GOVERNMENT OF MALAWI

2023/24 CONSOLIDATED REPORT FOR STATE OWNED ENTERPRISES IN MALAWI

MINISTRY OF FINANCE AND ECONOMIC AFFAIRS
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EXECUTIVE SUMMARY

This consolidated SOE report focuses on the combined financial and non-financial performance of the 26 Commercial State-Owned Enterprises (SOEs). The report also describes the performance of each commercial SOE based on the audited financial statements and the Performance Management Plans and Budgets for the fiscal year 2023-2024.

Overall, the report shows the SOEs' aggregate total assets, liabilities and revenues stood at 25%, 20% and 11% of Gross Domestic Product in 2023-2024 financial year. Sectors as Energy, Communication, Financial and Water were the major drivers. 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 and communication sectors were operating below cost recovery. 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.

High operating and administrative expenditures were the primary causes of the ongoing cash flow challenges. The majority of SOEs are eventually compelled to use on-lending, overdraft, and guaranteed loans to augment working capital requirements.

This calls for Government's urgent structural policy interventions from a fiscal risks perspective to avoid exposing Government. These policy shifts include finalize amendment of water works Act to give powers to regulator to warrant oversight and 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. Regarding cash flow challenges, the government must bolster its role in financial management and oversight to make sure that SOEs stay within their means. Additionally, when borrowing is necessary to finance operations, the government must carry out sufficient due diligence and keep an eye on loan service obligations to prevent default and exposure. Where necessary, Government should set debt ceiling to reduce appetite for borrowing and encourage implementation of bankable turn-around strategies.

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

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

1. INTRODUCTION

1.1 IMPORTANCE OF SOE OVERSIGHT

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

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

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 26 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

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

(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

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	This section outlines the main categories for cross-cutting issues, including

Section		Sub-section	Analysis	Importance
			2.6.2 Fiscal flows and Arrears (subsidies, overdraft, debt, remittance of dividends) 2.6.3 Institutional arrangements (separation of PSO, staffing and restructuring) 2.6.4 SOE Oversight function (capacity and coverage)	
		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 (2024)	Including Governance and compliance issues		
Annex 2	Financial indicators for Statutory body oversight	15 indicators include: 1) profit after tax; 2) Return on Assets; 3) Return on total equity; 4) Cost recovery; 5) Gross profit margin; 6) Operating Profit margin; 7) Asset turnover; 8) Debt to equity; 9) Current ration; 10) Quick ratio; 11) Accounts receivable days; 12) Debt servicing ratio; 13) Accounts payable days; 14) Government transfers as a proportion of total revenue; 15) Dividend Payout Rate.		Heat map used to monitor the financial performance of the SOE sector.

Section		Sub-section	Analysis	Importance
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 26 commercial SOEs comprising 14 traders, 9 service providers and 10 regulators. **The "Public Enterprise Sector",** however, is larger than this as it also includes wholly and semi-subvented organisations totalling to 76 institutions**.** However, the analysis in this report is based on the 26 commercial SOE data only.[2]

Figure 1: Public Entreprises Sector in Malawi

Figure 1a: Structure of the SOE Sector in Malawi

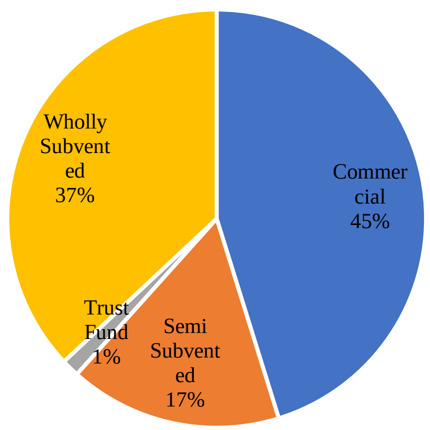
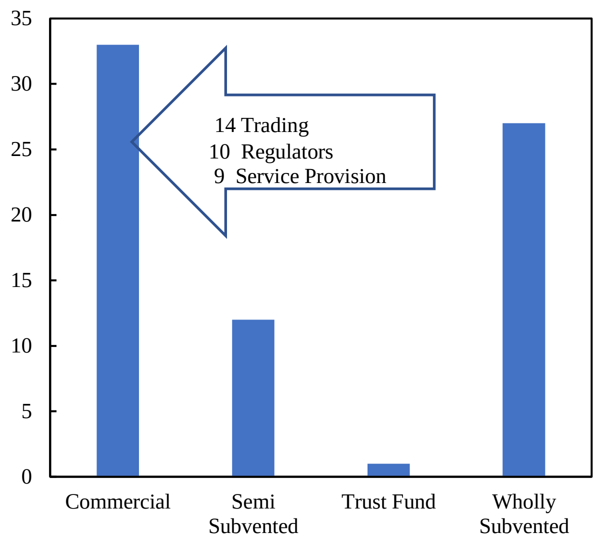


Figure 1b: Composition of the Commercial SOEs



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 for 11 percent of GDP for FY 2023/24, Gross liabilities of the sector for the same FY account form 20 percent of GDP while SOE assets accounted for 26 percent of GDP in Malawi (**Table 2).**

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

(Millions MK)	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Total Assets	1,723,189	1,884,132	2,138,189	3,225,272
Total Liabilities	1,180,537	1,296,676	1,486,051	2,490,025
Total Revenue	737,369	580,451	1,137,352	1,335,846
As % of GDP				
Total assets	20%	20%	20%	26%
Total Liabilities	14%	14%	14%	20%
Total Revenue	9%	6%	10%	11%

Source: 2024 Audited Financial Statements and Annual Economic Report, 2024

The SOE sector is largely dominated by the energy, water and agriculture sectors (Table 3). The energy sector's contribution accounted for 57.12 percent of total assets, 66.55 percent of total liabilities and 43.16 percent of the total revenues. Given their size and diversity across all sectors of the economy, these require special attention from a fiscal risk perspective.

Table 3: SOE Assets, Liabilities and Revenues for FY2023/24 (By sector and category) (Percent of total)

Sector	Assets	Liabilities	Revenue
Agriculture	5.53%	3.76%	4.08%
Communication	2.47%	2.23%	3.53%
Education	0.11%	0.02%	0.27%
Energy	57.12%	66.55%	43.16%
Governance	0.02%	0.00%	0.04%
Trade and Tourism	2.31%	0.80%	2.87%
Transport and Public Works	3.25%	0.35%	2.80%
Water	19.31%	23.57%	8.29%
Lands and Housing	4.93%	0.31%	1.61%
Financial	1.86%	0.51%	1.53%
Health	2.03%	1.52%	3.71%
Labour	0.93%	0.23%	1.98%
Youth Sports and Culture	0.13%	0.15%	0.00%
Grand Total	**100.00%**	**100.00%**	**100.00%**
Function	**Assets**	**Liabilities**	**Revenue**
Trading	84.36%	86.75%	88.33%
Service Provider	3.24%	1.43%	2.95%
Regulator	12.40%	11.82%	8.72%
Grand Total	**100.00%**	**100.00%**	**100.00%**

Source: 2024 Audited Financial Statements.

2.2 SOE Financial Performance

2.2.1 Performance (Profits and Surpluses)

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

SOEs undertaking commercial functions depict variabilities across their distinct categories with extreme swings from low profitability to high profitability and vice versa in some entities. The position of the loss-making entities among traders was 6. However, it was noted that some SOEs such as EGENCO improved from loss making to registering profit, while companies such as CRWB and SRWB registered maintained loss-making positions. (**Figure 2).**

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

Figure 2a: Trading SOEs

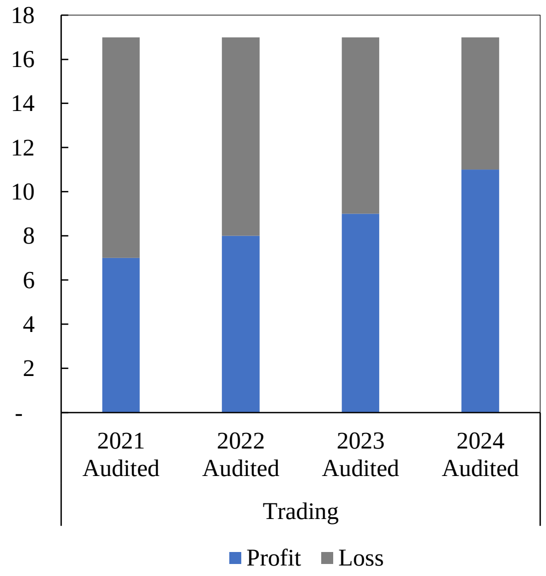
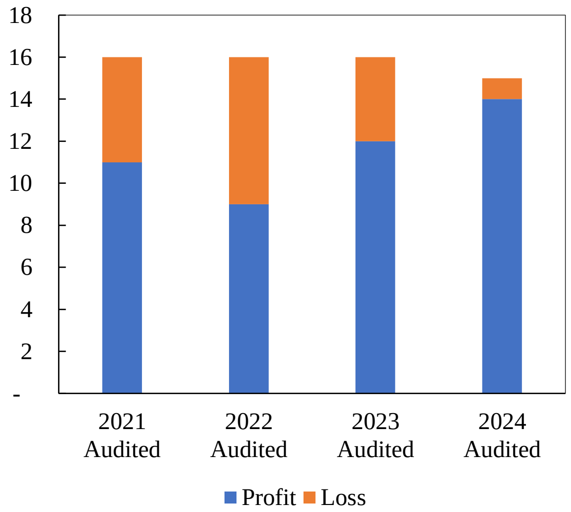


Figure 2b: Regulators and Service Providers



Source: 2024 Audited Financial Statements.

Only one Service provider, MBC, recorded a deficit in 2024 while the other service providers registered surpluses. Although MHC, EGENCO and NEEF registered a profit from a loss-making position in the 2023/24 fiscal year, the number of loss-making SOEs for trading SOEs was 6 with huge losses recorded at K65.3 billion and K37.8 billion for ESCOM limited and BWB respectively.

Only one (MBC) registered a deficit in 2024, indicating that the performance of the service provider SOEs improved ***(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 (FY2021 - FY2024) (By entity) (K' Millions)

Profit/loss	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Trading				
ACM	27,227	28,208	289,070	296,074
ADL	4,571,190	7,721	12,431	13,338
ADMARC	(1,011,737)	(13,589,795)	(5,688,189)	(5,706,394)
BWB	(13,831,189)	(8,187,960)	(20,288,369)	(37,782,199)
CRWB	(1,421,825)	(390,790)	1,952,547	1,564,018
EGENCO	4,559,509	5,116,734	(2,132,433)	2,253,686
ESCOM	(14,672,335)	6,798,367	25,972,037	(65,257,609)
LIHACO	(1,178,376)	(345,695)	2,738,999	634,720
LWB	1,162,969	594,077	2,583,176	9,485,104
MHC	4,495,218	1,664,265	(268,115)	14,238,578
MPC	(104,582)	(1,698,975)	(2,365,724)	1,370,660
NFRA	(342,399)	174,337	263,271	2,085,876
NOCMA	(929,981)	(415,911)	3,213,911	3,424,629
NRWB	640,920	(5,409,291)	(7,413,864)	(10,249,862)
SRWB	(1,067,420)	(728,999)	(988,193)	(417,415)
CMST	(5,309,353)	(5,943,721)	(10,284,707)	(8,581,138)
SFFRFM	2,133,614	285,250	3,366,503	6,261,875
Service Provider				
MBC	(421,072)	(356,262)	(1,123,754)	(1,280,500)
MCA	(161,273)	(61,238)	399,804	244,244
NEEF	(7,572,619)	(13,595,062)	(4,944,694)	814,228
UHL	(730,919)	413,688	1,388,442	1,866,688
Regulator				
MAB	47,126	79,029	45,816	133,035

MACRA	9,300,731	6,806,595	8,835,817	12,768,716
MBS	1,207,592	(648,858)	747,464	4,456,921
MERA	4,429,335	1,350,725	2,804,005	2,122,830
MGB	88,961	1,222,806	2,583,264	398,740
NCIC	81,218	468,549	1,011,194	1,747,576
TC	324,460	(1,289,946)	(110,289)	1,030,527
TEVETA	1,695,639	2,194,787	1,401,207	12,925,036
COSOMA	54,280	(150,658)	192,394	45,333
PPDAA	394,806	411,062	621,075	316,424
Grand Total	**(13,278,434)**	**(24,793,916)**	**5,431,916**	**(47,633,492)**

Source: 2024 Audited Financial Statements

From an overall total profit of K5.43 billion in 2023 to an aggregate loss of K47.63 billion in 2024, the trading SOEs' overall performance in 2024 affected in terms of profitability (Table 4). The water and energy sectors were the main drivers of this underperformance.

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

Figure 3a: Trading SOEs (aggregate)

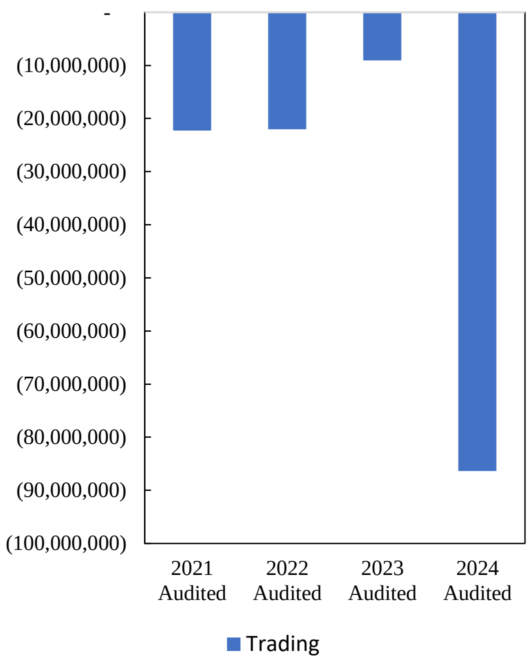
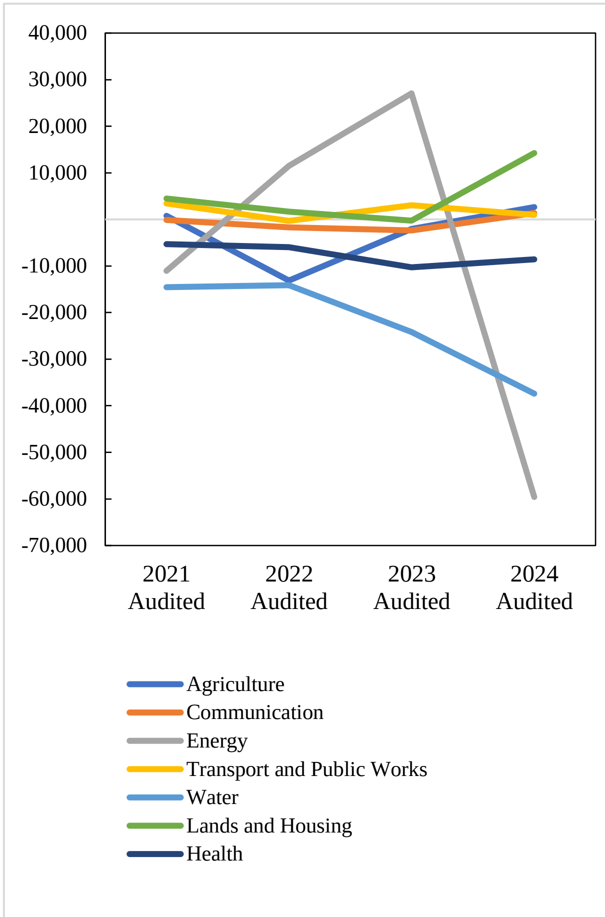


Figure 3b: Trading SOEs by sector



Source: 2024 Audited Financial Statements and Performance Management Plans and Budgets

The trading SOEs' performance has significantly worsened during the period under review. industries like water, energy and health had generally had decreasing trends between 2023 and 2024, which shows how some businesses in these industries were worsening. The lands and housing sector, on the other hand, had an upward trend.

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

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

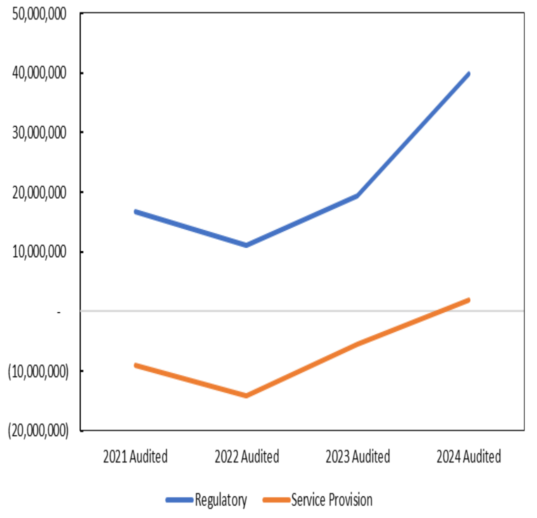
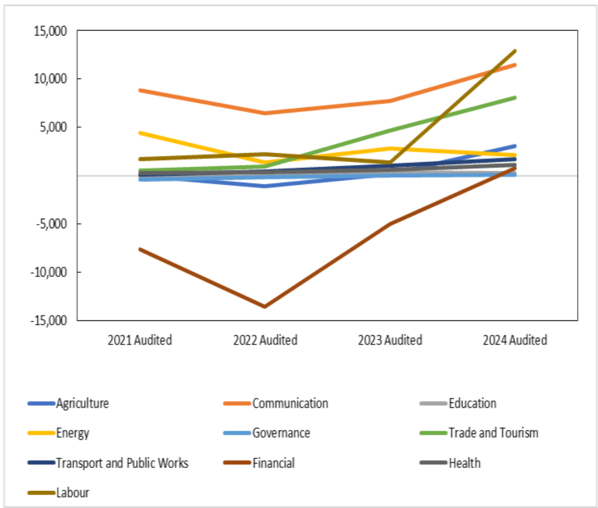


Figure 4b: Regulators and Service Providers by sector



Source: 2024 Audited Financial Statements and Performance Management Plans and Budgets

From registered surpluses of K19.32 billion in 2023 to K38.59 billion in 2024, the performance of regulatory SOEs significantly improved in 2024 (Figure 4). Similarly, although reporting a deficit of K5.43 billion in 2022/2023 financial year, the overall performance of service providing SOEs in 2024 indicates an improvement in performance with an aggregate surplus of K1.86 billion.

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, Water, Transport & public works and Lands and Housing sector were above 100 percent threshold in 2023. Communication was below the threshold while energy was slightly just above the threshold.

