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Reforms of the Angolan Budget Process and Public Financial Management Was the crisis a wakeup call?

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The Political Economy of the Angolan Budget Process

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Abstract

This report deals with Angola's budget process – in the wide sense – in the period between 2008 and 2010. Three concepts - transparency, accountability and efficiency - are used as central benchmarks against which various reforms are measured.

The first part of the report shows how political events between 2008 and 2010 led to significant changes in institutions and had a major impact on Angola's budget process and its methods of public financial management. At the end of 2010 Angola seemed as far as ever from settling on a close-knit governmental structure to design and implement its economic and financial policies.

The second part shows that the global financial crisis had a serious impact on Angolan public finances as oil prices temporarily collapsed. The immediate consequence of this was the accumulation of US\$ 9 billion in arrears in 2009 alone. The crisis exposed inherent weaknesses within the Angolan economy, and specifically the management of public finances.

The third and last part analyses the current budget reforms and concludes by highlighting outstanding needs. The report recommends it is time for Angola to move from a haphazard approach to reconstruction to a transparent, accountable and efficient development paradigm.

Preface to the Study "Reforms of the Angolan Budget Process and Public Financial Management"

The process of preparing public budgets is one of those that carry the greatest political and social responsibility in democratic and market oriented economies.

From a purely technical point of view, it must be verified if the conventional and internationally accepted practices of drafting state budgets are effectively applied. This goes in particular for two of the most emblematic ones, which are reflected in the existence of a single document that includes all revenue and expenses to be executed within a given fiscal year and in its full and effective specification. These practices help to ensure a good and effective management of the state's finances and to facilitate the *ex-post* control through permitting observance of their functioning in detail. It adds that compliance with these practices offers a step in the right direction in terms of strengthening the control that supreme audit institutions exercise over the state accounts.

The budget process however also includes the institutions that participate in it, the responsibilities assigned to them and their ability to perform their budgetary functions with proficiency. Obviously, the constant change of government structures - the abolition of ministries, modification of internal division of labour, modification of statutes, etc., makes it difficult to steer the budget, which is already complex as it is, unpredictable and subject to uncertainties that may limit its effective social and economic usefulness.

Securing a transparent and competent budget process with a public-social presence increases the credibility of public accounts, reduces the degree of uncertainty about the economic policy of the business community, and mobilizes foreign aid, international financing and foreign investment.

CEIC and CMI have been concerned with the way the budget process in Angola has been conceived and implemented. The current study is the second that these two research institutions have conducted on this topic. Its sole intention is to call attention to potential insufficiencies, mistakes and incongruence that may affect the social utility and economic importance of the financial plans of the state.

The study is presented under the title "Reform of the Budget Process and Public Financial Management in Angola " was prepared on the basis of reviews of existing legislation on the budget process currently exercised in the country and numerous interviews with representatives of some of the responsible state institutions and many representatives of Angolan civil society, including businessmen, academics and researchers.

Particular emphasis is given to the analysis of the authorities' response to the impacts of the global economic and financial crisis of 2008/2009 and the possibilities for civil society participation in the discussion of the state budget in its elaboration and use of fiscal revenues. One of the conclusions articulates the need for the budget process in Angola to be more open and democratic, involving civil society - through organized, simple but effective approaches - in the definition of concrete ways the state budget can be of collective use to the society. This participation would allow the most important aspirations of the population to be heard and reduce the gap between government and population.

Other research initiatives are being carried out by CMI and CEIC, always with the intention to contribute to the debate about challenges facing the Angolan society and definition of effective solutions.

Alves da Rocha

Luanda/CEIC/CMI, September 12, 2011.

Executive Summary

The aim of this report is to complement previous work by CEIC and CMI on Angola budgetary systems and economic policy by looking at recent political and economic developments and continue the debate about reform going forward.

The central focus of the report is to investigate the impact of domestic political changes and the global financial and economic crisis and their impact on the reform process of Angola's budget process and public financial management between 2008 and 2010. The three concepts - transparency, accountability and efficiency - are used as central benchmarks against which the various reforms are measured.

The report is structured into three analytical parts which is followed by a conclusion and a set of recommendations to key actors.

PART I

Part I shows how political events between 2008 and 2010 led to significant changes in institutions and had a major impact on Angola's budget process and its methods of public financial management.

Pre-Constitution government reshuffles

The 2008 election resulted in a new MPLA government, who won a landslide victory. Changes to key institutions in the government's economic team included the creation of a Ministry of Economy that assumed responsibility for economic coordination. The Vice-Prime Minister (and head of the government's economic team) and Minister of Finance were replaced after the election. Reportedly the latter was done in a move to reign in the Ministry of Finance that had become too bold in pursuing its own policy agenda. Removing senior figures with an in-depth understanding of the internal mechanisms of public finance systems is however likely to have made it more difficult for the government to respond effectively to the economic crisis at least in the short-term. On the other hand, putting in place a new government might have made it easier to embark on longer-term reforms and securing the support of the IMF given the frosty relations of the past.

The new Constitution introduced a new presidential-parliamentary system and formalized the centralization of the power of the President. It also set in motion an extensive process of changing government legislation and the statutes of all government institutions to bring them in line with the new charter. This process seems to have created further bottlenecks in decision-making that is likely to result in inefficiencies. The national budget has moved to the centre stage in the new Constitution, which is a positive thing. But, there are still unresolved issues, and there have also been setbacks in terms of accountability such as the elimination of references to the need for budget execution reports.

Post-Constitution government reshuffles

Following the adoption of the new Constitution the government carried out several far-ranging changes to the role and responsibility of key Ministries. The legal framework of the economic team was changed the Ministries and Central Bank participating had their statutes changed. The most far reaching legal changes were made to the Ministry of Finance and the Central Bank. Moreover, the Ministry of Economy was turned into the Ministry of Economic Coordination. The unsettled nature of an approach to governing the country's economic policies was most clearly illustrated by the rise and fall of this ministry. The changes meant that the responsibility of managing the government's economic team was taken over by the President's Chief of Staff and Minister of State, Carlos Feijó. The responsibility for articulation and harmonization of macroeconomic policies was transferred to the

Ministry of Planning. In short, the Ministry of Planning saw its role re-strengthened and seemed to emerge as ‘the winner’ of the tug-of-war going on behind the scenes. It also means that towards the end of 2010 Angola seems as far as ever from settling on a close-knit governmental structure to design and implement its economic and financial policies.

Changes to other key institutions

Changes to the National Assembly and the Tribunal of Accounts were not promising in terms of fostering greater accountability.

The National Assembly has experienced only very gradual increases in its capacity to oversee the budget process and is fully controlled by the MPLA. As an institution the National Assembly also temporarily abandoned its responsibility to oversee the Executive in August 2010 apparently while new legislation guiding its functions was being prepared.

The Tribunal of Accounts is now written into the Constitution and capacity has been gradually increased, but its new legal framework stipulates that the government is no longer obliged to submit the general state accounts (*Conta Geral do Estado*) to the Tribunal of Accounts for an audit which represent a significant setback in terms of strengthening the budget process and accountability of the public finances.

PART II

In part II the impact of the global financial and economic crisis on the Angolan public finances and how the government tackled it is addressed. It shows that the global financial crisis had a serious impact on Angolan public finances due to the collapse in oil prices. The crisis exposed inherent weaknesses within the Angolan economy, and specifically the management of public finances.

Fragile monetary policies and liquidity crisis

The government responded to the crisis by scaling up its already active monetary policy of market intervention. Massive capital flight resulted in a balance of payment crisis and it proved difficult to sustain the Kwanza. This exposed the fragility of the ‘hard-kwanza policy’ which is dependent on sustained (high) oil prices.

By 2009 the full impact of the global crisis was being felt through the lack of oil revenues flowing into the Angolan Treasury, making it difficult for the government to implement the 2009 budget as planned. Attempts to raise funds domestically through issuing Treasury Bonds failed. The massive budget surplus of the previous years (8.8% of GDP in 2008 alone) had been used to build up significant international reserves that were applied to defend the Kwanza during the currency crisis and could therefore not be drawn on to alleviate the acute liquidity crisis in the treasury.

Recovery blurred by discrepancies in sources

The revised budget approved in July 2009 adopted a significantly-reduced forecast of the oil price. Discrepancies between different government sources of information mean it is hard to get an accurate year-end result, but the figures available indicate a budget deficit between 9.1% and 13.7% of GDP. Discrepancies are related mainly to the quasi-fiscal activities of Sonangol that do not seem to have been reduced in response to the crisis. There are also uncertainties associated to US\$ 2.6 billion that Sonangol apparently withheld in liquid resources. This situation is clearly unsustainable and exposes one of the most profound problems of the Angolan public financial management system.

In 2010 the fiscal position was expected to improve substantially but again discrepancies in government data makes it hard to reach a firm conclusion. Preliminary figures on budget execution indicate a budget deficit of 4.8% of GDP instead of the programmed surplus of 1.2% of GDP in the revised budget that was approved in August 2010. If these figures are confirmed they suggest a significant setback in the expected recovery of the fiscal position.

Accumulation of arrears

The impact of the government's liquidity problems coupled with its inability to control spending became apparent in mid-2010 when it emerged that during 2009 it had accumulated up to US\$ 9 billion in arrears mostly to construction companies. This was a result of the low revenues, high quasi-fiscal expenditures and gross violations of existing budget execution rules. By late 2010 rebounding oil prices had helped the government's strategy to clear the arrears gain momentum with the settling of US\$ 3.6 billion of the US\$ 9 billion outstanding by the end of 2009. However, the repercussions of the arrears crisis were expected to last into 2011 and beyond.

Finally, it should be noted that access to information in Angola has improved significantly in the past two years. But the large discrepancies between the different government sources create in some instances more confusion than clarity and somewhat undermine the transparency efforts.

PART III

In part III, the reforms put in place to address weaknesses exposed by the crisis are analysed. This part also looks at outstanding needs to strengthen transparency and the role of civil society in relation to the budget process.

The Stand-By-Arrangement as a reform driver

The eventful years of 2008-2010 showed the urgent need for reform in the management of Angola's public finances. Reform has been pursued on several agendas, pressed by both the government and other actors.

A major driver for reform was the involvement of the IMF through the stand-by-arrangement approved in 2009. The programme contributed to increasing the credibility of Angola's economic policies which was a contributing factor to several international credit rating agencies issuing a B+ credit rating for Angola. In terms of promoting reforms, the programme sought among other things to enhance fiscal transparency and strengthen public financial management. The fourth review was delayed leading to concerns that the programme had gone off-track but it was completed in early February 2011. If the programme can be kept on-track it will boost Angola's credibility among foreign investors possibly improving its credit rating.

Government driven PFM reform efforts

Reform on budget execution has been pursued by the government through two channels. Firstly, the international accounting firm Ernst & Young has been contracted to help the Ministry of Finance getting an overview of the arrears situation and improve budget execution. Little is known publicly of the Ernst & Young contract due to confidentiality terms but a Ministry of Finance memorandum indicates that this has been the main focus of the assignment. This report questions the long-term sustainability of letting Ernst & Young act as financial controller on behalf of the Ministry of Finance, and questions the decision to pay the arrears without holding public officials that have broken budget rules to account. A strengthened and independent Tribunal of Accounts could be given the task of holding public officials to account. An anti-corruption commission could also play a supporting role.

Secondly, the government has reacted with legislation and decrees adopted during 2010. These deal with budget execution, Public Investment Programme (PIP), procurement, and the general budget process. It is too early to say if Decree 24/10 on budget execution is going to strengthen controls over budget execution but early signs are not promising. There is a lot of repetition, in relation to the rules on commitment, verification and payment. These are areas which have already been grossly violated in the past and it is not clear how repeating them will change the current situation. The decree on PIP does not present a new project appraisal system and leaves too little time for Ministries and provincial governments to propose and comment on new proposals. The legislation on the general budget process brings a few positive changes, but also it includes several shortcomings, including non-binding audit requirements, non-binding formulations on budget transparency, a budget cycle with too little time to involve the National Assembly, and a lack of serious attention to issuing quarterly budget execution reports. If the legislation and decrees are to have any real effect the executive needs to focus more on enforcement.

Revenue-, expenditure-, and debt management

Other reform areas relevant for this report are revenue-, expenditure-, and debt management.

On the revenue side, a model has been developed to project revenue from the volatile oil sector. In terms of handling oil revenue, the IMF has encouraged the government to adopt a sovereign wealth fund. However, the government seems to have back-tracked on this. A general tax reform has been initiated by the government.

In relation to expenditure policies, the government has initiated several reforms. Firstly, attempts have been made by the government to phase out fuel subsidies. Commitment has waned in 2010, and the future of these reforms remains unclear. Secondly, steps have been taken to improve social spending and address regional asymmetries. The government will need to address the prioritization, quality and effectiveness of this expenditure to improve social indicators. Efforts also need to be put into improving even basic data on social issues and carry out the national population census in 2013.

To improve debt management the government has created a new debt management unit, and is developing a debt management strategy in corporation with the IMF. Plans were in place to issue Eurobonds were in place and a positive effect of this could be an increase in the demand for transparency by foreign investors.

Limited interest in reforming monetary policy

The government has insisted on maintaining the ‘hard Kwanza policy’ even after the crisis has exposed its weakness. The soundest approach to allow the Kwanza to regain strength would be through fiscal reforms especially reducing the non-oil fiscal deficit. The Central Bank has become a focus point for reform through the IMF programme. The specific reform items are very relevant and will hopefully improve Central Bank governance and the management of the international reserves.

Extractive industry and budget transparency

Increasing transparency is a central benchmark for measuring progress throughout this analysis. Two issues deserve further attention in this regard.

The first is the extractive sector. Since 2004 information on oil revenue has been published, and Sonangol recently had their audited financial statements published. Unfortunately, this positive development is blurred by major discrepancies in the reported amounts. While Angola is not a member of the EITI, the Dodd-Frank legislation from the USA could force companies to disclose oil revenue payments on a country-by-country basis but unfortunately does not cover Sonangol.

The second is transparency in the budget process. Angola has seen large improvements in 2010 on the Open Budget Index. While significant, the country is still in the category of countries providing 'minimal information'. Existing legislation provides that 'relevant' budget documents should be publicized. Civil society needs to push for an interpretation of this article as wide-ranging as possible. A separate challenge in relation to budget transparency is the many budget revisions. This is a practice that needs to be brought to an end.

The role of civil society

Turning to the Angolan civil society and their work with strengthening public financial management it should be commended that a budget manual has been developed. However, the manual needs to be updated to accommodate new legislation and the new Constitution, as well as turned more practical and user-friendly. CSOs have not been good enough at using the entry points provided by the crisis to advocate for changes on public financial management. Angolan CSOs in general need to invest in strengthening budget analysis and making advocacy more well-timed and systematically implemented.

Conclusion in a nutshell

The institutional setup of core ministries involved in the budget process and public financial management was in a constant flux between 2008 and 2010 and institutional checks and balances were not sufficiently strengthened after the 2008 elections and the adoption of the new Constitution in 2010.

The handling of the financial crisis was hampered by a monetary policy dependent on high oil revenues, unaccountable and non-transparent management of revenues and too modest a reduction in expenditures due to the inability of the central government to control budget units. The immediate consequence of this was the accumulation of US\$ 9 billion in arrears in 2009 alone.

Reasonable reforms have been embarked upon driven by the government supported by the IMF and its Stand-by-Arrangement. A central element in the reform effort is the government's engagement of the international accounting firm Ernst & Young in resolving the arrears crisis and possibly tackling uncontrolled spending. The work currently being carried out by Ernst and Young needs however to be taken over by government institutions. Moreover, the focus of the Executive needs to shift from legislation to practice and enforcement of existing legislation.

Reforms have also been initiated in the management of revenues and expenditures but need to be broadened and deepened. In particular a Sovereign Wealth Fund should be created to regulate the application of windfall oil revenues and smoothen spending and a wide-ranging tax reform needs to be implemented. Finally, the role of Sonangol needs to be normalized and quasi-fiscal activities brought to an end.

Broader reforms are needed to strengthen accountability, transparency and efficiency. Although access to information has generally improved with publications of oil revenues and Sonangol's audited financial statements large discrepancies exist between figures from different sources. Transparency in the budget process needs likewise to be strengthened. Crucial in this regard is the production and publication of quarterly budget execution reports but other budget documents need also to be published in a timely and systematic manner. To improve efficiency the government needs to prioritize improving basic data on social issues. Civil society needs to increase and improve its budget work to challenge the limited debate about the budget and public financial management issues.

It is time for Angola to move from an uncontrolled and haphazard approach to reconstruction to a transparent, accountable and efficient development paradigm where the pace of improvements might slow down but be much more sustainable in the long-term. For that to happen the government needs to invest in creating strong institutions that imposes checks and balances in the management of the country's public finances. Although steps have been taken in the right direction the reforms analysed

in this report are not yet deep enough to guarantee this transition. Moreover their long term chances of success is threatened by inherent pressures from vested interests and patronage systems that have an interest in moving back to the situation in 2008 where the government was 'paying with its eyes closed'.

1. Introduction

Almost a decade has passed since Angola brought its 27-year civil war to an end in 2002. A decade can be seen both as a long and a short time. It is a short time in relation to the vast reconstruction needs facing a country after a prolonged period of war and in terms of establishing solid institutions to underpin sustainable growth and good governance. But on the other hand, it should be long enough to initiate a degree of institutional reform if the political will is there.

In the immediate post-war period from 2004 to 2008, oil prices soared while oil production also grew rapidly boosting government revenues. As a result Angola enjoyed double digit Gross Domestic Product (GDP) growth (peaking at 20.9% in 2007)¹. This economic boom in many ways allowed the government to postpone reform because these were years of a ‘scramble for Angola’ in which companies and countries aggressively pursued access to the oil and mineral resources regardless of how the country was being governed. This also meant that Angola had access to abundant credit lines (particularly from China and Brazil).

Despite this healthy cash-flow, the need for fiscal reform in Angola was well-documented in a number of expert studies and reviews carried out by various actors including international auditing firms, the World Bank and the International Monetary Fund. They pinpointed a number of issues which needed to be addressed in order to improve the management of the country’s public finances. In 2007 the Chr. Michelsen Institute (CMI) and the Catholic University of Angola’s Centre for Scientific Studies and Research (UCAN - *Centro de Estudos e Investigação Científica – CEIC*) also identified a number of system deficiencies which they said reduced the possibility of delivering good public services and suggested that particularly the poorer citizens would not be able to benefit from the country’s resources. The aim of this report is to complement previous work by CEIC and CMI on Angola’s budgetary systems and fiscal policies and contribute to the debate about reform going forward.

The starting point of this study is in 2008, which in many ways represented a turning point in Angola’s post-war history². This was the year that Angola held its first elections since 1992, heralding a new era of democratic governance. It was also the year that the global financial and economic crisis began. At first the financial crisis was not expected to have much of an impact on Angola because of the country’s sheltered financial system, but eventually the meltdown spilled over into the real economy and that led to a collapse in commodity prices, and in particular oil, which had a big impact on Angola’s oil dependent economy.

The report analyses the impact of the political and institutional changes in Angola between 2008 and 2010 alongside the global financial and economic crisis, looking at how these two factors jointly influenced public financial management and the country’s budget process. In 2009 US Secretary of State Hillary Clinton said in relation to climate change that “*it is important never to waste a good crisis*”³. In this sense, Angolan leaders find themselves in a position to acknowledge and address the

¹ Figures on GDP growth in Angola differ. Our figure is CEIC’s own while the IMF considers growth in 2007 to have been even higher at 22.7% of GDP.

² This study was carried out as a collaborative effort between the Centre of Studies and Scientific Research (CEIC) of the Catholic University of Angola (UCAN), the Chr. Michelsen Institute (CMI) and Independent Policy Analysis (IPA). The authors are grateful to the people, particularly those in government positions, who supported this research by sharing their views in an open manner. Special thanks also to a number of peer reviewers who took time off their busy agendas to provide valuable inputs to this report.

³ See for example: <http://www.independent.co.uk/news/world/americas/clinton-never-waste-a-good-crisis-1638844.html>

weaknesses exposed by the financial crisis, and move the country forward from a rushed reconstruction phase into a sustainable development phase.

2. Approach and methodology

This report builds on work already carried out by CMI and CEIC on economic governance, public financial management (PFM) and the budget process, which is part of the broader cooperation programme between the two research institutions⁴. The research conducted on these issues can so far be divided into two phases⁵. The first phase was concluded in 2007 with the publication of the report, “Budget, State and People”⁶ while the purpose of this study, which concludes the second phase, has been to update earlier findings with recent developments. An important building block in this process has been a draft paper on economic governance carried out by CMI and CEIC. The draft contains a number of interesting observations and was presented at the CEIC/CMI annual conference in 2009⁷.

A methodological innovation of this study has been to include the significance of the political processes on economic policymaking in Angola. This is important for understanding developments and changes in the economic environment of a country where ‘who-is-who’, ‘who-is-in’ and ‘who-is-out’ are crucial to how the government and nation is run⁸.

2.1 Analytical framework and scope

Our central focus has been on investigating the impact of two major trends or developments – ie the domestic political changes and the global financial and economic crisis - on the reform process of Angola’s budget process and public financial management between 2008 and 2010.

In the first category there were two milestone events: the realization of the first legislative elections for 16 years in 2008, and the preparation and adoption of the new Constitution in early 2010. What is significant is how the related institutional and individual changes to these milestones have affected economic governance⁹. The second category looks at the impact of the global financial and economic crisis (in the text at times simply referred to as the economic crisis) that seemingly took the Angolan government by surprise in late 2008 with repercussions that are still being felt well into 2011.

In this analysis, emphasis has been placed on the inter-relations between these two categories. It has been argued that the crisis served as a wake-up call for the government, but an important question is whether this will have a lasting impact on Angola’s economic governance. This will be tested by the depth of the reforms put in place to address the existing weaknesses of the Angolan budget and public financial management systems that were exposed by the crisis. An important step forward would be to strengthen institutions to ensure accountability, transparency and efficiency of public financial management. Not investing in strengthening these institutions would indicate that other factors such as

⁴ <http://www.cmi.no/research/project/?1176=ceic-cmi-cooperation> and http://www.ceic-ucan.org/index.php?option=com_content&view=article&id=16&Itemid=22

⁵ A third phase is expected to follow keeping CEIC and CMI’s focus on these issues in the years to come.

⁶ Isaksen J. et al. (2007): *Budget, State and People – Budget Process, Civil Society and Transparency in Angola*, CMI Report 2007:7, <http://www.cmi.no/publications/publication/?2706=budget-state-and-people-budget-process>

⁷ Isaksen, J. & Rocha, A. (2009): *Economic governance and the institutions*. The paper was never published but a draft version of the paper is available here: <http://www.cmi.no/file/?777> (accessed April 2011)

⁸ In political science jargon called "kremlinology"

⁹ In this study institutions are defined narrowly as ministries and similar government entities.

power politics, vested interests or patronage networks would have gained (or maintained) the upper hand¹⁰.

An underlying principle of the analytical framework of this report is that transparency and accountability are critical for the efficient functioning of a modern economy and for fostering social wellbeing. The three concepts - transparency, accountability and efficiency - are therefore used as central benchmarks against which the response to the economic crisis and reforms to address long-term economic growth and stability are measured.

In Angola vested interests and patronage networks are embedded in personal and political networks that often overlap at different levels of government and the private sector. As Hansen-Shino, K. and Soares de Oliveira, R note in a forthcoming paper on the political economy of petroleum sector management in Angola: “A given ministry’s centrality to decision-making is often a function of the identity of the minister, his or her family background, and his or her connection to the presidential circle”. And they further suggest: “This micro-sociological dimension of Angola’s elite world is often lost on analysts...”¹¹ This study does not go into uncovering individual family ties and connections within the presidential circle, but changes to the high-ranking officials in key institutions make up as important a part of the analysis, as changes to the legal framework.

A conscious effort was made to focus the analysis on central government and the ‘official’ part of Angolan public financial management. This means that the role of the state-owned oil company Sonangol (*Sociedade Nacional de Combustíveis de Angola*) is not at the centre of the analysis, but only referred to when it makes sense to explain deficiencies in the PFM system. Research focusing on the role of Sonangol as state concessionary was published in 2007, and another paper on the political economy of the Angolan petroleum sector is forthcoming¹².

2.2 Research and interviewing techniques

Our research was carried out between April 2010 and February 2011. The main bulk of material was collected in September 2010, background interviews carried out in April and July, and follow-up interviews conducted in November 2010. In total 32 separate interviews were carried out. The respondents were: 11 employees in key ministries, three deputies (members of parliament), one parliamentary researcher, nine international partner representatives (incl. International Monetary Fund (IMF), the World Bank and the African Development Bank (AfDB) and eight civil society organizations.

All interviews were semi-structured and notes were taken, but the respondents are protected by anonymity. Giving respondents anonymity has its shortcomings, but on the other hand, given the Angolan context, it makes it more likely to obtain interviews with relevant public officials. This is particularly true when the interview involves topics that could be perceived as controversial (ie anything related to Government policy). Respondents were identified by using personal networks within government to get referrals to individuals open to being interviewed. In practice this meant

¹⁰ These concepts are understood here in the following way: *Power politics*: political, economic and security measures taken with the sole aim of maintaining power; *Vested interests*: special interest in existing economic or political system for personal advantage; *Patronage networks*: a vertical system or ladder network in which the client of one patron may prove to be a patron to a subordinate client.

¹¹ Both quotes are from Hansen-Shino, K. and Soares de Oliveira, R. (forthcoming): *Political Economy of the Petroleum Sector in Angola*, Political Economy of Natural Resource-Led Development.

¹² In addition to the paper cited in footnote 8, Soares de Oliveira’s 2007 paper entitled *Business Success, Angola-Style: Postcolonial Politics and the Rise and Rise of Sonangol* and published in the Journal of Modern African Studies.

asking people we interviewed to indicate other people we could interview by providing names and contact details. This way we did not always get the people in the right positions because they might not be willing to talk. But, on the flipside, it would have been very unlikely to get people in the right positions using a different approach¹³.

The analysis also draws on a broad range of primary and secondary sources collected during the research process, including large amounts of legislation. An important methodological note here is that it is not easy to get an overview of all relevant legislation in Angola as there is no central electronic database or website where a comprehensive list of legislation is published and accessible online. It is generally only possible to access hard copies of the legal documents but this is difficult, time consuming and expensive.

We looked at a range of budget documents, the recently published audited financial statements of Sonangol, raw data (mainly on oil revenues) from the Ministry of Finance's Tax department and the International Energy Agency, as well as data from the Central Bank on its interventions in the foreign exchange market. The reports published by the IMF relating to its Stand-by Arrangement with Angola have been critical both in terms of accessing economic data and progress as well as shortcomings of the reform process¹⁴. Of even more vital importance to the credibility of this part of the analysis are two memorandums written by the Ministry of Finance which shed light on both the relationship between the government and Ernest & Young, the arrear situation and, in unusually strong terms, criticize budget units for not complying with existing rules. Important secondary sources have included monthly "briefings" produced by senior World Bank staff in Luanda, official World Bank reports and the annual Economic Report (*Relatório Económico*) produced by the Catholic University's CEIC¹⁵. Finally, monthly country reports and quarterly forecasts from the Economist Intelligence Unit (EIU) have been used to supplement other media coverage of government reshuffles as well as other political and economic developments over the period in question¹⁶.

As with all social science research, this work has been undertaken on a 'moving target' and highly relevant events unfolded during 2010 while research was carried out. Efforts have been made to ensure that all information was updated at the end of the research period but in a research process as complex as this one it is almost inevitable that some details will be overseen or indeed withheld from the researchers. It is therefore important that this is an area the CEIC and CMI will maintain focus on in the years to come with reactions and constructive criticism of this report being taken into consideration in that process.

¹³ The formal route for getting access to high level officials in Angola is to submit a written request for an interview so that it can be approved at the highest level within the institution (the Minister in case of a ministry). This approach, although the one advocated by all institutions, rarely yields an interview, let alone an official response. During our research we found that at times a combined approach where formal requests were submitted (signed and stamped) was helpful to suggest that formalities were being adhered to and this was sometimes enough to satisfy the bureaucracy who would then accept a slightly more informal approach.

