



GOVERNMENT OF MALAWI

**2017/18 CONSOLIDATED REPORT FOR STATE
OWNED ENTERPRISES IN MALAWI**

**MINISTRY OF FINANCE, ECONOMIC PLANNING AND DEVELOPMENT
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MARCH 2020

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EXECUTIVE SUMMARY

This consolidated State Owned Enterprises (SOE) report focuses on the aggregate financial performance and non-financial performance of the twenty eight Commercial SOEs. The report also narrows down to the individual commercial SOE performance based on the audited accounts for 2017/18 financial year.

Overall, the aggregate financial performance of the SOEs indicates that profitability was volatile in the period between 2015/16 to 2017/18 financial years. Looking at the SOEs at sector level, the agriculture, water and energy sector generally dominates the SOE sector with their assets constituting about 78 percent of total assets, 93 percent of total liabilities and 85 percent of the total revenues. Given their size and diversity across all sectors in the economy, these require special attention from a fiscal risk perspective.

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

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

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

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

LIST OF ACRONYMS

Agricultural Development and Marketing Corporation	ADMARC
Agricultural Labour Practices.....	ALP
Air Cargo Malawi Limited	ACM
Airport Development Ltd	ADL
Auditor General	AG
Blantyre Water Board	BWB
Central Region Water Board	CRWB
Copyright Society of Malawi	COSOMA
Debt Service Ratio	DSR
Electricity Generation Company Malawi Limited	EGENCO
Electricity Supply Commission of Malawi Ltd	ESCOM
Framework Convention on Tobacco Control.....	FCTC
Good Agriculture Practice.....	GAP
Gross Domestic Product.....	GDP
Independent power producers	IPPs
Integrated Strategic Business Plan	ISBP
International Monetary Fund	IMF
Lilongwe Handling Company Limited	LIHACO
Lilongwe Water Board	LWB
Malawi Accountants Board	MAB
Malawi Broadcasting Corporation	MBC
Malawi Bureau of Standards	MBS
Malawi College of Accountancy	MCA
Malawi Communications Regulatory Authority	MACRA
Malawi Drought Recovery and Resilience Project.....	MDRRP
Malawi Energy Regulatory Authority.....	MERA
Malawi Enterprises Development Fund	MEDF
Malawi Housing Corporation	MHC
Malawi Institute of Management	MIM
Malawi Posts Corporation	MPC
Malawi Revenue Authority	MRA
Malawi Telekon Limited.....	MTL
Metric Tons.....	MT
Millennium Challenge Corporation	MCC
Ministry Department Agency.....	MDAs
Ministry of Finance, Economic Planning and Development	MoFEPD
National Bank of Malawi	NBM
National Construction Industrial Council	NCIC
National Food Reserve Agency	NFRA
National Lotteries Board /Malawi Gaming Board.....	NLB/ MGB
National Oil Company of Malawi	NOCMA
Northern Region Water Board	NRWB
Oil Marketing Companies	OMCs
Pharmacy, Medicines and Poisons Board	PMPB
Power Purchase Agreements	PPAs
Public Service Obligations	PSOs
Quasi Fiscal Activities.....	QFAs
Resettlement Action Plan.....	RAP
Return on Assets	ROA
Return on Equity.....	ROE
Revenue Sharing Agreement	RSA
Southern Africa Power Pool	SAPP
Southern Region Water Board	SRWB

1. INTRODUCTION

1.1 IMPORTANCE OF SOE OVERSIGHT

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

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

1.2 PURPOSE AND METHODOLOGY

This report highlights potential areas of financial stress facing SOEs in Malawi. It serves to flag potential fiscal risks to management in the Ministry of Finance, Economic Planning and Development (MoFEPD) to take adequate corrective measures to mitigate these risks in conjunction with the Boards of the SOEs.

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

In compiling this report, the Ministry used both secondary data as well as validating the same through engaging the management of the 28 Commercial SOEs. Data was obtained from audited financial statements, Performance Management plans and Budgets, Annual Economic reports and SOE Annual Reports. The data was analysed using excel based tool developed by the Ministry through technical assistance from the International Monetary Fund (IMF).

1.3 STRUCTURE OF THE REPORT

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

Section 3 provides analysis for each of the SOEs using three broad features of financial oversight based on different thresholds of 15 selected financial performance indicators¹. A summary assessment of each SOE contains four sections:

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

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

- (i) Overview of financial performance
- (ii) Overview of non-financial performance

¹ These are listed and defined in Annex 1.

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

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

Section		Sub-section	Analysis	Importance
1	Introduction	1.1 Importance of SOE oversight	Overview	Outlines the importance of 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 Profitability 2.2.2 Cost recovery 2.2.3 Return on Assets (ROA) 2.2.4 Return on Equity (ROE)	Profitability is important for SOEs to be able to service their debt, provide funds for capital expenditure and provide sufficient returns to the budget through dividends.
		2.3 SOE Debt	2.3.1 Size and composition of SOE Debt 2.3.2 Debt to Equity 2.3.3 Debt Service Coverage	All SOE debt is an explicit or implicit contingent liability of the government. Knowing the total amount of SOE debt and the capacity of SOEs to service it is crucial for assessing fiscal risk
		2.4 Fiscal Flows between SOEs and budget	2.4.1 Government Transfers to SOEs 2.4.2 Taxes and Dividend Payments remitted by Commercial Entities	High SOE dependence on budget funding compromises the government's fiscal position. If Public Service Obligations (PSOs) are not sufficiently compensated for this can worsen financial performance. Commercial SOEs should provide an adequate return to the Budget. Revenue is foregone by exemptions from payment of income tax and dividends
		2.5 Arrears between SOEs and with government	2.5.1 Government arrears to SOEs 2.5.2 Intra-Arrears between the SOEs	Government arrears to SOEs; intra-arrears between the SOEs; and implications these have on their operations
		2.6 Cross-cutting issues	2.6.1 Tariff and pricing policies 2.6.2 Fiscal flows and Arrears	This section outlines the main categories for cross-cutting issues, including

Section		Sub-section	Analysis	Importance
			(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	<ul style="list-style-type: none"> • 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 EGENCO ESCOM NOCMA	1.1 ADMARC 1.2 BWB 1.3 EGENCO 1.4 ESCOM 1.5 NOCMA	Trend and forward-looking analysis for the five (5) high risk SOEs.
Annex 1	Financial indicators for Statutory body oversight	15 indicators include: 1) profit after tax; 2) Return on Assets; 3) Return on total equity; 4) Cost recovery; 5) Gross profit margin; 6) Operating Profit margin; 7) Asset turnover; 8) Debt to equity; 9) Current ration; 10) Quick ratio; 11) Accounts receivable days; 12) Debt servicing ratio; 13) Accounts payable days; 14) Government transfers as a proportion of total revenue; 15) Dividend Payout Rate.		Heat map used to monitor the financial performance of the SOE sector.
Annex 2	Indicators, Calculations and thresholds	15 Indicators, Calculations and thresholds for monitoring SOE Financial Performance		

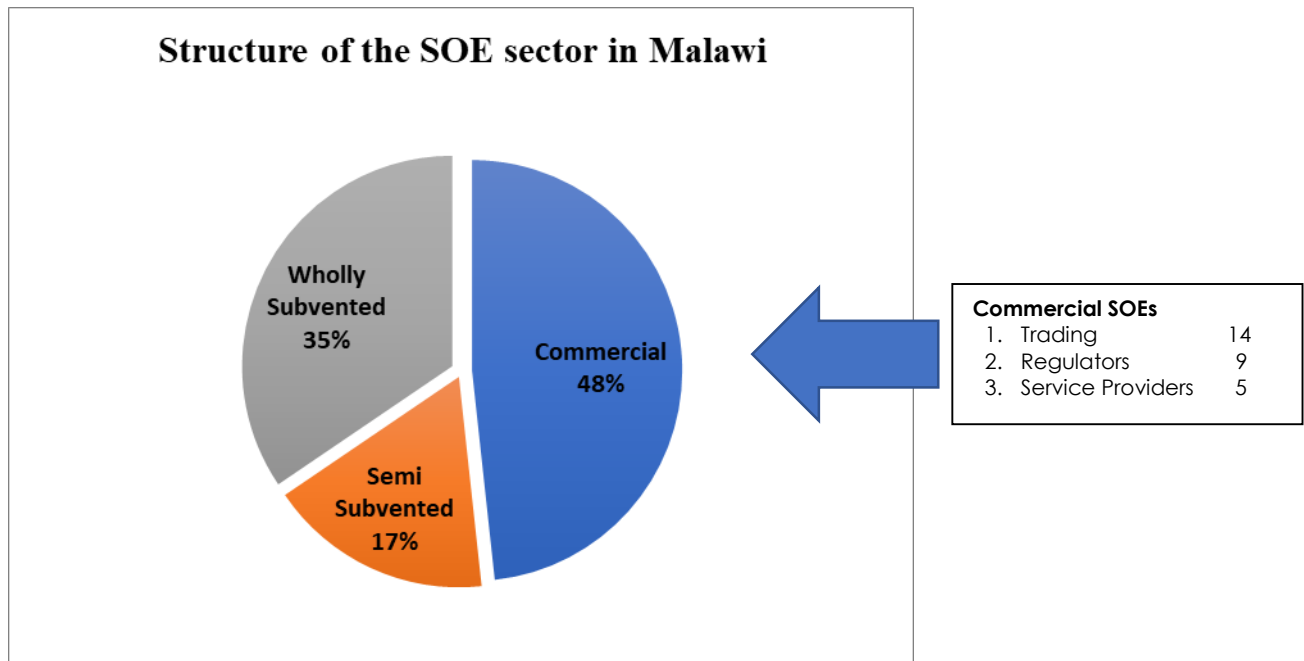
2 AGGREGATE ANALYSIS

2.1 OVERVIEW OF THE STATE-OWNED ENTERPRISES SECTOR IN MALAWI

SOEs in Malawi play a significant role in the economy. In accordance with the 2003 Public Finance Management Act, a State Owned Enterprise (SOE), is defined within the broad spectrum of a statutory body as a corporate or unincorporated body that has been set up as a specific entity to provide a specific good and/or service². This includes any corporation or subsidiary of a corporation where Government directly or indirectly; controls the composition of any board of directors, controls more than fifty per cent of the voting power of the body or holds more than 50% of any of the issued share capital of the body either directly or through another agency or statutory body. SOEs are a channel that government uses to address its strategic economic and social objectives and/or its commercial objectives.

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

Figure 1: Structure of the SOE sector in Malawi



Source: 2018 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 8.4 percent of GDP for FY 2017/18, Gross liabilities of the sector for the same FY account for 9.7 percent of GDP and these are concentrated in the agriculture, energy, and water sector (Table 2).

² According to OECD (2005) and IMF GFS (2014), SOEs are defined as government owned or government-controlled entities whose assets are held in corporate form and which generate the bulk of revenues from the sale of goods and services.

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

K' Millions					
	2016 Audited	2017 Audited	2018 Audited	FY 18-19 Rev	FY19-20 Budget
Total assets	567,348	635,263	898,872	919,072	86,253
Total Liabilities	250,489	303,297	502,089	431,755	51,995
Total Revenue	244,704	239,617	433,133	486,743	22,020
PAT/ Surplus	22,781.57	7,598.11	45,215	51,871	42,862
As a % of GDP					
	2016 Audited	2017 Audited	2018 Audited	FY 18-19 Revised	FY19-20 Budget
Total assets	14.6%	12.7%	17.4%	15.5%	1.4%
Total Liabilities	6.4%	6.1%	9.7%	7.3%	0.8%
Total Revenue	6.3%	4.8%	8.4%	8.2%	0.3%
PAT/ Surplus	0.6%	0.2%	0.9%	0.9%	0.7%

Source: 2018 Audited Financial Statements.

The agriculture, water and energy sectors dominate the SOE sector (Table 3). These sectors account for 78 percent of total assets, 93 percent of total liabilities and 85 percent of the total revenues. Given their size and diversity across all sectors of the economy, these require special attention from a fiscal risk perspective.

Table 3: SOE Assets, Liabilities and Revenues for 2017/18 FY (By sector and category)
(MK' Millions and as a Percent of total)

Sector	Total assets	% of Total	Total Liabilities	% of Total	Total Revenue	% of Total
Agriculture	142,801	16%	66,703	13%	71,660	17%
Communication	33,823	4%	20,368	4%	26,954	6%
Education	2,589	0%	482	0%	1,555	0%
Energy	379,722	42%	276,360	55%	246,687	57%
Financial	4,556	1%	739	0%	3,835	1%
Governance	2,461	0%	1,724	0%	1,108	0%
Health	2,251	0%	1,314	0%	1,314	0%
Labour	6,855	1%	1,675	0%	8,242	2%
Lands and Housing	93,456	10%	4,787	1%	3,348	1%
Trade and Tourism	10,599	1%	1,424	0%	5,436	1%
Transport and Public Works	40,398	4%	3,134	1%	11,476	3%
Water	179,361	20%	123,380	25%	51,518	12%
Grand Total	898,872	100%	502,089	100%	433,133	100%

Category	Total assets	% of Total	Total Liabilities	% of Total	Total Revenue	% of Total
Regulatory	92,507	10%	52,275	10%	44,863	10%
Service Provision	36,239	4%	17,472	3%	19,430	4%
Trading	770,126	86%	432,342	86%	368,841	85%
Grand Total	898,872	100%	502,089	100%	433,133	100%

Source: 2018 Audited Financial Statements.

2.2 SOE FINANCIAL PERFORMANCE

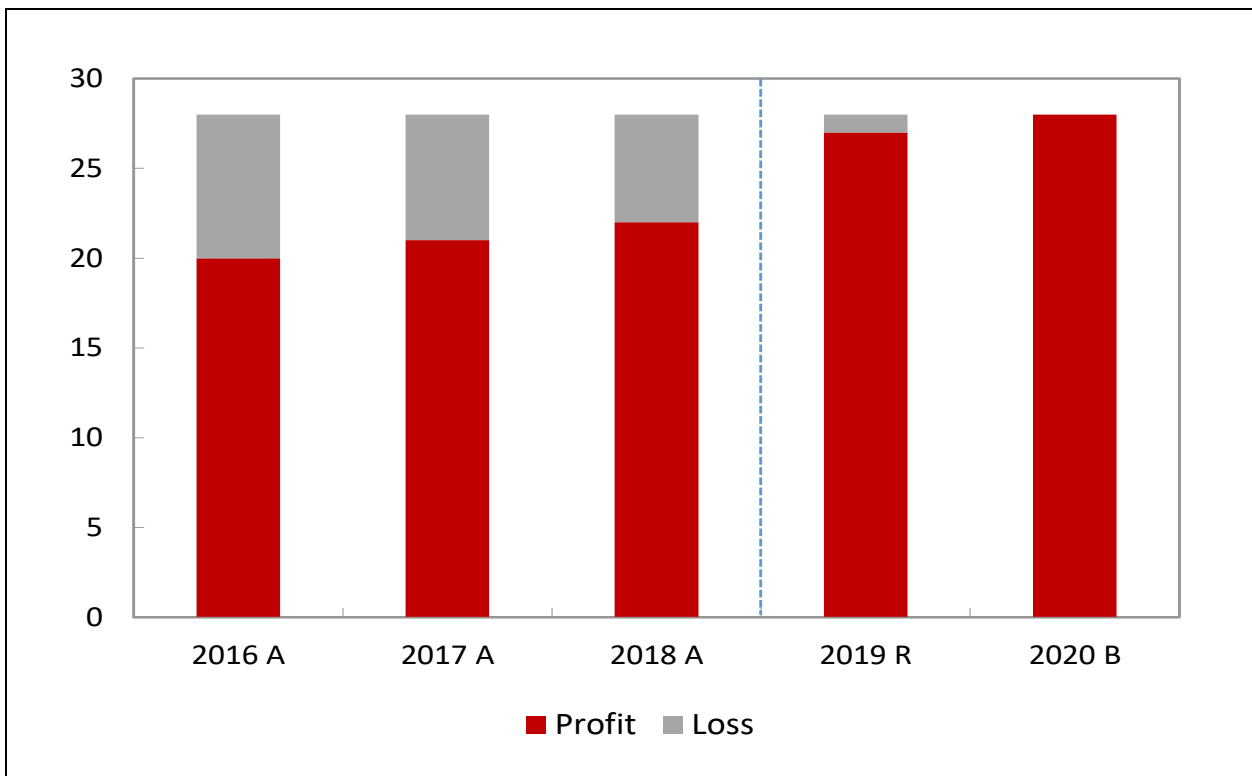
2.2.1 Profitability

The Dividend and Surplus Policy for Statutory Bodies in Malawi (2020) is very clear regarding financial performance. It requires commercially oriented SOEs to strive to be efficient and effective as they are required to operate on a private sector model to ensure their long-term financial sustainability. However, also takes cognizance of the fact that most of these SOEs also provide social services while fulfilling their commercial objectives. The social services aspect in a way subdues the level of profitability. However, strides are being pursued to have cost reflective tariffs while being mindful of the social obligation requirement.

SOEs undertaking commercial functions depict an extreme swing from low profitability to high profitability (Figure 2) with a number of SOEs making losses in 2018 despite them being market oriented entities (Table 3). While other companies improved, others deteriorated. However, the number of loss making entities have stayed relatively constant from 2016 to 2018 (audited, averaging around 6 in the three audited years) with Agriculture being the major loss-making sector. Between seven and eight entities (25 percent) have made losses in each financial year with losses in the Agriculture sector in 2017 accounting for almost K23 billion largely driven by ADMARC, followed by the Water Sector which accounted for almost K5 billion largely driven by Blantyre Water Board (BWB), the two institutions together accounted for over 90% of losses in 2017. However, in 2018 the Energy sector registered the largest losses accounting for almost K14 billion largely on account of ESCOM and NOCMA, this was followed by losses in the Water Sector mainly arising from Blantyre water Board (Table 3)

Outlook to June seems to point to a significant improvement with 2019/20 estimating most SOEs registering profits/surpluses. While for subvented entities, the target remains to ensure that none registers a deficit to avoid overcommitting Government.

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



Source: 2018 Audited Financial Statements.

In the two consecutive years of 2017 and 2018, the Agriculture and Energy sectors illustrate the biggest swings between registering profitability and losses (Table 3).

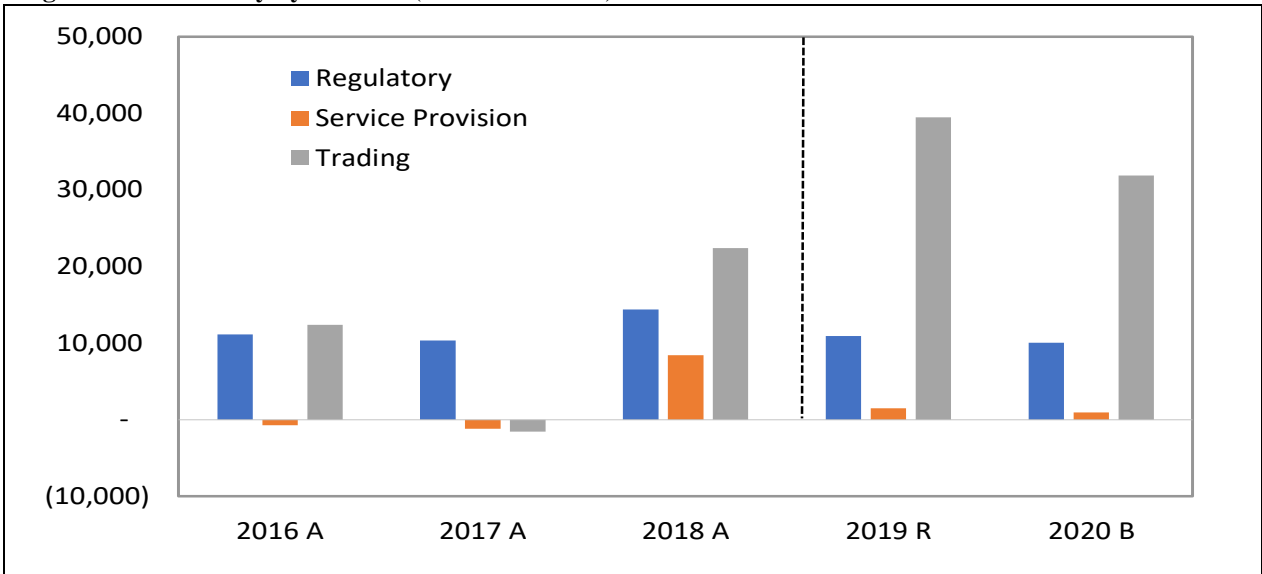
Table 3 Profit and loss 2018 (By entity) (MK' Thousands)

	2016 Audited	2017 Audited	2018 Audited	FY18-19 Revised	FY19-20 Budget
Regulatory					
MAB	25,391	11,029	(22,836)	5,665	8,620
MACRA	6,217,880	5,735,213	8,000,781	6,318,551	6,508,004
MBS	397,574	1,055,580	2,298,523	1,713,274	1,119,328
MERA	1,930,993	2,216,000	3,164,393	2,042,756	1,901,537
NCIC	(54,007)	4,358	43,277	92,086	139,418
NLB-MGB	72,177	78,711	51,416	75,121	-
PMPB	787,025	306,171	121,240	489,460	170,774
TC	(124,495)	1,306,402	305,490	52,156	27,124
TEVETA	1,874,934	(391,976)	440,058	130,069	166,601
Service Provision					
MBC	(678,207)	(572,995)	(200,507)	236	157
MCA	354,352	24,542	24,542	6,331	178,087
MEDF	(114,609)	(961,990)	2,604,987	515,863	762,407
MIM	(58,208)	(354,273)	(338,064)	(61,543)	6,339
NFRA	(233,899)	688,754	6,335,751	1,036,803	4,437
Trading					
ACM	93,741	158,850	179,161	107,048	180,661
ADL	2,753,324	5,476,885	6,296,447	63,225	454,778
ADMARC	(2,283,242)	(23,308,604)	14,344,895	6,115,553	1,304,498
BWB	(1,978,781)	(5,450,606)	(2,333,334)	46,020	2,279,633
COSOMA	-	-	-	-	1,186
CRWB	5,682	163,164	2,769,613	41,678	88,874
EGENCO	-	2,824,643	11,034,678	16,955,414	14,748,165
ESCOM	7,903,365	11,993,727	(12,963,386)	8,460,000	4,180,000
LIHACO	269,812	548,631	85,146	83,006	8,684
LWB	2,753,324	3,410,116	2,458,286	4,936,587	5,158,587
MA	-	-	-	-	-
MHC	55,198	210,000	257,390	549,052	756,532
MPC	1,447,473	1,496,499	439,543	629,905	352,954
NOCMA	159,565	(893,431)	(1,206,029)	1,136,665	191,000
NRWB	765,824	1,225,997	185,504	329,960	395,066
SRWB	439,383	596,710	837,612	-	1,768,487
UHL	-	-	-	-	-
Total	22,781,570	7,598,107	45,214,577	51,870,941	42,861,938

Source: Audited Financial Statements

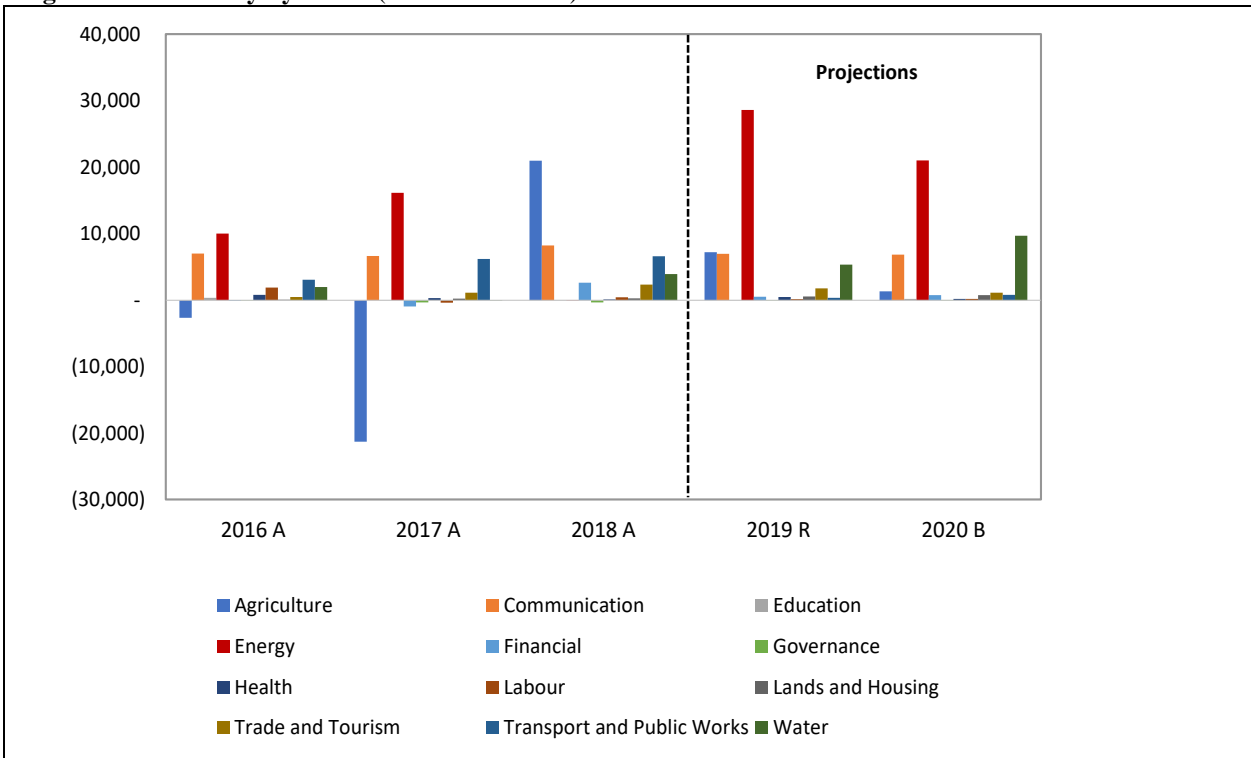
Performance of the Regulatory SOEs has been good with almost all registering increasing levels of surpluses throughout the years under review. On the other hand, performance of Trading SOEs has been a mixed bag over the three years while the service provision SOEs have mostly been almost breaking even to ensure that they are not a drain on the national budget (Figure 3).

