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Anti-corruption – Transparency – Integrity

TRANSPARENCY AND INTEGRITY IN THE PUBLIC SECTOR

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## THE INSS' INTENTION TO INVEST IN LAM VIOLATES THE LEGISLATION GOVERNING THE INVESTMENT OF SOCIAL SECURITY FUNDS

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### 1. Introduction

On 4<sup>th</sup> July this year, the Mozambican government announced, through its spokesman and Minister of State Administration and Civil Service, Inocêncio Impissa, the intention of the National Social Security Institute (INSS) to join the shareholder structure of Mozambique Airlines (LAM)<sup>1</sup>, a company majority owned by the state, with 96% of the shares<sup>2</sup>. This intention, proposed as part of an effort to recover the national flag carrier, raises serious concerns from a legal, economic and institutional point of view.

The proposed investment in LAM by the INSS directly violates the legislation governing the application of compulsory social security funds. Article 26 of Law no. 4/2007, of February 7<sup>3</sup>, in conjunction with article 107 of Decree no. 51/2017, of December<sup>4</sup>, establishes that INSS funds must be invested in accordance with the principles of security, liquidity and profitability and in companies listed on the stock exchange.

With a record of chronic financial deficits, poor management, high indebtedness and a strong dependence on state support, LAM is facing a decade-long structural crisis<sup>5</sup>. In addition, the company is currently in the process of restructuring and needs significant investment to restore its operational capacity. At the same time, a forensic audit is currently underway to identify possible financial and management irregularities<sup>6</sup>. In such a scenario, any institutional investment, especially of a social security nature, is not only premature but also unwise.

It is worth noting that this is not the first time that the INSS has invested in high-risk assets, with catastrophic consequences. Examples include the case of the now defunct “Nosso Banco”, in which INSS was both a shareholder and a creditor<sup>7</sup>. After

1 Diário Económico. (7<sup>th</sup> July, 2025). *Governo admite entrada do INSS na estrutura accionista da LAM*. [Government approves entry of INSS into LAM's shareholder structure]. Available at: <https://www.diarioeconomico.co.mz/2025/07/07/negocios/empresas/governo-admite-entrada-do-inss-na-estrutura-accionistadalam/>

2 It should be noted that LAM's shareholder structure is currently dominated by three state-owned companies, which together hold more than 91 per cent of the national carrier's share capital. These are Hidroeléctrica de Cahora Bassa, S.A. (HCB), Portos e Caminhos de Ferro de Moçambique, E.P. (CFM), and Empresa Moçambicana de Seguros, S.A. (EMOSE).

3 Law no. 4/2007, of 7 February: Defines the principles on which social protection is based and organises the respective system. Bulletin of the Republic, Series I, number 6.

4 Decree no. 53/2007, of 3 December: Approves the Compulsory Social Security Regulation. Bulletin of the Republic, Series I number 48.

5 Centro de Integridade Pública (CIP). (2025, June, 11). *Sector empresarial do Estado aumenta risco de colapso dos Aeroportos de Moçambique em decorrência da crise das Linhas Aéreas de Moçambique*. CIP Moçambique. [State business sector increases risk of collapse of Aeroportos de Moçambique as a result of the Mozambique Airlines crisis.]. Available at: <https://www.cipmoz.org/pt/2025/06/11/sector-empresarial-do-estado-aumenta-risco-de-colapso-dos-aeroportos-de-mocambique-em-decorrência-da-crise-das-linhas-aereas-de-mocambique/>

6 Forbes África Lusófona. (2024, April, 23). *Governo moçambicano avança para auditoria forense às contas da LAM dos últimos 10 anos*. [Mozambican government proceeds to forensic audit of LAM's accounts for the last 10 years] Available at: <https://forbesafricalusofona.com/governo-mocambicano-avanca-para-auditoria-forense-as-contas-da-lam-dos-ultimos-10-anos/>

7 Folha de Maputo. (s.d.). *Nosso Banco: INSS poderá perder cerca de três biliões de meticais em depósitos*. [Nosso Banco: INSS could lose around three billion meticais in deposits.]. Available at: <https://www.folhademaputo.co.mz/pt/noticias/nacional/nosso-banco-inss-podera-perder-cerca-de-tres-bilhoes-de-meticais-em-depositos/>

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two attempts at re-capitalization, the bank went bankrupt, with losses estimated at around three billion meticaís, including capital and non-recoverable deposits; Another episode is the involvement in opaque and illegal financing schemes, such as the cases of CR Aviation and Épsilon Investimentos, associated with influential figures such as the former Minister of Mineral Resources, Magid Osman and the former president of the Confederation of Economic Associations (CTA), Rogério Manuel<sup>8</sup>.

