GOVERNMENT OF MALAWI

2022/23 CONSOLIDATED REPORT FOR STATE OWNED ENTERPRISES IN MALAWI

MINISTRY OF FINANCE AND ECONOMIC AFFAIRS
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DECEMBER 2024

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EXECUTIVE SUMMARY

The aggregate financial and non-financial performance of the twenty-eight Commercial State Owned Enterprises (SOEs) is the main emphasis of this consolidated SOE report. Based on the audited financial statements and the Performance Management Plans and Budgets for the fiscal year 2022–2023, the report also details the performance of each commercial SOE.

In general, the report shows the SOEs' overall, varying financial performance from the 2019–2020 fiscal year to the 2022–2023 fiscal year. With their assets making up over 87% of total assets, 89% of total liabilities, and 86% of total revenues, the communication, energy, water, and agriculture sectors continue to dominate the SOE sector. From the perspective of fiscal risk, these need particular attention due to their scale and diversity across all economic sectors.

In terms of cost recovery, SOEs in the water sector, energy sector and agriculture 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.

The impact of the 25% devaluation in May 2022, along with significant operational and administrative expenses, were the primary causes of the ongoing liquidity bottlenecks. This ultimately forces the majority of SOEs to resort for on-lending, overdraft, and guaranteed debt as a means of meeting their working capital needs. Due to accumulating water bills, this was common among utility corporations.

Given this Granger causality, this calls for Government's urgent structural policy interventions from a fiscal risks perspective to avoid exposing Government. These policy shifts include establishing an autonomous regulator to ensure fair pricing and oversight within the water sector. Where Government requires SOEs to undertake social obligations on behalf of Government, there is need for Government to pre-finance those social obligations at the beginning of each financial year. On cash flow challenges, there is need for Government to strengthen its financial oversight role to ensure that SOEs spend within their resource envelope and where financing of operations require borrowing, Government should conduct adequate due diligence and continue monitoring the loan service obligations to avoid the risks of defaulting and exposing Government.

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

When State Owned Enterprises (SOEs) do not fare well financially, the government is exposed to financial hazards. A SOE's financial returns drop, its debt rises, and its solvency may be in jeopardy if it is not running as efficiently as it should. Lower financial returns from SOEs, additional fiscal expenses for the budget, and an unmanageable debt load for each SOE are possible outcomes of this. Since the government owns SOEs, it is responsible for any contingent liabilities related to SOE debt. In order to successfully manage the fiscal risks associated with SOEs, the government primarily aims to determine the kind, origin, extent, and probability of these risks. To do this, thorough data about SOEs collectively is required.

1.2 SCOPE

In addition to suggesting mitigating measures, this analysis addresses Malawi's SOEs' fiscal performance and possible financial stressors. In cooperation with the Boards of the SOEs, it helps management in the Ministry of Finance and Economic Affairs (MOFEA) to identify possible fiscal risks so that appropriate corrective action can be taken to reduce them.

Although this analysis may not accurately estimate the scope of these risks and the likelihood that they will materialize due to data limitations, it is nonetheless a crucial starting point for conversations between the MoFEA, Line Ministries, and SOE Boards. The Ministry consulted the management of the 28 Commercial SOEs to validate the secondary data used in the report's compilation. Information was gathered from the Performance Management Plans and Budgets (PMPBs), management accounts, audited financial statements, 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

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

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

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

Section		Sub-section	Analysis	Importance
			staffing and restructuring) 2.6.4 SOE Oversight function (capacity and coverage)	
		2.7 Critical policy recommendations	2.7.1 Repayment of loans 2.7.2 Subsidies for PSO 2.7.3 Public Investment risks 2.7.4 Institutional arrangements 2.7.5 SOE Oversight function	Outline related recommendations from the cross-cutting issues
3	Individual SOE analysis and data input sheets	• Overview of financial performance • Overview of financial risks • Financial flows with the Government • Policy specific issues		Provides senior management with specific areas to follow up with individual SOEs based on financial indicator analysis.
4	High Risk Case Studies incorporated as part of the individual SOE chapter	ADMARC BWB ESCOM NOCMA EGENCO	1.1 ADMARC 1.2 BWB 1.3 ESCOM 1.4 NOCMA 1.5 EGENCO	Trend and forward-looking analysis for the three (3) high risk SOEs.
Annex 1	List of SOEs in Malawi (2022)	Including Governance and compliance issues		
Annex 2	Financial indicators for Statutory body oversight	15 indicators include: 1) profit after tax; 2) Return on Assets; 3) Return on total equity; 4) Cost recovery; 5) Gross profit margin; 6) Operating Profit margin; 7) Asset turnover; 8) Debt to equity; 9) Current ration; 10) Quick ratio; 11) Accounts receivable days; 12) Debt servicing ratio; 13) Accounts payable days; 14) Government transfers as a proportion of total revenue; 15) Dividend Payout Rate.		Heat map used to monitor the financial performance of the SOE sector.
Annex 3	Indicators, Calculations and thresholds	15 Indicators, Calculations and thresholds for monitoring SOE Financial Performance		

2 AGGREGATE ANALYSIS

2.1 OVERVIEW OF THE STATE-OWNED ENTERPRISES SECTOR IN MALAWI

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

This report covers 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.[2]

Figure 1: Public Entreprises Sector in Malawi

Figure 1a: Structure of the SOE Sector in Malawi

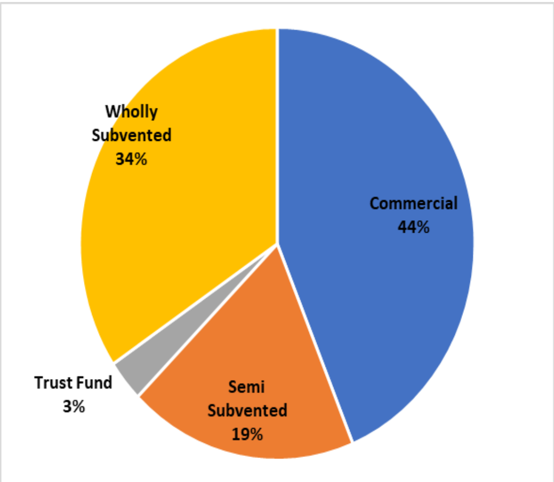
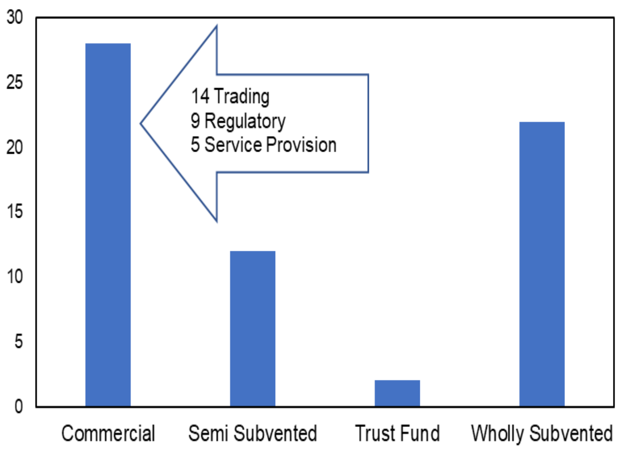


Figure 1b: Composition of the Commercial SOEs



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 form 9 percent of GDP for FY 2022/23, Gross liabilities of the sector for the same FY account form 12 percent of GDP while SOE assets accounted for 18 percent of GDP in Malawi (**Table 2).**

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

(Millions MK)	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Total Assets	1,493,295	1,723,189	1,884,132	2,208,269
Total Liabilities	944,419	1,180,537	1,296,676	1,568,057
Total Revenue	676,273	737,369	581,112	1,126,052
As % of GDP				
Total assets	18%	18%	17%	18%
Total Liabilities	11%	13%	12%	12%
Total Revenue	8%	8%	5%	9%

Source: 2023 Audited Financial Statements and Annual Economic Report, 2023

The SOE sector is largely dominated by the energy, water and agriculture sectors (Table 3). These sectors account for 79.27 percent of total assets, 91.15 percent of total liabilities and 84.96 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. On the other hand, the Trading SOEs

Table 3: SOE Assets, Liabilities and Revenues for FY2022/23 (By sector and category) (Percent of total)

Sector	Assets	Liabilities	Revenue
Agriculture	6.10%	4.76%	5.22%
Communication	2.83%	2.80%	3.01%
Energy	52.00%	59.40%	72.03%
Governance	0.44%	0.24%	0.30%
Trade and Tourism	2.83%	1.03%	2.21%
Transport and Public Works	3.94%	0.43%	2.87%
Water	21.27%	26.99%	7.71%
Lands and Housing	6.49%	1.10%	0.58%
Financial	1.02%	1.50%	0.65%
Health	2.06%	1.29%	3.07%
Labour	0.77%	0.28%	1.75%
Youth Sports and Culture	0.13%	0.14%	0.28%
Finance	0.12%	0.05%	0.33%
Grand Total	**100.00%**	**100.00%**	**100.00%**

Function	Assets	Liabilities	Revenue
Regulatory	11.70%	10.04%	8.37%
Service Provision	5.03%	4.18%	4.73%
Trading	83.27%	85.78%	86.90%
Grand Total	**100.00%**	**100.00%**	**100.00%**

Source: 2023 Audited Financial Statements.

2.2 SOE Financial Performance

2.2.1 Performance (Profits and Surpluses)

Regarding financial performance, **the Dividend and Surplus Policy for Statutory Bodies in Malawi (2019) is quite explicit**. Since they must function according to a private sector model in order to maintain their long-term financial viability, commercially oriented SOEs must make an effort to be effective and efficient. It also acknowledges, nevertheless, that the majority of these SOEs carry out their business missions while simultaneously offering social services. In a sense, the profitability level is muted by the social services component. However, efforts are being made to develop financing assumptions that are cost reflective while keeping in mind the demand for social obligation.

With sharp fluctuations from low profitability to high profitability and vice versa in certain entities, SOEs that engaging in commercial activities exhibit variability throughout their several categories. Among traders, the number of companies that were posting losses remained at 7. It was observed, meanwhile, that certain SOEs, like CRWB, went from posting losses to registering profits, whereas EGENCO recorded a loss from a profit position. Overall, 16 out of the 28 (57%) of all the commercial SOEs registered losses/deficits in the 2022/23 financial year (**Figure 2).**

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

Figure 2a: Trading SOEs

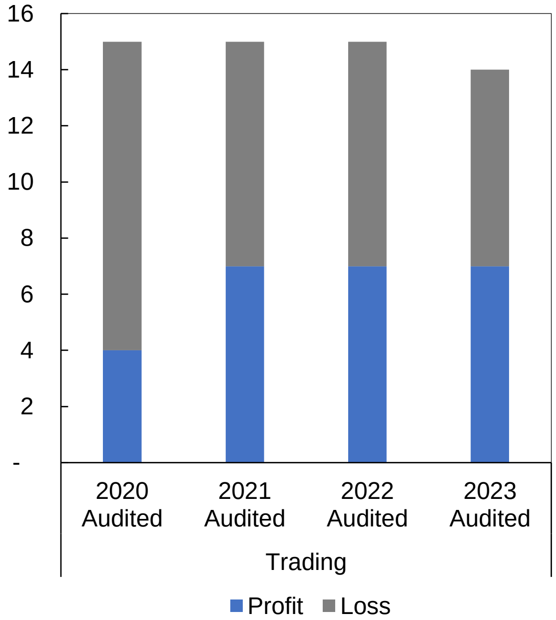
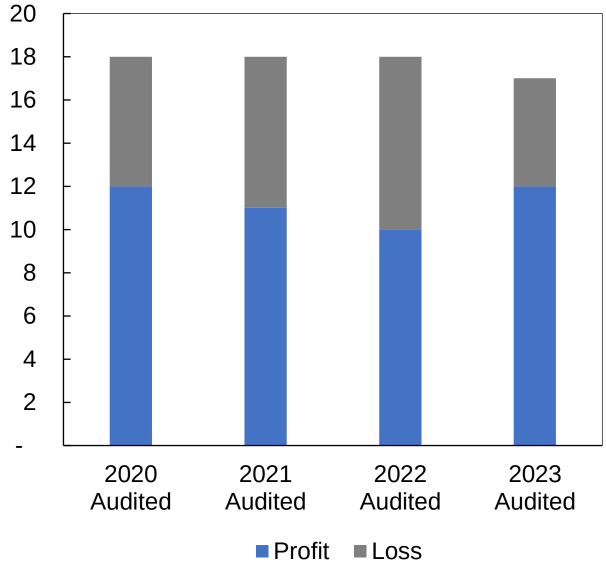


Figure 2b: Regulators and Service Providers



Source: 2023 Audited Financial Statements.

Only one regulator, TC, recorded a deficit in 2023 while the other eight regulators registered surpluses. Although NOCMA, LIHACO, and CRWB registered a profit from a loss-making position in the 2021/22 fiscal year, the number of loss-making SOEs for trading SOEs remained at seven in 2023.
Only one (NFRA) registered a profit in 2023, indicating that the performance of the service provider SOEs remained difficult ***(Table 4 and Figure 3).*** To avoid being a burden on the national budget, service providers are supposed to break even.

Table 4: Profit and loss /Surpluses and deficits making SOEs (FY2020 - FY2023) (By entity) (K' Millions)

	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Trading				
ACM	(165,476)	27,227	28,208	289,070
ADL	7,779,858	4,571,190	7,721,360	12,431,370
ADMARC	(1,762,274)	(1,011,737)	(13,589,795)	(5,688,189)
BWB	(7,945,844)	(13,831,189)	(8,187,960)	(20,692,852)
CRWB	(1,449,275)	(1,421,825)	(390,790)	1,952,547
EGENCO	(5,082,104)	4,559,509	5,116,734	(2,132,433)
ESCOM	(28,452,500)	(14,672,335)	6,798,367	25,972,037
LIHACO	(593,191)	(1,178,376)	(345,695)	2,738,999
LWB	2,502,725	1,162,969	594,077	1,102,571
MHC	9,964,652	4,495,218	1,664,265	(268,115)
MPC	(3,276,259)	(104,582)	(1,698,975)	(2,365,724)
NOCMA	(11,721)	(929,981)	(415,911)	3,213,911
NRWB	(3,778,190)	640,920	(5,409,291)	(7,936,576)
SRWB	124,908	(1,067,420)	(728,999)	(988,193)
SFFRFM	(213,698)	2,133,614	285,250	
Regulatory				
MAB	18,356	47,126	79,029	45,816
MACRA	5,436,447	9,300,731	6,806,595	8,835,817
MBS	1,893,741	1,207,592	(648,858)	747,464
MERA	1,964,887	4,429,335	1,350,725	3,056,917
MGB	93,390	88,961	1,222,806	2,583,264
NCIC	55,386	81,218	468,549	1,011,194
PMRA	53,624	261,852	403,045	525,783
TC	(81,359)	324,460	(1,289,946)	(110,289)
TEVETA	634,445	1,695,639	2,194,787	1,401,207
PPDAA	148,530	394,806	411,062	621,075
UHL	(730,584)	(730,919)	413,688	1,388,442
Service Provision				
MBC	60,634	(421,072)	(356,262)	(1,123,754)
MCA	109,153	(161,273)	(61,238)	
MIM	(439,502)	(481,756)	(267,069)	(34,303)
NEEF	(2,678,104)	(7,572,619)	(13,595,062)	(4,944,694)
NFRA	(317,852)	(342,399)	174,337	263,271
CMST	(7,600,181)	(5,309,353)	(5,943,721)	(10,491,815)
COSOMA	155,999	54,280	(150,658)	192,394
Grand Total	**(33,581,379)**	**(13,760,190)**	**(17,347,346)**	**11,596,212**

Source: 2023 Audited Financial Statements

From an overall total loss of K17.4 billion in 2022 to an overall profit of K11.6 billion in 2023, the trading SOEs' overall performance in 2023 greatly improved in terms of profitability (Table 4). The energy, transportation, and communications sectors remained the main drivers of this performance.

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

Figure 3a: Trading SOEs (aggregate)

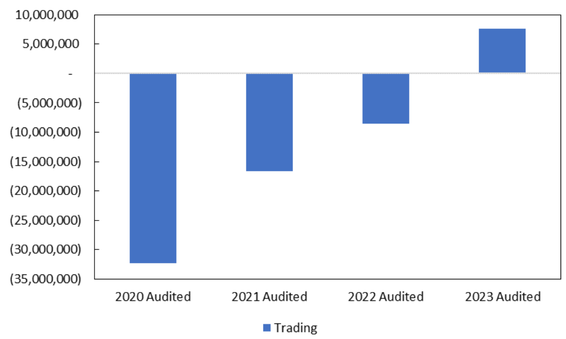
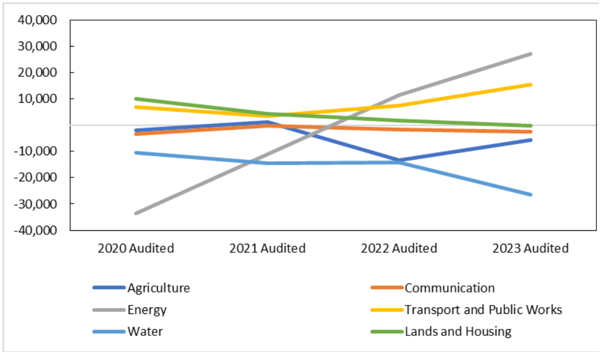


Figure 3b: Trading SOEs by sector



Source: 2023 Audited Financial Statements and Performance Management Plans and Budgets

Over the years, the trading SOEs' performance has significantly improved. industries like energy, transportation, and public works have generally had higher trends between 2020 and 2023, which shows how some businesses in these industries have improved. The agriculture sector, on the other hand, exhibits the largest fluctuations and a significant decline in sector performance. However, throughout the same time frame, the water sector's performance remained steady from 2020 to 2022, with a minor uptick in 2023.

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

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

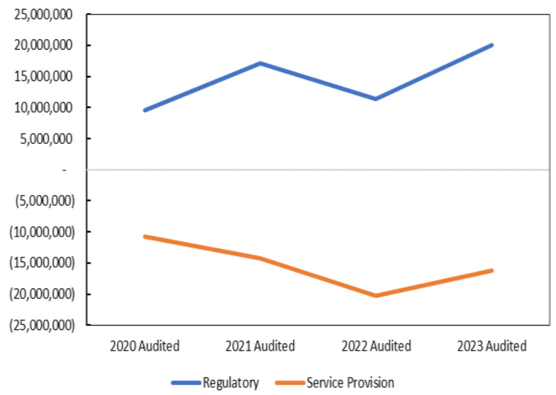
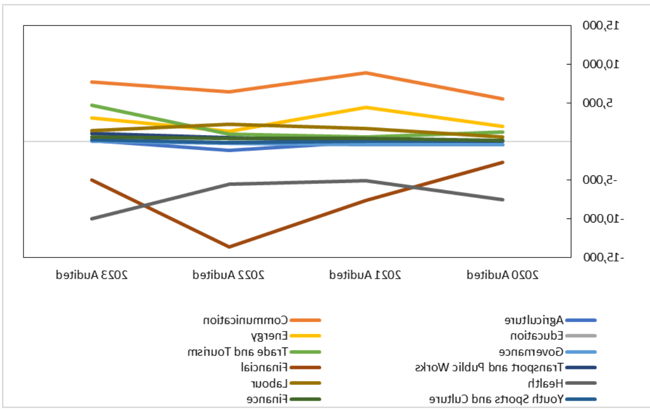


Figure 4b: Regulators and Service Providers by sector



Source: 2023 Audited Financial Statements and Performance Management Plans and Budgets

From registered surpluses of K10.59 billion in 2022 to K18.097 billion in 2023, the performance of regulatory SOEs improved in 2023 (Figure 4). Similarly, although reporting a deficit throughout the fiscal year, the overall performance of service providing SOEs in 2023 indicates an improvement in performance.

2.2.2 Cost recovery

Cost recovery reflects the ability of a corporation to generate adequate revenue to meet operating expense[3]. The ratio should generally be higher than one hundred percent. Cost recovery performance according to functions of the SOE, Energy, Transport & public works and Lands and Housing sector were above 100 percent threshold in 2023. Communications and Water were below the threshold.

Figure 5: Cost Recovery for Trading SOEs

Figure 5a: 2023 only

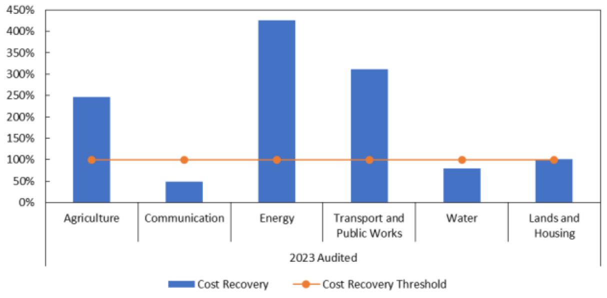
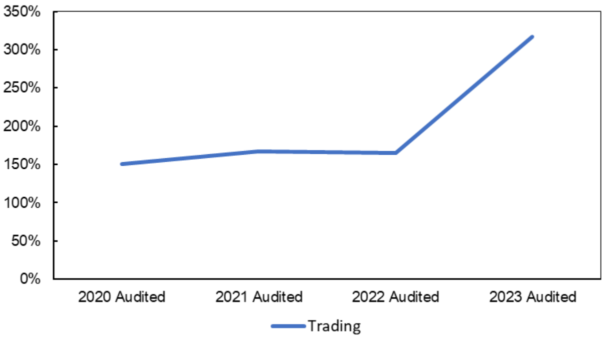


Figure 5b: Trend analysis (2020-2023)



Source: 2023 Audited Financial Statements and Performance Management Plans and Budgets

The aggregate cost recovery shows and upward movement among trading SOEs in 2023 **(Figure 5).** However, SOEs in the, communication and water sectors registered a cost recovery under the threshold ranging from 49% to 80%. On the other hand, SOEs in Lands and Housing sector, Transport, Energy, Agriculture and Trade & Tourism sectors registered cost recovery above the threshold ranging from 102% to 566%.

