GOVERNMENT OF MALAWI

2021/22 CONSOLIDATED REPORT FOR STATE OWNED ENTERPRISES IN MALAWI

MINISTRY OF FINANCE AND ECONOMIC AFFAIRS

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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 further presents performance of individual commercial SOE based on the audited accounts and Performance Management Plans and Budgets for 2021/22 financial year.

Overall, the report presents aggregate fluctuating financial performance of the SOEs during the period 2018/19 to 2021/22 financial years. The communication, energy, water, agriculture sectors continue to dominate the SOE sector with their assets constituting about 85 percent of total assets, 96 percent of total liabilities and 88 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 water sector, agriculture sector and lands and housing 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 non-cost reflective tariffs 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 and where SOEs are carrying out a social function on behalf of Government, subsidies have to be provided in the national budget.

Liquidity challenges continued to persist mainly due to high operational and administrative costs coupled with the impact Covid-19. This eventually triggers most SOEs to resort to borrowing to finance working capital requirements through on-lending, overdraft and guaranteed debt. This was prevalent among the utility companies on account of accumulated water bills.

This analysis suggests the need for more deliberate policy measures that should deter fiscal risks arising from the unserviced obligations. These proposed policy measures include timely approval of cost reflective tariffs on the part of Government and continued migration from post-paid to prepaid metering system on the part of SOEs. 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 and surpluses. It is therefore, recommended that the national budget should clearly provide resources where the Government requires the SOEs to undertake social functions on behalf of Government and that structural reforms should be implemented where the SOEs are obliged to perform both commercial and social functions to reduce cross subsidies and unplanned bail outs.

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
K ……………………………………………………………..……………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 and Economic Affairs (MOFEA) 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 MoFEA 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, management Accounts, 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 these 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 NOCMA EGENCO	1.1 ADMARC 1.2 BWB 1.3 ESCOM 1.4 NOCMA 1.5 EGENCO	Trend and forward-looking analysis for the three (3) high risk SOEs.
Annex 1	List of SOEs in Malawi (2022)	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 2022 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 wholly and semi-subvented organisations totalling to 74 institutions**.** However, the analysis in this report is based on the 28 commercial SOE data only.[3]

Figure 1: Public Entreprises Sector in Malawi

Figure 1a: Structure of the SOE Sector in Malawi

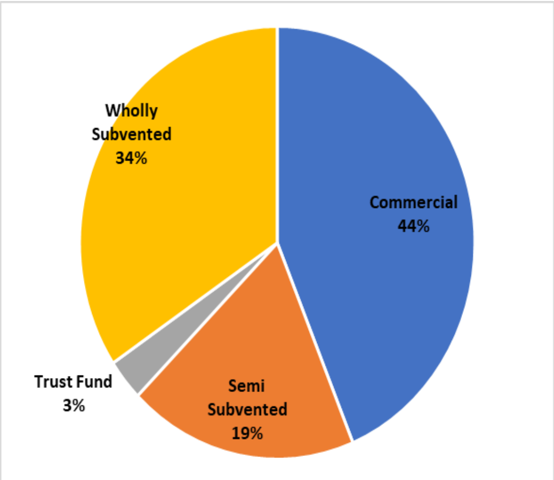
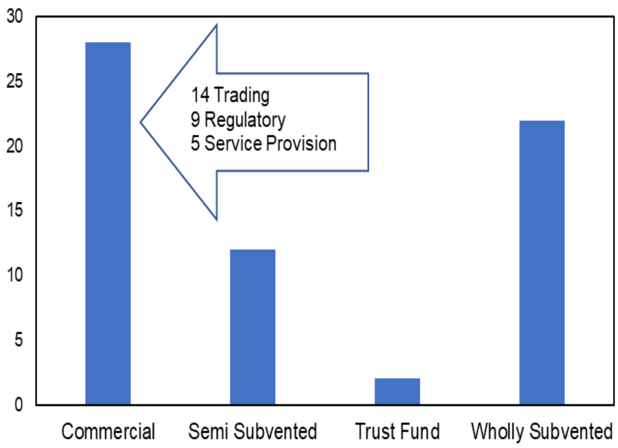


Figure 1b: Composition of the Commercial SOEs



Source: 2021 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 4 percent of GDP for FY 2021/22, Gross liabilities of the sector for the same FY account for 10 percent of GDP while SOE assets accounted for 14 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 (K'million and Percent of GDP)

(Millions MK)	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Total Assets	1,321,366	1,424,184	1,648,687	1,794,825
Total Liabilities	832,405	916,446	1,146,013	1,258,697
Total Revenue	646,721	632,368	644,189	542,914
As % of GDP				
Total assets	16%	15%	15%	14%
Total Liabilities	10%	10%	11%	10%
Total Revenue	8%	7%	6%	4%

Source: 2022 Audited Financial Statements and Annual Economic Report 2023

The energy, water and agriculture sectors dominate the SOE sector (Table 3). These sectors account for 81.78 percent of total assets, 93.46 percent of total liabilities and 84.43 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 FY2021/22 (By sector and category) (Percent of total)

Sector	Assets	Liabilities	Revenue
Agriculture	10.27%	8.74%	3.05%
Communication	3.17%	2.78%	4.28%
Education	0.17%	0.05%	0.34%
Energy	50.76%	57.92%	71.38%
Governance	0.53%	0.27%	0.30%
Trade and Tourism	1.40%	0.18%	1.39%
Transport and Public Works	3.51%	0.64%	3.34%
Water	20.75%	26.80%	10.00%
Lands and Housing	7.89%	1.22%	1.25%
Financial	0.62%	1.13%	0.84%
Health	0.16%	0.03%	0.30%
Labour	0.76%	0.24%	3.52%
Grand Total	**100.00%**	**100.00%**	**100.00%**

Function	Assets	Liabilities	Revenue
Regulatory	8.01%	6.02%	10.47%
Service Provision	3.14%	2.59%	2.49%
Trading	88.86%	91.38%	87.03%
Grand Total	**100.00%**	**100.00%**	**100.00%**

Source: 2022 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 mandates. The social services aspect in a way subdues the level of profitability. However, strides are being pursued to have cost reflective financing assumptions 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. The position of the loss-making entities among traders was maintained at 8. However, it was noted that some SOEs such as ESCOM improved from loss making to registering profit, while companies such as NRWB registered a loss from a profit position. Overall, 14 out of the 28 (50%) of all the commercial SOEs registered losses/deficits in 2022 (**Figure 2).**

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

Figure 2a: Trading SOEs

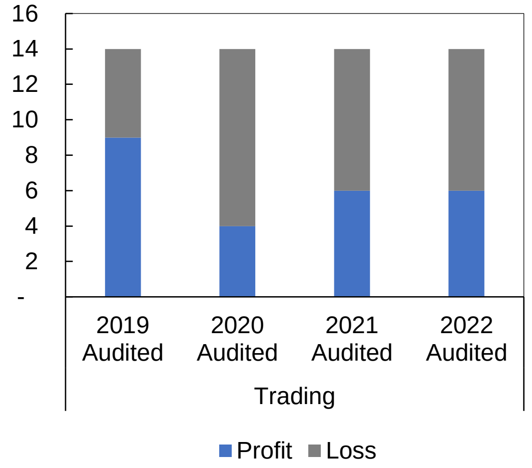
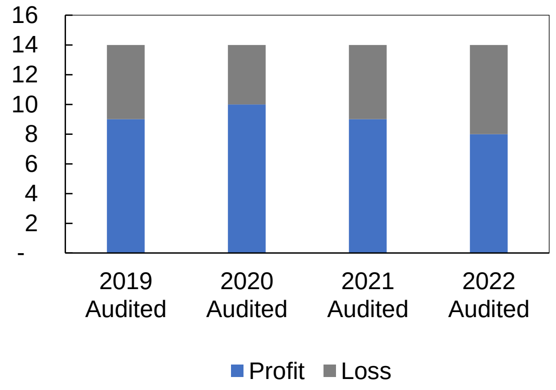


Figure 2b: Regulators and Service Providers



Source: 2022 Audited Financial Statements.

In 2022, two out of nine regulators registered deficits largely on account of MBS and TC compared to 2021 where all regulatory SOEs registered surplus. Regarding the trading SOEs, the number of loss-making SOEs was maintained at eight in 2022 despite an improvement in ESCOM reporting a profit from a loss-making position in 2021.

Meanwhile, the performance of the service provision SOEs slightly improved in 2022, from all five entities making loss in 2021 to one (NFRA) registering a profit **(Table 4 and Figure 3).** Service providers are expected to breakeven to ensure that they are not a drain on the national budget.

Table4:Profitandloss/SurplusesanddeficitsmakingSOEs(FY2019-FY2022)(Byentity)(K'Millions)

SOEsbyFunction	2019Audited	2020Audited	2021Audited	2022Audited
Trading				
ACM	(201,759)	(165,476)	27,227	28,208
ADL	7,129,480	7,779,858	4,571,190	3,956,601
ADMARC	1,997,083	(1,762,274)	(1,011,737)	(13,589,795)
BWB	(3,309,855)	(7,945,844)	(13,831,189)	(8,187,960)
CRWB	(1,316,519)	(1,449,275)	(1,421,825)	(390,790)
EGENCO	86,923,716	(5,082,104)	4,559,509	5,116,734
ESCOM	(7,996,391)	(28,452,500)	(14,672,335)	6,798,367
LIHACO	119,113	(593,191)	(1,178,376)	(345,695)
LWB	4,773,177	2,502,725	1,162,969	594,077
MHC	11,036	9,964,652	4,495,218	1,664,265
MPC	224,204	(3,276,259)	(4,244,570)	(1,698,975)
NOCMA	732,648	(11,721)	(929,981)	(415,911)
NRWB	(827,195)	(3,778,190)	640,920	(5,409,291)
SRWB	684,215	124,908	(1,067,420)	(728,999)
Regulatory				
MAB	16,997	18,356	47,126	79,029
MACRA	5,481,597	5,436,447	9,300,731	6,806,595
MBS	2,686,975	1,893,741	1,207,592	(648,858)
MERA	2,844,930	1,964,887	4,429,335	1,350,725
MGB	467,887	93,390	88,961	138,477
NCIC	54,122	55,386	81,218	468,549
PMRA	(74,144)	53,624	261,852	403,045
TC	89,178	(81,359)	324,460	(1,289,946)
TEVETA	170,891	634,445	1,695,639	2,194,787
Service Provision				
MBC	(368,616)	60,634	(421,072)	(356,262)
MCA	(5,422)	109,153	(161,273)	(61,238)
MIM	(223,854)	(439,502)	(481,756)	(267,069)
NEEF	(839,512)	(2,678,104)	(7,572,619)	(13,595,062)
NFRA	230,818	(317,852)	(342,399)	174,337
Grand Total	**99,474,800**	**(25,341,445)**	**(14,442,605)**	**(17,212,055)**

Source:2022 Audited Financial Statements

Overall, the aggregate performance of the trading SOEs in 2022 improved in the profitability level from an aggregate total loss of K22.9 billion recorded in 2021 to K12.6 billion in 2022**(Figure 3).** This performance continued to be driven by the Agriculture, Energy, Water and Communication sectors which registered significant decline.

The non-trading of ADMARC in 2022 significantly affected the performance of the SOEs in the Agriculture sector coupled with the impact of cyclone on the water boards which affected the performance in the water sector resulting in losses being registered.

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

Figure 3a: Trading SOEs (aggregate)

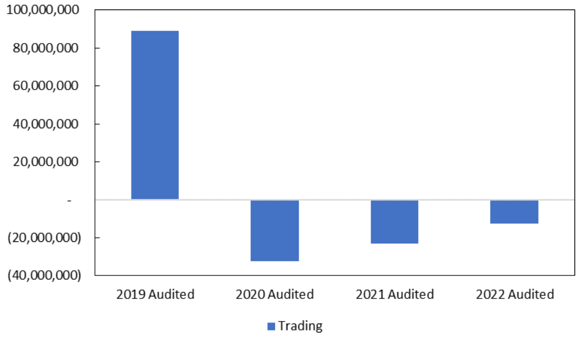
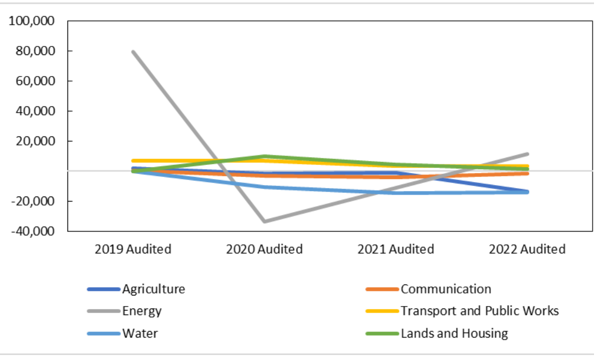


Figure 3b: Trading SOEs by sector



Source: 2022 Audited Financial Statements and Performance Management Plans and Budgets

Overall, the period between 2019 to 2022, the Agriculture and Energy sectors illustrate the biggest swings with an improvement in the Energy sectors performance while a deterioration in the performance in the agriculture sector. Nevertheless, the performance of the Water sector over the same period has been constant from the previous year.

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

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

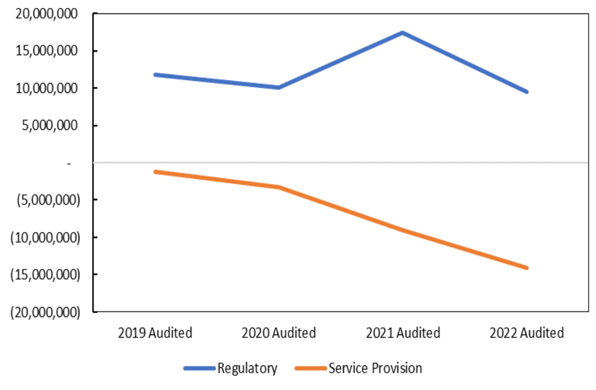
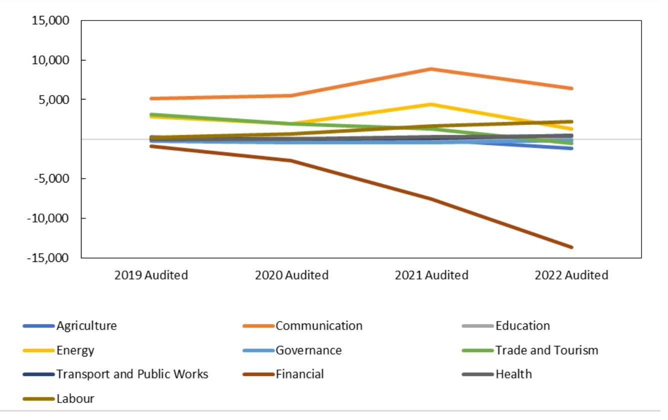


Figure 4b: Regulators and Service Providers by sector



Source: 2022 Audited Financial Statements and Performance Management Plans and Budgets

The performance among regulatory SOEs declined in 2022 from the surpluses registered in 2021 (Figure 4). The declining performance recorded in 2022 was on account of the deficits registered by MBS and TC. Similarly, aggregate performance among service provision SOEs continue to register a declining trajectory 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[4]. The ratio should generally be higher than one hundred percent. Cost recovery performance according to functions of the SOE, Energy, Transport & public works and Lands & housing were above 100 percent threshold in 2022. While Agriculture, Communications and Water were below the threshold.

Figure 5: Cost Recovery for Trading SOEs

Figure 5a: 2022 only

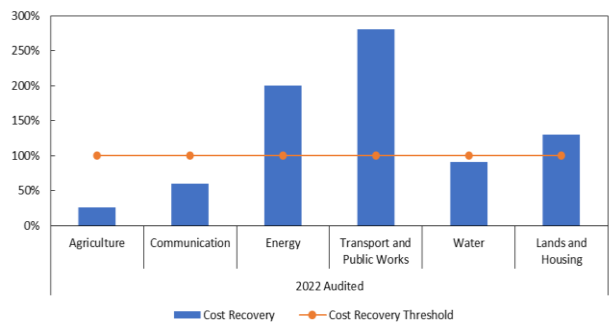
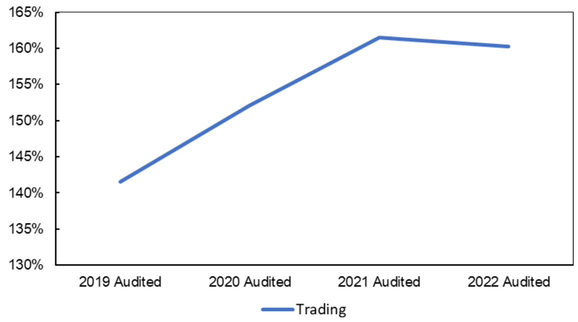


Figure 5b: Trend analysis (2019-2022)



Source: 2022 Audited Financial Statements and Performance Management Plans and Budgets

The aggregate cost recovery slightly declined among trading SOEs in 2022 **(Figure 5).** However, SOEs in the agriculture, communication and water sectors registered a cost recovery under the threshold ranging from 26% to 91%. On the other hand, SOEs in Transport, Energy and Lands & housing sectors registered cost recovery above the threshold ranging from 130% to 280%.

Notwithstanding, declining trends registered in Service Provision SOEs were largely on account of significant loss registered by NEEF in 2022.

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

Figure 6a: 2022 only

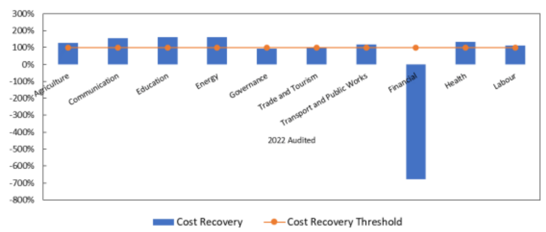
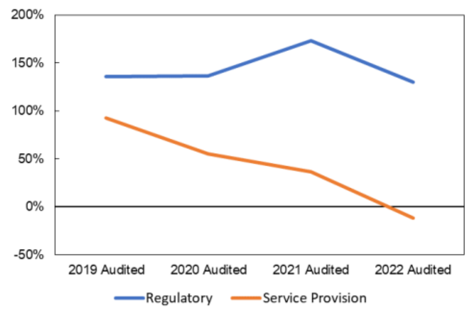


Figure 6b: Trend analysis (2019-2022)



Source: 2022 Audited Financial Statements and Performance Management Plans and Budgets

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

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 return on assets on aggregate continued to improve for Trading SOEs in 2022 compared to 2021 though below the recommended threshold of 5 percent. This improvement was on account of the Energy, Transport and Public works and Lands and Housing sector. The slight improvement in the return on assets still poses a financial risk. Nevertheless, the Agriculture, Communications and Water sector continue to generate low returns from its assets.

