GOVERNMENT OF MALAWI

2020/21 CONSOLIDATED REPORT FOR STATE OWNED ENTERPRISES IN MALAWI

MINISTRY OF FINANCE AND ECONOMIC AFFAIRS

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CONTENTS

EXECUTIVE SUMMARY

This consolidated State Owned Enterprises (SOE) report focuses on the aggregate financial and non-financial performance of the twenty-eight Commercial SOEs. The report further presents performance of individual commercial SOE based on the audited accounts and Performance Management Plans and Budgets for 2020/21 financial year.

Overall, the report reveals aggregate volatile financial performance of the SOEs during the period 2017/18 to 2020/21 financial years. Looking at the SOEs at sector level, the energy, water, lands and housing and agriculture sector continue to dominate the SOE sector with their assets constituting about 82.5 percent of total assets, 93.6 percent of total liabilities and 88.0 percent of the total revenues. Given their size and diversity across all sectors in the economy, these require special attention from a fiscal risk perspective.

In terms of cost recovery, SOEs in the water sector, agriculture sector and lands and housing were operating below cost recovery and specifically the trading SOEs were the most affected. All in all, SOEs in trading have been consistently registering low returns on assets as well as on equity investment. This was generally due to implementation of non-cost reflective tariffs which have hindered growth and hence re-investment of the anticipated profits. The most affected sector was the water sector where there were cross subsidies within the different categories of customers as a result of non-cost reflective tariffs. This outturn points to the need for the sector Ministries to consider reviewing the policy environment that safeguards the review of tariffs and where SOEs are carrying out a social function on behalf of Government, subsidies have to be provided in the national budget.

Liquidity challenges continued to persist mainly due to failure to collect revenue from both private and public debtors. These trade debtors continue to cripple working capital and worsening liquidity positions overtime. This resulted in borrowing to augment working capital requirements in form of overdraft and asset financing. This situation was particularly worse in the utility providers whereby non-payment of bills by public institutions heavily affects the SOEs liquidity position as the public institutions constitutes a majority of their customer base.

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

LIST OF ACRONYMS

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

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

1. INTRODUCTION

1.1 IMPORTANCE OF SOE OVERSIGHT

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

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

1.2 SCOPE

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

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

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

1.3 STRUCTURE OF THE REPORT

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

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

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

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

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

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

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

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

Section		Sub-section	Analysis	Importance
			2.6.3 Institutional arrangements (separation of PSO, staffing and restructuring) 2.6.4 SOE Oversight function (capacity and coverage)	
		2.7 Critical policy recommendations	2.7.1 Repayment of loans 2.7.2 Subsidies for PSO 2.7.3 Public Investment risks 2.7.4 Institutional arrangements 2.7.5 SOE Oversight function	Outline related recommendations from the cross-cutting issues
3	Individual SOE analysis and data input sheets	• Overview of financial performance • Overview of financial risks • Financial flows with the Government • Policy specific issues		Provides senior management with specific areas to follow up with individual SOEs based on financial indicator analysis.
4	High Risk Case Studies incorporated as part of the individual SOE chapter	ADMARC BWB ESCOM	1.1 ADMARC 1.2 BWB 1.3 ESCOM	Trend and forward-looking analysis for the three (3) high risk SOEs.
Annex 1	List of SOEs in Malawi (2021)	Including Governance and compliance issues		
Annex 2	Financial indicators for Statutory body oversight	15 indicators include: 1) profit after tax; 2) Return on Assets; 3) Return on total equity; 4) Cost recovery; 5) Gross profit margin; 6) Operating Profit margin; 7) Asset turnover; 8) Debt to equity; 9) Current ration; 10) Quick ratio; 11) Accounts receivable days; 12) Debt servicing ratio; 13) Accounts payable days; 14) Government transfers as a proportion of total revenue; 15) Dividend Payout Rate.		Heat map used to monitor the financial performance of the SOE sector.
Annex 3	Indicators, Calculations and thresholds	15 Indicators, Calculations and thresholds for monitoring SOE Financial Performance		

2 AGGREGATE ANALYSIS

2.1 OVERVIEW OF THE STATE-OWNED ENTERPRISES SECTOR IN MALAWI

SOEs in Malawi play a significant role in the economy. In accordance with the 2022 Public Finance Management Act, a State-Owned Enterprise (SOE), is defined within the broad spectrum of a statutory body as a corporate or unincorporated body that has been set up as a specific entity to provide a specific good and/or service[2]. This includes any corporation or subsidiary of a corporation where Government directly or indirectly; controls the composition of any board of directors, controls more than fifty per cent of the voting power of the body or holds more than 50% of any of the issued share capital of the body either directly or through another agency or statutory body. SOEs are a channel that government uses to address its strategic economic and social objectives and/or its commercial objectives.

This report covers 28 commercial SOEs comprising 14 traders, 5 service providers and 9 regulators. **The "Public Enterprise Sector",** however, is larger than this as it also includes wholly and semi-subvented organisations totalling to 74 institutions**.** However, the analysis in this report is based on the 28 commercial SOE data only.[3]

Figure 1: Public Entreprises Sector in Malawi

Figure 1a: Structure of the SOE Sector in Malawi

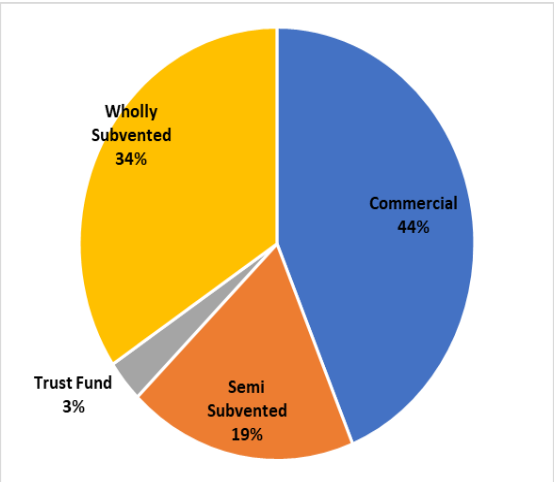
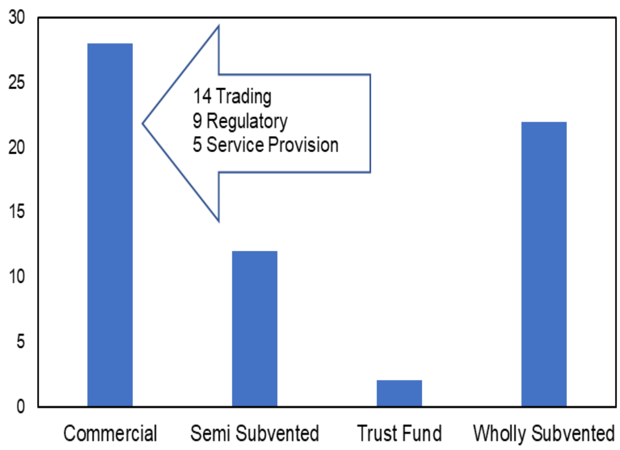


Figure 1b: Composition of the Commercial SOEs



Source: 2021 Public Sector Institutions Table (PSIT).

SOEs in Malawi operate across strategic economic sectors including agriculture, communications, education, energy, financial, health, labour, lands and housing, trade and tourism, transport and public works, and water. The revenues of the SOEs account for 5 percent of GDP for FY 2020/21, Gross liabilities of the sector for the same FY account for 9 percent of GDP while SOE assets accounted for 13 percent of GDP in Malawi (**Table 2).**

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

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

(Millions K)	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Total Assets	901,480	1,321,366	1,424,184	1,648,687
Total Liabilities	500,998	832,405	916,446	1,181,533
Total Revenue	333,550	644,524	633,798	624,064
As % of GDP				
Total assets	11%	14%	13%	13%
Total Liabilities	6%	9%	8%	9%

Source: 2021 Audited Financial Statements and Annual Economic Report 2022

The agriculture, water and energy sectors dominate the SOE sector (Table 3). These sectors account for 82.5 percent of total assets, 93.6 percent of total liabilities and 88.0 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 FY2020/21 (By sector and category)
(Percent of total)

Sector	Assets	Liabilities	Revenue
Agriculture	6.88%	6.40%	3.06%
Communication	3.00%	2.70%	4.52%
Education	0.17%	0.05%	0.31%
Energy	54.40%	63.14%	73.37%
Governance	0.10%	0.14%	0.36%
Trade and Tourism	0.89%	0.29%	1.57%
Transport and Public Works	3.83%	0.59%	2.24%
Water	21.23%	24.10%	11.58%
Lands and Housing	7.51%	0.63%	0.62%
Financial	1.10%	1.56%	0.60%
Health	0.16%	0.15%	0.30%
Labour	0.74%	0.25%	1.48%
Grand Total	**100.00%**	**100.00%**	**100.00%**

Function	Assets	Liabilities	Revenue
Regulatory	5.89%	3.51%	8.18%
Service Provision	3.07%	2.72%	2.60%
Trading	91.03%	93.77%	89.21%
Grand Total	**100.00%**	**100.00%**	**100.00%**

Source: 2021 Audited Financial Statements.

2.2 SOE Financial Performance

2.2.1 Performance (Profits and Surpluses)

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

SOEs undertaking commercial functions depict variabilities across their distinct categories with extreme swings from low profitability to high profitability and vice versa in some entities. Generally**,** the position has slightly improved largely among the trading SOEs from 10 loss making registered in 2020 to 8 loss-making in 2021. Overall, 13 out of the 28 (46%) of all the commercial SOEs registered losses/deficits in 2021(**Figure 2).**

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

Figure 2a: Trading SOEs

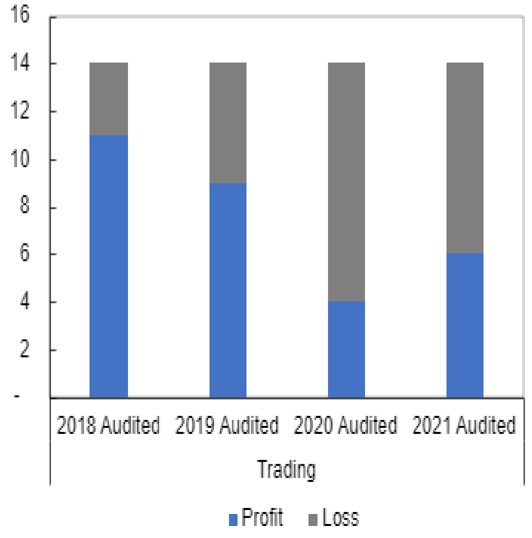
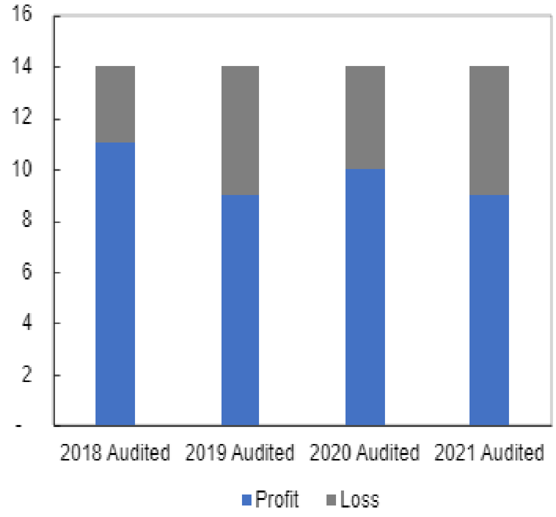


Figure 2b: Regulators and Service Providers



Source: 2021 Audited Financial Statements.

The position among regulators slightly improved from 1 registered deficit of PMRA in 2020 to all making surplus' in 2021. As for the trading SOEs, the number of loss-making trading SOEs decreased from 10 in 2020 to 8 in 2021 with NRWB and EGENCO reporting profits in 2021 from a loss-making position in 2020. Meanwhile, the performance of the service provision SOEs worsened in 2021, with all entities making loss during this financial year. Entities such as NEEF, MBC and MCA experienced the most drastic declines in their respective performances. **(Table 4 and Figure 3).** Generally, service providers are expected to breakeven to ensure that they are not a drain on the national budget.

Table 4: Profit and loss /Surpluses and deficits making SOEs (FY2018 - FY2021) (By entity) (K' Millions)

SOEs by Function	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Trading				
ACM	179,161	(201,759)	(165,476)	27,227
ADL	6,296,447	7,129,480	7,779,858	4,571,190
ADMARC	14,344,895	1,997,083	(1,762,274)	(1,011,737)
BWB	(2,379,428)	(3,309,855)	(7,945,844)	(13,831,189)
CRWB	42,806	(1,316,519)	(1,449,275)	(1,421,825)
EGENCO	11,034,678	86,923,716	(5,082,104)	4,559,509
ESCOM	(12,963,386)	(7,996,391)	(28,452,500)	(14,672,335)
LIHACO	85,146	119,113	(593,191)	(1,178,376)
LWB	2,458,286	4,773,177	2,502,725	1,162,969
MHC	12,534	11,036	9,964,652	4,495,218
MPC	439,543	224,204	(3,276,259)	(4,244,570)
NOCMA	(1,206,029)	732,648	(11,721)	(929,981)
NRWB	171,139	(827,195)	(3,778,190)	640,920
SRWB	837,612	684,215	124,908	(1,067,420)
Regulatory				
MAB	22,836	16,997	18,356	47,126
MACRA	8,000,781	5,481,597	5,436,447	9,300,731
MBS	2,298,523	2,686,975	1,893,741	120,759
MERA	3,164,393	2,844,930	1,964,887	4,429,335
MGB	51,416	467,887	93,390	88,961
NCIC	43,277	54,122	55,386	81,218
PMRA	121,240	(74,144)	53,624	261,852
TC	305,490	89,178	(81,359)	324,460
TEVETA	440,058	170,891	634,445	1,695,639
Service Provision				
MBC	(200,507)	(368,616)	60,634	(421,072)
MCA	(275,108)	(5,422)	109,153	(161,273)
MIM	(338,064)	(223,854)	(439,502)	(481,756)
NEEF	2,604,987	(839,512)	(2,678,104)	(7,572,619)

NFRA	6,335,751	230,818	(317,852)	(342,399)
Grand Total	**41,928,477**	**99,474,800**	**(25,341,445)**	**(15,529,438)**

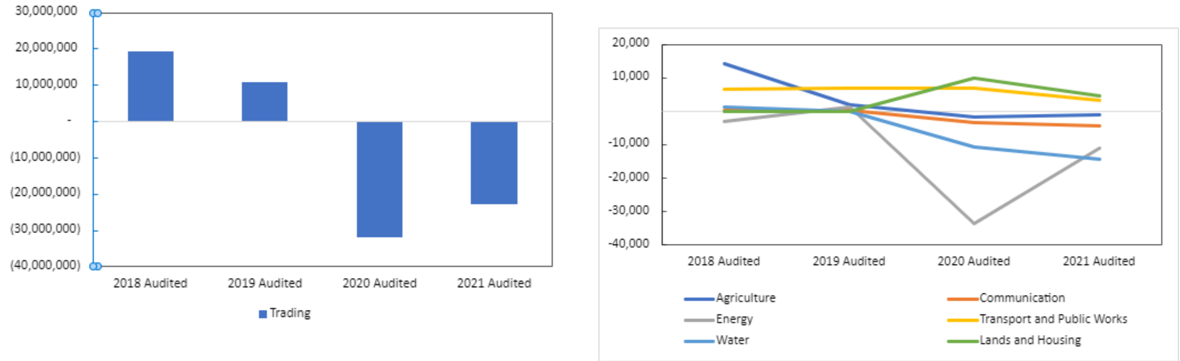
Source: 2021 Audited Financial Statements

Overall, the aggregate performance of the trading SOEs in 2021 improved in the profitability level from an aggregate total loss of K32.1 billion attained in 2020 to K22.9 billion in 2021**(Figure 3).** This performance continued to be driven by the Agriculture, Energy, Water and Communication sectors which registered significant decline.

The impact of Covid-19 pandemic also significantly affected the performance of SOEs in the Education and Transport sector particularly the civil aviation which registered losses with the exception of ADL and ACM that remained profitable in 2021.

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: 2021 Audited Financial Statements and Performance Management Plans and Budgets

Overall, the period between 2018 to 2021, the Agriculture and Energy sectors illustrate the biggest swings and registering losses among the trading SOEs in 2021. Similarly, the performance of the Water sector has been deteriorating over the same period with expectation from LWB.