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

Figure 6a: 2023 only

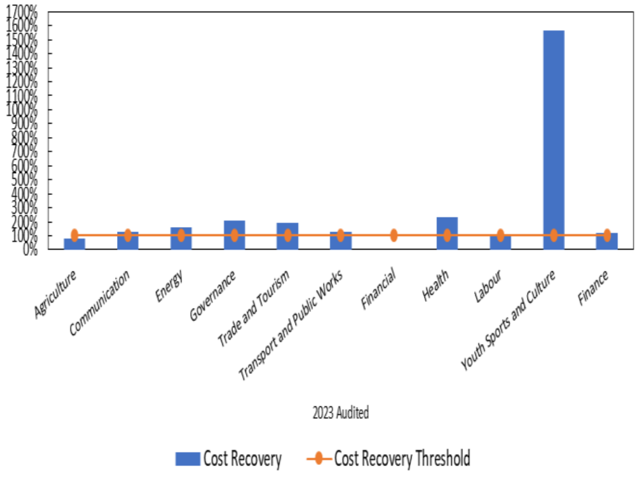
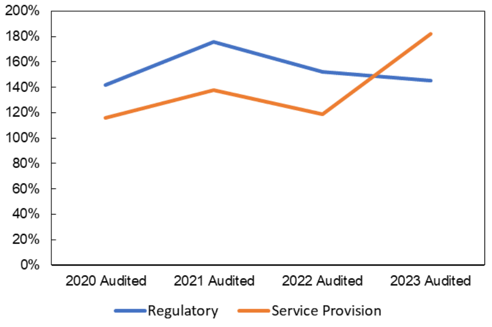


Figure 6b: Trend analysis (2020-2023)



Source: 2023 Audited Financial Statements and Performance Management Plans and Budgets

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

2.2.3 Return on assets

Return on assets indicates how well management of a Company is employing its total assets to make a profit. Although it fell short of the recommended benchmark of 5%, the overall return on assets for Trading SOEs improved in 2023 compared to 2022. The energy sector was the major driver for this improvement. There is still a financial risk notwithstanding the modest improvement in the return on assets. However, the water, communications, and agriculture sectors still yield low returns on their assets.

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

Figure 7a: 2023 only

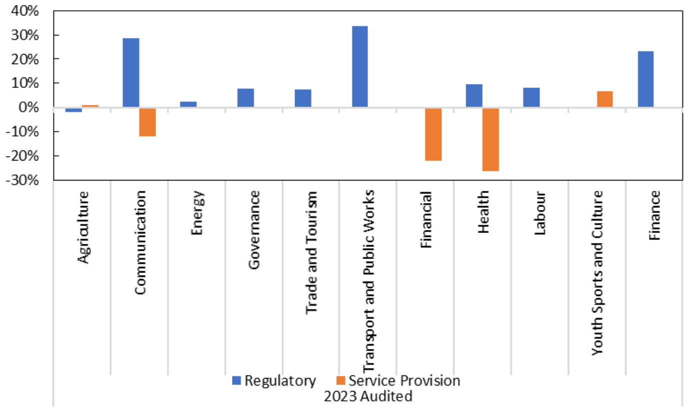
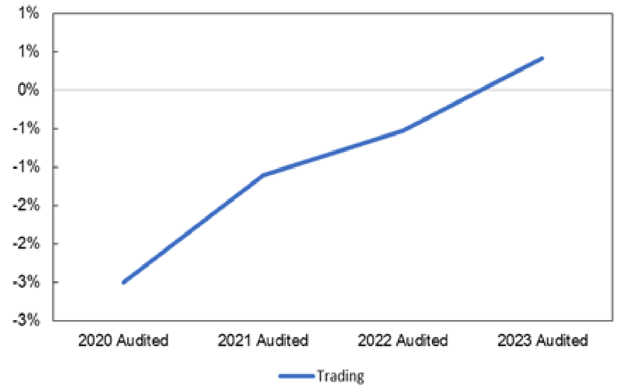


Figure 7b: Trend analysis (2020-2023)



Source: 2023 Audited Financial Statements and Performance Management Plans and Budgets

The trend depicts a downward trajectory in 2022 and a slight increase in 2023, from a return on assets of 7% in 2022 to 8% in 2023, despite the fact that the regulatory function has been performing well over the years, with the return on assets over the 5% criterion (Figure 8).

However, despite a slight improvement over 2022, service providers continue to be in a high-risk position of less than 0%. This low proportion is mostly due to losses reported by service provision SOEs in 2023 (Figure 8).

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

Figure 8a: 2023 only

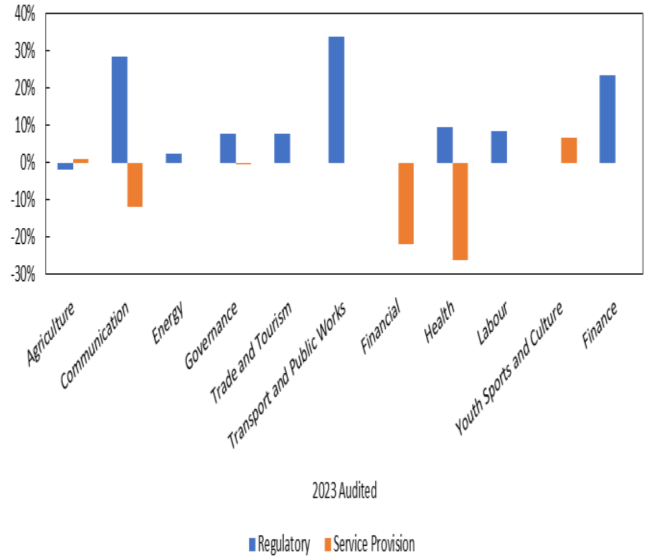
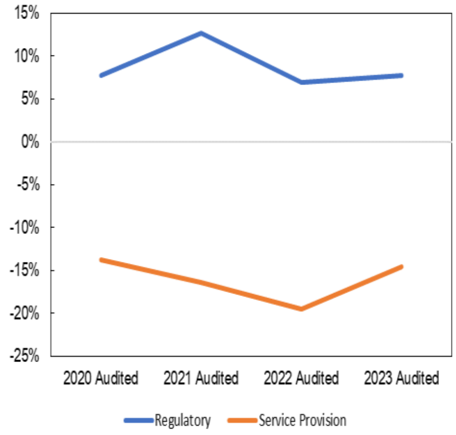


Figure 8b: Trend analysis (2020-2023)



Source: 2023 Audited Financial Statements and Performance Management Plans and Budget

2.2.4 Return on equity

The Return on Equity (ROE) is a measure of how much profit is generated with the funds invested by shareholders plus accumulated profits not paid to the shareholder. A rough international benchmark is above 15% **(Figure 9).** Return on equity among trading SOEs slightly improved from -1% in 2022 to 0.41% in 2023. With an aggregate of 3% and 18%, respectively, SOEs in the energy, lands, and transportation sectors were the main drivers of the modest increase in overall performance. However, there is still a significant financial risk because SOEs in the agriculture, communication, and water sectors registered Return on Equities of -6, -11, and -6 percent, respectively.

Figure 9: Return on Equity for Traders (Percent)

Figure 9a: 2023 only

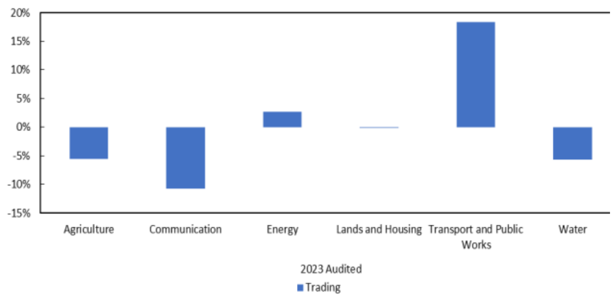
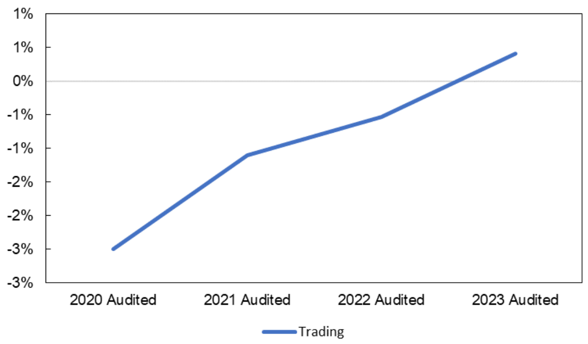


Figure 9b: Trend analysis (2020-2023)



Source: 2023 Audited financial Statements and Performance Management Plans and Budgets

The overall returns on equity for regulatory SOEs increased marginally from 7% in 2022 to 8% in 2023. This is because regulatory SOEs reported a modest increase in surplus levels in 2023. Regulators such ad MBS, who recorded a deficit in 2022, recorded a surplus in 2023.

However, service provision SOEs' return on equity is still in a precarious position; in 2023, it was -15 percent, primarily due to SOEs in the financial sector like NEEF. (Fig. 10).

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

Figure 10a: 2023 only

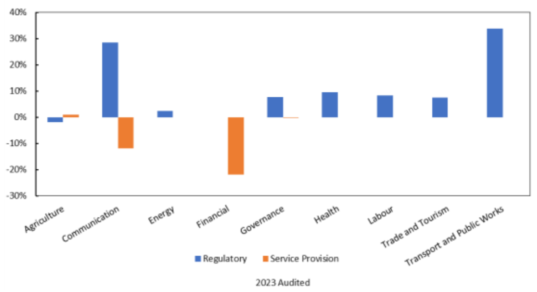
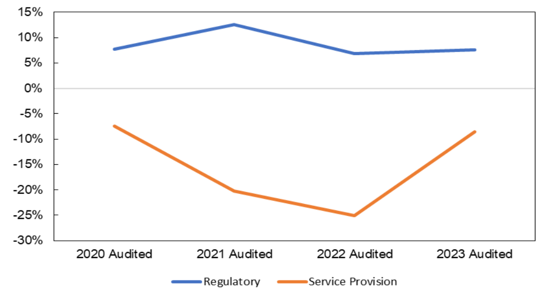


Figure 10b: Trend analysis (2020-2023)



Source: 2023 Audited financial Statements and Performance Management Plans and Budgets

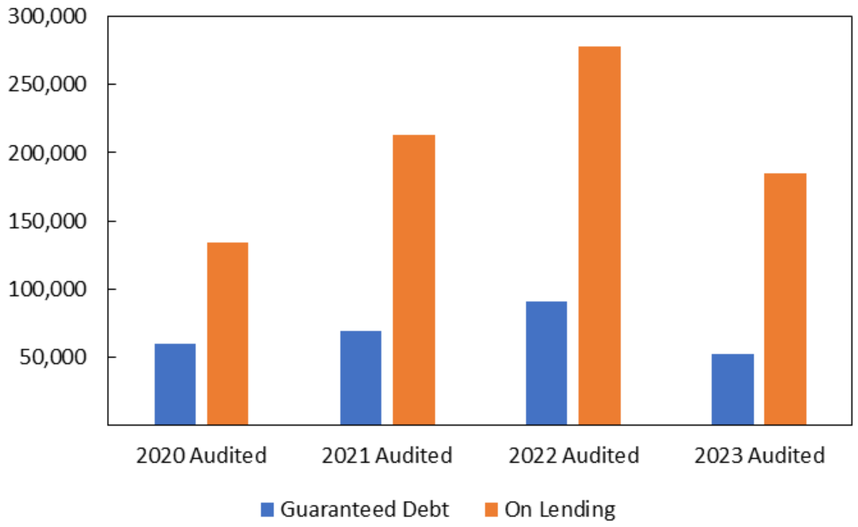
2.3 SOE DEBT

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 2023, total liabilities inclusive of these debt categories stood at 11 %Percent of GDP (Table 2). These amounts include long-term loans to the different sectors, non-interest-bearing debt, guaranteed debt from bilateral and multilateral institutions, and specialized direct and onlent loans. These loans were intended, among other things, to improve energy transmission, build water supply networks in water supply areas, and create and renovate infrastructure.

SOEs continue to finance their development projects using on lent facilities. In 2023, the stock of on lent stood at K184 billion a decrease from K277.7 billion reported in 2021/2022 financial year. Similarly, guaranteed debt portrays a downward trend in 2023 which decreased to K52.2 billion from K91.0 billion in 2022 **(Figure 11).** The other debt comprises the non-guaranteed debt which is commonly contracted by the SOEs with prior approval of the Minister of Finance and Economic Affairs.

Figure 11:(Composition of SOE debt)



Source: 2023 Audited financial Statements and Performance Management Plans and Budgets

2.3.2 Debt to equity

The debt-to-equity ratio is a measure of the extent that the entity is dependent on external funding for its ongoing operations. A safe threshold is considered to be at 40 percent. In 2023 sectors such as Agriculture, Communication, Energy and Water were above the threshold. **(Figure 12).**

Figure 12: Debt to Equity by Sector (Percent)

Figure 12a: 2022 and 2023

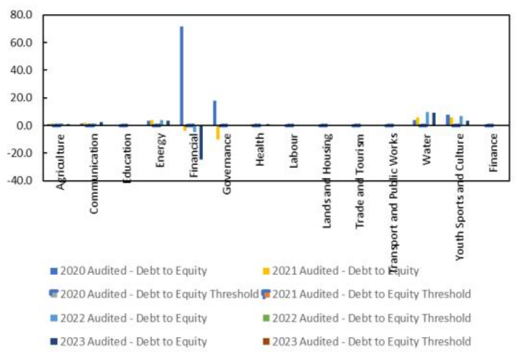
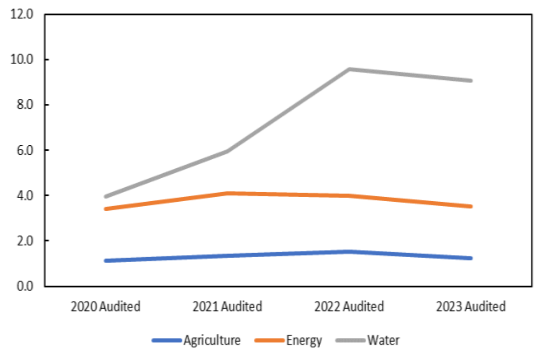


Figure 12b: Trend analysis (2020-2023)



Source: 2023 Audited financial Statements and Performance Management Plans and Budgets

2.3.3 Debt Service Coverage

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

Figure 13 demonstrates that there was a decrease among the Service Provision SOEs cash flows that was used for debt service during the period under review. This proportion significantly decreased from 0.3 in 2022 to -0.1 percent 2023. This implied that the SOEs hardly met their interest payments indicating a high-risk position on aggregate as it shows that institutions were facing challenges in meeting interest payments. This was mostly on account of water, energy, financial, and Agriculture sectors.

Figure 13: Debt Servicing Ratio by Function and Sector

Figure 13a: DSR (2023)

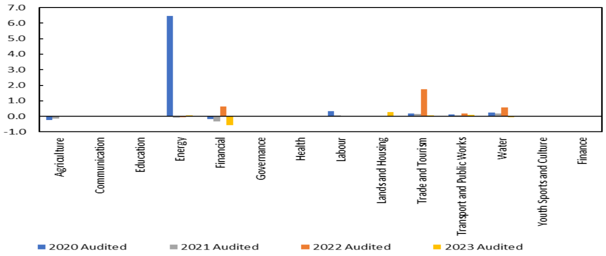
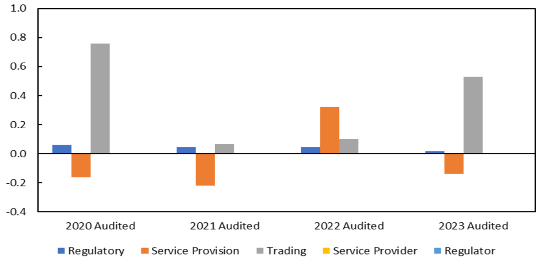


Figure 13b: DSR Trend analysis (2020-2023)



Source: 2023 Audited Financial Statements and Performance Management Plans and Budgets

2.4 Fiscal Flows between SOEs and Budget

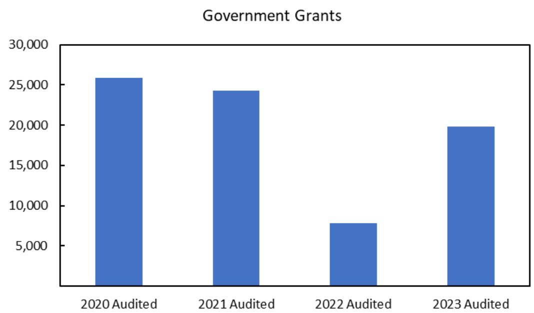
Government Transfers to SOEs

Financial support to SOEs through grants, subsidies and capital injections are concentrated in the agriculture, communication, financial and water sectors in 2022. However, government grants significantly increased in 2023 relative to the prior year. **(Table 5 and figure 14).** Agriculture sector received the most grants in 2023 followed Communication Sector largely to support Public Service Obligations (PSOs) in these sectors. However, Public Service Obligations in some sectors exist in the form of non-cost reflective tariffs in public utilities such as water and electricity, existence of non-economic markets as the case is in Postal Services and ADMARC.

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

Sector	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Agriculture	20,112	19,007	6,766	14,134
Communication	3,434	3,255	157	4,752
Energy				
Financial	1,000	600		
Water	225	224	265	234
Youth Sports and Culture				
Finance	1,106	1,230	670	656

Figure 14: Trend analysis (2020-2023)

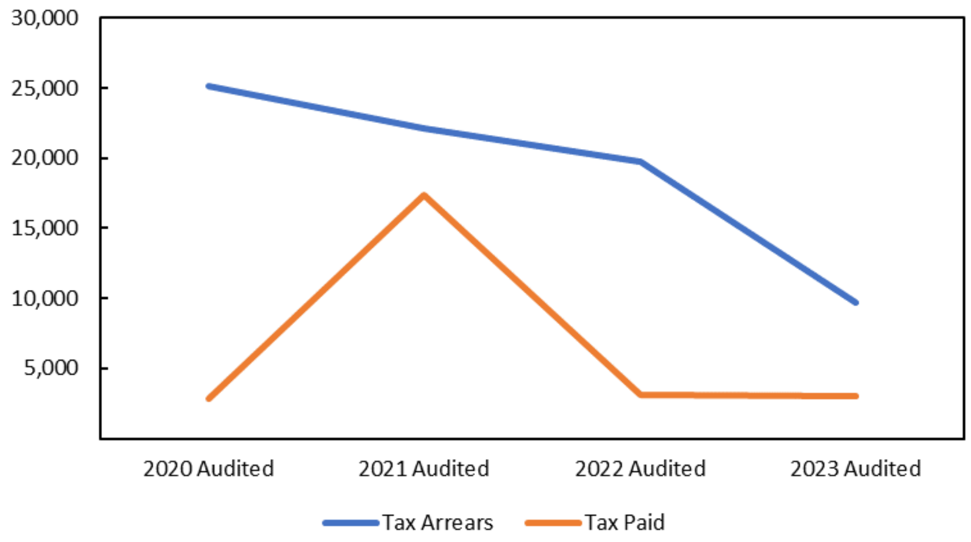


Source: 2023 Audited Financial Statements and Performance Management Plans and Budgets

2.4.1 Taxes and Dividend Payments remitted by Commercial Entities

In 2023, SOE tax payments decreased to about K17.3 billion. But throughout that time, tax arrears also decreased. The main cause of the discrepancy between tax payments and the real accumulation of arrears was liquidity issues brought on by substantial trade receivables from both public and private debtors. (Fig. 15).
Tax arrears typically result in a vicious cycle of payment arrears, especially when the SOEs are owed money from other government institutions, such as the outstanding public debt to the water and power utility companies. They also pose a significant fiscal risk to the Malawi Revenue Authority (MRA) in terms of meeting revenue collection targets.

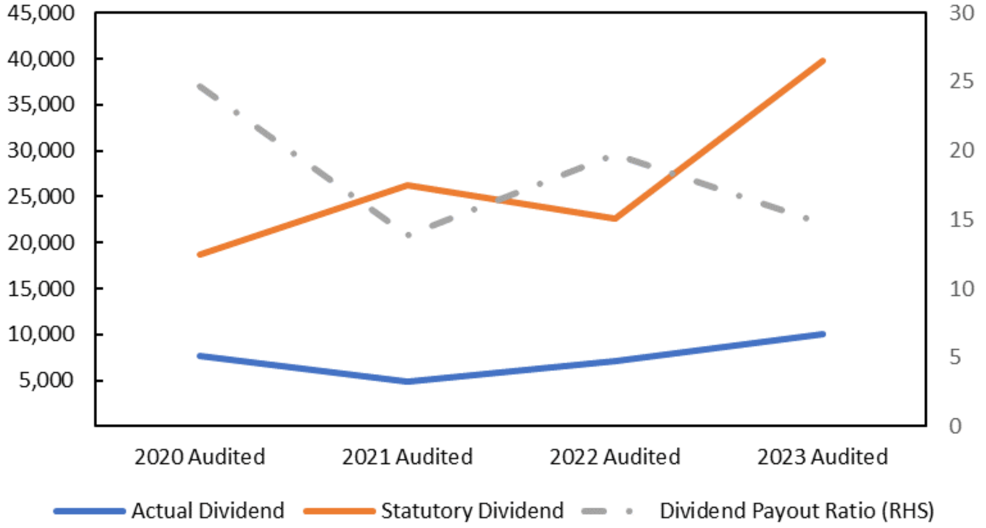
Figure 15: Tax Payments vs. Tax arrears by Commercial Entities (Kwacha Million)



Source: 2023 Audited Financial Statements and Performance Management Plans and Budgets

The remittance of surpluses and dividends by SOEs into the consolidated account further declined in 2022. The aggregate profit level for SOEs recording profit improved to approximately K39.8 billion in 2023 from K22.6 billion in 2022. Nevertheless, actual remittances continued to remain below the statutory requirement at K7.1 billion in 2022 to K6.0 billion in 2022 (Figure 16). The dividend pay-out ratio moved from 20 percent in 2022 to 6 percent in 2023 hence the actual dividend paid remained below statutory requirement. This was largely due to cash flow challenges experienced by SOEs especially due to increasing trade debtors especially public institutions.

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



While there was no dividend remittance among trade SOEs in 2023, the surplus and dividend remittance among regulatory and service provider SOEs continued to drop in the 2022–2023 fiscal year. This was mostly reported on by the SOEs' cash flow issues.

