial year. Though liquidity has reduced but at this position the Board still has the ability to cover its current liabilities when they fall due. The debt collection days remained high at 217 days in 2020. To improve the situation, the Board planned to install prepaid meters in both Government institutions and private customers.

In terms of financial leverage, the Board's debt ratio steadily increased to 207% in 2020 from 152% in 2019 financial year. The Board plans to continue with the implementation of the water improvement projects, pipe rerouting, lowering and replacement, reticulation and other development projects which would improve water supply to the City in view of increasing demand.

Overview of financial flows with the government

In the year 2019/20, no financial transfers were made between Government and LWB.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	• Rapid population growth exerting pressure on the current supply side. • Diminishing water supply source coupled with impacts of environmental degradation and climate change, are compromising the Board's potential to meet the water demand in its supply area.	Expand the scale of operation through diverse projects in its supply area.
Tax Arrears	• Loan interest payments exerted pressure on the Board's cash flows in in 2018/2019 financial year. • High levels of accounts receivables	Intensify debt collection coupled with prepaid meters installation.

3.12.5 Northern Region Water Board (NRWB)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	1,225,997	171,139	(827,195)	(3,778,190)
2	Return on assets	1%	1%	-3%	-3%
3	Return on total equity	17%	1%	-15%	-197%
4	Cost recovery	237%	227%	171%	185%
5	Gross profit margin	59%	59%	55%	47%
6	Operating Profit Margin	5%	4%	-13%	-15%
7	Asset Turnover*	0.84	0.52	1.50	4.66
8	Debt to equity	266%	210%	684%	2706%
9	Current ratio	1.24	1.03	0.51	0.46
10	Quick ratio	0.83	0.85	0.38	0.36
11	Accounts Receivable days	277	250	147	150
12	Debt service ratio	2.20	-0.32	-0.31	-0.32
13	Accounts Payables days	0	280	683	698
14	GoM transfers/Rev.	2%	0%	3%	3%
15	Dividend payout ratio	0%	0%	0%	0%

Overview of financial performance

The financial performance of the Northern Region Water Board (NRWB) deteriorated as at June 2020 with a loss registered of K3.8 billion down from a loss of K827.2 million in 2018/19 financial year. Northern Region Water Board's performance was largely hampered by the effects of the economic slowdown as a result of the Covid-19 which was characterized by low volumes mainly from Commercial and Institutional customers. Water sales volumes declined by 11% below the breakeven position of the previous year. On the other hand, water debtors continued to surge. Water sales revenues also declined by 9% on account of lower than planned volumes, a factor which continued to negatively affect both the profitability and the cash flow.

Overview of financial risks

Although still below the desired level, the liquidity position for NRWB further worsened to 0.46:1 in 2020 from 0.51:1 in 2018/19 largely due trade debtors position especially public institutions constituting a significant proportion of the receivables. Similarly, debt collection days remained very high at 150 days in June 2020 mainly due to delays in payment by public and private institutions. As a result of the accumulation of debtors, the ability of the Board to pay its obligations as they fall due remained weak.

The NRWB continued to be highly geared with the debt ratio growing to 2706 percent in June 2020 from 684 percent in June 2019. The debt to equity ratio of the Board shows that the company is heavily financed by debt than the shareholder's equity.

Overview of financial flows with the government

There were no fiscal flows between NRWB and Government in 2020

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Required action for follow up (letter of intent)
Sales Revenue	Low revenues due to rise in electricity costs	Prepaid meters installation to all customers
Tax and pension arrears	Cash flow challenges due to Non-payment of water bills by public institutions	Install prepaid meters and intensify on massive disconnections to outstanding bills

