GOVERNMENT OF MALAWI

2018/19 CONSOLIDATED REPORT FOR STATE OWNED ENTERPRISES IN MALAWI

MINISTRY OF FINANCE

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EXECUTIVE SUMMARY

This consolidated State Owned Enterprises (SOE) report focuses on the aggregate financial and non-financial performance of the twenty-eight Commercial SOEs. The report also narrows down to the individual commercial SOE performance based on the audited accounts for 2018/19 financial year.

Overall, the aggregate financial performance of the SOEs indicates that profitability was volatile in the period between 2015/16 to 2018/19 financial years. Looking at the SOEs at sector level, the agriculture, water and energy sector generally dominates the SOE sector with their assets constituting about 78 percent of total assets, 93 percent of total liabilities and 85 percent of the total revenues. Given their size and diversity across all sectors in the economy, these require special attention from a fiscal risk perspective.

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

The narrow base for private customers also restricts business with the Public Institutions among the trading SOEs which subjects the SOEs to liquidity challenges as debt collection days exceeds the recommended international thresholds hence tying up the much needed revenues. This further resulted in operating on overdrafts while putting efforts to collect the public institutions debt. This has resulted in a vicious cycle, as the SOEs fails to meet their debt and statutory obligations such as remittances of taxes, pensions and payments to their suppliers of goods and service. In general, the report reveals that the level of tax remittance by SOEs remained subdued between 2016 and 2018 meanwhile the SOEs were accumulating arrears with the Malawi Revenue Authority.

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

In the last chapter, the report contains case studies for five SOEs which were deemed to pose significant fiscal risks and hence required a closer analysis of the operations. It further makes individual policy recommendations for all SOES but provides detailed recommendations for the high risk SOEs.

LIST OF ACRONYMS

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

NLB	National Lotteries Board
NOCMA	National Oil Company
NRWB	Northern Region Water Board
OMC	Oil Marketing Companies
PMRA	Pharmacy and Medicines Regulatory Authority
PPA	Power Purchase Agreement
PSO	Public Service Obligations
QFA	Quasi Fiscal Activities
RAP	Resettlement Action Plan
ROA	Return on Assets
ROE	Return on Equity
RSA	Revenue Sharing Agreement
SAPP	Southern Africa Power Pool
SRWB	Southern Region Water Board

1 INTRODUCTION

1.1 Importance of SOE oversight

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

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

1.2 Scope

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

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

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

1.3 Structure of the Report

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

Section 3 provides analysis for each of the SOEs using three broad features of financial oversight based on different thresholds of 15 selected financial performance indicators1. 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

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

In **Section 4**, in-depth analysis is provided for five (5) high risk SOEs, which are generally larger, have sizable long-term liabilities, receive direct or indirect support from the government and are showing signs of financial distress. The case studies contain six sections:

(i) Overview of financial performance
(ii) Overview of non-financial performance
(iii) Overview of financial risks
(iv) Financial flows with the Government
(v) Policy specific issues
(vi) Proposed policy recommendations

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

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

		2.5 Arrears between SOEs and with government	2.5.1 Government arrears to SOEs 2.5.2 Intra-Arrears between the SOEs	Government arrears to SOEs; intra-arrears between the SOEs; and implications these have on their operations
		2.6 Cross-cutting issues	2.6.1 Tariff and pricing policies 2.6.2 Fiscal flows and Arrears (subsidies, overdraft, debt, remittance of dividends) 2.6.3 Institutional arrangements (separation of PSO, 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 analysis and data input sheets	• Overview of financial performance • Overview of financial risks • Financial flows with the Government • Policy specific issues		Provides senior management with specific areas to follow up with individual SOEs based on financial indicator analysis.
4	High Risk Case Studies incorporated as part of the individual SOE chapter	ADMARC BWB ESCOM	1.1 ADMARC 1.2 BWB 1.3 ESCOM	Trend and forward-looking analysis for the three (3) high risk SOEs.
Annex 1	List of SOEs in Malawi (2019)	Including Governance and compliance issues		
Annex 2	Financial indicators for Statutory body oversight	15 indicators include: 1) profit after tax; 2) Return on Assets; 3) Return on total equity; 4) Cost recovery; 5) Gross profit margin; 6) Operating Profit margin; 7) Asset turnover; 8) Debt to equity; 9) Current ration; 10) Quick ratio; 11) Accounts receivable days; 12) Debt servicing ratio; 13) Accounts payable days; 14) Government transfers as a proportion of total revenue; 15) Dividend Payout Rate.		Heat map used to monitor the financial performance of the SOE sector.

Annex 3	Indicators, Calculations and thresholds	15 Indicators, Calculations and thresholds for monitoring SOE Financial Performance	

2 AGGREGATE ANALYSIS

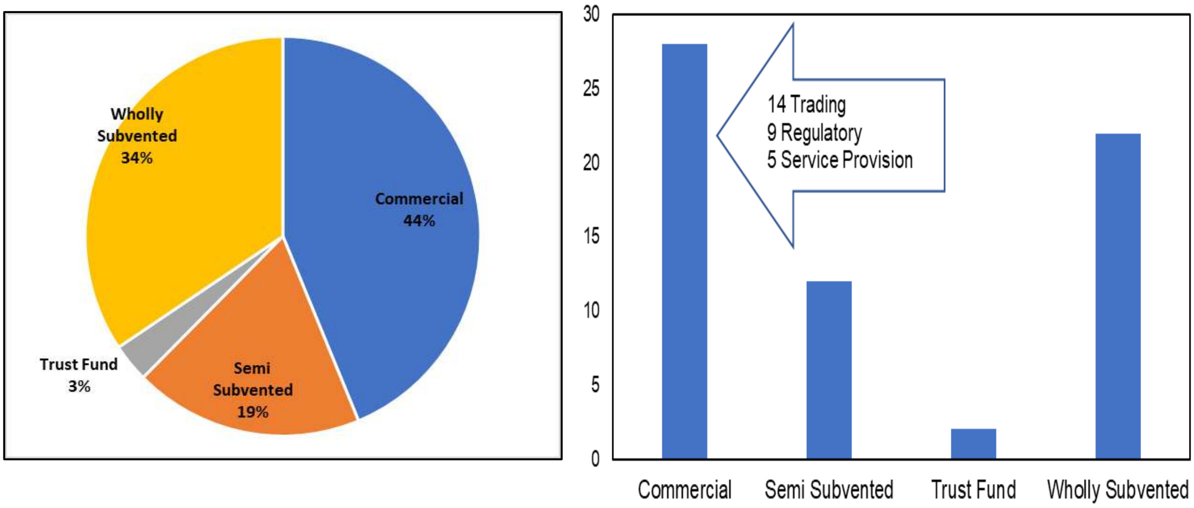
2.1 OVERVIEW OF THE STATE-OWNED ENTERPRISES SECTOR IN MALAWI

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

This report covers 28 commercial SOEs comprising 14 traders, 5 service providers and 9 regulators. **The "Public Enterprise Sector",** however, is larger than this as it also includes semi subvented and wholly subvented organisations totalling to 64 institutions**.** However, the analysis in this report is based on the 28 commercial SOE data only.

Figure 1: Public Entreprises Sector in Malawi

Figure 1a: Structure of the SOE Sector in Malawi **Figure 1b: Composition of the Commercial SOEs**



Source: 2020 Public Sector Institutions Table (PSIT).

SOEs in Malawi operate across strategic economic sectors including agriculture, communications, education, energy, financial, health, labour, lands and housing, trade and tourism, transport and public works, and water. The revenues of the SOEs account for 10 percent of GDP for FY 2018/19, Gross liabilities of the sector for the same FY account for 9 percent of GDP while SOE assets accounted for 18 percent of GDP in Malawi **(Table 2).**

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

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

	2016 Audited	2017 Audited	2018 Audited	2019 Audited
Total Assets	567,348	635,263	898,201	1,038,871
Total Liabilities	250,489	303,297	502,089	515,254
Total Revenue	244,704	239,617	433,217	593,325
As a % of GDP				
Total Assets	15%	13%	17%	18%
Total Liabilities	6%	6%	10%	9%
Total Revenue	6%	5%	8%	10%

Source: 2019 Audited Financial Statements.

The agriculture, water and energy sectors dominate the SOE sector (Table 3). These sectors account for 81 percent of total assets, 94 percent of total liabilities and 89 percent of the total revenues. Given their size and diversity across all sectors of the economy, these require special attention from a fiscal risk perspective.

Table 3: SOE Assets, Liabilities and Revenues for FY2018/19 (By sector and category)

(Percent of total)

Sector	Assets	Liabilities	Revenue
Agriculture	12%	13%	6%
Communication	2%	2%	3%
Education	0%	0%	0%
Energy	56%	65%	77%
Financial	0%	0%	0%
Governance	0%	0%	0%
Health	0%	0%	0%
Labour	0%	0%	2%
Lands and Housing	10%	1%	1%
Trade and Tourism	2%	1%	1%
Transport and Public Works	4%	1%	3%
Water	13%	16%	6%
Grand Total	100%	100%	100%

Category	Assets	Liabilities	Revenue
Regulatory	10%	10%	10%
Service Provision	4%	3%	4%
Trading	86%	86%	85%
Grand Total	100%	100%	100%

Source: 2019 Audited Financial Statements.

2.2 SOE Financial Performance

2.2.1 Performance (Profits and Surpluses)

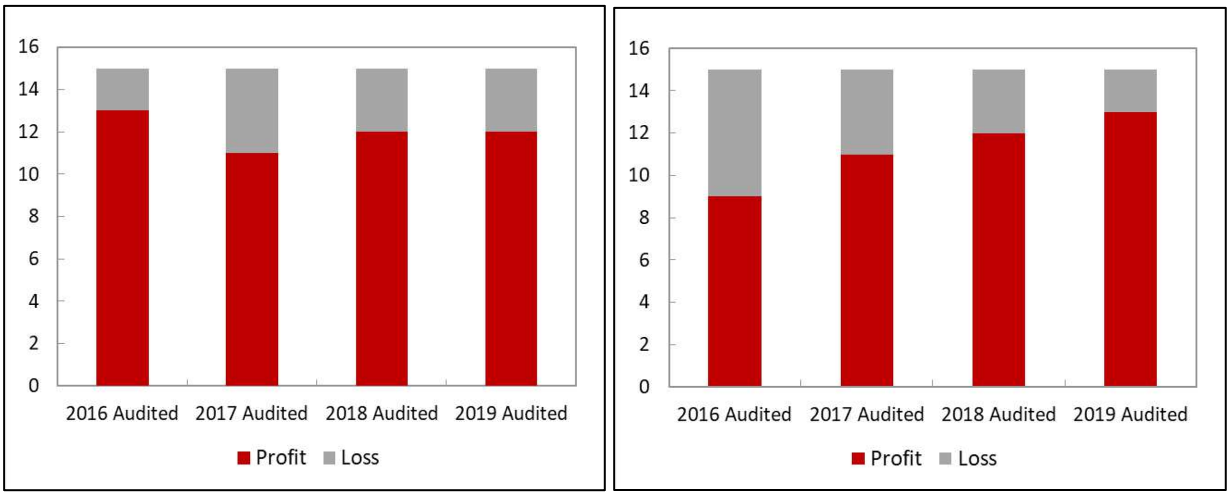
The Dividend and Surplus Policy for Statutory Bodies in Malawi (2019) is very clear regarding financial performance. It requires commercially oriented SOEs to strive to be efficient and effective as they are required to operate on a private sector model to ensure their long-term financial sustainability.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

SOEs undertaking commercial functions depict variabilities across their distinct categories with extreme swings from low profitability to high profitability and vice versa. Thus, while other companies improved, others deteriorated. Despite Commercial SOEs being market oriented entities, the number of loss making entities remained relatively constant from 2016 to 2019 averaging at about eight entities of which three were undertaking trading functions while 5 were either regulators or service providers. Overall, 23 percent of all the commercial SOEs registered losses/deficits in 2019 an increase from 6 in 2018 (**Figure 2).**

Figure 2: Profit and loss/Surpluses and deficits making SOEs

(number of entities)

Figure 2a: Trading SOEs **Figure 2b: Regulators and Service Providers**



Source: 2019 Audited Financial Statements.

Specifically, among the trading SOEs, the number of loss making trading SOEs increased from 3 to 5. Three of these entities were Water Boards reflecting their worsening operating environment especially with regard to non-cost reflective tariffs. On the other hand, performance of the regulatory SOEs was good with almost all registering increasing levels of surpluses. However, there was a significant decline in surpluses registered in 2019 on account of reduction in international call termination overall revenues collected by MACRA emanating from the declining traffic of the international call termination due to increase in the usage of Over the Top (OTT) applications like the WhatsApp, Skype and others whose corresponding internet data revenues have not grown much.

Meanwhile, the performance of the service provision SOEs has mostly been at breaking even apart from 2018 whereby two entities namely, NFRA and MEDF registered sharp increase in surpluses which plummeted back to almost breakeven and loss situations, respectively in 2019 **(Table 4 and Figure 3).** Service providers normally registers breakeven situation to ensure that they are not a drain on the national budget.

Table 4: Profit and loss /Surpluses and deficits making SOEs (FY2016 - FY2019) (By entity) (MK' Millions)

	2016 Audited	2017 Audited	2018 Audited	2019 Audited
Trading				
ACM	94	159	179	-202
ADL	2,753	5,477	6,296	7,129
ADMARC	-2,283	-23,309	14,345	1,977
BWB	-1,979	-5,451	-2,379	-3,310
CRWB	6	163	43	-1,465
EGENCO	0	2,825	11,035	15,222
ESCOM	7,903	11,994	-12,963	-6,150
LIHACO	270	549	85	119
LWB	2,753	3,410	2,458	4,773
MHC	55	210	13	11
MPC	1,447	1,496	440	224
NOCMA	160	-893	-1,206	733
NRWB	766	1,226	186	-827
SRWB	439	597	838	684
Regulatory				
MAB	25	11	-23	17
MACRA	6,218	5,735	8,001	5,482
MBS	398	1,056	2,299	2,687
MERA	1,931	2,216	3,164	2,845
NCIC	-54	4	43	54
NLB-MGB	72	79	51	468
PMPB	787	306	121	-74
TCC	-124	1,306	305	89
TEVETA	1,875	-392	440	171
Service Provision				
MBC	-678	-573	-201	-369
MCA	354	25	-275	-5
MEDF	-115	-962	2,605	-840
MIM	-58	-354	-338	-224
NFRA	-234	689	6,336	231
Grand Total	**22,782**	**7,598**	**41,897**	**29,451**

Source: Audited Financial Statements

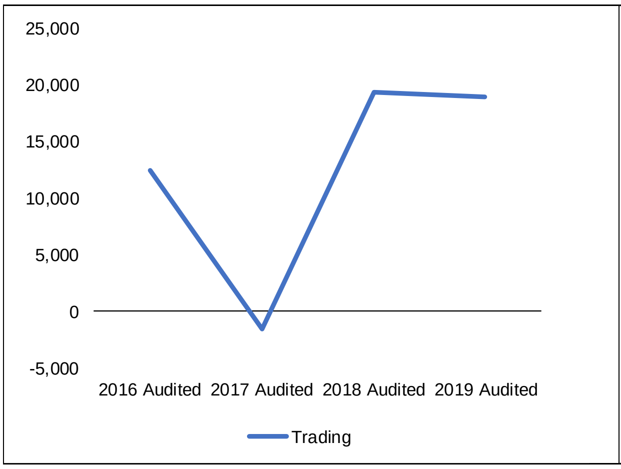
The aggregate performance of the trading SOEs in 2019 depicts a slight decrease over the profitability level attained in 2018 whereby there was a spike in profitability over the preceding year **(Figure 3).** This performance continued to be driven by the Agriculture and Energy sectors which registered significant decline and increase, respectively. Despite the energy sector alone accounting for almost K6.1 billion in losses largely driven by ESCOM, however, other entities in the same sector mostly EGENCO registered significant increases in profits with K15.2 billion realised in 2019 alone, thereby leading to an increase in aggregate performance of the energy sector.

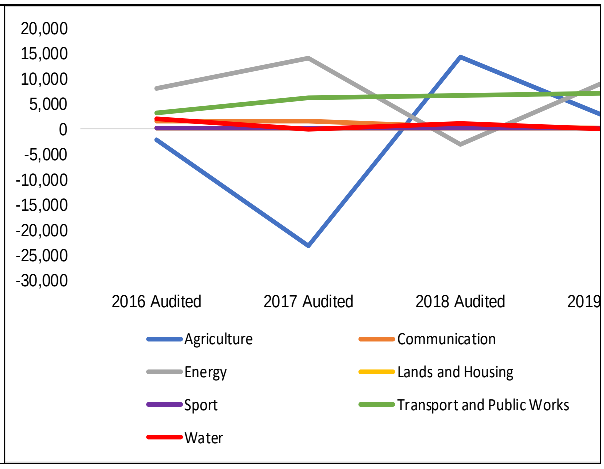
On the other hand, the trading SOEs in the Agriculture sector, largely ADMARC Limited, registered a significant decline in the profitability levels from K14.3 billion in 2018 to K1.9 billion in 2019. The performance of SOEs the Transport and Public works remains profitably constant largely anchored by ADL. The rest of the sectors were either just breaking even or sliding into losses. Of particular concern are the SOEs in the Water sector which in aggregate terms shows a worsening from profit position to loss making. In 2019, three out of the five Water Boards registered losses in 2019 down from two in 2018. Overall water sector accounted for K5.6 billion of the losses in 2019 largely on account of BWB, CRWB and NRWB.

Figure 3: Profitability of Trading SOES by function and by sector

(Kwacha Millions)

Figure 3a: Trading SOEs (aggregate) | **Figure 3b: Trading SOEs by sector**





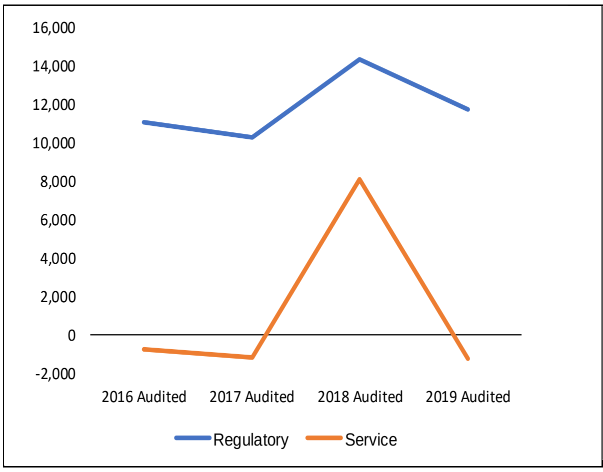
Source: Audited Financial Statements and Performance Management Plans and Budgets

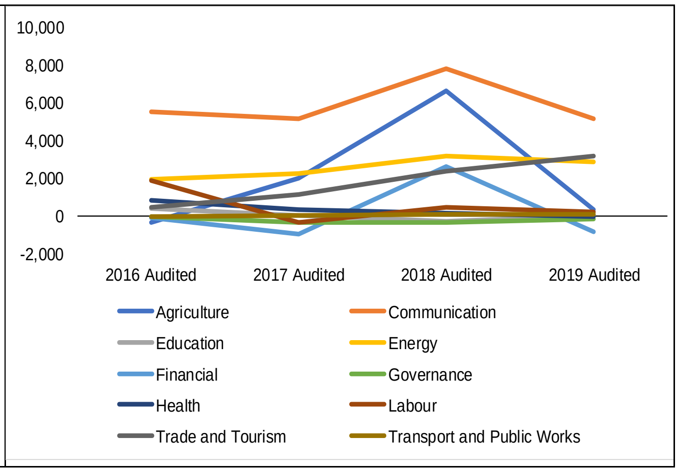
Overall, the period between 2016 to 2019, the Agriculture and Energy sectors illustrate the biggest swings between registering profitability and losses) while the performance of the Water sector has been deteriorating over the same period **(Figure 4).**

Figure 4: Profitability Regulatory and Service Provision SOES by function and by sector

(Kwacha Millions)

Figure 4a: Regulators and Service Providers SOEs (aggregates) | **Figure 4b: Regulators and Service Providers by sector**





Source: Audited Financial Statements and Performance Management Plans and Budgets

2.2.2 Cost recovery

Cost recovery reflects the ability of a corporation to generate adequate revenue to meet operating expense[3]. The ratio should generally be higher than one hundred percent. Cost recovery performance according to functions of the SOE, all categories were above 100 percent threshold.