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

Figure 5: Cost Recovery for Trading SOEs

Figure 5a: 2024 only

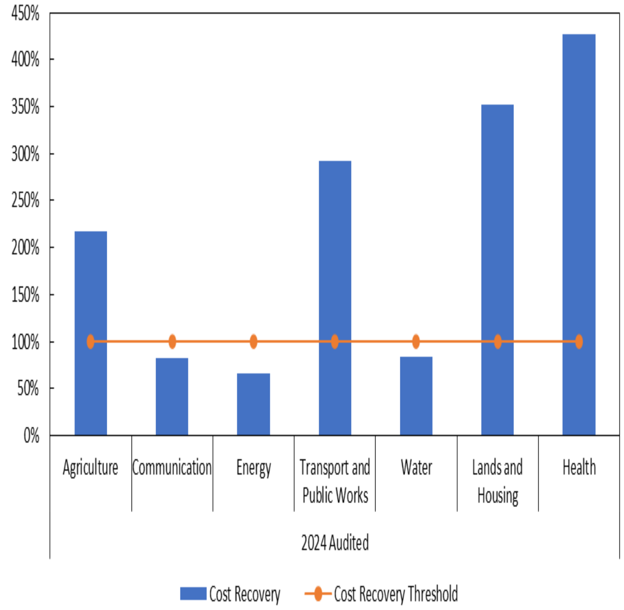


Figure 5b: Trend analysis (2021-2024)

Source: 2024 Audited Financial Statements and Performance Management Plans and Budgets

The aggregate cost recovery displays a downward movement among trading SOEs in 2024 **(Figure 5).** However, SOEs in the, communication and water sectors registered a cost recovery under the threshold ranging from 66% to 97%. On the other hand, SOEs in Agriculture, Transport and Public works and Land and Housing, sectors registered cost recovery above the threshold ranging from 217% to 427%.

Regulatory SOEs registered improvements in cost recovery position with all of them ranging from moderate risk to low risk. On the other hand, declining trends were registered in Service Provision SOEs largely on account of declining revenues registered by ADMARC in 2024.

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

Figure 6a: 2024 only

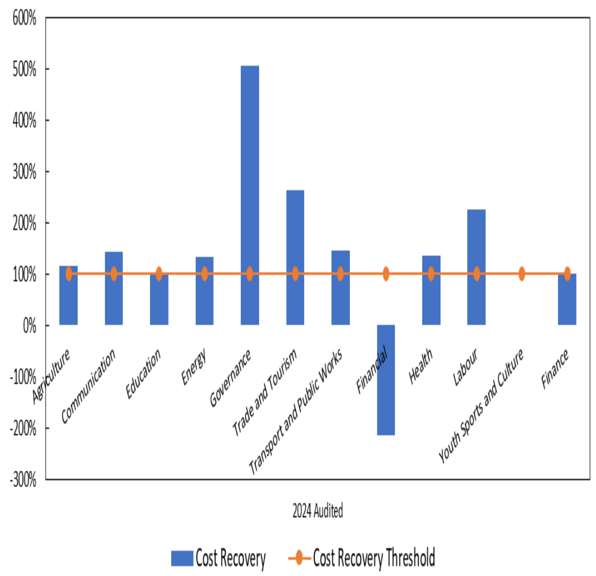


Figure 6b: Trend analysis (2021-2024)

Source: 2024 Audited Financial Statements and Performance Management Plans and Budgets

2.2.2 Return on assets

Return on assets indicates how well management of a Company is employing its total assets to make a profit. The overall return on assets for Trading SOEs in 2024 was below 5% recommended benchmark compared to 2023. The energy sector was the major driver for this performance. This poses a financial risk however, the labour, transport, and agriculture sectors still yield low returns on their assets despite the aggregate downward trend below recommended threshold.

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

Figure 7a: 2024 only

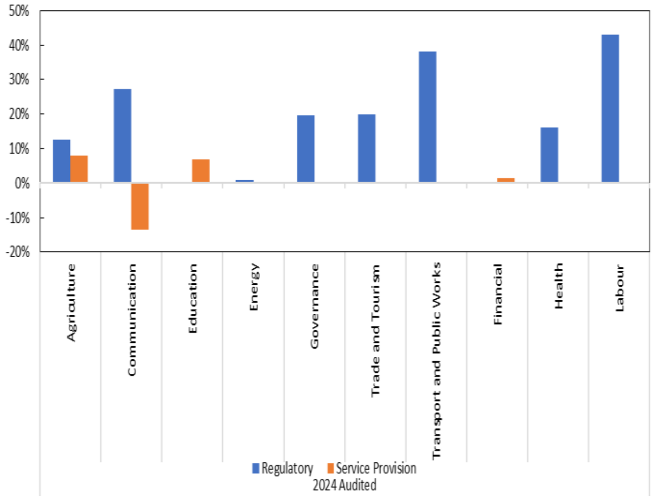
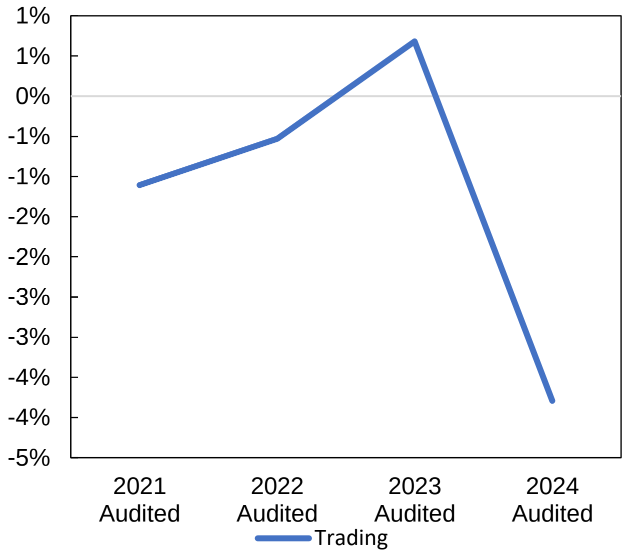


Figure 7b: Trend analysis (2021-2024)



Source: 2024 Audited Financial Statements and Performance Management Plans and Budgets

On the other hand, on the part of regulators, the trend depicts a downward trajectory in 2024 compared to a slight increase in 2023, from a return on assets of 14% in 2023 to 9% in 2029, despite the fact that the regulatory function portrays a downward trend, overall, the performance was over the 5% criterion (Figure 8).

However, despite a slight improvement over 2024, service providers continue to be in a high-risk position of 2%. This low proportion is mostly due to losses reported by service provision SOEs in 2024 (Figure 8).

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

Figure 8a: 2024 only

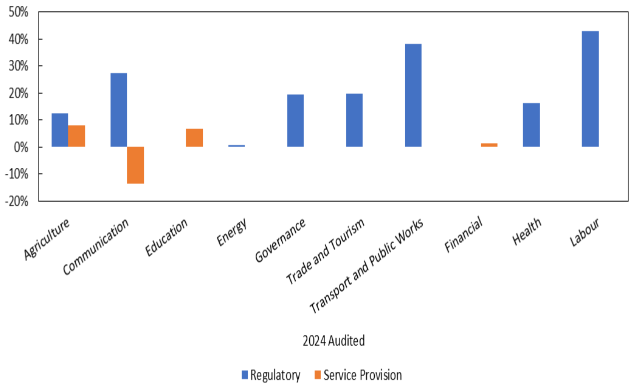


Figure 8b: Trend analysis (2021-2024)

Source: 2024 Audited Financial Statements and Performance Management Plans and Budget

2.2.3 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 worsened 1% in 2023 to -4% in 2024. With an aggregate of -8% and -6%, respectively, SOEs in the energy, and water sectors were the main drivers of the dwindling overall performance. This implies that, there is still a significant financial risk because of the SOEs in the Energy and Water Sector.

Figure 9: Return on Equity for Traders (Percent)

Figure 9a: 2024 only

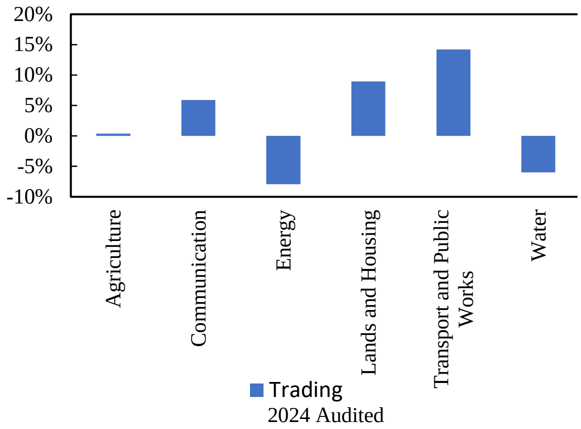
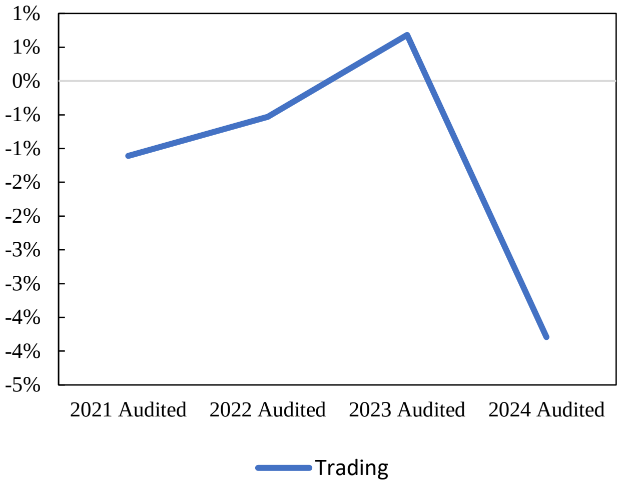


Figure 9b: Trend analysis (2021-2024)



Source: 2024 Audited financial Statements and Performance Management Plans and Budgets

The overall returns on equity for regulatory SOEs decreased from 14% in 2023 to 9% in 2024. This was largely driven by the Energy sector.

On the contrary, service provision SOEs' return on equity marginally improved to 2% percent, primarily due to SOEs in the agriculture and education sectors. (Fig. 10).

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

Figure 10a: 2024 only

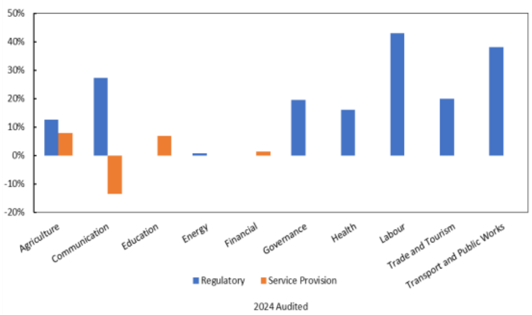
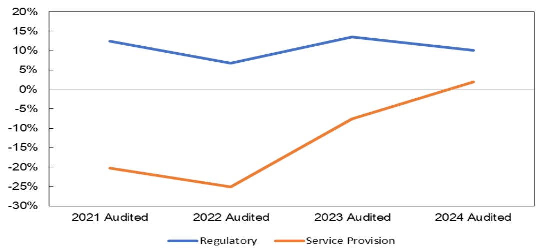


Figure 10b: Trend analysis (2021-2024)



Source: 2024 Audited financial Statements and Performance Management Plans and Budgets

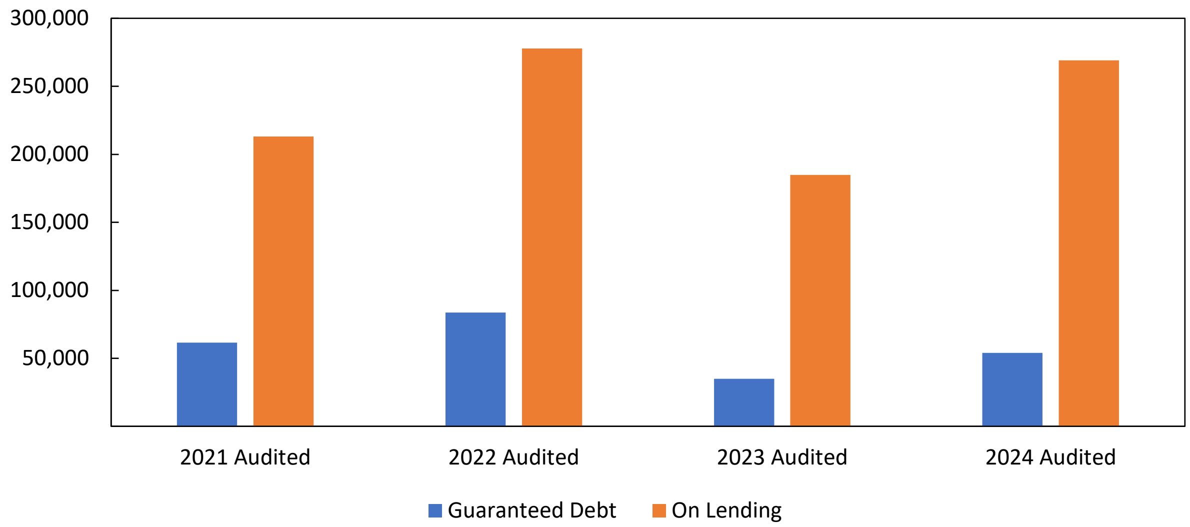
2.3 SOE DEBT

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 2024, total liabilities inclusive of these debt categories stood at 14 %Percent of GDP (Table 2). These amounts include long-term loans to the different sectors, non-interest-bearing debt, guaranteed debt from bilateral and multilateral institutions, and specialized direct and on-lent loans. These loans were intended, among other things, to improve energy transmission, build water supply networks in water supply areas, and create and renovate infrastructure.

SOEs continue to finance their development projects using on lent facilities. In 2024, the stock of on lent stood at K269.2 billion an increase from 184.9 billion reported in 2022/2023 financial year. On the other hand, guaranteed debt portrays a downward trend in 2024 which decreased to K60.1 billion from K71.0 billion in 2024 **(Figure 11).** The other debt comprises the non-guaranteed debt which is commonly contracted by the SOEs with prior approval of the Minister of Finance and Economic Affairs.

Figure 11:(Composition of SOE debt)



Source: 2024 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 2024 sectors such as Communication, Energy, Youth and Water were above the threshold. **(Figure 12).**

Figure 12: Debt to Equity by Sector (Percent)

Figure 12a: 2023 and 2024

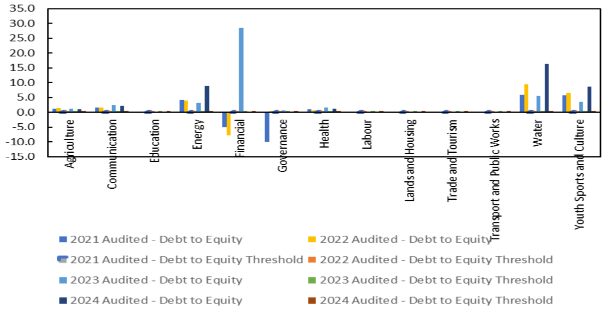
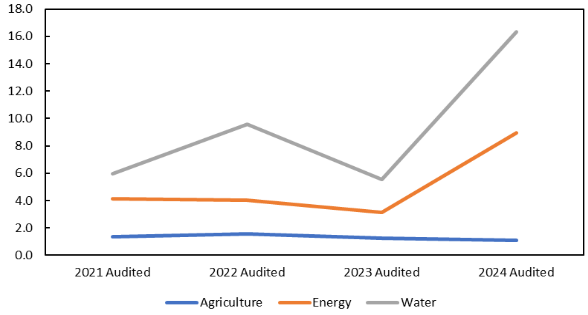


Figure 12b: Trend analysis (2021-2024)



Source: 2024 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 (2024)

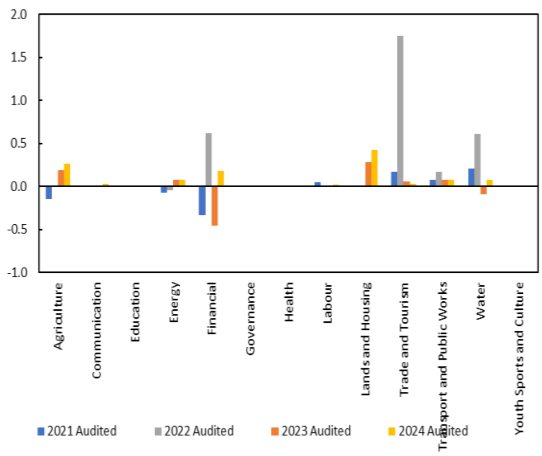
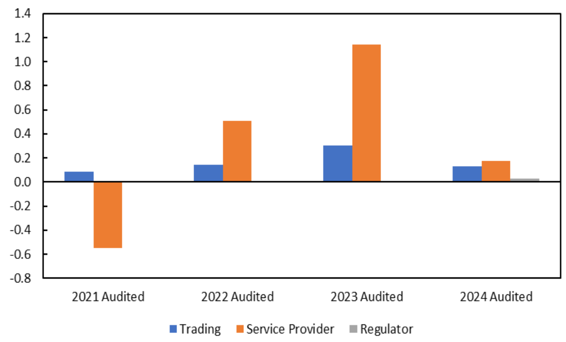


Figure 13b: DSR Trend analysis (2021-2024)



Source: 2024 Audited Financial Statements and Performance Management Plans and Budgets

2.4 Fiscal Flows between SOEs and Budget

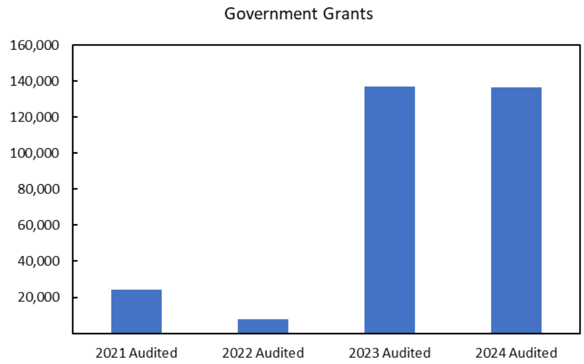
Government Transfers to SOEs

Financial support to SOEs through grants, subsidies and capital injections are concentrated in the agriculture, communication, energy and water sectors in 2024. However, government grants marginally reduced in 2024 relative to the prior year. **(Table 5 and figure 14).** Energy sector received the most grants in 2024 followed Agriculture and 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	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Agriculture	19,007	6,766	14,134	9,833
Communication	3,255	157	4,752	6,103
Energy			117,401	119,630
Financial	1,830	670	656	
Water	224	265	-77	920
Youth Sports and Culture	0	0	0	0

Figure 14: Trend analysis (2021-2024)



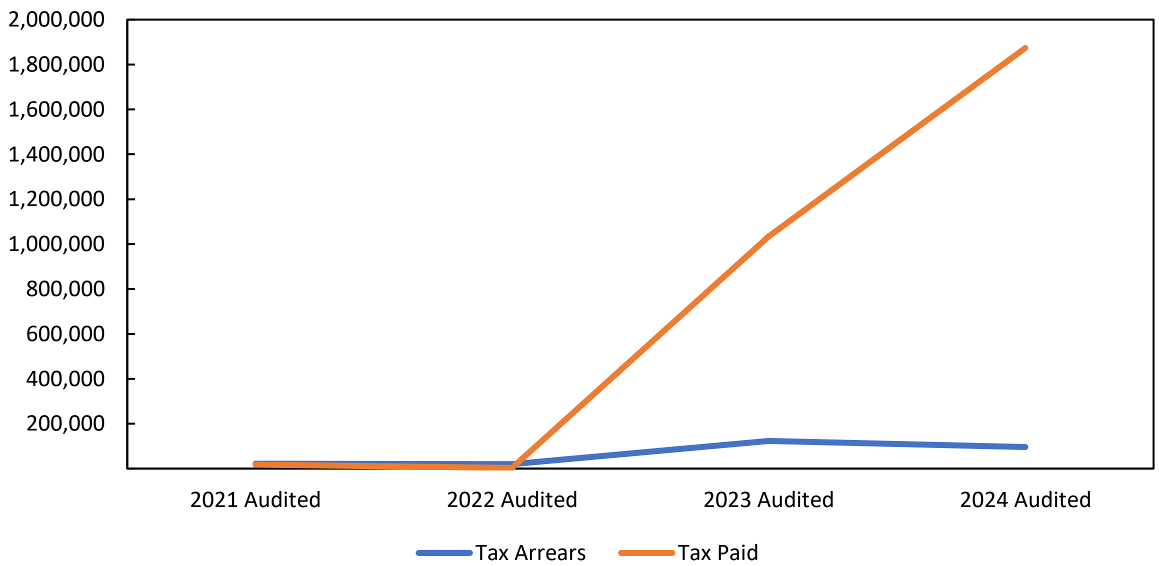
Source: 2024 Audited Financial Statements and Performance Management Plans and Budgets

2.4.1 Taxes and Dividend Payments remitted by Commercial Entities

In 2024, SOE tax arrears stood at K96.16 billion. 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.