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

Figure 7a: 2022 only

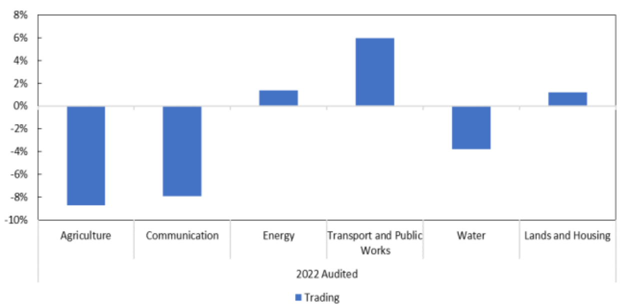
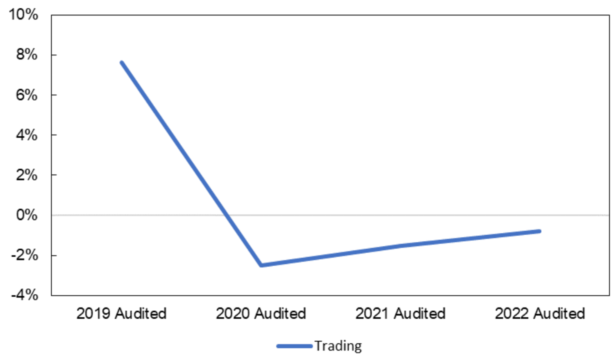


Figure 7b: Trend analysis (2019-2022)



Source: 2022 Audited Financial Statements and Performance Management Plans and Budgets

Though the Regulatory function has been performing well over the years with the Return on assets over the threshold of 5%, the trend declined from 14% in 2021 to 7% in 2022 **(Figure 8)**.

On the other hand, Service providers still remain at a high-risk position of below zero percent in 2022 from -20 percent in 2021 a high position of -25 percent largely on account of losses registered by service provision SOEs in 2022 **(Figure 8).**

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

Figure 8a: 2022 only

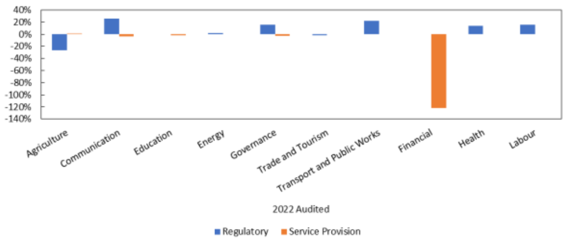
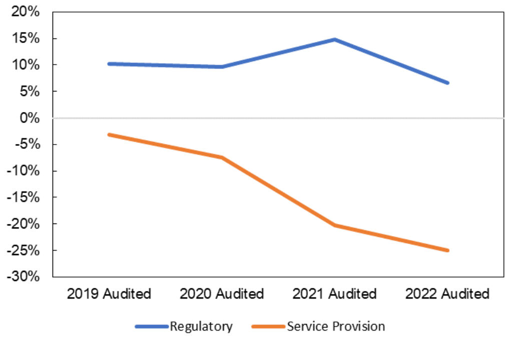


Figure 8b: Trend analysis (2019-2022)



Source: 2022 Audited Financial Statements and Performance Management Plans and Budget

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).** Return on equity among trading SOEs slightly improved (-2% in 2021 to -1% in 2022).

The slight improvement on the aggregate performance was driven by SOEs in Energy sector, Lands and housing sector, and Transport and public works sectors which registered an aggregate of 1 percent, 1 percent and 6 percent respectively. However, SOEs in Agriculture registered -9 percent, Communication registered -8 percent and Water which registered -4 percent which still poses a high fiscal risk.

Figure 9: Return on Equity for Traders (Percent)

Figure 9a: 2022 only

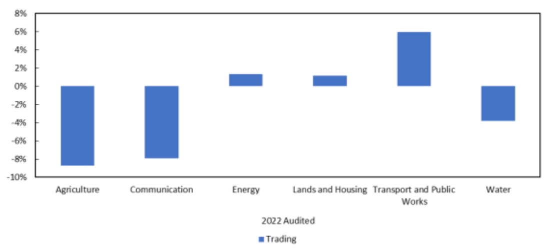
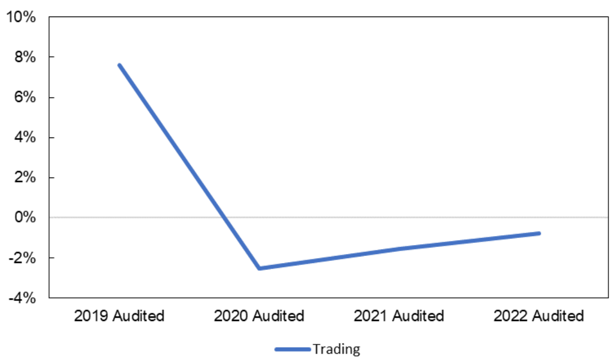


Figure 9b: Trend analysis (2019-2022)



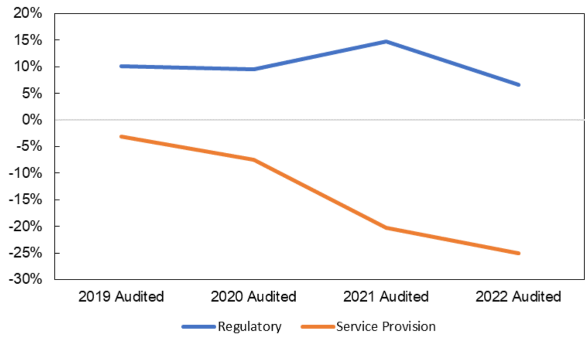
Source: 2022 Audited financial Statements and Performance Management Plans and Budgets

Regulatory SOEs aggregate returns on equity declined from 26% in 2021 to 7% in 2022 due to the declining trend in surplus levels registered by regulators. In addition, regulators such as TC and MBS registered deficits from a surplus making position in 2021.
On the other hand, service provision SOEs return on equity remains at a high-risk position with a return on equity at -25 percent in 2022 which was largely driven by NEEF. **(Figure 10).**

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

Figure 10a: 2022 only

Figure 10b: Trend analysis (2019-2022)



Source: 2022 Audited financial Statements and Performance Management Plans and Budgets

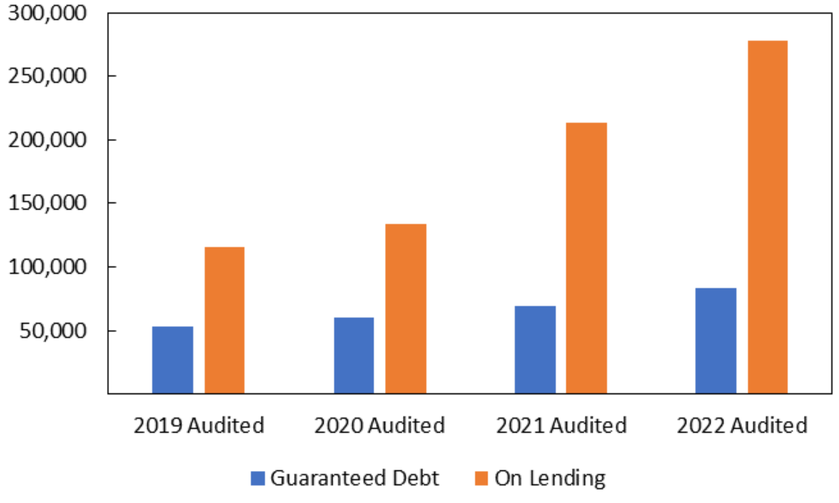
2.3 SOE Debt

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 2022, total liabilities inclusive of these debt categories stood at 10 %Percent of GDP (Table 2). 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.

SOEs continue to finance their development projects using on lent facilities. In 2022, the stock of on lent stood at K277.7 billion an increase from K213.1 billion reported in the prior year. Similarly, guaranteed debt portrays an upward trend in 2022 which increased to K83.5 billion from K68.9 billion in 2021 **(Figure 11).** The other debt comprises the non-guaranteed debt which is commonly contracted by the SOEs with prior approval of the Minister of Finance and Economic Affairs.

Figure 11:(Composition of SOE debt)



Source: 2022 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. In 2022 sectors such as Agriculture, Communication, Energy and Water were above the threshold. **(Figure 12).**

Figure 12: Debt to Equity by Sector (Percent)

Figure 12a: 2021 and 2022

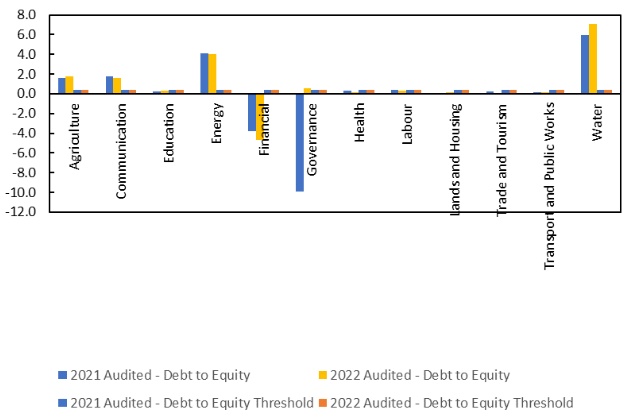
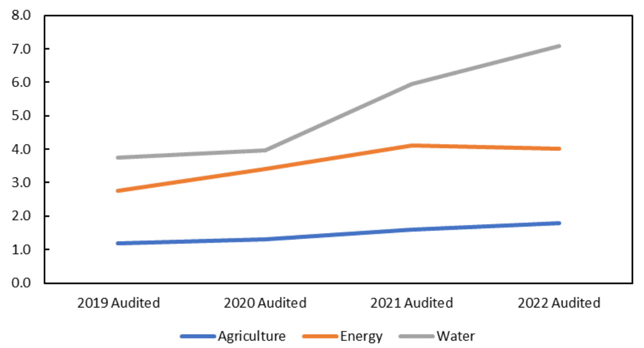


Figure 12b: Trend analysis (2019-2022)



Source: 2022 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 decrease among the Service Provision SOEs cash flows that was used for debt service during the period under review. This proportion significantly decreased from -0.2 in 2021 to -0.4 percent 2022. Despite the ratio above the threshold, the trading SOEs hardly met their interest payments 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 water, energy, financial, transport and public works sectors.

Figure 13: Debt Servicing Ratio by Function and Sector

Figure 13a: DSR (2022)

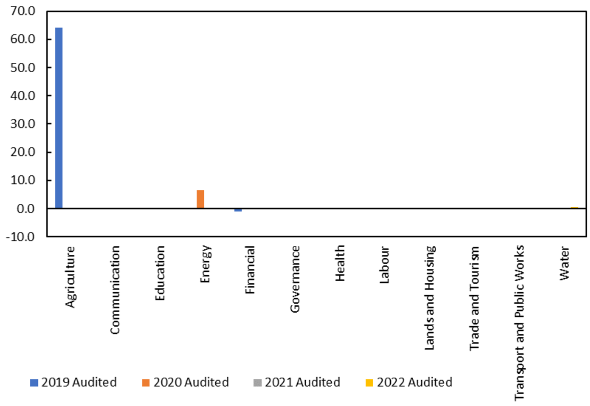
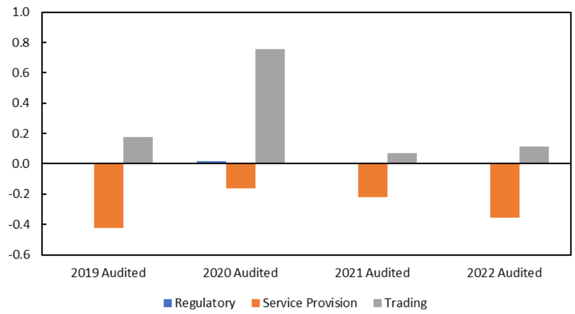


Figure 13b: DSR Trend analysis (2019-2022)



Source: Audited Financial Statements and Performance Management Plans and Budgets

2.4 FISCAL FLOWS BETWEEN SOEs AND BUDGET

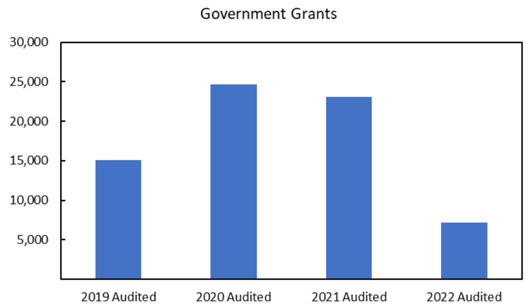
Government Transfers to SOEs

Financial support to SOEs through grants, subsidies and capital injections are concentrated in the agriculture, communication, financial and water sectors in 2022. However, government grants significantly dropped in 2022 relative to the prior year. **(Table 5 and figure 14).** Communication sector received the most grants in 2022 followed Agriculture 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 (K' Millions)

Government Grants Sector	Financial Years 2019 Audited	2020 Audited	2021 Audited	2022 Audited
Agriculture	11,511	19,996	19,007	6,766
Communication	1,880	3,434	3,255	157
Energy	842			
Financial		1,000	600	
Water	849	225	224	265

Figure 14: Trend analysis (2019-2022)



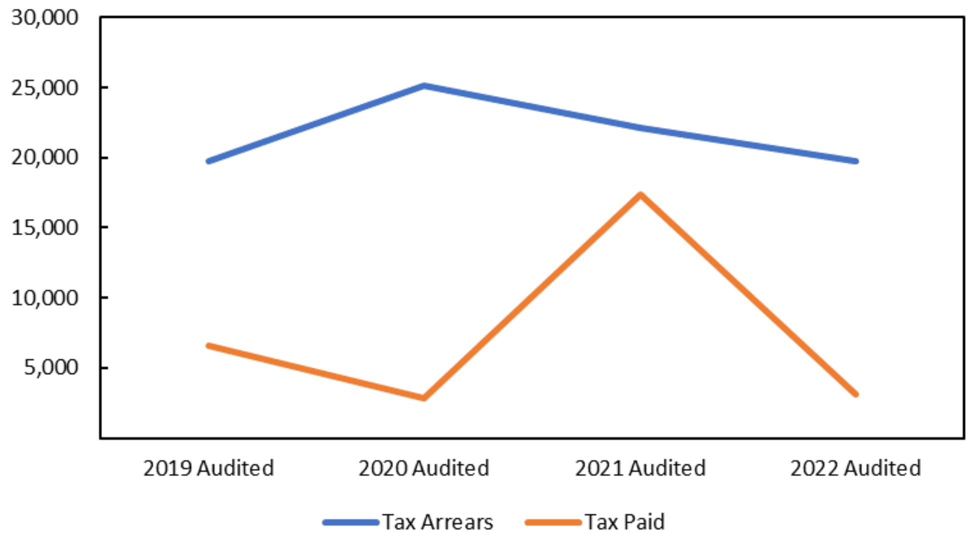
Source: 2022 Audited Financial Statements and Performance Management Plans and Budgets

2.4.1 Taxes and Dividend Payments remitted by Commercial Entities

The tax payments by SOEs increased in 2022 to approximately K17.3 billion. However, tax arrears also declined 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**.**

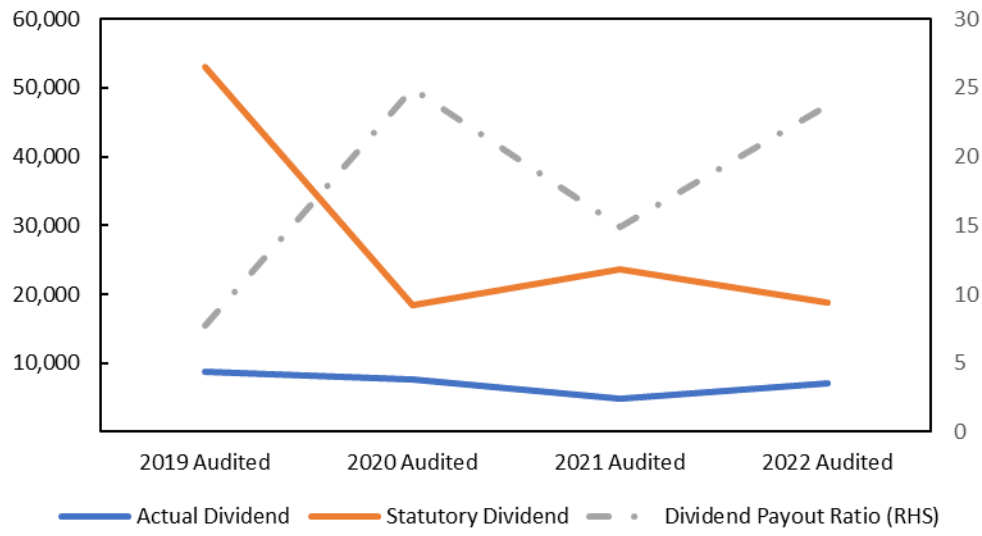
Figure 15: Tax Payments vs. Tax arrears by Commercial Entities (Kwacha Million)



Source: 2022 Audited Financial Statements and Performance Management Plans and Budgets

The remittance of surpluses and dividends by SOEs into the consolidated account further declined in 2022. The aggregate profit level for SOEs recording profit slightly declined to approximately K29.8 billion in 2022 from K32.9 billion in 2021. Nevertheless, actual remittances continued to remain below the statutory requirement at K4.9 billion in 2021 to K7.1 billion in 2022 (Figure 16). Though the dividend pay-out ratio moved from 15 percent in 2021 to 24 percent in 2022 actual dividend paid remained below statutory requirement largely due to cash flow challenges experienced by SOEs especially due to increasing trade debtors especially public institutions.

Figure 16: Surpluses and Dividends remittances Actual vs. Statutory Dividends (K'million)



The surplus and dividend remittance among regulatory and service provision SOEs also continued decline in the 2021/22 financial year while among the trading SOEs there was no dividend remittance in 2022. This was mainly due the cash flow challenges faced by the SOEs.

