Assessing The Performance Of Public Companies In Mozambique For The Last Decade.

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ABSTRACT

For the last ten years, the road to success for state owned enterprises has been an arduous task fraught with high risks and uncertainty. Sluggish international markets, depreciation of the US dollar against the metical, outdated infrastructure, dearth of quality management and the existence of half of the population in poverty contributes to the current situation. Barring Ports and Railways of Mozambique (CFM), no other public company has achieved consistent growth and profits in the last decade. The roller coaster performance of Electricidade De Mozambique (EDM)is a testimony to the slow pace of electrification, irregular power distribution, compounded by power theft which being a major concern and the primary reason for revenue loss. The merger of two loss-making government entities, Mozambican Telecommunication (TDM) and its subsidiary Mozambique Cellular, resulted in the creation of Mozambique Telecom (Tmcel) which has yet to start 4G service and prove itself a worthycompetitor to the private players by adopting technological advancements. Possessing a fleet in single digits and having faced a ban for safety concerns by the European Union, the flagship carrier Mozambique Airlines (LAM) has been grappling with debts and losses since the past many years which has resulted in the constant restructuring of its management without any positive outcomes.To add to the state budget and offer standard services to its consumers, public companies in Mozambique need to rethink their strategy and prioritise their objectives to survive.

KEYWORDS: Mozambique public companies, African enterprises, EDM, ports and railways, Tmcel

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INTRODUCTION

Around 2010, the government of Mozambique identified the sectors of transport, telecommunication and energy as engines of growth for the economy. Adequate measures were taken to ensure the success of these enterprises. These businesseswere expected to generate huge revenues and boost job creation to build the foundations of a modern Mozambique on which it would stand. Present-day assessment of these sectors makes it evident that plans went awry and timely corrections were either ignored or not implemented. The objectives set for these companies were not accomplished which raised questions on their functioning and approach. Failure on thepart of the management to envision the future or make informed decisions, continued laxity to restructure debts and payment schedules and the nonchalance to adopt new technology and upgrade infrastructure pushed TDM, EDM and LAM into bankruptcy. In 2018, six public and stated owned companies in Mozambique owed more than 77 billion meticais. LAM, EDM, TDM and Mcel featured in that list. According to IMF, the financial crisis in those enterprises generated less taxes for the state with deferral of payments to avoid bankruptcy and were a risk to national Banking. The only exception being CFM which devised strategies and transformed policies by anticipating the trends of the business. The success of state-owned enterprises is paramount for Mozambique to announce its arrival in the league of developing nations of the African continent.The progress of the four areas under consideration is vital to build a positive image for investors who see business opportunities in the country. Toaffect a turnaround in its fortunes, the aforementioned entities need to strategize and focus on strengthening their scope of services and discontinue ventures with little prospects in the future scheme of their revival.

OBJECTIVES

To identify and analyse the decisions of the management that led the current situation of the major public companies of Mozambique

To evaluate the performance on criteria’s that include improvement of infrastructure and the extent of penetration of services in Mozambique.

To extrapolate the development future of the ongoing projects to assess their impact on the growth of the companies.

To summarize the significant events of the companies in the last decade to fathom their functioning.

To discuss the strategies of the companies to affect the turnover of their fortunes.

LITERATURE REVIEW

CFM

Fisher and Nhabinde (2012), in their paper Assessment of Public-Private Partnerships in Mozambique conclude without detailing the financial aspects that fairly poor experiences of Beira and Nacala have to do with the delays in the railroads. Though CFM is a profit making public enterprises, it could do better with the integration of transport, i.e. a smoother access to shipping companies at ports via railroads .Constant delays to provide clearance to download cargos at the Beira and Nacalacorridors results in losses for traders and the unpunctual running of railways causes the shipment to be Strained at the ports and not being delivered in the stipulated timeframe. This points to the laxity in the management chain. CFM has areas of improvement and upon working on them, it can improve its efficiency and work ethic. The lack of coordination between the ports and railways authorities needs to be looked into and the requisite changes in the functioning or management of the two transportation services have to be enforced.