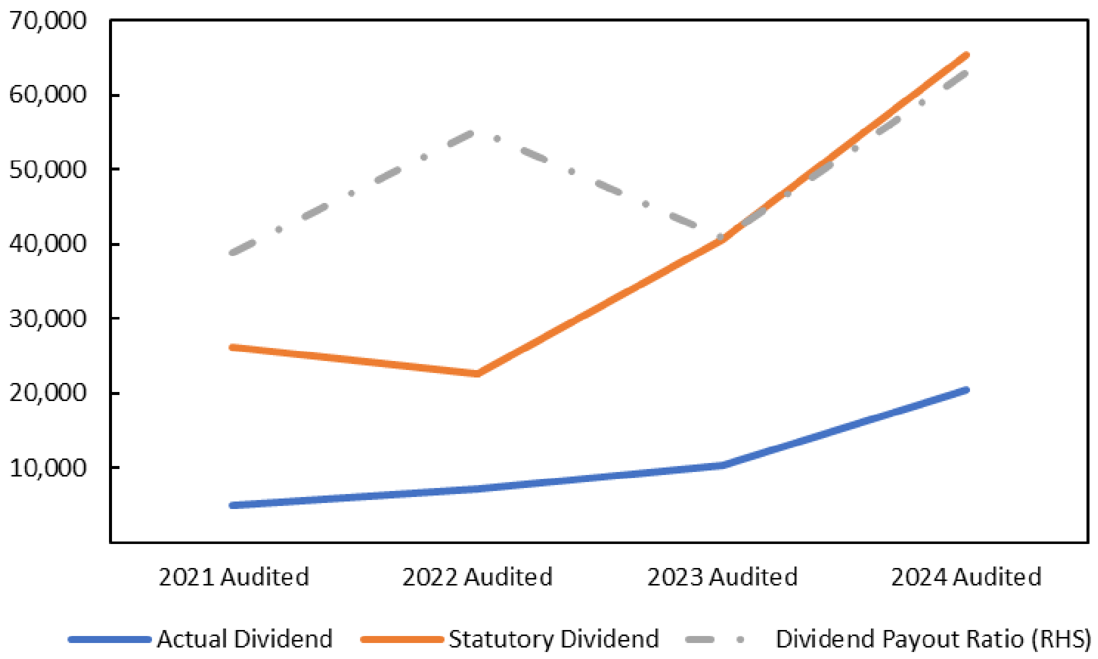
Figure 15: Tax Payments vs. Tax arrears by Commercial Entities (Kwacha Million)



Source: 2024 Audited Financial Statements and Performance Management Plans and Budgets

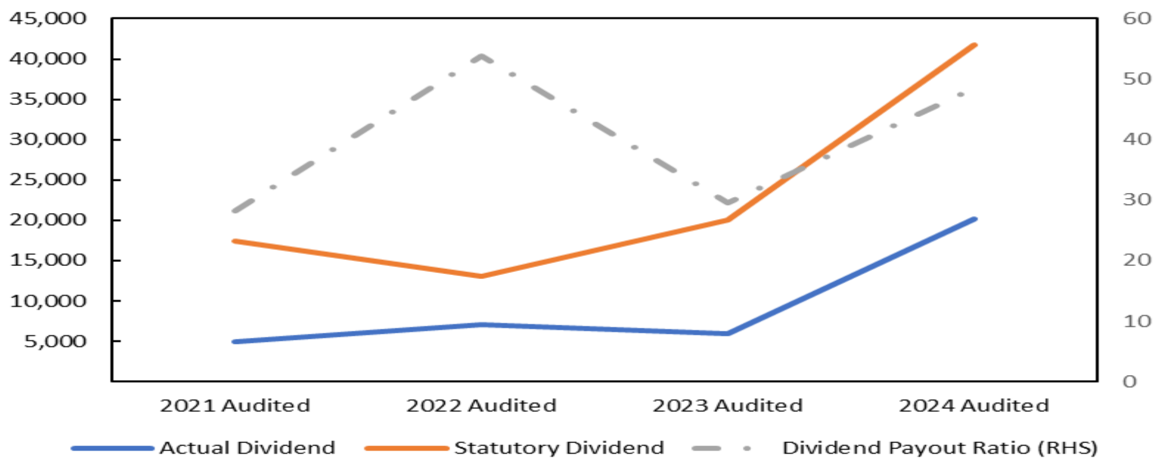
The remittance of surpluses and dividends by SOEs into the consolidated account increased in 2024. The aggregate loss for profit making SOEs worsened to approximately K47 billion in 2024 from K16.8 billion in 2023. Nevertheless, actual remittances remained below the statutory requirement at K20.5 billion in 2024 to K10.2 billion in 2023 (Figure 16). The dividend pay-out ratio moved from 15 percent in 2023 to 22 percent in 2024, and despite the increase in the payout ratio, the actual dividend paid still 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)



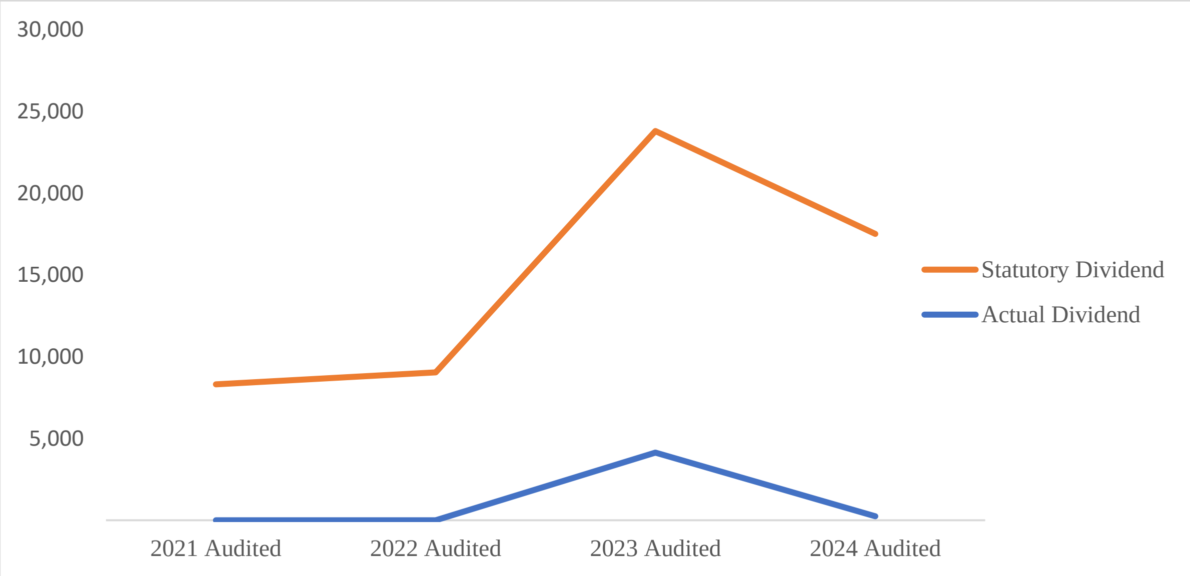
While there was minimal dividend remittance among trade SOEs in 2024, the surplus and dividend remittance among regulatory and service provider SOEs improves in the 2023-2024 fiscal year despite cashflow challenges.

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



Actual dividend paid among trading SOEs in 2024 dropped significantly compared to the prior year **(Figure 18).** During the same period under review, statutory dividend stood at K23.5 billion an increase from K19.7 bill recorded in 2023.

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

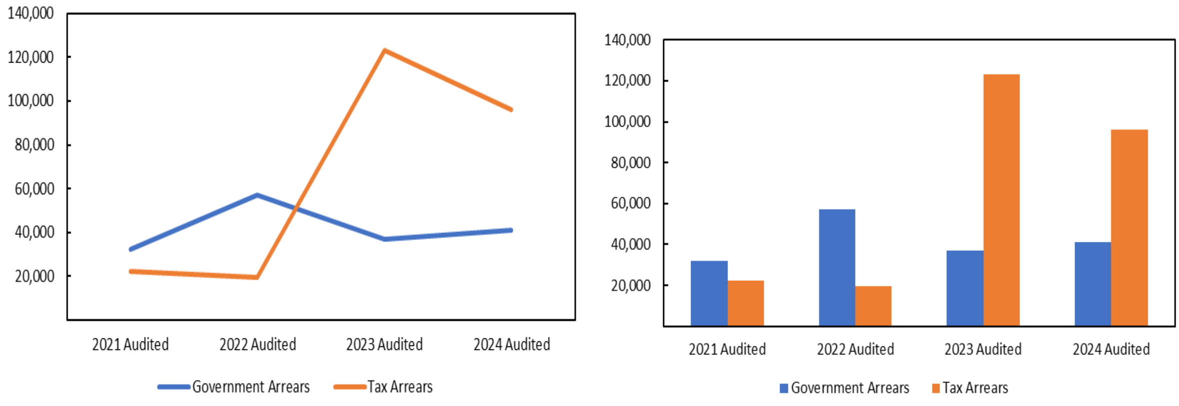


Source: 2024 Audited financial statements and Performance Management Plans and Budgets

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: 2024 Audited financial statements and Performance Management Plans and Budgets

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

Government arrears to SOEs increased to K41.2 billion in 2024 from K36.9 billion in 2023. In comparison, the amount of tax arrears that SOEs owed MRA decreased from K123.1 billion to K90.2 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; and
3. Despite growing SOE revenues and the legislative requirements based on Malawi's Dividend and Surplus Policy for SOEs, the National Budget was still receiving insufficient dividend and surplus resources.

2.6 CROSS-CUTTING ISSUES

2.6.1 Tariffs and pricing policies

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 enforce full migration of prepaid metres for power and water utilities. However, to guarantee that the budget is adequately supported by the investments made in the SOEs, the dividend and surplus policy's implementation needs to be reinforced.

2.6.3 Institutional arrangements

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	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	(1,011,737)	(13,589,795)	(5,688,189)	(5,706,394)
Gross Profit Margin	61%	60%	65%	62%
Operating Profit Margin	22%	-142%	35%	-22%
Return on Assets	-1%	-9%	-6%	-6%
Return on Equity	-3%	-33%	-15%	-16%
Dividend Payout Ratio	NMF	NMF	NMF	NMF
Asset Turnover	0.27	0.09	0.51	0.21
Cost Recovery	1.13	0.26	2.47	1.09
Liquidity				
Current Ratio	0.76	0.89	0.66	0.54
Quick Ratio	0.54	0.56	0.50	0.45
Accounts Receivables Days	1493.15	2430.55	96.36	320.50
Accounts Payables Days	749.15	2320.41	307.56	1346.49
Solvency				
Debt to Assets	0.70	0.65	0.62	0.64
Debt to Equity	2.35	2.45	1.67	1.79
Interest Coverage	2.71	NMF	1.68	(0.49)
Other				
Government Transfers to Total Revenue	0.56	0.47	0.25	0.09

Overview of financial performance

ADMARC Limited's financial performance continuously worsened over time, with a loss of K5.7 billion in 2024 which was also recorded in 2023. ADMARC has not lived up to expectations in the **2023/24 financial year** because activities of the company were concentrated on the restructuring process but also the company was chocked with the huge debt and the related interest expenses that were brought forward from loans from prior periods. As a result, cash flow was heavily constrained to the extent that commercial activities came to a standstill because the company failed to buy commodities. The company had a balance of **MK1.85 billion** from the previous year which it used to buy other crops such as rice, beans and groundnuts. However, due to price changes above the farmgate prices for Groundnuts and beans, ADMARC was only able to buy a total of **2,000MT** of paddy.

Overview of financial risks

ADMARC has saw a slight increase in its overall leverage with an increase in its Debt-to-Equity ratio from 1.67:1 recorded in 2022/2023 financial year to 1.79:1 in 2023/2024, owing to increased financing costs which increased due to rise in interest costs as well as devaluation for foreign denominated loans.

During the same period under scrutiny, the current ratio has slightly gone down from 0.66:1 in 2023 to 0.55:1 in 2024, implying that the corporation was barely meeting its short-term obligations.

Overview of financial flows with the government

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 set debt limit.
Rising overhead costs	High staffing levels	Rightsizing and undertake functional review to separate social and commercial mandate.

3.1.2 National Food Reserve Agency (NFRA)

Indicators	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	(342,399)	174,337	263,271	2,085,876
Gross Profit Margin	-16%	14%	100%	100%
Operating Profit Margin	-132%	-72%	-5%	42%
Return on Assets	-1%	1%	1%	8%
Return on Equity	-2%	1%	1%	10%
Dividend Payout Ratio	NMF	-	-	-
Asset Turnover	0.09	0.07	0.10	0.21
Cost Recovery	0.40	0.78	0.61	0.76
Liquidity				
Current Ratio	7.66	3.41	5.10	11.09
Quick Ratio	0.61	0.40	0.34	1.55
Accounts Receivables Days	135.90	248.33	140.08	72.02
Accounts Payables Days	94.67	333.97	NMF	NMF
Solvency				
Debt to Assets	0.25	0.27	0.28	0.19
Debt to Equity	0.34	0.36	0.39	0.23
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	0.53	0.33	0.36	0.56

Overview of financial performance

National Food Reserve Agency's (NFRA) financial performance in 2024 significantly improved with a net surplus recorded at K2.1 billion compared to K263 million recorded in the prior year. Furthermore, levels of resources generated by the corporation continue to show a recurrent upward trend.

Overview of financial risks

The liquidity position for NFRA significantly improved to 11:09 in 2024 from 5.10:1 registered in 2023 enabling the Agency to meet ist short-term obligations as they fall due. The debt-to-equity ratio in 2023/2024 reduced to 23% from 39% in the prior year. This implies that NFRA still maintained a low-risk profile in terms of debt composition, as the agency primarily financed 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 2023/2024, government transfers to NFRA accounted for 364 percent of its total revenue, a slight decrease by 2 percent from 2022/2023 financial year, amounted to approximately K1.4 billion as government subvention.

Policy specific issues for the Public Body

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

3.1.3 Tobacco Commission (TC)

Indicators	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	324,460	(1,289,946)	(110,289)	1,030,527
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	79%	56%	-10%	13%
Return on Assets	6%	-27%	-2%	13%
Return on Equity	8%	-49%	-4%	30%
Dividend Payout Ratio	20.0	NMF	NMF	4.9
Asset Turnover	0.72	0.33	0.62	0.64
Cost Recovery	4.82	2.26	0.91	1.15
Liquidity				
Current Ratio	1.00	0.33	0.48	0.78
Quick Ratio	0.95	0.25	0.43	0.73
Accounts Receivables Days	54.65	35.63	8.95	86.60
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.24	0.46	0.55	0.58
Debt to Equity	0.31	0.86	1.24	1.37
Interest Coverage	2,679.55	3,194.35	(5,227.34)	1,423.93
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of Financial Performance

Tobacco Commission's (TC) financial performance significantly improved in 2023/2024 financial year with a surplus of K1.03 billion registered compared to a deficit of K110 million recorded in 2022/2023 financial year. The significant improvement in the financial performance was attributed by the increased enforcement activities and grower registration and licencing (40,623 licences issued to growers by 30th September, 2023, with a sales volume of 176 million kilograms).

Overview of Financial Risk

The liquidity of the commission slightly improved to current ratio of 0.73:1 in 2023–2024 financial year compared to 0.48:1 recorded in the prior year. But even with the improvement, the Commission was still barely able to service short term obligations as they fall due.
The Commission's leverage position shows that its assets are financed by debt, as evidenced by the debt-to-equity ratio rising from 123 percent in 2023 to 137 percent in 2024.

Overview of Financial Capital Flows with the Government

The commission remitted K50 million as surplus to Government during the period under review.

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	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	9,300,731	6,806,595	8,835,817	12,768,716
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	43%	40%	43%	40%
Return on Assets	41%	26%	28%	27%
Return on Equity	80%	58%	73%	85%
Dividend Payout Ratio	26.9	101.9	56.6	72.1
Asset Turnover	0.90	0.62	0.72	0.68
Cost Recovery	1.76	1.66	1.74	1.67
Liquidity				
Current Ratio	1.50	1.31	1.20	1.52
Quick Ratio	1.21	1.12	1.03	1.48
Accounts Receivables Days	99.98	187.55	128.04	287.99
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.48	0.55	0.61	0.68
Debt to Equity	0.94	1.21	1.55	2.11
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 K12.8 billion was recorded by the Authority in the 2023–2024 fiscal year, up from K8.8 billion in the 2022–2023 fiscal year. This resulted from an increase in MACRA's revenue streams, including licence remittance and frequency fees.

During the period under review, (FY 2023/2024), MACRA embarked on various projects such as Revenue Assurance System (RAS) which is aimed at facilitating the regulatory functions by verifying the revenue declarations from operators for the purpose of computing the applicable levies. The RAS is expected to be fully operational in the year 2024/2025 and is expected to result in significant increase in the revenue collected of the Authority as it will help reduce issues of under declarations.

In addition, MACRA also started the implementation of the Central Equipment Identity Register (CEIR), a system whose main purpose is to reduce mobile device theft, curb mobile money fraud and improve quality of service.

As a regulator of ICT, MACRA is guided by the Communications Act in its mandate is to ensure that ICT services are always throughout Malawi at affordable rates and accessible. In the year 2023/2024, MACRA continued to record significant progress in various other projects including the Diplomatic Data Corridor, Malawi Space Project.

Overview of Financial Risk

In terms of liquidity, the current ratio stood at 1.50:1 in 2023–2024, a slight increase from 1.20:1 recorded in 2022/2023 financial year. This suggests that MACRA's liquidity position on average was able to service short term liabilities.

Overview of financial flows with the government

MACRA transferred K9.2 billion as surplus to Government, representing 98 percent of the surplus remitted to government.

Policy specific issues for the Public Body

Policy area	**Source of fiscal risk**	**Proposed Policy Recommendations**
Sales Revenue	Declining revenue due to under declaration of revenue by operators	MACRA to fastrack implementation of Revenue Assurance Systems aimed at facilitating the regulatory functions by verifying the revenue declarations from operators.