Figure 17:Surpluses and Dividends remittances Actual vs. Statutory Dividends and Pay-out ratio (K'million) (Regulatory and Service Provision SOEs)

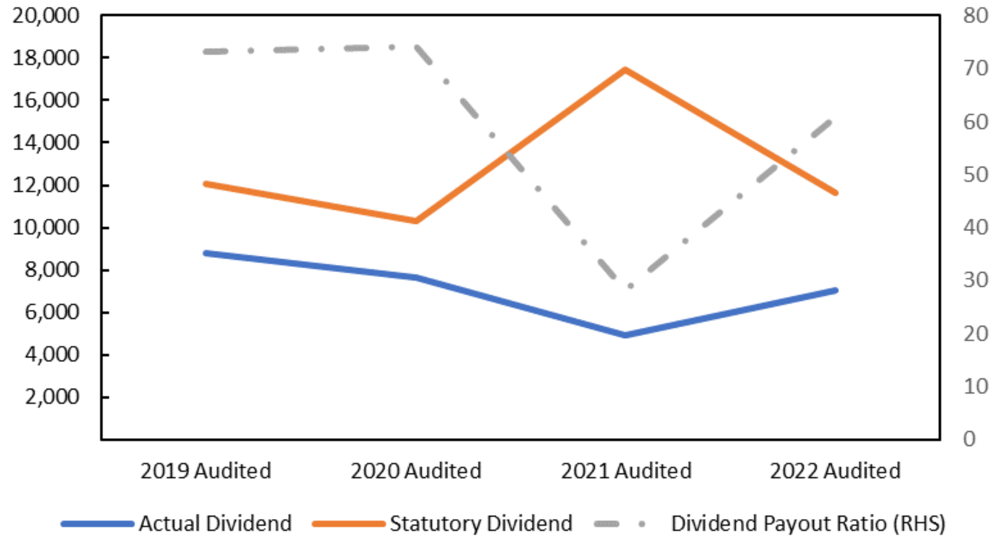
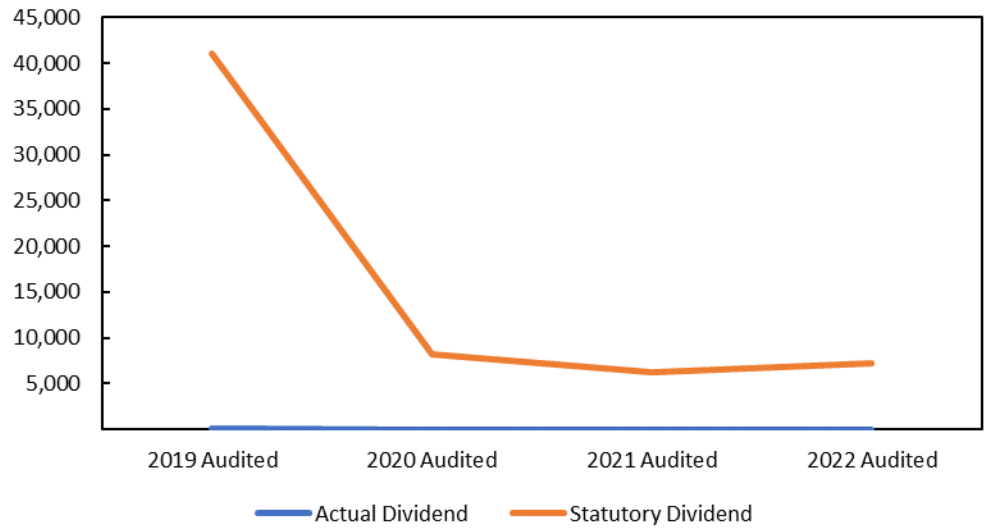


Figure 18: Surpluses and Dividends remittances Actual vs. Statutory Dividends and Payout ratio (K'million) (Trading SOEs)

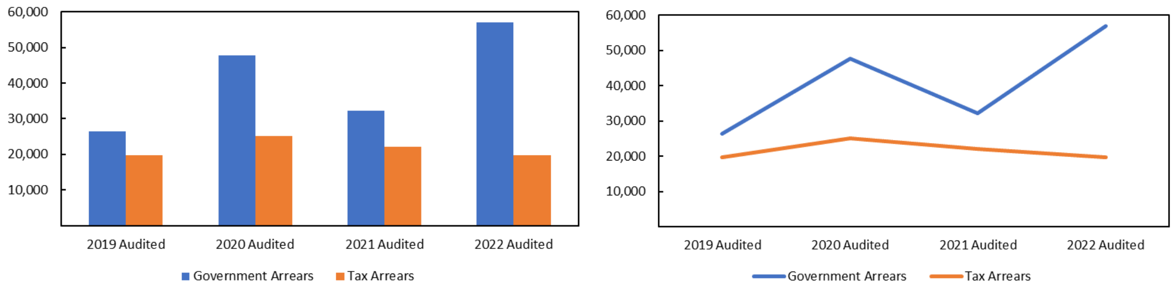


Source: 2022 Audited financial statements and Performance Management Plans and Budgets

2.5 ARREARS BETWEEN SOEs AND WITH GOVERNMENT

Figure 19: Government Arrears [tax arrears] to Commercial Entities (K' Million)

2.5.1 Government arrears to SOEs



Source: 2022 Audited financial statements and Performance Management Plans and Budgets

Government arrears to SOEs is a big drag on their balance sheets as they negatively affect cash flows of the parastatals which lead to a vicious cycle of inefficiencies in the economy. In to 2022, Government arrears to SOEs increased to K57.0 billion in 2022 from K32.1 billion registered in 2021. Relatively, tax arrears by SOEs to MRA registered a steady decline from K22.1 billion in 2021 to K19.7 billion in 2022 **(Figure 19).**

Intra-Arrears between the SOEs

The period under review also had intra-SOE arrears, including EGENCO and ESCOM, BWB and ESCOM, NOCMA and ESCOM, MERA and ESCOM. These were worsened with the vicious cycle arising from unsettled electricity and water bills from public Institutions resultantly affecting compliance to statutory obligations such as remittance of taxes and dividend**.**

Summary of fiscal flows between the budget and SOEs

In summary the period under review revealed that

1. The outflows to SOEs from the National budget were still significant. As such, structural deficiencies still need to be explored further for those SOEs still heavily reliant on the national budget to undertake social obligations;
2. The National Budget continued to receive insufficient resources in terms of dividend and surplus in light of increasing profits from SOEs and the statutory requirements based on the Dividend and Surplus Policy for SOEs in Malawi;
3. 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. Moreover, the interest-bearing debt was high and 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 be 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. Cost reflective tariffs should be given due consideration in order to address the cash flow constraints.

2.7.2 Subsidies for Public Service Obligations

Government should pre-finance all the SOEs mandated to undertake social functions on behalf of Government.

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 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)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	1,997,083	(1,762,274)	(1,011,737)	(13,589,795)
Gross Profit Margin	53%	55%	61%	60%
Operating Profit Margin	6%	3%	22%	-142%
Return on Assets	2%	-2%	-1%	-9%
Return on Equity	5%	-5%	-3%	-33%
Dividend Payout Ratio	-	NMF	NMF	NMF
Asset Turnover	0.33	0.33	0.27	0.09
Cost Recovery	1.42	0.87	1.13	0.26
Liquidity				
Current Ratio	0.67	0.73	0.76	0.89
Quick Ratio	0.57	0.50	0.54	0.56
Accounts Receivables Days	332.77	614.90	1493.15	2430.55
Accounts Payables Days	655.83	684.74	749.15	2320.41
Solvency				
Debt to Assets	0.62	0.65	0.70	0.65
Debt to Equity	1.66	1.88	2.35	2.45
Interest Coverage	0.47	0.37	2.71	NMF
Other				
Government Transfers to Total Revenue	0.34	0.55	0.56	0.47

Overview of financial performance

ADMARC Limited's financial performance continuously declined, with a loss of K1.0 billion in 2021 escalating to a loss of K13.6 billion in 2022. Revenues for 2021/22 fell significantly compared to 2020/21, with K13.3 billion recorded in 2022 against K31.8 billion in 2021. Of the 2022 revenues, K6.6 billion was on account of actual sales, while K6.7 billion was classified as other revenues, largely invoiced to the Government for social obligations.

In 2022, ADMARC Limited's trading levels were significantly below budgeted levels due to the implementation of a turnaround strategy aimed at reversing the company's declining financial performance. The restructuring involved a comprehensive reorganization of the company's structure, operations, and management. During this period, the company relied on overdrafts and loans to meet its obligations.

Overview of financial risks

ADMARC has been heavily dependent on external financing rather than internally generated resources for its operations. The debt-to-equity ratio increased from 235 percent in 2021 to 245 percent in 2022. Despite a slight improvement in the current ratio from 0.76:1 in 2021 to 0.89:1 in 2022, ADMARC Limited still struggled to meet its short-term obligations.

Additionally, due to the company's high level of indebtedness, the debt service coverage ratio posed significant risks to lenders, as ADMARC was not generating sufficient cash flows to support interest payments.

Overview of financial flows with the government

Over the past two financial years, the government has provided significant resources to ADMARC for undertaking social obligations. However, government transfers declined sharply, from K17.9 billion in 2021 to K6.2 billion in 2022. In 2021, the K17.9 billion accounted for 56% of ADMARC Limited's total revenue, while the K6.2 billion in 2022 constituted 47% of the total revenue.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy recommendations
Turnaround Strategy	There is need for Government to follow up on the turnaround strategy to ensure that the company's declining performance shall be reversed to a profit-making position.	• Government should boost the Commercial Function with clear policy framework to guide its operations.
Borrowing	High indebtedness of ADMARC Limited overtime.	Need to continuously monitor the loan portfolio.

3.1.2 National Food Reserve Agency (NFRA)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	230,818	(317,852)	(342,399)	174,337
Gross Profit Margin	12%	-14%	-16%	14%
Operating Profit Margin	-76%	-128%	-132%	-72%
Return on Assets	1%	-1%	-1%	1%
Return on Equity	1%	-2%	-2%	1%
Dividend Payout Ratio	-	NMF	NMF	-
Asset Turnover	0.08	0.10	0.09	0.07
Cost Recovery	0.78	0.23	0.40	0.78
Liquidity				
Current Ratio	6.12	8.32	7.66	3.41
Quick Ratio	0.76	0.60	0.61	0.40
Accounts Receivables Days	47.36	43.08	135.90	248.33
Accounts Payables Days	775.24	337.88	94.67	333.97
Solvency				
Debt to Assets	0.28	0.25	0.25	0.27
Debt to Equity	0.39	0.33	0.34	0.36
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	0.32	0.74	0.53	0.33

Overview of financial performance

The National Food Reserve Agency (NFRA) demonstrated a substantial improvement in financial performance during the 2021/22 fiscal year, successfully transitioning from a deficit to a surplus. In 2022, NFRA reported a net surplus of K174.3 million, a significant turnaround from the net deficit of K342.3 million recorded in 2021. Additionally, levels of own-generated resources have consistently exhibited a steady positive trajectory.

Overview of financial risks

The liquidity position for NFRA declined from 7.66:1 in 2021 to 3.41:1 in 2022. Despite this decline, the institution remained capable of meeting its short-term obligations. The debt-to-equity ratio in 2021/22 increased to 36%, up from 34% in 2020/21. Although this indicates a slight trend towards higher leverage, NFRA still maintains a low-risk profile, as the agency primarily finances its operations through owner's equity rather than debt.
Despite consistently recovering costs below the average healthy position, NFRA demonstrates low levels of financial risk. This is evidenced by healthy current ratios, which can be attributed in part to a heavy reliance

on subventions. These sustainable levels of subventions have enabled NFRA to stay afloat, with current ratios exceeding the required benchmarks. Additionally, NFRA maintains significant reserves by holding ready resources in the form of grain stock and funds, ensuring the company can fulfil its mandate of maintaining a strategic grain reserve.

Overview of financial flows with the government

In the year 2021/22, government transfers to NFRA accounted for 33 percent of its total revenue, amounting to approximately K541 million as government subvention.

3.1.3 Tobacco Commission (TC)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	89,178	(81,359)	324,460	(1,289,946)
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	68%	73%	79%	56%
Return on Assets	2%	-2%	6%	-27%
Return on Equity	2%	-2%	8%	-49%
Dividend Payout Ratio	56.1	NMF	20.0	NMF
Asset Turnover	0.66	0.79	0.72	0.33
Cost Recovery	3.16	3.69	4.82	2.26
Liquidity				
Current Ratio	1.03	0.91	1.00	0.33
Quick Ratio	0.99	0.86	0.95	0.25
Accounts Receivables Days	59.12	45.57	54.65	35.63
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.26	0.28	0.24	0.46
Debt to Equity	0.36	0.38	0.31	0.86
Interest Coverage	276.81	1,959.87	2,679.55	3,194.35
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of Financial Performance

The financial performance of the Tobacco Commission (TC) deteriorated in the 2021/22 financial year compared to 2020/21. The Commission recorded a deficit of K1.3 billion in 2021/22, a significant decline from the surplus of K324.5 million registered in 2020/21 due to the low income generated by the commission while the corresponding expenditures remained high. TC registered low sales volumes in the financial year 2021/2022 from 123.7 million Kgs in the previous year to 85.1 million Kgs, this represents a 31.3% drop in volumes sold.

Overview of Financial Risk

Liquidity levels for the Commission declined in 2021/22, as indicated by a current ratio of 0.33:1, down from a marginal position of 1:1 in 2021. This decline implies that the Commission could barely meet its current liabilities. However, this situation is exacerbated by the Commission's accounting revenue recognition policies.

The leverage position of the Commission indicates that the commission's assets are funded by debt as demonstrated by the increase in the debt-to-equity ratio by 86 percent in 2022 from 31 percent in 2021. This is due to the amount included in current liabilities as deferred income.

Overview of Financial Capital Flows with the Government

In the year 2022, the Commission did not remit any funds to the Government, a decrease from the K64.9 million remitted in 2020/21. This decline is attributed to the K1.3 billion deficit registered in 2021/22.

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 and enforcement to ensure compliance with merchants' requirements (GAP and ALP issues) The Commission should ensure a balance between trade requirements and supply.

3.2 Communication Sector

3.2.1 Malawi Communications Regulatory Authority (MACRA)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	5,481,597	5,436,447	9,300,731	6,806,595
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	30%	28%	43%	40%
Return on Assets	28%	25%	41%	26%
Return on Equity	53%	53%	80%	58%
Dividend Payout Ratio	118.6	82.9	26.9	101.9
Asset Turnover	0.92	0.89	0.90	0.62
Cost Recovery	1.43	1.39	1.76	1.66
Liquidity				
Current Ratio	1.34	1.27	1.50	1.31
Quick Ratio	1.12	1.05	1.21	1.12
Accounts Receivables Days	97.20	97.62	99.98	187.55
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.48	0.53	0.48	0.55
Debt to Equity	0.93	1.14	0.94	1.21
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The Malawi Communications Regulatory Authority (MACRA) has consistently recorded surpluses over the past four years, although there was a slight decline in the 2021/22 financial year. This decline was attributed by a reduction in international incoming minutes declared by operators, primarily due to the rise of OTT calls and sim-boxing.

In 2021/22, revenues decreased to K16.1 billion, representing a 20% decline from K20.2 billion in 2020/21. Despite the reduction in revenue, there were savings in expenditures, with operating and administrative expenses declining in 2021/22 compared to 2020/21. The previous financial year, 2020/21, had only nine months of reported activity, influencing the comparative figures. The surplus remitted to the Government in 2021/22 declined to K3.0 billion from K7.9 billion in 2020/21.

Overview of Financial Risk

MACRA's debt-to-equity ratio has remained above the average benchmark of 40%. The ratio slightly declined from 94% in 2020/21 to 121% in 2021/22, indicating an increase in leverage, primarily due to an increase in short-term liabilities rather than long-term debt.

The liquidity position of MACRA remains healthy, with the current ratio at 1.12:1 in 2021/22, a slight decline from 1.21:1 in the previous year. This ratio indicates that MACRA is capable of meeting its short-term obligations as they fall due. The Authority's working capital was adequate to support and finance its day-to-day operations.

Overview of financial flows with the government

MACRA has consistently remitted surpluses to the Government each year, with the highest remittance being K7.9 billion in 2020/21. In 2021/22, the remittance decreased to K3.0 billion. MACRA remitted about 98% of its surplus to the government. As a regulator, MACRA is expected to remit 100% of its surplus, but the transfers were reduced due to investment requirements.

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	MACRA to continue expanding its scale of regulatory function to boost the revenues.

3.2.2 Malawi Broadcasting Corporation (MBC)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	(368,616)	60,634	(421,072)	(356,262)
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	-9%	1%	-9%	21%
Return on Assets	-11%	1%	-6%	-4%
Return on Equity	NMF	-2%	NMF	-27%
Dividend Payout Ratio	NMF	-	NMF	NMF
Asset Turnover	1.26	1.32	0.74	0.45
Cost Recovery	0.52	0.37	0.34	1.27
Liquidity				
Current Ratio	0.89	0.44	1.61	1.53
Quick Ratio	0.89	0.31	1.14	1.06
Accounts Receivables Days	170.44	129.39	146.38	181.72
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	1.61	1.67	1.17	0.86
Debt to Equity	-2.63	-2.48	-6.46	6.12
Interest Coverage	(106.90)	17.08	(148.68)	569.14
Other				
Government Transfers to Total Revenue	0.44	0.64	0.63	-

Overview of financial performance

The Malawi Broadcasting Corporation (MBC) still registered a loss in the year 2021/22 from a loss of K421.1 million in 2020/21 to K356.3 million in 2021/22. This was due to the slight improvement in the economic activities following the introduction of Covid – 19 vaccination that in turn slightly improved the revenues from advertisement.

Overview of financial risks

In 2022, MBC's liquidity slightly decreased, with the current ratio dropping from 1.61:1 to 1.51:1. Although the corporation could still meet its short-term obligations, the increase in debtor days from 146 to 181 days negatively impacted cash flow. This was because a significant portion of cash was tied up with debtors, highlighting the need for the corporation to improve its credit management and collection processes.

Overview of financial flows with the government

As a semi-subvented organization, MBC relies on government support to partially fund its operations. In the 2021/22 financial year, government transfers accounted for 50% of MBC's total revenue, as opposed to 60% in the prior financial year. This indicates a reduction in the Corporation's reliance on government support to operate, showing a trend towards increased financial independence.