Figure 5: Cost Recovery for Trading SOEs
(Percent)

Figure 5a: 2019 only

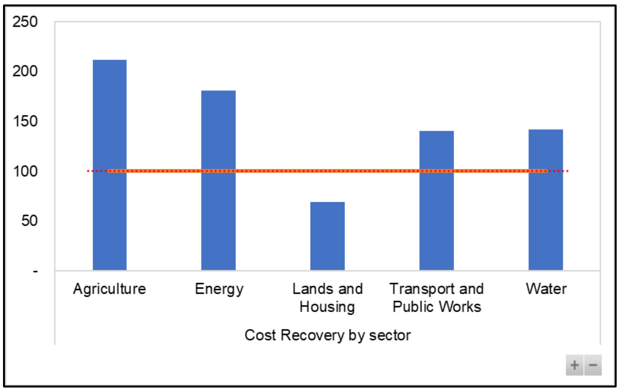
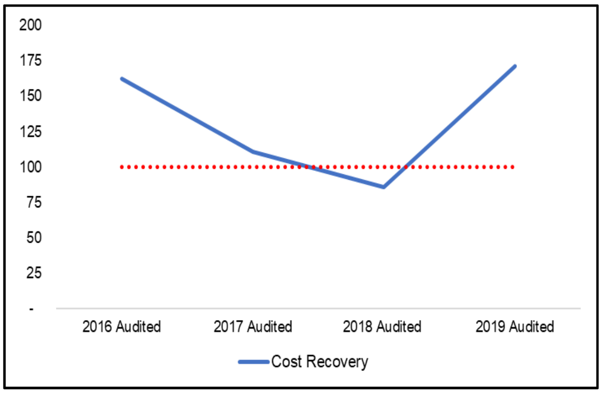


Figure 5b: Trend analysis (2016-2019)



Source: Audited Financial Statements and Performance Management Plans and Budgets

In aggregate terms, the trading SOEs registered a significant upward improvement in 2019 **(Figure 5).** However, the performance by sector within the trading SOEs was a mixed bag as measured by the cost recovery risk thresholds of low risk (green), moderate risk (yellow), high risk (orange) and very high risk (red). Cost recovery performance ranged from 86 percent to 182 in 2019**.** Specifically, SOEs in Lands and Housing sector operated at a very high risk while Agriculture sector were low risk on cost recovery threshold in 2019. On the other hand, declining trends were registered in both Regulatory and Service Provision SOEs largely on account of declining revenues in MACRA and MEDF in 2019.

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

Figure 6a: 2019 only

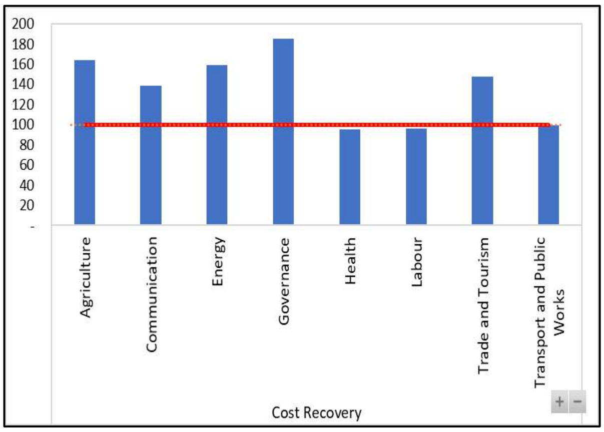
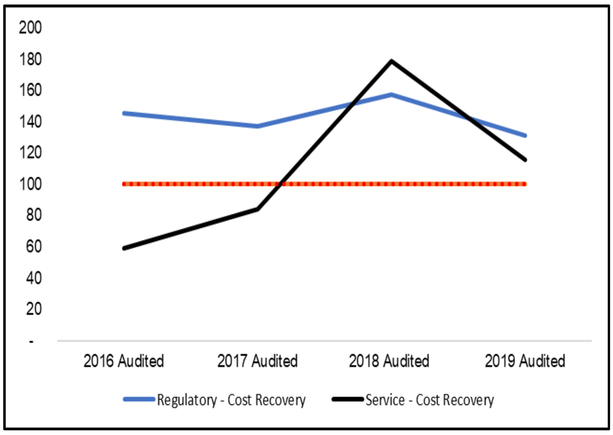


Figure 6b: Trend analysis (2016-2019)



Source: Audited Financial Statements and Performance Management Plans and Budgets

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

2.2.3 Return on assets

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

The aggregate position on return on assets for Trading SOEs continued to be below the recommended threshold of 5 percent over the review period. This was largely on account of the energy sector which registered 2 percent on account of the loss registered by ESCOM in 2019 thereby posing a high risk. However, the Agriculture and Water sectors registered 5 percent which is a moderate risk while good performance was registered in SOEs within the Transport and Public Works as well as the Lands and Housing sector.

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

Figure 7a: 2019 only

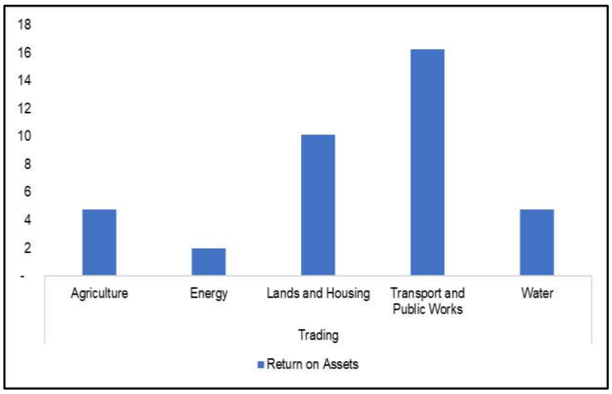
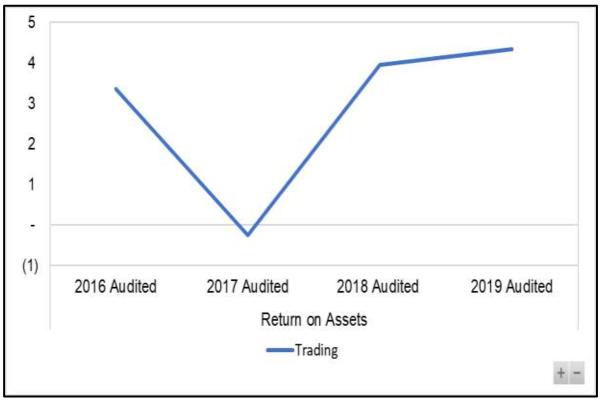


Figure 7b: Trend analysis (2016-2019)



Source: Audited Financial Statements

On the other hand, Regulatory SOEs continued to register good returns on assets albeit with significant decline over 2018 from 21 percent to 10 percent largely on account of reduced revenues surplus in MACRA. Service providers on the other hand plummeted back to high risk position of below 5 percent in 2019 from a high position of 23 percent in 2018 mostly on the back of the huge loss registered by MEDF in 2019 and huge decline in surplus registered by NFRA in 2019 thereby driving the overall position from low risk to very high risk **(Figure 8).**

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

Figure 8a: 2019 only

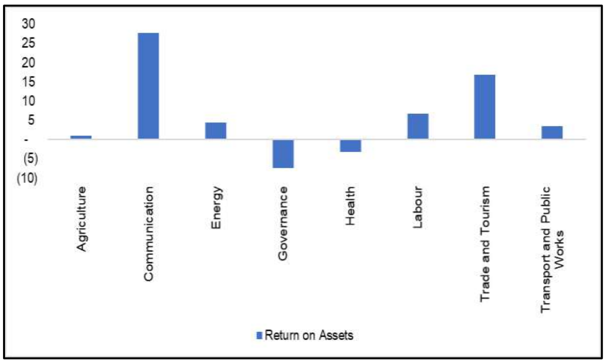
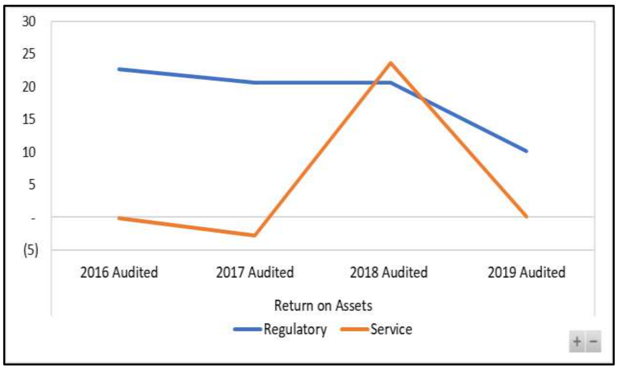


Figure 8b: Trend analysis (2016-2019)



Source: Audited Financial Statements

2.2.4 Return on equity

The Return on Equity (ROE) is a measure of how much profit is generated with the funds invested by shareholders plus accumulated profits not paid to the shareholder. A rough international benchmark is above 15% **(Figure 9).** In 2019, SOEs in trading category continued to register low levels of return on equity as compared to regulatory SOEs who have maintain return on equity of over 15% throughout the period under review.

On aggregate terms, returns on equity for trading SOEs registered an aggregate of 5 percent in 2019 down from 9percent registered in 2018. This low aggregate performance was largely on account of the SOEs in energy sector and Transport and Public Works sectors which registered an aggregate of 5 and 2 percent, respectively. However, SOEs in Agriculture and Water registered 13 percent while Lands and Housing registered 11 percent which is a moderate risk score.

Figure 9: Return on Equity for Traders

(Percent)

Figure 9a: 2019 only

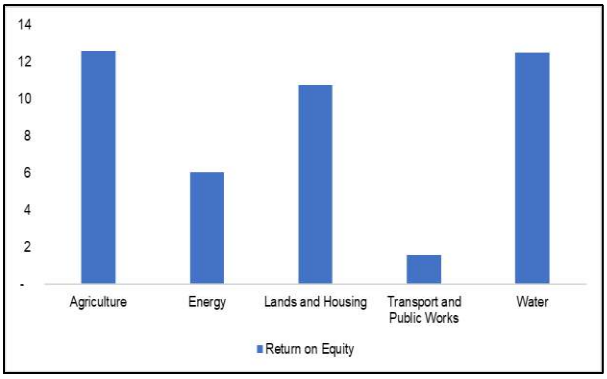
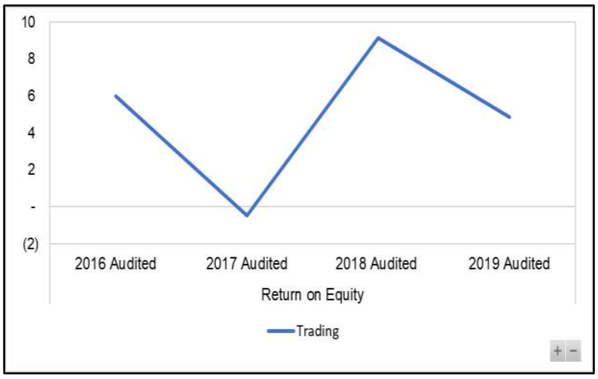


Figure 9b: Trend analysis (2016-2019)



Source: Audited financial Statements and Performance Management Plans and Budgets

On the other hand, Regulatory SOEs registered good returns of equity with an aggregate 2019 position of 25 percent though down from 46 percent registered in 2018 due to reduced surplus levels registered by MACRA, MERA and other regulators.

For service provision SOEs, return of equity plummeted from a low risk position of 36 percent in 2018 to a high risk position of zero in 2019.this was on account of deficits reported by almost all the SOES in this category apart from NFRA and MEDF **(Figure 9).**

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

Figure 10a: 2019 only

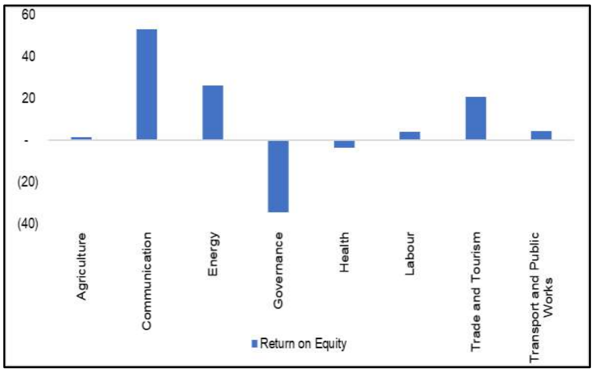
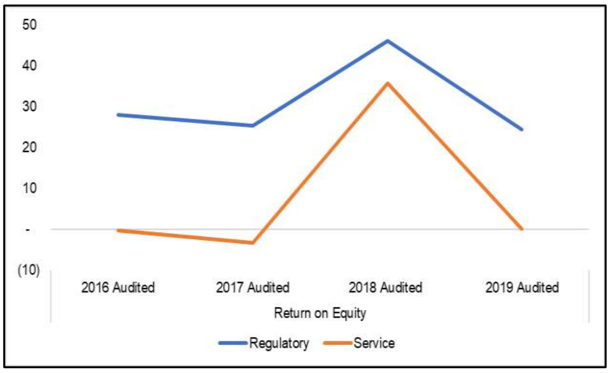


Figure 10b: Trend analysis (2016-2019)



Source: Audited financial Statements and Performance Management Plans and Budgets

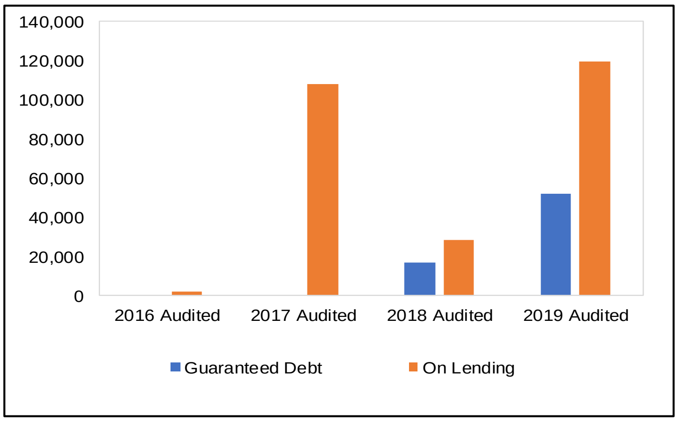
2.3 SOE DEBT

2.3.1 Size and composition of SOE Debt

Loans accessed by SOEs comprise of guaranteed debt, non-guaranteed debt (where only consents are issued), and on-lending. Total liabilities inclusive of these debt categories accounted for approximately 11 Percent of GDP in 2019 (Table 1). These amounts include long-term loan to the energy as well as a combination of support through specific direct and on lent loans, guarantees from bilateral and multilateral institutions and non-interest bearing debt. These are targeted towards the rehabilitation of infrastructures, improving energy transmission and developing the water supply network in Malawi, among others. On the other hand, guaranteed debt in 2019 was largely for the purposes of purchasing of agricultural commodities, particularly maize, for ADMARC Limited (individual SOE reports)

On lending remains the highest form of debt that SOEs use to finance their development projects. On lending in 2019 was at MK119.9 billion and increase from MK108.1 billion registered in 2017. On the other hand, there a significant increase in the level of guaranteed debt in 2019 which increased to MK51.7 billion from MK16.8 billion in 2018 **(Figure 11).** The other debt comprises the non-guaranteed debt which is commonly contracted by the SOEs with prior approval of the Ministry of Finance.

Figure 11: Composition of SOE debt



Source: Audited financial Statements and Performance Management Plans and Budgets

2.3.2 Debt to equity

The debt to equity ratio is a measure of the extent that the entity is dependent on external funding for its ongoing operations. A safe threshold is considered to be at 40 percent, which was exceeded in 2018 by the following sectors; Agriculture, Communication, Energy, Governance, Health and Water sectors. **(Figure 12).** However, in 2019 the international threshold was exceeded by the following sectors Agriculture, Communication, Energy, Governance, Health and Water sectors;

Figure 12: Debt to Equity by Sector
(Percent)

Figure 12a: 2018 and 2019

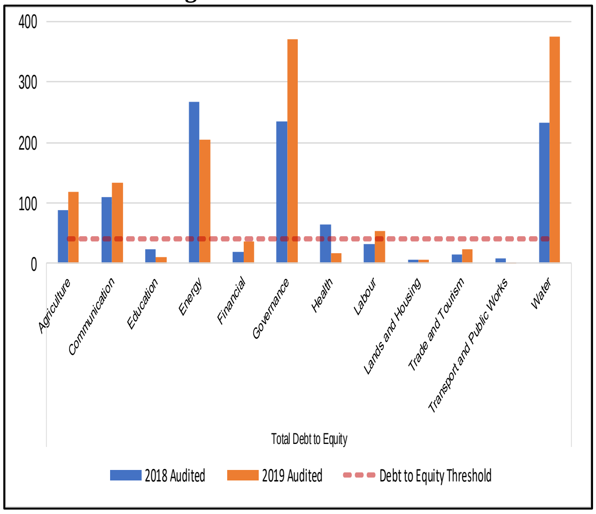
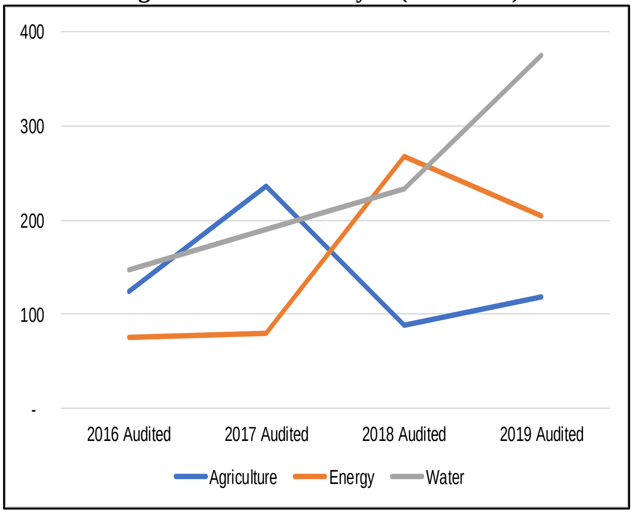


Figure 12b: Trend analysis (2016-2019)



Source: Audited financial Statements and Performance Management Plans and Budgets

2.3.3 Debt Service Coverage

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

Figure 13 demonstrates that there was a steady increase in the portions of the Trading SOEs cash flow that was used for debt service between 2016 and 2018 but this significantly declined to 0.16 in 2019 mostly on account of agriculture, lands and housing sector, water as well as the transport and public works sectors.

Figure 13: Debt Servicing Ratio by Function and Sector

Figure 13a: DSR (2019)

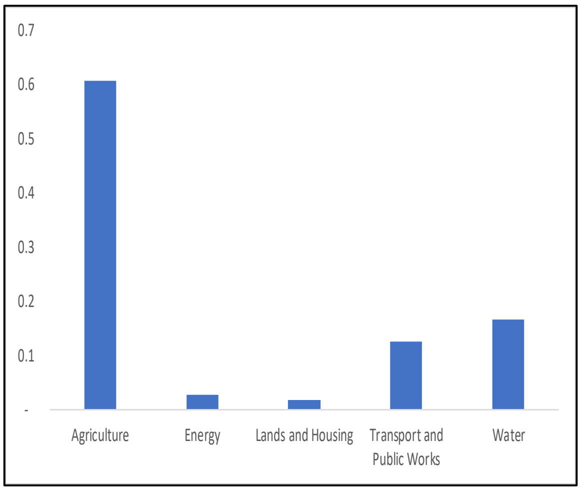
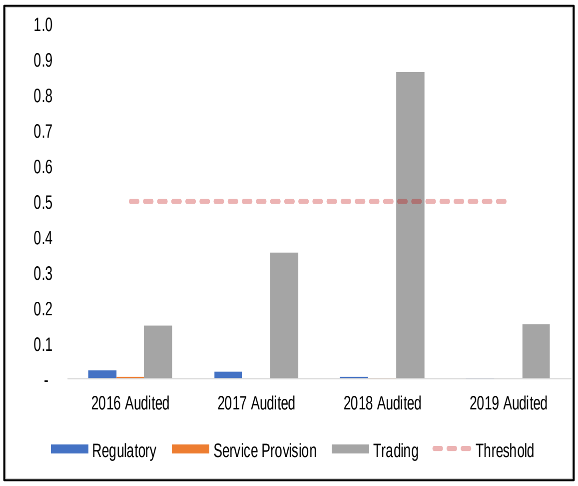


Figure 13b: DSR Trend analysis (2016-2019)



Source: Audited Financial Statements and Performance Management Plans and Budgets

2.4 FISCAL FLOWS BETWEEN SOEs AND BUDGET

2.4.1 Government Transfers to SOEs

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

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

	2016 Audited	2017 Audited	2018 Audited	2019 Audited
Agriculture	450	416	20,703	602
Communication	1,550	1,600	1,661	1,880
Energy	0	0	17,222	0
Health	0	68	0	0
Water	1,535	298	5,046	5,488
Grand Total	**3,535**	**2,382**	**44,631**	**7,970**

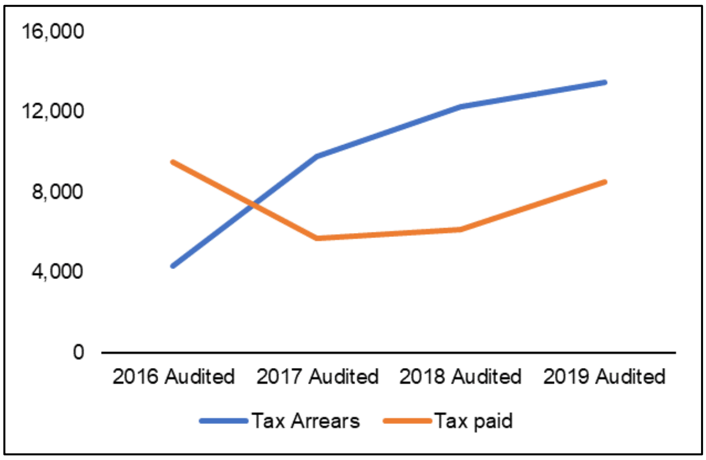
Source: Audited Financial Statements and Performance Management Plans and Budgets