3.2.2 Malawi Broadcasting Corporation (MBC)

Indicators	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	(421,072)	(356,262)	(1,123,754)	(1,280,500)
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	-9%	21%	-20%	-19%
Return on Assets	-6%	-4%	-12%	-13%
Return on Equity	#VALUE!	-27%	-4692%	-5346%
Dividend Payout Ratio	NMF	NMF	NMF	NMF
Asset Turnover	0.74	0.45	0.58	0.72
Cost Recovery	0.34	1.27	0.41	0.84
Liquidity				
Current Ratio	1.61	1.53	0.48	0.48
Quick Ratio	1.14	1.06	0.31	0.31
Accounts Receivables Days	146.38	181.72	293.60	217.71
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	1.17	0.86	1.00	1.00
Debt to Equity	-6.46	6.12	395.77	396.77
Interest Coverage	(148.68)	569.14	(9,136.21)	(47,425.93)
Other				
Government Transfers to Total Revenue	0.63	-	0.50	-

Overview of financial performance

Malawi Broadcasting Corporation's (MBC) financial performance continues to deteriorate over time. The corporation registered a loss of K1.28 billion in 2023/2024 from a loss-making position of K1.12 billion in

2022/23. This was due to the fact that the Corporation continues use obsolete transmission networks, and a lack of readily available spare parts to maintain its transmitters. For years now, there has been no meaningful investment aimed at improving the transmission network infrastructure and this has resulted in frequent breakdowns, increased maintenance costs, and reduced transmission coverage.

Worse still, MBC has not been able to expand its Radio transmission network and as such, some parts of the country do not have access to public broadcasting services thereby denying people in these areas to access information by the public and to enable the Corporation to be competitive in the broadcasting industry.

Overview of financial risks

MBC's liquidity remained the same compared to the prior year as seen by the current ratio of 1.48:1. Despite a slight decrease in receivable days, cash flow was adversely affected by a sizable amount of funds that were held by its clientele.

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 MK6,8 billion for Other Recurrent Transactions and K907 million for development projects.

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
Sales revenue	Under collection of revenues due to usage of obsolete equipment	Need for urgent replacement of obsolete equipment

3.2.3 Malawi Posts Corporation (MPC)

Indicators	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	(104,582)	(1,698,975)	(2,365,724)	1,370,660
Gross Profit Margin	100%	33%	-30%	22%
Operating Profit Margin	90%	-126%	-168%	-57%
Return on Assets	-1%	-8%	-11%	6%
Return on Equity	-1%	-19%	-37%	15%
Dividend Payout Ratio	NMF	NMF		-
Asset Turnover	1.67	0.14	0.28	0.37
Cost Recovery	10.50	0.60	0.49	0.83
Liquidity				
Current Ratio	0.21	0.30	0.44	0.60
Quick Ratio	0.16	0.24	0.26	0.54
Accounts Receivables Days	282.87	341.62	221.31	291.94
Accounts Payables Days	38197.00	1752.45	567.46	634.04
Solvency				
Debt to Assets	0.71	0.59	0.71	0.61
Debt to Equity	1.70	1.43	2.41	1.57
Interest Coverage	NMF	NMF	NMF	(22.33)
Other				
Government Transfers to Total Revenue	0.01	0.05	0.32	0.35

Overview of financial performance

Malawi Posts Corporation's (MPC) recorded a surplus of K1.4 billion in 2023/2024 compared to K2.4 billion deficit in prior year. The 2023/24 financial year's total revenues were revised upwards by 5% compared to the original approved budget. This was premised on the 48% growth in terminal dues from the postal services, 6% growth in Courier, and 5141% in other income, interest income from the investment from the Mangochi Building Disposal proceeds and the MK681 million received from the Government that were invested with Old Mutual.

Overview of financial risks

MPC's liquidity position in the 2024 slightly improved to a current ratio of 0.60:1 from 0.44:1 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 though a declining rate from 241 percent recorded in 2022/2023 financial year to 157 percent recorded in 2023/2024 financial year.

Overview of financial flows with the government

K681 million was transferred under USO and K2.5 billion was transferred from Government for staff rightsizing.

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	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	(161,273)	(61,238)	399,804	244,244
Gross Profit Margin	42%	38%	100%	100%
Operating Profit Margin	-16%	-23%	8%	2%
Return on Assets	-5%	-2%	13%	7%
Return on Equity	-7%	-3%	14%	8%
Dividend Payout Ratio	NMF	NMF	-	-
Asset Turnover	0.65	0.62	0.96	0.98
Cost Recovery	1.73	1.63	1.09	1.02
Liquidity				
Current Ratio	0.54	0.63	1.63	1.41
Quick Ratio	0.54	0.63	1.63	1.41
Accounts Receivables Days	62.45	59.89	90.65	97.85
Accounts Payables Days	172.71	199.08	NMF	NMF
Solvency				
Debt to Assets	0.19	0.22	0.13	0.16
Debt to Equity	0.23	0.28	0.14	0.20
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Malawi College of Accountancy (MCA) recorded a profit of K244 million in 2023/2024 financial year, a slight decrease from a profit of K399 registered in the previous financial year. The underperformance was attributed by low income than budgeted which was K567 million against a budgeted income of K722 due to underperformance of ICAM levy. The institute continued to pay the Board the 85%:15% sharing ratio when the Board had budgeted for 55%:45% sharing ratio. In addition, the Board realised low fees (4668 Accountants cumulatively registered as at 31st March, 2024 against a budget of 7000) from accreditation and inspection of colleges and audit firms' registration.

Overview of Financial Risks

MCA's liquidity position reduced marginally in 2023/2024 fiscal year, as seen by a current ratio of 1.41:1 as compared to 1.63:1 in 2022–2023. Given this declining performance, MCA was unable to satisfy its short-term obligations because its liquidity levels were below the benchmark average. An increase in receivable days from its debtors, which elongated the time it took to collect short-term loans and fees, contributed to this liquidity challenge.

MCA's debt-to-equity ratio increased from 14 percent in the fiscal year 2022–2023 to 20 percent in the fiscal year 2023–2024. In spite of the rise in leverage, the college still financed its operations by own generated resources.

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)

Profitability	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profit/loss (Mill MKW'000)	4,559,509	5,116,734	(2,132,433)	2,253,686
Gross Profit Margin	49%	42%	-3%	7%
Operating Profit Margin	-44%	-48%	-105%	-85%
Return on Assets	2%	2%	-1%	1%
Return on Equity	3%	3%	-1%	1%
Dividend Payout Ratio	-	-	NMF	-
Asset Turnover	0.25	0.18	0.21	0.22
Cost Recovery	1.07	1.11	0.97	1.08
Liquidity				
Current Ratio	3.98	4.83	3.75	3.72
Quick Ratio	3.21	4.03	2.86	1.68
Accounts Receivables Days	214.33	345.89	251.89	71.78
Accounts Payables Days	35.95	56.38	26.22	0.00
Solvency				
Debt to Assets	0.49	0.49	0.51	0.45
Debt to Equity	0.98	0.96	0.77	0.83
Interest Coverage	(39.98)	(389.75)	(243.57)	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

EGENCO recorded a profit after tax of K2.3 billion in 2023/2024 financial year from a loss of K2.13 billion in prior year. This significant improvement in financial performance was attributed by electricity revenue of **MK34billion** which was 4% above budget by 30th September 2023. This was due to high availability of hydro plants. Expenditure incurred of **MK26.4** billion on the other hand was 19% below budget up to September 2023. Savings were made on Payroll of 16%, Operations of 73% and Maintenance of 12%.

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 3.72:1 in 2024, a modest decrease from 3.75:1 in 2023. 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 83% in 2023/2024.This indicates that EGENCO still heavily relies on external financing to support its operations.

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's debt levels and perhaps set debt ceiling

3.4.2 Electricity Supply Commission of Malawi Ltd (ESCOM)

Indicators	2021 Audited	2022 Audited	2023 Audited	2024 Draft
Profitability				
Profit/loss (Mill MKW'000)	(14,672,335)	6,798,367	25,972,037	(65,257,609)
Gross Profit Margin	46%	51%	66%	48%
Operating Profit Margin	-63%	-45%	17%	-47%
Return on Assets	-4%	2%	7%	-14%
Return on Equity	NMF	-736%	75%	NMF
Dividend Payout Ratio	NMF	-	-	NMF
Asset Turnover	0.50	0.42	0.62	0.45
Cost Recovery	0.92	1.05	1.04	0.48
Liquidity				
Current Ratio	0.54	0.55	5.05	1.27
Quick Ratio	0.43	0.48	0.42	0.94
Accounts Receivables Days	74.49	114.60	2.55	99.86
Accounts Payables Days	388.22	494.44	130.14	84.57
Solvency				
Debt to Assets	1.02	1.00	0.91	1.08
Debt to Equity	-44.10	-373.05	10.30	-14.01
Interest Coverage	22.98	30.64	15.52	18.02
Other				
Government Transfers to Total Revenue	-	-	0.49	0.54

Overview of financial performance

Electricity Supply Corporation of Malawi (ESCOM) recorded a huge loss of K69.3 billion in 2023/2024 financial year from a profit of K25.9 billion registered in 2022/2023 financial year. 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 2023/2024. However, there would be no dividends payable for FY24 due to the loss of MK65 billion.

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	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	4,429,335	1,350,725	2,804,005	2,122,830
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	72%	38%	37%	25%
Return on Assets	9%	2%	22%	1%
Return on Equity	33%	9%	16%	12%
Dividend Payout Ratio	27.2	-	-	94.2
Asset Turnover	0.23	0.12	0.96	0.05
Cost Recovery	3.60	1.61	1.59	1.34
Liquidity				
Current Ratio	1.35	1.15	1.11	1.03
Quick Ratio	1.35	1.15	1.11	1.03
Accounts Receivables Days	836.54	2011.86	3039.70	6622.72
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.72	0.78	0.90	0.93
Debt to Equity	2.52	3.57	0.66	13.28
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The Malawi Energy Regulatory Authority's (MERA) recorded a surplus of K2.1 billion in 2023/2024, a slight decrease from 2022/2023 where a surplus of K2.8 billion was registered. The decline in the financial performance was largely attributed by the volatility of operating environment for liquid fuels, as the international oil market had become vulnerable to the effects of the Ukrainian war and instability in the Middle East. The free on board (FOB) price of oil on the other hand rose substantially affecting major economies and third world economies.

Overview of financial risks

MERA's liquidity condition deteriorated further during the period under review rendering the Authority to barely meet its short-term obligations. As confirmed by a liquidity ratio of 1.03:1 recorded in 2023/2024 financial year, this implied that MERA's operations were to a larger extent crippled

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.

3.5 Financial Sector

3.5.1 National Economic Empowerment Fund (NEEF)

Indicators	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	(7,572,619)	(13,595,062)	(4,944,694)	814,228
Gross Profit Margin	22%	70%	100%	100%
Operating Profit Margin	-56%	39%	-18%	17%
Return on Assets	-79%	-122%	-22%	1%
Return on Equity	NMF	NMF	NMF	2%
Dividend Payout Ratio	NMF	NMF	NMF	-
Asset Turnover	0.35	0.41	0.32	0.29
Cost Recovery	-0.45	-6.78	0.04	-2.13
Liquidity				
Current Ratio	2.28	0.91	1.41	10.77
Quick Ratio	0.44	0.91	1.35	10.54
Accounts Receivables Days	21.72	734.64	1198.73	1599.78
Accounts Payables Days	19.25	69.61	NMF	NMF
Solvency				
Debt to Assets	1.36	1.27	1.04	0.21
Debt to Equity	-3.79	-4.67	-24.41	0.27
Interest Coverage	(1.08)	1.43	(0.72)	3.33
Other				
Government Transfers to Total Revenue	0.18	-	-	-

Overview of financial performance

The National Economic Empowerment Fund (NEEF) recorded a surplus of K814 million in 2023/2024 compared to a huge deficit of K4.9 billion recorded loss in 2022–2023. The improvement in financial performance was attributed by the growth of ccollections rate to 72% by 31st December 2023. Though lower than the recommended 80% as per the Regulator, the collections rate was significantly higher than the 58% recorded at 31st March 2023. The Fund expects the collection rate to improve due to the implementation of the Early-Stage Collections Strategy and the Enhanced Recoveries Strategy.

Overview of financial risks

Despite fluctuations over time, the Fund's liquidity has generally been good throughout the years. However, in 2023/2024, the NEEF's current ratio significantly improved to 10.77:1 from a current ratio of 1.41:1 registered in 2022/2023, indicating that NEEF was able to meet its short-term obligations when they fell due. The debt-to-equity significantly improved from -24.41 in 2022/2023 to 0.27 in 2023/2024, indicating that NEEF was to a larger extent financing its operations using owners' equity.

Overview of financial flows with the government

Over the reporting period, NEEF there was no transfer from NEEF to Government, however, Government had injected K45 billion to NEEF as equity.

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	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	47,126	79,029	45,816	133,035
Gross Profit Margin	80%	75%	76%	75%
Operating Profit Margin	0%	12%	-1%	56%
Return on Assets	11%	16%	8%	20%
Return on Equity	12%	16%	9%	21%
Dividend Payout Ratio	-	2.8	7.6	-
Asset Turnover	0.74	0.63	0.93	0.84
Cost Recovery	1.25	1.58	1.29	5.06
Liquidity				
Current Ratio	33.47	19.49	5.60	11.82
Quick Ratio	33.47	19.49	5.60	11.75
Accounts Receivables Days	239.07	314.11	166.96	110.77
Accounts Payables Days	59.76	91.61	228.42	73.78
Solvency				
Debt to Assets	0.02	0.04	0.14	0.05
Debt to Equity	0.03	0.04	0.16	0.05
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Malawi Accountants Board (MAB) recorded a surplus of K133 million in 2023/2024 financial year, an increase from K45 million registered in 2022/2023 financial year. This was largely attributed by the Board's more public interest reviews compared to the prior year.

Overview of financial risks

Compared to the previous year, when current ratio was at 5.60:1, MAB's liquidity position as of 2022–2023 increased substantially to 11.82:1 in 2023/2024.

Overview of financial flows with the government

In the year 2022/23, MAB only remitted K11.18 as surplus to Government.

Policy specific issues for the Public Body

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

3.7 HEALTH SECTOR

3.7.1 Pharmacies and Medicines Regulatory Authority (PMRA)

Indicators	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	261,852	403,045	617,820	1,142,770
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	14%	24%	18%	27%
Return on Assets	9%	14%	11%	16%
Return on Equity	12%	16%	14%	21%
Dividend Payout Ratio	-	-	14.9	5.7
Asset Turnover	0.63	0.56	0.53	0.60
Cost Recovery	1.17	1.32	1.22	1.37
Liquidity				
Current Ratio	1.26	2.35	1.72	1.08
Quick Ratio	1.25	2.33	1.71	1.07
Accounts Receivables Days	43.12	56.06	31.28	27.30
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.25	0.12	0.23	0.47
Debt to Equity	0.33	0.13	0.29	0.61
Interest Coverage	NMF	NMF	61.75	NMF
Other				

Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The Pharmacy and Medicines Regulatory Authority (PMRA) recorded a surplus of K1.14 billion in fiscal year 2023–2024 compared to a surplus of K617 million recorded in prior year. The regulation of Allied substances such as medical devices and traditional medicines were the major drivers in creating additional revenue lines to support the increasing regulatory demands of the pharmaceutical market in Malawi. Concurrently, a functional review of the Authority to create a relevant structure to execute the mandate of the new expanded PMRA Act is at implementation stage which will also drive the Authority's financial performance to expected levels.

Overview of financial risks

The liquidity position of the Authority declined from 11.72:1 in 2022/2023 to 1.08:1 in 2023/2024, 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 remitted K64.7 million as 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	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	1,695,639	2,194,787	1,401,207	12,925,036
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	10%	11%	7%	56%
Return on Assets	15%	16%	9%	43%
Return on Equity	20%	21%	11%	53%
Dividend Payout Ratio	-	-	-	-
Asset Turnover	1.47	1.40	1.26	0.88
Cost Recovery	1.11	1.13	1.08	2.27
Liquidity				
Current Ratio	2.87	3.74	3.06	4.29
Quick Ratio	2.86	3.73	3.06	4.29

Accounts Receivables Days	149.71	132.10	180.20	277.69
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.27	0.22	0.28	0.19
Debt to Equity	0.38	0.29	0.34	0.23
Interest Coverage	18.13	104.02	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

TEVETA continued to register good performance with a surplus of K12.9 billion in 2023/24 financial year compared to a surplus of K1.4 billion recorded in the previous year. The significant jump in the surplus during the period under review was on account of increase in revenue in liaison with MRA who is the collecting Agency for the TEVET Levy, from MK9.6 billion in the 2023/24 FY Approved budget to MK 11.7 billion in 2023/24 FY Revised budget, representing an increase of 22 %.

Overview of financial risks

The Authority's current ratio improved in 2023/24 to 4.29:1 from 3.06:1 in 2022/2023 financial year. the Authority remained liquid and was able to meet its short-term obligations as they fall due. Financial leverage as measured by debt-to-equity ratio decreased in 2023/24 to 23% from 34% demonstrating 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 2024 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	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	4,495,218	1,664,265	(268,115)	14,238,578
Gross Profit Margin	-6%	23%	89%	100%
Operating Profit Margin	-113%	-54%	-9%	72%
Return on Assets	3%	1%	0%	9%
Return on Equity	4%	1%	0%	10%
Dividend Payout Ratio	-	-	NMF	-
Asset Turnover	0.04	0.05	0.05	0.14
Cost Recovery	0.94	1.30	1.02	3.52
Liquidity				
Current Ratio	0.49	0.41	0.33	0.35
Quick Ratio	0.21	0.15	0.08	0.12
Accounts Receivables Days	57.35	91.59	37.53	52.86
Accounts Payables Days	145.93	182.68	1909.04	NMF
Solvency				
Debt to Assets	0.09	0.11	0.12	0.05
Debt to Equity	0.10	0.12	0.14	0.06
Interest Coverage	(476.54)	(29,751.64)	(0.76)	10.10
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The financial performance of Malawi Housing Corporation (MHC) significantly improved in 2023/2024 financial year with a profit after tax of K14.2 billion recorded compared to a loss of K268 million in 2022/2023 financial year. The huge jump was on account of K20.8 billion gains on property valuation.

