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Generating Tomorrow's Rich through Today's Poor: The Diktats of Mozambique's Sovereign Wealth Fund

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Abstract

The extraction of natural resources in Mozambique marks a historical landmark never seen due to the beginning of export of natural gas in areas 1 and 4 of the Bacia de Rovuma, which allows generating public revenues. Given the high magnitude of these financial resources, the government approved Law No. 1/2024, of 9 January - Sovereign Fund of Mozambique with the aim of stabilizing the state budget and saving resources for future generations. The article aim to analyzing the rationality of accumulating savings for future generations in a context in which the majority of the Mozambican population lives below the poverty line. The article argues that the sovereign fund of stabilization of the state budget and savings accumulation for future generations, by itself, is not enough in the medium term to generate socioeconomic development without taking into account colossal and strategic investments in infrastructure of security, economic and social. This is a qualitative study based on the literature review, document analysis and participation in relevant auscultations led by the Assembly of the Republic.

Keywords: Sovereign fund; Ministry of economy and finance (MEF); Economic development

Introduction

In November 2022, Mozambique signaled an important historical landmark in the extractive industry by starting the exploration of one of the largest natural gas reserves in areas 1 and 4 of the Rovuma Basin. The exploration and exportation of this resource allowed approximately 75 natural gas shipments in the Projector Coral Sul, which means 5.7 million tons of gas, generating revenues of 114 million US dollars. This historic milestone happens at a time when the country resents a multiplicity of crises, such as the pandemic (COVID-19), natural disasters, terrorism in Cabo Delgado, intensification of the wave of kidnappings and abduction, unemployment, social inequalities and, consequently, the increase in absolute poverty, beyond the current political context characterized by violent demonstrations. From 2011 to 2024, the Ministry of Economy and Finance (MEF) and other relevant actors in this domain, held debates with a view to the creation of the Sovereign Fund of Mozambique (SFM) – [1]. For the government, the SFM law aims to ensure that the revenues of oil and gas exploration encourage the country's social and economic development, through the maximization of gains to the national economy, as well as ensuring that they constitute a source of stabilization of the State budget and contribute to the generation of savings and wealth in the future.

The article aim is to analyze the rationality of accumulating savings for future generations in a context in which the majority of the Mozambican population lives below the poverty line. The article

argues that the sovereign fund of stabilization of the state budget and savings accumulation for future generations, by itself, is not enough in the medium term to generate socioeconomic development without taking into account colossal and strategic investments in infrastructure of security, economic and social. The evidence to support this argument is based on the conjugation between the theory of historical neo-institutionalism and the qualitative approach. It apply as techniques the review of literature, document analysis and quality participation in public auscultation sessions to relevant actors of the Ministry of Economy and Finance, from the Bank of Mozambique and civil society, led by the Assembly of the Republic for the creation of the SFM. The article is structured in two parts beyond the present introduction and the conclusion. The first part, in discussing the foundations of the creation of the Sovereign Fund of Mozambique (SFM) presents the results generated by some countries that created this type of instrument regarded as high financial savings value. It also shows some extractive resources that constitute the potential of the country and how to revenue from oil and gas exploration in areas 1 and 4 of the Rovuma Basin will be distributed between the State Budget and the SFM account. The second part analyzes the socioeconomic context during the creation of the SFM. It also discusses the advantages in the medium term that could be generated from the sovereign infrastructure background SFM, without, however, underestimating the Sovereign fund of stabilization of the state budget and savings accumulation for future generations.