2.4.2 Taxes and Dividend Payments remitted by Commercial Entities

There was a decrease in taxes paid by parastatals between 2016 and 2017 and thereafter marginal increases in the level of tax remittances in 2018 and 2019 (Figure 14). On the other hand, tax arrears continued to rise sharply during the same period largely on account of liquidity challenges emanating from high trade receivables from both public and private debtors. Tax arrears are inefficient for meeting revenue collection targets by the Malawi Revenue Authority (MRA) and can lead to a vicious circle of payment arrears particularly where the parastatal is owed money from other government institutions, such as the outstanding public debt to the water and power utility companies**.**

Figure 14: Tax Payments vs. Tax arrears by Commercial Entities

(Kwacha Million)

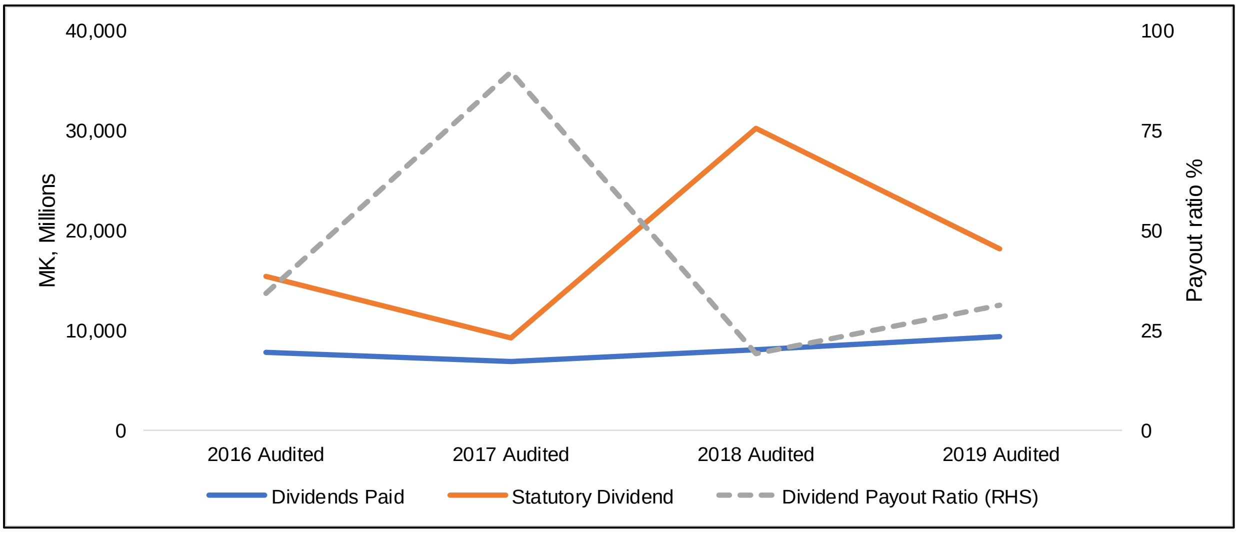


Source: Audited Financial Statements and Performance Management Plans and Budgets

Similarly, remittance of surpluses and dividends by SOEs into the consolidated Account declined in 2019 compared to 2018. The aggregate profit level for SOEs recording profit has increased to approximately MK42 Billion in 2018 from MK22.8 Billion in 2016, however in 2019 the profit level declined to K29.5 Billion. In accordance with the dividend and surplus policy for statutory bodies in Malawi, statutory dividend requirements should have increased from MK15.3 billion in 2016 to MK30.3 billion in 2018 and K18.1 billion in 2019. However, over this period, actual remittances were still below the statutory requirements at MK7.8 billion in 2016, MK8.0 in 2018 and MK9.3 Billion in 2019 (Figure 14). As a result, the dividend pay-out ratio has declined to 32 percent in 2019 from 90% in 2017**.** This declining trend is largely due to cash flow challenges experienced by SOEs especially due to increasing trade debtors especially public institutions.

Figure 15: Surpluses and Dividends remittances Actual vs. Statutory Dividends

(MK'Million)



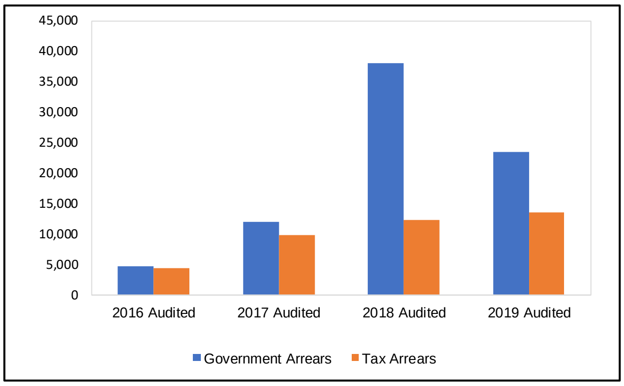
Source: Audited financial statements and Performance Management Plans and BudgetsArrears between SOEs and with government

2.4.3 Government arrears to SOEs

Government arrears to SOEs is a big drag on their balance sheets as they negatively affect cash flows of the parastatals which leads to a vicious cycle of inefficiencies in the economy. In the period between 2016 to 2018, Government arrears to SOEs steadily increased from MK4.7 billion to MK23.5 billion. Relatively, tax arrears by SOEs to MRA registered an increasing trajectory from MK4.3 billion in 2016 to MK12.3 billion in 2018 and further to Mk13.6 billion in 2019 **(Figure 16).**

Figure 16: Government Arrears to Commercial Entities

(MK' Million)



Source: Audited financial statements and Performance Management Plans and Budgets

2.4.4 Intra-Arrears between the SOEs

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

Summary of fiscal flows between the budget and SOEs

In summary the period under review revealed that

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

2.5 CROSS-CUTTING ISSUES

2.5.1 Tariffs and pricing policies

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

2.5.2 Fiscal flows and Arrears

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

2.5.3 Institutional arrangements

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

2.5.4 SOE Oversight function

Government should continue to strengthen the capacity of the SOE oversight institutions to ensure that they are delivering on their mandate effectively and efficiently.

2.6 CRITICAL POLICY DECISIONS

2.6.1 Repayment of Loans and Arrears

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

2.6.2 Subsidies for Public Service Obligations

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

2.6.3 Public Investment Related Risks

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

2.6.4 Institutional Risks

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

2.6.5 SOE oversight function

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

3 INDIVIDUAL SOE ANALYSIS

3.1 AGRICULTURE SECTOR

3.1.1 Agricultural Development and Marketing Corporation (ADMARC)

No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Audited
	% Statutory Dividend Payout Ratio	40%	40%	40%	40%
1	Profit after tax	(2,283,242)	(23,308,604)	14,344,895	1,977,083
2	Return on assets	-2%	-23%	13%	5%
3	Return on total equity	-5%	-113%	26%	5%
4	Cost recovery	342%	101%	450%	210%
5	Gross profit margin	7%	-19%	77%	53%
6	Operating Profit Margin	-9%	-242%	24%	15%
7	Asset Turnover*	0.57	0.37	1.08	0.87
8	Debt to equity	117%	368%	101%	166%
9	Current ratio	0.71	0.48	1.01	0.67
10	Quick ratio	0.34	0.11	0.54	0.38
11	Accounts Receivable days	117	282	397	333
12	Debt service ratio	0.00	1.17	-0.85	0.48
13	Accounts Payables days	226	530	853	656
14	GoM transfers/Rev.	0%	11%	95%	90%
15	Dividend payout ratio	0%	0%	0%	0%
	DPR (variance)	40%	40%	40%	40%

Overview of financial performance

There had been huge variations in the annual performance of ADMARC Limited over the reporting period due to unique circumstances that prevailed in each respective year. ADMARC reported a surplus of K14.5 billion of the 2018/19 mostly on account of other revenues of which a large proportion were transactions invoiced to Government for undertaking social obligations on its behalf.

Overview of financial risks

Generally, ADMARC has been heavily dependent of external financing for its ongoing operations rather than own generated resources over the last three years. With very little commercial trading, ADMARC was not in a position to meet its financial obligations with both current and quick ratios below required benchmarks.

Furthermore, considering the indebtedness of the company, the debt service coverage ratio posed significant risk to the lenders as the company was not generating adequate cash flows to support interest payments. Additionally, the high debt to equity position also indicates that most of the operations were being financed by debt compared to equity.

Overview of financial flows with the government

Over the last two financial years, government provided the resources required for ADMARCfor undertaking the social obligations.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy recommendations
Revenue Sales	There is need to follow up on the usage of the K4.5 billion guarantee to ensure that it generates required income from trading	• Government needs to clearly separate the Commercial Functions of the entities and the Public Service obligations to boost up the commercial drive and allow resources to be properly allocated.
Borrowing	High indebtedness of ADMARC has resulted in bail out	Need to monitor loan performance

3.1.2 National Food Reserve Agency (NFRA)

No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Audited
	% Statutory Dividend Payout Ratio	100%	100%	100%	100%
1	Profit after tax	(233,899)	688,754	6,335,751	230,818
2	Return on assets	-1%	4%	23%	1%
3	Return on total equity	-2%	6%	36%	1%
4	Cost recovery	47%	103%	287%	78%
5	Gross profit margin	-22%	7%	67%	12%
6	Operating Profit Margin	-22%	7%	67%	12%
7	Asset Turnover*	0.10	0.89	0.53	0.11
8	Debt to equity	155%	43%	53%	39%
9	Current ratio	1.85	10.69	4.14	6.12
10	Quick ratio	0.02	0.73	0.91	0.76
11	Accounts Receivable days	95	7	11	47
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	0	0	685	775.2382
14	GoM transfers/Rev.	43%	4%	7%	32%
15	Dividend payout ratio	0%	0%	0%	0%
	DPR (variance)	100%	100%	100%	100%

Overview of financial performance

The performance of the National Food Reserve Agency (NFRA) in 2018/19 was good though it was a decline from the 2017/18 position. NFRA reported a net surplus of K230.8 million as compared to a net surplus of K 6.34 million in 2018. The levels of own generate resources however exhibit a steady positive trajectory. Correspondingly, NFRA had been handling increasing tonnage of maize and has seemingly registered dismal levels of storage losses over the years.

The liquidity position for NFRA increased to 6.12:1 in 2018/ 2019 financial year compared to 4.14:1 in 2017/18 financial year. This meant that the institution was capable of meeting its short term obligations when it fell due. The debt-to-equity position increased to 53 percent which was above the benchmark in 2017/18 to 39 percent in 2018/19. This indicates that the Agency was to a large extent being financed through owner's equity

Overview of financial risks

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

Overview of financial flows with the government

In the year 2018/19, Government transfers to NFRA's consisted of 32 percent of its total revenue approximately K602 million as Government subvention.

3.1.3 Tobacco Commission (TC)

% Statutory Dividend Payout Ratio		100%	100%	100%	100%
No.	**Indicator**	**2016 Audited**	**2017 Audited**	**2018 Audited**	**2019 Audited**
1	Profit after tax	(124,495)	1,306,402	305,490	89,178
2	Return on assets	7%	27%	3%	2%
3	Return on total equity	-8%	45%	9%	2%
4	Cost recovery	459%	724%	407%	316%
5	Gross profit margin	78%	86%	75%	68%
6	Operating Profit Margin	10%	25%	6%	3%
7	Asset Turnover*	1.33	1.68	0.84	0.90
8	Debt to equity	94%	58%	51%	36%
9	Current ratio	0.68	1.66	1.24	1.03
10	Quick ratio	0.66	1.63	1.08	0.99
11	Accounts Receivable days	89	56	90	59
12	Debt service ratio	0.28	0.16	0.10	0.01
13	Accounts Payables days	362	134	195	154
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	16%	56%
	DPR (variance)	100%	100%	84%	44%

Overview of Financial Performance

The financial performance of the Tobacco Commission (TC) has been relatively good. The Commission recorded a surplus of K89.2 million in 2018/19 which was a huge decline from the surplus registered in 2017/18. The performance of the Tobacco Commission (TC) in 2018/19 was an improvement over 2017/18 financial year whereby the Commission reported a 20 percent increase in revenues to K3.2 Billion compared to K2.6 billion reported in 2017/18 financial year. On the other hand, expenditures also grew by 27 percent resulting into a reduced surplus of K89.2 million compared to K305.5 million reported in 2017/18. This was mainly due to the increase in tobacco volumes sold from 142.2 million kilogrammes to 159.2 million kilogrammes

Liquidity levels for the Commission were good in 20118/19 as measured by the current ratio of 1:1, which T indicates that the Commission's current assets would just be enough to meet the current liabilities especially. However, this picture was only not good in view of the accounting revenue recognition polices of the Commission.

The performance of the Commission reflects the ability to generate adequate revenue to meet operational expenses. As a regulator and a service provider, staff costs contribute significantly to the total expenses. Combining both staff and operational costs, the Commission was generating enough revenue to cover the foregoing costs.

Overview of Financial Risk

The debt to equity ratio reflects that at least half of the Commission's costs were financed by debt. It was noted, however, that included in the liabilities were non-cash liabilities relating to donated assets, which when discounted, the debt to equity ratio would improve significantly.

Overview of Financial Capital Flows with the Government

In the year 2018/19, the Commission remitted 56% of its total surplus as surplus to the Government that amounted to K50 million.

Policy specific issues for the Public Body

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

3.2 COMMUNICATION SECTOR

3.2.1 Malawi Communications Regulatory Authority (MACRA)

	% Statutory Dividend Payout Ratio	100%	100%	100%	100%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Audited
1	Profit after tax	6,217,880	5,735,213	8,000,781	5,481,597
2	Return on assets	42%	40%	41%	28%
3	Return on total equity	73%	61%	71%	53%
4	Cost recovery	171%	163%	174%	143%
5	Gross profit margin	100%	100%	100%	100%
6	Operating Profit Margir	42%	33%	43%	30%
7	Asset Turnover*	1.73	1.88	1.65	1.76
8	Debt to equity	73%	53%	71%	93%
9	Current ratio	3.23	3.83	1.57	1.34
10	Quick ratio	3.23	3.81	1.56	1.12
11	Accounts Receivable da	162	151	128	97
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	n/a	n/a	n/a	n/a
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	91%	87%	75%	119%
	DPR (variance)	9%	13%	25%	-19%

Overview of financial performance

Malawi Communications Regulatory Authority (MACRA) continued to report increases in surpluses over the past five years. However, MACRA recorded a drop in revenues in 2018/19 financial year where the Authority realised K17.7 billion in revenues while surplus was at K6.9 billion. The decline in revenues was due to continuous drop in incoming international call minutes which is a basis for circulation of international call termination fees. The other reason for the decline was due to the implementation of the Universal Service Fund (USF) where the Authority is required to apportion 20 percent levy receivable from operations to USF.

Although the liquidity of the Authority shows declining trends, MACRA liquidity remains health and capable of meeting short term obligations as they fall due. Additionally, the Authority's working capital strong enough to support to finance its day-to-day operations.

Overview of Financial Risk

Despite the institution making profits continuously, its debt to equity ratio has remained above the average benchmark of 40%. The debt to equity ratio has increased from 71% in 2017/18 to 93% in 2018/19.It was further noted that, most of its debt is more from its short-term liabilities other than long term liabilities. In this case, the analysis of the current and quick ratio has been reasonably good implying that the institution is able to meet its short-term obligations if it fell short but precautions need to be put in place as this has also been declining over the years which could be a risk for MACRA.

Overview of financial flows with the government

Over the years, the authority has been able to remit surpluses to the Government each consecutive year with its highest remittance being in 2018/19 where it remitted 119% of its profit to Government. Although as a regulator it is supposed to give 100% of all its profits, MACRA has had several investments over the years which reduced the dividends that was remitted to Government.

Policy specific issues for the Public Body

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

3.2.2 Malawi Broadcasting Corporation (MBC)

No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Audited
	% Statutory Dividend Payout Ratio	100%	100%	100%	100%
1	Profit after tax	(678,207)	(572,995)	(200,507)	(368,616)
2	Return on assets	-23%	-22%	-6%	-11%
3	Return on total equity	102%	48%	10%	18%
4	Cost recovery	39%	41%	52%	52%
5	Gross profit margin	-23%	-19%	-5%	-9%
6	Operating Profit Margin	-23%	-19%	-5%	-9%
7	Asset Turnover*	-4.47	-5.23	-1.91	-2.05
8	Debt to equity	-539%	-274%	-269%	-263%
9	Current ratio	0.60	0.91	1.19	0.89
10	Quick ratio	0.30	0.56	0.90	0.89
11	Accounts Receivable days	128	146	189	170
12	Debt service ratio	1.00	1.00	0.00	0.00
13	Accounts Payables days	0	0	35	40.09119
14	GoM transfers/Rev.	52%	55%	45%	44%
15	Dividend payout ratio	0%	0%	0%	0%
	DPR (variance)	100%	100%	100%	100%

Overview of financial performance

The performance of Malawi Broadcsting Corporation (MBC) further worsened in the year 2018/19 compared to the position reported in 2017/18. Its registered a further increase in losses from K200.5 million to K368.6 million. This negative performance had an impact on the operating profit margin of the institution which was -9 percent in the year 2018/19.

Overview of financial risks

MBC’s liquidity position was also poor in 2018/19 as its current ratio reduced from 1.2:1 in 2017/18 to 0.9:1 in 2018/19.This meant that the corporation could barely meet its short them obligation when they fall due. This was as a result of high debtor days of 170 meaning most of its cash was being held up by debtors thereby impacting its cash flow position. It was therefore imperative for thr the Corporation to put in place measures of improving revenue collection.

Overview of financial flows with the government

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

Policy specific issues for the Public Body

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

3.2.3 Malawi Posts Corporation (MPC)

% Statutory Dividend Payout Ratio		40%	40%	40%	40%
No.	**Indicator**	**2016 Audited**	**2017 Audited**	**2018 Audited**	**2019 Audited**
1	Profit after tax	1,447,473	1,496,499	439,543	224,204
2	Return on assets	7%	-1%	-3%	4%
3	Return on total equity	17%	20%	6%	2%
4	Cost recovery	92%	102%	109%	79%
5	Gross profit margin	87%	92%	92%	100%
6	Operating Profit Margir	27%	-3%	-8%	28%
7	Asset Turnover*	0.40	0.60	0.63	0.31
8	Debt to equity	61%	88%	97%	98%
9	Current ratio	0.62	0.60	0.64	0.57
10	Quick ratio	0.53	0.52	0.56	0.51
11	Accounts Receivable da	151	170	276	322
12	Debt service ratio	0.02	0.06	-0.02	0.00
13	Accounts Payables days	906	430	415	430
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	2%	0%
	DPR (variance)	40%	40%	38%	40%

Overview of financial performance

Although the Malawi Posts Corporation (MPC) reported a profit after tax amounting to K224 million in 2019, but this was due to the accounting treatment of K2.4 billion on items not reclassified to profit on loss. However, the actual position was a loss of K1.5billion an improvement from aloss after tax of K3.6 billion recorded in 2017/18 financial year. worsened in the year 2018/19 compared to the position reported in 2017/18.

MPC's liquidity position remains very weak with a current ratio of 0.57:1 reported in 2018/19, a decline from 2018 position of 0.64:1. This signifies that MPC had inadequate resources to meet its current debt obligations as they fall due. Furthermore, the working capital was still in deteriorating on the negative side signifying that it had inadequate working capital to finance its day-to-day operations. The statistics are very unhealthy for the company and therefore requires regular monitoring and serious control on costs other than operational

Overview of financial risks

The institutions financial risk is very high. Trade payables mostly comprised tax arrears and pension arrears largely arising from running of 120 loss making post offices as a social service. Trade receivable days position remained very high at 322 days in 2018/19 compared to 415 days in 2017/18. This requires the Corporation to employ more efforts to collect resources from their debtors. The debt-to-equity position also increased due to the loan facility acquired by MPC to finance the purchase of Postal coaches and buses as one-way of boosting its courier services.

Overview of financial flows with the government

There were no fiscal flows between Government and MPC in 2018/19.

Policy specific issues for the Public Body

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

3.3 EDUCATION SECTOR

3.3.1 Malawi College of Accountancy (MCA)

No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Audited
	ıidend Payout Ratio	100%	100%	100%	100%
1	Profit after tax	354,352	24,542	(275,108)	(5,422)
2	Return on assets	13%	1%	-11%	0%
3	Return on total equity	15%	1%	-13%	0%
4	Cost recovery	290%	234%	218%	239%
5	Gross profit margin	100%	100%	100%	100%
6	Operating Profit Margin	27%	2%	-17%	0%
7	Asset Turnover*	0.55	0.64	0.78	0.50
8	Debt to equity	13%	15%	23%	11%
9	Current ratio	0.82	0.62	0.20	0.29
10	Quick ratio	0.81	0.62	0.20	0.29
11	Accounts Receivable days	27	22	19	19
12	Debt service ratio	0.00	0.00	0.00	0.00
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%
	DPR (variance)	100%	100%	100%	100%

Overview of financial performance

The Malawi College of Accountancy (MCA) profit performance has declined over the years, registering a K354.3 million profit in the year 2015/16 to registering a loss of K5.4 million in 2018/19. This loss of K5.4 million was an improvement from the previous year where it registered a loss of K275.1 million showing a positive progress in their performances.