Policy specific issues for the Public Body

Policy area	**Source of fiscal risk**	**Proposed Policy Recommendations**
Debtors Days	Increase in debtors' days	MBC should incorporate credit management controls and intensify debt collection
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)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	224,204	(3,276,259)	(4,244,570)	(1,698,975)
Gross Profit Margin	100%	97%	98%	33%
Operating Profit Margin	-27%	-105%	-115%	-126%
Return on Assets	1%	-16%	-19%	-8%
Return on Equity	2%	-33%	-50%	-19%
Dividend Payout Ratio	-	NMF	NMF	NMF
Asset Turnover	0.16	0.20	0.16	0.14
Cost Recovery	0.79	0.50	0.44	0.60
Liquidity				
Current Ratio	0.57	0.28	0.36	0.30
Quick Ratio	0.51	0.23	0.16	0.24
Accounts Receivables Days	322.10	284.19	282.87	341.62
Accounts Payables Days	NMF	23734.51	38197.00	1752.45
Solvency				
Debt to Assets	0.49	0.51	0.63	0.59
Debt to Equity	0.98	1.06	1.70	1.43
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	0.05	0.05

Overview of financial performance

The performance of Malawi Posts Corporation (MPC) in the year 2021/22 improved from a loss of K4.2 billion to a loss of K1.7 billion. This was due to other income largely attributed to the once off sale of their Zomba building which improved their total revenue generated.

Overview of financial risks

MPC's liquidity position in the 2022 declined from a current ratio of 0.36:1 to 0.30:1 signifying that MPC was still not able to meet its short-term obligations as they fell due.
While the Corporation had K2.5 billion in trade receivables, its trade payables, primarily comprising tax and pension arrears, amounted to K6.9 billion, highlighting the ongoing challenge of settling its debts and arrears in the 2021/2022 financial year.

The corporation's debt-to-equity ratio showed a slight improvement, decreasing from 170% in 2020/21 to 143% in 2021/2022 financial years. Although this progress is notable, the company's debt remains higher than its equity. The reduction is attributed to the successful clearance of short-term borrowings and overdrafts in the 2021/2022 financial year.

Overview of financial flows with the government

The fiscal flows between Government and MPC in form of subvention provided to the Corporation by Government were maintained at K157,050.00, representing 5% of the total revenues in 2021/2022 financial year as it was in the prior year.

Policy specific issues for the Public Body

Policy area	**Source of fiscal risk**	**Proposed Policy Recommendations**
Sales Revenue	Declining postal trading revenue	The MPC should supplement traditional postal services with modern innovations.
Tax and pensions Arrears	Cash flow challenges	MPC should intensify to collect from its clients.

3.3 Education Sector

3.3.1 Malawi College of Accountancy (MCA)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	(5,422)	109,153	(161,273)	(61,238)
Gross Profit Margin	48%	5%	42%	38%
Operating Profit Margin	-4%	-90%	-16%	-23%
Return on Assets	0%	2%	-5%	-2%
Return on Equity	0%	3%	-7%	-3%
Dividend Payout Ratio	NMF	-	NMF	NMF
Asset Turnover	0.87	0.48	0.65	0.62
Cost Recovery	1.92	1.05	1.73	1.63
Liquidity				
Current Ratio	0.29	0.54	0.54	0.63
Quick Ratio	0.29	0.54	0.54	0.63
Accounts Receivables Days	18.71	36.11	62.45	59.89
Accounts Payables Days	80.54	63.83	172.71	199.08
Solvency				
Debt to Assets	0.10	0.08	0.19	0.22
Debt to Equity	0.11	0.09	0.23	0.28
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The Malawi College of Accountancy (MCA) recorded a loss of K61.2 million in the 2021/22 financial year, an improvement from the previous year's loss of K161.3 million. This positive change in profitability was largely due to the institution's ongoing recovery from the impacts of the COVID-19 pandemic, which had led to the closure of schools for nearly half of the previous financial year. In addition, there was also a slight increase in tuition fees from K550,000.00 in the previous year to K600,000.00.

Overview of Financial Risks

The liquidity position of MCA slightly improved in the 2021/22 financial year, with a current ratio of 0.63:1 compared to 0.54:1 in 2020/21. Despite this improvement, liquidity levels remained below the average benchmark, indicating that MCA struggled to meet its short-term obligations. This improvement was partly due to a decrease in receivable days from its debtors, meaning the time taken to collect short-term loans and fees was reduced.

The debt-to-equity ratio for MCA stood at 28 percent in the 2021/22 financial year, up from 23 percent in 2020/21. This indicates that the college is primarily financed by owners' equity, despite the increase in leverage.

Overview of financial flows with the government

MCA did not declare any dividend to the Government and 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)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	86,923,716	(5,082,104)	4,559,509	5,116,734
Gross Profit Margin	83%	48%	49%	42%
Operating Profit Margin	35%	-60%	-44%	-48%
Return on Assets	37%	-2%	2%	2%
Return on Equity	59%	-4%	3%	3%
Dividend Payout Ratio	-	NMF	-	-
Asset Turnover	0.72	0.27	0.25	0.18
Cost Recovery	2.08	0.93	1.07	1.11
Liquidity				
Current Ratio	5.22	4.36	3.98	4.83
Quick Ratio	4.23	3.54	3.21	4.03
Accounts Receivables Days	238.13	210.06	214.33	345.89
Accounts Payables Days	89.42	45.33	35.95	56.38
Solvency				
Debt to Assets	0.37	0.41	0.49	0.49
Debt to Equity	0.59	0.70	0.98	0.96
Interest Coverage	64.80	(35.00)	(39.98)	(389.75)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

EGENCO's performance in the financial year 2020/21 greatly improved, from a profit of K4.6 billion to a profit of MK5.1 billion. This was on account of the slight increase in the total revenues of the company.

Overview of financial risks

EGENCO has maintained a good current ratio over the years. In the year 2022, the corporation recorded a current ratio of 4.83:1 which was a slight increase from 3.98:1 in 2021 and the corporation was able to meet its short term when they fall due. EGENCO has also sustained positive working capital position which puts the entity at advantage including higher creditability in banks as well as creating a good supplier relationship.

However, the debt-to-equity was 96% in 2020/22 implying that its operations were largely being are financed by external resources.

EGENCO's debtor days were still very high at 345 days in 2020/22 which is way above the agreement in the power purchase agreements of 30 days. Despite this challenge, the liquidity position for EGENCO was healthy.

Overview of financial flows with the government

Government allowed EGENCO defers payments on the Kapichira Concession fee in 2020/22 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 should be agreed for easy monitoring.
Borrowing	The company has a long-term debt which was acquired from one of the local commercial banks to finance the procurement of the diesel generators.	Government needs to follow up with EGENCO and make sure that its loan facilities are properly serviced without recourse to Government

3.4.2 Electricity Supply Commission of Malawi Ltd (ESCOM)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	(7,996,391)	(28,452,500)	(14,672,335)	6,798,367
Gross Profit Margin	37%	35%	46%	51%
Operating Profit Margin	-20%	-84%	-63%	-45%
Return on Assets	-3%	-10%	-4%	2%
Return on Equity	-28%	NMF	NMF	-736%
Dividend Payout Ratio	NMF	NMF	NMF	-
Asset Turnover	0.45	0.54	0.50	0.42
Cost Recovery	1.75	0.84	0.92	1.05
Liquidity				
Current Ratio	0.91	0.60	0.54	0.55
Quick Ratio	0.77	0.45	0.43	0.48
Accounts Receivables Days	91.43	65.94	74.49	114.60
Accounts Payables Days	249.47	246.50	388.22	494.44
Solvency				
Debt to Assets	0.90	0.97	1.02	1.00
Debt to Equity	9.41	-38.63	-44.10	-373.05
Interest Coverage	(73.30)	27.05	22.98	30.64
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The Electricity Supply Corporation of Malawi (ESCOM) made a remarkable turnaround, transforming a significant loss of K14.7 billion in 2021 into a profit of K6.8 billion in 2022. This improvement was accompanied by a tariff adjustment, with the average end-user cost per kilowatt hour increased from K92.44 in 2021 to K104.46 in 2022, reflecting a 13% rise.

Overview of financial risks

The corporation's huge receivables decreased significantly from K31.2 billion to K25.1 billion, primarily attributed to the introduction of prepaid meters for certain Government MDAs. However, the delayed collection of receivables, evident in the increase in receivable days from 74 to 115 days, did not substantially improve liquidity. This delay also led to an increase in payable days from 388 to 494 days. Although ESCOM still owes its major suppliers, including EGENCO Ltd, NOCMA, and Aggreko International Projects Ltd, the proportion of these suppliers' payables to total payables decreased from 90% in 2020/21 to 85% in 2021/22.

Overview of financial flows with the government

There were no fiscal flows between ESCOM and the Government in 2021/22.

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.	Timely implementation of the approved base tariff. 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)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	2,844,930	1,964,887	4,429,335	1,350,725
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	38%	51%	72%	38%
Return on Assets	4%	5%	9%	2%
Return on Equity	26%	19%	33%	9%
Dividend Payout Ratio	17.6	123.1	27.2	-
Asset Turnover	0.12	0.18	0.23	0.12
Cost Recovery	1.61	2.05	3.60	1.61
Liquidity				
Current Ratio	1.65	2.03	1.35	1.15
Quick Ratio	1.65	2.02	1.35	1.15
Accounts Receivables Days	1562.27	676.59	836.54	2011.86
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.83	0.76	0.72	0.78
Debt to Equity	4.96	3.12	2.52	3.57
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The performance of Malawi Energy Regulatory Authority (MERA) registered a decrease in revenue due to the shorter financial year of 2022 of nine months which resulted in the decrease in fuel levy revenue by 26%. This resulted in a decrease in the surplus of the Authority from K4.4 billion to K1.3 billion in the 2021/22 financial year.

Overview of financial risks

The liquidity position for the Authority slightly declined from a current ratio of 1.35:1 in 2020/2021 to 1.15:1 in 2021/22 financial year. This means the Authority was just on the margin of being able to pay its short-term liabilities. The Authorities receivables days also grew in the year 2021/2022 from having 837 days in 2020/2021 to 2012 days. This implies that most of its cash was being held up by its debtors which is having an impact on MERA's liquidity.

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%.

Policy specific issues for the Public Body

Policy area	**Source of fiscal risk**	**Proposed Policy Recommendations**
Surplus remittance	Declining levels of surplus registered due to fluctuating business environment.	There is need for Government to strengthen compliance to remittance of surpluses by MERA

Debtors Days	The level of debtors' days has significantly increased.	There is need for MERA to intensify their debt collection and strengthen credit management controls.

3.4.4 National Oil Company of Malawi (NOCMA)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	732,648	(11,721)	(929,981)	(415,911)
Gross Profit Margin	3%	2%	0%	3%
Operating Profit Margin	-97%	-1%	-2%	1%
Return on Assets	1%	0%	-1%	0%
Return on Equity	9%	0%	-6%	-3%
Dividend Payout Ratio	-	NMF	NMF	NMF
Asset Turnover	1.23	1.58	1.13	0.90
Cost Recovery	1.00	37.65	45.81	55.65
Liquidity				
Current Ratio	1.01	1.00	1.01	1.02
Quick Ratio	0.90	0.83	0.86	0.93
Accounts Receivables Days	155.12	122.75	164.30	194.33
Accounts Payables Days	231.90	178.05	259.18	340.33
Solvency				
Debt to Assets	0.94	0.91	0.92	0.92
Debt to Equity	15.94	10.59	10.98	11.19
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	0.01	-	-	-

Overview of financial performance

NOCMA's financial performance still remains in a loss-making position in 2021/2022, registering a loss after tax of K415.9 million. 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 1.02:1 in 2022, a slight improvement to 1.01:1 registered in 2020/21. This 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 2022.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	Revenues were very low due reduced fuel imports due to the impact of covid-19 pandemic.	Provision of an enabling policy environment particularly in regulation to allow NOCMA import adequate 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 operationalize the reserves

3.5 Financial Sector

3.5.1 National Economic Empowerment Fund (NEEF)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	(839,512)	(2,678,104)	(7,572,619)	(13,595,062)
Gross Profit Margin	-49%	19%	22%	70%
Operating Profit Margin	-198%	-63%	-56%	39%
Return on Assets	-22%	-27%	-79%	-122%
Return on Equity	-30%	-1999%	NMF	NMF
Dividend Payout Ratio	NMF	NMF	NMF	NMF
Asset Turnover	0.45	0.27	0.35	0.41
Cost Recovery	0.67	0.77	-0.45	-6.78
Liquidity				
Current Ratio	5.30	1.85	2.28	0.91
Quick Ratio	0.83	0.32	0.44	0.91
Accounts Receivables Days	104.08	40.51	21.72	734.64
Accounts Payables Days	7.76	27.38	19.25	69.61
Solvency				
Debt to Assets	0.26	0.99	1.36	1.27
Debt to Equity	0.36	71.81	-3.79	-4.67
Interest Coverage	(2.66)	(1.49)	(1.08)	0.53
Other				
Government Transfers to Total Revenue	-	0.38	0.18	-

Overview of financial performance

The National Economic Empowerment Fund (NEEF) registered a further loss after tax of K13.6 billion in 2021/22 compared to a loss of K7.6 billion registered in 2020/21. The performance of NEEF worsened due to poor quality of loan portfolio as a result of high default rate. This resulted into high provisions which brought up negative reserves.

Overview of financial risks

Liquidity of the Fund has generally been good throughout although it tends to fluctuate through the years. However, in 2021/22 NEEF current ratio significantly declined to 0.91:1 from a current ratio of 2.28:1 registered in 2020/2021 which was 1.85:1 which implies NEEF's was barely able to meet its short-term obligations.

On the other hand, the Fund continued to register negative reserves in the year 2021/2022 same as the previous year, indicating its debt surpasses its assets. The debt-to-equity continued to decline to -467 percent in the year 2021/ 2022 compared to -379 percent in 2020/ 2021 showing that NEEF is largely financed by external borrowing than from owners' equity which is completely eroded. Accounts receivable days increased in 2021/2022 to 735 days from 41 days in 2020/2021 meaning the time taken by debtors to pay their short-term debts drastically worsened.

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 capitalization, reliance on debt financing for working capital and old non-performing loans	Need for government to inject capital and write off legacy non-performing loans.
Accounts Receivables Days	Accounts receivables have drastically worsened.	By putting new debt collection tactics into place, NEEF must enhance the management of its loan portfolio.

3.6 Governance Sector

3.6.1 Malawi Accountants Board (MAB)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	16,997	18,356	47,126	79,029
Gross Profit Margin	22%	91%	89%	37%
Operating Profit Margin	-56%	6%	9%	-27%
Return on Assets	5%	5%	11%	16%
Return on Equity	5%	5%	12%	16%
Dividend Payout Ratio	-	12.0	-	-
Asset Turnover	0.75	0.78	0.74	0.63
Cost Recovery	1.28	1.18	1.25	1.58
Liquidity				
Current Ratio	27.64	12.02	33.47	19.49
Quick Ratio	27.64	12.02	33.47	19.49
Accounts Receivables Days	128.75	246.91	239.07	305.23
Accounts Payables Days	18.82	336.05	105.76	35.75
Solvency				
Debt to Assets	0.03	0.07	0.02	0.04
Debt to Equity	0.03	0.07	0.03	0.04
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The Malawi Accountants Board (MAB) registered a surplus of K79.0 million in 2021/22, a significant improvement from the previous year where it registered a surplus of K47.1 million. The significant improvement in surplus was due to the improvement in some revenue lines such as the registration/ Retainership of professional bodies.

Overview of financial risks

Liquidity position for MAB has generally been good throughout the years with 2021/22 registering a current ratio of 19.5:1 indicating MAB's ability to meet its short-term obligations even though it was a decrease from the previous year which registered a current ratio of 33.5:1. The Board's debt-to-equity barely changed, maintaining a 4% debt to equity in 2021/22 from 3% in 2020/21.

The Board's receivable days increased from 239 days in the previous year to 305 days in 2021/2022. This increase in days shows that its income was being held up by debtors for a longer period, however, the number poses a threat and could eventually lead to cash flow challenges if not timely controlled.

Overview of financial flows with the government

In the year 2021/22, no financial transfers were made between the Government and MAB.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	Low revenues generated due to limited regulatory functions	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)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	(223,854)	(439,502)	(481,756)	(267,069)
Gross Profit Margin	51%	48%	52%	49%
Operating Profit Margin	3%	-88%	-84%	-68%
Return on Assets	-10%	-22%	-21%	-3%
Return on Equity	-114%	NMF	NMF	-5%
Dividend Payout Ratio	NMF	NMF	NMF	NMF
Asset Turnover	0.67	0.62	0.59	0.14
Cost Recovery	2.05	0.74	0.74	0.86
Liquidity				
Current Ratio	0.28	0.16	0.24	0.14
Quick Ratio	0.25	0.12	0.21	0.11
Accounts Receivables Days	95.64	52.06	165.82	71.02
Accounts Payables Days	229.85	233.89	230.95	236.17
Solvency				
Debt to Assets	0.91	1.12	1.31	0.37
Debt to Equity	10.15	-9.55	-4.19	0.60
Interest Coverage	79.57	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The financial performance for Malawi Institute of Management (MIM) has been deteriorating for the past four years. In 2022 MIM's financial performance slightly improved and registered a loss after tax of K267.1 million compared to a loss of K481.7million registered in 2021.

Overview of financial risks

In the 2021/22 financial year, the liquidity position of the Institute slightly declined from a current ratio of 0.24:1 in 2021 to a 0.14:1 recorded in 2022.With the decline in liquidity position, MIM could not meet its short-term obligations.

Overview of financial flows with the government

Malawi Institute of Management has not been able to remit dividend to government due to cash flow challenges 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.	Need to implement comprehensive turn-around strategy focusing on MIM's re-engineering process. MIM should explore E-Learning platforms in administering its programmes.
Tax Arrears	Nonpayment of PAYE arrears and other obligations to government.	There is need to prioritize clearance of all statutory obligations including taxes.