¹⁴ After several years of frosty relations, Angola turned to the IMF in 2009 to help resolve a drastic liquidity crisis (discussed later in the report) caused by the fall in oil revenues and forex reserves. The IMF agreed to lend Angola \$1.4 billion through a 16-month Stand by Arrangement in exchange of commitment to fiscal reform and greater transparency.

¹⁵ These briefings have been circulated informally by email and not formally published. The World Bank has discontinued their production due to staff transfers. This is highly unfortunate as it served as a significant source of information on economic developments for journalists, analysts and civil society organizations following these issues.

¹⁶ The Economist Intelligence Unit is a London-based publisher of economic reports and forecasts using expert authors and respected analysis. Part of the Economist Magazine group.

2.3 Structure of the report

The report is structured into three main analytical parts. Part I examines the political and institutional changes that have taken place as a result of political events between 2008 and 2010. The starting point is the 2008 elections and it reviews the institutional and individual changes that have taken place since then. Part II addresses the impact of the global financial and economic crisis on the Angolan public finances and how the government tackled it. It starts in mid-2008 when oil prices were at their peak and reviews data from different sources to shed light on how this affected the monetary and fiscal policies in 2009 and 2010 including the build-up of significant arrears as the government failed to honour its payments to construction companies. In part III, the impact of the two overall trends is merged analytically as we look at the reforms put in place to address weaknesses exposed by the crisis. This part also looks at the reforms that were not put in motion and also how the role of civil society in relation to the budget process has changed over the past three to four years. Section III is followed by the conclusion and a page with recommendations for government, international partners and Angolan civil society.

PART I

3. Analysis of the political and institutional framework

This part of the analysis examines political and institutional changes between 2008 and 2010 that were relevant for the Angolan budget process and public financial management system. The institutions included in the analysis are the members of the government's economic team. Changes to these institutions were initially driven purely by political developments. Later in this period they became influenced by the reforms put in place to address the weaknesses exposed by the economic crisis. Institutional changes that were driven more by the economic crisis are analysed in part III.

In part I we analyse, in chronological order, the changes that happened mainly as a consequence of the political developments. In the first section we look at the immediate outcomes of the two most significant political events between 2008 and 2010, the composition of the government that was constituted after the election in 2008 and the ratification of the new Constitution in February 2010. We also review the changes around the role of budget in the Constitution. In the second section we analyse changes that happened to government after the adoption of the new Constitution. This is central to the analysis because it brought about significant alterations to all the institutions participating in the government's economic team. The evolution of the Ministry of Economic Coordination (its upward and downward trajectory) is key to this part of the report because it is very telling of political and institutional developments during the three years covered by this study. The predominant focus of this part of the analysis is on the Executive, but changes within other branches of government are also taken into account. In the last section we analyse the role played by the *Assembleia Nacional* (National Assembly or parliament) and the *Tribunal de Contas* (TC – Tribunal of Accounts) Angola's Supreme Audit Institution in the budget process.

Legislation reviewed for this section includes the new Constitution, presidential decrees outlining the new government structure and the old and new legal statutes (*estatutos orgânicos*) of the various institutions.

3.1 Elections and the new Constitution

Two key political events which have had a significant impact on the institutional setup for public financial management took place between 2008 and 2010. The first of these events was the long-awaited legislative election held in September 2008. The second event was the adoption of the new Constitution in early 2010. Both were followed by major restructuring of the government and reshuffling of individuals in key positions. These two events are closely interconnected. The election paved the way not only for bringing the constitution making process back on track, but also for fast-tracking and designing it exclusively on the terms of the ruling MPLA (*People's Movement for the Liberation of Angola*) which gained a significant parliamentary majority. The end-result of this was the adoption of a presidential-parliamentary system in which the leader of the list of the party that wins most seats in the legislative elections automatically becomes the President of the Republic and head of government.

3.1.1 The post-elections government

The MPLA won a landslide in the 2008 legislative election taking more than 81% of the vote and 191 out of the 220 available seats in the National Assembly. After the vote a new government was formed to replace the Government of National Unity and Reconciliation (GURN) that had been set up in 1997 and included ministers from both the MPLA and main opposition party UNITA (*Union for Total*

Independence of Angola). In this section we look at what this meant in terms of changes to institutions that are relevant for the scope of this study.

Most government institutions involved in public financial management participate in the government's economic team (*equipa económica*) which has long played a central role in economic policy-making in Angola¹⁷. It was described in the 2007 CMI report as a "...*joint commission between the Ministry of Finance and the Central Bank (Banco Nacional de Angola, BNA)*". Actually membership was broader than that, although these two institutions were the traditional heavyweights.

Under the rule of GURN, the economic team included the Ministry of Planning, the Ministry of Public Administration, Employment, and Social Security (Mapess) as well as the President's economic advisors. Structurally, it was organized as a standing commission of the Secretariat of the Council of Ministers (*Conselho de Ministros*)¹⁸. From 2002, it was headed by Aguinaldo Jaime who at the time was deputy Prime Minister.

The post-election government saw significant alterations regarding both institutions and individuals. First and foremost were the creation of the Ministry of Economy and the appointment of MPLA economist Manuel Nunes Jr as Minister of Economy¹⁹. Secondly, two central figures left government (and the economic team). These were Deputy Prime Minister Aguinaldo Jaime and the GURN Minister of Finance José Pedro de Morais. Informally known as the 'dynamic duo', both had reputations as reformers within government²⁰. Vice Minister of Finance, Severim de Morais, not a relative but a technocrat who had worked his way up through the ministry's ranks, was promoted to Minister²¹. The Economist Intelligence Unit (EIU) interpreted this as a move by the Presidency designed to: "...*regain control of economic policy from the Ministry of Finance, which, under its former minister, José Pedro de Morais, had gained a high degree of autonomy in policy implementation*"²².

Reports in a local privately-owned weekly newspaper, *A Capital*, suggested three additional reasons for why the President had lost confidence in these senior figures: Firstly, it said the President was unhappy with the lack of progress in making the impact of the double digit growth figures felt by ordinary people; Secondly, the economic team had not delivered in terms of bringing down inflation to single digits; and finally, the article speculated that the two ministers had made themselves too popular (especially Morais who had drawn attention to himself being named best Minister of Finance in Africa by the Banker). It could be added to this analysis that Jaime and Morais by then had served for six years as head of the economic team, and four years at the helm of the Ministry of Finance

¹⁷ Under GURN, the formal name of the economic team was the Commission for Coordination of Fiscal and Monetary Policies (*Comissão de Coordenação da Política Fiscal e Monetária*).

¹⁸ Under the old Constitution, the Council of Ministers was formally headed by the Prime Minister and the government's highest decision-making authority and as such approved the Executives budget proposal before it was submitted to the National Assembly.

¹⁹ Angop (06.10.2008): Conselho de Ministros aprova orgânica do Governo http://www.portalangop.co.ao/motix/pt_pt/noticias/politica/Conselho-Ministros-aprova-organica-Executivo.be85a0c0-dfc5-458c-9365-9bd3f148a915.html

²⁰ José Pedro de Morais had only months earlier been awarded a price as the best Minister of Finance in Africa by the Banker in 2007 (see <http://www.thebanker.com/Awards/Finance-Minister-of-the-Year> and www.minfin.gv.ao/press/event_100.htm)

²¹ Other interesting developments in the post-GURN government were the 'sacking' of Fernando Piedade Dias dos Santos 'Nando' as Prime Minister and nomination of the former Huambo governor Paulo Kassoma to take over this position. 'Nando' was given the position as President of the National Assembly.

²² Economist Intelligence Unit (2008): Country Profile 2008 – Angola p. 6

respectively²³. By Angolan standards this are long periods to hold such important positions. However, in retrospect, it seems unfortunate that two so centrally placed senior government figures were removed and replaced at the onset of an unprecedented economic crisis²⁴.

The new Ministry of Economy took over the coordination of the economic team with its Minister, Manuel Nunes Jr, coming from the position as Secretary for Economic and Social Policies in the MPLA. As we shall see, his newly-formed ministry was shortly to assume a very central role in the management of the impact of the crisis on Angola. Due to some of the actions and reforms put in place under his leadership, he soon became seen as the new ‘reformer’²⁵. The Minister and his team were described during interviews as highly competent especially by international partners²⁶.

The fact that in October 2008, just before the oil price hit rock bottom sending shockwaves through the Angolan economy, the government’s economic team was almost completely remodelled with two senior ministers leaving the team and a brand new Ministry taking over its coordination, is likely to have made it significantly more difficult for the government to respond effectively to the economic crisis.

3.1.2 The new Constitution

The massive victory of the MPLA in the September 2008 elections made it clear that the opposition would not be able to exert much influence over the constitution-making process or the text of the new charter²⁷. Previous attempts to revise the Constitution under the GURN had been blocked by the opposition. But following the 2008 elections, the MPLA held 191 of the 220 seats in the National Assembly as well as 35 of the 45 seats on the constitutional commission, the body responsible for drafting the constitution. The new constitution was passed by the National Assembly on January 21, 2010 and enacted on February 5, two months earlier than expected. In a symbolic protest UNITA remained absent from the session in which the constitution was approved. The smaller opposition parties (PRS Party for Social Renovation), ND (New Democracy) voted in favour, while the members of FNLA (National Front for the Liberation of Angola) only abstained from voting (rather than voting against it), although they had all previously been very critical²⁸.

²³ A Capital (4-11 of October 2008): *Aguinaldo e José Pedro de Morais retirados da equipa económica*. http://www.correiodopatriota.com/index.php?option=com_content&task=view&id=1744&Itemid=116

²⁴ The image provided of the two senior government figures here is very positive. To nuance the picture it must be added that both have been linked to corruption issues by groups such as Human Rights Watch and Global Witness. See for example Human Rights Watch’s recent update of its Transparency and Accountability in Angola project available at <http://www.hrw.org/en/reports/2010/04/13/transparency-and-accountability-angola>. Furthermore, a US Senate Report of 2010 accused Aguinaldo Jaime of trying to transfer huge sums from the BNA accounts overseas (http://hsgac.senate.gov/public/index.cfm?FuseAction=Hearings.Hearing&Hearing_ID=dd873712-eb12-4ff7-ae1a-cbbc99b19b52).

²⁵ Nunes Jr. was credited for leading discussions with the IMF to broker the SBA – thawing a previously frosty relationship and inspiring more confidence in foreign investors who like to see IMF engagement in a country as they believe it means there is less risk.

²⁶ Interviews, Luanda, September and November 2010. An alternative profile of Manuel Nunes Jr. is that he is a highly competent presidential loyalist who was needed at a specific point in time for a specific purpose and who fulfilled this role as an elite soldier without flinching.

²⁷ More on this in the section on the National Assembly on page 19 - 21

²⁸ Economist Intelligence Unit (2010): Country Report – Angola – February 2010, p. 10

The most contested aspects of the new Constitution were the abolition of direct presidential elections and the formalization of the concentration of power in the hands of the President²⁹. Although the political system already displayed “...the features of a strong presidential system at several levels”³⁰ enshrining this in the new constitution was a significant development. Formalizing the concentration of power in the Constitution makes it much harder to change such practices in the future.

A related issue that seems to have gone mostly unnoticed is the degree of legal remodelling that followed the adoption of the new Constitution to bring their institutional setups in line with the new charter. This process involves changing the ‘statutes’ of all the ministries, an enormous task in a government with 33 ministries. Box 2 below provides an overview of the recent changes in the key government agencies involved in economic policymaking and public financial management and in the following we review some of these changes. Unless the capacity of the legal department within the President’s office has been enhanced, this situation would have been likely to create a legal backlog and a slowdown in decision-making. Ministries would have been likely to defer decisions to the President while they wait for their legal (and informal power) status to be clarified. One unfortunate impact of the high degree of centralization of decision-making is that it complicates the relationships between the Angolan government and its international partners. During interviews carried out for this report, this was frequently cited as an explanation for the standstill between the international community and the government³¹.

3.1.3 The budget in the new Constitution

A central aspect of the institutional changes affecting economic governance is the role of the budget (*Orçamento Geral do Estado - OGE*) under the new Constitution. One major change relates to the importance of the budget as the key government instrument. Under the previous constitution the budget was always referred to in conjunction with the National Plan. In the new Constitution there is no mention of a National Plan, indicating that the budget has become the most important tool for the implementation of government policies. In line with this, the new Constitution has a separate article (104) describing the State Budget. This article states that the budget is unitary and should be balanced (all expenditures should be financed). It also opens up for the possibility of the budget spanning several years (pluri-annual). Finally it establishes that budget execution “...observes the principles of transparency and good governance and is controlled by the National Assembly and the Tribunal of Accounts...”³² In contrast to the old constitution, there is no specific reference to budget execution reports (neither quarterly nor year-end reports). Legally this could be seen to represent a setback even if it is specified in other lower-level legislation. A lack of proper oversight and control of the extent to which the budget is executed in line with programming is one of the key weaknesses of the Angolan budget system. Removing this specific requirement from the Constitution signals that it is not a priority to address this issue.

²⁹ The position as Prime Minister was removed and the role of the Council of Ministers was changed from a decision-making to a consultative body.

³⁰ See Amundsen (2005: 4-6) for a clear analysis of the way the formally semi-presidential system was better classified as a purely presidential system.

³¹ Traditional donors such as the Spanish aid agency experienced difficulties in establishing agreements and disburse funding. International agencies such as the European Union and the World Bank also reported enormous challenges in getting responses from the government (interviews Luanda, September 2010).

³² República de Angola (2010): *Constituição de Angola*, Article 104, 4 (authors selection and translation of the following original text: *A execução do Orçamento Geral do Estado obedece ao princípio da transparência e da boa governação e é fiscalizada pela Assembleia Nacional e pelo Tribunal de Contas, em condições definidas por lei*).

Another significant change is that the President now submits the Budget proposal directly to the National Assembly rather than to the Council of Ministers. The National Assembly approves the budget and the President is specifically prohibited from approving a budget by decree. This article is important as the majority of legislation is done by presidential decree but provides some assurance that this is not an option for the national budget.

A concern in the 2007 CMI Report *Budget, State and People* was the limitation of rights of members of parliament and parliamentary groups to propose legislation that involved an increase in the expenditure or decrease in the State revenue established in the Budget during the economic year³³. This provision is almost literally transferred to the new Constitution. The only change that is added is that propositions can be made through the *budget revision laws*. The amendment to this article is worrying because the fact that budget revisions are mentioned in the Constitution signals an institutionalization of budget revisions which has the potential to seriously restrain the budget process (this issue is analysed in part III).

Overall the national budget has moved to the centre stage in the new Constitution which is positive. There are however still a few unresolved issues and even what might be considered setbacks in terms of accountability in the process.

3.2 Government restructuring after the adoption of the new Constitution

This section analyses the implications of the legal remodelling affecting the members of the economic team that followed the adoption of the new Constitution.

Part of the formal change from a semi-presidential system to a presidential-parliamentary system included removing the position of Prime Minister and introducing a Vice-President. The Council of Ministers was maintained, but its role is now legally defined as an auxiliary organ although there is still a Permanent Secretary for the Council of Ministers with sub-commissions for social policies and economics³⁴. The latter is the economic team which is now officially called the economic commission (*Comissão Económica*). We shall return to the economic team shortly.

Box 1: Key legislation defining the setup of the new Government (Diário da República, I série – N.º 42 of March 5, 2011)

Decreto Legislativo Presidencial n.º 1/10	Approves the organization and functioning of the essential auxiliary organs of the President of the Republic
Decreto Presidencial n.º 7/10	Approves the regulations of the Council of Ministers
Decreto Presidencial n.º 8/10	Approves the regulations of the Permanent Commission of the Council of Ministers
Decreto Presidencial n.º 9/10	Establishes the methodological norms of intervention, execution, responsibility and control of the auxiliary organs of the President of the Republic

³³ Isaksen et. al (2007, p. 11).

³⁴ Diário da República, I série – N.º 42, Decretos Presidenciais 7/10 and 8/10 de 5 de Março de 2010. Interestingly, the commission for social policies is chaired by the Vice-president (article 15).

In terms of the broader government setup, a significant change was the creation of a new level of high-ranking *Ministers of State*. These are superior in rank to Ministers, although the description of their roles does not differ³⁵. The role of *Secretaries of State* has also changed and they are now used in the ministries alongside Vice-Ministers, supposedly to “*coordinate, control and technically execute*” the activities of the subsector they have been delegated. Vice ministers meanwhile are supposed to “*coordinate and carry out functions, tasks and actions*” that have been delegated to them³⁶.

This new structure and hierarchy was put into effect when the President of the Republic announced a new Government in early February 2010, days after the adoption of the new Constitution, naming three individuals as Ministers of State.

These were Helder Vieira Dias “Kopelipa”, who was already Chief of Military Staff and who formally joined the executive as a Minister of State (despite not being an elected Deputy); Lawyer Carlos Feijó who was made Chief of Civilian Staff; and Manuel Nunes Jr who was promoted to Minister of State for Economic Co-ordination.

Meanwhile, Severim de Moraes, was replaced after only a year and four months as Minister of Finance, by Carlos Alberto Lopes, previously Vice Minister of Planning³⁷. It should also be noted that in April 2009, the Central Bank governor Amadeu Maurício had been replaced by Abraão Pio dos Santos Gourgel (for an overview of the various government reshuffles see appendix I).

3.2.1 Institutional changes for members of the economic team

In the following section we review the major institutional changes imposed on the members of the economic team. As noted earlier, the economic team came to existence under the new government setup reconfirmed in presidential decree 8/10. It was determined that the standing commission be chaired by the Minister of State for Economic Coordination. The commission would also include the Ministers of Planning; Finance; Public Administration, Employment, and Social Security, the Governor of the Central Bank and “...*other entities or experts that are considered capable, useful and needed in relation to the work agenda of the economic commission by the chair of the commission*”³⁸. The economic team was officially assigned a number of central responsibilities outlined in article 18 of the decree. Among the most important for our analysis is the duty to accompany fiscal reform, appraise the quarterly financial programming and monthly cash plans of the Treasury (these are key elements of the handling of the impact of the economic crisis which we return to in part II and III of this report). Interestingly the economic team is not required to address the Public Investment Programme (*Programa de Investimentos Públicos - PIP*). This is a central area of responsibility of the

³⁵ República de Angola (2010): op. cit., Article 108, 2.

³⁶ Diário da República, I série – N.º 42, Decreto Legislativo Presidencial n.º 1/10, de 5 de Março de 2010, Article 19, 3.

³⁷ In what the Economist Intelligence Unit described as a “surprise move” the President opted for Fernando Piedade Dias dos Santos “Nando” as Vice-President. Nando had functioned as President of the National Assembly since he was removed from the position as Prime Minister in September 2008 (EIU, February 2010, p. 11). As a result of this move Paulo Kassoma who had taken over the position as Prime Minister from Nando after the elections in 2008, was put in charge of the National Assembly.

³⁸ Diário da República, I série – N.º 42, Decretos Presidenciais 7/10 and 8/10 de 5 de Março de 2010.

Ministry of Planning and is crucial to the problems of public financial management. We return to a detailed analysis of these problems in part III³⁹.

In addition to the changes in the legal framework for the economic team itself, all the participating organs also had their statutes rewritten. Box 2 below shows that all members got new statutes between May and July 2010⁴⁰. In the following we first take a look at the changes to the two traditional heavyweights, the Ministry of Finance and the Central Bank, before we look at the Ministry of Planning and the Ministry of Economic Coordination. We do not address the Ministry of Public Administration, Employment, and Social Security (Mapess) as its role in economic policy making is marginal. In the last section of this part of the report we look at how the roles of two institutions outside the Executive have been affected by the new Constitution and formal centralization of power. These are the National Assembly and the Tribunal of Accounts.

Box 2: Overview of new ‘estatutos orgânicos’ for key government entities enacted in 2010

May 19	Ministry of Economic Coordination (previously Ministry of Economy)	Decree 68/10
June 7	Ministry of Finance	Decree 93/10
June 8	Ministry of Planning	Decree 94/10
July 15	Central Bank of Angola	Lei 16/10
July 9	Tribunal of Accounts	Lei 13/10

The Ministry of Finance

The Ministry of Finance was heavily affected by reshuffles following the 2008 election and adoption of the new Constitution, the most recent government reshuffle introducing the third Minister in two years. The constitutional change also implied that all decisions within its ambit are now formally being made by the President of the Republic (as with other ministries) thus removing power from the Ministry.

The Ministry of Finance’s new statute, Decree 93/10 of June 7, also introduced a number of changes. Its role has been specified to propose and implement budgetary policies of the State and participate in the formulation of the economic development objectives of the country. In terms of elaborating the budget proposal, it was explicitly articulated that this had to be done in coordination with the Ministry of Economic Coordination, the Ministry of Planning and the Central Bank.

There have been significant changes to the structure of the Ministry of Finance. The three former Vice Minister posts, which were without specific attribution, were transformed into Secretaries of State with specific roles. These are: Secretary of State for Finances, Secretary of State for the Budget and Secretary of State for the Treasury. In terms of Departments (*Direcções*) the former budget department was split up in two departments for budgets of the central and local administrations respectively. Four

³⁹ The only link to public investments is point k) in the decree stating that the commission should “build an analytical database to support government decisions and guaranteeing increased confidence in investment decisions to be realized”. It is perhaps just a formatting error but noteworthy nevertheless that the listing of the responsibilities jumps from point b) to point f) implying that three points - c), d) and e) - could have been eliminated from an earlier draft of the decree.

⁴⁰ Except MAPESS which continued with the statute outlined in Decreto-lei 8/07 from May 4 (http://www.mapess.gv.ao/index.php?option=com_content&view=article&id=108&Itemid=53)

new departments were created, of which the most significant seems to be the one for financing and public debt management (*Direcção de Financiamento e Gestão da Dívida - DFGD*). Others are the departments for financial programming and management, budget norms and policies and IT⁴¹.

The former Treasury Department, which played a central role trying to manage government expenditures when oil revenues abated, was split up in two new departments which are now overseen by the Secretary of State for the Treasury. The two departments are the DFGD and the Department for Financial Programming and Management (*Direcção de Programação e Gestão Financeira - DPGF*). This new structure was put in place to take over from the one that had been in place during the crisis which was slowing down when the Ministry of Finance got its new statute. Old members of staff were integrated in the new structure⁴².

The DPGF seems to be the most treasury-like department of the two as it is responsible for budget execution including carrying out the central operations of the Treasury⁴³. This includes being responsible for developing the proposal for the financial programming and evaluating the need for the State to access credit. We will return to the issue of debt management in part III as changes were made to this area again in September 2010 in an attempt to strengthen debt management following revelations about Angola's enormous debts to overseas construction companies. The new department is also expected to coordinate closely with the Central Bank in the formulation of monetary policies.

An important addition to the list of bodies overseen (*organismos tutelados*) by the Ministry of Finance is the new public procurement office (*Gabinete de Contratação Pública*) which supposedly will be in charge of implementing the new procurement legislation.

General Financial Inspectorate

This is a Ministry of Finance body which was central to our research and was subject to considerable alterations during the period of our study. The General Financial Inspectorate (*Inspecção Geral das Finanças - IGF*) is the ministry's internal audit institution responsible for controlling budget execution⁴⁴. To fulfil this responsibility the IGF submits a report to the Minister of Finance and the Tribunal of Accounts at the end of every year⁴⁵. The Tribunal of Accounts is in this respect the external auditor for which the IGF is supposed to pave the way with its internal control systems. The IGF has an autonomous budget, but it is not independent from ministerial control as its annual work plans and reports are approved by the minister. Moreover, the work plans and reports are strictly confidential.

Prior to the restructuring, the IGF could, in principle, audit both public and private companies in addition to entities that were involved in budget execution. It could also, in collaboration with the tax department, audit revenue collection of the State. In the new statute the IGF is in charge of controlling and running the internal control systems of the public administration. The setup has been altered with departments now organized in line with revenues, expenditures, control of state inventory and technical support, whereas earlier the departments were defined in relation to inspecting entities of the

⁴¹ An organogram of the Ministry of Finance is available here: <http://www.minfin.gv.ao/docs/dspOrganograma.htm>

⁴² Email exchange, December 22, 2010

⁴³ Decree 93/10, Article 23

⁴⁴ There is, however, a relationship between the IGF and the General Inspectorate for the Administration of the State (*Inspecção-Geral da Administração do Estado - IGAE*) which reports directly to the President of the Republic. This paper does not go into detail to uncover this relationship as the IGF is most relevant for the issues addressed here.

⁴⁵ Interview, Luanda, September 2010

public administration, public and private companies. This does not mean that the IGF cannot inspect companies that are subject to its intervention, but it is not clarified which these would be.

It is too early to say how this new structure will affect the quality of the work of the IGF. In the 2007 CMI report the IGF was severely criticized as it: “...*does not publish an annual report on its activities, and practises historical audit standards with an emphasis on timeliness of reporting and legality of various activities, rather than on ensuring that built-in automatic internal checks and balances are operating as they should.*”⁴⁶ We shall return, however, to a discussion of the internal and external auditing mechanisms in part III of the analysis.

Central Bank

Under the new Constitution the Central Bank (BNA) has lost its autonomy and now functions merely as a consultative organ to the Presidency. The role and responsibility of Central Banks in a country’s macroeconomic policies is however a subject for a report in its own right, and it is beyond the scope of this report to go deeply into this discussion. Suffice to say that in recent decades the preferred international model has been to provide Central Banks with full autonomy to enable them to focus exclusively on reducing inflation. While this strategy may have been successful in industrialized countries, evidence of a correlation between legal autonomy and lower inflation in developing countries is less significant⁴⁷. According to a BNA staff member interviewed, the loss of autonomy makes it more difficult for the Central Bank to take “certain measures”, as the Chief of the Executive now has to be consulted first⁴⁸. A relevant question is, however, in reality, how effective was the BNA’s autonomy and how much has actually changed? As we shall see in part II of this report, the BNA struggled to manage the pressure on the Kwanza through a continuation of the ‘hard Kwanza policy’ during the crisis. One report published in weekly private paper *Novo Jornal* claims one of the reasons for the removal of the Central Bank governor was that he had accessed international reserves *without the previous authorization of the head of government*⁴⁹. The IMF, which has vigorously defended the doctrine of Central Bank independence, has not publicly criticized the loss of autonomy stipulated by the new law.

Apart from the bigger issue of autonomy, the new Central Bank law also introduced other changes. These included being able to have more than one vice-governor, and the auditing council being composed of five members instead of four. Three of the members are appointed by the Minister of Finance and two are appointed by BNA staff. Moreover the accounts of the Central Bank now have to undergo an external audit by an independent auditing firm working in Angola. These areas and other Central Bank governance issues had been concerns of the IMF, to which we will return to in part III of the report. According to the statutes, a budget for the Central Bank has to be in place on October 10 and this budget has to be reported on by March 31 and submitted to the President of the Republic. The Central Bank is now also subject to inspections or audits performed by the Tribunal of Accounts which has never happened before.

⁴⁶ Isaksen et. al (2007, p. 75). It should be noted here that it was inaccurate when the 2007 report stated that the IGF (then INF) had no auditing manual. This has been in place since February 2006 and has recently been replaced by a new CPLP financial control manual which was presented at a conference in Luanda in November 2010. The extent to which these manuals have been or will be followed in practice is different.

⁴⁷ Isaksen & Rocha, A. (2009, p. 9). The authors refer to Lybek, T. and J. Morris, 2004 on this observation.

⁴⁸ The respondent did not specify what these measures could be but it could be related for example to determine the size of foreign exchange market interventions.

⁴⁹ The position was held by Amadeu Maurício who was replaced by Abraão Pio dos Santos Gourgel. *Novo Jornal* (April 13, 2009): *Mauricio no BFDA Revela Novo Jornal* www.angonoticias.com/full_headlines.php?id=23283

Ministry of Planning

The Ministry of Planning is the veteran of economic policymaking in Angola. As noted earlier, the new Constitution can be interpreted as breaking with the ‘planning mentality’ of economic policymaking because the budget has been made the predominant economic policy instrument. The creation of the Ministry of Economy was widely perceived as being one of the last nails in the coffin of the Ministry of Planning⁵⁰.

As with the discussion of the role of the Central Bank, there is also a lively debate to be had about the role of finance versus planning ministries in a developing country context. The international trend has been towards stronger ministries of finance, in line with the growing imposition of fiscal discipline on many developing countries. This has resulted in a sharp diminution of the development budgets in these countries. As a clear contrast to this trend, the development (or infrastructure) budget for Angola was huge from 2004 onwards.