The liquidity position for MCA in the 2018/19 falls below the average benchmark of 1 with current ratio and quick ratio at 0.29:1. This mean MCA's in unable to meet to meet its short-term obligations if it fell short. However, It has a receivables position of 19 days meaning its debt was repaid back in a short period. MCA's debt-to-equity was at 11 percentage in the year 2018/19 that is a good sign as this shows that MCA is largely financed by owners' equity.

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Overview of Financial Risks

MCA,s negative working capital position of the corporation puts it at a disadvantage including lower creditability in banks as well as creating a poor supplier relationships. This also applies to its inability to meet its short-term obligations. It thereby needs immediate action as soon as possible.

Overview of financial flows with the government

Over the past financial years, MCA, has not declared any dividend to government due cash flow challenges. The college has also not received any support from Government including subventions and other transactions undertaken with shareholder.

Policy specific issues for the Public Body

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

3.4 Energy Sector

3.4.1 Electricity Generation Company Malawi Limited (EGENCO)

	% Statutory Dividend Payout Ratio	40%	40%	40%
No.	**Indicator**	**2017 Audited**	**2018 Audited**	**2019 Audited**
1	Profit after tax	2,824,643	11,034,678	15,221,690
2	Return on assets	10%	21%	10%
3	Return on total equity	8%	25%	10%
4	Cost recovery	140%	148%	324%
5	Gross profit margin	52%	60%	79%
6	Operating Profit Margin	29%	36%	16%
7	Asset Turnover*	0.42	0.98	0.93
8	Debt to equity	27%	66%	59%
9	Current ratio	1.99	1.60	5.22
10	Quick ratio	1.71	1.35	4.23
11	Accounts Receivable days	195	218	238
12	Debt service ratio	0.00	0.08	0.05
13	Accounts Payables days	267	122	89
14	GoM transfers/Rev.	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%
	DPR (variance)	40%	40%	40%

Overview of financial performance

Since its inception in 2017/18 financial year, the Electricity Generation Company (EGENCO) has maintained its profitability with K15.2 billion realised in 2018 /19 as profit after tax, which was a significant increase compared to the previous year K11.0 billion.

On the other hand, debtor days were still very high at 238 days in 2018/19 which is way above the agreement in the power purchase agreements of 30 days. Despite this challenge, the liquidity position for EGENCO was healthy with current ratio of 5.22:1 in the year 2018/19 which is a good indication of the Company's ability to meets its obligations as they fall due.

Overview of financial risks

There is a sustained positive working capital position of the corporation puts it at advantage including higher creditability in banks as well as creating a good supplier relationship. However, debt to equity percentage of 59 in 2018/19 shows over half of its Equity is comprised of external funding.

Overview of financial flows with the government

Over the last two financial years, government provided support to the social obligation to EGENCO Government authorised commercial Banks to borrow funds to EGENCO in order to accomplish its project expenditures. Further to this, Government approved that EGENCO defers payments on the Kapichira Concession fee for the past two financial years with the understanding that this will be turned into equity.

Policy specific issues for the Public Body

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

3.4.2 Electricity Supply Commission of Malawi Ltd (ESCOM)

% Statutory Dividend Payout		40%	40%	40%	40%
No.	**Indicator**	**2016 Audited**	**2017 Audited**	**2018 Audited**	**2019 Audited**
1	Profit after tax	7,903,365	11,993,727	(12,963,386)	(6,150,000)
2	Return on assets	11%	5%	-11%	-5%
3	Return on total equity	11%	21%	-29%	-27%
4	Cost recovery	204%	108%	68%	236%
5	Gross profit margin	100%	82%	50%	41%
6	Operating Profit Margir	17%	8%	-20%	-8%
7	Asset Turnover*	1.10	1.49	2.17	1.72
8	Debt to equity	77%	114%	302%	846%
9	Current ratio	2.50	1.77	0.85	0.81
10	Quick ratio	1.86	1.36	0.60	0.68
11	Accounts Receivable da	110	98	118	75
12	Debt service ratio	0.03	0.00	0.03	0.00
13	Accounts Payables days	413	631	413	265
14	GoM transfers/Rev.	0%	0%	19%	0%
15	Dividend payout ratio	28%	2%	0%	-8%
	DPR (variance)	12%	38%	40%	48%

Overview of financial performance

The performance of Electricity Supply Corporation of Malawi (ESCOM) continued to worsen in 2018/19 with a loss of K6.2 billion registered as a decrease from a loss of K13.0 billion registered in 2017/18. In 2018/19 financial year, ESCOM's registered lower revenues than 2017/18 financial largely due to the reduced energy sold as a result of reduced water levels.

The liquidity position of ESCOM remained weak at 0.81:1 a slight decline from 0.85:1 recorded in 2018 signifying that ESCOM was still not able to meet its short term debt obligations when they fell due in 2019. Receivables days were still on the high side demonstrating that most of its revenues were being held up by customers for a long time thereby affecting its operations.

Overview of financial risks

The Board's profitability as shown by the operating profit margin indicates that the Corporation slightly improved to -8 percent compared to its worst position in 2018 when it posted -18%. This signifies that for every Kwacha of the sales, ESCOM was making a loss of 8 tambala before tax and other charges. Additionally, the continued negative working capital position of the corporation puts it at a disadvantage including lower creditability in banks as well as creating a poor supplier relationship.

Overview of financial flows with the government

There were no fiscal flows between ESCOM and the Government in 2018/19

Policy specific issues for the Public Body

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

3.4.3 Malawi Energy Regulatory Authority (MERA)

% Statutory Dividend Payout Ratio		100%	100%	100%	100%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Audited
1	Profit after tax	1,930,993	2,216,000	3,164,393	2,844,930
2	Return on assets	9%	13%	7%	4%
3	Return on total equity	9%	13%	37%	26%
4	Cost recovery	165%	168%	449%	161%
5	Gross profit margin	100%	100%	100%	100%
6	Operating Profit Margir	49%	41%	50%	38%
7	Asset Turnover*	0.34	0.56	0.74	0.69
8	Debt to equity	45%	40%	446%	496%
9	Current ratio	2.19	1.78	1.95	1.65
10	Quick ratio	1.19	0.70	1.18	1.65
11	Accounts Receivable da	839	21	1322	1562
12	Debt service ratio	0.07	0.00	0.00	0.00
13	Accounts Payables days	n/a	n/a	n/a	n/a
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	47%	14%	18%

Overview of financial performance

MERA has continuously registered surpluses during the reporting period, that is, from 2016 to 2019.The surplus for the Authority for the year 2018/19 was K2.8 billion which was as 10 percent decrease from a surplus of K3.2 billion attained in 2017/18 financial year.

The liquidity position for the Authority was good with current ratio at 1.6.5:1 in 2018/19 financial year though slightly reducing from 1.95:1 in 2017/18 owing to a significant increase in current liabilities from K22 billion in 2017/18 to K35 billion in 2018/19.

Overview of financial risks

Despite the good profitability performance by MERA, its debt to equity percentage falls way above the average benchmark of 40. In the 2018/19, its debt to equity was 496 percent which was an increase from the previous year's 446 percent. However, it mostly comprised non-interest bearing debt in form of accounts receivables and not necessarily any commercial borrowing. Nevertheless, this still signifies that most of the operations were financed through borrowing which still poses a risk on the institution.

Overview of financial flows with the government

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

Policy specific issues for the Public Body

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

3.4.4 National Oil Company of Malawi (NOCMA)

% Statutory Dividend Payout Ratio		40%	40%	40%	40%
No.	Indicator	2016 Audited	2017 Audited	2018 Unaudited	2019 unaudited
1	Profit after tax	159,565	(893,431)	(1,206,029)	984,453
2	Return on assets	2%	-5%	-2%	2%
3	Return on total equity	4%	-11%	-17%	8%
4	Cost recovery	3849%	358%	65%	137%
5	Gross profit margin	0%	0%	-4372%	100%
6	Operating Profit Margin	1%	-16%	-70%	27%
7	Asset Turnover*	11.44	1.17	0.32	0.16
8	Debt to equity	220%	142%	1108%	462%
9	Current ratio	1.23	1.45	1.00	1.05
10	Quick ratio	1.21	0.32	0.68	0.62
11	Accounts Receivable days	8099	2785	5457	1939
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	70	756	188	756
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	-7%	0%	0%
	DPR (variance)	40%	47%	40%	40%

Overview of financial performance

NOCMA's performance in 2018/19 financial year was an improvement from the 2017/18 performance as it registered a profit of K984 million from a loss of K1.2 billion in 2018. This was largely due to the increase in the sales in the year 2018/19.

NOCMA also maintained a healthy liquidity position with a current ratio of 1.05:1 in 2018/19 financial year compared to a current ratio of 1.0:1 registered in 2017/18. However, the current ratio is just on the margin of its ability of meeting its short term liabilities, hence the need to be cautious and work on further improving the cash flow position. On the other hand, the working capital for NOCMA was good and growing.

Overview of financial risks

Despite the improvements in the performance in the year 2018/19, the debt to equity percentage was still above the average benchmark of 40% indicating a high gearing as NOCMA's operations were largely financed by external resources. The receivables days were also very high meaning most of its cash was being held with debtors thereby impacting on the liquidity position of the institution.

Overview of financial flows with the government

The accounts receivable days continued to remain very high albeit with variations across the reporting period. The position worsened in 2018 with debt collection days as high as 5457 days and plummeted to 1939though this was still above the benchmark.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	Revenues were very low due to holding of fuel stock in depots for strategic purposes	Provision of an enabling policy environment particularly in regulation to allow NOCMA off-load the fuel.
Cash Flow	NOCMA had cash flow challenges which affected remittance of levies to MERA and loan repayments	Introduction of Strategic Fuel Management levy to enable NOCMA have working capital to operationalise the reserves

3.5 Financial Sector

3.5.1 National Economic Empowerment Fund (NEEF)

% Statutory Dividend Payout Ratio		100%	100%	100%	100%
No.	**Indicator**	**2016 Audited**	**2017 Audited**	**2018 Audited**	**2019 Audited**
1	Profit after tax	(114,609)	(961,990)	2,604,987	(839,512)
2	Return on assets	-4%	-59%	57%	4%
3	Return on total equity	-4%	-49%	68%	-30%
4	Cost recovery	95%	17%	644%	110%
5	Gross profit margin	-5%	-487%	84%	9%
6	Operating Profit Margir	-8%	-487%	68%	9%
7	Asset Turnover*	0.61	0.22	1.00	0.61
8	Debt to equity	24%	38%	19%	36%
9	Current ratio	3.61	1.89	5.89	5.30
10	Quick ratio	1.56	1.56	0.40	0.83
11	Accounts Receivable da	888	2379	7	104
12	Debt service ratio	#DIV/0!	#DIV/0!	#DIV/0!	0.00
13	Accounts Payables days	129	0	0	0
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%
	DPR (variance)	100%	100%	100%	100%

Overview of financial performance

In 2018/19, the National Economic Empowerment Fund (NEEF) registered a loss of K839.5 million after incorporating an impairment allowance on its total comprehensive income. This was a huge drop from the previous year where it registered K2.60 billion as the profit after impairment.

The liquidity position of the Fund has generally been good throughout the reporting period with fluctuations through the years. In 2018/19, NEEF registered a current ratio of 5.30:1, this was a drop from 2017/18, which was had a current ratio of 5.89:1. Despite this decrease, this position still implies that the Fund was capable of meeting its short term obligations as they fell due but there was still need for the Fund to be take caution to avoid reducing the position further.

Overview of financial risks

The debt to equity position of the fund in 2019 was at 36 percent an increase from 19 percent registered in 2017/18 financial. This position was still below the international benchmark of 40 percent indicating that the Fund was largely financed by internal resources.

Overview of financial flows with the government

Over the reporting period, NEEF had not been able to remit any dividend to Government due to the perpetual deficits as well as the negative reserves which indicates total erosion of the equity investment. On the other hand, the accounts receivable days continues to remain high with 2019 which was still above the 60 days benchmark.

Policy specific issues for the Public Body

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

3.6 Governance Sector

3.6.1 Malawi Accountants Board (MAB)

% Statutory Dividend Payout Ratio		100%	100%	100%	100%
No.	**Indicator**	**2016 Audited**	**2017 Audited**	**2018 Audited**	**2019 Audited**
1	Profit after tax	25,391	11,029	(22,836)	16,997
2	Return on assets	7%	3%	6%	5%
3	Return on total equity	6%	3%	-7%	5%
4	Cost recovery	82%	84%	90%	133%
5	Gross profit margin	-22%	-19%	-11%	25%
6	Operating Profit Margin	20%	6%	11%	6%
7	Asset Turnover*	0.37	0.54	0.64	0.80
8	Debt to equity	1%	3%	9%	3%
9	Current ratio	50.51	31.22	9.68	27.64
10	Quick ratio	50.51	31.22	9.68	27.64
11	Accounts Receivable days	64	69	128	129
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	0	0	44	19
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%
	DPR (variance)	100%	100%	100%	100%

Overview of financial performance

The Malawi Accountants Board (MAB) registered a profit of K17 million in 2018/19, an improvement from the previous year where it registered a loss of K22.8 million.

Liquidity position for MAB has generally been good throughout with 2018/19 registering a current ratio of 27.6:1 which is a huge increase from the previous year which was 9.68:1. This shows that the Board had the ability to adequately generate revenue to meet its shot term obligations as they fell due.

Overview of financial risks

The Board's receivable days continued to grow over the years with a slight increase from 128 days in 2017/18 to 129 days in 2018/19. This increase in days shows that its income was being held by debtors for a longer period which could eventually lead to cash flow challenges if not timely controlled.

Overview of financial flows with the government

There were no financial flows between Government and MAB over the past few years including in the 2018/19 financial year.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	Low revenues generated due to limited streams	There is need for Government intervention to redefine the revenue sharing arrangements on the regulatory bodies in the sector

3.6.2 Malawi Institute of Management (MIM)

No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Audited
	% Statutory Dividend Payout Ratio	100%	100%	100%	100%
1	Profit after tax	(58,208)	(354,273)	(338,064)	(223,854)
2	Return on assets	-2%	-33%	-16%	-9%
3	Return on total equity	-2%	-14%	-82%	-114%
4	Cost recovery	95%	74%	173%	205%
5	Gross profit margin	-6%	-35%	42%	51%
6	Operating Profit Margin	-6%	-35%	-36%	-14%
7	Asset Turnover*	0.93	-3.23	2.28	7.51
8	Debt to equity	54%	56%	413%	1015%
9	Current ratio	0.76	0.40	0.29	0.28
10	Quick ratio	0.52	0.27	0.25	0.25
11	Accounts Receivable days	212	107	107	96
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	0	0	0	230
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%
	DPR (variance)	100%	100%	100%	100%

Overview of financial performance

Malawi Institute of Management (MIM) continued to post losses with 2018/19 financial being the eightieth year of posting losses even though at a declining rate. In 2018/19 MIM reported a loss after tax of K223.9 million compared to a loss of K338.1 million reported in 2017/18 financial year. The losses are largely due to MIM incurring increased expenditures annually against dwindling revenue generation sources owing to low patronage of MIM short courses and academic programmes as well as failure to attract high value consultancies as clients currently prefers to hire individual consultants.

Overview of financial risks

In terms of the Institute's liquidity position, in 2019 it remained very weak with a current ratio of below the minimum recommended level of 1. This position means that MIM is not capable of meeting its current liabilities as they fall due with existing current assets. Furthermore, the Institute maintained a high debt-to-equity position over the years. Additionally, the debt collection days were also high as most of its resources were tied up in unpaid bills with its customers leading to cash flow challenges.

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

Policy specific issues for the Public Body

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

3.7 HEALTH SECTOR

3.7.1 Pharmacies and Medicines Regulatory Authority (PMRA)

% Statutory Dividend Payout Ratio		100%	100%	100%	100%
No.	**Indicator**	**2016 Audited**	**2017 Audited**	**2018 Audited**	**2019 Audited**
1	Profit after tax	787,025	306,171	121,240	(74,144)
2	Return on assets	45%	15%	5%	-3%
3	Return on total equity	49%	16%	6%	-4%
4	Cost recovery	235%	120%	110%	96%
5	Gross profit margin	57%	22%	9%	-4%
6	Operating Profit Margin	59%	26%	9%	-6%
7	Asset Turnover*	0.83	0.61	0.65	0.63
8	Debt to equity	10%	10%	11%	16%
9	Current ratio	4.80	4.44	1.68	0.73
10	Quick ratio	4.77	4.38	1.36	0.70
11	Accounts Receivable days	40	87	20	7
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	102	73	68	90
14	GoM transfers/Rev.	0%	11%	0%	0%
15	Dividend payout ratio	0%	10%	0%	0%
	DPR (variance)	100%	90%	100%	100%

Overview of financial performance

The performance of the Pharmacy and Medicines Regulatory Authority (PMRA) previously known as Pharmacy, Medicines and Poisons Board (PMPB) declined during the 2018/19 financial year as it registered a deficit of K74.1 million from a surplus of K121.2 million recorded in the 2017/18 financial year. The major reason for the down turn being challenges faced in the revenue under collection of product licences fees which constitutes 70 percent of the total revenues for the Authority. This under collection was due to market authorisation holders (MAH) who tend dictate which products to retain each year depending on their perception of the market thereby creating uncertainty as regards fees collection. In additional, the product fees were old and very low having been last gazetted in 2014 and required revision to fit the economic changes.

Despite the downturn, PMRA still managed to maintain a low debt-to-equity position over the years with a position of 16 percent in 2019 a slight increase over 2018 position of 11% . It has also managed to reduce its receivables days to 7 in 2019 displaying the ability to collect its income from debtors within a short period which is good for cash flow purposes.

Overview of financial risks

The downward performance of the Authority also had an impact on the liquidity position of the Commission as it weakened from 1.7:1 in 2017/18 to 0.7:1 in 2018/19 reducing its ability to meet short term obligations they fell due.

Overview of financial flows with the government

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

Policy specific issues for the Public Body

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

3.8 Labour Sector

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

No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Audited
	% Statutory Dividend Payout Ratio	100%	100%	100%	100%
1	Profit after tax	1,874,934	(391,976)	440,058	170,891
2	Return on assets	35%	-8%	3%	7%
3	Return on total equity	49%	-11%	8%	4%
4	Cost recovery	143%	94%	103%	102%
5	Gross profit margin	30%	-6%	3%	2%
6	Operating Profit Margin	30%	-6%	3%	2%
7	Asset Turnover*	1.64	1.74	1.59	25.81
8	Debt to equity	42%	49%	32%	53%
9	Current ratio	2.70	2.70	3.27	1.94
10	Quick ratio	2.69	2.69	3.27	1.93
11	Accounts Receivable days	305	168	188	130
12	Debt service ratio	0.02	-0.56	0.00	0.00
13	Accounts Payables days	106	67	54	56
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%
	DPR (variance)	100%	100%	100%	100%

Overview of financial performance

TEVETA registered a surplus of K170.9 million in 2018/19 financial year, which was a decline from the previous year's performance of K440.0 million. Despite the Authority having an increase in revenues due to its improvements in levy from the private sector, enhanced enforcement of both MRA and TEVETA and also the introduction of examination fees for students in Technical Colleges, TEVETA had a corresponding increase in its expenditures which resulted in the decline of its surplus in 2019.

The Authority's current ratio also slightly declined in 2018/19 to 1.93:1 from 3.3:1 in 2017/18 financial year. Although this was the case, it still shows that the Authority is able to meet its short-term obligations as they fall due.

Overview of financial risks

Financial leverage as measured by debt to equity ratio increased to 53 percent in 2018/19 for TEVETA compared to 32% in 2017/18. This means in the 2018/19 it was becoming more dependent on external financing rather than own generated resources. Although, this was largely non-interest bearing debt, there was still need for close monitoring by the Authority.

Overview of financial flows with the government

The only fiscal flows in the year 2018/19, was an amount of K800 million was transferred to TEVETA as Levy from the Government.