3.7 HEALTH SECTOR

3.7.1 Pharmacies and Medicines Regulatory Authority (PMRA)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	(74,144)	53,624	261,852	403,045
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	-4%	4%	14%	24%
Return on Assets	-3%	2%	9%	14%
Return on Equity	-4%	3%	12%	16%
Dividend Payout Ratio	NMF	-	-	-
Asset Turnover	0.54	0.51	0.63	0.56
Cost Recovery	0.96	1.04	1.17	1.32
Liquidity				
Current Ratio	0.73	0.68	1.26	2.35
Quick Ratio	0.70	0.66	1.25	2.33
Accounts Receivables Days	7.38	10.85	43.12	56.06
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.14	0.28	0.25	0.12
Debt to Equity	0.16	0.39	0.33	0.13
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The performance of the Pharmacy and Medicines Regulatory Authority (PMRA) further improved during the 2021/22 financial year as it registered a surplus of K403 million from a surplus of K261.9 million which was recorded in the 2020/21 financial year. This was mostly due to an increase in total revenues.

Overview of financial risks

The liquidity position of the Authority slightly improved from 1.26:1 in 2021 to 2.35:1 in 2022, although there was this improvement, the Authority was still unable to meet its short-term obligations. In terms of debt-to-equity ratio, it had remained below the bench mark.

Overview of financial flows with the government

There has not 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
Sales revenue	In absence of regulatory framework to sanctions by non-compliant licensees	There was need to finalize the license fees gazette order.
	Low Product fees due to implementation outdated gazette order which is not cost reflective	

3.8 Labour Sector

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

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	170,891	634,445	1,695,639	2,194,787
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	2%	5%	10%	11%
Return on Assets	7%	7%	15%	16%
Return on Equity	4%	11%	20%	21%
Dividend Payout Ratio	-	-	-	-
Asset Turnover	4.10	1.38	1.47	1.40
Cost Recovery	1.02	1.05	1.11	1.13
Liquidity				
Current Ratio	1.94	2.42	2.87	3.74
Quick Ratio	1.93	2.42	2.86	3.73
Accounts Receivables Days	129.76	188.53	149.71	132.10
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.84	0.38	0.27	0.22
Debt to Equity	0.53	0.61	0.38	0.29
Interest Coverage	2.15	4.31	18.13	104.02
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

TEVETA continued to register good performance with a surplus of K2.2 billion in 2021/22 financial year which was a huge increase from a surplus of K1.7 billion recorded in the previous year. Overall, in the year 2021/22 TEVETA's performance made positive improvements in most of its financial dimensions.

Overview of financial risks

The Authority's current ratio improved in 2021/22 to 3.74:1 from 2.87:1 in 2020/21 financial year. This 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 decreased in 2021/22 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 2022 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 TEVET Levy 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)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	11,036	9,964,652	4,495,218	1,664,265
Gross Profit Margin	-45%	-5%	-6%	23%
Operating Profit Margin	-190%	-111%	-113%	-54%
Return on Assets	0%	8%	3%	1%
Return on Equity	0%	8%	4%	1%
Dividend Payout Ratio	-	-	-	-
Asset Turnover	0.03	0.04	0.04	0.05
Cost Recovery	0.69	0.95	0.94	1.30
Liquidity				
Current Ratio	0.81	0.70	0.49	0.41
Quick Ratio	0.46	0.43	0.21	0.15
Accounts Receivables Days	83.62	111.13	57.35	91.59
Accounts Payables Days	78.71	127.15	145.93	182.68
Solvency				
Debt to Assets	0.06	0.08	0.09	0.11
Debt to Equity	0.06	0.09	0.10	0.12
Interest Coverage	(367.65)	(701.36)	(476.54)	(29,751.64)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Malawi Housing Corporation's (MHC) financial performance declined in the 2021/22 financial year which the corporations registering a profit of K1.66 billion from a profit of K4.5 billion in 2021. However, MHC's operation expenditure was still higher than revenues, hence the loss of (this is loss before property revaluation, which is the basis for the Profit after tax in table above).

Overview of financial risks

Although this was the case, the liquidity position of the corporation still remained below average at 0.41:1 in the 2021/22 financial year, 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 2021/22 financial year.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales revenues	Non-cost reflective rentals which are below the commercial market value Higher operating expenses	Strict enforcement of the tenancy agreements.

3.10 TRADE AND TOURISM SECTOR

3.10.1 Malawi Bureau of Standards (MBS)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	2,686,975	1,893,741	1,207,592	(648,858)
Gross Profit Margin	35%	27%	69%	-9%
Operating Profit Margin	-30%	-46%	38%	-119%
Return on Assets	16%	10%	5%	-3%
Return on Equity	19%	11%	6%	-3%
Dividend Payout Ratio	64.7	29.4	90.0	NMF
Asset Turnover	0.40	0.37	0.33	0.29
Cost Recovery	1.53	1.37	3.22	0.91
Liquidity				
Current Ratio	2.31	2.83	1.27	2.00
Quick Ratio	2.30	2.81	1.26	1.99
Accounts Receivables Days	75.10	92.38	106.98	97.96
Accounts Payables Days	205.46	145.27	537.33	92.80
Solvency				
Debt to Assets	0.15	0.11	0.15	0.08
Debt to Equity	0.17	0.12	0.18	0.09
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The Malawi Bureau of Standards (MBS) financial performance declined in 2021/22 financial year from the previous year where it registered a surplus of K1.2 billion while in 2022 it registered a loss of K650 million. The revenues in 2022 decreased from K8 billion to K6.6 billion. In 2021/22 the revenue was K6.6 billion because the financial performance was for 9 months only due to the change in the reporting calendar period.

Overview of financial risks

The Bureau's liquidity position improved in the year 2021/22 with current ratio of 2.00 compared to the current of 1.27 in the previous financial year, implying that MBS improved its ability of meeting its current liabilities as they fall due with existing current assets.

On the other hand, MBS continues to maintain a good debt to equity percentage which stood at 9% in the 2021/22 financial year. This implied that the Bureau was comprised of more of the owners' equity than that from external financing.

Overview of financial flows with the government

There were no financial flows between Malawi Bureau of Standards and Government in the 2021/22 financial year.

3.10.2 Malawi Gaming Board (MGB)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	467,887	93,390	88,961	138,477
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	32%	10%	62%	56%
Return on Assets	24%	5%	6%	11%
Return on Equity	48%	12%	11%	15%
Dividend Payout Ratio	6.0	59.4	59.4	40.0
Asset Turnover	0.75	0.50	0.55	0.54
Cost Recovery	1.48	1.11	2.65	2.28
Liquidity				
Current Ratio	1.08	0.97	1.19	1.69
Quick Ratio	1.04	0.97	1.19	1.69
Accounts Receivables Days	189.93	330.64	288.44	148.41
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.50	0.58	0.43	0.29
Debt to Equity	0.99	1.40	0.75	0.42
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The Malawi Gaming Board (MGB) financial performance continued to improve in 2021/22 financial year from the previous year as it registered a surplus of K89 million, while in 2022 it registered a surplus of K138 million.

Overview of financial risks

The Board's liquidity improved with a current ratio of 1.69:1 in 2021/22 compared to a current ratio of 1.19 in the previous financial year, indicating that Malawi Gaming Board improved its ability of meeting its current liabilities.

Overview of financial flows with the government

There were no financial flows between Malawi Gaming Board and Government in the 2021/22 financial year.

3.11 Transport and Public Works Sector

3.11.1 Air Cargo Malawi Limited (ACM)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	(201,759)	(165,476)	27,227	28,208
Gross Profit Margin	37%	33%	27%	34%
Operating Profit Margin	-27%	-34%	-45%	-32%
Return on Assets	-14%	-10%	2%	1%
Return on Equity	-29%	-32%	5%	5%
Dividend Payout Ratio	NMF	NMF	-	-
Asset Turnover	2.98	2.73	3.23	2.09
Cost Recovery	1.58	1.50	1.38	1.51
Liquidity				
Current Ratio	1.45	1.12	1.15	1.19
Quick Ratio	0.96	0.74	0.74	0.75
Accounts Receivables Days	58.39	61.14	43.07	70.31
Accounts Payables Days	98.44	83.82	72.55	143.75
Solvency				
Debt to Assets	0.52	0.67	0.69	0.70
Debt to Equity	1.10	2.06	2.26	2.37
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Air Cargo Malawi Limited (ACM) reported a profit of K28.2 million in the 2021/22 financial year which is slightly higher compared to a profit of K27.2 million in 2020/21. The company's improved performance is underpinned by the deliberate performance improvement strategies that management deployed during the third and fourth quarter of the year, such as correction of underpriced freight services, and implementation of increased handling charges.

Overview of financial risks

ACM's liquidity position remained below the average acceptable benchmark in 2021/22 with a current ratio of 1.19 implying that the Company was barely capable of meeting its current liabilities as they fall due with existing current assets. Its debt-to-equity level was also 237% meaning its highly comprised of external borrowing compared to owners' equity.

Overview of financial flows with the government

There were no financial flows between ACM and Government in the 2021/22 financial year.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	Underpriced freight services significantly affected the bottom line	Need for implementation of increased handling charges

3.11.2 Airport Development Ltd (ADL)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	7,129,480	7,779,858	4,571,190	3,956,601
Gross Profit Margin	97%	98%	97%	100%
Operating Profit Margin	71%	73%	55%	83%
Return on Assets	17%	15%	8%	7%
Return on Equity	17%	16%	9%	7%
Dividend Payout Ratio	-	-	-	-
Asset Turnover	0.22	0.20	0.14	0.17
Cost Recovery	3.98	4.08	2.35	5.99
Liquidity				
Current Ratio	1.23	1.12	1.13	0.86
Quick Ratio	1.09	1.04	1.06	0.72
Accounts Receivables Days	154.01	177.85	220.49	228.47
Accounts Payables Days	894.27	1687.85	1753.00	NMF
Solvency				
Debt to Assets	0.03	0.03	0.04	0.05
Debt to Equity	0.03	0.03	0.04	0.06
Interest Coverage	468.15	352.86	136.99	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The overall performance of Airport Development Limited (ADL) declined in the 2021/22 financial year, despite registering a profit of K3.96 billion. The reduced profit level was largely due to the ongoing impact of COVID-19 protocols, which continued to hinder operations at Kamuzu International Airport (KIA). However, operating revenues did see a slight increase from K2.2 billion to K2.4 billion during this period.

Overview of financial risks

ADL's liquidity position continued to worsen, with the current ratio dropping to 0.86:1 in 2021/22 from 1.13:1 in 2020/21. This indicates that the company is struggling to meet its current liabilities with its existing current assets. Additionally, the high debtor collection period, which increased from 221 days to 228 days in 2022, negatively impacted the company's operations. Reducing the debtor collection period could help improve ADL's liquidity position.

Overview of financial flows with the government

There was no funds flow during the reporting period between ADL and Government.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Cash flow challenges	The impact of COVID-19 protocols. Increased receivables.	implementing debt collection protocols to improve cash flow

3.11.3 Lilongwe Handling Company Limited (LIHACO)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	119,113	(593,191)	(1,178,376)	(345,695)
Gross Profit Margin	45%	35%	20%	41%
Operating Profit Margin	-51%	-88%	-57%	-17%
Return on Assets	6%	-22%	-36%	-11%
Return on Equity	14%	-252%	NMF	NMF
Dividend Payout Ratio	8.4	NMF	NMF	NMF
Asset Turnover	1.59	0.97	0.40	0.74
Cost Recovery	1.04	0.81	1.29	1.71
Liquidity				
Current Ratio	1.09	0.49	0.23	0.26
Quick Ratio	0.88	0.22	0.09	0.14
Accounts Receivables Days	108.31	58.67	61.05	72.31
Accounts Payables Days	128.11	195.45	310.11	279.74
Solvency				
Debt to Assets	0.59	0.91	1.03	1.15
Debt to Equity	1.47	10.37	-37.58	-8.19
Interest Coverage	(97.70)	(29.49)	(12.96)	(1.81)
Other				
Government Transfers to Total Revenue	0%	0%	0%	0%

Overview of financial performance

The Lilongwe Handling Company´s (LIHACO's) performance showed a slight improvement in 2021/2022, with a reduced loss of K346 million compared to the K1.2 billion loss in 2020/21. However, the company still incurred a loss despite projecting a profit of K44 million largely due to the resurgence of Covid-19 and subsequent travel restrictions imposed by Western countries on Southern African nations, which negatively impacted their operations. The continuous rise in jet fuel prices also had a ripple effect, driving up airline operational costs, which in turn led airlines to request reduced ground handling fees from companies like LIHACO in an effort to maintain their profit margins.

Overview of financial risks

LIHACO's liquidity position remained poor in 2021/22, from a current ratio of 0.23:1 in 2020/21 to 0.26: in a concerning position in 2021/22. The implication was the Company was still struggling to meet its short-term obligations when fell due. This situation was further highlighted by the numerous legal lawsuits filed by unpaid suppliers, some of whom have been waiting for over two years for payment. In some cases, suppliers have taken the drastic measure of involving law enforcement officers, such as sheriffs, to compel payment. Although there was a notable reduction in accounts payable days from 310 to 280, this metric remains significantly higher than the industry average of 45 days, indicating that the company still took longer to pay the suppliers.

Overview of financial flows with the government

In the year 2021/22, no financial transfers were made between the Government and LIHACO.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Cash flow challenges	Continuous rise in jet fuel prices also had a ripple effect, driving up airline operational costs, which in turn led airlines to request reduced ground handling fees from companies	Need to diversify revenue streams

3.11.4 National Construction Industrial Council (NCIC)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	54,122	55,386	81,218	468,549
Gross Profit Margin	0%	100%	100%	16%
Operating Profit Margin	-101%	2%	3%	-68%
Return on Assets	3%	3%	4%	22%
Return on Equity	4%	4%	5%	24%
Dividend Payout Ratio	-	94.7	-	13.2
Asset Turnover	1.51	1.58	1.52	1.18
Cost Recovery	1.00	1.02	1.03	1.19
Liquidity				
Current Ratio	1.27	1.20	1.42	4.58
Quick Ratio	1.27	1.16	0.63	4.38
Accounts Receivables Days	34.30	19.01	14.66	14.04
Accounts Payables Days	21.09	NMF	NMF	0.00
Solvency				
Debt to Assets	0.13	0.15	0.15	0.08
Debt to Equity	0.17	0.18	0.18	0.09
Interest Coverage	NMF	5.36	20.75	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

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 substantial increase in surplus recorded in 2021/22 compared to the previous year at K468.5 million compared to K81.2 million in 2020/21 largely due to increase in construction levy and fees.

Overview of financial risks

The liquidity position of the Council substantially improved above the margin at 4.58:1 as of 2021/22 financial year, indicating that the Council was able to manage its working capital with sufficient resources to pay its debt obligations as they fall due.

On the other hand, the debt/equity ratio was still very low at 9% in 2022, a decrease from the 18% registered in 2021 signifying that the Corporation to a large extent financed its operations by own equity compared to debt.

Overview of financial flows with the government

In the year 2021/22, NCIC remitted 95% of its surplus to Government.

3.12 WATER SECTOR

3.12.1 Blantyre Water Board (BWB)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	(3,309,855)	(7,945,844)	(13,831,189)	(8,187,960)
Gross Profit Margin	46%	36%	25%	30%
Operating Profit Margin	-25%	-108%	-81%	-57%
Return on Assets	-6%	-9%	-17%	-11%
Return on Equity	NMF	-114%	NMF	NMF
Dividend Payout Ratio	NMF	NMF	NMF	NMF
Asset Turnover	0.34	0.21	0.23	0.20
Cost Recovery	1.36	0.70	0.94	1.15
Liquidity				
Current Ratio	0.34	0.30	0.16	0.18
Quick Ratio	0.24	0.12	0.08	0.08
Accounts Receivables Days	108.72	66.32	34.14	65.37
Accounts Payables Days	312.98	430.41	606.32	943.93
Solvency				
Debt to Assets	1.15	0.92	1.06	1.17
Debt to Equity	-7.66	11.34	-17.94	-7.04
Interest Coverage	(8.25)	(15.57)	(506.25)	(297.06)
Other				
Government Transfers to Total Revenue	0.03	-	-	-

Overview of financial performance

Blantyre Water Board's financial performance remained poor in 2021/22 financial year with a loss of K8.19 billion from a loss of K13.83 billion in 2020/21. Despite this being a slight improvement, the poor performance of the board is largely attributed by the delayed implementation of the cost reflective tariffs in the 2021/22 financial year and an increase in the board operation costs. The board also continues to face high Non revenue water levels, due to dilapidated pipeline systems and very high electricity costs which were averaging K10.0 billion representing 41.7 percent of the total operation expenses.

The Non-Revenue Water (NRW) remains very high at an average of 54 percent in 2022 from 51 percent in 2021. However, the Board plans to slightly reduce this through conducting water repair all leaks in the transmission and distribution network and also construct of independent power generation plant.

Overview of financial risks

The current ratio for BWB in 2022 was 0.18:1, demonstrating a weak liquid position for the Board. The low current ratio also illustrates its inability to pay its short-term obligations as they fall due. Furthermore, Board's continuation to report negative working capital over the years demonstrates the insolvent state of the Board.

However, in order to resolve some of 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.

Overview of financial flows with the government

In the year 2022, Blantyre Water Board was not able to remit any dividend to Government due to continued loss-making position.

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)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	(1,316,519)	(1,449,275)	(1,421,825)	(390,790)
Gross Profit Margin	1%	-26%	55%	42%
Operating Profit Margin	-98%	-152%	-68%	-66%
Return on Assets	-9%	-8%	-8%	-2%
Return on Equity	NMF	NMF	NMF	-6%
Dividend Payout Ratio	NMF	NMF	NMF	NMF
Asset Turnover	0.27	0.29	0.33	0.24
Cost Recovery	1.01	0.79	0.81	0.92
Liquidity				
Current Ratio	0.40	0.48	0.39	0.47
Quick Ratio	0.38	0.38	0.36	0.44
Accounts Receivables Days	206.02	237.04	133.86	285.13
Accounts Payables Days	276.24	193.83	392.46	496.90
Solvency				
Debt to Assets	1.19	1.24	1.31	1.31
Debt to Equity	-6.15	-5.12	-4.21	4.23
Interest Coverage	(241.32)	(146.46)	(4.28)	(6.20)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The performance of Central Region Water Board's (CRWB) slightly improved in the 2021/22 though at a declining loss from a loss of making position of K1.42 billion in 2020/21 to K390.80 million in 2021/22. This improvement was a slight increase in the sales realised during the 2021/22 financial year. However, the Board still experienced challenges affecting sales including high non-revenue water, due to faulty pipelines, leaking tanks in some areas.