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

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

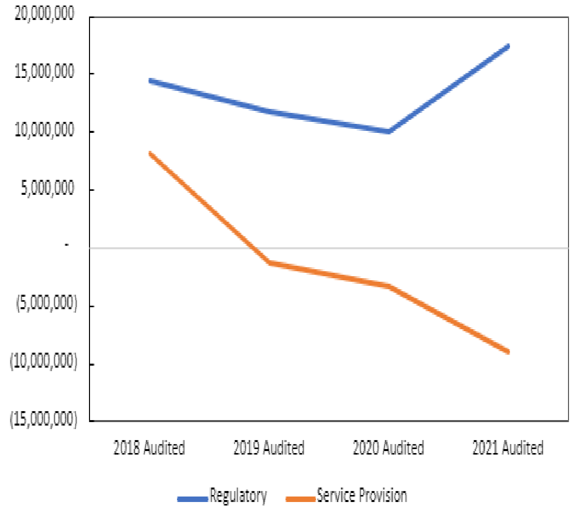
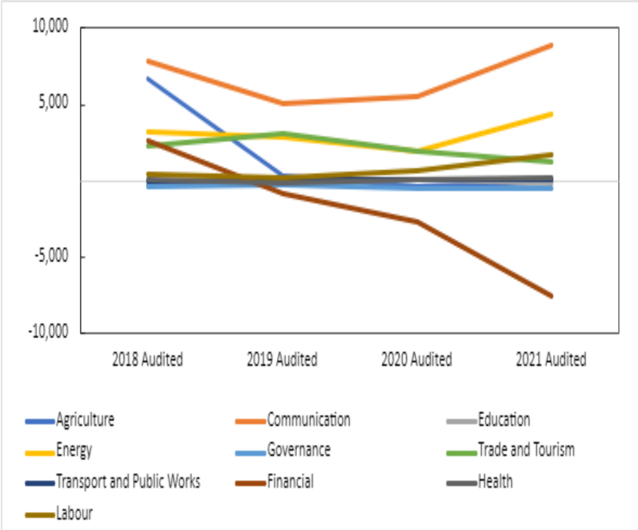


Figure 4b: Regulators and Service Providers by sector



Source: 2021 Audited Financial Statements and Performance Management Plans and Budgets

The Regulatory SOEs continued to register surpluses although at a declining rate (Figure 4). However, the performance improved in 2021 on account of MACRA and MERA. On the other hand, the performance of the SOE in the service provision sector continued to decline at the aggregate level, largely driven by the financial sector SOEs.

2.2.2 Cost recovery

Cost recovery reflects the ability of a corporation to generate adequate revenue to meet operating expense[4]. The ratio should generally be higher than one hundred percent. Cost recovery performance according to functions of the SOE, Agriculture, Energy, Transport and Water were above 100 percent threshold in 2021.

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

Figure 5: Cost Recovery for Trading SOEs

Figure 5a: 2021 only

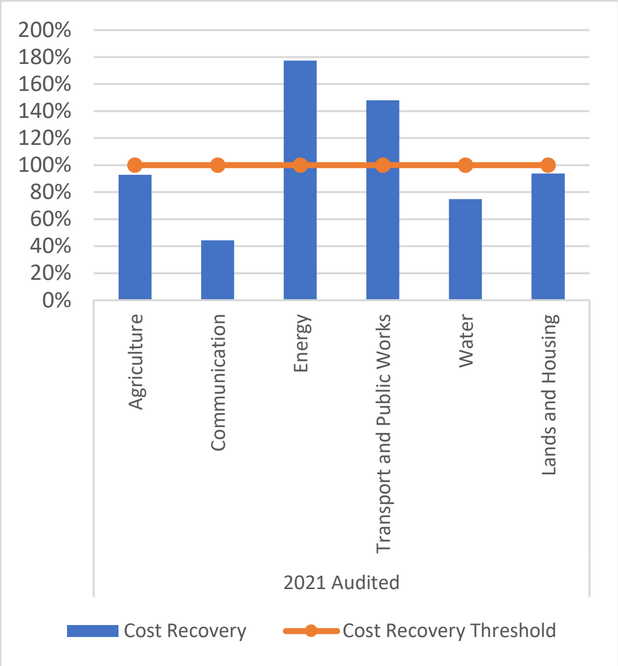
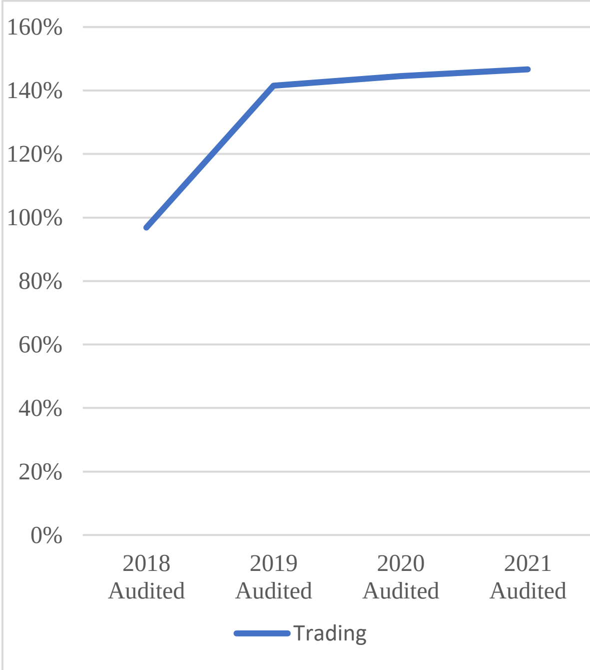


Figure 5b: Trend analysis (2018-2021)



Source: 2021 Audited Financial Statements and Performance Management Plans and Budgets

Overall, the majority of the trading SOEs registered an upward trend in 2021 **(Figure 5).** However, cost recovery performance ranged from 44 percent to 177 percent in 2021**.** Specifically, SOEs in the agriculture, communication and water sectors operated at a very high risk. On the other hand, SOEs in Transport sector registered moderate risk cost recovery threshold in 2021.

On the other hand, declining trends registered in Service Provision SOEs were largely on account of significant loss registered by NEEF in 2021.

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

Figure 6a: 2021 only

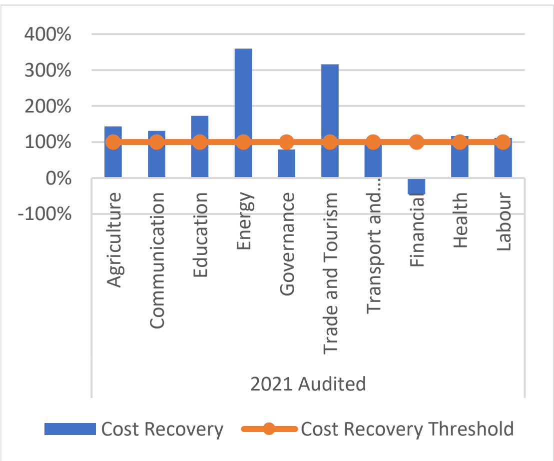
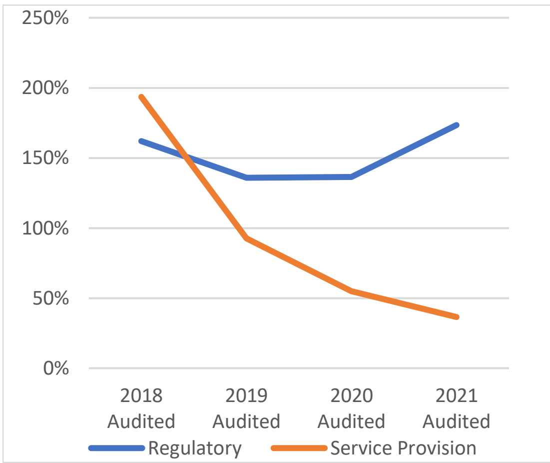


Figure 6b: Trend analysis (2018-2021)



Source: Audited Financial Statements and Performance Management Plans and Budgets

2.2.3 Return on assets

Return on assets indicates how well management of a Company is employing its total assets to make a profit. The aggregate position on return on assets for Trading SOEs slightly improved in 2021, however, still remained below the recommended threshold of 5 percent. This improvement was on account of the Transport and Public works and Lands and Housing sector however, this was not the case in the Communications and Water sector. The slight improvement in the return on assets still poses a financial risk.

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

Figure 7a: 2021 only

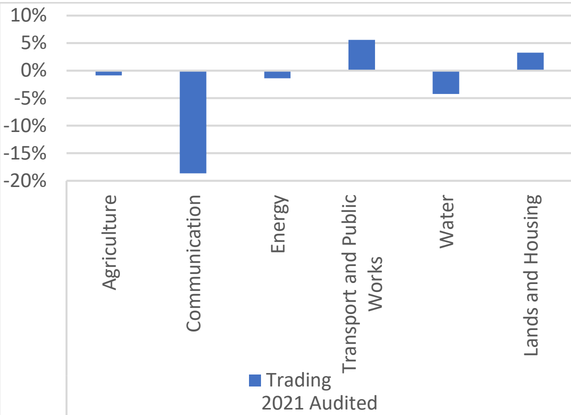
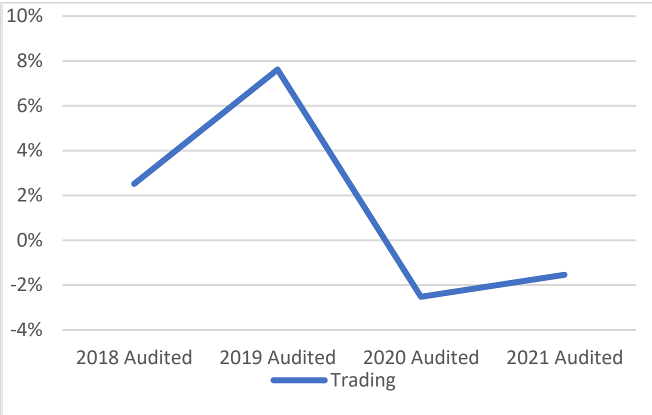


Figure 7b: Trend analysis (2018-2021)



Source: 2021 Audited Financial Statements

The Regulatory function has been performing well over the years, with a return on assets of 14% in 2021 which is way over the Return on assets threshold of 5%**. (Figure 8)**.

On the other hand, all Regulatory SOEs apart from MBS and NCIC continued to register good returns on assets. Service providers were still at high-risk position of below zero percent in 2021 from -7 percent in 2020 a high position of -20 percent. This was largely driven by losses registered by service provision SOEs in 2021 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: 2021 only

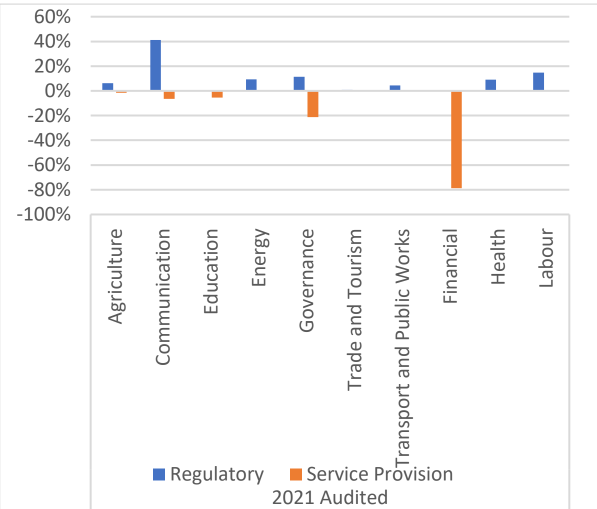
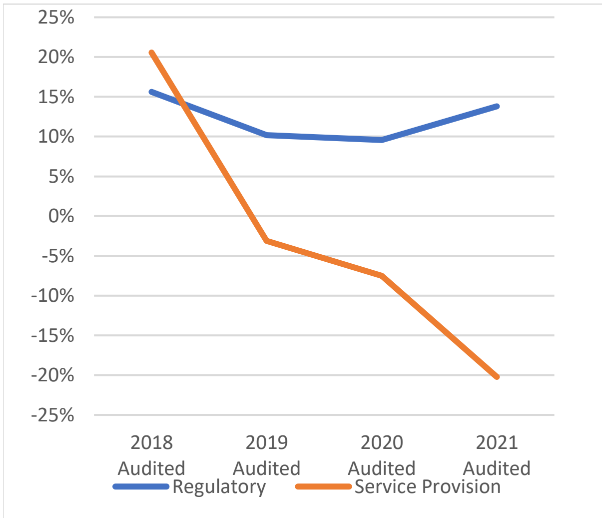


Figure 8b: Trend analysis (2018-2021)



Source: 2021 Audited Financial Statements

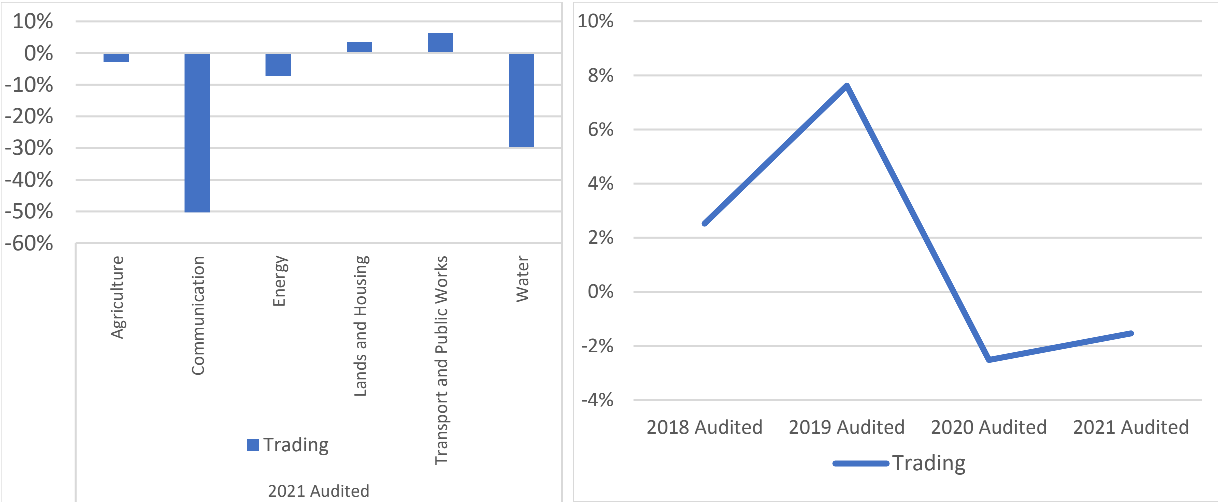
2.2.4 Return on equity

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 2021, 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 albeit a slight improvement in the trading category in 2021.

On aggregate terms, returns on equity for trading SOEs registered an aggregate of -2 percent in 2021. This low aggregate performance signifies very high risk and it was largely driven by SOEs in Energy sector, Communication sector, Water sectors and Agriculture sectors which registered an aggregate of -7 percent, -50 percent , -30 percent and -3 percent respectively. However, SOEs in Transport registered 6 percent while Lands and Housing registered 4 percent which are moderate risk scores.

Figure 9: Return on Equity for Traders (Percent)

Figure 9a: 2021 only **Figure 9b: Trend analysis (2018-2021)**



Source: Audited financial Statements and Performance Management Plans and Budgets

On the other hand, Regulatory SOEs continued to register good returns on equity with an aggregate of 26% in 2021, an upward movement from 2020 due increase in surplus levels registered by MACRA, MERA and other regulators.
For service provision SOEs, return on equity further deteriorated in 2021 to a high-risk position of -63 percent from -17 percent recorded in 2020 largely driven by NEEF. **(Figure 10).**

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

Figure 10a: 2021 only

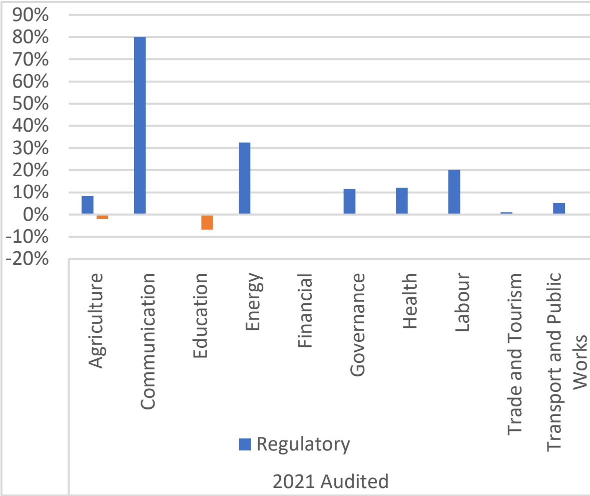
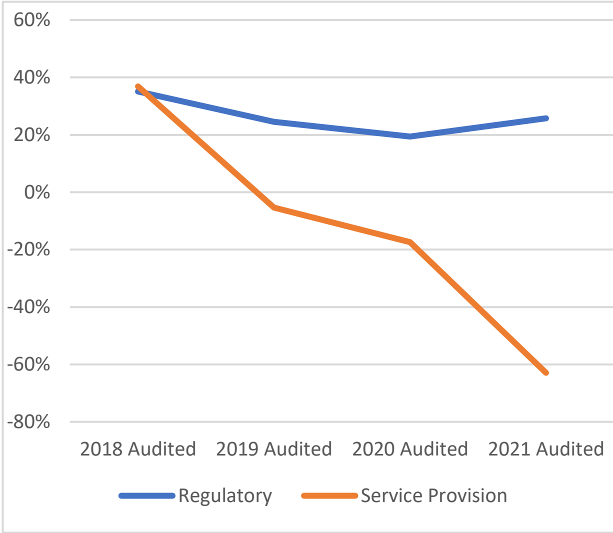


Figure 10b: Trend analysis (2018-2021)



Source: Audited financial Statements and Performance Management Plans and Budgets

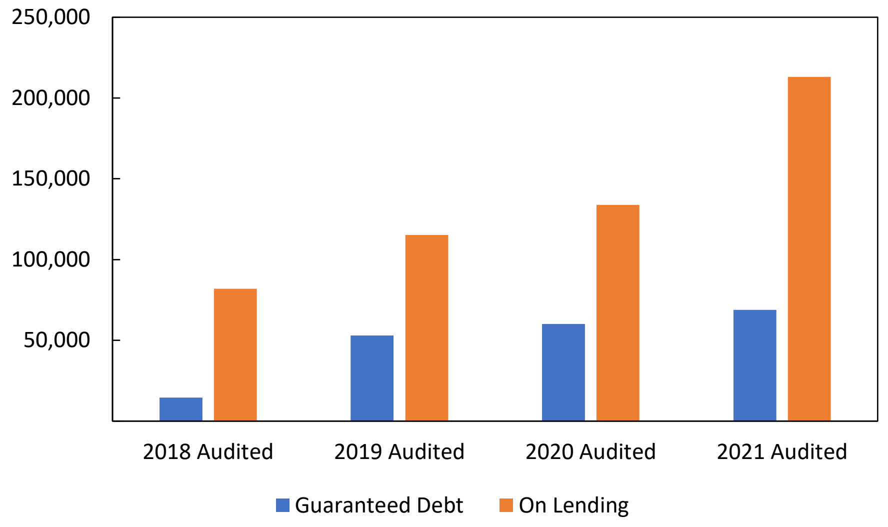
2.3 SOE Debt

2.3.1 Size and composition of SOE Debt

Loans accessed by SOEs comprise of guaranteed debt, non-guaranteed debt (where only consents are issued), and on-lending. In 2021, total liabilities inclusive of these debt categories stood at 9 %Percent of GDP (Table 1). These amounts include long-term loan to the various sectors as well as a combination of support through specific direct and on lent loans, guarantees from bilateral and multilateral institutions and non-interest bearing debt. Among others, these loans were targeted towards the construction and rehabilitation of infrastructures, improving energy transmission and developing the water supply networks in the water supply areas.