Overview of financial risks

Although this was the case, the liquidity position of the corporation still remained below average which stood at 0.35:1 in the 2023/2024 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 2023/24 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	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	1,207,592	(648,858)	747,464	4,456,921
Gross Profit Margin	69%	39%	100%	100%
Operating Profit Margin	38%	-22%	53%	66%
Return on Assets	5%	-3%	3%	15%
Return on Equity	6%	-3%	3%	18%
Dividend Payout Ratio	90.0	NMF	87.5	90.0
Asset Turnover	0.33	0.29	0.37	0.61
Cost Recovery	3.22	1.64	2.14	2.95
Liquidity				
Current Ratio	1.27	2.00	2.55	1.80
Quick Ratio	1.26	1.99	2.52	1.73
Accounts Receivables Days	106.98	97.96	54.23	74.80
Accounts Payables Days	537.33	166.50	NMF	NMF
Solvency				
Debt to Assets	0.15	0.08	0.06	0.18
Debt to Equity	0.18	0.09	0.07	0.21
Interest Coverage	NMF	NMF	NMF	NMF
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Malawi Bureau of Standards' (MBS) financial performance significantly improved with a surplus of K4.5 billion recorded in 2023/2024 financial year, a jump from K747 million registered in 2022/2023 financial year, representing 17% increase. The surplus improved during the period under review on account of among other factors aggregate revision of the revenue from K14,057,985,000.00 in 2023/24 approved budget to K15,382,529,000.00 representing a 9.42% increase. The revenue was revised upwards due to the following fundamentals (i) Testing fees grew by 16.19% from K1,476 billion to K1,715 billion because of the increase in petrochemicals samples. (ii) Certification fees grew by 14.08% from K4,117 billion to K4,697 billion because of increase in imports quality monitoring activities. (iii) The revenue from Interest Receivable grew by 31.4% from K121 million to K159 million because of the improvements in yields on investments with Old Mutual. (iv) Quality Development CESS fees grew by 2.6% from K7,430 billion to

K7,623 billion because of the increase in imports in the second half of the year, and (v) Metrology fees grew by 34.15% from K787,5 million to K1,056 billion because of the increase in demand for weighbridge and axle weigher activities in the second half of the year.

Overview of financial risks

The Bureau's liquidity position slightly decreased though still above industry benchmark in the year 2023/24 with current ratio of 1.80:1 compared to the current of 2.55:1 in the previous year. Though this was the case, MBS was able to meet its short-term obligations.

Notwithstanding, MBS's debt to equity ratio increased to 20% in the 2023/24 financial year from 7% recorded in 2022/2023 financial year.

Overview of financial flows with the government

There were financial flows between Malawi Bureau of Standards and Government in the 2023/24 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	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	88,961	1,222,806	2,583,264	398,740
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	62%	83%	90%	50%
Return on Assets	6%	35%	42%	4%
Return on Equity	11%	57%	51%	4%
Dividend Payout Ratio	59.4	4.5	-	1,126.2
Asset Turnover	0.55	0.66	0.81	0.73
Cost Recovery	2.65	5.93	9.84	2.01
Liquidity				
Current Ratio	1.19	1.95	5.02	7.46
Quick Ratio	1.19	1.95	5.02	7.45
Accounts Receivables Days	288.44	89.04	71.91	111.53
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.43	0.39	0.16	0.11
Debt to Equity	0.75	0.63	0.19	0.12
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 overtime with excerption of 2023/2024 where the surplus portrayed a declining trend as the Authority closed with a surplus for the year of K398 million compared to K2.6 billion registered in 2022/2023 financial year.

The declining financial performance During the financial year 2023/24 was largely due to the economic down turn where the Malawi Kwacha Currency depreciated by 44% against the United States Dollar and this affected the cost of living and low purchasing power of players, resulting into low patronage of Casinos and Betting houses. Furthermore, the Country experienced shortage of fuel from July to September 2023. This negatively impacted on the revenues of the operators and in turn of the Authority as patronage in Gaming and Spots-betting outlets was reduced.

Overview of financial risks

The liquidity position improved with a current ratio of 7.46:1 in 2022/24 compared to a current ratio of 5.02:1 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 2023/24 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	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	27,227	28,208	289,070	296,074
Gross Profit Margin	27%	34%	43%	48%
Operating Profit Margin	-45%	-32%	-14%	-5%
Return on Assets	2%	1%	14%	9%
Return on Equity	5%	5%	34%	26%
Dividend Payout Ratio	-	-	3.9	10.1
Asset Turnover	3.23	2.09	2.64	2.15
Cost Recovery	1.38	1.51	1.75	1.91
Liquidity				
Current Ratio	1.15	1.19	1.53	1.30
Quick Ratio	0.74	0.75	0.88	0.75
Accounts Receivables Days	43.07	70.31	60.54	51.78
Accounts Payables Days	72.55	143.75	91.31	14.78
Solvency				
Debt to Assets	0.69	0.70	0.58	0.65
Debt to Equity	2.26	2.37	1.36	1.85
Interest Coverage	NMF	NMF	(96.75)	(12.70)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Air Cargo Malawi Limited (ACM) reported a profit after tax of K296 million in 2023/24 financial year which is slightly higher compared to a profit of K289 million in 2022/2023. The company's improved performance was on account of among other factors increase in cargo handling revenue of K1.45 million which was 16% and 80% above budgeted revenue and corresponding period revenues[4]. Similarly, non-operating revenue of K812 million was 59% and 73% above budget and corresponding period respectively due to the Special Charter business from Reserve Bank of Malawi (RBM).

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**
Operating costs	Increasing charter costs	• Need for implementation of increased handling charges to align with inflation.

4.5.2. Airport Development Ltd (ADL)

Indicators	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	4,571,190	7,721	12,431	13,337
Gross Profit Margin	97%	97%	96%	96%
Operating Profit Margin	55%	80%	76%	75%
Return on Assets	8%	14%	16%	14%
Return on Equity	9%	15%	17%	15%
Dividend Payout Ratio	-	-	1.0	0.5
Asset Turnover	0.14	0.17	0.19	0.19
Cost Recovery	2.35	5.99	5.06	4.67
Liquidity				
Current Ratio	1.13	0.86	0.79	0.69
Quick Ratio	1.06	0.72	0.71	0.57
Accounts Receivables Days	220.49	332.64	135.30	89.12
Accounts Payables Days	1753.00	1595.33	948.40	1134.29
Solvency				

[4] *Total industry uplift rose by 3.5% from 2,171,592 kgs to 2,331,019 kgs resulting into handling income being 30% and 62% higher than the budget and corresponding period handling income respectively.*

Debt to Assets	0.04	0.05	0.04	0.04
Debt to Equity	0.04	0.06	0.04	0.05
Interest Coverage	136.99	73.94	54.45	41.97
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The overall performance of Airport Development Limited (ADL) has been improving overtime with a profit after tax of K13.34 million registered in 2023/2024 financial year from a profit of K12.43 million registered in 2022/2023 financial year. The continued improved performance was attributed by maintenance on infrastructure and revival of projects that enabled ADL increase its revenue base.

Overview of financial risks

ADL's liquidity position continued to worsen, with the current ratio dropping to 0.69:1 in 2023/24 from 0.79:1 in 2022/23 financial year. 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 44% devaluation. Increased receivables.	implementing debt collection protocols to improve cash flow

4.5.3. Lilongwe Handling Company Limited (LIHACO)

Indicators	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	(1,178,376)	(345,695)	2,738,999	634,720
Gross Profit Margin	20%	42%	75%	66%
Operating Profit Margin	-57%	-16%	36%	17%
Return on Assets	-36%	-11%	61%	13%
Return on Equity	NMF	NMF	119%	22%
Dividend Payout Ratio	NMF	NMF	-	-
Asset Turnover	0.40	0.74	1.66	1.38
Cost Recovery	1.29	1.72	2.56	2.03
Liquidity				
Current Ratio	0.23	0.26	1.36	1.55
Quick Ratio	0.09	0.14	1.22	1.55
Accounts Receivables Days	61.05	72.31	62.76	89.19

Accounts Payables Days	310.11	279.74	50.47	188.87
Solvency				
Debt to Assets	1.03	1.15	0.49	0.42
Debt to Equity	-37.58	-8.19	0.95	0.72
Interest Coverage	(12.96)	(1.70)	33.08	7.75
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The Lilongwe Handling Company´s (LIHACO's) financial performance in 2023/2024 declined, as confirmed by a profit after tax of K634 million in 2023/2024 financial year from a profit of K2.7 billion in 2022/2023 financial year. The decrease in profit level was largely attributed by increased cost of sales such as personnel costs, human resources costs, maintenance costs, concession fees to Airport Development Limited and Department of Civil Aviation and other recurring expenditures.

Overview of financial risks

The liquidity position of LIHACO considerably improved with current ratio from 1.55:1 in 2023/2024 financial year from 1.36:1 in of 2022/23 financial year. Though this was the case, LIHACO was barely able to manage its short-term obligations as they fall due.

Overview of financial flows with the government

In the year 2023/24, there was a dividend paid to Government.

Policy specific issues for the Public Body

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

4.5.4. National Construction Industrial Council (NCIC)

Indicators	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	81,218	468,549	1,011,194	1,747,576
Gross Profit Margin	100%	100%	100%	100%
Operating Profit Margin	3%	16%	22%	31%
Return on Assets	4%	22%	34%	38%
Return on Equity	5%	24%	36%	42%
Dividend Payout Ratio	-	13.2	18.0	22.9
Asset Turnover	1.52	1.18	1.51	1.22
Cost Recovery	1.03	1.19	1.29	1.46
Liquidity				
Current Ratio	1.42	4.58	8.62	6.26
Quick Ratio	0.63	4.38	8.39	6.08
Accounts Receivables Days	14.66	14.04	20.63	14.26
Accounts Payables Days	NMF	NMF	NMF	NMF
Solvency				
Debt to Assets	0.15	0.08	0.06	0.09
Debt to Equity	0.18	0.09	0.07	0.10
Interest Coverage	20.75	NMF	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 2023–2024 significantly higher at K1.7 billion compared to K1.01 billion 2022/2023 financial year.

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, though the liquidity position slightly declined but it was still above the margin at 6.26:1 as of the 2023/2024 fiscal year.

During the period under review, debt-to-equity ratio slightly increased from 7% recorded in 2022–2023 to 10% in 2023/2024 financial year, 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 2023/2024, NCIC remitted surplus to Government.

3.12 WATER SECTOR

3.12.1 Blantyre Water Board (BWB)

Indicators	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	(13,831,189)	(8,187,960)	(20,288,369)	(37,782,199)
Gross Profit Margin	25%	30%	27%	40%
Operating Profit Margin	-81%	-57%	-111%	-104%
Return on Assets	-17%	-11%	-23%	-40%
Return on Equity	NMF	NMF	-263%	NMF
Dividend Payout Ratio	NMF	NMF	NMF	NMF
Asset Turnover	0.23	0.20	0.27	0.32
Cost Recovery	0.94	1.15	-0.37	-0.13
Liquidity				
Current Ratio	0.16	0.18	0.46	0.44
Quick Ratio	0.08	0.08	0.36	0.52
Accounts Receivables Days	34.14	65.37	100.83	124.98
Accounts Payables Days	606.32	943.93	136.64	428.82
Solvency				
Debt to Assets	1.06	1.17	0.91	1.32
Debt to Equity	-17.94	-7.04	10.27	-4.11
Interest Coverage	(12.58)	(8.22)	(21.93)	(68.75)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Blantyre Water Board's financial performance continued to worsen overtime with a loss after taxation of K37.8 billion registered in 2023/2024 financial year. The BWB's poor performance is largely attributed to due to increase in production costs, general price increases, low sales resulting from high Non-Revenue Water (NRW) which closed at an average of 59% by 31st March 2024 and non-cost reflective tariffs.

Overview of financial risks

The current ratio for BWB in 2023 slightly reduced to 0.44:1 in 2023/2024 financial year from 0.46:1 in 2022/2023 financial year 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 2023/3034, there was no financial flows with the Government.

Policy specific issues for the Public Body

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

3.12.2 Central Region Water Board (CRWB)

Indicators	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000)	(1,421,825)	(390,790)	1,952,547	1,564,018
Gross Profit Margin	55%	42%	49%	52%
Operating Profit Margin	-68%	-66%	-41%	-30%
Return on Assets	-8%	-2%	9%	3%
Return on Equity	NMF	NMF	-46%	-58%
Dividend Payout Ratio	NMF	NMF	-	-
Asset Turnover	0.33	0.24	0.36	0.24
Cost Recovery	0.81	0.92	1.11	1.23
Liquidity				
Current Ratio	0.39	0.47	0.50	1.00
Quick Ratio	0.36	0.44	0.45	0.96
Accounts Receivables Days	133.86	285.13	145.71	228.03
Accounts Payables Days	392.46	496.90	158.68	167.49
Solvency				
Debt to Assets	1.31	1.31	1.19	1.06
Debt to Equity	-4.21	-4.23	-6.34	-17.80
Interest Coverage	(4.28)	(6.20)	(5.80)	(4.71)
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

The performance of Central Region Water Board (CRWB) slightly declined in the 2023/24 financial year with a profit of K1.6 billion registered compared to K1.9 billion recorded in 2022/2023 financial year. The decline in financial performance was largely on account of reduction in the sales revenue from K12.2 billion to K11.2 billion during the 2023/2024 financial year. This was attributed by increase in Non-Revenue water which stood at 29.7% from the budgeted 27%.

Overview of financial risks

The Board's liquidity slightly improved from a current ratio of 0.50:1 in 2022/2023 financial year to 1.00:1 in 2023/2024 financial year. However, the Board still barely met its short-term debts, including income taxes, account payables, and accumulated expenses. With an average of 228 days in 2024, its high receivable days further demonstrates that the majority of its cash assets are being retained with debtors for a longer period of time.

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;
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	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW’000)	1,162,969	594,077	2,583,176	9,485,104
Gross Profit Margin	36%	36%	41%	51%
Operating Profit Margin	-29%	-67%	-17%	2%
Return on Assets	1%	0%	1%	3%
Return on Equity	3%	2%	6%	13%
Dividend Payout Ratio	-	-	1.9	2.1
Asset Turnover	0.18	0.13	0.16	0.14
Cost Recovery	1.55	0.97	1.71	2.05
Liquidity				
Current Ratio	6.41	5.83	7.15	6.34
Quick Ratio	5.06	4.74	6.21	5.81
Accounts Receivables Days	115.92	154.45	135.13	124.77
Accounts Payables Days	59.53	94.89	323.23	140.79
Solvency				
Debt to Assets	0.70	0.74	0.79	0.74
Debt to Equity	2.32	2.78	3.79	2.84
Interest Coverage	(2.64)	(5.20)	(1.57)	0.19
Other				
Government Transfers to Total Revenue	-	-	-	-

Overview of financial performance

Lilongwe Water Board (LWB) registered a profit after tax of K9.8 billion in the 2023/2024 financial year which significant jump by 27.2% from a profit of K2.6 billion in 2022/2023 financial year. The improvement in financial performance was due to Non-Revenue Water (NRW) reduction strategies from 40% to around 35.5%, including Performance Based Incentive Programme (PBIP) through its zones, adherence to Emergency Response Standards (Burst isolated within one hour, Bursts repaired within 10 hours and Leaks maintained within 2 days after reporting), replacement of valves, conduct leak detection programs, eliminate unbilled accounts, analyse DMA consumptions to identify inconsistencies with billing volumes, prepare water balancing to estimate water lost through real and apparent losses, meter reading/billing anomalies analysis and implementation of the faults reporting and management system.

Overview of financial risks

Liquidity position for LWB was six times above threshold with a current ratio of 6.34:1 in 2023/2024 financial year though a decline position from 7.15:1 registered in 2022/2023 financial year meaning the board can meet its short-term obligations as they fall due.

The debt collection days slightly reduced to 124 days in 2023/2024 financial year from 135 days in 2022/2023 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.

Overview of financial flows with the government

The Board remitted K200 million divided in 2024 to Government.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	• Implementation of non-cost reflective tariff • Relatively high non-revenue water	Expand the scale of operation through diverse projects in its supply area. Routine maintenance and replacement of burst and old aged pipes
Tax Arrears	• High levels of accounts receivables	Intensify debt collection coupled with prepaid meters migration.

3.12.4 Northern Region Water Board (NRWB)

Indicators	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000'000)	640,920	(5,409,291)	(7,413,864)	(10,249,862)
Gross Profit Margin	34%	35%	100%	100%
Operating Profit Margin	3%	-137%	-26%	44%
Return on Assets	1%	-6%	-7%	-8%
Return on Equity	25%	NMF	-90%	NMF
Dividend Payout Ratio	-	NMF	NMF	NMF
Asset Turnover	0.11	0.08	0.08	0.09
Cost Recovery	3.14	0.56	0.77	1.22
Liquidity				
Current Ratio	0.71	0.54	0.92	0.27
Quick Ratio	0.46	0.35	0.70	0.22
Accounts Receivables Days	112.80	219.93	70.59	76.57
Accounts Payables Days	500.18	762.96	NMF	NMF
Solvency				
Debt to Assets	0.97	1.03	0.93	1.19
Debt to Equity	30.74	-32.81	12.38	-6.32
Interest Coverage	0.42	(7.32)	0.60	(0.80)
Other				
Government Transfers to Total Revenue	0.03	0.04	0.03	-

Overview of financial performance

Northern Region Water Board (NRWB) performance deteriorated significantly in 2023/24, recording a loss after tax of K10.2 billion compared to K7.4 billion registered in the prior year. The underperformance was on account of implementation of non-cost reflective tariffs, 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. Generally, NRWB's operating profit before depreciation at K891million was significantly down on the K3.3 billion budgeted operating profit. The below budget performance on revenues was the key driver behind the lower-than-budget profitability. The Board lost substantial revenues due to almost three months' delay in implementing the 55% water tariff adjustment. The Board registered a net loss of MK1.7billion after depreciation and interest against a budgeted profit of MK373million.

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 2024. The current ratio of 0.24:1 in 2024 falls way below the average recommended benchmark implying that the Board was unable to meet its short-term obligations.

Overview of financial flows with the government

In the year 2023/2024, 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	High operating cost impeding the Boards working capital and the bottom line. The delayed implementation of the water tariff increases also had an impact on the loss outturn of the Board	Timely implementation of cost-reflective tariffs.
Tax and pension arrears	Cash flow challenges due to Non-payment of water bills by public institutions	Intensify debt collection. Migration of metering system from postpaid to pre-paid Implement cost containment measures

3.12.5 Southern Region Water Board (SRWB)

Indicators	2021 Audited	2022 Audited	2023 Audited	2024 Audited
Profitability				
Profit/loss (Mill MKW'000'000)	(1,067,420)	(728,999)	(988,193)	(417,415)
Gross Profit Margin	70%	69%	69%	71%
Operating Profit Margin	-43%	-40%	38%	41%
Return on Assets	-3%	-2%	-2%	-1%
Return on Equity	-6%	-4%	-5%	-2%
Dividend Payout Ratio	NMF	NMF	NMF	NMF
Asset Turnover	0.22	0.19	0.27	0.30
Cost Recovery	0.88	0.91	3.32	3.21
Liquidity				
Current Ratio	1.42	1.56	1.34	1.19
Quick Ratio	0.87	1.47	1.24	0.88
Accounts Receivables Days	346.74	514.80	352.15	154.55
Accounts Payables Days	1195.27	884.27	849.41	593.96
Solvency				
Debt to Assets	0.46	0.53	0.63	0.67
Debt to Equity	0.86	1.12	1.72	2.05
Interest Coverage	(2.77)	(3.86)	4.97	2.94
Other				
Government Transfers to Total Revenue	-	-	(0.02)	0.05

Overview of financial performance

In the year 2024, Southern Region Water Board registered a loss of K417 million compared to a loss of K988 million in 2023. 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.