3.12.6 Southern Region Water Board (SRWB)

No.	Indicator	2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	Profit after tax	596,710	837,612	684,215	124,908
2	Return on assets	2%	3%	2%	6%
3	Return on total equity	3%	4%	3%	1%
4	Cost recovery	160%	147%	173%	379%
5	Gross profit margin	38%	76%	75%	74%
6	Operating Profit Margin	9%	12%	8%	25%
7	Asset Turnover*	0.38	0.37	0.41	0.41
8	Debt to equity	48%	56%	68%	70%
9	Current ratio	1.52	1.63	1.57	1.55
10	Quick ratio	1.41	1.54	1.45	1.48
11	Accounts Receivable days	295	423	539	577
12	Debt service ratio	1.00	0.00	0.00	0.14
13	Accounts Payables days	285	1052	1204	1241.647
14	GoM transfers/Rev.	0%	65%	57%	0%
15	Dividend payout ratio	0%	5%	0%	0%

Overview of financial performance

Southern Region Water Board registered a profit after tax of K124.9million in 2019/20 FY, a significant decline from the previous year's profit after tax of K684.2 million in 2018/19 financial year. This downward movement in the profit was as a result of the reduced total income emanating from failure to meet budgeted sales volumes due to reduced volumes of water produced as a result of drying of water sources in Mwanza, Chiradzulu and Balaka which affected negatively the capacity of the Board to supply adequate potable water to its customers. The situation was exacerbated by frequent pump breakdowns in Liwonde, non-availability of materials for new connections as a result of cash flow challenges hence connecting less customers than planned and disconnected customers not coming back to the network due to proliferation of boreholes.

Overview of financial risks

Receivables continued to increase mainly on account of public institutions which continued accumulating unpaid water bills increasing from MK9.7 billion as June 2020 resulting in trade receivable days increase to 577 days hence the negative cash flow position as the cash was locked up in debtors forcing the Board to operate a bank overdraft.

The liquidity position of the Board was still good at 1.5: 1 as at June 2020 indicating an improved he capacity of the Board to meet its debt obligations as they fall due.

Overview of financial flows with the government

There were no financial flows between SRWB and Government in 2020.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	Low revenues due to increase in Non-Revenue Water	Increase water production through developing new water schemes and maintenance of old infrastructure
Tax Arrears	Cash flow challenges due to accumulation of public and private water bills	Installation of Prepaid Meters.
Dividend payment	Cash flow challenges largely arising from debt receivables.	Need for settling all outstanding statutory obligations including dividend to the shareholder

4 ANNEXES

Annex 1: List of SOEs in Malawi (2020)

