



GOVERNMENT OF MALAWI

## **2024/25 CONSOLIDATED REPORT FOR STATE OWNED ENTERPRISES IN MALAWI**

**MINISTRY OF FINANCE ECONOMIC PLANNING AND  
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## EXECUTIVE SUMMARY

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This consolidated report presents the financial and operational performance of 23 Commercial State-Owned Enterprises (SOEs) based on audited results for the 2024/25 financial year. In 2025, SOE assets, liabilities, and revenues represented 20%, 12%, and 4% of GDP, respectively, marking declines from 2024 as a result of slower asset growth, reduced borrowing, and reduced revenue collection. The energy, water, and financial sectors continue to dominate the SOE portfolio and remain the primary sources of fiscal exposure.

The SOE sector recorded a significant turnaround in profitability, moving from an aggregate loss of K66.5 billion in 2024 to a consolidated profit of K34.1 billion in 2025. This improvement was driven mainly by stronger performance in the aviation, transport, and energy sectors, while the water sector remained the weakest performer with recurrent deficits. Cost-recovery challenges persisted, particularly in the water sectors, where non-cost-reflective tariffs, rising input costs, and operational inefficiencies continued to undermine financial sustainability.

Debt dynamics improved modestly in 2025 with total liabilities declining from K1.71 trillion in 2024 to K1.53 trillion in 2025, reflecting reductions in on-lent and guaranteed debt. However, liquidity constraints worsened, with the Debt Service Ratio for service-provision entities falling to -0.3%, signaling insufficient cash flow to meet interest obligations. Fiscal flows continued to reflect structural imbalances as government grants increased sharply, especially in the agriculture sector, rising to K118 billion in 2025, while dividend remittances dropped from K20.5 billion in 2024 to K4.4 billion in 2025 due to severe cash flow constraints and rising trade receivables. Although government arrears to SOEs declined markedly from K41.2 billion to K9.5 billion, significant intra-SOE arrears persisted, particularly among utilities, reinforcing liquidity pressures.

This highlights the need for a coordinated policy response across all major SOE sectors. Government should urgently implement cost-reflective tariff reforms, supported by pre-financed subsidies for social obligations; enforce mandatory prepaid metering for all public institutions to eliminate arrears; strengthen fiscal discipline through firm budget controls and sector-specific debt ceilings; fully separate and budget for Public Service Obligations (PSOs) from commercial related operations; adopt a national SOE investment framework to guide project appraisal and limit high-risk capital spending; enforce statutory dividend compliance; and deepen oversight through performance-based monitoring, enhanced financial reporting, and stronger streamlined governance structures. These interventions are essential for improving SOE performance, reducing fiscal risks, and enhancing the long-term sustainability of Malawi's SOE sector.

## LIST OF ACRONYMS

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ACM	Air Cargo Malawi Limited
ADL	Airport Development Limited
AG	Auditor General
BWB	Blantyre water Board
CRWB	Central Region Water Board
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
MCA	Malawi College of Accountancy
MERA	Malawi Energy Regulatory Authority
MAGLA	Malawi Gaming and Lotteries Authority
MHC	Malawi Housing Corporation
MoFEPD	Ministry of Finance Economic Planning and Decentralization
K	Malawi Kwacha
MRA	Malawi Revenue Authority
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
NRWB	Northern Region Water Board
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

# 1. INTRODUCTION

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## 1.1 IMPORTANCE OF STATE-OWNED ENTERPRISES (SOE) OVERSIGHT

The Government is exposed to substantial fiscal vulnerabilities when State-Owned Enterprises (SOEs) fail to maintain sound financial performance. Sub-optimal operational efficiency within an SOE erodes its profitability, elevates its debt obligations, and can ultimately undermine its long-term financial sustainability. Such underperformance reduces expected fiscal dividends, increases the likelihood of direct budgetary support, and may precipitate an unsustainable debt trajectory for the enterprise. As the sole shareholder, the Government also bears the full weight of SOE-related contingent liabilities, which can crystallize into immediate fiscal costs.

The Government's core mandate in managing SOE-induced fiscal risks is to rigorously identify the nature, origins, magnitude, and probability of these risks, thereby enabling timely and effective fiscal risk mitigation. Executing this mandate requires comprehensive, accurate, and consolidated financial and operational information, both at the portfolio level and for each individual SOE.

Accordingly, robust fiscal oversight of the SOE sector hinges on the Government's capacity to thoroughly assess the scale and likelihood of associated risks, supported by complete and reliable data across the entire SOE landscape.

## 1.2 SCOPE

Beyond proposing remedial interventions, this assessment evaluates the fiscal performance of Malawi's State-Owned Enterprises (SOEs) and highlights potential sources of financial strain. Undertaken in close collaboration with SOE Boards, it equips senior management within the Ministry of Finance Economic Planning and Decentralization (MoFEPD) with insights necessary to identify emerging fiscal risks and initiate timely, targeted corrective measures to contain them.

While data constraints may limit the precision with which the analysis quantifies the scale of these risks or estimates the probability of their occurrence, it nonetheless provides an essential foundation for structured dialogue among MoFEPD, Line Ministries, and SOE Boards. As part of the process, the Ministry engaged with the management teams of all 26 Commercial SOEs to verify and authenticate the secondary information used in preparing this report. The data set was compiled from a range of key sources, including Performance Management Plans and Budgets (PMPBs), management accounts, audited financial statements, annual economic reviews, and individual 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<sup>1</sup>. 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

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<sup>1</sup> 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.



Section		Sub-section	Analysis	Importance
				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, staffing and restructuring) 2.6.4 SOE Oversight function (capacity and coverage)	This section outlines the main categories for cross-cutting issues, including
		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	<ul style="list-style-type: none"> <li>Overview of financial performance</li> </ul>		Provides senior management with

Section		Sub-section	Analysis	Importance
	analysis and data input sheets	<ul style="list-style-type: none"> <li>• Overview of financial risks</li> <li>• Financial flows with the Government</li> <li>• Policy specific issues</li> </ul>		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	BWB ESCOM EGENCO	1.1 BWB 1.2 ESCOM 1.3 EGENCO	Trend and forward-looking analysis for the three (3) high risk SOEs.
Annex 1	List of SOEs in Malawi (2024)	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

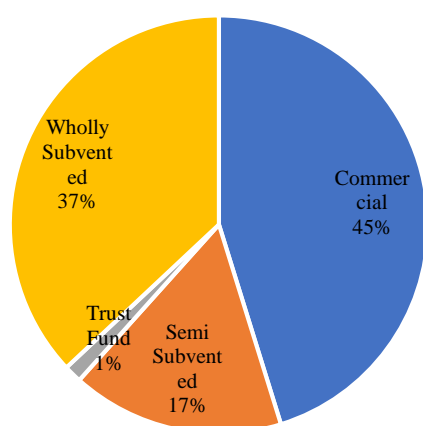
### 2.1 OVERVIEW OF THE STATE-OWNED ENTERPRISES SECTOR IN MALAWI

In Malawi, State-Owned Enterprises (SOEs) are important to the economy. Within the wide definition of a statutory body, a State-Owned Enterprise (SOE) is defined by the 2022 Public Finance Management Act as a corporate or unincorporated body that has been established as a specified entity to offer a certain good and/or service<sup>2</sup>. This includes any company or subsidiary of a company in which the government, either directly or indirectly, controls the makeup of the board of directors, has more than 50% of the body's voting power, or owns more than 50% of the company's issued share capital, either directly or through a statutory body or another agency. The Government uses SOEs as a conduit to address its strategic economic and social objectives and/or its commercial objectives.

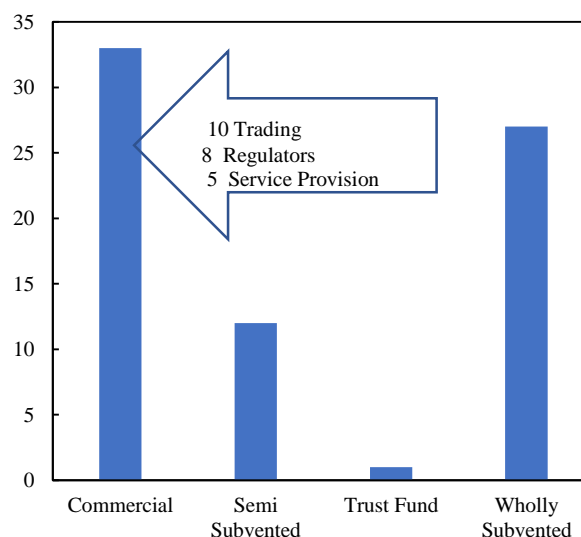
**This report covers 23 commercial SOEs comprising 10 traders, 5 service providers and 8 regulators. The “Public Enterprise Sector”, however, is larger than this as it also includes wholly and semi-subsided organisations totalling to 76 institutions. However, the analysis in this report is based on the 26 commercial SOE data only.<sup>2</sup>**

**Figure 1: Public Enterprises 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).

State-Owned Enterprises (SOEs) in Malawi continue to play a critical role in driving activity across the country's strategic economic sectors, including: agriculture; communications; education; energy; finance; health; labour; lands and housing; trade and tourism; transport and public works; and water. Their cumulative footprint in the economy remains substantial, underscoring their importance both as service providers and as commercially-oriented entities.

For FY2023/24, SOE revenues accounted for approximately **11 percent of GDP**, while gross liabilities represented **20 percent of GDP**, reflecting the significant scale of the sector and the associated fiscal risks. Total SOE assets were equivalent to **26 percent of GDP**, indicating the sizeable resource base managed by these institutions. With the inclusion of the **2025 Audited** data, the analysis reveals a continuation of structural trends observed in previous years, although notable shifts in financial performance and balance sheet composition are becoming more apparent.

As illustrated in **Table 2**, SOE total assets increased from MK 2.37 trillion in 2024 to MK 2.50 trillion in 2025, though their share of GDP declined marginally from 22 percent to **20 percent**. This moderation partly reflects slower asset growth relative to nominal GDP expansion, as well as the ongoing implementation of reforms within major SOEs aimed at improving operational efficiency and tightening investment portfolios.

Total liabilities declined significantly from MK 1.71 trillion in 2024 to MK 1.53 trillion in 2025 equivalent to a reduction from 16 percent to **12 percent** of GDP. This improvement is largely attributed to enhanced debt management practices, restructuring efforts in key energy and water sector SOEs, and more disciplined financial oversight by the shareholder ministries. Nevertheless, the concentration of liabilities within a few large entities particularly in the energy and water sectors continues to present elevated fiscal risks, necessitating continued monitoring.

On the revenue side, 2025 Audited results show a moderation from MK 679.4 billion in 2024 to MK 561.6 billion in 2025. As a share of GDP, this represents a decline from 6 percent to **4 percent**. This performance mirrors challenges in demand, cost recovery, and tariff adequacy observed especially in utility sectors, as well as operational disruptions in some trading SOEs. Despite these declines, the sector remains an integral contributor to economic activities, employment, and service delivery.

**Table 2: SOEs Assets, Liabilities and Revenues (K'million and Percent of GDP)**

(Millions MK)	2022 Audited	2023 Audited	2024 Audited	2025 Audited
Total Assets	1,884,132	2,078,998	2,371,534	2,500,552
Total Liabilities	1,296,676	1,418,522	1,705,669	1,529,880
Total Revenue	580,451	1,123,146	679,396	561,566
As % of GDP				
Total assets	22%	22%	22%	20%
Total Liabilities	15%	15%	16%	12%
Total Revenue	7%	12%	6%	4%

Source: 2025 Audited Financial Statements and Annual Economic Report, 2025

Consistent with historical patterns, the SOE landscape continues to be dominated by the **energy, water, and agriculture sectors** as shown in **Table 3**. For the FY2024/25 period, the energy sector alone accounted for **39.17%** of total SOE assets, **43.35%** of total liabilities and **17.46%** of total revenues. This concentration underscores the systemic importance of energy SOEs such as ESCOM, EGENCO, and NOCMA. Their operational and financial stability has strong implications for the wider economy, particularly in relation to electricity generation, transmission, and distribution. The high share of liabilities in the energy sector of over two-fifths of the total reinforces the need for continued reforms to address legacy debt, strengthen cost recovery mechanisms, and increase operational efficiencies.

The water sector also represents a significant proportion of the SOE portfolio, contributing **25.59%** of assets, **43.42%** of liabilities, and **25.09%** of revenues. The continued effort to expand water supply infrastructure, coupled with large investment requirements, has kept the sector heavily leveraged. While revenue performance remains strong relative to other sectors, operational and non-revenue water losses continue to affect financial sustainability. Agriculture, although smaller in terms of assets and liabilities, accounted for **11.23%** of total revenues. This is driven by trading-focused entities whose activities are sensitive to market conditions, commodity prices, and climatic shocks. These SOEs remain critical for food security and market stabilization, but they also face significant operational risks that require strengthened governance and improved commercial orientation.

From a functional perspective, trading SOEs dominate the financial structure of the sector, accounting for **60.41%** of assets, **58.92%** of liabilities and **54.57%** of revenues. This reflects the commercial footprint of entities involved in the sale and distribution of goods and utilities. Service-provision SOEs, although smaller, are crucial for social mandates and public service delivery, while regulatory bodies continue to play an important role in oversight and market stability.

**Table 3: SOE Assets, Liabilities and Revenues for FY2024/25 (By sector and category) (Percent of total)**

Sector	Assets	Liabilities	Revenue
Agriculture	2.44%	1.95%	11.23%
Education	0.17%	0.04%	0.96%
Energy	39.17%	43.35%	17.46%
Governance	0.05%	0.02%	0.13%
Trade and Tourism	4.21%	1.80%	10.93%
Transport and Public Works	8.99%	1.05%	6.00%
Water	25.59%	43.42%	25.09%
Lands and Housing	6.05%	1.84%	1.26%
Financial	6.61%	2.48%	6.92%
Health	4.57%	3.41%	13.79%
Labour	2.14%	0.65%	6.22%
<b>Grand Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
Function	Assets	Liabilities	Revenue
Service Provision	14.56%	7.44%	25.55%
Trading	60.41%	58.92%	54.57%
Regulator	25.03%	33.63%	19.87%
<b>Grand Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Source: 2025 Audited Financial Statements.

## 2.2 SOE FINANCIAL PERFORMANCE

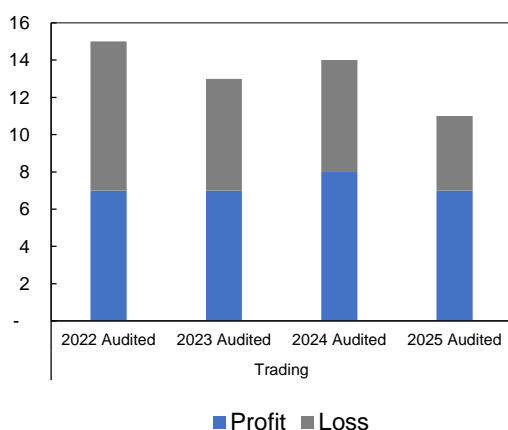
### 2.2.1 Performance (Profits and Surpluses)

The *Dividend and Surplus Policy for Statutory Bodies (2019)* provides clear direction on the expected financial conduct of State-Owned Enterprises (SOEs) in Malawi. The policy underscores that commercially oriented SOEs must operate efficiently and effectively, following private-sector principles as a means of strengthening their long-term financial sustainability. At the same time, the policy recognises that many of these institutions carry dual mandates providing essential social services while attempting to fulfil their commercial responsibilities. Inevitably, this social service component compresses profitability levels, as entities must balance cost recovery with affordability considerations. Despite these constraints, deliberate efforts continue to be undertaken to transition toward more *cost-reflective financing models*, while preserving the social protection elements embedded in service delivery.

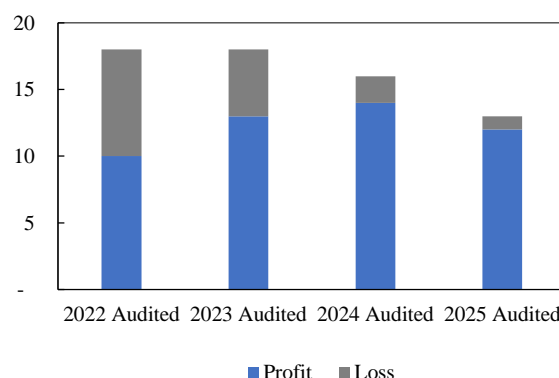
The financial performance of commercially oriented SOEs displays notable variability across categories, with some institutions recording significant year-to-year swings from high to low profitability and vice versa. As shown in *Figure 2*, the number of loss-making SOEs within the trading category stood at five, reflecting persistent structural and operational challenges in certain sub-sectors. Nevertheless, some entities demonstrated improvements: for instance, **EGENCO** shifted from a loss-making position in earlier years to profitability in 2024 and maintained a profit in 2025 Audited, while entities such as **CRWB** and **SRWB** continued to face recurring losses.

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

**Figure 2a: Trading SOEs**



**Figure 2b: Regulators and Service Providers**



Source: 2025 Audited Financial Statements.

Only one service provider, **MBC**, registered a deficit in 2024, while the remainder of the service-provision SOEs reported surpluses. This marked an improvement from prior years and indicated strengthening performance, particularly among entities that had previously been fiscally stressed. Furthermore, although **MHC**, **EGENCO**, and **NEEF** all transitioned from losses in 2023/24 to profitability in 2024, the trading SOE group still recorded a total of six loss-making enterprises. The magnitude of losses in the trading category was substantial, with the largest deficits in 2024 recorded by **ESCOM Limited** (K65.3 billion) and **BWB** (K37.8 billion). These results underscore the high fiscal risk concentration in the energy and water sectors.

As at 31<sup>st</sup> March, 2025, the situation had shifted significantly. Several trading SOEs recorded marked improvements in profitability most notably **ADL**, **ACM**, **EGENCO**, and **ESCOM**, all of which registered substantial profits. **BWB**, while still loss-making, narrowed its deficit considerably from the previous year. Conversely, persistent underperformance remained evident among entities such as **NRWB** and **CRWB**, whose financial positions continued to weaken in 2025. The service-provider SOEs also strengthened their performance in 2025, including **UHL**, **NFRA**, and **MCA** recorded positive surpluses. This reflects improved financial management practices and revenue enhancement measures implemented across the subsector.

Regulatory bodies maintained relatively strong financial performance, with most entities recording surpluses across the period under review. In 2025 financial year, regulators such as **TEVETA**, **TC**, **MAGLA**, **MACRA**, and **MBS** recorded significant surplus, driven mainly by improved compliance, expanded licensing activities, enhanced oversight functions, and stringent revenue collection practices. However, **PMRA** recorded a deficit in 2025, reversing the surpluses it had posted in earlier years reflecting increased operational costs and regulatory enforcement expenditures.

**Table 4: Profit and loss /Surpluses and deficits making SOEs (FY2022 - FY2025) (By entity) (K' Millions)**

Profit/Loss for the year	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Trading</b>				
ACM	28,208	289,070	296,074	739,680
ADL	7,721,360	12,431,370	13,337,863	4,464,259
BWB	(8,187,960)	(20,692,852)	(37,782,199)	(10,208,257)
CRWB	(390,790)	1,952,547	1,564,018	(1,693,734)
EGENCO	5,116,734	(2,132,433)	(7,376,713)	644,821
ESCOM	6,798,367	25,972,037	(65,257,609)	4,813,074
LIHACO	(345,695)	2,738,999	634,720	1,306,653
LWB	594,077	2,583,176	9,485,104	1,237,608
MHC	1,664,265	(268,115)	(4,622,263)	(2,054,678)
NOCMA	(415,911)	3,213,911		
NRWB	(5,409,291)	(7,413,864)	(10,249,862)	(14,668,886)
SFFRFM	285,250		6,261,875	12,295,215

Service Provision				
MBC	(356,262)	(1,123,754)	(1,280,500)	
MCA	(61,238)	399,804	244,244	622,991
NEEF	(13,595,062)	(4,944,694)	814,228	407,608
NFRA	174,337	263,271	2,085,876	1,146,540
CMST	(5,943,721)	(10,284,707)	(8,581,138)	2,371,141
UHL	413,688	1,388,442	1,866,688	3,407,553
Regulator				
MAB	79,029	45,816	133,035	45,148
MBS	(648,858)	747,464	4,456,921	2,247,562
MERA	1,350,725	2,804,005	2,122,830	683,954
MAGLA	1,222,806	2,583,264	398,740	7,113,106
NCIC	468,549	1,011,194	1,747,576	1,084,989
PMRA	403,045	617,820	1,142,770	(466,023)
TC	(1,289,946)	(110,289)	1,030,527	1,718,116
TEVETA	2,194,787	1,401,207	12,925,036	16,815,900
<b>Grand Total</b>	<b>(17,347,346)</b>	<b>16,411,290</b>	<b>(66,541,259)</b>	<b>34,074,340</b>

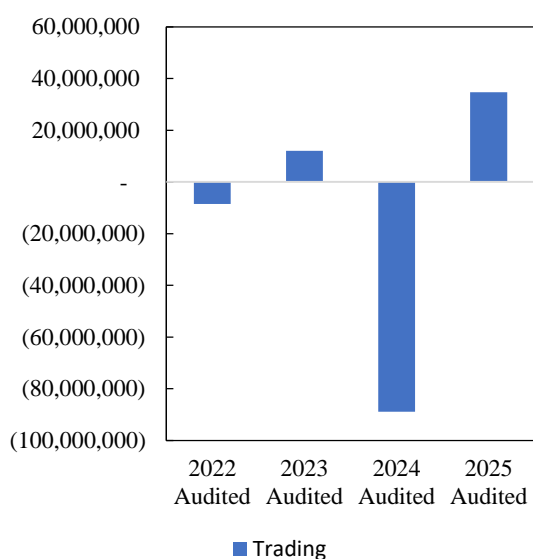
Source: 2025 Audited Financial Statements

From an overall total profit of K5.43 billion in 2023 to an aggregate loss of K66.5 billion in 2024, the trading SOEs' overall performance in 2024 affected in terms of profitability (Table 4). The water and energy sectors were the main drivers of this underperformance. However, taking into account 2025 Audited results, the sector shows signs of recovery. Aggregate outturn indicate a rebound to positive profitability of K34.07 billion, marking a significant reversal from the previous year's aggregate losses of MK66.5 billion. This recovery was driven primarily by strong performance from the aviation, Trade and Tourism, and energy subsectors particularly ADL, ACM, ESCOM, MAGLA and improved but moderate gains from EGENCO.

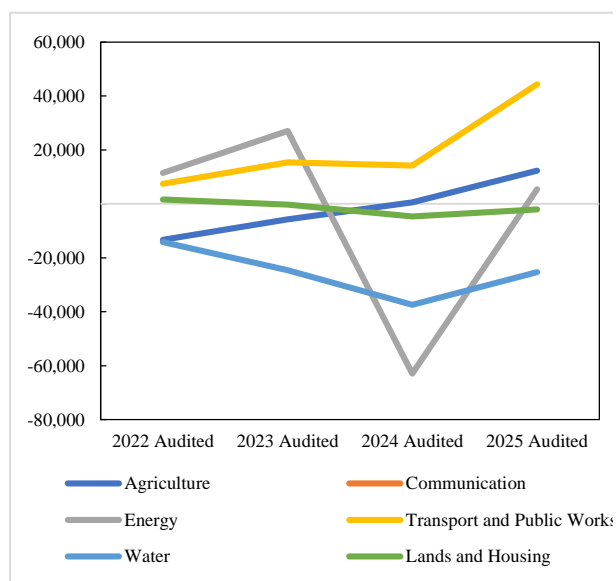


**Figure 3: Profitability of Trading SOES by function and by sector (Kwacha Millions)**

**Figure 3a: Trading SOEs (aggregate)**



**Figure 3b: Trading SOEs by sector**

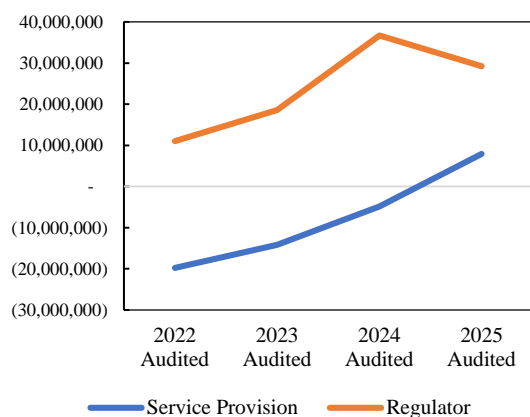


Source: 2025 Audited Financial Statements and Performance Management Plans and Budgets

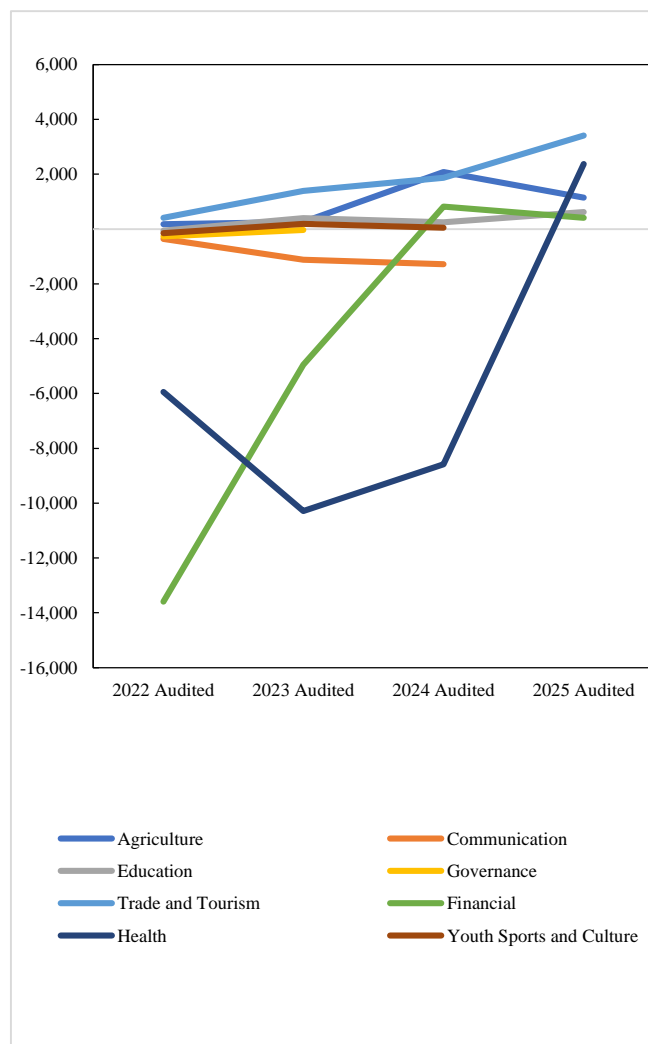
The trading SOEs' performance over the review period shows worsening trends for several industries between 2023 and 2024 particularly in the water, energy, and health sectors largely due to rising operational costs, foreign-exchange-linked input pressures, ageing infrastructure, and the continued absence of fully cost-reflective tariffs. However, the 2025 Audited outcomes indicate a gradual stabilisation in key sectors. In the water sector, although entities such as NRWB and CRWB remained heavily loss-making, BWB's financial position improved considerably as losses narrowed in 2025, even though persistent challenges such as high non-revenue water, deteriorating distribution networks, and rising electricity costs continued to weigh on performance. The energy sector recorded a more pronounced recovery, with ESCOM shifting from a substantial loss in 2024 to a profit in 2025, while EGENCO sustained its upward trajectory following its return to profitability. These gains were supported by tariff adjustments, ongoing operational restructuring, and improvements in revenue and collection efficiency. The lands and housing sector maintained a steady upward trend in profitability from 2023 through 2025, reflecting progress in property management systems and strengthened revenue mobilisation efforts. In the health trading entities, performance was mixed, though CMST posted a notable recovery in 2025 despite the sector's continued exposure to high operational costs, supply chain pressures, and stock management risks.