Background of the Mozambique's sovereign fund creation

Since China created its sovereign fund in 2007 of three US trillion dollar, there have been important economic, geopolitical and geostrategic debates about the real meaning and social value of this instrument with high level of internal savings. The 43 international countries that created a consolidated sovereign fund, between 1953 and 2008, 67.4% did it from the revenues from oil and the others did it from gas, natural resources and not commodity [2]. In turn, the Sovereign Wealth Fund Institute (2020) [3] indicates that the United Arab Emirates (EAU) held by 2020 the second largest sovereign fund in the world - the Abu Dhabi Investment Authority evaluated at USD 697 billion, being first placed by Norway - Government Pension Fund-Global with 1,074.6 billion of USD. Analyzing the relationship between international reserves and Gross Domestic Product (GDP), the author points out that, the countries that had success on sovereign fund have reservations above GDP, namely: "Libya - 101.54%; Singapore - 97.99%; Hong Kong - 74.61%; Algeria - 70.99%; Botswana - 67.51% and Malaysia - 50.69%. In 2010, for example, three countries had reserves on a sovereign found near GDP, which are: Timor-Leste-46.20% and Trindad Tobago with 32.81%. These results have shown it´s possible to protect national economies against the cyclical seizures and create conditions for the stability of the exchange rate from financial resources spared in SF. This fact explain why Sovereign Fund reservations are taken as a potential instrument of financial management, as it not only ensures financial stability, but also allows the exploration of exhausted natural resources to serve for future generations and/or colossal investments in strategic areas. The chosen model to establish the FSM is inspired by Norway, but also from East Timor and Trindad Tobago. As indicates Jamal Omar, financial stability administrator of the Mozambican Bank, interviewed Chambisso [4], in the sovereign funds of success, cited above "there is a clear separation of functions, of responsibility and, clear supervision mechanisms, supervision mechanisms are instituted the monitoring and, in some cases, of advisory ". With instituted mechanisms of accountability, transparency in the management of financial resources (idem) is evident that the SFM will success. Norges Bank of Norway, for example, which in the national case is the Bank of Mozambique, manages the fund along with the various control and inspection layers that are a professional and independent board.

As shows INE (2022 and 2023) and Charles (2022), Mozambique has colossal amounts of natural resources, such as the 36% arable land, 23 billion tons of mineral coal, water resources, titanium, tantalum, marble, granite, limestone, precious stones, platitudinous, uranium, iron, cobalt, chromium, nickel, copper, granite, fluoride, sodomite's, emeralds, wood, etc. Notwithstanding the extraction of these and other mineral and energetic resources started more than three decades, the debates in Mozambique about SF creation began with the exploration of 2.8 trillions of natural gas reserves. This is associated with a multiplicity of fundamentals highlighting. I) revenues from natural resources initially extracted and especially in a context of mismanagement, were not able to cover the needs of the State Budget (OE). II) the power natural gas revenues that is able to put Mozambique among the 10 largest producers worldwide and make it in the second largest gas producer in Africa after Nigeria, and, iii) expectations generated in terms of revenue collection for the Mozambican state. Gas exploration in the Rovuma 1 and 4 basin began in November 2022. During this period, projections on revenues from the exploitation of this feature pointed out that when reaching peak, Mozambique will raise $ 91.7 billion per year during the Project Life Cycle (PLC). Therefore, Mozambique expected to raise revenues only for the state 6 billion dollars a year. Initial data presented, for example, by the statistical report of Central Mozambique Bank (2024) and by the Journal Noticias, in the September 11, 2024 edition, indicate that the transitional account of the Sovereign Fund, received this year 7,285.74 million meticais, resulting from the exploration of

natural gas. The source points out that 75 gas charges have already been made in Projecto Coral Sul the southern choir project, which means 5.7 million tons of gas. As a result of revenue collection, US $ 114 million were raised, corresponding to 7.3 billion meticais in 2023, adding to plus the 39.8 million from the first half of 2024.

It is in this context that the Government of Mozambique approved in 2024 the Law of the Sovereign Fund of Mozambique (Law No. 1/2024, of January 9). The Government's aims to ensure that the revenues of oil and gas exploration encourage the country's social and economic development by maximizing gains for the national economy, as well as ensuring that they constitute a source of stabilization of the state budget and allow the generation of savings and wealth in the future. To achieve this desiderate, the government defined the following triad: i) support for the country's economic and social development; ii) accumulation of savings for future generations, through the collection of revenues from oil and natural gas exploration and those resulting from their investments, and; iii) Stabilization of the State Budget, in cases of volatility of oil revenues. This trilogy is sustained by the conviction of revenue generation as a result of liquefied natural gas production in areas 1 and 4, offshore of the Rovuma Basin and future projects for the development and production of oil and natural gas. From natural gas production, the government predicts to obtain: i) gross tax revenue from the exploration of oil resources, such as: oil production tax and tax on the income of legal persons, including those resulting from the taxation of surplus value; ii) Production bonus, and; iii) production sharing from petroleum profit.

