

EXTRACTIVE INDUSTRY

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Where are the revenues from the Coral Sul FLNG project kept?

- Keeping the revenues earmarked for the Sovereign Wealth Fund in a non-transparent way could worsen the critical situation of public finances.

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1. Introduction

According to Max Tonela, Minister of Economy and Finance, since the beginning of the gas exports from the Coral Sul FLNG project in November 2023, Mozambique has received about USD 40 million. However, according to the Government, its use is conditional on the approval of the Bill creating the Mozambique Sovereign Fund (FSM). The Government says that the revenues generated so far are kept by the Tax Authority (TA) in a secure account. However, this situation raises some concerns: i) it is not clear in which bank the revenues are deposited; ii) what is the interest income for this deposit; iii) what is the rationale for keeping revenues in a context where the country faces cash liquidity problems; iv) what is the value of the 17 shipments of LNG and 4 of condensate¹; and v) what are the categories of taxes and their respective amounts collected so far.

This essay presents the risks that the lack of transparency regarding the revenue amounts collected in the Coral Sul, FLNG project, supposedly kept in a bank account awaiting the approval of the Sovereign Fund Law, may pose to public finances, especially when considering the pressure that public finances have faced in recent times, due to the lack of liquidity, with greater visibility in the payment of salaries to public employees.

2. Even with liquidity problems, the Government says the Coral Sul FLNG revenues await approval of Sovereign Wealth Fund Law

The Parliament postponed for the second time this August the plenary discussion of the bill creating the Sovereign Fund of Mozambique (FSM)². The bill was scheduled to be approved at the 5th Extraordinary Session of the Parliament, scheduled to take place between 3 and 7 August 2023. This postponement was justified by the need to harmonise the proposals emanating from the parliamentary benches³, civil society and academia.

Although it is recognised that there should be no pressure to approve the Law until a level of consensus between the different stakeholders is reached that can be considered acceptable, attention should be drawn to the fact that this postponement could have negative implications and aggravate the current situation of public finances, which is already considered critical. The difficult situation of public finances is manifested, among other ways, by the lack of liquidity, which is directly reflected in the delay in the payment of salaries to civil servants⁴. It is also reflected in the recurrent issuance of public debt securities to finance the public accounts deficit. This situation leads to high interest payments on government debt, which poses a risk to its sustainability.⁵

1 MZNEWS (01/08/2023). *Mozambique has already carried out 17 hydrocarbon shipments in Area 4 of the Rovuma Basin*. Available at: <https://mznews.co.mz/mocambique-ja-realizou-17-carregamentos-de-hidrocarbonetos-na-area-4-da-bacia-do-rovuma/>. Accessed 07/08/2023

2 Letter from Mozambique (07/08/2023). *Parliament postpones again debate on the Sovereign Wealth Fund Law*. available at: <https://www.cartamz.com/index.php/politica/item/14477-parlamento-volta-a-adiar-debate-da-lei-do-fundo-soberano>. Consultation: 07/08/2023

3 TVM (07/08/2023). *Parliament postpones approval of the creation of the Sovereign Wealth Fund*. Available at: <https://www.tvm.co.mz/index.php/noticias/economia/item/11538-parlamento-adia-aprovacao-da-criacao-do-fundo-soberano>. Accessed 07/08/2023

4 Canal de Moçambique (07/07/2023). Available at: <https://canal.co.mz/p/governo-sem-dinheiro-para-sal-rios-suspende-novas-admiss-es-no-sector-p-blico>. Consultation: 07/08/2023

5 MEF (31/08/2022). *Fiscal Risks Report 2023*. Available at: <https://www.mef.gov.mz/>. Accessed 08/08/2023

A central point that the bill creating the Mozambique Sovereign Fund (FSM) introduces is the channelling of 40% of revenues from the production of liquefied natural gas, from Areas 1 and 4, *Offshore* of the Rovuma Basin and future oil and natural gas development and production projects, in the first 15 years of FSM operation, to the fund, and the remaining 60% to the State Budget (SB). This implies that the current revenue, which is channelled 100% to the State Budget, will now be managed 40% by the WSF Law and 60% by the State Budget.

In November 2022, it began exporting gas from the Coral Sul FLNG project, which, according to Estevão Pale, CEO of Empresa Nacional de Hidrocarbonetos (ENH), has already carried out 17 shipments of LNG and 4 of condensate⁶. According to Max Tonela, Minister of Economy and Finance, these operations have so far yielded taxes for the state of around 40 million US dollars⁷. This amount, according to the newspaper Carta de Moçambique, quoting a “reliable source”, will not be used before the approval of the Sovereign Fund Law⁸.

The same information was provided by the National Director of Economic Policies and Development of the Ministry of Economy and Finance (MEF), Enilde Sarmiento, during the Capacity Building Workshop for Members of the Parliament, in the context of the appreciation of the bill creating the FSM, held in Praia de Bilene between 23 and 25 February 2023, of which CIP was part. At the workshop, it was said that the amount of revenue is deposited in a bank account, awaiting the approval of the FSM Law for its use, in accordance with the sharing proposal provided for in the Law creating the Sovereign Fund.

It is important that it is publicly known in which bank the amount is deposited, the type of account that receives the revenue amounts if, for example, it is an escrow account and, if it is in a commercial bank, what was the selection process of that bank, and also what treatment will be given to the interest that may be generated with the deposited amount until the Law is passed.

3. Revenue kept without transparency may be benefiting private interests to the detriment of state interests

While it is true that the amount of revenue so far collected from the Coral Sul FLNG project is deposited in an account for the operationalisation of the FSM Law, once it is passed, it would be important, for the sake of transparency,

that some guidance, through a legal device even if it is temporary, so indicates to avoid discretionary decisions on when and how this amount can be used.