Discussions about how to strengthen coordination of economic policies has included the question of whether merging finance and planning ministries would provide better results. As noted by Isaksen and Alves de Rocha (2009): “A key weakness is often the disharmony between recurrent and development budgets being drawn up by separate processes”. As we shall see this issue has great relevance in Angola more broadly, and in direct relation to the problems exposed by the economic crisis. As noted by Isaksen and Alves de Rocha, a merger is not necessarily the solution to these problems and it is difficult to draw on international comparisons as these issues tend to be extremely context dependent.

One central change introduced in the new statute of the Ministry of Planning was the creation of a new department called the Office for Development Financing and Accompaniment (*Gabinete de Acompanhamento ao Financiamento ao Desenvolvimento – GAFD*). The new office will operate at the same organizational level as the Ministry’s departments. Its role is to promote a national development finance policy, follow the processes regarding regional economic integration, and define the strategies for external aid for development and manage it. Apart from the creation of this department, no major alterations were made to the Ministry’s statute.

The rise and fall of the Ministry of Economic Coordination

The creation of the Ministry of Economic Coordination headed by a Minister of State in February 2010 was the culmination of a rapid period of changes. The institution evolved from the Ministry of Economy that was created in 2008, having evolved one year earlier from the ‘Secretary of State for the Public Enterprise Sector’. In October 2010 it was suddenly demoted back to plain Ministry of Economy with Nunes Jr removed as Minister and replaced by BNA Governor at the time Abraão Pio dos Santos Gourgel. This up and down trajectory is at the centre of the institutional developments that took place in the period of time under scrutiny in this report and it is therefore necessary to explore in more detail.

Isaksen & Alves de Rocha’s draft paper on Economic Governance predicted a number of “turf battles” resulting from the creation of the Ministry of Economy in 2008. The number of Ministries with joint responsibility for public financial management (PFM) increased from two to three and the paper suggests that it would “...take some time before possible rivalries can be sorted out”⁵¹, and continued: “On the issue of functional coordination within the PFM area there are several reasons for arguing that it will be even more important in the future than it is at the present time”⁵². The paper referred to a

⁵⁰ Various interviews, Luanda, September and November 2010

⁵¹ Isaksen, J. & Rocha, A. (2009), op. cit.

⁵² Ibid

number of other medium-term challenges such as the maintenance of the infrastructure created as a result of the reconstruction process, the expected peak of oil production, the need for diversification of the economy and investments in productive assets as well as problems in the fiduciary aspects of budget management and planning and control of spending by provinces and local government. As we shall see below, the challenges related to fiduciary risks and control in budget execution were increasing by 2009 as the impact of the crisis was mounting⁵³. Isaksen & Rocha's draft paper found that evidence was inconclusive in terms of determining if it would be better to create a 'super-ministry' or keeping smaller institutions to cover different areas of managing the country's economic and fiscal policies.

With the promotion of the Minister of Economy to Minister of State, and the upgrade of the Ministry of Economy to Ministry of Economic Coordination, it came closer to the status of being a 'super-ministry'. The question is whether this made a difference to the effectiveness of public financial management.

A list of the statutes of the Ministry of Economic Coordination which were published in the *Diário da Republica* on May 19, 2010 suggested that the responsibilities did not diverge much from what they were prior to the upgrade⁵⁴. The key departments within the ministry remained the same with only minor changes to their responsibilities. The upgrade therefore seems to merely have formalized an existing situation rather than creating a new one.

In fact, the Ministry had taken on a more and more proactive role on a number of high-level issues already before the formal institutional change. These issues were mainly related to the handling of the economic crisis and the negotiation and implementation of the Stand-by Agreement with the IMF. It also contributed in securing the B+ credit rating Angola received from a number of international credit rating agencies in May 2010⁵⁵. In what could have been a spill-over from the central role the Ministry got on keeping the IMF programme on track, it also appears to have practically taken over important parts of the budget preparation process. This includes the preparation of the background analysis report of the budget (*Relatório de Fundamentação*)⁵⁶. Although the legal framework clearly states that the preparation of this report is no longer the sole responsibility of the Ministry of Finance, it appears that the 'old' ministries of Finance and Planning were pushed aside on such high-level issues⁵⁷. As the IMF programme unfolded, it started having an impact on a wider range of central policy areas. We return to a detailed analysis of the IMF programme in part III but the point here is that the Ministry of Economic Coordination's 'hands on' approach seems to have created a feeling among staff in other ministries that their core competence areas were being invaded⁵⁸.

There are different opinions about what impact the Ministry of Economic Coordination had on the effectiveness of public financial management and on the handling of the economic crisis. It is hard to verify the accuracy of such statements but interviews with two centrally placed respondents suggested that employees at other key institutions engaged in PFM handling had negative attitudes towards the

⁵³ Fiduciary risk has been defined by DFID (in the context of providing budget support) as funds that are not used for the intended purposes, do not achieve value for money and are not properly accounted for.

⁵⁴ This finding is based on a comparison of the assignments (*atribuições*) in article 2 of the ministry's statute and the same article in the previous statute from 2008

⁵⁵ This process was initiated already in 2009 when the then Minister of Economy in an interview with Reuters said that the Government had started working on getting a credit rating. Reuters: *Angola says to seek first credit rating*, November 5, 2009, <http://www.reuters.com/article/idUSL550961520091105?pageNumber=1>

⁵⁶ Interview, Luanda, September 2010

⁵⁷ According to one interviewee the IMF and the World Bank had to and an extra seat at their annual meetings because the two ministers of finance and economic coordination both wanted to go.

⁵⁸ This was confirmed in several interviews, Luanda September and November 2010.

Ministry of Economic Coordination. They argued that staff of the new Ministry were too eager and wanted to do too much but did not have the tools or access to the necessary data. This situation made them feel that there was a huge demand for information and that essentially they (in other ministries) ended up doing the work for the Ministry of Economic Coordination⁵⁹. It is likely that a new ministry without any institutional roots would not have its own databases and would be dependent on access to those of other government institutions.

While it could be argued that a more sustainable path to strengthening the management of public finances would have been to address the weaknesses within the existing government institutions, on the other hand it also is fair to ask, as did a representative of the Ministry of Economic Coordination interviewed, if the same results would have been achieved without the new Ministry as a driver⁶⁰. These results, especially reaching the agreement with the IMF, were widely acknowledged by representatives from other government institutions and representatives of international partners. Government respondents also indicated that the Ministry had contributed positively by harmonizing the economic indicators used by the government. International partners also seemed to have taken a particular liking to the new ministry, and several highlighted the competences of the Minister and his team in our interviews.

Despite these positive views, the tensions between the ministries appeared, as time went on, to increase, especially after the official upgrading of the Ministry in the government reshuffle following the adoption of the new Constitution.

In early September 2010, rumours started circulating that Nunes Jr, Minister of State, would be demoted and returned to his previous post as an economist in the MPLA after just a bit more than six months as Minister of State⁶¹. On October 4, the changes were confirmed. In addition to dismissing Nunes Jr as Minister of State, it was announced that the Ministry of Economic Coordination would return to being simply the Ministry of Economy. In the same government reshuffle the Central Bank Governor Abraão Pio dos Santos Gourgel was named new Minister of Economy. As new Governor of the Central Bank the President brought in José de Lima Massano who came from a position in the private sector as head of Angola's largest private bank BAI (*Banco Africano de Investimento*)⁶².

Institutionally, the changes meant that the responsibility of managing the government's economic team was taken over by the President's Chief of Staff and Minister of State, Carlos Feijó. The relationship with the IMF was also to be handled directly from the Presidency by Feijó, while the responsibility for articulation and harmonization of macroeconomic policies (taxation, income and prices as well as monetary policy), was transferred to the Ministry of Planning⁶³. In short, the Ministry of Planning saw its role re-strengthened and seemed to emerge as 'the winner' of the tug-of-war going on behind the scenes.

Our analysis suggests the hypothesis that Nunes Jr's rise from Minister of Economy to Minister of State was driven by an urgent need for a strong individual and presidential loyalist to step in and manage the impact of economic crisis. The descent was, however, just as abrupt, indicating that he was no longer needed or that he had to be removed from the limelight for some time. The Minister might thus have been the victim of his own success but a political comeback at a later stage is

⁵⁹ Interviews Luanda September 2010

⁶⁰ Interview Luanda September 2010

⁶¹ The weekly *Novo Jornal* was the first to launch the rumours on September 10.

⁶² Abraão Pio dos Santos Gourgel became head of the Central Bank in April 2009.

⁶³ The Secretary of State of Economic Coordination, Job Graça, was transferred to the post as Vice-Minister of Planning for the Macroeconomic area.

certainly a possibility. One centrally-placed observer noted that the course of events reflected that the President “*focuses on individuals, not institutions*”⁶⁴.

What can be objectively concluded from this chain of events is that at least the three core ministries (economy, finance and planning) will again need new statutes (*estatutos orgânicos*) and that the institutional setup of core ministries involved in economic governance continues to be in a constant flux.

3.3 Other key institutions

Two institutions representing the legislative and judicial powers need to be addressed in this part of the analysis because of their central importance to the budget process. As noted above the Constitution states that the state budget is inspected by the National Assembly and the Tribunal of Accounts⁶⁵.

National Assembly

The National Assembly was recomposed after the September 2008 election with MPLA having won 191 of the 220 seats⁶⁶. The largest opposition party, UNITA, holds 16 seats; PRS the second largest party in opposition has eight; followed by FNLA with three seats, and finally the New Democracy party (ND) with two. The election of 2008 provided the National Assembly with a much-needed renewal of its mandate which was an important step towards normalizing the democratic situation after the end of the war in 2002⁶⁷. The MPLA’s massive victory (up from 129 to 191 deputies) provided the ruling party with the vital two-third supermajority that enabled it to fully control the constitution-making process. This dominance was also reflected in the Commission on Economy and Finances which is the National Assembly’s 5th standing commission (and therefore often simply referred to as the ‘5th Commission’). This 30-member commission is responsible for monitoring budget preparation on behalf of the National Assembly.

In relation to normal legislation, the MPLA has total dominance in the National Assembly to an extent that threatens its role as a counterweight to the Executive both in general and in relation to scrutinizing and controlling the budget process. As described in the 2007 CMI report: “...*most legislation is initiated and formulated by the President’s Office only, and is promulgated by Parliament without much discussion.*”⁶⁸ The 2007 report found that the political system in Angola contained potential sources for increased parliamentary independence. One of the aspects referred to was the fact that the National Assembly and the President were elected in separate elections. As we have seen, this potential has been removed by the new Constitution. Another potential raised in the CMI report was that “...*as the Parliament and parliamentarians gain experience there should be a tendency towards more pride, self-esteem and independence among the deputies. It is possible that over time MPs will find their role sufficiently valuable, honourable, and personally beneficial to make it worthwhile to push for more parliamentary authority and autonomy.*”⁶⁹ Finally, the 2007 report found that between 2004 (where a ‘genuine’ budget process started) and 2006 there had been improvements in the National Assembly’s role in the budget process although the learning curve was steep and several

⁶⁴ Interview Luanda September 2010

⁶⁵ República de Angola (2010): op. cit. article 104, 4 op. cit

⁶⁶ 220 seats are divided between 130 deputies elected at national level and 5 elected in each of the country’s 18 provinces.

⁶⁷ The 2007 CMI report, gives a very detailed description of the history and functions of the National Assembly. Isaksen et. Al (2007, p. 9-11)

⁶⁸ Ibid. p. 10

⁶⁹ Ibid. p. 11

obstacles were faced. The fundamental question here is whether these improvements have continued or whether they have been suppressed by the political and economic developments over the past three years.

Evidence is somewhat mixed but generally points in the direction of few improvements but some significant setbacks. On the positive side, the National Assembly has since created an Office for Parliamentary Studies (*Gabinete de Estudos Parlamentares*). This office has nine members of staff (four legal experts, two economists, one sociologist, one international relations officer and one ethnolinguist). It only became operational in 2010 (officially inaugurated on December 23, 2009)⁷⁰. The office is supposed to support the deputies including the 5th Commission on Economy and Finances with analysis of the budget proposal. It did not play a significant role in the 2010 budget revision process and the preparation of the 2011 budget will therefore be the first experience of this kind. Importantly, the office will be working on an analysis of regional asymmetries which has been pushed as an agenda item both by the opposition and civil society – notably in Alves da Rocha’s book on regional inequalities and asymmetries⁷¹. It will be important to follow the evolution of the role of this office as it has the potential to improve the quality of budget discussions in the future. Interviews with deputies indicated that they get additional support from an Office for Technical Assistance (specifically from two economists and one legal expert). According to an MPLA deputy interviewed, the Office for Technical Assistance had ‘scores of staff’. The UNITA deputy felt that the level of technical assistance had been improving, but a representative of the PRS party however felt that the technical assistance that the 5th commission receives was not impartial but instead rather politicized⁷².

In general, opposition deputies felt that the role played by the National Assembly in the budget process had deteriorated after the adoption of the new Constitution. One referred to the right that the political parties had before to call on ministers to appear in the National Assembly to answer questions. Given the centralization of the power in the hands of the President under the new constitution this is no longer possible⁷³. This deputy also said that there was no point in the discussions of the Executive’s budget proposal as it “...leaves as it enters without a single comma having changed”⁷⁴. This statement is in stark contrast to the findings of the 2007 CMI report where deputies took some pride in pushing for more parliamentary authority over the budget process.

Another development indicating that the National Assembly has not increased its independence was the publication of dispatch number 0217/03/GPAN/2010 on August 12, 2010. The official message signed by the President of the National Assembly informed that the institution had temporarily suspended any activity of control and oversight of the executive. The reason given for this drastic and potentially unconstitutional measure was that “...a legal instrument that will establish the normative framework for the National Assembly to carry out effective and efficient control [of the Executive] is

⁷⁰ Interview, Luanda, September 2010

⁷¹ Rocha, A. (2010): *Desigualdades e Assimetrias Regionais em Angola — Os Factores de Competitividade Territorial*. Centro de Estudos e Investigação Científica: Luanda

⁷² As part of the research process three deputies from the 5th commission were interviewed representing the MPLA, UNITA and PRS.

⁷³ It is not clear if the deputy referred to actually losing the right to call on ministers or indicating that it no longer makes sense because the ministers have become disempowered.

⁷⁴ Interview, Luanda, September 2010

*being developed.*⁷⁵ The dispatch left a number of questions unanswered particularly with regards to the duration of the suspension.

Both opposition deputies we interviewed criticized it as being unconstitutional and accused the President of the National Assembly of breaching his mandate. The MPLA deputy we interviewed felt however that it was not a serious issue, arguing that the principal role of the National Assembly was law-making and not overseeing the Executive. He also noted that it was proof of the good working relationship between the National Assembly and the Executive where disagreements are not solved through confrontation but by finding a compromise⁷⁶.

It was not clear from the dispatch if the suspension was related to a proposal for a broader revision of the legal framework (*Lei Orgânica*) of the National Assembly. This was indicated in statements made to the press by the President of the Parliamentary Group of the MPLA, Virgílio de Fontes Pereira, after a party meeting in March 2011 where the control function of the National Assembly was discussed. The new law was expected to be approved by May 2011⁷⁷.

Tribunal of Accounts

The country's supreme audit institution (Tribunal de Contas – TC) was created in 2001 following decades of neglect of public accountability. When created it was given a very strong mandate with both judicial and administrative authority. Its weaknesses seemed to be that it was not constitutionally guaranteed or answerable to the National Assembly – hence it became accountable to the Executive. On a practical level however the institution was troubled by profound capacity problems making it unable to operate fully in line with its mandate. As stated in the 2007 CMI report: *“The auditors of the Angolan Tribunal de Contas are facing political, capacity and follow-up problems similar to many other developing countries. In Angola the court is inadequate in terms of independence. As a norm, the politically high-level and sensitive cases are not handled at all, except for those that serve a political purpose, on demand.”*⁷⁸

The TC has now become constitutionally guaranteed in article 182 of the new Constitution. Here it is also laid down that the President, Vice-president and judges of the Tribunal are appointed by the President of the Republic for one seven-year term without the possibility of renewal. This differs from previous legislation (Law 21/03) where the president and vice-president of the TC were appointed for three-year terms that could be renewed once. This means that the judges can now sit for a year more than before and without having to be reappointed after a three-year term. It is not clear yet what this change will imply, and this is something we will return to in part III. If this is to ensure more accountability it is crucial that this change is followed up with a strong investment in strengthening real and effective independence of the judges. The Constitution establishes that the TC has to submit an annual activity report to the National Assembly and other organs of sovereignty.

The new Constitution was followed up with a new legal framework (law 16/10 of July 9) redefining the role and responsibilities of the TC. A conspicuous amendment under the new charter is that the government is now no longer obliged to submit the general state accounts (Conta Geral do Estado) to the TC for an audit. The executive is supposed to submit this crucial document to the National

⁷⁵ “...está em curso a elaboração de um instrumento legal, que estabelecerá o quadro normativo para o exercício de modo eficaz e eficiente da acção fiscalizadora da Assembleia Nacional” Assembleia Nacional – Gabinete do Presidente (August 9, 2010): *Despacho N° 0217/03/GPAN/2010*, Luanda

⁷⁶ Interviews, Luanda, September 2010

⁷⁷ Angop (March 7, 2011): *Grupo Parlamentar do MPLA quer fiscalização eficaz ao Executivo*. http://www.portalangop.co.ao/motix/pt_pt/noticias/politica/2011/2/10/Grupo-Parlamentar-MPLA-quer-fiscalizacao-eficaz-Executivo.87140a2d-4585-4bd7-884e-495a1f202118.html

⁷⁸ Isaksen J. et. al. (2007): op. cit. p. 15

Assembly which can then determine if it wants to ask for the opinion (*parecer*) of the TC. This appears to be a significant reduction of the TC's mandate and a step in the wrong direction in terms of accountability. A lot will depend on the precedence that will be established by the National Assembly. If it becomes a norm that the National Assembly submits the state accounts to the TC, this should not be a problem (and could indeed strengthen democratic accountability). But, the risk is that if the National Assembly does not make this request and simply 'rubber stamps' the state accounts, it would further undermine the accountability of Angola's public financial management. It is interesting to note that the TC in its annual report for 2010 describes how it has been building up its capacity to carry out its review (*emissão do seu parecer*) of the state accounts because "everything indicated that the first [general state] accounts would be produced this year"⁷⁹. The preparations include the adoption of the SIGTC (*Sistema de Gestão do Tribunal de Contas*) management system for the TC which, when fully operational, will have an interface with the Integrated State Financial Management System (SIGFE)⁸⁰. SIGFE incorporates a state inventory management system (*Sistema de Gestão Patrimonial*).

In line with the overall empowerment of the President of the Republic, the new legislation establishes that he can request a fast-tracking of the preventive control exercised by the TC. Normally, the TC requires 30 days for verifying a contract, but "as leader of the executive" the President of the Republic can ask for a "simplified and urgent review" when the process is related to "national reconstruction and development as well as acquisition of goods"⁸¹. On the one hand, the special conditions given to the President of the Republic can be interpreted as putting the leader of the country above the need for accountability and undermining the checks and balances provided by the supreme audit institution. But on the other hand, it can be seen as at least obliging the President to actually get clearance from the TC for this type of expenditures which has not been the practice in the past.

Another change to the mandate of TC regards the financial value of the contracts that need to be approved by the audit institution. The value will now be determined on an annual basis in the budget law.

Finally, the new legislation clarifies that the TC needs to establish 'regional and provincial' sections with responsibility to audit provincial governments, municipal administrations and local autarchies. It is not clear however if this means establishing representations in each province and what is meant by regional sections. The 2010 annual report notes that the conditions are being put in place to set up these subdivisions⁸².

3.4 Summary of part I

Political events between 2008 and 2010 led to significant changes in institutions and had a major impact on Angola's budget process and its methods of public financial management.

The 2008 election resulted in a newly-formed National Assembly with a renewed mandate. After the elections the Government of National Unity and Reconciliation was replaced with a new MPLA government, who won a landslide victory taking more than two thirds of the vote. Changes to key

⁷⁹ República de Angola – Tribunal de Contas (2010): Relatório Annual de Actividades 2010, Luanda, Dezembro de 2010, http://www.tcontas.ao:7779/portal/page/portal/Tribunal%20de%20Contas%20de%20Angola/Noticias/Detalhamento%20da%20Noticia?PAPP_COD=130. Authors translation, original text: "...como tudo apontava para a elaboração da Primeira Conta até este ano, o Tribunal criou as condições técnicas e humanas necessárias para a emissão do seu parecer."

⁸⁰ The status of the SIGFE system is analysed in box 4

⁸¹ Diário da República, Lei n.º 13/10, de 9 de Julho de 2010, Lei Orgânica e do Processo do Tribunal de Contas, Article 65

⁸² República de Angola – Tribunal de Contas (2010) op. cit.

institutions in the government's economic team included the creation of a Ministry of Economy that assumed responsibility for economic coordination. At the individual level two senior political figures, then deputy Prime Minister Agualdo Jaime and the Minister of Finance at the time, José Pedro de Morais, left government. As outlined above removing senior figures with an in-depth understanding of the internal mechanisms of public finance systems may have made it more difficult for the government to respond effectively to the economic crisis at least in the short-term. On the other hand, the new government might have been better placed to embark on longer-term reforms and getting the support of the IMF in this process given the frosty relations of the past.

The new Constitution introduced a new presidential-parliamentary system and formalized the centralization of the power of the President. It also set in motion an extensive process of changing government legislation and the statutes of all government institutions to bring them in line with the new charter. This process seems to have created further bottlenecks in decision-making that are likely to result in inefficiencies in the governance of the country. The national budget has moved to the centre stage in the new Constitution, which is a positive thing. But, there are still a few unresolved issues which appear to be setbacks in terms of accountability.

The government's restructuring following the adoption of the new Constitution led to a number of far-ranging consequences for members of the government's economic team. Significant changes were made to the role and responsibility of the Ministry of Finance and the Central Bank, but the Ministry of Planning was less affected. The Ministry of Economy was upgraded to Ministry of Economic Coordination, only to be reversed eight months later. The main responsibilities which had been attributed to the Ministry of Economic Coordination were then divided between the Presidency and the Ministry of Planning. By the end of 2010, Angola seems as far as ever from settling on a close-knit governmental structure to design and implement its economic and financial policies.

Changes to the National Assembly and the Tribunal of Accounts were also not promising in terms of fostering greater accountability. The National Assembly has experienced only very gradual increases in its capacity to oversee the budget process and is fully controlled by the MPLA due to their winning of 81% of the vote in 2008. Opposition deputies say that there is no space to change the content of the budget because of the MPLA's majority, holding 191 out of 220 seats. As an institution the National Assembly also temporarily abandoned its responsibility to oversee the Executive in August 2010, it said while new legislation guiding its functions was being prepared.

The Tribunal of Accounts is now written into the Constitution and capacity has been gradually increased, but its new legal framework stipulates that the government is no longer obliged to submit the general state accounts (*Conta Geral do Estado*) to the TC for an audit which will represent a serious setback in terms of accountability unless the National Assembly makes it a standard procedure to pass it on to the TC.

PART II

4. Analysis of the impact of the Economic Crisis

The second part of this report takes a closer look at the economic developments in Angola between 2008 and 2010. It provides an in-depth analysis of the impact of the global financial and economic crisis on Angola's public finances felt mainly through the drop in international oil prices. The intention is to document some of the weaknesses exposed by the crisis and to critically review the government's policy responses.

In the first section we show how the prices of Angolan oil went into a free fall in mid-2008. We then turn to the immediate impact that manifested itself in a massive pressure on Angola's currency, the Kwanza, and how the government responded to this challenge. The central question that we raise, but find difficult to answer definitively, is whether the stabilization policy came at too high a price. The report goes on to analyse the country's fiscal policies and how they were managed and implemented during the crisis.

We have presented a detailed analysis of the 2009 and 2010 budgets, looking at key indicators such as revenue, expenditure and deficit. A central issue for the analysis is the accumulation of arrears in 2009 that continued well into 2010 and has left a cloud of uncertainty over the fiscal position in 2011.

Another key challenge we came across is the apparent inconsistencies in data published by the different government entities. Although access to information has improved since the 2007 CMI report was published, discrepancies between the figures presented lead to a lack of clarity over the actual fiscal position. The presence of a parallel system of quasi-fiscal expenditures, where mainly Sonangol pays a number of expenses in the name of the government, has also added to this problem.

4.1 Collapsing oil prices

In 2008 Angola was enjoying the peak of the oil boom that had begun in 2004, leading to an increase in public spending and revenue collection. During 2007 the average per barrel oil price had increased from US\$ 50 in January, to US\$ 88 by November. This trend continued into the first semester of 2008. Data from the International Energy Agency shows that in early July 2008 the spot prices of the three main Angolan crudes (Cabinda, Nemba and Girassol) peaked at around US\$ 140 and according to official government data in June 2008, the average *monthly* price peaked at US\$ 130 per barrel⁸³. But in July, the price slipped back to US\$ 127 beginning the start of freefall which continued until December 2008 when the per barrel value hit its rock bottom of US\$40, a third of the price it had been just six months earlier⁸⁴.

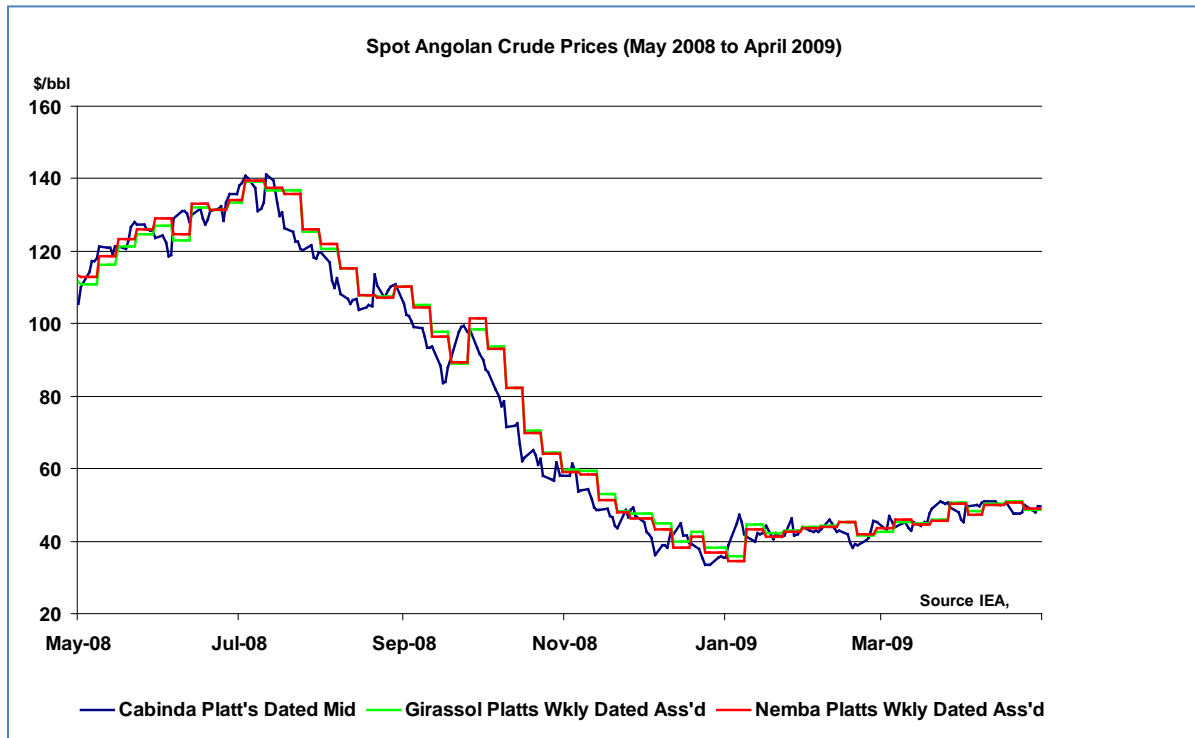
The question is, whether the Angolan government could or should have foreseen this development? Certainly, it is always hard to predict the course of commodity prices, but interestingly the World Bank had already in January 2008 warned about the potential impacts of a recession in the US. It was stated that this could lead to "*stronger reductions in oil price*" and "*exacerbate challenges of*

⁸³ Ministry of Finance: http://www.minfin.gv.ao/fsys/Pagamento_Efectivo_Mensal08_Junho1.pdf. There is an error in the chart which means that the average is not calculated. The calculation of the average used here was done by the authors.