According to paragraph 4 of article 8 of Law No. 1/2024, of 9 January, SFM Law, the financial resources to be generated by the production of liquefied gas will be deposited in the transit account, before their transfer by 40% to the Sovereign Fund of Mozambique (Sovereign Bank Account - SBA). The transference will be made in the first 15 years of FSM operationalization and 60% for the State Budget (Single Treasury State Budget Account - STSBA). From the year 2039, transitory account transfers are going to be 50% for SBA and 50% for STSBA. During the consultation, process of relevant actors of the Ministry of Economics and Finance (MEF) and the Bank of Mozambique (BM) this percentage distribution of resources was questioned. The foundation of the proponents is that the country resents the budget deficit and it is necessary to create conditions so that, in the first phase and gradually, it can generate consistent resources with operational needs in terms of expenses and stabilize the OE. Moreover, the experiences of the 43 international countries that were successful in creating this type of savings instrument defined the percentage due to their budgetary, investment and savings needs. Thus, the onus of debate should not be the question of the percentage distribution of resources. However, rather the mechanisms and process of governance of the SFM, that is, the provisions of the law must be fulfilled and ensured transparency and distributive justice of resources. There are also questions in relation to the reason of the application in the SFM only revenues of natural gas excluding the other extractive resources. The argument is that other extractive resources should continue to feed the State Budget, which allows to dedicate, part of the gas financial resources to support SBA. Considering that the collection of revenues from extractive resources has started more than 3 decades ago, it would be better for them to continue to feed the State Budget and those of the Rovuma basin could be allocated to the sovereign background for safety, economic and social infrastructure.

Mozambique sovereign fund: the socioeconomic context

The SFM - Law No. 1/2024, of January 9 is created in a context where in Mozambique the poverty level increased from 45.1 % to 65 %, and the inequality rate rose from 0.47 to 0.51, being more pronounced in rural areas and in the northern region of the country, as indicated by the Family Aggregate Budget Inquiry (IOF) (INE, 2023). Increased poverty and index of social inequalities is one of the explanatory factors of the current political moment that from October 21 characterized by popular demonstrations whose trigger was generated by the lack of transparency and justice in the electoral results published by the National Commission of Elections on October 24, 2024. The clamor of the protesters is not only the electoral truth, but also the chronicle precarious of social conditions that eventually created a huge army of unemployed, poverty and institutional fragility. In social sectors such as education and health, teachers, as well as doctors, nurses, service agents, and other health professionals have often been pointing out their activities in protest against salary and working conditions. Teachers claim salary increase and protest against non -payment of overtime for years and precarious working conditions. The 2024 school year is finishing, but school books have not yet been made available, so no longer talking about the chronic problems related to the lack of classrooms and wallets. However, it is not only teachers and doctors the faces of the claims either by salary issues as well as by working conditions. For the first time in the country's history, judicial magistrates threatened last August to stop their activities throughout the country. As Chaimite [5] points to the police and defense and security forces there are problems of various order that end up undermining their efforts to score the insurgency in Cabo Delgado that since August 2019 has expanded to the provinces of Niassa and Nampula, leaving a trail of destruction, deaths and population displacements. For this author the intensification of the wave of kidnappings and kidnappers, which mainly afflicts the main cities of the country, highlighting the Maputo City, which since 2011 have accounted for more than 150 cases registered, further worsens the security crisis. As a result, and, out of fear, many entrepreneurs have already abandoned the

country, leaving numerous workers in unemployment, which further aggravated the living conditions of Mozambicans, who already face major difficulties due to the ongoing socioeconomic crisis. Political discourse to resolve, for example, issues related to the unemployed army points to the famous word - entrepreneurship. It is an appeal to the entrepreneurship of necessity and not necessarily of opportunity. Note that the entrepreneur is the one who becomes thickening the more than 80% of the economically active Mozambicans who operate in the informal sector? They are therefore the so – called handyman who do, for example, small businesses on the rides and bus stop, others are bricklayers, electricians, plumbers, gardeners, intermediaries in the various activities of activities, the young people, "mukhero", street vendors, shoe entertainments, "txova", domestic workers. Is the question that you don't want to silence is because there is so much poverty in Mozambique with so many natural resources?