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

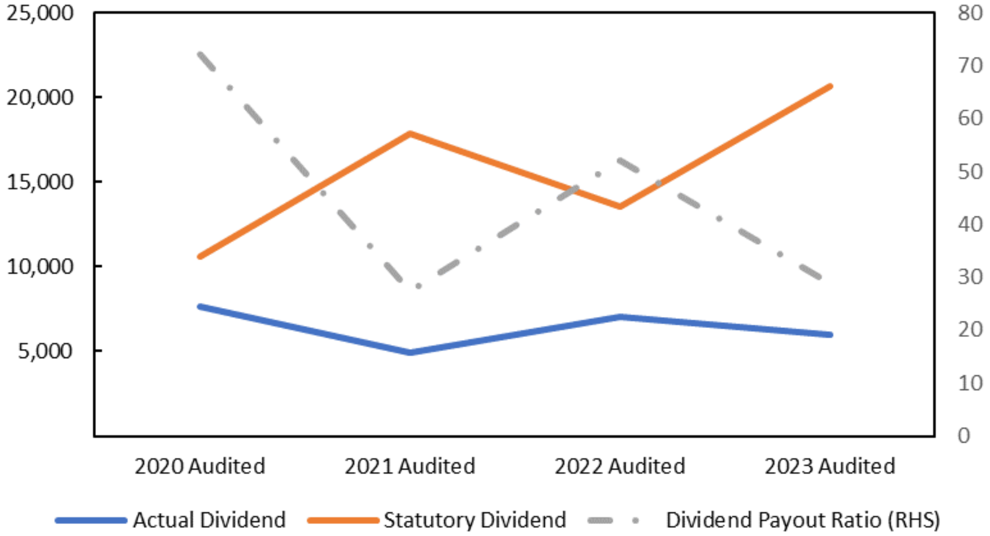
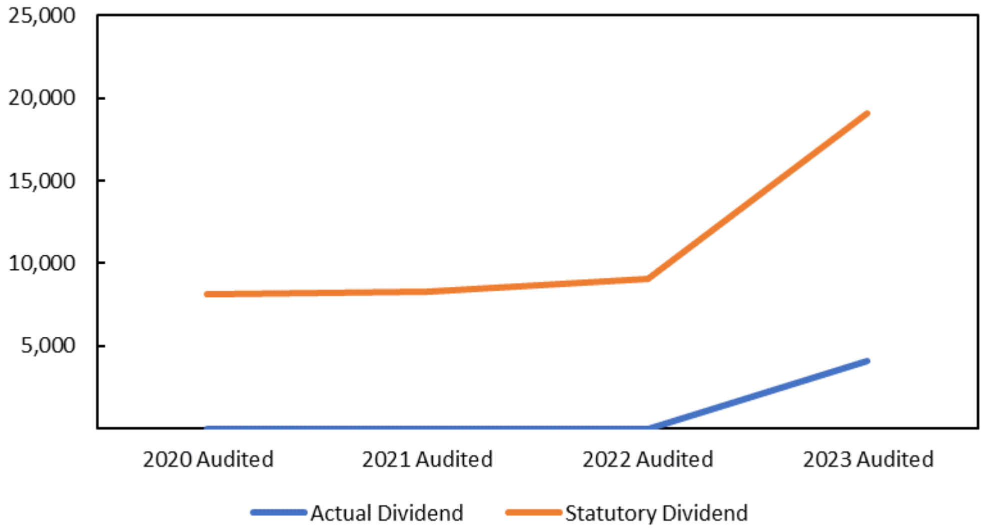


Figure 18: Surpluses and Dividends remittances Actual vs. Statutory Dividends and Payout ratio (K'million) (Trading SOEs)

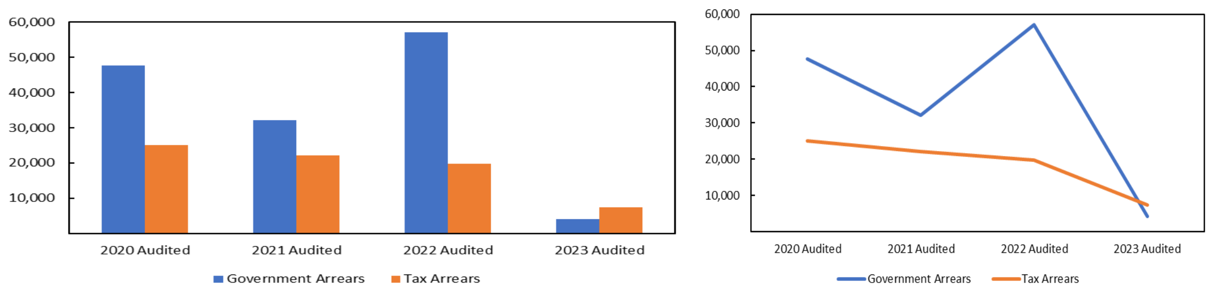


Source: 2023 Audited financial statements and Performance Management Plans and Budgets

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: 2023 Audited financial statements and Performance Management Plans and Budgets

Government arrears to SOEs is a big drag on their balance sheets as they negatively affect cash flows of the parastatals which lead to a vicious cycle of inefficiencies in the economy.
Government arrears to SOEs decreased from K57.0 billion in 2022 to K4.1 billion in 2023. In comparison, the amount of tax arrears that SOEs owed MRA decreased steadily from K19.7 billion to K7.5 billion in 2023 (Figure 19).

Intra-Arrears between the SOEs

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

Summary of fiscal flows between the budget and SOEs

In summary the period under review revealed that

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

2.6 CROSS-CUTTING ISSUES

2.6.1 Tariffs and pricing policies

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

2.6.2 Fiscal flows and Arrears

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

2.6.3 Institutional arrangements

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

2.6.4 SOE Oversight function

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

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

2.7.2 Subsidies for Public Service Obligations

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 and Economic Affairs 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

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

3 INDIVIDUAL SOE ANALYSIS

3.1 AGRICULTURE SECTOR

3.1.1 Agricultural Development and Marketing Corporation (ADMARC)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	(1,762,274)	(1,011,737)	(13,589,795)	(5,688,189)
Gross Profit Margin	55%	61%	60%	100%
Operating Profit Margin	3%	22%	-142%	70%
Return on Assets	-2%	-1%	-9%	-6%
Return on Equity	-5%	-3%	-33%	-15%
Dividend Payout Ratio	NMF	NMF	NMF	NMF
Asset Turnover	0.33	0.27	0.09	0.51
Cost Recovery	0.87	1.13	0.26	2.47
Liquidity				
Current Ratio	0.73	0.76	0.89	0.66
Quick Ratio	0.50	0.54	0.56	0.50
Accounts Receivables Days	614.90	1493.15	2430.55	NMF
Accounts Payables Days	684.74	749.15	2320.41	NMF
Solvency				
Debt to Assets	0.65	0.70	0.65	0.62
Debt to Equity	1.88	2.35	2.45	1.67
Interest Coverage	0.37	2.71	NMF	NMF
Other				
Government Transfers to Total Revenue	0.55	0.56	0.47	0.25

Overview of financial performance

ADMARC Limited's financial performance continuously deteriorated, though a slight improvement, with a loss of K13.6 billion in 2022 to a loss of K5.6 billion in 2023. Sales for the previous year were much less because ADMARC started trading maize in January 2022, which was a bit late than the normal time corporation enters into the market. There were no cotton sales in FY2022/2023 because selling prices on the international market were still depressed after the COVID-19 outbreak and therefore the seed cotton was not ginned. ADMARC did not purchase a lot of the other crops due to funding challenges.

The loss was also mainly driven by high interest rates of **MK10.8 billion** and foreign currency exchange losses of **MK2.3 billion** from the EDF loan which is denominated in US dollars. During the period under review, there was 25% devaluation of the Malawi Kwacha which impeded the operations and retrenchment costs of **MK6.3 billion** which were not budgeted for.

Overview of financial risks

ADMARC has saw a decrease in its overall leverage with a decrease in its Debt-to-Equity ratio from 1.51:1 to 0.97:1, owing to increased sales in the period that significantly reduced the debt burden of the corporation. However, financing costs increased due to rise in interest costs as well as devaluation for foreign denominated loans. In addition, the loans were mostly liquidated in the latter half of the financial year that led to higher interest charges in the first half of the financial year.

However, the current ratio has improved from 0.91:1 in 2022 to 0.66:1 in 2023, albeit still a bit higher than it would be considered healthy when coupled together with the Debt-to-Equity ratio.

The Debt service ratio still remains critical owing to the decrease in trade inventories as at the end of the year and the low level of purchases during the year.

Overview of financial flows with the government

ADMARC had significant cashflow challenges due to the fact that most of the funds raised from the trade revenues were utilized towards debt servicing activities. As a result, the company relied on Government funding and repayment of arrears to fund its administrative operations during the year.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy recommendations
Borrowing	High indebtedness of ADMARC Limited overtime.	Need to continuously monitor the loan portfolio.

3.1.2 National Food Reserve Agency (NFRA)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	(317,852)	(342,399)	174,337	263,271
Gross Profit Margin	-14%	-16%	14%	100%
Operating Profit Margin	-128%	-132%	-72%	-5%
Return on Assets	-1%	-1%	1%	1%
Return on Equity	-2%	-2%	1%	1%
Dividend Payout Ratio	NMF	NMF	-	-
Asset Turnover	0.10	0.09	0.07	0.10
Cost Recovery	0.23	0.40	0.78	0.61
Liquidity				
Current Ratio	8.32	7.66	3.41	5.10
Quick Ratio	0.60	0.61	0.40	0.34
Accounts Receivables Days	43.08	135.90	248.33	140.08
Accounts Payables Days	337.88	94.67	333.97	NMF
Solvency				
Debt to Assets	0.25	0.25	0.27	0.28
Debt to Equity	0.33	0.34	0.36	0.39
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	0.74	0.53	0.33	0.36

Overview of financial performance

The fiscal year 2022–2023 saw a notable improvement in the National Food Reserve Agency's (NFRA) financial performance. NFRA reported a net surplus of K263.2 million in 2023, which was a substantial change from the K174.3 million net surplus in 2022. Furthermore, levels of resources generated by the corporation continue to show a continual upward trend.

Overview of financial risks

The liquidity position for NFRA has improved to 5.1:1 in 2023 from a decline of 3.41:1 in 2022. The improvement in liquidity has made the institution to remain capable of meeting its short-term obligations. The debt-to-equity ratio in 2022/23 increased to 39%, up from 36% in 2021/22. Although this indicates a slight

trend towards higher leverage, NFRA still maintains a low-risk profile, as the agency primarily finances its operations through owner's equity rather than debt.
Despite consistently having lower recovery costs than the average healthy position, NFRA shows minimal levels of financial risk. This is shown by healthy current ratios, which can be partially attributed to a heavy reliance on subsidies. These sustainable levels of subventions have allowed NFRA to remain viable with current ratios above the required limits. Additionally, by maintaining cash and grain stock on hand, NFRA has substantial reserves that ensure the agency can fulfil its objective of maintaining a strategic grain reserve.

Overview of financial flows with the government

In the year 2022/23, government transfers to NFRA accounted for 36 percent of its total revenue, amounting to approximately K1.07 billion as government subvention.

3.1.3 Tobacco Commission (TC)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	(81,359)	324,460	(1,289,946)	(110,289)
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	73%	79%	56%	-3%
Return on Assets	-2%	6%	-27%	-2%
Return on Equity	-2%	8%	-49%	-4%
Dividend Payout Ratio	NMF	20.0	NMF	NMF
Asset Turnover	0.79	0.72	0.33	0.66
Cost Recovery	3.69	4.82	2.26	0.97
Liquidity				
Current Ratio	0.91	1.00	0.33	0.48
Quick Ratio	0.86	0.95	0.25	0.43
Accounts Receivables Days	45.57	54.65	35.63	8.95
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.28	0.24	0.46	0.55
Debt to Equity	0.38	0.31	0.86	1.24
Interest Coverage	1,959.87	2,679.55	3,194.35	(1,645.10)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of Financial Performance

In comparison to the fiscal year 2021–2022, the Tobacco Commission's (TC) financial performance improved somewhat and comparatively in the fiscal year 2022–2023. The Commission's 2022–2023 deficit of K110.3 million was a substantial improvement over the K1.3 billion deficit reported in 2021–2022.

Overview of Financial Risk

A current ratio of 0.48:1 for the Commission in 2022–2023 shows a minor increase in liquidity levels from a low position of 0.33:1 in 2022. But even with the improvement, the Commission was still barely able to pay its existing debts.
The Commission's leverage position shows that its assets are financed by debt, as evidenced by the debt-to-equity ratio rising from 86 percent in 2022 to 124 percent in 2023.

Overview of Financial Capital Flows with the Government

Owing to the K110.3 million loss recorded in 2021–2022, the Commission did not send any money to the government in 2023.

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. High taxation and regulation expansion, with some nations aiming to eradicate cigarette smoking by 2030.	To guarantee adherence to merchants' standards, the Commission should keep fortifying its regulatory framework and enforcement (GAP and ALP challenges). The Commission should make sure that supply and trade requirements are balanced.

3.2 Communication Sector

3.2.1 Malawi Communications Regulatory Authority (MACRA)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	5,436,447	9,300,731	6,806,595	8,835,817
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	28%	43%	40%	43%
Return on Assets	25%	41%	26%	28%
Return on Equity	53%	80%	58%	73%
Dividend Payout Ratio	82.9	26.9	101.9	56.6
Asset Turnover	0.89	0.90	0.62	0.72
Cost Recovery	1.39	1.76	1.66	1.74
Liquidity				
Current Ratio	1.27	1.50	1.31	1.20
Quick Ratio	1.05	1.21	1.12	1.03
Accounts Receivables Days	97.62	99.98	187.55	128.04
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.53	0.48	0.55	0.61
Debt to Equity	1.14	0.94	1.21	1.55
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

With a consistent record of surplus over the last four years, the Malawi Communications Regulatory Authority's (MACRA) financial performance has stayed strong. A surplus of K8.84 billion was recorded by the Authority in the 2022–2023 fiscal year, up from K6.81 billion in the 2021–2022 fiscal year. This resulted from an increase in MACRA's revenue streams, including licence remittance and frequency fees.

From April 1, 2022, to March 31, 2023, MACRA recorded K22.1 billion in total revenue (compared to a budget of K22.6 billion) and K13.4 billion in total expenditures (compared to a budget of K15.7 billion for the same period). As a result, MACRA reported a K8.8 billion surplus. A total of K8 billion in excess money were remitted to the government during that year, out of K3 billion that had been remitted during the 2021/22 fiscal year.

Overview of Financial Risk

Throughout the fiscal year 2022–2023, MACRA's stayed higher than the benchmark average of 40%. From 121% in 2021/22 to 155% in 2022/23, the ratio marginally increased, suggesting a rise in leverage, mostly as a result of an increase in short-term liabilities as opposed to long-term debt.

With the current ratio at 1.20:1 in 2022–2023, a slight decrease from 1.30:1 from the prior year, MACRA's liquidity position is nevertheless sound. According to this ratio, MACRA can pay its short-term debts as they become due. The Authority had enough working capital to fund and sustain its operations.

Overview of financial flows with the government

MACRA has continuously remitted surpluses to the government; in 2022–2023, it 56.6% of its surplus was transferred to the government. This is a decrease of almost 101% from the year 2021–2022. Although MACRA is supposed to give the government all of its excessive amounts, several investment requirements caused the transfers to be lowered.

Policy specific issues for the Public Body

Policy area	**Source of fiscal risk**	**Proposed Policy Recommendations**
Sales Revenue	Declining revenue from International Call Termination Levy	MACRA to continue expanding its scale of regulatory function to boost the revenues.

3.2.2 Malawi Broadcasting Corporation (MBC)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	60,634	(421,072)	(356,262)	(1,123,754)
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	1%	-9%	21%	-20%
Return on Assets	1%	-6%	-4%	-12%
Return on Equity	-2%	NMF	-27%	-4692%
Dividend Payout Ratio	-	NMF	NMF	NMF
Asset Turnover	1.32	0.74	0.45	0.58
Cost Recovery	0.37	0.34	1.27	0.41
Liquidity				
Current Ratio	0.44	1.61	1.53	0.48
Quick Ratio	0.31	1.14	1.06	0.31
Accounts Receivables Days	129.39	146.38	181.72	293.60
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	1.67	1.17	0.86	1.00
Debt to Equity	-2.48	-6.46	6.12	395.77
Interest Coverage	17.08	(148.68)	569.14	(9,136.21)
Other				
Government Transfers to Total Revenue	0.64	0.63	-	0.50

Overview of financial performance

Malawi Broadcasting Corporation (MBC) registered a loss in the year 2022/23 from a loss of K356.3 million in 2021/22 to K1.1 billion in 2022/23. This was due to the impact of devaluation which significantly impeded the corporation's operations.

Overview of financial risks

MBC's liquidity declined marginally in 2023, as seen by the current ratio falling from 1.53:1 to 1.48:1. Cash flow was adversely affected by the increase in debtor days from 181 to 293 days, even though the company could still satisfy its short-term obligations. This was due to the fact that a sizable amount of funds were locked up with creditors, underscoring the necessity for the company to enhance its credit management and collection efforts.

Overview of financial flows with the government

Since MBC is a semi-subvented organization, a portion of its funding comes from the government. Government transfers made up 50% of MBC's total revenue in the 2022–2023 fiscal year, compared to 60% in the previous fiscal year. This demonstrates a tendency towards greater financial independence by lowering the Corporation's dependency on government assistance to function.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Debtors Days	Increase in debtors' days	MBC should intensify debt collection
Tax Arrears	Cash flow challenges due to poor revenue collection from customers	It is necessary to employ aggressive revenue collecting techniques.

3.2.3 Malawi Posts Corporation (MPC)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	(3,276,259)	(104,582)	(1,698,975)	(2,365,724)
Gross Profit Margin	97%	100%	33%	-30%
Operating Profit Margin	-105%	90%	-126%	-168%
Return on Assets	-16%	-1%	-8%	-11%
Return on Equity	-33%	-1%	-19%	-37%
Dividend Payout Ratio	NMF	NMF	NMF	NMF
Asset Turnover	0.20	1.67	0.14	0.28
Cost Recovery	0.50	10.50	0.60	0.49
Liquidity				
Current Ratio	0.28	0.21	0.30	0.44
Quick Ratio	0.23	0.16	0.24	0.26
Accounts Receivables Days	284.19	282.87	341.62	221.31
Accounts Payables Days	23734.51	38197.00	1752.45	567.46
Solvency				
Debt to Assets	0.51	0.71	0.59	0.71
Debt to Equity	1.06	1.70	1.43	2.41
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	0.01	0.05	0.32

Overview of financial performance

Malawi Posts Corporation's (MPC) 2022–2023 performance deteriorated to a K2.3 billion loss from a K1.7 billion loss in 2021–2022.

Overview of financial risks

MPC's liquidity position in the 2023 slightly improved to a current ratio of 0.44:1 to 0.30:1 however MPC was still not able to meet its short-term obligations as they fell due.
The corporation's debt-to-equity ratio worsened during the period under review, increasing from 143% in 2021/2022 to 241% in 2022/2023 financial years. Although this progress is notable, the company's debt remains higher than its equity.

Overview of financial flows with the government

As in the previous year, the fiscal flows between the government and MPC in the form of a subvention given to the Corporation by the government amounted to K209,400.00, or 25% of the total income in the fiscal year 2022–2023.

Policy specific issues for the Public Body

Policy area	**Source of fiscal risk**	**Proposed Policy Recommendations**
Sales Revenue	Declining postal trading revenue	Modern improvements should be added by the MPC to traditional postal services.
Tax and pensions Arrears	Cash flow challenges	MPC should intensify to collect from its clients.

3.3 Education Sector

3.3.1 Malawi College of Accountancy (MCA)

Indicators	2020 Audited	2021Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	109,153	(161,273)	(61,238)	399,804
Gross Profit Margin	5%	42%	38%	7%
Operating Profit Margin	-90%	-16%	-23%	-87%
Return on Assets	2%	-5%	-2%	13%
Return on Equity	3%	-7%	-3%	14%
Dividend Payout Ratio	-	NMF	NMF	-
Asset Turnover	0.48	0.65	0.62	1.12
Cost Recovery	1.05	1.73	1.63	1.07
Liquidity				
Current Ratio	0.54	0.54	0.63	0.81
Quick Ratio	0.54	0.54	0.63	0.45
Accounts Receivables Days	36.11	62.45	59.89	25.27
Accounts Payables Days	63.83	172.71	199.08	77.96
Solvency				
Debt to Assets	0.08	0.19	0.22	0.22
Debt to Equity	0.09	0.23	0.28	0.26
Interest Coverage	NMF	NMF	NMF	NMF
Other				

Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

In the fiscal year 2022–2023, the Malawi College of Accountancy (MCA) recorded a profit of K399.8 million, which was an improvement from the K61.2 million deficit the year before. The institution's continuous recovery from the effects of the COVID-19 pandemic and the impact of devaluation which caused schools to close for almost half of the previous fiscal year, was primarily responsible for this improvement in profitability. Additionally, tuition rates increased slightly from K550,000.00 to K600,000.00 from the prior year contributed to the improved financial performance.

Overview of Financial Risks

MCA's liquidity position increased marginally in the 2022–2023 fiscal year, as seen by a current ratio of 0.81:1 as opposed to 0.63:1 in 2021–2022. Even with this improvement, MCA was still unable to satisfy its short-term obligations because its liquidity levels were below the benchmark average. A reduction in receivable days from its debtors, which shortened the time it took to collect short-term loans and fees, contributed to this improvement.

MCA's debt-to-equity ratio increased from 28 percent in the fiscal year 2021–2022 to 26 percent in the fiscal year 2022–2023. This suggests that, in spite of the rise in leverage, the college is largely funded by owners' equity.

Overview of financial flows with the government

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

Policy specific issues for the Public Body

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

3.4 Energy Sector

3.4.1 Electricity Generation Company Malawi Limited (EGENCO)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	(5,082,104)	4,559,509	5,116,734	(2,132,433)
Gross Profit Margin	48%	49%	42%	100%
Operating Profit Margin	-60%	-44%	-48%	-3%
Return on Assets	-2%	2%	2%	-1%
Return on Equity	-4%	3%	3%	-1%
Dividend Payout Ratio	NMF	-	-	NMF
Asset Turnover	0.27	0.25	0.18	0.21
Cost Recovery	0.93	1.07	1.11	0.97
Liquidity				
Current Ratio	4.36	3.98	4.83	3.75
Quick Ratio	3.54	3.21	4.03	2.86
Accounts Receivables Days	210.06	214.33	345.89	251.89
Accounts Payables Days	45.33	35.95	56.38	NMF
Solvency				
Debt to Assets	0.41	0.49	0.49	0.51
Debt to Equity	0.70	0.98	0.96	0.77
Interest Coverage	(35.00)	(39.98)	(389.75)	(6.26)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

EGENCO saw a sharp drop in its financial performance during the fiscal year 2022–2023, from a K5.1 billion profit to a MK2.1 billion deficit. This downturn was largely attributed to the prolonged outage at Kapichira Power Station, which generates approximately one-third of the country’s electricity. The extensive damage to the main dam and reservoir structures, caused by Tropical Cyclone Ana, resulted in a substantial reduction in generating capacity. Consequently, sales volumes dropped, severely impacting revenue levels.

Overview of financial risks

Over the years, EGENCO maintained a strong liquidity position with a current ratio higher above the industry benchmark in spite of the difficulties. The company's current ratio was 3.75:1 in 2023, a modest decrease from 4.83:1 in 2022. This indicates that EGENCO has continuously been able to fulfil its immediate responsibilities when they arise. Additionally, the company has maintained a healthy working capital position, which boosts its reputation with banks and cultivates favorable relationship with suppliers.