Overview of financial risks

SRWB, continues to face challenges from the collection of debt from public institutions which account for 60 percent of its water sales. The receivable days of SRWB slightly decreased from 155 days in 2024 from 352 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 1.19:1, 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 205 percent in 2024.

Overview of financial flows with the government

In the year 2023/2024, 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 drought experienced in Malawi which highly affected the flow of surface water and levels of groundwater sources.	Increase water production through developing new water schemes and maintenance of old infrastructure
Tax Arrears	Cash flow challenges due to accumulation of public and private water bills	Installation of Prepaid Meters. Consider deduction of the unpaid bills at 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 for the year of **MK5.7 billion for FY23/24**. ADMARC depends on significant government transfers in form of grants to undertake its social obligation. Profitability Ratios indicate that the Corporation continues to thrive with perpetual deficits over time. Operating profit margin for FY23/24 was 0.18, an increase from FY22/23 which was recorded at 0.04. Although these figures are not representative of a healthy company, they form a marginal improvement from -1.649 recorded during FY19/20. Net profit margin remained negative, although it slightly improved to -0.12 from -0.36 for FY23/24 from the previous financial year. Return on assets continued to be negative, although an improvement was registered.
Solvency and Indebtedness	ADMARC Limited recorded a sharp decline in the assets from MK156 billion registered in FY21/22 through MK102.25 billion in FY22/23 to MK100.10 billion in FY23/24. The reduction primarily was on account of a shrinkage in stock (from MK34 billion in FY21/22 to MK3.4 billion in FY23/24) and trade receivables (from MK44 billion in FY21/22 to MK18 billion in FY23/24). The nature of ADMARC's business also shows that a decline in inventory spells badly for profitability. The sharp decline in assets during the period under review 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. Purchases for FY23/24 started late, and very little stock was purchased mimicking the trend for FY22/23 up to FY23/24. 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 41,800 MT was sold from the SGR through ADMARC markets, and the proceeds were remitted to Government through Ministry of Agriculture.

Area of analysis	Assessment of key trends
	Solvency Ratios expose that Debt to Assets ratio from FY22 onwards, the ratio continued to worsen reaching 0.70 for FY23/24. Debt to EBITDA has remained incredibly high during the past years, however as a further indicator of the marginal improvements, FY20/21 recorded the best performance of the company with a ratio of 2.76, which is considerably better than the 53.37 recorded in FY23/24, demonstrating that ADMARC was dependent on debt to finance its operations. Interest Coverage Ratio reveals the Corporation's inability to handle its outstanding debt. When pegged against the recommended benchmark of 2, the year subsequent to 2022 produced insufficient coverage for ADMARC to meet its obligations. FY23/24 recorded a marginal increase of 0.26 which was slightly better that 0.21 recorded in FY22/23.
Liquidity	Liquidity Ratios reveal that the corporation was un able to meet short term obligations as they fall due despite a slight increase in the current ratio from 0.73:1 in FY22/23 to 0.76:1 in FY23/24. The corporation remained in operation through expensive government-guaranteed debt 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 and the alteration of the financial year to begin concurrently with the harvest period.

	2020	2021	2022	2023	2024
Profitability					
Operating Profit Margin	-1.49	0.95	0.52	0.04	0.18
Net Profit Margin	-3.01	0.67	0.12	-0.36	-0.12
Return on Assets	-0.24	0.13	0.02	-0.05	-0.01
Return on Equity	-1.14	0.26	0.05	-0.13	-0.03
Cost Recovery	0.43	1.89	1.37	1.01	1.06
Liquidity					
Current Ratio	0.48	1.01	0.67	0.73	0.76
Quick Ratio	0.11	0.64	0.57	0.50	0.54
Debtor Turnover Days	315.6	396.8	108.1	87.1	1,493.2
Creditor Turnover Days	529.4	853.0	655.8	684.7	749.2
Solvency					
Debt to Assets	0.79	0.50	0.62	0.65	0.70
Debt to Equity	3.68	1.01	1.66	1.88	2.35
Debt to EBITDA	-6.52	2.76	6.95	132.57	53.37
Interest Coverage	-1.00	3.51	2.13	0.21	0.26
Cash Interest Coverage	-1.00	3.51	2.13	0.21	0.26
Debt Coverage	-0.26	1.79	0.48	0.03	0.04
Government Relationship					
Government Transfers to Total Revenue	0.00	0.00	0.01	0.01	0.00
50% Test	3.68	0.66	0.86	1.06	1.16
Z-Score	-3.80	1.84	-0.24	-0.73	-0.84

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

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) Government control over stock and price setting Mechanism.** Maize sold continues to be predominantly 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. This is perpetrating distortionary effects on the availability and price setting mechanism which in turn contributes to shortages of the strategic grain. The farm gate price has no statistical correlation with inflation reduction, it actually correlates positively with inflation increases and supply depletion.	**Strategic Risks:** **(i) 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. Furthermore, ADMARC needs to be reimbursed in full whenever it undertakes the social function. The Corporation should also pivot towards predominantly selling maize flour if it fails to diversify away from predominantly selling maize crop because ultimately, the consumer still requires to mill the maize and ADMARC will be able to realize value added revenue from the undertaking.
(ii) 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.	**(ii) 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

Source of Risk	Mitigation/policy measure
	entirely on commercial terms. This remain yet to be done. An expedition of this process could potentially be a game changer to the entity.

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 2024 ADMARC had received **MK10.10 billion** from Government to fund staff costs, utilities, operations and other expenses.	**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 should ensure that 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. The Corporation should also be severed from Government's direct control in order to apply strategic plans that may aim at commercial diversification of its operations that would not only be enough for cost recovery but also to ensure profitability and ultimately the hope of future dividend remittances.
(ii) Reliance on a single crop for profitability Reliance on single crop (maize) is hampering the operating capacity of the Corporation. Records show that for FY23/24, of the MK20.61 billion in trading revenues realized, MK19.58 billion (95%) was on account of maize grain sales. The remainder was split between rice MK910 million (4.37%), cotton (MK116.44 million) soya (MK5.79 million) and ground nuts (MK1.73 million). This trend has remained consistent over the past years with FY22/23 recoding 95.25 percent of trading revenues on account of maize grain. This leaves ADMARC at the mercy of stochastics in maize production for profitability.	**(ii) Reliance on a single crop for profitability** ADAMARC should 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. ADMARC needs to prove that it remains the agricultural avantgarde and should forge forth a path to profitability using the under-utilized markets for other crops in the country's agricultural portfolio.
(iii) Continued sales of unprocessed goods.	

Source of Risk	Mitigation/policy measure
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 challenges such as storage and treatment of the crop which increases inherent storage prices, transportation and potential of destruction of the crops to the impediment of profit maximization. **(iv) Lag effects of delayed Government funding.** Trading revenues continued to fluctuate in response to market conditions that have not been capitalized upon by the Government in FY23/24. This is mainly because purchases were also below budget. ADMARC failed to 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 was not been provided in a timely manner, further highlighting the persistence in failure to take advantage of the timing of the financial year, having been removed to April for the sole purpose of equipping ADMARC with adequate financing to capitalize on cheaper farm prices.	**(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 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) Lag 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 and loan programs to reduce late entry into the market as well as having adequate financing to purchase necessary volumes for both the domestic and international market.

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 FY23/24 were MK18.10 billion against payables of MK29.87 billion. Of the total receivables, Government and AHL owed a vast majority of them hampering the performance of ADMARC's liquidity position. A breakdown of Trade Receivables from the Government reveals at the commencement of FY22/23 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	**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.

Source of Risk	Mitigation/policy measure
MK6.18 billion, Funds for Salaries and Crop Purchases of MK2.50 billion. At the end of FY23/24 Government arrears amounted to MK35.54 billion which included cost recovery for running social markets on behalf of government, interest on loans guaranteed by governments and other government related expeditions. **Debt Repayment:** **(i) Debt servicing of principal, interest and exchange loss.** CDHIB 1 – had a closing balance (31 March 2024) of MK12.93 billion. The facility was obtained for purchase of maize and other commercial crop. The loan had an interest of MK3.26 billion. The repayment for the financial year stood at only 546.71 million (after a financial year opening balance of MK10.21 billion) indicating that ADMARC was unable to adequately service its obligation on this facility. The date of maturity for the loan is 30 June 2024. Currently, it remains doubtful that the facility will be repaid on time considering the loan slide backward on account of interest and minimal repayment in FY23/24. 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 FY23/24 of MK15.41 billion, which represents a non-maxed account. However, interest payment of MK3.16 billion was required. Having made repayments of MK9.46 billion during the financial year, the closing balancing for the year was MK9.10 billion which had maturity date of June 30th, 2023. The maturity period was rolled over to 30 September 2024. EDF and FDH loans had an opening balance for FY23/24 of MK10.26 billion and MK5.34 billion respectively. These loans had interests worth MK3.39 billion and MK1.30 billion respectively. However, the reporting period saw the loans repayment amount to MK830.64 million and MK200.57 million respectively, closing FY23/24 with outstanding balance amounting to MK18.19 billion and MK6.44 billion. The two loans have maturity periods that are past due, with the EDF loan dating 31 March 2023 and the FDH loan dated 30 June 2020 thus requiring extensions.	**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 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
The EDF loan had an exchange loss of MK2.35 billion due to the 44 percent currency realignment of November 2023.	

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 registering significant losses. With a MK37.8 billion loss at the end of FY2023/24, the company's performance during the period under review continue to deteriorate. The primary factors of this were the tariff adjustments freeze and the devaluation-induced cost increase. At the closure of FY24, BWB owed ESCOM more than MK9 billion in arrears, which put strain on ESCOM's balance sheet.

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

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

4.2.2. Summary of financial performance

Area of analysis	Assessment of key trends
Profitability	The Board incurred a loss of MK37.8 billion during FY23/24 (31st March 2024) compared to a loss of MK20.7 billion for FY22/23 (2022: MK8.2 billion). The outturn was on account of the disparities between current liabilities and current assets. Current liabilities were MK28.8 billion (2023:MK18.8 billion) in excess of current assets. This profitability trend has continued for the past 3 financial years, with the Board reporting losses before tax. 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 K14.96 billion out of cost of sale being paid to ESCOM due to infrastructure constraints caused by the topographically negatively skewed distribution that require the constant pumping of water uphill, which means an inability to take advantage of off-peak electricity. Revenue growth continued to be constrained by non-cost reflective tariffs. As such, operating profit margin in FY23/24 was recorded at -31.5%, -38% for FY22/23 and -20.5% for FY21/22.
Indebtedness/Solvency	The debt to assets ratio worsened the following year to 1.10 for FY23/24, indicating that the sovereign efforts did not solve the problem for the Board. Debt to Equity spells the danger the Corporation is under. For the period under review, a ratio was exorbitantly higher than industry benchmark of total liabilities over shareholder's equity of 0.80.

Area of analysis	Assessment of key trends
	Interest coverage ratios have remained negative over the years, implying that BWB was unable to meet its interest payment obligations. Debt to EBITDA has remained uninspiring during the past five years with the ratio way-off the recommended threshold of 3. 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.
Liquidity	BWB's current ratio has worsened since 2022 when it was recorded at a period peak of 0.44. The ratio has declined drastically to 0.17 in FY24 indicating that the Board is struggling with cash and its equivalents. When inventories are stripped away, the quick ratio performs relatively worse. It reached its period peak of 0.42 in 2022 before falling off to 0.15 in FY24 indicates the Board is unable to pay its short-term obligations as and when they fall due which has been the case over time. This is reflected in the significant build up in arrears, with 90 percent owed to ESCOM. Both debtor and creditor turnover days increased in considerably, with average creditor turnover reaching 444.6 days over the past five years. However the trend in Debtor turnover days declined under 100 days to reach 73.7 days in FY24 indicating some improvements in this category although it may not be enough to turn around the potition of the Board.
Dependency/ Relationship with Government	BWB has significant relationships with the Government and other SOEs through sales and purchases of water to the public as well as bail-outs when the Board is not performing. However, BWB has not been able to remit dividend to the government due to the company's loss-making position.

	2020	2021	2022	2023	2024
Profitability					
Operating Profit Margin	-0.28	-0.12	-0.14	-0.61	-0.75
Net Profit Margin	-0.33	-0.17	-0.12	-0.38	-0.88
Return on Assets	-0.10	-0.06	-0.02	-0.07	-0.18
Return on Equity	NMF	NMF	-0.13	-0.71	NMF
Cost Recovery	0.79	0.90	0.89	0.64	0.59
Liquidity					
Current Ratio	0.33	0.44	0.39	0.35	0.17
Quick Ratio	0.27	0.42	0.28	0.29	0.15
Debtor Turnover Days	109.4	182.7	108.4	139.5	73.7
Creditor Turnover Days	354.6	376.3	331.8	473.2	687.1
Solvency					
Debt to Assets	1.06	1.12	0.82	0.91	1.10
Debt to Equity	NMF	NMF	4.61	9.55	NMF
Debt to EBITDA	-12.04	-28.14	-31.79	-8.40	-7.37
Interest Coverage	-1.83	-0.78	-0.65	-3.41	-2.85
Cash Interest Coverage	-1.83	-0.78	-0.65	-3.41	-2.85
Debt Coverage	-0.25	-0.10	-0.07	-0.26	-0.34
Government Relationship					
Government Transfers to Total Revenue	0.00	0.00	0.00	0.00	0.00
50% Test	1.41	1.25	1.32	1.74	1.95
Z-Score	-3.10	-3.13	-1.46	-2.64	-4.97

	2020	2021	2022	2023	2024
Profitability					
Return on Assets	Category 5	Category 4	Category 4	Category 4	Category 5
Return on Equity	Category 5	Category 5	Category 5	Category 5	Category 5
Cost Recovery	Category 4	Category 4	Category 4	Category 5	Category 5
Liquidity					
Current Ratio	Category 5	Category 5	Category 5	Category 5	Category 5
Quick Ratio	Category 5	Category 5	Category 5	Category 5	Category 5
Debtor Turnover Days	Category 5	Category 5	Category 5	Category 5	Category 4
Creditor Turnover Days	Category 5	Category 5	Category 5	Category 5	Category 5
Solvency					
Debt to Assets	Category 5	Category 5	Category 4	Category 4	Category 5
Debt to Equity	Category 5	Category 5	Category 5	Category 5	Category 5
Debt to EBITDA	Category 5	Category 5	Category 5	Category 5	Category 5
Interest Coverage	Category 5	Category 5	Category 5	Category 5	Category 5
Cash Interest Coverage	Category 5	Category 5	Category 5	Category 5	Category 5
Debt Coverage	Category 5	Category 5	Category 5	Category 5	Category 5
Government Relationship					
Government Transfers to Total Revenue	Category 1	Category 1	Category 1	Category 1	Category 1
50% Test	Category 3	Category 3	Category 3	Category 4	Category 4
Overall Risk Rating					
Weighted Average*	Category 5	Category 5	Category 5	Category 5	Category 5
Z-Score	Category 4	Category 4	Category 4	Category 4	Category 4

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:	**Revenues:**
(i) Losses from non-revenue water Between 59 to 62 percent of water produced by the Board is lost and not charged. This is mainly on account of leakages, burst pipes, poor water management, illegal connections and unauthorised consumption.	**(i) Losses from non-revenue water** The Water and Sanitation Project-1 with funding from the World Bank continues to aim at reducing Non-Revenue Water. The project became effective in June 2023. The non-water revenue was supposed to drop from 52% in FY22–2023 with 29 percent is the goal as the projects goal, however in 2023/2024 NRW stood at 60%. This accomplishment will be abated by replacing 15,000 faulty prepaid meters, replacing 7,000 aged and faulty meters, and replacing 100 kilometers of old, frequently exploding pipes among others initiatives other.
(ii) Boreholes Revenues are at risk when commercial, institutional and industry customers drill boreholes to circumvent the reliance on the Board's water. Considering the heavy usages these customers may have, losses are estimated to be substantial if mitigating measures are not applied to deter this practice. Boreholes also have the potential to contaminate and reduce the water table.	**(ii) Boreholes** The Board is working with the National Water Resources Authority to have 162 commercial boreholes sealed in its supply area so that the commercial, institutional and industry customers currently on boreholes should revert to the Board's network. Oversight of these customers is necessary to ensure compliance and to observe the contamination level of the water table.

Source of Risk	Mitigation/policy measure
(iii) Uncompetitive tariff system Tariffs are set by the parent ministry and not an independent regulator, and these continue to not keep pace with increases in costs and macroeconomic fundamentals. **(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.	**(iii) Uncompetitive tariff system** Research should be conducted towards the cost-benefit analysis to weigh the potential benefit of instituting a national water independent regulator that is severed from the ministry's control. **(iv) Prepaid meter collection loss** The Boards should resolve frequent top-ups with seamless top-up solutions by leveraging technological advancement. the Board should manage meter tampering with smart meter integration. The 22,000 meters aimed to be procured and installed should not inherit the same faults to reduce redundancies in revenue generating efforts.

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 remain unfavorably high reaching MK6.81 billion during the FY23/24 compared to MK4.49 billion from FY22/23 representing a 51.67 percent increase. Overdue receivable continued to experience accumulated expected credit losses. For FY23/24 the amount grew to MK4.14 billion from MK2.34 billion. Gross Trade Receivables for FY23/24 were recorded as MK11.04 billion with Impairments of MK5.69 billion. FY23/24 saw an increase of 13.22 percent and 41.52 percent respectively from the previous financial year. The ageing of the gross receivables at the reporting date were as follows: Not past due MK2.04 billion compared to MK1.14 billion for FY22/23; 1 to 30 days MK1.42 billion FY23/24 compared to MK1.37 billion for FY22/23; 31 to 120 days MK1.92 for FY23/24 compared to MK443.54 million for FY22/23, with impairments of MK1.25 billion and MK563.63 million respectively; and Over 120 days MK5.66 billion for FY23/24 compared to MK6.81	**Current Assets:** (i) **Over-leverage of trade receivables**. The digitization of collection process should continue 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 repayment. 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
billion for FY22/23 accompanied by impairments of MK4.43 billion and MK3.43 billion respectively.	
Fixed Assets: **(i) Depreciation and amortization** Depreciation and amortization increased by 1.95 percent to reach MK5.75 billion for FY23/24 from MK5.64 billion for FY22/23. Depreciation on its own amounted to a movement of MK5.502 billion from FY22/23 to FY23/24 (MK18.19 billion to MK23.70 billion) culminating from low maintenance of plant and buildings which received a meagre allocation of MK348.07 million compared to MK391.56 million for FY22/23 (MK124.998 million FY21/22). The trend shows that after an untick in allocation the expenses on maintenance have fallen in Fy23/24 which is worrisome considering the non-revenue water and rate of depression is high.	**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. Maintenance costs 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 and thus impeding its efforts to achieve profit maximization without the heavy reliance on tariff increments.
(i) “Related parties” payables Related Party Payables for FY23/24 was recorded as 17.42 billion signifying a sharp rise of 415.92 percent from MK3.37 in FY22/23. This represented a relapse on account of ESCOM payables with a 453.04 percent to conceal the decline from MK240.12 to MK106.16 of customer balances. Risk from payables from “related party" remains sustainably high even after the decrease for FY22/23.	**(i) “Related Parties” payables** Mitigation of this risk has to be structural in order to truly deal with the problems the Board finds itself. The Board has to find alternatives to ESCOM as well as improved water storage to increase efficiency of its carrying capacity in order to reduce the costs associated with power production. BWB had hoped its turnaround strategy would significantly improve its financial position by 2024, allowing it to improve cash flows and reduce its short-term liabilities. BWB estimated that its profit margin would improve from the current -55 percent to 20 percent and the quick ratio will improve from the current 0.18 to 2.6. However, due to the fact that the Board still pays water bills that have not translated to a special tariff, the devaluation of 44 percent, and the increase in the ESCOM Base Tariff of 16 percent among other factors, the Board has relapsed in accruing payables.
(ii) Elevated commissions on water revenue collection Commission on collection was remained unfavorably elevated for FY23/24 even though revenue collection was decimal. The trend continued to mirror that set across the past three financial years were MK141.12 million for FY22/23 compared to MK115.38 million for FY21/22 representing an increase of 22.31% increase.	**(ii) Elevated commissions on water revenue collection** Commissions paid on water revenue collection can be reduced by procuring and replacing of archaic meters. The new prepaid meters are designed to interface directly with the system and thus reduce the human requirement to collect revenues physically.

