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THE TRANSPARENCY OF THE MOZAMBICAN SOVEREIGN WEALTH FUND IS A MIRAGE

- Governance risks of the Sovereign Wealth Fund of Mozambique

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1. Introduction

The Sovereign Fund of Mozambique (FSM), projected to be a landmark in the sustainable management of the resources from the exploitation of natural gas, has made noteworthy progress. Among the most significant steps taken are the opening of the Transitional Account in the Bank of Mozambique, which has already accumulated 134.6 million dollars^[1], and the establishment of two governance bodies, the Supervisory Commission and the Consultative Investment Council. The main tasks of these bodies are to inspect, monitor and guide the management of the resources of the FSM.

Despite these advances, there remain governance risks which may compromise the objectives of the fund. Among the main challenges are: *i)* the lack of transparency about the revenues from the exploitation of natural gas which could undermine public trust and the credibility of the FSM; *ii)* the rationality and efficiency of the decisions taken on the allocation of resources so far which are critical for ensuring that the objectives of the fund are effectively achieved; *iii)* the capacity of the Supervisory Committee and of the Consultative Investment Council to monitor and guide adequately the management of the resources which is fundamental to prevent theft and ensure good governance.

This article is based on a comprehensive methodological approach to examine the advances and risks of governance associated with the FSM. The analysis included the bibliographical review, and the analysis of public documents such as the Balance of the Economic and Social Plan and State Budget (BdPESOE). Basic estimates of interest were made to assess the potential return on the amount accumulated by the FSM so far and the researchers talked with some members of the Supervisory Committee who provided valuable insights into the activities of the Committee, the decision-making processes and the challenges faced.

These methodological stages provided a solid basis for a detailed analysis of the governance risks of the FSM, culminating in recommendations for public policies aimed at strengthening the transparency and efficiency in managing the fund.

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2. Advances Made

Among the landmarks achieved, there stands out the creation of the Transitional Account in the Bank of Mozambique, where 134.6 million dollars were registered, according to the Balance of the Economic and Social Plan and State Budget (BdPESOE) of the 3rd quarter of 2024[2]. These resources should be shared between the FSM (40%) and the State Budget (60%), in line with Article 8 of the Regulations. Furthermore, the Supervisory Commission and the Consultative Investment Council were set up with the goal of inspecting, monitoring and guiding the management of the resources of the FSM. The Bank of Mozambique was designated as the operational manager of the FSM, with clear directives established in the Management Agreement to be signed with the Government.

It is important to mention that, according to the National Director of Economic Policies and Development in the Ministry of Economy and Finance (MEF), Enilde Sarmento, who is also a member of the Consultative Investment Council, when the management agreement is signed, the terms and conditions for the delegation of the responsibility of the Government to the Bank of Mozambique and how much the Government should pay the Bank will be publicly known. [3]

3. Inconsistencies and Concerns

Despite the progress, doubts are arising which cast a shadow over the management and transparency of the FSM.

According to the BdPESOE of the 3rd Quarter of 2024, some of the revenues of the FSM refer to periods prior to its creation, in 2022 and 2023. The Law on the FSM was only passed in January 2024, and its regulations in April 2024. This time lapse suggests that the amounts from 2022 and 2023 could have been used for other purposes without violating the legislation which set up the FSM.

This situation raises questions about the veracity of the information presented. If the revenues really were collected and deposited since 2022, why have they not generated interest or other significant financial yields? Or why were they not applied? If they did generate yields, for the good of transparency, these details should have been published along with the rest of the information. See Figure 1 below, taken from BdPESOE, 3rd quarter of 2024:

Figure 1: Gas Revenues Deposited in the Transitional Account from 2022 to September 2024

Type of tax	2022-2023		2024							Total	Total
	Balance	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Jan-Aug	Accumulated
Tax on mining production	26,58	2,57	2,35	2,15	2,57	2,02	2,84	4,54	3,19	22,23	48,81
Petroleum profit	45,58	4,86	5,16	2,98	4,45	4,57	3,31	2,31	5,57	33,21	78,80
Production bonus	2,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	5,00	5,00	7,00
Total	74,17	7,43	7,51	5,13	7,02	6,60	6,15	6,85	13,76	60,45	134,61

Source: DNTCEF

Source: Taken from BdPESOE, 3rd Quarter of 2024

The regulations of the FSM require the monthly publication of detailed reports on the deposits and transfers of the Transitional Account. However, the reports published so far do not meet the legal requirements for detailed reporting and the information available comes mainly from the BdPESOE, a government document, which compromises the independence of the declarations and raises doubts about their reliability. How can citizens check the truthfulness of the revenues and transactions declared?