⁸⁴ As pointed out by Hansen-Shino, K. and Soares de Oliveira, R. (2009) op. cit. this price is actually not low from a historic point of view and this emphasizes the vulnerability of the Angolan economy.

coordinating monetary and exchange rate policy in Angola”⁸⁵. At the time however this appeal for caution was hard to believe because oil price had continued rising during that first semester. Moreover, the accepted wisdom was that the international crisis was not going to have a significant impact on Angola because of its lack of global financial integration.

Figure 1: Data from the International Energy Agency’s Oil Market Report



Despite the collapse in oil prices in the second semester of 2008, that year still recorded the highest government revenues in the history of Angola. The tax revenue from oil was Kz 2,855 billion (US\$ 37.1 billion at an exchange rate of 75 Kwanzas per dollar). Total government revenue was Kz 3,217.40 billion (US\$ 42.9 billion)⁸⁶. Government spending also reached a peak of Kz 2,653.8 billion (US\$ 35.4 billion)⁸⁷. Since 2005, government expenditure had more than tripled⁸⁸.

By the end of 2008 however, as the oil price remained low at US\$40, it became clear that 2009 would be a highly challenging year for the Angolan economy. In one of its monthly ‘macro-briefs’ the World Bank noted: “...fiscal and current account savings registered in last years (sic) give the government some maneuvering room”⁸⁹. Indeed, the budget had registered an accumulated surplus of Kz 1,711.5 billion (nominal) between 2005 and 2008 despite the rapid growth in expenditures. In 2008

⁸⁵ Macro-brief: Angola, January 2008. The Macro-briefs are monthly updates on key developments in the Angolan economy. They seem to have been an invention of the country economist but they have contributed enormously to the availability of regularly updated information and analysis of economic developments.

⁸⁶ This figure includes not only revenue from oil production but also non-oil revenues representing roughly 20% of total revenue.

⁸⁷ Ministry of Finance (2010b): *Orçamento Geral do Estado 2010, Relatório de Fundamentação, Evolução recente, situação actual e perspectivas da economia mundial, section 2.4*

⁸⁸ In 2005 the total executed government expenditure was Kz 859.7 billion (Ministry of Finance (2008): *Orçamento Geral do Estado 2010, Relatório de Fundamentação, Evolução recente, situação actual e perspectivas da economia mundial, Quadro 2*

⁸⁹ Macro-brief: Angola, December 2008.

alone the budget surplus was Kz 563.6 billion (US\$ 7.5 billion)⁹⁰. We shall return to this point later and review how this manoeuvring room was used.

The full impact on government revenues of the drastic fall in the oil price only fully materialized in 2009. This reflects the delay in the tax payments related to price developments (tax payments are due one month after crude shipment) and, to a larger extent, the gradual recovery of oil prices in the course of 2009. By the end of 2009 the per barrel price had returned to about US\$ 75, but according to the official background analysis for the 2010 revised budget, 2009 revenues from oil taxes were only Kz 1,164 billion (US\$ 14.6 billion), less than half of revenues in 2008 and two thirds of revenues in 2007⁹¹. Total government revenue was Kz 1,847.9 billion, reflecting a steady growth in non-oil revenue (15%) despite the slowdown in the economy. As we shall see below, these Ministry of Finance figures are contested by other government data that suggest that the situation was even worse. What is clear however is that the shock of the economic crisis challenged Angola's monetary and fiscal policies leading to a difficult situation which was exacerbated by what we will indicate as apparent weaknesses in the system.

4.2 Aggressive monetary policies

The most immediate impact of the crisis following the drop in oil prices was that the Kwanza came under heavy pressure. Prior to 2008 the Central Bank had succeeded in maintaining the Kwanza's stability for a number of years through very active foreign exchange intervention known as the 'hard Kwanza policy'⁹². This stability led to lower inflation, more trust in the Kwanza and an increase in deposits in the currency in 2007 compared to 2006⁹³. During 2008 the Central Bank had allowed the amount of Kwanzas in circulation to almost double⁹⁴. This contributed not only to sustaining inflation at 13.2%, as noted by the World Bank, but also made it harder to respond effectively to the exchange rate crisis because it became harder to absorb liquidity. In December 2008 the Central Bank intervened forcefully selling almost US\$1.9 billion to the private banks in a bid to maintain a stable exchange rate (See figure 2). February 2009 saw another large intervention followed by smaller but yet still substantial interventions in March and April. These interventions resulted in a drop in the international reserves from around US\$ 20 billion in November 2008 to US\$ 12.5 billion in March 2009⁹⁵. In May 2009, the Central Bank adopted more aggressive policies, selling limited amounts of dollars at a fixed rate of 78 Kz/US\$ using a formula to allocate them among commercial banks. In March that year it had also raised reserve requirements for banks from 15% of Bank deposits to 20%, although in May it increased it once more to 30%. According to a representative of the Central Bank this was necessary as the demand by the banks was spinning out of control with requests for US\$ 300-500 million per day as economic agents reacted to the currency crisis opting for a 'safe haven' for their deposits⁹⁶. The end

⁹⁰ This surplus is disaggregated per year as follows (billion Kwanza): 2005: 226.1, 2006: 396.6, 2007: 525.2 and 2008: 563.6. The source of this information is the Ministry of Finance's *Relatorios de Fundamentação* 2007-2010.

⁹¹ In nominal terms which mean it would be even less if adjusted for inflation.

⁹² The term was coined by Gasha and Pastor in a 2004. Gasha and Pastor (2004): *Angola's Fragile Stabilization*", IMF

Working Paper No. 04/83 <http://www.imf.org/external/pubs/ft/wp/2004/wp0483.pdf>

⁹³ Macro-brief: Angola, March 2008.

⁹⁴ "According to preliminary data from the Central Bank (Banco Nacional de Angola), the broader measure M3 grew by close to 68% from the beginning of the year to September 19, 2008, compared to less than 50% for the whole year of 2007" Macro-brief: Angola, September 2008. According to the IMF, the total figure for growth in broad money reached 90% in 2008. IMF 2009, op. cit. p. 3

⁹⁵ Macro-brief: Angola, August 2009

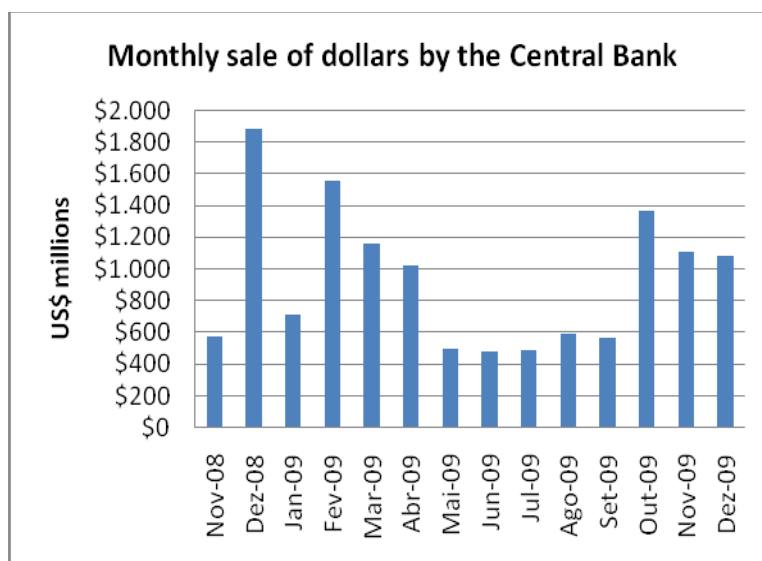
⁹⁶ Interview Luanda, September 2010

result of these adjustments was a rapidly-widening gap between the official and parallel exchange rates, peaking at 22% in August 2009. (The official rate was 78 Kz to US\$ but informal markets were typically selling 95 and some even up to 100)⁹⁷.

In October 2009 the Central Bank resumed the foreign exchange auction mechanism and increased the amounts of dollars sold to the banks (see figure 2). This resulted in a 13% depreciation of the official exchange rate by November 2009, but still left a gap between the official and parallel rates. This gradual stabilization has continued in

2010 with the depreciation of the Kwanza continuing to an average annual official exchange rate of 92 Kwanza per US\$ by September 2010 (18% in comparison with the fixed rate of May-September 2009) and a gap between the official and parallel rate of about 7% (in October the price in the parallel market was 99 Kwanza per US\$)⁹⁸. As of February 2011, there was no data available on the amount of Central Bank sales of dollars for 2010, but according to CEIC's 2010 Angola Economic Report macroeconomic stability was achieved in 2010 thanks to rebounding oil prices. At the end of 2010 the international reserves stood at US\$ 17.7 billion, the exchange rate had stabilized around 92 Kwanza per US\$ and the gap between the official and parallel markets was 9.8%⁹⁹.

Figure 2: Data from the Central Bank of Angola on interventions in the foreign exchange market



4.2.1 Too high a price to pay for stabilization?

The question is whether this relatively soft landing came at too high a price. The main concern of the authorities was the inflationary impact of a devaluation of the Kwanza. As we showed above, the devaluation happened in spite of efforts made to defend it. According to a centrally-placed respondent, the authorities feared that the Kwanza might have collapsed had they let it float and possibly depreciated to an exchange rate of 200 Kwanza per US\$, which would have triggered a significant hike in inflation¹⁰⁰. It is impossible to know what would have happened had the authorities had let the Kwanza float from the onset of the crisis or at least earlier in the process. Fixing the exchange rate however did not present a good solution because as outlined here, it resulted in a big gap between the official and parallel exchange rates.

Interviews showed that there is a clear sense amongst decision-makers in Angola that currency intervention is necessary to keep the Kwanza stable, even if it has a high cost. This is because currency depreciation would make imported goods even more expensive to consumers and industry¹⁰¹.

⁹⁷ Observations in Luanda

⁹⁸ <http://www.bna.ao/artigo.aspx?c=325&a=1085> and <http://www.bna.ao/artigo.aspx?c=336&a=1004> (accessed November 2010)

⁹⁹ Centro de Estudos de Investigação Científica (CEIC) da Universidade Católica de Angola (2010): *Relatório Económico de Angola 2010*, p. 24,25 and 33

¹⁰⁰ Interview Luanda, September 2010

¹⁰¹ Interview Luanda, September 2010

Moreover, the government experienced considerable success in using this approach to reduce inflation which was brought down from 300% in 1999 to 31% in 2004¹⁰². This approach is what is known as the ‘hard Kwanza policy’ that was adopted in 2003. In a 2005 report, the IMF described this policy as having had: “*financial costs incurred as a result of sizeable and expensive foreign exchange intervention*”¹⁰³. In 2006, the World Bank warned that continuing such a policy needed to be “...*weighed against the cost of keeping it unchanged.*”¹⁰⁴

The authorities tried to stick to the ‘hard Kwanza policy’ during the fiscal crisis of 2009 but, despite the closed nature of the Angolan economy (the Kwanza is not traded internationally) and very large international reserves, it was not possible. This underlines the fragility of the ‘hard Kwanza policy’ because when oil prices fell, the market lost confidence in the currency forcing the authorities to intervene more aggressively, a position exacerbated by the government’s own revenues being in free-fall. The authorities however appeared not to be alarmed by the high cost, describing during the negotiations of the Stand-By Arrangement with the IMF in September 2009 the financing needs as “*largely transitory*” given the country’s natural wealth¹⁰⁵.

This study maintains that there is a trade-off related to using resources from non-renewable sources to support the Kwanza. Angola’s vast international reserves were a result of the large windfall from oil revenues and consequent budget surpluses accumulated between 2004 and 2008. Applying these resources to currency intervention meant that they were not available to support other pressing needs. The cost is not felt as heavily when resources are abundant but when the oil prices drop and other needs become pressing, as they did in 2008, the defence of the Kwanza starts to have an impact. In the longer-term, as non-renewable resources are exhausted, this impact will only increase. In early 2009 the Central Bank was probably not in a position to have responded any differently to how it did, but the situation underlines the need to address the underlying causes behind the general tendency of depreciation of the Kwanza. This tendency is interesting in itself. The norm in resource rich countries is that the currency appreciates as a result of the high inflow of foreign currency to the economy. The reason for this paradox is to be found in Angola’s fiscal policies to which we shall now turn.

4.3 Questionable fiscal response and accumulation of arrears

We shall now look at how the government adjusted its fiscal policies to the crisis and the repercussions from that adjustment that are still to be overcome at the time of this report being written. The main source of information for this part of the analysis comes from government budget documents¹⁰⁶. The Angolan fiscal year follows the calendar year and the national budget is usually approved by the National Assembly in mid-December. Although the budget is annual, it is almost

¹⁰² IMF (2005): Angola: Selected Issues and Statistical Appendix, IMF Country Report No. 05/125, April 2005, p. 32

¹⁰³ IMF (2005) op. cit. p. 39

¹⁰⁴ World Bank (2006): Angola Country Economic Memorandum – Oil, Broad-Based Growth and Equity, October 2, 2006 http://siteresources.worldbank.org/SOCIALANALYSIS/1104894-1115795935771/20938706/Angola-Broad-Based_Growth.pdf

¹⁰⁵ IMF 2009, op. cit. 5

¹⁰⁶ The main source used in this section is the budget background report (*relatorio de fundamentação*). This report is developed by the Executive as part of the budget preparation process (both original and revised) and published alongside documents detailing the composition of revenues and expenditures according to different categories (see <http://www.minfin.gv.ao/docs/dspOrcaPass.htm> for a list of budget documents published in recent years). The background report presents an analysis of the economic context, macroeconomic framework and budget figures for previous years (varying between projected, estimated and executed figures) and the government’s programmed budget figures. Recently it has started to include government policies for different sectors.

always revised by mid-year responding to developments in the oil prices. This means that the macroeconomic framework is adjusted with related increases or decreases in revenues and expenditures. These revisions represent an extra source of information that is drawn on in the following analysis where we refer to ‘original’ and ‘revised’ budgets.

4.3.1 The challenges of 2009

As we mentioned above, the government increased budget expenditure dramatically between 2005 and 2008 but still continued, thanks to high oil revenues, to generate increasing budget surpluses. The original budget proposal for 2009 was elaborated before the full scale of the crisis was known. It did note however that the international oil prices could recede as a consequence of the deceleration of growth, particularly in the emerging markets. The budget proposal noted that a reduction in oil prices could have a negative impact on the access to external financing¹⁰⁷. This translated into a conservative projection of oil prices of US\$ 55 per barrel for the 2009 budget. The 2009 budget was submitted to the National Assembly for approval in November 2008 and approved by the end of the year after a prolonged period of falling oil prices. It illustrates the National Assembly’s weak control of the executive’s budget proposal that it approved a budget with an estimated oil price that was 37.5% higher than the current price of US\$ 40 per barrel. If the oil-price adjustment to the budget had been made earlier, the Ministry of Finance would maybe have been able to constrain budget units earlier and this could have helped lessen the impact of the crisis over the year.

In relation to revenues, the start of 2009 saw a more dramatic drop in oil tax levels than had been expected, with January and February corresponding to about *one third* of the levels of the same two months in 2008. This was mainly a result of the reduced price, but according to the World Bank macro-brief the government also cut production by 10%, in response to the reduced OPEC quota and this lowered revenue further¹⁰⁸. This situation served to create an acute liquidity problem and the government began to experience severe difficulties in making payments as there was simply not enough cash flowing in to meet the financing needs. In May, in an attempt to assess the status of the government’s fiscal position the World Bank noted that the deficit would have to be financed by: “...*savings accumulated in the last years, foreign and domestic debt*”¹⁰⁹. An attempt to mobilize funds domestically by selling Treasury Bonds in the second quarter of 2009 failed to attract financing as demand was non-existing. In the same analysis it was observed that there had “...*been many rumors of delaying in payment to suppliers and a freeze in public sector hiring*”¹¹⁰. We shall return to this issue of delayed payments below as it turned out to be more than just a rumour and is central to our analysis of Angola’s fiscal position.

Given the large budget surpluses of previous years, it seemed strange that the government’s fiscal situation had become so constrained in early 2009. Why did the government not rely more on the budget surpluses (in 2008 alone this was 8.8% of GDP), particularly in the early months of the year to alleviate the acute liquidity problems in the Treasury? The answer to this question is that the surplus had been channelled from the *Conta Única do Tesouro* (Single Treasury Account) into the international reserves¹¹¹. As we saw above, the priority of the government in the wake of the crisis was to use the international reserves to defend the Kwanza. The opportunity cost of this action was

¹⁰⁷ Ministerio das Finanças (2009): *Relatorio de fundamentação do Orçamento Geral do Estado 2009*, paragraphs 8-10

¹⁰⁸ OPEC had reduced Angola’s quota with 244 thousand barrels from 1.9 to 1.66 million barrels per day in January 2009. Macro-brief: Angola, February 2009

¹⁰⁹ Macro-brief: Angola, May 2009

¹¹⁰ Ibid.

¹¹¹ It is not technically clear how this is done. The single treasury account is sub-divided into one account for local currency and another for foreign currency and both are located at the Central Bank.

that the Treasury was unable to rely on savings and therefore had to look towards other options to finance the deficit¹¹².

Faced with the deepening impact of the crisis, the government prepared a revised budget in June 2009 which was approved one month later in July. Recognizing that the “...worst fears of a profound economic crisis and recession had come through”, the revised budget adopted a strongly reduced forecast of the oil price of US\$ 37 per barrel (down from US\$ 55 per barrel) reducing projected oil revenues to Kz 1,025.8 billion (39% of revenues in 2008 in nominal terms)¹¹³. The decline in total revenue was less drastic as the government projected fairly high non-oil revenue. Expenditure was cut by 16.6%, mainly by scaling down public investments, but compared to expenditure in 2008, this only represented a reduction of 11.9% in nominal terms. The revision left the budget with a projected deficit of Kz 756.3 billion or a 15.2% of GDP, almost a double the originally-projected deficit¹¹⁴. The increased deficit was to be financed with 67.5% from domestic sources (bonds) and 32.5% from external sources (credit lines). This represented a major shift in the composition of deficit financing from the original budget proposal that had envisaged 27% to be raised domestically and 73% from external sources¹¹⁵.

This change in the composition of deficit financing reflected the fact that it was unrealistic to raise additional funds externally because of the crisis. Unfortunately the unsuccessful attempt to sell treasury bonds in the second quarter showed that it was equally unrealistic to raise funds domestically even if the government had tried to improve the terms.

A World Bank representative argued that the financial situation was so unstable at the time that it would have been impossible for the government to have put together bonds that would have been sufficiently attractive¹¹⁶. The government was hence faced not only with the prospect of a massive fiscal deficit at the end of the year but also an acute liquidity problem that meant it could not pay its bills. We return to an analysis of the consequences of this situation below.

The oil prices had started recovering gradually by the time of the adoption of the 2009 revised budget, so that when looking at the overall macroeconomic indicators the year end result was not as bad as had been feared. However, this picture becomes blurred when looking at more nuanced data that distinguished between declared revenues and taxes paid by the major player in the Angolan economy, Sonangol.

4.3.2 Confusion about the actual year-end result and the deadweight of quasi-fiscal expenditures

From the overall perspective revenue, albeit low compared to previous years (down to 32% of GDP from 50% of GDP in 2008), did better than anticipated in the revised budget and expenditures were kept at the revised levels. This resulted in the overall deficit being only 9.1% of GDP which was much

¹¹² According to World Bank staff the government was also concerned about increasing the amounts of Kwanza in circulation in the economy. As the providers were domestic (in reality the majority of the providers are national branches of Portuguese and Brazilian companies) they would be paid in Kwanza. Given the large amounts owed this would increase the amount of Kwanza in circulation significantly which could escalate the pressure on the national currency further. Interview, Luanda, November 2010.

¹¹³ Ministerio das Finanças (2009a): *Orçamento Geral do Estado, Proposta Orçamental Exercício Económico de 2009*, paragrah 1: “...os piores receios de uma crise profunda e recessão económica confirmaram-se.” Author’s translation.

¹¹⁴ Ibid. paragrah 26

¹¹⁵ Macro-brief: Angola, June 2009

¹¹⁶ Interview Luanda, November 2010

lower than the feared 15.2% in the revised budget for 2009. The average oil price for the year was US\$ 54 per barrel and oil revenues were 13.6% higher than had been projected in the budget revised in June 2009. Total revenues were 14.4% higher, reflecting a higher than expected growth in non-oil revenue. The strong performance of the non-oil sector was surprising, as it was highly dependent upon government expenditure, which was reduced by 12% in 2009 compared to 2008. Adding an annual inflation of 12.5%, this amounts to a substantial real reduction in government expenditure. The positive performance could be explained by the Angolan economy being so overheated in 2008 that a slowdown did not severely affect on-going economic activity. Another important factor was that many companies continued carrying out projects despite the delays they experienced in receiving payments as a result of the difficult financial position of the government. The reaction of the companies probably reflects the fact that Angola is a very lucrative market which is difficult to get access to.

As noted, the fairly positive picture becomes less clear when taking other government sources of information into account. This has a lot to do with the issue of quasi-fiscal expenditures and the relationship between Sonangol and the Ministry of Finance. It is beyond the scope of this report to go deeply into these issues, but in the following section we present a quite different view of the development in revenues. We make use of three alternative sources of information: The first is the budget execution (year-end) report for 2009, published in July 2010; the second is the data on oil production and revenues that the National Tax Department of the Ministry of Finance publishes on its website; and the third source is Sonangol's audited financial statements for 2009¹¹⁷. Table 1 below provides an overview of the revenue figures discussed in the following.

The final figures for 2009 detailed in the budget execution year-end report produced in July 2010 present a dramatically-different picture to those presented in the budget background reports¹¹⁸. Total revenues are stated to have been only two thirds of what is reported in the background analysis document¹¹⁹. Of this just over half (Kz 625.2 billion) came from oil and the other half came from non-oil revenues. This composition was quite different to the government's *projections* of 65% of revenues from oil and 35% from non-oil. Ironically, according to these figures, the crisis (ie fall in oil prices) meant that Angolan fiscal revenues in 2009 were substantially less dominated by oil than in previous years. In previous years as much as 80% of revenues came from the oil sector. Expenditure is also reported to have been somewhat lower than stated in the background report totalling Kz 2,020.4 billion. We have not been able to explain why this figure differs from the Kz 2,363.4 in the alternative documentation. The discrepancies are consistent across the different budget lines (current expenditures are reported at Kz 1,403.7 vs. 1,620.1 billion, capital expenditures are Kz 616.6 vs. 743.3 billion and the differences are consistently spread out at even lower subcategories)¹²⁰. Even with a somewhat lower level of expenditures the end result of 2009 is substantially worse in the year-end report than in the background report. The overall deficit is reported to be Kz 779.4 billion, corresponding to 13.7%

¹¹⁷ All of these sources are fairly newly-available which is positive in terms of the country's fiscal transparency, but also calls for more in-depth analysis of the data.

¹¹⁸ See footnote 102

¹¹⁹ These figures are derived from Ministério das Finanças (2010b): *Orçamento Geral do Estado 2009, Balanço Geral da Execução*, Luanda July 2010. The figures are presented in a somewhat different setup in comparison with the setup in the background analysis budget documents. Revenues are divided into current and capital revenues broadly corresponding to revenue composed of taxes, social contributions and other revenues (possibly excluding donations) in the background analysis budget documents. For the sake of consistency we exclude capital revenues in our analysis here because this is viewed as deficit financing although in theory it could also include revenues from privatizations etc. In any case the figure is quite low.

¹²⁰ A hypothesis is that the more general figures in the background report includes extra-budgetary expenditures which we return to below

of GDP. The discrepancies are puzzling, and it is clear that the main reason is related to oil revenues. We shall look closer at these in the following¹²¹.

Another central source of information on oil revenues is the data on oil production and revenue that the National Tax Department of the Ministry of Finance publishes on its website (usually running around six months behind in terms of data publication)¹²². According to this data, the total value of oil revenues in 2009 was Kz 1,367.9 billion¹²³.

This figure is Kz 203.1 billion (US\$ 2.56 bn) higher than the revenue from the oil sector reported in the background budget report and a staggering Kz 742.7 billion (US\$ 9.37 bn) higher than reported in the budget execution report (see table 1 below). When presenting this discrepancy to representatives of the tax department of the Ministry of Finance, the explanation provided was that their calculations were based on tax payments made from operating oil companies and proceeds from sales of the government's share of oil production (profit-oil) *declared* by the concessionaire (Sonangol) and not the actual taxes transferred from Sonangol to the Treasury¹²⁴. In principle all these revenues should be transferred to the Treasury but because Sonangol pays a number of expenses in the name of the government (so-called "quasi-fiscal activities") this equation is made more complex. Moreover, this still leaves the question of the large difference between the two figures. Could this really explain a difference of US\$ 9.37 billion?

Table 1: 2009 government oil revenues in billions of Kwanzas from different official sources:

	National Tax Department	Background budget report	Budget execution report	Sonangol
Oil revenues	1,367.9	1,164.8	625.2	
Cons. Revenues	836.8	773.6		850.9

A Ministry of Finance memorandum to some extent helps answer this question. In this document it is stated that Sonangol did not submit US\$ 7.90 billion of revenue to the Treasury in 2009¹²⁵. Roughly two thirds of this amount was reported to have been used to cover quasi-fiscal expenditures (i.e. unbudgeted expenditures) including fuel subsidies and other expenses. But according to the memorandum, US\$ 2.61 billion withheld was liquid resources (cash). The amount quoted does not match the US\$ 9.37 billion difference between the Tax Department's figures and the figures from the budget execution report, but the relative size of the amount provides a case for the figure on oil revenues in the latter report being reliable.

¹²¹ It should be noted, however, that in what seems to be an absurd contradiction with the rest of the report section four on the general performance of the finances of the public administrations (p. 30) the report makes reference to the exact same figures as used in the background budget report (total revenue kz 1,847.9 billion and total expenditure kz 2,363.4 billion). The research team for this study did not manage to find a rational explanation for this.

¹²² Available here: <http://www.minfin.gv.ao/docs/dspPetrolDiamond.htm>

¹²³ This figure is calculated using the official exchange rate of 79.29. The calculation is necessary to make as there is an error in the Kwanza column of the tax departments reported oil revenues quoted (as a result of the research presented here the tax department has politely indicated that they will update the spreadsheet but this had not been done by the end of research for this study). For a recent analysis of the poor quality of Angolan data on oil revenues see: <http://www.globalwitness.org/library/gaps-angolas-official-oil-revenue-data-undermine-transparency-new-report-finds>.

¹²⁴ Interview Luanda, November 2010

¹²⁵ República de Angola (2010b): *Memorando. Situação da Regularização dos Atrasados Internos de 2008 e 2009 Respeitantes ao Programa de Investimentos Públicos e seu Impacto Económico*. Luanda, 02 de Julho de 2010

The Ministry of Finance memorandum does not explain why Sonangol withheld liquid resources. A possible explanation to this could be that Sonangol, due to the complicated process of settling their accounts with the Treasury, often delays payments. It was raised as an issue in the March 2010 World Bank macro-brief that Sonangol potentially owed the Treasury around US\$ 2.8 billion¹²⁶. The World Bank figure was based on the rough calculation of total oil revenue on the basis of a 50% effective tax rate. Nevertheless, it corresponded fairly well with the US\$ 2.6 billion figure referred to in the Ministry of Finance memorandum published three months later. This figure also corresponds roughly with the difference in recorded revenue between the Tax Department and the background budget report figure (see table 1).

Our interpretation is that the difference between the *budget execution* report and the *background budget* report is that the latter integrates the official (Ministry of Finance) and parallel (Sonangol) figures to provide a broader picture of the fiscal situation. If correct, this interpretation implies that Sonangol owed the Treasury around US\$ 2.6 billion when the year-end report was published in July 2010.