Source of Risk	Mitigation/policy measure
Debt Repayment:	**Debt Repayment**
(i) Interest and exchange loss on foreign denominated loans The November 2023 44 percent currency realignment resulted to a Net Foreign Exchange loss of MK18.06 billion. This was worse than the MK5.25 billion for FY22/23 on account of the local currency devaluation by 25%, and even more so compared with the MK283.10 for FY21/22. Whereas total interest payments of MK3.02 billion were realized for FY22/23 compared to MK1.19 billion for FY21/22. These losses were on account of the Exim Bank loan. Interest accrued during the 2 financial years was MK1.23 billion per year. The duration of foreign denominated loans increases the potential to incur exchange losses, compounding the interest repayment of these loans. Of the Board's total foreign denominated loans, the average repayment time is 25 years which places the Board at the mercy of oscillations of macroeconomic fundamentals.	**(i) Interest and exchange loss on foreign denominated loans** The Board should stop incurring further foreign denominated loans because even though they may carry low interest rates, the time to maturity leaves the Board susceptible to future losses it may potentially incur in the event of instability in the domestic currency. Furthermore, restructuring of the existing debt should be on a needs-must basis to avoid further prolonging of the debt repayment schedule. In the event that further debt is necessary to be incurred, it should be so on the pursuit of the greatest return on investment, in order to impact the board positively and thus aid in the repayment of the existing loans.
(ii) Arrears accumulation and expected credit loss from MDAs The worsening liquidity trend has reduced the ability of the Board to pay its suppliers on time (principally ESCOM). As of 31 March 2024, total receivables from the government and government agencies were MK2.6 billion after accumulated impairment losses of MK1.54 billion. Concentration of the receivables at the end of FY23/24 was heavy skewed towards Government departments and agencies that owed the Board MK3.22 billion. The remaining portion of related party receivables was owed by statutory corporations. This section saw a year-to-year increase from MK720.82 million to reach MK1.01 billion at the end on March 2024.	**(ii) Arrears accumulated and expected credit loss from MDAs** The Board should engage the relevant stakeholders, including the Ministry of Finance and Economic Affairs in order to reduce the build-up of arrears associated with MDAs. The propagation of prepaid water meters should be encouraged where necessary to decrease these build-ups of arrears to continue reducing the total related party receivables.
(iii) Local banks' loans The following loans are government guaranteed placing great pressure on Government resources 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.	**(iii) Local banks' loans** The Board needs to place greater scrutiny when contracting local bank loans to ensure that the value for money incurred on these loans is enough to not only repay them but also to ensure that the investment is prioritized that will reduce the Board's borrowing future borrowing needs. However, local bank loans

Source of Risk	Mitigation/policy measure
FDH loan (contracted in 2019): At the close of the FY23/24, the loan balance was MK1.13 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 Guarantee. Interest accrued during FY23/24 was MK419.98 million. The Board had capital and interest repayments on the loan totaling MK667.40 million and MK419.98 million respectively. First Capital Bank (contracted in 2017/18): At the close of FY23/24, the loan balance was MK153 thousand. The loan was repayable over a period of 79 months up to 31 March 2024 and attracted interest at 3.25% below the banks base rate per annum. The loan was secured by the Government Guarantee and security agreement of K700 million. The National bank loan of K3.37 billion is repayable over a period of 8 years until November 2026 and attracts interest at base rate plus 2.6% per annum. At the close of FY23/24, the loan stood at MK2.86 billion after an additional loan of MK1.01 billion was contracted during the financial year. The loan accrued interest of MK775.76 million during the FY23/24, of which MK655.78 million was repaid along with MK964.30 million in capital repayments.	are not susceptible to currency oscillations even though they may at times carry larger interest rates. The Board needs to prioritize the repayment of these loans in order to reduce the risk of penalties for defaults.

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	At the end of FY23/24, two out of the three profitability ratios fell under Category 2, while one was under Category 3. This assessment reflects the entity's weaknesses in profit generation which has begun to worsen after two years of improvement. During the past years up to March 2024. For FY22/23, ESCOM recorded an operating profit MK26.11 billion whereas FY23/24, the corporation recorded a loss of MK65 billion. The primary challenges to the entity's profitability have been; the tariffs that are below cost recovery, the recent increase in tariffs prescribed by the Base Tariff increase of 18 percent during the autumn of 2023 has had mixed benefits. In addition to the tariff adjustments, the gradual transition to prepaid billing was anticipated to contribute to accelerated revenues which have not yet materialized. ESCOM further fails to increase its profitability due to failure to increase the customer base while containing costs has provided impediments to profitability. As of March 2024, ESCOM reported a comprehensive loss of MWK65 billion. Two significant factors significantly impacted the earnings during this period. The first was the substantial foreign exchange loss of MWK98 billion, primarily attributed to foreign currency-denominated debt (compared to MWK18 billion in March 2023) which was susceptible to the 44 percent currency alignment of November 2023. The second was the reversal of provisions for bad customer debt mainly on account Blantyre Water Board amounting to MWK23 billion, which only partially mitigated the foreign exchange loss. Excluding these two factors, the operating loss of the entity would have fared better to result in an approximate MWK4 billion in losses, compared to the recorded MWK79.53 billion.
Indebtedness/Solvency	Solvency ratio depicts the state of indebtedness for ESCOM. Although the debt to assets increased from 0.40 in FY22/23 to 0.43 in FY23/24. This ratio indicates that the company's assets are fairly financed by debt. While the ratio had decreased during FY21/22 to reach 0.42 (2021: 0.51), a high reliance on debt can be confirmed from the pick up after reaching a relative trough at the end of March 2023. Debt to equity in FY20/21 was 1.06 but improved to 0.68 in FY22/23 (2022: 0.74). The ratio reveals a steady improvement in the company's capital structure, and the decrease in debt relative to equity indicates a relatively healthier financial position and that the company is becoming less reliant on debt financing. However, this ratio has been revealed to have relapse during FY23/24 where it was recorded as 0.77, up from the previous financial year (2022: 0.68). Debt to EBITDA increased from 2.53 in FY20/21 to 3.43 in FY23/24. This was an indication that the company is struggling to improved its debt servicing capacity and generation of sufficient cash flow to cover its debt obligations. Interest coverage increased astronomically, portraying a substantial weakness in the company's ability to cover its interest expenses, as seen from FY20/21 with a ratio of 16.31 to FY23/24 with the indicator at 977.14. This ratio means that it could potentially take ESCOM nearly 977 years' worth of earnings at the current EBITDA level.

Area of analysis	Assessment of key trends
Liquidity	Current ratio in FY20/21 stood at 5.60 and decreased to 2.50 for FY23/24. The highest current ratio was in FY22/23. This suggests the company's ability to meet its short-term obligations. Quick ratio on the other hand decreased at a faster rate. However, it remains indicative that ESCOM still has an ability to meet short-term obligations without relying on inventory as indicated that from FY20/21 the ratio was 4.32 and reached 1.40 during FY23/24. Debtor turnover days increased from 66.8 in FY20/21 to 110.3 in FY23/24. This means the company is collecting payments from its customers at a growing rate.
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. The Government decided to write-off ESCOM's debt with EGENCO. The amount was written off during FY22/23. However, FY23/24 saw the arrears beginning to rise again indicating that the Government may need to step in again at some time in the future.

	2020	2021	2022	2023	2024
Profitability					
Operating Profit Margin	0.56	0.38	0.33	0.22	0.17
Net Profit Margin	0.35	0.15	0.22	0.23	0.11
Return on Assets	0.13	0.07	0.13	0.13	0.06
Return on Equity	0.26	0.15	0.22	0.22	0.11
Cost Recovery	1.75	1.60	1.47	1.28	1.20
Liquidity					
Current Ratio	0.93	5.60	5.46	5.90	2.50
Quick Ratio	0.73	4.32	3.73	4.70	1.40
Debtor Turnover Days	89.6	66.8	67.7	89.6	110.3
Creditor Turnover Days					
Solvency					
Debt to Assets	0.50	0.51	0.42	0.40	0.43
Debt to Equity	0.99	1.06	0.74	0.68	0.77
Debt to EBITDA	2.08	2.53	1.91	2.64	3.43
Interest Coverage	3.80	16.31	71.25	6264.79	977.14
Cash Interest Coverage	4.30	18.38	81.36	7565.17	1293.59
Debt Coverage	1.21	1.09			
Government Relationship					
Government Transfers to Total Revenue	0.00	0.00	0.00	0.00	0.00
50% Test	0.70	0.67	0.72	0.84	0.85
Z-Score	2.40	3.75	5.43	5.74	4.78

	2020	2021	2022	2023	2024
Profitability					
Return on Assets	Category 1	Category 2	Category 1	Category 1	Category 2
Return on Equity	Category 1	Category 2	Category 1	Category 1	Category 2
Cost Recovery	Category 1	Category 1	Category 2	Category 2	Category 3
Liquidity					
Current Ratio	Category 5	Category 1	Category 1	Category 1	Category 1
Quick Ratio	Category 3	Category 1	Category 1	Category 1	Category 1
Debtor Turnover Days	Category 5	Category 4	Category 4	Category 5	Category 5
Creditor Turnover Days					
Solvency					
Debt to Assets	Category 2	Category 3	Category 2	Category 2	Category 2
Debt to Equity	Category 2	Category 3	Category 2	Category 2	Category 2
Debt to EBITDA	Category 3	Category 3	Category 2	Category 3	Category 4
Interest Coverage	Category 2	Category 1	Category 1	Category 1	Category 1
Cash Interest Coverage	Category 2	Category 1	Category 1	Category 1	Category 1
Debt Coverage	Category 1	Category 1			
Government Relationship					
Government Transfers to Total Revenue	Category 1	Category 1	Category 1	Category 1	Category 1
50% Test	Category 5	Category 5	Category 5	Category 5	Category 5
Overall Risk Rating					
Weighted Average*	Category 2	Category 2	Category 2	Category 2	Category 2
Z-Score	Category 3	Category 2	Category 2	Category 2	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: Total expenditure for FY23/24 was MK203.35 billion of which head office expenses were raised from MK92.35 billion to Mk144.39 billion. Distribution and transmission expenses were MK44.79 billion (2023: MK28.80 billion) and MK11.27 billion (2023: MK8.87 billion). Head office expenses are growing at an unsustainable rate. **(i) 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 to finance operations, thus widening the net current liability position. Related party receivables were MK16.41 billion after a provision for bad debts of MK34.29 billion for FY23/24. This represented an increase from MK3.63 billion from FY22/23 (after a provision of bad debts of MK42.92 billion). Of these receivables, MK42.13 billion were on account of Statutory Corporation and MK8.57 billion from Government departments. This was worse than the MK38.86 billion and Mk7.69 billion respectively recorded in FY22/23.	**Expenditures and capital investment** (i) Although the review of PPAs for EGENCO Hydro Power Plants commenced during FY22/23 the process is yet to bear any fruit. (ii) Control the level of head office expenses. (iii) Review whether the provision for maintenance has been adequate. **(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; State Owned Enterprises (e.g., Blantyre Water Board); and Private customers who are unable to settle their electricity bills. Effort has to be made to migrate the Malawi Defense Force barracks to prepaid meters in order to reduce these receivables significantly.

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

Source of Risk	Mitigation/policy measure
Debt Repayment and Further Arrears: **(i) Exchange loss and interest risk** For FY23/24 ESCOM had an exchange loss of MK97.65 billion compared to FY22/23 where exchange losses of MK17.71 billion were realized. The losses for FY23/24 were on account of foreign denominated loans with the Government amounting to MK265 billion (2023: MK135 billion). Of the loan portfolio, MK170 billion was on account of the Optic Fibre Project. Consequently, over K70 billion of the exchange losses for the period were in relation to the Optic fibre business which generates an insufficient MK4 billion per annum. Principal repayments of MK3.50 billion for FY23/24 (compared to MK6.28 billion-FY22/23), which was less than the exchange loss realized. Interest charged was MK4.75 billion for FY23/24 compared MK3.74 billion for FY22/23. Interest paid was recorded as MK5.56 billion for FY23/24 compared to MK2.41 billion for FY22/23. All this is indicative of the crippling effect the loans are having on ESCOM's liquidity. Of ESCOM's loans, MK22.03 billion was due within FY23/24 compared to MK17.77 on account of the currency realignment, among other causes. **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. **(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. **(iii) Unexpected penalties** Payment of penalties and legal charges that may arise from time-to-time due to reasons beyond the Corporation's control.	**Debt Repayment and Further Arrears:** **(i) 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. ESCOM should hedge against potential losses. by contracting currency swaps as well as varying the currencies its loans are contracted in. **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 from electricity. However, research has shown that alternative energy sources are being used after disconnections and so a fine balance has to be struck. **(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 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.

Source of Risk	Mitigation/policy measure

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	Balance of foreign exchange losses on open account supplies due to the 44 percent devaluation in November 2023 were MK13.05 billion. Total Levies not claimed from MERA reached MK493 billion at the end of FY23/24. Retained profit for FY23/24 was MK2.05 billion. When adjusted, the net cash in inflow in operating activities before working capital changes was a loss of MK1.47 billion indicating that operating expenses for the Company remain hefty. This is typified by the fact that irrespective of the trade volumes the Company undertakes, it only had a technical trading income of MK1.8 billion even though this was better than the budgeted MK1.6 billion. income improvements were only a result on account increased haulage due to the difficulties experienced in the sector by private traders. NOCMA collected and received a SFR Levy of MK4.2 billion against a budget of MK6.3 billion. Profit before depreciation, tax, and dividend was MK6.5 billion against MK8.4 billion, representing a 23% negative variance. This variance primarily resulted from a reduction in income due to the non-receipt of the SFR Levy. This outturn placed the Company in category one for all its profitability ratio for FY23/24, having had losses in FY21/22 and FY22/23 which saw Operating profit margins of -0.16 and -0.01 respectively. Net profit margin only naturally followed this trend with -0.07 and -0.01 realized those financial years.
Indebtedness/Solvency	Debt to assets recorded during FY21/22 was 0.71, in FY22/23 it was 0.92, and in FY23/24 it was recorded as 0.94 implying that the slight increase in the proportion of assets is being financed by debt. Debt to equity showed a higher level of financial leverage as it increased from 2.48 for FY21/22 to 11.03 for FY22/23 and ultimately to 15.94 indicating that there isn't enough equity in the Company to fund operations. Debt to EBITDA increased significantly from -16.71 in 2022 to 148.06 in 2024, suggesting that the company's debt burden has increased. Debt coverage for FY22/23

Area of analysis	Assessment of key trends
	was -0.01and increased to 0.04 for FY23/24, indicating that the Company's cash flow had marginally increased but remain largely insufficient to cover its debt obligations. NOCMA remains technically insolvent. For example, it has been having high levels of debt compared to its equity. The debt to equity has been averaging 8.50 over a period of time. 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 remains uninspiring and an indication that the SOE has no capacity to cover its interest on debt. Unsustainable debt to equity financing has placed the Company in great financial peril this has been caused by NOCMA's primary assets (SFR) being funded by debt. Furthermore, there has existed an inability to build up reserves from retained earnings increasing the risk of debt default.
Liquidity	Current ratio for FY21/22 was 1.02 and dipped slightly in FY22/23 to 1.00 before marginally rebounding to 1.01 in FY23/24. This transpiration shows that the company could barely meet its short-term obligations as they fall due. This outturn is further highlighted by the quick ratio, which has worsened from 2021 when it was recorded as 1.23 (mirroring the current ratio of that financial year). Subsequent years have it drop to 0.27 in 2022 before rebounding to 0.91 (2023: 0.69). Debtor turnover days reduced from 121.7 days recorded in FY19/20 to 36.2 days in FY20/21 meaning that the company was collecting payments from customers faster. However, after that financial year, the ratio shot back up to reach 155.1 days (2023: 120.5) indicating that the Company is struggling to collect what owed to it by its debtors. Creditor turnover days also show a similar trend only that the Company is taking long to pay its suppliers. For instance, the ratio was recorded as 70.4 days in 2021 after reaching 155.8 day the previous year. The ratio peaked in FY21/22 when it reached and astronomical 771.4 days before dropping to 187.6 and then picking back up in 2024 to settle at 231.9. this is a worrying trend considering the strategic nature of NOCMA's operations. Paradoxically, NOCMA's declining liquidity levels have reduced its capacity to maintain same level of imports.
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. The government has not helped NOCMA in its fight with MERA over SFR levy remittances which continues to impact the Company negatively.

SOE Risk Ratings

	2020	2021	2022	2023	2024
Profitability					
Operating Profit Margin	0.01	0.01	-0.16	-0.01	0.00
Net Profit Margin	0.01	0.01	-0.07	-0.01	0.00
Return on Assets	0.02	0.02	-0.02	-0.01	0.01
Return on Equity	0.29	0.06	-0.08	-0.17	0.09
Cost Recovery	1.01	1.01	0.88	0.99	1.00
Liquidity					
Current Ratio	1.07	1.23	1.02	1.00	1.01
Quick Ratio	1.04	1.23	0.27	0.69	0.91
Debtor Turnover Days	121.7	36.2	92.8	120.5	155.1
Creditor Turnover Days	155.8	70.4	771.4	187.6	231.9
Solvency					
Debt to Assets	0.91	0.69	0.71	0.92	0.94
Debt to Equity	10.52	2.20	2.48	11.03	15.94
Debt to EBITDA	30.15	21.54	-16.71	-251.66	148.06
Interest Coverage	95.11	46.00	-267.06	-3.19	-39.13
Cash Interest Coverage	114.83	78.02	-216.12	-0.81	123.41
Debt Coverage				-0.01	0.04
Government Relationship					
Government Transfers to Total Revenue	0.00	0.00	0.00	0.00	0.00
50% Test	0.99	0.99	1.22	1.02	1.01
Z-Score	0.79	1.83	0.22	-0.03	0.11

	2020	2021	2022	2023	2024
Profitability					
Return on Assets	Category 1	Category 1	Category 5	Category 5	Category 1
Return on Equity	Category 1	Category 1	Category 5	Category 5	Category 1
Cost Recovery	Category 1	Category 1	Category 1	Category 1	Category 1
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 5	Category 5	Category 5	Category 5	Category 5
Solvency					
Debt to Assets	Category 5	Category 5	Category 5	Category 5	Category 5
Debt to Equity	Category 5	Category 5	Category 5	Category 5	Category 5
Debt to EBITDA	Category 5	Category 5	Category 5	Category 5	Category 5
Interest Coverage	Category 1	Category 1	Category 5	Category 5	Category 5
Cash Interest Coverage	Category 1	Category 1	Category 5	Category 5	Category 1
Debt Coverage				Category 5	Category 1
Government Relationship					
Government Transfers to Total Revenue	Category 5	Category 5	Category 5	Category 5	Category 5
50% Test	Category 5	Category 5	Category 5	Category 5	Category 5
Overall Risk Rating					
Weighted Average*	Category 3	Category 3	Category 4	Category 4	Category 3
Z-Score	Category 4	Category 3	Category 4	Category 4	Category 4

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
Current Assets: **(i) Outstanding trade receivables** Unsecured credit extension, implemented as a promotional measure for local entrepreneurs, has resulted in financial losses due to revenue impairment.	**Expenditures and capital investment:** **(i) Outstanding trade receivables** NOCMA should aim at strengthening credit management through policy revision.