However, on lending remains the highest form of debt that SOEs use to finance their development projects. On lending in 2021 stood at K213.1 billion an increase K133.7 billion registered in 2020. On the other hand, there was a slight increase in the level of guaranteed debt in 2021 which increased to K68.9 billion from K60.2 billion in 2020 **(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)



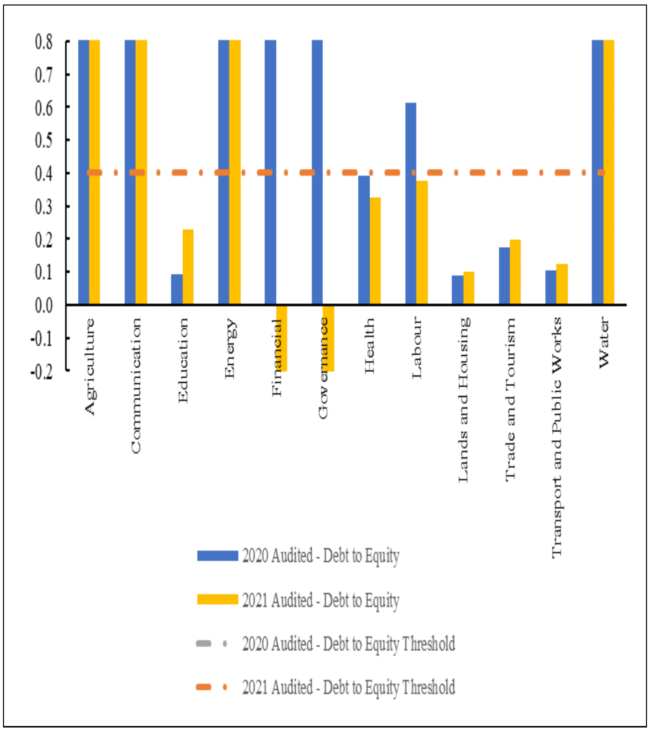
Source: 2021 Audited financial Statements and Performance Management Plans and Budgets

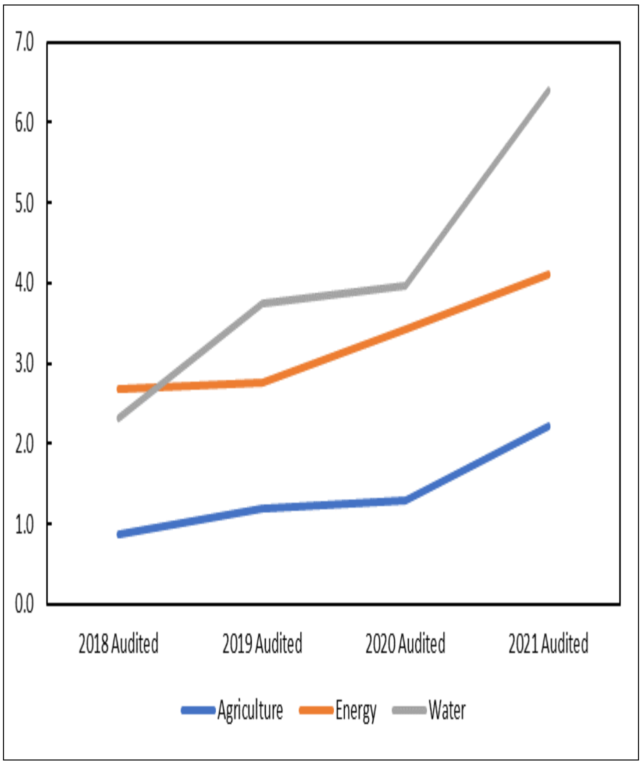
2.3.2 Debt to equity

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 2021 by the following sectors; Agriculture, Communication, Energy and Water sectors. **(Figure 12).**

Figure 12: Debt to Equity by Sector (Percent)

Figure 12a: 2020 and 2021 **Figure 12b: Trend analysis (2018-2021)**





Source: 2021 Audited financial Statements and Performance Management Plans and Budgets

2.3.3 Debt Service Coverage

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

Figure 13 demonstrates that there was a decrease among the Trading SOEs cash flows that was used for debt service during the period under review. This proportion significantly decreased from 0.8 in 2020 to 0.1 percent 2021. Despite the ratio above the threshold, the trading SOEs hardly met their interest payments indicating a high risk position on aggregate terms as it shows that institutions were facing challenges in meeting interest payments. This was mostly on account of water, energy, financial, transport and public works sectors.

Figure 13: Debt Servicing Ratio by Function and Sector

Figure 13a: DSR (2021)

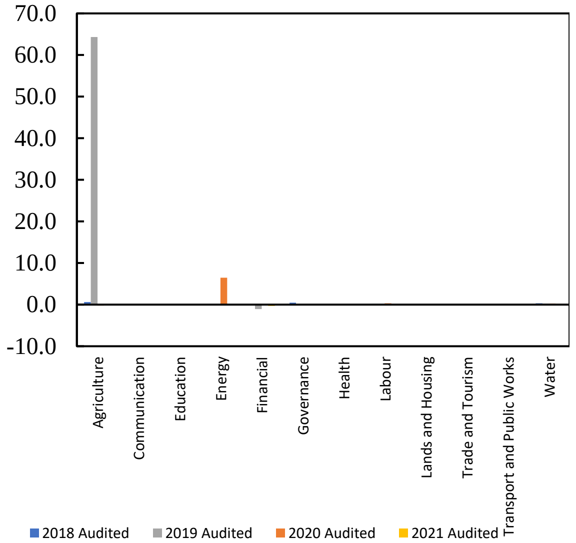
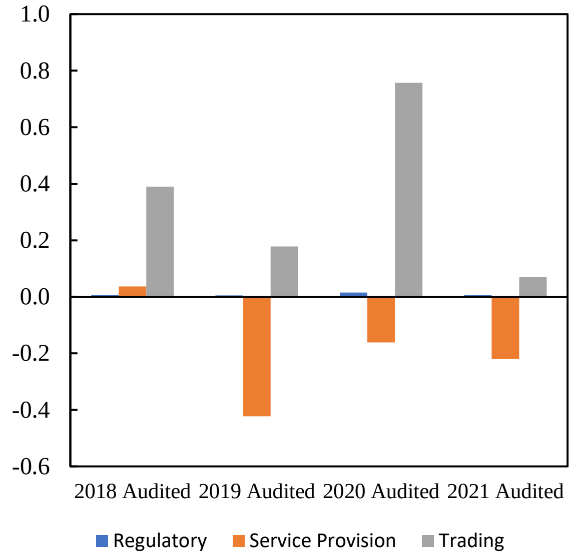


Figure 13b: DSR Trend analysis (2018-2021)



Source: Audited Financial Statements and Performance Management Plans and Budgets

2.4 FISCAL FLOWS BETWEEN SOEs AND BUDGET

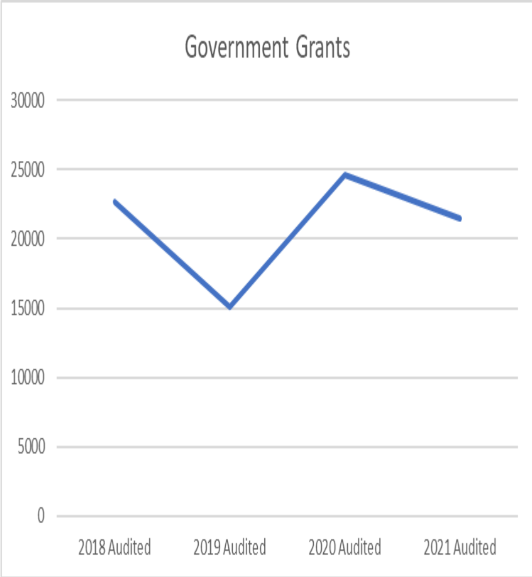
Government Transfers to SOEs

Financial support to SOEs through grants, subsidies and capital injections are concentrated in the agriculture, communication, financial and water sectors in 2021. However, government grants significantly dropped in 2021 relative to the prior year. **(Table 5 and figure 14).** Communication sector received the most grants in 2021 followed Agriculture Sector largely to support Public Service Obligations (PSOs) in these sectors. However, Public Service Obligations in some sectors exist in the form of non-cost reflective tariffs in public utilities such as water and electricity, existence of non-economic markets as the case is in Postal Services and ADMARC.

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

Figure 14: Trend analysis (2018-2021)

Government Grants	Financial Years			
Sector	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Agriculture	20,359	11,511	19,996	17,865
Communication	1,661	1,880	3,434	3,255
Energy	0	842		
Financial			1,000	600
Water	685	849	225	224



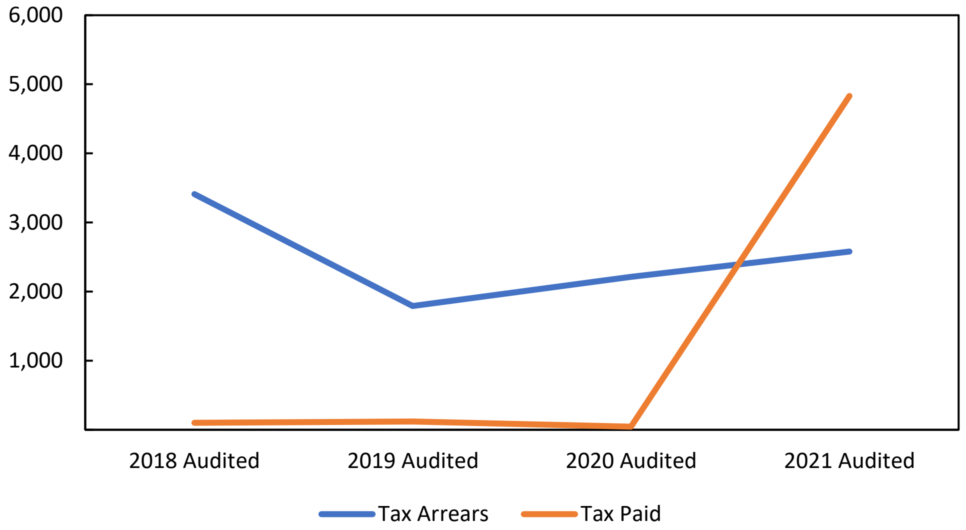
Source: Audited Financial Statements and Performance Management Plans and Budgets

2.4.1 Taxes and Dividend Payments remitted by Commercial Entities [check if figures are automatically updated]

The tax payments by SOEs increased in 2021 to approximately K17.3 billion. However, tax arrears also declined during the same period. The gap between tax payments and the actual arrears build up was largely on account of liquidity challenges emanating from high trade receivables from both public and private debtors. (Figure 15).

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

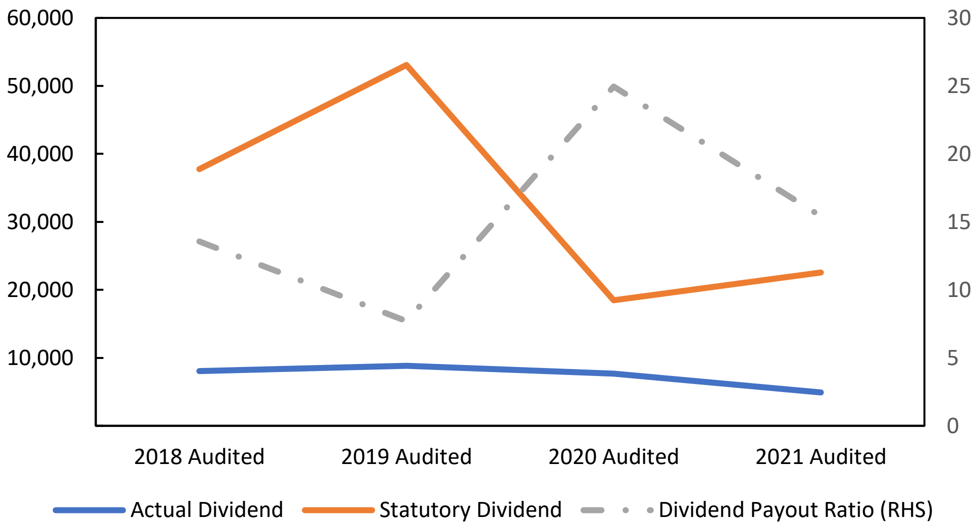
Figure 15: Tax Payments vs. Tax arrears by Commercial Entities (Kwacha Million)



Source: 2021Audited Financial Statements and Performance Management Plans and Budgets

The remittance of surpluses and dividends by SOEs into the consolidated account further declined in 2021. The aggregate profit level for SOEs recording profit slightly increased to approximately K31.8 billion in 2021 from K30.7 billion in 2020. Nevertheless, actual remittances continued to remain below the statutory requirement at K7.7 billion in 2020 to K4.9 billion in 2021 (Figure 16). As a result, the dividend pay-out ratio moved from 25 percent in 2020 to 15 percent in 2021**.** This declining trend is largely due to cash flow challenges experienced by SOEs especially due to increasing trade debtors especially public institutions.

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



The surplus and dividend remittance among regulatory and service provision SOEs also continued decline in the 2020/21 financial year while among the trading SOEs there was no dividend remittance in 2021. This was mainly due the cash flow challenges faced by the SOEs.

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

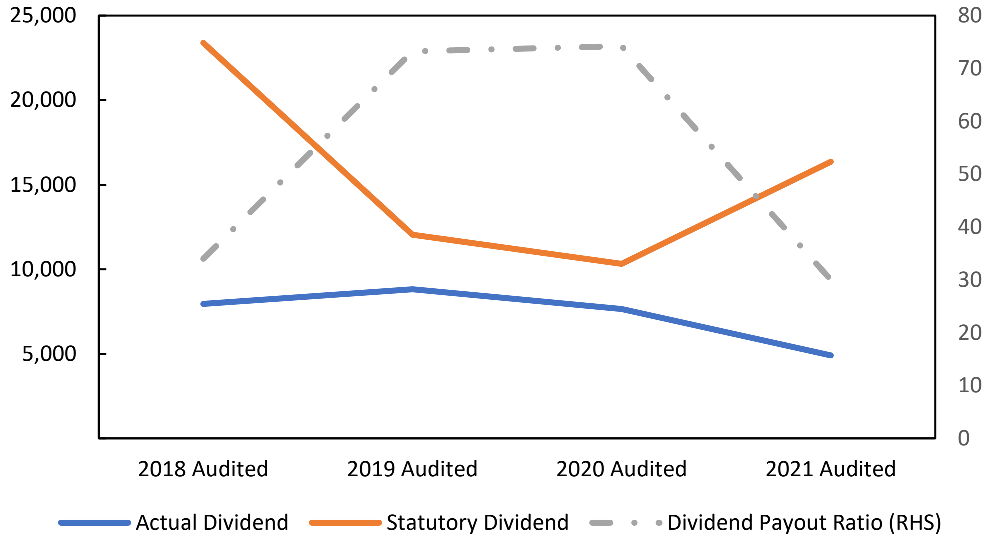
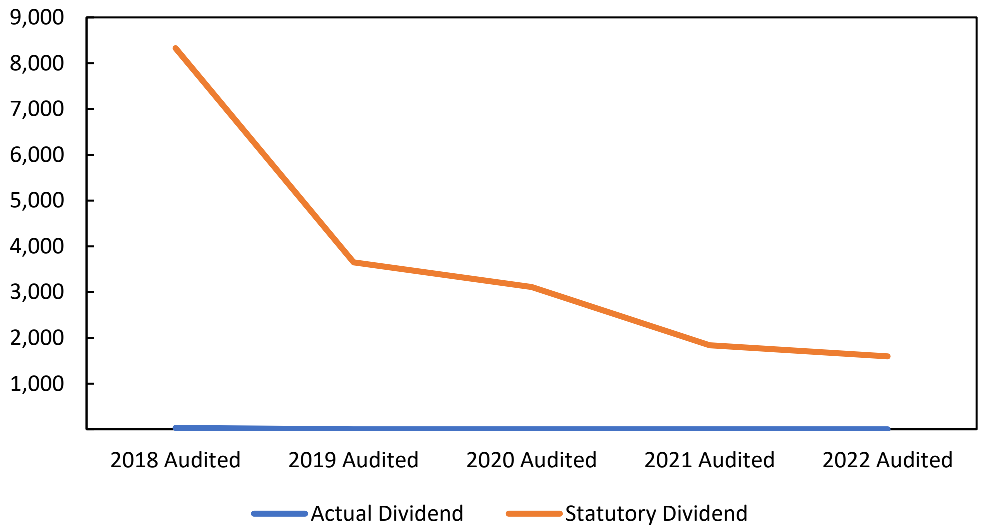