In the political domain, Chaimite (2024:20) citing varieties of democracy (V – idem) (2020) points to a significant regression in the quality of democracy in the country in recent years. Mozambique "registered a score drop from 0.49 to 0.41 between 2009 and 2019. From the same perspective, the author cites Freedom House (2020), which classifies Mozambique as "partially free" since 1994 and attributes a global score of 51 by 100 Possible in 2018, which fell to 45 in 2019. Specifically, political rights and civil freedoms scored only 14.4 and 31.6, respectively. The author, when quoting from Economist Intelligence Unit (2022) more categorically classifies Mozambique as an authoritarian regime for the sixth consecutive year since 2018. In 2018, Economist attributed to the country a global score of 3.85 by 10 possible, with indicators of "Government operation" and "civil freedoms" to be particularly critical, punctuating 2.14 and 2.53, respectively. The current political tension characterized by demonstrations violently repressed by the police may place the country in the worst indicators regarding, for example, civil freedoms, human rights, quality of democracy and institutions, in addition to socioeconomic conditions. The result of cyclic and non-substantive elections is to generate post-election conflicts, characterized by armed insurrection, civil disobedience, lack of legitimacy of the country who govern the country. This is a scenario that each of us experiences these days, which creates discredit in electoral processes, resulting in high levels of abstention. Given this scenario, the question is how SFM can be a valid instrument to reverse social precariousness, inefficiency and institutional innovation. What is known is that "SFM childbirth was not normal, but with huge complications that led to caesarean section, whose pregnancy lasted 13 years (2011 to 2024)". This long SFM gestation time can be explained by a multiplicity of factors that include questions, incongruities, lit and controversial debates, and sometimes consensus that have characterized the dequitation of the SFM that is currently implementing it.

One of the factors of debate is raised by Chambisso [6] who states that the Minister of Economics and Finance as a global manager is politically porous and can therefore suffer political pressure of electoralist character. The Center for Public Integrity (CIP) CIP (2022) coroner with this analysis and, from the examination of the structure of the six largest superficial funds in the world, states that there is no fund that attributes this responsibility to the MEF, because this is the Funds performer through the State Budget. This criticism is based on the porosity of the institutions to political pressure given to the lack of separation of powers and the state's permissibility to the party in power. Other questions presented by the Assembly of the Republic (AR), during the auscultation to the Minister of Economy and Finance, Max Tonela, on 27.03.2023, are associated with the fundamentals to pay to the Bank of Mozambique (BM) a fee for managing the SFM , if this activity is part of its ordinary administration attributions of public funds in general. The understanding of a part of AR members is that Central Mozambique Bank is not conducting extraordinary activities. Therefore, should not reduce SFM assets to remunerate bank managers, let alone fund operating expenses. The charges arising from SFM management should be funded by the assets allocated to the Treasury Single Account (STSBA). What are the criterion that will be used to make public investments through revenues from natural gas? And what are the priority areas? How to ensure application of international SFM management best practices if the governor of the BM of Mozambique does not accept accounting, much less has an entity that supervises their financial operations? These and other questions are part today, of what can be called dependence on the trajectory that characterized the complications of SFM delivery. Notwithstanding, the access discussions raised above, Mate (2024), for example, points out notable progress as a result of the opening of the transient account in the Bank of Mozambique, which has already accumulated $ 134.6 million. The establishment of two governance bodies, such as the Supervision Committee and the Investment Advisory Board, provided for in paragraphs d) and e) Article 17 of the FSM Law. These organs are mainly functioned to monitor and guide FSM resources management. However, issues on the absence of transparency in revenue management from natural gas exploration, undermines public trust and the credibility of the SFM. If the law was passed in 2024, what was the destination of the funds accumulated between 2022 and 2023? For Mate (2024:2) "if the revenues were actually raised and deposited since 2022, why did they not generate interest or other significant financial income? On the other hand, why weren't they applied? If they have generated profits, in the sake of transparency these details should be published along with the rest of the information, "as advocated by Article 29 (1) of the

SFM Law, as well as in the framework of generally accepted principles and practices (GAAP) - Principles of Santiago, emanating from paragraph 2 of article 28 of the same law. Why were the values not applied to financial instruments to generate income? In this regard, the author estimates a yield of $ 6.61 million if the $ 71.17 million had been applied at a rate of 3% per year. Interest application would compensate for maintenance costs, ensuring the use of investment opportunities. What was the cost of keeping these resources stopped in bank accounts? What is the logic of accumulating significant amounts of resources without any financial return in a context where the government faces serious liquidity problems? In addition, the author raises problems related to the capacity of the Supervision Committee and the Investment Advisory Board to monitor and properly guide resources management, which is critical to prevent deviations and ensuring good governance.