Sonangol's audited financial statements for 2007, 2008 and 2009 were published in May and December 2010 respectively¹²⁷. In its role as concessionaire Sonangol acts on behalf of the state to award operating rights to oil companies. It receives the government's share of oil production (profit oil) from operating companies which it sells on the international markets. The proceeds from these sales, which are known as 'revenues of the concessionaire' (*receitas da concessionaria*) belong to the state, not to Sonangol. Therefore these revenues should be transferred to the treasury department of the Ministry of Finance. According to the 2009 financial statement, the revenues as concessionaire reached Kz 850.85 billion (US\$ 10.73 bn)¹²⁸. This figure actually corresponds with the subfigure on revenues of the concessionaire in the tax departments consolidated figure for 2009. This adds credibility to the total value of oil revenues in 2009 being around Kz 1,367.9 billion. It does not however resolve the issue of how much Sonangol has paid to the treasury. Unfortunately, the financial statements do not add more clarity to this question. As a matter of fact, the criticisms of the independent auditors report are mainly related to transfers to the treasury which cannot be confirmed¹²⁹. A recent report by UK-based transparency lobby group Global Witness has presented similar findings on the difficulties in achieving clarity around government figures on oil revenues. Their report, produced in conjunction with the Angolan office of OSISA – Open Society Initiative for Southern Africa - makes reference to what seems to be basic errors in data entry¹³⁰.

This situation of revenue and payment discrepancies is likely to have added to the problems of the Ministry of Finance in managing the financial crisis. More detailed analysis of the sources reviewed here is required in order to be able to verify the discrepancies and put them to government for their response. What is clear however is that the government needs to ensure that these different figures are reconciled and future discrepancies are minimized. Help to achieve this could come from Ernst & Young, which is already overseeing a tax reform process and audits Sonangol's accounts, the IMF,

¹²⁶ Macro-brief: Angola, March 2010

¹²⁷ The 2007 and 2008 reports are available on the Ministry of Finance website: <http://www.minfin.gv.ao/docs/dspDemonsonangol.htm> and the 2009 report and the 2009 report and auditors statement can be found at <http://www.sonangol.co.ao/wps/portal/ep> under publications.

¹²⁸ Sonangol EP, Direção das Finanças (2010): Relatório & Contas Ano de 2009 paragraph 25 <http://www.sonangol.co.ao/wps/portal/ep>

¹²⁹ Ibid. paragraph 6.

¹³⁰ This is similar to the errors found through our research which has been reported to the tax department as described in footnote 119

who could add stipulation for more transparency in Angolan fiscal matters, or by signing up to the Extractive Industry Transparency Initiative (EITI)¹³¹.

Table 2: Key budget figures 2008 – 2010 (nominal) adopted from the government budget papers of 2009-2010.

	2008		2009			2010	
	Original	Executed	Original	Revised	Executed**	Original	Revised
Revenue (Kz millions)	1,891.3	3,217.4	2,393.2	1,615.2	1,847.9 (1,241.0)	2,286.5	3,075.2
From oil (Kz millions)*	1,460.7	2,601.9	1,861.2	1,025.8	1,164.8 (625.2)	1,459.6	2,316.9
Expenditure (Kz millions)	2,245.2	2,653.8	2,842.0	2,371.5	2,363.4 (2,020.4)	2,479.6	2,988.7
Balance (Kz millions)	353.9	563.6	- 448.8	- 756.3	- 515.5 (-779.4)	- 193.2	86.5
Oil price (US\$/barrel)	55.00	93.9	55.00	37.00	57.00 (60.9)	58.00	65.32
Oil prod. (bpd)	710.6	693.6	739.7	653.4	644.7 (660.3)	693.5	690.5
Inflation	10%	13.2%	10%	12.5%	14% (14%)	13%	13%

* The oil revenue included in this table is based on oil taxes. On average taxes (from oil and other sectors) constitute more than 95% of revenues.

** Figures in parenthesis are from the 2009 budget execution report (*Balanço Geral da Execução*)

It also appears that the amount of the quasi-fiscal expenditures was greater in 2009 compared to previous years. If this is confirmed, it would indicate that these expenditures are not linked to revenue levels (ie not adjusted downwards in the face of revenue constraints as the official budget) and that Sonangol did not have the ability, capacity or will to reduce spending on behalf of the state.

4.3.3 2010: Light at the end of the tunnel?

The original budget for the financial year 2010 included a nominal expenditure increase compared to the 2009 revised budget. Revenues were projected conservatively but still somewhat higher for 2010 than 2009. This saw the projected budget deficit go down from 9.1% of GDP in 2009 to 2.9% of GDP in 2010¹³².

In July 2010 the government revised the 2010 budget, based on the increasing oil prices. It adjusted the projected price of oil in the budget upwards, from US\$ 58 to US\$ 65.3 per barrel, rising projected revenues by 34.5%. Expenditure was only moderately increased with 20.5% which turned the projected deficit into a small budget surplus of 1.2% of GDP, the first since 2008¹³³. Despite the improved scenario in terms of the general budget surplus however, it is important to note that the non-oil fiscal deficit increased significantly by 8.6 percentage points from 24.5 to 33.1% of GDP.

¹³¹ The IMF could push this as a follow up benchmark to the publication of Sonangol's audited financial statements and budget execution reports. The IMF programme is analysed in part III. One of the EITI criteria is to reconcile differences between payments and revenues which should be "...reconciled by a credible, independent administrator, applying international auditing standards and with publication of the administrator's opinion regarding that reconciliation including discrepancies, should any be identified." <http://eiti.org/eiti/principles>

¹³² For the sake of consistency the 2009 figures used for comparison are from the background budget report.

¹³³ Ministerio das Finanças (2010) *Relatorio de fundamentação do Orçamento Geral do Estado 2010 Revisto*, p. 71 (quadro 10)

The preliminary figures on actual budget execution that are presented in the 2011 budget proposal submitted to the National Assembly in October 2010 suggested that total revenue would be much lower than the figure budgeted only months earlier in the revised budget¹³⁴. The lower projection of revenue is highly confusing as the oil price had been on the rise and was in fact significantly higher than the US\$ 65.3 used in the revised budget. The price of the main Angolan crudes had on average been well above US\$ 75 per barrel between August and November (reaching US\$ 90 per barrel in December)¹³⁵. Annual oil production was furthermore quoted to be 5 million barrels higher than estimated in the revised budget.

These figures should lead to a higher surplus than projected in the revised budget. Instead the deficit is 65% higher than programmed in the original 2010 budget. It is noteworthy that total expenditure was also projected to be significantly lower than budgeted. The composition of the reduced expenditure was interesting because it shows that capital expenditure was higher than expected and the reduction came from much lower current expenditure than programmed. If the numbers prove to be accurate, the 4.8% deficit of GDP represents what might be considered a serious setback in relation to the expected improvement in the overall fiscal position to a surplus of 1.2% of GDP.

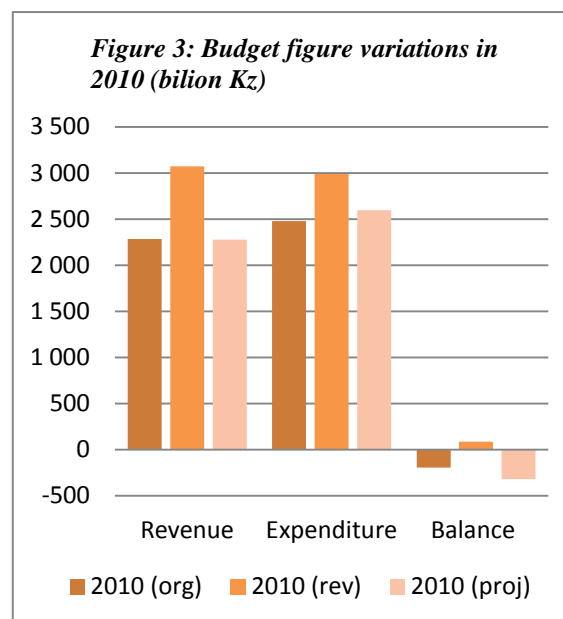
These changes are puzzling because the improved oil prices should have led to an even higher budget surplus. That being said however, it is a positive development that the non-oil fiscal balance has improved by 6.4 percentage points given the higher than projected non-oil revenues and lower expenditure. Nevertheless these projected budget figures raise a number of questions, most notably about why oil revenues were so low again in 2010 and how the government financed the deficit.

A central point from our analysis of the 2010 budget figures is that they were characterized by very large fluctuations. As illustrated in figure 3 the preliminary figures on budget execution were much closer to the original than the

Table 3: key budget figures for 2010 as presented in the background budget report for the 2011 budget proposal

	Original	Revised	Projected
Revenue	2,286.5	3,075.2	2,279.6
<i>From oil</i>	1,459.6	2,316.9	1459.6
<i>Non-oil</i>	711.3	604.3	673.2
Expenditure	2,479.6	2,988.7	2,598.8
<i>Current</i>	1,733.2	2,299.8	1756.9
<i>Capital</i>	746.4	688.9	841.9
Balance	- 193.2	86.5	- 319.2
Percentage GDP	- 2.7%	1.2%	- 4.8%
Non-oil balance	- 1768.3	- 2384.4	- 1925.6
Percentage GDP	- 24.5%	- 33.1%	- 26.7%

The percentage of the non-oil balance to GDP is calculated based on the GDP figure for the revised 2010 budget).



¹³⁴ Ministério das Finanças (2010d): *Orçamento Geral do Estado. Proposta Orçamental Exercício Económico de 2011*, Quadro 9, p. 56 http://www.minfin.gv.ao/fsys/Relat_de_Fundam_do_OGE_11.pdf

¹³⁵ International Energy Agency (2011): *Oil Market Report, Spot Angolan Crude Prices*, 18 January 2011

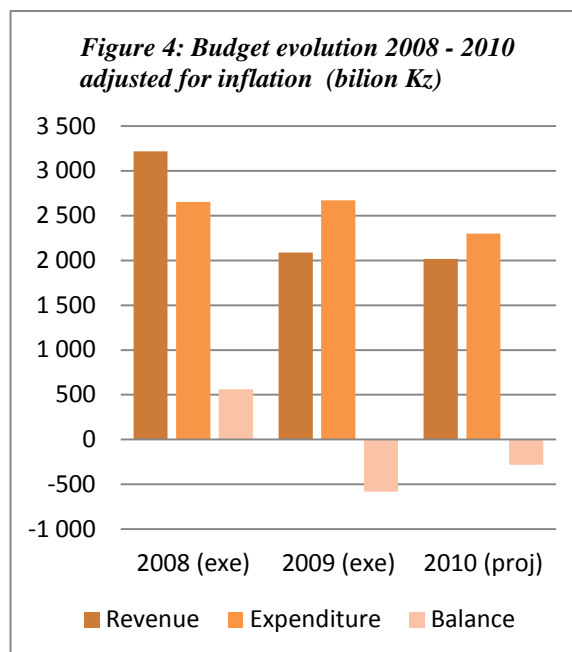
revised budget figures. This is surprising because the revised figures were prepared much later in the year (August, 2010). The frequent use of budget revisions and associated problems is analysed in part III. The observation here is that seemingly the revisions do not lead to more precise projections even if they are carried out much later in the year.

4.4 Adequate fiscal response?

Figure 4 illustrates the evolution in government finances by using the most recent figures on budget execution adjusted for inflation (2008 = base year). This shows that expenditure was practically the same in 2009 as in 2008 although revenue dropped by one third. In 2010 expenditure was slightly reduced, but the anticipated rebound in revenue did not happen, resulting in a much higher deficit than expected.

The question is whether this fiscal response was adequate and if it was not why did the government not do more?

Another central issue is how the government will tackle the increasing pressure for spending in 2011. The pressures were already there in 2010 and they will be even stronger given the constraints on spending in 2009 and 2010, as well as continued needs for investments, especially as the country moves towards its next election in 2012.



4.5 The explosion in domestic arrears

As we noted in the previous section, the Treasury faced an acute liquidity crunch in early 2009. The reduction in revenue strained the government's capacity to honour its financial obligations and according to a memorandum published by the Ministry of Finance in July 2010, the shortfall in revenues was more than US\$ 11 billion, corresponding to a third of budgeted revenues in 2009. This was, the Ministry said, mainly because the national oil concessionaire (Sonangol) had not transferred its revenues to the Treasury¹³⁶. Later that year an attempt to raise funds through issuing bonds also failed as there was no market interest.

The Ministry of Finance therefore tried to reduce spending, especially on the Public Investment Programme (PIP), through its financial programming, which is done on a quarterly basis. According to existing legislation, budget units are not allowed to make payments if they are not included in this quarterly programming. This rule is designed to ensure that expenditures do not exceed the actual collection of revenues. Most budget units did never really follow these rules and in 2009 they continued making commitments without the authorization of the Treasury, executing projects based on the argument that their budgets had entitled them to making expenditures. In addition to not adhering to the financial programming, there were a number of other irregularities such as initiating projects that were not budgeted for, making contracts without the approval of the responsible authorities or the

¹³⁶ República de Angola (2010) op. cit.

Tribunal of Accounts, and making down payments higher than the limit of 15% of the total value of the project¹³⁷. The government memorandum notes:

*“As the BUs do not observe the budget execution rules, they contract debt without budget commitment, and simply submit them to the Ministry of Finance for payment, regardless of the fact that the law establishes that the State should not recognize this debt”*¹³⁸

The problems described in the memorandum are not new and reflect the lack of enforcement of existing rules along with a lack of capacity in the budget units to follow legislation. Our research indicated that tackling these problems has been neglected in the face of the vast reconstruction needs, pressure on the government to deliver a ‘peace dividend’ and the abundance of revenues experienced from 2004 to 2008¹³⁹. The problem only became acute when the revenues collapsed and the Treasury became unable to pay the bills.

As noted, these practices led to a rapid accumulation of arrears in 2009 although the full amount owed only became clear some time later. In August 2009 the World Bank estimated size of the accumulated arrears to be around US\$ 2.5 billion. According to the memorandum from the Ministry of Finance, the arrears accumulated between October 2008 and August 2009 had been reviewed in September 2009 revealing that the amount of arrears had reached US\$ 6.9 billion (based on 1,394 invoices). That review only became known to the public in July 2010 when President Jose Eduardo Dos Santos answered a journalist’s question about Angola’s unpaid bills during the visit of Portuguese President Anibal Cavaco Silva. In its Letter of Intent submitted by the Angolan authorities to the IMF four months earlier in April 2010 (as part of the first review of the Stand-By-Arrangement) the government had said that their arrears were “about \$4½ billion”¹⁴⁰. Using this information in its first review the IMF noted non-observance on the accumulation of the domestic arrears but decided to grant a waiver, basing their decision on the authorities claiming to have strengthened treasury operations to avoid further accumulation of domestic arrears.

The Ministry of Finance had outlined a plan to reduce arrears back in December 2009. The idea was to clear 50% of the arrears by paying off small enterprises in 2009, with the remaining 50% paid in 2010. This plan however did not receive approval from the President and was not put into action.

In March 2010, it was decided instead to clear all arrears with small and medium sized companies, as well as 30% of the value of the outstanding payments to larger companies. At the same time it was decided to centralize the clearing of the arrears to the Ministry of Finance rather than through the budget units. International accounting firm Ernst & Young was contracted to verify that the budget units had followed the procedures¹⁴¹.

As part of this, a new review of the all outstanding arrears was begun, going right up until the end of 2009, not just until August. This revealed a further 1,489 unpaid invoices, taking the total number of unpaid bills to 2,883. The review also revealed that the size of payments in arrears accumulated

¹³⁷ Ibid. paragraph 7.

¹³⁸ Ibid. paragraph 8: Translated from “*Como as UO não observam as regras de execução do OGE, contraem dívidas sem cabimentação orçamental, remetendo-as simplesmente ao Ministério das Finanças para pagamento, não obstante a Lei estabelecer que tais dívidas não devem ser reconhecidas pelo Estado*”.

¹³⁹ Interview Luanda, November 2010

¹⁴⁰ IMF 2010, p. 38. Peculiarly, the IMF in the table outlining the Quantitative Performance Criteria and Indicative Targets on page 41 registers the actual level of domestic arrears at Kz 116 billion which corresponds to only US\$ 1.3 billion (at 88 Kwanzas per US\$). It has not been possible to get an explanation of this inconsistency.

¹⁴¹ The role of Ernst & Young is broader than this and will be discussed in detail in part three.

throughout 2009 was US\$ 9 billion¹⁴². All of this begs the question how the government, in its Letter of Intent submitted to the IMF in April 2010, estimated the arrears to be US\$ 4½ billion, when the real figure was twice that amount. The issue started being discussed in the media in July 2010 where the Ministry of Finance circulated a memo which led to an article in the main national newspaper *Jornal de Angola* citing the Ministry of Finance figure estimating “total debt” at US\$ 9 billion¹⁴³. This came only days after the President had informed journalists reporting on the visit of his Portuguese counterpart Anibal Cavaco Silva, that the figure was US\$ 6.8 billion. This caused some confusion about the real value of the debt¹⁴⁴. It now appears that the President was referring to the amount accumulated up until August 2009, whereas the Ministry of Finance memorandum refers to the figure until the end of December 2009, not as widely reported in the press the ‘confirmed’ vs. the ‘claimed’ amounts. Both figures were in fact accurate but related to different cut-off dates.

4.5.1 The government’s attempts to clear the arrears

After it was decided to centralize the payment of the overdue invoices within the Ministry of Finance, a thorough process of verifying their accuracy was initiated in collaboration with Ernst & Young. Initially this process covered the following aspects:

- Verifying that the Budget Unit had signed a letter with a payment request
- Collecting basic information about invoices and contracts (e.g. dates, providers, values, currency, bank details)
- Verifying that the project invoiced was included in the budgets of 2008 or 2009, approved by the responsible budget unit and the Tribunal of Accounts.
- Documenting partial payments in line with supporting information provided by the budget units
- Verifying that the claimed amount had not already been paid.

The verification process revealed that even the most basic rules had been violated by the budget units. Expenses were made without budget commitments in the financial programming. Most contracts had not been approved by the Tribunal of Accounts or by the responsible budget unit. By June 2010 1,895 of the 2,883 invoices had been reviewed. Of these, only 335 invoices (worth US\$ 1.021 billion) had complete documentation¹⁴⁵. As a result of the poor state of the documentation, the verification process was discontinued on May 24, 2010. Instead the Ministry started simply asking the budget units to confirm that the payments had not already been made¹⁴⁶.

The decision to pay, regardless of the documented gross irregularities, was based on a recognition of the negative impact it would have on the economy and particularly growth and tax revenue from the non-oil sector if the arrears were not cleared quickly¹⁴⁷. This recognition also led to a change of the strategy to clear the arrears with priority now being given to companies with the largest outstanding

¹⁴² República de Angola (2010) *op. cit.* Paragraph 17

¹⁴³ *Jornal de Angola*, July 20, 2010: *Ministério das Finanças esclarece que dívidas estão a ser pagas* http://jornaldeangola.sapo.ao/18/0/ministerio_das_financas_esclarece_que_dividas_estao_a_ser_pagas. When the newspaper talks about “total debt” this should be seen in connection with the topic of the article being the arrears and not the total debt of the country.

¹⁴⁴ Economist Intelligence Unit: Country Report, Angola, August 2010, p. 12

¹⁴⁵ República de Angola (2010): *op. cit.* Paragraph 21.

¹⁴⁶ *Ibid.* paragraph 17.

¹⁴⁷ This argument is presented in the Ministry of Finance memo (*ibid.*, paragraph 22) and had also been made repeatedly and with growing intensity in the World Bank Marco-briefs since September 2009.

payments. The argument was that they played a more vital role for the economy in terms of subcontracting and employment. The new plan was to clear all debts of less than US\$ 30 million, pay US\$ 30 million on all debts of US\$ 30-75 million and 40% of all debt above US\$ 75 million. The last meant for example that if one company had outstanding payments worth US\$ 100 million it would receive a down-payment of US\$ 40 million. This illustrated the priority given to large creditors in the new clearance strategy.

As a consequence the Ministry had to find a way to incorporate unbudgeted expenditures in the budget as well as allocating funds to expenditures that had been made without commitment retroactively. Expenditures without commitment in 2008 and 2009 were classified as 'rests to pay' (*restos a pagar*) and submitted to the *Banco de Credito e Poupança* (BPC, a state owned bank handling Treasury payments). Unbudgeted expenses would be paid by the Central Bank with specific authorization from the Ministry of Finance (it is unclear why these payments have to be made by the Central Bank and not BPC).

The clearing of the arrears furthermore needed to take into consideration the government's financial capacity. In July the resources available to repay the debt was assessed by the Ministry of Finance to be US\$ 3 billion¹⁴⁸. The effect of the payments on the monetary situation was another concern. A projection showed that clearing arrears worth US\$ 3 billion at the same time as spending the funds budgeted for 2010 in a regular manner would inject Kz 52.4 billion into the economy per month¹⁴⁹. The concern was that this would create further pressure on the Kwanza and that the Central Bank would not have the means to control the situation. The government intended to manage the situation by introducing new types of securities (short-term with 28-63 days maturity to be issued by the Central Bank, medium-term treasury bills with maturity from 91 days and bonds with maturity of more than two years to be issued by the Ministry of Finance)¹⁵⁰. If these bills generated market interest, it would help the government absorb liquidity, although of course also generating domestic debt.

Table 4: List of companies receiving payments published by the Ministry of Finance in August 2010

http://www.minfin.gv.ao/press/news_242.htm

Company	Payment (US\$)
1. ODEBRECHT	191,444,249
2. Andrade Guitierrez	60,928,326
3. Conduril- Construtora Duriense, S.A Sucursal	58,597,698
4. M.Couto Alves Vias S.A	55,969,678
5. Somague Angola	54,739,181
6. Mota-Engil	54,372,370
7. ZAGOPE	52,286,747
8. Dar Al Handasah Con.(Shair And Partners)	49,518,186
9. China Jianqsu International Economic - Tec.Co.Co.	48,286,716
10. Camargo Corrêa, Lda	47,753,260
11. Teixeira Duarte, SA	38,036,953
12. Telhabel	34,108,883
13. 13. Minuila-Comercio Geral, Import.E Exort., Lda	31,085,565
Total 'big 13'	777,127,809
Share of all payments	61%

¹⁴⁸ Ibid. Paragraph 25

¹⁴⁹ Interestingly only 35% of the payments are estimated to be domestic payments (*pagamentos internos*). This is curious because the arrears are considered domestic (i.e. owed to companies registered in Angola). Although most of these companies are subsidiaries of foreign companies they would presumably receive all their payments in Kwanza unless they have contracts specifying that part of the payments will be made in US dollars which might be the case.

¹⁵⁰ República de Angola (2010) op. cit. Chapter III.

By late August 2010, the Ministry of Finance had cleared almost US\$ 1.28 billion of the outstanding arrears to 100 companies¹⁵¹. The publication of the amount of arrears cleared was accompanied by a list of the companies receiving payments. The publication of this list was interesting because it opened a usually shut window on which companies had been contracted by the government to carry out public works contracts.

By February 2011 no further official updates had been published on progress with clearing the arrears. Although oil prices had been rising steadily throughout the year, it is not clear how the financial situation has evolved and what space revenue collection has left for clearing the arrears at the same time as avoiding further accumulation.

Our analysis suggests that at the end of 2010, the government would have paid more than a third of the US\$ 9 billion of debt accumulated during 2009. Information from centrally-placed sources suggests that by November 2010 US\$ 2.7 billion had been cleared, which, if accurate, would show that the Ministry of Finance had used all the resources available to repay the debt in 2010 if just another US\$ 300 million was paid before the end of the year¹⁵². The IMF staff report of the fourth review of the SBA reports that arrears worth US\$ 3.6 billion were cleared in 2010 surpassing the target possibly indicating higher oil revenues and a stable monetary situation¹⁵³. This still leaves another US\$ 6 billion of debt from 2009 to be cleared during 2011. It should also be noted that the accumulation of arrears continued well into 2010. According to a Ministry of Finance memorandum, an attempt was made to 'normalize' the budget units' payments in relation to public investments from the beginning of the second quarter of 2010¹⁵⁴. This would indicate that arrears accumulation continued at least during the first quarter of that year. No figures however have yet been made public on the current accumulated total but it is expected that unpaid bills will continue to be a challenge for the government well beyond 2011. Continually-rising oil prices will ease this situation by boosting revenue and helping the Angolan government get back on top of their payments although the impact on the monetary situation needs to be monitored carefully.

The Ministry of Finance should be applauded for publishing the status of payments and listing the recipient companies on its website in August 2010, but this publication needs to be followed up regularly to avoid being a one-off gesture. Failure to continue publishing data on the arrears situation could create suspicion that the situation is once again de-railing and this would undermine market confidence in Angola.

According to a source within the Ministry of Finance, the institution has used this opportunity to check the tax records of companies claiming payments in order to deduct owed taxes from the payments to be effectuated¹⁵⁵. This is a clever move because companies registered in Angola claiming payments will have to declare and pay tax of these revenues, strengthening the fiscal position as well as lowering the injection of Kwanza into the economy (if the tax payments are deducted from the payment upfront).

¹⁵¹ Ministério das Finanças (24.08.2010): *Actualizada a lista consolidada de pagamentos de atrasados 2008/2009 as empresas, August 24, 2010*, http://www.minfin.gv.ao/press/news_242.htm

¹⁵² Interview, Luanda, November 2010.

¹⁵³ IMF (2011): Angola: Fourth Review Under the Stand-By Arrangement, p.4 <http://www.imf.org/external/pubs/cat/longres.aspx?sk=24647.0>

¹⁵⁴ República de Angola (2010) op. cit. Paragraph 26

¹⁵⁵ Interview, Luanda, November 2010

4.6 Summary of part II

The global financial crisis had a serious impact on Angolan public finances due to the collapse in oil prices. While the authorities responded rationally within the means available at the time, the crisis exposed inherent weaknesses within the Angolan economy, and specifically the management of public finances.

Between July and December 2008, the prices of oil fell by more than two thirds sending shockwaves through the economy and putting the Kwanza under significant pressure. The government responded by scaling up its already active monetary policy of market intervention. Capital flight became so extensive however that the Central Bank was unable to satisfy the demand for dollars in the foreign exchange market resulting in a balance of payment crisis. When the international reserves fell to dangerous levels, the authorities fixed the exchange rate at 78 Kz/US\$, leading to a rapidly expanding gap between the official and parallel exchange rates. This exposed the unsustainability of the 'hard-kwanza policy' which is dependent on sustained (high) oil prices. Instead, the government needs to address the issue of the depreciating Kwanza through its fiscal policies.

By 2009 the full impact of the global collapse in commodity prices was being felt through the lack of oil revenues flowing into the Angolan Treasury. This created a liquidity problem which made it difficult for the government to implement the 2009 budget as planned. Attempts to raise funds domestically through issuing Treasury Bonds failed due to low demand and rumours about the government delaying payments to suppliers started circulating. Given the massive budget surplus of the previous years, it seemed strange that the government suddenly had so little manoeuvring room. This was because budget surpluses had been used to build up significant international reserves that were used to defend the Kwanza during the currency crisis.

The revised budget approved in July 2009 adopted a significantly-reduced forecast of the oil price, projecting US\$37 per barrel instead of the original US\$ 55 per barrel. Discrepancies between different government sources of information mean it is hard to get an accurate year-end result, but the figures available indicate a budget deficit between 9.1% and 13.7% of GDP. Discrepancies are related mainly to the quasi-fiscal activities of Sonangol which indicates that there is a large difference between the revenues declared by the Concessionaire and the revenues actually transferred to the Treasury. In addition to the quasi-fiscal activities that do not seem to have been reduced in response to the crisis, there are also uncertainties associated to US\$ 2.6 billion that Sonangol apparently withheld in liquid resources. This situation is clearly unsustainable and exposes one of the most profound problems of the Angolan public financial management system.

In 2010 the fiscal position was expected to improve substantially but again discrepancies in government data makes it hard to reach a firm conclusion. Preliminary figures on budget execution indicate a budget deficit of 4.8% of GDP despite significant improvements in oil prices. This is a significant reduction in relation to the programmed surplus of 1.2% of GDP in the revised budget that was approved in August 2010. The difference between these figures is mainly related to much lower oil revenue which is hard to understand given the improved external environment. If these figures are confirmed they suggest a significant setback in the expected recovery of the fiscal position.

The extent of the government's liquidity problems became apparent in mid-2010 when it emerged that during 2009 it had accumulated up to US\$ 9 billion in arrears mostly to construction companies. The Ministry of Finance's failure to make the budget units control spending sufficiently using the quarterly financial programming as the main tool played a large role in the accumulation of this debt. By late 2010 the government's strategy to clear the arrears had finally gained momentum with the settling of US\$ 3.6 billion of the US\$ 9 billion outstanding by the end of 2009. However, the repercussions of the arrears crisis were expected to last well into 2011 and possibly beyond.