However, the company’s debt-to-equity ratio remains a concern, standing at 77% in 2022/23, albeit an improvement from 96% in the previous year. This indicates that EGENCO still heavily relies on external financing to support its operations.

EGENCO's debtor days improved from 345 days in 2021/22 to 251 days in 2022/23, although this remains well above the 30-day payment terms stipulated in the power purchase agreements. Despite the high debtor days, EGENCO’s overall liquidity position remains strong.

Overview of financial flows with the government

There was no flow of funds with the Government during the period under review.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	There is need to continue following up on the accumulated arrears with ESCOM.	Schedule of repayments with ESCOM should be agreed for easy monitoring.
Borrowing	The company relies on overdraft facilities to augment working capital requirements	Government to continuously monitor EGENCO

3.4.2Electricity Supply Commission of Malawi Ltd (ESCOM)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	(28,452,500)	(14,672,335)	6,798,367	25,972,037
Gross Profit Margin	35%	46%	51%	66%
Operating Profit Margin	-84%	-63%	-45%	17%
Return on Assets	-10%	-4%	2%	7%
Return on Equity	NMF	NMF	-736%	75%
Dividend Payout Ratio	NMF	NMF	-	-
Asset Turnover	0.54	0.50	0.42	0.62
Cost Recovery	0.84	0.92	1.05	2.03
Liquidity				
Current Ratio	0.60	0.54	0.55	5.05
Quick Ratio	0.45	0.43	0.48	0.42
Accounts Receivables Days	65.94	74.49	114.60	2.55
Accounts Payables Days	246.50	388.22	494.44	130.14
Solvency				
Debt to Assets	0.97	1.02	1.00	0.91
Debt to Equity	-38.63	-44.10	-373.05	10.30
Interest Coverage	27.05	22.98	30.64	15.52
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

In 2023, the Electricity Supply Corporation of Malawi (ESCOM) increased its profit from K6.8 billion in 2022 to K25.9 billion, demonstrating a significant financial turnaround. Increases in sales volume and capacity utilisation were the main drivers of this notable gain. Furthermore, the deployment of metre audits and other revenue development initiatives by ESCOM were crucial in increasing sales volume and raising gross profit overall.

Overview of financial risks

Additionally, ESCOM's financial risk significantly improved, particularly with regard to its receivables. The implementation of prepaid metres for specific Government MDAs was a major factor in the company's outstanding receivables dropping from K42.4 billion to K1.2 billion. Due to this change, the collection period was shortened from 115 days in 2021–2022 to 3 days in 2022–2023, which significantly increased collection efficiency. As a result, ESCOM was able to decrease its payable days from 494 days to 130 days, improving liquidity consequently.

It is important to note that the growth in ESCOM's performance in 2023 compared to 2022 was partly influenced by the longer reporting period in 2023 (12 months), as 2022 only covered a 9-month period. Additionally, the Kapichira Power Station shutdown in 2022 due to Cyclone Ana negatively impacted the financial performance for that year.

Overview of financial flows with the government

There were no fiscal flows between ESCOM and the Government in 2022/23.

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.
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

3.4.3Malawi Energy Regulatory Authority (MERA)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	1,964,887	4,429,335	1,350,725	3,056,917
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	51%	72%	38%	36%
Return on Assets	5%	9%	2%	2%
Return on Equity	19%	33%	9%	17%
Dividend Payout Ratio	123.1	27.2	-	-
Asset Turnover	0.18	0.23	0.12	0.09
Cost Recovery	2.05	3.60	1.61	1.57
Liquidity				
Current Ratio	2.03	1.35	1.15	1.10
Quick Ratio	2.02	1.35	1.15	1.10
Accounts Receivables Days	676.59	836.54	2011.86	3039.70
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.76	0.72	0.78	0.86
Debt to Equity	3.12	2.52	3.57	6.25
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The Malawi Energy Regulatory Authority's (MERA) outstanding financial performance was aided by an increase in fuel consumption, which was the agency's main source of revenue during the 2022–2023 fiscal year. Due to the increased demand for fuel, the Authority's surplus improved from K1.3 billion in 2021–2022 to K3 billion in 2022–2023.

Overview of financial risks

MERA's liquidity condition deteriorated further in spite of the revenue rise. The Authority was barely able to pay its short-term obligations, as seen by the current ratio's fall from 1.15:1 in 2021/22 to 1.10:1 in 2022/23. Additionally, from 2,012 days in 2021–2022, to 3,040 days in 2022–2023, the receivables days declined sharply. This suggests that a sizable amount of MERA's funds are locked up in unpaid debts, which is distorting the Authority's liquidity and general financial adaptability.

Overview of financial flows with the Government

MERA has been remitting surpluses to Government over the reporting period, however, its payout ratio has persistently been below the statutory payout ratio of 100%.

Policy specific issues for the Public Body

Policy area	**Source of fiscal risk**	**Proposed Policy Recommendations**
Debtors Days	high debtor days	MERA must increase debt collection efforts and fortify credit management procedures.

3.4.4National Oil Company of Malawi (NOCMA)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	(11,721)	(929,981)	(415,911)	3,213,911
Gross Profit Margin	2%	0%	3%	3%
Operating Profit Margin	-1%	-2%	1%	2%
Return on Assets	0%	-1%	0%	1%
Return on Equity	0%	-6%	-3%	15%
Dividend Payout Ratio	NMF	NMF	NMF	-
Asset Turnover	1.58	1.13	0.90	1.47
Cost Recovery	37.65	45.81	55.65	85.92
Liquidity				
Current Ratio	1.00	1.01	1.07	1.01
Quick Ratio	0.83	0.86	0.98	0.96
Accounts Receivables Days	122.75	164.30	194.33	97.45
Accounts Payables Days	178.05	259.18	340.33	225.98
Solvency				
Debt to Assets	0.91	0.92	0.92	0.93
Debt to Equity	10.59	10.98	11.19	14.31
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

NOCMA recorded a significant improvement of the financial performance from a K415.9 million after-tax deficit in 2021–2022, to a K3.2 billion profit in 2022–2023.

Overview of financial risks

The NOCMA liquidity position remained on the margins in 2023, as seen by its current ratio of 1.01:1, which was marginally lower than the 1.07:1 recorded in 2021–2022. This demonstrates that NOCMA's current ratios have been steady over time and that it can hardly pay its short-term obligations when they become due. NOCMA must exercise caution and continue to strengthen its cash flow situation.

Overview of financial flows with the government

There were no fiscal flows between NOCMA and Government in 2023.

Policy specific issues for the Public Body

Policy area	**Source of fiscal risk**	**Proposed Policy Recommendations**
Cash Flow	NOCMA had cash flow challenges which affected remittance of levies to MERA and loan repayments and dividends to the shareholder	Introduction of Strategic Fuel levy in the priced build up to enable NOCMA to finance its operations.

3.5 Financial Sector

3.5.1 National Economic Empowerment Fund (NEEF)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	(2,678,104)	(7,572,619)	(13,595,062)	(4,944,694)
Gross Profit Margin	19%	22%	70%	100%
Operating Profit Margin	-63%	-56%	39%	100%
Return on Assets	-27%	-79%	-122%	-22%
Return on Equity	-1999%	NMF	NMF	NMF
Dividend Payout Ratio	NMF	NMF	NMF	NMF
Asset Turnover	0.27	0.35	0.41	0.32
Cost Recovery	0.77	-0.45	-6.78	NMF
Liquidity				
Current Ratio	1.85	2.28	0.91	1.41
Quick Ratio	0.32	0.44	0.91	1.35
Accounts Receivables Days	40.51	21.72	734.64	1198.73
Accounts Payables Days	27.38	19.25	69.61	NMF
Solvency				
Debt to Assets	0.99	1.36	1.27	1.04
Debt to Equity	71.81	-3.79	-4.67	-24.41
Interest Coverage	(1.49)	(1.08)	1.43	4.05
Other				
Government Transfers to Total Revenue	0.38	0.18	-	-

Overview of financial performance

The National Economic Empowerment Fund (NEEF) recorded a K4.9 billion loss in 2022–2023 relative to a K13.6 billion loss in 2021–2022. Due to higher operating costs and a reduced ability to generate revenue, NEEF's performance further deteriorated.

Overview of financial risks

Despite fluctuations over time, the Fund's liquidity has generally been good throughout the years. However, in 2022/2023, the NEEF's current ratio significantly improved to 1.41:1 from a current ratio of 0.91:1 registered in 2021/2022, indicating that NEEF was able to meet its short-term obligations when they fell due. The Fund continued to register negative reserves in 2022/2023 as compared to 2021/2022, indicating that its debt continued to surpass its assets. The debt-to-equity continued to decline to -24.41 in 2022/2023 compared to -4.69 in 2021/2022, indicating that NEEF was primarily financed by external borrowing rather than owners' equity, which is completely eroded. The accounts receivable days increased in 2022/2023 to 1195 days from 735 days in 2021/2022, signifying the longer it takes to pay off short term obligations.

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**
Revenue	Lack of capitalization, dependency on debt financing for working capital, and past non-performing loans are the main causes of NEEF's loss-making.	Need for continuous capital injection from shareholder
Accounts Receivables Days	Accounts receivables have drastically worsened.	need to enforce debt collection

3.6 GOVERNANCE SECTOR

3.6.1 Malawi Accountants Board (MAB)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	18,356	47,126	79,029	45,816
Gross Profit Margin	91%	89%	88%	86%
Operating Profit Margin	6%	9%	25%	8%
Return on Assets	5%	11%	16%	8%
Return on Equity	5%	12%	16%	9%
Dividend Payout Ratio	12.0	-	2.8	7.6
Asset Turnover	0.78	0.74	0.63	0.93
Cost Recovery	1.18	1.25	1.58	1.29
Liquidity				
Current Ratio	12.02	33.47	19.49	5.60
Quick Ratio	12.02	33.47	19.49	5.60
Accounts Receivables Days	246.91	239.07	314.11	166.96
Accounts Payables Days	336.05	105.76	191.35	374.18
Solvency				
Debt to Assets	0.07	0.02	0.04	0.14
Debt to Equity	0.07	0.03	0.04	0.16
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

In contrast to previous year's surplus of MK79 million, the Malawi Accountants Board's (MAB) financial performance for this year showed a surplus of MK45 million, a notable 94% decrease. The underperformance was attributed by low registration of new members (112 new registrants against 120 budgeted). In addition, the Board cumulatively registered 3888 Accountants against budgeted 5000 Accountants.

Overview of financial risks

Compared to the previous year, when current ratio was at 19.5:1, MAB's liquidity position as of 2022–2023 has dropped dramatically to 5.6:1. This drop poses significant financial risk.

Overview of financial flows with the government

In the year 2022/23, MAB only remitted 7.6 % of its registered surplus to Government.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	Low revenues generated due to limited regulatory functions	Need to revise and implement Public Accountants and Auditors Act of 2023 to ensure MAB's functionalities on revenue generation and sanctions are strengthened.

3.7 Health Sector

3.7.1 Pharmacies and Medicines Regulatory Authority (PMRA)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	53,624	261,852	403,045	525,783
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	4%	14%	24%	18%
Return on Assets	2%	9%	14%	10%
Return on Equity	3%	12%	16%	12%
Dividend Payout Ratio	-	-	-	17.5
Asset Turnover	0.51	0.63	0.56	0.53
Cost Recovery	1.04	1.17	1.32	1.22
Liquidity				
Current Ratio	0.68	1.26	2.35	1.72
Quick Ratio	0.66	1.25	2.33	1.71
Accounts Receivables Days	10.85	43.12	56.06	46.30
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.28	0.25	0.12	0.23
Debt to Equity	0.39	0.33	0.13	0.29
Interest Coverage	NMF	NMF	NMF	61.75
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The Pharmacy and Medicines Regulatory Authority (PMRA) exceeded the K403 million surplus in fiscal year 2021–2022 due to increase in revenue with a K525 million surplus in fiscal year 2022–2023.

Overview of financial risks

The liquidity position of the Authority declined from 2.35:1 in 2022 to 1.72:1 in 2023, rendering the Authority to fail to meet its short-term obligations as they fall due.

Overview of financial flows with the government

Despite cashflow challenges, the Authority has been able to remit Surplus to Government.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy recommendations
Sales revenue	In absence of regulatory framework to sanctions by non-compliant licensees	There is need to finalize the license fees gazette order.
	Low product fees as a result of an out-of-date gazette order that does not reflect costs	

3.8 Labour Sector

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

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	634,445	1,695,639	2,194,787	1,401,207
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	5%	10%	11%	7%
Return on Assets	7%	15%	16%	8%
Return on Equity	11%	20%	21%	11%
Dividend Payout Ratio	-	-	-	-
Asset Turnover	1.38	1.47	1.40	1.16
Cost Recovery	1.05	1.11	1.13	1.08
Liquidity				
Current Ratio	2.42	2.87	3.74	3.06
Quick Ratio	2.42	2.86	3.73	3.06
Accounts Receivables Days	188.53	149.71	132.10	180.20
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.38	0.27	0.22	0.26
Debt to Equity	0.61	0.38	0.29	0.34
Interest Coverage	4.31	18.13	104.02	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

TEVETA continued to register good performance with a surplus of K1.4 billion in 2022/23 financial year which was a huge declined from a surplus of K2.1billion recorded in the previous year. The macro-economic environment over the years has been both favourable and adverse. In the recent two years, the macro-economic status has been adversely affected by the effects of the COVID -19 Pandemic devaluation and inflation. In view of this, the Authority continues to develop strategies to contain this situation. However, the major achievement of the Authority has been the continuous expansion of the TEVET Markets through the establishment of more training institutions or TEVET Providers for both Formal and Informal training programs.

Overview of financial risks

The Authority's current ratio declined in 2022/23 to 3.06:1 from 3.74:1 in 2021/2022 financial year. Though there is a declined the Authority is remained liquid that is able to meet its short-term obligations as they fall due. Financial leverage as measured by debt-to-equity ratio decreased in 2022/23 indicating that the Authority uses its own resources compared to external resources to finance its operations.

Overview of financial flows with the government

The only fiscal flows in the year 2023 was an amount of subvention transferred to TEVETA as TEVET Levy from the Government.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Revenue under collection	Low remittance of TEVET levy by Government institutions leading to build up of TEVET Levy arrears.	• Need to review the regulatory environment with regards to TEVET levy for the public sector • Need for continuous expansion of the TEVET Markets through the establishment of more training institutions or TEVET Providers for both Formal and Informal training programs.

3.9 Lands and Housing Sector

3.9.1 Malawi Housing Corporation (MHC)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	9,964,652	4,495,218	1,664,265	(268,115)
Gross Profit Margin	-5%	-6%	23%	89%
Operating Profit Margin	-111%	-113%	-54%	-9%
Return on Assets	8%	3%	1%	0%
Return on Equity	8%	4%	1%	0%
Dividend Payout Ratio	-	-	-	NMF
Asset Turnover	0.04	0.04	0.05	0.05
Cost Recovery	0.95	0.94	1.30	1.02
Liquidity				
Current Ratio	0.70	0.49	0.41	0.33
Quick Ratio	0.43	0.21	0.15	0.08
Accounts Receivables Days	111.13	57.35	91.59	37.53
Accounts Payables Days	127.15	145.93	182.68	1909.04
Solvency				
Debt to Assets	0.08	0.09	0.11	0.12
Debt to Equity	0.09	0.10	0.12	0.14
Interest Coverage	(701.36)	(476.54)	(29,751.64)	(0.76)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The financial performance of Malawi Housing Corporation (MHC) deteriorated in the fiscal year 2022–2023, as the company reported a K268 million deficit after turning a K1.6 billion profit in 2022. The loss was on account of MHC's operating expenses higher than its income.

Overview of financial risks

Although this was the case, the liquidity position of the corporation still remained below average and has declined further to 0.33:1 in the 2022/23 financial year, which makes it difficult for the Corporation to meet its short-term obligations as they fall due.

Overview of financial flows with the government

There were no financial flows between Government and MHC in 2022/23 financial year.

Policy specific issues for the Public Body

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

3.10 TRADE AND TOURISM SECTOR

3.10.1 Malawi Bureau of Standards (MBS)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	1,893,741	1,207,592	(648,858)	747,464
Gross Profit Margin	27%	69%	39%	100%
Operating Profit Margin	-46%	38%	-22%	53%
Return on Assets	10%	5%	-3%	3%
Return on Equity	11%	6%	-3%	3%
Dividend Payout Ratio	29.4	90.0	NMF	87.5
Asset Turnover	0.37	0.33	0.29	0.45
Cost Recovery	1.37	3.22	1.64	2.14
Liquidity				
Current Ratio	2.83	1.27	2.00	2.46
Quick Ratio	2.81	1.26	1.99	2.44
Accounts Receivables Days	92.38	106.98	97.96	54.23
Accounts Payables Days	145.27	537.33	166.50	NMF
Solvency				
Debt to Assets	0.11	0.15	0.08	0.07
Debt to Equity	0.12	0.18	0.09	0.07
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Compared to the previous year, when the Bureau reported a K649 million loss, the Malawi Bureau of Standards' (MBS) financial performance improved in the 2022–2023 fiscal year, with a K747 million surplus. Revenues increased from K8 billion to K11 billion in 2023.

Overview of financial risks

The Bureau's liquidity position improved further in the year 2022/23 with current ratio of 2.46 compared to the current of 2.00 in the previous financial year, implying that MBS improved its ability of meeting its current liabilities as they fall due with existing current assets.

On the other hand, MBS continues to maintain a good debt to equity percentage which stood at 7% in the 2022/23 financial year. This implied that the Bureau was comprised of more of the owners' equity than that from external financing.

Overview of financial flows with the government

There were financial flows between Malawi Bureau of Standards and Government in the 2022/23 financial year. The Bureau was able to remit surplus to the Government during the period under review.

3.10.2 Malawi Gaming and Lotteries Authority (MAGLA)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	93,390	88,961	1,222,806	2,583,264
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	10%	62%	83%	90%
Return on Assets	5%	6%	35%	42%
Return on Equity	12%	11%	57%	51%
Dividend Payout Ratio	59.4	59.4	4.5	-
Asset Turnover	0.50	0.55	0.66	0.81
Cost Recovery	1.11	2.65	5.93	9.84
Liquidity				
Current Ratio	0.97	1.19	1.95	5.02
Quick Ratio	0.97	1.19	1.95	5.02
Accounts Receivables Days	330.64	288.44	89.04	71.91
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.58	0.43	0.39	0.16
Debt to Equity	1.40	0.75	0.63	0.19
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The Malawi Gaming and Lotteries Authority's (MAGLA) financial performance continued to improve in 2022/23 financial year from the previous year as it registered a surplus of K1.2 billion, while in 2023 it registered a surplus of K2.6 billion. The improvement in the financial performance was on account of interest received for the first half of the year which surpassed the budget by 157%, Sports betting levy which surpassed the approved budget by 1% and Lottery levy which surpassed the budget by 41%.

Overview of financial risks

The Board's liquidity improved with a current ratio of 5.02:1 in 2022/23 compared to a current ratio of 1.95 in the previous financial year, indicating that Malawi Gaming and Lotteries Authority has greatly improved its ability of meeting its current liabilities.

Overview of financial flows with the government

There were financial flows between Malawi Gaming and Lotteries Authority and Government in the 2022/23 financial year on account of Surplus remittance to Government.

3.11 TRANSPORT AND PUBLIC WORKS SECTOR

3.11.1 Air Cargo Malawi Limited (ACM)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	(165,476)	27,227	28,208	289,070
Gross Profit Margin	33%	27%	34%	43%
Operating Profit Margin	-34%	-45%	-32%	-14%
Return on Assets	-10%	2%	1%	14%
Return on Equity	-32%	5%	5%	34%
Dividend Payout Ratio	NMF	-	-	3.9
Asset Turnover	2.73	3.23	2.09	2.64
Cost Recovery	1.50	1.38	1.51	1.75
Liquidity				
Current Ratio	1.12	1.15	1.19	1.53
Quick Ratio	0.74	0.74	0.75	0.88
Accounts Receivables Days	61.14	43.07	70.31	60.54
Accounts Payables Days	83.82	72.55	143.75	91.31
Solvency				
Debt to Assets	0.67	0.69	0.70	0.58
Debt to Equity	2.06	2.26	2.37	1.36
Interest Coverage	NMF	NMF	NMF	(96.75)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Air Cargo Malawi Limited (ACM) reported a profit of K28.9 million in the 2022/23 financial year which is slightly higher compared to a profit of K28.2 million in 2021/22. The company's improved performance is underpinned by the deliberate performance improvement strategies that management deployed during the third and fourth quarter of the year, such as correction of underpriced freight services, and implementation of increased handling charges.

Overview of financial risks

ACM's liquidity position remained below the average acceptable benchmark in 2022/23 with a current ratio of 1.53 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 1.36% meaning there as an improvement in borrowing, The company used more of owners' equity as compared to the previous financial year.

Overview of financial flows with the government

There were no financial flows between ACM and Government in the 2022/23 financial year.

Policy specific issues for the Public Body

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

4.5.2. Airport Development Ltd (ADL)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	7,779,858	4,571,190	7,721,360	12,431,370
Gross Profit Margin	98%	97%	97%	96%
Operating Profit Margin	73%	55%	80%	76%
Return on Assets	15%	8%	14%	16%
Return on Equity	16%	9%	15%	17%
Dividend Payout Ratio	-	-	-	-
Asset Turnover	0.20	0.14	0.17	0.19
Cost Recovery	4.08	2.35	5.99	5.06
Liquidity				
Current Ratio	1.12	1.13	0.86	0.79
Quick Ratio	1.04	1.06	0.72	0.71
Accounts Receivables Days	177.85	220.49	332.64	135.30
Accounts Payables Days	1687.85	1753.00	1595.33	948.40
Solvency				
Debt to Assets	0.03	0.04	0.05	0.04
Debt to Equity	0.03	0.04	0.06	0.04
Interest Coverage	352.86	136.99	73.94	54.45
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The overall performance of Airport Development Limited (ADL) improved significantly in the 2022/23 financial year, this is shown though the increase in profits from MK7.7 billion in 2022 to MK12.4 billion in 2023. The increased profit level was largely attributed to removal of some restrictions which was put in place due the impact of COVID-19 protocols, which adversely affected the operations at Kamuzu International Airport (KIA).

Overview of financial risks

ADL's liquidity position continued to worsen, with the current ratio dropping to 0.79:1 in 2022/23 from 0.86:1 in 2021/22. This indicates that the company is struggling to meet its current liabilities with its existing current assets.