Based on the current mimo rate of 17.25%⁹, and the *prime rate* of 24.10%¹⁰, one can estimate the opportunity costs to the State of holding or using the stored value of the revenues from the Coral Sul FLNG project while awaiting the passage of the Sovereign Wealth Fund Bill. Just to have an idea, with an extra \$40 million in liquidity, the receiving bank can earn about \$9.6 million annually in interest payments if it uses the money for commercial loans. Clearly, with future tax revenues saved until the Sovereign Wealth Fund Law is passed, this bank’s earnings could grow dramatically. Moreover, this is also a risk management issue. Without transparency it is unclear how the beneficiary bank uses these unexpected cash flows (e.g. for risky types of credit or other investments).

In addition, the additional cash flow may also have an impact on the market value of the beneficiary bank and therefore potentially benefit certain private shareholders. Therefore, transparency regarding the process of identifying the bank that holds the value is important to understand possible conflicts of interest and political manipulations in the run-up to the approval of the Law.

The other problem is related to the delay in the approval of the Law which takes away liquidity from the State to meet its expenses and opens space for the Government to decide, at any time it wishes, to no longer keep the revenues and use them, in their entirety, for budgetary purposes, such as paying salaries or financing elections. It should be recalled that in the current legislative framework, without the FSM Law, the Government’s decision would not be illegal. In this sense, the approval of the Law as soon as possible is necessary before “*hunger pangs*” and irrational decisions gain ground¹¹. Alternatively, while waiting for the Law to be passed, information on amounts, e.g. deposits made, account balance and interest, should be publicly disclosed.

In election years, governments tend to use resources opportunistically to ensure their re-election and maintain power, or even to extract maximum gains in an unlawful manner¹². The Bank of Mozambique has already issued a warning that elections are putting pressure on public spending¹³. The pressure of re-election and maximising gains, and the need to meet public expenditure, may lead to the decision to use Coral Sul FLNG gas revenues now and in a non-rational way to the detriment of the creation of the Sovereign Fund, which would allow for more transparent management and medium and long-term development objectives.

6 MZNEWS (01/08/2023). *Mozambique has already carried out 17 hydrocarbon shipments in Area 4 of the Rovuma Basin*. Available at: <https://mznews.co.mz/mocambique-ja-realizou-17-carregamentos-de-hidrocarbonetos-na-area-4-da-bacia-do-rovuma/>. Accessed 07/08/2023

7 Letter from Mozambique (07/08/2023). *Parliament again postpones debate on the Sovereign Wealth Fund Law*. available at: <https://www.cartamz.com/index.php/politica/item/14477-parlamento-volta-a-adiar-debate-da-lei-do-fundo-soberano>. Consultation: 07/08/2023

8 Letter from Mozambique (29/05/2023). *Coral Sul FLNG has already paid USD 34 million in revenue to the State*. Available at: <https://cartamz.com/index.php/economia-e-negocios/item/13823-coral-sul-flng-ja-drenou-34-milhoes-de-usd-de-receitas-ao-estado>. Accessed 07/08/2024

9 Bank of Mozambique (26/07/2023). *Monetary Policy Committee. Communiqué nº 4/2023*. Maputo, 26 July 2023 - Monetary Policy Interest Rate Remains at 17.25%. Available at: <https://www.bancomoc.mz/pt/areas-de-actuacao/politica-monetaria/comite-de-politica-monetaria/>. Accessed 08/08/2023

10 Mozambican Banking Association (31/07/2023). *Prime rate of the Mozambican Financial System - Communiqué nº 07/2023*. Available at: <https://www.bancomoc.mz/pt/media/comunicados/?dateBegin=&dateEnd=&category=Prime+Rate&Query>. Accessed 08/08/2023

11 Classical economists teach that much of economic theory is derived from the rationality embedded in it, i.e. faced with numerous possibilities, the economic agent will choose the one that can maximise his utility.

12 Barcellos C. & Nascimento R (2015). *Public Expenditure and Political Budget Cycles: Analysing the Political Use of Budget Laws in Electoral Processes*. Available at: https://login.semead.com.br/23semead/anaais/resumo.php?cod_trabalho=709. Accessed 07/08/2023

13 Forbes Africa Lusófona (12/06/2023). *Mozambique elections put pressure on public spending*. Available at: <https://www.forbesafricalusofona.com/eleicoes-em-mocambique-pressionam-despesa-publica/>. Accessed 07/08/2023

4. Conclusion

While debating gas revenue management in general, it is important to highlight that transparency is the main element. Improving transparency can reduce the risk and prevent acts of corruption by making information available while the mechanism defined in the draft FSM Law is not approved. But above all, greater transparency and availability of information would enable better management of expectations in a context where citizens do not believe in public office holders and institutions.

In this sense, it is essential that details of the revenues collected by the State are publicly disclosed, namely detailing central questions such as: what was the total quantity of gas exported in the 17 shipments of LNG and 4 of condensate, and, what is the revenue obtained by the exporting companies before deduction of taxes.

The Government should also explain and detail the amount of taxes collected as well as the categories of taxes being collected. It should make known where the account that currently receives Coral Sul FLNG's revenue is domiciled and its bank balance on a monthly basis. It should clarify how the money is used and how its security is guaranteed.

5. Consulted Documents

- Mozambican Banking Association (31/07/2023). *Prime rate of the Mozambican Financial System - Communiqué n° 07/2023*. Available at: <https://www.bancomoc.mz/pt/media/comunicados/?dateBegin=&dateEnd=&category=Prime+Rate&Query>. Accessed 08/08/2023
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