**Figure 4: Profitability of 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: 2025 Audited Financial Statements and Performance Management Plans and Budgets

The profitability of regulatory and service-provision SOEs continued to demonstrate notable improvements over the review period. From aggregate surpluses of K19.32 billion in 2023, regulatory SOEs strengthened further in 2024, registering total surpluses of K38.59 billion, reflecting improved compliance, increased revenue mobilization, and enhanced enforcement of regulatory mandates (Figure 4). This positive trajectory was sustained in the **2025 Audited results**, with most regulatory institutions continuing to post surpluses, driven by growth in licensing fees, improved operational efficiency, and the streamlining of administrative processes. Entities such as TEVETA, MBS, MAGLA and TC maintained strong financial performance, while a few, such as PMRA, recorded deficits due to escalating operational costs and targeted regulatory interventions that temporarily increased expenditure.

Similarly, service-provision SOEs, which had previously struggled recording an aggregate deficit of K5.43 billion in the 2022/23 financial year showed measurable recovery in 2024, closing the year with a combined surplus of K1.86 billion. This turnaround was supported by improvements in internal controls, strengthened billing and revenue-collection systems, and targeted operational reforms within key service delivery institutions. The **2025 Audited results** point to a further consolidation of this progress, with several service providers including NFRA, UHL, and MCA reporting stronger surpluses. These gains were largely associated with cost-containment measures, enhanced accountability frameworks, and improved service demand in specific sectors. Most service-provision SOEs recorded improved financial stability in 2025, reflecting ongoing efforts to reduce reliance on the national budget through strengthened operational efficiency, improved governance structures, and consistent implementation of financial sustainability strategies.

### 2.2.2. Cost recovery

Cost recovery reflects the ability of a corporation to generate adequate revenue to meet operating expense<sup>3</sup>. The ratio should generally be higher than one hundred percent. Cost recovery performance according to functions of the SOE, Water, Transport & public works and Lands and Housing sector were above 100 percent threshold in 2023. Communication was below the threshold while energy was slightly just above the threshold.

Figure 5: Cost Recovery for Trading SOEs

Figure 5a: 2024 only

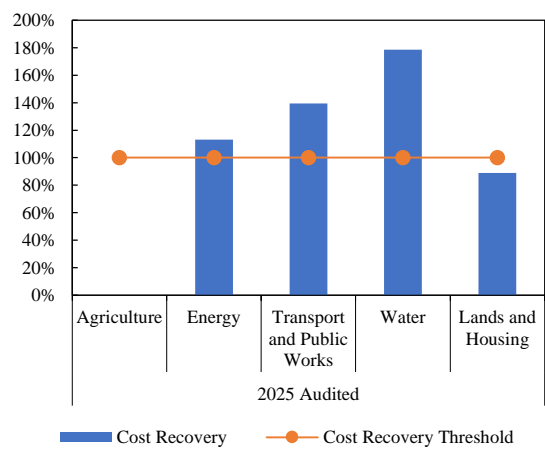


Figure 5b: Trend analysis (2022-2025)



Source: 2025 Audited Financial Statements and Performance Management Plans and Budgets

<sup>3</sup> Operating revenue equals total revenue less government grants and equity injections; and operating expenses are less gross interest expense.

The cost recovery performance of Malawi's trading State-Owned Enterprises (SOEs) continues to reflect underlying operational pressures and structural sectoral dynamics, as illustrated in **Figure 5**. The 2024 aggregate position shows a **notable downward shift** in cost recovery among trading SOEs, highlighting persistent vulnerabilities in pricing structures, rising input costs, and inefficiencies in operational processes. This pattern is further contextualized when observing the **trend performance from 2022 to 2025** (Figure 5b), which reveals fluctuating recovery levels across key sectors, influenced by both macroeconomic and institution-specific factors.

In the **communication and water sectors**, most SOEs remained **below the operational cost-recovery threshold**, registering ratios between **66% and 97%**. While this indicates that these entities continue to under-recover their full operating costs, the 2025 Audited results show a slight moderation in this gap, mainly due to enhanced tariff adjustments, improved billing efficiency in the water sector, and ongoing cost-containment measures. Nonetheless, cost pressures particularly those arising from energy expenses, foreign exchange losses, and ageing infrastructure continued to weigh down their capacity to fully recover costs in 2025.

Conversely, SOEs in **Agriculture, Transport and Public Works, and Lands and Housing** sustained **cost-recovery levels above the threshold**, ranging from **217% to 427%** in 2024. The 2025 Audited results reaffirm this strong performance, driven by higher revenue outturns, improved commercialization of services, and in some cases, one-off gains associated with asset disposals or increased demand for sectoral services. These sectors continue to demonstrate relative resilience, although the exceptionally high ratios for some entities suggest potential over-dependence on non-core revenue streams, which may not be sustainable over the medium term.

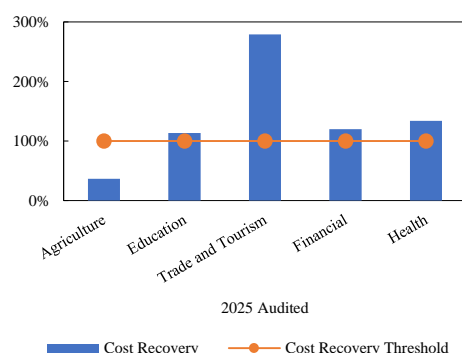
For **Regulatory SOEs**, the 2025 analysis shows a continued **improvement in cost-recovery performance**, with all regulatory entities maintaining positions within the **moderate- to low-risk categories**. This positive outturn reflects enhanced compliance enforcement, stable revenue inflows from levies and licenses, and better alignment between operational budgets and resource envelopes. Regulatory bodies appear to be benefiting from more predictable revenue frameworks and stronger financial discipline, enabling them to meet a larger share of their direct operating costs without significant fiscal support.

In contrast, **Service Provision SOEs** experienced a further **decline in cost recovery**, particularly reflecting the continued financial challenges at ADMARC. The downward trajectory observed in 2024 extended into 2025, as ADMARC's revenues weakened due to reduced trading volumes, operational inefficiencies, and market distortions. The entity's underperformance exerted downward pressure on the aggregate service provision category. Despite ongoing restructuring efforts, cost recovery for service-based SOEs in 2025 remains constrained by high administrative overheads and limited diversification of income sources.

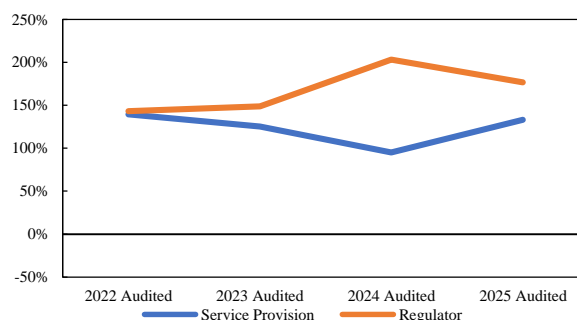
Overall, the **2022–2025 trend** shows that while a subset of SOEs has been able to sustain strong or improving cost-recovery performance, a significant number remain structurally constrained. The 2025 Audited results reaffirm the importance of pricing reforms, operational restructuring, and improved financial management practices to ensure that SOEs, particularly in strategic sectors such as communication, water, and service delivery, move closer to achieving sustainable cost recovery and reduced dependence on Government support.

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

**Figure 6a: 2024 only**



**Figure 6b: Trend analysis (2022-2025)**



Source: 2025 Audited Financial Statements and Performance Management Plans and Budgets

### 2.2.3. Return on assets

**Return on assets indicates how well management of a Company is employing its total assets to make a profit.** The overall **Return on Assets (ROA)** for Trading SOEs continues to reflect subdued operational efficiency and profitability challenges. In **2024**, the aggregate ROA fell **below the recommended benchmark of 5%**, marking a deterioration from the 2023 out-turn. This weakened position was driven primarily by the **energy sector**, which experienced persistent losses, asset revaluation pressures, and limited revenue growth arising from tariff rigidities and high operating costs. The energy sector's large asset base, combined with underperforming operations, had a disproportionate impact on the aggregate ROA for Trading SOEs.

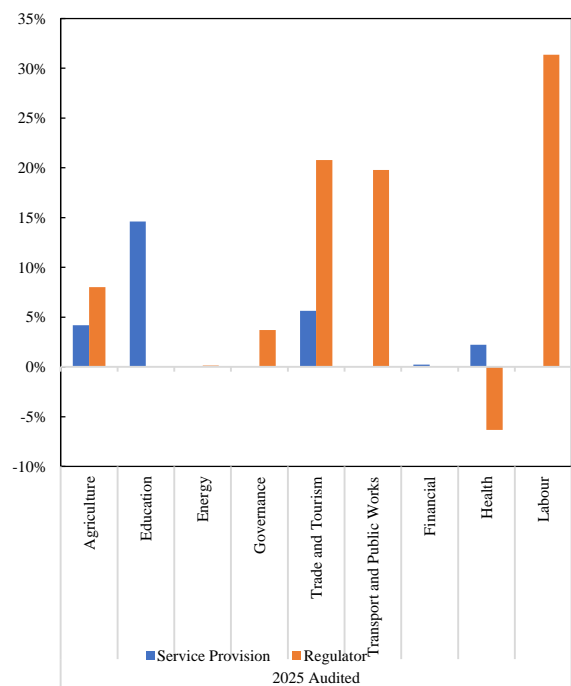
The **2025 Audited** figures further reinforce this trend. Although marginal improvements were recorded in some entities due to enhanced revenue measures and targeted cost-management initiatives, the overall ROA for the Trading SOEs remained **below the 5% threshold**, suggesting deep-seated structural issues that continue to limit profitability. The energy sector again emerged as the dominant factor behind the low aggregate returns, as liquidity constraints, escalating input prices, and ongoing supply disruptions suppressed earnings relative to total asset holdings.

Beyond the energy sector, SOEs in the **labour, transport, and agriculture** sectors continued to exhibit **consistently low returns**, even in 2025. Despite efforts aimed at operational restructuring and cost optimization, these sectors have not yet generated adequate value from their asset portfolios. Transport entities faced challenges due to high maintenance costs for ageing fleets and infrastructure, while labour-related SOEs struggled with limited diversification of revenue streams. In the agriculture sector, returns were constrained by fluctuating commodity prices, inefficiencies in commercial operations, and in some cases, legacy debt burdens that undermined financial performance.

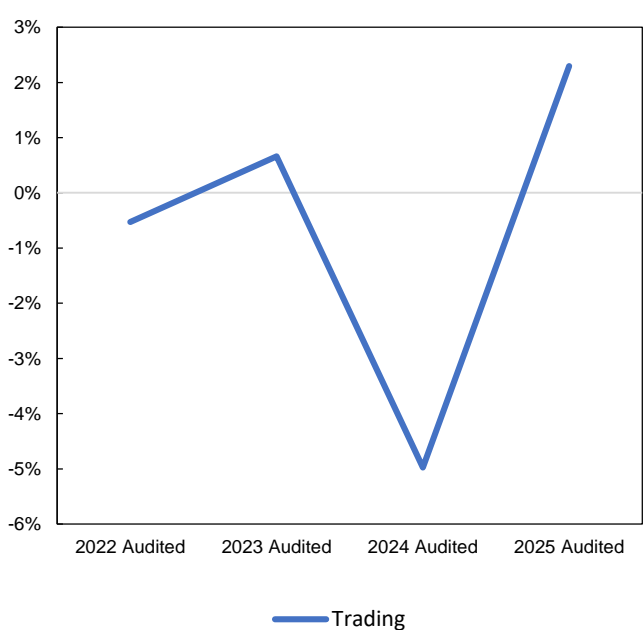
The **trend analysis from 2022 to 2025** (Figure 7b) shows that ROA for Trading SOEs has remained relatively volatile but persistently below recommended benchmarks. The period is characterized by moderate gains in some years followed by sharp declines driven by sector-specific shocks especially in energy and agriculture. While a few entities registered isolated improvements in 2025 as a result of revenue growth and better utilization of working capital, these gains were not sufficient to lift the overall sector performance.

The persistently low ROA signals mounting concerns regarding operational productivity and the ability of SOEs to generate sufficient returns from the substantial assets under their control. This situation poses fiscal risks, as continued underperformance may require increased Government oversight, restructuring support, or recapitalization efforts. Moreover, the 2025 Audited results highlight the importance of strengthening asset utilization strategies, implementing targeted reforms in loss-making sectors, and improving corporate governance to enhance long-term financial sustainability.

**Figure 7: Return on Assets for Trading SOEs (Percent)**  
**Figure 7a: 2025 only**



**Figure 7b: Trend analysis (2022-2025)**



Source: 2025 Audited Financial Statements and Performance Management Plans and Budgets

Regulatory SOEs have experienced a gradual decline in Return on Assets (ROA) over the review period, although their performance remains above the recommended 5% benchmark. In 2023, regulators achieved a ROA of 14%, reflecting effective revenue mobilization and prudent

expenditure control. However, in 2024, this declined to 9% due to rising operational costs, including personnel expenses and expanded regulatory activities, indicating that asset efficiency is gradually weakening. The 2025 Audited results show a continuation of this trend, with regulators maintaining ROA above 5% but under persistent pressures from increasing obligations, the need for expanded oversight, and partial reliance on government financing for capital investments.

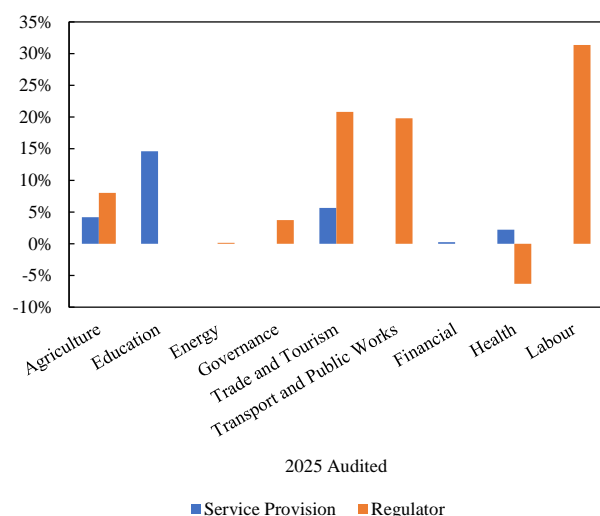
Service provision SOEs, in contrast, remain in a high-risk financial position, with ROA hovering around 2% despite slight improvements in 2024. Losses reported by key entities such as ADMARC reflect structural challenges, including liquidity constraints, high input costs, and operational inefficiencies. While some service providers implemented cost-containment and operational reforms, the overall sector remained vulnerable due to the dual mandate of delivering public services while attempting to operate commercially.

The 2025 Audited results indicate only modest recovery for service provision SOEs, with improvements insufficient to lift the sector out of the high-risk category. Persistent deficits, asset underutilization, and limited revenue diversification continue to constrain profitability. In contrast, regulators maintained relatively stable performance, although the downward ROA trajectory underscores the need for stronger cost-recovery mechanisms, improved resource allocation, and operational efficiency to safeguard financial sustainability.

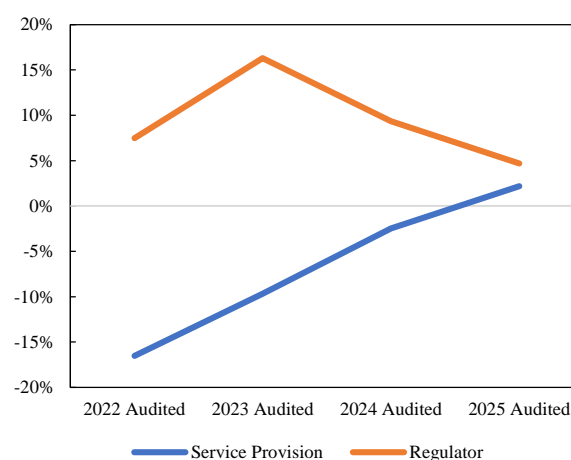
The trend analysis from 2022 to 2025 highlights a clear divergence between the two categories: regulators remain robust but gradually declining, while service providers consistently underperform, **(Figure 8)**.

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

**Figure 8a: 2025 only**



**Figure 8b: Trend analysis (2022-2025)**



Source: 2025 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. In 2025, the Return on Equity (ROE) among trading State-Owned Enterprises (SOEs) show continued deterioration. While the international benchmark for ROE is typically considered to be above 15%, the **2025 ROE** for SOEs in the trading sector remains well below this threshold. The ROE for trading SOEs in **2025** has worsened further, dropping to **-6%**, a slight improvement over the prior year's **-8%**, but still indicating a concerning trend. This sustained negative return underscores the financial fragility that these enterprises face, especially in light of the mounting global economic pressures, regulatory challenges, and sector-specific issues.

This negative ROE in 2025, while marginally better than 2024, is indicative of limited recovery, suggesting that the sector is still struggling with efficiency and profitability, particularly in relation to its equity investments. Given the 2025 audited performance, the energy and water sectors continue to be the primary contributors to this underperformance, (Figure, 9a). Looking at the **trend analysis** from 2022 to 2025, ROE portrays a persistent downward trajectory. In **2022**, ROE was **-1%**, reflecting early signs of financial strain, and by 2023, it had slightly improved to 1%. The situation worsened even further in **2024**, with ROE plunging to **-5%**, and the **2025 audited figures** show only a marginal recovery to **2%**. This paints a clear picture of ongoing challenges in these sectors, with little indication of a rapid turnaround.



The trend analysis confirms that **SOEs in the Energy and Water sectors** have been the primary drivers of this decline, with their performance heavily impacting the aggregate ROE across the entire trading sector. These two sectors, which typically rely on large infrastructure investments and government subsidies, have faced numerous challenges including rising operational costs, aging infrastructure, environmental compliance issues, and fluctuating global energy prices. This combination of factors has severely undermined their profitability.

Figure 9: Return on Equity for Traders (Percent)

Figure 9a: 2025 only

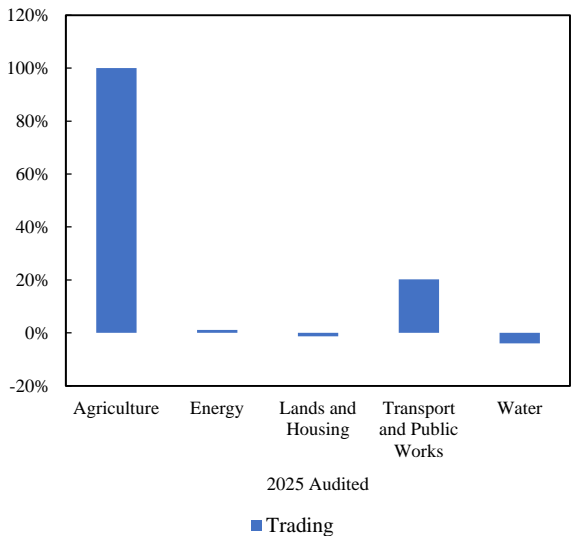
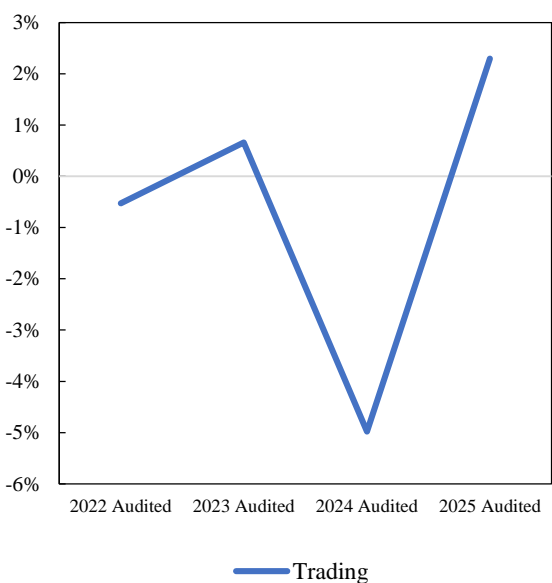


Figure 9b: Trend analysis (2022-2025)



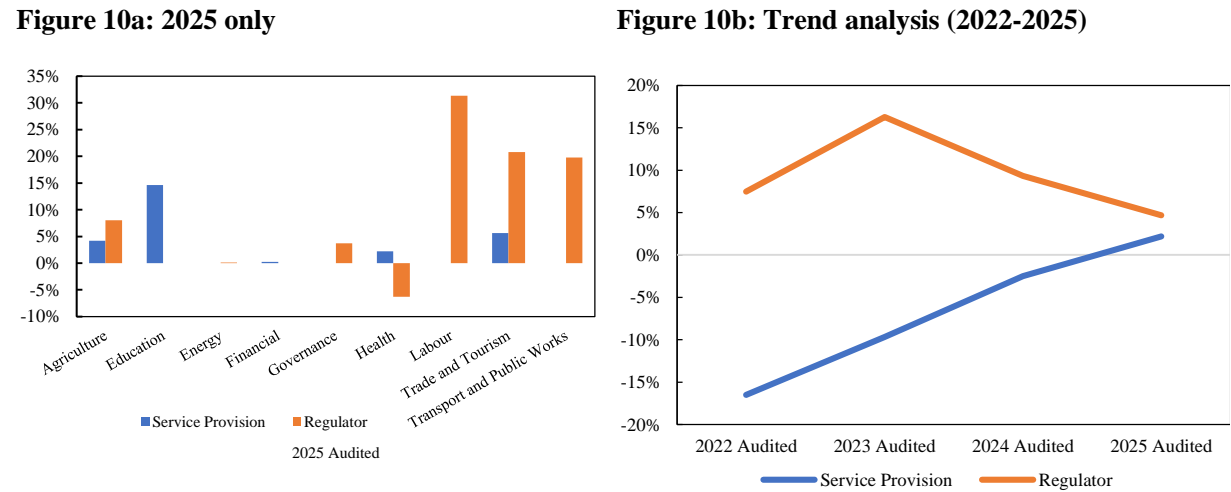
Source: 2025 Audited financial Statements and Performance Management Plans and Budgets

In 2025, the performance of State-Owned Enterprises (SOEs) diverged between the regulatory and service-provision sectors, showing both persistent challenges and areas of improvement. For regulatory SOEs, 2025 saw a further decline in Return on Equity (ROE), dropping to 6%, a significant fall from 9% in 2024. This reflects ongoing bottlenecks, especially within the energy sector, which continues to struggle with high operational costs, volatile energy prices, and regulatory challenges. The performance in 2025 underscores the unsustainable financial model for energy-related SOEs, with high capital expenditures and slow tariff adjustments exacerbating the decline. While the regulatory segment remains profitable, the diminishing returns indicate increasing financial risk, particularly as these entities face rising costs and limited revenue growth.

In contrast, **service-provision SOEs** demonstrated a **slight improvement** in their **2025 ROE**, which increased to **2%**, up from **-2% in 2024**. This growth was driven primarily by better performance in the **agriculture** and **education** sectors, where cost optimization and stronger

output helped stabilize returns. While still below optimal levels, the **modest rise** indicates that these SOEs are managing operational costs more effectively and beginning to show incremental financial resilience. However, **marginal profits** suggest that service-provision SOEs still face significant challenges in scaling operations and achieving sustainable returns. (Fig. 10).

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



Source: 2025 Audited financial Statements and Performance Management Plans and Budgets

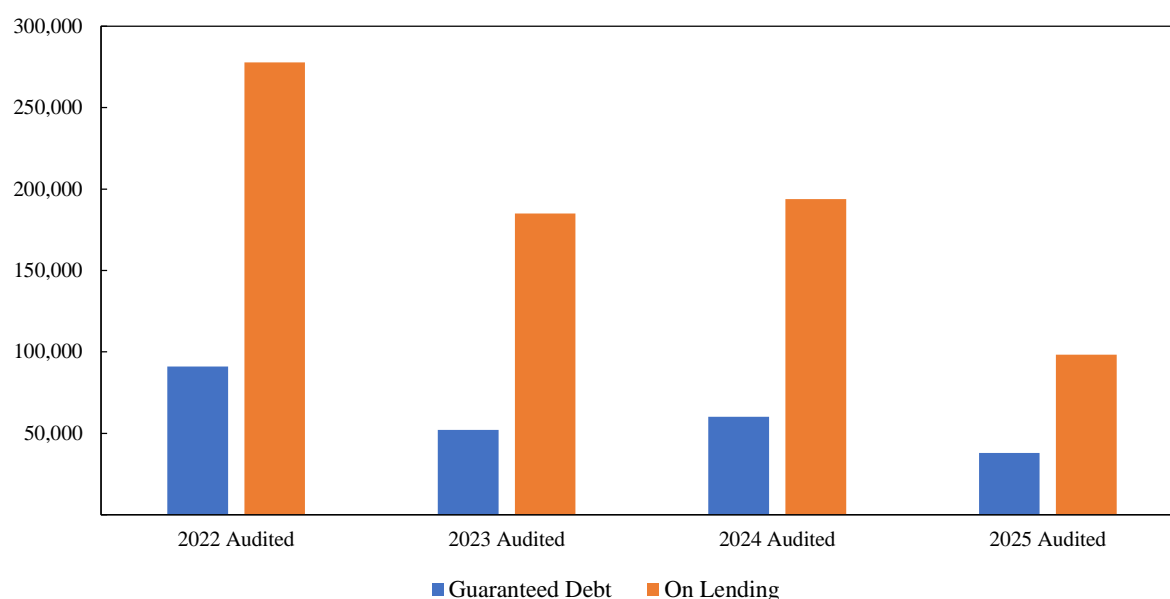
### 2.3. SOE DEBT

#### 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 2025, total liabilities inclusive of these debt categories stood at 12 %Percent of GDP (Table 2).** These amounts include long-term loans to the different sectors, non-interest-bearing debt, guaranteed debt from bilateral and multilateral institutions, and specialized direct and on-lent loans. These loans were intended, among other things, to improve energy transmission, build water supply networks in water supply areas, and create and renovate infrastructure.