No.	Statutory Body	Full Name	Category	Sector	Mother Ministry	GOM Ownership	Total Value of Share holding MK,000	Subsidiaries	Minority Interest	Enabling Legislation	Submission of Quarterly Performance Reports	Submission of Annual Performance Report	Submission of Annual Financial Statement	Name of Auditor
1	MAB	Malawi Accountants Board (MAB)	Regulatory	Governance	Accountant Generals Department	100	58,672	None		Public Accountant and Auditors ACT (CAP.	none	none	Submitted	Simeon &Matthews Independent Auditors
2	MACRA	Malawi Communications Regulatory Authority (MACRA)	Regulatory	Communication	Ministry of Information, Communication and	100	30,000	None		Communications Act of 2016	none	none	Submitted	National Audit Office
3	MBS	Malawi Bureau of Standards (MBS)	Regulatory	Trade and Tourism	Trade and Tourism	100		None		Act of Parliament Chapter 51:02 (revised	none	none	Submitted	National Audit Office
4	MERA	Malawi Energy Regulatory Authority (MERA)	Regulatory	Energy	Ministry of Energy and Mining	100	184,046	None		Energy regulation Act of 2004	none	none	Submitted	AGM Global
5	NCIC	National Construction Industrial Council (NCIC)	Regulatory	Transport and Public Works	Ministry of Transport and Public Works	100		None		Chapter 53:05 of the Laws of Malawi	none	none	Submitted	Graham Carr
6	NLB-MGB	National Lotteries Board (NLB)/ Malawi Gaming Board (MGB)	Regulatory	Trade and Tourism	Ministry of Trade and Tourism	100		None		Lotterries Act & Gaming Act	none	none	Submitted	AMG Global
7	PMRA	Pharmacy and Medicines Regulatory Authority (PMRA)	Regulatory	Health	Ministry of Health	100	16,946	None		Pharmacies, Medices & Poisons Act of 1988	none	none	Submitted	Graham Carr
8	TC	Tobacco Commission (TC)	Regulatory	Agriculture	Ministry of Agriculture, Irrigation and Water	100	1,162,135	None		Tobacco Industry Act of 2019	none	none	Submitted	Grant Thornton
9	TEVETA	Technical, Entrepreneurial, Vocational Education and	Regulatory	Labour	Ministry of Labour and Manpower Development	100	424,310	None		TEVET Act of 1999	none	none	Submitted	Graham Carr
10	MBC	Malawi Broadcasting Corporation (MBC)	Service Provision	Communication	Ministry of Information, Communication and	100	760	None		Communications Act of 2016	none	none	Not yet submitted	
11	MCA	Malawi College of Accountancy (MCA)	Service Provision	Education	Ministry of Education	100	33	None		Education Act of 1980	none	none	Submitted	PWC
12	NEEF	National Economic Empowerment Fund (NEEF)	Service Provision	Financial	Ministry of Finance	100	13,587,340	None		Financial Services Act of 2010 and	none	none	Submitted	Grant Thornton
13	MIM	Malawi Institute of Management (MIM)	Service Provision	Governance	Department of Development of Human	100		None		Act No. 7 of 1989	none	none	Submitted	Graham Carr