EDM

Ahborg and Hammar (2011), in their research findings lay emphases on the socioeconomic development of rural Mozambique and vouch for a bottom up approach for its electrification excluding the impact it would have on the development of the urban area. Unless financial prosperity does not reach the village of Mozambique, which can only realize through regular power distribution , the aim of EDM to connect every household to its power-grid will take a backseat .The presence of the majority of the populace in the rural areas poses a challenge to the infrastructure development process as the grids have to store power beyond their capacity which may result in their failure . To generate power and to make it available at cheaper rates will be an onerous task given that the cost deficit will have to be finally borne by EDM which is not in a stable financial situation.

LAM

Matsinhe Jose (2015), probed the events that led to Lam being banned for flying in the European space for seven years. In 2013, a LAM aircraft crashed, killing all the 33 passengers on board. This accident took place inspite of warnings given to the aviation department in 2010 after an inspection revealed serious irregularities in the aviation department that included not adhering to the norms laid for its functioning. They included recruitment of the unqualified and unskilled technicians, outdated technology, improper inspections of aircraft before a flight and the procedure. Thecallous attitude of the state flagship carrier was reflected further when the investigations into the accident were found to be inconclusive due to the absence of the communication transcript of the pilot with the air traffic control. The strong recommendation for the major overhaul of the LAM model of managementis not unfounded.

TDM

Brower and Brito (2012),investigate the cause that denies the rural population of Mozambique access the mobile phones while the services continue to expand their growth is the urban areas .As government entity , TDM has the responsibility to provide cheap access to mobile telephone .But the company policy to have higher tariff rates for pre-paid customers – The rural populace , forming a very large portion of that service is detrimental for the future growth of the company. The strategy of TDM to focus on the urban centres with cheaper tariff for voice calling and data tariff in post-paid plane while private players focusing on increasing their presence in the rural market places TDM in a very precarious position as the rural market is expected to grow at a rapid pace .The brand recall value of TDM is at a risk due to the imbalance of its business model growth.

TDM

For the first time since 2006, TDM posted negative operating results in 2010 and a net loss of 96,102,467 metical due to the adoption of a new General Accounting Plan based on International Financial Reporting Standard (IFRS) and the depreciation of the metical against the US Dollar and the Euro.To stay competitive in a market dominated by private players in the internet area, the company launched Fixed Wireless, Wireless Internet, Internet Bandalarga and Fax2mail. The tariffswere kept fixed for both the TDMBandalargaService (ADSL) as well as the wireless internet service (CDMA) with increasing data speed. Anticipating great technological advancements in the near future, the management focused on building a modern, robust reliable and high capacity National Transmission Network (NTN) to strengthen the quality and revenue generating capacity.This resulted in an impressive growth in the financial statement of the very next year as the company announced a profit of 736.5 million metical’s. The overall increase in the number of subscribers across all services and the increase in voice tariff from 1.90 metical to 5.50 metical boosted the revenue. With the appointment of new officebearers, namely a new chairman of the board of directors and a new chief executive officer (CEO) who chaired the management council. Buoyed by the growth, the company initiated a process of reviewing and updating the mechanism and instruments of governance within the company. The commitment to improving corporate governance practices started with the process of revising the Article of Association.

An increasingly tough challenge posed by private telecos in 2012 resulted in a negative growth. Fixed telephone voice services continued to decline in terms of subscribers which severelyreduced revenue as customers opted in favour of data services which were cheaper but not very profitable for TDM. With a net profit of 76,171,560 meticals and a 40 % decrease in operating revenue compared to 2011, changes at the strategic and operationalmanagement level of structures and directorial were introduced.

The highlight of 2013 in the telecom sector was the revision of the Basic Telecommunications Act to adopt a new converged licencing regime which allowed the convergence of networks and services.The auction for the allocation of frequency was also allowed. Inspiteregistering a net profit of 52 million meticals, revenues across the services declined as TDM was unable to meet the growing demand of mobile services due to the lack of commitment on part of the management to modernize its network.

Net losses of 380,153.160 and 510, 211,504meticals in the years 2014 and 2015 respectively underlined the constraints faced by the company to implement criticaldevelopment projects that would allow the expansion and diversification of the service offering. The creation of two commissions by the board of directors to instill more control in managing interests of the company and to review the contracts with partners did not have the desired effect.