Finally, it should be noted that access to information in Angola has improved significantly in the past two years. We are now, for example, able to access Sonangol's audited statements from their website, and the Ministry of Finance published several candid reports on the arrears situation and its approach to address the problem. But large discrepancies between the different government sources create in some instances more confusion than clarity and somewhat undermine the transparency efforts.

Our findings would suggest that Angola's handling of the financial crisis was hampered by a costly monetary policy, unaccountable and non-transparent management of revenues and too modest a reduction in expenditures due to the inability of the central government to control budget units.

PART III

5. Reforms to the budget process and public financial management

The previous chapters show that the period between 2008 and 2010 was very eventful for Angola in terms of political, institutional and economic changes. On the political and institutional front there were the legislative elections in 2008, the preparation and adoption of the new constitution and a number of government reshuffles. On the economic front the impacts of the global crisis starting in 2008 exposed inherent weaknesses in the country's public financial management system including poor revenue management and weak control over budget expenditures.

Part III of our report looks at some of the reforms that have been put in place, in order to be able to discuss their depth and sustainability in the conclusion. By depth we mean to discuss whether they will manage to improve the core issues of transparency, accountability and efficiency, and by sustainability, we try to assess their long-term chances of success within the Angolan context. The latter is closely associated with the strength of the institutions in place.

The first issue we analyse is the Stand-By-Arrangement (SBA) negotiated between the government and the International Monetary Fund (IMF) approved in November 2009 (in the report also referred to as the IMF programme). From the outset the SBA presented an ambitious reform agenda and its content and composition makes it a good benchmark against which to assess progress within key areas. In the first section we look at its structure and content.

In the second section we look at the government's attempt to address public financial management issues and budget execution (which we saw in part II has been one of the most significant weaknesses of the PFM system during the crisis). The response consisted of concrete actions taken by the government - mostly in association with international accounting firm Ernst & Young - as well as a package of legislation which includes decrees on budget execution and public investment and laws on procurement and the general framework of the budget process.

In the third section we look at reforms that have been initiated in relation to revenue, expenditure and debt management. Revenue policies have been subject to significant reform efforts both in terms of a broad tax reform and discussions about the creation of a Sovereign Wealth Fund. The analysis of expenditure policies looks at efforts to reduce fuel subsidies and outlines some of the flaws in the spending structures particularly regarding social sectors. Finally improved debt management is central to PFM and has been subject to a lot of attention especially from the IMF.

Central Bank governance and monetary policies is subject to a brief analysis in the fourth section, looking at changes to the 'hard Kwanza policy'. In the penultimate section we analyse specific issues regarding transparency and access to information in relation to Angola's extractive industries and the budget process. In this section we also address the issue of budget revisions. Finally, we look at the role of civil society and its potential for holding the government to account over the budget process.

5.1 The IMF programme

An important development to take into account in this analysis is the negotiation of a Stand-By - Arrangement (SBA) with the IMF. Angola's relationship with the IMF has historically been tense in part because of the IMF's previous highlighting of the lack of transparency and 'missing millions' from government accounts. The IMF was the main gatekeeper of western donor support to rebuild Angola after the end of its war in 2002, with many 'western' countries wanting an IMF programme in

place before they would back a donor conference to foot the cost of reconstruction. But as oil prices (and therefore Angola's revenues) rocketed and when in 2004 the government secured its first US\$2 billion credit line from China, the need for the traditional donor community with IMF approval subsided.

The economic crisis created a new scenario however with the government needing assistance to address balance of payment crisis emerging as a result of the defence of the Kwanza (see part II) and so it turned back to the IMF for assistance¹⁵⁶.

Negotiations with the Angolan authorities started in July 2009 and the programme was officially approved by the Board of the IMF on November 23, 2009¹⁵⁷. The SBA is worth about US\$ 1.4 billion (858.9 million SDRs), which is one of the largest loans the IMF has given to an African country. It runs over 27 months with tranches of the loan being disbursed upon approval of six scheduled reviews. The final review is programmed for December 15, 2011.

5.1.1 Composition of the IMF programme

A fundamental aspect of IMF packages like this SBA is the link between targets, policy commitments, reviews and disbursements. The targets and policy commitments are negotiated between the IMF and the government and formulated by IMF staff as a set of performance criteria, indicative targets and structural measures that are listed in the staff reports¹⁵⁸. Included in these reports are the government's 'Letters of Intent' in which it outlines its planned actions in line with the result of the negotiation with the IMF.

If a government fails to meet the agreed indicators it constitutes grounds for the IMF to interrupt the arrangement. This is commonly referred to as a programme going 'off-track' which means that no further disbursements are made and further reviews are being put on hold. This situation sends a signal to other actors who see the successful fulfilment of IMF criteria as important for the economy. These actors can for example be other donors, investors or credit agencies and they will usually see going 'off-track' as a negative signal. Sometimes a programme can get back on-track and implementation is continued with some delay. In other cases, a programme will be considered terminated and the government has to repay the part of the loan already disbursed. The third option is that the IMF can decide to 'waive' non-observance of indicators if it is of minor or temporary nature or if corrective measures are being taken by the authorities.

The most critical indicators for programme reviews are the quantitative performance criteria. Indicative targets are also quantitative indicators to assess progress in meeting programme objectives. They bear less weight than performance criteria either because they are not considered as critical or because there is too much uncertainty about economic trends outside the government's control. Structural benchmarks are softer 'qualitative' measures that are more difficult to measure but "...intended to serve as clear markers in the assessment of progress in the implementation of critical structural reforms in the context of a program review"¹⁵⁹. Non-observance of a structural benchmark

¹⁵⁶ The result has also been attributed the positive working relationship between then IMF Mission Chief Lamin Leigh and Minister of Economy Manuel Nunes Jr. (both were later replaced).

¹⁵⁷ IMF (2009b): *Transcript of a Conference Call on Angola with Sean Nolan, Senior Advisor in the African Department, and Lamin Leigh, Angola Mission Chief*, Washington, D.C. Wednesday, November 25, 2009, <http://www.imf.org/external/np/tr/2009/tr112509.htm>

¹⁵⁸ Staff reports are published on the IMF website when a programme has been negotiated and approved by the IMF board and the authorities of the country in question as well as after each completed review. Unfortunately reports are not published in Portuguese which in the Angolan context substantially lowers the level of participation in the discussions and hence ownership of the reforms being promoted.

¹⁵⁹ For a very concise overview of IMF Conditionality see IMF (2002): *Guidelines on Conditionality*, <http://www.imf.org/external/np/pdr/cond/2002/eng/guid/092302.pdf>

is not in itself enough to make a programme go ‘off- track’. That being said, this category of conditionality can include ‘prior actions’, which are actions that the IMF requires implemented before the approval of a programme or reviews because they are considered of critical importance to “...*underpin the upfront implementation of important measures*”¹⁶⁰.

Finally, no measures are written in stone. This means that they are subject to negotiation and will ‘unfold’ as the programme is implemented. This is a process that depends on economic trends, clarification and negotiation during the implementation of the programme. The IMF’s reports for the first, second and third reviews, for example, list both adjusted and actual information on targets for performance criteria and indicative targets.

In the box below we summarize and briefly describe the most relevant performance criteria, indicative targets and structural benchmarks attached to Angola’s SBA at the outset of the programme. In appendix II, there is a table outlining the detailed evolution of the structural benchmarks for the first four reviews.

5.1.2 The content of the programme

The three key pillars of the SBA programme are: fiscal policies, monetary policies and the financial sector. Given the scope of this study, we focus mostly on the first pillar, less on the second and very little on the third. Fiscal policies are viewed by the IMF as playing the lead role in the policy package¹⁶¹. This implies emphasis on “...*strengthening public financial management and enhancing fiscal transparency, especially in the oil sector*”¹⁶². The focus of the monetary element of the IMF programme is on “...*an orderly exchange rate adjustment backed by tight monetary policy to normalize conditions in the foreign exchange market*”¹⁶³. These formulations make the IMF programme of crucial importance to this study. We have already analysed the way these policies were affected by the crisis and the question is whether the IMF programme has made any contributions to securing sustainable reforms to address the Angola’s weaknesses in this area.

The funds disbursed through the SBA were heavily frontloaded. The first disbursement made immediately after the review and was worth included more than 25% of the total value of the loan. 80% of the loan was scheduled to be paid by December 2010 (within the first 15 of the 27 months of the programme)¹⁶⁴.

What first comes to attention when looking at the measures outlined in box 3, is the importance the IMF had attached to the arrears issue from the outset of the programme. The **performance criteria** were that the government was not allowed to accumulate any arrears (0). However, the IMF waived the non-completion of this indicator in its first review. The IMF argues that the arrears had accumulated because of its liquidity crunch and general weakness in public expenditure management and that it was something that the government was now committed to addressing. The contracting of Ernst & Young to support this process was perceived as important (more below)¹⁶⁵.

¹⁶⁰ Ibid.

¹⁶¹ IMF (2009a): *Angola: Request for Stand-By-Arrangement*, p. 1 <http://www.imf.org/external/pubs/cat/longres.cfm?sk=23431.0>

¹⁶² Ibid.

¹⁶³ Ibid.

¹⁶⁴ Ibid. p. 32

¹⁶⁵ Phone interview, September 2009

Box 3: Most relevant performance criteria, indicative targets and structural benchmarks as defined at the outset of the Stand-By-Arrangement for Angola

The SBA for Angola included **performance criteria** with quarterly targets on the following issues:

1. International reserves: targets to gradually build up the 'usable' international reserves held by the Central Bank from roughly US\$ 9 billion in December 2009 to US\$ 11 billion by December 2010
2. Net domestic credit of the BNA: from Kz 311 billion in December 2009 to Kz 296 billion by December 2010
3. Arrears: non-accumulation of domestic and external arrears: the government was not supposed to accumulate any arrears (target = zero) during the implementation of the programme.
4. Non-concessional borrowing: a ceiling on the amount of money Angola can borrow on non-concessional terms: The initial target for this was US\$ 2 billion but this target was adjusted upwards at the time of the first review to US\$ 6 billion.

Indicative targets included:

1. A floor on social spending: From Kz 786 billion in 2009 to Kz 821 billion in 2010 (roughly US\$ 8.9 and US\$ 9.3 billion respectively at 88 Kwanza per US\$). Although not a performance criterion, this target indicated that the IMF and the Angolan authorities were serious about leaving space within the policy measures for adequate resources for social spending as formulated in the objectives of the programme.
2. Non-oil fiscal deficit: Kz 1,800 billion in 2009 and Kz 1,934 billion in 2010. This target emphasizes the need to reduce Angola's dependence on oil. The reason for why this was not a performance criterion is probably that it was too dependent on external factors beyond the government's control.

The **prior action** for the Angolan SBA was cabinet approval of the 2010 budget. Other prior actions were included prior to each review (see table in appendix II)

Structural benchmarks are divided into objectives, actions and timing. The objectives of the Angolan SBA were initially to: limit fiscal risks, improve public financial management, strengthen fiscal transparency and reduce financial sector vulnerability but more were added at the time of the first, second, third and fourth reviews (see appendix II).

Key **structural benchmarks** included:

1. Publication of quarterly budget execution reports and reporting by major State-owned enterprises (SOEs) on their quasi-fiscal operations and investment activities and publishing the reports
2. Audits of Sonangol's accounts, including its quasi-fiscal operations, by an audit firm of international reputation.
3. Submission to the cabinet of the approval documents of the Angola Sovereign Wealth Fund
4. Establish a project appraisal framework to guide public investments
5. Tax reform
6. Development of a sound medium term debt strategy based on IMF recommendation

Secondly, the **prior action** of cabinet approval of the 2010 budget was very lenient. Getting the cabinet's approval of the budget has never been an issue in Angola and is therefore to be seen more as a formality than a sign of commitment to reform. Choosing this as a prior action would suggest that the IMF was keen on getting this programme going quickly. As noted by the EIU, during the global financial and economic crisis the IMF appeared more willing to lend money with looser conditions in order to alleviate balance-of-payments problems across the world¹⁶⁶. It could be argued that the IMF could have identified a prior action that would have provided more justification for entering a very large programme commitment. At the same time agreeing to an IMF programme was a big concession for the Angolan government and the Minister of Economy was quick to announce that there were: "*no strings attached*".¹⁶⁷ This was an important statement for him to make as he was seen as one of the driving forces behind the government's change of heart¹⁶⁸.

Despite Angola's SBA being one of the biggest loans ever given by the IMF to an African country, most people interviewed for this study from within government indicated that the programme actually contributed little funding¹⁶⁹. For many the most important aspect of the agreement was that it provided credibility to the economic policies of the government and helped Angola finally secure a credit rating paving the way for eventually issuing Eurobonds on the international financial markets. This process was initiated in 2009 and was concluded in May 2010 when Angola, despite still suffering from the impact of the crisis, was awarded a B+ rating by a number of international credit rating agencies. This rating was given with stable and positive outlooks by some of the rating agencies meaning that the rating could improve over time¹⁷⁰.

However, although some may have seen the loan value as small in comparison to Angola's past oil revenues and credit lines, crucially, this money came in liquid form. The various credit lines (from China, Brazil etc.), although paying for much-needed post-war reconstruction, were tied up exclusively in those projects, whereas the money from the IMF went straight to the government in the form of hard cash. A last aspect worth taking into account is the above-mentioned frontloading of the loan which meant that US\$ 1.12 billion (80% of the loan) was scheduled to be disbursed before the end of 2010 (leaving only 20% to be disbursed during the last 12 months of the programme).

At the end of the research period out for this study (February 2011) the fourth review had just been approved with a two-month delay. This ended concerns that the programme had gone 'off-track' as a result of the October 2010 government reshuffle¹⁷¹. If the SBA stays on course until its completion at the end of 2011 it will be a significant boost to Angola's financial and economic credibility among foreign investors.

5.2 Reforms addressing public financial management

Our analysis in part II suggested that the need for reforms addressing budget execution and public expenditure management was acute. Within public financial management, budget execution and

¹⁶⁶ Economist Intelligence Unit, Country Report, Angola, October 2009, p. 11

¹⁶⁷ See for example: <http://www.emergingmarkets.org/Article/2579165/ANGOLA-After-the-storm.html>

¹⁶⁸ Interview, Luanda, September 2010

¹⁶⁹ Various interviews, Luanda, September 2010. One interviewee described the amounts in the SBA as 'peanuts'.

¹⁷⁰ Economist Intelligence Unit, Country Report, Angola, June 2010, p. 13. The EIU reports that Angola had been seeking a rating since the beginning of 2009 and in an interview with Reuters in November 2009 the then Minister of Economy confirmed that the country was working on getting a rating. Reuters: *Angola says to seek first credit rating*, November 5, 2009, <http://www.reuters.com/article/idUSL550961520091105?pageNumber=1>

¹⁷¹ Discussed in interviews with centrally placed observers in November 2010.

especially the government's public investment programme (PIP) raised the most concern. This is closely related to the non-observation of basic budget execution rules as well as procurement legislation that had not been followed or enforced in the past. Problems that had been previously identified in relation to budget execution had not been addressed by the time of the onset of the crisis¹⁷². The years 2007 and 2008 were characterized by massive in-flows of oil revenue and the acceleration of the reconstruction process. This revenue excess combined with increasing pressure to deliver visible reconstruction results ahead of the September 2008 election meant, as one official described it, that the government had been "paying with its eyes closed"¹⁷³. The crisis exposed these weaknesses and perhaps to a certain extent served as a stern wake-up call for the government. The fundamental question is whether the government made good use of the crisis to address its longstanding problems.

5.2.1 Summarized overview of budget execution and related challenges

The conventional Public Financial Management (PFM) system in Angola is managed by the Ministry of Finance. Before the change of the Ministry's old statute (*Estatuto Orgânico*) the Treasury Directorate (*Direcção Nacional do Tesouro*) was the department within the Ministry at the centre of budget execution with responsibility for controlling the finances of the central government. The institutional changes brought about by the new constitution (see part I) only took effect by mid-2010.

In the Angolan PFM system budget spending is decentralized to budget units (*unidades orçamentais*) that receive monthly tranches (*quota financeira*) based on projections of their financial needs (*Necessidades de Recursos Financeiros*) which they must submit to the Ministry of Finance on a quarterly basis. The requests need to be within the budget ceilings for the current year for the budget unit in question¹⁷⁴. On the basis of this (and the cash availability of the central government) the Treasury prepares a monthly cash plan (*plano de caixa*) which is supposed to balance the needs of the budget units (how much they can commit) with the amount of money coming into the Treasury. All government revenue is supposed to enter the single treasury account (*Conta Unica do Tesouro*) which is located in the Central Bank and has two sub-accounts, one in the local currency and one in foreign currency.

The legal framework for budget execution includes three standard steps for making a purchase with public funds. These are: commitment (*cabimentação*) – verification (*liquidação*) – payment (*pagamento*). In the first step it is certified that a sufficient budget allocation is available to place contracts and orders (a budget unit can for example already have used up funds available under a particular budget line which needs to be confirmed by the treasury department before the payment can be authorized). When this step is completed a commitment note (*Nota de Cabimentação*) is issued, which (in principle) can be used by budget units to require providers to deliver the goods or services purchased. The second step involves the confirmation that the creditor is entitled to receive payment for goods and services delivered. This is supposed to be confirmed by the issuing of a verification note (*nota de liquidação*). This leads to the third step where the actual payment is made through the issuing

¹⁷² For example in the World Bank's Public Expenditure Management and Financial Accountability Review (PEMFAR) from 2005, the World Bank's Public Expenditure Review (PER) and CMI's report on the budget process both from 2007. The PEMFAR gives an excellent overview of the Angolan Public Financial Management System, budget process and the challenges faced by the authorities in this regard. It is available in both English and Portuguese on http://web.worldbank.org/external/default/main?pagePK=51187349&piPK=51189435&theSitePK=322490&menuPK=64187510&searchMenuPK=322519&theSitePK=322490&entityID=00090341_20050310101310&searchMenuPK=322519&theSitePK=322490. If not otherwise mentioned the PEMFAR is the source of the information in the following section.

¹⁷³ Interview, Luanda, September 2007

¹⁷⁴ Budget units can be ministries, institutes, provincial governments etc.

of a payment order (*Ordem de Saque*) which is received and processed by the government's fiscal agent, the state-owned Savings and Credit Bank (*Banco de Poupança e Crédito*).

Historically, there have been several problems with pretty much all aspects of this system. There has been a lack of confidence in the commitment system because of the regular unavailability of funds to pay for confirmed commitments. This situation has been offset by budget units through a reversal of the process where payment orders are issued before delivery of the purchased goods and services. Moreover, the second step of physical verification and certification that goods have actually been delivered has been ignored. This alternative procedure means that there has been no control with what the government has actually received for its payments. The weaknesses of the system have made it hard for budget units to become efficient providers of goods and services. Although budget units are asked for inputs at the budget preparation stage their contributions are rarely reflected in the final budget. The monthly tranches that they receive have generally been based on a formula that withholds 20% of the budgeted amount and then divides the remaining 80% of the allocation with 12, which is the amount transferred. In a situation, as in early 2009, where there is a shortage of cash in the Treasury, these amounts can be adjusted further downwards. This has resulted in budget units overstating their actual needs in the budget formulation process.

This operating environment, analysed in earlier reports, has made it difficult for budget units to efficiently plan and carry out delivery of public goods and services. The nature of this problem seems to have changed however with the revenues of the boom years of 2007 and 2008. According to the research for this report, the problem in 2009 seem to have been more related to budget units *over* committing because they had become used to bills being paid regardless of whether the budget execution rules had been followed or not, especially in relation to public investments. While this situation may have emerged as a consequence of the need to speed up the reconstruction process, it appears that the system had been completely inadequate both before and after the crisis leaving ample space for mismanagement and fraud.

Figure 5: overview of different types of budget units (BU) in

BU Type	Compliant	Non-compliant	
Reason		Lacking capacity	Abusers
Outcomes	Penalized for following the rules	Adding to the problems of the system	
Actions	Reward	Invest massively in capacity building	Penalize rigorously

Budget units and their staff can probably be divided into those who comply with the rules and are penalized by not being able to plan ahead of time, and those who are not compliant, either because of a total lack of capacity to understand and observe legislation or because they are taking advantage of the poor systems and control (see figure 5 for a graphic illustration). The latter are the ones that this report believes most undermine the system.

In addition to the weakness of the official PFM system the challenges are aggravated by the existence of a parallel system, as outlined in part II. This unconventional system is centred on the national oil company Sonangol and has been described in detail in the World Bank's PEMFAR. Briefly, it implies that a significant share of government expenditure, mainly related to the servicing of oil-backed debts, fuel subsidies, delivery of fuel products and other quasi-fiscal expenditures, is not included in the formal budgetary system. Sonangol recovers the payments made on behalf of the government through reduced tax payments known as offsets. It is our view that these complex compensation mechanisms reduce transparency and the Ministry of Finance's ability to improve the official system. A view also put forward by the World Bank: "*The co-existing spending mechanisms weaken the budgetary process*

*and create uncertainty as regards the actual fiscal stance of the Government.”*¹⁷⁵ The parallel PFM system also restricts Angola from adopting a medium-term expenditure framework (MTEF). According to the World Bank, some of the advantages of MTEFs are that they can “*help improve the link between policies and budget transparency*” as well as “*...increase efficiency and effectiveness in public spending*”¹⁷⁶.

The unsuccessful attempt to consolidate the different financial figures relating to government oil revenues in 2009 documented in part II of the report shows that the lack of transparency continues. The figures indicate that significant amounts of revenue did not reach the treasury aggravating the impact of the crisis. Likewise, our analysis of the arrears situation confirms that the problems identified in the official PFM system by the PEMFAR in 2005 and again in the Public Expenditure Review (PER) in 2007 have not been addressed. The decision to settle the arrears regardless of budget units having grossly violated the rules also confirms that nothing has changed in relation to holding public officials to account for their use of public funds. It might be said that resolving these issues is one of the most vital challenges facing the Angolan government and this section will look into what the government’s response has been and what remains to be done.

The response can be divided into two categories. The first category is practical and involves engagement with the international accounting firm Ernst & Young who have been contracted to help take stock and resolve the problems within the Ministry of Finance. The second category is legislative and we look at two decrees and two new laws aimed at strengthening the budget process and budget execution.

5.3 Ernst & Young and the need for stronger control systems

The first and most direct response was initiated by contracting the international accounting firm Ernst & Young. Unfortunately, little is known publicly about the role of Ernst & Young who are operating in Angola under strict confidentiality terms¹⁷⁷. For instance, it is not clear when the formal consultancy, expected to last two years, actually began, but it is suspected to have been shortly after the enactment of the new Constitution in February 2010. The collaboration is referred to in March 2010 by the Economist Intelligence Unit as an “*...ongoing audit of public accounts...*”¹⁷⁸ It was referred to in more detail in a press conference held by senior members of the Executive at the end of April 2010, 100 days after the introduction of the new Constitution¹⁷⁹. The role of Ernst & Young was described during the April press conference as helping “*...in various ways, on both the expenditure and the revenue side, to improve the levels of efforts and transparency in relation to the management of the public finances.*”¹⁸⁰ In this presentation Minister of State Carlos Feijó said that opening the government accounts to an international firm illustrated the government’s commitment to transparency and good governance. However, no details on the terms of reference of the consultancy have been revealed.

¹⁷⁵ World Bank PEMFAR (op. cit.) p. 19

¹⁷⁶ An introduction to MTEF that seems almost too relevant for the Angolan authorities is available to the World Bank’s website. S. Schiavo-Campo (2007): Toward a Medium-Term Expenditure Framework (MTEF) <http://siteresources.worldbank.org/PSGLP/Resources/MTEFsSchiavoCampo.pdf>

¹⁷⁷ For the same reasons it has not been possible to interview any representatives of this company for this study

¹⁷⁸ Economist Intelligence Unit, Country Report, Angola, March 2010, p. 11

¹⁷⁹ This previously-unprecedented interaction with the local and foreign media now happens every three months and is a chance for the Executive to update the press on all government activity and statistics. It is acknowledged as an important step in government efforts to improve previously limited transparency and communication.

¹⁸⁰ Translated from: “...para ajudar, nas várias formas, quer na perspectiva Portal do governo, Ministro diz que boa governação nunca deve ser imposição externa, 30/04, 2010. <http://www.governo.gov.ao/noticiaD.aspx?codigo=10069>

Our analysis of the arrears situation in part II tells us a bit more about the role of Ernst & Young. From the Ministry of Finance memorandum published in July 2010 it is clear that the consultancy firm has played a specific role in relation to reviewing the accuracy of the unpaid invoices that had accumulated during 2009¹⁸¹. This is interesting given the way the budget execution process is structured in Angola. As described in the 2007 CMI report, the Angolan PFM system was originally based on models usually found in continental Europe, highly centralized around the Ministry of Finance with budget units not allowed to make payments¹⁸². As we have seen however, the Angolan system deviates from this in the degree of decentralization, with budget units having the authority to commit and issue payment orders. This implies that the strong ex-ante control, in the shape of a financial controller representing the Ministry of Finance in the original model has been abandoned without strengthening the ex-post controls which would come through strong and independent audits and enforcement of rules¹⁸³. As we demonstrated in part I both the internal and external control mechanisms, represented by the General Financial Inspectorate and the Tribunal of Accounts, are currently very weak.

As described in part II, the extraordinary situation created by the accumulation of arrears led the Angolan government to centralize the clearing of these debts to the Ministry of Finance and it asked Ernst & Young to help verify the claims. In a way this represented a step toward the original system with Ernst & Young assuming the role as financial controller on behalf of the Ministry. However, it was decided to pay despite evidence that the budget units had not followed the rules (presumably on the grounds that doing otherwise would stifle the economy). The work of the Ministry of Finance and Ernst & Young has certainly helped diagnose the problem, but it is unlikely that the government will make this measure permanent and revert fully to a centralized model. Given the positive nature of fiscal decentralization this is also not recommended but a key challenge lies in holding the budget units to account and enforcing the rules, especially by strengthening ex-post controls which ought to be a key role for the General Financial Inspectorate. There also needs to be stronger and clearer consequences of not complying with the rules. This might require cracking down on institutions and individuals responsible for mismanagement of public funds as illustrated in figure 5 above, for example by enforcing decree 24/10 which is analysed below.

A structural measure to address the problem could be to penalize non-complying budget units by temporarily retaining their authority to make payments, assessing the extent to which this is a result of lacking capacity and act on the findings before reauthorizing the unit to make payments¹⁸⁴. The legal framework already seems to enable this as the President of the Republic can decide that certain expenditures will be paid centrally by the treasury¹⁸⁵. The problem with this idea is that capacity constraints are probably so widespread that it might be necessary first to implement a broader capacity building strategy in all budget units before they can reasonably be held to account. While the majority of the budget units might be operating as per the rules, it is possible that some individuals are taking advantage of the weak system and lack of enforcement of the existing rules. The key challenge lies in distinguishing between these two groups and cracking down hard on the ones abusing the weak system, even though this might be a difficult distinction to make legally. It is important however, to do this systematically to avoid powerful individuals with good connections not being targeted. One way

¹⁸¹ República de Angola (2010) op. cit.

¹⁸² CMI (2007): op. cit. p. 5

¹⁸³ World Bank PEMFAR (op. cit.) p. 40

¹⁸⁴ In the Ministry of Finance memorandum five budget units are said to have not responded to the request for additional information related to the arrears. These are the Provincial Government of Luanda, the Ministry of Health, the Ministry of Fisheries, the Ministry of Transportation and the Agostinho Neto University. República de Angola (2010) op. cit. Paragraph 17.

¹⁸⁵ Diário da República, I série – N.º 104, Decreto Presidencial n.º 93/10, de 7 de Junho de 2010, Estatuto Orgânico do Ministério das Finanças, Article 5

to pursue this would be to guarantee the independence of the judges of the Tribunal of Accounts and put in place a proactive leader, provide the body with full autonomy and make it its main obligation to penalize individuals and institutions abusing the system. A strong and independent anti-corruption commission could also play a supporting role and this report recommends undertaking a thorough, transparent and participatory analysis of how this could be done in a way that would give it a real impact.

It is yet too early to say if the collaboration with Ernst & Young will address the weak budget execution system in line with the ideas outlined here. One centrally-placed observer emphasized the role of Ernst & Young as one of the key drivers of reform mainly because the government has full ownership of this collaboration¹⁸⁶. It is vital however that the Ernst & Young team helps to build capacity through skills transfer, especially within the General Financial Inspectorate, to allow for long-term and sustained reform.