14	NFRA	National Food Reserve Agency (NFRA)	Service Provision	Agriculture	Ministry of Agriculture, Irrigation and Water	100	663,705	None		Malawi Government in 1999 under a Trust	none	none	Submitted	Deloitte
15	ACM	Air Cargo Malawi Limited (ACM)	Trading	Transport and Public Works	Ministry of Transport and Public Works	100	150,000	None		Articles of Association of 1979	none	none	Submitted	National Audit Office
16	ADL	Airport Development Ltd (ADL)	Trading	Transport and Public Works	Ministry of Transport and Public Works	100	132,837	MSL		Act by Parliament in April 2017	none	none	Submitted	Grant Thornton
17	ADMARC	Agricultural Development and Marketing Corporation	Trading	Agriculture	Ministry of Agriculture, Irrigation and Water	100	1,000	None	AHL	Companies Act of 2013	none	none	Submitted	Deloitte
18	BWB	Blantyre Water Board (BWB)	Trading	Water	Ministry of Agriculture, Irrigation and Water	100	1,433,961	None		Waterworks Act No. 17 of 1995	none	none	Submitted	Ernest & Young
19	CRWB	Central Region Water Board (CRWB)	Trading	Water	Ministry of Agriculture, Irrigation and Water	100	117,269	None		Waterworks Act No. 17 of 1995	none	none	Submitted	Ernest & Young
20	EGENCO	Electricity Generation Company Malawi Limted (EGENCO)	Trading	Energy	Ministry of Energy and Mining	100	100,000	None		Electricity Act of 2016	none	none	Submitted	Grant Thornton
21	ESCOM	Electricity Supply Commission of Malawi Ltd (ESCOM)	Trading	Energy	Ministry of Energy and Mining	100	110,000	Optic Fibre Network		Electricity Act of 2016	none	none	Submitted	EY
22	LIHACO	Lilongwe Handling Company Limited (LIHACO)	Trading	Transport and Public Works	Ministry of Transport and Public Works	100	20,000	None		Company Act	none	none	Submitted	Deloitte
23	LWB	Lilongwe Water Board (LWB)	Trading	Water	Ministry of Agriculture, Irrigation and Water	100	3,103,413	None		Waterworks Act No. 17 of 1995	none	none	Submitted	Grant Thornton
24	MHC	Malawi Housing Corporation (MHC)	Trading	Lands and Housing	Ministry of Lands and Housing	100	10,336	None		Act of Parliament of 1964	none	none	Submitted	Graham Carr
25	MPC	Malawi Posts Corporation (MPC)	Trading	Communication	Ministry of Information, Communication and	100		None		Communications Act of 2016	none	none	Submitted	
26	NOCMA	National Oil Company of Malawi (NOCMA)	Trading	Energy	Ministry of Energy and Mining	100		None		Company Act of 1984	none	none	Not yet submitted	
27	NRWB	Northern Region Water Board (NRWB)	Trading	Water	Ministry of Agriculture, Irrigation and Water	100	3,925,268	None		Waterworks Act No. 17 of 1995	none	none	Submitted	Enerst and Young
28	SRWB	Southern Region Water Board (SRWB)	Trading	Water	Ministry of Agriculture, Irrigation and Water	100	8,188,966	None		Waterworks Act No. 17 of 1995	none	none	Submitted	AMG Global