Policy specific issues for the Public Body

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

3.9 Lands and Housing Sector

3.9.1 Malawi Housing Corporation (MHC)

No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Audited
	% Statutory Dividend Payout	40%	40%	40%	40%
1	Profit after tax	55,198	210,000	12,534	11,036
2	Return on assets	0%	0%	13%	10%
3	Return on total equity	0%	0%	0%	0%
4	Cost recovery	112%	114%	71%	69%
5	Gross profit margin	10%	12%	-41%	-45%
6	Operating Profit Margin	5%	8%	364%	300%
7	Asset Turnover*	0.05	0.05	0.04	0.04
8	Debt to equity	7%	6%	5%	6%
9	Current ratio	0.86	0.88	1.05	0.81
10	Quick ratio	0.41	0.37	0.63	0.46
11	Accounts Receivable days	173	136	193	84
12	Debt service ratio	0.00	0.00	0.04	0.02
13	Accounts Payables days	137	149	122	79
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	80%	0%
	DPR (variance)	40%	40%	-40%	40%

Overview of financial performance

Malawi Housing Corporation's financial performance has continued to turn for the worse in 2018/19 with its profit after tax further declining from K12.5 million in 2017/18 to K11.0 million in 2018/19.This was as a result of a decline in revenues in 2019 which was largely due to failure to adjust house rentals despite rising of costs on the market. In addition, the Corporation realized low income from plot sales due to delays in plot development. The slow regularization of encroached areas also contributed to the poor performance

On cost recovery, MHC has also been registering declining trends signifying that it is was not able to generate adequate revenue to cover its operation expenses. However, the other hand, return on asset has been improving over the years meaning the institutions have made some improvements on the utilization of assets to generate earnings.

Overview of financial risks

Besides the poor performance in revenues, the Corporation also continued to incur challenges in collecting rentals mostly from public institutions who occupies 85 percent of the Corporation's houses and had an average collection day of 84 days in 2018/19 financial year. This resulted in the liquidity position of the Corporation to remain below average at 0.81:1 as at June 2019 making it difficult for the Corporation to meet its short-term obligations as they fall due. However, this was a slight improvement from 0.70:1 in 2017/18. Furthermore, the working capital remained in the negative indicating the Corporation's inability to finance its day-to-day operations including taxes

Overview of financial flows with the government

There were no financial flows between Government and MHC in 2019.

Policy specific issues for the Public Body

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

3.10 Trade and Tourism Sector

3.10.1 Malawi Bureau of Standards (MBS)

No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Audited
	% Statutory Dividend Payout	100%	100%	100%	100%
1	Profit after tax	397,574	1,055,580	2,298,523	2,686,975
2	Return on assets	15%	22%	24%	16%
3	Return on total equity	16%	24%	27%	19%
4	Cost recovery	115%	140%	161%	153%
5	Gross profit margin	13%	28%	38%	35%
6	Operating Profit Margin	17%	28%	50%	40%
7	Asset Turnover*	0.97	0.85	0.55	0.47
8	Debt to equity	5%	10%	15%	17%
9	Current ratio	11.24	5.59	2.70	2.31
10	Quick ratio	2.15	2.43	2.68	2.30
11	Accounts Receivable day	44	14	14	75
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	23	60	160	205
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	33%	60%	65%
	DPR (variance)	100%	67%	40%	35%

Overview of financial performance

Malawi Bureau of Standards (MBS) realized a surplus of K2.7 billion in 2018/19, which was an increase compared to K2.3 billion in 2017/18. The Bureau has maintained a positive outlook over the years as its revenues continues to rise. This has also had a positive impact on their liquidity position as it registered a current ratio of 2.3:1 in the year 2018/19 meaning it is able to pay for its short obligations as they fall due. However, this requires monitoring as it has continuously been on the decline over the years.

Overview of financial risks

The Bureaus receivable days have been good over the past years but in the year 2018/19 this deteriorated to 75 days which was above the average industrial benchmark of 30 days. Going forward, there was need for the Bureau to closely monitor the receivables at they might pose bring cash flow challenges if unchecked.

Overview of financial flows with the government

In the year 2018/19, Government funded MBS for the SQAM project a total cost of MK4.0 billion for the construction of new MBS offices and modern laboratory. On the other hand, the Bureau has also been remitting surplus to the government.

3.10.2 Malawi Gaming Board (MGB)

No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Audited
	% Statutory Dividend Payou	100%	100%	100%	100%
1	Profit after tax	72,177	78,711	51,416	467,887
2	Return on assets	10%	10%	6%	24%
3	Return on total equity	11%	11%	7%	48%
4	Cost recovery	125%	125%	120%	148%
5	Gross profit margin	20%	20%	16%	32%
6	Operating Profit Margir	13%	12%	6%	32%
7	Asset Turnover*	0.81	0.97	1.11	1.48
8	Debt to equity	4%	15%	23%	99%
9	Current ratio	16.57	4.10	2.59	1.08
10	Quick ratio	4.96	4.07	2.56	1.04
11	Accounts Receivable da	96	104	59	190
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	0	0	82	357
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	76%	53%	6%
	DPR (variance)	100%	24%	47%	94%

Overview of financial performance

The Malawi Gaming Board (MGB) continued to perform well in 2018/19 financial year with an increase in surplus from K51.4 million in 2017/18 to K467.9 million in 2018/19. This increase was largely as a result of better performance of Colony Casino and Marina Casino.

The Board's liquidity remained reasonable with a current ratio of 1.1:1 in 2018/19, which was a decrease from 2017/18 which was 2.6:1 indicating that Boards was barely capable of meeting its current liabilities as they fall due with existing current assets.

Overview of financial risks

In the year 2018/19, the Board accounts receivable days has tremendously increased from 59 days to 190 days signifying that its debtors were holding up revenues which could have a huge impact on the cash flows of the institution. Although largely non-interest bearing debt but the increase in the debt to equity position requires precaution as this indicates that most of the institutions operations were being financed by borrowing rather than own generated income.

Overview of financial flows with the government

MGB has continuous remitted dividend to the Government.

3.11 TRANSPORT AND PUBLIC WORKS SECTOR

3.11.1 Air Cargo Malawi Limited (ACM)

No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Audited
	% Statutory Dividend Payout Ratio	40%	40%	40%	40%
1	Profit after tax	93,741	158,850	179,161	(201,759)
2	Return on assets	13%	19%	14%	-20%
3	Return on total equity	14%	14%	21%	-29%
4	Cost recovery	220%	159%	166%	158%
5	Gross profit margin	100%	35%	40%	37%
6	Operating Profit Margin	7%	6%	5%	-7%
7	Asset Turnover*	4.21	7.22	5.25	6.27
8	Debt to equity	138%	52%	92%	110%
9	Current ratio	1.72	1.55	1.74	1.45
10	Quick ratio	1.50	1.14	1.20	0.96
11	Accounts Receivable days	143	41	66	58
12	Debt service ratio	0.00	0.00	0.00	0.00
13	Accounts Payables days	70	98	70	98
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	40%	0%	0%
	DPR (variance)	40%	0%	40%	40%

Overview of financial performance

Air Cargo Malawi Limited (ACM**)** reported a loss in 2018/19 with total revenues declining by 7 percent to K4.2 billion from K4.5 billion in 2017/18. However, expenditures grew by 4 percent to K4.5 billion from K4.3 thereby giving rise to a net loss after tax of K202 million from a profit of K179 million reported in 2017/18. This outturn was largely due to reduced volumes of cargo uplifted in 2019 (1.1 million kilogrammes) compared to a total of 1.2 million kilogrammes uplifted in 2018. In addition, the declining profit margins on freight due to high freighter rates charged by Emirates, which averaged US$2 per kilogramme in 2019, compared to US$1.90 per kilogramme in 2018. To counter this challenge, ACM was negotiating for lower rates with the freighter in addition to maximizing other revenue streams such as cargo handling and storage.

ACM's liquidity position slightly plummeted in 2018/19 to a current ratio of 1.45:1 compared to 0.74:1 in 2017/18 showing an improvement in the institutions ability to meet its short term obligations if it fell short.

Overview of financial risks

The institutions financial risk was largely brought about by its debt to equity position that has increased from 92% in 2017/18 to 110% in 2018/19 implying that most of its operations were being funded by external financing than internally generated income. Furthermore, ACM's payable days were above the average benchmark of 30 days at 98 in 2018/19.

Overview of financial flows with the government

There were no financial flows between ACM and Government in the year 2018/19.

Policy specific issues for the Public Body

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

Airport Development Ltd (ADL)

No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Audited
	% Statutory Dividend Payout Ratio	40%	40%	40%	40%
1	Profit after tax	2,753,324	5,476,885	6,296,447	7,129,480
2	Return on assets	10%	21%	18%	17%
3	Return on total equity	14%	22%	18%	2%
4	Cost recovery	278%	257%	105%	461%
5	Gross profit margin	95%	97%	85%	97%
6	Operating Profit Margin	58%	79%	313%	74%
7	Asset Turnover*	0.18	0.27	0.06	0.24
8	Debt to equity	3%	3%	3%	0%
9	Current ratio	1.37	2.12	1.28	1.23
10	Quick ratio	1.25	1.81	1.14	1.09
11	Accounts Receivable days	196	230	151	154
12	Debt service ratio	0.08	0.20	0.14	0.08
13	Accounts Payables days	1076	627	519	894
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%
	DPR (variance)	40%	40%	40%	40%

Overview of financial performance

Airport Development Limited (ADL) continued to be profitable in 2018/19 financial year with revenues increasing to K2.5 billion compared to K2.3 billion reported in 2017/18 financial year translating into a profit after tax of 168 million. However, due to the increase in the fair value on investment properties, the profit posted was K7.1 billion. This positive performance by ADL translated into a cost recovery position of 461 percent meaning it makes adequate revenue to cover all its operating costs.

However, ADL's liquidity remained barely good with a current ratio of 1.23:1 in 2018/19 from 1.28:1 in 2017/18, implying that the company was able of meeting its current liabilities as they fall due with existing current assets.

Overview of financial risks

ADL's debtors collecting days were at 154 in 2018/19, which was a slight increase from 151 in 2017/18 implying that most of its revenue was being held in forms of debt, thereby affecting the operations of the company. Reducing these days could have a huge improvement on the liquid position of ADL.

Overview of financial flows with the government

In 2018/19, ADL was not able to pay dividend to Government due to the cash flow challenges in the company.

Policy specific issues for the Public Body

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

3.11.2 Lilongwe Handling Company Limited (LIHACO)

% Statutory Dividend Payout Ratio		40%	40%	40%	40%
No.	**Indicator**	**2016 Audited**	**2017 Audited**	**2018 Audited**	**2019 Audited**
1	Profit after tax	269,812	548,631	85,146	119,113
2	Return on assets	29%	39%	8%	9%
3	Return on total equity	171%	86%	12%	14%
4	Cost recovery	185%	229%	195%	182%
5	Gross profit margin	46%	56%	49%	45%
6	Operating Profit Margin	14%	21%	5%	6%
7	Asset Turnover*	15.22	4.78	4.17	-3.17
8	Debt to equity	632%	156%	169%	147%
9	Current ratio	0.96	1.13	0.83	1.09
10	Quick ratio	0.64	0.71	0.40	0.88
11	Accounts Receivable days	82	71	68	108
12	Debt service ratio	0.18	0.18	0.11	-0.59
13	Accounts Payables days	106	130	184	128
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	8%
	DPR (variance)	40%	40%	40%	32%

Overview of financial performance

The Lilongwe Handling Company (LIHACO) maintained a positive performance in 2018/19 with total revenues increasing by 8 percent to K3.2 billion from K2.9 billion in 2017/18. However, expenditures grew by 10 percent to K3.04 billion thereby giving a profit after tax of K119 million from K85 million in 2017/18.This was largely due to the fact that LIHACO increased the use of equipment which generated more revenue per use and also introduced new routes through Malawian Airlines.

LIHACO's liquidity position slightly increased in 2018/19 to a current ratio of 1.09:1 compared to 0.83:1 in 2017/18. This implies that the Company was capable of meeting its current liabilities as they fall due with existing current assets in 2018/19 financial year but a more cautious approach is required as it is just above the benchmark. However, its cost recovery position of 182% in 2018/19 shows that despite having a weak liquid position LIHACO was still able to generate adequate revenues to cover all its operations costs.

Overview of financial risks

LIHACO's receivables days increased from 68 in 2017/18 to 108 in 2018/19 l thereby highly affecting its liquidity position as the revenues were tied up with the debtors eventually affecting the operations of the company.

Overview of financial flows with the government

Over the years, LIHACO has not been able to pay out any dividends due to cash flow challenges and the need for reinvestment in equipment to sustain its operations. However, in the year 2018/19, LIHACO remitted K10 million as dividend to Government. Looking forward, LIHACO intends to boost its revenue base by introducing new business lines within the transport and tourism sector.

Policy specific issues for the Public Body

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

3.11.3 National Construction Industrial Council (NCIC)

% Statutory Dividend Payout Ratio		100%	100%	100%	100%
No.	**Indicator**	**2016 Audited**	**2017 Audited**	**2018 Audited**	**2019 Audited**
1	Profit after tax	(54,007)	4,358	43,277	54,122
2	Return on assets	-5%	0%	3%	3%
3	Return on total equity	-6%	0%	4%	4%
4	Cost recovery	101%	105%	100%	100%
5	Gross profit margin	1%	5%	0%	0%
6	Operating Profit Margin	-4%	0%	2%	2%
7	Asset Turnover*	1.28	1.65	1.41	1.73
8	Debt to equity	14%	12%	10%	17%
9	Current ratio	3.40	3.90	3.21	1.27
10	Quick ratio	3.40	3.90	3.21	1.27
11	Accounts Receivable days	117	83	50	34
12	Debt service ratio	-0.04	0.05	0.03	0.00
13	Accounts Payables days	19	14	13	21
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	60%	60%	0%
	DPR (variance)	100%	40%	40%	100%

Overview of financial performance

The National Construction Industry Council's financial and operational performance has been reasonable over the years with surpluses registered throughout. In the year 2018/19 there was an increase in surplus from K43.2 million in 2017/18 to K54.1 million in 2018/19.

The liquidity position for the Council reduced from 3.2:1 in 2017/18 to 1.3:1 in 2018/19 signifying that the Council was barely to meet its debt obligations as they fell due. On the other hand, its debt to equity ratio was still very low at 17% in 2018/19 signifying that the Corporation is to a large extent financed by owner's equity compared to debt.

Overview of financial risks

NCIC's cost recovery falls below the average benchmark in the industry, which means it could face some challenges when it comes to it generating adequate revenue to cover all its operation costs. It is therefore important for the Council to put this in check in time.

Overview of financial flows with the government

In the year 2018/19, NCIC remitted a dividend of 60% of its surplus to Government that amounted to K32.5 million.

3.12 WATER SECTOR

3.12.1 Blantyre Water Board (BWB)

No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Audited
	% Statutory Dividend Payout Ratio	40%	40%	40%	40%
1	Profit after tax	(1,978,781)	(5,450,606)	(2,379,428)	(3,309,855)
2	Return on assets	-12%	-1%	-7%	-8%
3	Return on total equity	-62%	235%	50%	41%
4	Cost recovery	62%	75%	139%	136%
5	Gross profit margin	41%	49%	52%	46%
6	Operating Profit Margin	-38%	-3%	-18%	-25%
7	Asset Turnover*	3.19	-5.61	-3.33	-2.27
8	Debt to equity	860%	1683%	957%	-766%
9	Current ratio	0.35	0.25	0.37	0.34
10	Quick ratio	0.32	0.20	0.30	0.24
11	Accounts Receivable days	158	145	163	109
12	Debt service ratio	0.08	0.41	1.23	-2.78
13	Accounts Payables days	189	287	320	313
14	GoM transfers/Rev.	16%	1%	3%	4%
15	Dividend payout ratio	0%	0%	0%	0%
	DPR (variance)	40%	40%	40%	40%

Overview of financial performance

Blantyre Water Board financial performance further deteriorated in 2018/19 financial year with the indicating a loss of K3.3 billion compared to K2.4 billion loss reported in 2017/18 FY. Overall, the performance of the Board worsened due to non-implementation of the budgeted tariffs of 45% increase despite it being one of the main assumptions for revenue growth in the approved 2019/20 budget. The prevailing tariffs were below cost recovery thresholds and had not been adjusted in the last two years, hence, compromising the operations of the Board. The Board continued to face serious challenges to finance its operations as Board's monthly operating expenses continued to increase with 60 percent of the operating expenses committed to settling of electricity bill averaging K952 million per month. Non-Revenue Water (NRW) was still very high at an annual average of 37 percent. Overall, the Board's profitability was still poor as indicated by the operating profit margin which stood at -25%.

Overview of financial risks

The liquidity position of BWB also continued to be weak as demonstrated by a current ratio of below desirable levels of more than 1. This was also demonstrated by the insolvent state of the Board as it continued reporting negative working capital over the years. Furthermore, trade debtors worsened to K8.5 billion comprising of K5.1 billion as public institutions while K3.5 billion were private customers. with debt receivables days at 109 days in 2018/19, the Board was still struggling with its receivables management hence the worsening in the liquidity position as most of its cash was locked up in debtors.

Overview of financial flows with the government

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

During the Financial Year the Board intensified debt collection through massive water disconnections due to non-payment of outstanding water bills and illegal connections. The corporation will continue to intensify measures to improve its operation efficiency in the planning year though reduction of Non-Revenue Water as indicated by the lower Accounts Receivable Days of 49 in the ensuing year. These measures will ultimately improve the financial position of the Board and eventually remit dividends to Government.

Policy specific issues for the Public Body

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

3.12.2 Central Region Water Board (CRWB)

% Statutory Dividend Payout Ratio		40%	40%	40%	40%
No.	**Indicator**	**2016 Audited**	**2017 Audited**	**2018 Audited**	**2019 Audited**
1	Profit after tax	5,682	163,164	42,806	(1,464,883)
2	Return on assets	1%	1%	0%	-6%
3	Return on total equity	0%	3%	-8%	49%
4	Cost recovery	118%	126%	117%	96%
5	Gross profit margin	15%	21%	14%	-4%
6	Operating Profit Margin	3%	3%	-2%	-21%
7	Asset Turnover*	0.52	0.60	-6.78	-1.33
8	Debt to equity	185%	183%	-2972%	-615%
9	Current ratio	0.88	1.10	0.73	0.40
10	Quick ratio	0.72	2.06	0.70	0.38
11	Accounts Receivable days	193	246	299	215
12	Debt service ratio	0.24	0.25	0.01	0.08
13	Accounts Payables days	0	0	254	276
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%
	DPR (variance)	40%	40%	40%	40%

Overview of financial performance

Central Region Water Board financial performance worsened in the 2018/19 financial year as it registered an increased loss of K1.5 billion in 2018/19 financial year compared to a profit of K43 million in 2017/18 FY.

This huge loss was due to expenditure provision for receivables impairment in accordance with IFRS 9, loss in revenue as a result of non-approval of tariff adjustment by 15 percent and drop in sales volumes due to failure to carry out projects earmarked to produce more water and reduce non-revenue water. Funds for these projects were locked up in debtors, largely public institutions.

Overview of financial risks

In 2018/19, the Board continued to have a negative working capital position which puts the Board at a disadvantage including lower creditability in banks as well as creating poor supplier relationships. There was a decline in the liquidity position of the Board with current ratio deteriorating to 0.40:1 in 2018/19 from 0.73:1 in 2017/18 indicating a worsening liquidity position and insufficient cash flow to meet its obligations as they fall due including remittance of taxes, pension and suppliers of goods and services.

Similarly, the Board continued to have a very weak financial leverage showing that the Board's activities are to a higher degree financed by creditor's funds as compared to owner's equity.

Overview of financial flows with the government

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

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales revenue	Reduced sales volumes dur to drying up of some dams and increase in Non-Revenue Water	• Development of additional groundwater sources in Bunda and Lifuwu, and boreholes under Malawi Drought Recovery and Resilience Project (MDRRP); • Rehabilitation of aged infrastructure including pipe network and storage tanks; • Use of backup diesel power supply in Salima Lakeshore, Kasungu, Bunda, Dwangwa, Ntchisi, Ntcheu, Nkhota-kota and Mponela schemes (diesel generators); and • Use of solar energy on 16 boreholes, 13 of which are under MDRRP.
Tax and pension arrears	Cash flow challenges due to high trade debtors both from private and public entities	Intensifying on debt collection
Public Debt	Nonpayment of water bills by public institutions due to use of Postpaid meters	Install prepaid meters

3.12.3 Lilongwe Water Board (LWB)

	% Statutory Dividend Payout Rati	40%	40%	40%	40%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Audited
1	Profit after tax	2,753,324	3,410,116	2,458,286	4,773,177
2	Return on assets	8%	10%	8%	8%
3	Return on total equity	13%	14%	9%	14%
4	Cost recovery	139%	152%	130%	152%
5	Gross profit margin	28%	34%	23%	34%
6	Operating Profit Margin	30%	31%	25%	30%
7	Asset Turnover*	0.58	0.64	0.64	0.64
8	Debt to equity	108%	99%	98%	152%
9	Current ratio	2.06	2.83	3.44	7.64
10	Quick ratio	1.81	2.47	3.12	4.32
11	Accounts Receivable days	164	174	208	198
12	Debt service ratio	0.13	0.09	0.14	0.19
13	Accounts Payables days	49	45	49	32
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%
	DPR (variance)	40%	40%	40%	40%

Overview of financial performance

Lilongwe Water Board (LWB) continued to maintain its profitability in 2018/19 financial year with a profit after tax of K4.8 billion up from K2.5 billion in 2017/18 financial year. The growth in revenue increased by 26% in 2018/19 financial year as compared to growth of 12% growth recorded in 2017/18 financial yearas a result of improved water sales volume in 2018/19 whereby 40.6 million m^3 was produced compared to 36.9 million m^3 in 2017/18 financial year owing to good rainfall season.