Figure 3: Profitability by function (Kwacha Millions)



Source: Audited Financial Statements and Performance Management Plans and Budgets

Figure 4 Profitability by sector (Kwacha Millions)



Source: Audited Financial Statements and Performance Management Plans and Budgets

2.2.2 Cost recovery

Cost recovery reflects the ability of a corporation to generate adequate revenue to meet operating expense³. The ratio should generally be higher than one. Several sectors performed below the threshold in 2018 (**Figure 5**). Specifically, SOEs in Education, Transports and Public Works operated below cost recovery in 2018. The most affected SOEs were those in trading, on the other hand, Regulatory and Service Provision SOEs were above cost recovery. This implies that SOEs in trading in those particular sectors were generating inadequate revenues to cover their operating expenses (**figure 6**)

Figure 5: Cost Recovery by Sector (2018) (Percent)

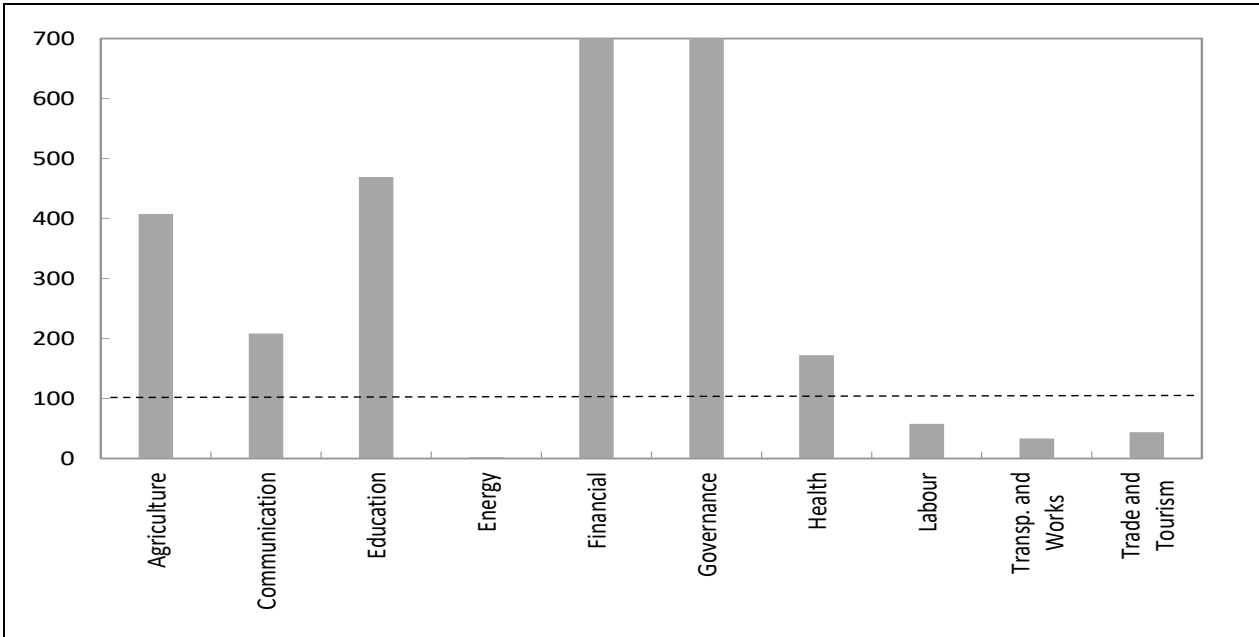
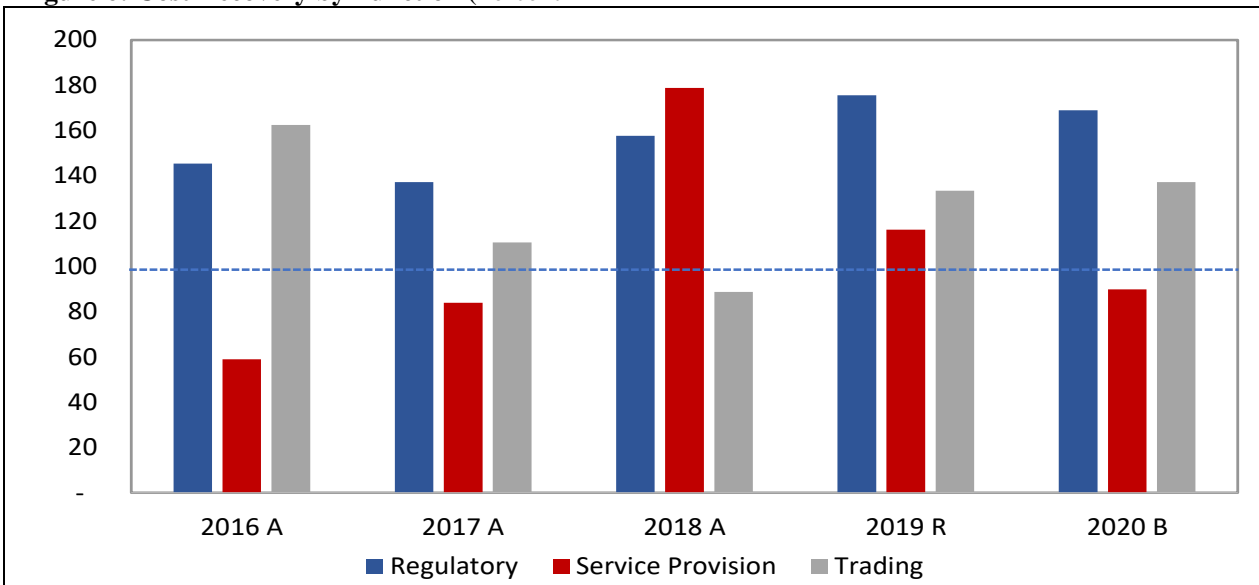


Figure 6: Cost Recovery by Function (Percent)



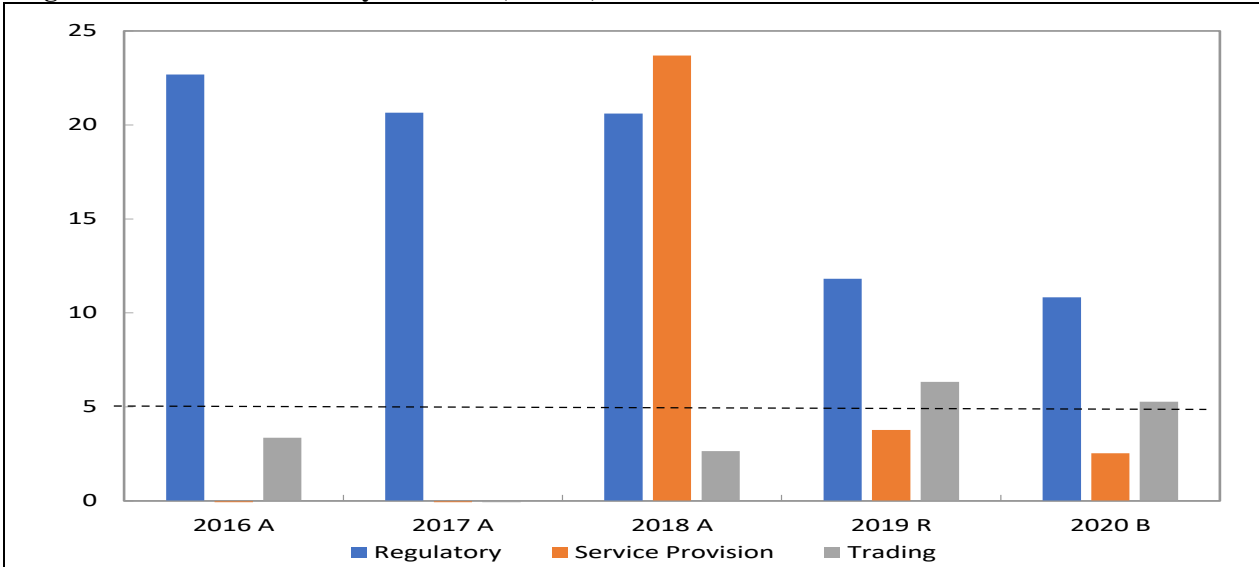
Source: Audited Financial Statements and Performance Management Plans and Budgets

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

2.2.3 Return on assets

Return on assets indicates how well management of a Company is employing its total assets to make a profit. The Regulatory function has been performing steadily over the years, way over the Return on assets threshold of 5% (Figure 7). This was not the case with the trading SOEs that were all below the threshold in 2018.

Figure 7: Return on Assets by Function (Percent)

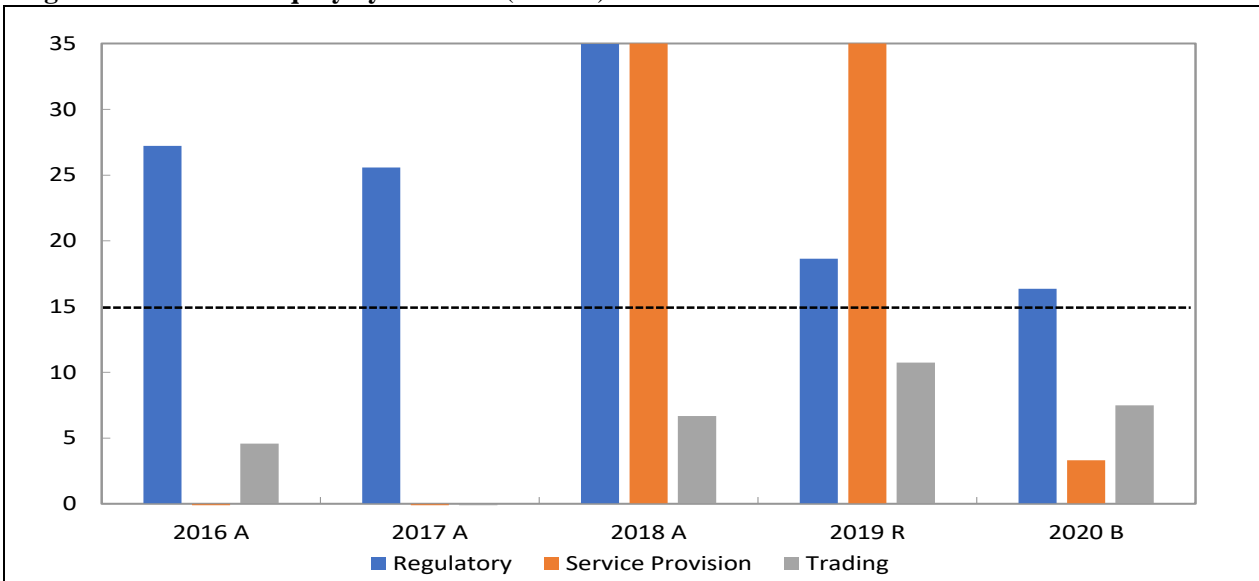


Source: Audited Financial Statements

2.2.4 Return on equity

The return on equity 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 8). In 2016 and 2017, SOEs in trading category registered low levels of ROA as compared to regulatory SOEs who have maintain ROA of over 15% throughout the period under review.

Figure 8: Return on Equity by Function (Percent)



Source: Audited financial Statements and Performance Management Plans and Budgets

2.3 SOE DEBT

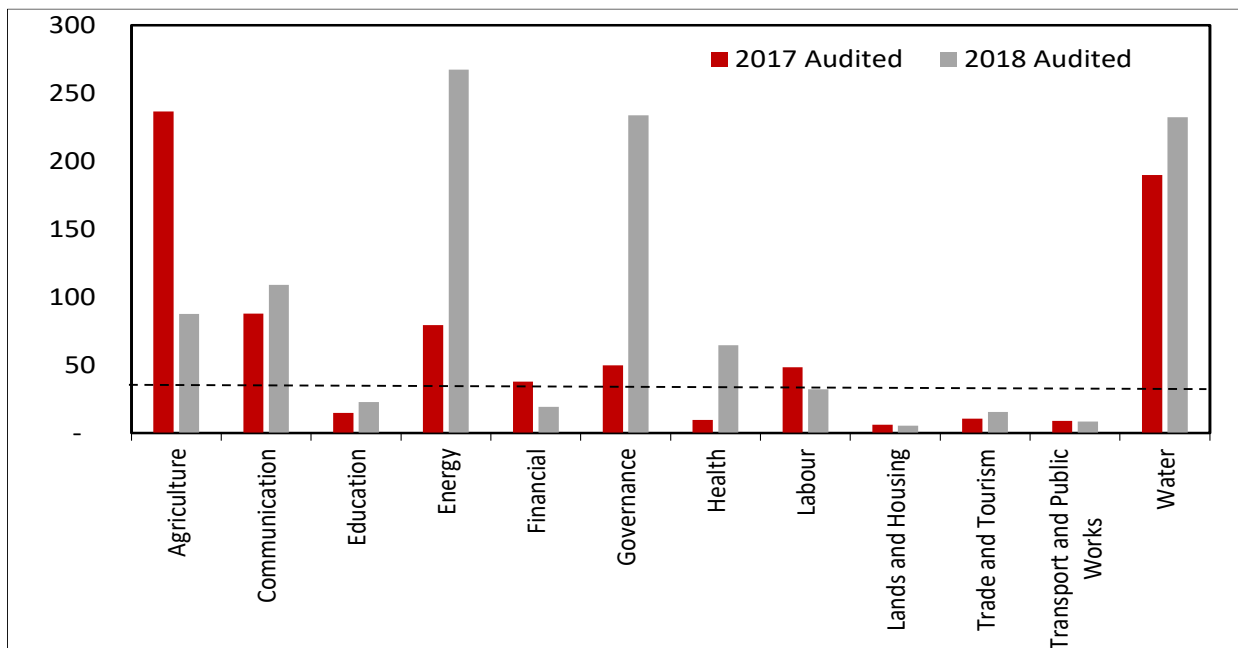
2.3.1 Size and composition of SOE Debt

Loans accessed by SOEs comprise of guaranteed debt, non-guaranteed debt, and on-lending. Total liabilities inclusive of these debt categories accounted for approximately 9.7 Percent of GDP in 2018 (Table 1). These amounts includes long-term loan to the energy as well as a combination of support through specific direct and on lent loans and guarantees from bilateral and multilateral institutions. These are targeted towards the rehabilitation of infrastructures, improving energy transmission and developing the water supply network in Malawi. On the other hand. Guaranteed debt in 2018 was largely for the purposes of purchasing of agricultural commodities, particularly maize, for ADMARC Limited (individual SOE reports)

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. 40% is considered a safe threshold, which was exceeded in 2017 by the following sectors; Agriculture, Water, Energy and Communication (Figure 9). However, in 2018 the international threshold was exceeded by the following sectors; Energy, Water, Communication, Agriculture and Governance sectors.

Figure 9: Debt to Equity by Sector 2017 vs. 2018 (Percent)



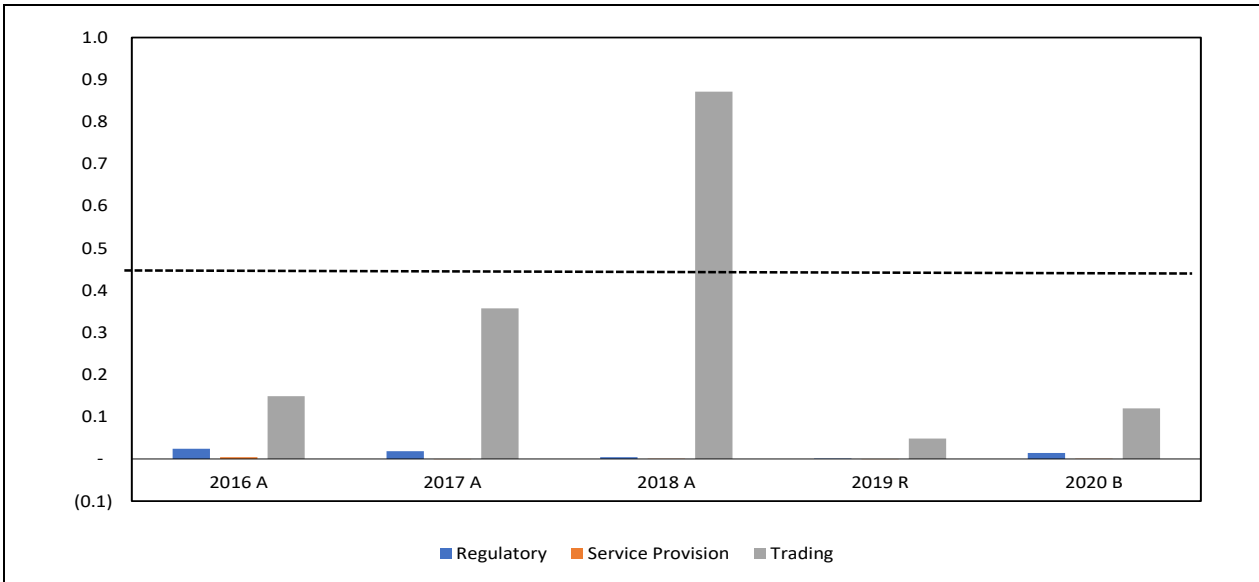
Source: Audited Financial Statements and Performance Management Plans and Budgets

2.3.3 Debt Service Coverage

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

Figure 10 demonstrates a sharp increase in the debt servicing ratio in 2016 to 2018 FYs but this seems to worsen in coming budget year. The ratio for trading parastatals rose sharply in 2017/18 driven by lands and housing sector, water and the financial sectors.

Figure 10: Debt Servicing Ratio by Function



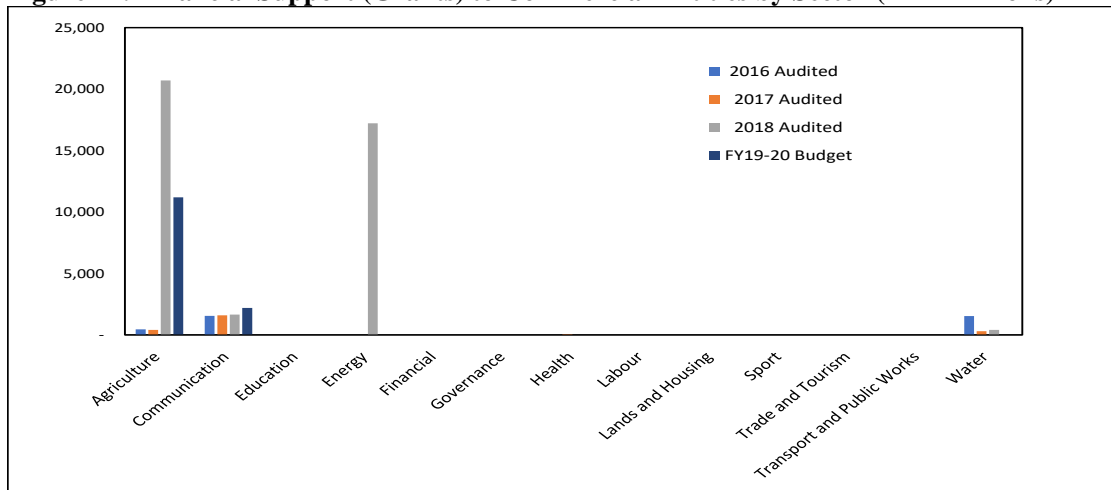
Source: Audited Financial Statements and Performance Management Plans and Budgets

2.4 FISCAL FLOWS BETWEEN SOES AND BUDGET

2.4.1 Government Transfers to SOEs

Financial support to SOEs through grants, subsidies and capital injections are concentrated in the agriculture, communication, energy and water sectors. However, government grants have been on the decline in 2016 and 2017 but significantly peaked in 2018 while showing further decline in 2019 (figure 11). Public Service Obligations (PSOs) exist in these sectors, which deliver services at below cost recovery. These exist in the form of suppressed tariff, consumer pricing and the extension of services for which the population does not pay.

Figure 11: Financial Support (Grants) to Commercial Entities by Sector (MK' Millions)



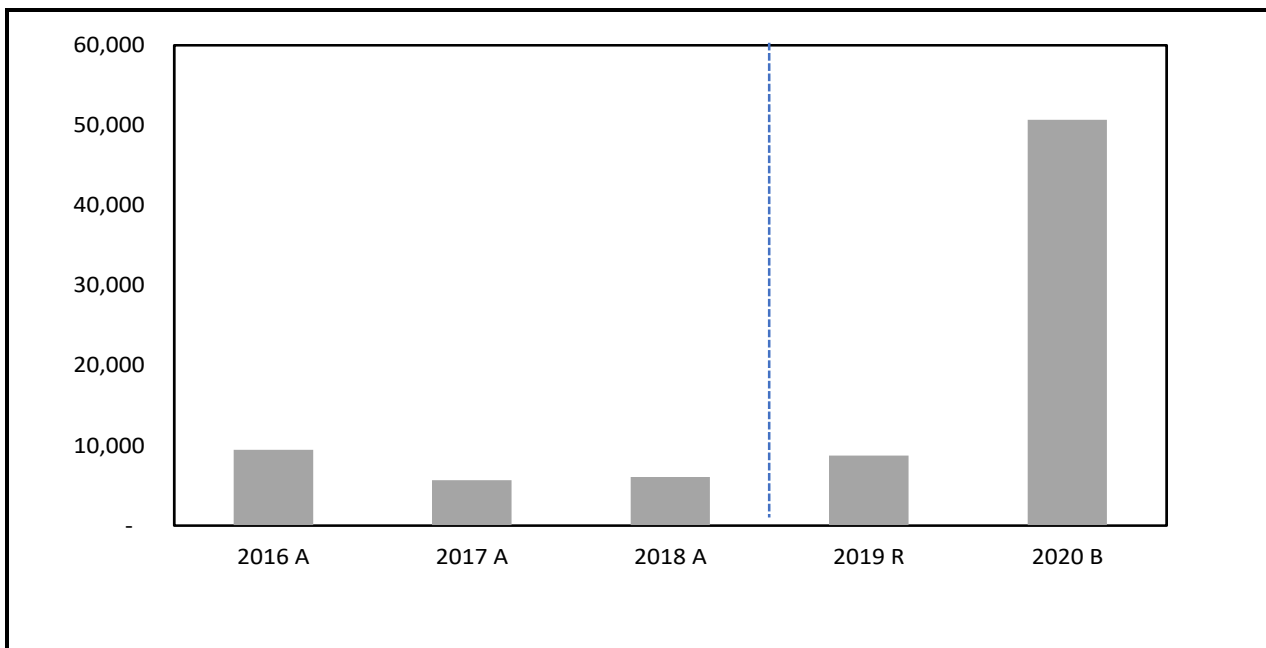
Source: Audited Financial Statements and Performance Management Plans and Budgets

Volatility in the provision of subsidies from the government to SOEs could be a source of fiscal risk as the size of PSOs is not reported and largely unknown for instance the provision of compensation of social function to ADMARC is normally determined depending on the food security situation in the country. Tariff structures in energy and water sectors also creates a financial constraint on the entities. Public investments such as extension of pipelines also poses a fiscal risk especially since these costs do not translate into cost reflective tariffs to the customers.

2.4.2 Taxes and Dividend Payments remitted by Commercial Entities

There was a decrease in taxes paid by parastatals between 2016 and 2017 and the level remained constant in 2018 (Figure 12). On the other hand, tax arrears rose during the same period. Tax arrears are inefficient for meeting revenue collection targets by the Malawi Revenue Authority (MRA) and can lead to a vicious circle of payment arrears particularly where the parastatal is owed money from other government institutions, such as the outstanding debt to the water supply SOEs (Figure 13).

Figure 12: Tax Payments by Commercial Entities (Kwacha Million)



Source: Audited Financial Statements and Performance Management Plans and Budgets

Similarly, remittance of surpluses and dividends by SOEs into the consolidated fund has declined since 2016 despite profits increasing over the same period. The aggregate profit level for SOEs recording profit has increased to approximately MK45.2 Billion in 2018 from MK22.8 in 2016.

In accordance with the dividend and surplus policy for statutory bodies, statutory dividend requirements should have increased to MK31.3 Billion from MK15.3 Billion over this period, but instead actual remittance was still below the statutory requirements at MK12.7 Billion in 2018 from MK7.8 Billion in 2016 (Figure 14). As a result, the dividend pay-out ratio has declined to 40 percent in 2018 from 80% in 2017. This declining trend is largely due to cash flow challenges experienced by SOEs especially due to increasing trade debtors especially public institutions.

Figure 13: Tax Arrears of Commercial Entities (Kwacha Million)

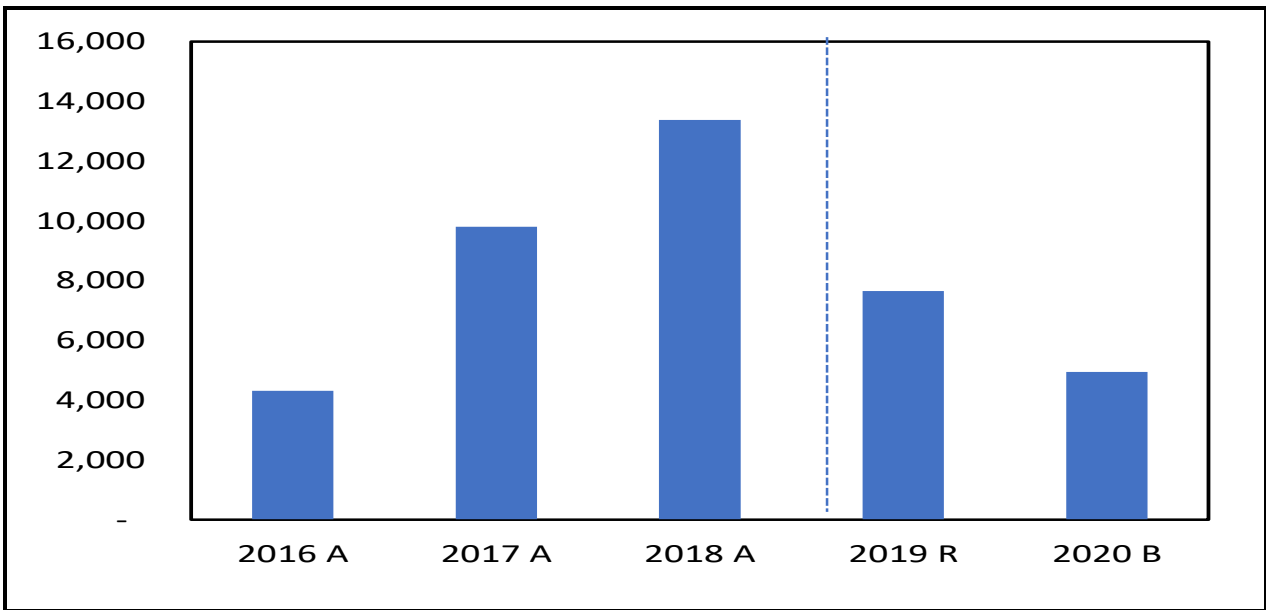
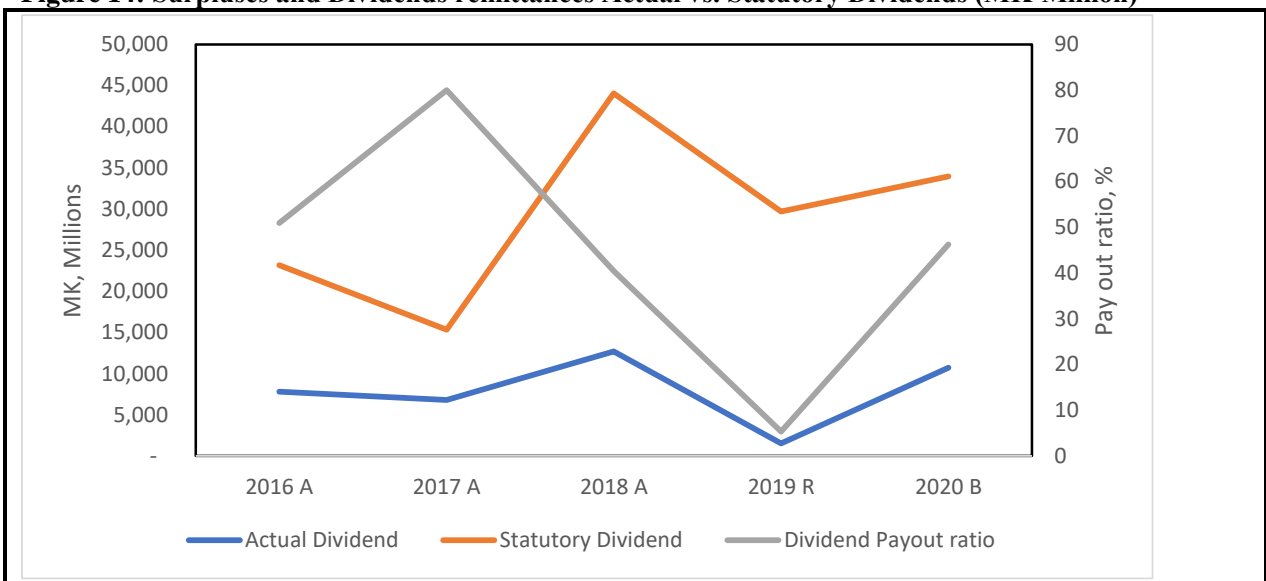


Figure 14: Surpluses and Dividends remittances Actual vs. Statutory Dividends (MK' Million)



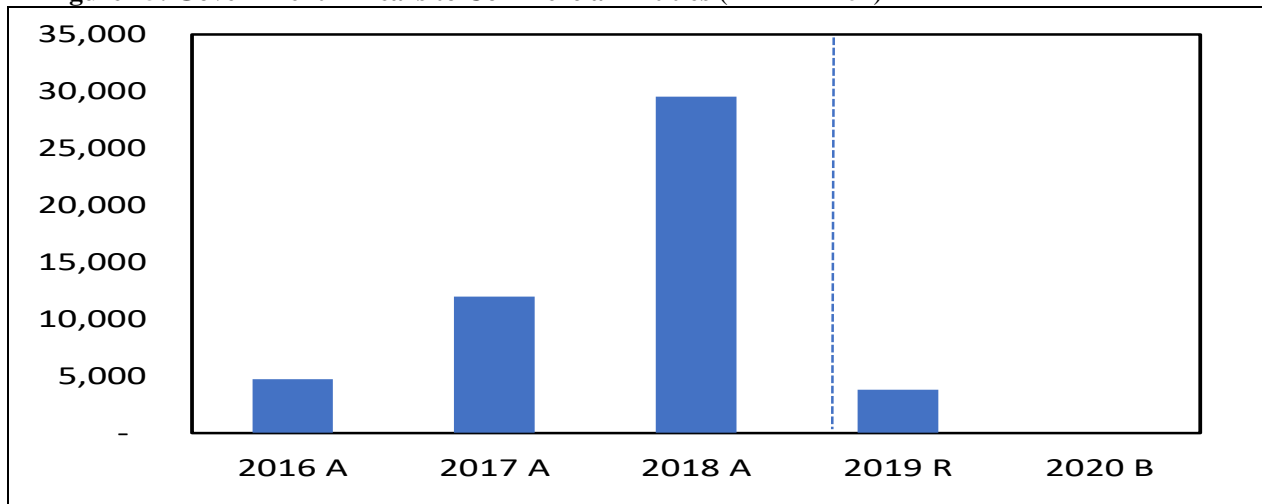
Source: Audited financial statements and Performance Management Plans and Budgets

2.5 ARREARS BETWEEN SOES AND WITH GOVERNMENT

2.5.1 Government arrears to SOEs

Government arrears to SOEs is a big drag on their balance sheets as they negatively affect cash flows of the parastatals which leads to a vicious cycle of inefficiencies in the economy. For instance, in 2018 the composition of government debt comprised 66 percent of total trade receivables, while for CRWB it was 79 percent, ESCOM was at 42% and LWB was at 47%.