SOEs continue to finance their development projects using on lent facilities. In 2025, the stock of on lent stood at K98.4 billion a decrease from 193.4 billion reported in 2023/2024 financial year. On the other hand, guaranteed debt portrays a downward trend in 2025 which decreased to K38.0 billion from K60.1 billion in 2024 (**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 Economic Planning and Decentralization.

**Figure 11:( Composition of SOE debt)**



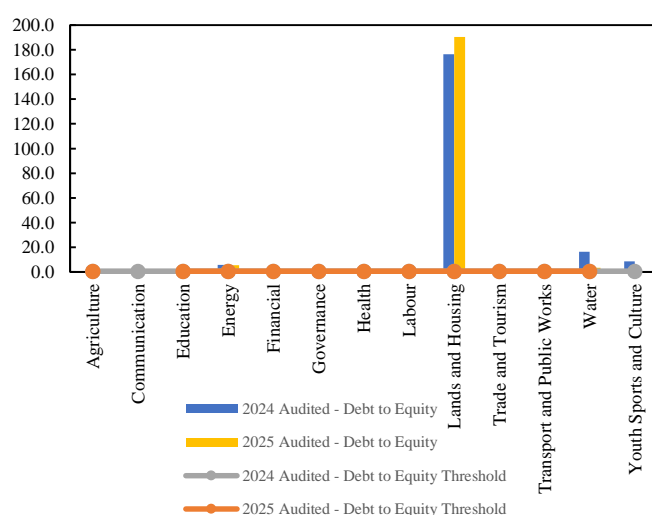
Source: 2025 Audited financial Statements and Performance Management Plans and Budgets

### 2.3.2. Debt to equity

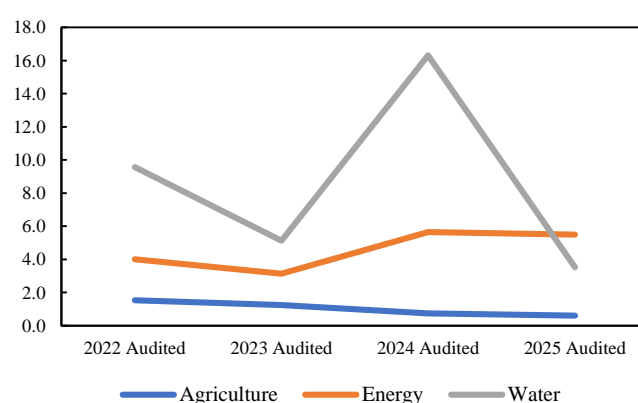
**The debt-to-equity ratio is a measure of the extent that the entity is dependent on external funding for its ongoing operations. A safe threshold is considered to be at 40 percent. In 2025 sectors such as lands and housing was above the threshold. (Figure 12).**

**Figure 12: Debt to Equity by Sector (Percent)**

**Figure 12a: 2024 and 2025**



**Figure 12b: Trend analysis (2022-2025)**



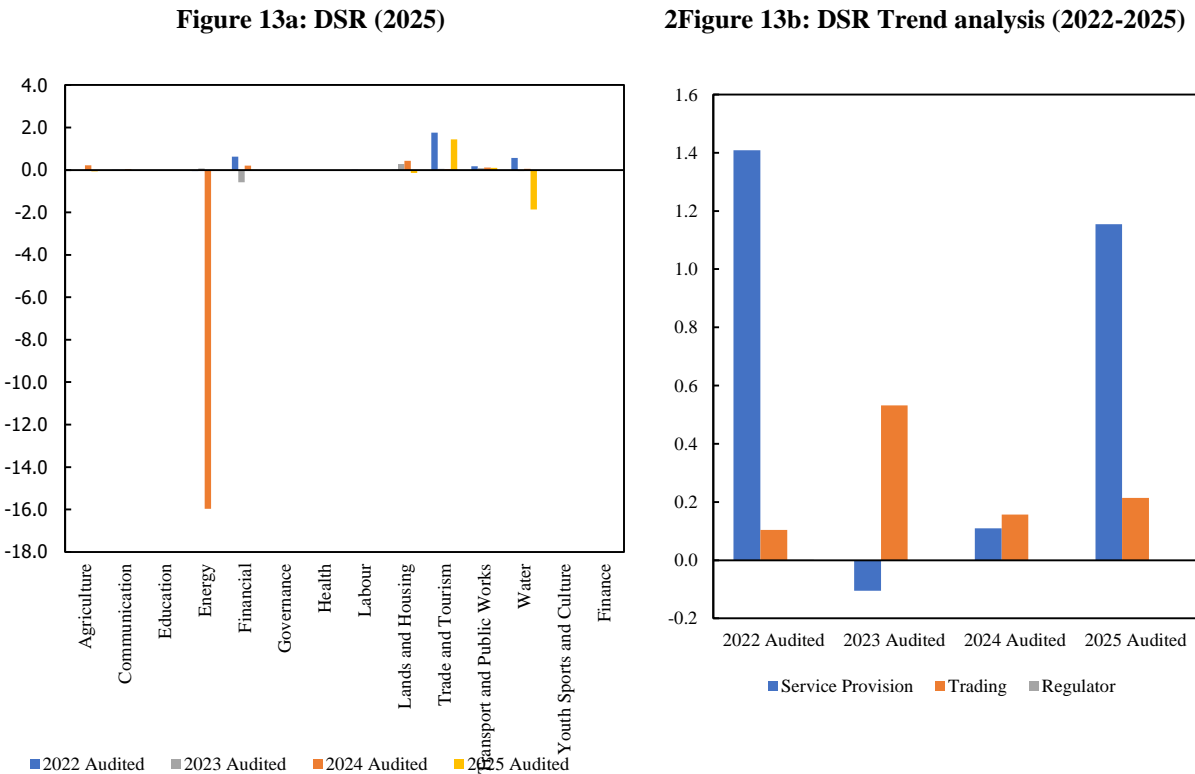
Source: 2025 Audited financial Statements and Performance Management Plans and Budgets

### 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.

The 2025 audited DSR for Service Provision SOEs dropped to -0.3%, a marked deterioration from 0% in 2024. This indicates that, on aggregate, these SOEs were not generating sufficient cash flow to meet their interest payments, marking a high-risk financial position. The negative ratio in 2025 suggests that, for the second consecutive year, these SOEs are unable to cover their debt service obligations, signaling ongoing liquidity and solvency challenges. The sectors most affected include water, energy, financial services, and agriculture. These sectors continue to struggle with high operating costs, declining revenues, and inadequate pricing mechanisms that limit their ability to service debt. In particular, the water and energy sectors have faced increased input costs, while agriculture has been hit by supply chain disruptions and commodity price fluctuations, exacerbating their financial difficulties.

Figure 13: Debt Servicing Ratio by Function and Sector



Source: 2025 Audited Financial Statements and Performance Management Plans and Budgets

## **2.4. FISCAL FLOWS BETWEEN SOEs AND BUDGET**

### **Government Transfers to SOEs**

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In 2025, the government continued to provide substantial financial support to State-Owned Enterprises (SOEs) across several critical sectors, with a marked concentration in agriculture, communication, energy, and water. However, government grants showed a slight decline compared to 2024, reflecting evolving fiscal constraints and a shift in priorities.

The 2025 financial year show significant increases in grants to the agriculture sector, reaching K118.0 billion, compared to K27.9 billion in 2024. This surge in agricultural grants is primarily driven by the government's commitment to supporting Public Service Obligations (PSOs) in food security and agricultural subsidies, amidst challenges such as climate change, poor harvests, and rising production costs. This support aims to stabilize the sector, ensuring food security while addressing the non-cost reflective tariffs prevalent in some segments.

The energy sector also received substantial grants, though the figure is not fully disclosed in 2025 but remained consistent with prior years. Energy grants are focused on subsidizing tariffs and supporting Public Service Obligations (PSOs) related to electricity and water supply. These sectors, particularly electricity, suffer from non-cost reflective tariffs, which have led to financial inefficiencies and burdened the public budget.

The communication sector in 2025 did not see any further significant increases in financial support, as was observed in 2024, where grants were used primarily to address Postal Services and ADMARC's operational challenges. While non-economic markets exist in this sector, the reduced government support reflects a more limited scope for financial intervention, signaling a possible shift towards privatization or commercialization in this area.

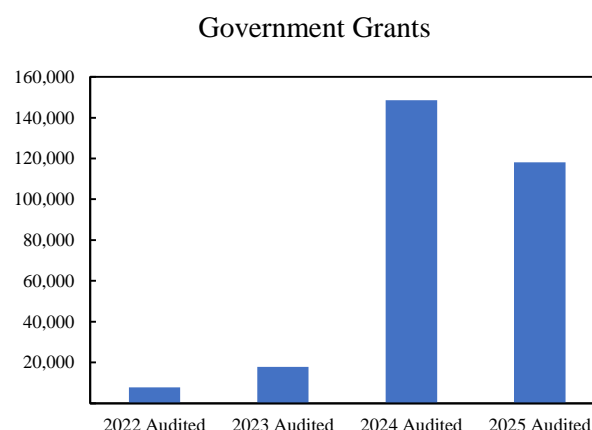
The trend analysis in Figure 14 reveals that financial support for SOEs has generally increased over the review period, with the agriculture sector seeing the most substantial rise in grants, particularly in 2025. Grants to agriculture surged to K118.0 billion in 2025, up from K27.9 million in 2024, reflecting an increased government focus on agricultural stability, especially in the face of rising costs and food insecurity challenges.

In contrast, support to communication remained relatively stable in 2024 and 2025, with only marginal increases, reflecting the reduced need for intervention in this sector, given that many communication services are now being provided by private entities. The energy sector saw consistent levels of grants, largely driven by the government's PSO obligations. However, these financial interventions highlight the ongoing issue of non-cost reflective tariffs in water and electricity, which continue to contribute to the sector's inefficiency and growing fiscal burden.

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

Sector	2022 Audited	2023 Audited	2024 Audited	2025 Audited
Agriculture	6,766	14,134	27,938	118,010
Communication	157	2,793	3,000	
Energy			116,631	
Financial				
Water	265	234	920	
Youth Sports and Culture				
Finance	670	656		

**Figure 14: Trend analysis (2022-2025)**



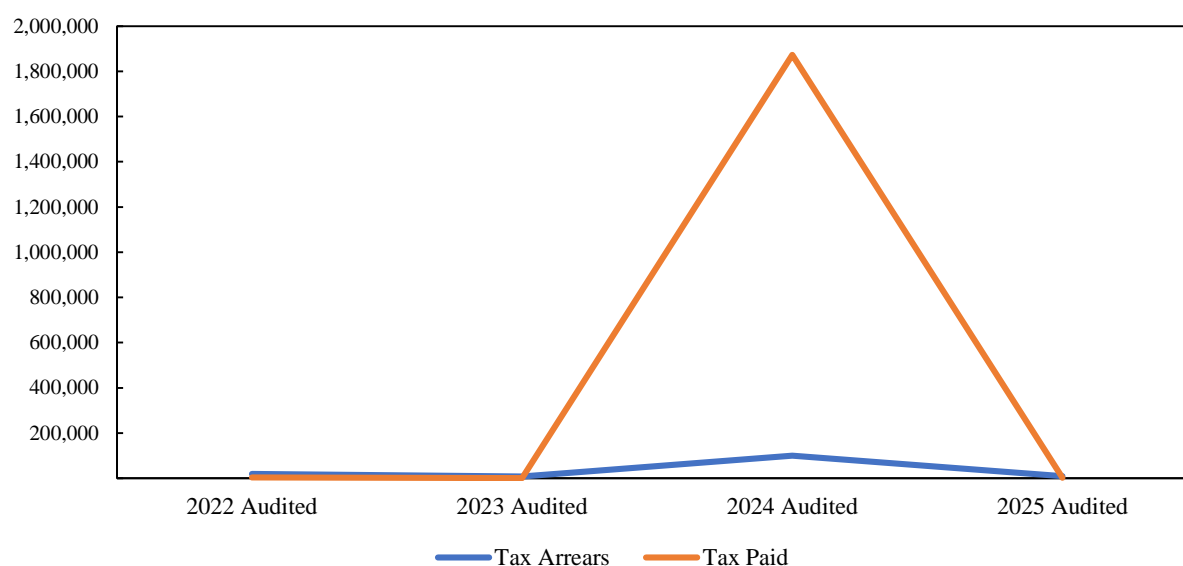
Source: 2025 Audited Financial Statements and Performance Management Plans and Budgets

#### 2.4.1. Taxes and Dividend Payments remitted by Commercial Entities

**In 2025, SOE tax arrears stood at K28.7 billion (slightly lower compared to 2024 since 2025 report only covers 23 SOEs out of the 33 commercial SOEs).** In 2025, tax payments remained inconsistent, largely due to the vicious cycle where SOEs are unable to meet their obligations because of outstanding debts from other government institutions and private entities. The non-payment from public institutions, particularly within water and power utilities, exacerbated the situation. These SOEs are often forced to carry substantial debts, resulting in a cascading effect where unpaid obligations lead to delays in tax payments, further deepening the financial instability of these entities. (Fig. 15).

Moreover, this failure to collect tax revenue from SOEs may lead to increased borrowing needs, putting additional pressure on Malawi's national debt. If the cycle of tax arrears continues unchecked, it could lead to a widening fiscal gap, increasing Malawi's debt burden and reducing the government's ability to invest in public services.

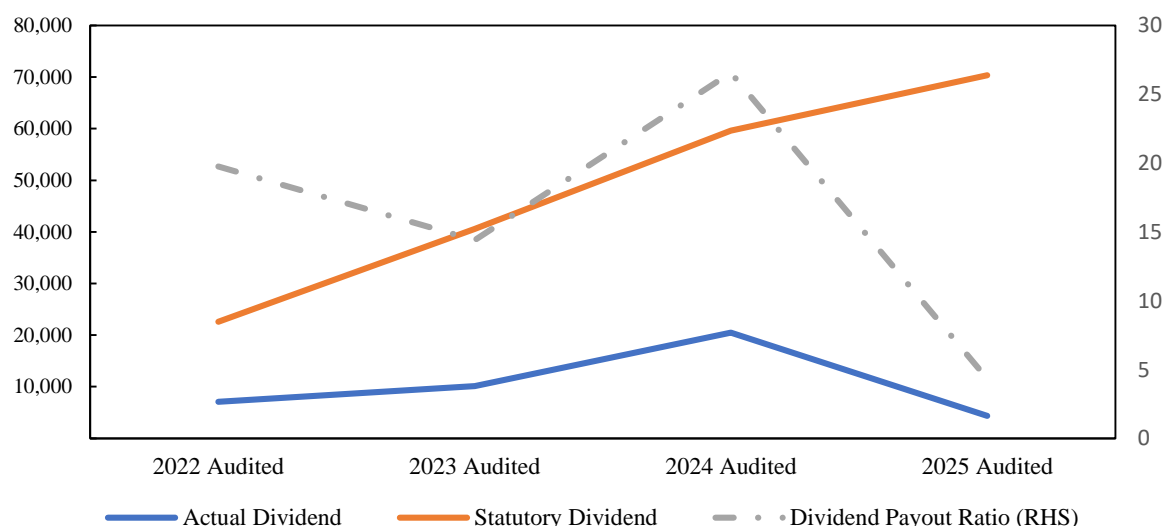
**Figure 15: Tax Payments vs. Tax arrears by Commercial Entities (Kwacha Million)**



Source: 2025 Audited Financial Statements and Performance Management Plans and Budgets

**The remittance of surpluses and dividends by SOEs into the consolidated account decreased in 2025.** The aggregate profit for profit making SOEs improved to approximately K34 billion in 2025 from aggregate loss of K47.0 billion in 2024. Nevertheless, actual remittances remained below the statutory requirement at K4.4 billion in 2025 from K20.5 billion in 2024 (Figure 16). The dividend pay-out ratio moved from 27 percent in 2024 to 4 percent in 2025. This was largely due to cash flow challenges experienced by SOEs especially due to increasing trade debtors especially public institutions.

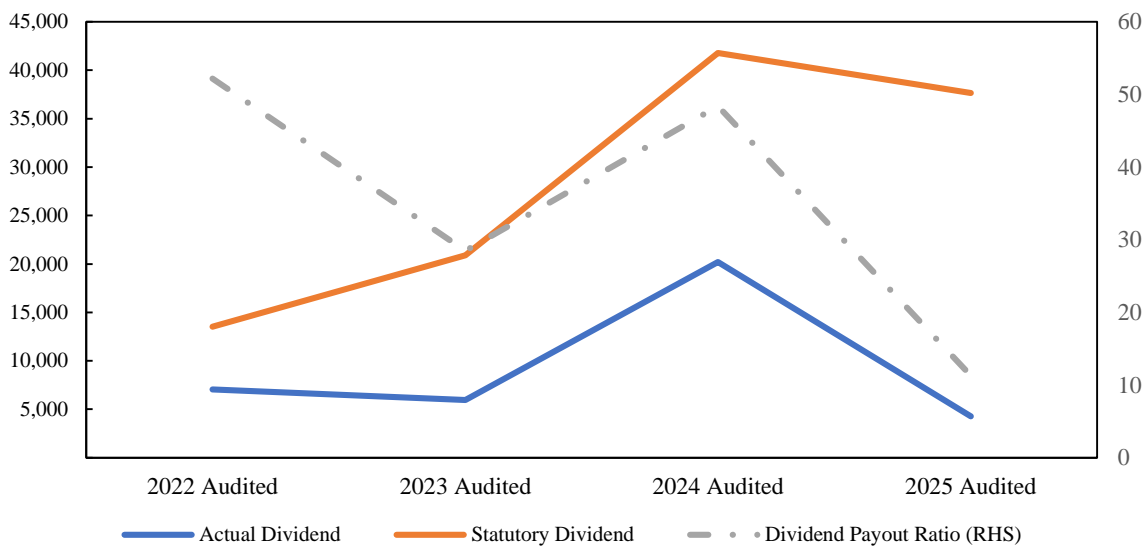
**Figure 16: Surpluses and Dividends remittances Actual vs. Statutory Dividends (K'million)**



In 2025, dividend remittances from trade SOEs remained minimal, reflecting continued financial distress within these entities. However, the performance of regulatory and service provider SOEs presented a more mixed picture. For regulatory SOEs, the surplus and dividend remittance

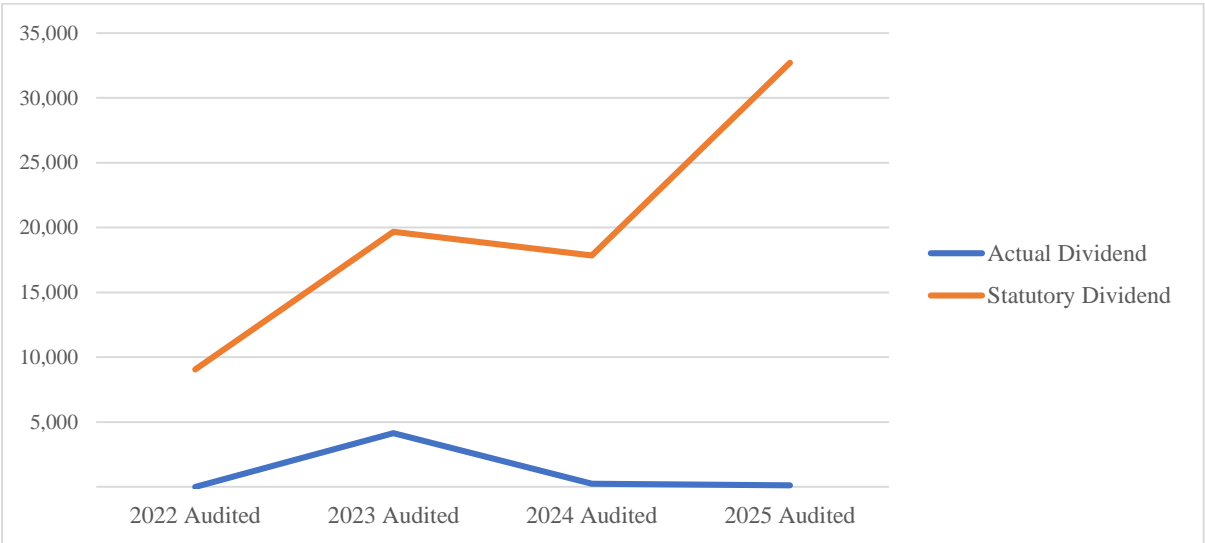
showed improvement in 2023, but this progress was followed by a decline in 2024, continuing into 2025. By the end of 2025, the performance of regulatory SOEs had significantly worsened, as their ability to generate sufficient cash flow and meet dividend obligations was increasingly hampered by rising operational costs, trade receivables, and non-cost reflective tariffs in sectors like energy and water.

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



Actual dividend paid among trading SOEs in 2025 dropped significantly compared to the prior year (**Figure 18**). During the same period under review, statutory dividend stood at K32.7 billion an increase from K17.8 billion recorded in 2024.

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



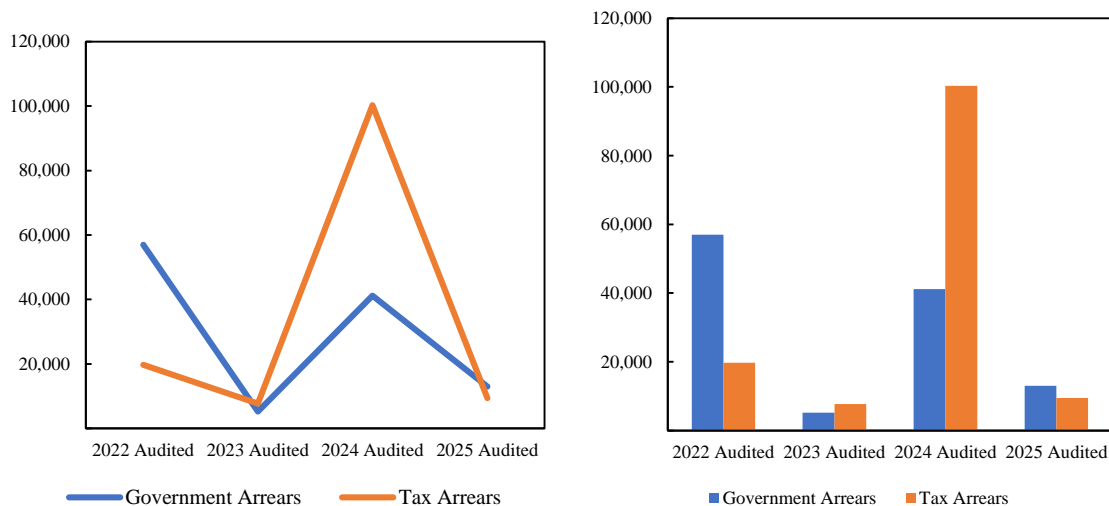
Source: 2025 Audited financial statements and Performance Management Plans and Budgets



## 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: 2025 Audited financial statements and Performance Management Plans and Budgets

**Government arrears to SOEs are a big drag on their balance sheets as they negatively affect cash flows of the State-Owned Enterprises and Statutory Bodies which lead to a vicious cycle of inefficiencies in the economy.**

Government arrears to SOEs reduced from K41.2 billion in 2024 to K9.5 billion in 2025. In comparison, the amount of tax arrears that SOEs owed MRA decreased from K100 billion to K9.5 billion in 2025 (Figure 19).

### Intra-Arrears between the SOEs

The period under review also contained intra-SOE arrears, including EGENCO and ESCOM, BWB and ESCOM, NOCMA and ESCOM, MERA and ESCOM. These were made worse by the vicious loop created by unpaid water and power bills from public institutions, which in turn affected adherence to legal requirements like paying taxes and dividends.

### Summary of fiscal flows between the budget and SOEs

In summary the period under review revealed that:

1. There were still large national budget outflows to SOEs. In light of growing SOE profits and the statutory requirements based on Malawi's Dividend and Surplus Policy for SOEs, structural deficiencies still need to be investigated further for those SOEs that still rely heavily on the national budget to fulfil their social obligations;
2. Government arrears to SOEs continue to be a significant burden on their balance sheets, necessitating government efforts to ensure that Public Institutions pay outstanding utility bills while also supporting initiatives like the installation of prepaid metres; and

3. Despite growing SOE revenues and the legislative requirements based on Malawi's Dividend and Surplus Policy for SOEs, the National Budget was still receiving insufficient dividend and surplus resources.

## **2.6. CROSS-CUTTING ISSUES**

### **2.6.1. Tariffs and pricing policies**

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To guarantee that the tariffs, fees, and charges that are approved for the SOEs are cost-reflective, policy intervention is still required. The level of the subsidy must be explicitly stated and provided for in situations where the government approves tariffs below cost recovery in order to prevent the subsidy from impairing the SOE's operations.

### **2.6.2. Fiscal flows and Arrears**

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When trade receivables were taken into consideration, the majority of SOEs were still deeply indebted. Furthermore, the national budget is impacted by the huge amount of interest-bearing debt, which must be controlled. To guarantee their sustainability and the SOE's capacity to repay overdrafts and other loans, interest-bearing debt must be examined. Deliberate measures are required to manage the growing public debt to State-Owned Enterprises (SOEs). One such policy intervention is to enforce full migration of prepaid metres for power and water utilities. However, to guarantee that the budget is adequately supported by the investments made in the SOEs, the dividend and surplus policy's implementation needs to be reinforced.

### **2.6.3. Institutional arrangements**

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To prevent strangling SOE operations, the government must clearly distinguish between the commercial activities of SOEs and the Public Sector Obligations (PSO) that they carry out on behalf of the government. For the separation to be obvious, this may necessitate restructuring the businesses and taking staffing concerns into account. Additionally, after the social commitments have been determined that require SOEs to undertake, the government must include funding for such obligations in the national budget.

### **2.6.4. SOE Oversight function**

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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**

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Close supervision of the SOEs' debt servicing is necessary to prevent bailouts in the event that the SOEs are unable to fulfil their responsibilities. To address the cash flow issues, cost-reflective tariffs should be carefully considered.

### **2.7.2. Subsidies for Public Service Obligations**

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

### **2.7.3. Public Investment Related Risks**

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Government through the Ministry of Finance Economic Planning and Decentralization 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**

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Structural reforms should be undertaken to reduce cross subsidies and unplanned for bail outs.

### **2.7.5. SOE oversight function**

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The development of the SOE sector depends on an efficient and effective SOE oversight role; therefore, the government must fortify and equip the institutions for successful monitoring of SOEs.