ANNEX 2: INDICATORS, CALCULATIONS AND THRESHOLDS FOR MONITORING SOE FINANCIAL PERFORMANCE

Category	Code	Name indicator	Description indicator	Formula indicator	Threshold Parameter
Financial Performance	1	Profit after tax	Total profit/loss after tax	(Total Revenue - Total Expenditure inc. taxes but excluding financing costs on loans)	
	2	Return on Assets	Return on assets indicates how well management is employing a corporation's total assets to make a profit.	Return on assets = EBIT / assets x 100%	<5 = Red, >5 = Green
	3	Return on total equity	Return on equity measures the ability of a corporation to generate an adequate return on the capital invested by the owners. In principle shall be equal to interest on government bonds plus a margin for risk.	Return on total equity = operating profit after tax/average total equity x 100%.	0 to 10 = Red, 10 to 15 = yellow, > 15 green
	4	Cost recovery	Cost recovery reflects the ability of a corporation to generate adequate revenue to meet operating expenses, where operating revenue equals total revenue less government grants and equity injections; and operating expenses are less gross interest expense. The ratio should genrally be higher than one.	Cost recovery = operating revenue (exc. Grants and equity injections)/operating expenses x 100%.	<100 = red
	5	Gross Profit Margin	Gross profit, the first level of profitability, tells analysts how good a company is at creating a product or providing a service compared to its competitors. Without an adequate gross margin, a company cannot pay for its operating expenses. In general, a company's gross profit margin should be stable unless there have been changes to the company's business model.	Gross profit margin = gross profit/ Revenue x 100%	<5 = Red, 5 to10 = Yellow , >15 = Green
	6	Operating Profit Margin	Operating Profit indicates how much of each Kwacha is left after both of goods sold and operating expenses are considered.	Operating profit margin = Operating profit / Revenue x 100%	Is industry specific e.g 1.Aviation: 2.Transport: 3.Agriculture:4. Water: 5. Energy: 6.Communication: 7. Housing:
	7	Asset Turnover	Asset turnover measures the value of the company's sales or revenues generated relative to the value of its assets. The asset turnover ratio can be oftenly used as an indicator of the efficiency with which a company is deploying its assets in generating revenue. Generally speaking the higher the asset turn over ratio the better the company is performing.	Asset turnover = Sales / Net Assets(Total Assets - Total liabilities)	
Financial risk	8	Debt to Equity	This is a measure of the extent that the entity is dependent on external funding for its ongoing operations	Debt to Equity = Total Liabilities/Total Equity X 100%	>40 = red, <40 = Green
	9	Current ratio	The current ratio indicates the ability of a corporation to meet short term liabilities by realizing short-term assets. The current ratio is the most commonly used measure of liquidity of a company. It is generally accepted that the current ratio shall be higher than two.	Current ratio = current assets/current liabilities x 100%.	<1 Red, 1<>2 =yellow, >2 = green
	10	Quick ratio	The quick ratio is a more stringent measure than the current ratio. It takes into account only the most liquid current assets, and eliminates inventory and prepaid expenses from consideration. The quick ratio should be higher than one.	Quick ratio = cash + marketable securities + accounts receivable/current liabilities	<1 Red, 1<>2 =yellow, >2 = green
	11	Accounts Receivable days	The average collection period is the average number of days that accounts receivable remain outstanding. This ratio is not just an efficiency ratio but is also a liquidity ratio as it demonstrates how quickly a corporation can generate cash from its accounts receivable. The average collection period should be lower than 60 days.	Accounts Receivables Days = (average collection period) = accounts receivable*365/Sales	<60 = green, >60 red
	12	Debt servicing ratio	This indicator demonstrates the share of company's available cash flow is devoted to covering interest payments. A lower ratio indicates lower risk. A ratio higher than 0.5 may indicate that the company will have problems meeting interest charges. This ratio also serves as an indicator of a company's capacity to take on additional debt.	Debt servicing ratio: Interest paid / (net operating cash flow (NOCF) plus interest paid).	<0.5 = Green, > 0.5 Red
	13	Accounts Payable days	This indicates the length of time it takes to clear out outstanding accounts payables. It is also used as a measure of how much it depends in trade credit for short term financing. This concept is useful for determining how efficent the company is at clearing short term account obligations.It can be used to assess the cashflow of the business in comparisons to other businesses within the industry. As a rule of thumb, a well made company's days accounts payables should not exceed 40 to 50 days.	Accounts Payable days =(accounts payable / cost of sales) x 365	>50 = Red , <50 = Green
Transactions with the Government	14	Government transfers as a proportion of total revenue	This indicator assesses the level of reliance the entity has on the Government to support its operations. It may vary between type of Statutory Body (trade, regulatory and service provision. A level of 50% or higher has been set as a potential need for monitoring.	= Total Government Grants / Total operating revenue X 100%	<0.5 = Red
	15	Dividend Payout Ratio	Measures the proportion of the company profits that flows back to the government in the form of Dividends. These are benchmarked against the statutory limits	Divident payout ratio = Dividends paid/Operating profit after tax X 100%	< Statutory Threshold = Red