Figure 15: Government Arrears to Commercial Entities (MK' Million)



Source: Audited financial statements and Performance Management Plans and Budgets

2.5.2 Intra-Arrears between the SOEs

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

Summary of fiscal flows between the budget and SOEs

In summary the period under review revealed that

- The budget is not receiving sufficient resources in terms of dividends in light of increasing profits from SOEs;
- The outflows to SOEs from the budget are declining, but structural deficiencies should be explored further for those still heavily reliant on the national budget;
- Government arrears to SOEs is a big drag on their balance sheets, which requires government efforts to ensure that Public Institutions pay outstanding utility bills but also supporting initiatives such as installation of prepaid meters.

2.6 CROSS-CUTTING ISSUES

2.6.1 Tariffs and pricing policies

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

2.6.2 Fiscal flows and Arrears

SOEs were observed to be heavily indebted taking into account trade receivables. However, though significant, the interest bearing debt was still low but needs to be kept in check as it has a bearing on the national budget. Interest bearing debt needs to be analysed to ensure their viability and the SOEs ability to pay back. , overdraft, debt, remittance of dividends).

There is need for deliberate policies to address the issue of increasing public debt to SOEs including installation of prepaid meters for water and power utilities. On the other hand, implementation of the dividend and surplus policy needs to be strengthened to ensure that the budget receives enough support from the investments made in the SOEs.

2.6.3 Institutional arrangements

Government needs to clearly separate the commercial functions of SOEs and the Public Sector Obligations (PSO) that they undertake on behalf of Government to avoid stifling the operations of the SOEs. This may require considering issues of staffing as well as restructuring the entities for the separation to clear.

2.6.4 SOE Oversight function

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

2.7 CRITICAL POLICY DECISIONS

2.7.1 Repayment of Loans and Arrears

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

2.7.2 Subsidies for Public Service Obligations

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

2.7.3 Public Investment Related Risks

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

2.7.4 Institutional Risks

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

2.7.5 SOE oversight function

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

3 INDIVIDUAL SOE ANALYSIS

3.1 AGRICULTURE SECTOR

3.1.1 Agricultural Development and Marketing Corporation (ADMARC)

Statutory Dividend Payout Ratio		40%	40%	40%	40%	40%	40%	40%	40%	40%
No.	Indicator	2012 Audited	2013 Audited	2014 Audited	2015 Audited	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	27,793,696	(514,287)	382,571	(1,823,165)	(2,283,242)	(23,308,604)	14,344,895	6,115,553	1,304,498
2	Return on assets	7%	-3%	0%	-86%	-2%	-23%	13%	7%	3%
3	Return on total equity	105%	-2%	2%	-9%	-5%	-113%	26%	10%	2%
4	Cost recovery	1330%	261%	269%	186%	342%	111%	450%	302%	264%
5	Gross profit margin	1	0	0	0	7%	-19%	77%	62%	31%
6	Operating Profit Margin	8%	-13%	1%	-32%	-9%	-242%	24%	26%	7%
7	Asset Turnover*	1.63	0.36	0.49	-0.59	0.57	0.37	1.08	0.39	0.55
8	Debt to equity	109%	36%	77%	86%	117%	368%	101%	47%	33%
9	Current ratio	0.20	0.41	0.61	0.47	0.71	0.48	1.01	1.41	1.13
10	Quick ratio	0.13	0.18	0.33	0.24	0.34	0.11	0.54		0.35
11	Accounts Receivable days	147	34	70	129	117	282	397	69	40
12	Debt service ratio	0.48	0.16	0.03	-1.03	0.00	1.17	-0.85		
13	Accounts Payables days	413	190	320	410	226	530	853	132	16
14	GoM transfers/Rev.	0%	0%	0%	0%	0%	0%	95%	0%	40%
15	Dividend payout ratio	0%	0%	0%	0%	0%	0%	0%	0%	0%
DPR (variance)		40%	40%	40%	40%	40%	40%	40%	40%	40%

Overview of financial performance

The financial performance of ADMARC has generally been poor over the last three financial years with the Institution posting huge losses in excess of MK21.9 in 2016/17 financial year alone. This was largely due to the fact that ADMARC was not undertaking any trading activities to bring any returns, however, it borrowed heavily in 2016/17 financial year to support its social obligations of maize purchase. The situation slightly eased at midyear of 2017/18 owing to the bailout on loans for maize purchase by government of over K45 billion. As a result of the bailout, ADMARC posted a profit after tax of K20.4 billion at midyear.

ADMARC projects a profit after Tax of K3.9 billion by the end of 2018/19 largely attributed to the resumption of trading activities in the second half of 2017/18 using the K4.5 billion loan facility obtained from local banks.

However, Return on Total Assets and Equity which had remained in a good range in the previous, respectively, are projected to plummet over 2017/18 largely due to anticipated reduction in returns to K3.9 in 2018/19 from K23 billion in 2017/18 financial year. As a result, cost recovery level is showing signs of improvement in 2018/19 to 122% from 93%.

However, the overall financial performance of ADMARC puts the commercial viability of the Institutions to question hence the need for corrective actions to be taken.

Overview of financial risks

Generally, ADMARC has been heavily dependent of external financing for its ongoing operations rather than own generated resources over the last three years. With no trading, ADMARC has not been in a position to meet its financial obligations with both current and quick ratios below required benchmarks. Furthermore, considering the indebtedness of the company, the debt service coverage ratio shows a very high risk to the borrowers as the company has not been generating adequate cash flows to support interest payments.

Overview of financial flows with the government

Over the last two financial years, government provided support to the social obligation in ADMARC. Government provided 23% and 10% of the revenues in form of subsidy while in 2017/18 about 28% was provided. However, even though this shows low level of reliance on government support, most of the financing was government guaranteed loans which necessitated the bail out reported earlier.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy recommendations
Revenue Sales	There is need to follow up on the usage of the K4.5 billion guarantee to ensure that it generates required income from trading	<ul style="list-style-type: none"> Government needs to clearly separate the Commercial Functions of the entities and the Public Service obligations to boost up the commercial drive and allow resources to be properly allocated.
Borrowing	High indebtedness of ADMARC has resulted in bail out	Need to monitor loan performance

3.1.2 National Food Reserve Agency (NFRA)

Dividend Payout Ratio		100%	100%	100%	100%	100%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	(233,899)	688,754	6,335,751	1,036,803	4,437
2	Return on assets	-1%	4%	23%		0%
3	Return on total equity	-2%	6%	36%		0%
4	Cost recovery	47%	103%	287%	106%	41%
5	Gross profit margin	100%	100%	100%	100%	100%
6	Operating Profit Margin	-22%	7%	67%	0%	0%
7	Asset Turnover*	0.10	0.89	0.53		0.09
8	Debt to equity	155%	43%	53%		2%
9	Current ratio	1.85	10.69	4.14		42.90
10	Quick ratio	0.02	0.73	0.91		0.65
11	Accounts Receivable da	95	7	11		147
12	Debt service ratio	0.00	0.00	0.00		#DIV/0!
14	GoM transfers/Rev.	43%	4%	7%	35%	214%
15	Dividend payout ratio	0%	0%	0%	0%	0%
	DPR (variance)	100%	100%	100%	100%	100%

Overview of financial performance

The figure above provides some highlights in terms of performance for NFRA over the past six financial years. The Board registered profits after tax in 2017 and 2018 respectively but beginning 2013 up to 2016, the Board continued to register losses. The company experienced worst scenarios recorded in 2016, 2015, 2014 and 2013 when it posted significant losses of 234 million in 2016, 1.6 billion in 2015, 245 million in 2014 and 1.4 billion in 2013 respectively. The levels of own generate resources however exhibit a steady positive trajectory. Correspondingly, NFRA has been handling increasing tonnage of maize and has seemingly registered dismal levels of storage losses over the years.

The Return on assets and Equity was favourable in 2018 financial year, but it has been negative since 2013 to 2017 financial year. This shows that Management is not using well its assets to make profit. On cost recovery also, it's in red since 2016 below which show that they don't have ability to generate adequate revenue to meet operational expenses. However, the situation seems to be improved in 2017 and 2018 financial year when it recorded cost recovery of 287 in 2018.

Overview of financial risks

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

Overview of financial flows with the government

Being a subvented organisation, Government has consistently provided for NFRA's operations. Further to this, K 1.16 billion was recorded for maize replenishment during the 2017/18 financial year.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendation
Tax Arrears	In 2018/19 mid-year, the arrears including other statutory obligations were K341 million due to cash flow problem	Need to improve on cash flow so that it generates enough return and need to monitor all the arrears.

3.1.3 Tobacco Commission (TC)

% Statutory Dividend Payout		100%	100%	100%	100%	100%	100%
No.	Indicator	2015 Audited	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	59,774	(124,495)	1,306,402	305,490	52,156	27,124
2	Return on assets	1%	7%	27%	3%	-2%	1%
3	Return on total equity	3%	-8%	45%	9%	1%	1%
4	Cost recovery	326%	459%	724%	407%	332%	345%
5	Gross profit margin	100%	100%	100%	100%	100%	100%
6	Operating Profit Margin	1%	10%	25%	6%	-3%	1%
7	Asset Turnover*	1.09	1.33	1.68	0.84	0.94	0.94
8	Debt to equity	84%	94%	58%	51%	28%	27%
9	Current ratio	0.80	0.68	1.66	1.24	1.09	1.00
10	Quick ratio	0.71	0.66	1.63	1.08	1.05	0.95
11	Accounts Receivable days	85	89	56	90	71	59
12	Debt service ratio	0.03	0.28	0.16	0.10	-0.76	0.00
13	Accounts Payables days						
14	GoM transfers/Rev.	0%	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	16%	38%	0%
	DPR (variance)	100%	100%	100%	84%	62%	100%

Overview of Financial Performance

The financial performance of the Tobacco Commission (“The Commission”, “TC”) has been relatively good. The Commission recorded a surplus of MK305.5 million and MK1.3 billion for the financial years ended 30th June, 2018 and 30th June, 2017 respectively.

The results reflect relatively higher tobacco volumes sold and was accounted for during the reporting periods and late penalty fees received from registration of growers. The Commission has high operating gearing, thus, leads to relatively higher surplus recorded when tobacco volume sold during a financial year is high. TC recorded modest return on opening equity of 9% in 2018, while in the prior year, a record high return of 45% was achieved.

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

Overview of Financial Risk

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

The Commission reflects relatively good current ratios as the current assets are at least 1.2 times over the current liabilities. As outlined under debt to equity ratio, the current ratio would improve further if the non-cash liabilities relating to donated assets were discounted. The Commission trade debtors arise from marketing levies which are generally settled within 30 days upon invoicing. TC has negligible assets in inventory.

Overview of Financial Capital Flows with the Government

The Commission has moved from the negative retained earnings of MK844.2 million in June 2016 to closing with positive retained earnings of MK711.2 million in June 2018, (includes MK479.3 million relating to armotisation of donated assets yet to be transferred from retained earnings to capital / donation reserve). Consequently, a surplus of MK50.0 million was remitted to the Shareholder from the surplus recorded as at 30 June, 2018.

It was also noted that between March, 2017 and August, 2018, the Commission cleared the MK600.0 million loan obtained to finalise construction of its head office, from the surpluses recorded for the financial years ended 30th June, 2017 and 30th June, 2018.

Policy specific issues for the Public Body

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

3.2 COMMUNICATION SECTOR

3.2.1 Malawi Communications Regulatory Authority (MACRA)

% Statutory Dividend Payout		100%	100%	100%	100%	100%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	6,217,880	5,735,213	8,000,781	6,318,551	6,508,004
2	Return on assets	42%	40%	41%	23%	28%
3	Return on total equity	73%	61%	71%	32%	40%
4	Cost recovery	171%	163%	174%	150%	176%
5	Gross profit margin	100%	100%	100%	100%	100%
6	Operating Profit Margin	42%	33%	43%	33%	33%
7	Asset Turnover*	1.73	1.88	1.65	0.95	1.23
8	Debt to equity	73%	53%	71%	40%	46%
9	Current ratio	3.23	3.83	1.57	3.10	2.25
10	Quick ratio	3.23	3.81	1.56	2.02	1.71
11	Accounts Receivable days	162	151	128	170	180
12	Debt service ratio	0.00	0.00	0.00	0.00	0.00
14	GoM transfers/Rev.	0%	0%	0%	0%	0%
15	Dividend payout ratio	91%	87%	75%	0%	100%
	DPR (variance)	9%	13%	25%	100%	0%

Overview of financial performance

The financial performance of MACRA has generally been good over the last five financial years with registering growth of revenue by 10% per annum. The Institution posted profit in excess of MK7.8 Billion in 2018 financial year alone. This is due to slight change on the overall contribution of various income sources. While in 2016/17 financial year, Levy from international calls was accounting to 60% of overall income for MACRA, this trend is reversing as there is a tremendous growth in local levy and frequency fees.

The financial performance of MACRA has generally been good over the last five financial years with registering growths in revenue by 10% per annum. From the year 2014 it has continuously registered profits up until 2018, with the year 2015 being the highest profit made, as most of their expenses incurred were much less than the other years e.g. project expenses. The Institution has maintained this profit trend and in the financial year 2017/18 an excess of MK7.8 Billion was posted. This is due to continued increase in the overall contribution of various income sources such as the international calls fees, annual levies and frequency fees etc while also maintaining its expense efficiently. Having a good performance on their profits, its return on Asset has also been above the average benchmark although fluctuation up and down but it has been good. Its ability to meet its operating expenses from the revenues it generates has also been above the benchmark 100% with its cost recovery being 196% in 2018.

Overview of Financial Risk

Although the institution has been making profits continuously, its debt to equity ratio has remained on the higher side meaning the institutions proportion of debt to its equity is relatively above the average percentage which is 40%. However, most of its debt is more from its short-term liabilities other than long term liabilities, with this noted its current and quick ratio has been reasonably good. This implies that the institution would be able to meet its short-term obligations if it fell short.

In terms of the financial risks, the authority's collection days of their debt has also relatively been above the average of 60 days. As from the year 2014 to the year 2018 it's have been varying but has still remained higher

which means the MACRA is not being more efficient in collecting debt from its customers and this could have an impact on its cash flow if it is not addressed.

Overview of financial flows with the government

Over the years from the year 2014 to the year 2018, the authority has been able to remit dividends to the Government each consecutive year with its highest remittance being in 2016 where it remitted 91% of its profit to Government. Although as a regulator it is supposed to give 100% of all its profits, MACRA has had several investments over the years which reduced the dividends that was remitted to Government.

The Institution is able to remit the surplus to Government. On quick Ratio, the institution is liquid enough to pay its payables when they are due because the ratio was more than 2 in 2017 and 2016. However, in 2018, 2015 and 2014 financial year need to be close monitoring since the ratios were less than 2.

Accounts receivables are taking too long, in 2016 it was at 118 days and in 2018 is at 133. The institution can have a cash flow challenge and resort to borrowing. This is not a healthy situation to the Institution.

Policy specific issues for the Public Body

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

3.2.2 Malawi Broadcasting Corporation (MBC)

% Statutory Dividend Payout		100%	100%	100%	100%	100%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	(678,207)	(572,995)	(200,507)	236	157
2	Return on assets	-23%	-22%	-6%	0%	0%
3	Return on total equity	102%	48%	10%	0%	0%
4	Cost recovery	39%	41%	52%	56%	64%
5	Gross profit margin	100%	100%	100%	100%	100%
6	Operating Profit Margin	-23%	-19%	-5%	0%	0%
7	Asset Turnover*	-4.47	-5.23	-1.91	-5.81	-2.12
8	Debt to equity	-539%	-274%	-269%	-435%	-200%
9	Current ratio	0.60	0.91	1.19	0.89	0.51
10	Quick ratio	0.30	0.56	0.90	0.89	0.51
11	Accounts Receivable days	128	146	189	85	66
12	Debt service ratio	1.00	1.00	0.00	0.00	0.00
14	GoM transfers/Rev.	52%	55%	45%	44%	36%
15	Dividend payout ratio	0%	0%	0%	0%	0%
	DPR (variance)	100%	100%	100%	100%	100%

Overview of financial performance

The figure above provides some highlights in terms of performance of Malawi Broadcasting Corporation (MBC) over the past three financial years. The Board registered losses after tax in 2018, 2017, and 2016. The company experienced worst scenarios recorded in 2016 when it posted significant losses of 678 million and as

at 2018 it stands at 200 million losses. The statistics are very unhealthy for the company and therefore requires regular monitoring and serious control on costs other than operational.

On Return on Asset has been negative since 2016 as such MPC cannot generate revenues for the past three years as such the board cannot meet its short term obligations as they fall due. Substantially, return on total equity has been favourable since 2016, however, in 2018 financial year is in yellow which need close monitoring, the overall return on equity signifies that the board has made a profit on the capital invested. On cost recovery show that they don't have ability to generate adequate revenue to meet operational expenses.

Overview of financial risks

The organisation is a high risk because of debts which they have. As at 2018/19 Midyear they owe Malawi Revenue Authority (MRA) MK 4.3 Billion in Tax arrears and MK 1.9 Billion to COSOMA, TEVETA, MTL and other service providers.

Operating Profit Margin for the past three years was not good, showing Negatives Percent even on the projected 2018/19 financial year (-17% midyear and 0% revised 2018/19) this shows that the organisation will have nothing as Operating profit margin at the end of the year.

Asset Turnover. This has been in negative the past three years, at midyear -0.90% and revised 2018/19 financial year at -5.81%. This shows that there is no efficiency in using its asset to generate revenues.

Debt to equity Analysis shows that the company cannot sustain itself but from external funding. The debt to equity has been negative the past three years (midyear -257% and revised -435%)

Current Ratio show that the company is not liquid enough and cannot pay its payables when they are due. This has been like this for the past three years, because the current ratio is less than 1. (2018/19 midyear, 0.93 and 2018/19 revised 0.89)

Overview of financial flows with the government

Government funds Malawi Broadcasting Corporation as subvented organisation. Quick ratio for the organisation is less than 1 for the past three years. Still this means that the organisation cannot pay its payables when they are due. Accounts receivables. For the past three years (2016, 2017, 2018) the institution was taking an average of 55 days to have its receivables.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Tax Arrears	Would not be able to remit Tax deducted from employees.	There is need for management to engage MRA to agree on payment plan for the arrears.
Dividend payment	Would not able to pay surplus to Shareholder.	Need to reduce administrative cost so that the organisation can post surplus.
Pension arrears	Would not be able remit Pension	There is need for management to engage pension fund to agree on payment plan for the arrears.
Cash Flow	They have cash flow problems	Need to act aggressively to collect MK 500 Million owed by MDAs.

3.2.3 Malawi Posts Corporation (MPC)

% Statutory Dividend Payout		40%	40%	40%	40%	40%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	1,447,473	1,496,499	439,543	629,905	352,954
2	Return on assets	7%	-1%	-3%	5%	3%
3	Return on total equity	17%	20%	6%	7%	4%
4	Cost recovery	92%	102%	109%	87%	115%
5	Gross profit margin	87%	92%	92%	99%	100%
6	Operating Profit Margin	27%	-3%	-8%	15%	5%
7	Asset Turnover*	0.40	0.60	0.63	0.47	0.74
8	Debt to equity	61%	88%	97%	42%	48%
9	Current ratio	0.62	0.60	0.64	0.55	0.49
10	Quick ratio	0.53	0.52	0.56	0.53	0.47
11	Accounts Receivable days	151	170	276	85	79
12	Debt service ratio	0.02	0.06	-0.02	0.01	0.15
13	Accounts Payables days	906	430	415	47,092	
14	GoM transfers/Rev.	0%	0%	0%	0%	3%
15	Dividend payout ratio	0%	0%	2%	0%	0%
	DPR (variance)	40%	40%	38%	40%	40%

Overview of financial performance

The figure above provides some highlights in terms of performance of Malawi Posts Corporation (MPC) over the past five financial years. The Board registered profit after tax in 2018, 2016, and 2015. The company experienced worst scenarios recorded in 2017 and 2014 when it posted significant losses of 294 million in 2017 and 171 million in 2014. The statistics are very unhealthy for the company and therefore requires regular monitoring and serious control on costs other than operational.

On Return on Asset and Equity it indicates that the MPC cannot generate revenues for the past five years as such the board cannot meet its short term obligations as they fall due. Substantially, in 2016 and 2015 financial year the return on total equity signifies that the board has made a profit on the capital invested. On cost recovery show that they have no ability to generate adequate revenue to meet operational expenses.

Overview of financial risks

The Board's profitability continues to remain poor. The operating profit margin after auditing accounts for the past five years was not favourable as at 2018 stands at 2%, implying that for every annual sales, the Board was making a loss of 2 million before tax and other charges. Thus, the sustained negative working capital position of the corporation puts it at a disadvantage including lower creditability in banks as well as creating a poor supplier relationship.

Overview of financial flows with the government

The accounts receivable days continues to remain up and down for the past five years. The position worsened in 2017 with debt collection days as high as 365 days which is still above the benchmark.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Revenue Sales	The Postal trading revenue is declining in view of trends in postal	The MPC should explore modern and new revenue streams to supplement traditional postal services
Tax Arrears	MPC has growing levels of tax arrears	
Pension arrears	MPC has growing levels of pension arrears	
Cash Flow	Serious liquidity challenges affecting remittance of pension arrears	

3.3 EDUCATION SECTOR

3.3.1 Malawi College of Accountancy (MCA)

% Statutory Dividend Payout		100%	100%	100%	100%	100%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	354,352	24,542	24,542	6,331	178,087
2	Return on assets	13%	1%	-1%	0%	7%
3	Return on total equity	15%	1%	1%	0%	8%
4	Cost recovery	290%	234%	83%	276%	108%
5	Gross profit margin	100%	100%	-20%	40%	100%
6	Operating Profit Margin	27%	2%	-1%	0%	8%
7	Asset Turnover*	0.55	0.64	0.74	0.94	1.01
8	Debt to equity	13%	15%	23%	8%	5%
9	Current ratio	0.82	0.62	0.20	0.75	0.88
10	Quick ratio	0.81	0.62	0.20	0.75	0.88
11	Accounts Receivable da	27	22	13	18	7
12	Debt service ratio	0.00	0.00	0.00		0.00
14	GoM transfers/Rev.	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%	0%
	DPR (variance)	100%	100%	100%	100%	100%

Overview of financial performance

The figure above provides some highlights in terms of performance of Malawi College of Accountancy (MCA) over the past five financial years. The Board registered profit after tax beginning 2015 up to 2018. The company experienced worst scenarios recorded in 2014 when it posted significant losses of 31 million. The management requires serious control on costs other than operational.

On Return on Asset and Equity it indicate that the MCA generate revenues in 2016 and 2015 respectively as such the board can meet its short term obligations as they fall due. Substantially, in 2018, 2017 and 2014 financial year the return on asset and total equity signifies that the board has a loss on the capital invested. However, the Management performance continues going down. The statistics are very unhealthy for the company and therefore requires regular monitoring. On cost recovery show that they have ability to generate adequate revenue to meet operational expenses except in 2018 financial years.

Overview of Financial Risks

The Board's profitability continues to remain poor. The operating profit margin after auditing accounts beginning 2016 and 2015 financial years was favourable, but in 2018, 2017 and 2014 the situation was poor. Thus, the sustained negative working capital position of the corporation puts it at a disadvantage including lower creditability in banks as well as creating a poor supplier relationships. On current and quick ratio the performance was poor below the required benchmark this is due to low enrolment of students, hence, needs immediate action as soon as possible.

Overview of financial flows with the government

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

undertaken with shareholder. The accounts receivable days continues to remain good for the past five years the position remained within the benchmark.