The facts listed above show deficiencies in the management of INSS reserve funds.

It should be noted that INSS funds are mostly derived from taxpayers (around 65 per cent) and from financial investments (around 25 per cent). Consequently, the need to ensure efficient, transparent and sustainable management of these funds imposes the adoption of strict technical criteria and full compliance with the legal rules in place. This management must be based on well-structured investment recovery plans, duly grounded risk analyses and safeguard mechanisms that effectively protect the interests of taxpayers and beneficiaries. Thus, investments that are speculative, characterised by uncertainty, a lack of guaranteed return and strong exposure to political pressure – as is the case with LAM – must be categorically rejected, at the risk of jeopardising the INSS's financial sustainability and citizens' confidence in the social security system.

## 2. The Intention to Use INSS Reserve Funds to Acquire LAM Shares is Illegal

The legislation that regulates INSS investments is set out in Law no. 4/2007, of 7 February, and Decree no. 51/2017, of 9 October, which approves the Compulsory Social Security Regulations. Under the terms of Article 26 of Law 4/2007, which lays down the bases of compulsory social protection, reserve funds must be invested following the principles of security, cost effectiveness and liquidity. The same article, in its paragraph 2, is explicit in forbidding the investment of social security funds in risky activities or businesses, including sectors such as gambling, among others of a speculative nature.

Decree 51/2017, which approves the Compulsory Social Security Regulations, reinforces this guideline in Article 107 (Application of Reserve Funds). According to paragraph 1 of this article, the INSS reserve funds must be invested in accordance with the same principles mentioned above: liquidity, profitability and security, under regulations approved by the Board of Directors. Paragraph 2 of the same article defines, in an exhaustive manner, the instruments in which the funds can be invested, namely:

- a) *State owned or government guaranteed bonds;*
- b) *Real estate for administrative or revenue purposes;*
- c) *Building of low-cost housing;*
- d) *Shares in companies listed on the stock exchange;*
- e) *Bonds listed on the stock exchange;*
- f) *Participation in financial companies;*
- g) *Fixed term deposits.*

The INSS's intention to acquire shares in LAM might, at first sight, appear to be covered by Article 107(2)(d), which allows the acquisition of shares in companies listed on the stock exchange. However, LAM is not listed on any national or international stock exchange. Additionally, the systematic combination of the provisions of Article 26 of Law 4/2007 (principles and risk protection) with Article 107 of Decree 51/2017 reveals that the acquisition process planned by the INSS does not fulfil the criteria of security, profitability and liquidity

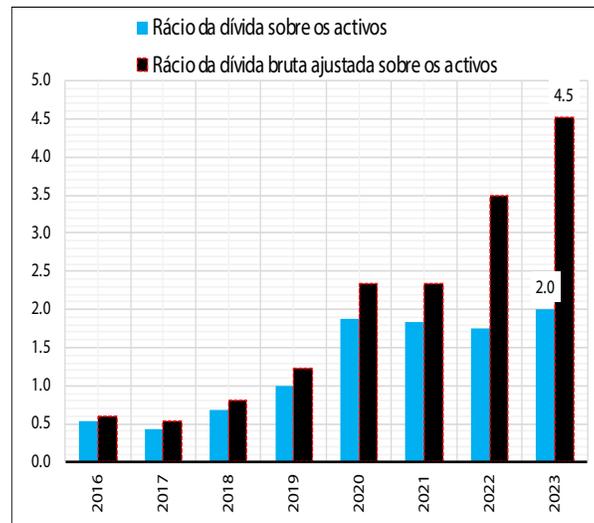
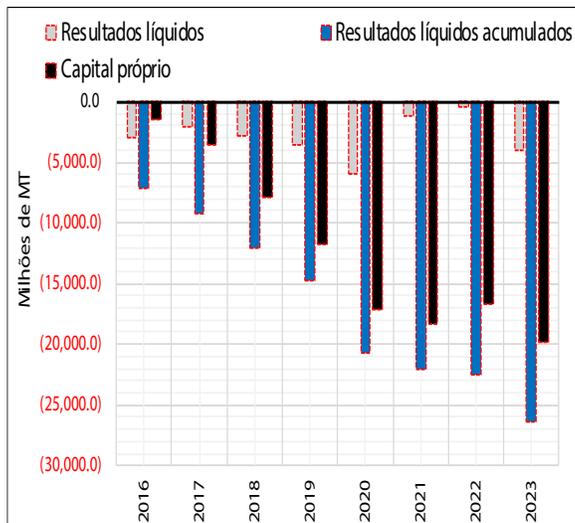
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<sup>8</sup> Moçambique para Todos. (2017, April 5). *Além da CR Aviation, o INSS tem investimentos irregulares na Épsilon Investimentos, empresa relacionada com a ministra Vitória Diogo*. [In addition to CR Aviation, the INSS has irregular investments in Épsilon Investimentos, a company related to Minister Vitória Diogo]. Available at: [https://macua.blogs.com/moambique\\_para\\_todos/2017/04/al%C3%A9m-da-cr-aviation-o-inss-tem-investimentos-irregulares-na-%C3%A9psilon-investimentos-empresa-relacionada-com-a-ministra-vi%C3%B3ria-diogo](https://macua.blogs.com/moambique_para_todos/2017/04/al%C3%A9m-da-cr-aviation-o-inss-tem-investimentos-irregulares-na-%C3%A9psilon-investimentos-empresa-relacionada-com-a-ministra-vi%C3%B3ria-diogo)