### 3. INDIVIDUAL SOE ANALYSIS

#### 3.3. AGRICULTURE SECTOR

##### 3.3.1. National Food Reserve Agency (NFRA)

Indicators	2021 Audited	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>					
Profit/loss (Mill MKW)	(342,399)	174,337	263,271	2,085,876	1,146,540
Gross Profit Margin	-16%	14%	100%	100%	100%
Operating Profit Margin	-132%	-72%	-5%	42%	17%
Return on Assets	-1%	1%	1%	8%	4%
Return on Equity	-2%	1%	1%	10%	5%
Dividend Payout Ratio		-	-	-	-
Asset Turnover	0.09	0.07	0.10	0.21	0.25
Cost Recovery	0.40	0.78	0.61	0.76	0.37
<b>Liquidity</b>					
Current Ratio	7.66	3.41	5.10	11.09	11.18
Quick Ratio	0.61	0.40	0.34	1.55	1.72
Accounts Receivables Days	135.90	248.33	140.08	72.02	79.76
Accounts Payables Days	94.67	333.97	NMF	NMF	NMF
<b>Solvency</b>					
Debt to Assets	0.25	0.27	0.28	0.19	0.18
Debt to Equity	0.34	0.36	0.39	0.23	0.22
Interest Coverage					
<b>Other</b>					
Government Transfers to Total Revenue	0.53	0.33	0.36	0.56	0.69

#### *Overview of Financial Performance*

The National Food Reserve Agency (NFRA) recorded a solid net surplus of K1.15 billion in 2025, despite a decline from the exceptional K2.1 billion surplus registered in 2024. This decrease can be attributed to a variety of factors, yet the 2025 result is a marked improvement compared to earlier years, underscoring NFRA's sustained profitability and operational efficiency since 2023. The profit/loss position has shown consistent positive growth, with a substantial surplus of K1.15 billion for 2025, demonstrating the agency's capability to maintain profitability amid broader challenges in the market environment.

Notably, the gross profit margin remained at a robust 100% in 2025, reflecting optimal cost control and operational efficiency. The operating profit margin, while slightly lower at 17%, still represents a strong recovery compared to the negative margins seen in previous years, notably in 2021 and 2022. Return on assets (ROA) and return on equity (ROE), both positive in 2025 at 4% and 5% respectively, continue to indicate a solid return on investments and equity capital.

### ***Overview of Financial Risks***

NFRA's liquidity position further improved in 2025, with the current ratio rising to 11.18, a slight increase from 2024's already strong ratio of 11.09, reflecting its exceptional capacity to meet short-term obligations. The quick ratio also strengthened to 1.72 from 1.55 in 2024, signaling increased liquidity to cover more immediate liabilities without relying on inventory or other non-liquid assets.

Despite this improved liquidity, NFRA experienced a notable decline in cost recovery, which fell sharply to 0.37 in 2025, compared to 0.76 in 2024. This decline highlights the ongoing challenge in generating sufficient revenue internally to cover operational expenses, suggesting a continued dependence on government support.

From a solvency perspective, NFRA maintained a low-risk debt profile, with the debt-to-assets ratio decreasing marginally to 0.18 in 2025, and the debt-to-equity ratio reducing to 0.22. These figures reinforce the agency's ongoing strategy of funding operations primarily through equity rather than relying on external debt.

### ***Overview of Financial Flows with the Government***

The role of government transfers has continued to increase, comprising 69% of NFRA's total revenue in 2025, up from 56% in 2024. This growing dependence on government funding highlights the importance of public financing in supporting NFRA's operational and strategic activities, especially considering the declining cost recovery ratio. The rise in government transfers may be indicative of NFRA's strategic reliance on state support to ensure ongoing operations, despite improving operational performance in several areas.

### ***Overview of financial flows with the government***

Government transfers accounted for 69% of NFRA's total revenue in 2025, an increase from 56% in the 2024 financial year. This demonstrates rising dependence on public financing to support the Agency's operational and strategic activities.

### ***Policy specific issues for the Public Body***

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	Declining cost recovery and high dependence on government transfers	NFRA should strengthen efforts to boost operational efficiency and expand revenue streams.

### 3.3.2. Tobacco Commission (TC)

Indicators	2021 Audited	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>					
Profit/loss (Mill MKW)	324,460	(1,289,946 )	(110,289)	1,030,527	1,718,116
Gross Profit Margin	100%	100%	100%		100%
Operating Profit Margin	79%	56%	-3%		19%
Return on Assets	6%	-27%	-2%	13%	8%
Return on Equity	8%	-49%	-4%	30%	13%
Dividend Payout Ratio	20.0			4.9	14.6
Asset Turnover	0.72	0.33	0.66	0.00	0.41
Cost Recovery	4.82	2.26	0.97	0.00	1.24
<b>Liquidity</b>					
Current Ratio	1.00	0.33	0.48	0.88	1.05
Quick Ratio	0.95	0.25	0.43	0.82	1.01
Accounts Receivables Days	54.65	35.63	8.95	86.60	6.03
Accounts Payables Days					
<b>Solvency</b>					
Debt to Assets	0.24	0.46	0.55	1.00	1.00
Debt to Equity	0.31	0.86	1.24	2.37	1.59
Interest Coverage	2,679.55	3,194.35	(1,645.10)	9,412.73	NMF
<b>Other</b>					
Government Transfers to Total Revenue	-	-	-		-

#### *Overview of Financial Performance*

The Tobacco Commission's financial results for 2025 reflect a significant recovery in profitability, with a net surplus of K1.72 billion, building upon the K1.03 billion surplus recorded in 2024. This performance marks a strong turnaround from the deficits experienced in 2022 and 2023, driven by an increase in revenue from levies, licenses, permits, and grower penalties. The results surpass the Commission's budgeted targets, underscoring effective revenue generation and cost control.

The gross profit margin remained unchanged at 100% in 2025, reflecting efficient cost management and the ability to maintain profitability at the operational level. In terms of operating profit margin, the Commission sustained 19% in 2025, in line with the 19% margin achieved in 2024. This stability demonstrates the continued strength of core operations and effective management of operating costs, even amidst broader market challenges.

A closer look at the return on assets (ROA) reveals a positive 8% in 2025, down from 13% in 2024 but still a significant improvement over prior years, especially when compared to the negative figures of 2022 and 2023. Similarly, return on equity (ROE) stood at 13%, representing a solid return on capital invested by the Commission's stakeholders. While these returns were

lower than 2024's 30%, they are indicative of the operational recovery and continued growth potential for the Commission.

Despite these positive results, the asset turnover ratio remains a concern, decreasing to 0.41 in 2025 from 0.72 in 2021. This suggests that while the Commission is profitable, its asset utilization has room for improvement. Effective use of assets will be crucial to sustaining long-term growth without overextending resources.

### ***Overview of Financial Risks***

While the Tobacco Commission's liquidity position showed significant improvement in 2025, the overall solvency risk remains high. The current ratio increased to 1.05 in 2025, up from 0.88 in 2024, and the quick ratio rose to 1.01 from 0.82 in 2024. These increases signal that the Commission is better positioned to meet its short-term liabilities.

The cost recovery ratio improved substantially to 1.24 in 2025, from 0.00 in 2024, reflecting progress in covering operational costs with internally generated revenue. However, it still remains far below the historical peak of 4.82 in 2021, suggesting that the Commission's operational model required strong cost containment measures.

### ***Overview of Financial Capital Flows with the Government***

The Tobacco Commission maintained its self-financing status in 2025, as it did not receive any government transfers during the 2024/2025 period. Instead, the Commission reported a surplus remittance, further cementing its role as an autonomous regulatory body. While this highlights the improving financial autonomy, it also underscores the importance of strengthening internal revenue streams and managing operational costs to avoid future reliance on external support.

### ***Policy specific issues for the Public Body***

<b>Policy area</b>	<b>Source of fiscal risk</b>	<b>Proposed Policy Recommendation</b>
Sales Revenue	Increased expansion of regulations and taxation with some countries targeting 2030 as the year to eliminate cigarette smoking.	To guarantee adherence to merchants' standards, the Commission should keep fortifying its regulatory framework and enforcement (GAP and ALP challenges).
	High taxation and regulation expansion, with some nations aiming to eradicate cigarette smoking by 2030.	The Commission should make sure that supply and trade requirements are balanced.

### 3.3.3. Smallholder Farmers Fertilizer Revolving Fund of Malawi (SFFRFM)

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	285,250	-7,525,149	6,261,875	12,295,215
Gross Profit Margin	25%	-57%	99%	88%
Operating Profit Margin	-50%	-214%	99%	88%
Return on Assets	1%	-30%	100%	100%
Return on Equity	2%	NMF	35%	100%
Dividend Payout Ratio	-	NMF	-	-
Asset Turnover	0.32	0.44	3.17	3.85
Cost Recovery	1.34	0.64	NMF	NMF
<b>Liquidity</b>				
Current Ratio	1.7	0.87	0.28	0.16
Quick Ratio	1.17	0.81	1.05	0.81
Accounts Receivables Days	374.17	190.89	0	0
Accounts Payables Days	314.43	377.2	67692.9	5324.23
<b>Solvency</b>				
Debt to Assets	0.33	0.72	-3.1	0.28
Debt to Equity	0.5	NMF	-1.07	0.28
Interest Coverage	NMF	-84,274.89	3.21	-8.77
<b>Other</b>				
Government Transfers to Total Revenue	-	-	1.16	2.39

#### *Overview of Financial Performance*

The 2025 financial year represents a remarkable improvement for SFFRFM, with the corporation posting a net surplus of K12.3 billion, up from K6.3 billion in 2024. This increase of K6 billion, or nearly a 100% jump, underscores the strong recovery and growth trajectory of the organization, demonstrating significant financial strength and resilience. The positive trend in profitability reflects ongoing improvements in revenue generation and cost control. The gross profit margin remained robust at 88% in 2025, down slightly from 99% in 2024, but still exceptionally high. This consistent profitability indicates that SFFRFM continues to maintain effective pricing strategies and operational efficiency. Similarly, the operating profit margin followed a similar trend, settling at 88% in 2025, compared to 99% in 2024. Despite the slight decline, the operating margin remains high, reflecting the Commission's strong operational capabilities.

One of the most notable improvements in 2025 is the return on assets (ROA) and return on equity (ROE), which both recorded an outstanding 100% in 2025, representing maximum efficiency in utilizing assets and equity for generating profits. This marks a remarkable turnaround from the



negative ROA in 2023 (-30%) and the modest 2% ROE in 2022. These improvements demonstrate SFFRFM's effective asset management and a strong return on shareholder investment, reinforcing its solid financial foundation.

Furthermore, the asset turnover ratio surged to 3.85 in 2025, up from 3.17 in 2024, highlighting the corporation's ability to generate significant revenue per unit of assets. This is a strong indicator of efficiency in asset utilization, especially when compared to 0.32 in 2022, suggesting that SFFRFM has considerably improved its capacity to leverage its resources for growth.

However, the cost recovery ratio, which was 1.34 in 2022 and 0.64 in 2023, has become non-meaningful (NMF) in 2024 and 2025. This signals that cost recovery through internally generated revenue is currently insufficient to cover operational costs, and the organization may still be heavily reliant on external funding, particularly government subventions. The lack of cost recovery remains a key area of concern, highlighting the ongoing need for improvements in revenue generation and financial sustainability.

### ***Overview of Financial Risks***

Although SFFRFM has shown significant profitability improvements and strong liquidity, it continues to face serious financial risks, especially with regard to liquidity and solvency.

The current ratio in 2025 dropped to 0.16, a sharp decline from 0.28 in 2024, signaling potential liquidity distress. This severe drop suggests that SFFRFM is increasingly unable to meet its short-term obligations as they become due. The quick ratio similarly declined to 0.81 from 1.05 in 2024, further illustrating challenges in managing its liquid assets efficiently.

The drastic reduction in current and quick ratios points to a potential cash flow crisis, making it more difficult for the agency to maintain operations without external assistance. The zero days for accounts receivable in 2024 and 2025 suggest that SFFRFM is improving in collecting payments, but the skyrocketing accounts payable days to 5,324.23 days in 2025 points to a severe issue in paying off creditors. This anomaly suggests that SFFRFM may be delaying payments to manage cash flow, which could damage relationships with suppliers and vendors.

On the solvency front, the debt-to-assets ratio improved to 0.28 in 2025, down from -3.1 in 2024. This change indicates that debt levels are becoming more manageable, but the negative debt-to-equity ratio in previous years (-1.07 in 2024) points to an extremely deleveraged position at some points. While 0.28 in 2025 is a notable improvement, the debt burden remains high in relation to equity, leaving the organization exposed to interest rate fluctuations and other debt-related risks. The interest coverage ratio of -8.77 in 2025 is also a major concern, indicating that SFFRFM is now struggling to meet its interest obligations. The previous positive interest coverage in 2024 (3.21) quickly reversed in 2025, signaling that despite the strong surplus, financial distress in terms of debt servicing has escalated.

### ***Overview of Financial Flows with the Government***

Government transfers continue to play a crucial role in sustaining SFFRFM's operations. Government transfers increased by 22%, from K21.6 billion in 2024 to K26.4 billion in 2025, reflecting the importance of public support in maintaining liquidity and operational viability. The government transfers to total revenue ratio jumped from 1.16 in 2024 to 2.39 in 2025, illustrating the growing dependency on government subventions. While this funding supports ongoing operations, it also highlights the challenges in self-sufficiency, as SFFRFM remains reliant on external financial assistance to maintain operations.

### ***Policy specific issues for the Public Body***

<b>Policy Area</b>	<b>Source of Fiscal Risk</b>	<b>Proposed Policy Recommendation</b>
<b>Sales Revenue</b>	<b>Fluctuating Fertilizer Sales:</b> Variations in fertilizer demand, particularly in agricultural cycles, can lead to inconsistent sales revenue.	<b>Enhance Demand Forecasting:</b> Develop robust demand forecasting models that incorporate seasonal trends, market analysis, and agricultural cycle data. Ensure that sales strategies are aligned with anticipated demand peaks.
<b>Sales Revenue</b>	<b>Credit Risk from Farmers:</b> SFFRFM faces challenges in collecting payments from smallholder farmers, as seen in the <b>high accounts receivable days</b> in 2024 (374.17 days).	<b>Strengthen Credit Management:</b> Implement more stringent credit policies and better risk assessment mechanisms. Offer incentives for early payments and penalties for delayed payments. Implement digital payment systems for faster collections.
<b>Sales Revenue</b>	<b>Over-reliance on Government Transfers:</b> A significant portion of revenue (2.39 in 2025) comes from government transfers, rather than direct sales, which limits sustainable revenue generation.	<b>Diversify Revenue Streams:</b> Explore additional revenue sources, such as offering value-added services to farmers (e.g., training, crop insurance), and forming strategic partnerships with private sector actors. Increase self-financing capacity by improving cost recovery ratios.
<b>Sales Revenue</b>	<b>Economic Conditions:</b> Economic downturns can lead to reduced purchasing power among farmers, negatively affecting fertilizer sales, as seen from past trends in operating profit margin fluctuations.	<b>Adjust Pricing Strategy:</b> Implement tiered pricing based on different farmer segments and regions. Consider flexible payment plans or deferred payment options for smallholder farmers in times of economic hardship.

<b>Policy Area</b>	<b>Source of Fiscal Risk</b>	<b>Proposed Policy Recommendation</b>
<b>Sales Revenue</b>	<b>Supply Chain Disruptions:</b> Disruptions in the supply of fertilizers due to logistical challenges or external factors (e.g., import/export regulations, market volatility) could affect sales revenue.	<b>Strengthen Supply Chain Partnerships:</b> Build strong, diversified supplier relationships and consider developing local manufacturing or procurement options to reduce dependency on global supply chains. Use technology for better supply chain forecasting and management.
<b>Sales Revenue</b>	<b>Seasonality of Fertilizer Demand:</b> Fertilizer sales are often seasonal, with peak demand during planting seasons, leading to periods of low sales revenue in off-peak months.	<b>Implement Year-Round Programs:</b> Diversify the sales model by introducing year-round programs that support farmers in off-seasons (e.g., offering soil health products, post-harvest supplies, or credit lines for next season's purchases).
<b>Sales Revenue</b>	<b>Inadequate Cost Recovery:</b> The <b>cost recovery ratio</b> is low (0.64 in 2023), suggesting that SFFRFM struggles to cover operational costs through sales revenue.	<b>Focus on Increasing Cost Recovery:</b> Revamp the business model to ensure that internal revenue generation covers operational costs. Consider introducing additional charges for premium services or value-added offerings to farmers to improve revenue generation.
<b>Sales Revenue</b>	<b>Regulatory Changes and Taxes:</b> Policy changes, such as new agricultural taxes or import tariffs on fertilizers, could increase costs and reduce affordability for farmers, negatively impacting sales revenue.	<b>Engage in Policy Advocacy:</b> Actively participate in policy discussions and collaborate with government bodies to advocate for favorable tax policies and import duties. Look into alternative procurement strategies to minimize the impact of regulatory changes on the cost structure.

### 3.4. EDUCATION SECTOR

#### 3.4.1. Malawi College of Accountancy (MCA)

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	(61,238)	399,804	244,244	622,991
Gross Profit Margin	38%	100%	100%	100%
Operating Profit Margin	-23%	8%	2%	12%
Return on Assets	-2%	13%	7%	15%
Return on Equity	-3%	14%	8%	17%
Dividend Payout Ratio	NMF	-	-	-
Asset Turnover	0.62	0.96	0.98	1.27
Cost Recovery	1.63	1.09	1.02	1.14
<b>Liquidity</b>				
Current Ratio	0.63	1.63	1.41	2.21
Quick Ratio	0.63	1.63	1.41	2.21
Accounts Receivables Days	59.89	90.65	97.85	44.70
Accounts Payables Days	199.08	NMF	NMF	NMF
<b>Solvency</b>				
Debt to Assets	0.22	0.13	0.16	0.15
Debt to Equity	0.28	0.14	0.20	0.17
Interest Coverage	NMF	NMF	NMF	NMF
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	-

#### *Overview of Financial Performance*

In the 2024/2025 fiscal year, the Malawi College of Accountancy (MCA) recorded a significant improvement in profitability, recording a profit of K623 million, a notable increase from K244 million in the prior year. This growth was primarily driven by a strong increase in income to K5 billion in 2024/2025, up from K3.5 billion in the previous year, marking a 14% growth in revenue. The gross profit margin remained consistent at 100%, reflecting MCA's ability to generate revenue without significant cost pressures. Additionally, the operating profit margin improved to 12% in 2025, up from just 2% in 2024, indicating more efficient operations and better cost control.

The return on assets (ROA) increased to 15% in 2025, up from 7% in 2024, signaling improved asset utilization. Likewise, the return on equity (ROE) rose to 17%, up from 8% the previous year, suggesting that the College's equity holders are seeing more favorable returns. Moreover, asset turnover improved from 0.98 in 2024 to 1.27 in 2025, reflecting a higher efficiency in utilizing assets to generate revenue. The increase in asset turnover, in conjunction with higher profit margins, indicates that MCA is effectively leveraging its assets to drive profitability. While the cost recovery ratio remained stable at 1.14 in 2025, there is slight improvement from 1.02 in 2024, indicating that MCA is increasingly able to cover its operational costs through internal revenue generation.

### ***Overview of Financial Risks***

Despite the positive trends in profitability and asset utilization, there are still several financial risks that MCA faces, particularly in areas such as liquidity, debt levels, and revenue collection. MCA's liquidity position improved significantly in 2025, with the current ratio increasing to 2.21 from 1.41 in 2024, and the quick ratio also improving to 2.21 from 1.41 in 2024. These improvements reflect a stronger ability to meet short-term obligations, putting the College in a good position to manage its working capital and maintain operational stability.

However, the reduction in accounts receivable days from 97.85 days in 2024 to 44.70 days in 2025 shows improved collections from students and clients, but higher receivables could still present potential risks to cash flow, particularly if collection efforts slow.

MCA's debt-to-assets ratio remained low, at 0.15 in 2025, down from 0.16 in 2024, and its debt-to-equity ratio also declined to 0.17 from 0.20 in 2024. This demonstrates that MCA is continuing to maintain a conservative approach to leverage and remains largely funded through equity rather than debt. The low debt ratios are a positive sign of financial health, but any future increase in borrowing should be carefully managed to avoid a rise in financial risk. MCA's solvency remains strong, with a steady decrease in debt-to-equity over the past two years, dropping from 0.28 in 2022 to 0.17 in 2025. This highlights the College's ability to finance operations primarily through its own equity base, reducing the potential risk of over-leveraging.

### ***Overview of Financial Flows with the Government***

MCA did not declare any dividends to the government in 2025, and it does not receive government subventions, indicating that its operating model is entirely self-financed. The College is increasingly dependent on internally generated revenue, as demonstrated by its significant growth in income and profitability, and continues to demonstrate financial independence.

### ***Policy specific issues for the Public Body***

<b>Policy area</b>	<b>Source of fiscal risk</b>	<b>Proposed Policy Recommendations</b>
Sales Revenues	Low profitability brought on by insufficient revenue from inadequate teaching facilities that would have allowed for more enrolment.	To increase student enrolment, the government must invest in educational infrastructure.

### 3.5. ENERGY SECTOR

#### 3.5.1. Electricity Generation Company Malawi Limited (EGENCO)

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Draft
<b>Profitability</b>				
Profit/loss (Mill MKW)	5,116,734	(2,132,433)	(7,376,713)	644,821
Gross Profit Margin	42%	-3%	7%	33%
Operating Profit Margin	-48%	-105%	-85%	-56%
Return on Assets	2%	-1%	1%	1%
Return on Equity	3%	-1%	1%	1%
Dividend Payout Ratio	-	NMF	-	-
Asset Turnover	0.18	0.21	0.22	1.41
Cost Recovery	1.11	0.97	1.08	1.13
<b>Liquidity</b>				
Current Ratio	4.83	3.75	3.72	2.09
Quick Ratio	4.03	2.86	1.68	1.18
Accounts Receivables Days	345.89	251.89	71.78	99.04
Accounts Payables Days	56.38	26.22	0.00	124.50
<b>Solvency</b>				
Debt to Assets	0.49	0.51	0.45	3.20
Debt to Equity	0.96	0.77	0.83	1.50
Interest Coverage	(389.75)	(243.57)	NMF	NMF
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	-

#### *Overview of Financial Performance*

EGENCO posted a remarkable turnaround in its financial performance for 2024/25, recording a profit after tax of K644.8 million. This marks a sharp recovery from the K7.4 billion loss reported in the prior year, primarily driven by a substantial insurance compensation payment of K7.1 billion. Without this infusion, the company would have remained in a loss-making position.

Revenue from electricity sales surged to K76 billion in 2024/25, up from K68 billion in 2023/24, largely due to enhanced generation capacity. However, the rise in revenue was accompanied by an increase in cost of sales, which rose to K56 billion from K48 billion in the previous year. Administrative expenses also climbed to K18 billion, up from K14 billion in 2023/24. Despite revenue growth, the company faces rising operational costs, signaling the need for structural changes to address underlying cost pressures, particularly as the company moves into 2025 and beyond.

The 2025 Draft shows a significant improvement in profitability, with the company showing a profit after tax, but maintaining relatively high operating expenses and cost pressures. Key profitability indicators such as Gross Profit Margin (33%) and Operating Profit Margin (-56%) underscore the mixed financial performance for 2025, with profitability improving but still heavily impacted by operational inefficiencies.

### ***Overview of Financial Risks***

EGENCO continues to face several financial risks, particularly in the areas of liquidity and leverage. Despite a current ratio of 2.09:1 in 2025, down from 3.72:1 in 2024, the company is under increased pressure on cash flow, which may further strain its ability to meet short-term obligations. The quick ratio also decreased from 1.68 in 2024 to 1.18 in 2025, reflecting a tighter liquidity position.

Receivables days saw an increase from 71.78 days in 2024 to 99.04 days in 2025, indicating that delays in collections, especially from ESCOM, remain a significant challenge. These increased receivables days point to the ongoing cash flow challenges EGENCO faces, which may worsen as its liquidity position tightens further.

A key area of concern for the company is its high debt-to-equity ratio, which stands at 150% in 2025 (up from 83% in 2024). This level of leverage exposes the company to refinancing and liquidity risks, particularly as interest coverage remains negative. The interest coverage ratio remains absent in the 2025 draft due to the company's high interest expenses and operational difficulties, which further add to its vulnerability.

Furthermore, accounts payables days have increased sharply, rising from 40 days in 2024 to 125 days in 2025, signaling growing pressure on EGENCO's supplier relationships. This escalation in payables days could potentially strain partnerships with key suppliers and contractors, and may also negatively affect the company's reputation within the industry.

### ***Overview of Financial Flows with the Government***

During the period under review, there was no notable flow of funds between EGENCO and the Government. This suggests a lack of government support or transfers that could help mitigate some of the financial risks the company is facing, particularly in terms of liquidity pressures and the high debt burden.

As the company enters 2025, it may need to engage with the Government more actively to address its financing needs, whether through transfers, guarantees, or strategic partnerships to alleviate some of the financial stress.

### ***Policy specific issues for the Public Body***

<b>Policy area</b>	<b>Source of fiscal risk</b>	<b>Proposed Policy Recommendations</b>
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 relies on overdraft facilities to augment working capital requirements	Government to continuously monitor EGENCO's debt levels and perhaps set debt ceiling

### 3.5.2. Electricity Supply Commission of Malawi Ltd (ESCOM)

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Draft
<b>Profitability</b>				
Profit/loss (Mill MKW)	6,798,367	25,972,037	(65,257,609)	4,813,074
Gross Profit Margin	51%	66%	48%	NMF
Operating Profit Margin	-45%	17%	-47%	NMF
Return on Assets	2%	7%	-14%	1%
Return on Equity	-736%	75%	NMF	-19%
Dividend Payout Ratio	-	-	NMF	-
Asset Turnover	0.42	0.62	0.45	0.00
Cost Recovery	1.05	2.03	0.48	NMF
<b>Liquidity</b>				
Current Ratio	0.55	5.05	1.27	1.31
Quick Ratio	0.48	0.42	0.94	0.91
Accounts Receivables Days	114.60	2.55	99.86	88.55
Accounts Payables Days	494.44	130.14	84.57	297.37
<b>Solvency</b>				
Debt to Assets	1.00	0.91	1.08	0.00
Debt to Equity	-373.05	10.30	-14.01	0.00
Interest Coverage	30.64	15.52	18.02	NMF
<b>Other</b>				
Government Transfers to Total Revenue	-	-	0.54	NMF

#### *Overview of financial performance*

ESCOM reported a notable profit of K4.8 billion for the 2024/2025 financial year, marking a significant recovery from the K65.3 billion loss recorded in 2023/2024 compounded by exchange losses emanating from foreign currency denominated debt stock. This turnaround can be largely attributed to strategic measures such as the implementation of upward tariff adjustments and an increase in electricity purchases from Independent Power Producers (IPPs), which significantly boosted revenue generation. However, while the profit is an encouraging development, the company's gross and operating margins remain volatile, highlighting ongoing structural challenges in cost recovery, operational efficiency, and the sustainability of tariff policies.