Policy specific issues for the Public Body

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

3.4 ENERGY SECTOR

3.4.1 Electricity Generation Company Malawi Limited (EGENCO)

% Statutory Dividend Payout Ratio		40%	40%	40%	40%
No.	Indicator	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	2,824,643	11,034,678	16,955,414	14,748,165
2	Return on assets	10%	21%	25%	12%
3	Return on total equity	8%	25%	28%	17%
4	Cost recovery	140%	148%	170%	147%
5	Gross profit margin	52%	60%	59%	100%
6	Operating Profit Margin	29%	36%	40%	29%
7	Asset Turnover*	0.42	0.98	1.01	0.87
8	Debt to equity	27%	66%	57%	106%
9	Current ratio	1.99	1.60	1.68	1.61
10	Quick ratio	1.71	1.35	1.27	1.12
11	Accounts Receivable days	195	218	113	102
12	Debt service ratio	0.00	0.08	0.03	0.07
13	Accounts Payables days	267	122	98	
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%
DPR (variance)		40%	40%	40%	40%

Overview of financial performance

The figure above provides some highlights in terms of performance for Electricity Generation Company Malawi Limited (EGENCO) over the past two financial years. The Board registered profit after tax in 2018 and 2017 respectively. The company performance was favourable and it registered a profit of 11 billion 2018 financial year alone.

Return on Asset and Equity indicate that the EGENCO generate revenues as such the board can meet its short term obligations as they fall due. Substantially, the 8% return on total equity in 2017 signifies that the board has a loss on the capital invested and needs immediate action. On cost recovery show that they have ability to generate adequate revenue to meet operational expenses.

Overview of financial risks

The Board's profitability continues to remain good. The operating profit margin after auditing accounts beginning 2018 to 2017 financial years was favourable. Thus, the sustained positive working capital position of the corporation puts it at advantage including higher creditability in banks as well as creating a good supplier relationship. Debt to Equity is equally very bad and needs to be attended to as quickly as possible while current ratio needs action as well.

Since ESCOM is the only customer of EGENCO, measures have to be put in place for ESCOM to be servicing its debts on time for EGENCO to be implementing its projects as scheduled. EGENCO has not been in a position to meet its financial obligations quick ratios needs immediate attention and action as well while accounts receivable days needs to improve from 291 to 30 days as planned. Furthermore, considering the huge sums of funds owed by ESCOM. The overall financial performance of EGENCO puts the commercial viability of the Institutions to a better position.

Overview of financial flows with the government

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

Policy specific issues for the Public Body

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

3.4.2 Electricity Supply Commission of Malawi Ltd (ESCOM)

		% Statutory Dividend Payout		40%		40%		40%		40%		40%	
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget							
1	Profit after tax	7,903,365	11,993,727	(12,963,386)	8,460,000	4,180,000							
2	Return on assets	11%	5%	-11%	4%	3%							
3	Return on total equity	11%	21%	-29%	24%	10%							
4	Cost recovery	204%	108%	68%	187%	106%							
5	Gross profit margin	100%	82%	50%	65%	39%							
6	Operating Profit Margin	17%	8%	-20%	3%	3%							
7	Asset Turnover*	1.10	1.49	2.17	2.53	4.04							
8	Debt to equity	77%	114%	302%	300%	390%							
9	Current ratio	2.50	1.77	0.85	0.96	0.97							
10	Quick ratio	1.86	1.36	0.60	0.57	0.72							
11	Accounts Receivable days	110	98	118	74	62							
12	Debt service ratio	0.03	0.00	0.03	0.06	0.000							
13	Accounts Payables days	413	631	413	258	94							
14	GoM transfers/Rev.	0%	0%	19%	0%	0%							
15	Dividend payout ratio	28%	2%	0%	0%	0%							
	DPR (variance)	12%	38%	40%	40%	40%							

Overview of financial performance

The figure above provides some highlights in terms of performance for Electricity Supply Commission of Malawi Ltd (ESCOM) over the past five financial years. The Board registered loss after tax in 2018 but beginning 2014 up to 2017, the Board continued to register profit. The company experienced worst scenarios recorded in 2018 when it posted significant losses of 18.6 billion. The statistics are very unhealthy for the company and therefore requires regular monitoring and serious control on costs other than operational.

On Return on Asset and Equity it indicate that the ESCOM generate revenues as such the board can meet its short term obligations as they fall due. Substantially, the -62% return on total equity and -13% return on asset in 2018 signifies that the board has a loss on the capital invested. However, the Management performance is falling in 2018, hence, the board is not using well its assets to make profit. On cost recovery show that they have ability to generate adequate revenue to meet operational expenses.

Overview of financial risks

The Board's profitability continues to remain reasonable. The operating profit margin after auditing accounts beginning 2014 to 2017 financial years was favourable. But the board experience worst scenario in 2018 when it posted -18%, signifies that for every Kwacha of the sales, the Board was making a loss of 18 tambala before tax and other charges. Thus, the sustained negative working capital position of the corporation puts it at a disadvantage including lower creditability in banks as well as creating a poor supplier relationship.

Overview of financial flows with the government

The performance by ESCOM show that it is capable of generating adequate revenues to meet its costs and have surpluses to pay dividends. The trend shows low pay-outs in 2016 and 2017. Given the above analysis, ESCOM needs both a firm hand on costs to get out of its negative financial situation. A quick ratio analysis on

the financial statistics of the company sums up the financial position of the company as it reflects a 0.85 ratio that worsens to 0.18 at the end of the year. For ESCOM, it is a reflection that the cash it generates gets quickly eroded as soon as it reflects in its bank accounts.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Public Debt	The company is highly geared	Restrict further borrowing, monitor repayment of current debt portfolio
Dividend payment	The 2016, 2017 dividends not paid in full	Needs follow up despite a reflection of poor financial performance in the recent years.
Borrowing	The company's debt to equity ratio continues to worsen reflecting highly geared operations	Restrict further borrowing, monitor repayment of current debt portfolio
Cash Flow	The company's cash flow performance is compromised despite generating reasonable revenues and receiving most of its payments on time	Develop a robust and more realistic cash flow plan. Regularly monitor cash flow performance

3.4.3 Malawi Energy Regulatory Authority (MERA)

% Statutory Dividend Payout		100%	100%	100%	100%	100%	100%	100%	90%
No.	Indicator	2014 Audited	2015 Audited	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget	
1	Profit after tax	743,145	1,373,348	1,930,993	2,216,000	3,164,393	2,042,756	1,901,537	
2	Return on assets	3%	6%	9%	13%	7%	7%	6%	
3	Return on total equity	3%	6%	9%	13%	37%	19%	13%	
4	Cost recovery	159%	183%	165%	168%	449%	309%	315%	
5	Gross profit margin	100%	100%	100%	100%	100%	100%	100%	
6	Operating Profit Margin	44%	54%	49%	41%	50%	28%	23%	
7	Asset Turnover*	0.33	0.16	0.34	0.56	0.74	0.68	0.55	
8	Debt to equity	81%	30%	45%	40%	446%	167%	126%	
9	Current ratio	1.24	3.29	2.19	1.78	1.95	1.27	1.27	
10	Quick ratio	1.01	1.48	1.19	0.70	1.18	1.27	1.28	
11	Accounts Receivable da	4712	863	839	21	1322	875	817	
12	Debt service ratio	1.00	0.00	0.07	0.00	1.00		1.00	
14	GoM transfers/Rev.	0%	0%	0%	0%	0%	0%	0%	
15	Dividend payout ratio	0%	4%	0%	47%	14%	0%	60%	
	DPR (variance)	100%	96%	100%	53%	86%	100%	30%	

Overview of financial performance

The figure above provides some highlights in terms of performance for Malawi Energy Regulatory Authority (MERA) over the past five financial years. The Board registered profit after tax for the past five years beginning 2014 to 2018 financial years.

On Return on Asset it indicate that beginning 2018 to 2015 financial year MERA generate revenues as such the board can meet its short term obligations as they fall due. Substantially, the board experience worse scenarios in 2014 when it posted 3% return on total asset signifies that the board has no ability to returns revenues on the capital invested. However, the Management has improved its performance and using well its assets to make profit. On return on equity MERA shows that in 2018, the board was able to generate profit from its shareholders investment in the company. But the board experience worst scenarios beginning 2017 to 2014 when organization was unable to generate profit from its shareholders. On cost recovery show that they have ability to generate adequate revenue to meet operational expenses for the past five years, which put the institution on lower risk and higher credibility to the banks.

Overview of financial risks

The Board’s profitability continues to remain good. The operating profit margin after auditing accounts for the past years was favourable as the board in 2018 stands at 50%, implying that for every Kwacha of the sales, the Board was making a profit of 50 tambala before tax and other charges. Thus, the sustained positive working capital position of the corporation puts it at advantage including higher creditability in banks as well as creating a good supplier relationship.

Overview of financial flows with the government

The accounts receivable days continues to remain up and down for the past five years. The position worsened in 2018 with debt collection days as high as 1322 days which is still above the benchmark.

Policy specific issues for the Public Body

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

3.4.4 National Oil Company of Malawi (NOCMA)

% Statutory Dividend Payout Ra		40%	40%	40%	40%	40%	40%	40%
No.	Indicator	2014 Audited	2015 Audited	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	(7,087)	269,004	159,565	(893,431)	(1,206,029)	1,136,665	191,000
2	Return on assets	0%	3%	2%	-5%	-2%	2%	1%
3	Return on total equity		21%	4%	-11%	-17%	9%	2%
4	Cost recovery	2914%	5514%	3849%	358%	2948%	137%	143%
5	Gross profit margin	0%	0%	0%	0%	1%	100%	100%
6	Operating Profit Margin	0%	1%	1%	-16%	-2%	27%	7%
7	Asset Turnover*	10.25	24.65	11.44	1.17	14.71	0.42	0.51
8	Debt to equity		1098%	220%	142%	1108%	620%	553%
9	Current ratio	1.02	1.07	1.23	1.45	1.00	1.05	0.95
10	Quick ratio	1.02	0.92	1.21	0.32	0.68	0.62	0.41
11	Accounts Receivable days	496658	23154	8099	2785	5457	1939	1025
12	Debt service ratio	0.00	0.00	0.00	0.00	0.00	0.00	
13	Accounts Payables days	1223	156	70	756	188	156	
14	GoM transfers/Rev.	0%	0%	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	-7%	0%	0%	67%
	DPR (variance)	40%	40%	40%	47%	40%	40%	-27%

Overview of financial performance

The figure above provides some highlights in terms of performance for National Oil Company of Malawi (NOCMA) over the past five financial years. The Board registered profit after tax in 2016 and 2015 financial years with a profit of MK 160 million in 2016 and MK209 million in 2015. The company experienced worst scenarios recorded in 2018, 2017 and 2014 when it posted significant losses of 1.2 billion in 2018, 893 million in 2017 and 7 million in 2014 which was largely contributed by the holding of fuel stock in depots for strategic purposes which has limited them from making more interest income.

On Return on Asset and Equity it indicate that beginning 2018 to 2014 financial year NOCMA cannot generate revenues as such the board cannot meet its short term obligations as they fall due. Substantially, the board experience good scenarios in 2015 when it posted 21% return on total equity signifies that the board has the ability to generate some returns on the capital invested. This shows that Management is not using well its assets to make profit. On cost recovery show that they have ability to generate adequate revenue to meet operational expenses for the past four years except in 2018, which put the institution on higher risk and lower credibility to the banks.

Overview of financial risks

The Board's profitability continues to remain poor. The operating profit margin after auditing accounts for 2018 stands at -70%, implying that for every kwacha of sales, the Board was making a loss of 70 tambala before tax and other charges. Thus, the sustained negative working capital position of the corporation puts it at a disadvantage including lower creditability in banks as well as creating a poor supplier relationships. Despite that in 2016 and 2015 there was some improvement on the performance when it posted a 17% and 40% on operating profit. On the liquidity ratios NOCMA was not favourable for the past five years with both current and quick ratios below required benchmarks putting its position to meet its financial obligations at risk.

Overview of financial flows with the government

The accounts receivable days continues to remain up and down for the past five years. The position worsened in 2018 with debt collection days as high as 5457 days which is still above the benchmark.

Policy specific issues for the Public Body

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

3.5 FINANCIAL SECTOR

3.5.1 Malawi Enterprises Development Fund (MEDF)

% Statutory Dividend Payout		100%	100%	100%	100%	100%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	(114,609)	(961,990)	2,604,987	515,863	492,802
2	Return on assets	-4%	-59%	57%	7%	11%
3	Return on total equity	-4%	-49%	68%	81%	11%
4	Cost recovery	95%	17%	644%	312%	320%
5	Gross profit margin	100%	100%	100%	100%	100%
6	Operating Profit Margin	-8%	-487%	68%	21%	27%
7	Asset Turnover*	0.61	0.22	1.00	0.39	0.42
8	Debt to equity	24%	38%	19%	154%	2%
9	Current ratio	3.61	1.89	5.89	8.48	35.70
10	Quick ratio	1.56	1.56	0.40	0.40	21.76
11	Accounts Receivable days	888	2379	7	36	35
12	Debt service ratio			0.00	0.00	0.00
14	GoM transfers/Rev.	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%	0%
DPR (variance)		100%	100%	100%	100%	100%

Overview of financial performance

The figure above provides some highlights in terms of performance for Malawi Enterprise Development Fund (MEDF) over the past five financial years. The Board registered profit after tax in 2018 and 2014 financial years with a profit of MK 2 billion in 2018 and 107 million in 2014. The company experienced worst scenarios

recorded in 2017. 2016 and 2015 when it posted significant losses of 961 million in 2017, 114 million in 2016 and 8 billion in 2015.

On Return on Asset and Equity it indicate that in 2018 financial year MEDF generate revenues as such the board can meet its short term obligations as they fall due. Substantially, the board experience worst scenarios for the past four years respectively. -59% return on asset and -49% on total equity in 2017 signifies that the board has no ability to generate some returns on the capital invested. This shows that Management is not using well its assets to make profit. On cost recovery show that they have ability to generate adequate revenue to meet operational expenses in 2018 and 2014 financial year but the beginning 2017 to 2015 financial years the situation was poor, which put the institution on higher risk and lower credibility to the banks.

Overview of financial risks

The Board’s profitability continues to remain poor. The operating profit margin after auditing accounts for 2017 stands at -487%, implying that for every annual sales, the Board was making a loss of 487million before tax and other charges. Thus, the sustained negative working capital position of the corporation puts it at a disadvantage including lower creditability in banks as well as creating a poor supplier relationships.

Overview of financial flows with the government

MEDF has not been able to remit dividend due to their perpetual deficits. The accounts receivable days continues to remain up and down for the past five years. The position worsened in 2018 with debt collection days as high as 128 days which is still above the benchmark.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Revenue Sales	MEDF loss making status mostly due to lack of capitalisation and old non-performing loans	There is need for government to inject capital and write off non-performing loans from the Books of accounts

3.6 GOVERNANCE SECTOR

3.6.1 Malawi Accountants Board (MAB)

% Statutory Dividend Payout		100%	100%	100%	100%	60%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	25,391	11,029	(22,836)	5,665	8,620
2	Return on assets	7%	3%	6%	2%	2%
3	Return on total equity	6%	3%	-7%	2%	2%
4	Cost recovery	82%	84%	75%	105%	103%
5	Gross profit margin	100%	100%	100%	100%	100%
6	Operating Profit Margin	20%	6%	13%	2%	2%
7	Asset Turnover*	0.37	0.54	0.53	0.95	0.92
8	Debt to equity	1%	3%	9%	0%	0%
9	Current ratio	50.51	31.22	9.68	161.90	173.72
10	Quick ratio	50.51	31.22	9.68	42.75	169.48
11	Accounts Receivable days	64	69	128	62	50
12	Debt service ratio	0.00	0.00	0.00	0.00	0.00
14	GoM transfers/Rev.	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	150%	60%
	DPR (variance)	100%	100%	100%	-50%	0%

Overview of financial performance

The figure above provides some highlights in terms of performance for Malawi Accountants Board (MAB) over the past five financial years. The Board registered profit after tax for the past two years respectively. The company experienced worst scenarios recorded in 2018 when it posted significant losses of 23 million.

On Return on Asset indicate that the MAB can generate revenues as such the board can meet its short term obligations as they fall due. However, MAB experience worst scenario recorded in 2017 with the Percent as low as 3% on return on asset. On quick ratio and cost recovery show that MAB have no ability to generate adequate revenue to meet operational expenses, which is not healthy to organization.

Overview of financial risks

The Board's profitability continues to remain good. The operating profit margin after auditing accounts for 2018 stands at 13%, implying that for every Kwacha of the sales, the Board was making a profit of 13 tambala before tax and other charges. Thus, the sustained positive working capital position of the corporation puts it at advantage including higher creditability in banks as well as creating a good supplier relationship.

Overview of financial flows with the government

The accounts receivable days continues to remain up and down for the past five years. The position worsened in 2018 with debt collection days as high as 128 days which is still above the benchmark.

Policy specific issues for the Public Body

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

3.6.2 Malawi Institute of Management (MIM)

% Statutory Dividend Pay		100%	100%	100%	100%	100%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	(58,208)	(354,273)	(338,064)	(61,543)	6,339
2	Return on assets	-2%	-33%	-16%		0%
3	Return on total equity	-2%	-14%	-82%	-18%	2%
4	Cost recovery	95%	74%	173%	189%	207%
5	Gross profit margin	39%	100%	43%	49%	100%
6	Operating Profit Margin	-6%	-35%	-36%	-4%	0%
7	Asset Turnover*	0.93	-3.23	2.28	-0.81	5.70
8	Debt to equity	54%	56%	413%	572%	478%
9	Current ratio	0.76	0.40	0.29	0.35	0.24
10	Quick ratio	0.52	0.27	0.25	0.33	0.21
11	Accounts Receivable days	212	107	107	158	38
12	Debt service ratio			0.00		0.00
13	Accounts Payables days	0		287	0	
14	GoM transfers/Rev.	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%	0%
	DPR (variance)	100%	100%	100%	100%	100%

Overview of financial performance

The figure above provides some highlights in terms of performance for Malawi Institute of Management (MIM) Board over the past five financial years. The Board registered losses after tax for the past five years respectively. The company experienced worst scenarios recorded in 2014, 2015, 2016, 2017 and 2018 when it posted significant losses of 982 million in 2014, 1 billion in 2015, 58 million in 2016, 354 million in 2017 and 338 million in 2018 respectively.

On Return on Asset and Equity it indicate that the MIM cannot generate revenues as such the board cannot meet its short term obligations as they fall due. On cost recovery show that they have no ability to generate adequate revenue to meet operational expenses. However, the Institution's ability to generate more revenue is there but it needs to do more to generate more revenue. The institution needs to work hard on the austerity measure it has put in place in order to reduce its expenditure.

Overview of financial risks

The Board's profitability continues to remain poor. The operating profit margin after auditing accounts for 2018 stands at -35%, implying that for every Kwacha of the sales, the Board was making a loss of 35 tambala before tax and other charges. Thus, the sustained negative working capital position of the corporation puts it at a disadvantage including lower creditability in banks as well as creating a poor supplier relationship.

In terms of its efficiency to use its assets, the Board has a very weak financial leverage position which is too vulnerable to any downturns as revealed by its ever-increasing high debt/equity ratio of 413% as at 2018. The Board was still struggling with its receivables management as the debt receivables days were still as high as 107 days as at FY 2018.

Overview of financial flows with the government

Malawi Institute of Management has not been able to remit dividend to government due to cash flow challenges.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy recommendations
Revenue Sales	There is need to improve revenue generation sources, need to follow up on austerity measures put in place to reduce expenditure.	Monitoring and improving revenue generation sources so that the institution can start posting profits.
Tax Arrears	There is need to pay the PAYE arrears and other obligations to government.	Monitoring that all obligations are being fulfilled

3.7 HEALTH SECTOR

3.7.1 Pharmacy, Medicines and Poisons Board (PMPB)

% Statutory Dividend Payou		100%	100%	100%	100%	100%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	787,025	306,171	121,240	489,460	170,774
2	Return on assets	45%	15%	5%	27%	7%
3	Return on total equity	49%	16%	6%	27%	7%
4	Cost recovery	235%	120%	110%	138%	109%
5	Gross profit margin	100%	100%	100%	100%	100%
6	Operating Profit Margin	59%	26%	9%	27%	8%
7	Asset Turnover*	0.83	0.61	0.65	0.99	0.91
8	Debt to equity	10%	10%	11%	1%	7%
9	Current ratio	4.80	4.44	1.68	26.34	1.81
10	Quick ratio	4.77	4.38	1.64	25.42	1.80
11	Accounts Receivable da	40	87	37	26	22
12	Debt service ratio	0.00		0.00	0.00	0.00
14	GoM transfers/Rev.	0%	11%	0%	0%	0%
15	Dividend payout ratio	0%	10%	0%	0%	100%
	DPR (variance)	100%	90%	100%	100%	0%

Overview of financial performance

The figure above provides some highlights in terms of performance for PMPB over the past five financial years. The Board registered profits after tax for the past five years respectively beginning from 2014 to 2018.

On Return on Asset and Equity it indicate that the PMPB generate revenues as such the board can meet its short term obligations as they fall due. Substantially, the 6% return on total equity in 2018 signifies that the board has a loss on the capital invested. However, the Management is using well its assets to make profit. On cost recovery show that they have ability to generate adequate revenue to meet operational expenses.

Overview of financial risks

The Board's profitability continues to remain good. The operating profit margin after auditing accounts for past five financial years was favourable, implying that the Board was doing well enough. Thus, the sustained a reasonable working capital position of the corporation puts it on advantage including higher creditability in banks as well as creating a good supplier relationships. However, in 2014, 2015 and 2016 the operating profit margin after tax was good. PMPB has been in a position to meet its short term financial obligations with current ratios and on the other hand quick ratios was not favourable over the past five years. This is not healthy for the organization and it poses high risk to the bank.

Overview of financial flows with the government

The accounts receivable days continues to remain up and down for the past five years. The position worsened in 2018 with debt collection days as high as 87 days which is still above the benchmark.

3.8 LABOUR SECTOR

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

% Statutory Dividend Payout		100%	100%	100%	100%	100%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	1,874,934	(391,976)	440,058	130,069	166,601
2	Return on assets	35%	-8%	3%	0%	2%
3	Return on total equity	49%	-11%	8%	2%	2%
4	Cost recovery	143%	94%	103%	103%	102%
5	Gross profit margin	100%	100%	100%	100%	100%
6	Operating Profit Margin	30%	-6%	3%	0%	2%
7	Asset Turnover*	1.64	1.74	1.59	1.07	0.85
8	Debt to equity	42%	49%	32%	36%	26%
9	Current ratio	2.70	2.70	3.27	2.42	3.30
10	Quick ratio	2.69	2.69	3.27	2.41	3.30
11	Accounts Receivable days	305	168	188	238	269
12	Debt service ratio	0.02	-0.56	0.00	0.00	9.60
14	GoM transfers/Rev.	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	2%	0%
	DPR (variance)	100%	100%	100%	98%	100%

Overview of financial performance

The Performance of TEVETA has been positive for the past five years. The Board registered profits after tax in three consecutive years that is 2014 to 2016 and 2018 financial years. The company experienced worst scenarios recorded in 2017 financial year when it posted significant loss of MK 391, 976 million. This is due to the TEVETA absence of qualified trainers to bring in any returns, resulting into very poor return on both asset and equity in 2017 financial year. The Return on assets has been good since 2014 except in 2017 financial year. This shows that Management is using well its assets to make profit.

Return on total equity for the 2015, 2017 and 2018 financial year was not favourable, which is not health to the organisation performance. However, in 2016 and 2014 financial indicate good performance. On cost recovery show that they have ability to generate adequate revenue to meet operational expenses. Despite the red flag in 2017 that need for corrective actions to be taken.

Overview of financial risks

Generally, TEVET has been heavily dependent on external financing for its ongoing operations rather than own generated resources over the last five years. The TEVETA profitability continues to remain good. The operating profit margin after auditing accounts for 2017 positioned at -6%, implying that for every Kwacha of the sales, the TEVETA was making a loss of 6 tambala before tax and other charges. TEVET has been in a position to meet its financial obligations with both current and quick ratios above required benchmarks, however, for both the current and quick ratios estimates for the 2018/2019 financial year there is need for close monitoring. Asset turnover and Account receivable days are very bad which need immediate action.

Overview of financial flows with the government

TEVETA has not been able to remit dividend to Government due to Government continued recently been committing lower amount that reducing the amount realized as public sector levy. However, Government is legally supposed to pay over MK2.6 billion representing 1% of its current wage bills. During the Financial Years 2014, 2015, 2016, 2017 and 2018, the Board strengthened debt collection as indicated by accounts payable days of 76, 141,305, 168 and 245 days. The TEVETA Management should put in place measures in order to reduce the account payable days. On quick Ratio, the institution is liquid enough to pay it payables when they are due because the ratio is more than was 2 over the past five years except in 2015.

Policy specific issues for the Public Body

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

3.9 LANDS AND HOUSING SECTOR

3.9.1 Malawi Housing Corporation (MHC)

% Statutory Dividend Payout		40%	40%	40%	40%	40%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	55,198	210,000	257,390	549,052	756,532
2	Return on assets	0%	0%	0%	1%	1%
3	Return on total equity	0%	0%	0%	1%	1%
4	Cost recovery	112%	114%	71%	553%	559%
5	Gross profit margin	100%	100%	100%	100%	100%
6	Operating Profit Margin	5%	8%	12%	13%	15%
7	Asset Turnover*	0.05	0.05	0.04	0.07	0.07
8	Debt to equity	7%	6%	5%	7%	8%
9	Current ratio	0.86	0.88	0.65	0.80	0.92
10	Quick ratio	0.41	0.37	0.40	0.33	0.64
11	Accounts Receivable da	173	136	193	148	113
12	Debt service ratio	0.00	0.00	0.00		0.78
14	GoM transfers/Rev.	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%	0%
	DPR (variance)	40%	40%	40%	40%	40%

Overview of financial performance

The financial performance of Malawi Housing Corporation has generally been good over the last three financial years with the Institution posting profits of MK257 million in 2018 financial year alone. This was largely due to the fact that MHC managed to sale more plots and regularised encroached areas. MHC also

managed to have its act amended which has helped the corporation to collect rentals and make more profits and finance more housing projects.

On Return on Asset and Equity it indicate that the MHC cannot generate revenues as such the board cannot meet its short term obligations as they fall due. However, the Management is not using well its assets to make profit they is need to be improved immediately. On cost recovery MHC shows that they have no ability to generate adequate revenue to meet operational expenses.

Overview of financial risks

Generally, MHC has been heavily dependent of external financing for its ongoing investments rather than own generated resources over the last five years. MHC's Operating Profit Margin has proved to be fair. Asset turnover is very bad which need immediate action. Debt to equity is very good and MHC has been not in a position to meet its financial obligations with both current and quick ratios below the required benchmarks

Overview of financial flows with the government

Over the last two financial years, government provided support to the social obligation in MHC by authorising the entity to borrow 6 Billion in order to finance its project of constructing 200 houses which is to commence in April, 2019. In addition, Government provided a promissory notes of 1.3Billion which was used to clear rent arrears accumulated through Ministry of Lands dating back to 2013 and upon liquidation, the realised amount was used to clear tax arrears with MRA in October, 2018. Furthermore, considering the market share and competition the company is facing, MHC needs to change its way of doing business and be realistic in rental charges against the cost of goods and services in order to keep its properties in good condition and remain the most preferable institution by many.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Revenue Sales	There is need to put strategies in place in order to generate more sales. Increase debt collection.	Monitoring and regularising encroached areas and creation of more plots for sale. Intensifying collections from house rentals and ground rentals.
Borrowing	High indebtedness of MHC has resulted in payment of high interests.	Need to monitor all new loans contracted and should be well negotiated with financiers.