Figure 18: Surpluses and Dividends remittances Actual vs. Statutory Dividends and Payout ratio (K'million) (Trading SOEs)

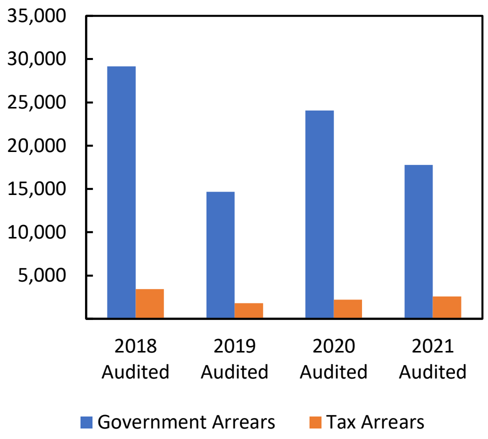


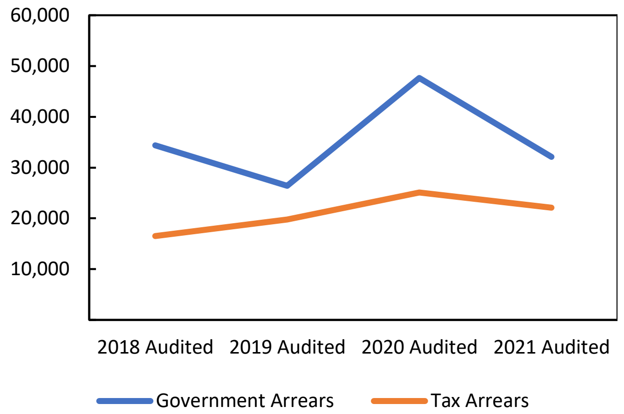
Source: Audited financial statements and Performance Management Plans and Budgets

2.5 ARREARS BETWEEN SOEs AND WITH GOVERNMENT

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

2.5.1 Government arrears to SOEs





Source: 2021 Audited financial statements and Performance Management Plans and Budgets

Government arrears to SOEs is a big drag on their balance sheets as they negatively affect cash flows of the parastatals which leads to a vicious cycle of inefficiencies in the economy. In to 2021, Government arrears to SOEs decreased from K47.7 billion in 2020 to K32.1 billion. Relatively, tax arrears by SOEs to MRA registered a steady decline from K25.1 billion in 2020 to K22.1 billion in 2020 **(Figure 19).**

Intra-Arrears between the SOEs

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

Summary of fiscal flows between the budget and SOEs

In summary the period under review revealed that

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

2.6 CROSS-CUTTING ISSUES

2.6.1 Tariffs and pricing policies

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

2.6.2 Fiscal flows and Arrears

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

2.6.3 Institutional arrangements

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

2.6.4 SOE Oversight function

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

2.7 CRITICAL POLICY DECISIONS

2.7.1 Repayment of Loans and Arrears

Debt servicing by the SOEs requires close monitoring to avoid bail outs that may arise when the SOEs fails to meet the obligations. Cost reflective tariffs should be given due consideration in order to address the cash flow constraints.

2.7.2 Subsidies for Public Service Obligations

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

2.7.3 Public Investment Related Risks

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

2.7.4 Institutional Risks

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

2.7.5 SOE oversight function

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

3 INDIVIDUAL SOE ANALYSIS

3.1 AGRICULTURE SECTOR

3.1.1 Agricultural Development and Marketing Corporation (ADMARC)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill KW)	14,344,895	1,997,083	(1,762,274)	(1,011,737)
Gross Profit Margin	77%	53%	55%	61%
Operating Profit Margin	62%	6%	3%	22%
Return on Assets	13%	2%	-2%	-1%
Return on Equity	26%	5%	-5%	-3%
Dividend Payout Ratio	-	-	#DIV/0!	#DIV/0!
Asset Turnover	0.54	0.33	0.33	0.27
Cost Recovery	4.54	1.42	0.87	1.13
Liquidity				
Current Ratio	1.01	0.67	0.73	0.76
Quick Ratio	0.54	0.57	0.50	0.54
Accounts Receivables Days	396.80	332.77	614.90	1493.15
Accounts Payables Days	852.97	655.83	684.74	749.15
Solvency				
Debt to Assets	0.50	0.62	0.65	0.70
Debt to Equity	1.01	1.66	1.88	2.35
Interest Coverage	6.41	0.47	0.37	2.71
Other				
Government Transfers to Total Revenue	0.33	0.34	0.55	0.56

Overview of financial performance

The performance of ADMARC Limited slightly improved from a loss of K1.8 billion recorded in 2020 to a loss of K1.0 billion registered in 2021.Revenues in 2020/21 declined over the 2019/20 position with K31.8 billion recorded against K33.5 billion reported in 2020. Of these revenues, actual sales were K8.6 billion while K23.2 billion of the 2021 revenues were other revenues of which a large proportion were invoiced to Government for undertaking social obligations on its behalf. On the other hand, total expenditures amounted to K32.8 billion, translating into a net loss of K1.0 billion.

In 2021, ADMARC Limited trading levels were significantly low compared to the budgeted levels largely on account of delays in starting to draw funds on arranged facilities which resulted in late entry on the market for purchases and low national production for cotton and other commodities. did not secure funding for commodity purchases in time. The company survived through overdrafts and loans to meet its obligations during this period.

Overview of financial risks

Generally, ADMARC has been heavily dependent on external financing for its ongoing operations rather than own generated resources over the period, with its debt-to-equity ratio increasing from 188 percent in 2020 to 235 percent in 2021. Despite a slight improvement in the current ratio from 0.73:1 in 2020 to 0.76:1 in 2021, ADMARC Limited could barely meet its short-term obligations as they fall due.

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.

Overview of financial flows with the government

Over the last two financial years, government provided significant amount of resources required for ADMARC for undertaking the social obligations. In 2021, transfers from Government were K17.9 billion which constituted to 56% of ADMARC Limited total revenue.

Policy specific issues for the Public Body

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

3.1.2 National Food Reserve Agency (NFRA)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	6,335,751	230,818	(317,852)	(342,399)
Gross Profit Margin	67%	12%	-14%	-16%
Operating Profit Margin	35%	-76%	-128%	-132%
Return on Assets	23%	1%	-1%	-1%
Return on Equity	36%	1%	-2%	-2%
Dividend Payout Ratio	-	-	#DIV/0!	#DIV/0!
Asset Turnover	0.35	0.08	0.10	0.09
Cost Recovery	2.87	0.78	0.23	0.40
Liquidity				
Current Ratio	4.14	6.12	8.32	7.66
Quick Ratio	0.91	0.76	0.60	0.61
Accounts Receivables Days	10.58	47.36	43.08	135.90
Accounts Payables Days	685.16	775.24	337.88	94.67
Solvency				
Debt to Assets	0.35	0.28	0.25	0.25
Debt to Equity	0.53	0.39	0.33	0.34
Interest Coverage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Other				
Government Transfers to Total Revenue	0.07	0.32	0.74	0.53

Overview of financial performance

The National Food Reserve Agency (NFRA) financial performance worsened in 2020/21 with a decline level from the 2019/20 position. NFRA reported a net deficit of K342.4 million in 2021 compared to the net deficit of K317.9 million in 2020. This was largely on account of reduced level of maize purchases. However, the levels of own generate resources exhibit a steady positive trajectory. Correspondingly, NFRA also handling lower tonnage of maize of maize in 2021 and has seemingly registered dismal levels of storage losses over the years.

Overview of financial risks

The liquidity position for NFRA slightly decline from 8.3:1 in 2020 to 7.66:1 in 2021.Although, it declined the institution was still able to meet its short-term obligations. The debt-to-equity position in 2020/21 was at 34%, this indicates a low risk implying that the Agency is to a large extent financed its operations through owner's equity than debt.

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

Overview of financial flows with the government

In the year 2020/21, Government transfers to NFRA's comprised 53 percent of its total revenue approximately K602 million as Government subvention.

3.1.3 Tobacco Commission (TC)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	305,490	89,178	(81,359)	324,460
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	75%	68%	73%	79%
Return on Assets	6%	2%	-2%	6%
Return on Equity	9%	2%	-2%	8%
Dividend Payout Ratio	16.4	56.1	#DIV/0!	20.0
Asset Turnover	0.56	0.66	0.79	0.72
Cost Recovery	4.07	3.16	3.69	4.82
Liquidity				
Current Ratio	1.24	1.03	0.91	1.00
Quick Ratio	1.08	0.99	0.86	0.95
Accounts Receivables Days	89.83	59.12	45.57	54.65
Accounts Payables Days	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Solvency				
Debt to Assets	0.34	0.26	0.28	0.24
Debt to Equity	0.51	0.36	0.38	0.31
Interest Coverage	25.36	276.81	1,959.87	2,679.55
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of Financial Performance

The overall performance of the Tobacco Commission (TC) in 2020/21 financial year improved over 2019/20 financial year. In 2020/21, the Commission registered a surplus of K324.5 million in 2020/21 from a deficit of K81.2 million recorded in 2019/20.

Overview of Financial Risk

Liquidity levels for the Commission barely on the margins in 2020/21 as measured by the current ratio of 1:1, slightly improved from 0.86:1 registered in 2020 to 0.9:1 registered in 2020/21. This implied that the Commission could barely meet its current liabilities. However, this picture is only worse due to the accounting revenue recognition polices of the Commission.

The leverage position of the Commission has improved over the years as measured by debt/equity which is expected to close at 31 percent, signifying that the Commission's assets were to a large extent funded by owner's equity than debt.

Overview of Financial Capital Flows with the Government

In the year 2021, the Commission remitted about K64.9 million to Government a slight increase over 2019/20 when the Commission remitted K62.6 million. The K64.9 million remittance represents 20% of its total surplus.

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)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	8,000,781	5,481,597	5,436,447	9,300,731
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	42%	30%	28%	43%
Return on Assets	41%	28%	25%	41%
Return on Equity	71%	53%	53%	80%
Dividend Payout Ratio	75.4	118.6	82.9	26.9
Asset Turnover	0.96	0.92	0.89	0.90
Cost Recovery	1.74	1.43	1.39	1.76
Liquidity				
Current Ratio	1.57	1.34	1.27	1.50
Quick Ratio	1.56	1.12	1.05	1.21
Accounts Receivables Days	127.72	97.20	97.62	99.98
Accounts Payables Days	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Solvency				
Debt to Assets	0.41	0.48	0.53	0.48
Debt to Equity	0.71	0.93	1.14	0.94
Interest Coverage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Malawi Communications Regulatory Authority (MACRA) has been registering surplus over the past four years with a significant improvement in the financial year 2020/21 due to factors such as the drop of international incoming minutes that are being declared by operators due to the increase of OTT calls and sim-boxing.

In the year 2020/21, revenues reduced to K18.4 billion, a 6% decline from 2019/20 which was at K19.5 billion. However, expenditures grew in 2020/21 from the budget of K80 million to acquire more capital expenditure items. This led to a decline in surplus remitted to Government in 2020/21 amounting to K2.7 billion compared to K4.5 billion remitted in the 2019/20 financial year.

Overview of Financial Risk

MACRA's debt to equity ratio has remained above the average benchmark of 40%. The debt-to-equity ratio slightly improved from 114% recorded in 2019/20 to 94% percent in 2020/21 with most of its debt is more from its short-term liabilities other than long term liabilities.

The liquidity position of MACRA was normal and remains healthy and capable of meeting short term obligations as they fall due, as measured by a current ratio of 1.21:1 in 2020/21 which is an improvement from the previous years´ current ratio of 1.05:1. The Authority's working capital was adequate to support and finance its day-to-day operations.

Overview of financial flows with the government

Over the years, the authority has been able to remit surpluses to the Government each consecutive year with its highest remittance being in 2020/21 where it remitted K7.9 billion of its profit to Government while in 2019/20 they remitted K5.4 billion. MACRA remitted about 98% of its surplus to the government. MACRA remitted as a regulator, MACRA is expected to remit 100% of its surplus but due to investment requirements the transfers were reduced.

Policy specific issues for the Public Body

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

3.2.2 Malawi Broadcasting Corporation (MBC)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	(200,507)	(368,616)	60,634	(421,072)
Gross Profit Margin	-5%	100%	100%	100%
Operating Profit Margin	-111%	-9%	1%	-9%
Return on Assets	-6%	-11%	1%	-6%
Return on Equity	#VALUE!	#VALUE!	-2%	#VALUE!
Dividend Payout Ratio	#DIV/0!	#DIV/0!	-	#DIV/0!
Asset Turnover	1.13	1.26	1.32	0.74
Cost Recovery	0.52	0.52	0.37	0.34
Liquidity				
Current Ratio	1.19	0.89	0.44	1.61
Quick Ratio	0.90	0.89	0.31	1.14
Accounts Receivables Days	188.74	170.44	129.39	146.38
Accounts Payables Days	35.29	#DIV/0!	#DIV/0!	#DIV/0!
Solvency				
Debt to Assets	1.59	1.61	1.67	1.17
Debt to Equity	-2.69	-2.63	-2.48	-6.46
Interest Coverage	(31,640.02)	(106.90)	17.08	(148.68)
Other				
Government Transfers to Total Revenue	0.45	0.44	0.64	0.63

Overview of financial performance

The performance of Malawi Broadcasting Corporation (MBC) further worsened in the year 2020/21 from a profit of K60.6 million in 2019/20 to making a loss of K421.1 million in 2020/21.This was due to the decline in the revenue streams of MBC largely from the declining advertising revenues.

Overview of financial risks

MBC's liquidity position in 2021 slightly improved from a current ratio of 0.44:1 to 1.61:1, however the corporation could barely meet its short-term obligations as they fall due. However, despite having an improvement in the current ratio, its debtors' days increased from 130 days to 147 days meaning most of its cash was being held up by debtors thereby impacting its cash flow position. It was therefore imperative for the Corporation to put in place measures of improving revenue collection.

Overview of financial flows with the government

Being a semi-subvented organisation MBC receives part of its resources from Government to assist in its operations. In the financial year 2020/21, the transfers from Government to MBC amounted to 63% of its total revenue.

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)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	439,543	224,204	(3,276,259)	(4,244,570)
Gross Profit Margin	92%	100%	97%	98%
Operating Profit Margin	0%	-27%	-105%	-115%
Return on Assets	3%	1%	-16%	-19%
Return on Equity	6%	2%	-33%	-50%
Dividend Payout Ratio	2.3	-	#DIV/0!	#DIV/0!
Asset Turnover	0.32	0.16	0.20	0.16
Cost Recovery	1.09	0.79	0.50	0.44
Liquidity				
Current Ratio	0.64	0.57	0.28	0.36
Quick Ratio	0.56	0.51	0.23	0.16
Accounts Receivables Days	276.31	322.10	284.19	282.87
Accounts Payables Days	414.72	#DIV/0!	23734.51	38197.00
Solvency				
Debt to Assets	0.49	0.49	0.51	0.63
Debt to Equity	0.97	0.98	1.06	1.70
Interest Coverage	0.75	#DIV/0!	#DIV/0!	#DIV/0!
Other				
Government Transfers to Total Revenue	-	-	-	0.05

Overview of financial performance

The performance of Malawi Posts Corporation (MPC) in the year 2020/21 worsened from a loss of K3.3 billion to a loss of K4.2 billion. This was due to the impact of the COVID 19 in the year 2021, which caused a reduction in the revenues of the organisation.

Overview of financial risks

MPC's liquidity position in the 2021 remained poor with its current ratio at 0.36:1 signifying that MPC was not able to meet its short-term obligations as they fell due as current liabilities for the Corporation these continued to K10.9 billion in 2020/21 from K9.9 billion reported in 2019/20 financial year.
On the other hand, trade payables which mostly comprise tax arrears and pension arrears amounted to K8.8 billion. These arrears are largely on account of running 120 non-economic post offices as a social obligation.

The debt-to-equity position also worsened to 170% percent in 2020/21.This means the level of debt surpasses the level of equity in the Corporation. This level of debt was largely due to loans and overdrafts acquired by MPC to finance working capital requirements.

Overview of financial flows with the government

The fiscal flows between Government and MPC were in form of subvention provided to the Corporation by Government which comprised of 5% of the total revenues.

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)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	(275,108)	(5,422)	109,153	(161,273)
Gross Profit Margin	52%	-2%	4%	42%
Operating Profit Margin	3%	-103%	-92%	-16%
Return on Assets	-11%	0%	2%	-5%
Return on Equity	-13%	0%	3%	-7%
Dividend Payout Ratio	#DIV/0!	#DIV/0!	-	#DIV/0!
Asset Turnover	0.60	0.45	0.47	0.65
Cost Recovery	2.07	0.98	1.04	1.73
Liquidity				
Current Ratio	0.20	0.29	0.54	0.54
Quick Ratio	0.20	0.29	0.54	0.54
Accounts Receivables Days	19.30	18.71	36.11	62.45
Accounts Payables Days	218.60	80.54	63.83	172.71
Solvency				
Debt to Assets	0.19	0.10	0.08	0.19
Debt to Equity	0.23	0.11	0.09	0.23
Interest Coverage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The Malawi College of Accountancy (MCA) registered a loss of K161.3 million in 2020/21 financial year which was a huge drop from the previous year where it registered a profit of K109.2 million. This drastic decline in profitability was due to the outbreak of the COVID-19 pandemic which resulted in the closure of schools for almost half of the financial year.