Overview of financial risks

The Board continued to face liquidity challenges as shown by current ratio being at 0.47:1 in the 2021/22 financial year. This demonstrates the Board's inability to meet its short-term obligations, such as account payables, income taxes and accrued expenses. Its high number of receivable days further illustrates that most of its cash assets is being held with debtors for a longer period, with an average of 285 days in 2022 compared to 134 days in 2021. This has highly affected the Board's cash flow, thereby also affecting the period taken for CRWB to offset its payables by a period to a period of 497 days in 2022 from a period of 393 days in 2021.

In terms of the Boards debt to equity ratio, in the 2021/22 financial year, the ratio increased 423 percent, which meant the company was highly indebted and it largely depends on external debt compared to own equity.

Overview of financial flows with the government

In the year 2021/22, no financial transfers were made between the Government and CRWB.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales revenue	high non-revenue water, due to faulty pipelines and leaking tanks in some areas.	• Rehabilitation of aged infrastructure including pipe network and storage tanks; • Use of solar energy on 16 boreholes.
Tax and pension arrears	Cash flow challenges due to high trade receivables largely from public and private customers	Intensifying on debt collection
Public Debt	Nonpayment of water bills by public institutions due to use of Postpaid meters	Migration of metering system from postpaid to prepaid

3.12.3 Lilongwe Water Board (LWB)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	4,773,177	2,502,725	1,162,969	594,077
Gross Profit Margin	34%	44%	36%	36%
Operating Profit Margin	-32%	-13%	-29%	-67%
Return on Assets	6%	2%	1%	0%
Return on Equity	14%	7%	3%	2%
Dividend Payout Ratio	-	-	-	-
Asset Turnover	0.26	0.20	0.18	0.13
Cost Recovery	1.52	1.77	1.55	0.97
Liquidity				
Current Ratio	7.64	3.25	6.41	5.83
Quick Ratio	4.32	2.77	5.06	4.74
Accounts Receivables Days	198.43	216.52	115.92	154.45
Accounts Payables Days	32.00	157.03	59.53	94.89
Solvency				
Debt to Assets	0.60	0.67	0.70	0.74
Debt to Equity	1.52	2.07	2.32	2.78
Interest Coverage	(3.80)	(2.24)	(2.64)	(5.20)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Lilongwe Water Board (LWB) registered a profit after tax of K594.1 million in 2021/22 financial year which was decline from K1.16 billion profit which was registered in the 2020/21 financial year. Despite being a 9-month financial year, the decline in the profitability for LWB was also on account of the decline in the revenues registered due to the delayed implementation of water tariff adjustments while cost of operations remain relatively high. In additional, the low performance of LWB was also largely attributed to increase in losses due to high Non-Revenue Water Level which was at 41.3% in 2021/22 compared to the target of 37%.

Overview of financial risks

On the other hand, the liquidity position for LWB demonstrates a good position with a current ratio of 5.83:1 in 2022 meaning the board can meet its short-term obligations as they fall due, however, this was a slight decline from the 2020/21 financial year which was 6.41:1 was mainly due to the reduction in the cash current asset of the board.

The debt collection days increased from 116 days in 2020/21 to 154 days in 2021/22 which still remains due to the delayed payments from public institutions and the Board plans to continues to improve the situation, by the installation of prepaid meters in both Government institutions and private customers.

In terms of financial leverage, the Board's continues to highly depend on external debt with a debt-to-equity ratio of 278 percent in 2021/22 from a debt-to-equity ratio of 232 percent in 2020/21. 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

There were no any transfers made in the year 2022 between LWB and Government, both in terms of dividend or grants.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	• Delayed implementation of water tariff adjustments while cost of operations remain relatively high • High non-revenue water	Expand the scale of operation through diverse projects in its supply area.
Tax Arrears	• High levels of accounts receivables	Intensify debt collection coupled with prepaid meters migration.

3.12.4 Northern Region Water Board (NRWB)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	(827,195)	(3,778,190)	640,920	(5,409,291)
Gross Profit Margin	56%	47%	34%	35%
Operating Profit Margin	-53%	-6%	3%	-137%
Return on Assets	-2%	-7%	1%	-6%
Return on Equity	-15%	-197%	25%	NMF
Dividend Payout Ratio	NMF	NMF	-	NMF
Asset Turnover	0.20	0.17	0.11	0.08
Cost Recovery	0.89	1.85	3.14	0.56
Liquidity				
Current Ratio	0.51	0.46	0.71	0.54
Quick Ratio	0.38	0.36	0.46	0.35
Accounts Receivables Days	147.02	150.16	112.80	219.93
Accounts Payables Days	683.26	697.76	500.18	762.96
Solvency				
Debt to Assets	0.87	0.96	0.97	1.03
Debt to Equity	6.84	27.06	30.74	-32.81
Interest Coverage	(8.23)	(1.02)	0.42	(7.32)
Other				
Government Transfers to Total Revenue	0.03	0.03	0.03	0.04

Overview of financial performance

Northern Region Water Board (NRWB) performance deteriorated significantly in 2021/22 from a profit of K640 million to a loss of the year of K3.2 billion and a deferred tax on revaluation of K2.3 billion resulting to a loss for the year of K5.4 billion. Despite the 2021/22 period being a 9 months' financial year, the sales of water during the period were still on the lower side as they only started picking up from a downturn of the effects of COVID. The operation costs, still remained on the higher side comprising highly of the reticulation maintenance, electricity costs and salaries and wages. The delayed implementation of water tariff also had a impact on the loss outturn of the Board.

Overview of financial risks

The liquidity position for NRWB still remains of high concern as its current ratio of 0.54:1 still falls below the average recommended benchmark meaning the Board in unable to meet its short-term obligations. Its huge amount of trade receivables of K4.05 billion and high position of receivable days of 220 days in 2022 reflects how majority NRWB's cash is being held with debtors for a long period which has affected its cash flows. NRWB's receivables are both private and public institutions, however, they are highly accumulated in public institutions which are affecting their liquidity as they are delays in payments to the board.

NRWB's equity in the 2022 is fully eroded with a total equity of negative K2.8 billion this is attributed to its high level of accumulated losses over the past years. This has led to the Board depending largely on external borrowing than own equity as demonstrated but its debt-to-equity ratio of 3281 percent in 2022 from a debt-to-equity ratio of 3074 percent in 2021.

Overview of financial flows with the government

In the year 2021/22, no financial transfers were made between the Government and NRWB.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Required action for follow up
Sales Revenue	Negative impact of Covid-19. The operation costs, still remained on the higher side comprising highly of the reticulation maintenance, electricity costs and salaries and wages. The delayed implementation of water tariff also had a impact on the loss outturn of the Board	Timely implementation of cost reflective tariffs.
Tax and pension arrears	Cash flow challenges due to Non-payment of water bills by public institutions	Intensify debt collection. Migration of metering system from postpaid to pre-paid

3.12.5 Southern Region Water Board (SRWB)

Indicators	2019 Audited	2020 Audited	2021 Audited	2022 Audited
Profitability				
Profit/loss (Mill MKW)	684,215	124,908	(1,067,420)	(728,999)
Gross Profit Margin	8%	0%	70%	69%
Operating Profit Margin	-83%	-99%	-43%	-40%
Return on Assets	2%	0%	-3%	-2%
Return on Equity	3%	1%	-6%	-4%
Dividend Payout Ratio	-	-	NMF	NMF
Asset Turnover	0.24	0.24	0.22	0.19
Cost Recovery	1.09	1.00	0.88	0.91
Liquidity				
Current Ratio	1.57	1.55	1.42	1.56
Quick Ratio	1.45	1.48	0.87	1.47
Accounts Receivables Days	538.69	577.39	346.74	514.80
Accounts Payables Days	326.66	331.98	1195.27	884.27
Solvency				
Debt to Assets	0.40	0.41	0.46	0.53
Debt to Equity	0.68	0.70	0.86	1.12
Interest Coverage	(335.56)	(58.21)	(2.77)	(3.86)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

In the year 2022, Southern Region Water Board registered a loss amounting to K729.0 million from a loss of K1.07 billion in 2021. The underperformance of the Board was largely on account of the persistent excessive drought experienced in Malawi which highly affected the flow of surface water and levels of ground water sources, which has led to SRWB's inability to meet the water demand in the areas it supplies water. In the financial year 2021/22 the impact of excessive load shedding also contributed to the reduction in the supply of water to the required demand which led to the production to 12.2 million cubic meters from an approved budget of 18.7 million cubic meters.

Overview of financial risks

SRWB, continues to face challenges from the collection of debt from public institutions which account to 70 percent of its water sales. The receivable days of SRWB increased from 347 days in 2021 to 515 days in 2022, which means most of the Boards cash is being held with debtors leading to the cash flow challenges the institution continues to face. This is further demonstrated by its current ratio of 1.56:1 which means it could barely meet its current liabilities due to its cash flow challenges. This has resulted in the boars increase in external borrowing as confirmed by the worsening proportion of its debt to equity, which was 86% percent in 2021 and now 112% percent in 2022.

Overview of financial flows with the government

In the year 2021/22, no financial transfers were made between the Government and SRWB.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	Excessive load shedding also contributed to the reduction in the supply of water to the required demand	Increase water production through developing new water schemes and maintenance of old infrastructure

	which led to the production to 12.2 million cubic meters from an approved budget of 18.7 million cubic meters. Excessive drought experienced in Malawi which highly affected the flow of surface water and levels of ground water sources.	
Tax Arrears	Cash flow challenges due to accumulation of public and private water bills	Installation of Prepaid Meters. Consider deduction of the unpaid bills at source. (60:40, 60 % towards arrears: 40% current bills)

4 HIGH RISK CASE STUDIES

4.1 ADMARC LIMITED

4.1.1 Company Overview

The Agricultural Development and Marketing Corporation (ADMARC) is a 99 percent owned statutory corporation. Its mandate is to champion the production, grading, value-addition, packaging, marketing and distribution of agricultural produce across the country and beyond.

ADMARC’s primary role is to support the stabilization of maize food prices and to perform other developmental and Public Service Obligations (PSOs) on behalf of the Government. In practice, ADMARC's main social activities are implementing Government policies with respect to price stabilization and food security and providing smallholder farmers with markets for their produce and outlets where they can obtain inputs and tools.

In addition to the developmental mandate, ADMARC has a commercial function involving the buying and selling of commercial crops such as rice, groundnuts, cotton and soya at competitive, market prices. Furthermore, ADMARC is also involved in the operating market outlets, warehousing and production plants which are not used for social programmes. These commercial crops account for less than 10% of ADMARC’s revenue.

4.1.2 Summary of financial performance

Area of analysis	Assessment of key trends
Profitability	In the year 2021/2022, the financial data is for 9 months reflecting the change from June 30th to March 31st. Taking into account the shorter financial year, the company experienced a much lower level of trading activity in 2022, with both revenue and operating costs much lower than in 2020/2021. A large increase in other expenses and finance costs meant the company recorded a large loss of MK13.6 billion for the nine months. ADMARC’s approach of buying high and selling low means it relies on large government subsidies to remain in operation. The company’s Return on Assets in 2021/2022 was negative 9% and its Return on Equity was negative 33%.
Solvency and Indebtedness	In at least the last three years the company has had a volatile and rapidly expanding balance sheet, with total assets increasing from MK38 billion in 2020/2021 to MK156 billion in 2021/2022. The expansion reflects primarily a large build up in stock (from MK1.5 billion in 2020/2021 to MK34 billion in 2021/2022) and trade receivables (from MK2 billion in 2021 to MK44 billion in 2021/2022). It is uncertain whether the stock and receivables can be realised at the values recorded in the 2021/2022 management accounts. The huge increase in assets over the last two years has been funded by a large and unstainable increase in short-term debt and trade receivables. Total current liabilities have increased ten-fold over the last two years. Retained earnings were negative MK30 billion but other equity of MK71 billion means the company technically remains solvent.
Liquidity	The current ratio, based on the asset values reported in the 2022 management accounts, shows an improvement from 0.71 in 2021 to 0.89 in 2022. Although this was an improvement, the company could barely meet its short-term obligations. for example, debtor turnover days, have increased drastically from 148.2 in 2021 to a reported 2430.5 days in 2022. The company has remained in operation through expensive government-guaranteed short-term borrowing from commercial banks.
Dependency/ Relationship with GOM	ADMARC is not generating a commercial return sufficient to fund its operations and is dependent on the government to remain in operation. Despite the government support, ADMARC is in a very weak liquidity position.

	2018	2019	2020	2021	2022
Profitability					
Return on Assets	0.13	0.01	-0.05	-0.02	-0.09
Return on Equity	0.26	0.02	-0.08	-0.05	-0.33
Cost Recovery	1.86	0.92	0.72	0.98	0.75
Liquidity					
Current Ratio	1.01	0.61	0.40	0.71	0.89
Quick Ratio	0.64	0.33	0.24	0.34	0.56
Debtor Turnover Days	396.8	70.1	129.1	148.2	2,430.5
Creditor Turnover Days	853.0	320.2	505.4	295.7	2,320.4
Solvency					
Debt to Assets	0.50	0.43	0.46	0.54	0.73
Debt to Equity	1.01	0.77	0.86	1.17	2.76
Debt to EBITDA	2.86	-33.02	-7.93	-210.26	-25.62
Interest Coverage	3.39	-23.93	-3.15	-0.22	-0.49
Cash Interest Coverage	3.39	-12.51	-2.70	-0.09	-0.49
Debt Coverage	1.73	-0.46	-1.72	-0.02	-0.07

	2018	2019	2020	2021	2022
Profitability					
Return on Assets	Category 1	Category 3	Category 4	Category 4	Category 5
Return on Equity	Category 1	Category 3	Category 4	Category 4	Category 5
Cost Recovery	Category 1	Category 4	Category 5	Category 4	Category 5
Liquidity					
Current Ratio	Category 4	Category 5	Category 5	Category 5	Category 5
Quick Ratio	Category 4	Category 5	Category 5	Category 5	Category 4
Debtor Turnover Days	Category 5	Category 4	Category 5	Category 5	Category 5
Creditor Turnover Days	Category 5	Category 5	Category 5	Category 5	Category 5
Solvency					
Debt to Assets	Category 3	Category 2	Category 2	Category 3	Category 3
Debt to Equity	Category 3	Category 2	Category 2	Category 3	Category 5
Debt to EBITDA	Category 3	Category 5	Category 5	Category 5	Category 5
Interest Coverage	Category 2	Category 5	Category 5	Category 5	Category 5
Cash Interest Coverage	Category 3	Category 5	Category 5	Category 5	Category 5
Debt Coverage	Category 1	Category 5	Category 5	Category 5	Category 5

Category 1	Category 2	Category 3	Category 4	Category 5

Lower risk ⟷ **Higher risk**

4.1.3 Main fiscal risks

Strategic risks. Likelihood of occurrence (High). The company lacks a commercial objective and commercial strategy.

Source of Risk	Mitigation/policy measure
Strategic risk ADMARC has, a long-standing internal conflict between commercial and social objectives, despite repeated attempts over the years to address the problem. Strong Government and political involvement and inadequate commercial expertise or motivation have weakened the Corporation's governance structures and decision-making processes. Government has not fully and timely compensated ADMARC for its public service obligations (PSOs) but has relied heavily on cross subsidization of its social activities by its commercial activities.	Separate the commercial and social obligation functions of ADMARC and clearly define government's financial commitments for each part. A 1994 MoU on separate funding is in place and is being reviewed and is awaiting final vetting by MoJ. The 2018 Functional Review recommended the separation of ADMARC into two discrete entities: (i) statutory corporation handling the social functions and financed by direct transfers from the Budget; (ii) limited liability company trading and operating entirely on commercial terms. Quantify the full costs of the public service obligations and ensure these are provided for in the government budget and paid in a timely manner.

Expenditure and revenue risks. Likelihood of occurrence (High). The company is in severe financial strife and has been put into a trading halt.

Source of Risk	Mitigation/policy measure
Revenues: Trading revenues fluctuate in response to market conditions. This is mainly because purchases were also below budget. ADMARC also did not achieve the export sales that were targeted for legumes. In addition, delay in starting to draw funds on an arranged facility resulted in late entry on the market for purchases; low national production for cotton and other commodities late entry into the market to purchase maize. Government support for social obligations has not been provided in a timely manner. **Expenditures:** Costs continue to rise independent of market conditions, including high staffing costs and maintenance of uneconomic market activities and warehouses. **Capital investment:** ADMARC Limited replaced most of its capital items in order to enhance service delivery and to improve on revenue generation abilities during the period under review. On the other hand, because ADMARC's significant investment in AHL which has made it a subsidiary of ADMARC LTD, the corporation intend to negotiate the shareholder rights and control in the subsidiary.	**Revenues:** ADMARC will need to be able to receive a greater subsidy from government or customers should pay a market-related farmgate price. **Expenditures:** High staffing costs should be reviewed and uneconomic market activities and warehouses will need to be wound back or the government subsidy increased. **Capital investment:** Assess whether the company has the expertise necessary to take on further commercial risks.

Liquidity and debt repayment risks. Likelihood of occurrence (High).

Source of Risk	Mitigation/policy measure
Current assets: Inventories and trade receivables increased hugely in 2021/22. They may well need to be written down. This follows large write-downs of inventories and trade receivables in both 2019/20 and 2020/21. **Debt repayment:** the company is unable to service its interest and debt-repayment obligations.	**Current assets**: write-down inventories and trade receivables and reassess the trading strategy. To put the company on a sustainable footing. **Debt repayment**: Review whether government-guaranteed borrowing at commercial rates is financially prudent. If ADMARC is a social service agent of government it should borrow from the government rather than from commercial markets. Undertake debt restructuring and balance sheet rationalization.

4.2 BLANTYRE WATER BOARD (BWB)

4.2.1 Company Overview

Blantyre Water Board (BWB) was established under the Malawi Water Works Act no. 17 of 1995 to supply potable water for commercial, industrial, institutional and domestic use to Blantyre City and surrounding areas. The company provides around 86 million liters of water daily through two treatment plants to 85 percent of Blantyre's population of 1.4 million plus populations in the surrounding areas.

BWB is unable to meet its short-term obligations as and when they fall due and has been unable to do so for many years. BWB owed over MK21billion at end FY21 in arrears to ESCOM and this has slightly reduced to MK16.2 billion at December 2022, pressuring the finances of ESCOM.

BWB poses a significant fiscal risk to the Government as a significant proportion of debt is on-lent from Government for investment. The other borrowings are for procurement of pre-paid meters, and general operations obtained through Government consent.