3.10 TRADE AND TOURISM SECTOR

3.10.1 Malawi Bureau of Standards (MBS)

% Statutory Dividend Payout		100%	100%	100%	100%	100%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	397,574	1,055,580	2,298,523	1,713,274	1,119,328
2	Return on assets	15%	22%	24%	12%	8%
3	Return on total equity	16%	24%	27%	13%	8%
4	Cost recovery	115%	140%	161%	391%	266%
5	Gross profit margin	100%	100%	100%	100%	100%
6	Operating Profit Margin	17%	28%	50%	27%	16%
7	Asset Turnover*	0.97	0.85	0.55	0.47	0.52
8	Debt to equity	5%	10%	15%	5%	4%
9	Current ratio	11.24	5.59	2.70	6.48	5.02
10	Quick ratio	2.15	2.43	2.68	1.16	4.94
11	Accounts Receivable day	44	14	14	18	20
12	Debt service ratio	0.00	0.00	0.00	0.00	0.00
14	GoM transfers/Rev.	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	33%	60%	82%	83%
	DPR (variance)	100%	67%	40%	18%	17%

Overview of financial performance

The overall financial performance of MBS over the past five years was generally been on the positive side, with the Institutions registered profit after tax for the consecutive years and in 2018 it was recorded highest profit of 2 billion. On Return on asset and equity for the past five years was favourable, which is health to the organisation performance. On cost recovery show that they have ability to generate adequate revenue to meet operational expenses.

Overview of financial risks

The operating profit margin for MBS remains good over the past fivers. MBS has been in a position to meet its financial obligations with both current and quick ratios above the required benchmarks. However, in 2018 the quick ratio was below the benchmark, which signifies that MBS cannot meet its short term obligation. Furth more, considering the account receivable days remains good for the past five financial years with the average of 44 days.

Overview of financial flows with the government

The Government is funding the construction of new offices and laboratory complex for the Bureau with a total cost of MK12.4 billion.

3.10.2 National Lotteries Board (NLB)/ Malawi Gaming Board (MGB)

% Statutory Dividend Payout Ratio		100%	100%	100%	100%	100%
No.	Indicator	2015 Audited	2016 Audited	2017 Audited	2018 Audited	2019 Revised
1	Profit after tax	88,334	45,526	115,269	334,139	435,223
2	Return on assets	7%	6%	13%	31%	27%
3	Return on total equity	14%	7%	17%	42%	37%
4	Cost recovery	118%	108%	117%	144%	147%
5	Gross profit margin	100%	100%	100%	100%	100%
6	Operating Profit Margin	15%	8%	14%	30%	32%
7	Asset Turnover*	0.48	0.96	1.19	1.40	1.17
8	Debt to equity	1%	18%	26%	38%	36%
9	Current ratio	48.98	4.01	2.70	2.08	1.86
10	Quick ratio	13.20	3.88	2.68	2.07	2.24
11	Accounts Receivable days	118	106	103	68	208
12	Debt service ratio		0.00	0.00	0.00	0.00
14	GoM transfers/Rev.	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	66%	52%	8%	5%
	DPR (variance)	100%	34%	48%	92%	95%

Overview of financial performance

The financial performance of MGB has generally been good over the last five financial years with the Institutions registered profit for the consecutive years, resulting into very good return on return on assets investment. Return on total equity for the 2015, 2016, 2017 and 2018 financial year was not favourable, which is not health to the organisation performance. However, in 2014 financial year the performance was good recorded 22%. On cost recovery show that they have ability to generate adequate revenue to meet operational expenses.

Overview of financial risks

The operating profit margin for MGB remains good over the past fivers. The Asset turnover for MGB remains poor over the past fivers. MGB has been in a position to meet its financial obligations with both current and quick ratios above the required benchmarks. Furth more, considering the account receivable days remains poor for the past four financial years with the average of 118 days. However, the situation seems improving in 2018 with 59 days. The MGB Board should take immediate action in order to improve the receivable days to 30 days.

Overview of financial flows with the government

The Institution is able to remit the surplus to Government.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Required action for follow up (letter of intent)
Revenue Sales	Lack of National Lottery affecting the revenues from the Lotteries section	Need for good operating environment to attract a national Lottery operator

3.11 TRANSPORT AND PUBLIC WORKS SECTOR

3.11.1 Air Cargo Malawi Limited (ACM)

% Statutory Dividend Payout		40%	40%	40%	40%	40%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	93,741	158,850	179,161	107,048	180,661
2	Return on assets	13%	19%	14%	13%	13%
3	Return on total equity	14%	14%	21%	15%	15%
4	Cost recovery	220%	159%	166%	170%	222%
5	Gross profit margin	100%	35%	40%	41%	51%
6	Operating Profit Margin	7%	6%	5%	4%	6%
7	Asset Turnover*	4.21	7.22	5.25	7.10	3.64
8	Debt to equity	138%	52%	92%	98%	61%
9	Current ratio	1.72	1.55	1.74	1.44	1.88
10	Quick ratio	1.50	1.14	1.61	0.82	1.94
11	Accounts Receivable day	143	41	81	23	63
12	Debt service ratio	0.00	0.00	0.00		0.00
13	Accounts Payables days		98	70	37	83
14	GoM transfers/Rev.	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	40%	0%	0%	24%
	DPR (variance)	40%	0%	40%	40%	16%

Overview of financial performance

Air Cargo Malawi Limited (ACM) was formed in 1979 in accordance with the company's act 1984. It operates from Kamuzu International Airport (KIA), Chileka Airport and it also has an office near London Heathrow. The figure above provides some highlights in terms of performance for ACM over the past five financial years. The Board registered profits after tax for the past five years respectively beginning from 2014 to 2018.

On Return on Asset and Equity it indicate that the ACM generate revenues as such the board can meet its short term obligations as they fall due. Substantially, the 14% return on total equity in 2016 and 2017 signifies that the board has to improve on ability to generate some returns on the capital invested. However, the Management is using well its assets to make profit. On cost recovery show that they have ability to generate adequate revenue to meet operational expenses.

Overview of financial risks

The Board's profitability continues to remain reasonable. The operating profit margin after auditing accounts for 2018 and 2017 stands at 5%, and 6% implying that the Board was not doing good enough. Thus, the sustained a reasonable working capital position of the corporation puts it at a disadvantage including lower creditability in banks as well as creating a poor supplier relationships. However, in 2014, 2015 and 2016 the operating profit margin after tax was good. ACM has been in a position to meet its short term financial obligations with both current and quick ratios with an average of 1.74% and on debt to equity the board has poor performance over the past five years.

Overview of financial flows with the government

The accounts receivable days continues to remain high for the past five years. The position worsened in 2016 with debt collection days as high as 143 days and going forward, the trade receivables as high as 70 days which is still above the benchmark.

Policy specific issues for the Public Body

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

3.11.2 Airport Development Ltd (ADL)

% Statutory Dividend Payout		40%	40%	40%	40%	40%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	FY18-19 Revised	2019/20 Estimate
1	Profit after tax	2,753,324	5,476,885	6,296,447	63,225	454,778
2	Return on assets	10%	21%	18%	0%	1%
3	Return on total equity	14%	22%	18%	0%	1%
4	Cost recovery	278%	257%	105%	145%	116%
5	Gross profit margin	95%	97%	85%	75%	69%
6	Operating Profit Margin	58%	79%	313%	3%	17%
7	Asset Turnover*	0.18	0.27	0.06	0.07	0.07
8	Debt to equity	3%	3%	3%	4%	3%
9	Current ratio	1.37	2.12	1.28	1.10	1.96
10	Quick ratio	1.25	1.81	1.14	0.94	1.68
11	Accounts Receivable days	196	230	151	139	113
12	Debt service ratio	0.08	0.20	0.14	0.26	0.06
13	Accounts Payables days	1076	627	519	344	289
14	GoM transfers/Rev.	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	47%	22%
	DPR (variance)	40%	40%	40%	-7%	18%

Overview of financial performance

The figure above provides some highlights in terms of performance for ADL over the past three financial years. The Board registered profits after tax for 2016, 2017 and 2018 consecutively.

ADL on Return on Asset and Equity it indicate that the ADL generate revenues as such the board can meet its short term obligations as they fall due. Substantially, the 14% and 13% return on total equity in 2016 and 2017 signifies that the board has to improve on ability to generate some returns on the capital invested. However, the Management is using well its assets to make profit. On cost recovery ADL shows that they have ability to generate adequate revenue to meet operational expenses

Overview of financial risks

The Board's profitability continues to remain good. The operating profit margin after auditing accounts for 2018, 2017 and 2016 stands at 30%, and 31% implying that the Board was doing good enough. Thus, the sustained a reasonable working capital position of the corporation puts it at an advantage including higher creditability in banks as well as creating a good supplier relationships. ADL has been in a position to meet its short term financial obligations with both current and quick ratios with an average of 1.20% and on debt to equity the board has a favourable performance over the past three years.

Overview of financial flows with the government

The accounts receivable days continues to remain high for the past three years. The position worsened in 2018 with debt collection days as high as 151 days, the trade receivables as high as 519 days which is still above the benchmark.

Policy specific issues for the Public Body

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

3.11.3 Lilongwe Handling Company Limited (LIHACO)

% Statutory Dividend Payout		40%	40%	40%	40%	40%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	269,812	548,631	85,146	83,006	8,684
2	Return on assets	29%	39%	8%	6%	0%
3	Return on total equity	171%	86%	12%	7%	1%
4	Cost recovery	185%	229%	195%	243%	214%
5	Gross profit margin	46%	56%	49%	59%	51%
6	Operating Profit Margin	14%	21%	5%	4%	0%
7	Asset Turnover*	15.22	4.78	4.17	2.66	2.69
8	Debt to equity	632%	156%	169%	87%	118%
9	Current ratio	0.96	1.13	0.83	3.81	0.91
10	Quick ratio	0.64	0.71	0.40	1.07	0.54
11	Accounts Receivable days	82	71	68	65	47
12	Debt service ratio	0.18	0.18	0.11	1.00	0.00
13	Accounts Payables days	106	130	184	156	171
14	GoM transfers/Rev.	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%	0%
DPR (variance)		40%	40%	40%	40%	40%

Overview of financial performance

The financial performance of LIHACO has been generally good over the last three financial years with the Institution posting profit consecutively. This was largely due to the fact that LIHACO increase use of equipment that generated revenue per use and Malawian Airlines introduction of new route and also due to increase in Adhoc operations. The profit after tax at the end of the year 2018 recorded is MK 75, 220 million. However, the company experienced worst scenarios recorded in 2015 when it posted significant losses of 280, 035 million.

The Return on assets and Equity has been good over the past financial years. Though return on equity in 2018 shows a yellow flag which needs the Management of LIHACO to take a close monitoring. This shows that Management is using well its assets to make profit. On cost recovery show that they have ability to generate adequate revenue to meet operational expenses.

However, the overall financial performance of LIHACO puts the commercial viability of the Institutions to question hence the need for corrective actions to be taken.

Overview of financial risks

Generally, LIHACO has not been in a position to meet its financial obligations with both current and quick ratios below required benchmarks. Furthermore, considering the indebtedness of the company, the debt service coverage ratio shows a very high risk to the borrowers as the company has not been generating adequate cash flows to support interest payments. Also, considering the account receivable and account payable days remains poor for the past five financial years with the average of 87 days. The Board should take immediate action in order to improve the receivable and payable days to 30 days.

Overview of financial flows with the government

Over the past financial years, LIHACO has not been able to pay out its dividends due to cash flow challenges arising from the reinvestment in equipment to sustain its operations. LIHACO made instalment of MK 10 million towards the 2017/18 dividend liability reducing the liability for 2017/18 financial year to MK 20 million, which will be settled in the second half of the financial year 2018/19.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Cash flow	Cash flow remains a challenge to the operations of LIHACO	LIHACO management need to take corrective action to address asset turn over, current ratio, quick ratio, debt ratios and account payable days.

3.11.4 National Construction Industrial Council (NCIC)

% Statutory Dividend Payout		100%	100%	100%	100%	60%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	(54,007)	4,358	43,277	92,086	139,418
2	Return on assets	-5%	0%	3%	2%	6%
3	Return on total equity	-6%	0%	4%	7%	10%
4	Cost recovery	101%	105%	100%	358%	106%
5	Gross profit margin	100%	100%	100%	1%	100%
6	Operating Profit Margin	-4%	0%	2%	1%	5%
7	Asset Turnover*	1.28	1.65	1.41	2.08	2.17
8	Debt to equity	14%	12%	10%	35%	63%
9	Current ratio	3.40	3.90	3.21	1.51	0.53
10	Quick ratio	3.40	3.90	3.21	1.51	0.53
11	Accounts Receivable days	117	83	50	28	29
12	Debt service ratio	-0.04	0.05	0.03	0.00	0.00
14	GoM transfers/Rev.	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	60%	60%	0%	60%
	DPR (variance)	100%	40%	40%	100%	0%

Overview of financial performance

The financial performance and operational performance for the council has been reasonable over the years. The Board registered profits after tax in 2013, 2014, 2015, 2017 and 2018 respectively. The company experience worst scenarios recorded in 2016 when it posted significant losses of 232 million. NCIC on Return on Asset and Equity cannot generate revenue as such the board cannot meet its short term obligations as they fall due. Substantially, the 4% return on total equity in 2018 signifies that the board has no ability to generate some returns on the capital invested. However, the situation was good in 2013 on both equity and return on

asset. This shows that Management is not using well its assets to make profit. On cost recovery show that they have ability to generate adequate revenue to meet operational expenses.

Overview of financial risks

The Board’s profitability continues to remain poor. The operating profit margin after auditing accounts for 2018, 2017, and 2016 stands at 2%, 0% and -5% implying that for every Kwacha of the sales, the Board was making a loss of 5 tambala before tax and other charges. Thus, the sustained negative working capital position of the corporation puts it at a disadvantage including lower creditability in banks as well as creating a poor supplier relationships. However, in 2013 and 2015 the operating profit margin after tax was good. NCIC has been in a position to meet its financial obligations with both current and quick ratios above required benchmarks.

Overview of financial flows with the government

On the other hand, NCIC has not been able to remit dividend to Government due to continued cash flow challenges. During the Financial Years 2014, 2015, 2016 and 2017, the Board intensified debt collection as indicated by accounts receivable days of 149, 109 and 83 days respectively. However, the situation improves in 2018 with 50 days.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Cash Flow	Delayed debtors payment reduces cash flows	Enforce collections on debts

3.12 WATER SECTOR

3.12.1 Blantyre Water Board (BWB)

% Statutory Dividend Payout Ra		40%	40%	40%	40%	40%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	(1,978,781)	(5,450,606)	(2,333,334)	46,020	2,279,633
2	Return on assets	-12%	-1%	-7%	4%	14%
3	Return on total equity	-62%	235%	49%	-1%	-62%
4	Cost recovery	62%	75%	83%	110%	128%
5	Gross profit margin	41%	49%	52%	51%	55%
6	Operating Profit Margin	-38%	-3%	-18%	11%	24%
7	Asset Turnover*	3.19	-5.61	-3.33	-3.76	-3.68
8	Debt to equity	860%	1683%	860%	169%	94%
9	Current ratio	0.35	0.25	0.37	0.24	0.32
10	Quick ratio	0.32	0.20	0.30	0.32	0.55
11	Accounts Receivable days	158	145	163	110	87
12	Debt service ratio	0.08	0.41	1.23	-0.02	0.00
13	Accounts Payables days	189.33	287.11	320	151	40
14	GoM transfers/Rev.	16%	1%	3%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%	0%
	DPR (variance)	40%	40%	40%	40%	40%

Overview of financial performance

The figure above provides some highlights in terms of performance for Blantyre Water Board over the past five financial years. The Board registered profits after tax in 2012 and 2013 respectively but beginning 2014 up to 2018, the Board continued to register losses. The company experienced worst scenarios recorded in 2017 and 2018 when it posted significant losses of 3.4 billion in 2017 and 4.11 billion in 2018 respectively. The focus will be on reducing non-revenue water, enhancing revenue collection and sustaining the current production that satisfies the demand. Furthermore, extra efforts to reduce Non-Revenue Water will include undertaking major pipe replacement, installation of ball valves in reservoir, faulty meter replacement, meter validation, disconnecting illegal connections and activating lost connections.

Overview of financial risks

The Board's profitability continues to remain poor. The operating profit margin after auditing accounts for 2018 stands at -17%, implying that for every Kwacha of the sales, the Board was making a loss of 17 tambala before tax and other charges. Thus, the sustained negative working capital position of the corporation puts it at a disadvantage including lower creditability in banks as well as creating a poor supplier relationships.

In terms of its efficiency to use its assets, the Board has a very weak financial leverage position which is too vulnerable to any downturns as revealed by its ever increasing high debt/equity ratio of 2057% as at 2016. The Board was still struggling with its receivables management as the debt receivables days were still as high at 136 days as at, 2018. This adverse performance was largely as a result of non-payment of outstanding bills by both public and private customers. However, the Board has intensified debt collection by conducting periodic mass disconnection campaigns and cleaning up of customer data-base through customer verification exercises. As a result, the Board intends to reduce debt receivable days to 49 days by close of the following financial year.

The liquidity position of BWB continued to be weak and below desirable levels of more than 2:1. With a liquid ratio of 0.39:1 of 2018 Financial Year impinging that the Board is still unable to meet its current liabilities as they fall due. Moreover, the debt ratio stood at 0.9% as at 2018 implying that the Board was heavily finance through borrowing as opposed to own generated resources.

Overview of financial flows with the government

On the other hand, Blantyre Water Board has not been able to remit dividend to Government due to continued cash flow challenges. During the Financial Years 2014, 2015 and 2017, the Board intensified debt collection as indicated by accounts payable days of 56, 59 and 52 days respectively through massive water disconnections due to non-payment of outstanding water bills and illegal connections. The corporation will continue to intensify measures to improve its operation efficiency in the planning year though reduction of Non-Revenue Water as indicated by the lower Accounts Receivable Days of 49 in the ensuing year. These measures will ultimately improve the financial position of the Board and eventually remit dividends to Government.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Revenue Sales	Growth in capital expenditure, Increase of Non-Revenue Water	Improve debt collection strategies
Tax Arrears	Non-payment of bills by public and private entities	Disconnections and prepaid meters installation.
Dividend payment	Increase of receivables due to non-payment of outstanding bills from both government and private customers.	Installation of Prepaid Meters.
Pension arrears	Un anticipated rise in the cost of electricity which has been the main driving factor of the cost of sales and eventually eating up the expected revenue including pension contribution.	Embark on different project aimed at increasing the water production levels to generate enough revenue and settle outstanding obligations.
Tariff changes	Failure to implement the planned tariff.	Government should approve on time the proposed tariff adjustment.

Proposed Policy Recommendations

- Improve on revenue generation and management of costs to maximize returns and improve liquidity for investment
- Need for settling all outstanding statutory obligations including dividend to the shareholder

3.12.2 Central Region Water Board (CRWB)

% Statutory Dividend Payou		40%	40%	40%	40%	40%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2019/20 Estimate
1	Profit after tax	5,682	163,164	2,769,613	41,678	120,740
2	Return on assets	1%	1%	0%	1%	1%
3	Return on total equity	0%	3%	-503%	350%	31%
4	Cost recovery	118%	126%	143%	136%	131%
5	Gross profit margin	100%	100%	100%	100%	100%
6	Operating Profit Margin	3%	3%	-2%	2%	4%
7	Asset Turnover*	0.52	0.60	-6.80	407.47	12.19
8	Debt to equity	185%	183%	-2972%	140054%	\$38.96
9	Current ratio	0.88	1.10	0.73	0.87	1.33
10	Quick ratio	0.72	2.06	0.70	0.84	1.17
11	Accounts Receivable da	193	246	276	242	79
12	Debt service ratio	0.24	0.25	0.01	0.31	0.13
14	GoM transfers/Rev.	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	67%	63%
	DPR (variance)	40%	40%	40%	-27%	-23%

Overview of financial performance

The financial performance Central Region Water Board has been generally good over the past years. Central Region Water Board registered a profit after tax for three respectively years, the Board register MK2.77 billion in 2018 financial year alone. The company experience worst scenarios recorded in 2015 when it posted significant loss of 166, 291 million.

Board's return on assets and equity cannot generate revenue as such the board cannot meet its short term obligations as they fall due. Substantially, the -503% return on total equity in 2018 signifies that the board has no ability to generate some returns on the capital invested. This shows that Management is not using well its assets to make profit. On cost recovery show that they have ability to generate adequate revenue to meet operational expenses.

Overview of financial risks

The liquidity position still remained below the required benchmark with a current ratio moving from 0.62 in 2012 to 0.73 in 2018. This is due to delayed payment by Malawi Defense Force and slow recovery of water bills from other Government major institutions has been a major cause of cash flow challenges faced by the Board.

Similarly, the Board continues to have a very weak financial leverage with a debt/equity ratio at 1.0 % in 2012 to 2015 the ensuing year implying that the Board's operations are largely financed through external means as opposed to self-generated resources. The Board intends to bring back its position on track through debt collection and prepaid meters installation. However, the trend continue to improve in debt/equity ratio from 2016 to 2018.

Overview of financial flows with the government

The board has not been able to collect from its trade debtors for the past eight years both from public and private entities and this has continued to pose pressure on the cash flow of the board. Accounts receivable days accounted for 246, 276 and 642 days in 2017, 2018 respectively. This has eventually affected the corporation to continue defaulting on dividend remittance to Government.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Revenue Sales	Drying up of some dams and increase in Non-Revenue Water	<ul style="list-style-type: none"> • Development of additional groundwater sources in Bunda and Lifuwu, and boreholes under Malawi Drought Recovery and Resilience Project (MDRRP); • Rehabilitation of aged infrastructure including pipe network and storage tanks; • Use of backup diesel power supply in Salima Lakeshore, Kasungu, Bunda, Dwangwa, Ntchisi, Ntcheu, Nkhota-kota and Mponela schemes (diesel generators); and • Use of solar energy on 16 boreholes, 13 of which are under MDRRP.
Tax Arrears	Trade debtor both from private and public entities	Intensifying on debt collection
Public Debt	Cash flow challenges. i.e. higher debt to equity ratio.	Need for management to generate other revenue from its assets through significant investments.
Dividend payment	Accounts receivables, 82% from public entities whereas 12% constitutes private entities	Installation of prepaid meters
Salaries/Staff costs	Significant increase in the salary movements beyond the required benchmark of 10% salary adjustment inclusive of cost of living. Additionally implementing salary movement together with functional reviews within the same financial year.	Salary movements to be within 10% including the cost of living. On the other hand in an event a functional review is being implemented, the normal salary adjustment of 10% doesn't apply until 12 months elapses from the day the functional review has been effected by Government.
Tariff changes	Non approval of proposed tariffs	Government approval of tariff to boost revenue
Pension arrears	Non-payment of water bills hence defaulting on pension contribution	Strategize on debt collection.
Cash Flow	Prolonged trade receivables and low liquidity ratios, quick and current ratios	Intensify on debt collection to address the bottom line.

Proposed Policy Recommendations

- Pre-paid water meters installation in the planning year to improve collection efficiency and, hence, the Board's cash flow.
- Protect water catchments through re-forestation and training of communities in catchment conservations.

3.12.3 Lilongwe Water Board (LWB)

% Statutory Dividend Payou		40%	40%	40%	40%	40%	40%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2019 Audited	2020 Budget
1	Profit after tax	2,753,324	3,410,116	2,458,286	4,936,587	4,773,177	5,158,587
2	Return on assets	8%	10%	8%	10%	8%	9%
3	Return on total equity	13%	14%	9%	10%	14%	12%
4	Cost recovery	139%	152%	130%	414%	152%	457%
5	Gross profit margin	100%	100%	100%	100%	100%	100%
6	Operating Profit Margin	30%	31%	25%	25%	30%	18%
7	Asset Turnover*	0.58	0.64	0.64	0.59	0.64	0.91
8	Debt to equity	108%	99%	98%	51%	152%	82%
9	Current ratio	2.06	2.83	3.44	1.37	7.64	2.15
10	Quick ratio	1.81	2.47	3.12	1.10	4.32	1.65
11	Accounts Receivable da	164	174	208	76	198	118
12	Debt service ratio	0.13	0.09	0.14	0.04	0.19	0.18
14	GoM transfers/Rev.	0%	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%	0%	0%
	DPR (variance)	40%	40%	40%	40%	40%	40%

Overview of financial performance

The analyses shows that Lilongwe Water Board (LWB) has been registering profit after tax since 2013 and as at 2018, a profit after tax of MK4.6 billion was realized. The board has set out ambitious targets aimed at improving its operational efficiency such as operationalization of the District Metered Areas, automation of tank monitoring mechanism, replacement of stuck meters and introduction of tip-off anonymous schemes on illegal connections.

Return on Asset shows the favorable performance from 2015 to 2018 financial year and in 2013 and 2014 the situation was poor. Return on total equity for the 2013, 2014, 2015, 2016, 2017 and 2018 financial year was not favourable, which is not health to the organization performance.

Overview of financial risks

Shifting the focus to liquidity of the board, the position improved in 2017/2018 financial year to 3.45:1 from 3.39:1 in 2016/2017 financial year. However this position was worse in 2012 to 2014 financial year with an average of 1.06 ratio. Though liquidity is indicating a reduction in the ensuing year, the corporation still has the ability to settle its current liabilities as they fall due. Debt /equity ratio was very low at 7% in 2017 signifies efforts by management to finance their operations by equity rather than debt.

Overview of financial flows with the government

The accounts receivable days continues to remain high for the past seven years. The position worsened in 2018 with debt collection days as high as 292 days and going forward, the trade receivables will slightly reduce to 118 days which is still above the benchmark. Dividends that were due for remission to Government for the period to December 2018 were those arising from reported profits from the audited 2017-18 financial statements.