The liquidity position for LWB also improved in 2018/19 financial to 7.6:1 from 3.4:1 in 2017/18 financial year indicating that the Board still had the ability to cover its current liabilities when they fell due.

Overview of financial risks

Despite having a good liquid position, the Board still had high debtors days which meant most of its revenues was being held up in debt and could potentially impact on the liquid position if measures are not put in place.

Overview of financial flows with the government

In the year 2018/19, no financial transfers were made between Government and LWB.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	• Rapid population growth exerting pressure on the current supply side. • Diminishing water supply source coupled with impacts of	Expand the scale of operation through diverse projects in its supply area.

	environmental degradation and climate change, are compromising the Board's potential to meet the water demand in its supply area.	
Tax Arrears	• Loan interest payments exerted pressure on the Board's cash flows in in 2018/2019 financial year. • High levels of accounts receivables	Intensify debt collection coupled with prepaid meters installation.

3.12.4 Northern Region Water Board (NRWB)

% Statutory Dividend Payout Ratio		40%	40%	40%	40%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Audited
1	Profit after tax	765,824	1,225,997	171,139	(827,195)
2	Return on assets	1%	1%	1%	-3%
3	Return on total equity	11%	17%	1%	-15%
4	Cost recovery	234%	237%	227%	171%
5	Gross profit margin	58%	59%	59%	55%
6	Operating Profit Margin	6%	5%	4%	-13%
7	Asset Turnover*	0.67	0.84	0.52	1.50
8	Debt to equity	195%	266%	210%	684%
9	Current ratio	0.78	1.24	1.03	0.51
10	Quick ratio	0.34	0.83	0.85	0.38
11	Accounts Receivable days	132	277	250	147
12	Debt service ratio	0.23	2.20	-0.32	-0.31
13	Accounts Payables days	0	0	280	683
14	GoM transfers/Rev.	2%	2%	0%	3%
15	Dividend payout ratio	0%	0%	0%	0%
	DPR (variance)	40%	40%	40%	40%

Overview of financial performance

Northern Region Water Board (NRWB) financial performance had decline 2018/19,from registering a profit after tax of K171 million in 2017/18 to a loss of K827 million. This huge loss was due to expenditure provision for receivables impairment in accordance with IFRS 9, loss in revenue as a result of non-approval of tariff adjustment by 15 percent and drop in sales volumes due to failure to carry out projects earmarked to produce more water and reduce non-revenue water. Funds for these projects were locked up in debtors, largely public institutions.

Overview of financial risks

On the contrary, the Board's asset turnover has been relatively lower signifying that the company's assets have not been able to generate sales revenue and this trend continued up to 2019. Additionally, Northern Region Water Board had been depending on external financing to finance its operations as opposed to self-generated resources.

However, the liquidity position for NRWB worsened in 2019 mainly due to increasing debtors particularly public institutions who contribute 65 percent of the trade receivables amounting to K5.1 billion in 2018/19 an increase from K3.8 billion position in 2017/18 financial year. In 2018/19, the Board also posted debt to equity position of 684 percent meaning most of the finance used by the Board was from borrowing which was not a healthy position.

Overview of financial flows with the government

The Board was not able to remit dividend to government in 2018/19 due to the loss however even the years where a profit was posted, NRWB failed to remit dividend due to cash flow challenges as aresult of high level of debtors from public institution and private institutions. However, in the year 2018/19, Government had made a transfer amounting to K225 million

Policy specific issues for the Public Body

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

3.12.5 Southern Region Water Board (SRWB)

% Statutory Dividend Payout Ratio		40%	40%	40%	40%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Audited
1	Profit after tax	439,383	596,710	837,612	684,215
2	Return on assets	2%	2%	3%	2%
3	Return on total equity	2%	3%	4%	3%
4	Cost recovery	161%	160%	147%	173%
5	Gross profit margin	38%	38%	76%	75%
6	Operating Profit Margin	10%	9%	12%	8%
7	Asset Turnover*	0.25	0.38	0.37	0.41
8	Debt to equity	38%	48%	56%	68%
9	Current ratio	1.59	1.52	1.63	1.57
10	Quick ratio	1.40	1.41	1.54	1.45
11	Accounts Receivable days	231	295	423	539
12	Debt service ratio	1.00	1.00	0.00	0.00
13	Accounts Payables days	0	285	1052	1204
14	GoM transfers/Rev.	0%	0%	65%	57%
15	Dividend payout ratio	0%	0%	5%	0%
	DPR (variance)	40%	40%	35%	40%

Overview of financial performance

Southern Region Water Board registered a profit after tax of K684 million in 2018/19 FY, a decrease from the previous year's profit after tax of K838 million. This downward movement in the profit was due to the reduced total income as a result of failure to implement a budgeted 10% tariff adjustments, failure to meet budgeted sales volumes due to reduced volumes of water produced, failure to implement the planned pipeline extension which could expand network for customer base and delayed implementation of the Thondwe, Zalewa and Migowi water supply projects.

The liquidity position of the Board was still good at 1.6:1 in June 2019. The Board also demonstrated efficiency in generating revenue through its assets with a working capital turnover ratio of 1.6:1. SRWB, further, maintained its solvency with a positive working capital

Overview of financial risks

The Board's receivables days increased from 423 days in 2017/18 to 539 in 2018/19 posing a huge risk to the Board. This was largely due to accumulation of unpaid water bills. It was therefore important for the Board to be more a cautious to work on strategies that would reduce the receivables to avoid negative impact on the cash flow which could also affects its ability to meet debt obligations if they fall due

Overview of financial flows with the government

Generally, SRWB was not able to collect the accounts receivables that had accumulated over the years thereby affecting the Board's ability to remit dividends to the Government in 2018/19.However, there was a transfer from the Government which accounted to 56% SRWB's total revenue in 2018/19.

Policy specific issues for the Public Body

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

4 HIGH RISK CASE STUDIES

4.1 ADMARC LIMITED

4.1.1 Company Overview

Agricultural Development and Marketing Corporation (ADMARC), originally established in 1971 as statutory corporation, was incorporated in 2013 as a limited liability company under the Companies Act, with government owning 99% of its shares. Its mandate is to champion the production, grading, value-addition, packaging, marketing and distribution of agricultural produce across the country and beyond. ADMARC plays a critical role in supporting the maize food price stabilization and performing other developmental and Public Service Obligations (PSOs) on behalf of the Government. In practice ADMARC's main social activities are implementing Government policies with respect to price stabilization and food security and providing smallholder farmers with markets for their produce and outlets where they can obtain inputs and tools.

Additionally, ADMARC has commercial functions which are operated on a profit-making basis. They include buying and selling commercial crops at competitive, non-controlled market prices and operating market outlets and warehousing which are not used for social programmes. The Corporation operates three cotton ginneries, a groundnut grading machine, a rice milling plant, a large network of physical market depots. With around 300,000 square meters of produce storage, ADMARC is the largest produce warehousing company in Malawi.

4.1.2 Historical performance over the past 5 years

4.1.1.1. Financial Performance

The financial performance indicators outlined in the Table 1 and Figures 1 – 4 below summarize the past and projected financial performance of ADMARC and indicate historically large losses, an increasingly high debt/equity ratio, growing insolvency and increasing accounts receivables and payables for the FY 2016/17. Between 2015 and 2017 ADMARC incurred increasing losses which reached in excess of MK23 billion in 2017. The losses in 2017 were largely due to the Corporation temporarily ceasing trading activities in that year.

The Corporation borrowed heavily in 2017 to support its maize purchase obligations and these loans were reimbursed by a K45 billion government bailout in 2018. As a result, ADMARC posted a profit after tax of MK14.3 billion at the end of FY2017/18 but arrears continued their increase with payables reaching 853 days, and receivables reaching 397 days. ADMARC realised a profit after tax of K1.9 billion for FY 2018/19 mostly as a result of resumption of trading activities in the year though not at the projected level as the anticipated financing did not fully materialise.

Table 6 - Heat Map of indicators related to financial performance, risk and transactions with Government of Malawi

No.	Indicator	2015 Audited	2016 Audited	2017 Audited	2018 Audited	2019 Audited
	% Statutory Dividend Payout Ratio	40%	40%	40%	40%	40%
1	Profit after tax	(1,823,165)	(2,283,242)	(23,308,604)	14,344,895	1,977,083
2	Return on assets	-86%	-2%	-23%	13%	5%
3	Return on total equity	-9%	-5%	-113%	26%	5%
4	Cost recovery	186%	342%	111%	450%	400%
5	Gross profit margin	0	7%	-19%	77%	53%
6	Operating Profit Margin	-32%	-9%	-242%	24%	15%
7	Asset Turnover*	-0.59	0.57	0.37	1.08	0.87
8	Debt to equity	86%	117%	368%	101%	166%
9	Current ratio	0.47	0.71	0.48	1.01	0.67
10	Quick ratio	0.24	0.34	0.11	0.54	0.38
11	Accounts Receivable days	129	117	282	397	333
12	Debt service ratio	-1.03	0.00	1.17	-0.85	0.48
13	Accounts Payables days	410	226	530	853	655.8
14	GoM transfers/Rev.	0%	0%	0%	95%	0%
15	Dividend payout ratio	0%	0%	0%	0%	0%
	DPR (variance)	40%	40%	40%	40%	40%

Source: Audited Financial Statements and PMPB

With no trading, ADMARC has been heavily dependent on external financing and unable to meet its financial obligations, with both current and quick ratios below required benchmarks. The debt service ratio shows a high risk to the lenders as the company has not generated adequate cash flows to cover their interest payments.

Over the last three financial years, government provided support to ADMARC's social obligations amounting to 23 percent (FY 2015/16), 10 percent (FY 2016/17), 28 percent (FY 2017/18) and 43 percent (FY 2018/19) of the Corporation's revenues. While this showed a relatively low level of reliance on government support, the additional financing required was in the form of government guaranteed loans which the Corporation was unable to repay, thereby necessitating a bailout.

Figure 17: Revnues

(Kwacha Millions)

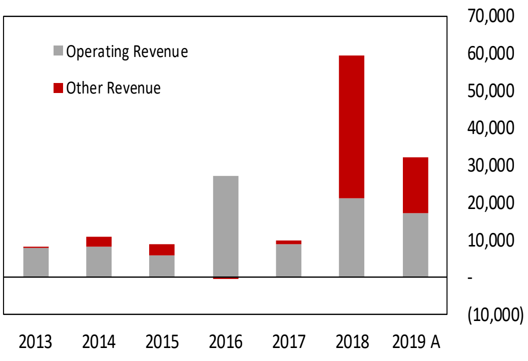


Figure 18 Operating Expenditures

(Kwacha Millions)

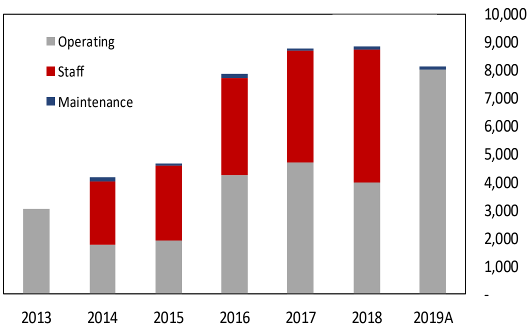


Figure 19: Operating Profit Margin(Percent)

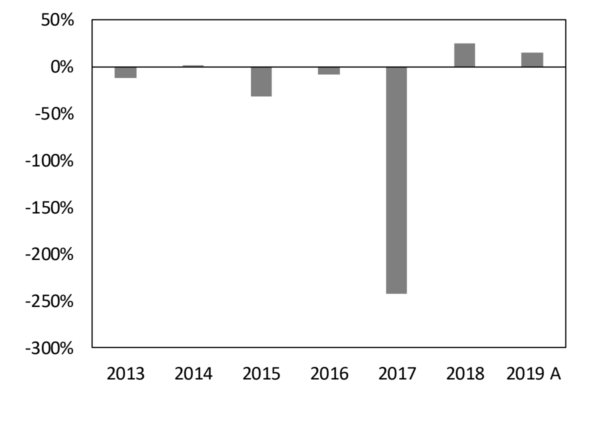
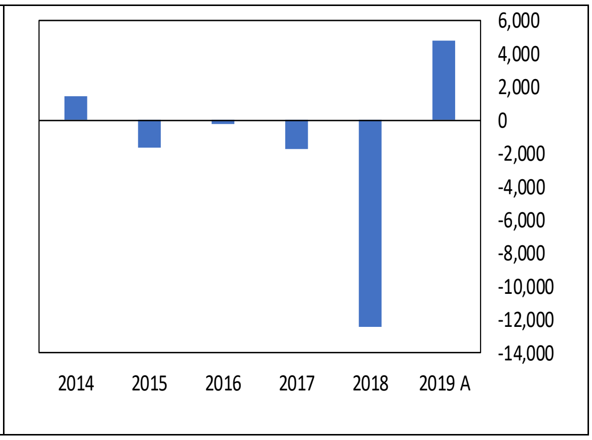


Figure 20: Net Operating Cash Flow**(Kwacha Millions)**



Source: ADMARC annual audited financial statements (2013 to 2019)

4.1.3 Non-Financial Indicators

ADMARC's purchases of maize increased fivefold from 2015 to just over 74,000 Metric Tons (MT) in 2018 before significantly declining to 13.771 Metric Tonnes in 2019 as illustrated in the Table 2 below. Purchases of rice also followed similar trends with 2018 registering highest purchases. However, the purchases of groundnuts and general produce increased sharply in 2019.

Table 7 ADMARC: Non-Financial Performance Indicators

Indicators	2015 Audited	2016 Audited	2017 Audited	2018 Audited	2019 Audited
Service Delivery					
Bought					
Maize	12,589	47,340	67,136	74,112	13,771
Groundnuts	195	1,311	1,144	1	819
Rice	1,484	1,570	226	1,957	210
General produce	923	1670	5068	611	11,448
Farm inputs	10,000	10,000	2000	1	0
Cotton	963	2162	4315	548	769
Sold					
Maize	20,080	60,444	14,427	80,711	65,810
Groundnuts	371	1,005	1,758	43	1,800
Rice	1,421	1,424	227	114	4,660
Operational Efficiency					
Average stock holding per month	4,359	10,676	13,315	6,436	2251
Average stock sold per month	5,676	12,503	12,204	6,900	7883
Others					
Number of permanent employees	1,967	2,329	2,434	2,200	2258
Number of Temporary employees	2,892	2,892	6,099	4,298	1471

Source: ADMARC PMPB

4.1.4 Main challenges

ADMARC's 2018 Functional Review highlighted some of the major challenges facing the Corporation which were still outstanding in 2019:

No.	Challenge	Description
1.	Need for separation of commercial activities and social obligations	ADMARC has, a long-standing internal conflict between commercial and social objectives, despite repeated attempts over the years to address the problem. This has resulted in continuing lack of clarity and inadequate organization and accounting separation between the two streams of activities.
2.	Governance challenges	Strong Government and political involvement and inadequate commercial expertise or motivation have weakened the Corporation's governance structures and decision-making processes.
3.	Lack of full reimbursement for public service obligations (PSOs)	Government has not fully and timely compensated ADMARC for its PSOs but has relied heavily on cross subsidization of its social activities by its commercial activities.
4.	Lack of working capital	ADMARC's commercial functions have not performed as well as they could due to a chronic lack of working capital.
5.	Excessive borrowing to cover cost of PSOs	There has been a high dependence on bank loans to finance the social activities of maize purchase and handling.
6.	High staffing costs	High costs of staffing are a major contributor to poor financial and operational performance in both the commercial and the social functions.
7.	Non-viable activities	Maintaining large number of uneconomic market activities and warehouses has impaired financial viability.
8.	Delays in publishing the farm gate prices	Delays in pricing announcements have affected the timing of ADMARC's interventions in the market.

4.1.5 Key Fiscal Risks

4.1.4.1 Quasi Fiscal Activities (QFAs) and non-reimbursement for PSOs to support the maize price

In recent years Government has provided financial support for the social obligations of ADMARC based on a 1994 MOU (Figures 5 and 6)**.** Lack of full and timely reimbursement for these QFAs has been a major contributor to the Corporation's poor financial performance and lack of clarity in performance assessment over the years. This has also impeded ADMARC's ability to fulfil its social functions adequately.

Figure 21:Taxes and Dividends
(Kwacha Millions)

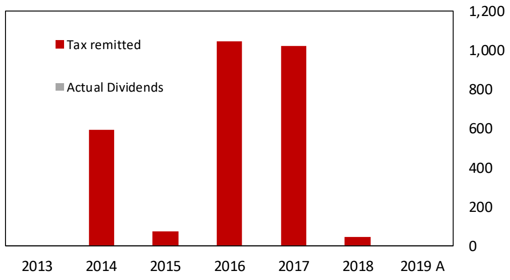
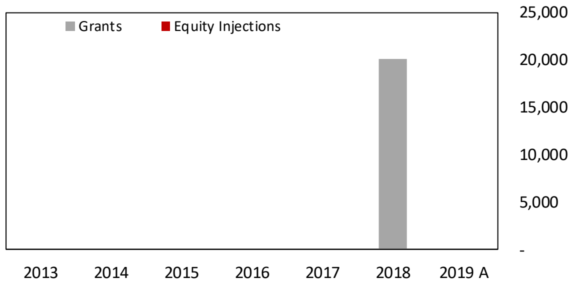


Figure 22: Fiscal Flows from the Government
(Kwacha Millions)



Source: ADMARC annual audited financial statements (2013 to 2018) and PMPB for projected figures

4.1.4.2 Lack of Separation between ADMARC's commercial functions and its social obligations

In both operational and accounting terms there has long been a lack of separation between ADMARC's commercial trading functions and its social functions of buying and selling maize and maize price stabilization. This lack of separation has been a major factor contributing to underperformance in both functions, to the poor financial performance and position of the Corporation, and to lack of clarity in financial performance assessment. The recent Functional Review[4] recommended the separation of ADMARC into two discrete entities: (i) statutory corporation handling the social functions and financed by direct transfers from the Budget; (ii) limited liability company trading and operating entirely on commercial terms

4.1.4.3 Deteriorating assets, finances and growing receivables/payments arrears

The financial performance of ADMARC has generally been poor over the recent years with the Corporation posting losses of MK23.3bn in 2016/17 alone. Figures 7-10 below show the deterioration of ADMARCs' financial position with increasing debt, insolvency, and arrears, particularly in receivables.