5.4 The legislative response

The legislative response to the situation is composed of four legal documents (two decrees and two laws):

- Decree 24/10 of March 24 is a presidential decree that aims at disciplining budget units to respect the rules for budget execution;
- Decree 31/10 of April 12 addresses the Public Investment Programme specifically;
- Law 20/10 of September 7 is on Procurement;
- Law 15/10 of July 14 introduces a new general framework for the budget process.

5.4.1 Decree 24/10 on budget execution

The first attempt to address the problems with budget execution with legal means was by issuing the presidential Decree 24/10 on March 24, 2010. Decree 24/10 is the first of a number of decrees published during the course of 2010 to address different aspects of public financial management. Given the central importance of this decree for this study it is analysed in detail below.

The main point of the decree is to discipline budget units to respect existing legislation. In doing this, reference is made to nine different legal documents (two laws, one decree-law, four decrees and two executive decrees, see table 5) emphasizing the need for budget units to “rigorously respect their combined dispositions”¹⁸⁷. In addition, 12 other legal documents are referred to in the text (related to various issues addressed in the decree). This underlines the complexity of the legislation to which budget units should adhere. As noted by the World Bank’s PEMFAR there are a mass of directives issued over the years that sometimes contradict each other and although the intention is to improve legislation by clarifying, operationalizing, changing or complementing existing legislation, sometimes it only adds to the complexity of the issue¹⁸⁸.

Rather than solving this problem, it could be argued that Decree 24/10 aggravates it. What is needed is a thorough review of all existing legislation and a single new law to replace it. This law should consolidate and simplify the rules to make it more straightforward for budget units to achieve compliance.

¹⁸⁶ Interview, Luanda, November 2010

¹⁸⁷ Diário da República, I série – N.º 54, Decreto Presidencial n.º 24/10, de 24 de Março de 2010

¹⁸⁸ World Bank PEMFAR (op. cit.) p. 19

Family subsidy for public employees. Some of the central passages of the decree reiterate the rules on budget execution with particular emphasis on the use of commitment notes and the non-recognition of claims made without presentation of the commitment note. In the second article of the decree it is made clear that if the rules on budget execution are not followed the offenders will face consequences that can be of disciplinary, administrative or legal (applying civil and criminal law) character. If enforced this would help address the violation of the rules.

Other elements include a chapter on budget discipline that touches on rules for budget execution both in relation to revenues and expenditure, financial programming (addressing expenditure only), and expenses related to personnel and processing of salaries. The Public Investment Programme (PIP) is dealt with in a separate chapter of the decree to which we shall return to below.

In relation to financial programming, the decree makes it clear that the quarterly programming is approved by the President and the monthly cash plan is approved by the government's economic team (*Equipa Económica*). Budget units need to contribute to this process by submitting their needs for financial resources (NRF) on the 15th of the month preceding the start of a new quarter¹⁸⁹. Sonangol has to present no later than December 21 of each year its annual programming on the amount of oil needed to service the debt obligations it manages for the government.

Table 5: Legislation referred to in Decree 24/10

Legislation referred to in article 1 that needs to be observed	
1. Lei n.º 9/97 de 17 de Outubro	General budget law, replaced by law 15/10 of July 14
2. Lei n.º 5/09 de 31 de Dezembro	Not specifically referred to
3. Decreto-Lei n.º 11/02 de 24 de Setembro	Related to quarterly financial programming and monthly cash plans
4. Decreto n.º 7/96 de 16 de Fevereiro	Not specifically referred to
5. Decreto n.º 73/01 de 12 de Outubro	Related to quarterly financial programming and monthly cash plans
6. Decreto n.º 120/03 de 14 de Novembro	Not specifically referred to
7. Decreto n.º 39/09 de 17 de Agosto	Not specifically referred to
8. Decreto executivo n.º 4/96 de 19 de Janeiro	Related to the commitment note and
9. Decreto executivo n.º 105/04 de 16 de Setembro	Not specifically referred to
Additional legislation referred to in the Decree	
10. Resolução n.º 1/02/1 de 7 de Janeiro	Need for total commitment note
11. Lei n.º 5/96 de 12 de Abril	Fees of the Tribunal de Contas
12. Decreto n.º 24/01 de 12 de Abril	
13. Lei n.º 14/91 de 11 de Maio	Associations allowed to receive funds from the budget
14. Decreto n.º 66/02 de 25 de Outubro	Salary payments
15. Decreto 27/96 de 6 de Março	Subsidies and fringe benefits
16. Decreto n.º 42/04 de 13 de Julho	Exemption from personal income tax
17. Lei n.º 17/90 de 20 de Outubro	Admission, promotion and relocation of public employees
18. Decreto n.º 25/91 de 29 de Junho	
19. Decreto-lei n.º 5/02 de 1 de Fevereiro	
20. Decreto-lei n.º 1/03 de 21 de Janeiro	Processing of subsidies that require verification
21. Decreto executivo 1/79 de 12 de Dezembro	

¹⁸⁹ It is not clear how this would be possible for the first quarter of the year as the budget is usually only approved on December 15.

Budget units are not allowed to issue payment orders in their own name (*em nome próprio*) or keep their own bank accounts, and the treasury is requested to map, close and collect the funds located in this type of accounts. Government payments are supposed to be made only from this account, the government's fiscal agent or operators of external credit facilities.

The decree also describes the process budget units have to follow to request budget adjustments. Interestingly, according to the decree, budget units are entitled to apply for 'supplementary' as well as 'extraordinary' adjustments. The first is for situations where the amount needed exceeds the amount budgeted for. The second is for cases where no funds have been budgeted for in the first place. This opens up for more flexibility for budget units to address issues that were not foreseen during the budget preparation period.

Rules for accounting constitute another chapter of the decree. This addresses the reporting requirements on revenues and expenditures of a number of government entities, such as the various budget units, other departments within the Ministry of Finance including taxation and treasury, the Central Bank (BNA – *Banco Nacional de Angola*) and Sonangol. The chapter establishes that Sonangol has to report on a monthly basis the revenues of the state that have not been transferred to the single treasury account, the obligations it has assumed on behalf of the government and payments made to service debt. If enforced this might increase the low levels of transparency of quasi-fiscal expenditures but ideally we would suggest that Sonangol should not make any payments on behalf of the government.

The consequences of non-compliance are repeated towards the end of the decree in article 15 where 20 specific violations of basic rules are listed. Examples of these include: not to submit the needs for financial resources or present this without taking the sequencing of different types of expenses into account; not to carry out unbudgeted payments; and not to verify payments without the goods or services having been provided. Again these warnings will only have an impact if the government starts enforcing the legislation and they become more than a threat.

Finally, included as 'transitory dispositions', article 16 of the decree specifies how the obligations that have been assumed by Sonangol should be "treated" (if not addressed elsewhere). This tackles the provision of fuel to government entities that Sonangol has historically provided free of cost. It is established that the delivery of fuel should be accounted for and paid for by the budget units of dependent organs benefitting from it. The national energy company (ENE) and airline (TAAG) are specifically referred to. The last point in the article address expenditures related to the National Reconstruction Office (*Gabinete de Reconstrução Nacional - GRN*). This part basically summarizes the general budget execution rules and makes it clear that these also apply to GRN which has since been disbanded.

It is too early to say if Decree 24/10 is going to strengthen controls over budget execution but early signs are not promising. As noted there is a lot of repetition, in relation to the rules on commitment, verification and payment. These are areas which have already been grossly violated in the past and it is not clear how repeating them will change the current situation¹⁹⁰.

A Ministry of Finance memorandum issued in June 2010 addresses the continued breaches of the budget execution rules as set out in Decree 24/10¹⁹¹. In unusually strong terms it criticizes budget managers for not complying with the President's attempts to break with the "*errors and flaws of the*

¹⁹⁰ This observation was supported by a high ranking official of the Ministry of Planning who said that the government had already in the past tried to discipline budget units without much success

¹⁹¹ This memorandum is different from the one referred to earlier. República de Angola (Ministério das Finanças) (2010a): *Memorando, Práticas dos gestores contrárias às regras de execução orçamental aprovadas pelo decreto presidencial n.º 24/10 de 24 de Março*

*past*¹⁹². In the document this is linked to the President's articulation of a zero-tolerance to corruption. Making such a direct connection between poor management and corruption is unusual in the Angolan context.

One of the issues raised is the budget units' lack of planning and documentation of their financial needs (NRF) on a quarterly basis. The Ministry of Finance requires this information to prepare the quarterly financial programming (PFT) that should ensure that budget units do not commit to expenditures above and beyond the identified PFT ceilings. Another issue raised is that budget units submit invoices to be paid at central level despite already having a budget to cover these expenses. The memorandum also laments that budget units continue to issue payment orders in their own name (*emitir Ordens de Saque em nome próprio*) despite this being specifically prohibited in Decree 24/10. Moreover the application of these funds is often not specified.

The memorandum concludes with a call for more rigorousness in the observation of the rules and penalization of the violators of the rules through disciplinary, administrative and legal action as Decree 24/10 already states. It also called for a high level seminar to be organized where high-ranking officials should be reminded about the rules making reference to the 20 specific violations that are also presented in the decree. This seminar was already held on July 27 bringing together ministers, secretaries of state, provincial governors among other high level officials¹⁹³. This report strongly commends the Ministry of Finance for making these recommendations that go at least some of the way in terms of addressing the situation.

It seems clear that if the top layer of government does not invest in *enforcing* as well as producing legislation, both experience suggests that little will change as evidenced by the Ministry of Finance memorandum. Legal enforcement can happen through a combination of addressing capacity constraints and punishing people who deliberately exploit the system weaknesses. As we shall return to below, the Tribunal of Accounts could play a vital role in such an approach. The National Assembly and civil society could also contribute to strengthening control by playing a more active role in overseeing budget implementation.

5.4.2 Decree 31/10 on the Public Investment Programme

Shortly after the publication of Decree 24/10 another decree that regulates the Public Investment Programme (PIP) was issued¹⁹⁴. This decree is dated April 12, 2010 but was actually signed by the President on March 26 that year.

Decree 31/10 establishes in a logical and straightforward manner the different sequences of the PIP. This includes preparing and approving eligibility, and implementing, accompanying and evaluating public investment projects (except investments of a military nature).

In broad terms, the decree outlines that it is the obligation of the state to promote stable economic growth equally distributed between different sectors and regions of the country to ultimately guarantee the wellbeing and raising of the level of quality of life of the citizens¹⁹⁵. It is prohibited to include projects in the PIP that will negatively affect the environment and the quality of life of the population without including measures that will mitigate the negative impacts. The mitigation measures have to

¹⁹² Ibid.

¹⁹³ http://www.minfin.gv.ao/oldnews/oldnews_218.htm

¹⁹⁴ Diário da República, I série – N.º 67, Decreto Presidencial n.º 31/10, de 12 de Abril de 2010

¹⁹⁵ Ibid. Article 9

be based on viability or environmental impact studies¹⁹⁶. The legislation is very ambitious in terms of the studies required before a project can be approved and it is not clear if these requirements apply to all projects regardless of their value.

The preparation phase of a project is divided into identification and development. This is followed by selection, negotiation and implementation. After completing this, the operational phase starts where the associated costs become part of the normal budget process.

In terms of eligibility and negotiation, the decree presents a methodology to prioritize projects that needs to be used to select those which are most urgent. Conditions that need to be in place before a project can be implemented include: the need for the project to be part of the PIP, for it be registered in the budget with yearly financing goals and to have the procurement process authorized.

There are two types of projects. The first is (preparatory) studies and the second is actual investment projects. There are provincial (including municipal projects), sectoral and national portfolios. A project portfolio is used in the approval process and constitutes a group of investments considered ready to be implemented if approved. The level of approval required depends on the estimated cost of the project.

The PIP is supposed to be multiannual (allowing for planning of projects that runs over more than one year) but it only has financing through the national budget for one year. The proposed PIP is based on pre-selected investments in the project portfolio and the prioritization methodology mentioned above. The annual planning follows this timeline:

- June 30: instructions for the elaboration of the annual plan shared with budget units (ie ministries and provincial governments).
- July 15: ministries and provincial governments submit their proposals to the Ministry of Planning
- August 15: Preliminary proposal of the annual programming of public investments presented to the ministries and provincial governments for comments
- August 30: Preliminary proposal presented to the chief of the executive (the President)
- After the President's approval (no timeline identified) the projects are submitted for inclusion in the national budget

Notable here is the late presentation of the instructions to the budget units which means that the whole process only lasts two months. The most negative aspect of this is that the ministries and provincial governments only have 15 days to propose projects and equally only 15 days to comment on those proposals.

In the section on different competencies it is stipulated that the overall approval of the multiyear PIP and annual programming is approved by the President of the Republic. In relation to authorizing the initiation of preparatory studies and the implementation of investment projects, the following limits are identified in the decree. Studies with a value of more than Kz 45 million (approximately US\$ 450,000) and public investments worth more than Kz 1 billion (US\$ 10 million) have to be approved by the President of the Republic. Ministries are authorized to approve studies valued at less than Kz 45 million (US\$ 450,000) and investment projects worth less than Kz 1 billion. The limits for the provincial governments are Kz 30 million (US\$ 300,000) for studies and Kz 500 million (US\$

¹⁹⁶ It shall be interesting to see how the obligation to not negatively affect the quality of life of the population will work for example in relation to the much disputed demolitions that often take place in relation to construction of public works.

500,000) for investment projects. Finally municipal administrations can approve studies valued up to Kz 10 million (US\$ 100,000). No amount is mentioned for municipal administration's right to approve investment projects which must be interpreted to mean that they are not allowed to approve these at all. It is specifically prohibited to split up investment projects in smaller parts to circumvent the value limits identified for approval and initiation of projects.

The last chapter of Decree 31/10 presents the rules for implementation and control of the PIP which in essence implies conforming to existing budget and public accounting legislation. An important aspect is the need for the quarterly financial programming and the monthly cash plans to be in accordance with the timelines for the financing of the projects in the PIP. All projects have to be included in the State inventory list (*Sistema Integrado de Gestão Patrimonial do Estado – SIGPE*). In addition the National Department for Public Investment (*Direcção Nacional de Investimento Público - DNIP*) is responsible for maintaining what is called the Informative Management System of the Public Investment Programme (*Sistema Informatizado de Gestão do Programa de Investimento Público – SIGPIP*) that should have an interface with the Integrated Financial Management System of the State (*Sistema Integrado de Gestão Financeira do Estado - SIGFE*).

Quarterly and annual PIP execution reports are envisaged with the deadlines for submission to the President being the 30th of the month following the end of a quarter for the quarterly execution reports and May 30 of the following year for the annual report.

In the words of a high ranking official at the Ministry of Planning, the decree marks a 'radical break' with the past, acknowledging that the Ministry had not been able to adhere 100% to the law in 2010. According to other centrally-placed observers however the decree does not add much to already existing legislation¹⁹⁷. As noted above, the point is that the government needs to invest in enforcing, rather than simply creating, new legislation.

The decree falls short in our view of presenting a project appraisal framework that has been on the government and IMF's agenda since the inception of the Stand-By Arrangement. The development of a project appraisal framework is however expected to be put in place in 2011 with support from African Development Bank (AfDB) and will provide input to the 2012 budget formulation process¹⁹⁸. According to the AfDB this will include introducing pro-poor and social development criteria in the appraisal of public investment budgets¹⁹⁹.

It is crucial that the programming and execution of public investments is coordinated with recurrent expenditure programming. The DNIP has struggled with putting this in place for years and the question is whether it will finally succeed in delivering this critical instrument after years of failed attempts. The AfDB, we find, also needs to look at past failed attempts to support the Ministry of Planning and learn from these experiences to be able to add value to the process. The control of the actual completion of public projects is also of great importance because non-completion continues to be a big problem²⁰⁰.

5.4.3 Law 20/10 of September 7 on Procurement

Procurement is absolutely critical to ensuring efficiency in the handling of public finances and it is therefore positive that the new legal framework is in place. As with many of the other weaknesses in

¹⁹⁷ Interviews, Luanda, November 2010

¹⁹⁸ IMF (2011): op. cit. p. 9

¹⁹⁹ African Development Bank (2011): *Project summary*

²⁰⁰ A centrally placed member of government indicated in an interview that the record of public investments carried out between 2004 and 2009 was poor. Interview, Luanda, September 2010

the Angolan PFM system, the problems in the government's approach to procurement are not a new. The extensive World Bank Country Procurement Assessment Report (CPAR) from 2002 identified a number of flaws. These were: weaknesses of the legal framework and lack of enforcement; inefficient and costly procedures and practices; weak procurement organization, capacity, audit and anti-corruption mechanisms; as well as higher prices as a result of payment delays²⁰¹. The recent paper on the political economy of the petroleum sector in Angola by Hansen-Shino and Soares de Oliveira finds that the out-dated procurement system appears to have allowed public contracting to favour so-called "*connected individuals*" resulting in what it alleges is an "*...enormous bleeding of public resources through the overpayment of goods and services, combined with suboptimal services for the end users.*"²⁰²

The new procurement law is an extensive document of 75 pages²⁰³. Among other things it provides the legal framework for establishing the procurement office (*Gabinete de Contratação Pública*) within the Ministry of Finance (see p. 13) and a procurement internet portal. The agency will have offices at provincial level and be in charge of implementing procurement policies and practices. It will collaborate closely with the Tribunal of Accounts, General Inspectorate of Finance and the General Inspectorate for the Administration of the State. The office will also function as a complaint mechanism for bidders who feel that there has not been a due process and enable them to file a complaint within five days of the bid winner being announced.

Four ways of contracting are identified in the law: public tender, limited tender with pre-qualification, limited tender by invitation and negotiated procedure. Negotiated procedure entitles the contracting agency to negotiate the terms of the contract in the interest of the public. A public tender (with or without pre-qualification) is required if the estimated value of the contract is between Kz 500 million and Kz 1,100 million. Limited tender by invitation is possible for contracts between Kz 18 million and Kz 500 million. The negotiated procedure is for contracts worth between Kz 5 million and Kz 36 million, except for the President of the Republic who can use this approach for any contract.

Contracting procedures are conducted by evaluation commissions that are constituted by three to five members including one from the Ministry of Finance. The other members represent the contracting entity as for example a provincial government or line ministry. At local level the Provincial Governor appoints the members in line with recommendations from the provincial delegate for finances. The commission is responsible for receiving and reviewing proposals, running the public tender and preparing proposals for selection.

Decisions need to be based on the most economically advantageous proposal taking into account the technical qualities, aesthetic characteristics, technical assistance, delivery time and price.

It is too early to assess what the impact of the new procurement law will be, but given the scope and importance of a well-functioning procurement system in ensuring efficiency in the management of public finances, it is recommended that the government and the World Bank move quickly towards reviewing the new law and its functionality for example through updating the 2002 CPAR.

5.4.4 Law 15/10 of July 14 on the general framework of the budget process

In July 2010, the law from 1997 defining the overall design of the budget process was replaced. The new law 15/10 seems to have been redesigned mainly to fit the budget process into the new Constitution and government structure, and less to address the weaknesses exposed by the financial

²⁰¹ World Bank (2002): Country Procurement Assessment Report – Angola, Vol. I, October 3, 2002 p. ii-iv

²⁰² Hansen-Shino, K. and Soares de Oliveira, R. op. cit. p. 19

²⁰³ Diário da República, I série – N.º 170, Lei n.º 20/10, de 7 de Setembro de 2010

crisis and the general flaws we have noted in relation to openness and transparency. This might be viewed as disappointing as previous studies have noted that the problem with the Angolan budget process has not so much been related to the legal framework which is “...quite in line with international accepted principles” but in the lack of observance of the framework²⁰⁴. There are however a few major exemptions to this rule, which are analysed in the following where we compare the new and old laws and their relations to international best practices on budget transparency as defined by the Organization for Economic Co-operation and Development (OECD).

In line with the new Constitution’s deliberations on the budget (see Part I) the budget framework law clearly establishes that the budget has taken over from the national plan as the central governance instrument. Moreover, it is noted that the budget will be based on economic policies. This is a positive change because the policy basis for the budget traditionally has been absent and this will allow more performance-based evaluation to see if the financial measures actually deliver in terms of the government’s policies. It also follows from this general alignment process that all decisions that were made earlier by the council of ministers are now subject to the final say of the President of the Republic. This includes approval of the budget proposal before it is submitted to the National Assembly and negotiation of the budget proposals of the sovereign state powers (the judicial and the legislative). However there is no fixed legal deadline for when the budget proposal has to be submitted to the President but in the instructions for elaboration of the 2011 budget issued in decree 186/10 of 26 August deadlines for the budget preparation process are set out as followed²⁰⁵:

- September 15: all budget units to have submitted their budget proposals and MAPESS had to submit the updated public payroll list to the Ministry of Finance.
- September 20: the Ministry of Planning to have submitted the Public Investment Programme to the Ministry of Finance
- October 15: Ministry of Finance to have submitted the consolidated budget to the President
- October 31: President had to have submitted the budget proposal to the National Assembly accompanied by a report outlining the broad lines of the budget proposal²⁰⁶
- December 15: National Assembly to have approved budget

According to this schedule the National Assembly had only six weeks to analyse, discuss and approve the budget, as it did under the previous legislation, and this is not long enough. OECD best practice for budget transparency suggests at least three months should be allocated for this process²⁰⁷. It is unfortunate that the Angolan government has not addressed this weakness in the new law.

It is disappointing as well that the budget legislation does not clearly establish that the executive’s budget proposal should be published and distributed widely for discussion in the media and by civil society. Article 74 of law 15/10 addresses publicity and it is a welcome step in the right direction, but unfortunately it is ambiguous. The formulation leaves it to the judgment of the executive to determine if it is “necessary or not” to publish certain budget documents²⁰⁸. This does not resolve the long-

²⁰⁴ Isaksen et. al (2007) op. cit.

²⁰⁵ Diário da República, I série – N.º 162, Decreto Presidencial n.º 186/10, de 26 de Agosto de 2010

²⁰⁶ This legal requirement is new and could possibly be turned into a kind of pre-budget statement although this should ideally be presented earlier in the process. This has been a lacking element in the Angolan budget process.

²⁰⁷ OECD (2002): OECD Best Practices for Budget Transparency: <http://www.oecd.org/dataoecd/33/13/1905258.pdf>, p. 8

²⁰⁸ Diário da República, I série – N.º 131, Lei n.º 15/10 de 14 de Julho de 2010, article 74 reads: *O Poder Executivo e os poderes autárquicos devem assegurar a publicação de todos os documentos que se revelem necessários para assegurar a adequada divulgação e transparência dos correspondentes orçamentais.*

standing request from civil society for access to the budget proposal ahead of its final vote in parliament.

In terms of budget execution, which is one of our central concerns in this part of the analysis, the general budget law is brought in line with the decrees analysed above. This means that the commitment (*cabimentação*) – verification (*liquidação*) – payment (*pagamento*) phases are reconfirmed adding a bit of detail in relation to the previous law. It is stipulated that the Ministry of Finance is no longer alone in charge of the quarterly financial programming as this is now done in conjunction with the president's office and approved by the President. The Ministry meanwhile is supposed to put together the monthly cash plan which is approved by the economic team.

In terms of the last part of the budget cycle, control and auditing, the new law specifies more clearly the content of the general state accounts (*conta geral do estado*). This is positive but it is problematic that the Tribunal of Accounts is no longer required to audit the accounts (as discussed in more detail in part I). Something that has been previously criticized widely is the fact that quarterly budget execution reports have not been produced as required under the previous general budget law. The obligation to present this to the National Assembly 45 days after the end of the quarter in question remains in the new budget law (article 63, 3). Publication of these reports is also a structural benchmark in the IMF programme which shows the importance that the IMF attributes to the publication of these reports to improve public financial management. As can be seen from the fourth IMF review this action has now been reset to June 2011 (a one year delay)²⁰⁹. This delay is unfortunate as it is precisely where the Government should invest resources upfront. If not complied with before, this report argues it should be made a prior action for the fifth review of the SBA because it has the potential to significantly improve control and accountability within the government which should in turn improve the results of public expenditure. Regrettably, and in line with the executive's budget proposal, whether these reports should be public depends on an interpretation of the law.

Another step we find regressive is that the deadline for submitting the general state accounts has been prolonged by five months from April 30 (previously) to September 30 (in the new law). This is very late for the deputies of the National Assembly to review and debate to use findings in relation to the next budget. Both the lack of a clear requirement for the general state accounts to be audited by the Tribunal of Accounts and the extension of the deadline for its submission to the National Assembly violate international best practice, which is very clear in the OECD's guide: "*The year-end report is the government's key accountability document. It should be audited by the Supreme Audit Institution, in accordance with Best Practice 3.3 (below) and be released within six months of the end of the fiscal year.*"²¹⁰ The deadline should therefore be reset to an earlier date, June 30 the latest, and there should be a clear requirement for the Tribunal of Accounts to audit the budget by law. The latter would also be in line with the recommendation of installing stronger ex-post controls discussed above and the establishment of an independent and autonomous Tribunal of Accounts.

The vital questions to which we shall return to in the conclusion are whether the practical and legislative approaches described here are sufficient to address the fundamental problems in the Angolan public finance management and budget process and if they are likely to be thoroughly implemented. In the following section we shall briefly discuss some central reforms which are not exclusively related to the management of public funds.

²⁰⁹ IMF (2011): op. cit., p. 40

²¹⁰ OECD (2002): op. cit., p. 10

5.5 Revenue, expenditure and debt management

In this section we continue our analysis of the reforms we find are needed to strengthen Angola's public financial management and its budget process. The focus here is predominantly on how to promote efficiency in public finances, but also how to create more pro-poor budget policies. We look at a number of issues related to government revenues (sovereign wealth fund, tax reform and oil revenue projections) and expenditure (fuel subsidies, social spending), as well as debt management.

5.5.1 Revenue policies

As discussed in part II, revenue management is one of the weak areas of public financial management in Angola. In this section we analyse three central reform areas related to revenue management.

AUPEC oil revenue projection model

One of the main weaknesses in public financial management has traditionally been the poor macroeconomic framework and especially the difficulties of the authorities in accurately estimating oil revenues. With up to 80% of revenues deriving from oil it is clearly important for policymakers to have a fairly precise idea about how much can be expected from this source in order to be able to design a credible budget.

To address the difficulties in estimating oil revenues, since April 2006 the Ministry of Finance has been working with the Aberdeen University Petroleum Economics Consultancy (AUPEC) to create a model to strengthen this crucial component of revenue projection. In 2007 the World Bank Public Expenditure Review (PER) made a fairly positive assessment of Angola's progress on updating the model with information provided by oil companies and training staff in using the model²¹¹. It was seen as a step in the right direction although it noted that the government needed to take more ownership of the project. Some glitches also seem to have occurred in the meantime; a United States Agency for International Development (USAID) report from February 2009 found that it had not yet been possible to make the model operational and that Ministry of Finance staff would continue work with AUPEC during 2009 to adapt and adopt the oil-projection model²¹².

In interviews carried out as part of this study in September 2010, the model was described as operational. The team that has been trained to use the AUPEC model is based within the Tax Directorate's Special Tax Regimes Department (DRET). There are now 12 new staff members taking on work which for many years was done by one person²¹³. The AUPEC model works with seven different revenue scenarios but there will always be external factors that are difficult to foresee, such as for example a sharp drop in oil prices as seen in 2008. Oil price volatility is often driven by international political events that cannot be easily foreseen by a model. The model will therefore not be of help in preventing the impact of a crisis of the dimensions of the one in 2008/2009.