In the case of LWB, a formal arrangement was made with the Ministry of Finance, Economic Planning and Development (MoFEP&D), as included in the 2017-18 Shareholder’s Letter of Expectations, for LWB to honor its dividends remission through the payment of counterpart Resettlement Action Plan (RAP) financing under the Kamuzu Dam 1 Raising Project to the sum of MK1. 2 billion. This was duly honored by LWB.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Sales Revenue	<ul style="list-style-type: none"> • Rapid population growth exerting pressure on the current supply side. • Diminishing water supply source coupled with impacts of environmental degradation and climate change, are compromising the Board’s potential to meet the water demand in its supply area. 	Expanding on the scale of operation through diverse projects in its supply area.
Tax Arrears	<ul style="list-style-type: none"> • The National Bank of Malawi interest payments exerted pressure on the Board’s cash flows in in 2018/2019 financial year. Corporation tax arising from reported profits from the audited 2017-18 financial statements was MK1.2 billion. The Board had paid MK875 million as at 31st December 2018 with a balance due of MK225 million. • As at 31st December, 2018, the Board had a one-month outstanding balance of MK240 million due to the MRA. Unpaid Government water debtors compromised the Board’s ability to remit VAT from water sales whose receipts had not been collected. 	Intensifying on debt collection coupled with prepaid meters installation.
Dividend payment	no interim dividend had been declared at the mid – year arising from the National Bank of Malawi (NBM) loan interest payments	Honour statutory obligations
Borrowing	Budget deficits to sustain other development projects	Need to bank on other significant investments.
Cash Flow	High levels of accounts receivables	Manage trade debtors to pay outstanding bills

Proposed Policy Recommendations

- Rationalizing on the routing capital expenditure items and channel resources to operational activities.
- Need for expanding on the scope of operation.
- Need for management of borrowing levels.

3.12.4 Northern Region Water Board (NRWB)

% Statutory Dividend Payout		40%	40%	40%	40%	40%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	765,824	1,225,997	185,504	329,960	395,066
2	Return on assets	1%	1%	1%	1%	1%
3	Return on total equity	11%	17%	2%	3%	3%
4	Cost recovery	234%	237%	894%	1074%	478%
5	Gross profit margin	100%	100%	100%	100%	100%
6	Operating Profit Margin	6%	5%	4%	6%	5%
7	Asset Turnover*	0.67	0.84	0.52	0.73	0.87
8	Debt to equity	195%	266%	210%	247%	285%
9	Current ratio	0.78	1.24	1.03	0.94	1.46
10	Quick ratio	0.34	0.83	0.85	0.79	1.17
11	Accounts Receivable da	132	277	250	264	161
12	Debt service ratio	0.23	2.20	0.23		
14	GoM transfers/Rev.	2%	2%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%	32%
	DPR (variance)	40%	40%	40%	40%	8%

Overview of financial performance

Performance of Northern Region Water Board has been affirmative. A profit after tax has been registered since 2013 with a relatively high profit after tax of MK1.2 billion registered in 2017. The profit has been rising due to the improvement in sales revenues as a result of water tariff increase. Overall NRWB maintained its profitability with a profit after tax of MK 185.5million in 2017/18.

Board's return on assets cannot generate revenue as such the board cannot meet its short term obligations as they fall due. Substantially, the 17% return on total equity in 2017 signifies that the board has ability to generate some returns on the capital invested. But generally the performance of both return on asset and equity are worse since 2013 financial years to date. This shows that Management is not using well its assets to make profit. On cost recovery show that they have ability to generate adequate revenue to meet operational expenses.

Overview of financial risks

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

The board posted debt to equity ratios of 195%, 266% and 210% in 2016 2017 and 2018 financial years respectively. The position will continue to worsen up to 2019 with a high debt to equity ratio of 247%. Similarly, the liquidity position of the board has been fluctuating below the required benchmark implying that the board has not been able to meet its short-term obligations as they follow due.

Overview of financial flows with the government

The corporation has not been able to remit dividend to government due to cash flow challenges. Considering the ongoing challenges facing the corporation, NRWB intends to lobby with Government for bail out on the payment of outstanding water bills currently at MK3.2 billion but projected to grow to MK3.9 billion by June 2019. Government has so far transferred MK17billion of which MK1.2 billion for the payment of outstanding employee pension contributions and MK500 million to clear an outstanding loan with National Bank.

Similar, accounts receivable days have been increasing largely arising from public debtors since 2013 to 2018. In 2018, the trade debtor days were as high as 250 days.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Required action for follow up (letter of intent)
Revenue Sales	Rise in electricity costs	Prepaid meters installation
Tax Arrears	Non-payment of water bills	Install prepaid meters
Public Debt	Cash flow challenges	Embark on significant investments to meet current demand in its supply area.
Dividend payment	Rise in the accounts receivables largely from public institutions	Install prepaid meters
Pension arrears	Increase in trade debtors leading to defaulting on pension contribution.	Invest on projects that will boost the revenue for the corporation.

Proposed Policy Recommendations

- Install prepaid meters.
- Intensify on massive disconnections to outstanding bills

3.12.5 Southern Region Water Board (SRWB)

% Statutory Dividend Payou		40%	40%	40%	40%	40%
No.	Indicator	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	439,383	596,710	837,612	-	1,768,487
2	Return on assets	2%	2%	8%		6%
3	Return on total equity	2%	3%	4%		7%
4	Cost recovery	161%	160%	411%	320%	1736%
5	Gross profit margin	100%	100%	100%	100%	100%
6	Operating Profit Margi	10%	9%	36%	0%	21%
7	Asset Turnover*	0.25	0.38	0.37		0.58
8	Debt to equity	38%	48%	56%		100%
9	Current ratio	1.59	1.52	1.63		1.24
10	Quick ratio	1.40	1.41	1.54		1.16
11	Accounts Receivable da	231	295	423	0	145
12	Debt service ratio	1.00	1.00	0.00	1.00	0.00
14	GoM transfers/Rev.	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	5%		40%
	DPR (variance)	40%	40%	35%	40%	0%

Overview of financial performance

Southern Region Water Board has been registering losses from 2012 up to 2016. The turning point for SRWB was in 2016/2017 Financial Year when the institution registered a profit after tax of MK 439.4 million. The trend continued to rise in 2017 and 2018 with the institution posting profits after tax of 596.7 and 837.6 respectively this is due to a reduction in Non-Revenue Water and increased water supply coverage among other strategies.

Generally, the overall financial performance of Southern Region Water Board requires collective action to improve its operation efficiency.

Overview of financial risks

Generally, Southern Region Water Board has managed to rely on self-generated resources as opposed external financing for the past four years despite the company's inability to use of its assets to generate revenue. However, 2017 and 2018 has been bad years for the corporation with overdependence of external financing to sustain its operations. Furthermore, the Board has not been in a position to meet its financial obligations with both current and quick ratios below required benchmarks. Besides, considering the indebtedness of the corporation, the debt service coverage ratio shows a very high risk to the borrowers due to the company's cash flow challenges implying the company's inability to meet interest charges.

Despite registering losses since 2012, Liquidity position of Southern Region Water Board has been significantly health averaging 2.93:1 for the past four years beginning 2012 implying the Board's ability to meet its short term obligations. However, the position slightly declined beginning 2016 with the Board registering a quick ration of 1.59:1 The Board anticipates to close with a slightly lower liquid position in the planning year with a quick ratio of 1.24:1. The Board might still meet its short term obligations as they follow due but this raises a signal to management to improve its operating efficiency to improve its liquidity.

Overview of financial flows with the government

Generally, the corporation has not been able to generate cash from accounts receivables for the past seven years beginning 2012 and the situation will continue to worsen in 2018 Financial Year when, there was a sharp increase in the accounts receivable days of about 423.

Policy specific issues for the Public Body

Policy area	Source of fiscal risk	Proposed Policy Recommendations
Revenue Sales	Increase of Non-Revenue Water	Installation of prepaid water meters.
Tax Arrears	In ability of public and private entities to settle their water bills	Installation of Prepaid Meters.
Dividend payment	Cash flow challenges largely arising from debt receivables.	Increase water production

Proposed Policy Recommendations

- Improve on revenue generation and management of costs to maximize returns and improve liquidity for investment
- Need for settling all outstanding statutory obligations including dividend to the shareholder

4 HIGH RISK CASE STUDIES

4.1 ADMARC LIMITED

4.1.1. Company Overview

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

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

4.1.2. Historical performance over the past 5 years

4.1.2.1. Financial Performance

The financial performance indicators outlined in the Table 1 and Figures 1 – 4 below summarize the past and projected financial performance of ADMARC and indicate historically large losses, an increasingly high debt/equity ratio, growing insolvency and increasing accounts receivables and payables for the FY 2016/17. Between 2015 and 2017 ADMARC incurred increasing losses which reached in excess of MK23bn in 2017. The losses in 2017 were largely due to the Corporation temporarily ceasing trading activities in that year.

The Corporation borrowed heavily in 2017 to support its maize purchase obligations and these loans were reimbursed by a K45 billion government bailout in 2018. As a result, ADMARC posted a profit after tax of MK14.3 billion at the end of FY2017/18 but arrears continued their increase with payables reaching 853 days, and receivables reaching 397 days. ADMARC is projecting a profit after tax of K6.1 billion for FY 2018/19 relying on the resumption of trading activities in the second half of the fiscal year and the availability of the K4.5 billion loan facility obtained from local banks.

Table 1 - Heat Map of indicators related to financial performance, risk and transactions with Government of Malawi

Statutory Dividend Payout Ratio		40%	40%	40%	40%	40%	40%	40%	40%	40%
No.	Indicator	2012 Audited	2013 Audited	2014 Audited	2015 Audited	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	27,793,696	(514,287)	382,571	(1,823,165)	(2,283,242)	(23,308,604)	14,344,895	6,115,553	1,304,498
2	Return on assets	7%	-3%	0%	-86%	-2%	-23%	13%	7%	3%
3	Return on total equity	105%	-2%	2%	-9%	-5%	-113%	26%	10%	2%
4	Cost recovery	1330%	261%	269%	186%	342%	111%	450%	302%	264%
5	Gross profit margin	1	0	0	0	7%	-19%	77%	62%	31%
6	Operating Profit Margin	8%	-13%	1%	-32%	-9%	-242%	24%	26%	7%
7	Asset Turnover*	1.63	0.36	0.49	-0.59	0.57	0.37	1.08	0.39	0.55
8	Debt to equity	109%	36%	77%	86%	117%	368%	101%	47%	33%
9	Current ratio	0.20	0.41	0.61	0.47	0.71	0.48	1.01	1.41	1.13
10	Quick ratio	0.13	0.18	0.33	0.24	0.34	0.11	0.54		0.35
11	Accounts Receivable days	147	34	70	129	117	282	397	69	40
12	Debt service ratio	0.48	0.16	0.03	-1.03	0.00	1.17	-0.85		
13	Accounts Payables days	413	190	320	410	226	530	853	132	16
14	GoM transfers/Rev.	0%	0%	0%	0%	0%	0%	95%	0%	40%
15	Dividend payout ratio	0%	0%	0%	0%	0%	0%	0%	0%	0%
DPR (variance)		40%	40%	40%	40%	40%	40%	40%	40%	40%

Source: Audited Financial Statements and PMPB

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

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

Figure 1: Revenues
(Kwacha Millions)

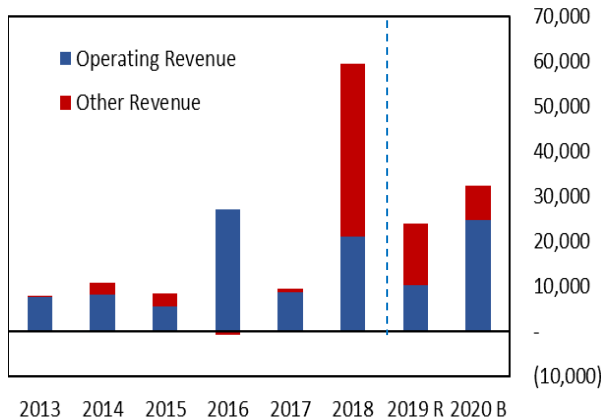


Figure 3: Operating Profit Margin
(Percent)

Figure 2: Operating Expenditures
(Kwacha Millions)

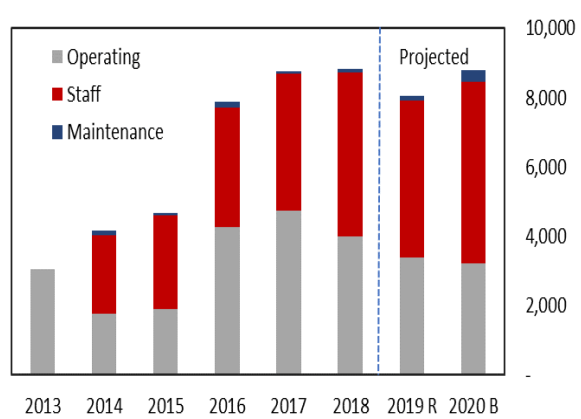
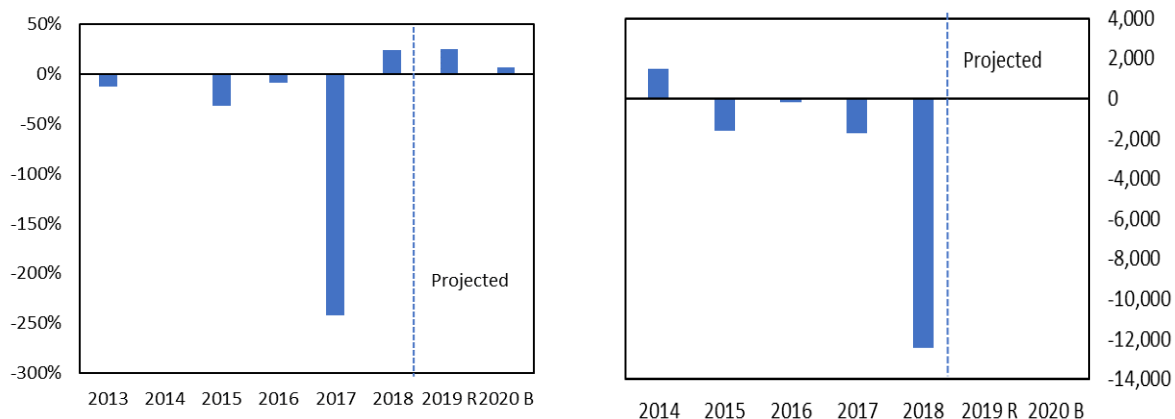


Figure 4: Net Operating Cash Flow
(Kwacha Millions)



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

4.1.2.2.4.1.3 Non-Financial Indicators

ADMARC's purchases of maize increased fivefold from 2014 to just over 74,000 Metric Tons (MT) in 2018 as illustrated in the Table 2 below. Purchases of rice also increased sharply. However, the purchases of groundnuts, general produce, farm inputs and cotton fell sharply in 2018 due to the temporary cessation of trading activities in that year.

Table 2: ADMARC: Non-Financial Performance Indicators

Indicators	2014 Audited	2015 Audited	2016 Audited	2017 Audited	2018 Audited	Target 2019/20
Service Delivery						
Bought						
Maize	14,949	12,589	47,340	67,136	74,112	66,667
Groundnuts	574	195	1,311	1,144	-	2,000
Rice	198	1,484	1,570	226	1,957	6,000
Sold						
Maize	37,442	20,080	60,444	14,427	80,711	65,810
Groundnuts	297	371	1,005	1,758	43	1,800
Rice	2,067	1,421	1,424	227	114	4,660
Operational Efficiency						
Average stock holding per month	1,470	4,359	10,676	13,315	6,436	12,997
Average stock sold per month	3,453	5,676	12,503	12,204	6,900	7,490
Others						
Number of permanent employees	1,776	1,967	2,329	2,434	2,200	2,111
Number of Temporary employees	2,201	2,892	2,892	6,099	4,298	-

Source: ADMARC PMPB

4.1.1.1 4.1.4 Main challenges

ADMARC's 2018 Functional Review highlighted some of the major challenges facing the Corporation:

No.	Challenge	Description
1.	Need for separation of commercial activities and social obligations	ADMARC has, a long-standing internal conflict between commercial and social objectives, despite repeated attempts over the years to address the problem. This has resulted in continuing lack of clarity and inadequate organization and accounting separation between the two streams of activities.
2.	Governance challenges	Strong Government and political involvement and inadequate commercial expertise or motivation have weakened the Corporation's governance structures and decision-making processes.
3.	Lack of full reimbursement for	Government has not fully and timely compensated ADMARC for its PSOs but has relied heavily on cross subsidization of its social activities by its commercial activities.

	public service obligations (PSOs)	
4.	Lack of working capital	ADMARC's commercial functions have not performed as well as they could due to a chronic lack of working capital.
5.	Excessive borrowing to cover cost of PSOs	There has been a high dependence on bank loans to finance the social activities of maize purchase and handling.
6.	High staffing costs	High costs of staffing are a major contributor to poor financial and operational performance in both the commercial and the social functions.
7.	Non-viable activities	Maintaining large number of uneconomic market activities and warehouses has impaired financial viability.
8.	Delays in publishing the farm gate prices	Delays in pricing announcements have affected the timing of ADMARC's interventions in the market.

4.1.1.2 4.1.5 Key Fiscal Risks

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

Figure 5: Taxes and Dividends
(Kwacha Millions)

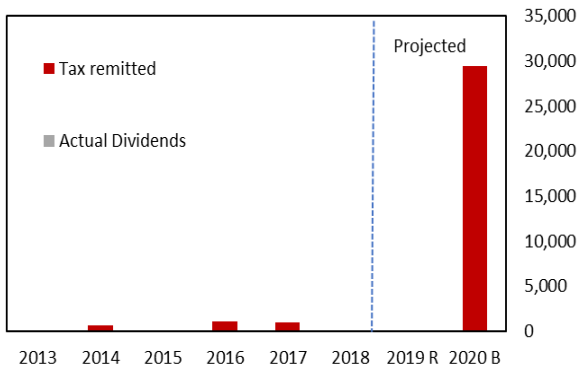
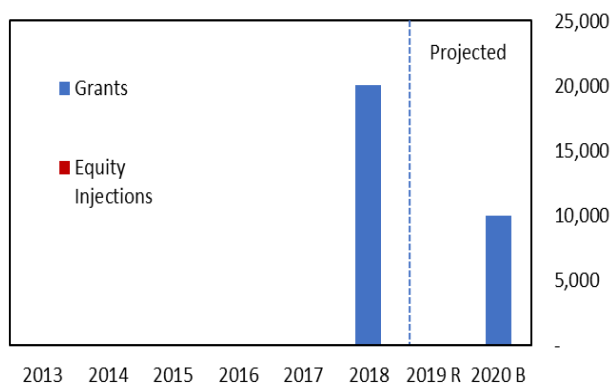


Figure 6: Fiscal Flows from the Government
(Kwacha Millions)



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

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

In both operational and accounting terms there has long been a lack of separation between ADMARC's commercial trading functions and its social functions of buying and selling maize and maize price stabilization. This lack of separation has been a major factor contributing to underperformance in both functions, to the poor financial performance and position of the Corporation, and to lack of clarity in financial performance assessment. The recent Functional Review⁴ recommended the separation of ADMARC into two discrete entities: i) statutory corporation handling the social functions and financed by direct transfers from the Budget; ii) limited liability company trading and operating entirely on commercial terms

4.1.4.3 Deteriorating assets, finances and growing receivables/payments arrears

4 Functional review report of 2018

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

Figure 7: Total Debt to Equity (Percent)

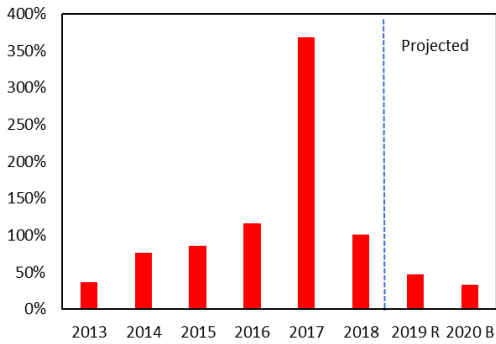


Figure 8: Current Assets and Liabilities (Kwacha Millions)

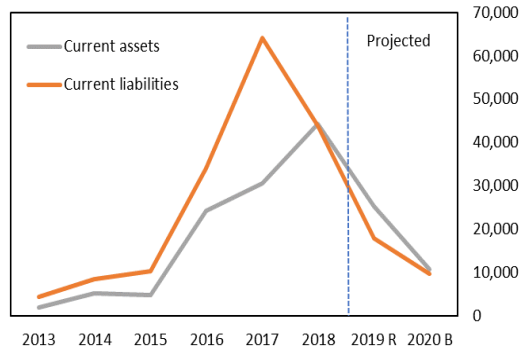


Figure 9: Arrears (Kwacha Millions)

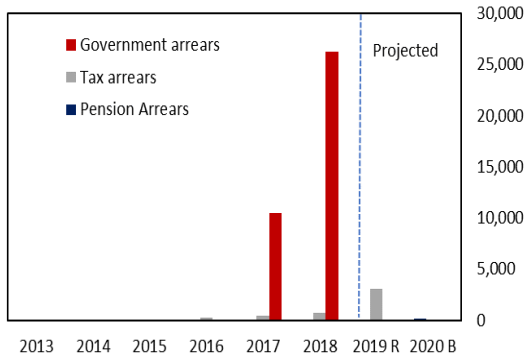
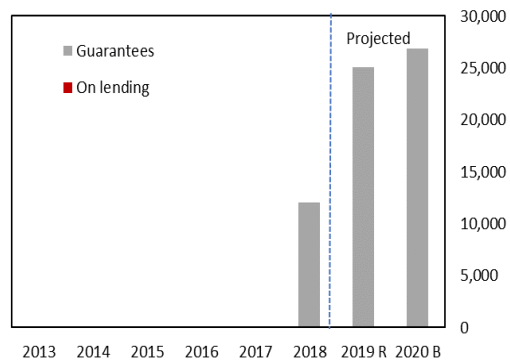


Figure 10: On-lending and Guaranteed Debt (Kwacha Millions)

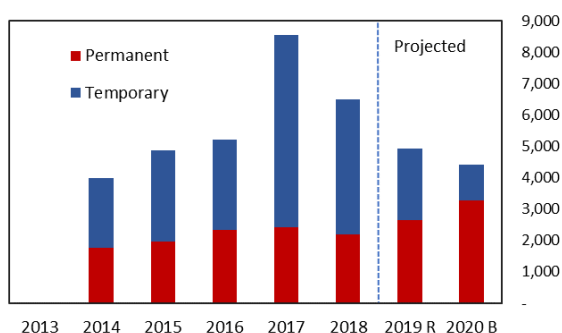


Source: ADMARC annual audited financial statements (2013 to 2018) and PMPB for projected figures

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

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

Figure 11: ADMARC Staff Numbers
(number of staff)



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

4.1.6 Risk mitigation measures and Critical Policy Recommendations

Fiscal Risks/Critical Policy Issues	Mitigation Measure / Policy recommendations
<p>Quasi Fiscal Activities (QFAs) due to non-reimbursement of ADMARC's public service obligation to support the maize price</p> <p>Lack of separation between ADMARC's commercial functions and its social obligations causing lack of transparency and internal inefficiencies</p> <p>Deteriorating assets and finances and growing receivables and payments arrears</p>	<p>Quantify costs and then ensure budget transfers to cover the full cost of any public service obligations/QFAs</p> <ul style="list-style-type: none"> • Implement recommendations to create clear separation between the organizational and accounting structures of the two functions • Fix and enforce ceilings on indebtedness and contingent liabilities • Limit the issuing of guarantees and comfort letters • Enforce payments and collections deadlines • Develop and implement an arrears clearance program
<p>High staffing and administrative costs combined with inefficient internal organization and controls</p>	<p>Implement the recommendations from the Functional Review concerning financial controls and cost cutting</p>

4.2 BLANTYRE WATER BOARD (BWB)

4.2.1 Company Overview

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

4.2.2 Historical performance over the last 5 years

4.2.2.1 Financial performance

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

Table 2 - Heat Map of indicators related financial performance, risk and transactions with GoM

% Statutory Dividend Payout Ratio		40%	40%	40%	40%	40%	40%	40%	40%	40%
No	Indicator	2012 Audited	2013 Audited	2014 Audited	2015 Audited	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	207,863	59,795	1,977,034	(893,780)	(1,978,781)	(5,450,606)	(2,333,334)	46,020	2,279,633
2	Return on assets	3%	1%	5%	-1%	-12%	-1%	-7%	4%	14%
3	Return on total equity	4%	1%	33%	-17%	-62%	235%	49%	-1%	-62%
4	Cost recovery	86%	70%	125%	84%	62%	75%	83%	110%	128%
5	Gross profit margin	59%	49%	55%	64%	41%	49%	52%	51%	55%
6	Operating Profit Margin	8%	2%	13%	-2%	-38%	-3%	-18%	11%	24%
7	Asset Turnover*	0.69	1.05	1.26	1.68	3.19	-5.61	-3.33	-3.76	-3.68
8	Debt to equity	94%	169%	251%	433%	860%	1683%	860%	169%	94%
9	Current ratio	1.40	1.33	0.89	0.83	0.35	0.25	0.37	0.24	0.32
10	Quick ratio	1.80	1.02	0.69	0.79	0.32	0.20	0.30	0.32	0.55
11	Accounts Receivable days	173	120	76	133	158	145	163	110	87
12	Debt service ratio	0.07	0.04	0.02	0.06	0.08	0.41	1.23	-0.02	0.00
13	Accounts Payables days	158	180	22	48	189	287	320	151	40
14	GoM transfers/Rev.	28%	34%	1%	16%	16%	1%	3%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%	0%	0%	0%	0%	0%
	DPR (variance)	40%	40%	40%	40%	40%	40%	40%	40%	40%

Source: Audited Financial Statements and BWB PMPB

The Board registered profits after tax in 2014 but since then has incurred heavy losses. The worst performances were in 2017 and 2018, with losses of MK5.4 billion and MK2.3 billion respectively. BWB's chronic negative working capital position has damaged its creditworthiness with banks and its relationships with its suppliers.

The Board's heavy financial leverage is evidenced by its debt/equity ratio which peaked at 1683% in 2017 before falling to a still very high 860 percent in 2018. This indicates overreliance on borrowing rather than internally generated resources. Accounts receivable, from both public and private customers, were high over the entire period, rising to 163 days in 2018. To reverse this the Board has intensified debt collection measures by conducting periodic mass disconnection campaigns and cleaning up of customer data-base through customer verification exercises. Following these measures, the Board is projecting a reduction in accounts receivable to 110 days in FY19. The liquidity position of BWB worsened steadily over the period, with the current ratio falling from a low 0.83 in 2014 to an even lower 0.37 in 2018.

4.2.2.2 Non-financial performance

Non-revenue water peaked at 52 percent in 2016 and then fell to 39 percent in 2018 and further reductions are projected for the short term. The number of active BWB customers and volume of water produced showed a continuous upward trend over the period. The volume of water produced per employee increased during the first part of the period, peaking in 2016, but fell in 2017 before partially recovering in 2018. Table 2 below provides the details.

Table 3 - Selected non-financial indicators

Indicator	2014 Audited	2015 Audited	2016 Audited	2017 Audited	2018 Audited	Revised Targets 2019
Annual average non-revenue water (percent)	38	41	52	43	39	34
Coverage (percent)	75	80	80	80	80	0
Daily hours of supply	18	17	20			23
Number of active customers	38,764	39,726	43,568	49,340	49,972	55,000
Number of new connections	1,792	2,098	3,842	2,857	3,274	4,000
Volume produced (cubic m mn)	23.7	22.2	30.3	27.7	28.6	28.6
Days to provide connection	47	40	45	38	44	28

Source: BWB PMPB

4.2.3 Challenges

No.	Challenge	Description
1.	Cost of electricity	BWB's electricity costs have increased, reaching 42 percent of total costs in 2018. Other costs e.g. for chemicals, pipes, water meters and other equipment have also been increasing. Escalating costs (Figure 1), particularly for electricity, have significantly affected the Board's financial viability.
2.	Changes in Tariff levels have not reflected costs	BWB's tariffs are set by its parent ministry. Unlike for electricity and other utilities, there is no independent regulator for water supply in Malawi. Tariff increases have not kept pace with cost increases, particularly those of electricity.
3.	Low revenue collection	Poor revenue collection has resulted in accumulation of trade debtors largely from Government Institutions and to some extent private customers. BWB has to rely increasingly on overdrafts and other borrowings to cushion its cash flow.
4.	High levels of non-revenue water	Non-revenue water peaked at 52 percent in 2016. Due to corrective efforts by BWB it then fell to 39 percent in 2018 and further reductions are projected for the short term.

