



## Support Program for Economic and Enterprise Development (SPEED)

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# Sovereign Wealth Funds: Are They Needed in Mozambique?

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## Summary

Mozambique can have an excellent and bright future. The country has been blessed with enormous non-renewable resources that, with good use, will transform the country into a developed and prosperous economy, with high per capita incomes and extraordinary possibilities without poverty and inequalities. Reaching such future depends on how the main challenges facing Mozambique will be addressed.

The Note SPEED/Notes/2011/012 – “Challenges of the Mozambican Economy” presents those challenges in detail. One of those challenges is the great likelihood that the Metical will appreciate in real terms over the medium and long-run and the negative effects that will be imposed on the economy.

This Note presents a management instrument that is being widely used by countries that are exporting enormous volumes and, in particular, of non-renewable resources to counteract the possible negative effects. This instrument is known by Sovereign Wealth Fund (SWF).

The Note explains how these Funds emerged, their objectives and arguments used to create them. It also presents the governance instruments used, rules applied by the Fund on investment and uses of its resources and assets, and the independence that has been granted to these Funds in the countries where they exist.

The Note discusses the need for the establishment of a Fund like this in Mozambique. The main arguments are that Mozambique needs such a Fund to avoid:

- Real excessive appreciation of the Metical as a consequence of enormous inflows of foreign exchange on the economy, resulting from exports of non-renewable resources.
- Domestic inflation would accelerate in response to the need from the central bank to purchase the foreign exchange inflows via monetary expansion – the excess monetary supply could be sterilized via selling of debt instruments (government or central bank) but this policy could not be sustained over the long-run.
- Accelerated impoverishment of national producers and, in particular, of agricultural producers as the economy would turn into a net importer of final goods and services as decreasing competitiveness accentuates and persists.
- Limited institutional capacities and reduced absorption capacities would negatively impact efficiency, effectiveness and quality of public expenditure as excessive resources are made available to the budget. The reduced quality of expenditure would mean reduced or even no impact on the economy and would generate massive resource waste. There would be few jobs, increased poverty and rampant corruption. This is the so called “resource curse”.

The SWFs are the paramount management instrument to respond to these issues. There are different types of SWFs but their objectives are quite similar. The Note proposes that a SWF be established in Mozambique, as well as it proposes rules and governance systems for the Fund, and suggests that a debate in the country should exist on its objectives, rules and governance.

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