Overview of Financial Risks

Liquidity position for MCA in 2020/21 financial year remained at 0.54:1 as recorded in 2019/20. Given this low liquidity level which was below the average bench mark, MCA barely met its short-term obligations. This was also on account to the increase in the receivables days from its debtors meaning the period taken to be repaid its short-term loans/ fees has increased.

However, The College's debt-to-equity proportion is at 23 percent in 2020/21 financial year showing that MCA is largely financed by owners' equity, although this was an increase from the year 2019/20 which was at 9%.

Overview of financial flows with the government

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

Policy specific issues for the Public Body

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

	infrastructure to enable increased enrolment	

3.4 ENERGY SECTOR

3.4.1 Electricity Generation Company Malawi Limited (EGENCO)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	11,034,678	8,692,372	(5,082,104)	4,559,509
Gross Profit Margin	60%	83%	48%	49%
Operating Profit Margin	-8%	35%	-60%	-44%
Return on Assets	15%	4%	-2%	2%
Return on Equity	25%	6%	-4%	3%
Dividend Payout Ratio	-	-	#DIV/0!	-
Asset Turnover	0.59	0.72	0.27	0.25
Cost Recovery	1.48	2.08	0.93	1.07
Liquidity				
Current Ratio	1.60	5.22	4.36	3.98
Quick Ratio	1.35	4.23	3.54	3.21
Accounts Receivables Days	217.69	238.13	210.06	214.33
Accounts Payables Days	122.33	89.42	45.33	35.95
Solvency				
Debt to Assets	0.40	0.37	0.41	0.49
Debt to Equity	0.66	0.59	0.70	0.98
Interest Coverage	(25.07)	64.80	(35.00)	(39.98)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

EGENCO's performance in the financial year 2020/21 greatly improved, from a loss of K5.1 billion to a profit of K4.6 billion. This was on account of the slight increase in the total revenues of the company.

Overview of financial risks

EGENCO has maintained a good current ratio over the years. In the year 2021 it had a current ratio of 3.98:1 which was a slight decline from 4.36:1 in 2020.Despite having a decline in current ratio it was still above the average bench mark and the corporation was able to meet its short term when they fall due. EGENCO has also sustained positive working capital position which puts it at advantage including higher creditability in banks as well as creating a good supplier relationship. However, its debt-to-equity percentage was 98% in 2020/21 showing its extremely being are financed by external borrowing.

EGENCO's debtor days were still very high at 215 days in 2020/21 which is way above the agreement in the power purchase agreements of 30 days. Despite this challenge, the liquidity position for EGENCO was healthy.

Overview of financial flows with the government

Government allowed EGENCO defers payments on the Kapichira Concession fee in 2020/21 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	The company has a long-term debt which was acquired from one of the local commercial banks to finance the procurement of the diesel generators. As at 31st December 2020 the balance stood at K4.8billion.	Government needs to follow up with EGENCO and make sure that the K4.8 is properly serviced without recourse to Government

3.4.2Electricity Supply Commission of Malawi Ltd (ESCOM)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	(12,963,386)	(7,996,391)	(28,452,500)	(14,672,335)
Gross Profit Margin	50%	37%	35%	46%
Operating Profit Margin	-126%	-20%	-84%	-63%
Return on Assets	-7%	-3%	-10%	-4%
Return on Equity	-29%	-28%	#VALUE!	#VALUE!
Dividend Payout Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Asset Turnover	0.54	0.45	0.54	0.50
Cost Recovery	0.57	1.75	0.84	0.92
Liquidity				
Current Ratio	0.85	0.91	0.60	0.54
Quick Ratio	0.60	0.77	0.45	0.43
Accounts Receivables Days	118.50	91.43	65.94	74.49
Accounts Payables Days	413.49	249.47	246.50	388.22
Solvency				
Debt to Assets	0.75	0.90	0.97	1.02
Debt to Equity	3.02	9.41	-38.63	-44.10
Interest Coverage	(471.44)	(73.30)	27.05	22.98
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The performance of Electricity Supply Corporation of Malawi (ESCOM) continued to worsen over time. In 2021, the entity registered a loss after tax of K14.7 billion, a slight improvement from a loss of K28.5 billion registered in 2020. The Corporation maintained the average end user tariff of K92.44 per kilowatt hour following a 20 percent base tariff adjustment in 2018/19 financial year which was below cost recovery.

Overview of financial risks

Huge receivables amounting to K31.2 billion, largely from Government MDAs affected the Corporation's liquidity position. The worsening liquidity levels continue to suffocate the Corporations operations, as most suppliers accounts fall to over 388 payable days due to cash flow challenges. ESCOM continued to owe its major suppliers namely EGENCO Ltd, NOCMA and Aggreko International Projects Ltd. These suppliers make up 90% of the payables.

Overview of financial flows with the government

There were no fiscal flows between ESCOM and the Government in 2020/21.

Policy specific issues for the Public Body

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

3.4.3 Malawi Energy Regulatory Authority (MERA)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	3,164,393	2,844,930	1,964,887	4,429,335
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	78%	38%	25%	72%
Return on Assets	7%	4%	5%	9%
Return on Equity	37%	26%	19%	33%
Dividend Payout Ratio	13.9	17.6	123.1	27.2
Asset Turnover	0.14	0.12	0.18	0.23
Cost Recovery	4.49	1.61	1.33	3.54
Liquidity				
Current Ratio	1.95	1.65	2.03	1.35
Quick Ratio	1.18	1.65	2.02	1.35
Accounts Receivables Days	1321.97	1562.27	676.59	836.54
Accounts Payables Days	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Solvency				
Debt to Assets	0.82	0.83	0.76	0.72
Debt to Equity	4.46	4.96	3.12	2.52
Interest Coverage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The performance of Malawi Energy Regulatory Authority (MERA) registered a growth in revenue in 2021 from the K7.9 billion to K11.2 billion largely due to the increase in fuel levy revenue in 2021. This resulted in an increase in the surplus of the Authority from K1.96 billion to K4.42 billion in the 2020/21 financial year.

Overview of financial risks

The liquidity position for the Authority slightly declined from a current ratio of 2.03:1 in 2020 to 1.35:1 in 2020/21 financial year. This means the Authority was just on the margin of being able to pay its short-term liabilities. The Authorities receivables days also grew in the year 2021 from having 677 days in 2020 to 837 days. This implies that most of its cash was being held up by its debtors which is having an impact on MERA's liquidity.

Overview of financial flows with the Government

MERA has been remitting surpluses to Government over the reporting period, however, its payout ratio has persistently been below the statutory payout ratio of 100%. In the year 2020/21 the transfers from MERA to Government accounted to 27.2%.

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 realized	There is need for Government to strengthen compliance to remittance of surpluses by MERA

3.4.4 National Oil Company of Malawi (NOCMA)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	(1,206,029)	732,648	(11,721)	(929,981)
Gross Profit Margin	-4372%	3%	2%	0%
Operating Profit Margin	-4526%	-97%	-1%	-2%
Return on Assets	-1%	1%	0%	-1%
Return on Equity	-17%	9%	0%	-6%
Dividend Payout Ratio	#DIV/0!	-	#DIV/0!	#DIV/0!
Asset Turnover	0.03	1.23	1.58	1.13
Cost Recovery	0.65	1.00	37.65	45.81
Liquidity				
Current Ratio	1.00	1.01	1.00	1.01
Quick Ratio	0.68	0.90	0.83	0.86
Accounts Receivables Days	5456.70	155.12	122.75	164.30
Accounts Payables Days	187.56	231.90	178.05	259.18
Solvency				
Debt to Assets	0.92	0.94	0.91	0.92
Debt to Equity	11.08	15.94	10.59	10.98
Interest Coverage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Other				
Government Transfers to Total Revenue	-	0.01	-	-

Overview of financial performance

NOCMA's financial performance continue to worsen overtime with a loss after tax of K929.98 recorded in 2020/21. This is mainly due to reduced fuel imports due to the impact of covid-19 pandemic on the demand of fuel products.

Overview of financial risks

NOCMA liquidity position was on the margins with a current ratio of 1.00:1 in 2020 a slight improvement to 1.01:1 registered in 2020/21. This which shows that NOCMA is barely able to meet its short-term liabilities, hence the need to be cautious and work on further improving the cash flow position.

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

Overview of financial flows with the government

There were no fiscal flows between NOCMA and Government in 2021.

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 operationalize the reserves

3.5 Financial Sector

3.5.1 National Economic Empowerment Fund (NEEF)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	2,604,987	(839,512)	(2,678,104)	(7,572,619)
Gross Profit Margin	84%	-49%	19%	22%
Operating Profit Margin	69%	-198%	-63%	-56%
Return on Assets	57%	-22%	-27%	-79%
Return on Equity	68%	-30%	-1999%	#VALUE!
Dividend Payout Ratio	-	#DIV/0!	#DIV/0!	#DIV/0!
Asset Turnover	0.84	0.45	0.27	0.35
Cost Recovery	6.44	0.67	0.77	-0.45
Liquidity				
Current Ratio	5.89	5.30	1.85	2.28
Quick Ratio	0.40	0.83	0.32	0.44
Accounts Receivables Days	6.87	104.08	40.51	21.72
Accounts Payables Days	62.82	7.76	27.38	19.25
Solvency				
Debt to Assets	0.16	0.26	0.99	1.36
Debt to Equity	0.19	0.36	71.81	-3.79
Interest Coverage	10.35	(2.66)	(1.49)	(1.08)
Other				
Government Transfers to Total Revenue	-	-	0.38	0.18

Overview of financial performance

The National Economic Empowerment Fund (NEEF) registered a further loss after tax of K7.6 billion in 2020/21 compared to a loss of K2.7 billion registered in 2019/20. The performance of NEEF worsened due to non-repayment of interest by customers which reduces the revenue generated by the Fund while its expenditure remained high.

Overview of financial risks

Liquidity of the Fund has generally been good throughout although it tends to fluctuate through the years. In 2020/21, NEEF had a current ratio of 2.28: 1 which was a slight increase from the previous year, which was 1.85:1 which still implies NEEF's ability to meet its short-term obligations but caution need to be taken to avoid reducing the position further.

On the other hand, the Fund in the year 2020/21 had a negative reserve indicating its debt surpasses its assets. The debt-to-equity was at -379 percent in June 2020 showing that NEEF is largely financed by external borrowing than from owners' equity which is completely eroded. On the other hand, the accounts receivable days reduced in 2021 from 41 days to 22 days meaning the time taken by debtors to pay their short-term debts improved and within the threshold.

Overview of financial flows with the government

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

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	NEEF loss making status mostly due to lack of capitalization, reliance on debt financing for working capital and old non-performing loans	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)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	22,836	16,997	18,356	47,126
Gross Profit Margin	-11%	22%	16%	20%
Operating Profit Margin	-122%	-56%	-69%	-60%
Return on Assets	6%	5%	5%	11%
Return on Equity	7%	5%	5%	12%
Dividend Payout Ratio	-	-	12.0	-
Asset Turnover	0.59	0.75	0.78	0.74
Cost Recovery	0.90	1.28	1.18	1.25
Liquidity				
Current Ratio	9.68	27.64	12.02	33.47
Quick Ratio	9.68	27.64	12.02	33.47
Accounts Receivables Days	127.59	128.75	246.91	239.07
Accounts Payables Days	44.40	18.82	37.53	15.07
Solvency				
Debt to Assets	0.08	0.03	0.07	0.02
Debt to Equity	0.09	0.03	0.07	0.03
Interest Coverage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The Malawi Accountants Board (MAB) registered a surplus of K47.1 million in 2020/21, a significant improvement from the previous year where it registered a surplus of K18.4 million.

Overview of financial risks

Liquidity position for MAB has generally been good throughout with 2020/21 registering a current ratio of 33.5:1 indicating an improvement in MAB's ability to meet its short-term obligations. The Board's debt-to-equity had a slight improvement from it being 7% in 2019/20 to 3% in 2020/21.

The Board's receivable days showed a decrease for the first time in the past 4 years from 247 days in the previous year to 239 days in 2020/21. This decrease in days shows that its income was being held up by debtors for a shorter period, however, despite the improvement, the number still poses as a threat and could eventually lead to cash flow challenges if not timely controlled

Overview of financial flows with the government

In the year 2020/21, no financial transfers were made between the Government and MAB.

Policy specific issues for the Public Body

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

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	(338,064)	(223,854)	(439,502)	(481,756)
Gross Profit Margin	42%	51%	48%	52%
Operating Profit Margin	-15%	3%	-88%	-84%
Return on Assets	-16%	-10%	-22%	-21%
Return on Equity	-82%	-114%	#VALUE!	#VALUE!
Dividend Payout Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Asset Turnover	0.44	0.67	0.62	0.59
Cost Recovery	1.73	2.05	0.74	0.74
Liquidity				
Current Ratio	0.29	0.28	0.16	0.24
Quick Ratio	0.25	0.25	0.12	0.21
Accounts Receivables Days	107.16	95.64	52.06	165.82
Accounts Payables Days	284.32	229.85	233.89	230.95
Solvency				
Debt to Assets	0.81	0.91	1.12	1.31
Debt to Equity	4.13	10.15	-9.55	-4.19
Interest Coverage	(9.91)	79.57	#DIV/0!	#DIV/0!
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The financial performance for Malawi Institute of Management (MIM) has been deteriorating for the past four years. In 2021 MIM registered a loss after tax of K482.0 million compared to a loss of K439.5million registered in 2020. This was on account to the declined levels of revenue due to the closure of the Business School and Business Centres in response to the COVID-19 measures.

Overview of financial risks

In the 2020/21 financial year, the liquidity position of the Institute slightly improved from a current ratio of 0.16:1 in 2020 to a 0.24:1 recorded in 2021.Despite the slight improvement in liquidity position, MIM could barely meet its short-term obligations. In addition, in 2021, the reserves for MIM further deteriorated from a negative K234.7 million to a negative K707.3 million. MIM eventually financed its operations through borrowing as confirmed by the worsening debt to equity ratio.

Overview of financial flows with the government

Malawi Institute of Management has not been able to remit dividend to government due to cash flow challenges over the last eight years.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy recommendations
Sales Revenue	Low sales revenue due to low patronage of programmes, as well as the impact of COVID-19.	There is need to develop comprehensive turn-around strategy focusing on MIM's re-engineering process. In addition, MIM should explore E-Learning platforms in administering its programmes.
Tax Arrears	Nonpayment of PAYE arrears and other obligations to government.	There is need to prioritize clearance of all statutory obligations including taxes. There is need to engage MRA and devise a payment plan for all the tax arrears.

4.1 HEALTH SECTOR

4.1.1 Pharmacies and Medicines Regulatory Authority (PMRA)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	121,240	(74,144)	53,624	261,852
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	9%	-4%	4%	14%
Return on Assets	5%	-3%	2%	9%
Return on Equity	6%	-4%	3%	12%
Dividend Payout Ratio	-	#DIV/0!	-	-
Asset Turnover	0.58	0.54	0.51	0.63
Cost Recovery	1.10	0.96	1.04	1.17
Liquidity				
Current Ratio	1.68	0.73	0.68	1.26
Quick Ratio	1.36	0.70	0.66	1.25
Accounts Receivables Days	19.65	7.38	10.85	43.12
Accounts Payables Days	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Solvency				
Debt to Assets	0.10	0.14	0.28	0.25
Debt to Equity	0.11	0.16	0.39	0.33
Interest Coverage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The performance of the Pharmacy and Medicines Regulatory Authority (PMRA) further improved during the 2020/21 financial year as it registered a surplus of K261.9 million from a surplus of K53.6 million which was recorded in the 2019/20 financial year. This was mostly due to a 29.0% increase in total revenues.

Overview of financial risks

The liquidity position of the Authority slightly improved from 0.68:1 in 2020 to 1.26:1 in 2021, although there was this improvement, the Authority was still unable to meet its short-term obligations. In terms of debt-to-equity ratio, it had remained below the bench mark which was at 33% meaning it comprises of more of owners' equity to debt.

Overview of financial flows with the government

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

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy recommendations
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	

4.2 Labour Sector

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

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	440,058	170,891	634,445	1,695,639
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	3%	2%	5%	10%
Return on Assets	6%	7%	7%	15%
Return on Equity	8%	4%	11%	20%
Dividend Payout Ratio	-	-	-	-
Asset Turnover	1.20	4.10	1.38	1.47
Cost Recovery	1.03	1.02	1.05	1.11
Liquidity				
Current Ratio	3.27	1.94	2.42	2.87
Quick Ratio	3.27	1.93	2.42	2.86
Accounts Receivables Days	187.87	129.76	188.53	149.71
Accounts Payables Days	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Solvency				
Debt to Assets	0.24	0.84	0.38	0.27
Debt to Equity	0.32	0.53	0.61	0.38
Interest Coverage	2.84	2.15	4.31	18.13
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

TEVETA continued to register good performance with a surplus of K1.7 billion in 2020/21 financial year which was a huge increase from a profit of K634.5 million in the previous year. This increase in income which was mainly due to bad debts recovered. Overall, in the year 2020/21 TEVETA's performance made positive improvements in most of its financial areas.

Overview of financial risks

The Authority's current ratio improved in 2020/21 to 2.87:1 from 2.42:1 in 2020/19 financial year. This shows that the Authority is able to meet its short-term obligations as they fall due. Financial leverage as measured by debt-to-equity ratio decreased to 38 percent in 2020/21 indicating that the Authority uses its own resources compared to external resources to finance its assets.