4.2.4 Key fiscal risks

4.2.4.1 Inadequate infrastructure investment and maintenance

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

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

Figure 1: Operating expenditure
(Kwacha Millions)

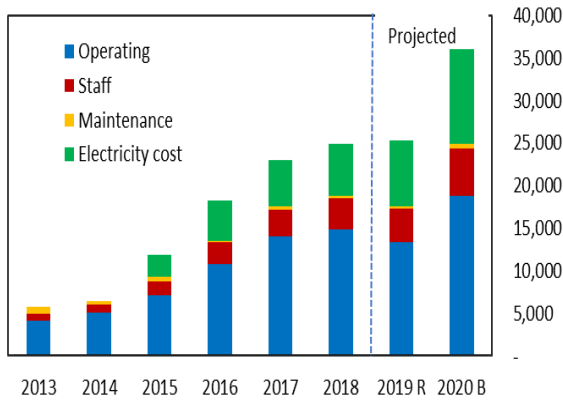


Figure 2: Operating Expenditures vs. Investment Spending
(Kwacha Millions)

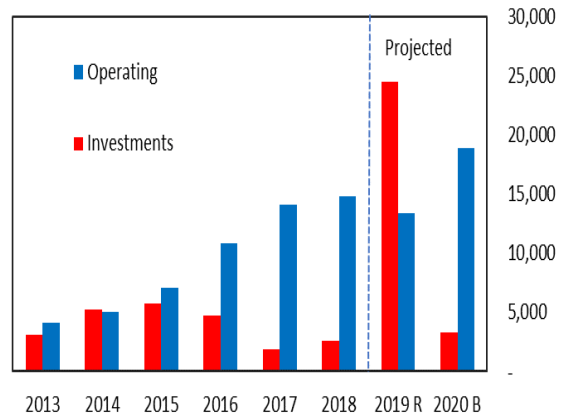


Figure 3: Staff numbers
(number of staff)

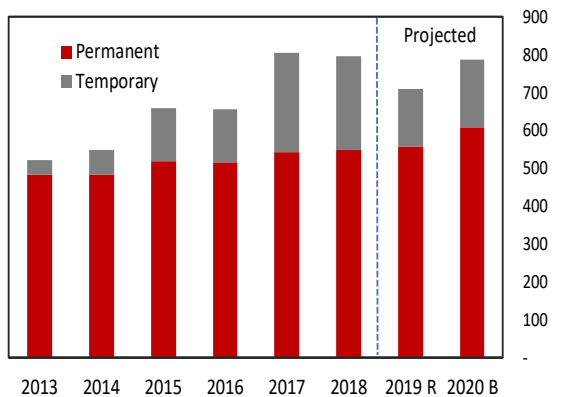
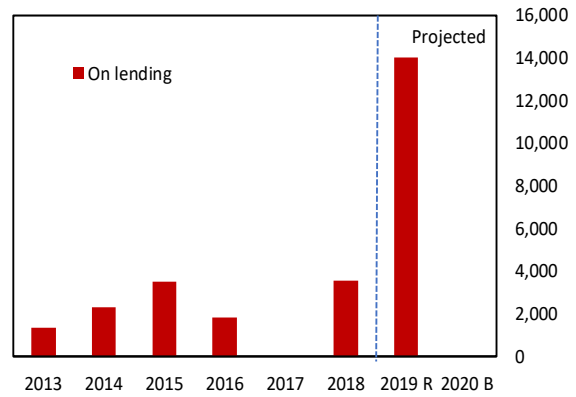


Figure 4: On lending arrangements
(Kwacha Millions)



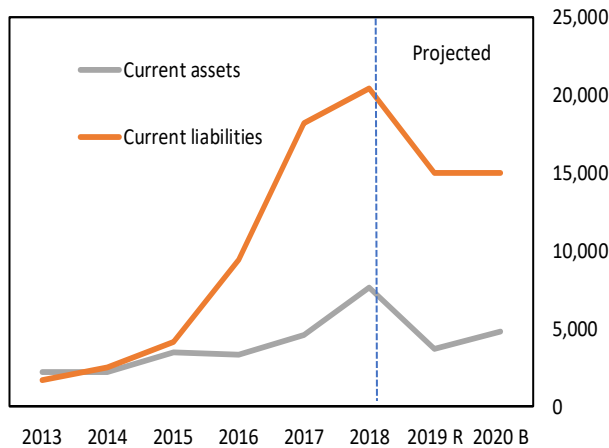
Source: BWB annual audited financial statements (2014 to 2018) and MTPBs for projected figures.

4.2.4.2 High costs of electricity

The costs paid for electricity have increased steadily as a percent of BWB's total costs (Figure 1). The location of Blantyre City requires the pumping of water 40km from Walkers Ferry on the Shire River to an average elevation of 800 to 1200 meters above the river. Past investment choices opted for expensive water

pumping options as opposed to more energy saving options such as solar, and this has severely affected operating cash flow and rendered the Board chronically insolvent, with current liabilities continually outstripping current assets (Figure 5).

Figure 5: Current Assets and Liabilities
(Kwacha Millions)

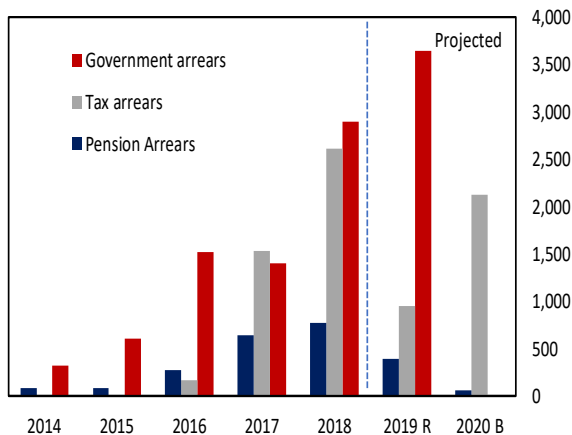


Source: BWB annual audited financial statements (2014 to 2018) and MTPBs for projected figures

4.2.4.3 Low revenue collection resulting in accumulation of trade debtors

The cash position has been worsened by delayed payments by Government MDAs. Receivables have grown six-fold in the past five years to MK3 billion in 2018. This is contributing towards delayed payables in terms of tax arrears and delayed payments to the pension fund, which stood at over MK3.5 billion in 2018 on a cumulative basis.

Figure 6: Arrears Payables and Receivables
(Kwacha Millions)



4.2.4.4 Tariff Structures and Public Service Obligations

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

Fiscal flows from Government have been volatile. They have decreased by a factor of four since 2013 (Figure 8). This caused the dependency ratio (grants as a proportion of operating revenue) to fall from approximately 33 percent in 2013 to 3 percent in 2018 (Table 1).

Figure 7: Profitability and Cost Recovery
(Percent)

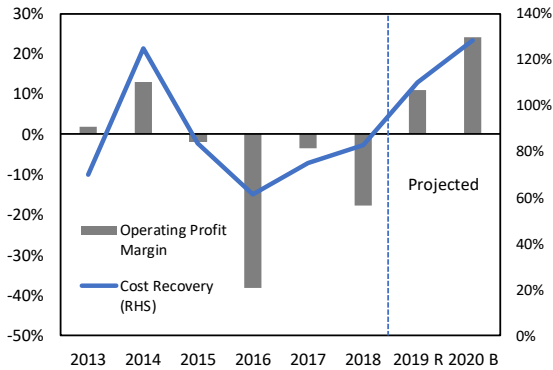
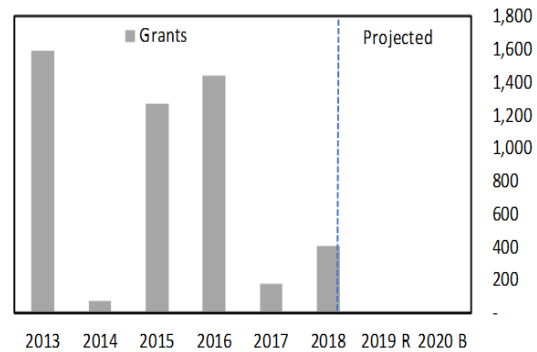


Figure 8: Government Grants
(Kwacha Millions)



Source: BWB Audited Financial Statements

4.2.5 Risk Mitigation measures and Critical Policy Recommendations

Fiscal Risk/Critical Policy Issues	Mitigation Measure
Tariff structures and PSOs	<ul style="list-style-type: none"> Develop an Integrated Strategic Business Plan (ISBP), repositioning the company as a self-sustainable entity with dedicated subsidies to ensure the clearance of all outstanding arrears
Inadequate infrastructure investment and maintenance	<ul style="list-style-type: none"> Undertake a functional review of staffing structures and pay scales and reduce costs accordingly.
High costs of electricity	<ul style="list-style-type: none"> Seek ways to obtain low risk infrastructure financing Continue to seek means to such as solar power diversify the water distribution process away from over-reliance on energy intensive power sources
Low revenue collection	<ul style="list-style-type: none"> Implement an accelerated revenue collection program, particularly focusing on revenue owed by MDAs

4.3 ELECTRICITY GENERATION COMPANY (EGENCO)

4.3.1 Company Overview

Electricity Generation Company (EGENCO) Limited was incorporated as a wholly state-owned enterprise in 2016 under the Companies Act and began rolling out its operations in January 2017. EGENCO is mandated to generate and sell power predominantly to the Single Buyer, ESCOM, and take over generation capacity from ESCOM as part of 2017 unbundling of the power sector.

The total installed capacity of EGENCO's power plants as of December 2018 was 367.37MW, composed of 364.04MW of hydro and 42.7MW of thermal diesel generators. Most of the installed hydropower, 357.7MW, is cascaded on the Shire River in the Southern Region of Malawi. The first Power Station site on the cascade is Nkula (135.1MW) followed downstream by Tedzani (92.7MW) and Kapichira (129.6MW). The remaining 4.5MW of the hydropower is installed on the Wovwe River in the Northern Region of Malawi. The diesel generators installed in Lilongwe (15.7MW), Mapanga in Blantyre (20MW) and Luwinda in Mzuzu (6MW) are connected to the national grid, while those on Likoma and Chizumulu Islands (1.15MW) are off-grid.

4.3.2 Historical performance over the last 18 months

4.3.2.1 Financial performance

Since EGENCO first began operations in early 2017 its profitability, cost recovery and debt service capacity have been good. Revenue growth over the period was mainly due to a tariff increase. In 2017, EGENCO operated using a Revenue Sharing arrangement with ESCOM with an average tariff of MK15 per kWh. From July 2018, EGENCO traded with ESCOM at an average tariff of MK25 per kWh, after adjudication by the MoFEPD that the increase was needed to cover the costs of servicing the liabilities transferred from ESCOM during the unbundling process. The past and projected financial performance of over its first 18 months of operations is summarized in the Table 1 and Figures 1 to 5.

Table 4 - Heat Map of indicators related to financial performance, risk and transactions with GoM

% Statutory Dividend Payout Ratio		40%	40%	40%	40%
No.	Indicator	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	2,824,643	11,034,678	16,955,414	14,748,165
2	Return on assets	10%	21%	25%	12%
3	Return on total equity	8%	25%	28%	17%
4	Cost recovery	140%	148%	170%	147%
5	Gross profit margin	52%	60%	59%	100%
6	Operating Profit Margin	29%	36%	40%	29%
7	Asset Turnover*	0.42	0.98	1.01	0.87
8	Debt to equity	27%	66%	57%	106%
9	Current ratio	1.99	1.60	1.68	1.61
10	Quick ratio	1.71	1.35	1.27	1.12
11	Accounts Receivable days	195	218	113	102
12	Debt service ratio	0.00	0.08	0.03	0.07
13	Accounts Payables days	267	122	98	#DIV/0!
14	GoM transfers/Rev.	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	0%
	DPR (variance)	40%	40%	40%	40%

Source: Audited Financial Statements and EGENCO PMPB.

Figure 1: Revenues
(Kwacha Millions)

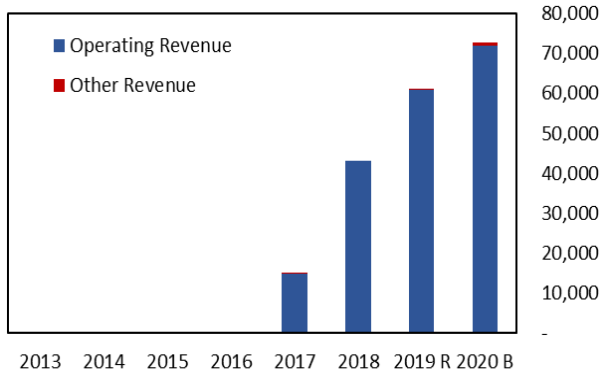


Figure 2: Operating Expenditures
(Kwacha Millions)

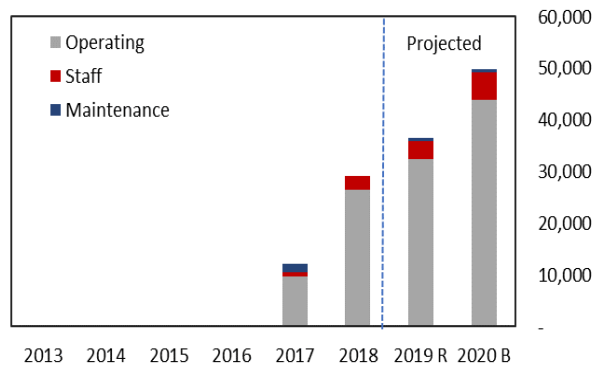


Figure 3: Operating Profit Margin
(Percent)

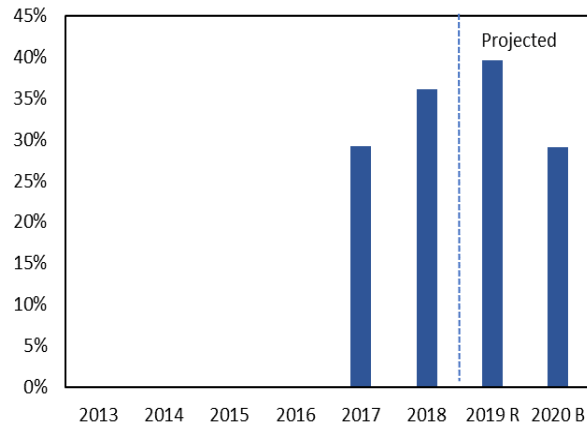


Figure 4: Profit after Tax
(Kwacha Millions)

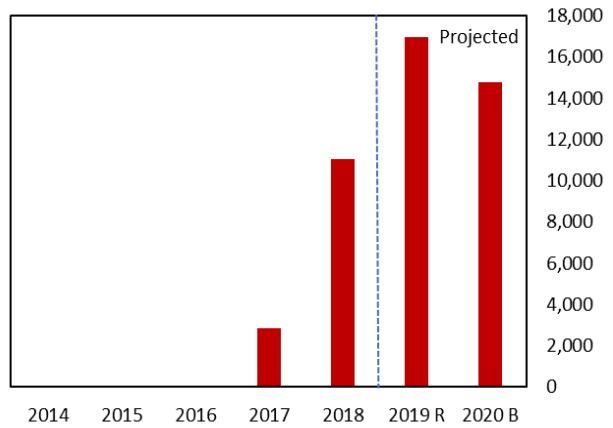
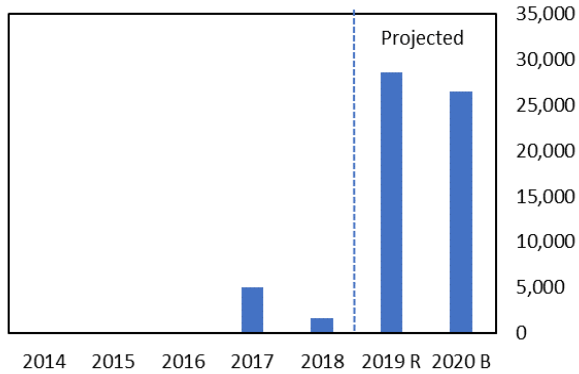


Figure 5: Net Operating Cash Flow
(Kwacha Millions)



Source: Audited financial statements and EGENCO PMPB

Despite the improvements in its income statement, EGENCO's debt to equity ratio increased to 66 percent in 2018 (Figure 6 below). This was due to borrowings of MK8billion to finance the acquisition of diesel generator sets for Mapanga 20MW, Kanengo 10MW and Mzuzu 6MW. In 2018 accounts receivable, mainly from ESCOM, reached 218 days, while the current ratio fell from 1.99 to 1.6 (Figure 7 below), indicating a need for close monitoring of EGENCO's liquidity.

Figure 6: Debt to Equity (Percent)

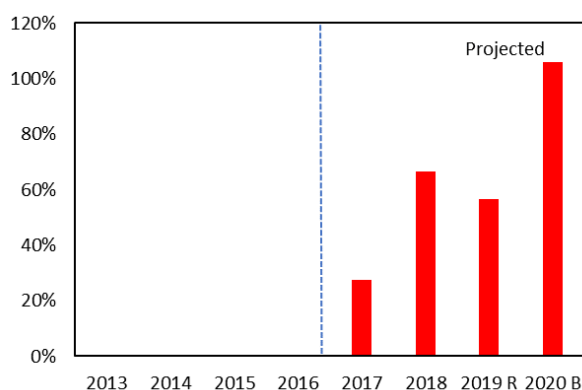
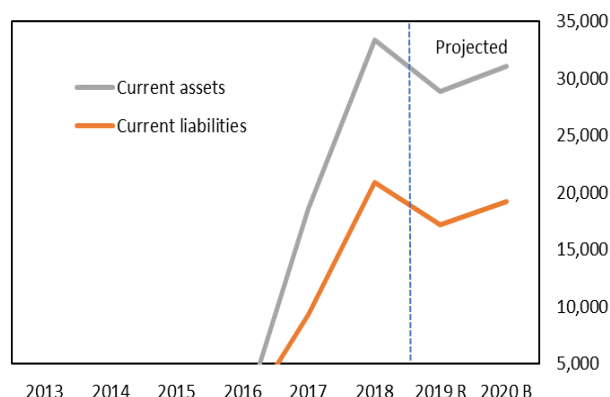


Figure 7: Current Assets and Liabilities (Kwacha Millions)



Source: Audited financial statements and EGENCO PMPB

4.3.2.2 Non-financial performance

Power generated in 2018 was less than twice the level generated in the first six months of 2017, reflecting reductions in availability of hydro power due to the low water levels in Lake Malawi and the Shire River. Table 2 below shows EGENCO's operational performance indicators over its first 18 months of operation.

Table 2: Selected non-financial Indicators

Indicator	2017 (six months) Audited	2018 Audited	2019 Approved Budget	2019 Mid-year
Total Energy Generated (GWh)	997.126	1,702.358	1,778.280	862,439
Generation Works Units (GWh)	1.644	2.033	2.394	0.908
Energy Sent out to Transmission	995.481	1,700.325	1,775.886	861.530
Generation Plant Availability (percent of Plan)	92	93	90	82.93
Generation Maintenance (percent of Plan)	57	86.33	95	76.92

Source: EGENCO PMPB 2019/20

4.3.3 Challenges

No.	Challenge	Description
1.	Adverse weather including drought and floods, leading to reductions in power generation	Due mainly to drought, water levels have fallen in Lake Malawi and this has affected the flow of water in the Shire River where EGENCO's main hydro power stations are located. There has also been environmental degradation causing sediment accumulation which has resulted in the loss of about 50% of the capacity in EGENCO's intake reservoirs.
2.	High level of receivables from ESCOM	ESCOM, the single buyer, is EGENCO's only customer. Financial problems experienced by ESCOM (see Case Study 1), caused payment delays to EGENCO resulting in its collection period reaching 195 days in 2017 and 218 days in 2018.

4.3.4 Key fiscal risks

4.3.4.1 Continuing adverse weather reducing the utilisation of EGENCO's installed hydro capacity

Due the adverse weather factors described in 4.3.1 above, EGENCO is able to deliver only 60-65 percent of its hydropower generating capacity. Such a low level of capacity utilization creates a fiscal risk in that EGENCO may have difficulty generating enough power to ensure revenues sufficient to cover its fixed costs.

Looking ahead EGENCO plans to upgrade existing generating capacity and embark on the implementation of a 10 MW solar generating plant. Other generation possibilities under consideration include geothermal and coal from Mozambique.

4.3.4.2 Increasing levels of accounts receivable from ESCOM

As of 31 December 2018, EGENCO was owed K34 billion by the single buyer ESCOM, up from K30.6 billion as of 30 June 2018. The problem of increasing accounts receivable from ESCOM (Table 1) is affecting EGENCO's liquidity (Figure 7) and if not resolved in a sustainable manner will present an increasing fiscal risk because of its adverse effect on EGENCO's finances. EGENCO's problem of receivables arrears will persist until tariff changes and other measures are implemented to enable ESCOM to achieve consistently full cost recovery and to pay its bills to EGENCO on time.

4.3.5 Risk Mitigation and Critical Policy Recommendations

Fiscal Risk/Critical Policy Issues	Mitigation Measure
Adverse weather impacting EGENCO's ability to generate sufficient hydro power and negatively affecting its finances	Accelerate efforts to diversify from hydro into other sources of power including solar, geothermal and coal
Increasing receivables negatively impacting EGENCO's finances	Review all Power Purchase Agreements (PPAs) and if necessary revise to ensure full cost recovery for both the power generators and the Single Buyer thereby assuring that the single buyer can pay its bills to EGENCO on time

4.4 ELECTRICITY SUPPLY COMMISSION OF MALAWI (ESCOM)

4.4.1 Company Overview

Electricity Supply Corporation of Malawi (ESCOM) Limited is the state-owned company mandated to procure, transmit, distribute and supply electricity throughout Malawi. As a non-operating member of the Southern Africa Power Pool (SAPP), ESCOM is also charged with the development of interconnections with neighbouring power grids and with participation in the regional power market. With the 2017 unbundling under the amended Electricity Act of 2016, power generation was transferred from ESCOM to the new state-owned enterprise EGENCO. ESCOM assumed the function of single buyer of electricity from EGENCO and from independent power producers (IPPs).

4.4.2 Historical performance over the last 5 years

4.4.2.1 Financial performance

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

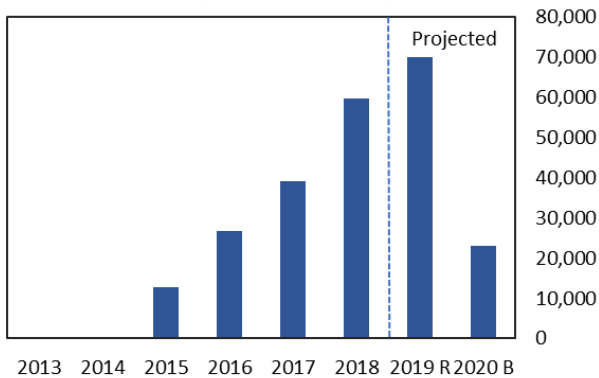
Table 5 - Heat Map of indicators related financial performance, risk and transactions with GoM

No.	Indicator	2012 Audited	2013 Audited	2014 Audited	2015 Audited	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	7,404,076	6,097,162	9,957,166	12,339,088	7,903,365	11,993,727	(12,963,386)	8,460,000	4,180,000
2	Return on assets	16%	18%	21%	16%	11%	5%	-11%	4%	3%
3	Return on total equity	32%	18%	22%	22%	11%	21%	-29%	24%	10%
4	Cost recovery	175%	160%	147%	152%	204%	108%	68%	187%	106%
5	Gross profit margin	100%	100%	100%	100%	100%	82%	50%	65%	39%
6	Operating Profit Margin	33%	37%	35%	25%	17%	8%	-20%	3%	3%
7	Asset Turnover*	0.98	0.99	1.06	1.05	1.10	1.49	2.17	2.53	4.04
8	Debt to equity	99%	106%	74%	68%	77%	114%	302%	300%	390%
9	Current ratio	0.93	5.60	5.46	5.90	2.50	1.77	0.85	0.96	0.97
10	Quick ratio	0.00	0.00	1.46	4.70	1.86	1.36	0.60	0.57	0.72
11	Accounts Receivable days	0	0	68	90	110	98	118	74	62
12	Debt service ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	0.01	0.00	0.03	0.06	0.000
13	Accounts Payables days	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	631	413	258	94
14	GoM transfers/Rev. ratio	0%	0%	0%	0%	0%	0%	19%	0%	0%
15	DPR (variance)	40%	40%	40%	40%	12%	38%	40%	40%	40%

Source: Audited Financial Statements and ESCOM PMPB.

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

Figure 1: Investments
(Kwacha million)



Source: ESCOM annual audited financial statements (2014 to 2018) and PMPB for projected figures

4.4.2.2 Non-financial Performance

ESCOM has almost doubled the number of consumer connections to more than 400,000 over the past five years (Table 2 below). Significant progress has been made in developing a robust transmission network of more than 1,300 km of 132 kV line and 1,100 km of 66 kV line with the associated substations. Total system losses were reduced from 21 percent in 2012-13 to 14 percent in 2016-17⁵.

The bill collection rate in Malawi has increased to 94 percent, largely due to the installation of automated meter reading for industrial consumers. This represents 50 percent of ESCOM's customer base. Migration of domestic consumers to pre-paid meters is a major shift in the way ESCOM operates. Table 2 below shows that since the 2017 unbundling, the rate of improvements in most of ESCOM's non-financial performance indicators overall have leveled off.