Another critical point is the allegation that the resources were being deposited since 2022 in the Bank of Mozambique.

This situation raises several questions. Why were the sums not applied in financial instruments to generate income? What was the cost of keeping these resources tied up in bank accounts? What is the logic of accumulating significant sums without any financial return in a context where the government was facing serious problems of liquidity? These questions suggest not merely a lack of strategic planning, but also the possibility of mismanagement or the possibility that these resources do not exist or that they have been diverted to other applications, even individual ones.

The fiscal pressure that the government faces, worsened by mass demonstrations against the socio-economic inequalities in the country, strikes in various public sectors that are key for the operations of the administrative machine of the public sector, strengthens the doubts about the real situation of the FSM. Were some of these revenues diverted to cover fiscal deficits before or after the formal creation of the FSM?

4. Risks Identified

In addition to the inconsistencies mentioned, the FSM faces considerable risks which may compromise its effectiveness and credibility. In this article, we stress four main risks:

- 1) **Lack of Public Confidence.** The lack of transparency in the management and in divulging information about the FSM damages the credibility of the Fund and compromises its acceptance by citizens. When essential information, such as regular reports on income and expenditure, are not made available in a clear and accessible manner, an environment of distrust is created. The dependence on documents such as BdPESOE, rather than independent and detailed reports, strengthens this perception. Without public confidence, the FSM may face popular resistance, undermining the legitimacy of its operations and objectives.
- 2) **Financial inefficiency.** The lack of financial yields from the sums accumulated in the FSM significantly reduces the potential benefits for the State and for future generations. Bearing in mind that part of the 134.6 million dollars announced, in this case 71.17 million dollars, have been deposited since 2022, the lack of investment in financial instruments that generate interest or returns calls into question the efficiency of the management of these resources.

For example, if the amount raised between 2022 and 2023 had been applied in financial assets with an average rate of return of 3% a year^[4], the State could have raised approximately 6.61 million dollars by the end of 2024^[5]. These are resources that could have been reinvested in development projects. Furthermore, keeping resources inactive in the bank could incur administrative costs, such as maintenance fees or lost opportunities, especially in a context of fiscal difficulties for the Government.

- 3) **Diversion of Resources.** The opaque management of the FSM increases the risk that resources may be diverted for purposes that are not in line with its declared objectives. International cases show that lack of transparency and weak governance are factors that frequently lead to scandals of corruption and mismanagement in sovereign funds.

A notorious example is 1MDB (1Malaysia Development Berhad) in Malaysia, which resulted in the diversion of about 4.5 billion dollars, to the benefit of politicians and businesspeople. This scandal showed how the absence of solid monitoring and supervision mechanisms can transform a sovereign fund into a tool for corrupt practices. This case culminated in the sentencing of the former Prime Minister, Najib Razak. ^[6]

Another case is the Future Generation Fund of Angola (FSDEA). The fund was the target of investigations into the mismanagement of billions of dollars due to lack of supervision and the appointment of managers with political ties. Reports showed that a significant part of the resources of the FSDEA was channelled to investments with doubtful returns, to the detriment of the long term purposes of the fund.^[7]

On the other hand, good international examples show how effective governance can protect national interests. The Sovereign Fund of Botswana is a positive example and is regarded as one of the best in Africa. Set up to guarantee economic stability and promote sustainable development, the fund is managed with transparency and strict supervision, ensuring that the resources are used effectively and to the benefit of the country.[8]

Another positive example is the Pensions Fund of the Norwegian Government, widely considered as one of the best models in the world. It publishes detailed and regular reports, guaranteeing transparency and public commitment. Furthermore, it is managed independently, and any conflict of interest is strictly avoided.[9]

- 4) **Governance and Conflicts of Interest.** A further major challenge to the good governance of the FSM is the composition of the Consultative Investment Council. Article 18 of the regulations states that the members of this Council should be independent of the Government. However, this requirement is questioned by the appointment of two members with government ties – namely, Enilde Sarmiento, who simultaneously holds the post of National Director of Economic Policies and Development in the Ministry of Economy and Finance, and Omar Mithá, appointed to head the Consultative Investment Council, while he is also an economic adviser to the President of the Republic, and chairperson of the National Investment Bank (BNI), which is a state-owned bank.