Overview of financial flows with the government

The only fiscal flows in the year 2021 was an amount of subvention transferred to TEVETA as TEVET Levy from the Government.

Policy specific issues for the Public Body

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

4.3 Lands and Housing Sector

4.3.1 Malawi Housing Corporation (MHC)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	12,534	11,036	9,964,652	4,495,218
Gross Profit Margin	-41%	-45%	-5%	-6%
Operating Profit Margin	-182%	-190%	-111%	-113%
Return on Assets	0%	0%	8%	3%
Return on Equity	0%	0%	8%	4%
Dividend Payout Ratio	79.8	-	-	-
Asset Turnover	0.04	0.03	0.04	0.04
Cost Recovery	0.71	0.69	0.95	0.94
Liquidity				
Current Ratio	1.05	0.81	0.70	0.49
Quick Ratio	0.63	0.46	0.43	0.21
Accounts Receivables Days	192.79	83.62	111.13	57.35
Accounts Payables Days	122.32	78.71	127.15	145.93
Solvency				
Debt to Assets	0.05	0.06	0.08	0.09
Debt to Equity	0.05	0.06	0.09	0.10
Interest Coverage	(249.65)	(367.65)	(701.36)	(476.54)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Malawi Housing Corporation's (MHC) financial performance slightly declined in the 2020/21 financial year which the corporations registering a profit of K4.5 billion from a profit of K9.9 billion in 2020.Although there was a declined in the profitability for the year 2020/21 the rental incomes of the corporation slightly increased from K3.56 billion to K3.58 billion. However, MHC's operation expenditure was still higher than revenues, hence the loss of (this is loss before property revaluation, which is the basis for the Profit after tax in table above).

Overview of financial risks

The Corporation also continued to incur challenges in collecting rentals mostly from public institutions who occupies 85 percent of the Corporation's houses, however, in the year 2021 the average collection days improved from 112 days in 2020 to 58 days. Although this was the case, the liquidity position of the corporation still remained below average at 0.49:1 in the 2020/21 financial year, making it difficult for the Corporation to meet its short-term obligations as they fall due. Furthermore, the working capital remained in the negative indicating the Corporation's inability to finance its day-to-day operations including taxes.

Overview of financial flows with the government

There were no financial flows between Government and MHC in 2020/21 financial year.

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.

4.4 TRADE AND TOURISM SECTOR

4.4.1Malawi Bureau of Standards (MBS)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	2,298,523	2,686,975	1,893,741	1,207,591
Gross Profit Margin	38%	35%	27%	15%
Operating Profit Margin	-24%	-30%	-46%	-70%
Return on Assets	24%	16%	10%	5%
Return on Equity	27%	19%	11%	6%
Dividend Payout Ratio	59.7	64.7	29.4	90.0
Asset Turnover	0.48	0.40	0.37	0.33
Cost Recovery	1.61	1.53	1.37	1.18
Liquidity				
Current Ratio	2.70	2.31	2.83	1.27
Quick Ratio	2.68	2.30	2.81	1.26
Accounts Receivables Days	14.25	75.10	92.38	106.98
Accounts Payables Days	159.93	205.46	145.27	196.13
Solvency				
Debt to Assets	0.13	0.15	0.11	0.15
Debt to Equity	0.15	0.17	0.12	0.18
Interest Coverage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The Malawi Bureau of Standards (MBS) financial performance slightly declined in 2020/21 financial year from the previous year where it registered a surplus of K1.9 billion while in 2021 it registered a surplus of K1.2 billion. The revenues in 2021 increased from K7.1 billion to K8.1 billion, although this was the case the expenditures simultaneously increased by a high percentage resulting in the Bureau registering a lower surplus than the previous year. The Bureau invested a significant portion of the surplus in the construction of new MBS offices and modern laboratory currently under way. Despite that, the Bureau was also able to remit surplus to the government during year.

Overview of financial risks

The Bureau's liquidity position declined and was below the average benchmark, however the Bureau was barely meeting its current liabilities as they fall due with existing current assets. This could be due the longer period its short-term debtors are taking to pay MBS there outstanding debts.

On the other hand, MBS continues to maintain a good debt to equity percentage which stood at 18% in the 2020/21 financial year. This implied that the Bureau was comprised of more of the owners' equity than that from external financing.

Overview of financial flows with the government

In the year 2021, the Bureau was able to remit a dividend of K1.1 billion to Government which approximately 90% of its total surplus of the year.

4.4.2Malawi Gaming Board (MGB)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	51,416	467,887	93,390	88,961
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	16%	32%	10%	62%
Return on Assets	6%	24%	5%	6%
Return on Equity	7%	48%	12%	11%
Dividend Payout Ratio	53.0	6.0	59.4	59.4
Asset Turnover	0.91	0.75	0.50	0.55
Cost Recovery	1.20	1.48	1.11	2.65
Liquidity				
Current Ratio	2.59	1.08	0.97	1.19
Quick Ratio	2.56	1.04	0.97	1.19
Accounts Receivables Days	59.33	189.93	330.64	288.44
Accounts Payables Days	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Solvency				
Debt to Assets	0.18	0.50	0.58	0.43
Debt to Equity	0.23	0.99	1.40	0.75
Interest Coverage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The Malawi Gaming Board (MGB) continued to register surplus overtime with a surplus recorded in 2020/21 financial year making amounting to K88.9 million despite its total revenue slightly decreasing by 18% from K918 million in 2019/20 to K 772.1 million during the 2020/21 financial year. This drop was caused by the impact of COVID-19 on the gaming industry due to restrictions that reduced the operating hours and, in some cases, caused the total closure of operations.

Overview of financial risks

The Board's liquidity improved with a current ratio of 1.19:1 in 2020/21 compared to a current ratio of 0.97:1 in the previous financial year, implying that MGB improved its ability of meeting its current liabilities as they fall due with existing current assets. The Board continued to maintain a low debt-to-equity position even during the 2020/21 financial year. The account receivable days reduced to 288 days from 331 days which despite it still being an alarming figure, is on a steady decline.

Overview of financial flows with the government

MGB has continuous remitted surplus to the Government. In the 2020/21 financial year MCB remitted K52.9 million to the Government which was approximately 59.4% of the total profit for the year.

4.5 TRANSPORT AND PUBLIC WORKS SECTOR

4.5.1Air Cargo Malawi Limited (ACM)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	179,161	(201,759)	(165,476)	27,227
Gross Profit Margin	40%	37%	34%	28%
Operating Profit Margin	-20%	-27%	-70%	-72%
Return on Assets	11%	-14%	-10%	2%
Return on Equity	21%	-29%	-32%	5%
Dividend Payout Ratio	-	#DIV/0!	#DIV/0!	-
Asset Turnover	2.74	2.98	2.75	3.24
Cost Recovery	1.66	1.58	0.96	1.00
Liquidity				
Current Ratio	1.74	1.45	1.12	1.15
Quick Ratio	1.20	0.96	0.68	0.74
Accounts Receivables Days	65.96	58.39	54.06	43.07
Accounts Payables Days	69.57	98.44	83.82	72.55
Solvency				
Debt to Assets	0.48	0.52	0.67	0.69
Debt to Equity	0.92	1.10	2.06	2.26
Interest Coverage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Air Cargo Malawi Limited (ACM) reported a profit of K27.2 million in the 2020/21financial year compared to a loss of K165.5 million in 2019/20. This profit was due to the increase in total revenues from K4.4 billion in 2020 to K5.8 billion in 2021, which was mainly due to the freight and cargo handling revenues line which surpassed the budgeted revenue for the year by 12% and 25% respectively. In addition, in the 2020/21 financial year, the company implemented some improvement strategies such as; an increase in handling charges, collection of previous provided bad debts which also helped in the performance improvement.

However, despite having an improvement in the revenue, the company continues to be negatively affected by the increase in the charter/operational cost. The resumption of the Emirates freighter operations in 2020/21 after the suspension due to the COVID-19 outbreak was also accompanied by an increase in its Block Space Agreement (BSA) rate by almost 33%. This also affected the company's expenditure negatively

Overview of financial risks

ACM's liquidity position remained below the average acceptable benchmark in 2020/21 with a current ratio of 1.15:1 implying that the Company was barely capable of meeting its current liabilities as they fall due with existing current assets. Its debt-to-equity level was also 226% meaning its highly comprised of external borrowing compared to owners' equity.

Overview of financial flows with the government

There were no financial flows between ACM and Government in the 2020/21 financial year.

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)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	6,296,447	7,129,480	7,779,858	4,571,190
Gross Profit Margin	85%	97%	98%	97%
Operating Profit Margin	-10%	71%	73%	55%
Return on Assets	18%	17%	15%	8%
Return on Equity	18%	17%	16%	9%
Dividend Payout Ratio	0.5	-	-	-
Asset Turnover	0.06	0.22	0.20	0.14
Cost Recovery	1.05	3.98	4.08	2.35
Liquidity				
Current Ratio	1.28	1.23	1.12	1.13
Quick Ratio	1.14	1.09	1.04	1.06
Accounts Receivables Days	150.90	154.01	177.85	220.49
Accounts Payables Days	519.10	894.27	1687.85	1753.00
Solvency				
Debt to Assets	0.03	0.03	0.03	0.04
Debt to Equity	0.03	0.03	0.03	0.04
Interest Coverage	(7.77)	468.15	352.86	136.98
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Generally, the performance of the Airport Development Limited (ADL) in 2020/21 financial year declined despite having registered a profit of K4.6 billion. The reduced profit level was on account of the COVID 19 pandemic protocols which reduced operations at Kamuzu International Airport (KIA). Operating Revenues decreased from K2.6 billion to K2.2 billion in the 2020/21 financial year. However, non-receipt of the planned concession on agriculture activity by GBI significantly affected the revenues. The K5.8 billion profit reported is due to accounting treatment which took into consideration the revaluation of assets.

Overview of financial risks

ADL's liquidity remained poor with a current ratio of 1.13:1 in 2020/21 from 1.12:1 in 2019/20, implying that the company is barely able to meet its current liabilities as they fall due with existing current assets. The high debtors collecting days which increased from 178 days to 221 days in 2021, were also affecting the operations of the company and reducing these could improve ADL's liquidity position.

Overview of financial flows with the government

In 2020/21, 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

Lilongwe Handling Company Limited (LIHACO)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	85,146	119,113	(593,191)	(1,178,376)
Gross Profit Margin	49%	45%	35%	20%
Operating Profit Margin	-2%	-51%	-88%	-57%
Return on Assets	4%	6%	-22%	-36%
Return on Equity	12%	14%	-252%	#VALUE!
Dividend Payout Ratio	-	8.4	#DIV/0!	#DIV/0!
Asset Turnover	1.55	1.59	0.97	0.40
Cost Recovery	1.95	1.04	0.81	1.29
Liquidity				
Current Ratio	0.83	1.09	0.49	0.23
Quick Ratio	0.40	0.88	0.22	0.09
Accounts Receivables Days	67.60	108.31	58.67	61.05
Accounts Payables Days	183.78	128.11	195.45	310.11
Solvency				
Debt to Assets	0.63	0.59	0.91	1.03
Debt to Equity	1.69	1.47	10.37	-37.58
Interest Coverage	(0.93)	(97.70)	(29.49)	(12.96)
Other				
Government Transfers to Total Revenue	0%	0%	0%	0%

Overview of financial performance

The Lilongwe Handling Company´s (LIHACO) performance declined in 2020/21 with total revenues declining to K1.2 billion from K593.2 million in 2019/20, showing a negative 50% change. Covid-19 negatively impacted LIHACO's profits as the aviation industry was largely affected with the closure of multiple airlines, hence the loss of K1.2 billion in 2020/21.

Overview of financial risks

LIHACO's liquidity position remained in a concerning position in 2020/21 with a current ratio of 0.23:1 in comparison to 0.49:1 in 2019/20 implying that the Company was not capable of meeting its current liabilities. The accounts payable days, however, increased significantly from 196 to 310 showing that the company took longer to pay back its vendors.

Overview of financial flows with the government

In the year 2020/21, no financial transfers were made between the Government and LIHACO LIHACO could not remit any dividends to Government in 2021 due to loss making position.

Policy specific issues for the Public Body

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

4.5.2 National Construction Industrial Council (NCIC)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	43,277	54,122	55,386	81,218
Gross Profit Margin	0%	0%	100%	100%
Operating Profit Margin	-101%	-101%	2%	3%
Return on Assets	3%	3%	3%	4%
Return on Equity	4%	4%	4%	5%
Dividend Payout Ratio	60.0	-	94.7	-
Asset Turnover	1.29	1.51	1.58	1.52
Cost Recovery	1.00	1.00	1.02	1.03
Liquidity				
Current Ratio	3.21	1.27	1.20	1.42
Quick Ratio	3.21	1.27	1.16	0.63
Accounts Receivables Days	50.21	34.30	19.01	14.66
Accounts Payables Days	13.43	21.09	#DIV/0!	#DIV/0!
Solvency				
Debt to Assets	0.08	0.13	0.15	0.15
Debt to Equity	0.10	0.17	0.18	0.18
Interest Coverage	(282.21)	#DIV/0!	5.36	20.75
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The National Construction Industry Council's (NCIC) financial and operational performance has been reasonable over the years with surpluses registered throughout. There was a slight increase in surplus recorded in 2020/21 compared to the previous year at K81.2 million compared to K55.4 million in 2019/20 largely due to increase in construction levy and fees.

Overview of financial risks

The liquidity position of the Council remained slightly above the margin at 1.42:1 as of 2020/21 financial year, indicating that the Council was able to manage its working capital with barely sufficient resources to pay its debt obligations as they fall due.

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

Overview of financial flows with the government

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

4.6 WATER SECTOR

4.6.1 Blantyre Water Board (BWB)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	(2,379,428)	(3,309,855)	(7,945,844)	(13,831,189)
Gross Profit Margin	52%	46%	36%	19%
Operating Profit Margin	-18%	-25%	-108%	-183%
Return on Assets	-6%	-6%	-9%	-17%
Return on Equity	#VALUE!	#VALUE!	-114%	#VALUE!
Dividend Payout Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Asset Turnover	0.39	0.34	0.21	0.21
Cost Recovery	1.39	1.36	0.70	0.49
Liquidity				
Current Ratio	0.37	0.34	0.30	0.16
Quick Ratio	0.30	0.24	0.12	0.08
Accounts Receivables Days	163.38	108.72	66.32	34.14
Accounts Payables Days	319.64	312.98	430.41	648.10
Solvency				
Debt to Assets	1.12	1.15	0.92	1.06
Debt to Equity	-9.57	-7.66	11.34	-10.41
Interest Coverage	(5.90)	(8.25)	(15.57)	(1,058.46)
Other				
Government Transfers to Total Revenue	0.03	0.03	-	-

Overview of financial performance

Blantyre Water Board's financial performance further deteriorated in 2020/21 financial year with a loss of K13.8 billion compared to K7.9 billion loss reported in 2019/20 FY. Overall, the performance of the Board worsened largely due to non-implementation of the cost reflective tariffs which have not been adjusted in the last two years, high Non revenue water levels due to dilapidated pipeline systems and very high electricity costs which were averaging K1.2 billion per month representing approximately 65 percent of operating expenses. These challenges have significantly compromised the operations of the Board.

Non-Revenue Water (NRW) was still very high at an average of 51 percent in 2021. However, the Board plans to slightly reduce this through conducting water balancing and timely repair all leaks in the transmission and distribution network and uprooting of illegal connections, among others. In an effort to reduce electricity bills the Board commenced the process of developing an alternative source of power and plans to maximize the pumping from Nguludi plant which uses gravitational force thereby reducing pumping at Walker's Ferry.

Overview of financial risks

The liquidity position of BWB continued to be weak as demonstrated by a current ratio of below desirable levels of more than 1. This is also demonstrated by the insolvent state of the Board as it continued reporting worsening negative working capital over the years. The Board reported a liquid ratio of 0.16:1 in 2021 meaning that it was still unable to cover its current liabilities as they fall due.
To solve these challenges, the Board intensified debt collection by conducting periodic mass disconnection campaigns on all accounts over 30 days and cleaning up of customer data-base through customer verification exercises. Installation of prepaid meters to all its customers including Public Institutions was also a key strategy being used by the Board to reduce the receivables.

In terms of its efficiency to use its assets, the Board has a very weak financial leverage position which is too vulnerable to any downturns as revealed by high debt ratio which stood at 1141 percent in 2021 meaning that Board was fully financed by debt rather owner's equity.

Overview of financial flows with the government

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

Policy specific issues for the Public Body

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

4.6.2 Central Region Water Board (CRWB)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	42,806	(1,316,519)	(1,449,275)	(1,421,825)
Gross Profit Margin	14%	1%	-26%	55%
Operating Profit Margin	-71%	-98%	-152%	-68%
Return on Assets	0%	-9%	-8%	-8%
Return on Equity	-8%	#VALUE!	#VALUE!	#VALUE!
Dividend Payout Ratio	-	#DIV/0!	#DIV/0!	#DIV/0!
Asset Turnover	0.24	0.27	0.29	0.33
Cost Recovery	1.17	1.01	0.79	0.81
Liquidity				
Current Ratio	0.73	0.40	0.48	0.39
Quick Ratio	0.70	0.38	0.38	0.36
Accounts Receivables Days	299.48	206.02	237.04	133.86
Accounts Payables Days	254.32	276.24	193.83	392.46
Solvency				
Debt to Assets	1.03	1.19	1.24	1.31
Debt to Equity	-29.72	-6.15	-5.12	-4.21
Interest Coverage	(954.59)	(241.32)	(146.46)	(4.28)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Central Region Water Board's (CRWB) profits remained alarmingly low at a negative K1.4 billion in the 2020/21 financial year. The Board still experienced challenges affecting sales including high non-revenue water which was budgeted to be at 29% but ended up at 31% in the year of analysis, due to faulty pipelines, leaking tanks in a few areas such as Madisi, Kochilira, Nkhota-kota and Mponela as well as a high number of stuck and aged meters.