Taking note of its loss-making entity, the government of Mozambique in 2016 decided to merge TDM and its mobile subsidiary,Mcel after it posted a loss of 23 million euros.By 2017, the two telcos had accumulated debts of more than US $230 million.After TDM posted a profit of 9.11 million euros in 2018 and Mcel reduced its losses to 11.5 million euros, the merger of TDM and Mcel created a new telecom company Mozambique Telecom SA (Tmcel).In 2019, Tmcel deployed 4G internet connectivity becoming the last telecom operator in Mozambique to do so. In 2020, looking to expand its 4G and 5G services,Tmcel neededUS $350 million and managed to secure a loan of US$200 million from the Exim Bank of China to acquire new technology to compete with Vodacom and Movitel.

Table revealing financial figures of TDM

	2010	2011	2012	2013	2014	2015
Revenue	**2.937.845.283**	**3.279.888.008**	**3.239.631.132**	**3.140.772.912**	**2.804.982.056**	**2.978.120.615**
Expenses	**2841742.82**	**2543424.21**	**3163459.57**	**3088771.1**	**2424828.9**	**2467909.11**
Net Profit	**(96.102.467)**	**736.463.797**	**76.171.560**	**52.001.810**	**(380.153.160)**	**(510.211.504)**

EDM

In 2019, the demand for quality electric energy increased manifold which led to massive investments in the generation sources and in the reinforcement of the electric power transmission system .To chart future growth in a planned manner, EDM devised the National Energy Strategy which highlighted the challenges faced by it and their solutions to generate, transmit and distribute powerto the 128 districts of Mozambique. The tariffs were set at 2.7 metical per kwh for households and 3.56 for businesses that year. Emphasis was laid on rural electrification and variation of the energy matrix.As a result, the total revenues reached 6.3 million meticals that year which corresponded to a 21% increase to the previous year. In 2011, new districts were added to the National Electric Network and EDM reached the milestone of 1 million customers and the electrification rate rose by 20%. Connections to small, medium and large scale industrial, agricultural and commercial customers aided EDM to reach an adequate level of operational effectiveness and promote financial restructuring.Despite these achievements, the rate of progress was considerably slow against the target aimed.The obsolete transmission and distribution network negatively affected the quality of energy supply and illegal connections, power distribution losses, power theft,vandalism on electric energy transmission and distribution infrastructure amountedto direct losses of 672,768,431 meticals. The year 2013 saw the energy in the EDM grid increase to 4,538 Gwh and yet agreements were made with private power producers as the supply limitations of the state-ownedenterprise made it unable to provide power for lack of transmission systems.Even so it was a positive year for EDM with the majority of its revenue being generated from domestic, MT-AT and commercial connections. With the commitment to modernize EDM,the management introduced the -Online NationalSystem Pre-PaidEnergy Selling (CREDELEC Online)- an online customer care service that allowed the customer to recharge their power bills without visiting the power station. By mid-2020, the CREDELEC system reached 671,322 customers, which represented 78% of the consumers. The demandfor power grew to 83MW and new power projects were implemented, and the total energy in the EDM system was 4,962GWH. No financial statements from the company were made public.The year 2015 witnessed the acquisition of energy from independent producers with a view to improve the energy balance of the company, implementing the Power Purchase Agreement. The scarcity of resources for the construction of new generation plants,improvements and expansion of the transmission and energy distribution network to respond to the growth of demand for connections to new customers,despite the price of per KWH of electricity rising to 3.75 meticals for households and 5.96 meticals for commercial establishments, raised many questions. No financial statements wereréleased for the second consecutive year. An external audit in 2016 brought to light massive losses for EDM to almost a billion meticals (983,432,906), casting suspicions that the financial statements of the previous years were manipulated indicating widespreadcorruption within the company.

The launch of the 120MW gas-fired power station – Gigawatt Mozambique in Ressano Garcia augmented access to power for domestic, agricultural and industrial consumption in Southern Mozambique.The audit in 2017 presented a higher loss corresponding to the previous years at 2,833,022,169 meticals.