ANNEX 3: FINANCIAL INDICATORS FOR SOEs (2020)

Code	Statutory Body	Profit after tax	Return on assets	Return on total equity	Cost recovery	Gross Profit Margin	Operating Profit Margin	Asset Turnover	Debt to equity	Current ratio	Quick ratio	Account Receivable Days
		1	2	3	4	5	6	7	8	9	10	11
1	Air Cargo Malawi Limited (ACM)	(165,476)	(0.12)	-32%	150%	33%	-5%	8.36	206%	1.12	0.68	54
2	Airport Development Ltd (ADL)	7,779,858	15.6%	16%	474%	98%	77%	0.21	3%	1.12	1.04	178
3	Agricultural Development and Marketing Corporation (ADMARC)	(1,762,274)	-2%	-5%	75%	55%	-5%	0.95	188%	0.73	0.50	615
4	Blantyre Water Board (BWB)	(7,945,844)	-10%	-114%	-126%	36%	-46%	2.63	1134%	0.30	0.12	66
5	Central Region Water Board (CRWB)	(1,449,275)	-4%	33%	176%	43%	-20%	-0.94	-526%	0.45	0.42	307
6	Electricity Generation Company Malawi Limted (EGENCO)	(5,082,104)	4%	-4%	118%	48%	15%	0.46	70%	4.36	3.54	0
7	Electricity Supply Commission of Malawi Ltd (ESCOM)	(18,536,084)	-9%	-123%	-213%	158%	-15%	11.08	1822%	0.68	0.51	73
8	Lilongwe Handling Company Limited (LIHACO)	(593,191)	-29%	-252%	142%	30%	-33%	2.56	740%	0.49	0.22	59
9	Lilongwe Water Board (LWB)	2,702,289	2%	7%	113%	47%	11%	0.64	207%	3.25	2.77	217
10	Malawi Accountants Board (MAB)	18,356	5%	5%	118%	16%	6%	0.84	7%	12.02	12.02	247
11	Malawi Communications Regulatory Authority (MACRA)	5,436,447	25%	53%	139%	100%	28%	1.91	114%	1.27	1.05	98
12	Malawi Broadcasting Corporation (MBC)	60,634	1%	-2%	43%	100%	1%	-1.96	-248%	0.44	0.31	600
13	Malawi Bureau of Standards (MBS)	1,893,741	9%	11%	329%	70%	23%	0.41	12%	2.83	2.81	92
14	Malawi College of Accountancy (MCA)	109,153	2%	3%	218%	100%	5%	0.51	9%	0.54	0.20	36
15	National Economic Empowerment Fund (NEEF)	(2,678,104)	0%	-1999%	100%	0%	0%	19.81	7181%	1.85	0.32	66
16	Malawi Energy Regulatory Authority (MERA)	1,964,887	5%	19%	133%	100%	25%	0.76	312%	2.03	2.02	677
17	Malawi Housing Corporation (MHC)	9,964,652	8%	8%	72%	-40%	269%	0.03	9%	0.70	0.43	111
18	Malawi Institute of Management (MIM)	(439,502)	-22%	187%	191%	48%	-35%	-5.28	-955%	0.16	0.12	52
19	Malawi Posts Corporation (MPC)	(3,276,259)	-20%	-33%	-144%	103%	-102%	0.41	106%	0.28	0.23	284
20	National Construction Industrial Council (NCIC)	55,386	3%	4%	102%	100%	2%	1.86	18%	1.20	1.16	19
21	National Food Reserve Agency (NFRA)	(317,852)	-1%	-2%	23%	-14%	-14%	0.13	33%	8.32	0.60	43
22	Malawi Gaming Board (MGB)	93,390	4%	12%	232%	100%	8%	1.19	140%	0.97	0.97	331
23	National Oil Company of Malawi (NOCMA)	(11,721)	-1%	0%	103%	3%	-1%	18.47	1059%	1.00	0.83	123
24	Northern Region Water Board (NRWB)	(3,778,190)	-3%	-197%	185%	47%	-15%	4.66	2706%	0.46	0.36	150
25	Pharmacy and Medicines Regulatory Authority (PMRA)	53,624	2%	3%	104%	4%	4%	0.71	39%	0.68	0.66	17
26	Southern Region Water Board (SRWB)	124,908	6%	1%	379%	74%	25%	0.41	70%	1.55	1.48	577
27	Tobacco Commission (TC)	(81,359)	-8%	-2%	369%	100%	-11%	1.09	38%	0.91	0.86	46
28	Technical, Entrepreneurial, Vocational Education and Training Authority (TEVETA)	634,445	7%	11%	287%	65%	5%	2.23	61%	2.42	2.42	189