Figure 23:Total Debt to Equity
(Percent)

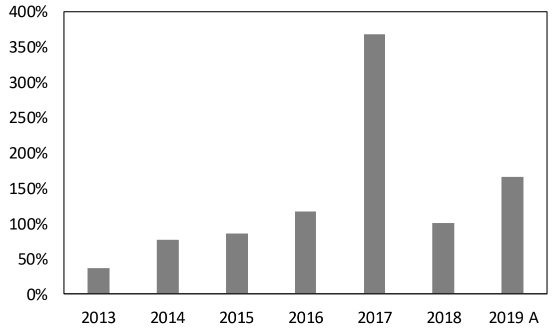


Figure 24: Current Assets and Liabiities
(Kwacha Millions)

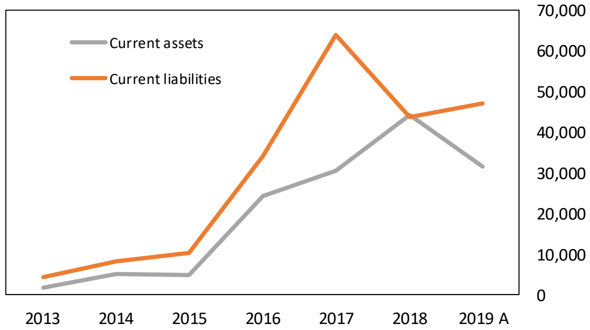


Figure 25: Arrears
(Kwacha Millions)

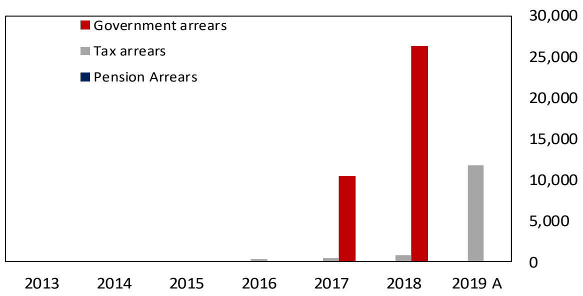
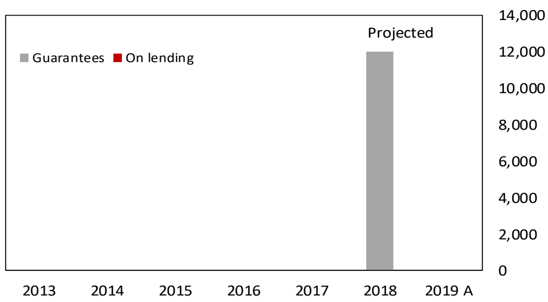


Figure 26: On Lending and Guaranteed Debt
(Kwacha millons)



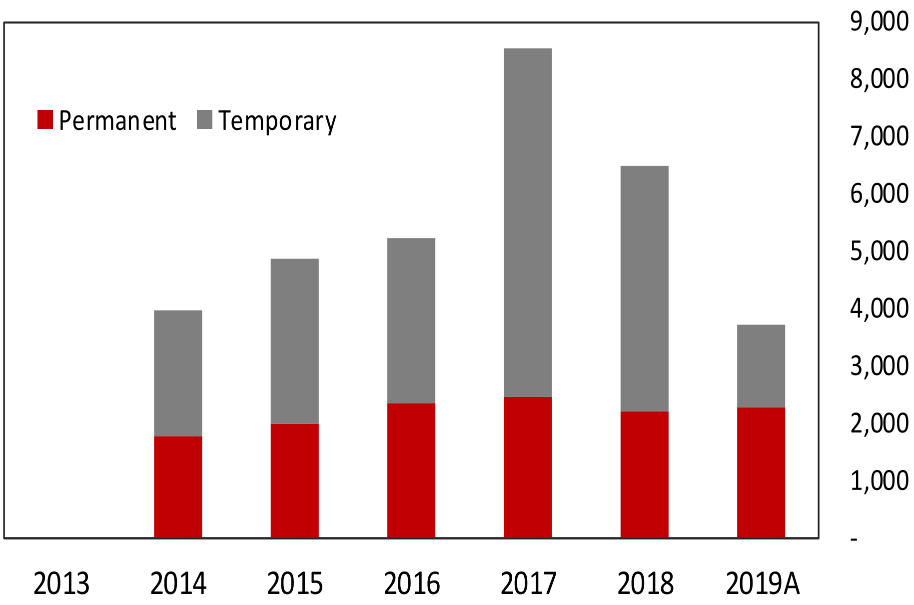
Source: ADMARC annual audited financial statements (2013 to 2019)

4.1.4.3 Internal inefficiencies: heavy staffing, high administrative costs and weaknesses in accounting systems

ADMARC's own Strategic Plan for 2018-2022 mentions that a major challenge for the Corporation is a "bloated organization structure inconsistent with a business thrust". Figure 11 shows the recent growth in staff numbers.

4 Functional review report of 2018

Figure 27: ADMARC Staff numbers



The Report of the Auditor General (AG) on the Selected Accounts of Statutory Bodies for the year ended 30th June 2018 (11th July 2019) drew attention to shortcomings in ADMARC's financial management and controls. The AG's report categorized ADMARC as high risk and requiring immediate review and recommended that a forensic audit of the high risk areas be conducted as soon as possible. The AG recommended that Government review the current business model which gives ADMARC the status of the SOE while still providing subsidies. The report also recommended that the governance arrangements, roles of top management and their performance should be assessed to ascertain their contribution to the going concern status of ADMARC.

4.1.6 Risk mitigation measures and Critical Policy Recommendations

Fiscal Risks/Critical Policy Issues	Mitigation Measure / Policy recommendations
Quasi Fiscal Activities (QFAs) due to non-reimbursement of ADMARC's public service obligation to support the maize price	Quantify costs and then ensure budget transfers to cover the full cost of any public service obligations/QFAs
Lack of separation between ADMARC's commercial functions and its social obligations causing lack of transparency and internal inefficiencies	• Implement recommendations to create clear separation between the organizational and accounting structures of the two functions
Deteriorating assets and finances and growing receivables and payments arrears	• Fix and enforce ceilings on indebtedness and contingent liabilities • Limit the issuing of guarantees and comfort letters • Enforce payments and collections deadlines • Develop and implement an arrears clearance program
High staffing and administrative costs combined with inefficient internal organization and controls	Implement the recommendations from the Functional Review concerning financial controls and cost cutting

4.2 BLANTYRE WATER BOARD (BWB)

4.2.1 Company Overview

Blantyre Water Board (BWB) was established under the Malawi Water Works Act no. 17 of 1995 to supply potable water for commercial, industrial, institutional and domestic use to Blantyre City and surrounding areas. The Board extracts water from the Shire River at Walkers Ferry which is situated around 40 km from Blantyre, 800m below the city's elevation. It provides around 86 Million liters of water daily through two treatment plants to 85 percent of Blantyre's population of 1.4 Million, plus populations in the surrounding areas.

4.2.2 Historical performance over the last 5 years

4.2.1.1 Financial performance

The Board's financial position and performance have been unsatisfactory over the last five years against most financial indicators. Table 1 below summarizes the past and projected financial performance of BWB and Figures 1 to 9 present financial performance trends in more detail. While efforts to reduce non-revenue water and otherwise improve operational performance continue, BWB tariffs that do not allow full cost recovery and have caused growing indebtedness. BWB has had to resort to commercial bank loans to cover its growing working capital deficit while steadily increasing its accounts payable to more than 300 days.

Table 8 - Heat Map of indicators related financial performance, risk and transactions with GoM

% Statutory Dividend Payout Ratio		40%	40%	40%	40%	40%	40%	40%
No.	**Indicator**	**2013 Audited**	**2014 Audited**	**2015 Audited**	**2016 Audited**	**2017 Audited**	**2018 Audited**	**2019 Audited**
1	Profit after tax	59,795	1,977,034	(893,780)	(1,978,781)	(5,450,606)	(2,379,428)	(3,309,855)
2	Return on assets	1%	5%	-1%	-12%	-1%	-7%	-8%
3	Return on total equity	1%	33%	-17%	-62%	235%	50%	41%
4	Cost recovery	70%	125%	84%	62%	75%	139%	136%
5	Gross profit margin	49%	55%	64%	41%	49%	52%	46%
6	Operating Profit Margin	2%	13%	-2%	-38%	-3%	-18%	-25%
7	Asset Turnover*	1.05	1.26	1.68	3.19	-5.61	-3.33	-2.27
8	Debt to equity	169%	251%	433%	860%	1683%	957%	-766%
9	Current ratio	1.33	0.89	0.83	0.35	0.25	0.37	0.34
10	Quick ratio	1.02	0.69	0.79	0.32	0.20	0.30	0.24
11	Accounts Receivable days	120	76	133	158	145	163	109
12	Debt service ratio	0.04	0.02	0.06	0.08	0.41	1.23	-2.78
13	Accounts Payables days	179.609	22.294608	47.99	189.33	287.11	320	312.977501
14	GoM transfers/Rev.	34%	1%	16%	16%	1%	3%	4%
15	Dividend payout ratio	0%	0%	0%	0%	0%	0%	0%
	DPR (variance)	40%	40%	40%	40%	40%	40%	40%

Source: Audited Financial Statements and BWB PMPB

The Board last registered profits after tax in 2014 but since then has incurred heavy losses. The worst performances were in 2017 and 2019, with losses of MK5.4 billion and MK3.3billion, respectively. BWB's chronic negative working capital position has damaged its creditworthiness with banks and its relationships with its suppliers.

The Board's heavy financial leverage is evidenced by its debt/equity ratio which peaked at 1683% in 2017 before falling to a still very high 860 and 766 percent in 2018 and 2019, respectively. This indicates overreliance on borrowing rather than internally generated resources. Accounts receivable, from both public and private customers, were high over the entire period, rising to 163 days in 2018. To reverse this, the Board intensified debt collection measures by conducting periodic mass disconnection campaigns and cleaning up of customer data-base through customer verification exercises. Following these measures, the Board registered a reduction in accounts receivable to 109 days in FY19. The liquidity position of BWB worsened steadily over the period, with the current ratio falling from a low 0.83 in 2014 to an even lower 0.34 in 2019.

4.2.1.2 Non-financial performance

Non-revenue water peaked at 52 percent in 2016 and then fell to 37 percent in 2019 and with further reductions projected in the short term. The number of active BWB customers and volume of water produced showed a continuous upward trend over the period. The volume of water produced per employee increased during the first part of the period, peaking in 2016, but fell in 2017 before partially recovering in 2018. Table 2 below provides the details.

Table 9 - Selected non-financial indicators

Indicator	2014 Audited	2015 Audited	2016 Audited	2017 Audited	2018 Audited	Audited 2019
Annual average non-revenue water (percent)	38	41	52	43	39	37
Coverage (percent)	75	80	80	80	80	80
Daily hours of supply	18	17	20	22	22	22
Number of active customers	38,764	39,726	43,568	49,340	49,972	53168
Number of new connections	1,792	2,098	3,842	2,857	3,274	4,195
Volume produced (cubic m mn)	23.7	22.2	30.3	27.7	28.6	29.4
Days to provide connection	47	40	45	38	44	43

Source: BWB PMPB

4.2.3 Challenges

No.	Challenge	Description
1.	Cost of electricity	BWB's electricity costs have increased, reaching 44 percent of total costs in 2019. Other costs e.g. for chemicals, pipes, water meters and other equipment have also been increasing. Escalating costs (Figure 1), particularly for electricity, have significantly affected the Board's financial viability.
2.	Changes in Tariff levels have not reflected costs	BWB's tariffs are set by its parent ministry. Unlike for electricity and other utilities, there is no independent regulator for water supply in Malawi. Tariff increases have not kept pace with cost increases, particularly those of electricity.

3.	Low revenue collection	Poor revenue collection has resulted in accumulation of trade debtors largely from Government Institutions and to some extent private customers. BWB has to rely increasingly on overdrafts and other borrowings to cushion its cash flow.
4.	High levels of non-revenue water	Non-revenue water peaked at 52 percent in 2016. Due to corrective efforts by BWB it then fell to 37 percent in 2019.

4.2.4 Key fiscal risks

4.2.1.3 Inadequate infrastructure investment and maintenance

Increasing demand for water in Blantyre as the city has expanded over the past 20 years. The rate of expansion of water pipes and treatment infrastructure has not kept pace with this demand. This combined with ageing infrastructure, faulty equipment and the slow pace of installation of water meters has led to non-revenue water increasing to over 50 percent in recent years. This has adversely affected the operating profit margin and cost recovery over the past three years.

The allocation of spending by the BWB has further enabled this downward trend. Spending on investment and maintenance has been crowded out by increased operating and staff costs since 2015 (Figures 2 and 3) and the GoM has borrowed on behalf of BWB to support a much-needed push in investment spending amounting to MK34.5 Billion or 0.6 percent of GDP (Figure 2). Government has issued letters of comfort for BWB's domestic borrowings (Figure 4) and until the financial position of BWB improves, the risks of non-repayment of these loans will remain very high.

Figure 28:Operating expenditure
(Kwacha Millions)

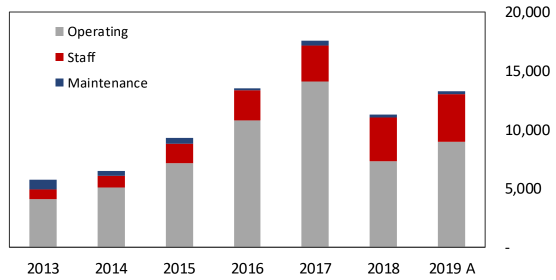


Figure 29:Operating Expenditures vs. Investment Spending
(Kwacha Millions)

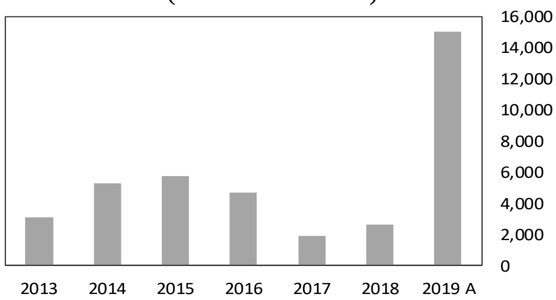


Figure 30: Staff Numbers
(Numbers)

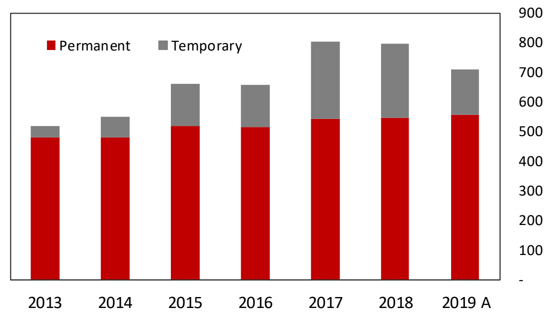
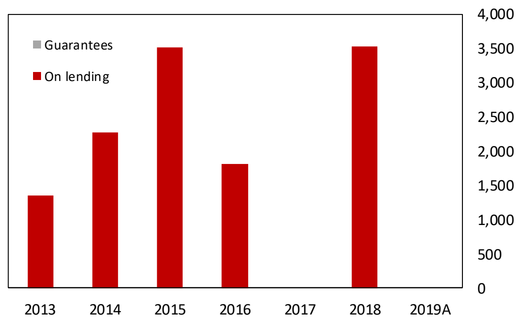


Figure 31:On lending arrangements
(Kwacha Millions)

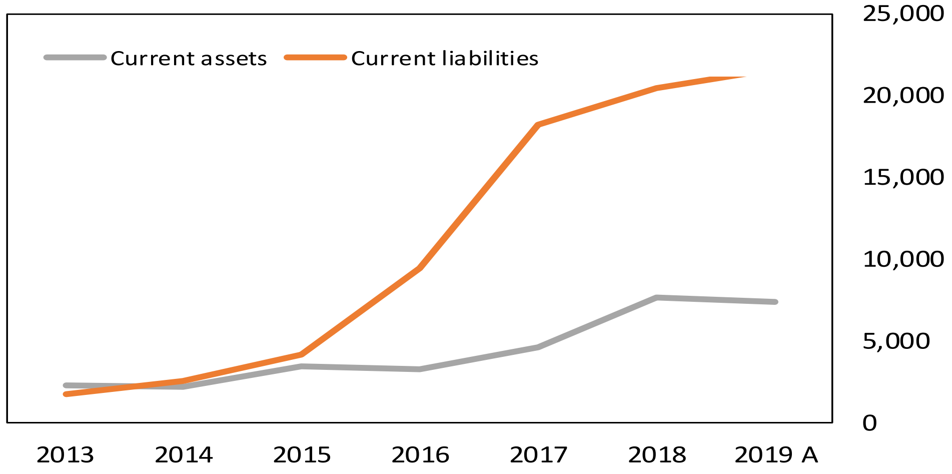


Source: BWB annual audited financial statements (2013to 2019)

4.2.1.4 High costs of electricity

The costs paid for electricity have increased steadily as a percent of BWB's total costs (Figure 1). The location of Blantyre City requires the pumping of water 40km from Walkers Ferry on the Shire River to an average elevation of 800 to 1200 meters above the river. Past investment choices opted for expensive water pumping options as opposed to more energy saving options such as solar, and this has severely affected operating cash flow and rendered the Board chronically insolvent, with current liabilities continually outstripping current assets (Figure 5).

Figure 32: Current Assets and Liabilities
(Kwacha Millions)

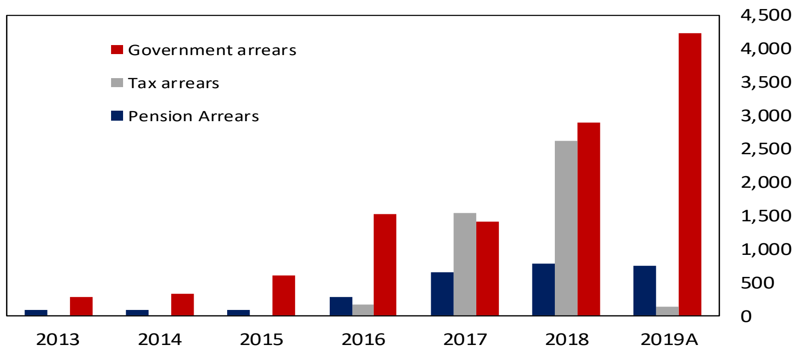


Source: BWB annual audited financial statements (2013 to 2019)

4.2.1.5 Low revenue collection resulting in accumulation of trade debtors

The cash position has been worsened by delayed payments by Government MDAs. Receivables have grown six-fold in the past five years to MK4.2 billion in 2019. This contributed towards delayed payables in terms of tax arrears and delayed payments to the pension fund.

Figure 33:Arrears Payables and Receivables
(Kwacha Millions)



4.2.1.6 Tariff Structures and Public Service Obligations

Water tariff increases have not kept pace with cost increases, particularly those of electricity. Water tariff increase proposals which are made on the basis of full cost recovery are usually not approved as proposed and any approvals usually come several months later in the financial year or even in later financial years. BWB has therefore relied heavily on GoM support to compensate for the difference, which is in effect a cost of Public Service Obligations.

Fiscal flows from Government have been volatile. They have been on a decline since 2013 causing dependency ratio (grants as a proportion of operating revenue) to fall from approximately 33.8 percent in 2013 to 3.6 percent in 2019 (Figure 8).

Figure 34:Profitability and Cost Recovery
(Percent)

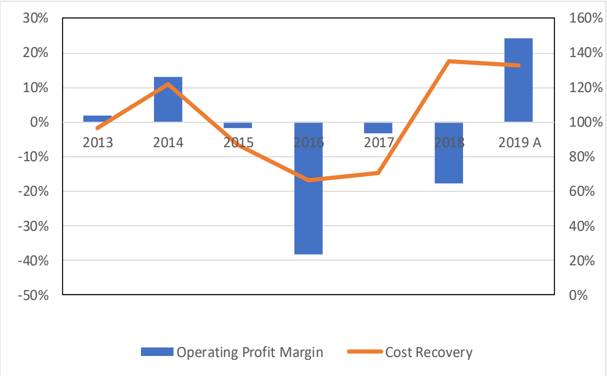
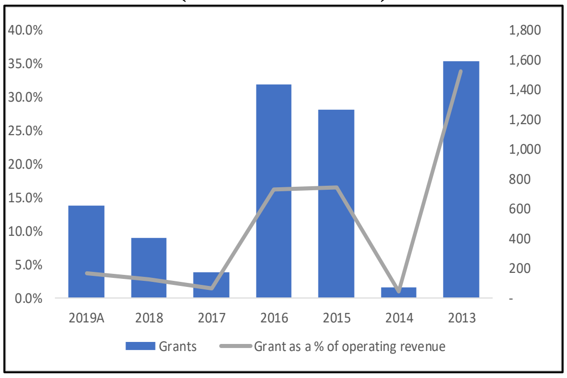


Figure 35:Government Gants
(Kwacha Millions)



Source: BWB Audited Financial Statements 2013 to 2019

4.2.5 Risk Mitigation measures and Critical Policy Recommendations

Fiscal Risk/Critical Policy Issues	Mitigation Measure
Tariff structures and PSOs	• Develop an Integrated Strategic Business Plan (ISBP), repositioning the company as a self-sustainable entity with dedicated subsidies to ensure the clearance of all outstanding arrears
Inadequate infrastructure investment and maintenance	• Undertake a functional review of staffing structures and pay scales and reduce costs accordingly. • Seek ways to obtain low risk infrastructure financing
High costs of electricity	• Continue to seek means to such as solar power diversify the water distribution process away from over-reliance on energy intensive power sources
Low revenue collection	• Implement an accelerated revenue collection program, particularly focusing on revenue owed by MDAs

4.3 ELECTRICITY SUPPLY COMMISSION OF MALAWI (ESCOM)

4.3.1 Company Overview

Electricity Supply Corporation of Malawi (ESCOM) Limited is the state-owned company mandated to procure, transmit, distribute and supply electricity throughout Malawi. 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. With the 2017 unbundling under the amended Electricity Act of 2016, power generation was transferred from ESCOM to the new state-owned enterprise EGENCO. ESCOM assumed the function of single buyer of electricity from EGENCO and from independent power producers (IPPs).

4.3.2 Historical performance over the last 5 years

4.4.1.1 Financial performance

ESCOM was consistently profitable until 2018 when a loss of K13.0 billion was incurred. (see Table 1 below). The major factor impacting ESCOM's finances was the unbundling and transfer of generation from ESCOM to EGENCO in 2018. This immediately translated into far higher cost of sales into ESCOM accounts. In 2016, before the unbundling, generation expenses were K6.6 Billion while in 2017 ESCOM's cost of sales grew to K14.9 billion and to K47.4 billion in 2018. ESCOM needed, but did not receive, consumer tariff increases sufficient to keep pace with its purchasing, transmission and distribution costs.