Source of Risk	Mitigation/policy measure
The macroeconomic fundamentals have impaired most local businesses' ability to service their debt obligation and NOCMA has not been spared in its sector. **Revenues:** **(i) Uncompetitive revenues** Trading income (including importers' margin and other income) is lower than operating and administrative expenses. NOCMA's import capacity in terms of quantity decreased, resulting in a failure to import the required fuel volumes. This is because the importer margin was unable to cover import costs, as well as inflationary adjustments to operating and administrative expenses. **(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 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. The scenario is leading to SFR Levy being lower than matching SFR operational and administrative expenses. As such, NOCMA continues to not be able to comply with industry safety and operational standards.	**Revenues** **(i) Uncompetitive revenues** MERA and the Ministry of Energy should be engaged to solve the issue of remittances of MERA levies in order to support the Company's effort to become profitable. **(ii) The non-implementation of the Strategic Fuel Levy in the fuel price build-up.** The Ministry of Energy and MERA should collaborate to address the issue of remittances of MERA levies, which are crucial for supporting the Company's efforts to achieve profitability. Upon failure of engagement, NOCMA should escalate the matter to OPC and Ministry of Finance and Economic Affairs for last result interventions.

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: **(i) Non-recovery of In-bond Landed Costs (IBLC).**	**(i) Non-recovery of In-bond Landed Costs (IBLC).**

Source of Risk	Mitigation/policy measure
A depreciation of the Malawi Kwacha (MK1,751/US$ in March) while products were already supplied and unpaid resulted in a purchase at an exchange rate of approximately MK1,180/US$. The actual cost of letters of credit, including establishment and confirmation, ranged from 1.0% to 1.8% of the value. Fluctuating Platts-driven FOB pricing further impacted the situation. This combination led to a reduction in fuel import capacity, posing a threat to supply security. Declining liquidity levels further constrained NOCMA's ability to maintain the same level of imports. Remittance arrears of MK432 billion and levies worth MK131 billion added to the challenges. Despite the heavy requirement for cash cover collateral for Letters of Credit, NOCMA invested an average of 70% of cash and cash equivalents. Consequently, a substantial amount of net interest was realized. **(ii) Build-up of FOREX liabilities** Malawi's persistent foreign exchange challenges persisted throughout the reporting period. The scarcity of foreign exchange and credit offered by suppliers significantly hindered the Company's ability to fulfil its obligations. The depreciation of the Malawi Kwacha resulted in forex losses and exacerbated the levels of unrecovered IBLCs. **(iii) Demand for PPDA Levy to be paid** NOCMA does not have financing for PPDA levy because it is not provided for in the current build up, resulting in a payment default. **Debt Repayment and Further Arrears:** **(i) Debt servicing** Given the SOE's financial performance, it may not be able to meet both its short-term and long-term obligations. The Long-Term Component of SFR Loan amounted to a substantial amount. Interest cover ratios further support this assertion. The provision for bad debt further indicates that NOCMA was owed MK828.77 billion at the end of FY23/24, with EcoSave Fuels having the largest outstanding balance	NOCMA to continue lobbying MERA to adjust IBLC to match with actual costs. This would greatly improve the Company's liquidity position to then improve its carrying capacity to hedge against shocks associated with fuel supply. **(ii) Build-up of FOREX liabilities** Unfortunately, NOCMA has to continue engaging RBM and the Ministry of Finance and Economic Affairs to secure preferential treatment on the availability of FOREX. Furthermore, NOCMA should engage with local banks in order to increase the capacity of its credit accounts as well as engaging with its international partners to negotiate sustainable fuel arrangements. **(iii) Demand for PPDA Levy to be paid** The National Oil Marketing Corporation of Malaysia (NOCMA) should actively engage with the Ministry of Finance and Economic Affairs to explore the possibility of either removing the Petroleum Product Distribution Agreement (PPDA) levy on fuel or establishing the PPDA levy on the fuel price build-up structure. This approach would serve as a proactive measure to prevent future defaults in the fuel industry. **Debt Repayment and Further Arrears:** **(i) Debt servicing** Debt servicing should be prioritized to mitigate the potential exposure the Company may face. NOCMA should initiate contact with relevant debtors to reduce the provision for bad debt, thereby enabling the Company to service its outstanding debt and enhance its solvency ratios.

Source of Risk	Mitigation/policy measure
(MK328.14 billion). This provision along with other operating structure indicate that debt service is a big problem for NOCMA	

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 2023) composed of 390.15MW hydro and 51.4MW of thermal diesel generators.

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

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

4.5.2. Summary of financial performance

Area of analysis	Assessment of key trends
Profitability	EGENCO posted a Net Profit of **MK6.9 billion** in FY23/24, representing 428.57% year on year increase from a loss of MK2.1 billion realized in FY22/23. Operating profit margin was MK5.18 billion, 24 percent higher than the budgeted amount of MK4.19 billion for FY23/24. In terms of the ratio of operating profit margin, it decreased from 0.40 in FY21/22 to 0.16 in FY22/23 before dropping yet again to reach 0.15 in FY23/24, implying that the Company is facing profit making challenges from its core business activities. Net profit margin decreased as well from 0.27 in 2022 to -0.08 in 2023 before rebounding to 0.10, suggesting that after 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 0.15 in FY21/22 to -0.02 in FY22/23 before slightly improving to 0.02 in FY23/24. Return on equity for FY21/22 was 0.10 and decreased to -0.04 for FY22/23. Before picking up to 0.04. This indicates less profit for every shareholder's investment for the years under review.
Indebtedness/Solvency	EGENCO's interest-bearing debt during the period under review amounted to MK6.87 billion on account of Kapichira II Concession. Payables for FY23/24 were MK5.81 billion indicating that EGENCO owed its suppliers a hefty amount. The solvency ratio depicts that Debt to Assets ratio began worsening from 2022 when it dropped t0.37 from 40 recorded in the previous financial year. For the subsequent years, the ratio began picking back up to reach 0.49 in FY23/24 after passing 0.41 in

Area of analysis	Assessment of key trends
	FY22/23 Debt to Assets of 0.49 indicates that the company may not necessarily be heavily leveraged. Debt to equity also followed the same trend from 0.59 in FY21/22 to reach 0.95 in FY23/24 having reached 0.70 in FY22/23. Debt to Equity of 0.95 is indicative of equity presence in the company's capital structure even though it is shrinking drastically and at the same time exposing that there isn't nearly enough equity to finance the Company's expenses. Debt to EBITDA worsened at a quicker rate from 3.15 in FY21/22 to reach 8.39 in FY23/24 (2023: 5.96)
Liquidity	Current ratio decreased from 5.22 for FY21/22 to 4.36 for FY22/23 before rebounding slightly to 4.56 in FY23/24, however the corporation was somehow still able to meet its short-term obligations as they fall due despite the declining current ratio. The quick ratio follows a similar trend for FY21/22 (4.58) to reach 3.76 in FY23/24 after reaching 3.61 in FY22/23. Debtor turnover days decreased from 238.1 in FY21/22 to 210.1 for FY22/23 implying that the company was collecting money from its customers but still taking long. The ratio began to pick up again in FY23/24 to reach 214.3 days. Creditor turnover days also decreased from 89.4 days in FY21/22 to 45.3 days in FY22/23 before dropping further to reaching 37.9 days in FY23/24, meaning that the company was paying its suppliers faster.
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.

	2020	2021	2022	2023	2024
Profitability					
Operating Profit Margin	0.28	0.34	0.40	0.16	0.15
Net Profit Margin	0.19	0.26	0.27	-0.08	0.10
Return on Assets	0.06	0.15	0.07	-0.02	0.02
Return on Equity	0.08	0.25	0.10	-0.04	0.04
Cost Recovery	1.39	1.50	1.53	1.18	1.17
Liquidity					
Current Ratio	1.99	1.58	5.22	4.36	4.56
Quick Ratio	1.78	1.46	4.58	3.61	3.76
Debtor Turnover Days	194.8	217.7	238.1	210.1	214.3
Creditor Turnover Days	266.9	122.3	89.4	45.3	37.9
Solvency					
Debt to Assets	0.21	0.40	0.37	0.41	0.49
Debt to Equity	0.27	0.66	0.59	0.70	0.95
Debt to EBITDA	1.83	1.80	3.15	5.96	8.39
Interest Coverage	336.39	176.14	33.07	8.96	11.85
Cash Interest Coverage	422.48	197.81	40.43	14.67	19.21
Debt Coverage		3.00	4.50	3.89	
Government Relationship					
Government Transfers to Total Revenue	0.00	0.00	0.00	0.00	0.00
50% Test	0.73	0.70	0.67	0.88	0.88
Z-Score	6.02	4.62	4.05	3.26	2.78

	2020	2021	2022	2023	2024
Profitability					
Return on Assets	Category 2	Category 1	Category 2	Category 4	Category 3
Return on Equity	Category 3	Category 1	Category 2	Category 3	Category 3
Cost Recovery	Category 2	Category 2	Category 1	Category 3	Category 3
Liquidity					
Current Ratio	Category 2	Category 2	Category 1	Category 1	Category 1
Quick Ratio	Category 1	Category 1	Category 1	Category 1	Category 1
Debtor Turnover Days	Category 5	Category 5	Category 5	Category 5	Category 5
Creditor Turnover Days	Category 5	Category 5	Category 3	Category 2	Category 2
Solvency					
Debt to Assets	Category 1	Category 2	Category 2	Category 2	Category 2
Debt to Equity	Category 1	Category 2	Category 2	Category 2	Category 2
Debt to EBITDA	Category 2	Category 2	Category 4	Category 5	Category 5
Interest Coverage	Category 1	Category 1	Category 1	Category 1	Category 1
Cash Interest Coverage	Category 1	Category 1	Category 1	Category 1	Category 1
Debt Coverage		Category 1	Category 1	Category 1	
Government Relationship					
Government Transfers to Total Revenue	Category 1	Category 1	Category 1	Category 1	Category 1
50% Test	Category 5	Category 5	Category 5	Category 5	Category 5
Overall Risk Rating					
Weighted Average*	Category 2	Category 2	Category 2	Category 2	Category 2
Z-Score	Category 2	Category 2	Category 2	Category 2	Category 2

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

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) 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) 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 cost reflectively 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. **(i) Depreciation** Assets continue to depreciate at an alarming rate at MK11.06 billion in FY23/24 compared to MK9.20 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 even maintenance costs increased from MK12.21 billion to MK20.63 billion for FY23/24 because most of these sunk costs were of the account of the cyclone damaged Kapichira hydro station.	**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. **(ii) Depreciation** Maintain assets at the same rate as they depreciate or upgrade the assets portfolio to reduce the rate of future depreciation.

Liquidity. Likelihood of occurrence (Medium).

Source of Risk	Mitigation/policy measure
Current liabilities: **(i) Foreign exchange Losses** The November 2023 currency realignment resulted in an exchange loss of MK1.01 billion. This exchange loss was on account of foreign denominated liabilities that EGENCO holds and is susceptible to further exchange losses due to the length of the terms for the liabilities. **(ii) Currency Realignment Shock** On 9 November 2023, the Malawi Energy Regulatory Authority adjusted upward the price of Petrol and Diesel by 44% and 42.4% respectively as a result of the currency realignment, increasing the cost of fuel used to operate the thermal diesel generators thus increasing operating costs for EGENCO to generate electricity.	**Current liabilities**: **(i) Foreign exchange Losses** EGENCO should make provisions for potential exchange losses by engaging the Ministry of Finance and Economic Affairs to advise on potential currency hedging schemes to reduce the potential risk of negative currency shifts of the Malawi Kwacha against the US$. **(ii) Currency Realignment** EGENCO should resist the urge to rely heavily on its fossil fuel reliant generators. An investment in other renewable energy sources as well battery storage that takes advantage of off-peak supply and demand dynamics should be prioritized to reduce the

Source of Risk	Mitigation/policy measure
	potential risk from fuel shocks to the Company’s operating costs.

5. ANNEXES

ANNEX 1: LIST OF SOEs IN MALAWI (2024)

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 (2024)

Function	Name	Profit/loss (Mill	Gross Profit	Operating Profit	Return on Assets	Return on Equity	Dividend Payout	Asset Turnover	Cost Recovery	Current Ratio	Quick Ratio	Accounts	Accounts Payables	Debt to Assets	Debt to Equity	Interest Coverage	Government Transfers
Regulatory	MAB	133,035	75%	56%	20%	21%	-	0.84	5.06	11.82	11.75	110.77	73.78	0.05	0.05	#DIV/0!	-
Regulatory	MACRA	12,768,716	100%	40%	27%	85%	72.1	0.68	1.67	1.52	1.48	287.99	#DIV/0!	0.68	2.11	#DIV/0!	-
Regulatory	MBS	4,456,921	100%	66%	15%	18%	90.0	0.61	2.95	1.80	1.73	74.80	#DIV/0!	0.18	0.21	#DIV/0!	-
Regulatory	MERA	2,122,830	100%	25%	1%	12%	94.2	0.05	1.34	1.03	1.03	6622.72	#DIV/0!	0.93	13.28	#DIV/0!	-
Regulatory	MGB	398,740	100%	50%	4%	4%	1,126.2	0.73	2.01	7.46	7.45	111.53	#DIV/0!	0.11	0.12	#DIV/0!	-
Regulatory	NCIC	1,747,576	100%	31%	38%	42%	22.9	1.22	1.46	6.26	6.08	14.26	#DIV/0!	0.09	0.10	#DIV/0!	-
Regulatory	PMRA	1,142,770	100%	27%	16%	21%	5.7	0.60	1.37	1.08	1.07	27.30	#DIV/0!	0.47	0.61	#DIV/0!	-
Regulatory	TC	1,030,527	100%	13%	13%	30%	4.9	0.64	1.15	0.78	0.73	86.60	#DIV/0!	0.58	1.37	1,423.93	-
Regulatory	TEVETA	12,925,036	100%	56%	43%	53%	-	0.88	2.27	4.29	4.29	277.69	#DIV/0!	0.19	0.23	#DIV/0!	-
Regulatory	UHL	1,866,688	64%	28%	5%	9%	-	0.37	2.78	0.81	0.61	77.37	317.18	0.40	0.66	10.89	-
Service Provision	MBC	(1,280,500)	100%	-19%	-13%	-5346%	#DIV/0!	0.72	0.84	0.48	0.31	217.71	#DIV/0!	1.00	396.77	(47,425.93)	-
Service Provision	MCA	244,244	100%	2%	7%	8%	-	0.98	1.02	1.41	1.41	97.85	#DIV/0!	0.16	0.20	#DIV/0!	-
Service Provision	NEEF	814,228	100%	17%	1%	2%	-	0.29	-2.13	10.77	10.54	1599.78	#DIV/0!	0.21	0.27	3.33	-
Service Provision	NFRA	2,085,876	100%	42%	8%	10%	-	0.21	0.76	11.09	1.55	72.02	#DIV/0!	0.19	0.23	#DIV/0!	0.56
Trading	ACM	296,074	48%	-5%	9%	26%	10.1	2.15	1.91	1.30	0.75	51.78	14.78	0.65	1.85	(12.70)	-
Trading	ADL	13,337,863	96%	75%	14%	15%	0.5	0.19	4.67	0.69	0.57	89.12	1134.29	0.04	0.05	41.97	-
Trading	ADMARC	(5,706,394)	62%	-22%	-6%	-16%	#DIV/0!	0.21	1.09	0.54	0.45	320.50	1346.49	0.64	1.79	(0.49)	0.09
Trading	BWB	(37,782,199)	40%	-104%	-40%	#VALUE!	#DIV/0!	0.32	-0.13	0.44	0.52	124.98	428.82	1.32	-4.11	(68.75)	-
Trading	CRWB	1,564,018	52%	-30%	3%	-58%	-	0.24	1.23	1.00	0.96	228.03	167.49	1.06	-17.80	(4.71)	-
Trading	EGENCO	2,253,686	7%	-85%	1%	1%	-	0.22	1.08	3.72	1.68	71.78	0.00	0.45	0.83	#DIV/0!	-
Trading	ESCOM	(65,257,609)	48%	-47%	-14%	#VALUE!	#DIV/0!	0.45	0.48	1.27	0.94	99.86	84.57	1.08	-14.01	18.02	0.54
Trading	LIHACO	634,720	66%	17%	13%	22%	-	1.38	2.03	1.55	1.55	89.19	188.87	0.42	0.72	7.75	0%
Trading	LWB	9,485,104	51%	2%	3%	13%	2.1	0.14	2.05	6.34	5.81	124.77	140.79	0.74	2.84	0.19	-
Trading	MHC	14,238,578	100%	72%	9%	10%	-	0.14	3.52	0.35	0.12	52.86	#DIV/0!	0.05	0.06	10.10	-
Trading	MPC	1,370,660	22%	-57%	6%	15%	-	0.37	0.83	0.60	0.54	291.94	634.04	0.61	1.57	(22.33)	0.35
Trading	NRWB	(10,249,862)	100%	44%	-8%	#VALUE!	#DIV/0!	0.09	1.22	0.27	0.22	76.57	#DIV/0!	1.19	-6.32	(0.80)	-
Trading	SRWB	(417,415)	71%	41%	-1%	-2%	#DIV/0!	0.30	3.21	1.19	0.88	154.55	593.96	0.67	2.05	2.94	0.05
Trading	SFFRFM	6,261,875	-63%	-63%	14%	26%	-	0.53	#DIV/0!	1.75	1.74	298.35	84.79	0.45	0.83	#DIV/0!	-

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
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	15	Dividend Payout Ratio	Measures the proportion of the company profits that flows back to the government in the form of Dividends. These are benchmarked against the statutory limits	Divident payout ratio = Dividends paid/Operating profit after tax X 100%	< Statutory Threshold = Red