Overall performance of the Board was negatively affected because of non-implementation of cost reflective tariff. In addition, the Board was not be able to fulfil its loan obligations including its largest proportion of on-lent facilities, which resulted in serious litigations against the Board and suppliers charging interest for unpaid bills. Furthermore, ESCOM implemented prepaid meters for maximum demand customers which required the Board to pay 60:40 of arrears and current bill respectively. In the current situation, the Board could barely afford to pay MK 500 million a month which is 50% of the bill against the total arrears amounting to MK16.2 billion.

4.2.2 Summary of financial performance

Area of analysis	Assessment of key trends
Profitability	2021/2022 financial data is for 9 months reflecting the change from a June 30th to March 31st financial year. BWB has recorded substantial deficits every year since 2013/2014. In 2021/2022 BWB recorded a loss of MK8 billion. Expenses are high, particularly for staffing and electricity (infrastructure constraints require the constant pumping of water, which means an inability to take advantage of off-peak electricity). Revenue growth is constrained by below cost tariffs. Over 50 percent of water produced is lost and not charged for.
Indebtedness	BWB is technically insolvent, with equity of negative MK12.8 billion at end 2021/2022. Interest coverage ratios are also negative, meaning the company is unable to meet its interest payment obligations. Finance costs declined markedly in 2021/2022.
Liquidity	The SOE's quick ratio of 0.18 in 2021/2022 indicates the SOE is unable to pay its short-term obligations as and when they fall due. The company has been unable to do so for many years. This is reflected in the significant build up in arrears, with 85 percent owed to ESCOM. Both debtor and creditor turnover days increased in 2022, with average creditor turnover reaching 1,000 days.
Dependency/ Relationship with Government	BWB has significant relationships with the Government and other SOEs through sales and purchases of water to the public. However, BWB has not been able to remit dividend to the government due to the company's loss-making position. Receivables from other government entities amount to MK2.7 billion as at December 2021. BWB owed over MK24.4 billion at end 2021/2022 in arrears to ESCOM.

	2018	2019	2020	2021	2022
Profitability					
Return on Assets	-0.06	-0.02	-0.07	-0.18	-0.11
Return on Equity	NMF	-0.13	-0.71	NMF	NMF
Cost Recovery	0.90	0.89	0.64	0.59	0.66
Liquidity					
Current Ratio	0.44	0.39	0.35	0.17	0.20
Quick Ratio	0.42	0.28	0.29	0.15	0.18
Debtor Turnover Days	182.7	108.4	139.5	73.7	141.2
Creditor Turnover Days	376.3	331.8	473.2	687.1	1,001.2
Solvency					
Debt to Assets	1.12	0.82	0.91	1.10	1.17
Debt to Equity	NMF	4.61	9.55	NMF	NMF
Debt to EBITDA	-28.14	-31.79	-8.40	-7.37	-11.24
Interest Coverage	-0.78	-0.65	-3.41	-2.85	-6.75
Cash Interest Coverage	-0.78	-0.65	-3.41	-2.85	-6.75
Debt Coverage	-0.10	-0.07	-0.26	-0.34	-0.24

	2018	2019	2020	2021	2022
Profitability					
Return on Assets	Category 4	Category 4	Category 4	Category 5	Category 5
Return on Equity	Category 5	Category 5	Category 5	Category 5	Category 5
Cost Recovery	Category 4	Category 4	Category 5	Category 5	Category 5
Liquidity					
Current Ratio	Category 5	Category 5	Category 5	Category 5	Category 5
Quick Ratio	Category 5	Category 5	Category 5	Category 5	Category 5
Debtor Turnover Days	Category 5	Category 5	Category 5	Category 4	Category 5
Creditor Turnover Days	Category 5	Category 5	Category 5	Category 5	Category 5
Solvency					
Debt to Assets	Category 5	Category 4	Category 4	Category 5	Category 5
Debt to Equity	Category 5	Category 5	Category 5	Category 5	Category 5
Debt to EBITDA	Category 5	Category 5	Category 5	Category 5	Category 5
Interest Coverage	Category 5	Category 5	Category 5	Category 5	Category 5
Cash Interest Coverage	Category 5	Category 5	Category 5	Category 5	Category 5
Debt Coverage	Category 5	Category 5	Category 5	Category 5	Category 5

Category 1	Category 2	Category 3	Category 4	Category 5

Lower risk ←→ **Higher risk**

4.2.3 Main Fiscal Risks

Expenditure and revenue risks. Likelihood of occurrence (High). Strongly rising expenditure and lower than anticipated revenues have negatively impacted the profitability of BWB.

Source of Risk	Mitigation/policy measure
Expenditures: The Board has not received any tariff adjustment for the past two years despite increases in operational costs. Consequently, the financial performance of the Board has been deteriorating to the current unsustainable level evidenced by high payable days and increasing expenditure costs during the period under review. Electricity costs have been rising significantly and account for over 87% percent of the Board's trade payables (37.03% of total cost) . The 65 percent increase in electricity costs in 2018 and around 18 per cent in 2021 has significantly affected profitability. Other costs (chemicals, pipes and other equipment) have also been rising strongly.	A plan is in place to move to cost-reflective tariffs by 2023, which requires a 115 per cent increase. In the absence of any tariff adjustments, government bailout is the only feasible option available. Reduce non-water revenue from 51 percent (as at FY22). The target is 29 percent. This will be done through the replacement of 135 kilometers of aged and frequently bursting pipes, sealing boreholes and meter validation. A government bailout on ESCOM's arrears is being sought. Reduce electricity costs through:

Source of Risk	Mitigation/policy measure
Limited pipeline and storage capacity means water pumping is required 24 hours a day, limiting the ability of BWB to take advantage of off-peak electricity tariffs (peak tariffs are 3 times off-peak tariffs). Staffing costs are high, with 10 staff per 1,000 connections against a target of 10 per 6,000 connections. Wages have increased in line with inflation (10 percent per annum). **Revenues:** Tariffs are set by the parent ministry and not an independent regulator, and these have not kept pace with increases in costs. Poor revenue collection has resulted in accumulation of trade debtors largely from Government Institutions. BWB has significant water losses (non-water revenue). This amounts to 51 percent of water produced. These losses are driven by aged and frequently bursting pipes. Around 60 high-profit industrial customers have left BWB and use water delivered by boreholes. Investment in new pre-paid meters has not delivered the expected revenue gains and has actually led to losses in revenue. Volume measurements for the new meters are below actual water provision.	Investment in pumping stations, pipelines and storage to minimize on-peak electricity purchases. Solar electricity generation project, which is expected to begin construction. A feasibility and procurement process is underway. The plant is expected to cost USD 72 million and deliver ongoing annual benefits of USD 5 million per annum. Addressing pre-paid meter issues. Around 56,000 aged and/or faulty meters need to be replaced. BWB has restricted spending on overtime and allowances for staff to reduce staffing expenditure. It remains BWB's policy to fill positions in the establishment as they fall vacant.

Liquidity and debt repayment risks. Likelihood of occurrence (High). Increasing levels of debt and a worsening liquidity situation has resulted in accumulated arrears, which poses risks to the sector and the economy.

Source of Risk	Mitigation/policy measure
Debt repayment: BWB has relied on high-cost overdrafts to maintain operations. Around MK1 billion has been borrowed through an overdraft facility at 22 per cent interest. This is allowed though a government consent arrangement. Other debt is obtained with Government consent or channelled through an on lent arrangement. This is a significant fiscal exposure for the Government, as BWB is unable to service its debts under current operations. **Arrears accumulation:** The worsening liquidity trend has reduced the ability of the SOE to pay its suppliers on time (principally ESCOM). As of 31 December 2022, total payable to the government and	Government support should include timely payment of arrears which are critical to the SOE's liquidity position. BWB is seeking a government bailout of ESCOM's arrears. BWB expects its turnaround strategy to significantly improve its financial position by 2024, allowing it to improve cash flows and reduce its short-term liabilities. BWB estimates that its profit margin will improve from the current -55 percent to 20 percent and the quick ratio will improve from the current 0.18 to 2.6. BWB is seeking a restructure of the long-term loans obtained through the Malawi Government.

Source of Risk	Mitigation/policy measure
government agencies was MK2.4 billion (87% to ESCOM).	

4.3 ELECTRICITY SUPPLY COMMISS MALAWI (ESCOM)

4.3.1 Company Overview

ESCOM is the sole transmitter, distributer and retailer of electricity throughout Malawi and is the single wholesale purchaser of electricity.

With the 2017 unbundling under the amended Electricity Act of 2016, power generation was transferred from ESCOM to the new state-owned enterprise EGENCO. ESCOM assumed the function of single buyer of electricity from EGENCO and from independent power producers (IPPs).

As a non-operating member of the Southern Africa Power Pool (SAPP), ESCOM is also charged with the development of interconnections with neighbouring power grids and with participation in the regional power market.

4.3.2 Summary of financial performance

Area of analysis	Assessment of key trends
Profitability	ESCOM's draft unaudited financial statements indicate the company recorded a profit of 4.8 Bn MWK, the company's first profit in the last five years. Total Revenue declined on account of a change in Financial Year from June to March which resulted in a 9-month reporting period in the year ending 31st March 2022. However, comparison of average monthly revenues for 2021/2022 and 2020/2021 indicates revenue growth of 15%. The growth in monthly revenue is a direct impact of the 18% Electricity tariff increase effective 30 March, 2021. When adjusted for the change in financial year, the average monthly Cost of Energy Sold for 2020/2021 and 2021/2022 grew by around 6%. The growth in the average Cost of Energy Sold is a consequence of the change in energy mix arising from the effects of Cyclone Ana, in January 2022, which damaged EGENCO's Kapichira Power Plant (129 MW). ESCOM had to rely on more expensive thermal energy sources to cover the supply gap. Total Other Operating expenses show a similar trend to Costs of Energy Sold. The main reasons for the growth in expenditure include lengthy and slow procurement, which has resulted in ESCOM's failure to implement maintenance programs and FOREX challenges which persisted during the year and became very critical and consequentially the Corporation continues to fail to pay off its international creditors. As an interim measure, the Corporation paid suppliers in alternative currencies to the US Dollar. This proved to be very expensive. However, other banks have now come in to assist.
Indebtedness	Despite the improvement in profitability in 2022, ESCOM's debt continues to increase. With the company accumulating losses each year from 2018 to 2021 the company is technically insolvent. Net equity was negative MK14 billion at 31 March 2022. The company only remains operating with the support of creditors and the government's underwrite of its debt. 22% of the company's (MK18 billion) commercial debt is guaranteed by GoM and is on a non-concessional basis to cover working capital shortfalls to repay IPPs and EGENCO.
Liquidity	ESCOM's liquidity position improved somewhat in 2022 but the company's current and quick ratios are still very low at 0.58 and 0.52 respectively. Creditor turnover days is extremely high at 493 days while debtor turnover is much lower at 43 days. Effectively, the company is using its suppliers as a source of short-term funding, an unstainable position. This is reflected in the

Area of analysis	Assessment of key trends
	significant build up in arrears of unpaid trade payables to EGENCO (MK63 billion) and NOCMA (MK8 billion) at the end of 2021/2022.
Dependency/ Relationship with GOM	ESCOM is only able to continue to operate with the support of the government [through Government Comfort Letters, Guarantees for commercial loans and Concessionary loans for investments] and the company's state-owned creditors through extended payable days.

	2018	2019	2020	2021	2022
Profitability					
Return on Assets	-0.07	-0.03	-0.06	-0.02	0.04
Return on Equity	-0.29	-0.29	-1.23	NMF	NMF
Cost Recovery	0.83	0.91	0.88	1.06	1.15
Liquidity					
Current Ratio	0.85	0.91	0.68	0.54	0.58
Quick Ratio	0.62	0.78	0.53	0.45	0.52
Debtor Turnover Days	118.5	91.4	72.7	35.3	43.1
Creditor Turnover Days	413.5	249.5	245.3	388.5	492.5
Solvency					
Debt to Assets	0.75	0.90	0.95	1.06	1.04
Debt to Equity	3.02	9.52	18.22	NMF	NMF
Debt to EBITDA	-9.89	-135.61	-33.48	14.49	11.86
Interest Coverage	-74.81	-23.99	-4.55	2.29	6.75
Cash Interest Coverage	-52.82	-3.38	-1.81	5.24	10.09
Debt Coverage	-0.48	-0.04	-0.15	0.28	0.34

	2018	2019	2020	2021	2022
Profitability					
Return on Assets	Category 5	Category 4	Category 5	Category 4	Category 3
Return on Equity	Category 5	Category 5	Category 5	Category 5	Category 5
Cost Recovery	Category 4	Category 4	Category 4	Category 3	Category 3
Liquidity					
Current Ratio	Category 5	Category 5	Category 5	Category 5	Category 5
Quick Ratio	Category 4	Category 2	Category 4	Category 5	Category 4
Debtor Turnover Days	Category 5	Category 5	Category 4	Category 2	Category 3
Creditor Turnover Days	Category 5	Category 5	Category 5	Category 5	Category 5
Solvency					
Debt to Assets	Category 4	Category 4	Category 4	Category 5	Category 5
Debt to Equity	Category 5	Category 5	Category 5	Category 5	Category 5
Debt to EBITDA	Category 5	Category 5	Category 5	Category 5	Category 5
Interest Coverage	Category 5	Category 5	Category 5	Category 3	Category 1
Cash Interest Coverage	Category 5	Category 5	Category 5	Category 1	Category 1
Debt Coverage	Category 5	Category 5	Category 5	Category 3	Category 2

Category 1	Category 2	Category 3	Category 4	Category 5

Lower risk ⟷ **Higher risk**

4.3.3 Main fiscal risks

Expenditure and revenue risks. Likelihood of occurrence (Medium).
Average monthly Other Operating expenses increased by 8% due to price escalations and exchange fluctuations. The expenditure increase is rather subdued due to lengthy and slow procurement, which has resulted in ESCOM's failure to implement maintenance programmes and FOREX challenges that persisted during the year.

Source of Risk	Mitigation/policy measure
Expenditures and capital investment: - Corporate challenges include lengthy and slow procurement, which has resulted in ESCOM's failure to implement new connections and	**Expenditures and capital investment** - Although the review of PPAs for EGENCO Hydro Power Plants commenced during the year, the process has not yet been concluded. - Control the level of head office expenses.

Source of Risk	Mitigation/policy measure
preventive maintenance of the national grid (transmission and distribution). - Non-collectability of electricity bills due from Blantyre Water Board (BWB) and some MDAs, has forced external auditors to require that impairment is fully charged against profits – Shareholder funds of ESCOM have been reduced by MK32 billion as a result. - Expenditure on maintenance has been volatile partly reflecting the scarcity of materials due to Covid. - Funding for Investment Plans remains a challenge, however in FY2022 ESCOM had three major projects namely: World Bank-funded Malawi Electricity Access Project (US$110 million); KfW Development Bank and World Ban-funded Mozambique – Malawi Interconnector and the EXIM Bank of China-funded Optic Fibre Backbone (US$99 million). **Revenues:** - The company advises that its tariff revenues billed were adequate to cover its costs but ESCOM disputes EGENCO's proposed capacity-based charges. - Reflecting the lack of maintenance expenditure, energy losses (at 22% vis-à-vis industry standard of 16%) and dangerous occurrences are unacceptably too high. - Issues have arisen with the quality of service in terms of reliability of supply, including time to make new connections, accuracy of metering and billing.	- Review whether the provision for maintenance has been adequate. **Revenues** - Tariffs need to be reviewed regularly by the regulator to ensure they continue to fully reflect costs. - Connection charges need to reflect the full costs of connection. - Develop an enforcement mechanism, which would allow ESCOM to recover amounts owed by its customers - Streamline procurement processes for SOEs as part of an overall package of SOE reform

Liquidity and debt repayment risks. Likelihood of occurrence (High). ESCOM remains financially vulnerable given a number of strategic risks. Increasing levels of debt and an unsustainable liquidity situation pose risks to the sector and the economy.

Source of Risk	Mitigation/policy measure
Debt repayment and further arrears: - Despite the improvement in profitability, ESCOM has had to borrow more long-term debt to sustain its operations and total liabilities were 104% of assets at the end of FY21/22. - A large proportion of debt is to provide working capital rather than invest in new assets. - The company is paying a high rate of interest (16.2 percent) on two commercial domestic loans despite the loans being government guaranteed.	- The company advises that if amounts due from BWB and some MDAs are collected, ESCOM will not require the Government's letter of comfort to assure suppliers, creditors and financiers of protection against loss of their funds. - There should be continued pursuit of cost-reflective tariff lines to be supported by other policy measures to enhance the efficiency and long-term affordability of electricity tariffs in Malawi – a key policy objective of the 2018 National Energy Policy.

4.4 NATIONAL OIL COMPANY OF MALAWI (NOCMA)

4.4.1 Company profile

The National Oil Company of Malawi (NOCMA) Limited, is a wholly owned State-Owned Company (SOE) by the Government of Malawi. The SOE was formed in line with the National Energy Policy of January 2003, and it is registered under the companies Act of 1984.

NOCMA's mandate is to manage Malawi's Strategic Fuel Reserve Facilities (SFRs), promote competition in the oil and gas industry and to promote oil and gas exploration activities to ensure stability and security of supply of liquid fuel and gas products.

The Government of Malawi have constructed three SFRs, each in Blantyre, Lilongwe and Mzuzu to fulfill NOCMA's mandate of ensuring security of fuel supplies in the country. The role of NOCMA is only to manage the facilities.