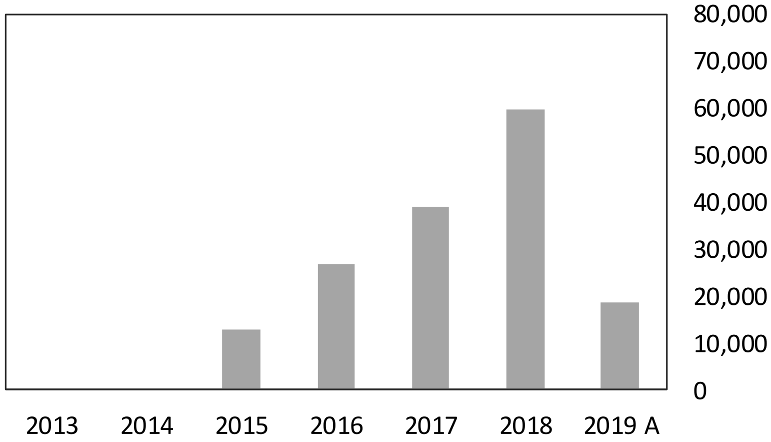
Table 10 - Heat Map of indicators related financial performance, risk and transactions with GoM

% Statutory Dividend Payout		40%	40%	40%	40%	40%	40%	40%
No.	**Indicator**	**2013 Audited**	**2014 Audited**	**2015 Audited**	**2016 Audited**	**2017 Audited**	**2018 Audited**	**2019 Audited**
1	Profit after tax	6,097,162	9,957,166	12,339,088	7,903,365	11,993,727	(12,963,386)	(6,150,000)
2	Return on assets	18%	21%	16%	11%	5%	-11%	-5%
3	Return on total equity	18%	22%	22%	11%	21%	-29%	-27%
4	Cost recovery	160%	147%	152%	204%	108%	68%	236%
5	Gross profit margin	100%	100%	100%	100%	82%	50%	41%
6	Operating Profit Margin	37%	35%	25%	17%	8%	-20%	-8%
7	Asset Turnover*	0.99	1.06	1.05	1.10	1.49	2.17	1.72
8	Debt to equity	106%	74%	68%	77%	114%	302%	846%
9	Current ratio	5.60	5.46	5.90	2.50	1.77	0.85	0.81
10	Quick ratio	0.00	1.46	4.70	1.86	1.36	0.60	0.68
11	Accounts Receivable days	0	68	90	110	98	118	75
12	Debt service ratio			0.00	0.03	0.00	0.03	0.00
13	Accounts Payables days			265	413	631	413	265
14	GoM transfers/Rev.	0%	0%	0%	0%	0%	19%	0%
15	Dividend payout ratio	0%	0%	0%	28%	2%	0%	-8%
	DPR (variance)	40%	40%	40%	12%	38%	40%	48%

Source: Audited Financial Statements and ESCOM PMPB.

In spite of these challenges, ESCOM's investments grew steadily from 2015 to 2018 (Figure 1 below), financed mainly through a grant from the Millennium Challenge Corporation (MCC). However, in 2018 new investment declined, largely reflecting the unbundling. Figures 3-6 illustrate in more detail the impact of the above factors and others on ESCOM's financial performance and cost structure.

Figure 36:Investments
(Kwacha million)



Source: ESCOM annual audited financial statements (2014 to 2019) and PMPBs

4.4.1.2 Non-financial Performance

ESCOM has almost doubled the number of consumer connections to more than 400,000 over the past five years (Table 2 below)**.** Significant progress has been made in developing a robust transmission network of more than 1,300 km of 132 kV line and 1,100 km of 66 kV line with the associated substations. Total system losses were reduced from 21 percent in 2012-13 to 14 percent in 2016-17[5].
The bill collection rate in Malawi has increased to 94 percent, largely due to the installation of automated meter reading for industrial consumers. This represents 50 percent of ESCOM's customer base. Migration of domestic consumers to pre-paid meters is a major shift in the way ESCOM operates. Table 2 below shows that since the 2017 unbundling, the rate of improvements in most of ESCOM's non-financial performance indicators overall have levelled off.

Table 11 - ESCOM Non-Financial Indicators

Indicator	Units	2014 Audited	2015 Audited	2016 Audited	2017 Audited	2018 Audited	2019 Audited
Connect new customers	customer	34,233	33,356	23,983	108,182	108,182	31,132
Energy received by transmission	GWh	1,904.15	1,971.72	1,973.84	1,808.45	1,808.45	1,945
Maintain distribution transformers	transformer	789	1,761	1,932	691	-	239
Energy received by distribution	GWh	1,455.50	1,491.00	1,887.70	1.470.9	1718	1,835
Reduce average days to connect	days	630	147	153	218	218	214.5
Maintain transmission system availability	percent	99.64	99.52	99.68	99.55	82.35	99.6
Transmission system losses	percent	7.36	6.26	5.76	5	5	5.7
Distribution system losses	percent					14	14.3
Access to electricity	percent					10.5	11.6

Source: ESCOM PMPB

4.3.3 Challenges

The transition following the unbundling process produced a number of challenges for ESCOM, including the following:

[5] ESCOM (2018). 5-Year Integrated Strategic Plan (2017-2022).

No.	Challenge	Description
1.	Revenue Sharing Agreement (RSA)	The RSA signed between ESCOM and EGENCO in 2017 mandated revenue to be shared 33.68% to EGENCO and 66.32% to ESCOM. This translated initially to a tariff to be paid by ESCOM to EGENCO of MK19.68 per kWh. On 30th November 2017, the tariff charged to ESCOM by EGENCO was increased to MK25.00 per kWh but ESCOM's tariff structure did not allow ESCOM to recover this cost by passing the increase on to the end user. ESCOM reports that on average the costs of power generation have recently been greater than 40 percent of its total costs compared with only 5 percent before the 2017 unbundling.
2.	Power Purchase Agreement (PPA)	The PPA signed in 2017 with EGENCO will require ESCOM to make payments to EGENCO based on EGENCO's installed generation capacity, not on the amount of power that EGENCO actually delivers to ESCOM. This has severely affected ESCOM's finances.
3.	Tariff structures and timing of increases	Disparity between the tariff structures, and the timing of tariff increases, for sale of power from EGENCO to ESCOM and from ESCOM to consumers. ESCOM's costs have risen but their ability to recover these costs has not matched their cost increases.
4	Costs of power from the emergency diesel generators	On 9 November 2017, because of shortages of hydro power available from EGENCO, ESCOM contracted Aggreko International Projects Limited to provide temporary power using diesel power generators. The ESCOM energy mix now comprised of 15 percent diesel generation at MK195.18 per kWh and 85 percent hydro at MK25.00 per kWh. But the end user tariff remained atMK75 per kWh irrespective of energy source. Furthermore, when applying to the Malawi Energy Regulatory Authority (MERA), for the pass-through cost for the diesel generated power, ESCOM had assumed that the diesel generators would run for six hours per day. However, when EGENCO was unable to supply power as forecasted, has been able to supply even less power than forecast, the Aggreko diesel generators have had to run for more than twelve hours per day.
5	Revenue collection	ESCOM has worked to increase the use of prepaid meters, difficulties still remain in collecting revenue from those customers who do not yet have these meters.
6	Theft	Vandalism and theft of electrical equipment and electricity remain significant problems for ESCOM.

4.3.4 Key Fiscal Risks

4.4.1.3 Adverse weather including drought and floods, leading to greater reliance on diesel generators

In recent years, hydropower sources in Malawi have been affected by adverse weather including severe droughts and flooding and this has resulted in prolonged load shedding. As a result, the combined distribution and transmission losses increased to 20 percent in 2019 (Figure 2). The costs of power from the emergency diesel generators installed since the drought are considerably higher than those from the baseline hydro and solar sources, which also contributed to rising debt (Figure 3) and a subsequent decline in profitability and cost recovery (Figure 4).

The increased cost from the growing use of diesel generated power negatively affected ESCOM's finances (Figure 5– 7) and resulted in increased government debt to finance accumulated payments arrears of more than MK50 billion to NOCMA, MERA, EGENCO and Aggreko. In 2018, the combination of ESCOM's guaranteed debt and on-lent support from Government for working capital amounted to 2.3 percent of GDP (MK138bn). ESCOM has become increasingly dependent on external funding for new investments and maintenance.

Figure 38:Distribution and Transmission Losses

(Percent)

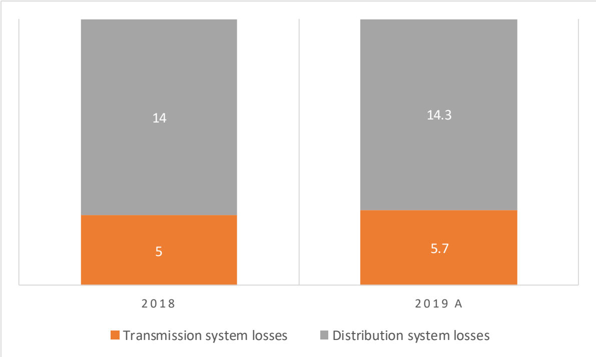


Figure 37: Debt to Equity

(Percentage)

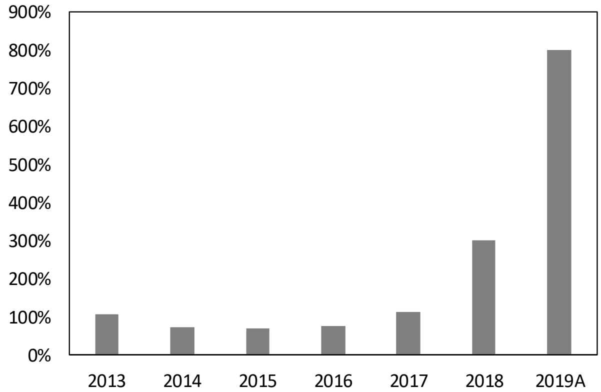


Figure 39: Profit margin and cost recovery

(Percent)

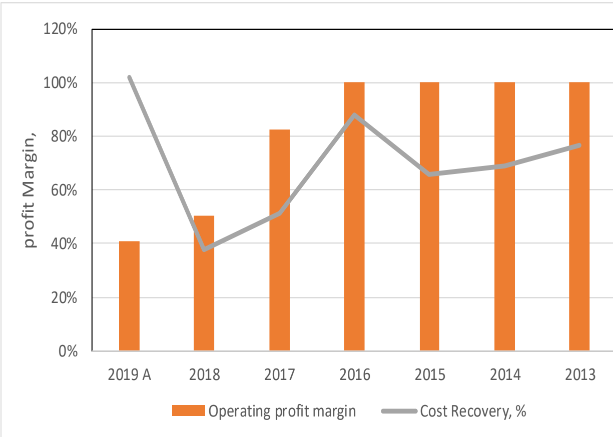


Figure 40: Fiscal Flows from Government

(Kwacha million)

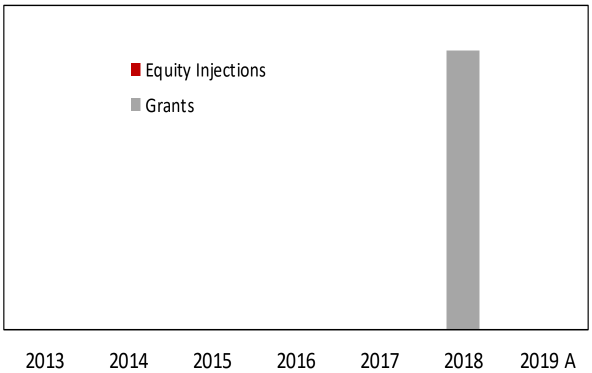


Figure 41: Revenues

(Kwacha millions)

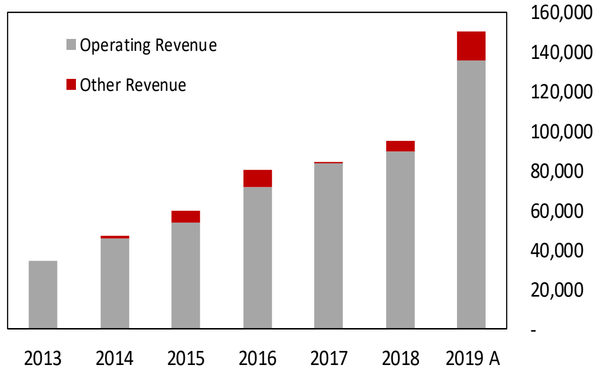
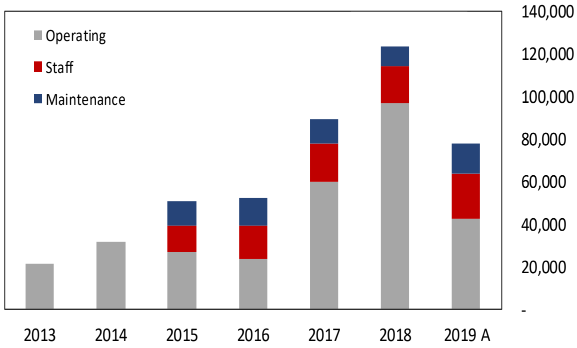


Figure 42: Operationng Exenses

(Kwacha Millions)



Source: ESCOM annual audited financial statements (2014 to 2019) and PMPB for projected figures

4.4.1.4 Costs associated with the unbundling process

After the unbundling in January 2017, ESCOM's financial position deteriorated. The contributing factors included the transfer of assets to EGENCO, including prepayments on contracts amounting to MK3.443 billion and start up cash amounting to MK3.1 billion. Furthermore, GoM approved the RSA between ESCOM and EGENCO described in 4.4.3 above and ESCOM was not able to pass on the resulting tariff increase to its customers. This contributed to a financial loss of MK12.9 billion as of June 2018.

4.4.1.5 Tariff Structures

ESCOM's consumer tariffs failed to keep up with its purchasing, transmission and distribution costs. The new tariff methodology adopted by MERA in 2015 stipulates that each licensee, including ESCOM, should submit an application for the base tariff once every 4 years, subject to annual review. The approval for the Third Base tariff was effective 1st October 2018 and is currently due for review. According to the new methodology, the Licensees should be able to invest and fully recover their costs and earn a fair return on their invested capital. However, the methodology requires that Licensees be compensated only after investment projects have been commissioned, leading to delays in cost recovery. Tariff comparison of tariff requested by ESCOM vs tariff received is outlined in the Table 12 below.

Table 12 - Tariff comparison - Requested vs received

Tariff increase requested	Date requested	Tariff increase received	Date received
36 percent (approved)	2014 (approved)	27 percent	2014
25 percent	2016	17 percent	January 2018
		8 percent	July 2018
68 percent over 4 years	2017	30 percent over 4 years	2018

Source: ESCOM

4.3.5 Risk Mitigation Measures and Critical Policy Recommendations

Fiscal Risks/Critical Policy Issues	Mitigation Measure / Policy recommendations
Reliance on costly emergency diesel generators due to adverse weather including droughts and floods	Scale up efforts to diversify away from reliance on costly diesel generators (solar IPPs, geothermal and coal, and link to the Southern African Power Pool)
Costs associated with the unbundling process	Review all Power Purchase Agreements (PPAs) and if necessary revise to ensure full cost recovery for both the power generators and the Single Buyer
Tariff Structures	Ensure that tariff adjustments in the Automatic Tariff Adjustment Formula fully reflect ESCOM's increasing costs and that the timing of any tariff increases corresponds to the timing of ESCOM's investments and cost increases
Weak and disjointed Planning, Monitoring and Evaluation systems for the PPAs	Strengthen collaboration and coordination between the SOE Oversight Unit with other Departments and Divisions within MoF and MDAs when negotiating PPAs.

5 ANNEXES

Annex 1: List of SOEs in Malawi (2019)

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

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

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

Annex 3: Financial Indicators for SOEs (2019)

Code	Statutory Body	Profit after tax	Return on assets	Return on total equity	Cost recovery	Gross Profit Margin	Operating Profit Margin	Asset Turnover	Debt to equity	Current ratio	Quick ratio	Account Receivable Days
		1	2	3	4	5	6	7	8	9	10	11
1	Air Cargo Malawi Limited (ACM)	(201,759)	-20%	-29%	158%	37%	-7%	6.27	110%	1.45	0.96	58
2	Airport Development Ltd (ADL)	7,129,480	17%	2%	461%	97%	74%	0.24	0%	1.23	1.09	154
3	Agricultural Development and Marketing Corporation (ADMARC)	1,977,083	5%	5%	400%	53%	15%	0.87	166%	0.67	0.38	333
4	Blantyre Water Board (BWB)	(3,309,855)	-8%	41%	136%	46%	-25%	-2.27	-766%	0.34	0.24	109
5	Central Region Water Board (CRWB)	(1,464,883)	-6%	49%	96%	100%	-21%	-1.33	-615%	0.40	0.38	215
6	Electricity Generation Company Malawi Limted (EGENCO)	15,221,690	10%	10%	324%	79%	16%	0.93	59%	5.22	4.23	238
7	Electricity Supply Commission of Malawi Ltd (ESCOM)	(6,150,000)	-5%	-27%	236%	41%	-8%	1.72	846%	0.81	0.68	75
8	Lilongwe Handling Company Limited (LIHACO)	119,113	9%	14%	182%	45%	6%	-3.17	147%	1.09	0.88	108
9	Lilongwe Water Board (LWB)	4,773,177	8%	14%	152%	100%	30%	0.64	152%	7.64	4.32	198
10	Malawi Accountants Board (MAB)	16,997	5%	5%	133%	100%	6%	0.80	3%	27.64	27.64	129
11	Malawi Communications Regulatory Authority (MACRA)	5,481,597	28%	53%	143%	100%	30%	1.76	93%	1.34	1.12	97
12	Malawi Broadcasting Corporation (MBC)	(368,616)	-11%	18%	52%	100%	-9%	-2.05	-263%	0.89	0.89	170
13	Malawi Bureau of Standards (MBS)	2,686,975	16%	19%	153%	100%	40%	0.47	17%	2.31	2.30	75
14	Malawi College of Accountancy (MCA)	(5,422)	0%	0%	239%	100%	0%	0.50	11%	0.29	0.29	19
15	National Economic Empowerment Fund (NEEF)	(839,512)	4%	-30%	110%	100%	9%	0.61	36%	5.30	0.83	104
16	Malawi Energy Regulatory Authority (MERA)	2,844,930	4%	26%	161%	100%	38%	0.69	496%	1.65	1.65	1562
17	Malawi Housing Corporation (MHC)	11,036	10%	0%	69%	100%	300%	0.04	6%	0.81	0.46	84
18	Malawi Institute of Management (MIM)	(223,854)	-9%	-114%	205%	51%	-14%	7.51	1015%	0.28	0.25	96
19	Malawi Posts Corporation (MPC)	224,204	4%	2%	79%	100%	28%	0.31	98%	0.57	0.51	322
20	National Construction Industrial Council (NCIC)	54,122	3%	4%	100%	100%	2%	1.73	17%	1.27	1.27	34
21	National Food Reserve Agency (NFRA)	230,818	1%	1%	78%	100%	12%	0.11	39%	6.12	0.76	47
22	Malawi Gaming Board (MGB)	467,887	24%	48%	148%	100%	32%	1.48	99%	1.08	1.04	190
23	National Oil Company of Malawi (NOCMA)	984,453	2%	8%	137%	100%	27%	0.16	462%	1.05	0.62	1939
24	Northern Region Water Board (NRWB)	(827,195)	-3%	-15%	171%	55%	-13%	1.50	684%	0.51	0.38	147
25	Pharmacy and Medicines Regulatory Authority (PMRA)	(74,144)	-3%	-4%	96%	100%	-6%	0.63	16%	0.73	0.70	7
26	Southern Region Water Board (SRWB)	684,215	2%	3%	173%	100%	8%	0.41	68%	1.57	1.45	539
27	Tobacco Commission (TC)	89,178	2%	2%	316%	100%	3%	0.90	36%	1.03	0.99	59
28	Technical, Entrepreneurial, Vocational Education and Training Authority (TEVETA)	170,891	7%	4%	102%	100%	2%	25.81	53%	1.94	1.93	130

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

Category	Code	Name indicator	Description indicator	Formula indicator	Threshold Parameter
Financial Performance	1	Profit after tax	Total profit/loss after tax	(Total Revenue - Total Expenditure inc. taxes but excluding financing costs on loans)	
	2	Return on Assets	Return on assets indicates how well management is employing a corporation's total assets to make a profit.	Return on assets = EBIT / assets x	<5 = Red, >5 = Green
	3	Return on total equity	Return on equity measures the ability of a corporation to generate an adequate return on the capital invested by the owners. In principle shall be equal to interest on government bonds plus a margin for risk.	Return on total equity = operating profit after tax/average total equity x 100%.	0 to 10 = Red, 10 to 15 = yellow, > 15 green
	4	Cost recovery	Cost recovery reflects the ability of a corporation to generate adequate revenue to meet operating expenses, where operating revenue equals total revenue less government grants and equity injections; and operating expenses are less gross interest expense. The ratio should genrally be higher than one.	Cost recovery = operating revenue (exc. Grants and equity injections)/operating expenses x 100%.	<1 = red
	5	Gross Profit Margin	Gross profit, the first level of profitability, tells analysts how good a company is at creating a product or providing a service compared to its competitors. Without an adequate gross margin, a company cannot pay for its operating expenses. In general, a company's gross profit margin should be stable unless there have been changes to the company's business model.	Gross profit margin = gross profit/ Revenue x 100%	<5 = Red, 5 to10 = Yellow , >15 = Green
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	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