In comparison to previous years, ESCOM's financial performance has shown marked improvement, yet significant concerns persist regarding the company's ability to recover costs and maintain profitability under fluctuating economic and operational conditions. The 2025 draft financials remain in flux as final audits are pending, but initial projections suggest a continuing struggle with maintaining positive margins.

#### *Overview of financial risks*

The **return on equity (ROE)** has been particularly volatile, swinging from a high of 75% in 2023 to an expected negative return of -19% in 2025, reflecting the significant risk associated with ESCOM's capital structure and the company's reliance on external financing. While



ESCOM is not currently distributing dividends, the **asset turnover** ratio remained relatively low at 0.45 in 2024, indicating suboptimal use of assets to generate revenue. In terms of **liquidity**, ESCOM's ability to meet short-term obligations showed slight improvement. The **current ratio** increased to 1.31:1 in 2024/2025 from 1.27:1 in 2023/2024, signaling a modest improvement in the company's working capital position. The **quick ratio**, which excludes inventory from current assets, remained stable, indicating that ESCOM can meet its immediate liabilities with its liquid assets.

However, the company's **accounts receivables days** remained elevated at 89 days (down from 100 days in 2024), suggesting continued delays in revenue collection from key customers such as Government Ministries, Water Boards, and select private clients. As of 31<sup>st</sup> March 2025, outstanding receivables from **MDAs and SOEs** totaled 59.1. This mounting receivable backlog continues to exert pressure on ESCOM's liquidity and cash flow.

On the other hand, the company's **payables days** surged from 84 days in 2024 to 297 days in 2025, underscoring deteriorating cash flow and difficulties in settling liabilities promptly. The rising payables figure signals potential challenges in maintaining good relationships with suppliers and contractors, which could further complicate ESCOM's operational sustainability.

In terms of **solvency**, the **debt-to-equity ratio** shifted to negative territory at -14.01 in 2024 to 0 in 2025, reflecting an overly leveraged capital structure, which leaves ESCOM vulnerable to further financial stress if revenues do not stabilize. The **interest coverage ratio**, while improving slightly to 18.02 in 2024, is still relatively low in 2025, implying limited capacity to cover interest expenses from operating income. This poses a risk to ESCOM's ability to service its debt obligations, especially in a scenario of declining revenue performance.

### ***Overview of financial flows with the government***

There were fiscal to ESCOM from the Government in 2024/2025 amounting to MK50 billion in form of Promissory Notes that Government paid to ESCOM on behalf of BWB to clear accumulated electricity bills.

### ***Policy specific issues for the Public Body***

<b>Policy area</b>	<b>Source of fiscal risk</b>	<b>Proposed Policy Recommendations</b>
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.
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
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### 3.5.3. Malawi Energy Regulatory Authority (MERA)

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	1,350,725	2,804,005	2,122,830	683,954
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	38%	37%	25%	16%
Return on Assets	2%	22%	1%	0%
Return on Equity	9%	16%	12%	4%
Dividend Payout Ratio	-	-	94.2	-
Asset Turnover	0.12	0.96	0.05	0.03
Cost Recovery	1.61	1.59	1.34	1.20
<b>Liquidity</b>				
Current Ratio	1.15	1.11	1.03	1.07
Quick Ratio	1.15	1.11	1.03	0.96
Accounts Receivables Days	2011.86	3039.70	6622.72	11420.91
Accounts Payables Days	NMF	NMF	NMF	NMF
<b>Solvency</b>				
Debt to Assets	0.78	0.90	0.93	0.96
Debt to Equity	3.57	0.66	13.28	25.45
Interest Coverage	NMF	NMF	NMF	NMF
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	-

### Overview of financial performance

In the 2024/2025 financial year, MERA recorded a surplus of K684 million, representing a substantial decline from the K2.1 billion surplus posted in 2023/2024. The sharp deterioration in financial performance stems primarily from persistent volatility in international fuel markets. Global oil prices remained elevated due to geopolitical disruptions most notably the Russia Ukraine conflict and ongoing instability in the Middle East which resulted in significantly higher Free-on-Board (FOB) prices.

These adverse price movements increased fuel procurement costs and constrained MERA's revenue collection capacity. The operating profit margin narrowed to 16%, indicating reduced efficiency in managing operating expenses under inflationary cost pressures. Furthermore, both ROA (0%) and ROE (4%) fell to their weakest levels over the four-year period, underscoring the limited return generated from the Authority's asset and equity base in 2025.

### ***Overview of financial risks***

MERA's financial risk profile weakened further in 2025, particularly in liquidity and solvency positions. Liquidity pressures intensified despite a slight improvement in the current ratio to 1.07:1. The quick ratio fell below 1.0 to 0.96:1, signaling inadequate liquid assets to service short-term obligations without relying on levy inflows. The most pressing concern is the continued and severe accumulation of receivables, with debtor days escalating from 6,623 in 2023/24 to 11,421 in 2024/25. As at 31 March 2025, levy receivables totaled K7.8 billion, up from K5 billion in the prior year.

This trend reflects chronic delays in levy remittances from market players and presents a major threat to MERA's operational sustainability, cash-flow stability, and fiscal resilience. Solvency risks also heightened. The debt-to-equity ratio deteriorated significantly to 25.45, driven by expanding liabilities relative to equity. This elevated leverage position leaves MERA increasingly vulnerable to fiscal shocks and limits its ability to self-finance regulatory operations going forward.

### ***Overview of financial flows with the Government***

MERA did not remit any surplus to Government during the reporting period, reflecting weakened profitability and liquidity constraints.

### ***Policy specific issues for the Public Body***

<b>Policy area</b>	<b>Source of fiscal risk</b>	<b>Proposed Policy Recommendations</b>
Debtors Days	Persistently high debtor days driven by delayed levy collections	Strengthen debt collection frameworks, enforce stricter credit controls, and implement structured settlement plans with major levy contributors.

### 3.6. FINANCIAL SECTOR

#### 3.6.1. National Economic Empowerment Fund (NEEF)

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	(13,595,062)	(4,944,694)	814,228	407,608
Gross Profit Margin	70%	100%	100%	100%
Operating Profit Margin	39%	-18%	17%	17%
Return on Assets	-122%	-22%	1%	0%
Return on Equity	NMF	NMF	2%	0%
Dividend Payout Ratio	NMF	NMF	-	-
Asset Turnover	0.41	0.32	0.29	0.24
Cost Recovery	-6.78	0.04	-2.13	1.20
<b>Liquidity</b>				
Current Ratio	0.91	1.41	10.77	4.33
Quick Ratio	0.91	1.35	10.54	4.28
Accounts Receivables Days	734.64	1198.73	1599.78	1545.79
Accounts Payables Days	69.61	NMF	NMF	NMF
<b>Solvency</b>				
Debt to Assets	1.27	1.04	0.21	0.23
Debt to Equity	-4.67	-24.41	0.27	0.30
Interest Coverage	1.43	(0.72)	3.33	35.85
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	-

#### *Overview of financial performance*

NEEF recorded a surplus of K408 million in 2024/2025, lower than the K814 million posted in 2023/2024. The decline reflects escalating operational costs rising from K13.6 billion to K32.4 billion which outpaced revenue growth despite total revenue more than doubling from K16.5 billion to K38.9 billion. However, the financial outturn for 2025 must be interpreted alongside the revised strategic direction adopted at mid-year, which highlighted; Substantial over performance against revenue expectations, with mid-year revenue of K15.8 billion, exceeding the half-year target by 45%, driven by a rapidly expanding loan book and higher-than-anticipated fee income, Strong operational profitability, with mid-year operating profit of K4.1 billion, outperforming the mid-year budget by 62%, and a strategic realignment in the second half of the year with the revision of FY2024/25 disbursement targets from MK50 billion to MK200 billion, primarily to scale up the Farm Input Loan Programme (FIL), supported by significant additional shareholder capital injection. While annual profitability appears subdued, these results reflect a year of expansion rather than consolidation, with NEEF deliberately prioritizing portfolio growth, client outreach, and sectoral impact.

#### *Overview of financial risks*

Despite the ambitious scale-up, NEEF's liquidity position remained strong, albeit with a decline in buffers. The current ratio fell from 10.77 to 4.33, still well above solvency thresholds, supported by heavy capitalization during the year. Credit risk remained elevated during the

period under review. Accounts receivable days, at 1,546 days, indicate persistent structural weaknesses in loan recovery, despite improvements in the loan collection rate rising from 73% to 81.6% as at September 2024, partly attributed to the Enhanced Loan Recovery Programme (ELRP). ELRP had collected K23.84 billion by mid-year, demonstrating improving arrears containment and behavioral change among borrowers.

The expansion of the loan book, combined with higher risk exposure from drought-affected agricultural loans, resulted in increased impairment charges. Loan impairments of K2.3 billion at mid-year were 84% above budget, and annual impairments rose in line with the aggressive lending strategy. Nevertheless, solvency remains stable, with the debt-to-equity ratio increasing modestly from 0.27 to 0.30, reflecting NEEF's continued reliance on shareholder funding rather than debt financing.

### ***Overview of financial flows with the government***

NEEF did not remit any surplus to Government over the reporting period. Instead, Government provided substantial financial support through an equity injection of K81.5 billion, complementing the mid-year revised capital requirement of K180 billion for 2024/2025. This capital support underpins the Fund's expanded lending goals, notably the K150 billion Farm Input Loan Programme, revised at mid-year to meet nationwide demand.

### ***Policy specific issues for the Public Body***

<b>Policy Area</b>	<b>Source of Fiscal Risk</b>	<b>Proposed Policy Recommendations</b>
Revenue	High operational costs, limited capital base, and legacy non-performing loans continue to weaken profitability.	Continued shareholder equity injections and enhanced operational efficiency measures.
Operating Expenditure	Rising expenditure eroding surplus despite revenue growth.	Implement strict expenditure controls; undertake expenditure audits; rationalise costs to maintain alignment with revised budget.
Accounts Receivables Days	Debtor days remain excessively high, signaling long-standing recovery challenges.	Strengthen recovery mechanisms, automate loan monitoring, introduce incentive-based strategies, and enhance credit-risk assessment.

### 3.7. GOVERNANCE SECTOR

#### 3.7.1. Malawi Accountants Board (MAB)

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	79,029	45,816	133,035	45,148
Gross Profit Margin	88%	86%	91%	100%
Operating Profit Margin	25%	8%	71%	6%
Return on Assets	16%	8%	20%	4%
Return on Equity	16%	9%	21%	7%
Dividend Payout Ratio	2.8	7.6	-	-
Asset Turnover	0.63	0.93	0.84	0.61
Cost Recovery	1.58	1.29	5.06	1.07
<b>Liquidity</b>				
Current Ratio	19.49	5.60	11.82	4.42
Quick Ratio	19.49	5.60	11.75	4.42
Accounts Receivables Days	314.11	166.96	110.77	135.61
Accounts Payables Days	191.35	374.18	200.76	NMF
<b>Solvency</b>				
Debt to Assets	0.04	0.14	0.05	0.20
Debt to Equity	0.04	0.16	0.05	0.38
Interest Coverage	NMF	NMF	NMF	NMF
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	-

#### *Overview of financial performance*

For the 2024/2025 financial year, the Malawi Accountants Board (MAB) reported a surplus of K45 million, a significant reduction from the K133 million surplus in 2023/2024. This downturn was driven by a combination of factors, including higher finance costs from the finance lease and increased depreciation charges on assets, which put pressure on profitability. Additionally, the rising cost of goods and other operational expenses further eroded profit margins. Despite these challenges, MAB continued to maintain a positive surplus, although at a markedly lower level than in the prior year.

The decline in profitability for the 2024/2025 period reflects the pressures from external economic conditions particularly inflation and the rising cost of goods and internal challenges related to asset management and cost control. Although MAB's gross profit margin for 2025 stood at a remarkable 100%, reflecting strong revenue generation relative to direct costs, the operating profit margin has sharply decreased to 6% from 71% in 2024. This sharp decline is primarily due to non-operational costs, especially finance lease obligations and higher depreciation resulting from MAB's investment in infrastructure and equipment.

Despite the significant drop in profit margins, MAB's operational effectiveness remained strong, as indicated by the gross profit margin of 100% a testament to its ability to generate revenue efficiently. However, this figure may also reflect the nature of MAB's operations, which are based on a predictable cost structure. The operating profit margin of 6% is a clear indication that

MAB has been impacted by non-core expenses and more substantial asset depreciation, which have reduced its operational profitability.

### ***Overview of financial risks***

The liquidity position of MAB deteriorated in 2024/2025, with the current ratio dropping sharply to 4.42:1, down from 11.82:1 in the previous year. This substantial drop was mainly due to a 230% increase in current liabilities, driven by the finance lease and trade payables. While the current ratio still remains above the critical threshold of 1:1, signaling that MAB can cover its short-term obligations with its current assets, the increase in liabilities signals an increased strain on liquidity. This growing liability base may pressure MAB's cash flow in the coming years, especially if profitability remains subdued.

Similarly, the quick ratio, which adjusts for inventories, declined in tandem with the current ratio, settling at 4.42 in 2025, down from 11.75 in 2024. This reflects a decrease in liquid assets relative to current liabilities, further emphasizing the tightening of MAB's liquidity. While still positive, this sharp decline in liquidity ratios highlights the growing need for effective cash flow management, especially in light of the rising short-term obligations.

MAB's accounts receivables days increased to 135.61 days in 2025 from 110.77 days in 2024, suggesting a slight deterioration in the efficiency of revenue collection. While 135 days is still relatively manageable, it represents a growing concern as more capital is tied up in receivables, which could limit the company's ability to pay its creditors and reinvest in operations. If this trend continues, it could further pressure MAB's cash flow and reduce available working capital.

The accounts payables days data for 2025 was not available, but it is assumed that payables management has been significantly impacted by the increased trade liabilities related to the finance lease and other short-term obligations. This could indicate a delay in the settlement of payables, thereby straining relationships with creditors and suppliers and potentially resulting in higher financing costs or delayed deliveries from suppliers.

MAB's debt-to-assets ratio increased to 0.20 in 2025, up from 0.05 in 2024. This increase reflects a higher proportion of liabilities relative to assets, driven primarily by the finance lease and other short-term debts. Although the company remains relatively low-leveraged compared to some peers in the sector, this upward trend in debt raises concerns about the sustainability of this capital structure, particularly if profitability continues to decline.

### ***Overview of financial flows with the government***

In the year 2024/25, MAB remitted K7 million as surplus to Government.

### *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	Need to revise and implement Public Accountants and Auditors Act of 2023 to ensure MAB's functionalities on revenue generation and sanctions are strengthened.

## **3.8. HEALTH SECTOR**

### **3.8.1. Pharmacies and Medicines Regulatory Authority (PMRA)**

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	403,045	617,820	1,142,770	(466,023)
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	24%	18%	27%	-13%
Return on Assets	14%	11%	16%	-6%
Return on Equity	16%	14%	21%	-10%
Dividend Payout Ratio	-	14.9	5.7	NMF
Asset Turnover	0.56	0.53	0.60	0.58
Cost Recovery	1.32	1.22	1.37	0.88
<b>Liquidity</b>				
Current Ratio	2.35	1.72	1.08	1.18
Quick Ratio	2.33	1.71	1.07	1.17
Accounts Receivables Days	56.06	31.28	27.30	17.96
Accounts Payables Days	NMF	NMF	NMF	NMF
<b>Solvency</b>				
Debt to Assets	0.12	0.23	0.47	0.37
Debt to Equity	0.13	0.29	0.61	0.60
Interest Coverage	NMF	61.75	NMF	NMF
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	0.01

### *Overview of financial performance*

The Pharmacy and Medicines Regulatory Authority (PMRA) experienced a significant deterioration in financial performance in the 2024/2025 fiscal year, moving from a surplus of K1.14 billion recorded in 2023/2024 to a deficit of K466 million in 2024/2025. This sharp reversal is largely attributed to the drastic reduction in exchange gains previously a major contributor to surplus performance and the general escalation in operating costs driven by inflationary pressures in the economy.

The Operating Profit Margin fell to -13%, down from 27% in 2023/2024, indicating that core operations were unable to generate sufficient revenue to cover operating expenses. Similarly, both Return on Assets (-6%) and Return on Equity (-10%) turned negative, confirming that the



Authority did not generate adequate returns from its asset base during the period. The Cost Recovery ratio dropped to 0.88, below the sustainability benchmark of 1.0, meaning revenue collected was not adequate to cover total operational costs.

Despite these challenges, the Asset Turnover ratio remained relatively stable at 0.58, suggesting that the Authority continued to utilize its assets efficiently to generate revenue, but structural increases in costs outweighed these efficiency gains.

***Overview of financial risks***

The 2024/2025 liquidity position reflects increased financial risk. The Current Ratio improved slightly to 1.18:1 from 1.08:1 the previous year; however, this still shows a very thin liquidity cushion. With a Quick Ratio also at 1.17, the Authority is only marginally able to cover its short-term liabilities with its most liquid assets. While the improved receivables management from 27 days to 18 days helped marginally, it was not enough to counteract the cumulative strain from rising costs and reduced income streams. If this trajectory continues, the Authority may face difficulties in financing day-to-day operations, meeting supplier obligations on time, or absorbing unforeseen financial shocks.

The solvency indicators also highlight increasing financial pressure. Although there was a slight improvement in Debt-to-Assets (0.37) compared to the prior year, and Debt-to-Equity remained high at 0.60, these levels reflect increased leverage over the last three years. Continued deficits may constrain the Authority’s ability to borrow affordably in the future.

***Overview of financial flows with the government***

Given the deficit position in 2024/2025, the Authority was unable to remit any surplus to Government.

***Policy specific issues for the Public Body***

Policy area	Source of fiscal risk	Proposed Policy recommendations
Sales revenue	The authority relies much on other income to register a surplus not the operating revenue. The operating revenue cannot cover the operations of the authority.	The authority should implement austerity measures and rationalize non-essential expenditure budgets in order to be sustainable.

### 3.9. LABOUR SECTOR

#### 3.9.1. Technical, Entrepreneurial, Vocational Education and Training Authority (TEVETA)

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	2,194,787	1,401,207	12,925,036	16,815,900
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	11%	7%	56%	68%
Return on Assets	16%	8%	43%	31%
Return on Equity	21%	11%	53%	38%
Dividend Payout Ratio	-	-	-	-
Asset Turnover	1.40	1.16	0.88	0.65
Cost Recovery	1.13	1.08	2.27	3.14
<b>Liquidity</b>				
Current Ratio	3.74	3.06	4.29	4.53
Quick Ratio	3.73	3.06	4.29	4.52
Accounts Receivables Days	132.10	180.20	277.69	402.86
Accounts Payables Days	NMF	NMF	NMF	NMF
<b>Solvency</b>				
Debt to Assets	0.22	0.26	0.19	0.18
Debt to Equity	0.29	0.34	0.23	0.23
Interest Coverage	104.02	NMF	NMF	NMF
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	-

#### *Overview of financial performance*

TEVETA continued its strong financial trajectory in the 2024/25 fiscal year, recording a surplus of K16.8 billion, up from K12.9 billion in 2023/24. This solid performance was largely driven by increased employer compliance with the TEVET levy, supported by intensified enforcement visits conducted in collaboration with the Malawi Revenue Authority (MRA). The strengthened compliance environment translated into higher revenue inflows, which significantly boosted profitability.

The Operating Profit Margin rose sharply to 68%, up from 56% in the prior year, reflecting enhanced cost control and increased efficiency in administering levy-related activities. Both Return on Assets (31%) and Return on Equity (38%) remain strong, though slightly lower than the exceptional levels seen in 2023/24. This suggests that while profitability grew in absolute terms, the asset and equity bases expanded, moderating the ratios. Nonetheless, these levels indicate that TEVETA continues to generate substantial returns from its resource base.

The Cost Recovery ratio improved significantly to 3.14 from 2.27, demonstrating TEVETA's strengthened ability to cover operational costs through internally generated revenue without relying on supplementary funding or Government support. This high ratio underscores financial resilience and positions the Authority to withstand sectoral or macroeconomic shocks.

However, the declining Asset Turnover ratio, which fell to 0.65 from 0.88, indicates that revenue growth did not keep pace with the expansion of the asset base. While this may reflect ongoing investments in systems, infrastructure, or capacity-building interventions, it will be important for management to ensure that these investments continue to translate into enhanced operational efficiency over time.

***Overview of financial risks***

The 2025 financial performance show that TEVETA maintains a very strong liquidity position. The Current Ratio increased to 4.53:1, up from 4.29:1 in 2023/24, while the Quick Ratio remained virtually identical at 4.52:1, confirming a high level of liquid assets relative to short-term liabilities. This indicates that the Authority is more than capable of meeting its immediate obligations and sustaining its operations without liquidity strain.

Despite healthy liquidity, the Accounts Receivable Days increased significantly to 402.86, rising from 278 days the previous year. This trend suggests that levy collections, though increasing in volume, are taking longer to convert into cash. If not addressed, prolonged collection periods could begin to constrain cash flows or reduce the efficiency of revenue mobilization efforts. Strengthening debtor follow-up mechanisms will therefore be essential.

TEVETA’s solvency position remains sound. The Debt-to-Assets ratio decreased slightly to 0.18, and Debt-to-Equity held steady at 0.23, reflecting low gearing and sustained reliance on internally generated resources rather than borrowing. With such strong liquidity, TEVETA is well-positioned to reduce its debt exposure further if strategically advantageous.

***Overview of financial flows with the government***

There were no financial flows between Government and TEVETA in 2024/25 financial year.

***Policy specific issues for the Public Body***

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Revenue under collection	Low receivable collection of TEVET levy by the Authority as evidenced by the increase in receivables by 93% from 2023-24 to 2024-25 financial year.	Strengthen debt recovery mechanisms, consider penalties for late payments, and enhance collaboration with relevant stakeholders to improve collection efficiency.

### 3.10. LANDS AND HOUSING SECTOR

#### 3.10.1. Malawi Housing Corporation (MHC)

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Draft
<b>Profitability</b>				
Profit/loss (Mill MKW)	1,664,265	(268,115)	(4,622,263)	(2,054,678)
Gross Profit Margin	23%	89%	100%	100%
Operating Profit Margin	-54%	-9%	0%	-13%
Return on Assets	1%	0%	-3%	-1%
Return on Equity	1%	0%	-3483%	-1388%
Dividend Payout Ratio	-	NMF	NMF	NMF
Asset Turnover	0.05	0.05	0.05	0.05
Cost Recovery	1.30	1.02	1.00	0.89
<b>Liquidity</b>				
Current Ratio	0.41	0.33	0.35	0.55
Quick Ratio	0.15	0.08	0.12	0.33
Accounts Receivables Days	91.59	37.53	47.14	40.06
Accounts Payables Days	182.68	1909.04	NMF	NMF
<b>Solvency</b>				
Debt to Assets	0.11	0.12	0.17	0.19
Debt to Equity	0.12	0.14	176.44	190.32
Interest Coverage	(29,751.64)	(0.76)	(0.00)	(0.63)
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	-

#### *Overview of financial performance*

The financial performance of the Malawi Housing Corporation (MHC) remained weak in the 2024/25 financial year, despite a marginal reduction in the loss position. The Corporation recorded a loss of MK2.05 billion, an improvement from the MK4.62 billion loss reported in 2023/24, but still reflective of significant underlying operational and structural challenges. The performance for 2025 show that MHC continues to struggle to generate sufficient revenue to cover its operating costs. The Operating Profit Margin declined further to -13% from 0% in 2023/24, signaling continued inefficiencies and an inability to recover rising operating expenses. Although the Gross Profit Margin remains at 100%, this primarily reflects a revenue structure where direct cost of sales is low, but operational and administrative costs remain disproportionately high. Profitability ratios also highlight persistent underperformance. The Return on Assets (-1%) and Return on Equity (-1388%) remain deeply negative, confirming that both the asset base and shareholder funds are not generating positive returns. The extremely high negative ROE reflects the erosion of equity caused by accumulated losses.

The Cost Recovery ratio dropped to 0.89, falling below the sustainability threshold of 1.0, indicating that internally generated revenue is no longer sufficient to cover full operating costs. This suggests that MHC continues to rely on external or supplementary funding to remain operational, and without restructuring, profitability remains unlikely. While the Asset Turnover ratio remains stagnant at 0.05, this indicates low efficiency in using the Corporation's asset base

to generate revenue consistent with limited rental income growth and underutilization of available property assets.

***Overview of financial risks***

The financial risk profile for MHC remains elevated in 2024/25. Liquidity improved modestly, with the Current Ratio rising from 0.35 to 0.55, and the Quick Ratio increasing to 0.33, but both ratios remain well below the benchmark of 1.0. This means MHC continues to face difficulties in meeting short-term obligations, and the improvement, while positive, is not sufficient to support stable day-to-day operations.

The Corporation’s solvency position has further deteriorated. The Debt-to-Assets ratio increased to 0.19, while the Debt-to-Equity ratio worsened to 190.32, reflecting extremely high leverage driven by declining equity due to recurrent losses. Such a capital structure indicates technical insolvency, with liabilities overwhelmingly exceeding equity levels. The persistently negative interest coverage ratio (-0.63) further confirms that MHC is unable to meet its financing costs from operating profits, increasing reliance on debt rollovers or government support.

Although Accounts Receivable Days improved to 40 days, suggesting better collections compared to previous years, this gain does little to offset the broader liquidity and solvency concerns. Additionally, the absence of current Accounts Payables Days data limits visibility into the full extent of short-term obligations, but previously high levels suggest continued pressure from unpaid suppliers.

Overall, without substantial Government intervention and structural reforms, the Corporation’s financial position remains unsustainable, raising serious concerns about its long-term viability as a going concern.