This raises serious doubts about the independence of the Council, compromising the spirit of the legislation and undermining the credibility of the FSM. The presence of members with multiple roles tied to the Government does not only violate the principle of independence envisaged in the Regulations. It also increases the risks of conflicts of interest, interfering in the objectivity and impartiality of the Council's decisions.

Another, no less important risk or concern has to do with the fact that it is not clear that the 60% which goes to the State Budget should be treated differently in terms of the reports on their use, although these are not part of the FSM. For questions of transparency, it would be good for the public to know exactly what was done with them.

These risks are not merely theoretical but are the real consequences of weak governance and non-transparent practices.

5. Conclusion

The Sovereign Fund of Mozambique (FSM) presents an historic opportunity for the country to transform its natural riches into a legacy of sustainable development for future generations. However, achieving this potential depends on transparent, efficient and independent management. International experience offers valuable lessons. While cases such as 1MDB in Malaysia and the FSDEA in Angola show the dangers of an opaque and politicised governance, The Pension Funds of the Botswana Government and of Norway show how transparency and strict supervision can guarantee long term success.

The absence of detail in the reports, the lack of financial yields on the accumulated values and the temporal inconsistencies in the declaration of FSM revenues undermine public confidence and raise questions about the effectiveness of its management. The fact that figures with government ties such as Enilde Sarmiento and Omar Mitha remain on the Consultative Investment Council can be interpreted as a conflict of interest, compromising the independence demanded by Article 18 of the FSM Regulations. So that the FSM can meet its promise, it is recommended that the fund managers at all levels:

- a) Publish detailed and regular reports, accessible to the public, on the fund's revenues, expenditure and investments through the FSM web page;
- b) Guarantee that the resources of the FSM are applied in safe and profitable financial instruments;
- c) Strengthen the selection of members of the Consultative Council, aligning it with good international practices to avoid conflicts of interest; and
- d) Include a chapter in the quarterly reports and in the CGE with details about the 60% intended for the State Budget since the resources come from the same source.

6. End Notes

[1] Balance of the Economic and Social Plan and State Budget (BdPESOE) of the 3rd quarter of 2024

[2] MEF (2024). *Balanço do Plano Económico e Social e Orçamento do Estado – IIIº Trimestre de 2024*. Available on the site: <https://mef.gov.mz/index.php/todas-publicacoes/instrumentos-de-gestao-economica-e-social/bdpesoe/bdpesoe-2024/2200-bdpesoe-iii-trimestre-2024/file?force-download=1>. Consulted on 15/11/2024

[3] Cited by the paper Carta de Moçambique of 24/07/2024, available on the website: <https://cartamz.com/index.php/economia-e-negocios/item/17675-fundo-soberano-falta-de-acordo-de-gestao-atrasa-funcionamento-pleno-dos-orgaos>. Consulted on 15/07/2024.

[4] Rate of return of the FSM, according to Article 8, paragraph 4, of the law on the FSM

[5] The forecast was made by applying an annual rate of return of 3% to the sums accumulated in each period. The calculation considered the time in which each sum was available, starting from November 2022 when the first revenues were raised. For 2024, the yield was calculated proportionately until December, assuming that the amount raised until August remains constant until the end of the year.

[6] CNN Brasil. (18/07/2020). *Ex-premiê da Malásia é condenado a 12 anos de prisão acusado de corrupção*. CNN Brasil. Available at website: <https://www.cnnbrasil.com.br/internacional/ex-premie-da-malasia-e-condenado-a-12-anos-de-prisao-acusado-de-corrupcao/>. Consulted on 15/11/2024

[7] Expresso (18/04/2016). *Fundo soberano de Angola: uma forma de lavar cinco mil milhões*. Available on website: <https://expresso.pt/dossies/diario/2016-04-18-Fundo-soberano-de-Angola-uma-forma-de-lavar-cinco-mil-milhoes->. Consulted on 15/11/2024

[8] Diário Económico (02/02/2024). *Conheça os Maiores Fundos Soberanos de África... e do Mundo*. Available on website: <https://www.diarioeconomico.co.mz/2024/02/02/oilgas/lng/conheca-os-maiores-fundos-soberanos-do-mundo-e-de-africa/>. Consulted on 15/11/2024

[9] InfoMoney. (14/08/2023). *Maior do mundo, fundo soberano da Noruega tem lucro recorde de US\$ 213 bilhões em 2023*. Available on website: <https://www.infomoney.com.br/mercados/maior-do-mundo-fundo-soberano-da-noruega-tem-lucro-recorde-de-us-213-bilhoes-em-2023/>. Consulted on 15/11/2024



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