Overview of financial risks

The Board continued to face liquidity challenges as shown by current ratio being at 0.39:1 in the 2020/21 financial year. This shows that the Board does not have a good cash flow hence it is unable to meet its short-term obligations, such as account payables, income taxes and accrued expenses. The Board has also accumulated several loans from both local and international financial institutions.

The position of CRWB´s liquidity is mainly influenced by the large number of days it takes debtors to pay back. These debtors include MDAs which take considerably longer to pay back their debts and private customers. There was an increase in expenditure to finance the projects such as repairing of that contribute to the increase in non-revenue water.

In addition, the continued negative working capital position of the Board puts the Board at a disadvantage including lower creditability in banks as well as creating poor supplier relationships.

There is a significant improvement in the interest coverage from 146.5 to 4.28 which means that the Board increased the rate that it was able to pay interest on its outstanding debts.

Overview of financial flows with the government

In the year 2020/21, no financial transfers were made between the Government and CRWB.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales revenue	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

4.6.3Lilongwe Water Board (LWB)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	2,458,286	4,773,177	2,502,725	1,162,969
Gross Profit Margin	23%	34%	47%	35%
Operating Profit Margin	-53%	-32%	-36%	-73%
Return on Assets	5%	6%	2%	1%
Return on Equity	9%	14%	7%	3%
Dividend Payout Ratio	-	-	-	-
Asset Turnover	0.32	0.26	0.21	0.17
Cost Recovery	1.30	1.52	1.21	0.93
Liquidity				
Current Ratio	3.44	7.64	3.25	6.41
Quick Ratio	3.12	4.32	2.77	5.06
Accounts Receivables Days	208.44	198.43	216.52	115.92
Accounts Payables Days	48.67	32.00	157.03	59.53
Solvency				
Debt to Assets	0.49	0.60	0.67	0.70
Debt to Equity	0.98	1.52	2.07	2.32
Interest Coverage	(27.95)	(3.80)	(6.66)	(6.58)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Lilongwe Water Board (LWB) registered a profit after tax of K1.2 billion in the 2020/21 financial year which was 46% lower than the K2.5 billion profit after tax registered in 2019/20. This was because of expenditure growth by 43% in 2020/21 relative to a 17% increase in revenues in the same year.
The declining performance of LWB was largely attributed to increase in losses due to high Non-Revenue Water Level at 41.4% in 2020/21 compared to the target of 35%, impact of unrevised water tariffs against increased production costs, coupled with the COVID-19 Pandemic impacts particularly on water sales volume due reduced water consumption particularly amongst the commercial and institutional customer categories also had an adverse impact on the sales volume.

Overview of financial risks

The liquidity position for LWB improved from the 2019/20 financial year position from a ratio of 3.25:1 to 6.41:1 in 2020/21 financial year. The board is in a good place in terms of its liquidity. The debt collection days remained high at 116 days in 2021. To improve the situation, the Board planned to install prepaid meters in both Government institutions and private customers.

In terms of financial leverage, the Board's debt ratio steadily worsened from 2.07% in 2020 to 2.32% in the 2021 financial year. The Board plans to continue with the implementation of the water improvement projects, pipe rerouting, lowering and replacement, reticulation and other development projects which would improve water supply to the City in view of increasing demand.

Overview of financial flows with the government

In the year 2020/21, no financial transfers were made between the Government and LWB.

Policy specific issues for the Public Body

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

4.6.4Northern Region Water Board (NRWB)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	171,139	(827,195)	(3,778,190)	640,920
Gross Profit Margin	59%	55%	47%	32%
Operating Profit Margin	15%	-58%	-95%	-60%
Return on Assets	0%	-2%	-7%	1%
Return on Equity	1%	-15%	-197%	25%
Dividend Payout Ratio	-	#DIV/0!	#DIV/0!	-
Asset Turnover	0.19	0.19	0.17	0.11
Cost Recovery	2.18	0.86	0.69	1.08
Liquidity				
Current Ratio	1.03	0.51	0.46	0.71
Quick Ratio	0.85	0.38	0.36	0.46
Accounts Receivables Days	250.25	147.02	150.16	112.80
Accounts Payables Days	280.08	683.26	697.76	500.18
Solvency				
Debt to Assets	0.63	0.87	0.96	0.97
Debt to Equity	2.10	6.84	27.06	30.74
Interest Coverage	2.30	(8.74)	(17.42)	(7.81)
Other				
Government Transfers to Total Revenue	0.04	0.03	0.03	-

Overview of financial performance

The financial performance of the Northern Region Water Board (NRWB) significantly improved in the 2020/21 financial year. The board recorded an increase in its profits from a loss of K3,8 billion in 2020 to a profit of K640.9 million in 2021.The Northern Region Water Board recovered significantly from its previous years´ economic slowdown that triggered low water sales.

Overview of financial risks

On the other hand, the liquidity position for NRWB improved as demonstrated in a change of its current ratio to 0.71:1 in 2021 from 0.46:1 in 2019/20, although this was an improvement the Board's liquidity position was still below the average recommended benchmark meaning it was unable to meet its short-term obligations.

This improvement was on account to the reduction of the trade receivables position which declined from 151 days to 113 days.
NRWB's receivables are both private and public institutions, however, they are highly accumulated in public institutions which are affecting their liquidity as they are delays in payments to the board.
The NRWB continued to be highly geared with the debt ratio growing to over 3000 percent in 2021 from 2700 percent in 2019/20. This indicates that the company is heavily financed by debt than the shareholder's equity.

Overview of financial flows with the government

In the year 2020/21, no financial transfers were made between the Government and NRWB.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Required action for follow up
Sales Revenue	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	Intensify debt collection. Install prepaid meters and intensify on massive disconnections to outstanding bills

4.6.5 Southern Region Water Board (SRWB)

Indicators	2018 Audited	2019 Audited	2020 Audited	2021 Audited
Profitability				
Profit/loss (Mill MKW)	837,612	684,215	124,908	(1,067,420)
Gross Profit Margin	76%	8%	0%	70%
Operating Profit Margin	52%	-84%	-100%	-43%
Return on Assets	3%	2%	0%	-3%
Return on Equity	4%	3%	1%	-6%
Dividend Payout Ratio	4.8	-	-	#DIV/0!
Asset Turnover	0.24	0.24	0.24	0.22
Cost Recovery	4.14	1.09	1.00	0.88
Liquidity				
Current Ratio	1.63	1.57	1.55	1.42
Quick Ratio	1.54	1.45	1.48	0.87
Accounts Receivables Days	423.26	538.69	577.39	346.74
Accounts Payables Days	1052.15	326.66	331.98	1195.27
Solvency				
Debt to Assets	0.36	0.40	0.41	0.46
Debt to Equity	0.56	0.68	0.70	0.86
Interest Coverage	1,869.23	(337.25)	(58.47)	(2.77)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Overtime, Southern Region Water Board has been registering marginal profitability. However, in 2020/21 the financial performance of the Board declined significantly with a loss after tax of K1.07 billion. The underperformance was on account of the persistent excessive drought experienced in Malawi that negatively affected the flow of surface water and levels of ground water sources, thereby making SRWB not being able to meet water demand in its supply areas.

Overview of financial risks

Receivables continued to increase dominated by public institutions which continued accumulating unpaid water bills. Despite an improvement in the receivable days from 578 days in 2020 to 347 days in 2021, the Board could barely meet its current liabilities resulting in the Board financing its operations from external sources. This is confirmed by the worsening proportion of its debt to equity, which was 70 percent in 2020 and now 86 percent in 2021.

Overview of financial flows with the government

In the year 2020/21, no financial transfers were made between the Government and SRWB.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	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.

		Consider deduction of the unpaid bills at source. (60:40, 60 % towards arrears: 40% current bills)
Dividend payment	Cash flow challenges largely arising from debt receivables.	Need for settling all outstanding statutory obligations including dividend to the shareholder

5 HIGH RISK CASE STUDIES

5.1 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. However, commercial crops account for less than 10% of ADMARC's revenues.

4.1.2. Financial Performance

Table 1: Key financial performance indicators for ADMARC Limited

	2018	2019	2020	2021
Profitability				
Operating Profit Margin	0.92	-0.12	-0.46	-0.03
Net Profit Margin	0.68	0.05	-0.31	-0.11
Return on Assets	0.13	0.01	-0.05	-0.02
Return on Equity	0.26	0.02	-0.08	-0.05
Cost Recovery	1.86	0.92	0.72	0.98
Liquidity				
Current Ratio	1.01	0.61	0.40	0.71
Quick Ratio	0.64	0.33	0.24	0.34
Debtor Turnover Days	396.8	70.1	129.1	148.2
Creditor Turnover Days	853.0	320.2	505.4	295.7
Solvency				
Debt to Assets	0.50	0.43	0.46	0.54
Debt to Equity	1.01	0.77	0.86	1.17
Debt to EBITDA	2.86	-33.02	-7.93	-210.26
Interest Coverage	3.39	-23.93	-3.15	-0.22
Cash Interest Coverage	3.39	-12.51	-2.70	-0.09
Debt Coverage	1.73	-0.46	-1.72	-0.02

Category 1	Category 2	Category 3	Category 4	Category 5
Lower risk				Higher risk

Table 2: Analysis of key financial trends in ADMARC Limited

Area of analysis	Assessment of key trends
Profitability	ADMARC's strategy of buying high and selling low means it relies on large government subsidies to remain in operation. In 2021, ADMARC recorded an operating loss of MWK1.01 billion, but a net profit of MWK374million arising from increases in value of PPE.
Indebtedness	ADMARC'S debt is all short-term. Due to lack of seed capital the company is forced to borrow from local commercial banks to fund operations. ADMARC interest payments grew by about 259% in 2021 from 2020
Liquidity	The SOE's liquidity position has been negative over the last five years. The quick ratio of 0.34 and a current ratio of 0.71 in 2021 indicates the SOE is unable to pay its short-term obligations as and when they fall due and has been unable to do so for many years. The company has remained in operation by a K12 billion Government repayment for social services cost recovery arrears and by expensive government-guaranteed short-term borrowing from commercial banks.
Dependency/ Relationship with GOM	ADMARC is not generating a commercial return sufficient to fund its operations and is dependent on government funded social services to remain in operation. Despite the government support, ADMARC remains in a very weak liquidity position.

4.1.3 Main Fiscal Risks

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

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

Expenditure and revenue risks. Likelihood of occurrence (High). The company has a turnaround plan but there is a high risk it may not be achieved.

Source of Risk	Mitigation/policy measure
Revenues: Trading revenues fluctuate in response to market conditions. Covid-19 has impacted adversely on ADMARC's revenues.	**Revenues:** ADMARC lobbied Government for inexpensive capital funding to increase commercial

Source of Risk	Mitigation/policy measure
Government support for social obligations has not been provided in a timely manner.	activities and hence engage in increased commercial activities. ADMARC has engaged Government on a new model for funding of social obligations and the model is at the MoJ for vetting.
Expenditures: Costs continue to rise independent of market conditions, including high staffing costs and maintenance of uneconomic market activities and warehouses.	**Expenditures:** High staffing costs should be reviewed and uneconomic market activities and warehouses will need to be wound back or the government subsidy increased.
Capital investment: Turnaround plan involves moving further into commodities such as rice other than maize and by investing in processing activities. 2023 will be undertaking feasibility studies into five or six new projects, mainly around moving up the value chain into processing and marketing.	**Capital investment:** Assess whether the company has the expertise necessary to take on further commercial risks. ADMARC is in discussions with government about how the expansion plans should be financed.

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

Source of Risk	Mitigation/policy measure
Current assets: Inventories and trade receivables, including from government, may need to be written down further. In 2019/20 write-downs were KW2.9bn and KW4.1bn for trade and trade receivables; and amounts due from Government of Malawi respectively.	**Current assets**: Increase selling activities and lobby government for faster settlement of arrears to improve cashflow and reduce liquidity challenges which will be used to pay obligations in time and reduce payable days.
Debt repayment: company may not be able to service its interest and debt-repayment obligations.	**Debt repayments**: Review whether government-guaranteed borrowing at commercial rates is financially prudent. An option might be to borrow offshore but this would expose ADMARC to currency risk. Consider debt restructuring and balance sheet rationalization.

5.2 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. It provides around 96 million Litres of water daily through two treatment plants to 85 percent of Blantyre's population of 1.4 million, plus populations in the surrounding areas.

BWB's liquidity continued to deteriorate in 2020/21 financial year to the extent that it failed to meet its short-term obligations as and when they fell due. BWB owed over K20.1 billion in arrears to ESCOM at end the period under review.

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

COVID continued to negatively affect BWB's financial performance in 2021 through delays in delivery of pipes and fittings, an increase in arrears through a reduction in customer's disposable income, and movement restrictions affecting the ability of BWB to carry out disconnection exercises.

4.2.2 Financial performance

Table 1: Key financial performance indicators for BWB

	2018	2019	2020	2021
Profitability				
Operating Profit Margin	-0.12	-0.14	-0.62	-0.64
Net Profit Margin	-0.17	-0.12	-0.38	-0.88
Return on Assets	-0.06	-0.02	-0.07	-0.18
Return on Equity	NMF	-0.13	-0.71	NMF
Cost Recovery	0.90	0.89	0.63	0.63
Liquidity				
Current Ratio	0.44	0.39	0.35	0.17
Quick Ratio	0.42	0.28	0.29	0.15
Debtor Turnover Days	182.7	108.4	139.5	73.7
Creditor Turnover Days	376.3	331.8	473.2	687.1
Solvency				
Debt to Assets	1.12	0.82	0.91	1.10
Debt to Equity	NMF	4.61	9.55	NMF
Debt to EBITDA	-27.91	-31.90	-8.27	-8.65
Interest Coverage	-0.78	-0.65	-3.68	-1.71
Cash Interest Coverage	-0.78	-0.65	-3.68	-1.71
Debt Coverage	-0.10	-0.07	-0.27	-0.29

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

Table 2: Analysis of key financial trends in BWB

Area of analysis	Assessment of key trends
Profitability	BWB has consistently recorded substantial deficits from 2014. In the 2020/21 financial year, BWB recorded a loss amounting to K13.8 billion representing a 140% downward spiral over 2020. While revenue growth remained constrained by below cost tariffs and high non-revenue water averaging 53% in the year under review, expenditure continued to escalate largely on account of high energy cost. The major burden on the operating cost's structure was energy constituting 72% of sales. Additionally, cost of borrowing represented 37% of sales. In the final analysis, BWB is left with no resources to finance other operating requirements.
Indebtedness	BWB continued to finance its operations largely by borrowing. During the period under review, interest coverage stood at -1.71 implying that BWB failed to generate profit to cover finance costs.
Liquidity	The SOE liquidity position has been negative for the entire period under review. The current ratio of 0.17 and quick ratio of 0.15 in 20201 indicates the SOE is unable to pay its short-term obligations as and when they fall due and has been unable to do so for many years. This is reflected in the significant build up in arrears, with 85 percent owed to ESCOM. Debtor turnover days have declined from the highs in 2020, but still stand at over 2 months. Creditors turnover days continue to rise and are around 1.5 years.
Dependency/ Relationship with Government	The Government has borrowed on behalf of BWB to support a much-needed push in investment spending and has issued letters of comfort for BWB's domestic borrowings (used for operational expenditures). The EIB/IDA and Indian line of credit amount to K 34.3 billion. Until the financial position of BWB improves, the risks of non-repayment of these loans will remain very high. BWB is currently not servicing on-lent government loans (interest or principal). BWB has significant relationships in terms of sales and purchases with the Government and other SOEs. K 4.3 billion in sales are made to SOEs and Government departments and purchases of K 9.8 billion in electricity from ESCOM. Receivables from other government entities amount to K 3.0 billion as at December 2021. BWB owed over K 12.2 billion at end 2019/20 financial in arrears to ESCOM and this increased to over K 21 billion as at December 2021

4.2.3 Key fiscal risks

1. **Expenditure and revenue risks. Likelihood of occurrence (High).** Strongly rising rigid expenditure costs, growing operating expenses and lower than anticipated revenues have negatively impacted the profitability of the SOE.