***Overview of financial flows with the government***

There were no financial flows between Government and MHC in 2024/25 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.	Strict enforcement of the tenancy agreements.
	Higher operating expenses	

### 3.11. TRADE AND TOURISM SECTOR

#### 3.11.1. Malawi Bureau of Standards (MBS)

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	(648,858)	747,464	4,456,921	2,247,562
Gross Profit Margin	39%	100%	100%	100%
Operating Profit Margin	-22%	53%	66%	53%
Return on Assets	-3%	3%	15%	8%
Return on Equity	-3%	3%	18%	9%
Dividend Payout Ratio	NMF	87.5	90.0	-
Asset Turnover	0.29	0.37	0.61	0.87
Cost Recovery	1.64	2.14	2.95	2.11
<b>Liquidity</b>				
Current Ratio	2.00	2.55	1.80	2.00
Quick Ratio	1.99	2.52	1.73	1.96
Accounts Receivables Days	97.96	54.23	74.80	75.20
Accounts Payables Days	166.50	NMF	NMF	NMF
<b>Solvency</b>				
Debt to Assets	0.08	0.06	0.18	0.14
Debt to Equity	0.09	0.07	0.21	0.16
Interest Coverage	NMF	NMF	NMF	NMF
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	-

#### *Overview of financial performance*

The Malawi Bureau of Standards (MBS) remained profitable in the 2024/25 financial year, posting a surplus of K2.25 billion, although this represents a decline from the exceptionally strong K4.46 billion recorded in 2023/24. The reduction in the surplus for the year under review was on account of projected revenue which was not collected due to changes in the systems and the Bureau eventually made a provision for bad debt amounting to MK1.89 billion. In addition, low staffing levels affected implementation of planned operations, hence the underperformance. Despite the reduction, the 2025 results reflect continued operational strength and financial stability, especially when compared to earlier years such as 2022/23 when the Bureau recorded a deficit. The

The profitability metrics for 2025 illustrate a resilient financial performance. The Operating Profit Margin remained high at 53%, indicating that MBS is still efficiently managing its operating costs relative to revenues. While this margin is lower than the 66% recorded in 2023/24, it continues to demonstrate strong operational discipline. Profitability remains solid, as shown by a Return on Assets of 8% and Return on Equity of 9%, which though lower than the exceptional returns in 2023/24 still highlight MBS's ability to generate value from both its asset base and shareholder funds.

The Bureau's Cost Recovery ratio of 2.11 (down from 2.95) remains robust and well above the sustainability threshold of 1.0. This confirms that MBS comfortably covers its operating costs

using internally generated revenue, underscoring financial independence and operational sustainability. Additionally, the sharp increase in the Asset Turnover ratio to 0.87, compared to 0.61 in the previous year, indicates improved efficiency in using assets to generate revenue during the period under review.

### ***Overview of financial risks***

MBS's liquidity position improved in 2024/25, with the Current Ratio increasing to 2.00:1 (from 1.80:1) and the Quick Ratio rising to 1.96 (from 1.73). These ratios remain comfortably above the industry benchmark, indicating that the Bureau has adequate liquid resources to meet short-term obligations without strain. The slight increase provides additional cushion for the organization's day-to-day operations.

However, Accounts Receivable Days increased marginally to 75 days, compared to 74.8 days in the prior year, suggesting that customer collections slowed slightly. While this does not present an immediate liquidity threat, continuous monitoring of receivables is essential to prevent future cash flow pressures.

MBS's solvency position also strengthened. The Debt-to-Assets ratio reduced to 0.14, and the Debt-to-Equity ratio improved to 0.16, implying lower leverage and a healthier balance sheet. The Bureau remains largely self-financed, with no significant interest-bearing debt evidenced by the absence of meaningful interest coverage ratios. This reduces long-term financial risk and supports ongoing financial stability.

### ***Overview of financial flows with the government***

There were financial flows between Malawi Bureau of Standards and Government in the 2024/25 financial year. The Bureau was able to remit surplus to the Government during the period under review.

### 3.11.2. Malawi Gaming and Lotteries Authority (MAGLA)

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	1,222,806	2,583,264	398,740	7,113,106
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	83%	90%	50%	43%
Return on Assets	35%	42%	4%	44%
Return on Equity	57%	51%	4%	52%
Dividend Payout Ratio	4.5	-	1,126.2	52.0
Asset Turnover	0.66	0.81	0.73	1.05
Cost Recovery	5.93	9.84	2.01	1.74
<b>Liquidity</b>				
Current Ratio	1.95	5.02	7.46	5.13
Quick Ratio	1.95	5.02	7.45	5.13
Accounts Receivables Days	89.04	71.91	111.53	59.36
Accounts Payables Days	NMF	NMF	NMF	NMF
<b>Solvency</b>				
Debt to Assets	0.39	0.16	0.11	0.16
Debt to Equity	0.63	0.19	0.12	0.18
Interest Coverage	NMF	NMF	NMF	NMF
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	-

#### *Overview of financial performance*

The Malawi Gaming and Lotteries Authority (MAGLA) recorded a substantial improvement in financial performance in 2025, posting a surplus of K7.1 billion, a sharp rise from K398 million in the 2023/24 financial year. This strong performance reflects enhanced operational efficiency, improved compliance within the regulated sectors, and increased revenue mobilization. A key factor driving this growth was the successful implementation of the Electronic Monitoring System (EMS) in July 2024, which strengthened revenue recording, real-time monitoring, and reporting across all gaming, sports betting and lottery operators. In addition, MAGLA expanded licensing to more operators, broadening its regulatory and revenue base. These strategic interventions increased revenues by 86% and total assets by 30.

#### *Overview of financial risks*

Although the liquidity position remains strong, the current ratio of 5.13:1 in 2025 declined from 7.46:1 in the previous year. While this reflects increased operational spending associated with revenue growth initiatives and asset expansion, MAGLA still retains more than adequate capacity to meet its short-term obligations as they fall due. The liquidity decline therefore does not signal distress; rather, it shows a shift towards a more efficiently utilized asset base as the Authority expands and modernizes its regulatory systems.



### *Overview of financial flows with the government*

There were financial flows between Malawi Gaming and Lotteries Authority and Government in the 2024/25 financial year on account of Surplus remittance to Government.

### **3.11.3. Umodzi Holdings Limited (UHL)**

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	413,688	1,388,442	1,866,688	3,407,553
Gross Profit Margin	100%	65%	64%	64%
Operating Profit Margin	95%	-17%	28%	28%
Return on Assets	3%	4%	5%	6%
Return on Equity	4%	7%	9%	9%
Dividend Payout Ratio	-	-	-	-
Asset Turnover	0.25	0.28	0.37	0.32
Cost Recovery	19.52	1.22	2.78	2.79
<b>Liquidity</b>				
Current Ratio	0.52	0.61	0.81	1.20
Quick Ratio	0.29	0.54	0.61	0.92
Accounts Receivables Days	125.81	58.96	77.37	62.82
Accounts Payables Days	NMF	301.14	317.18	244.84
<b>Solvency</b>				
Debt to Assets	0.42	0.42	0.40	0.35
Debt to Equity	0.72	0.72	0.66	0.53
Interest Coverage	6.24	(3.56)	10.89	(0.14)
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	-

### *Overview of financial performance*

Umodzi Holdings Limited (UHL) registered a profit after tax of K3.41 billion in the 2024/25 financial year, a significant increase compared to the profit of K1.87 billion recorded in 2023/24. This strong performance reflects a sustained recovery in the hospitality and tourism sector and improved operational efficiency across the business units.

The company's improved performance was largely driven by the growth in tourism-related activities, particularly the increased number of meetings, incentives, conferences, and events (MICE) hosted at the Bingu International Convention Centre (BICC) and the Presidential Hotel. The surge in MICE bookings boosted both accommodation and food & beverage revenues. This rise in event-driven business contributed to the uplift in total revenues and enhanced profitability.

Operating profit margin remained stable at 28% in 2025, indicating sustained cost-control measures and improved revenue quality. Furthermore, return on assets rose to 6%, compared to 5% in 2023/24, reflecting a more efficient use of company assets in generating income. Overall,

UHL delivered its strongest financial performance in four years, underpinned by strengthened tourism activity and a favorable operating environment.

### ***Overview of financial risks***

UHL's liquidity position improved in 2024/25, with the current ratio rising to 1.20, up from 0.81 in the previous year. This improvement signifies that the company strengthened its capacity to meet short-term obligations using available current assets. Similarly, the quick ratio improved to 0.92, from 0.61 recorded in 2023/24, demonstrating enhanced cash-flow management and increased operational efficiency.

The company's leverage position also strengthened as debt-to-equity declined to 0.53 from 0.66, indicating reduced reliance on debt financing and increased utilization of internally generated funds. However, the decline in interest coverage to (0.14) from 10.89 in 2023/24 presents a moderate financial risk, reflecting fluctuations in finance charges relative to operating profit. Despite this, the overall solvency indicators continue to trend positively, reflecting a stronger financial position than the previous year.

### ***Overview of financial flows with the government***

There were no direct government transfers to UHL in the 2024/25 financial year, consistent with the 2023/24 financial year but the corporation remitted MK400 million as dividend to Government. However, improved profitability in 2025 is expected to translate into higher tax contributions and potential dividend remittances in future periods, subject to board approval and cash-flow considerations.

### ***Policy specific issues for the Public Body***

<b>Policy area</b>	<b>Source of fiscal risk</b>	<b>Proposed Policy Recommendations</b>
Sales Revenue	Worsening asset turn-over with passage of time	The authority needs to explore ways of ensuring that assets are put in good use to generate the much-needed returns.

### 3.12. TRANSPORT AND PUBLIC WORKS SECTOR

#### 3.12.1. Air Cargo Malawi Limited (ACM)

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	28,208	289,070	296,074	739,680
Gross Profit Margin	34%	43%	48%	47%
Operating Profit Margin	-32%	-14%	-5%	-6%
Return on Assets	1%	14%	9%	15%
Return on Equity	5%	34%	26%	51%
Dividend Payout Ratio	-	3.9	10.1	15.4
Asset Turnover	2.09	2.64	2.15	1.92
Cost Recovery	1.51	1.75	1.91	1.88
<b>Liquidity</b>				
Current Ratio	1.19	1.53	1.30	1.10
Quick Ratio	0.75	0.88	0.75	0.80
Accounts Receivables Days	70.31	60.54	51.78	75.20
Accounts Payables Days	143.75	91.31	14.78	136.44
<b>Solvency</b>				
Debt to Assets	0.70	0.58	0.65	0.70
Debt to Equity	2.37	1.36	1.85	2.30
Interest Coverage	NMF	(96.75)	(12.70)	(5.52)
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	-

#### *Overview of financial performance*

Air Cargo Malawi Limited (ACM) reported a profit after tax of K739 million in the 2024/25 financial year, a significant improvement from the K296 million profit recorded in 2023/24. The strengthened performance was driven primarily by higher cargo handling revenue, which reached K2.325 billion, representing 22% above budget and 60% above the corresponding period. This strong outturn occurred despite a moderate fall in industry volumes, reflecting ACM's improved revenue management and the positive impact of the kwacha devaluation on foreign-currency denominated income.

Freight sales also supported the improved performance, rising to K3.443 billion, which was 2% above budget and 12% above the previous period. Moreover, ACM continued to benefit from the Reserve Bank of Malawi Special Charter business, which generated a net profit of K114 million, performing 8% above budget. Volumes from these charters increased to 281,820 kg, surpassing the previous year's uplift and demonstrating resilience in a competitive charter environment.

#### *Overview of financial risks*

ACM's liquidity position in 2024/25 remained below the generally acceptable benchmark, with a current ratio of 1.10, compared to 1.30 in the previous year. Although the company remains

capable of meeting its obligations, the downward movement signals increasing pressure on working capital.

The company's leverage profile also weakened, with debt-to-equity rising to 2.30 from 1.85 in 2023/24, indicating heavier reliance on borrowing to support operations. This higher gearing elevates financial risk and exposes ACM to increased sensitivity to interest rate and currency fluctuations. The interest coverage ratio, although improved relative to earlier years, remained negative at (5.52), reflecting pressure from finance costs relative to operating earnings. Despite these risks, the growth in profitable revenue streams freight sales, cargo handling, foreign exchange gains, and special charters provides a strong foundation for strengthening future liquidity and reducing leverage.

### ***Overview of financial flows with the government***

There were no financial flows between ACM and Government in the 2024/25 financial year.

### ***Policy specific issues for the Public Body***

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Operating costs	Increasing charter costs	<ul style="list-style-type: none"> <li>Need for implementation of increased handling charges to align with inflation.</li> </ul>

### **3.12.2. Airport Development Ltd (ADL)**

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	7,721,360	12,431,370	661842	4,464,259
Gross Profit Margin	97%	96%	96%	93%
Operating Profit Margin	80%	76%	75%	32%
Return on Assets	14%	16%	14%	21%
Return on Equity	15%	17%	338%	22%
Dividend Payout Ratio	-	-	0.1	-
Asset Turnover	0.17	0.19	0.19	0.05
Cost Recovery	5.99	5.06	4.67	1.65
<b>Liquidity</b>				
Current Ratio	0.86	0.79	0.64	1.29
Quick Ratio	0.72	0.71	0.57	1.25
Accounts Receivables Days	332.64	135.30	89.12	216.68
Accounts Payables Days	1595.33	948.40	1134.29	1874.34
<b>Solvency</b>				
Debt to Assets	0.05	0.04	0.04	0.04
Debt to Equity	0.06	0.04	1.02	0.05
Interest Coverage	73.94	54.45	41.97	10.45
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	-

### ***Overview of financial performance***

Airport Development Limited (ADL) recorded a profit after tax of K4.46 billion in the 2024/25 financial year, representing a significant improvement compared to the profit of K662 million achieved in 2023/24. This marked turnaround reflects strengthened commercial performance across airport operations, improved efficiency in service delivery, and renewed growth in aeronautical and non-aeronautical revenue streams.

The improved profitability in 2025 is also supported by the enhanced utilization of airport facilities following continued infrastructure maintenance and the revival of key airport development projects. These initiatives expanded ADL's revenue base and contributed to the strong financial outturn. In addition, return on assets improved to 21% from 14% in the previous year, while return on equity increased to 22%, reflecting better value creation from the company's capital base.

Although the gross profit margin declined slightly to 93%, ADL's overall revenue-generating capacity strengthened, driven by increased passenger activity, facility usage, and improved fee collection. The 2025 audited results therefore confirm sustained operational recovery and the company's renewed financial strength.

### ***Overview of financial risks***

ADL's liquidity position improved considerably in the 2024/25 financial year, with the current ratio rising to 1.29 from 0.64 in 2023/24. This signals a notable improvement in the company's ability to meet its short-term obligations from existing current assets. The quick ratio also improved to 1.25 from 0.57, indicating healthier cash-flow management and a stronger working capital position than the previous year.

The solvency position remained stable, with debt-to-assets maintained at 0.04 and debt-to-equity improving significantly to 0.05, down from 1.02 in 2023/24. This substantial improvement reflects reduced reliance on debt and a stronger equity base following the recovery in earnings. While the interest coverage ratio decreased to 10.45 from 41.97, it still indicates sufficient earnings to comfortably meet interest obligations.

Despite improvements in liquidity and solvency, the increase in accounts receivable days to 217 highlights the need to strengthen collection mechanisms, while the rise in accounts payable days reflects extended creditor cycles. Nonetheless, these risks are mitigated by the strong profitability achieved in 2025 and improved cash-flow position compared to the previous year.

### ***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	Increased receivables.	implementing debt collection protocols to improve cash flow

### **3.12.3. Lilongwe Handling Company Limited (LIHACO)**

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	(345,695)	2,738,999	634,720	1,306,653
Gross Profit Margin	42%	75%	66%	54%
Operating Profit Margin	-16%	36%	17%	-59%
Return on Assets	-11%	61%	13%	14%
Return on Equity	NMF	119%	22%	20%
Dividend Payout Ratio	NMF	-	-	-
Asset Turnover	0.74	1.66	1.38	0.76
Cost Recovery	1.72	2.56	2.03	0.89
<b>Liquidity</b>				
Current Ratio	0.26	1.36	1.55	1.16
Quick Ratio	0.14	1.22	1.55	1.14
Accounts Receivables Days	72.31	62.76	89.19	119.11
Accounts Payables Days	279.74	50.47	188.87	187.09
<b>Solvency</b>				
Debt to Assets	1.15	0.49	0.42	0.31
Debt to Equity	-8.19	0.95	0.72	0.45
Interest Coverage	(1.70)	33.08	7.75	(25.84)
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	-

### *Overview of financial performance*

Lilongwe Handling Company (LIHACO) posted a profit after tax of K1.31 billion in the 2024/25 financial year, a notable increase from the K635 million profit recorded in 2023/24. The stronger performance reflects the continued recovery of ground-handling operations and improved business activity across both Kamuzu International Airport (KIA) and Chileka Airport.

The improved 2025 performance was supported by increased ground-handling business from five contract airlines, steady traffic flows, and rising revenues from Travel & Tours and Business Lounge operations, which continued to deliver significant revenue growth in the period.

Return on assets rose to 14%, up from 13% in 2024, indicating more efficient utilization of the company's asset base. Although the operating profit margin declined due to higher operational costs, the overall financial outcome remains positive, showcasing LIHACO's strengthened revenue-generating capacity during the year.

### ***Overview of financial risks***

LIHACO's liquidity position softened slightly, with the current ratio declining to 1.16 in 2024/25 from 1.55 in 2023/24, suggesting reduced short-term flexibility. Nonetheless, the company remained capable of meeting its current obligations, supported by a stable operational environment and consistent revenue flows from contract airlines.

Solvency indicators show improvement, with debt-to-assets decreasing to 0.31 from 0.42 and debt-to-equity improving to 0.45 from 0.72, signaling reduced reliance on borrowing and improved financial stability. Despite the negative interest coverage ratio, the enhanced levels of profitability in 2025 provide a buffer against short-term financial pressure. However, the rise in accounts receivable days to 119 indicates a need to strengthen collections, while continued high accounts payable days highlight ongoing pressure on supplier settlement cycles. These risks are manageable given the company's positive revenue trajectory and profitability.

### ***Overview of financial flows with the government***

In the year 2024/25, there was a dividend paid to Government.

### ***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

### **3.12.4. National Construction Industrial Council (NCIC)**

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	468,549	1,011,194	1,747,576	1,084,989
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	16%	22%	31%	10%
Return on Assets	22%	34%	38%	20%
Return on Equity	24%	36%	42%	22%
Dividend Payout Ratio	13.2	18.0	22.9	28.3
Asset Turnover	1.18	1.51	1.22	1.20
Cost Recovery	1.19	1.29	1.46	1.11
<b>Liquidity</b>				
Current Ratio	4.58	8.62	6.26	6.77
Quick Ratio	4.38	8.39	6.08	6.57
Accounts Receivables Days	14.04	20.63	14.26	12.40
Accounts Payables Days	NMF	NMF	NMF	NMF
<b>Solvency</b>				
Debt to Assets	0.08	0.06	0.09	0.10

Debt to Equity	0.09	0.07	0.10	0.11
Interest Coverage	NMF	NMF	NMF	NMF
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	-

### ***Overview of financial performance***

The National Construction Industry Council (NCIC) recorded a profit after tax of K1.08 billion in the 2024/25 financial year, representing a slight decline from K1.75 billion in 2023/24. Despite the marginal reduction, the Council's overall financial position remains strong, underpinned by continued collection of construction levies and related taxes and prudent management of operational costs.

The slight decrease in surplus was influenced by industry-specific and macroeconomic factors, including delayed payments to contractors and consultants, foreign currency fluctuations, and fuel shortages, which indirectly affected levy collection. Nonetheless, NCIC has continued to maintain a robust revenue base by intensifying levy collection efforts, exploring new revenue avenues such as penalties, and investing surplus funds prudently to safeguard financial sustainability.

Return on assets remained solid at 20%, while return on equity was 22%, reflecting the Council's continued efficient utilization of resources and capacity to generate value from its equity base. The Council also continued to maintain a 100% gross profit margin, demonstrating effective cost management across its operations.

### ***Overview of financial risks***

NCIC's liquidity position remained strong in 2025, with a current ratio of 6.77 and a quick ratio of 6.57, indicating that the Council had sufficient short-term resources to meet its obligations as they fall due. The slight decline in surplus did not compromise liquidity, which remains well above the industry benchmark.

Solvency indicators were also stable, with debt-to-assets at 0.10 and debt-to-equity at 0.11, showing continued reliance on internal resources rather than borrowing. This conservative approach ensures that the Council is well-positioned to absorb external shocks such as inflationary pressures and currency devaluation, which were evident during the 2024/25 period.

NCIC continues to monitor economic and operational risks, including delayed payments by clients and non-compliance by certain industry players, and has implemented proactive measures to mitigate these challenges, ensuring sustained financial health.

### ***Overview of financial flows with the government***

In the year 2024/2025, NCIC remitted surplus to Government.



### 3.13. WATER SECTOR

#### 3.13.1. Blantyre Water Board (BWB)

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	(8,187,960)	(20,692,852)	(37,782,199)	(10,208,257)
Gross Profit Margin	30%	35%	40%	60%
Operating Profit Margin	-57%	-78%	-104%	49%
Return on Assets	-11%	-24%	-40%	-10%
Return on Equity	NMF	-269%	NMF	-116%
Dividend Payout Ratio	NMF	NMF	NMF	NMF
Asset Turnover	0.20	0.30	0.32	0.58
Cost Recovery	1.15	-0.26	-0.13	2.49
<b>Liquidity</b>				
Current Ratio	0.18	0.46	0.44	0.68
Quick Ratio	0.08	0.36	0.52	0.47
Accounts Receivables Days	65.37	100.83	124.98	60.28
Accounts Payables Days	943.93	151.36	428.82	177.02
<b>Solvency</b>				
Debt to Assets	1.17	0.91	1.32	0.92
Debt to Equity	-7.04	10.26	-4.11	11.13
Interest Coverage	(297.06)	(17.18)	(68.75)	10.47
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	-

#### *Overview of financial performance*

Blantyre Water Board (BWB) recorded a substantial improvement in 2024/25, reducing its net loss to MK 10.2 billion from MK 37.8 billion in 2023/24. This significant turnaround was primarily driven by the September 2024 tariff adjustment and the implementation of the Memorandum of Understanding (MOU) with ESCOM, which lowered monthly electricity bills from MK 2.0 billion to MK 1.245 billion, thereby reducing operational expenses and improving the Board's overall financial performance.

The improvement is also reflected in profitability indicators where gross profit margin increased to 60%, while operating profit margin turned positive at 49%, compared to deeply negative margins in prior years. Asset turnover improved to 0.58, indicating more efficient use of the Board's assets in generating revenue, and cost recovery increased to 2.49, demonstrating improved operational efficiency.

#### *Overview of financial risks*

Despite the improved performance, BWB's liquidity position remains weak, with a current ratio of 0.68 and a quick ratio of 0.47. While these ratios show slight improvement over prior years, they remain below generally accepted benchmarks, indicating limited capacity to meet short-term obligations without external support.

Solvency remains a concern. The debt-to-asset ratio improved from 1.32 in 2024 to 0.92 in 2025, and interest coverage shifted from -68.75 to 10.47, reflecting the positive impact of reduced operational expenses and government support. The debt-to-equity ratio improved from -4.11 to

11.13, signaling a modest reduction in reliance on debt, though the Board continues to operate with a relatively thin equity base.

Receivables management also showed notable improvement. Accounts receivable days declined from 125 days in 2024 to 60 days in 2025, demonstrating enhanced collections efficiency, while accounts payable days reduced from 428 to 177, reflecting better management of short-term liabilities. However, the historical trend of substantial cumulative losses underscores ongoing operational and financial vulnerability.

### ***Overview of financial flows with the government***

To stabilize operations and prevent deeper insolvency, the Government provided a total of MK 41.9 billion in bailouts over 2024 and 2025, structured as equity injections in form of promissory notes specifically to settle outstanding ESCOM electricity bills. These injections were instrumental in supporting BWB's solvency, particularly in light of the significant operational losses in the prior years.

### ***Policy specific issues for the Public Body***

<b>Policy area</b>	<b>Source of fiscal risk</b>	<b>Proposed Policy Recommendations</b>
Sales revenue	High Non-Revenue Water, non-cost reflective tariffs	Old Pipe replacement, timely implementation of cost-reflective tariffs
Tax and pension arrears	Cash flow challenges	Disconnections and prepaid meters installation, settle all outstanding statutory obligations
Cost of sales	High electricity bills from ESCOM	Develop alternative source of energy

### 3.13.2. Central Region Water Board (CRWB)

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	(390,790)	1,952,547	1,564,018	(1,693,734)
Gross Profit Margin	42%	49%	52%	42%
Operating Profit Margin	-66%	-41%	-30%	-16%
Return on Assets	-2%	9%	3%	-2%
Return on Equity	NMF	-46%	-58%	NMF
Dividend Payout Ratio	NMF	-	-	NMF
Asset Turnover	0.24	0.36	0.24	0.15
Cost Recovery	0.92	1.11	1.23	1.72
<b>Liquidity</b>				
Current Ratio	0.47	0.50	1.00	0.83
Quick Ratio	0.44	0.45	0.96	0.79
Accounts Receivables Days	285.13	145.71	NMF	307.68
Accounts Payables Days	496.90	158.68	167.49	256.51
<b>Solvency</b>				
Debt to Assets	1.31	1.19	1.06	1.06
Debt to Equity	-4.23	-6.34	-17.80	-17.98
Interest Coverage	(6.20)	(5.80)	NMF	NMF
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	-

#### *Overview of financial performance*

In the 2024/25 financial year, Central Region Water Board (CRWB) registered a net loss of MK 1.694 billion, marking a deterioration from the prior year's profit of MK 1.564 billion in 2023/24. The decline in financial performance was largely driven by lower production and sales volumes, high non-revenue water (NRW), and delayed tariff adjustments, which constrained revenue generation.

During the year under review, the Board produced 4.823 million cubic metres of water, representing a 12% shortfall against the target of 5.384 million cubic metres and a 4% reduction compared to the previous year. Similarly, sales volumes were 3.330 million cubic metres, 19% below budget and 7% below the previous year, resulting in reduced billing revenue. Total operating revenue amounted to MK 5.113 billion, significantly below budget, while operating expenses were MK 4.185 billion, reflecting partial cost savings but insufficient to offset the revenue shortfall. The mid-year Earnings Before Interest, Depreciation, and Tax (EBIDTA) was MK 0.927 billion, representing only 30% of the budgeted EBIDTA of MK 3.050 billion, highlighting the adverse impact of revenue underperformance on overall profitability.

#### *Overview of financial risks*

The Board's liquidity position weakened slightly in 2025, with a current ratio of 0.83 and a quick ratio of 0.79, indicating that the Board remains only marginally able to meet short-term obligations.

Accounts receivable management continues to pose significant challenges, with total debtor days at 307, including 498 days for public institutions and 250 days for private customers. Total outstanding receivables amounted to MK 9.489 billion, of which MK 7.117 billion was owed by public institutions. The extended collection period has severely constrained cash flow and adversely affected budget implementation.

### ***Overview of financial flows with the government***

In the year 2024/25, no financial transfers were made between the Government and CRWB.