The world's experiences show that the lack of transparency in the management of financial resources is the explanatory factor of the failure of various sovereign funds. Mate (2024) takes as an example the funds of Malaysia (1Malaysia Development Berhad) and Angola. In the first case, there was a detour of approximately 4.5 billion of dollars to benefit politicians and entrepreneurs. In the second case, the accounts of the Sovereign Fund of Angola (FSA) were regularly audited. The chair of the Board of Directors was the son of the President of the Republic who had the responsibility of hiring the external auditor, the reports always showed a positive performance, hiding, carrying, and a gigantic debacle in the SF of that country. For CIP (2017) the fact that the board of directors was appointed by the president of the then, José Eduardo dos Santos and who was also responsible for the investment policy, definition of the internal guidelines and appointment of the independent auditor was one of the risks to the political porosity of the fund management system in Angola. It can still be cited as an example of failed sovereign funds, cases of Venezuela, Brazil, Nigeria, Chad, Equatorial Guinea, Gabon. Despite recognizing diversity of factors that explain failure, lack of transparency and politically investments motivated appear as a basis to take into account for the analysis the causes of their failure and other funds at international level. It is in the contexts of these questions and distrusts based on trajectory dependence on the fragility or porosity of the institutions, lack of transparency, justice, nepotism and clientelism that characterizes the modus operandi of the Mozambican entities. The argument of this article is that the Sovereign Fund of State Budget Stabilization and Savings Accumulation for future generations alone is not enough in the medium term to generate socioeconomic development without taking into account strategic and colossal investments in security, economic and social infrastructure. What is intended to defend is also the creation of the Infrastructure Sovereign Fund (ISF) that may, in the short and medium term, meet current needs. For this purpose, the construction, for example, of basic quality infrastructures such as sanitary units, schools, roads, train infrastructure, electrification, drinking water in all the geographical space of the country, from cities to localities, can be one of the quick and safe ways to ensure social welfare. It is also necessary to apply the natural gas resources to attach the Armed Forces of Defense of Mozambique (FADM) and invest in agriculture.

To operationalize this idea requires a national consensus on colossal and strategic areas for the development of the country. The ISF could embrace the infrastructures and equipment of the National Defense Forces, the economic and social infrastructure. This option is based on the idea of its potentiality to generate a more robust production chain, since while ensuring access to safety, food, education and quality health services one can generate a production chain that will enable the job creation. Mozambique can hire international reputation companies such as China Road and Bridge Corporation-which built the Maputo-Katembe Bridge to build economic infrastructures for a period equal to or relatively lower than the lifetime of natural gas exploration. Other international reputation companies may be hired to build and equip schools, hospitals, urban zones military centers to the localities. Material and equipment to build and appeal these infrastructures should be produced locally, no imports or at least, there must be economic export quotas and consensually. If the country knows, for example, how much it may require construction materials, hospital equipment, school, agricultural, military, port, train lines, should request foreign and/or national companies to produce such locally inputs. Thus, oil and natural gas revenues rather than apply by 40% for future generations and 60%, for State Budget can be used to generate a robust production chain, reduce unemployment and through industrialization replace imports. Therefore, it is about reversing the paradigm of generating rich from tomorrow through today's poor to for an approach of generating tomorrow rich through today's rich. How to ensure transparency in this process? Transparency can be ensured by observing the three areas that configure the principles of Santiago, namely: i) legal aspects, objectives of investment and macroeconomic policies; ii) institutional aspects and governance; and, iii) risk and investment management structure. In the national case, the fulfillment of the generally accepted principles and practices (GAAP) of management, for example, through the creation of a triangular management model. While Mozambique has the responsibility of exporting oil and gas, importers channel financial resources directly to companies hired to provide construction services and assignment of safety, economic and social infrastructures. The CIP (2017) highlights as successful SF governance structure that should be highly professional and based on corporate management

standards, transparency, sustainable investments, equidistance between politics and fund management mechanisms.