Table 6 - ESCOM Non-Financial Indicators

Indicator	Units	2014	2015	2016	2017	2018	Targets 2020
		Audited	Audited	Audited	Audited	Audited	
Connect new customers	customer	34,233	33,356	23,983	108,182	108,182	90,000
Energy received by transmission	GWh	1,904.15	1,971.72	1,973.84	1,808.45	1,808.45	2,233
Maintain distribution transformers	transformer	789	1,761	1,932	691	-	1,500
Energy received by distribution	GWh	1,455.5	1,491.0	1,887.7	1,470.9	-	1,859
Reduce average days to connect	days	630	147	153	218	218	-
Replace faulty meters	meters	-	-	-	-	-	10,000
Maintain transmission system availability	percent	99.64	99.52	99.68	99.55	82.35	98
Maintain transmission system losses at 5 percent or less of energy purchased	percent	7.36	6.26	5.76	5.0	5.0	5.0

Source: ESCOM PMPB

4.4.3 Challenges

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

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

No.	Challenge	Description
1.	Revenue Sharing Agreement (RSA)	The RSA signed between ESCOM and EGENCO in 2017 mandated revenue to be shared 33.68% to EGENCO and 66.32% to ESCOM. This translated initially to a tariff to be paid by ESCOM to EGENCO of MK19.68 per kWh. On 30th November 2017, the tariff charged to ESCOM by EGENCO was increased to MK25.00 per kWh but ESCOM's tariff structure did not allow ESCOM to recover this cost by passing the increase on to the end user. ESCOM reports that on average the costs of power generation have recently been greater than 40 percent of its total costs compared with only 5 percent before the 2017 unbundling.
2.	Power Purchase Agreement (PPA)	The PPA signed in 2017 with EGENCO will require ESCOM to make payments to EGENCO based on EGENCO's installed generation capacity, not on the amount of power that EGENCO actually delivers to ESCOM. This has severely affected ESCOM's finances.
3.	Tariff structures and timing of increases	Disparity between the tariff structures, and the timing of tariff increases, for sale of power from EGENCO to ESCOM and from ESCOM to consumers. ESCOM's costs have risen but their ability to recover these costs has not matched their cost increases.
	Costs of power from the emergency diesel generators	On 9 November 2017, because of shortages of hydro power available from EGENCO, ESCOM contracted Aggreko International Projects Limited to provide temporary power using diesel power generators. The ESCOM energy mix now comprised of 15 percent diesel generation at MK195.18 per kWh and 85 percent hydro at MK25.00 per kWh. But the end user tariff remained at MK75 per kWh irrespective of energy source. Furthermore, when applying to the Malawi Energy Regulatory Authority (MERA), for the pass-through cost for the diesel generated power, ESCOM had assumed that the diesel generators would run for six hours per day. However, when EGENCO was unable to supply power as forecasted, has been able to supply even less power than forecast, the Aggreko diesel generators have had to run for more than twelve hours per day.
	Revenue collection	ESCOM has worked to increase the use of prepaid meters, difficulties still remain in collecting revenue from those customers who do not yet have these meters.
	Theft	Vandalism and theft of electrical equipment and electricity remain significant problems for ESCOM.

4.4.4 Key Fiscal Risks

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

In recent years, hydropower sources in Malawi have been affected by adverse weather including severe droughts and flooding and this has resulted in prolonged load shedding. As a result, the combined distribution and transmission losses are projected to increase from 14 to 16 percent as a result (Figure 1). The costs of power from the emergency diesel generators installed since the drought are considerably higher than those from the baseline hydro and solar sources, which has contributed to rising debt (Figure 2) and a subsequent decline in profitability and cost recovery (Figure 3).

The increased cost from the growing use of diesel generated power negatively affected ESCOM's finances (Figure 4 – 6) and resulted in increased government debt to finance accumulated payments arrears of more than MK50 billion to NOCMA, MERA, EGENCO and Aggreko. In 2018, the combination of ESCOM's guaranteed debt and on-lent support from Government for working capital amounted

to 2.3 percent of GDP (MK138bn). ESCOM has become increasingly dependent on external funding for new investments and maintenance.

Figure 1: Distribution and Transmission Losses (Percent)

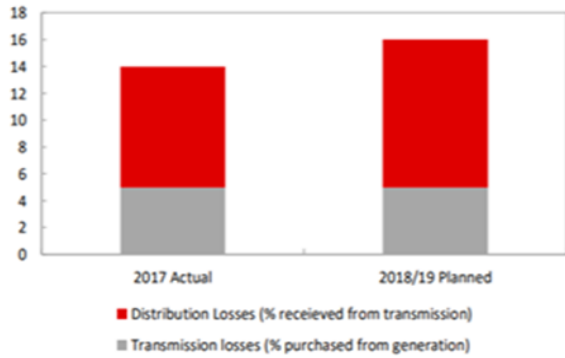


Figure 2: Debt to Equity (Percent)

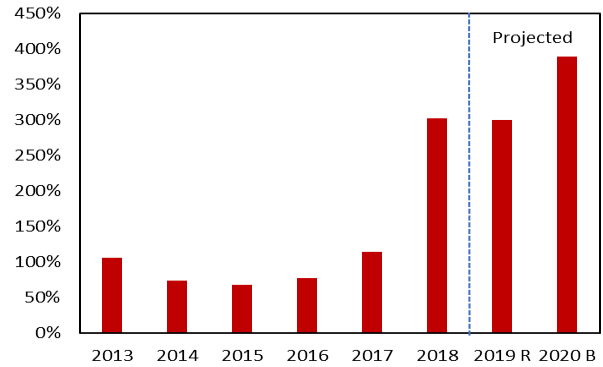


Figure 3: Profit margin and cost recovery (percent)

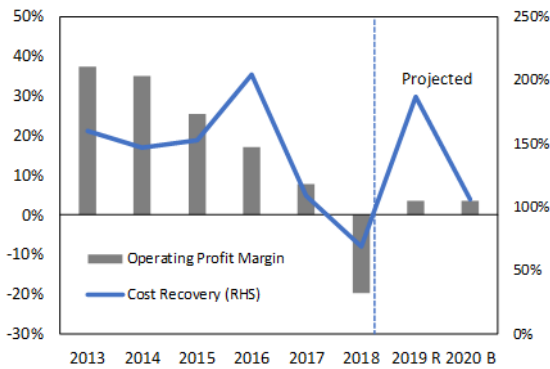


Figure 4: Fiscal Flows from Government (Kwacha million)

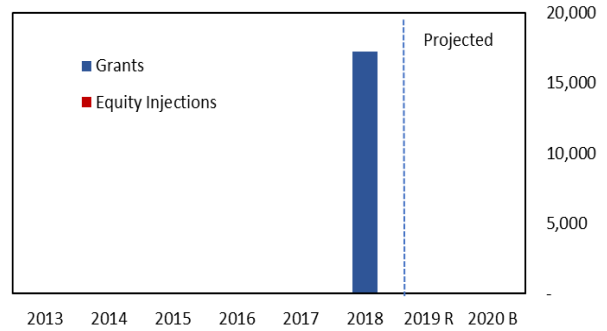


Figure 5: Revenues (Kwacha million)

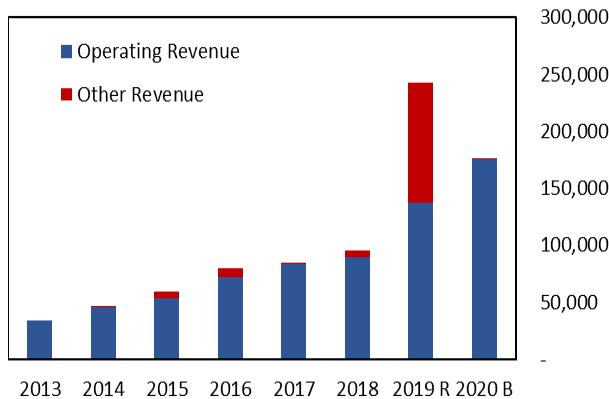
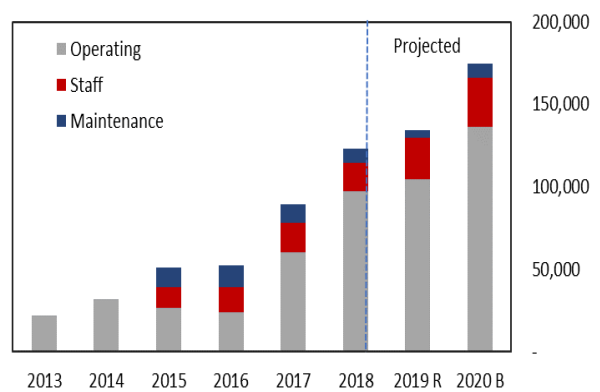


Figure 6: Operating Expenses (Kwacha Million)



Source: ESCOM annual audited financial statements (2014 to 2018) and PMPB for projected figures

4.4.4.2 Costs associated with the unbundling process

After the unbundling in January 2017, ESCOM's financial position deteriorated. The contributing factors included the transfer of assets to EGENCO, including prepayments on contracts amounting to MK3.443 billion and start up cash amounting to MK3.1 billion. Furthermore, GoM approved the RSA between ESCOM and

EGENCO described in 4.4.3 above and ESCOM was not able to pass on the resulting tariff increase to its customers. This contributed to a financial loss of MK12.9 billion as of June 2018.

4.4.4.3 Tariff Structures

ESCOM's consumer tariffs failed to keep up with its purchasing, transmission and distribution costs. The new tariff methodology adopted by MERA in 2015 stipulates that each licensee, including ESCOM, should submit an application for the base tariff once every 4 years, subject to annual review. The approval for the Third Base tariff was effective 1st October 2018 and is currently due for review. According to the new methodology, the Licensees should be able to invest and fully recover their costs and earn a fair return on their invested capital. However, the methodology requires that Licensees be compensated only after investment projects have been commissioned, leading to delays in cost recovery. Tariff comparison of tariff requested by ESCOM vs tariff received is outlined in the Table 3 below.

Table 7 - Tariff comparison - Requested vs received

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

Source: ESCOM

4.4.5 Risk Mitigation Measures and Critical Policy Recommendations

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

4.5 NATIONAL OIL COMPANY OF MALAWI (NOCMA)

4.5.1 Company Overview

National Oil Company of Malawi (NOCMA) is a wholly state-owned enterprise established under the Companies Act. Its responsibilities are: i) promote upstream oil and gas exploration; ii) manage the strategic fuel reserve (SFR) facility in accordance with Government approved SFR Plan; and iii) provide, at a fee, hospitality to new market entrants as one way of promoting competition. In practice NOCMA's main activity is to operate the Strategic Fuel Reserve (SFR). With a US\$26million loan from Exim Bank of India, three SFR depots were constructed, at Mzuzu, Lilongwe and Blantyre with a total capacity of 60 million liters. They began operation in December 2017. Regulations require two months minimum storage levels in the SFR.

4.5.2 Historical performance over the last 5 years

4.5.2.1 Financial performance

NOCMA's financial performance over the past few years has been fairly volatile, with post tax profits generated in 2015 and 2016, but losses of MK893million were incurred in 2017 and MK1.2billion in 2018. Apart from a sharp drop in revenues in 2017 due to a drop in purchases from NOCMA by Oil Marketing Companies (OMCs), revenues grew steadily over the period up to 2018 (Figure 1), largely due to the sudden drop in revenues and to increased cost of holding fuel stocks for the SFR.

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

% Statutory Dividend Payout Ra		40%	40%	40%	40%	40%	40%	40%
No.	Indicator	2014 Audited	2015 Audited	2016 Audited	2017 Audited	2018 Audited	2019 Revised	2020 Budget
1	Profit after tax	(7,087)	269,004	159,565	(893,431)	(1,206,029)	1,136,665	191,000
2	Return on assets	0%	3%	2%	-5%	-2%	2%	1%
3	Return on total equity		21%	4%	-11%	-17%	9%	2%
4	Cost recovery	2914%	5514%	3849%	358%	2948%	137%	143%
5	Gross profit margin	0%	0%	0%	0%	1%	100%	100%
6	Operating Profit Margin	0%	1%	1%	-16%	-2%	27%	7%
7	Asset Turnover*	10.25	24.65	11.44	1.17	14.71	0.42	0.51
8	Debt to equity		1098%	220%	142%	1108%	620%	553%
9	Current ratio	1.02	1.07	1.23	1.45	1.00	1.05	0.95
10	Quick ratio	1.02	0.92	1.21	0.32	0.68	0.62	0.41
11	Accounts Receivable days	496658	23154	8099	2785	5457	1939	1025
12	Debt service ratio	0.00	0.00	0.00	0.00	0.00	0.00	
13	Accounts Payables days	1223	156	70	756	188	156	
14	GoM transfers/Rev.	0%	0%	0%	0%	0%	0%	0%
15	Dividend payout ratio	0%	0%	0%	-7%	0%	0%	67%
	DPR (variance)	40%	40%	40%	47%	40%	40%	-27%

Source: Audited Financial Statements and NOCMA PFMB.

Figure 1: Revenues
(Kwacha million)

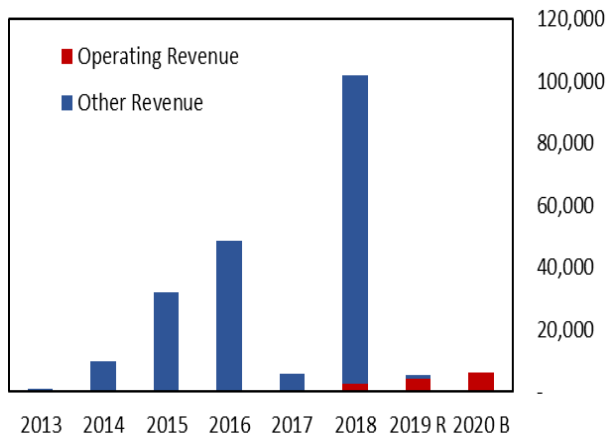


Figure 2: Operating Expenditures
(Kwacha million)

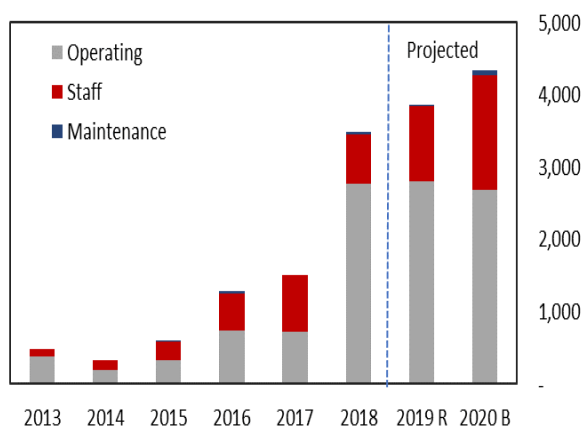


Figure 3: Operating Profit Margin
(Percent)

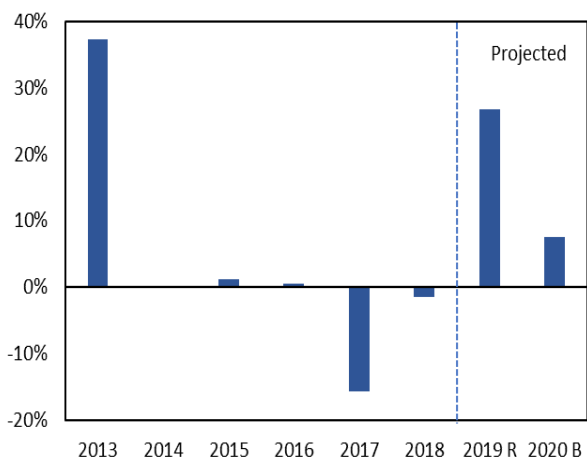


Figure 4: Profit after Tax
(Kwacha million)

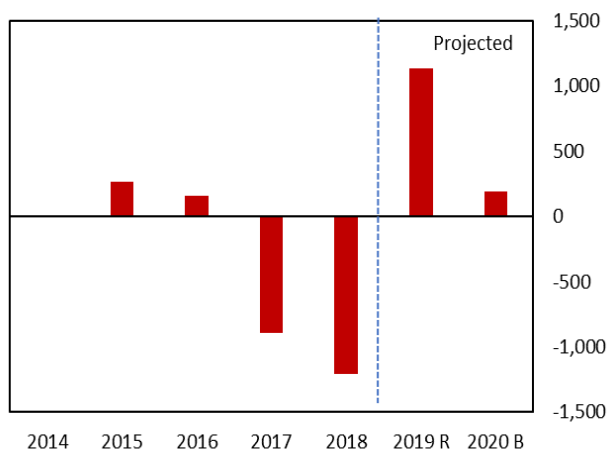
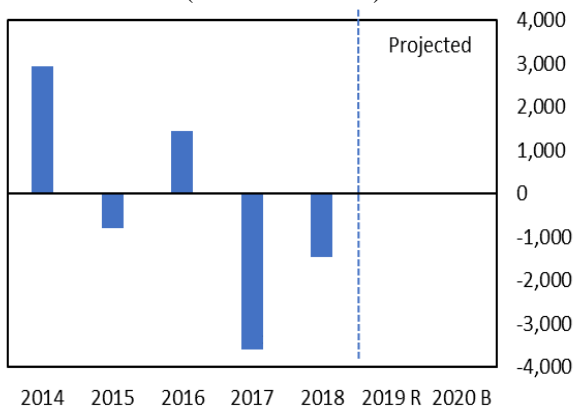


Figure 5: Net Operating Cash Flow
(Kwacha million)



Source: NOCMA Audited Financial Statements and PMPB

4.5.2.2 Non-financial performance

NOCMA's fuel import volumes increased steadily as did sales volume, except for a sharp drop in sales in 2017. The numbers of staff more than doubled over the period with the largest increase in 2015 when

NOCMA began operating the Strategic Fuel Reserve. By the end of 2018 the SFR fuel cover was 1.2 months and is planned to rise to 2 months in 2019.

Table 9 - Selected non-financial Indicators

Indicator	2014 Audited	2015 Audited	2016 Audited	2017 Audited	2018 Audited	March 2019 Projected
Imported Volume (million liter)	10,992	47,489	73,187	67,266	113,745	1077.7
Sales volume (million liters)	10,922	47,489	65,296	7,766	136,569	63,222
Number of customers	1	1	2	1	8	15
Number of employees	26	50	50	51	62	73
Sales volume per employee (million liters)	0.423	0.95	1.31	0.15	2.19	.86
Average fuel cover (months)	0.25	0.23	0.25	0.25	1.2	2.0

Source: NOCMA PMPB

4.5.3 Challenges

No.	Challenge	Description
1.	Difficulty to forecast the revenue flows	Recent wide variations in revenue were caused primarily by the oil marketing companies deciding in 2017 not to buy from NOCMA. At present NOCMA receives the proceeds of a MK2 per liter levy on fuel imports but this is not enough to cover its handling costs which amount to MK11 per liter.
2.	Lack of enforcement of the regulations requiring OMCs to purchase 50 percent of their requirements from NOCMA	In response a new regulation to require the OMCs to purchase 50 percent of their requirements from the SFR was implemented. But NOCMA reports that this regulation is not always being enforced.
3.	Lack of funding to finance the SFR	Funds for the repayment of the Exim Bank of India loan to expand storage capacity are being generated by a levy on fuel sales. No source of funding for the additional storage or for the additional fuel has been approved.

4.5.4 Key fiscal risks

4.5.4.1 Uncertainty in revenue flows

NOCMA main source of revenues is sales from the SFR. But for a period of 9 months from October 2016, OMCs bought no products from NOCMA. This resulted in the serious downturn in revenues mentioned above. A series of meetings followed and resulted in the OMCs agreeing to purchase from NOCMA. This was followed by new regulations which require all OMCs to buy at least 50% of their requirements from the Strategic Fuel Reserves. NOCMA has reported, however, that these regulations are not always being enforced. At present NOCMA also receives the proceeds of a MK2 per liter levy on fuel imports but this is not enough to cover its handling costs which amount to MK11 per liter.

4.5.4.2 Lack of funding to finance the SFR

Funds for the repayment of the Exim Bank of India loan to expand storage capacity are being generated by a levy on fuel sales. However, to build up stocks to the required level, an additional estimated storage capacity of 20 million liters is required. Source of funding for the additional storage and additional fuel has not been approved. An estimated US\$54.8 million is required for purchasing the additional fuel. NOCMA has proposed that government activates the Liquid Fuels and Gas Levy to a level of MK14.08 per liter of diesel and MK9.38 per liter of petrol to pay for the fuel build up, and an additional MK5 per liter to cover the cost of

the additional storage. On-lending from Government is estimated at MK 76 billion for land clearing and investment. This is equivalent to 1.3 percent of GDP.

4.5.4.3 High indebtedness

NOCMA's debt to equity ratio (Figure 6 below) has remained high over the last five years, reaching more than 1,000 percent in 2018. The current ratio rose to 1.45 in 2017 before falling back to 1 in 2018 indicating a growing risk of insolvency (Table 1).

Figure 6: Debt to Equity (Percent)

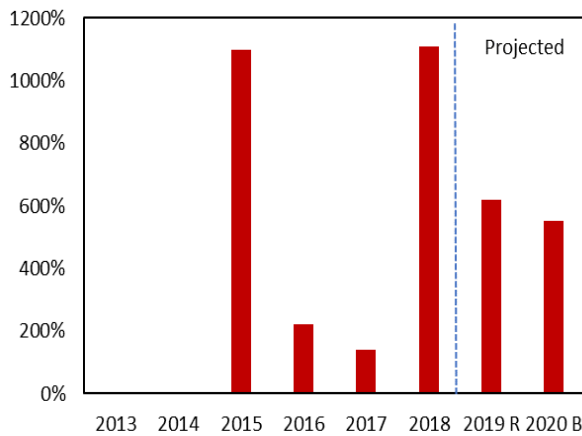
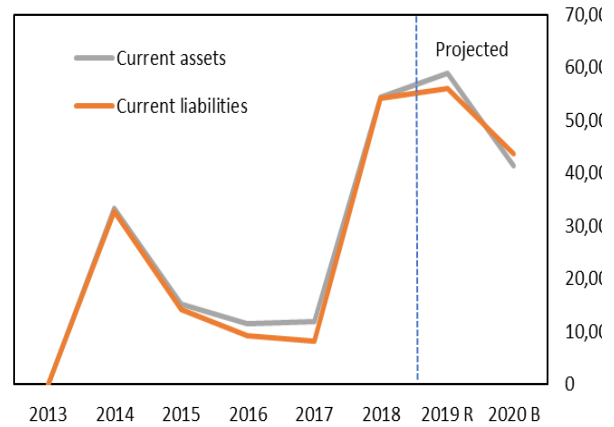


Figure 7: Current Assets and Liabilities (Kwacha million)



Source: NOCMA Audited Financial Statements

4.5.5 Risk Mitigation and Critical Policy Recommendations

Fiscal Risk/Critical Policy Issues	Mitigation Measure
Unpredictability of revenues resulting in wide fluctuations in NOCMA's financial performance and position and ability to service debt	<ul style="list-style-type: none"> Enforce the legal requirement that oil marketing companies purchase 50 percent of their products from the Strategic Fuel Reserve. Raise the fuel levy to a level which will cover NOCMA's handling costs for the SFR

5 ANNEXES

ANNEX 1: FINANCIAL INDICATORS FOR SOEs (2018)

Code	Statutory Body	Profit after tax	Return on assets	Return on total equity	Cost recovery	Gross Profit Margin	Operating Profit Margin	Asset Turnover	Debt to equity	Current ratio	Quick ratio	Account Receivable Days	Debt service ratio	Accounts Payable Days	GoM transfers/Rev	Dividend payout ratio
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	Air Cargo Malawi Limited (ACM)	179,161	14%	21%	166%	40%	5%	5.25	92%	1.74	1.61	81	0.00	70	0%	0%
2	Airport Development Ltd (ADL)	6,296,447	18%	18%	105%	85%	313%	0.06	3%	1.28	1.14	151	0.14	519	0%	0%
3	Agricultural Development and Marketing Corporation (ADMARC)	14,344,895	13%	26%	450%	77%	24%	1.08	101%	1.01	0.54	397	-0.85	853	95%	0%
4	Blantyre Water Board (BWB)	(2,333,334)	-7%	49%	83%	52%	-18%	-3.33	860%	0.37	0.30	163	1.23	320	3%	0%
5	Central Region Water Board (CRWB)	2,769,613	0%	-503%	143%	100%	-2%	-6.80	-2972%	0.73	0.70	276	0.01		0%	0%
6	Electricity Generation Company Malawi Limited (EGENCO)	11,034,678	21%	25%	148%	60%	36%	0.98	66%	1.60	1.35	218	0.08	122	0%	0%
7	Electricity Supply Commission of Malawi Ltd (ESCOM)	(12,963,386)	-11%	-29%	68%	50%	-20%	2.17	302%	0.85	0.60	118	0.03	413	19%	0%
8	Lilongwe Handling Company Limited (LHACO)	85,146	8%	12%	195%	49%	5%	4.17	169%	0.83	0.40	68	0.11	184	0%	0%
9	Lilongwe Water Board (LWB)	2,458,286	8%	9%	130%	100%	25%	0.64	98%	3.44	3.12	208	0.14		0%	0%
10	Malawi Accountants Board (MAB)	(22,836)	6%	-7%	75%	100%	13%	0.53	9%	9.68	9.68	128	0.00		0%	0%
11	Malawi Communications Regulatory Authority (MACRA)	8,000,781	41%	71%	174%	100%	43%	1.65	71%	1.57	1.56	128	0.00		0%	75%
12	Malawi Broadcasting Corporation (MBC)	(200,507)	-6%	10%	52%	100%	-5%	-1.91	-269%	1.19	0.90	189	0.00		45%	0%
13	Malawi Bureau of Standards (MBS)	2,298,523	24%	27%	161%	100%	50%	0.55	15%	2.70	2.68	14	0.00		0%	60%
14	Malawi College of Accountancy (MCA)	24,542	-1%	1%	83%	-20%	-1%	0.74	23%	0.20	0.20	13	0.00	89	0%	0%
15	Malawi Enterprises Development Fund (MERDEF)	2,604,987	57%	68%	644%	100%	68%	1.00	19%	5.89	0.40	7	0.00		0%	0%
16	Malawi Energy Regulatory Authority (MERA)	3,164,393	7%	37%	449%	100%	50%	0.74	446%	1.95	1.18	1322	1.00		0%	14%
17	Malawi Housing Corporation (MHC)	257,390	0%	0%	71%	100%	12%	0.04	5%	0.65	0.40	193	0.00		0%	0%
18	Malawi Institute of Management (MIM)	(338,064)	-16%	-82%	173%	43%	-36%	2.28	413%	0.29	0.25	107	0.00	287	0%	0%
19	Malawi Posts Corporation (MPC)	439,543	-3%	6%	109%	92%	-8%	0.63	97%	0.64	0.56	276	-0.02	415	0%	2%
20	National Construction Industrial Council (NCIC)	43,277	3%	4%	100%	100%	2%	1.41	10%	3.21	3.21	50	0.03		0%	60%
21	National Food Reserve Agency (NFRA)	6,335,751	23%	36%	287%	100%	67%	0.53	53%	4.14	0.91	11	0.00		7%	0%
22	National Lotteries Board (NLB)/ Malawi Gaming Board (MGB)	334,139	31%	42%	144%	100%	30%	1.40	38%	2.08	2.07	68	0.00		0%	8%
23	National Oil Company of Malawi (NOCMA)	(1,206,029)	-2%	-17%	2948%	1%	-2%	14.71	1108%	1.00	0.68	5457	0.00	188	0%	0%
24	Northern Region Water Board (NRWB)	185,504	1%	2%	894%	100%	4%	0.52	210%	1.03	0.85	250	0.23		0%	0%
25	Pharmacy, Medicines and Poisons Board (PMPB)	121,240	5%	6%	110%	100%	9%	0.65	11%	1.68	1.64	37	0.00		0%	0%
26	Southern Region Water Board (SRWB)	837,612	8%	4%	411%	100%	36%	0.37	56%	1.63	1.54	423	0.00		0%	5%
27	Tobacco Control Commission (TCC)	305,490	3%	9%	407%	100%	6%	0.84	51%	1.24	1.08	90	0.10	0	0%	16%
28	Technical, Entrepreneurial, Vocational Education and Training Authority (TEVETA)	440,058	3%	8%	103%	100%	3%	1.59	32%	3.27	3.27	188	0.00		0%	0%

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