### ***Policy specific issues for the Public Body***

<b>Policy area</b>	<b>Source of fiscal risk</b>	<b>Proposed Policy Recommendations</b>
Sales revenue	high non-revenue water, due to aged and faulty pipelines, and leaking tanks in some areas.	<ul style="list-style-type: none"> <li>Rehabilitation of aged infrastructure including pipe network and storage tanks.</li> </ul>
Power outages and low voltages affecting water supply in key schemes such as Dedza (Dauya), Kochilira, Mponela, Kasungu, Dowa, and Santhe.	Cash flow challenges due to high trade receivables largely from public and private customers	Intensifying debt collection
Public Debt	Nonpayment of water bills by public institutions due to the use of Postpaid meters	Migration of metering system from postpaid to prepaid

### 3.13.3. Lilongwe Water Board (LWB)

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	594,077	2,583,176	9,485,104	1,237,608
Gross Profit Margin	36%	41%	51%	79%
Operating Profit Margin	-67%	-17%	2%	19%
Return on Assets	0%	1%	3%	0%
Return on Equity	2%	6%	13%	2%
Dividend Payout Ratio	-	1.9	2.1	-
Asset Turnover	0.13	0.16	0.14	0.16
Cost Recovery	0.97	1.71	2.05	1.67
<b>Liquidity</b>				
Current Ratio	5.83	7.15	6.34	3.33
Quick Ratio	4.74	6.21	5.81	2.82
Accounts Receivables Days	154.45	135.13	124.77	139.62
Accounts Payables Days	94.89	323.23	140.79	365.00
<b>Solvency</b>				
Debt to Assets	0.74	0.79	0.74	0.76
Debt to Equity	2.78	3.79	2.84	3.14
Interest Coverage	(5.20)	(1.57)	0.19	2.02
<b>Other</b>				
Government Transfers to Total Revenue	-	-	-	-

#### *Overview of financial performance*

In the 2024/25 financial year, Lilongwe Water Board (LWB) recorded a profit after tax of MK 1.238 billion, marking a significant decline from the prior year's profit of MK 9.485 billion in 2023/24. The sharp decrease in profitability was primarily driven by higher operational costs, reduced revenue growth, and increased reliance on aging infrastructure despite improvements in water supply management practices in previous years.

The gross profit margin increased to 79%, reflecting effective cost containment in some operational areas, while the operating profit margin improved to 19% from 2% in 2024. However, the substantial decline in net profit indicates that non-operating costs, debt service, and other financial expenses materially impacted bottom-line results.

Revenue collection challenges also contributed to the decline. Accounts receivable days increased slightly to 140 days, up from 125 days in 2024, indicating delays in payments from both private and public sector customers, particularly Government institutions, which constrained cash flow despite strong operational margins.

The asset turnover remained stable at 0.16, suggesting that the Board’s asset utilization in generating revenue was consistent with prior years. Cost recovery dropped slightly to 1.67, reflecting the combined effect of slower revenue collection and rising operational expenses.

### ***Overview of financial risks***

Despite the decline in profitability, LWB’s liquidity remained strong, with a current ratio of 3.33 and a quick ratio of 2.82, indicating that the Board is well-positioned to meet its short-term obligations.

Solvency indicators reflect moderate leverage with a debt-to-assets ratio of 0.76 and a debt-to-equity ratio of 3.14, highlighting that while the Board relies on debt financing, it continues to maintain the capacity to service obligations. The interest coverage ratio improved to 2.02, indicating enhanced ability to meet interest payments from operating profit, although the ratio remains below ideal thresholds for low-risk financing.

Receivables management remains a critical risk area. Extended collection periods from public and private customers reduce operational cash availability, potentially limiting the Board’s ability to invest in infrastructure maintenance and expansion.

### ***Overview of financial flows with the government***

The Board remitted K200 million divided in 2025 to Government.

### ***Policy specific issues for the Public Body***

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	<ul style="list-style-type: none"> <li>Implementation of non-cost reflective tariff</li> </ul>	Expand the scale of operation through diverse projects in its supply area.
	<ul style="list-style-type: none"> <li>high non-revenue water</li> </ul>	Routine maintenance and replacement of burst and old aged pipes
Tax Arrears	<ul style="list-style-type: none"> <li>High levels of accounts receivables</li> </ul>	Intensify debt collection coupled with prepaid meters migration.

### 3.13.4. Northern Region Water Board (NRWB)

Indicators	2022 Audited	2023 Audited	2024 Audited	2025 Audited
<b>Profitability</b>				
Profit/loss (Mill MKW)	(5,409,291)	(7,413,864)	(10,249,862)	(14,668,886)
Gross Profit Margin	35%	100%	100%	27%
Operating Profit Margin	-137%	-26%	44%	-32%
Return on Assets	-6%	-7%	-8%	-10%
Return on Equity	NMF	-90%	NMF	-14%
Dividend Payout Ratio	NMF	NMF	NMF	NMF
Asset Turnover	0.08	0.08	0.09	0.11
Cost Recovery	0.56	0.77	1.22	1.68
<b>Liquidity</b>				
Current Ratio	0.54	0.92	0.27	0.28
Quick Ratio	0.35	0.70	0.22	0.14
Accounts Receivables Days	219.93	70.59	76.57	65.97
Accounts Payables Days	762.96	NMF	NMF	560.71
<b>Solvency</b>				
Debt to Assets	1.03	0.93	1.19	1.75
Debt to Equity	-32.81	12.38	-6.32	2.34
Interest Coverage	(7.32)	0.60	(0.80)	(0.56)
<b>Other</b>				
Government Transfers to Total Revenue	0.04	0.03	-	-

#### *Overview of financial performance*

In 2024/25 financial year, Northern Region Water Board (NRWB) recorded a net loss of MK 14.67 billion, representing a further deterioration from the prior year's loss of MK 10.25 billion. This marks a continuation of a negative trend in the Board's profitability, largely driven by structural and operational challenges. The gross profit margin dropped to 27%, and the operating profit margin fell to -32%, reflecting a significant mismatch between revenues and escalating operational and financial costs. While NRWB maintained modest growth in revenue relative to the half-year prior year (22% growth attributed to previous tariff increases), revenue remained below budget by 18%, primarily due to lower water sales volumes, delayed new connections, sporadic power interruptions, costly commercial bank loans, non-cost reflective tariffs, and malfunctioning water meters.

Cumulative water sales as at mid-year were 3.7 million m<sup>3</sup>, representing a 15% shortfall against budget and a 5% decline relative to the corresponding period in the prior year. Prepaid customer volumes dropped by 18%, while postpaid volumes grew by 9%. Despite these challenges, the 10% water tariff increase effective September 2024 did not improve the anticipated board's revenue stream. NRWB's asset turnover improved slightly to 0.11, indicating marginally better utilization of assets to generate revenue. However, high operating costs of MK6.6 billion, up 36% from the previous year due to inflation and a 55% cumulative depreciation of the Malawi Kwacha, continued to erode profitability.

### ***Overview of financial risks***

Liquidity remained critically weak during the period under review. The Board's current ratio of 0.28 and quick ratio of 0.14 indicate an inability to meet short-term obligations, highlighting ongoing insolvency risk. The negative working capital, which worsened from MK7.3 billion in 2023/24 to MK9.6 billion in 2024/25 midyear, severely constrains operational flexibility.

Solvency is also a key concern. NRW's debt-to-asset ratio rose to 1.75, reflecting heavy reliance on debt financing. The interest coverage ratio of -0.56 underscores the Board's limited capacity to service debt from operating profits. Consequent arrears include MK12.6 billion on a National Bank loan, MK2.9 billion in pension obligations, MK7.4 billion to creditors, and MK4.9 billion in taxes. These liabilities are expected to grow until the issue of non-cost reflective tariffs is addressed.

Receivables management showed some improvement, with debtor days declining to 66 days, and revenue collection efficiency at 95% of budgeted targets. However, liquidity challenges and high operating costs continue to limit the effectiveness of collections.

### ***Overview of financial flows with the government***

In the year 2024/2025, no financial transfers were made between the Government and NRW.

### ***Policy specific issues for the Public Body***

<b>Policy area</b>	<b>Source of fiscal risk</b>	<b>Required action for follow-up</b>
Sales Revenue	High operating cost impeding the Boards working capital and the bottom line.  The delayed implementation of the water tariff increases also had an 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  Implement cost containment measures



## 4 HIGH RISK CASE STUDIES

### 4.1. BLANTYRE WATER BOARD (BWB)

#### 4.1.1. 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 litres of water daily through two treatment plants to 85 percent of Blantyre's population of 1.4 million plus populations in the surrounding areas.

For the past years, BWB has been registering significant losses. With a MK10.2 billion loss at the end of FY2024/25, the company's performance during the period under review continue to deteriorate. The decline in financial performance was largely driven by lower production and sales volumes, high non-revenue water (NRW), and delayed tariff adjustments, which constrained revenue generation.

At the closure of FY25, BWB owed ESCOM more than MK28 billion in arrears, which put strain on ESCOM's balance sheet.

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. Generally, performance of the Board was negatively affected due to the freeze in implementation of tariff adjustment.

#### 4.1.2. Summary of financial performance

Area of analysis	Assessment of key trends
Profitability	<p>The Board incurred a loss of MK10.2 billion during FY24/25 (31<sup>st</sup> March 2025) compared to a loss of MK378 billion for FY23/24 (2023: MK20.7 billion). The outturn was on account of the disparities between current liabilities and current assets, which in 2025 stood at MK32.76 billion and MK5.56 billion, respectively, resulting in a working capital deficit of MK27.2 billion (2024: deficit of MK14.6 billion). This reinforces the persistent liquidity stress that has been evident for the past several years. The profitability trend has therefore continued on a negative trajectory for four consecutive financial years, with the Board reporting substantial losses before tax in each period.</p> <p>These conditions continue to indicate the existence of material uncertainty that casts significant doubt on the Board's ability to continue as a going concern. Expenses have remained structurally high, particularly for electricity and operations. In 2025, the Cost of Goods Sold rose further to MK12.51 billion, widening the gap between revenue and gross margins. Electricity expenses remain the</p>

Area of analysis	Assessment of key trends
	<p>dominant cost driver, with infrastructure constraints and topographical disadvantages requiring continuous pumping of water uphill. This prevents the Board from benefiting from cheaper off-peak electricity, thereby locking in high energy costs. Revenue growth remains constrained by non-cost reflective tariffs, which continue to erode operating margins. In line with these pressures, operating losses significantly worsened to MK11.71 billion in 2025, compared to MK9.19 billion in 2024 and MK2.16 billion in 2023. As such, the operating profit margin reached an even deeper negative level in FY2024/25, with the trajectory confirming that losses are accelerating faster than revenue growth. Without tariff adjustments, efficiency improvements, or reduced cost pressures, the profitability outlook remains severely challenged.</p>
Indebtedness/Solvency	<p>The solvency position deteriorated further in FY2024/25. The Board's liabilities increased to MK86.38 billion, exceeding total assets of MK78.88 billion, resulting in a debt-to-assets ratio of 1.10, similar to the previous year but still significantly above safe industry norms. This implies that creditors continue to fund more than 100 percent of the asset base, raising red flags about long-term financial sustainability. Equity fell sharply from positive MK8.08 billion in 2024 to negative MK7.50 billion in 2025, reversing the temporary improvement recorded in 2023. This sharp reversal underscores the structural imbalance in the balance sheet, where liabilities continue to grow faster than earnings or asset accumulation.</p> <p>Debt to Equity remains excessively high and continues to signal financial distress, given that shareholder equity is negative and unable to absorb operating shocks. Interest coverage remains severely negative. In 2025, EBIT was negative MK11.71 billion against finance costs of MK4.11 billion, confirming an inability to meet interest obligations from operating earnings. This pattern has been consistent over the five-year period. Debt to EBITDA remains far above the recommended threshold of 3, with EBITDA again negative in 2025. Consequently, leverage indicators show that the Board is technically insolvent, with weak capacity to service existing debt or absorb any additional borrowing. Current earnings remain insufficient to meet interest and principal obligations, making the chances of sustainable debt servicing extremely doubtful without restructuring or external financial intervention.</p>
Liquidity	<p>Liquidity challenges intensified in 2025. The current ratio deteriorated further from 0.35 in 2023, 0.35 in 2024, to 0.17 in 2025, which signifies a severe shortage in liquid resources. Current</p>

Area of analysis	Assessment of key trends
	<p>liabilities of MK32.76 billion overwhelmingly exceed current assets of MK5.56 billion, amplifying short-term solvency concerns. When inventories are excluded, the quick ratio for 2025 declines even further, highlighting the Board's inability to meet short-term obligations as they fall due. This liquidity tightening is consistent with the long-standing buildup in arrears, particularly to ESCOM, which historically accounts for a major proportion of outstanding obligations due to high electricity consumption.</p> <p>Debtor turnover saw marginal improvements, with receivables falling to MK3.17 billion in 2025 from MK5.78 billion in 2024, reducing the collection cycle. However, this improvement remains insufficient to offset the significant pressure from payables, which climbed steeply in 2025. Creditor turnover remains excessively high, reflecting prolonged delays in settling obligations. The persistent mismatch between receivables and payables and the widening working-capital deficit indicates that the Board continues to operate under acute cash constraints. Without a liquidity injection or structural tariff realignment, the Board will continue relying on arrears accumulation for operational survival.</p>
<p>Dependency/ Relationship Government</p> <p>with</p>	<p>BWB continues to maintain significant relationships with the Government and other SOEs through the provision of water to public institutions and reliance on bailouts when operational performance deteriorates. However, the Board has consistently remained unable to remit dividends to the Government due to recurring losses. The deepening negative equity in 2025 intensifies the Board's dependency on Government support, as internally generated resources remain inadequate to sustain operations, invest in capital maintenance, or service debt. Over time, the absence of cost-reflective tariffs, escalating input costs, and liquidity pressures have increased the Board's reliance on the sovereign, with limited progress toward long-term financial independence. Government has provided MK41 billion injection through promissory notes paid to ESCOM on behalf of BWB to clear outstanding electricity arrears.</p>

	2021	2022	2023	2024	2025
<b>Profitability</b>					
Operating Profit Margin	-0.28	-0.12	-0.14	-0.61	-0.75
Net Profit Margin	-0.33	-0.17	-0.12	-0.38	-0.88
Return on Assets	-0.10	-0.06	-0.02	-0.07	-0.18
Return on Equity	NMF	NMF	-0.13	-0.71	NMF
Cost Recovery	0.79	0.90	0.89	0.64	0.59
<b>Liquidity</b>					
Current Ratio	0.33	0.44	0.39	0.35	0.17
Quick Ratio	0.27	0.42	0.28	0.29	0.15
Debtor Turnover Days	109.4	182.7	108.4	139.5	73.7
Creditor Turnover Days	354.6	376.3	331.8	473.2	687.1
<b>Solvency</b>					
Debt to Assets	1.06	1.12	0.82	0.91	1.10
Debt to Equity	NMF	NMF	4.61	9.55	NMF
Debt to EBITDA	-12.04	-28.14	-31.79	-8.40	-7.37
Interest Coverage	-1.83	-0.78	-0.65	-3.41	-2.85
Cash Interest Coverage	-1.83	-0.78	-0.65	-3.41	-2.85
Debt Coverage	-0.25	-0.10	-0.07	-0.26	-0.34
<b>Government Relationship</b>					
Government Transfers to Total Revenue	0.00	0.00	0.00	0.00	0.00
50% Test	1.41	1.25	1.32	1.74	1.95
Z-Score	-3.10	-3.13	-1.46	-2.64	-4.97

	2021	2022	2023	2024	2025
<b>Profitability</b>					
Return on Assets	Category 5	Category 4	Category 4	Category 4	Category 5
Return on Equity	Category 5	Category 5	Category 5	Category 5	Category 5
Cost Recovery	Category 4	Category 4	Category 4	Category 5	Category 5
<b>Liquidity</b>					
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 5	Category 4
Creditor Turnover Days	Category 5	Category 5	Category 5	Category 5	Category 5
<b>Solvency</b>					
Debt to Assets	Category 5	Category 5	Category 4	Category 4	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
<b>Government Relationship</b>					
Government Transfers to Total Revenue	Category 1	Category 1	Category 1	Category 1	Category 1
50% Test	Category 3	Category 3	Category 3	Category 4	Category 4
<b>Overall Risk Rating</b>					
Weighted Average*	Category 5	Category 5	Category 5	Category 5	Category 5
Z-Score	Category 4	Category 4	Category 4	Category 4	Category 4



#### 4.1.3. 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
<b>Revenues:</b>  <b>(i) Losses from non-revenue water</b> Between 50 to 60 percent of water produced by the Board is lost and not charged. This is mainly on account of leakages, burst pipes, poor water management, illegal connections and unauthorised consumption.	<b>Revenues:</b>  <b>(i) Losses from non-revenue water</b> In 2024/25 NRW stood at 57%. Mitigation measures include replacing <b>15,000 faulty prepaid meters</b> , <b>7,000 aged meters</b> , and rehabilitating <b>100 kilometres of old and frequently failing pipelines</b> . These

Source of Risk	Mitigation/policy measure
<p>initatives, combined with improved operational monitoring, are expected to gradually reduce NRW and enhance revenue collection.</p> <p><b>(ii) Boreholes</b> Revenues are at risk when commercial, institutional and industry customers drill boreholes to circumvent the reliance on the Board's water. Considering the heavy usages these customers may have, losses are estimated to be substantial if mitigating measures are not applied to deter this practice. Boreholes also have the potential to contaminate and reduce the water table.</p> <p><b>(iii) Uncompetitive tariff system</b> Tariffs are set by the parent ministry and not an independent regulator, and these continue to not keep pace with increases in costs and macroeconomic fundamentals.</p>	<p><b>(ii) Boreholes</b> The Board is working with the National Water Resources Authority to have 162 commercial boreholes sealed in its supply area so that the commercial, institutional and industry customers currently on boreholes should revert to the Board's network. Oversight of these customers is necessary to ensure compliance and to observe the contamination level of the water table.</p> <p><b>(iii) Uncompetitive tariff system</b> Research and policy development are ongoing to assess the feasibility of establishing a national independent water regulator, separate from the ministry's control. In 2025, this measure is aimed at aligning tariffs with operational costs, macroeconomic realities, and financial sustainability targets.</p>

**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
<p><b>Current Assets:</b></p> <p>(i) <b>Over-leverage of trade receivables.</b></p> <p>Trade receivables remain high, reaching <b>MK3.17 billion in FY2024/25</b> compared to <b>MK5.78 billion in FY2023/24</b>, reflecting continued challenges in collection. Impairments remain significant, with overdue receivables accumulating expected credit losses. The concentration of receivables from government agencies and large customers continues to pose a liquidity risk.</p> <p><b>Fixed Assets:</b></p> <p>(i) <b>Depreciation and amortization</b></p> <p>Depreciation and amortization increased in previous years due to low maintenance of plant and infrastructure. In FY2024/25, insufficient maintenance expenditure continues to pose risks to asset longevity and contributes to Non-Revenue Water (NRW).</p> <p>(ii) <b>“Related parties” payables</b></p> <p>Related party payables, particularly to ESCOM, remain elevated at MK32.76 billion in current liabilities (FY2024/25). The Board continues to rely on electricity supply under costly terms, and payables have grown due to past arrears, currency devaluation, and tariff adjustments.</p>	<p><b>Current Assets:</b></p> <p>(i) <b>Over-leverage of trade receivables.</b></p> <p>The Board should continue to leverage <b>digitized collections</b> to improve accuracy of customer data and identify high-risk debtors early. A <b>segmented debtor management program</b> should be implemented, offering tailored repayment plans and multiple payment channels. Regular communication should be maintained to keep debtors informed, and early payment incentives introduced. Transparency through publication of debt profiles across organizational channels can further enhance recovery.</p> <p><b>Fixed Assets:</b></p> <p>(i) <b>Depreciation and amortization</b></p> <p>The Board should <b>prioritize replacement and maintenance of old infrastructure</b>, including mains and fittings, while increasing investment in new systems. Maintaining assets in line with depreciation is essential to reduce NRW, improve operational efficiency, and reduce reliance on tariff increases.</p> <p>(ii) <b>“Related Parties” payables</b></p> <p>Structural mitigation is required. The Board should explore alternative energy arrangements, improve water storage capacity, and implement operational efficiency measures to reduce reliance on costly power. Financial turnaround strategies should focus on cash flow improvement,</p>

Source of Risk	Mitigation/policy measure
<p><b>Debt Repayment:</b></p> <p><b>(i) Interest and exchange loss on foreign denominated loans</b>  The Board continues to hold foreign-denominated debt, including long-term Exim Bank loans. Foreign exchange losses and accrued interest remain high, with <b>finance costs reaching MK4.11 billion in FY2024/25</b>, exacerbated by currency volatility.</p> <p><b>(ii) Arrears accumulation and expected credit loss from MDAs</b>  The worsening liquidity trend has reduced the ability of the Board to pay its suppliers on time (principally ESCOM). Receivables from government and statutory corporations continue to accumulate. As of FY2024/25, the Board faces substantial overdue receivables amounting to MK16.2 billion, impairing cash flows and limiting its ability to meet obligations.</p> <p><b>(iii) Local banks' loans</b>  Loans from local banks, including FDH, First Capital, and National Bank, continue to require careful management. In FY2024/25, National Bank loans stood at MK2.86 billion, with accrued interest of MK775.76 million.</p>	<p>short-term liability reduction, and strict monitoring of payables.</p> <p><b>Debt Repayment</b></p> <p><b>(i) Interest and exchange loss on foreign denominated loans</b>  The Board should <b>avoid incurring additional foreign-denominated loans</b> due to Foreign Exchange risk and long maturities. Restructuring existing debt should be selective, prioritizing loans with positive ROI, and minimizing repayment extensions that increase interest burden.</p> <p><b>(ii) Arrears accumulated and expected credit loss from MDAs</b>  Active engagement with government stakeholders is critical to manage arrears. Expansion of prepaid water meters among institutional and commercial users can help reduce accumulation of related-party receivables. Regular monitoring and enforcement of collection policies are essential.</p> <p><b>(iii) Local banks' loans</b>  The Board should prioritize repayment of local bank loans to avoid penalties and interest escalation. Loan contracting should focus on projects with high return on investment, ensuring funds reduce future borrowing needs. Local loans carry no FX risk, but attention to interest costs and repayment discipline is critical.</p>

Source of Risk	Mitigation/policy measure

## 4.2.ELECTRICITY SUPPLY CORPORATION OF MALAWI (ESCOM)

### 4.4.1 Company Overview

Electronic Supply Commission Malawi (ESCOM) is the sole transmitter, distributor and retailer of electricity throughout Malawi and is the single wholesale purchaser of electricity.

In accordance with the fulfilment of the amended Electricity Act of 2016, January 2017 saw the implementation of the unbundling of ESCOM and the creation of a new state-owned-enterprises called EGENCO which was institutionally mandated to take over the power generation was transferred from ESCOM. ESCOM assumed the function of single buyer or monopsony of electricity from EGENCO the state-owned monopoly. The unbundling was accompanied by revenue share distribution of **EGENCO: 35% and ESCOM: 65%**. ESCOM was to carry on with Transmission (Tx); Distribution (Dx); System and Market Operator (SMO); and Single Buyer SB.

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.

### 4.2.1. Summary of financial performance

Area of analysis	Assessment of key trends
Profitability	The entity's profitability position improved significantly in 2025, driven by strong growth in revenue and a substantial reduction in operating losses. Revenue increased from K224.14 billion in 2024 to K302.67 billion in 2025, representing strengthened operational performance and improved customer billing efficiency. Gross profit rose from K113.09 billion to K171.86 billion, reflecting both higher sales volumes and improved cost management, even though cost of sales increased to K130.81 billion from K111.05 billion. Other income also grew from K11.77 billion to K19.47 billion, contributing further to overall financial performance. As a result of this improved income mix and better control of expenditure, the company recorded an operating profit of K11.88 billion in 2025, reversing the operating loss of K83.94 billion registered in 2024. After accounting for finance income of K3.40 billion and finance costs of K4.85 billion, the entity achieved a profit before tax of K10.43 billion compared to a loss before tax of K87.05 billion in 2024. This resulted in a net profit of K4.81 billion for 2025,



Area of analysis	Assessment of key trends
	<p>signalling a strong turnaround from the K63.37 billion loss recorded in the previous year.</p>
Indebtedness/Solvency	<p>The company remains in a weak solvency position despite improved profitability. Total liabilities increased from K509.56 billion in 2024 to K648.62 billion in 2025, largely driven by growth in long-term borrowings which increased from K249.31 billion to K324.82 billion. Non-current liabilities also rose due to higher government grants and capital contributions, which increased from K147.55 billion to K173.62 billion. Current liabilities grew significantly to K148.86 billion, reflecting increased operational obligations. Although accumulated losses decreased from K77.22 billion in 2024 to K72.40 billion in 2025, overall equity remained negative at K25.11 billion, an improvement from negative K29.92 billion but still indicative of technical insolvency. The rising debt profile, especially long-term borrowing, continues to exert pressure on the company's solvency and long-term financial sustainability</p>
Liquidity	<p>Liquidity improved during the year, as evidenced by growth in current assets from K138.20 billion in 2024 to K195.18 billion in 2025. Cash and cash equivalents increased significantly from K43.35 billion to K62.62 billion, strengthening the organisation's capacity to meet short-term obligations. Trade receivables decreased slightly from K77.33 billion to K73.43 billion, indicating modest improvement in collections. However, inventories increased sharply from K17.52 billion to K57.03 billion, partly locking more resources in stock and potentially increasing working capital pressure. Current liabilities also rose from K110.41 billion in 2024 to K148.86 billion in 2025, driven mainly by higher trade and other payables, which increased from K72.27 billion to K106.57 billion. Despite a higher short-term liability burden, the increase in cash and overall current assets suggests improved liquidity, though the rising payables and large inventory accumulation signal emerging pressures that require careful management.</p>

Area of analysis	Assessment of key trends
Dependency/ Relationship GOM	with
	<p>The entity continues to exhibit high dependence on government support, particularly for capital financing and operational stability. Government grants and capital contributions increased further to K173.62 billion in 2025 from K147.55 billion in 2024, underscoring the continued reliance on public funding for major infrastructure development. The negative equity position reinforces the company's limited ability to self-finance investments or attract significant external financing without government guarantees. Despite improvements in profitability in 2025, the organisation's ability to sustain operations independently remains constrained by its high debt levels, accumulated losses, and ongoing reliance on government-funded capital projects. Continued government intervention therefore remains critical to maintaining service delivery and supporting ongoing infrastructure expansion.</p>

	2021	2022	2023	2024	2025
<b>Profitability</b>					
Operating Profit Margin	0.56	0.38	0.33	0.22	0.17
Net Profit Margin	0.35	0.15	0.22	0.23	0.11
Return on Assets	0.13	0.07	0.13	0.13	0.06
Return on Equity	0.26	0.15	0.22	0.22	0.11
Cost Recovery	1.75	1.60	1.47	1.28	1.20
<b>Liquidity</b>					
Current Ratio	0.93	5.60	5.46	5.90	2.50
Quick Ratio	0.73	4.32	3.73	4.70	1.40
Debtor Turnover Days	89.6	66.8	67.7	89.6	110.3
Creditor Turnover Days					
<b>Solvency</b>					
Debt to Assets	0.50	0.51	0.42	0.40	0.43
Debt to Equity	0.99	1.06	0.74	0.68	0.77
Debt to EBITDA	2.08	2.53	1.91	2.64	3.43
Interest Coverage	3.80	16.31	71.25	6264.79	977.14
Cash Interest Coverage	4.30	18.38	81.36	7565.17	1293.59
Debt Coverage	1.21	1.09			
<b>Government Relationship</b>					
Government Transfers to Total Revenue	0.00	0.00	0.00	0.00	0.00
50% Test	0.70	0.67	0.72	0.84	0.85
Z-Score	2.40	3.75	5.43	5.74	4.78