## 2.1 LAM marked by a decade of losses

The information contained in LAM’s reports and financial statements for the period between 2016 and 2023 reveal a structurally critical financial situation, characterised by persistent operating deficits, unsustainable levels of debt and continuous accumulated losses. This situation clearly demonstrates that the company does not comply with the principles of security, profitability and liquidity required by law for the investment of obligatory social security funds.

Over this eight-year period, the company has systematically recorded negative net results, evidencing a continuous trend of chronic operational losses. By the end of 2023, the company’s accrued losses totalled 26.4 billion meticaís, a figure which far exceeds any possibility of recovery in the short or medium term. At the same time, the company’s equity was negative by 19.8 billion meticaís, which means that LAM is technically bankrupt, i.e. its liabilities far exceed its total assets, a situation that poses an absolute risk to any investor.



The current liquidity ratio, one of the key indicators for assessing a company’s ability to honour its short-term obligations, has been consistently below 1 over the years. In 2023, it was at only 0.06, which means that LAM only had 6 per cent of the resources needed to pay its short-term debts. In practical terms, the company had a liquidity deficit of 94 per cent and was highly susceptible to not meeting its immediate commitments. In addition to its immediate financial fragility, LAM also shows unsustainable levels of financial leverage. The ratio of debt over assets, which in 2016 totalled 0.5 (i.e., debt accounted for half of assets), has registered an alarming upward trend, amounting to 2.0 in 2023. This indicator demonstrates that the company’s total debt is now twice its assets, which implies that even if LAM sold all its assets, it would still be insolvent. This level of debt reflects an extreme dependence on third-party financing, with the company being permanently vulnerable to creditors and unable to achieve effective financial autonomy.

In this scenario, any attempt by the INSS to invest in LAM would be a high-risk operation, without any guarantee of recovery, profitability or liquidity. The inclusion of LAM as an investment option for the INSS should, therefore, be automatically rejected, at the risk of being in breach of the law and exposing the INSS to unnecessary risks.

## 2.2 LAM is not listed on the Stock Exchange

One of the legal requisites for the INSS to be able to invest in company shares is that they must be listed on a recognised stock exchange, as established in Article 107(2)(d) of Decree 51/2017 of 9 October. This requirement guarantees public transparency, tracking and supervision, and enables institutional investors, such as the INSS, to know in real time the financial situation and performance of the companies in which they intend to invest their reserve funds.

However, LAM is not listed on the Mozambique Stock Exchange (BVM) or any other international stock exchange. This fact in itself invalidates any attempt to establish a legal framework for the INSS to invest in the company.

The BVM currently only has 13 listed companies, as shown in the table below:

Table 1: List of companies listed on the Mozambique Stock Exchange, 2025.