Source of Risk	Mitigation/policy measure
Expenditures: BWB has experienced strong increases in the number of connections and active customers, increasing pressure on expenditures as revenues do not cover costs. Electricity costs have been rising significantly and account for over 40 percent of total costs. The 65	A plan has been set in motion to vacate to cost reflective tariffs by 2023, which will require a 115 percent increase in tariff. A 65 percent increase in tariffs was implemented in November 2021, with a further rise of 40 percent planned in November 2022 and 10 percent in November 2023. At this stage the future price rises are on hold.

percent increase in electricity costs in 2018 and 18 percent in 2021 has significantly affected profitability. Other costs (chemicals, pipes and other equipment) have also been rising strongly. Limited pipeline and storage capacity means water pumping is required 24 hours a day, limiting the ability of BWB to take advantage of off-peak electricity tariffs (on-peak tariffs are 3 times off-peak tariffs). Staffing costs are high, with 10 staff per 1,000 connections against a target of 10 per 6,000 connections. Wages have increased in line with inflation (10 percent per annum). Revenues: Tariffs are set by the parent ministry and not an independent regulator, and these have not kept pace with increases in costs. Poor revenue collection has resulted in accumulation of trade debtors largely from Government Institutions. BWB has significant water losses (non-water revenue). This amounts to 54 percent of water produced. These losses are driven by aged and frequently bursting pipes. Around 60 high-profit industrial customers have left BWB to water delivered by boreholes. Investment in new pre-paid meters has not delivered expected revenue gains and has actually led to losses in revenue. Volume measurements by the new meters are below actual water provision.	Reduce non-water revenue from 51 percent (as at June 2020). The target is 29 percent. This will be done through the replacement of 135 kilometers of aged and frequently bursting pipes, sealing boreholes and meter validation. A government bailout on ESCOM arrears is being sought. Reduce electricity costs through: • Investment in pumping stations, pipelines and storage to minimize on-peak electricity purchases. • Solar electricity generation project, which is expected to begin construction by end 2022. A feasibility and procurement process is underway. The plant is expected to cost USD 72 million and deliver ongoing annual benefits of USD 5 million per annum. Recover high-profit industrial customers from their use of boreholes by sealing them. Addressing pre-paid meter issues. Around 56,000 aged and or faulty meters need to be replaced. BWB has restricted spending on overtime and allowances for staff to reduce staffing expenditure. It remains BWB's policy to fill positions in the establishment as they fall vacant.

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

Source of Risk	Mitigation/policy measure
Debt repayment: BWB has relied on high-cost overdrafts to maintain operations. Around K 1 billion has been borrowed through an overdraft facility at 22 per cent interest. This is allowed though a government consent arrangement. The other debt stock is provided for investment purposes and is obtained through Government consent or channelled through an on lent arrangement. This is a significant fiscal exposure for	**Government support should include timely payment of arrears** which are critical to the SOEs liquidity position. BWB is seeking a government bailout of ESCOM arrears. The turnaround strategy is expected to significantly improve BWB's financial position by 2024, allowing it to improve cash flow and reduce short-term liabilities. BWB estimates that the profit margin will improve from the current -84 percent to 20 percent and the quick ratio will improve from the current 0.14 percent to 2.6 per cent.

Source of Risk	Mitigation/policy measure
the Government, as BWB is unable to service its debts under current operations. The interest coverage ratio has remained persistently negative and decreased significantly in FY2019-20 and FY2020-21. **Arrears accumulation:** The worsening liquidity trend has reduced the ability of the SOE to pay its suppliers on time (principally ESCOM). As of 31 December 2021, total payable to the government and government agencies was at K26.5 billion (99% to ESCOM).	BWB is seeking a restructure of the long-term loans obtained through the Malawi Government.

5.3 ELECTRICITY SUPPLY COMMISS MALAWI (ESCOM)

4.4.1 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).

4.4.2 Financial performance

Table 1: Key financial performance indicators for ESCOM

	2018	2019	2020	2021
Profitability				
Operating Profit Margin	-0.21	-0.11	-0.15	0.06
Net Profit Margin	-0.14	-0.06	-0.13	-0.04
Return on Assets	-0.07	-0.03	-0.06	-0.02
Return on Equity	-0.29	-0.29	-1.23	NMF
Cost Recovery	0.83	0.91	0.88	1.06
Liquidity				
Current Ratio	0.85	0.91	0.68	0.54
Quick Ratio	0.62	0.78	0.53	0.45
Debtor Turnover Days	118.5	91.4	72.7	35.3
Creditor Turnover Days	413.5	249.5	245.3	388.5
Solvency				
Debt to Assets	0.75	0.90	0.95	1.06
Debt to Equity	3.02	9.52	18.22	NMF
Debt to EBITDA	-9.89	-135.61	-33.48	14.49
Interest Coverage	-74.81	-23.99	-4.55	2.29
Cash Interest Coverage	-52.82	-3.38	-1.81	5.24
Debt Coverage	-0.48	-0.04	-0.15	0.28

Category 1 | Category 2 | Category 3 | Category 4 | Category 5

Lower risk ⟵⟶ Higher risk

Table 2: Analysis of key financial trends in ESCOM

Area of analysis	Assessment of key trends
Profitability	The trajectory of ESCOM profitability, as measured by **operating profit margin** improved to **6%** on sales of **K151 billion** in the **FY2020-21, from a negative 15%** on sales of **K140 billion in FY2019-20**. This has resulted in the non-achievement of the targeted Net profit margin, ROA, ROE, Cost Recovery, liquidity and solvency ratios. Although there has been a strong year-on-year growth in electricity sales, the losses are explained by a delay in passing the increased power purchase cost through to end-user consumers – instead of October 2020, the Regulator effected the tariff adjustment on 31 March 2021. Absence of materials due to lengthy and slow procurement processes, resulted in scaling down in maintenance activities and more power outages which led to lost revenue and inability to connect new customers and thus grow its customer base. Increased impairment charges arising from failure to pay their bills by BWB and some MDAs. Inability of Blantyre Water Board and some Ministries, Departments and Agencies to settle electricity bills owed to ESCOM/ Power Sector. Worsening financial viability, as total liabilities exceeded total assets, as well as rising debt to equity ratio. 22% transmission and distribution energy losses above the industry standard/ normal losses of 16%, reduces affordability of electricity sector tariff.
Indebtedness	ESCOM's debt continues to increase. With the company accumulating losses each year from 2018 to 2021. The company only remains operating with the support of creditors and the governments underwrite of its debt. 22% of the company's (18X Bn MWK) in commercial debt is guaranteed by GoM and is on a non-concessional basis to cover working capital shortfalls to repay IPPs and EGENCO.
Liquidity	The SOE liquidity position has been negative since 2018. The quick ratio of 0.45 in 2021 indicates the SOE is unable to pay its short-term obligations as and when they fall due and has been unable to do so since 2017. This is reflected in the significant build up in arrears from unpaid trade payables.
Dependency/ Relationship with GOM	ESCOM is only able to continue to operate with the support of the government [Government Comfort Letter, Guarantees for commercial loans and Concessionary loans for investments] and the company's state-owned creditors through extended payable days.

4.4.3 Key Fiscal Risks

Expenditure and revenue risks. Likelihood of occurrence (High).

Risk 1: Inadequate revenues to cover costs (policy area: cost reflective electricity tariff lines)
Tariff revenues prevailing in FY 2020/21 were adequate to cover costs billed against ESCOM in FY2021. However, the revenue deficits in prior years are yet to be fully recovered, creating a situation where Shareholders' funds have been depleted. The resolution of EGENCO-ESCOM billing differences/ dispute (EGENCO cumulative billed capacity: K177 billion) and ESCOM received energy: K117 billion) has negatively affected profitability of ESCOM.

Risk 2: Non-collectability of electricity sales to Blantyre Water Board (BWB) and some Ministries, Departments and Agencies (policy area: public policy debt management)
Power sector in Malawi lacks enforcement mechanism, which can allow ESCOM to recover amounts owed by the State, through BWB (K20 billion owed to ESCOM aged 20 months) and some MDAs (K5 billion owed to ESCOM aged 20 months. As these amounts remain uncollected, ESCOM suffers

the burden of impairment charges and financing payment to IPPs and Value Added Tax, thus making the power sector financially unsustainable and ESCOM struggling to become financially viable.

Risk 3: Slow and lengthy procurement (policy area: public procurement)
ESCOM's procurement processes are controlled by public procurement, which is currently facing multilayered interventions resulting in a situation, where ESCOM is unable to acquire urgent requirements to respond to unforeseen emergencies. Indeed, failure to meet new connections' targets and preventive maintenance is attributed to lack of materials.

Risk 4: Inadequate capacity to acquire short-term and long-term debt (policy area: financing structure)
ESCOM, which relies on Shareholder and grant funding for its capital investments, is unable to implement minimum critical transmission and distribution infrastructure to replace ageing infrastructure, as well as respond to developments. Depletion of its Shareholders' funds has resulted in unsustainable debt to equity ratio. Given this situation, ESCOM does not have capacity to acquire short-term and long-term debt based on the strength of its balance sheet.

Risk 5: Energy losses in excess of industry standard (policy area: efficient power sector infrastructure)
At 22%, energy losses reported by transmission and distribution infrastructure are in excess of the industry standard losses of 16%. The reduction of this excess loss shall enhance affordability of electricity, as it will be passed on to the end-user through a price reduction.

Risk 6: Optic fiber (policy area: optic fiber debt)
ESCOM operations in electricity sector, as well as tele-communications sector have separate regulations. Optic fiber, as a business has leveraged on electricity sector infrastructure to acquire debt financing. Reviews indicate that the tele-communication business will not be able to sustain loan and interest repayments on the optic fiber debt - US$32 million drawn out of US$122 million loan facility from China Exim as of 30 June 2021.

Source of Risk	Mitigation/policy measure
Expenditures and capital investment: - As noted above the costs of electricity purchases have increased sharply but the costs are not reflected in the regulated tariffs ESCOM charges Coupled with growing head office expenses this is placing ESCOM in an unprofitable position. - Investment spending is escalating and will have to be better managed to avoid further losses (project write offs). - Expenditure on maintenance has been volatile partly reflecting scarcity of materials due to Covid-19. **Revenues:** - Tariffs are set by the regulator, MERA and set below cost, which constrains the ability of ESCOM to operate commercially. The largest problems have been with other SOEs, such as BWB, whose charges are well below the cost of supply. - Issues have arisen with the quality of service in terms of reliability of supply, including time to	**Expenditures and capital investment** - PPAs need to be reviewed to ensure they are commercially viable. - Control the rising costs of head office expenses. - Review whether the provision for maintenance has been adequate. **Revenues** - Tariffs need to be reviewed by regulator to fully reflect costs. - Connection charges need to reflect the full costs of connection.

Source of Risk	Mitigation/policy measure
make new connections, accuracy of metering and billing.	

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

Source of Risk	Mitigation/policy measure
Debt repayment and further arrears: - ESCOM has had to borrow more long-term debt to sustain its operations and debt was 106% of assets at the end of 2021. A large proportion of debt is to provide working capital to sustain operations through two commercial domestic loans at a high rate of interest (18 percent) despite being government guaranteed. 72 percent of long-term loan repayments are due within Four years. The ability for the SOE to service its debts from its current earnings has slightly improved in 2021 from negative -4.55:1 recorded in 2020 to 2.29:1 registered in 2021.	Address the unsustainable accounts payable position and prioritize payments to key SOEs in the energy sector to avoid domino effect. 90% of accounts payable are to other SOEs in the energy sector (mainly EGENCO and NOCMA). Government will need to consider recapitalizing the company if tariffs are not adjusted sufficiently to reflect costs. A recapitalization however will only be a short-term measure if tariffs are not adjusted over time.

6 ANNEXES

Annex 1: List of SOEs in Malawi (2021)

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 (2021)

Name of SOE	Profit/loss (Mill MKW)	Gross Profit Margin	Operating Profit Margin	Return on Assets	Return on Equity	Dividend Payout Ratio	Asset Turnover	Cost Recovery	Current Ratio	Quick Ratio	Accounts Receivables Days	Accounts Payables Days	Debt to Assets	Debt to Equity	Interest Coverage	Government Transfers to Total Revenue
MAB	100,244	24%	-52%	8%	18%	98.8	0.66	1.32	1.19	1.11	91.25	280.26	0.55	1.24	#DIV/0!	-
MACRA	8,269,901	100%	26%	28%	70%	47.0	0.94	1.36	0.56	0.19	30.46	#DIV/0!	0.42	1.05	#DIV/0!	-
MBS	78,948	100%	85%	2%	0%	-	3.35	6.59	1.99	1.02	37.16	#DIV/0!	0.50	0.08	#DIV/0!	-
MERA	2,861,706	100%	75%	7%	7%	-	0.35	4.02	1.47	1.93	#DIV/0!	#DIV/0!	0.30	0.30	#DIV/0!	-
MGB	735,906	100%	38%	18%	27%	108.7	1.18	1.61	2.53	1.81	10.58	#DIV/0!	0.35	0.53	#DIV/0!	-
NCIC	131,517	100%	-194%	4%	4%	-	0.17	0.34	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	0.13	0.13	(78.86)	-
PMRA	87,228	12%	-54%	3%	4%	-	1.06	1.51	0.44	0.43	1666.15	99.02	1.00	1.37	739.02	-
TC	197,493	80%	60%	3%	4%	(20.0)	0.60	4.95	0.55	0.22	23.06	21.04	0.39	0.52	#DIV/0!	-
TEVETA	292,292	100%	3%	2%	2%	-	0.55	1.03	2.72	2.72	249.92	#DIV/0!	0.20	0.26	#DIV/0!	-
MBC	32	84%	67%	0%	0%	-	1.58	4.75	0.53	0.37	68.17	52.81	0.81	4.29	(1,076.65)	0.22
MCA	232,770	7%	-87%	6%	8%	-	0.99	1.07	0.81	0.45	25.27	77.96	0.20	0.26	#DIV/0!	-
MIM	1,904,454	100%	-66%	#DIV/0!	#DIV/0!	-	#DIV/0!	-0.08	#DIV/0!	#DIV/0!	61.69	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	1.14
NEEF	(2,130,728)	44%	-56%	-6%	-49%	#DIV/0!	0.22	-0.40	19.36	18.96	1295.49	12.89	0.87	6.57	#DIV/0!	-
NFRA	297,523	100%	0%	1%	1%	-	0.14	-2.11	6.86	0.66	59.65	#DIV/0!	0.22	0.27	#DIV/0!	3.11
ACM	103,444	100%	2%	4%	13%	-	2.68	1.02	1.35	0.87	32.62	#DIV/0!	0.67	2.03	#DIV/0!	-
ADL	8,383,757	109%	83%	11%	12%	1.2	0.15	3.81	1.45	1.34	21.19	-256.87	0.08	0.09	57.14	-
ADMARC	(8,490,530)	100%	-11%	-10%	-76%	#DIV/0!	0.10	0.90	0.71	0.33	372.86	#DIV/0!	0.86	6.33	(0.30)	-
BWB	652,364	46%	-35%	0%	#DIV/0!	-	0.38	0.40	0.25	0.22	181.15	125.48	0.16	#DIV/0!	(7.68)	-
CRWB	1,599,259	87%	0%	6%	-45%	-	0.44	1.15	1.04	0.92	91.03	232.23	1.13	-8.82	(0.03)	-
EGENCO	1,447,619	26%	-68%	0%	1%	-	0.21	1.06	4.32	3.31	266.69	12.51	0.43	0.76	(38.85)	-
ESCOM	1,470,934	55%	-45%	0%	10%	-	0.42	0.99	1.44	0.75	5106.41	1696.17	0.97	31.01	(17.34)	-
LIHACO	(158,082)	100%	100%	-4%	-4%	#DIV/0!	0.93	#DIV/0!	2.68	2.04	#DIV/0!	#DIV/0!	0.07	0.07	460.16	63%
LWB	937,435	67%	-35%	1%	1%	-	0.24	0.98	9.90	4.09	55.51	27.07	0.99	1.00	#DIV/0!	-
MHC	189,941	81%	-22%	0%	0%	40.0	0.04	0.97	1.98	1.98	158.88	100.40	0.03	0.03	(1.36)	-
MPC	458,197	18%	-87%	2%	7%	-	0.38	0.67	0.44	0.35	350.67	824.67	0.76	3.17	(22.83)	0.30
NOCMA	2,046,000	0%	-99%	1%	11%	-	1.40	1.00	0.96	0.73	6308.49	238.69	0.95	20.89	#DIV/0!	-
NRWB	127,391	2%	-97%	0%	-3%	66.7	0.20	0.80	1.27	1.31	#DIV/0!	100.81	0.98	-18.00	#DIV/0!	-
SRWB	318,695	70%	3%	1%	2%	-	0.37	1.50	2.13	1.89	125.78	211.27	0.65	1.61	#DIV/0!	-

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	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
Financial Performance	3	Return on total equity	Return on equity measures the ability of a corporation to generate an adequate return on the capital invested by the owners. In principle shall be equal to interest on government bonds plus a margin for risk.	Return on total equity = operating profit after tax/average total equity x 100%.	0 to 10 = Red, 10 to 15 = yellow, > 15 green
	4	Cost recovery	Cost recovery reflects the ability of a corporation to generate adequate revenue to meet operating expenses, where operating revenue equals total revenue less government grants and equity injections; and operating expenses are less gross interest expense. The ratio should genrally be higher than one.	Cost recovery = operating revenue (exc. Grants and equity injections)/operating expenses x 100%.	<1 = red
	5	Gross Profit Margin	Gross profit, the first level of profitability, tells analysts how good a company is at creating a product or providing a service compared to its competitors. Without an adequate gross margin, a company cannot pay for its operating expenses. In general, a company's gross profit margin should be stable unless there have been changes to the company's business model.	Gross profit margin = gross profit/ Revenue x 100%	<5 = Red, 5 to10 = Yellow , >15 = Green
	6	Operating Profit Margin	Operating Profit indicates how much of each Kwacha is left after both of goods sold and operating expenses are considered.	Operating profit margin = Operating profit / Revenue x 100%	Is industry specific e.g 1.Aviation: 2.Transport: 3.Agriculture:4. Water: 5. Energy: 6.Communication: 7. Housing:
	7	Asset Turnover	Asset turnover measures the value of the company's sales or revenues generated relative to the value of its assets. The asset turnover ratio can be oftenly used as an indicator of the efficiency with which a company is deploying its assets in generating revenue. Generally speaking the higher the asset turn over ratio the better the company is performing.	Asset turnover = Sales / Net Assets(Total Assets - Total liabilities)	
	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
Financial risk	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