4.4.2 Summary of financial performance

Area of analysis	Assessment of key trends
Profitability	Since 2017, NOCMA has been incurring significant huge financial losses with biggest loss of MK1 206, 029 000 a more than 3000 percent increase from 2017. This is partially attributed to a significance increase in the cost of goods sold in 2018 (a significant increase in fuel purchases and road freight). According to the results of the SOE HCT run for NOCMA, financial indicators for profitability are classified as category 4 on average.
Indebtedness	NOCMA is technically insolvent. For example, it has been having high levels of debt compared to its equity. The debt on equity has been averaging 10 percent over the years. The SOE is highly leveraged and that means a potential source of fiscal risk in the form of bail outs, guarantees, letters of comfort and on lending requests to government. Furthermore, the cash interest coverage is negative an indication that the SOE have no capacity to cover its interest on debt.
Liquidity	NOCMA is facing serious liquidity challenges. For example, the current ratio has been 1 and below since 2017. This means NOCMA is not able to cover its short obligations when they fall due. The current ratio has been marginally worsening over the years. Similarly, the quick ratio is also below 1 an indication of potential fiscal risk. NOCMA has been failing to collect revenue from its customers within 30 days. It takes on average 60 days for it to collect its revenue. These constraints the cashflow position of NOCMA. As expected, NOCMA is struggling to pay its short-term creditors within the prescribed 30 days. It takes on average 65 days to service its short-term obligations. All these factors point to a potential fiscal risk.
Dependency/ Relationship with GOM	NOCMA has not been receiving significant financial transfers from government in the form of grants. On average it has received an estimated MK467 million as government transfer. Since inception, NOCMA has been financing its imports with the Reserve Bank of Malawi/Trade and Development Bank Fuel Importation Facility valued at US$75 million. The facility was increased to USD90 million in 2021/22 FY. In addition, NOCMA has been using an additional US$20 million fuel importation facility with FDH Bank Limited which was guaranteed by Government.

SOE Risk Ratings

	2018	2019	2020	2021
Profitability				
Operating Profit Margin	-0.02	0.00	-0.01	-0.01
Net Profit Margin	-0.01	0.00	0.00	0.00
Return on Assets	-0.01	0.01	0.00	-0.01
Return on Equity	-0.17	0.09	0.00	-0.06
Cost Recovery	0.98	0.99	0.99	0.99
Liquidity				
Current Ratio	1.00	1.01	1.00	1.01
Quick Ratio	0.69	0.90	0.85	0.88
Debtor Turnover Days	78.1	63.9	57.6	63.8
Creditor Turnover Days	176.5	224.3	173.5	257.1
Solvency				
Debt to Assets	0.92	0.94	0.91	0.92
Debt to Equity	11.03	15.01	10.59	10.98
Debt to EBITDA	-48.77	-531.74	-83.43	-107.71
Interest Coverage				
Cash Interest Coverage				
Debt Coverage	-0.06	-0.01	-0.07	-0.08
Government Relationship				
Government Transfers to Total Revenue	0.00	0.01	0.00	0.00
50% Test	1.02	1.01	1.01	1.01
Z-Score	-0.06	0.11	0.04	0.08

	2018	2019	2020	2021	2022
Profitability					
Return on Assets	Category 4	Category 3	Category 4	Category 4	Category 3
Return on Equity	Category 5	Category 3	Category 4	Category 4	Category 3
Cost Recovery	Category 4	Category 4	Category 4	Category 4	Category 3
Liquidity					
Current Ratio	Category 4	Category 4	Category 4	Category 4	Category 4
Quick Ratio	Category 5	Category 3	Category 3	Category 3	Category 3
Debtor Turnover Days	Category 5	Category 4	Category 4	Category 4	Category 4
Creditor Turnover Days	Category 5	Category 5	Category 5	Category 5	Category 1
Solvency					
Debt to Assets	Category 4	Category 4	Category 4	Category 4	Category 4
Debt to Equity	Category 5	Category 5	Category 5	Category 5	Category 5
Debt to EBITDA	Category 5	Category 5	Category 5	Category 5	Category 5
Interest Coverage					
Cash Interest Coverage					
Debt Coverage	Category 5	Category 5	Category 5	Category 5	Category 5
Government Relationship					
Government Transfers to Total Revenue	Category 1	Category 1	Category 1	Category 1	Category 1
50% Test	Category 3	Category 3	Category 3	Category 3	Category 2

Category 1	Category 2	Category 3	Category 4	Category 5
Lower risk	←		→	**Higher risk**

4.4.3 Main fiscal risks

Expenditure and revenue risks. Likelihood of occurrence (high). In 2022, total revenue amounted to MK3.710 billion against budgeted revenue of MK5.801 billion representing a 36 percent negative variance. This was caused by the following:

Source of Risk	**Mitigation/policy measure**
Expenditures and capital investment: {put information on exp and capex} **Revenues:** - The continuing repressed uplifts by ESCOM and EGENCO due to increased hydro power generation of electricity which has not made necessary, procurement of diesel for diesel electricity generation from NOCMAs SFRs. - During the nine months in 2022, the Company earned about K823 million in wholesale margins against projected wholesale margins of about K1.468 billion;	**Expenditures and capital investment** **Revenues** - NOCMA should push for the implementation of the liquid fuels levy that can be imposed by the Minister under Section 38 of Liquid Fuels and Gas (Production and Supply) Act -

Source of Risk	Mitigation/policy measure
- The non-implementation of the Strategic Fuel Levy in the fuel price build-up impacted NOCMA's ability for funding the operation and administration of the SFRs, the stocking up of the storage tanks and the expansion of the storage capacity. Thus, representing a huge loss of potential revenue	

Liquidity and debt repayment risks. Likelihood of occurrence **(High).** NOCMA remains financially vulnerable given a number of strategic risks. Increasing levels of debt and an unsustainable liquidity situation pose risks to the sector and the economy.

Source of Risk	Mitigation/policy measure
Current Liabilities: - NOCMA has experienced a significant increase in trade payables between 2017 and 2018 (757 percent). The trend has been maintained over the years, and it remains significantly high. - NCOMA's levels of inventory have also been increasing over the years. This implies a huge opportunity cost and put pressure on cashflow management. **Debt repayment and further arrears:** - Given the financial performance of the SOE, it may not be able to service both its short- and long-term obligations. Already, the interest cover ratios confirm this assertion. {put a comment on cross arrears and government arrears and how that is affecting the financial performance of NOCMA}	- Consider revising the stock model or adopt a different and aggressive business model to increase the rate of stock turnover.

4.5 ENERGY GENERATION COMPANY (EGENCO) LIMITED

4.5.1 Company profile

Electricity Generation Company (Malawi) Limited is a 100 percent owned statutory corporation. Its mandate is to generate electricity. EGENCO fulfils its mandate by operating, Hydro, Thermal Diesel and Solar Plants spread across Malawi. The total installed capacity of EGENCO's power plants connected to the national grid was 441.55MW (as of September 2022) composed of 390.15MW hydro and 51.4MW of thermal diesel generators.

Most of the installed hydropower, 385.8MW, was cascaded on the Shire River in the Southern Region of Malawi. The first Power Station site on the Cascade was Nkula (135.1MW) followed downstream by Tedzani (121.1MW) and Kapichira (129.6MW). The remaining 4.35MW of the hydropower was installed on Wovwe River in the Northern Region of Malawi. The diesel generators are installed at Mapanga (20.0MW), Lilongwe (25.4MW) and Luwinga (6.0MW). EGENCO also operates off grid diesel thermal plant at Likoma Island (1.168MW) and Chizumulu Island (0.656MW) and Solar power plants on the Islands of Likoma (1MW) and Chizumulu (0.3MW).

To ensure good quality of water for electricity generation downstream of the Shire River, EGENCO has a functional Weed Management unit to harvest aquatic weeds and trash at Liwonde Barrage

4.5.2 Summary of financial performance

Area of analysis	Assessment of key trends
Profitability	EGENCO is projected to post an after-Tax Profit of **MK5.2billion** in 2022 which is 19.9% lower year on year. Profitability has dropped mainly due to the outage of Kapichira Power Station for the last quarter of the financial year. Revenue from Kapichira accounts for 30% of the total revenue for the SOE.
Indebtedness	EGENCO had no interest-bearing debt as at close of financial year 2022
Liquidity	The SOE's liquidity position has been positive over the last five years. The quick ratio of 5.02 in 2022 indicates the SOE is able pay its short-term obligations as and when they fall due. The company liquidity position has remained strong since the Company was incorporated in 2017. The Debtor Turnover days at 345.5 days in 2022 points to challenges to collect from the Single Buyer exacerbated by the long outstanding billing dispute.
Solvency	The solvency position of the SOE is solid indicating that the Company can take in debt (The SOE had no interest-bearing debt as at 31st March 2022). EGENCO financed Nkula A rehabilitation and Tedzani IV construction using grants. The grants are being amortized over the useful life of the asset.
Dependency/ Relationship with GOM	EGENCO IS capable of generating a commercial return sufficient to fund its operations in the short, medium and long term.

	2018	2019	2020	2021	2022
Profitability					
Operating Profit Margin	0.34	0.40	0.16	0.15	0.23
Net Profit Margin	0.26	0.27	-0.08	0.10	0.11
Return on Assets	0.15	0.07	-0.02	0.02	0.02
Return on Equity	0.25	0.10	-0.04	0.04	0.03
Cost Recovery	1.50	1.53	1.18	1.17	1.28
Liquidity					
Current Ratio	1.58	5.22	4.36	4.56	5.81
Quick Ratio	1.46	4.58	3.61	3.76	5.02
Debtor Turnover Days	217.7	238.1	210.1	214.3	345.9
Creditor Turnover Days	122.3	89.4	45.3	37.9	45.8
Solvency					
Debt to Assets	0.40	0.37	0.41	0.49	0.49
Debt to Equity	0.66	0.59	0.70	0.95	0.96
Debt to EBITDA	1.80	3.15	5.96	8.39	7.58
Interest Coverage	176.14	33.07	8.96	11.85	3062.76
Cash Interest Coverage	197.81	40.43	14.67	19.21	5200.74
Debt Coverage	3.00	4.50	3.89		
Government Relationship					
Government Transfers to Total Revenue	0.00	0.00	0.00	0.00	0.00
50% Test	0.70	0.67	0.88	0.88	0.81
Z-Score	4.62	4.05	3.26	2.78	3.17

	2018	2019	2020	2021	2022
Profitability					
Return on Assets	Category 1	Category 2	Category 4	Category 3	Category 3
Return on Equity	Category 1	Category 2	Category 3	Category 3	Category 3
Cost Recovery	Category 2	Category 1	Category 3	Category 3	Category 2
Liquidity					
Current Ratio	Category 2	Category 1	Category 1	Category 1	Category 1
Quick Ratio	Category 1	Category 1	Category 1	Category 1	Category 1
Debtor Turnover Days	Category 5	Category 5	Category 5	Category 5	Category 5
Creditor Turnover Days	Category 5	Category 3	Category 2	Category 2	Category 2
Solvency					
Debt to Assets	Category 2	Category 2	Category 2	Category 2	Category 2
Debt to Equity	Category 2	Category 2	Category 2	Category 2	Category 2
Debt to EBITDA	Category 2	Category 4	Category 5	Category 5	Category 5
Interest Coverage	Category 1	Category 1	Category 1	Category 1	Category 1
Cash Interest Coverage	Category 1	Category 1	Category 1	Category 1	Category 1
Debt Coverage	Category 1	Category 1	Category 1		
Government Relationship					
Government Transfers to Total Revenue	Category 1	Category 1	Category 1	Category 1	Category 1
50% Test	Category 5	Category 5	Category 5	Category 5	Category 5
Overall Risk Rating					
Weighted Average*	Category 2	Category 2	Category 2	Category 2	Category 2
Z-Score	Category 2	Category 2	Category 2	Category 2	Category 2

4.5.3 Main fiscal risks

Strategic risks. Likelihood of occurrence (High). The company has only one customer and is not well diversified in its power generation sources with a great concentration on hydro plants.

Source of Risk	Mitigation/policy measure
Strategic risk Malawi adopted the Single Buyer model at the time of unbundling.	Government should resolve the long-standing dispute.
EGENCO has only one Customer ESCOM. There is a long-standing conflict between the two commercial entities on the mode of billing this is despite having a signed Power Purchase Agreement with an effective date of October 2018. The conflict is on whether EGENCO should bill ESCOM based on capacity for the Hydro Plants as stipulated in the Tariff methodology by MERA or bill based on an energy and capacity tariff. Government through various entities have tried to mediate on the long-standing conflict.	There is need for a complete review of the instruments guiding the billing methodology in the sector. The energy sector needs to move to the next phase of the trading model where generators can trade directly with the large power users.
EGENCO's power plants are largely hydro powered and concentrated on Shire River. Due to climate change, there is a high risk of flooding and drought rendering the power stations unavailable for generation.	The SOE needs to diversify its power source by investing in new power plants.

Source of Risk	Mitigation/policy measure

Expenditure and revenue risks. Likelihood of occurrence (High). Mismatch between the level of increase between revenue and expenditure with the latter increasing at a faster rate.

Source of Risk	Mitigation/policy measure
Revenues: Generation electricity tariffs have not increased for the past 4 years resulting in minimal or no increase in revenue recorded year on year. **Expenditures:** Increase in expenditure is correlated to movement in economic fundamentals like inflation, depreciation of the Malawi Kwacha and increase in price of fuel. Generation Fuel price has moved from MK521.2 in 2018 to around MK1,315.56 representing an increase of 152%	**Revenues:** Tariff increases to respond to changes in the macro-economic fundamentals and adjustments in fuel price. **Expenditures:** To adopt a full cost recovery mechanism through pass through price of fuel used for generation of electricity.

Liquidity. Likelihood of occurrence (High).

Source of Risk	Mitigation/policy measure
Current assets: High levels of Trade receivables pose of a risk of reducing profitability through impairment provisions. EGENCO is being denied access to funds necessary for maintenance and rehabilitation of its aged plants. **Debt repayment:** company may not be able to service its interest and debt-repayment obligations.	**Current assets**: Government must intervene to ensure speedy resolution of the billing dispute with ESCOM

5. ANNEXES

ANNEX 1: LIST OF SOEs IN MALAWI (2022)

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		Lotteries 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 (2022)

Name (	Profit/loss (Mill	Gross Profit	Operating Profit	Return on Assets	Return on Equity	Dividend Payout	Asset Turnover	Cost Recovery	Current Ratio	Quick Ratio	Accounts	Accounts Payables	Debt to Assets	Debt to Equity	Interest Coverage	Government Transfers
MAB	79,029	88%	25%	16%	16%	2.8	0.63	1.58	19.49	19.49	314.11	191.35	0.04	0.04	NMF	-
MACRA	6,806,595	100%	40%	26%	58%	101.9	0.62	1.66	1.31	1.12	187.55	NMF	0.55	1.21	NMF	-
MBS	(648,858)	39%	-22%	-3%	-3%	NMF	0.29	1.64	2.00	1.99	97.96	166.50	0.08	0.09	NMF	-
MERA	1,350,725	100%	38%	2%	9%	-	0.12	1.61	1.15	1.15	2011.86	NMF	0.78	3.57	NMF	-
MGB	1,222,806	100%	83%	35%	57%	4.5	0.66	5.93	1.95	1.95	89.04	NMF	0.39	0.63	NMF	-
NCIC	468,549	100%	16%	22%	24%	13.2	1.18	1.19	4.58	4.38	14.04	NMF	0.08	0.09	NMF	-
PMRA	403,045	100%	24%	14%	16%	-	0.56	1.32	2.35	2.33	56.06	NMF	0.12	0.13	NMF	-
TC	(1,289,946)	100%	56%	-27%	-49%	NMF	0.33	2.26	0.33	0.25	35.63	NMF	0.46	0.86	3,194.35	-
TEVETA	2,194,787	100%	11%	16%	21%	-	1.40	1.13	3.74	3.73	132.10	NMF	0.22	0.29	104.02	-
MBC	(356,262)	100%	21%	-4%	-27%	NMF	0.45	1.27	1.53	1.06	181.72	NMF	0.86	6.12	569.14	-
MCA	(61,238)	38%	-23%	-2%	-3%	NMF	0.62	1.63	0.63	0.63	59.89	199.08	0.22	0.28	NMF	-
MIM	(267,069)	49%	-68%	-3%	-5%	NMF	0.14	0.86	0.14	0.11	71.02	236.17	0.37	0.60	NMF	-
NEEF	(13,595,062)	70%	39%	-122%	NMF	NMF	0.41	-6.78	0.91	0.91	734.64	69.61	1.27	-4.67	1.43	-
NFRA	174,337	14%	-72%	1%	1%	-	0.07	0.78	3.41	0.40	248.33	333.97	0.27	0.36	NMF	0.33
ACM	28,208	34%	-32%	1%	5%	-	2.09	1.51	1.19	0.75	70.31	143.75	0.70	2.37	NMF	-
ADL	3,956,601	100%	83%	7%	7%	-	0.17	5.99	0.86	0.72	228.47	NMF	0.05	0.06	NMF	-
ADMARC	(13,589,795)	60%	-142%	-9%	-33%	NMF	0.09	0.26	0.89	0.56	2430.55	2320.41	0.65	2.45	NMF	0.47
BWB	(8,187,960)	30%	-57%	-11%	NMF	NMF	0.20	1.15	0.18	0.08	65.37	943.93	1.17	-7.04	(297.06)	-
CRWB	(390,790)	42%	-66%	-2%	NMF	NMF	0.24	0.92	0.47	0.44	285.13	496.90	1.31	-4.23	(6.20)	-
EGENCO	5,116,734	42%	-48%	2%	3%	-	0.18	1.11	4.83	4.03	345.89	56.38	0.49	0.96	(389.75)	-
ESCOM	6,798,367	51%	-45%	2%	-736%	-	0.42	1.05	0.55	0.48	114.60	494.44	1.00	-373.05	30.64	-
LIHACO	(345,695)	42%	-16%	-11%	NMF	NMF	0.74	1.72	0.26	0.14	72.31	279.74	1.15	-8.19	(1.70)	0%
LWB	594,077	36%	-67%	0%	2%	-	0.13	0.97	5.83	4.74	154.45	94.89	0.74	2.78	(5.20)	-
MHC	1,664,265	23%	-54%	1%	1%	-	0.05	1.30	0.41	0.15	91.59	182.68	0.11	0.12	(29,751.64)	-
MPC	(1,698,975)	33%	-126%	-8%	-19%	NMF	0.14	0.60	0.30	0.24	341.62	1752.45	0.59	1.43	NMF	0.05
NOCMA	(415,911)	3%	1%	0%	-3%	NMF	0.90	55.65	1.07	0.98	194.33	340.33	0.92	11.19	NMF	-
NRWB	(5,409,291)	27%	-166%	-6%	NMF	NMF	0.07	0.22	0.54	0.35	219.93	762.96	1.03	-32.81	(7.91)	0.58
SRWB	(728,999)	69%	-40%	-2%	-4%	NMF	0.19	0.91	1.56	1.47	514.80	884.27	0.53	1.12	(3.86)	-

ANNEX 4: 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