ANNEX 3: INDICATORS, CALCULATIONS AND THRESHOLDS FOR MONITORING SOE FINANCIAL PERFORMANCE

Category	Code	Name indicator	Description indicator	Formula indicator	Threshold Parameter
Financial Performance	1	Profit after tax	Total profit/loss after tax	(Total Revenue - Total Expenditure inc. taxes but excluding financing costs on loans)	
	2	Return on Assets	Return on assets indicates how well management is employing a corporation's total assets to make a profit.	Return on assets = EBIT / assets x	<5 = Red, >5 = Green
	3	Return on total equity	Return on equity measures the ability of a corporation to generate an adequate return on the capital invested by the owners. In principle shall be equal to interest on government bonds plus a margin for risk.	Return on total equity = operating profit after tax/average total equity x 100%.	0 to 10 = Red, 10 to 15 = yellow, > 15 green
	4	Cost recovery	Cost recovery reflects the ability of a corporation to generate adequate revenue to meet operating expenses, where operating revenue equals total revenue less government grants and equity injections; and operating expenses are less gross interest expense. The ratio should genrally be higher than one.	Cost recovery = operating revenue (exc. Grants and equity injections)/operating expenses x 100%.	<1 = red
	5	Gross Profit Margin	Gross profit, the first level of profitability, tells analysts how good a company is at creating a product or providing a service compared to its competitors. Without an adequate gross margin, a company cannot pay for its operating expenses. In general, a company's gross profit margin should be stable unless there have been changes to the company's business model.	Gross profit margin = gross profit/ Revenue x 100%	<5 = Red, 5 to10 = Yellow , >15 = Green
	6	Operating Profit Margin	Operating Profit indicates how much of each Kwacha is left after both of goods sold and operating expenses are considered.	Operating profit margin = Operating profit / Revenue x 100%	Is industry specific e.g 1.Aviation: 2.Transport: 3.Agriculture:4. Water: 5. Energy: 6.Communication: 7. Housing:
	7	Asset Turnover	Asset turnover measures the value of the company's sales or revenues generated relative to the value of its assets. The asset turnover ratio can be oftenly used as an indicator of the efficiency with which a company is deploying its assets in generating revenue. Generally speaking the higher the asset turn over ratio the better the company is performing.	Asset turnover = Sales / Net Assets(Total Assets - Total liabilities)	
Financial risk	8	Debt to Equity	This is a measure of the extent that the entity is dependent on external funding for its ongoing operations	Debt to Equity = Total Liabilities/Total Equity X 100%	>40 = red, <40 = Green
	9	Current ratio	The current ratio indicates the ability of a corporation to meet short term liabilities by realizing short-term assets. The current ratio is the most commonly used measure of liquidity of a company. It is generally accepted that the current ratio shall be higher than two.	Current ratio = current assets/current liabilities x 100%.	<1 Red, 1<>2 =yellow, >2 = green
	10	Quick ratio	The quick ratio is a more stringent measure than the current ratio. It takes into account only the most liquid current assets, and eliminates inventory and prepaid expenses from consideration. The quick ratio should be higher than one.	Quick ratio = cash + marketable securities + accounts receivable/current liabilities	<1 Red, 1<>2 =yellow, >2 = green
	11	Accounts Receivable days	The average collection period is the average number of days that accounts receivable remain outstanding. This ratio is not just an efficiency ratio but is also a liquidity ratio as it demonstrates how quickly a corporation can generate cash from its accounts receivable. The average collection period should be lower than 60 days.	Accounts Receivables Days = (average collection period) = accounts receivable*365/Sales	<60 = green, >60 red
	12	Debt servicing ratio	This indicator demonstrates the share of company's available cash flow is devoted to covering interest payments. A lower ratio indicates lower risk. A ratio higher than 0.5 may indicate that the company will have problems meeting interest charges. This ratio also serves as an indicator of a company's capacity to take on additional debt.	Debt servicing ratio: Interest paid / (net operating cash flow (NOCF) plus interest paid).	<0.5 = Green, > 0.5 Red
	13	Accounts Payable days	This indicates the length of time it takes to clear out outstanding accounts payables. It is also used as a measure of how much it depends in trade credit for short term financing. This concept is useful for determining how efficent the company is at clearing short term account obligations.It can be used to assess the cashflow of the business in comparisons to other businesses within the industry. As a rule of thumb, a well made company's days accounts payables should not exceed 40 to 50 days.	Accounts Payable days =(accounts payable / cost of sales) x 365	>50 = Red , <50 = Green
Transactions with the Government	14	Government transfers as a proportion of total revenue	This indicator assesses the level of reliance the entity has on the Government to support its operations. It may vary between type of Statutory Body (trade, regulatory and service provision. A level of 50% or higher has been set as a potential need for monitoring.	= Total Government Grants / Total operating revenue X 100%	<0.5 = Red
	15	Dividend Payout Ratio	Measures the proportion of the company profits that flows back to the government in the form of Dividends. These are benchmarked against the statutory limits	Divident payout ratio = Dividends paid/Operating profit after tax X 100%	< Statutory Threshold = Red