Overview of financial flows with the government

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

Policy specific issues for the Public Body

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

4.5.3. Lilongwe Handling Company Limited (LIHACO)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	(593,191)	(1,178,376)	(345,695)	2,738,999
Gross Profit Margin	35%	20%	42%	75%
Operating Profit Margin	-88%	-57%	-16%	36%
Return on Assets	-22%	-36%	-11%	61%
Return on Equity	-252%	NMF	NMF	119%
Dividend Payout Ratio	NMF	NMF	NMF	-
Asset Turnover	0.97	0.40	0.74	1.66
Cost Recovery	0.81	1.29	1.72	2.56
Liquidity				
Current Ratio	0.49	0.23	0.26	1.36
Quick Ratio	0.22	0.09	0.14	1.22
Accounts Receivables Days	58.67	61.05	72.31	62.76
Accounts Payables Days	195.45	310.11	279.74	50.47
Solvency				
Debt to Assets	0.91	1.03	1.15	0.49
Debt to Equity	10.37	-37.58	-8.19	0.95
Interest Coverage	(29.49)	(12.96)	(1.70)	33.08
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The Lilongwe Handling Company´s (LIHACO's) financial performance showed a significant improvement in 2022/2023; this is shown though the registering of profits of MK2.7 billion in 2023 from a loss of MK346 million in 2022. The increase in profit level was largely attributed to removal of some restrictions which was put in place due the impact of COVID-19 protocols, as well as a government injection of MK2.8 billion in the financial year.

Overview of financial risks

The liquidity position of LIHACO substantially improved with current ratio from 0.26:1 in 2021/22 to 1.36:1 in of 2022/23 financial year, indicating that they were able to manage its working capital with sufficient resources to pay its debt obligations as they fall due.

Overview of financial flows with the government

In the year 2022/23, there was a government transfer of MK2.8 billion to LIHACO.

Policy specific issues for the Public Body

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

4.5.4. National Construction Industrial Council (NCIC)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	55,386	81,218	468,549	1,011,194
Gross Profit Margin	100%	100%	16%	100%
Operating Profit Margin	2%	3%	-68%	22%
Return on Assets	3%	4%	22%	34%
Return on Equity	4%	5%	24%	36%
Dividend Payout Ratio	94.7	-	13.2	18.0
Asset Turnover	1.58	1.52	1.18	1.51
Cost Recovery	1.02	1.03	1.19	1.29
Liquidity				
Current Ratio	1.20	1.42	4.58	8.62
Quick Ratio	1.16	0.63	4.38	1.28
Accounts Receivables Days	19.01	14.66	14.04	20.63
Accounts Payables Days	NMF	NMF	0.00	NMF
Solvency				
Debt to Assets	0.15	0.15	0.08	0.06
Debt to Equity	0.18	0.18	0.09	0.07
Interest Coverage	5.36	20.75	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Over the years, the National Construction Industry Council (NCIC) has demonstrated a reasonable level of financial and operational performance, with continuous surpluses registered. The remarkable performance was due to an increase in construction levy and taxes, leading to surplus for 2022–2023 significantly higher than that of 2021–2022, (MK1.0 billion) compared to K468.5 million.

Overview of financial risks

The Council was able to manage its working capital with adequate resources to satisfy its debt obligations as they fall due, as seen by the significant improvement in its liquidity position above the margin at 8.62:1 as of the 2022–2023 fiscal year.

However, the debt-to-equity ratio remained extremely low in 2022–2023 at 7%, down from 7% in 2021–2022, indicating that the Council mostly relied on its own resources rather than debt to fund its operations.

Overview of financial flows with the government

In the year 2022/23, NCIC remitted surplus to Government.

3.12 WATER SECTOR

3.12.1 Blantyre Water Board (BWB)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	(7,945,844)	(13,831,189)	(8,187,960)	(20,692,852)
Gross Profit Margin	36%	25%	30%	35%
Operating Profit Margin	-108%	-81%	-57%	-78%
Return on Assets	-9%	-17%	-11%	-24%
Return on Equity	-114%	NMF	NMF	-269%
Dividend Payout Ratio	NMF	NMF	NMF	NMF
Asset Turnover	0.21	0.23	0.20	0.30
Cost Recovery	0.70	0.94	1.15	-0.26
Liquidity				
Current Ratio	0.30	0.16	0.18	0.46
Quick Ratio	0.12	0.08	0.08	0.36
Accounts Receivables Days	66.32	34.14	65.37	100.83
Accounts Payables Days	430.41	606.32	943.93	151.36
Solvency				
Debt to Assets	0.92	1.06	1.17	0.91
Debt to Equity	11.34	-17.94	-7.04	10.26
Interest Coverage	(15.57)	(506.25)	(297.06)	(17.18)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Blantyre Water Board's financial performance continued to decline in the 2022/23 financial year with a loss of K21.7 billion from a loss of K8.2 billion in 2021/2022. The BWB's poor performance is largely attributed to low sales resulting from high Non-Revenue Water (NRW) which closed at an average of 57% by 31st March 2023, the devaluation of Malawi Kwacha by 25% in May 2022, and the effects of Cyclone Freddy which resulted in the loss of sales and increase in maintenance costs and non-cost reflective tariffs.

Overview of financial risks

The current ratio for BWB in 2023 slightly improved to 0.46:1 from 0.18:1 in 2022 despite a government bailout on electricity arrears, demonstrating a weak liquidity position for the Board. The low current ratio also illustrates its inability to pay its short-term obligations as they fall due. Furthermore, the Board's continuation of reporting negative working capital over the years demonstrates the Board's insolvency.

Overview of financial flows with the government

In the year 2023, the government provided a grant of K 34 billion to Blantyre Water Board specifically for electricity bill arrears clearance to ESCOM.

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, implementing cost-reflective tariffs,
Tax and pension arrears	Cash flow challenges	Disconnections and prepaid meters installation, settle all outstanding statutory obligations

3.12.2 Central Region Water Board (CRWB)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	(1,449,275)	(1,421,825)	(390,790)	1,952,547
Gross Profit Margin	-26%	55%	42%	49%
Operating Profit Margin	-152%	-68%	-66%	-41%
Return on Assets	-8%	-8%	-2%	9%
Return on Equity	NMF	NMF	NMF	-46%
Dividend Payout Ratio	NMF	NMF	NMF	-
Asset Turnover	0.29	0.33	0.24	0.36
Cost Recovery	0.79	0.81	0.92	1.11
Liquidity				
Current Ratio	0.48	0.39	0.47	0.50
Quick Ratio	0.38	0.36	0.44	0.45
Accounts Receivables Days	237.04	133.86	285.13	145.71
Accounts Payables Days	193.83	392.46	496.90	158.68
Solvency				
Debt to Assets	1.24	1.31	1.31	1.19
Debt to Equity	-5.12	-4.21	-4.23	-6.34
Interest Coverage	(146.46)	(4.28)	(6.20)	(5.80)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The performance of Central Region Water Board (CRWB) improved in the 2022/23 financial year as it reported a profit of Mk 2 billion compared to 2021/2022 where it made a loss of Mk 390.80 million. This improvement was due to an increase in the sales realised during the 2022/23 financial year. However, the Board still experienced challenges affecting sales, including high non-revenue water, due to faulty pipelines and leaking tanks in some areas.

Overview of financial risks

The Board's liquidity challenges persisted in the 2022–2023 fiscal year, as seen by the current ratio of 0.50:1. This illustrates the Board's inability to pay its immediate debts, including income taxes, account payables, and accumulated expenses. With an average of 191 days in 2023, its high receivable days further demonstrates that the majority of its cash assets are being retained with debtors for a longer period of time. This had an impact on the Board's cash flow, which in turn had an impact on how long it took CRWB to balance its payables, 159 days during the period under review.

In terms of the Boards debt to equity ratio, in the 2022/23 financial year, the ratio increased to 634 percent, which meant the company was highly indebted and largely depended on external debt compared to its equity.

Overview of financial flows with the government

In the year 2022/24, no financial transfers were made between the Government and CRWB.

Policy specific issues for the Public Body

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

Public Debt	Nonpayment of water bills by public institutions due to the use of Postpaid meters	Migration of metering system from postpaid to prepaid

3.12.3 Lilongwe Water Board (LWB)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	2,502,725	1,162,969	594,077	1,102,571
Gross Profit Margin	44%	36%	36%	39%
Operating Profit Margin	-13%	-29%	-67%	-23%
Return on Assets	2%	1%	0%	1%
Return on Equity	7%	3%	2%	3%
Dividend Payout Ratio	-	-	-	-
Asset Turnover	0.20	0.18	0.13	0.15
Cost Recovery	1.77	1.55	0.97	1.63
Liquidity				
Current Ratio	3.25	6.41	5.83	2.94
Quick Ratio	2.77	5.06	4.74	2.13
Accounts Receivables Days	216.52	115.92	154.45	NMF
Accounts Payables Days	157.03	59.53	94.89	336.05
Solvency				
Debt to Assets	0.67	0.70	0.74	0.81
Debt to Equity	2.07	2.32	2.78	4.23
Interest Coverage	(2.24)	(2.64)	(5.20)	(1.89)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Lilongwe Water Board (LWB) registered a profit after tax of K1.1 billion in the 2023 financial year which was an improvement from a loss of K594 million in 2022 indicating a recovery on its financial performance. Despite the profit improvement, the operating profit margin remained negative at -23%, though better than 2022's -67%. This implies that operational inefficiencies or high operating expenses continue to challenge the profitability of the company. There was slight improvement in ROE at 3% but still low indicating that shareholder is still receiving minimal returns on investments. ROA is constant at 1% meaning there is minimal use of assets to generate profit. The current ratio was at 1.63 an improvement from 0.97 in 2022. This suggests that Lilongwe Water Board had sufficient current asset cover its short-term liabilities, alleviating potential liquidity concerns from the previous year. Accounts receivable days increased significantly to 336 days in 2023 from 95 days in 2022 making it difficult to fund ongoing operations or debt service. Despite showing overall profitability, the negative operating profit margin of -23% suggests operational inefficiencies that could undermine long-term sustainability if not addressed. Lilongwe Water Board's overall profitability has improved, but operational inefficiencies remain a challenge as seen in the negative operating profit margin.

Overview of financial risks

Debt to Equity rose in 2023 to 4.23 up from 2.78 in 2022 indicating high level leverage. This means the Board is increasingly financing its operations and projects through debt, which increases the financial risk of the company. On the other hand, the liquidity position for LWB demonstrates a good position with a current ratio of 1.63 in 2023 from 0.97 in 2022 meaning the board can meet its short-term obligations as they fall due, and quick ratio rose to 2.13 in 2023 from 1.63 in 2022.

The debt collection days increased from 95 days in 2022 to 336 days in 2023 which indicates that the Board is taking much longer to collect payments from customers potentially causing cash flow constraints. This remains due to the delayed payments from public institutions and the Board plans to continue to improve the situation, by the installation of prepaid meters in both Government institutions and private customers.

The Board plans to continue with the implementation of the water improvement projects, pipe rerouting, lowering and replacement, reticulation, and other development projects that would improve water supply to the city in view of increasing demand.

Lilongwe Water Board made strides in improving its overall profitability and liquidity, but the company still faces significant financial risks, particularly from high leverage and operational inefficiencies so too with delayed receivables as this has a negative impact on the Board's cash flows.

Overview of financial flows with the government

No transfers were made in the year 2023 between LWB and the Government, both in terms of grants but the Board remitted K200 million divided in 2023.

Policy specific issues for the Public Body

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

3.12.4 Northern Region Water Board (NRWB)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	(3,778,190)	640,920	(5,409,291)	(7,413,864)
Gross Profit Margin	47%	34%	35%	100%
Operating Profit Margin	-6%	3%	-137%	-26%
Return on Assets	-7%	1%	-6%	-7%
Return on Equity	-197%	25%	NMF	-90%
Dividend Payout Ratio	NMF	-	NMF	NMF
Asset Turnover	0.17	0.11	0.08	0.08
Cost Recovery	1.85	3.14	0.56	0.77
Liquidity				
Current Ratio	0.46	0.71	0.54	0.92
Quick Ratio	0.36	0.46	0.35	0.70
Accounts Receivables Days	150.16	112.80	219.93	70.59
Accounts Payables Days	697.76	500.18	762.96	NMF
Solvency				
Debt to Assets	0.96	0.97	1.03	0.93
Debt to Equity	27.06	30.74	-32.81	12.38
Interest Coverage	(1.02)	0.42	(7.32)	0.60
Other				
Government Transfers to Total Revenue	0.03	0.03	0.04	0.03

Overview of financial performance

Northern Region Water Board (NRWB) performance deteriorated significantly in 2021/22 from a profit of K640 million to a loss of the year of K3.2 billion and a deferred tax on revaluation of K2.3 billion resulting in a loss for the year of K5.4 billion. The Board continually made huge losses in 2022 and 2023 as the Board registered a loss of K7.4 billion in 2023. This was due to non-cost reflective tariffs and high operating costs and minimal increase in the customer base. Because of non-cost-reflective tariffs, NRWB has been borrowing from commercial banks that charge high interest rates just to sustain its cash flows and be able to meet its operating costs. Even though there was an improvement in the current ratio, from 0.54% in 2022 to 0.92% in 2023, this shows that the Board was not able to cover its short-term liabilities

Overview of financial risks

The liquidity position for NRWB remains of high concern as NRWB is heavily indebted. The company has been borrowing to fund new projects and operations, and rising interest rates made debt servicing for the Board expensive and unsustainable in 2023. The current ratio of 0.54:1 in 2023 still falls below the average recommended benchmark implying that the Board was unable to meet its short-term obligations. There was an improvement of receivable days from 220 days in 2022 to 71 days in 2023 on account of Government and Private Customers.

Overview of financial flows with the government

In the year 2022/23, 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	There was no meaningful tariff adjustment that was made during the financial year. The total revenues were down by 38% in the year 2023 but represented a 31% growth in revenues recorded over the corresponding period in 2022. The delayed implementation of the 55% water tariff increase also had an impact on the loss outturn of the Board	Timely implementation of cost-reflective tariffs.
Tax and pension arrears	Cash flow challenges due to Non-payment of water bills by public institutions	Intensify debt collection. Migration of metering system from postpaid to pre-paid

3.12.5 Southern Region Water Board (SRWB)

Indicators	2020 Audited	2021 Audited	2022 Audited	2023 Audited
Profitability				
Profit/loss (Mill MKW)	124,908	(1,067,420)	(728,999)	(988,193)
Gross Profit Margin	0%	70%	69%	69%
Operating Profit Margin	-99%	-43%	-40%	38%
Return on Assets	0%	-3%	-2%	-2%
Return on Equity	1%	-6%	-4%	-5%
Dividend Payout Ratio	-	NMF	NMF	NMF
Asset Turnover	0.24	0.22	0.19	0.27
Cost Recovery	1.00	0.88	0.91	3.24
Liquidity				
Current Ratio	1.55	1.42	1.56	1.34
Quick Ratio	1.48	0.87	1.47	1.24
Accounts Receivables Days	577.39	346.74	570.53	460.46
Accounts Payables Days	331.98	1195.27	884.27	849.41
Solvency				
Debt to Assets	0.41	0.46	0.53	0.63
Debt to Equity	0.70	0.86	1.12	1.72
Interest Coverage	(58.21)	(2.77)	(3.86)	4.97
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

In the year 2023, Southern Region Water Board registered a loss amounting to K990.0 million from a loss of K729 million in 2022. The underperformance of the Board was largely on account of the persistent excessive drought experienced in Malawi which highly affected the flow of surface water and levels of groundwater sources, which has led to SRWB's inability to meet the water demand in the areas it supplies water. In the financial year 2022/23 the impact of load shedding also contributed to the reduction in the supply of water to the required demand which led to the production of 12.2 million cubic meters from an approved budget of 18.7 million cubic meters.

Overview of financial risks

SRWB, continues to face challenges from the collection of debt from public institutions which account for 70 percent of its water sales. The receivable days of SRWB slightly decreased from 571 days in 2022 to 460 days in 2023, which means most of the Boards cash was being held with debtors leading to the cash flow challenges. With a current of 1.34:1, SRWB barely met its current liabilities due to its cash flow challenges. This resulted in the board's increase in external borrowing as confirmed by the worsening proportion of its debt to equity, which was 112 percent in 2022 to 172 percent in 2023.

Overview of financial flows with the government

In the year 2022/23, no financial transfers were made between the Government and SRWB.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	Excessive load shedding also contributed to the reduction in the supply of water to the required demand which led to the production of 12.2 million cubic meters from an approved budget of 18.7 million cubic meters.	Increase water production through developing new water schemes and maintenance of old infrastructure

	Excessive drought experienced in Malawi which highly affected the flow of surface water and levels of groundwater sources.	
Tax Arrears	Cash flow challenges due to accumulation of public and private water bills	Installation of Prepaid Meters. Consider deduction of the unpaid bills at the source. (60:40, 60 % towards arrears: 40% current bills)

4 HIGH RISK CASE STUDIES

4.1. ADMARC LIMITED

4.1.1. Company Overview

The Agricultural Development and Marketing Corporation (ADMARC) is a 99 percent owned statutory corporation with the Public Private Partnership Corporation (PPPC) holding the remaining 1 percent. Its mandate is to champion the production, grading, value-addition, packaging, marketing and distribution of agricultural produce across the country and beyond.

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

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

4.1.2. Summary of financial performance

Area of analysis	Assessment of key trends
Profitability	ADMARC Limited registered a loss of **MK5.6 billion**. This is against a budgeted loss of **MK390 million for FY22/23 against the audited** loss of **MK13.6 billion** for 2021/2022 financial year. ADMARC depends on significant government transfers in form of grants to undertake its social obligation. In 2022–2023, the company's return on equity was negative by 15% and its return on assets was negative by 6%. Profitability Ratios indicate that the Corporation continues to remain in perpetual deficits over time. Operating profit margin for FY22/23 was 0.17, which although very minimal, was an improvement from -0.68 recorded during the previous financial year. Net profit margin remained negative, although it improved its position to -0.13 from -2.06. Return on assets continued to venture on this negative trend as it shows losses of -0.06, which deteriorated from -0.09 reached in FY21/22. Return on Equity for FY22/23 was -0.15, healthier than -0.33 from the previous financial year. Cost recovery is the only category that realized a positive change during FY22/23 increasing steadily to 1.17 from 0.75.
Solvency and Indebtedness	ADMARC Limited recorded a sharp decline in the assets from MK156 billion registered in FY2021/2022 to MK93 billion in FY2022/2023. The reduction primarily was on account of a shrinkage in stock (from MK34 billion in 2021/2022 to MK3.4 billion) and trade receivables (from MK44 billion in 2021/2022 to MK10 billion in 2022/2023). The sharp decline in assets in 2022/2023 was largely on account of slowdown in trading activities. Sales for general produce (beans, Soya, Pigeon Peas) were not as expected as there was little brought forward stocks available for sale. Current year purchases on the other hand started late, and very little stock was purchased. Furthermore, there were no cotton sales. ADMARC had some stocks that were bought from previous periods which was stuck is Balaka, whose Ginnery was not running as it requires maintenance. ADMARC did not purchase seed cotton in prior year because it did not support farmers with farm inputs and therefore did not get a license to buy from Cotton Council of Malawi. On the other hand, there was no brought forward stock for Groundnuts, therefore no sales were made for the first quarter of 2022/2023.

Area of analysis	Assessment of key trends
	Maize was sold from brought forward collaterized maize and SGR stocks. Most of the maize was sold to NFRA for SGR after Government banned the sale of maize. A total of **33,918 MT** was sold from the SGR through ADMARC markets, and the proceeds were remitted to Government through Ministry of Agriculture. Total current liabilities have increased ten-fold over the last two years leading up to FY22/23. Retained earnings were negative MK30 billion but other equity of MK71 billion meant that the company was barely technically solvent. Solvency Ratios expose this position. Debt to Assets ratio for FY22/23 was 0.62 which was a slight improvement from the 0.73 recorded the previous financial year. Debt to Equity further spells the fiscal risk the Corporation is under. For the period under review, a ratio of 1.67 was recorded for FY22/23 which, even though is better than 2.76 from FY21/22 was still more than double the recommended limit of total liabilities over shareholder's equity of 0.80. Debt to EBITDA has remained incredibly elevated during the past years, however as a further indicator of the marginal improvements in this metric, FY22/23 recorded the best performance of the company with a ratio of 7.11, which is considerably better than the 28.29 recorded in FY21/22, although still way off the recommended threshold of 3. Interest Coverage Ratio reveals the Corporation's inability to handle its outstanding debt. When pegged against the recommended benchmark of 2, none of the financial years have produced enough coverage for ADMARC to meet its obligations. FY22/23 reveals marginal improvements from the 0.49 recorded in FY21/22 to 0.57 in FY22/23. Cash Interest Coverage and Debt Coverage ratios reveal that the Corporation is cash-strapped and faces continuous financing challenges, underscoring ADMARC's meagrely available cash flow that could potentially be used to pay its current debt obligations. FY22/23 (0.24) saw incremental improvements after stagnation at 0.06 during the previous financial years since the turn of the decade. ADMARC continues to face cash challenges even after the alterations to the financial year calendar which was aimed at taking advantage of the agricultural calendar.
Liquidity	Liquidity Ratios reveal that the quick ratio is the only category that didn't carry the maximum risk during the last quinquennium. The quick ratio for FY22/23 was 0.54, 20 basis points lower than the 0.56 registered in FY21/22. Current Ratio deteriorated from 0.89 to 0.66 between FY21/22 to FY22/23. The dynamics between debtor and creditor turnover days illuminates that the COVID-19 pandemic contributed significantly to the lags in both turnover ratios of FY21/22 up to FY22/23. Debtor turnover ratio was 2430.5 (more than 6 ½ years) whereas the creditor turnover days was 2320.4 (6 years 4 months). The recovery period saw the ratio lower significantly to 115.1 and 193.5 respectively for FY22/23. The corporation remained in operation through expensive government-guaranteed short-term borrowing from commercial banks.
Dependency/ Relationship with GOM	ADMARC is reliant on the government to continue operating because it does not generate adequate returns to finance its operations. For the majority of its ratio indicators, ADMARC is in category 5 on the risk scale because to its extremely poor liquidity position, even with government continuous support.