	2021	2022	2023	2024	2025
<b>Profitability</b>					
Return on Assets	Category 1	Category 2	Category 1	Category 1	Category 2
Return on Equity	Category 1	Category 2	Category 1	Category 1	Category 2
Cost Recovery	Category 1	Category 1	Category 2	Category 2	Category 3
<b>Liquidity</b>					
Current Ratio	Category 5	Category 1	Category 1	Category 1	Category 1
Quick Ratio	Category 3	Category 1	Category 1	Category 1	Category 1
Debtor Turnover Days	Category 5	Category 4	Category 4	Category 5	Category 5
Creditor Turnover Days					
<b>Solvency</b>					
Debt to Assets	Category 2	Category 3	Category 2	Category 2	Category 2
Debt to Equity	Category 2	Category 3	Category 2	Category 2	Category 2
Debt to EBITDA	Category 3	Category 3	Category 2	Category 3	Category 4
Interest Coverage	Category 2	Category 1	Category 1	Category 1	Category 1
Cash Interest Coverage	Category 2	Category 1	Category 1	Category 1	Category 1
Debt Coverage	Category 1	Category 1			
<b>Government Relationship</b>					
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
<b>Overall Risk Rating</b>					
Weighted Average*	Category 2	Category 2	Category 2	Category 2	Category 2
Z-Score	Category 3	Category 2	Category 2	Category 2	Category 2



#### 4.2.2. Main fiscal risks

**Expenditure and revenue risks. Likelihood of occurrence (Medium). Incremental improvements are beginning to gain traction.**

Source of Risk	Mitigation/policy measure
<p><b>Expenditures and capital investment:</b></p> <p>In FY2024/25, expenditure remained high although the structure of expenses changed following reclassification. Total expenditure declined to MK179.45 billion (2024: MK208.80 billion), but distribution-related costs increased significantly to MK110.41 billion in 2025 from MK44.80 billion in 2024. Transmission systems expenses also rose further to MK13.95 billion in 2025. Head office expenses, although lower than the unusually high 2024 figure, remained substantial at MK44.08 billion in 2025, continuing to exert pressure on operational sustainability. Capital investment increased sharply as capital work in progress rose from MK44.34 billion to MK120.37 billion in 2025, reflecting intensified infrastructure development. This escalation in capital commitments coupled with rising operating costs continues to strain the financial position and underscores the need for improved cost discipline and investment prioritisation.</p> <p><b>(i) Slow collections from MDAs</b></p> <p>The slow collections from Blantyre Water Board and other Government Departments and Agencies (MDA) further worsened the corporation's liquidity position which resulted in the company relying on short term facilities from commercial banks to finance operations, thus widening the net current liability position. In FY2025, total trade and other receivables (current and non-current) were MK74.60 billion compared to MK78.77 billion in 2024, indicating slight</p>	<p><b>Expenditures and capital investment</b></p> <p>(i) Although the review of PPAs for EGENCO Hydro Power Plants commenced during FY22/23, the process is yet to bear any fruit.</p> <p>(ii) Control the level of head office expenses.</p> <p>(iii) Review whether the provision for maintenance has been adequate.</p> <p><b>(ii) Slow collection from MDAs</b></p> <p>Migrating all customers from post-paid to pre-paid meters, especially other SOEs, to mitigate potential risk to liquidity positions and long-term health associated with lags in revenue realisation from customer payment delinquencies. ESCOM is pursuing engagement and legal collection on some MDAs; State Owned Enterprises (e.g., Blantyre Water Board); and private customers who are unable to settle their</p>

Source of Risk	Mitigation/policy measure
improvement in collections but still reflecting significant outstanding balances. Liquidity pressures persisted as trade and other payables grew sharply to MK106.57 billion in 2025 from MK72.27 billion in 2024, further tightening short-term cash flows and increasing reliance on short-term borrowings.	electricity bills. Effort has to be made to migrate the Malawi Defence Force barracks to prepaid meters in order to reduce these receivables significantly.

**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
<b>Debt Repayment and Further Arrears:</b>  <b>(i) Exchange loss and interest risk</b> In FY2025, the pressure from debt obligations remained significant. Borrowings payable within one year were MK18.36 billion in 2025 (2024: MK22.03 billion), indicating a slight decline in short-term debt exposure but still representing a substantial liquidity burden. Long-term borrowings increased sharply to MK324.82 billion in 2025 from MK249.31 billion in 2024, further widening ESCOM's exposure to interest rate and exchange rate risks. Finance costs for 2025 remained high at MK4.85 billion (2024: MK5.56 billion), while finance income increased slightly to MK3.40 billion (2024: MK2.45 billion). Although ESCOM recorded a profit before tax of MK10.43 billion in 2025 compared to a loss of MK87.05 billion in 2024, the heavy debt load particularly foreign-denominated debt continues to exert pressure on liquidity and exposes the Corporation to future	<b>Debt Repayment and Further Arrears:</b>  <b>(i) Exchange loss and interest risk</b> ESCOM should contract small loans with minimal repayment periods to avoid the risk for potential exchange losses over repayment period ranging to 37 years. ESCOM should hedge against potential losses. by contracting currency swaps as well as varying the currencies its loans are contracted in.

Source of Risk	Mitigation/policy measure
<p>exchange losses. The increase in capital work in progress to MK120.37 billion in 2025 (2024: MK44.34 billion) also indicates further financing needs that may add to future debt service obligations if not supported through grants or internal generation.</p> <p><b>Liquidity:</b></p> <p style="padding-left: 40px;"><b>(i) Collection loss</b></p> <p>Losses due to customer default continue to threaten liquidity. Settling bills with cheques increases the risk of dishonoured payments, while delays in meeting collection targets force ESCOM to secure cash from alternative sources to meet operational obligations. These collection challenges persisted into 2025. Trade and other receivables, although slightly reduced, remained high at MK73.43 billion in 2025 (2024: MK77.33 billion). Non-current receivables were MK1.18 billion (2024: MK1.44 billion). High receivable balances continue to delay revenue realisation and weaken liquidity. Meanwhile, cash and cash equivalents increased to MK62.62 billion in 2025 from MK43.35 billion in 2024, improving cash availability but still undermined by sluggish collections and high payables. Trade and other payables increased sharply to MK106.57 billion in 2025 from MK72.27 billion in 2024, signalling persistent cash flow strain. These dynamics show that despite profitability improvement in 2025, liquidity risks remain substantial due to weak collection performance and high short-term obligations.</p>	<p><b>Liquidity</b></p> <p style="padding-left: 40px;"><b>(i) Collection loss</b></p> <p>Weekly cash-flow reviews by management to assess liquidity and project future net cash flows; monitoring bank balances to ensure a healthy cash position; ensuring invoices are paid only on due dates; and enforcing debtor-day limits of 30 days, with disconnection for accounts exceeding this threshold. However, management must balance disconnections with the risk that customers resort to alternative energy sources.</p>

### 4.3. ENERGY GENERATION COMPANY (EGENCO) LIMITED

#### 4.3.1. Company profile

Electricity Generation Company (Malawi) Limited is a 100 percent owned statutory corporation. It draws its mandate from its Memorandum of Association and the Electricity Amendment Act 2016 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 2023) composed of 390.15MW hydro and 51.4MW of thermal diesel generators.

87.37% (385.8MW) of EGENCO's installed hydropower is installed along 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.

#### 4.3.2. Summary of financial performance

Area of analysis	Assessment of key trends
<b>Profitability</b>	<p>EGENCO's profitability position improved modestly in FY24/25, with the Company posting a net profit of MK644.82 million, following the stronger profit of MK6.9 billion recorded in FY23/24 and the loss of MK2.1 billion realized in FY22/23. The FY24/25 performance shows a significant drop in profit compared to FY23/24, reflecting continued pressure on cost structures and overall operational efficiency. Operating profit increased to MK12.71 billion in FY24/25 from MK9.82 billion in FY23/24, driven by higher revenue of MK76.29 billion (FY23/24: MK68.61 billion) and a sharp increase in other income which rose to MK7.68 billion from MK899.2 million in the prior year. However, administration costs continued to rise sharply to MK17.91 billion in FY24/25 from MK14.11 billion in FY23/24, partially offsetting the gains from increased revenue.</p> <p>Gross profit margins continued to reflect pressure on core operations, with gross profit essentially flat MK19.95 billion in FY24/25 compared to MK20.10 billion in FY23/24 indicating that rising cost of sales (which increased to MK56.34 billion from MK48.51 billion) continues to constrain profitability. Net finance performance improved significantly, moving from a net finance</p>

Area of analysis	Assessment of key trends
	<p>cost of MK793.14 million in FY23/24 to a net finance income of MK554.40 million in FY24/25, but this improvement was offset by a substantial income tax expense of MK12.61 billion.</p> <p>Profitability ratios continue to show strain. The operating profit margin, although improved slightly due to higher operating income in FY24/25, still reflects long-term downward pressure when compared with earlier years. Net profit margin declined substantially in FY24/25 because, despite generating higher revenue, increased taxation and administration costs restricted earnings. Return on assets also softened, as total assets grew to MK317.15 billion in FY24/25 from MK295.29 billion in FY23/24, while net profits remained relatively low. Return on equity shows the same pattern, as retained losses, though reduced, stand at MK9.70 billion in FY24/25. Overall, profitability in 2025 indicates that although revenues are improving, rising costs and tax expenses continue to undermine strong earnings performance.</p>
<b>Indebtedness/Solvency</b>	<p>EGENCO's solvency position continued to evolve in FY24/25 with interest-bearing borrowings increasing slightly to MK7.17 billion from MK7.03 billion in FY23/24. Payables rose sharply to MK19.22 billion in FY24/25 from MK7.12 billion in FY23/24, indicating a significant build-up of short-term financial obligations. Total liabilities increased to MK190.15 billion in FY24/25 from MK168.93 billion in FY23/24, while total equity remained broadly stable at MK127.00 billion. This resulted in a further shift in the company's capital structure towards a higher liability mix.</p> <p>Debt-to-Assets and Debt-to-Equity ratios continued to worsen in FY24/25 due to the expansion of current liabilities and the substantial increase in deferred tax liability, which rose to MK92.20 billion from MK82.60 billion. Although the company is not heavily leveraged in terms of long-term borrowings, the rise in statutory liabilities and payables points to a growing solvency concern. The company's Debt-to-Assets ratio now stands close to 0.60, reflecting greater reliance on liabilities to finance the asset base. Debt-to-Equity also worsened in FY24/25 as short-term obligations increased more rapidly than equity growth, demonstrating increased pressure on the capital structure.</p> <p>The increase in trade and other payables suggests heightened liquidity pressure and signals that solvency risk is increasingly tied to the company's short-term financial management rather than long-term borrowing. While the Company still holds substantial asset value, the increasing liabilities especially deferred taxes and payables indicate that solvency conditions tightened in FY24/25</p>



Area of analysis	Assessment of key trends
	and the improving profit in 2025 alone is insufficient to reduce these pressures without further structural changes.
<b>Liquidity</b>	<p>Liquidity pressures intensified in FY24/25, reflected in the weakening of key liquidity indicators. Current assets increased to MK59.48 billion from MK52.77 billion in FY23/24, largely driven by higher inventories (which increased to MK22.63 billion from MK16.03 billion) and higher receivables (which grew to MK22.79 billion from MK19.51 billion). However, cash and cash equivalents fell to MK10.99 billion in FY24/25 compared to MK12.34 billion in FY23/24, indicating tighter cash availability.</p> <p>Current liabilities rose significantly to MK28.51 billion in FY24/25 from MK17.05 billion in FY23/24, driven mainly by the steep increase in trade and other payables. This resulted in a considerable decline in the current ratio, which although previously strong at 4.56 in FY23/24, has deteriorated materially in FY24/25. The quick ratio follows the same downward trend as liquid assets failed to grow at the same pace as short-term obligations.</p> <p>Debtor turnover continues to be a challenge as the growth in receivables indicates slower collection from customers. While inventories increased significantly, the accumulation of payables signals that the Company is taking longer to settle supplier obligations, reversing the earlier trend where creditor turnover days had been declining. This combination of rising payables, falling cash balances, and growing receivables points to tightening liquidity conditions in FY24/25, requiring enhanced working capital controls and strengthened collection mechanisms to prevent further erosion of operational capacity.</p>
<b>Dependency/ Relationship GOM</b> with	<p>EGENCO continues to demonstrate the capacity to generate commercial returns without direct reliance on government subventions, as revenue performance strengthened again in FY24/25. However, the Company remains structurally tied to the Government through historic arrangements such as the Kapichira II concession, which continues to shape its equity structure and long-term liabilities. The conversion of MK15 billion concession fees into equity in 2019 remains reflected in the capital structure, and concession fees payable remain material at MK6.27 billion in FY24/25.</p> <p>Government involvement through MAREP funds for the installation of Kapichira II equipment and the transfer of concession</p>



Area of analysis	Assessment of key trends
	obligations following the unbundling of ESCOM continues to influence EGENCO's financial obligations. Although the Company is able to independently fund its operations in the short and medium term, the close financial alignment with Government and the persistent accumulation of deferred tax liabilities highlight the ongoing strategic and operational linkage. The stability of Government policy therefore remains an important factor in EGENCO's long-term financial sustainability.

	2021	2022	2023	2024	2025
<b>Profitability</b>					
Operating Profit Margin	0.28	0.34	0.40	0.16	0.15
Net Profit Margin	0.19	0.26	0.27	-0.08	0.10
Return on Assets	0.06	0.15	0.07	-0.02	0.02
Return on Equity	0.08	0.25	0.10	-0.04	0.04
Cost Recovery	1.39	1.50	1.53	1.18	1.17
<b>Liquidity</b>					
Current Ratio	1.99	1.58	5.22	4.36	4.56
Quick Ratio	1.78	1.46	4.58	3.61	3.76
Debtor Turnover Days	194.8	217.7	238.1	210.1	214.3
Creditor Turnover Days	266.9	122.3	89.4	45.3	37.9
<b>Solvency</b>					
Debt to Assets	0.21	0.40	0.37	0.41	0.49
Debt to Equity	0.27	0.66	0.59	0.70	0.95
Debt to EBITDA	1.83	1.80	3.15	5.96	8.39
Interest Coverage	336.39	176.14	33.07	8.96	11.85
Cash Interest Coverage	422.48	197.81	40.43	14.67	19.21
Debt Coverage		3.00	4.50	3.89	
<b>Government Relationship</b>					
Government Transfers to Total Revenue	0.00	0.00	0.00	0.00	0.00
50% Test	0.73	0.70	0.67	0.88	0.88
Z-Score	6.02	4.62	4.05	3.26	2.78

	2021	2022	2023	2024	2025
<b>Profitability</b>					
Return on Assets	Category 2	Category 1	Category 2	Category 4	Category 3
Return on Equity	Category 3	Category 1	Category 2	Category 3	Category 3
Cost Recovery	Category 2	Category 2	Category 1	Category 3	Category 3
<b>Liquidity</b>					
Current Ratio	Category 2	Category 2	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 5	Category 3	Category 2	Category 2
<b>Solvency</b>					
Debt to Assets	Category 1	Category 2	Category 2	Category 2	Category 2
Debt to Equity	Category 1	Category 2	Category 2	Category 2	Category 2
Debt to EBITDA	Category 2	Category 2	Category 4	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	
<b>Government Relationship</b>					
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
<b>Overall Risk Rating</b>					
Weighted Average*	Category 2	Category 2	Category 2	Category 2	Category 2
Z-Score	Category 2	Category 2	Category 2	Category 2	Category 2



#### 4.3.3. Main fiscal risks

**Strategic risks. Likelihood of occurrence (High).** The SOE operates in a market dynamic where there exists a monopolistic and monopsonic relationship with ESCOM this leads to operational precarity and potential financial frailty associated with the strategic relation between the two entities. EGENCO experiences a lack of adequate diversity in its power generation sources and capacity with a great concentration on hydro plants which are susceptible to weather related shocks.

Source of Risk	Mitigation/policy measure
<p><b>Strategic Risk:</b></p> <p><b>(i) Over reliance on hydro generative forces.</b></p> <p>EGENCO continues to generate the bulk of its electricity from hydro power, with hydro plants contributing 88.35% (390.15MW) of the total 441.55MW national grid capacity. The majority of this generation is heavily concentrated along the Shire River, accounting for 385.8MW or 98.95% of hydro capacity. In FY24/25, this concentration continues to expose the Company to significant operational risks due to climate variability. Droughts and floods in the Shire River basin pose a substantial threat to generation reliability, and any prolonged climatic disturbance could severely disrupt electricity supply to the national grid. The Company's reliance on hydroelectricity, coupled with the absence of significant alternative generation sources, leaves EGENCO vulnerable to seasonal fluctuations and extreme weather events, which have been observed to increasingly affect water levels and, consequently, hydro output.</p>	<p><b>Strategic Risk:</b></p> <p><b>(i) Over reliance on hydro generative forces.</b></p> <p>EGENCO should continue to prioritize rebalancing its power generation portfolio towards other renewable and non-hydro sources. In FY24/25, the Company must accelerate initiatives to diversify into solar, thermal, and other renewable sources, leveraging Malawi's topological and microclimatic diversity to reduce dependence on Shire River hydro plants. Additionally, the energy sector should transition to a more resilient trading model by integrating battery storage systems and other energy storage technologies. This approach would mitigate against generation interruptions, stabilize supply to the national grid, and reduce exposure to climate-induced operational risks. EGENCO's ongoing capital investment decisions, including rehabilitation of existing plants and development of new non-hydro generation capacity, should align with this strategic diversification to strengthen long-term energy security and operational sustainability.</p>

**Expenditure and revenue risks. Likelihood of occurrence (High).** Revenues and Expenditures follow fiscally dissimilar paths which perpetrates a distortional effect on SOE's operations.

Source of Risk	Mitigation/policy measure
<p><b>Revenues:</b> Electricity tariffs have not increased cost-reflectively for several years, which has resulted in minimal growth in revenues year on year, despite rising operational and economic pressures. In FY24/25, EGENCO recorded revenue of MK76.29 billion, only slightly above the MK68.61 billion recorded in FY23/24. This modest increase is largely due to limitations in tariff adjustments, which have not fully kept pace with inflation, fuel price fluctuations, and other macroeconomic changes. The mismatch between revenue growth and operational cost pressures continues to constrain the Company's ability to invest in system expansion, capital maintenance, and modernization of infrastructure.</p> <p><b>(i) Depreciation</b> Assets continue to depreciate at a high rate, with total depreciation and amortization reflected in FY24/25 at MK11.06 billion compared to MK9.20 billion in FY23/24. Maintenance costs remain significant, with administration and operating expenses increasing to MK17.91 billion (2025) from MK14.11 billion (2024). Much of these costs are attributable to aging infrastructure and ongoing rehabilitation works, particularly on legacy hydro plants. The continued high depreciation underscores the urgency of aligning asset maintenance and capital investment with the natural wear and tear of existing infrastructure, as well as prioritizing upgrades and modernization to reduce future depreciation pressures.</p>	<p><b>Revenues:</b> EGENCO should advocate for electricity tariff adjustments that respond to changes in macroeconomic fundamentals, fuel price fluctuations, and operational cost pressures. There should be a coordinated effort to research and adopt an automatic price adjustment mechanism that is reactive to prevailing economic conditions, enabling the Company to preserve revenue streams and maintain financial sustainability.</p> <p><b>(ii) Depreciation</b> The Company should maintain assets at a rate that offsets depreciation or strategically upgrade the asset portfolio to reduce future depreciation rates. Planned investments in plant modernization, rehabilitation of aging hydro infrastructure, and adoption of technology-enhanced monitoring and maintenance programs can help curb the escalation of operating costs and enhance long-term operational efficiency.</p>

Source of Risk	Mitigation/policy measure

**Liquidity. Likelihood of occurrence (Medium).**

Source of Risk	Mitigation/policy measure
<p><b>Current liabilities:</b></p> <p><b>(i) Foreign exchange Losses</b></p> <p>EGENCO continues to hold foreign-denominated liabilities, exposing the Company to exchange rate risks. In FY24/25, the Company recorded net finance income of MK0.55 billion, reflecting improvements in managing finance costs, but the potential for foreign exchange losses remains. These liabilities, if not actively hedged, may result in significant losses in the event of adverse currency fluctuations, particularly given the long-term nature of some borrowings.</p> <p><b>(ii) Currency Realignment Shock</b></p> <p>The Malawi Energy Regulatory Authority (MERA) adjustments in prior periods, including the November 2023 increases in petrol and diesel prices by 44% and 42.4% respectively, continue to affect EGENCO's thermal generation costs. While FY24/25 operations benefited from relatively stable fuel pricing, the Company remains exposed to fuel cost volatility linked to the Malawi Kwacha–US Dollar exchange rate, which directly impacts operating costs for thermal diesel generation.</p>	<p><b>Current liabilities:</b></p> <p><b>(i) Foreign exchange Losses</b></p> <p>EGENCO should proactively engage with the Ministry of Finance, Economic Planning, and Decentralization to explore and implement currency hedging strategies. These could include forward contracts, swaps, or diversification of currency exposure to minimize the impact of adverse shifts in the Malawi Kwacha against the US Dollar on the Company's long-term obligations.</p> <p><b>(ii) Currency Realignment</b></p> <p>To mitigate risks from fuel price volatility, EGENCO should reduce dependence on fossil fuel-based thermal generators and prioritize investment in renewable energy sources, including solar, small hydro, and other green technologies. Integrating battery storage solutions to optimize off-peak generation and supply-demand balancing can further protect the Company from unexpected fuel cost shocks, improve operating efficiency, and enhance financial resilience</p>

## 5. ANNEXES

### ANNEX 1: LIST OF SOES IN MALAWI (2025)

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 Limited (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 generally 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 to 10 = 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 efficient 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 (2025)

Function	Name of SOE	Profit/loss (Mill MKW)	Gross Profit Margin	Operating Profit Margin	Return on Assets	Return on Equity	Dividend Payout Ratio	Asset Turnover	Cost Recovery	Current Ratio	Quick Ratio	Accounts Receivables Days	Accounts Payables Days	Debt to Assets	Debt to Equity	Interest Coverage	Government Transfers to Total Revenue
Service Provision	MCA	622,991	100%	12%	15%	17%	-	1.27	1.14	2.21	2.21	44.70	NMF	0.15	0.17	NMF	-
Service Provision	NEEF	407,608	100%	17%	0%	0%	-	0.24	1.20	4.33	4.28	1545.79	NMF	0.23	0.30	35.85	-
Service Provision	NFRA	1,146,540	100%	17%	4%	5%	-	0.25	0.37	11.18	1.72	79.76	NMF	0.18	0.22	NMF	0.69
Service Provision	CMST	2,371,141	25%	-49%	2%	4%	-	0.68	1.34	1.83	1.01	255.78	330.00	0.46	0.86	NMF	-
Service Provision	UHL	3,407,553	64%	28%	6%	9%	-	0.32	2.79	1.20	0.92	62.82	244.84	0.35	0.53	(0.14)	-
Trading	ACM	739,680	47%	-6%	15%	51%	15.4	1.92	1.88	1.10	0.80	75.20	136.44	0.70	2.30	(5.52)	-
Trading	ADL	42,291,733	93%	32%	21%	22%	-	0.05	1.65	1.29	1.25	216.68	1874.34	0.04	0.05	10.45	-
Trading	BWB	(10,208,257)	60%	49%	-10%	-116%	NMF	0.58	2.49	0.68	0.47	60.28	177.02	0.92	11.13	10.47	-
Trading	CRWB	(1,693,734)	42%	-16%	-2%	NMF	NMF	0.15	1.72	0.83	0.79	307.68	256.51	1.06	-17.98	NMF	-
Trading	EGENCO	644,821	33%	-56%	1%	1%	-	1.41	1.13	2.09	1.18	99.04	124.50	3.20	1.50	NMF	-
Trading	ESCOM	4,813,074	NMF	NMF	1%	-19%	-	0.00	NMF	1.31	0.91	88.55	297.37	0.00	0.00	NMF	NMF
Trading	LIHACO	1,306,653	54%	-59%	14%	20%	-	0.76	0.89	1.16	1.14	119.11	187.09	0.31	0.45	(25.84)	0%
Trading	LWB	1,237,608	79%	19%	0%	2%	-	0.16	1.67	3.33	2.82	139.62	365.00	0.76	3.14	2.02	-
Trading	MHC	(2,054,678)	100%	-13%	-1%	-1388%	NMF	0.05	0.89	0.55	0.33	40.06	NMF	0.19	190.32	(0.63)	-
Trading	NRWB	(14,668,886)	27%	-32%	-10%	-14%	NMF	0.11	1.68	0.28	0.14	65.97	560.71	1.75	2.34	(0.56)	-
Trading	SFFRFM	12,295,215	88%	88%	100%	100%	-	3.85	NMF	0.16	0.81	0.00	5324.23	0.28	0.28	(8.77)	2.39
Regulator	MAB	45,148	100%	6%	4%	7%	-	0.61	1.07	4.42	4.42	135.61	NMF	0.20	0.38	NMF	-
Regulator	MBS	2,247,562	100%	53%	8%	9%	-	0.87	2.11	2.00	1.96	75.20	NMF	0.14	0.16	NMF	-
Regulator	MERA	683,954	100%	16%	0%	4%	-	0.03	1.20	1.07	0.96	11420.91	NMF	0.96	25.45	NMF	-
Regulator	MGB	7,113,106	100%	43%	44%	52%	52.0	1.05	1.74	5.13	5.13	59.36	NMF	0.16	0.18	NMF	-
Regulator	NCIC	1,084,989	100%	10%	20%	22%	28.3	1.20	1.11	6.77	6.57	12.40	NMF	0.10	0.11	NMF	-
Regulator	PMRA	(466,023)	100%	-13%	-6%	-10%	NMF	0.58	0.88	1.18	1.17	17.96	NMF	0.37	0.60	NMF	0.01
Regulator	TC	1,718,116	100%	19%	8%	13%	14.6	0.41	1.24	1.05	1.01	6.03	NMF	1.00	1.59	NMF	-
Regulator	TEVETA	16,815,900	100%	68%	31%	38%	-	0.65	3.14	4.53	4.52	402.86	NMF	0.18	0.23	NMF	-



## 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 generally 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 to 10 = 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 efficient 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