The functioning of a gas fired combined cycle power station in Maputo in 2018 with a capacity of 106 megawatts was a boost to solve the electricity shortage in Maputo city **and** province.As of 2020, the electrification of all the districts was not completeand 70 % of the populations still does not have access to power.

Table revealing financial figures of EDM

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	**6,270,414,680**	**7,352,388,971**	**8 495 613 932**	**9,913,415,208**	**10,739,768,055**	**16,34881 9.781**	**291 223 96, 974**	**27, 073 221 902**	**31,145,306,274**	**39,549,266,005**
Expenses	**6,33,45, 71,470**	**6,71,48,65,861**	**8,39,10, 90,122**	**9,98,15, 94,977**	**10,80, 09,41, 899**	**1,63,48,822**	**6,33,45,71,470**	**2,83,30,22,169**	**8,39,10,90,122**	**9,98,15,94,977**
Net Profit	**(64,156, 790)**	**637,523,110**	**104 523 810**	**(68,179, 769)**	**(61,173,844)**	**(1.945337 534)**	**983,432,916**	**2,833,022,169**	**(3,467,201,723)**	**(2,132, 420,300)**

CFM

With a continuous upward graph of its net profits since 2010,Ports and Railways of Mozambique (CFM), is the onlystate-owned enterprise that has never been in the red.Anticipating tremendous growth in the logistics of natural resources of Mozambique, especially coal and aluminium. For exports via rail and ports, CFM invested heavily in developing corridors for transportation which has resulted in its net profit grow from 845,699 million metical's in 2010 to 2.16 billion metical'sin 2019. The three major projects being operated in 2010 by CFM included the 78 km Ressano Garcia line and the 534 km Limpopo line connecting Maputo with South Africa and Zimbabwe respectively and The Aluminium Terminal in the industrial ports of Matola which was dedicated for the export of aluminium. This increased cargo handling in the railway area by 27.4% and 38% in the port area. The signing of an MoU, involving Mozambique, Botswana and Zimbabwe for the construction of an 1100 km railway freight transport corridor to boost regional integration for economic purposes saw a substantial growth investment by the private sectors in coal, aluminium and cotton for imports and exports.

CFMbenefitted by the takeover of the Centro Railways Systems in 2012 after the government decision that determined the termination of the concession contract that had been signed with the concessionaire,The Beira Railroad Corporation (CCFB).This acquisition resulted in a 40% growth in operating income and 63% in revenue collection.With the appointment of a new executive director in 2015, the two largest ports of Mozambique, the Port of Maputo and the Port of Beira underwent development and modernization to handle and process cargo that was expected to rise to 48 million tons a year by 2033 at Maputo, considering the importance of Beira for Zimbabwe's exports and imports.

A profit of over 2 billion metical in 2016 was contributed to the positive measures taken to boost ease of doing business with the neighbouring countries. Due to the limitations of the port access channel of the Beira coal terminal to accommodate heavy traffic of freighters, the Brazilianmining group Vale , stopped using the Sera rail line and the central port of Beira to export coaland instead operated on the Nacala logistics corridor operated by a private entity NorthernDevelopmentcorridor (CDN), which resulted in a revenue loss of US $45 million for CFM in 2018.To boost the economy of central

Mozambique, CFM invested US $200million in 2019 for the reconstruction of 318 KM Machipada railway line linkingthe port of Beira to Zimbabwe to provide better services and process more cargo for the neighbouring landlockedcountries. Fivelocomotive engines and five hundred platform wagons were purchased at the cost of US $375 million to improve cargo handling capacity in both Ressano Garcia and Limpopo railway lines which linked the port of Maputo to South Africa and Zimbabwe respectively.

The development of oil and gas projects and the economic growth of neighbouring countries willdrive the transportation sector in Mozambique and major ports need to be expanded or upgraded, new roads and rail lines are required.