	2019	2020	2021	2022	2023
Profitability					
Operating Profit Margin	0.49	0.02	0.18	-0.68	0.17
Net Profit Margin	0.12	-0.13	0.04	-2.06	-0.13
Return on Assets	0.02	-0.02	0.00	-0.09	-0.06
Return on Equity	0.05	-0.05	0.01	-0.33	-0.15
Cost Recovery	1.35	1.00	1.06	0.75	1.17
Liquidity					
Current Ratio	0.67	0.73	0.76	0.89	0.66
Quick Ratio	0.57	0.50	0.54	0.56	0.54
Debtor Turnover Days	224.7	614.9	1,493.2	2,430.5	115.1
Creditor Turnover Days	520.8	605.3	667.0	2,320.4	193.5
Solvency					
Debt to Assets	0.62	0.65	0.70	0.73	0.62
Debt to Equity	1.66	1.88	2.35	2.76	1.67
Debt to EBITDA	7.16	62.00	31.86	-28.29	7.11
Interest Coverage	1.98	0.13	0.26	-0.49	0.57
Cash Interest Coverage	2.06	0.46	0.44	-0.44	0.68
Debt Coverage	0.47	0.06	0.06	-0.06	0.24

	2019	2020	2021	2022	2023
Profitability					
Return on Assets	Category 3	Category 4	Category 3	Category 5	Category 5
Return on Equity	Category 3	Category 4	Category 3	Category 5	Category 5
Cost Recovery	Category 2	Category 3	Category 3	Category 5	Category 3
Liquidity					
Current Ratio	Category 5	Category 5	Category 5	Category 5	Category 5
Quick Ratio	Category 4	Category 4	Category 4	Category 4	Category 4
Debtor Turnover Days	Category 5	Category 5	Category 5	Category 5	Category 5
Creditor Turnover Days	Category 5	Category 5	Category 5	Category 5	Category 5
Solvency					
Debt to Assets	Category 3	Category 3	Category 3	Category 3	Category 3
Debt to Equity	Category 4	Category 4	Category 5	Category 5	Category 4
Debt to EBITDA	Category 5	Category 5	Category 5	Category 5	Category 5
Interest Coverage	Category 3	Category 5	Category 5	Category 5	Category 5
Cash Interest Coverage	Category 4	Category 5	Category 5	Category 5	Category 5
Debt Coverage	Category 2	Category 5	Category 5	Category 5	Category 3

Category 1	Category 2	Category 3	Category 4	Category 5

Lower risk ⟵⟶ **Higher risk**

4.1.3. Main fiscal risks

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

Source of Risk	Mitigation/policy measure
Strategic Risks: **(i) Staffing Costs.** Retrenchment costs were paid amounting to **MK6.3 billion,** which were not budgeted for **(ii) Government control over stock and price setting Mechanism.** Maize sold during FY22/23 was brought forward from collaterized maize and SGR stocks. Most of the maize was sold to NFRA for SGR after Government banned the sale of maize. A total of 33,918 MT was sold from the SGR through ADMARC markets. This is perpetrating distortionary effects on the availability and price setting mechanism which in turn contributes to shortages of the strategic grain.	**Strategic Risks:** **(i) Staffing Costs** Strengthen corporate governance in order to minimize wastage of resources by employees which led to the need for ADMARC shutdown and retrenchment. **(ii) Government control over stock and price setting Mechanism.** 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.

Source of Risk	Mitigation/policy measure
(iii) Conflicting internal strategic goals ADMARC has, a long-standing internal conflict between commercial and social objectives, despite repeated attempts over the years to address the problem.	**(iii) Conflicting internal strategic goals** 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. This remain yet to be done.

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

Source of Risk	Mitigation/policy measure
Revenues: **(i) Limited cash coverage** ADMARC has not been able to generate enough cashflows through trading to pay for its operational and administrative expenses. Salaries and other costs have been funded by the Government since April 2022. As at 31 March 2023 ADMARC had received **MK7 billion** from Government to fund staff costs and **MK6.176 billion** to fund retrenchment costs. **(ii) Reliance on a single crop for profitability** Reliance on single crop (maize) is hampering the operating capacity of the Corporation. MK43.15 billion was realized from maize sale against a budgeted MK14.35 billion, however, the nearest competitor was cotton, which received meagre revenues of MK1.79 billion. However, these sales were carried over stock from the COVID-19 hit FY21/22. Beans and soya registered a measly MK300.76 million against a budgeted MK11.95 billion, underperforming by 97% during FY22/23. **(iii) Continued sales of unprocessed goods.** ADMARC sale are largely maize grain which is unprocessed into a final good. Maize lacks the diversity of other crops and is ultimately consumed after milling. Unprocessed grain faces a lot of	**Revenues:** **(i) Limited cash coverage** ADMARC will need to be able to receive a greater subsidy from government to help the Corporation sustain its operations. Furthermore, the Government to ensure the Corporation should operate trading activities that are sufficient to fund its operating cost such as; ensuring that customers pay a dynamic market-related farmgate price. **(ii) Reliance on a single crop for profitability** ADAMARC to diversify its investment portfolio to include other crops that take advantage in the gaps in the local and international value chain. Maize remains the backbone of all sales the Corporation makes. The socio-economic implication maize has and its immense contribution to Malawi's consumer price index means that any stochastic to the production and availability of the strategic crop places the Corporation's revenue generation in peril. **(iii) Continued sales of unprocessed goods.** ADMARC should strategically consider increasing its value addition capacity, especially considering that it predominantly receives is greatest proportion of

Source of Risk	Mitigation/policy measure
challenges such as storage and treatment of the crop which increase inherent storage prices, transportation and potential of destruction of the crops.	revenues from maize grain sales which are ultimately and inevitably consumed after milling process. Value addition reduces costs and boosts revenues both locally and internationally.
(iv) Lags effects of delayed Government funding. Trading revenues fluctuate in response to market conditions that have not been capitalized upon by the Government. This is mainly because purchases were also below budget. ADMARC also did not achieve the export sales that were targeted for in other categories such as legumes and rice. In addition, delay in starting to draw funds on an arranged facility resulted in late entry on the market for purchases of maize. Government support for social obligations has not been provided in a timely manner.	**(iv) Lags effects of delayed Government funding.** Government should prioritize expenditure on agricultural activities by creating special funds to be able to target crop purchases as well as fertilizer of its subsidy program to reduce late entry into the market as well as having adequate financing to purchase necessary volumes for both the domestic and international market.
Expenditures: **(i) Sub-par expenditure** The Corporation's expenditures were below budget in most lines due to limited trading activity because of underfunding/cashflow constraints and the shutdown of the company from September 2022.	**Expenditures:** **(i) Sub-par expenditure** The Corporation should expedite its corporate restructuring to increase line expenditure that will boost its revenue generating activities.
(ii) Staffing costs Staff costs were higher due to the retrenchment costs of MK6.3 billion which were unbudgeted for, despite ADMARC Ltd operating with lower staff numbers from September 2022.	**(ii) Staffing costs** Employment of staff should reflets the needs and capacity of the Corporation. Settlement of contract disputes should be expedited to reduce risk of further legal procedures.
Capital Investment: **(i) AHL leverage** ADMARC Limited depleted most of its capital in order to enhance service delivery and to improve on revenue generation abilities during the period under review. On the other hand, because ADMARC's significant investment in AHL which has made it a subsidiary of ADMARC LTD, is in financial peril, which is causing ADMARC to hemorrhage capital.	**Capital Investment:** **(i) AHL leverage** Assess whether the company has the expertise necessary to take on further commercial risks. The corporation should remain intent on negotiating the shareholder rights and control in the subsidiary to avert any corporate risk inherent in the underperformance of AHL.

Liquidity and debt repayment risks. Likelihood of occurrence (High). ADMARC continues to face liquidity challenges that usually culminate to missing its operational targets.

Source of Risk	Mitigation/policy measure
Current Assets: **(i) Underperformance of trade receivables.** Trade Receivables for the period under review was MK14.28 billion against payables of MK15.37 billion (-MK1.09 billion). Of the Total receivables, Government owed about 91.81% (MK13.11 billion) of this portfolio, while AHL Group owed the Corporation MK4.46 billion. Tax claimable and; Trade and other receivables stood at MK982.89 million and MK5.53 billion respectively. There was however a provision for bad debt which has been increasing exponentially over the past years to reach MK9.79 billion, reducing the total to the FY22/23 year ending with MK14.28 billion. A breakdown of Trade Receivables from the Government reveals at the commencement of FY22/23 that the Corporation was owed an opening balance of MK30.61 billion along with current year recoveries of MK6.62 billion. The Government paid MK24.12 billion in the form of MK7.00 billion for the CDH1 Loan, "Expenses" worth MK1.45 billion, Retrenchment Costs of MK6.18 billion, Funds for Salaries and Crop Purchases of MK2.50 billion.	**Current Assets**: **(i) Underperformance of trade receivables.** Write-down inventories and trade receivables and reassess the trading strategy. Negotiate with government and AHL on timely provision of current assets owed.
Current Liabilities: **(i) Underperformance of trade payables.** Trade Payables of MK15.37 billion were due and are broken down as follows, Government Payables MK3.86 billion (25.11%), NFRA MK1.54 billion (10.02%) and; Staff Related; Tax Payable and; Trade and other payables reaching a compound amount of MK9.98 billion (64.93%). Of the Government payables, the FY22/23 saw an opening balance of MK15.98 billion, however the current year transactions from AIP sales remittance were MK4.50 billion, AHL Government Funding was MK2.38 and SGR Funds Remittance was MK5.24 which resulted to a closing balance for FY22/23 to be MK3.86 billion.	**Current Liabilities:** **(i) Underperformance of trade payables.** Reduce the amounts of outlays to non-performing sectors of the Corporation and its subsidiaries.
Debt Repayment: **(i) Debt servicing of principal, interest and exchange loss.** The Corporation continues to be unable to service its interest and debt-repayment obligations. The debt	**Debt Repayment**: **(i) Debt servicing of principal, interest and exchange loss.** Review whether government-guaranteed borrowing at commercial rates is financially prudent. If ADMARC is a social service agent of government it should

Source of Risk	Mitigation/policy measure
profile at the beginning of FY22/23 was MK65.15 billion with interest payables of MK10.88 billion and an exchange loss of MK2.23 billion. When MK41.15 billion was repaid, the FY22/23 closing balance was MK37.17 billion, which is broken down as follows: The greatest debt threat to the Corporation came from EDF because it remains susceptible to exchange losses due to its foreign currency (US$) denomination. The beginning of the financial year saw the debt stand at MK9.37 billion, along with an interest of MK1.09 billion. A lowly MK1.62 billion was repaid, however, the debt incurred an exchange loss due the 25% devaluation of May 2022 of MK2.299 billion. At the close of FY22/23 the outstanding balance was MK11.14 billion, leaving it in further potential exchange loss peril. CDHIB 1 – MK12 Billion Facility was obtained for purchase of maize and other commercial crop and had an opening balance at the beginning of FY22/23 of MK13.30 billion and interest of MK2.54 billion. Having made repayments of MK7.00 billion during the financial year, the closing balancing for the year was MK8.85 billion which had maturity date of September 30th, 2023. CDHIB 2 – MK22 Billion Facility was obtained in 2020 for purchase of 80,000MT of maize. The loan had an opening balance at the beginning of FY22/23 of MK21.73 billion, which represents a non-maxed account. However, interest payment of MK3.27 billion was required. Having made repayments of MK13.07 billion during the financial year, the closing balancing for the year was MK11.96 billion which had maturity date of June 30th, 2023. No repayments were made on the overdue FDH loan of MK4.25 billion during FY22/23. With the debt incurring interest of MK979 million during the period under review to reach MK5.23 billion. Part of the EDF was repaid from maize sales proceeds. However, the remaining loan remains unpaid and has no supporting stock because about half of the loan was given to Nchalo Green Belt for cotton production which never worked, and the other part has no stock to support the loan. This loan was supposed to be repaid from ADMARC trading activities and continues to accumulate interest. The loss is mainly due to high interest rates of **MK10.8 billion** and foreign currency exchange losses	borrow from the government at the policy rate rather than from commercial markets. the Corporation should also ensure that it maintains limited exposure to foreign currency denominated loans which are susceptible to exchange losses.

Source of Risk	Mitigation/policy measure
of **MK2.3 billion** from the EDF loan which is denominated in US dollars.	

4.2.BLANTYRE WATER BOARD (BWB)

4.2.1. Company Overview

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

For the past years, BWB has been unable to fulfil its short-term obligations. With a MK20.7 billion loss at the end of FY2022/23, the company's performance for the 2022/2023 fiscal year continued to decline. The primary factors of this were the tariff adjustments freeze and the devaluation-induced cost increase. At the closure of FY23, BWB owed ESCOM more than MK28.3 billion in arrears, which put strain on ESCOM's balance sheet.

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

Generally, performance of the Board was negatively affected due to the freeze in implementation of tariff adjustment. The revenue from the sale of water was expected to grow from MK24 billion to MK50 billion mainly due to the expected tariff adjustment which did not come through and reduction of NRW. In addition, the Board was not be able to fulfil its debt servicing obligations including its largest proportion of on-lent facilities, which resulted in serious litigations against the Board and suppliers charging interest for unpaid bills. Furthermore, ESCOM implemented prepaid meters for maximum demand customers which required the Board to pay 60:40 of arrears and current bill respectively. In the current situation, the Board could barely afford to pay MK 1.3 billion a month which is 70% of the bill against the total arrears amounting to MK28.3 billion.

4.2.2. Summary of financial performance

Area of analysis	Assessment of key trends
Profitability	The Board incurred a loss of K20.7 billion during the year ended 31st March 2023 (2022: K8.2 billion). FY21/22 financial data was for 9 months reflecting the change from a June 30th to March 31st financial year suggesting that the loss position would have been great than what was recorded in the short fiscal year. BWB has recorded substantial deficits every year since 2013/2014 which have been particularly crippling for the past three years. The Board has been reporting losses before tax and has also been in a net current liability position. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Board's ability to continue as a going concern. Expenses are historically high, particularly for staffing and electricity, seeing K34.3 billion out of the related party payables (ESCOM) being paid by Government due to infrastructure constraints that require the constant pumping of water, which means an inability to take advantage of off-peak electricity. Revenue growth was constrained by below cost tariffs. As such, operating profit margin FY21/22 was recorded as -0.55, this was low but continued to drop to -0.84 with a difference of -0.29 in FY22/23. Net profit margin for FY21/22 was -0.56 and stayed negative but also had a slight drop in FY22/23 to -0.58. Return on assets in FY21/22 was negative at -0.11 and in FY22/23 it further dropped to -0.16. Return on equity in

Area of analysis	Assessment of key trends
	FY22/23 was -1.78. Cost recovery showed a slight change in FY21/22 where 0.66 was recorded and in FY22/23 a decrease in cost recovery stood at 0.55.
Indebtedness/Solvency	BWB's solvent position improved in FY2023 though still negative at MK149 million on account of Government injection of MK34.5 billion. Interest coverage ratios increased, implying that BWB was unable to meet its interest payment obligations. Finance costs increased evidently in 2022/2023. Debt to Assets ratio for FY22/23 was 0.91 which represents a negative deviation from the 1.17 recorded during FY21/22 indicates that the Board's Assets cannot adequately cover its debt, especially consideration that the recommended ratio falls within 0.3-0.6. Debt to Equity spells the danger the Corporation Is under. For the period under review, a ratio of 10.27 was exorbitantly higher than industry benchmark of total liabilities over shareholder's equity of 0.80. Debt to EBITDA has remained incredibly elevated during the past 5 years. FY22/23 although still off the recommended threshold of 3 show remarkable improvement in the ratio which stood at -3.96 from -11.24 during FY21/22 from FY20/21's -7.37. Though this is the case, EBITDA does not consider the tremendous amount of taxes owed by the Board to MRA and this indicates financial instability and the potential for bankruptcy for the Board. Interest Coverage Ratio exposes the Board's inability to repay its outstanding debt. When compared against the recommended threshold of 1.5-2, historical data reveals that the financial years have not produced enough coverage for BWB to meet its obligations, thus, current earnings being insufficient to service its outstanding debt. The chances of a Board being able to continue to meet its interest expenses remain extremely doubtful. FY22/23 reveals marginal improvements from the -6.75 recorded in FY21/22 to -6.62 in FY22/23.
Liquidity	BWB's quick ratio of 0.23 in 2022/2023 indicates the SOE is unable to pay its short-term obligations as and when they fall due. The company has been unable to do so for many years. This is reflected in the significant build up in arrears, with 90 percent owed to ESCOM. Both debtor and creditor turnover days increased in 2023, with average creditor turnover reaching 1,000 days.
Dependency/ Relationship with Government	BWB has significant relationships with the Government and other SOEs through sales and purchases of water to the public. However, BWB has not been able to remit dividend to the government due to the company's loss-making position. Receivables from other government entities amount to MK4.7 billion as at December 2022. BWB owed over MK28.3 billion at end 2022/2023 in electricity arrears to ESCOM.

	2019	2020	2021	2022	2023
Profitability					
Operating Profit Margin	-0.14	-0.61	-0.75	-0.55	-0.84
Net Profit Margin	-0.12	-0.38	-0.88	-0.56	-0.58
Return on Assets	-0.02	-0.07	-0.18	-0.11	-0.16
Return on Equity	-0.13	-0.71	NMF	NMF	-1.78
Cost Recovery	0.89	0.64	0.59	0.66	0.55
Liquidity					
Current Ratio	0.39	0.35	0.17	0.20	0.34
Quick Ratio	0.28	0.29	0.15	0.18	0.27
Debtor Turnover Days	108.4	139.5	73.7	141.2	104.7
Creditor Turnover Days	331.8	473.2	687.1	1,001.2	211.3
Solvency					
Debt to Assets	0.82	0.91	1.10	1.17	0.91
Debt to Equity	4.61	9.55	NMF	NMF	10.27
Debt to EBITDA	-31.79	-8.40	-7.37	-11.24	-3.96
Interest Coverage	-0.65	-3.41	-2.85	-6.75	-6.62
Cash Interest Coverage	-0.65	-3.41	-2.85	-6.75	-6.62
Debt Coverage	-0.07	-0.26	-0.34	-0.24	-0.42

	2019	2020	2021	2022	2023
Profitability					
Return on Assets	Category 4	Category 4	Category 5	Category 5	Category 5
Return on Equity	Category 5	Category 5	Category 5	Category 5	Category 5
Cost Recovery	Category 4	Category 5	Category 5	Category 5	Category 5
Liquidity					
Current Ratio	Category 5	Category 5	Category 5	Category 5	Category 5
Quick Ratio	Category 5	Category 5	Category 5	Category 5	Category 5
Debtor Turnover Days	Category 5	Category 5	Category 4	Category 5	Category 5
Creditor Turnover Days	Category 5	Category 5	Category 5	Category 5	Category 5
Solvency					
Debt to Assets	Category 4	Category 4	Category 5	Category 5	Category 4
Debt to Equity	Category 5	Category 5	Category 5	Category 5	Category 5
Debt to EBITDA	Category 5	Category 5	Category 5	Category 5	Category 5
Interest Coverage	Category 5	Category 5	Category 5	Category 5	Category 5
Cash Interest Coverage	Category 5	Category 5	Category 5	Category 5	Category 5
Debt Coverage	Category 5	Category 5	Category 5	Category 5	Category 5

Category 1	Category 2	Category 3	Category 4	Category 5

Lower risk ←→ **Higher risk**

4.2.3. Main Fiscal Risks

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

Source of Risk	Mitigation/policy measure
Revenues: **(i) Increase in losses from non-water revenues** Over 65 percent of water produced is lost and not charged for mainly leakages, pipe bursts, and poor water management to illegal connections and unauthorised consumption. **(ii) Boreholes** Revenues are at risk when commercial, institutional and industry customers drill boreholes to circumvent the reliance on Board's water. Considering the heavy usages these customers may have, losses are estimated to be substantial.	**Revenues:** **(i) Increase in losses from non-water revenues** The Water and Sanitation Project-1 with funding from the World Bank aims at reducing Non-Revenue Water. The project will become effective in June 2023. The non-water revenue was supposed to drop from 52% in FY22–2023, (29 percent is the goal). This will be accomplished by among others sealing boreholes, and replacing 100 kilometers of old, frequently exploding pipes. **(ii) Boreholes** The Board is working with the National Water Resources Authority to have boreholes sealed in its supply area so that the commercial, institutional and

Source of Risk	Mitigation/policy measure
(iii) Uncompetitive tariff system Tariffs are set by the parent ministry and not an independent regulator, and these have not kept pace with increases in costs.	industry customers currently on boreholes should revert to the Board's network. **(iii) Uncompetitive tariff system** Research should be conducted towards the cost-benefit analysis to weigh the potential benefit of instituting an independent regulator.
(iv) Prepaid meter collection loss Investment in new pre-paid meters has not delivered the expected revenue gains and has actually led to losses in revenue. Volume measurements for the new meters are below actual water provision.	**(iv) Prepaid meter collection loss** The Boards should solve frequent top-ups with seamless top-up solutions by leveraging technological advancement. the Board should manage meter tampering with smart meter integration. Solve customer mismanagement with upgraded CRM software on USSD and mobile app. Need for improving data mismanagement with meter data management systems.
Expenditure: **(i) Heavy reliance on ESCOM electricity to pump water** Electricity costs have been rising significantly culminating to a MK34.3 billion out of the related party payables (ESCOM) has been paid by Government. These costs were recorded up to over 87% percent of the Board's trade payables (37.03% of total cost) during the previous financial year. The 65% increase in electricity costs in 2018 and around 18% 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 (peak tariffs are 3 times off-peak tariffs).	**Expenditure:** **(i) Heavy reliance on ESCOM electricity to pump water** A government bailout on ESCOM's arrears was sought culminating to a MK34.3 billion package. However, this continues an unsustainable precedent. Going forward, a reduction in electricity costs through; Investment in pumping stations including the Independent Power Plant Project (the solar project) is expected to reduce the Board's reliance on ESCOM energy, pipelines and storage to minimize exorbitant on-peak electricity purchases. A feasibility and procurement processes are underway. The plant is expected to cost USD 72 million and deliver ongoing annual benefits of USD 5 million per annum. By leveraging the topographical resources, high altitude

Source of Risk	Mitigation/policy measure
(ii) High staffing costs per connection 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).	areas should be targeted to provide adequate water pressure for cheaper supply. **(ii) High staffing costs per connection** BWB needs to restrict 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
Current Assets: **(i) Over-leverage of trade receivables.** Trade Receivables remained unfavorably elevated reaching MK4.49 billion FY22/23 compared to MK4.7 billion from FY21/22 although this represents a drop of 4.47 percent the decrease was intangible. When compared with gross trade receivables that totaled MK9.87 billion for FY22/23 compared to MK8.71 billion for FY21/22, the board' current receivables were 45.49% of the gross amount. Placing great expectations on the current amount due. Impairment losses MK2.34 billion FY22/23 compared to MK2.67 billion for FY21/22, however those denominated as impairment Loss on current portion of trade receivables under administrative expenses MK353.66 million compared to MK639.92 million for FY22/23. This places tremendous pressure on current assets. Net Trade Receivables of MK2.15 billion for FY22/23 compared to MK1.90 billion for FY21/22 remains heavily substantial increasing the constraint on cash flows. The ageing of trade receivables at the reporting date were as follows: Not past due MK1.14 billion for FY22/23 compared to MK1.55 for FY21/22; 0 to 60 days MK1.37 billion FY22/23 compared to MK1.08 billion for FY21/22; 61 to 90 days MK443.54 million for FY22/23 compared to MK533.54 million for FY21/22; and Over 90 days MK6.93 billion for FY22/23 compared to MK5.54 billion for FY21/22.	**Current Assets:** (i) **Over-leverage of trade receivables**. The Board should make amendments on their collection policy by defining the credit risk in each debtor strategy. The digitization of collection process should be leveraged to provide the correct customer data related to the debts. The Board should further be aware of debtor positions through the development of comms strategy linked to debtor personas based on analytical insights which would aid in the identification of high-risk non-paying customers early in the life cycle and those that may not pay. To improve the Board's collection rate, BWB should aim to introduce a program to aid its ability to offer debtors tailored programs for payment. When it comes to minimization of bill shocks, customers should be regularly informed by keeping the debtors up to date at all times. Development of a variety of payment methods which rewards the early payment of debt should be applied to accompany the segmentation of customers by risk profile and the publication of the Board's debt profile which would increase opportunities to pay by making customers debt information available across different organizational channels not just the collections department.