Companies	Date of Admission
Companhia Moçambicana de Hidrocarbonetos, S.A	2/4/2009
Emose	17/10/2013
Cervejas de Moçambique	27/12/2001
ZERO INVESTIMENTOS, SA	18/08/2017
Touch Publicidade	31/12/2018
ARCO INVESTIMENTOS, S.A.	10/1/2019
Hidroeléctrica de Cahora Bassa, S.A	2/8/2019
Arko Seguros	25/11/2019
Rede Viária de Moçambique, SA	20/03/2020
TROPIGALIA, SA	28/12/2022
Zaya Group, S.A	21/04/2021
Trassus, S.A	29/12/2023
RGS AGRO	29/12/2023

Source: BVM.

Subtitle: \*Suspended from negotiation.

### 3. Political interference in the INSS decisions and management

The decisions concerning the possible acquisition of LAM shares by the INSS, as well as the sale of LAM shares to other companies in the State Enterprise Sector (SEE), have been taken on the basis of instructions issued by government organisms, and not by the administrations of the institutions directly involved. This reveals the increasing political interference in matters of a technical nature, which represents a deviation from the principles of good governance and institutional autonomy.

#### Box 1: Government Interference Violates the Legal Autonomy of the INSS

Under Article 2(1) of Decree 17/88 of September 27, which created the National Social Security Institute (INSS) as the managing body of the compulsory social security system, the INSS is a public institution with legal personality, administrative and financial autonomy and its own assets.

Article 4(1) of the same statute establishes that the INSS is managed by a Board of Directors, appointed by ministerial decree of the Minister of Labor. In addition, Ministerial Diploma no. 78/2006, of March 29, which redefines the composition of this body, determines in its article 1 that the Board of Directors is composed, in addition to the President, of six effective members, two of whom are representatives of the State, two of the employers and two of the workers.

In the light of this legal framework, it is the exclusive responsibility of the INSS, as an institution with administrative and financial autonomy, to decide on the application of its funds, including any potential equity participation in companies. Therefore, the public intervention of the government spokesman, Inocêncio Impissa, defending a decision on the use of INSS funds to acquire shares in LAM, represents undue interference and a violation of the legal principles governing the governance and equal management of the institution.

The attempt to use INSS resources to save LAM not only reveals that the funds are being directed by interests of political convenience – since there is no decision or public pronouncement by the INSS regarding this intention and or by LAM concerning the sale of its shares – but it may also indicate a strategy to minimize risks for the new shareholders – namely HCB, CFM and EMOSE.

The decision to use the INSS reserve funds to save a structurally bankrupt company like LAM is a change of priorities. It does not contribute to improving the financial sustainability of the social security system and directly poses a risk to the resources of Mozambican workers, particularly those who have retired, whose rights must be protected above any circumstantial or political interest.

This interference is, in the end, the reflection of deficient financial planning and a distorted economic logic, by imposing the allocation of public resources to a sector with low productivity and with no measurable social return to justify it. It is therefore a public policy option that is not economically rational and violates the principles of financial prudence.

## 4. Final Observations

The announcement, by the government, rather than the INSS itself, of the National Social Security Institute's (INSS) intention to invest in LAM is an alarming sign of direct political interference in the management of social security funds. Such a position suggests that investment decisions are being politically directed, according to interests of convenience, and not based on technical, financial or legal criteria – thus violating the provisions of Law no. 4/2007, of 7 February, and Decree no. 51/2017, of 9 October.

The absence of any formal statement from INSS management regarding this investment intention raises serious doubts about the existence of a valid resolution by the statutory bodies, namely the Board of Directors. There is also no indication that a rigorous technical-financial analysis has been carried out, as required by current legislation. This institutional silence may indicate that sensitive decisions are being imposed externally, outside of legal procedures and good public governance practices.

The possible incorporation of the INSS as a shareholder in LAM, precisely at a time when the company is accumulating massive losses, has negative equity, is undergoing deep restructuring and is subject to a legal audit, is a clear sign that there is no rational or legal basis for such an investment. On the contrary, going ahead with such an operation would unnecessarily jeopardise the reserves of the social security fund. As well as being reckless, the proposal is illegal, as LAM does not meet the minimum criteria required by law, namely the principles of security, profitability and liquidity, and is not listed on the Stock Exchange, which makes it ineligible as a destination for INSS funds.

We recognize the importance of active and strategic management of INSS funds, geared towards their long-term appreciation and sustainability. However, the possibility of investing these resources in high-risk investments - such as the acquisition of LAM shares - raises serious concerns about the security and return on these investments. Such a decision could jeopardize the resources of Mozambican workers, compromising the financial sustainability of the fund and therefore the structural objectives of the social security system.



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