Table revealing financial figures of CFM

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	**2.794.923**	**3,379,395.00**	**5.261.659**	**5,902,304**	**7,560,917**	**9 177 797**	**10 867 188**	**11.980.353**	**12.073.657**	**13.129.958**
Expenses	**1949.224**	**2366272**	**3873.855**	**4230077**	**5846029**	**7989.262**	**10142.84**	**8972.429**	**10115.29**	**10964.67**
Net Profit	**845.699**	**1,013,123.00**	**1.387.804**	**1,672,227**	**1,714,888**	**1 188 535**	**724 351**	**3.007.924**	**1958.368**	**2.165.288**

LAM

Plagued with problems and grappling with them without any solutions while new issues keep piling up has been the story of the Mozambique flag-carrier LAM since the last two decades. Having failed to make any profit in the last twenty years (LAM insists it made profits in 2011),it faces an uphill task for a considerable time in the future. The management at LAM cite the lack of disposable income of the population of Mozambique for air travel, scarcity of aviation experts, weak connectivity, too many restrictions on visas and transit visas and the unwillingness to implement the Yamoussoukro Declaration. It also points to the operating cost which are one of the highest in the world and load factors that are the lowest. Not discounting the validity of the fact mentioned by LAM, it is evident that complaints of delayed flights, poor passenger service and its unprofessional conduct have gained notoriety.

In 2018, British Petroleum stopped the supply of aviation fuel as LAM had defaulted on its payment of US $3 million. LAM had to ground all its flights.In the same year, the entire board of LAM was sacked after the country's prime minister was left stranded when a plane ran out of fuel.A six-yearban imposed on LAM restricting it from operating in the EuropeanUnion due to the safety concerns was lifted in 2017.

Even with a fleet of just seven airplanes, several are frequently grounded for heavy maintenance. The priority of the LAM management lies in increasing fleet size and opening new profitable routes, esp to South America and Asia. To cut losses, LAM decided to allocate different seats into different price brackets. It's policy to manage flights within the same tariffs allowing cheaper prices when the demand is lower paid off for a while. In 2017 when LAM posted a net loss of 2,088,030,607metical’s, independent auditors expressed serious doubts about the contributions of the airline.

Taking serious note of the observation, theboard of directors chartered a five-year plan to reduce fleet diversification and increase fleet size with a focus on skill development programs for its staff and to weigh the options to expand through strategic partnerships. In 2019 LAM was set to invest up to US $ 120 million in a new aircraft and was seeking to intensify its presence on African routes and link South Africa to Lisbon. It also requested more flights toDar Al Salam,Harare, Lusaka and Gaborone.

Since the coronavirus outbreak and before the airspace was shut,LAM's revenue had fallen from US $8 million to US $1 million a month and while it carried an average of 40,000 passengers a month, it fell to 12,000.In April 2020**,** the LAM management was working to cut fixed costs (wages, rents and aircraft rental) by negotiating with companies to postpone or reduce mandatory costs.The 2019 financial statements of LAM reveal a net loss of 3.64 billionmetical.

Table revealing financial figures of LAM

	2011	2012	2017	2018	2019
Revenue	**4667.819.415**	**4652.169.423**	**5.270.972.321**	**5.382.010.609**	**6.195.414.271**
Expenses	**4530739.457**	**4521694.402**	**3182941.714**	**2548451.801**	**2564395.853**
Net Profit	**137.079.958**	**130.475.021**	**(2.088.030.607)**	**(2.833.558.808)**	**(3.631.018.418)**

Conclusion

To half the downturn of the public companies, that government of Mozambique should draft and implement of strict policy that ensures transparency and Accountability the arrest of exacerbation of existing problems and the asset of others the impact of the internal and external factors affecting their performance have to be monitored closely to anticipate and predict changes in their respective field of operation. The companies that have been under consideration EDM, TDM, CFM and LAM cater to the entire population of the country and therefore, are very essential to the overall growth of the Mozambican economy. The interconnectedness of these enterprises makes each entity an important partner in the success of the other. Focus on organizational objective objectives with sheer commitment, development of infrastructure, imparting quality skill set to its employees will result in changes that will aid these businesses to turnaround their sagging fortunes. The other companies can take a leaf out of CFM's took and if necessary, the government should survey the options to appoint successful directors at CFM to helm the affairs at the loss-making public companies. The failure of EDM, TDM and LAM adversely affects the creation of job opportunities which was one of their objectives and in turn, burdens the government to fight with unemployment. The possibilities of success for these enterprises are unlimited if the way forward in planned with utmost diligence under the guidance of able and visionary leadership. For that to materialize, the knowing of the present is needed.

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