Source of Risk	Mitigation/policy measure
Fixed Assets: **(i) Depreciation and amortization** Depreciation and amortization increased by 68.75% to reach MK5.40 billion for FY22/23 from MK3.20 billion for FY21/22. This represents a culmination from low maintenance of plant and buildings which received a meagre allocation of MK391.56 million for FY22/23 (MK170.45 million FY21/22) compared to travel and accommodation expenses amounting to MK574.57 million for FY22/23 (MK228.87 million FY21/22). Furthermore, Loss on disposal of property, plant and equipment MK316.26 million for FY22/23 compared to losses of MK30.04 million for FY21/22. Provision for obsolete stock MK33.96 million for FY22/23 representing an abysmal performance on assets.	**Fixed Assets:** **(i) Depreciation and amortization** The Board should prioritize replacement and maintenance of old system as well as increasing the investment of new infrastructure because pipes and fittings for maintenance of mains MK1.89 billion for FY22/23 compared to MK691.02 million for FY21/22 have not kept pace with the rate of depreciation and amortization. Should the Board continue to neglect the need to prioritize maintenance of dilapidated water systems, it places BWB in peril of increasing Non-Revenue Water.
Current Liabilities: **(i) Current exposure to long-term debt** Risk from current portion of long-term debt exposure remains pertinent. Current liabilities between the years 2022 and 2023 totaled MK46.34 billion and MK28.53 respectively. Of these, the biggest proportion was due to current portion of long-term borrowings which amounted to MK13.51 billion (29.15% of current liabilities, 14.92% of total liabilities and 14.92% of total funds and liabilities for FY22) MK15.03 (52.64% of current liabilities, 18.99% of total liabilities and 17.31% of total funds and liabilities for FY23).	**Current Liabilities:** **(i) Current exposure to long-term debt** Government support should include timely payment of arrears which are critical to the SOE's liquidity position. BWB is seeking a government bailout of ESCOM's arrears.
(ii) "Related parties" payables Risk from payables from "related party" remains sustainably elevated even for it experience a great decrease over the period under review. Related party payables reduced from MK26.86 billion in FY22 to reach MK3.37 billion, representing a decrease of MK23.49 billion or -85.65% across the financial years. However, this category was 57.94% of total current liabilities which spells out the reason for liquidity tightness in FY22. FY23 has seen this ratio drop to 11.81% of total current assets which when	**(ii) "Related Parties" payables** BWB expects its turnaround strategy to significantly improve its financial position by 2024, allowing it to improve cash flows and reduce its short-term liabilities. BWB estimates that its profit margin will improve from the current -55 percent to 20 percent and the quick ratio will improve from the current 0.18 to 2.6.

Source of Risk	Mitigation/policy measure
coupled with other payables reaches 34.91% of total current assets. **(iii) Elevated commissions on water collection** Commission on collection was MK141.12 million for FY22/23 compared to MK115.38 million for FY21/22 representing an increase of 22.31% increase. **Debt Repayment:** **(i) Interest and exchange loss on foreign denominated loans** Exchange Loss stood at MK5.25 billion for FY22/23 compared MK283.10 for FY2122 on account of the local currency devaluation by 25%. Whereas total interest payments of MK3.02 billion were realized for FY22/23 compared to MK1.19 billion for FY21/22. Of the expenses, overdraft interest for FY22/23 was MK178.00 million compared to MK111.49 million for FY21/22. IDA loan interest was MK674.02 for FY22/23 and the previous financial year. EIB loan interest was MK195.72 million for FY22/23 compared to MK205.86 million for FY21/22. India Exim loan interest was MK339.59 million for FY22/23 compared to MK286.20 million for FY21/22. the Exim Bank loan had an “unrealized exchange loss of MK5.19 billion as of June 1st, 2022. Local banks’ loan interest was MK1.05 billion on account of punitive policy rate compared to MK847.99 million for FY22 Other finance costs were MK582.46 million for FY23. **(ii) Arrears accumulation and expected credit loss from MDAs.** The worsening liquidity trend has reduced the ability of the SOE to pay its suppliers on time (principally ESCOM). As of 31 December 2022, total payable to the government and government agencies was MK2.4 billion (87% to ESCOM). Concentration of trade receivables at the end of FY22/23 was 54% concentrated in the Government departments and agencies that owed the Board K5.3 billion. The remaining 46% of trade receivables related to private entities and individuals amounting to K4.5billion.	BWB is seeking a restructure of the long-term loans obtained through the Malawi Government.

Source of Risk	Mitigation/policy measure
(iii) Local banks' loans The following loans are government guaranteed placing great pressure on treasury coffers which do not abate tight liquidity. These loans are susceptible to high interest payments when policy rates are revised upwards as well up respective mark-ups. FDH loan (contracted in 2019) at close of the Financial Year was MK1.79 billion. The loan is repayable over a period of 6 years up to 30 May 2025 and attracts interest at base rate plus 5.1% per annum. The loan is secured by the Government letter of guarantee, Board resolution authorizing BWB to borrow the said amount from FDH Bank and revenue collection agreement between BWB and FDH Bank Limited. First Capital Bank (contracted in 2017/18) at the close of the Financial Year was MK273.57 million. The loan is repayable over a period of 79 months up to 31 March 2024 and attracts interest at 3.25% below the banks base rate per annum. The loan was secured by the Government letter of guarantee and security agreement of K700 million. The National bank loan of K4.8 billion is repayable over a period of 8 years until November 2026 and attracts interest at base rate plus 2.6% per annum. The close of FY22/23 the loan stood at MK2.70 billion. The loan was secured by Board Resolution authorizing the board to borrow K6.9 billion from local banks, Treasury consent from the ministry of Finance authorizing the board to access K6.9 billion from NBM, Fresh letter of no objection from the Solicitor and Letter of undertaking by the board to route 65% of all revenue collections through NBM.	

4.3. ELECTRICITY SUPPLY COMMISSION MALAWI (ESCOM)

4.4.1 Company Overview

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

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

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

4.3.1. Summary of financial performance

Area of analysis	Assessment of key trends
Profitability	ESCOM posted MK25.97 of profit after tax in 2022/2023 financial year, a significant jump (26%) from MK6.8 billion recorded in 2021/2022 financial year. Operating profit margin increased from 0.09 in FY21/22 to 0.23 in FY22/23 which indicates a significant improvement in the company's operational efficiency and ability to generate profits from its core business activities.Net profit margin recorded a ratio of 0.06 in FY21/22 and had an increase of 0.09 causing the ratio of FY22/23 to be 0.15, this also shows a strong improvement in profitability of the company, taking into account all expenses and taxes. Return on assets had an increment in ratios too, in FY21/22 0.02 was recorded and in FY22/23 it reached 0.07, this shows that the company is generating more profit of its assets it owns. Return on equity had a decline in the efficiency of the company's capital utilization since it decreased from 1.24 in FY21/22 to 0.75 in FY22/23. Cost recovery recorded 1.09 in FY21/22 slightly improved to 1.20 in FY22/23 implying that the company started to recover its cost more efficiently.
Indebtedness/Solvency	Solvency ratio further depict the state of indebtedness ESCOM is in although the debt to assets decreased from 0.98 in FY21/22 to 0.91 in FY22/23. This ratio indicates that the company's assets are largely financed by debt. While the ratio decreased, a high reliance on debt can be confirmed. Debt to equity in FY21/22 was 52.18 but improved to 10.30 in FY22/23. The ratio shows a dramatic improvement in the company's capital structure, and the significant decrease in debt relative to equity indicates a relatively healthier financial position and that the company is becoming less reliant on debt financing. Debt to EBITDA decreased from 16.48 in FY21/22 to 6.74 in FY22/23. This was an indication that the company improved its debt servicing capacity and generates nearly sufficient cash flow to cover its debt obligations. Interest coverage increased, portraying a substantial improvement in the company's ability to cover its interest expenses, as seen from FY21/22 with a ratio of 4.34 and in FY22/23 with the indicator at 15.52. Cash interest coverage also shows a very visible increment from FY21/22, 7.97 and FY22/23, 20.40 indicating that the company slowly is becoming able meet its interest payments with its operating cash flow.
Liquidity	Current ratio in FY21/22 stood at 0.62:1 and in FY22/23 is 0.85:1 this suggests the company's ability to slightly meet its short-term obligations. Quick ratio on the other hand is showing slight improvements in its ability to meet short-term obligations without relying on inventory as indicated from an increase of 0.55:1 in FY21/22 to 0.68:1 in

Area of analysis	Assessment of key trends
	FY22/23. Debtor turnover days decreased from 76.9 in FY21/22 to 49.1 in FY22/23. This means the company is collecting payments from its customers within a short period. Creditor turnover days recorded in FY21/22 had 424.8 and FY22/23 had 130.1, indicating that the company is taking long to pay its suppliers. Effectively, the company is using its suppliers as a source of short-term funding. This is reflected in the significant build up in arrears of unpaid trade payables to EGENCO (MK63 billion) and NOCMA (MK8 billion) at the end of FY22/23.
Dependency/ Relationship with GOM	ESCOM is only able to continue to operate with the support of the government [through Government Comfort Letters, Guarantees for commercial loans and Concessionary loans for investments] and the company's state-owned creditors through extended payable days. Government has decided on the verified MK65.9 billion which ESCOM was contesting against EGENCO. The amount has now been written off in the financial year ending 31 March 2023. The improvement in the year ended 31 March 2023 can be attributed to the Government's intervention to pay BWB overdue bills. This has reduced the impairment provision for the year.

	2019	2020	2021	2022	2023
Profitability					
Operating Profit Margin	-0.21	-0.15	-0.07	0.09	0.23
Net Profit Margin	-0.13	-0.13	-0.10	0.06	0.15
Return on Assets	-0.06	-0.06	-0.05	0.02	0.07
Return on Equity	-0.86	-1.23	NMF	1.24	0.75
Cost Recovery	0.84	0.88	0.94	1.09	1.20
Liquidity					
Current Ratio	0.76	0.68	0.54	0.62	0.85
Quick Ratio	0.65	0.53	0.45	0.55	0.68
Debtor Turnover Days	49.2	45.1	42.3	76.9	49.1
Creditor Turnover Days	198.0	167.8	309.9	424.8	130.1
Solvency					
Debt to Assets	0.93	0.95	1.06	0.98	0.91
Debt to Equity	14.25	18.22	NMF	52.18	10.30
Debt to EBITDA	-19.04	-33.48	127.06	16.48	6.74
Interest Coverage	-45.82	-4.55	-2.15	4.34	15.52
Cash Interest Coverage	-25.22	-1.81	0.59	7.97	20.40
Debt Coverage	-0.27	-0.15	0.03	0.21	0.36

	2019	2020	2021	2022	2023
Profitability					
Return on Assets	Category 5	Category 5	Category 4	Category 3	Category 2
Return on Equity	Category 5	Category 5	Category 5	Category 1	Category 1
Cost Recovery	Category 4	Category 4	Category 4	Category 3	Category 3
Liquidity					
Current Ratio	Category 5	Category 5	Category 5	Category 5	Category 5
Quick Ratio	Category 4	Category 4	Category 5	Category 4	Category 3
Debtor Turnover Days	Category 3	Category 3	Category 3	Category 5	Category 3
Creditor Turnover Days	Category 5	Category 5	Category 5	Category 5	Category 5
Solvency					
Debt to Assets	Category 4	Category 4	Category 5	Category 4	Category 4
Debt to Equity	Category 5	Category 5	Category 5	Category 5	Category 5
Debt to EBITDA	Category 5	Category 5	Category 5	Category 5	Category 5
Interest Coverage	Category 5	Category 5	Category 5	Category 1	Category 1
Cash Interest Coverage	Category 5	Category 5	Category 5	Category 1	Category 1
Debt Coverage	Category 5	Category 5	Category 5	Category 3	Category 2

Category 1	Category 2	Category 3	Category 4	Category 5

Lower risk ⟷ **Higher risk**

4.3.2. Main fiscal risks

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

Source of Risk	Mitigation/policy measure
Expenditures and capital investment: Current liabilities stood at MK101.5 billion of which MK63.8 billion were trade and other payables and borrowings repayable during the period under review stood at MK10.0 billion: Operating expenditure excluding depreciation and exchange losses (ESCOM's operating expenditure forecast from October 2022 to March 2023 was MK37.7 billion) with 6 months actual of MK29.8 billion, an increase of 26.4%, was due to particularly consumption of goods & services, maintenance and training that was carried out. Continuous non-collectability of electricity bills due from Blantyre Water Board (BWB) and some MDAs, has affected significant operations for ESCOM. - Funding for Investment Plans remains a challenge, however in FY2223 ESCOM had major a total of MK136.7 billion as total expenditure for development projects. .	**Expenditures and capital investment** (i) Although the review of PPAs for EGENCO Hydro Power Plants commenced during the year, the process has not yet been concluded. (ii) Control the level of head office expenses. (iii) Review whether the provision for maintenance has been adequate.
Revenues: (i) **End-user tariff inadequacy in provision of revenues** Management believes that the Corporation's present challenges, which are significantly arising from a tariff that is not fully passing on all costs to end consumers may continue for another 12 months from FY22/23 are available to be issued although in March 2021, the Regulator approved a tariff increase of 10.62% composed of 5.72% tariff increase as the Automatic Tariff Adjustment Framework (ATAF) outcome and 4.9% as revenue 'loss' recouping by the Corporation.	**Revenues:** (i) **End-user tariff inadequacy in provision of revenues** Tariffs should adjust automatically to relate prevailing market prices. While Government continues to support the Corporation, management is working to obtain cost reflective tariff and financing for projects. It is probable that once management acquires these new sources of financing, the Corporation will be enabled to address the challenges through the proposed interventions.
(ii) Slow collections from MDAs The slow collections from Blantyre Water Board and other Government Departments and Agencies (MDA) further worsened the corporation's liquidity position which resulted in the company relying on short term facilities from commercial banks, hence widening the net current liability position. The corporation is	**(ii) Slow collection from MDAs** Migrating of all customers from post-paid to pre-paid meters especially other SOE's to mitigate potential risk to liquidity positions and long-term health associated with lags in revenue realization from customer payment delinquencies. ESCOM is pursuing engagement and legal collection on some MDAs;

Source of Risk	Mitigation/policy measure
paying Value Added Tax accruing on invoices from Blantyre Water Board and MDAs to Malawi Revenue Authority from tariff receipts due to its licensed functions namely; Transmission, Distribution and System and Market Operator. **(iii) Energy losses** Reflecting the lack of maintenance expenditure, energy losses (at 22% vis-à-vis industry standard of 16%) and dangerous occurrences are unacceptably too high. Issues continue to arise with the quality of service in terms of reliability of supply, including time to make new connections, accuracy of metering and billing.	State Owned Enterprises (e.g., Blantyre Water Board); and Private customers who are unable to settle their electricity bills. **(ii) Energy losses** Implantation of digital interventions aimed to track and reduce power losses; and eliminate risk of loss of already earned revenue through a comprehensive restructuring of billing practices and agreement to eliminate potential conflicts in institutional frameworks. Expedition of meter instalments and connections provide the potential to increase revenues beyond the current capacity.

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

Source of Risk	Mitigation/policy measure
Debt Repayment and Further Arrears: **(i) Long-term debt risk** Trade and other receivables for FY22/23 stood at K79.7bn represented 23% of total assets and the associated impairment provisions for the expected credit losses of K23bn. Despite the improvement in profitability, ESCOM has had to borrow more long-term debt to sustain its operations and total liabilities were 104% of assets at the end of the period under review. A large proportion of debt is to provide working capital rather than invest in new assets. Total debt payables were recorded as MK143.28 billion. Repayable loans within 5 years amount to MK82.33 billion; between 5-10 years, MK15.36 billion; and MK45.58 billion for payables after 10 years. **(ii) Exchange loss and interest risk** All loans apart from the Government guaranteed. Apart from the loan for the MOMA Project (6), all foreign denominated loans have grace periods of 5 years. Of the 7 loan facilities engaged, 5 are US dollar ($) denominated, namely: WB ESSP Loan (face value of US$10.87 million, carrying amount of US$10.88 million, on a 35 year tenure, 5 year grace period and a	**Debt Repayment and Further Arrears:** **(i) Long-term debt risk** Government through the Treasury should intervene in order to ensure compliance from BWB and other MDA who are responsible for a large proportion of trade receivables that would in turn be used to finance and service ESCOM long-term debt obligations. In addition, the slow collections from Blantyre Water Board and Government Departments and Agencies (MDA) further worsen the corporation's liquidity position which results in the corporation relying on short term facilities from commercial banks, hence widening the net current liability position. The corporation is paying Value Added Tax accruing on invoices from Blantyre Water Board and MDAs to Malawi Revenue Authority from tariff receipts due to its licensed functions namely; Transmission, Distribution and System and Market Operator. **(ii) Exchange loss and interest risk** ESCOM should contract small loans with minimal repayment periods to avoid the risk for potential exchange losses over repayment period ranging to 37 years.

Source of Risk	Mitigation/policy measure
nominal interest rate of 0.75%); Exim Bank MOFBP Loan (face value of US$23.73 million, carrying amount of US$26.18 million, on a 20 year tenure, 5 year grace period and a nominal interest rate of 2%); MEAP World Bank MOFBP Loan (face value of US$16.76 million, carrying amount of US$16.85 million, on a 37 year tenure, 5 year grace period and a nominal interest rate of 0.75%); Exim Bank MOFBP Loan (face value of US$72.44 million, carrying amount of US$73.54 million, on a 20 year tenure, 5 year grace period and a nominal interest rate of 2%); and MOMA Project Loan (face value of US$3.35 million, carrying amount of US$3.35 million, on a 35 year tenure, 6 year grace period and a nominal interest rate of 0.75%), all these loans are susceptible to exchange losses on there is a negative realignment between the US dollar ($) and the Malawi Kwacha (MK). For FY22/23 exchange losses of MK15.81 billion against losses of MK400.15 million during FY21/22 were encountered. Principal repayments of MK15.70 billion for FY22/23 (compared to MK6.2 billion-FY21/22), which was less than the exchange loss realized. The other facilities are 2 NBS Bank loan of MK15 Billion each (face values of MK15 million, carrying amounts of MK4.90 million and 7.68 million, on 5-year tenures, no grace period and a nominal interest rate of 18% each). These loans carry interest risk when fluctuations occur. Total interest at the end of FY22/23 MK5.73 billion compared to interest of MK2.74 billion	
Liquidity: **(i) Collection loss** Loss due to default of payment by customers. Settling of bills with cheques increases the risk due to the likelihood of the cheques being dishonored by various financial institutions. Failing to meet collection targets; For example, if customers default the Corporation is required to have to raise cash from other sources to meet its obligations.	**Liquidity** **(i) Collection loss** Weekly cashflow reviews by management to look at the Corporation's liquidity and to project future net cash flows; Monitoring of bank balances to ensure a healthy cash position; Invoices being paid only on due dates; and ensuring that debtor days do not exceed 30 days. Where 30 days are exceeded ensuring that the customer premises are disconnected of electricity.
(ii) Impromptu supplier outlays Sudden and unexpected cash outflows due to suppliers not willing to supply materials on open account but through high percentages of advance payments or letters of credits with cash cover.	**(ii) Impromptu supplier outlays** Looking at the future net cash flows on a day-by-day basis. Any day that has a sizable negative net cash flow is a concern. Such an analysis is supplemented with stress testing by looking at net cash flows on a

Source of Risk	Mitigation/policy measure
(iii) Unexpected penalties Payment of penalties and legal charges that may arise from time-to-time due to reasons beyond the Corporation's control.	day-to-day basis assuming that an important counter party default. **(iii) Unexpected penalties** Certain techniques of asset-liability management are applied to assess liquidity risk. This is done by matching payables and received according to due date patterns and ensuring that surpluses are a norm as well as limiting the potential of any legal charges by diligent duty discharge.

4.4. NATIONAL OIL COMPANY OF MALAWI (NOCMA)

4.4.1. Company profile

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

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

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

4.4.2. Summary of financial performance

Area of analysis	Assessment of key trends
Profitability	Non-implementation of the Strategic Fuel Levy in the price build up has significantly affected NOCMA's financial performance, worsening NOCMA's profitability. Balance of unrealised foreign exchange losses on TDB maturities brought about by 25% devaluation in May 2022 to be claimed from the PSF MK203.11 million. Operating profit margin was recorded for FY21/22 as -0.02 and FY22/23 as 0.00, an indication that the company has become more efficient in managing its core operations. Net profit margin increased from 0.00 in FY21/22 to 0.01 in FY22/23, implying that the company managed to control its expenses and generate marginal net profit. Return on assets had a ratio of 0.00 in FY21/22 and increased to 0.02 in FY22/23 meaning that the company is generating a higher return on assets. Return on equity showed a significant improvement as it increased from-0.03 in FY21/22 to 0.24 in FY22/23. Cost recovery also increased, FY21/22 recorded 0.98 and FY22/23 recorded its increment of 1.00 indicating that the company was recovering is cost effectively.
Indebtedness/Solvency	Debt to assets recorded during FY21/22 was 0.92 and FY22/23 had 0.93, implying that the slight increase in the proportion of assets are being financed by debt. Debt to equity showed a higher level of financial leverage as it increased from 11.78 for FY21/22 to 14.31 for FY22/23. Debt to EBITDA increased significantly from -97.85 in 2022 to 258.63 in 2023, suggesting that the company's debt burden has increased.