More than dedicating 60% to Single Treasury State Budget Account (STSBA) and 40% to Sovereign Bank Account (SBA) in the first 15 years of oil and gas export, the Sovereign Infrastructure Fund (SIF) should also be created. No. 1 and 2 of article 12 of the SFM Law relating to domestic investments argues that they will be carried out from STSBA, which offers no security given to institutional fragility for this purpose. The SFM manager is politically porous, intact when it comes to accountability and has no national entity to which he is accountable, let alone to cyclic his accounts. SFM is known to be powered only based on oil and gas revenues in areas 1 and 4 of the Rovuma Basin. Thus, it can be reduced to 30% or even channel the 60% of STSBA to the SIF, as the State Budget will continue to be funded by other sources of revenue that also include extractive resources. The Sovereign Fund for Infrastructure (SIF) is part of international practices. For example, Truman and Preqin cited by the World Bank (2014) and Sovereign Wealth Fund Institute (2020) [7-9] point out that investments in long -term economic and social infrastructure are common in the sovereign markets market. In 2012, for example, 56% of all sovereign funds held investments in the class of assets in infrastructure and, of these, 36% were directed to social infrastructure such as schools and hospitals. For CIP (2022: 2) countries such as Norway, Hong Kong and Singapore that created stabilization, savings, technological infrastructure investments, respectively, in the 1990s had already exceeded basic obstacles in terms of development. Its per capita Gross Domestic Product (GDP) were "over 20,000 US dollars in 1993: Hong Kong had PPP of $ 34.8 thousand in 1998, Norway of $ 5,600,000 in 1981, far beyond the 571 dollar Mozambique figure" in 2022. Thus, investment in infrastructure is one of the main routes for the diversification of the economy. It can reduce dependence on oil resources, in the medium and long term due to the high potential to attract investors in the various domains of inputs that the country may demand to the country construction and appeal of safety, economic and social infrastructures. During the auscultations carried out by Assembly of the Republic (AR) at the provincial capitals, participants stated that the creation of the best conditions for future generations is to cover the current needs. The construction, for example, of basic quality infrastructures, such as health units, schools and access roads, as well as invest in the agriculture and agro-negotiation sector (Affairs Report, 2023). CIP (2022:1) corroborates with this approach by stating that the proposal to create SFM of the Central Mozambique Bank "does not prioritize investment, which may promote structural changes necessary for the accelerated development of Mozambique". Paradoxically, the SFM proponent linearly ruled out the consensus generated by the AR during the auscultations it performed by the provinces. The reluctance of the proponent may result in the maintenance of the current precarious conditions in the long-term security, economic and social security infrastructures, given to mismanagement and lack of transparency, due to the political permeability of the SFM governance and management bodies [10-20].

Conclusion

The Sovereign Fund of Mozambique currently represents a historical opportunity to make the country in a great socioeconomic power. A socioeconomic development guided from security, economic and social infrastructures is not only robust but also sustainable in the medium and long term. The creation of SF for future generations in the context of high political porosity of governance and financial resources management can be a misleading option in response to the high level of corruption that characterizes the country. It is known that the Bank of Mozambique is one of the few institutions without an entity that supervises its accounts. Although the Supervision Committee is an independent body that integrates representatives of civil society, business community, academy, professional orders and religious associations, its credibility, suitability is questioned meeting the top. Political pressure level that characterizes institutions and organs in the country. The same can be said about the Investment Advisory Board, the government's consultation body on the SFM investment policy, as this body will also suffer political pressures, which may lead to politically motivated investments. The low quality and lower coverage in territorial infrastructure terms in Mozambique is not the problem of lack of recognized merit professionals, or of financial experts with proven experience in the management of investment portfolios, but of the disability of the institutions to resist clientelist pressures that ends up flowing into the dislocation of corruption. From the analysis done, it was possible to recognize once again that Mozambique presents natural resources capable of making it an economic power in which people are able to overcome socioeconomic limitations. The creation of SF is an assertive idea, but by not contemplating, either, an SIF with strictly defined rules capable of reducing corruption levels, makes the fund a source of illicit enrichment of the Mozambican political elite. Conducting colossal investments in strategic areas is much better able to generate returns in the short and medium term than a claim to save financial resources for future generations in a context of total non -compliance with accountability mechanisms and observance of good practices to ensure transparency.

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