Area of analysis	Assessment of key trends
	Debt coverage for FY21/22 was -0.09 and increased to 0.07 for FY22/23, indicating that the company's cash flow was better able to cover its debt obligations. NOCMA is technically insolvent. For example, it has been having high levels of debt compared to its equity. The debt to equity has been averaging 10 percent over the years. The SOE is highly leveraged and that means a potential source of fiscal risk in the form of bail outs, guarantees, letters of comfort and on lending requests to government. Furthermore, the cash interest coverage is negative an indication that the SOE has no capacity to cover its interest on debt.
Liquidity	Current ratio for FY21/22 was 1.01 and remains the same for FY22/23 as 1.01. This stability shows that the company could barely meet its short term obligations as they fall due. Debtor turnover days reduced from 63 days recorded in FY21/22 to 22 days in FY22/23 meaning that the company was collecting payments from customers faster. Creditor turnover days however shows that the company is taking long to pay its suppliers as FY21/22 had 240.0 and FY22/23 decreased to 173.5.
Dependency/ Relationship with GOM	NOCMA has not been receiving significant financial transfers from government in the form of grants however its imports have been largely financed by Government Guaranteed facilities.

SOE Risk Ratings

	2019	2020	2021	2022	2023
Profitability					
Operating Profit Margin	0.00	0.00	-0.01	-0.02	0.00
Net Profit Margin	0.01	0.00	-0.01	0.00	0.01
Return on Assets	0.01	0.00	-0.01	0.00	0.02
Return on Equity	0.09	0.00	-0.06	-0.03	0.24
Cost Recovery	0.99	1.00	0.99	0.98	1.00
Liquidity					
Current Ratio	1.02	1.00	1.01	1.01	1.01
Quick Ratio	0.91	0.85	0.88	0.95	0.97
Debtor Turnover Days	77.5	65.8	73.9	62.3	22.1
Creditor Turnover Days	224.3	173.5	257.1	240.0	173.5
Solvency					
Debt to Assets	0.94	0.91	0.92	0.92	0.93
Debt to Equity	14.95	10.59	10.98	11.78	14.31
Debt to EBITDA	141.53	198.05	-457.90	-97.85	258.63
Interest Coverage		-0.57	-90.92	-259.47	
Cash Interest Coverage		0.66	-21.62	-178.92	
Debt Coverage	0.04	0.03	-0.02	-0.09	0.07

	2019	2020	2021	2022	2023
Profitability					
Return on Assets	Category 3	Category 4	Category 4	Category 4	Category 3
Return on Equity	Category 2	Category 3	Category 4	Category 3	Category 1
Cost Recovery	Category 4	Category 4	Category 4	Category 4	Category 4
Liquidity					
Current Ratio	Category 4	Category 4	Category 4	Category 4	Category 4
Quick Ratio	Category 2	Category 2	Category 2	Category 2	Category 2
Debtor Turnover Days	Category 5	Category 4	Category 4	Category 4	Category 1
Creditor Turnover Days	Category 5	Category 5	Category 5	Category 5	Category 5
Solvency					
Debt to Assets	Category 4	Category 4	Category 4	Category 4	Category 4
Debt to Equity	Category 5	Category 5	Category 5	Category 5	Category 5
Debt to EBITDA	Category 5	Category 5	Category 5	Category 5	Category 5
Interest Coverage		Category 5	Category 5	Category 5	
Cash Interest Coverage		Category 5	Category 5	Category 5	
Debt Coverage	Category 5	Category 5	Category 5	Category 5	Category 5

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

4.4.3. Main fiscal risks

Expenditure and revenue risks. Likelihood of occurrence (high). In 2023, total revenue amounted to MK496 million against budgeted revenue of MK14.4 billion. This was caused by the following:

Source of Risk	Mitigation/policy measure
Expenditures and capital investment: **(i) Increased variance of cost of sales against budget.** Cost of sales was K481.68 billion against budgeted cost of sales of K326.94 billion. This variance, if continued has the potential to derail the cash position of the Company. Cost of sales constitute 21.38% of trading income. **(ii) Increase in non-trading income.** Non-trading income amounted to K12.572 billion against budgeted non-trading income of K12.367 billion representing a 2% positive variance. This was mainly due to aggressive investment of cash in fixed deposits. An average of 70% of cash and cash equivalents were being invested despite the heavy requirement for cash cover collateral for Letters of Credit. **(iii) Depreciation** Depreciation on non-current assets was K1.394 billion. Non-maintenance of non-current assets continues to exacerbate dilapidation which presents itself in increased depreciation. **(iv) Exchange loss** Balance of unrealized foreign exchange losses on maturities brought about by 25% devaluation in May 2022 to be claimed from the PSF amounting to MK203.11 million. **Revenues:** **(i) Uncompetitive Revenues** Sales revenues only increase due to fuel price hikes. Total sales revenue amounted to K483.80 billion against budgeted sales revenue of MK328.94 billion representing a 47%positive variance. This was due to the two fuel price hikes of 25.6% and 37.7% that were affected during FY22/23.	**Expenditures and capital investment:** **(i) Increased variance of cost of sales against budget.** NOCMA should prioritize the implantation of an efficient service delivery system in order to reduce the cost of generating sales. **Revenues** - NOCMA should push for the implementation of the liquid fuels levy that can be imposed by the Minister under Section 38 of Liquid Fuels and Gas (Production and Supply) Act.

Source of Risk	Mitigation/policy measure
(ii) The non-implementation of the Strategic Fuel Levy in the fuel price build-up. NOCMA's ability to fund operation and administration of the SFRs, the stocking up of the storage tanks and the expansion of the storage capacity is greatly compromised by maintenance of a crippling pricing mechanism. Thus, representing a huge loss of potential revenue NOCMA collected and received SFR Levy of K3.289 billion against budgeted K5.328 billion, representing an under-collection of 38.27%. Non-receipt of SFR Levy funds through MERA for volumes sold by other importers, especially Petroleum Importers Limited (PIL) is a challenge that will need to be addressed. Other revenue amounted only to K101 million (budget K812 million) from concession fees for Mchinji Depot, hospitality fees for customers at Chilumba Depot, interest on staff loans and bid document sales. The irresolution of the hospitality agreements contributed to much of the lost revenue in other income. Another contributing factor was the fixed asset disposals not effected.	

Liquidity and debt repayment risks. Likelihood of occurrence **(High).** NOCMA's financial vulnerability stems from a number of strategic risks. An unsustainable liquidity position and growing debt levels pose a threat to the economy and industry.

Source of Risk	Mitigation/policy measure
Current Liabilities: An average of 70% of cash and cash equivalents was being invested despite the heavy requirement for cash cover collateral for Letters of Credit. Consequently, K7,822 billion in net interest was realized compared to budget of K6,226 billion. SFR Loan - Short Term Component amounted to MK2.12 billion. NCOMA's levels of inventory have also been increasing over the years. This implies a huge opportunity cost and pressure on cashflow management.	To address stock turnover shortages, NOCMA should consider implementing the following policies: - Just-In-Time (JIT) Inventory System: Order and receive inventory just in time to meet customer demand, reducing storage needs and minimizing stockouts. - Vendor-Managed Inventory (VMI): Partner with suppliers to manage inventory levels, ensuring timely replenishment and minimizing stockouts. - Economic Order Quantity (EOQ): Calculate the optimal order quantity to minimize total inventory costs, including holding costs, ordering costs, and shortage costs.

Source of Risk	Mitigation/policy measure
Debt Repayment and Further Arrears: **(i) Debt servicing** Given the financial performance of the SOE, it may not be able to service both its short- and long-term obligations. SFR Loan -Long Term Component amounted to MK16.37 billion which was a slight improvement from MK18.19 billion. Already, the interest cover ratios confirm this assertion. the provision of bad debt further shows that NOCMA owed MK289.29 million at the end of FY22/23. **(ii) Interest on debt exposure** Interest on contracted debt in the portfolio amounted to MK116.81 million pushing total debt obligation to MK29.35 billion at the end of FY22/23. The highest interest rates are owed to domestically contracted debt from entities including commercial banks.	

4.5. ENERGY GENERATION COMPANY (EGENCO) LIMITED

4.5.1. Company profile

Electricity Generation Company (Malawi) Limited is a 100 percent owned statutory corporation. It draws its mandate from its Memorandum of Association and the Electricity Amendment Act 2016 to generate electricity. EGENCO fulfils its mandate by operating, Hydro, Thermal Diesel and Solar Plants spread across Malawi. The total installed capacity of EGENCO's power plants connected to the national grid was 441.55MW (as of September 2022) composed of 390.15MW hydro and 51.4MW of thermal diesel generators.

87.37% (385.8MW) of EGENCO's installed hydropower is installed along the Shire River in the Southern Region of Malawi. The first Power Station site on the Cascade was Nkula (135.1MW) followed downstream by Tedzani (121.1MW) and Kapichira (129.6MW). The remaining 4.35MW of the hydropower was installed on Wovwe River in the Northern Region of Malawi. The diesel generators are installed at Mapanga (20.0MW), Lilongwe (25.4MW) and Luwinga (6.0MW). EGENCO also operates off grid diesel thermal plant at Likoma Island (1.168MW) and Chizumulu Island (0.656MW) and Solar power plants on the Islands of Likoma (1MW) and Chizumulu (0.3MW).

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

4.5.2. Summary of financial performance

Area of analysis	Assessment of key trends
Profitability	EGENCO posted a Net Profit of **MK5.25 billion** in FY22/23, representing 15.09% year on year increase from the MK4.56 billion realized in FY21/22. What constitutes this annual profitability was the dynamic between increases in total current assets by 28.18% (led by an uptick of Trade Receivable by 16.82%), a decrease in short-term debt (loan) liabilities by 27.69% and the upward influence of the 25% devaluation in May 2022. Operating profit margin decreased from 0.23 in FY2022 to -0.03 in FY2023, implying that the company went from making a profit to operating at a loss on its core business activities. Net profit margin decreased too from 0.11 in 2022 to -0.04 in 2023, suggesting that after

Area of analysis	Assessment of key trends
	accounting for all expenses, the company's overall profitability has worsened. Return on assets shows that the company generated less profit in assets invested in 2023 compared to 2022 as confirmed by the decreased ROA from 0.02 in FY21/22 to -0.01 in FY22/23. Return on equity for FY21/22 was 0.03 and decreased to -0.01 for FY22/23. This indicates less profit for every shareholder's investment in 2023.
Indebtedness	EGENCO's interest-bearing debt during the period under review amounted to MK25.4 billion. A large proportion of the debt was contracted to finance development projects during the period under review. Even though that was the case, Debt to Equity Ratio was within category three in terms of risk rating implying that management should pay close attention to debt management.
Liquidity	Current ratio decreased from 5.81 for FY21/22 to 3.75 for FY22/23, however the corporation was still able to meet its short-term obligations as they fall due despite the declining current ratio. Debtor turnover days decreased from 346 in FY21/22 to 252 for FY22/23 implying that the company was collecting money from its customers bust still more taking longer. On the other hand, creditor turnover days decreased from 45.8 in FY21/22 to 37.5 in FY22/23, meaning that the company was paying its suppliers faster.
Solvency	The solvency position for FY22/23 signified low risk to long term debt exposure. Debt to Assets of 0.49 indicates that the company is not heavily leveraged. Debt to Equity of 0.96 is indicative of equity presence in the company's capital structure. When coupled with the liquidity ratio, it shows that the company is in a strong financial position.
Dependency/ Relationship with GOM	EGENCO continues to remain capable of generating a commercial return sufficient to fund its operations in the short, medium and long term without Government Transfers to Total Revenues. However, Government used MAREP funds to install Kapichira II machines and entered into a concession agreement with ESCOM which was later transferred to EGENCO during unbundling of the then vertically integrated ESCOM. As at 30th June, 2019, EGENCO had converted MK15 billion outstanding amount for Kapichira concession fees into equity. EGENCO commenced payment of Kapichira concession fees in 2019.

	2019	2020	2021	2022	2023
Profitability					
Operating Profit Margin	0.40	0.16	0.15	0.23	-0.03
Net Profit Margin	0.27	-0.08	0.10	0.11	-0.04
Return on Assets	0.07	-0.02	0.02	0.02	-0.01
Return on Equity	0.10	-0.04	0.04	0.03	-0.01
Cost Recovery	1.53	1.18	1.17	1.28	0.97
Liquidity					
Current Ratio	5.22	4.36	4.56	5.81	3.75
Quick Ratio	4.58	3.61	3.76	5.02	2.99
Debtor Turnover Days	238.1	210.1	214.3	345.9	251.9
Creditor Turnover Days	89.4	45.3	37.9	45.8	37.5
Solvency					
Debt to Assets	0.37	0.41	0.49	0.49	0.51
Debt to Equity	0.59	0.70	0.95	0.96	1.03
Debt to EBITDA	3.15	5.96	8.39	7.58	21.49
Interest Coverage	33.07	8.96	11.85	3062.76	
Cash Interest Coverage	40.43	14.67	19.21	5200.74	
Debt Coverage	4.50	3.89			

	2019	2020	2021	2022	2023
Profitability					
Return on Assets	Category 2	Category 4	Category 3	Category 3	Category 4
Return on Equity	Category 2	Category 3	Category 3	Category 3	Category 3
Cost Recovery	Category 1	Category 3	Category 3	Category 2	Category 4
Liquidity					
Current Ratio	Category 1	Category 1	Category 1	Category 1	Category 1
Quick Ratio	Category 1	Category 1	Category 1	Category 1	Category 1
Debtor Turnover Days	Category 5	Category 5	Category 5	Category 5	Category 5
Creditor Turnover Days	Category 3	Category 2	Category 2	Category 2	Category 2
Solvency					
Debt to Assets	Category 2	Category 2	Category 2	Category 2	Category 3
Debt to Equity	Category 2	Category 2	Category 2	Category 2	Category 3
Debt to EBITDA	Category 4	Category 5	Category 5	Category 5	Category 5
Interest Coverage	Category 1	Category 1	Category 1	Category 1	
Cash Interest Coverage	Category 1	Category 1	Category 1	Category 1	
Debt Coverage	Category 1	Category 1			

4.5.3. Main fiscal risks

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

Source of Risk	Mitigation/policy measure
Strategic Risk: **(i) Monopsonic relationship with ESCOM** Malawi adopted the monopsonic model at the time of unbundling. EGENCO has only one Customer ESCOM. There is a long-standing conflict between the two commercial entities on the mode of billing despite having a signed Power Purchase Agreement effective October 2018. The conflict is on whether EGENCO should bill ESCOM based on capacity for the Hydro Plants as stipulated in the Tariff methodology by MERA or bill based on an energy dispatched. **(ii) Over reliance on hydro generative forces.** EGENCO's generates 88.35% (390.15MW) of its 441.55MW national grid through hydro power plants are greatly concentrated along Shire River (385.8MW or 98.95%). Due to climate change, there is a high risk of flooding and drought rendering the power stations unavailable for generation.	**Strategic Risk:** **(i) Monopsonic relationship with ESCOM** Government should resolve the long-standing dispute and consider the paths towards an open market system. Prioritize a complete review of the instruments guiding the billing methodology in the sector to mitigate, cauterize and reinstitute equitable billing practices. **(ii) Over reliance on hydro generative forces.** EGENCO should prioritize rebalancing its power generation portfolio towards other sources of renewable energy by capitalizing on the countries topological and microclimatic diversity. The energy sector needs to move to the next phase of the trading model where generators can be connected to battery storage units to mitigate against power losses.

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

Source of Risk	Mitigation/policy measure
Revenues: Electricity tariffs have not increased for the past 4 years resulting in minimal or no increase in revenue recorded year on year which is irreflective of market and economic conditions.	**Revenues:** Tariff increases to respond to changes in the macro-economic fundamentals and adjustments in fuel price. Coordinated effort towards the consideration of engagement in preliminary research aimed towards adoption of an automatic price adjustment system reactive to prevalent macroeconomic positions.
Expenditures: **(i) Macroeconomic exposure** Increases in expenditure is correlated to movement in macroeconomic fundamentals e.g., inflation which averaged 20.95% for the year, 25% depreciation of the Malawi Kwacha against the US dollar and other major currencies and increases in price of oil and petroleum products.	**Expenditures:** To adopt a full cost recovery mechanism through pass through tariff build up.
(ii) Depreciation Assets continue to depreciate at an alarming rate at MK8.5 billion in FY22/23 compared to MK7.09 billion the previous financial year. Maintenance seems to not catch up with the wear and tear of assets which places operating expenses on a steep incline. Generation fuel price has moved from MK521.2 in 2018 to around MK1,315.56 representing an increase of 152%. Input cost increases have been influenced by negative shifts in macroeconomic fundamentals.	**(iii) Depreciation** Maintain assets at the same rate as they depreciate or upgrade the assets portfolio to reduce the rate of future depreciation. Diversify input systems to mitigate the risk from shocks to oil and petroleum products and currency realignments.

Liquidity. Likelihood of occurrence (Medium).

Source of Risk	Mitigation/policy measure
Current liabilities: **(i) Mismatch between payables and receivables** The SOE has its largest proportion of debt denoted as short-term payables on a rate average of 10-week average (72 days). Whereas the accounts receivables amounting to MK36,50 billion average nearly a year (350 days), which even though is an annual improvement from 356 days from FY21/22 represent	**Current liabilities**: (i) Mismatch between payables and receivables A provision of a debt contraction framework to mitigate the risk of incurring temporal imbalances in the debt portfolio in favour of longer-term debt to free up liquidity requirements.

Source of Risk	Mitigation/policy measure
an unattainable mismatch that continues to place EGENCO in liquidity peril.	

5. ANNEXES

ANNEX 1: LIST OF SOEs IN MALAWI (2023)

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 (2023)

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	45,816	86%	8%	8%	9%	7.6	0.93	1.29	5.60	5.60	166.96	374.18	0.14	0.16	#DIV/0!	-
MACRA	8,835,817	100%	43%	28%	73%	56.6	0.72	1.74	1.20	1.03	128.04	#DIV/0!	0.61	1.55	#DIV/0!	-
MBS	747,464	100%	53%	3%	3%	87.5	0.45	2.14	2.46	2.44	54.23	#DIV/0!	0.07	0.07	#DIV/0!	-
MERA	3,056,917	100%	36%	2%	17%	-	0.09	1.57	1.10	1.10	3039.70	#DIV/0!	0.86	6.25	#DIV/0!	-
MGB	2,583,264	100%	90%	42%	51%	-	0.81	9.84	5.02	5.02	71.91	#DIV/0!	0.16	0.19	#DIV/0!	-
NCIC	1,011,194	100%	22%	34%	36%	18.0	1.51	1.29	8.62	1.28	20.63	#DIV/0!	0.06	0.07	#DIV/0!	-
PMRA	525,783	100%	18%	10%	12%	17.5	0.53	1.22	1.72	1.71	46.30	#DIV/0!	0.23	0.29	61.75	-
TC	(110,289)	100%	-3%	-2%	-4%	#DIV/0!	0.66	0.97	0.48	0.43	8.95	#DIV/0!	0.55	1.24	(1,645.10)	-
TEVETA	1,401,207	100%	7%	8%	11%	-	1.16	1.08	3.06	3.06	180.20	#DIV/0!	0.26	0.34	#DIV/0!	-
UHL	1,388,442	65%	-17%	4%	7%	-	0.28	1.22	0.61	0.54	58.96	301.14	0.42	0.72	(3.56)	-
MBC	(1,123,754)	100%	-20%	-12%	-4692%	#DIV/0!	0.58	0.41	0.48	0.31	293.60	#DIV/0!	1.00	395.77	(9,136.21)	0.50
MIM	(34,303)	100%	57%	0%	-1%	#DIV/0!	0.31	2.31	0.21	0.20	45.85	#DIV/0!	0.39	0.64	#DIV/0!	-
NEEF	(4,944,694)	100%	100%	-22%	#VALUE!	#DIV/0!	0.32	#DIV/0!	1.41	1.35	1198.73	#DIV/0!	1.04	-24.41	4.05	-
NFRA	263,271	100%	-5%	1%	1%	-	0.10	0.61	5.10	0.34	140.08	#DIV/0!	0.28	0.39	#DIV/0!	0.36
ACM	289,070	43%	-14%	14%	34%	3.9	2.64	1.75	1.53	0.88	60.54	91.31	0.58	1.36	(96.75)	-
ADL	12,431,370	96%	76%	16%	17%	-	0.19	5.06	0.79	0.71	135.30	948.40	0.04	0.04	54.45	-
ADMARC	(5,688,189)	100%	70%	-6%	-15%	#DIV/0!	0.51	2.47	0.66	0.50	#DIV/0!	#DIV/0!	0.62	1.67	#DIV/0!	0.25
BWB	(20,692,852)	35%	-78%	-24%	-269%	#DIV/0!	0.30	-0.26	0.46	0.36	100.83	151.36	0.91	10.26	(17.18)	-
CRWB	1,952,547	49%	-41%	9%	-46%	-	0.36	1.11	0.50	0.45	145.71	158.68	1.19	-6.34	(5.80)	-
ESCOM	25,972,037	66%	17%	7%	75%	-	0.62	2.03	5.05	0.42	2.55	130.14	0.91	10.30	15.52	-
LIHACO	2,738,999	75%	36%	61%	119%	-	1.66	2.56	1.36	1.22	62.76	50.47	0.49	0.95	33.08	0%
LWB	1,102,571	39%	-23%	1%	3%	-	0.15	1.63	2.94	2.13	#DIV/0!	336.05	0.81	4.23	(1.89)	-
MHC	(268,115)	89%	-9%	0%	0%	#DIV/0!	0.05	1.02	0.33	0.08	37.53	1909.04	0.12	0.14	(0.76)	-
NOCMA	3,213,911	3%	2%	1%	15%	-	1.47	85.92	1.01	0.96	97.45	225.98	0.93	14.31	#DIV/0!	-
NRWB	(7,413,864)	100%	-26%	-7%	-90%	#DIV/0!	0.08	0.77	0.92	0.70	70.59	#DIV/0!	0.93	12.38	0.60	0.03
SRWB	(988,193)	69%	38%	-2%	-5%	#DIV/0!	0.27	3.24	1.34	1.24	#DIV/0!	0.00	0.00	0.00	#DIV/0!	-
CMST	(10,491,815)	20%	-19%	-26%	-50%	#DIV/0!	0.79	2.55	1.41	0.59	81.83	249.47	0.48	0.91	#DIV/0!	-
COSOMA	192,394	100%	94%	7%	31%	-	1.10	15.68	1.10	1.09	59.00	#DIV/0!	0.78	3.63	#DIV/0!	-
PPDAA	621,075	100%	31%	23%	34%	-	1.38	1.19	2.36	2.26	93.05	#DIV/0!	0.32	0.46	#DIV/0!	0.18

ANNEX 4: INDICATORS, CALCULATIONS AND THRESHOLDS FOR MONITORING SOE FINANCIAL PERFORMANCE

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