²¹¹ World Bank (2007): Public Expenditure Review http://www-wds.worldbank.org/external/default/main?pagePK=64193027&piPK=64187937&theSitePK=523679&menuPK=64187510&searchMenuPK=64187283&theSitePK=523679&entityID=000333037_20080208002629&searchMenuPK=64187283&theSitePK=523679

²¹² USAID (2009): *Contractor Final Closeout Report for the Angola Fiscal Reform Project*, p. 9 http://pdf.usaid.gov/pdf_docs/PDACO341.pdf

²¹³ Interview, September 2010, Luanda

Sovereign Wealth Fund

The way Angola's oil revenues are managed is at the centre of the problems affecting the country's public financial management. As we saw in part II the revenue management had a negative impact on the government's ability to respond effectively to the crisis. The possibility of the creation of a Sovereign Wealth Fund (SWF) has come up in the aftermath of the crisis linked to the need to decisively break with past boom-bust fiscal cycles. Perspectives varied on the beneficial impact of a SWF during the interviews carried out for this report. One centrally-placed official felt that it was too early for Angola to get a SWF because of the low levels of transparency, rhetorically questioning who would manage such a fund. A National Assembly Deputy on the other hand felt that the creation of a SWF would increase transparency because it would be clear where the windfall oil revenues were being placed, noting that this had not been the case with previous windfalls. If a SWF was to be created in Angola issues such as governance and investment regulations would clearly be central issues to deal with before setting it up. Meanwhile it appears that the government's interest in creating a SWF to serve stabilization and savings purposes has been cooling.

The question of a SWF figured squarely on the IMF's agenda from the outset. According to the IMF staff report:

*"...the authorities agreed to develop an institutional framework that de-links the fiscal stance from short-term oil revenues, focusing instead on the non-oil primary fiscal balance, and ensures that greater proportion of windfall oil revenues is saved. In this context, the authorities have set up a task force to look into the modalities of a sovereign wealth fund (SWF)/oil fund which will serve both stabilization and savings purposes."*²¹⁴

The plan to develop a SWF was included as a structural benchmark in the SBA with a request for cabinet approval by June 2010 (see appendix II outlining the development of the Structural Benchmarks over the course of the implementation of the programme). In the combined second and third review this action was posted as completed and it was noted that future SBA reviews would set benchmarks on implementation. It was not possible to obtain a copy of this draft legislation during the research for this report.

The fourth review indicates, however, a change of focus with regards to the SWF. Here it is noted that:

*"The authorities were unconvinced of the case for anchoring fiscal policy around a rule that smoothed inter-temporal consumption from oil wealth (e.g. setting a target for the non-oil primary deficit), arguing that investing today in infrastructure and other growth-supporting projects would provide greater benefits for future generations than saving surpluses."*²¹⁵

In 2009, the focus seemed to be on ensuring greater savings of the windfall oil revenues, whereas in 2010 it had shifted again to spending, based on the argument that investment would bring greater benefits²¹⁶. While this could be true in theory, it is crucial to ensure the quality of the investments so that they actually do lead to long-term growth as intended. Decree 31/10 on the Public Investment Programme (analysed above) provides a reasonable legal framework for this, but resources still need to be invested to ensure that this law is applied and that it is supported by a solid project appraisal

²¹⁴ IMF (2009): op. cit. p. 8, our emphasis

²¹⁵ IMF (2011): op. cit. p. 7, our emphasis

²¹⁶ Interestingly the SWF issue has disappeared from the list of structural benchmarks although it should have included one on the implementation of the SWF. This issue should be reintroduced in the 5th review.

framework. It is paramount that Angola does not return to the situation in 2008 where the government was paying ‘with its eyes closed’ without any quality control over public investments.

It is also crucial to ensure the *quality* of public spending. There are three essential aspects to take into account: the absorption constraints; the need to ensure greater value for money; and the need to address capacity constraints and mismanagement by budget units through strengthened ex-post controls and violation penalties.

One short-term and easy approach would be to fix the price of oil in the budget at a conservative level and keep this unaltered during the fiscal year. This would slow down the pace of public investments but prevent waste and allow the government to implement reforms to improve the quality of public spending. Windfall from revenues above the fixed price meanwhile should be deposited in the SWF. With rising oil prices this should allow substantial amounts flowing into the fund. Calculations have shown that if spare revenue above the US\$ 50 benchmark had been saved between 2005 and 2010, Angola would have accumulated as much as US\$ 19 billion by 2010²¹⁷.

In the medium-term the government should aim at balancing non-oil revenues and recurrent expenditures. The authors of this report would however argue that a well-defined development budget composed of the public investment programme and prioritized investments in strengthening human resources (mainly education) could be financed with proceeds from oil²¹⁸. When the quality of public spending has been strengthened the development budget could be increased gradually. The result of this would be a smoothening of investments producing better outcomes over a longer period of time.

A positive side effect from this approach is that it would bring more stability to the budget process and avoid the need for regular revisions. In part II and below we document the negative impact of these budget revisions on the budget process based on changing oil prices. Having a clear fiscal rule for oil revenues would however remove this reason for the budget revisions.

In brief, this report does not promote the creation of a SWF for the sake of creating it and serious concerns remain in relation to how it would be governed and managed in a prudent manner. Crucially however it could be a viable approach to smoothen spending and regulate the application of windfall oil revenues.

General tax reform²¹⁹

As we saw in part II of our analysis, non-oil tax revenues in 2009 equalled that of the oil sector²²⁰. Although this situation occurred under extreme circumstances it showed that the non-oil sector was starting to play an increasingly important role in the Angolan economy. It is important to keep expanding this revenue base to ensure the long-term sustainability of public finances because oil is an exhaustible resource. Creating a broad-ranging, just and transparent tax system is also key to strengthening accountability structures because when citizens are paying tax, they are keener to hold their public officials to account for service delivery. Such accountability is currently absent from Angola. It is also crucial that any new tax reform strategy addresses the current weaknesses in terms of

²¹⁷ Interview, Luanda, November 2010

²¹⁸ Other observers might disagree with this recommendation arguing that only capital investments should be financed with proceeds from oil. Our opinion is however that investments in raising the levels of education in Angola need to be boosted to add value and ensure the sustainability of investments in physical infrastructure

²¹⁹ This is a major area of research to which this paper does not do justice. The authors of this paper strongly encourage more research into this area.

²²⁰ According to the budget execution report for 2009, Kz 625,166.1 million came from oil revenues and Kz 615,829.6 million were non-oil revenues (incl. diamonds). Ministério das Finanças (2010b): op. cit. p 14.

tax collection, especially from big taxpayers, which has historically been weak and relied heavily on self-assessment²²¹.

As with the Sovereign Wealth Fund, tax reform has figured centrally in the IMF programme. Cabinet approval of the tax reform strategy figured as a structural benchmark that was completed at the time of the second and third review in September 2010.

This is an area where the government seems quite committed. In its Letter of Intent submitted with the fourth review the authorities described a multi-year tax reform programme, “...aimed at modernizing tax administration, improving tax compliance, broadening the tax base while scaling back tax exemptions, and putting in place efficient legal processes for handling tax.”²²² It was not possible for the research team to get access to a copy of the tax reform strategy that has been submitted to the National Assembly and there has been very little public debate about this crucial reform.

But according to the 2010 Angola Economic Report (*Relatório Económico de Angola 2010*) published by CEIC the executive’s tax reform project (*Projecto Executivo para a Reforma Tributária - PERT*) essentially has six objectives²²³:

- Diversification of tax revenue through establishment of a broader tax base, rationalization of incentives, increased control with voluntary payment of taxes, implementation of effective tax collection services (coercive), simplification of the legal system and penalizing violation of the tax rules.
- Promote private investments
- Act on social justice objectives
- Promote synergies between the legal framework and the institutional setup
- Envision a better connection between central government finances and local finances
- Contribute to an increased integration of Angola in the Southern African regional economy and of Southern Africa in the global economy

The CEIC Economic report suggests that the tax reform should allow liberating the state from its dependence on natural resources as well as improving the relationship between the state and its citizens.

It is also noted in the Letter of Intent that an “*international management consultancy*” (management consultants McKinsey & Co) has been engaged to help design the reform programme²²⁴. The government’s goal is to have a time-bound plan for the reform programme in place by the end of June 2011. It is important that the government goes ahead with this reform but it should be done in a way that creates openness and public debate. Consultation with external stakeholders will increase the chances of the reform leading to a sustained broadening of the revenue base.

A related issue that has been debated is the question of whether Angola should create an Independent Revenue Management Authority as has been done in a number of African countries over the past years. According to the draft CMI/CEIC paper on economic governance in Angola, evidence is inconclusive about this leading to better revenue administration performance compared to what would have been the case had the tax administration remained a government department²²⁵. More research is

²²¹ See Isaksen et. al (2007), p. 19

²²² IMF (2011): op. cit. p. 36

²²³ Centro de Estudos da Universidade Católica de Angola (2010): *Relatório Económico de Angola 2010*, p. 78-79

²²⁴ Ibid. and <http://www.reuters.com/article/2010/09/03/angola-tax-idUSLDE6821WJ20100903>

²²⁵ Isaksen, J. & Rocha, A. (2009): Economic governance and the institutions, unpublished draft, p. 11

needed in this area to assess whether the particular context of Angola and the ongoing tax reform could prove a promising case for creating an independent revenue authority.

5.5.2 Expenditure policies

The overarching issues of addressing the weaknesses in budget execution and quasi-fiscal expenditures have already been discussed above. In this subsection we raise three issues central to the composition of expenditures: the fuel subsidies, spending on social sectors and spending pressures.

Fuel subsidies

Angola has some of the cheapest fuel prices in Africa because it is so heavily subsidised by the Government. Only Libya, Algeria and Egypt had lower fuel prices than Angola in 2009 according to a survey carried out by GTZ²²⁶.

It is estimated that the cost of Angola's fuel subsidies amounts to US\$ 4 billion (6% of GDP) per year and a decision was taken in 2010 to phase them out which would free up resources.

On September 1, 2010 fuel prices were increased by 50% for petrol, bringing the cost of a litre up to Kz 60 (US\$ 0.65) and 38% for diesel, bringing the cost of a litre up to Kz 40 (US\$ 0.38). Unfortunately the positive impact of this on the public finances was lost as a result of the depreciation of the Kwanza. According to the authorities the government aimed to phase out the subsidies completely implementing an annual 20% price increase²²⁷.

Cutting down on the fuel subsidies was seen as a highly unpopular move by the government, and commitment to reductions have dampened substantially since the announcements in 2010. Although the government agrees with the need to reduce subsidies in principle it appears in practice to have postponed new adjustments to beyond 2011²²⁸. In the fourth review of the SBA the IMF regrets this lack of political will.

“Staff pressed the case for a further reduction in fuel subsidies during 2011, arguing that the distributional impact of the subsidies was quite regressive. The authorities accepted this point, but emphasized that there would be strong public resistance to another large fuel price increase after the price adjustments in September 2010.”²²⁹

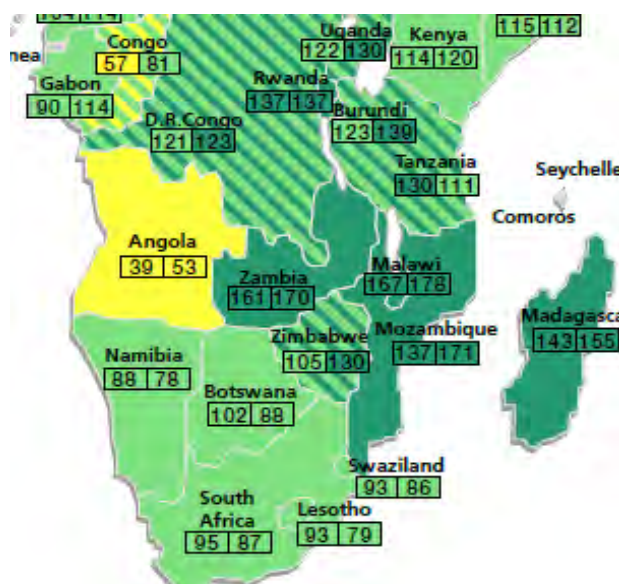


Figure 6: Extract from map of countries' subsidizing (yellow), taxing (light green) and heavily taxing (dark green) fuel in Africa. The boxes indicate prices in US cent.

²²⁶ The report uses 2008 data. GTZ (2009): International Fuel Prices 2009, 6th Edition — More than 170 Countries, <http://www.gtz.de/en/themen/29957.htm>

²²⁷ Reuters (September 1, 2010): UPDATE 2-Angola cuts fuel subsidies; eyes downstream revamp, <http://www.reuters.com/article/2010/09/01/angola-subsidies-idUSLDE6800RO20100901>

²²⁸ This stance could easily be linked to the government not wanting to rock the boat in the run up to the 2012 elections as well as presumably closely monitoring the situation that evolved in northern Africa in early 2011.

²²⁹ IMF (2011): op. cit. p. 7

Later in the report the IMF “*regrets*” that the “*poorly-targeted fuel prices subsidies*” are not further reduced within the 2011 budget framework. The authorities on the other hand point to what they see as contradictory objectives of simultaneously reducing inflation and oil subsidies. Increasing oil prices had contributed to higher general inflation they noted.

Reducing fuel subsidies clearly makes sense from a poverty reduction perspective if the savings are indeed channelled towards effective poverty reduction policies. Some National Assembly Deputies interviewed doubted however that this was happening²³⁰. Moreover, one aspect that might be worthwhile investigating is the social impact of increased fuel prices on public transportation in the shape of minibus taxis (known in Angola as *Candongueiros*) that are used by the urban poor/lower middle classes to commute from the outlying shantytowns to city centres where they work.

Social spending and regional asymmetries

It is beyond the scope of this study to go into a detailed review of social spending but this is another area that would benefit from more in-depth research. The World Bank’s Public Expenditure Review from 2007 presented a number of findings and recommendations in this regard that ought to be followed up. Amongst other important recommendations the review focused on the need for better classification of expenditures to allow the government to get a better understanding and increase the effectiveness of its public spending. Issues raised included weak programme prioritization and ineffective monitoring and outcome evaluation.

Adding to these problems there is a paucity of the most basic data on social issues and what is available is of poor or questionable quality. This has improved somewhat with the publication of the much awaited ‘IBEP’ (*Inquerito Integrado Sobre o Bem-Estar da População*) which is an extensive survey of social issues in Angola carried out in 2008 and 2009. However, a centrally placed observer questioned the methodology and accuracy of some of the findings of this survey as for example that 80% of the population has access to running water²³¹. There is no clearly-defined population size although a national population census has been announced for 2013. While the study is welcome, 2013 is a long-way off and there are a number of weaknesses within the National Statistics Institute (*Instituto Nacional de Estatística – INE*) who will be carrying out the census and concerns that even 2013 may be ambitious²³².

Within the IMF programme there is an indicative target with a floor on social spending keeping it at 30% of total expenditures. The target for 2009 was Kz 786 billion, but according to the IMF spending that year was below target “...*due to weaknesses in the social delivery system.*”²³³ According to the government itself it spent 28% on social sectors in 2008 and 30.9% in 2009²³⁴. This pattern has continued in 2010 where the government spent below the target of Kz 821 billion during the first three quarters of the year. Even if the government manages to increase spending on social sectors, its categorisation remains a problem. Of the 30%, only 14% goes to health and education whereas 12% is spent on ‘social security’ and 3% is spent on ‘culture and sports’²³⁵.

²³⁰ Interviews, Luanda, September 2010

²³¹ At the time of the interviews only the preliminary results was known. It has not been possible to confirm these views after the final results, methodology etc. was published at: http://ineangola-ibep.com/doc_lamcamento.htm

²³² Interview, Luanda, September 2010

²³³ IMF (2010a): *Angola: First Review Under the Stand-By Arrangement and Request for a Modification of a Performance Criterion*, p. 4

²³⁴ Ministério das Finanças (2010b): op. cit. p 19.

²³⁵ Ibid.

The government will need to not only to scale up its spending on social sectors but also address the prioritization, quality and effectiveness of this expenditure. They need to address the social indicators that continue to be poor and the stark regional imbalances that, as has been evidenced recently by CEIC research, remain in Angola²³⁶.

Non-oil fiscal deficit, spending pressures and the 2012 elections

With rising oil prices and parliamentary elections scheduled for 2012, pressure for increased spending is likely to emerge. The worst case scenario would be that following the investment slowdown during 2009 and 2010, the government panics and in order to show tangible results to the electorate, boosts investments in an uncontrolled manner returning to the situation we witnessed in 2008, or something worse. In addition to what could be considered legitimate forces (the broader population expecting better living conditions) vested interests are likely to push for a return to less-controlled spending patterns as they provide fertile ground for rapid enrichment through various tenders, business deals and supply-chain contracts.

In this section we have outlined a number of measures to prevent this and allow for a transition from an unplanned and haphazard approach to reconstruction to a well-planned development paradigm. If this is accomplished as a result of the crisis, it would be a great result. This will however require time and patience and a responsible, prudent and confident approach by the government. The current MPLA government is in a perfect position to deliver this as opposition parties are unlikely to be able to mount an effective campaign which would even begin to challenge the government's majority in the 2012 elections. This of course leaves a great responsibility on the shoulders of the incumbent government.

5.5.3 Debt management

The IMF puts a lot of emphasis on debt management which it would like to see strengthened alongside improvements in public financial management. This is partly because the IMF needs to be concerned with a country's capacity to repay the loans it provides and it undertakes a careful debt sustainability analysis to assess this. The critical indicator for this assessment is the country's external debt to GDP ratio.

According to the IMF, Angola's 2010 debt figures were comfortable standing at US\$ 18.5 billion and 22.2% of GDP²³⁷. Interestingly the research team was informed that the current stock of debt was US\$ 15.5 billion in September 2010 which might reflect a slower than expected disbursement of credit lines from China and other major lenders. If this was the case it would improve the debt to GDP ratio.

Angola's largest creditors are China, Brazil and Portugal with China being the largest by far. Currently a US\$ 4.5 billion credit line is being implemented and this has been followed up by a further US\$ 6 billion extension which has been negotiated but not yet initiated. Data from other sources suggest this figure is even higher²³⁸. Originally the IMF programme's performance criterion for external non-concessional borrowing was US\$ 2 billion but this was raised (after "extensive" discussions) to US\$ 6 billion at the time of the first review. The debt to GDP ratio is expected to peak at 22.6% of GDP in 2011 and then gradually fall to 18.1% of GDP in 2015. This projection is sensitive to oil price volatility.

²³⁶ Rocha, A. (2010): op. cit.

²³⁷ IMF (2010a): op. cit. p. 26

²³⁸ In march 2011 the Chinese ambassador told AFP in Luanda credit had reached US\$14.5billion

Strengthened debt management capacity

Given the uncertainties and dependence on oil price the debt sustainability projections in figure 7 are uncertain. It is therefore seen as urgent to strengthen the country's debt management capacity. This is currently seen as weak and lacking far behind that of other middle-income countries. There is no coherent medium-term debt strategy or guarantee that macroeconomic policies are consistent with debt sustainability and responsibility for debt management is divided between the Central Bank and the Ministry of Finance.

To respond to this, it has been a priority to develop a medium-term debt strategy and create a new debt management unit within the Ministry of Finance (*Unidade Técnica de Gestão da Dívida Pública - UTGDP*). At the time of the fourth review (February 2011) the debt management unit was still being staffed. The leader, Carlos Panzo, was recruited from the former Ministry of Economic Coordination where he was the director for macroeconomic policies (a portfolio now transferred to the Ministry of Planning). It is expected that a debt management strategy will be finalized, with assistance from an IMF advisor, by the end of March 2011.

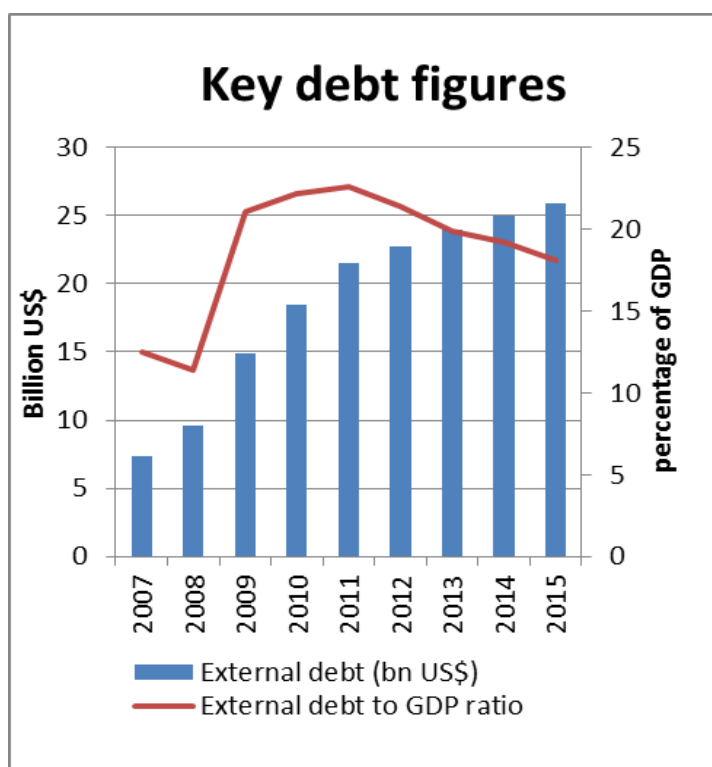


Figure 7: Key debt figures. IMF (2010a), p. 2

It is not clear how the new debt management unit will relate to the existing Department for Debt Financing and Management within the Ministry of Finance. The legal framework for the new debt management unit still needs to be incorporated in the statute of the Ministry of Finance.

Eurobond issue

Angola has for a while been working on preparing the ground for issuing sovereign bonds to diversify its access to credit beyond bilateral credit lines. Sovereign bonds, or Eurobonds as they are often called, are government papers issued on the international financial markets. The first step is to get a credit rating and as noted this step was completed in May 2010 when Angola got a B+ rating. The question now is when the government will move forward with the issue, how much they will try to raise and at what interest rate. According to a centrally-placed observer Angola could easily raise between US\$ 500 million and US\$ 1 billion at an interest rate of 7%. US\$ 4 billion, a figure originally put forward, is now considered too high and risky by the credit rating agencies²³⁹. Then Director of Macroeconomic Policies at the Ministry of Economic Coordination, Carlos Panzo was quoted in May 2010 saying that: "Increased enthusiasm for the country, and investor appetite for emerging market risk, gives us confidence that any debt sale would be a success."²⁴⁰

²³⁹ Emerging Markets (May 25, 2010), *Angola earmarks bond income for budget support*, <http://www.emergingmarkets.org/Article/2578404/Angola-earmarks-bond-income-for-budget-support.html>

²⁴⁰ Ibid.

A positive knock-on effect of a Eurobond issue could be increased transparency as the economy would become more globalized and subject to scrutiny from investors that are increasingly concerned about transparency issues, partly out of ethical concerns but also because this means less risky business.

5.6 Central Bank and Monetary policies

The focus on Central Bank reform in the aftermath of the crisis has not directly addressed the need for an overhaul of the 'hard Kwanza policy'.

The authorities have expressed that in the event of renewed pressure on the currency they would follow a similar approach. Monetary policies are aimed at rebuilding international reserves (performance criteria) and controlling monetary growth. The government has said that it will loosen monetary policies allowing greater flexibility of the exchange rate once more stability has been achieved. By the end of 2010 the US\$/Kz exchange rate had stabilized at around 92 Kz/US\$1 and the spread between the official and parallel markets had been reduced to roughly 5%. The soundest approach to allow the Kwanza to regain strength would be through a fiscal consolidation as outlined above.

Central Bank governance

The IMF places quite a lot of emphasis on improving governance of the Central Bank (BNA). Interestingly this was not on the agenda at the outset of the programme but it entered forcefully with two 'prior actions' requesting the publication of the audited financial statements for 2008 and 2009 which was done in April and June 2010 respectively²⁴¹. In the fourth review this is followed up by a structural benchmark for the completion of the 2010 audited financial statements by June 2011 (see appendix II for an overview of the structural benchmarks). In addition no fewer than five structural benchmarks to mitigate and safeguard risks and one to strengthen central bank governance were added during the first review. The latter aims to reconstitute the BNA's audit board, among other things by "*replacing the member who has a conflict of interest*"²⁴². This structural benchmark had not been met at the time of the fourth review but was rescheduled and met by March 2011²⁴³. Of the five benchmarks on 'mitigating safeguards', one had not been met at the time of the fourth review. This is a request of the Internal Audit Office of the BNA to issue semi-annual reports on compliance with the foreign reserve investment guidelines.

This development indicates that the IMF has become aware of weaknesses within the BNA after the initiation of the programme, or at least understood them in more detail. All are very relevant reforms that hopefully will turn the BNA into a stronger and more competent guardian of the country's international reserves.

²⁴¹ The financial statements are available on the website of the Central Bank <http://www.bna.ao/default.aspx?c=257>

²⁴² IMF (2010b) op. cit.

²⁴³ Ministério das Finanças (22 de Março de 2011): *Banco Nacional de Angola já tem Conselho de Auditoria* http://www.minfin.gv.ao/press/news_264.htm

Box 4: The SIGFE flagship grounded?

The flagship of the modernization programme of the management of the public finances has been the Integrated State Financial Management System (*Sistema Integrado de Gestão Financeira do Estado - SIGFE*). It is therefore important to review what role it played during the crisis which is done briefly in this box. The implementation of the system from 2004 onwards was seen as yielding positive results and there were great expectations about the system contributing to further improvements in accounting and reporting and thereby increasing transparency of budget execution. It was recognized nonetheless that there were a number of weaknesses such as the lack of rigorous data on the revenue side. Data on debt was also weak because of some databases in the tax and treasury departments being incompatible with SIGFE. It was perceived as urgent to address this issue through the development of automatic interfaces. It was also noted that attempts to install a SIGFE terminal at Sonangol had failed leading to delays of up to three months in registering quasi-fiscal expenditures in the system.

The rollout of SIGFE was not completed in 2008 as planned and extensive capacity constraints continue hampering the reliability of the system and 20% of budget expenditure is still not registered within SIGFE. According to the IMF, progress on training for SIGFE users has been ‘moderate’. Among users a reported limitation is the lack of support mechanisms in case of technical difficulties. The weaknesses are confirmed in a report from 2009 on the impact of the USAID-funded Angola fiscal reform project aimed at strengthening the fiscal programming unit at the Ministry of Finance. In this report it is noted that “*Government spending information by some agencies is not yet in SIGFE and so subject to error, non-reporting, or tardiness in reporting*”. It also says that it will take several years before SIGFE will be “...fully able to incorporate below-the-line accounts.” Adding to this uncertainty about the quality of the data generated by the system, there are repeated references in the four IMF SBA reviews to date that the SIGFE has limited coverage and reliability.

As with the other parts of the public financial management system the crisis exposed SIGFE’s weaknesses. A crucial flaw in the system pointed out by the 2007 CMI report was that it did not establish a link between the commitment-verification-payment stages of the budget execution process. As we have seen above this was one of the most critical failings in the budget process during the crisis leading to the massive accumulation of arrears. Unfortunately the potential of using SIGFE to ensure that a commitment is backed up by a guarantee of payment seems to have gone by unnoticed in the considerations about how to strengthen the public financial management system. It is surprising that it has not figured prominently in the authorities’ reform efforts. SIGFE features only marginally in decree 24/10 and apart from in the sections on data quality it is barely mentioned in the IMF programme and as such does not form part of the structural benchmarks focused on improving public financial management. It is important that the IMF and other international partners refocus on this issue and support the government to improve the system, invest in capacity building and support mechanisms designed in collaboration with users.

5.7 Transparency, openness, access and the role of civil society

Transparency has been a central benchmark against which progress has been measured throughout this analysis. In this section we look at two specific areas where transparency is critical, namely in the extractive industries and in the budget process. We also look at the tendency to undertake budget revisions on a regular basis as this is a specific problem in the Angolan budget process that specifically challenges transparency.

5.7.1 Extractive Industry Transparency

The transparency debate in Angola is mostly related to the extractive industries and revenues from these sectors (mainly oil and diamonds but oil revenues exceed revenues for the diamond sector by far). It has not been clear to the public how the government handled the significant windfalls generated within the oil sector between 2004 and 2008. No legislation has been in place to indicate how these

funds should be managed. The growth of the international reserves indicates that most of the windfall was deposited there, but this does not provide sufficient detail of the handling of these funds. In addition to the publication of oil revenues on the site of the Ministry of Finance that has been done since 2004, the recent publication of Sonangol's audited financial statements should represent a major step in the right direction in terms of transparency. Unfortunately, this positive development is blurred by major discrepancies as documented in part II of this report.

Angola has not joined the voluntary Extractive Industries Transparency Initiative (EITI), which would require the government to publish revenues from oil, gas and minerals and this appears to remain off the government's agenda. Joining this voluntary initiative would help establish a framework for reconciling the discrepancies between data from Sonangol and the Treasury. Moreover, it would open up this process to the public through institutionalized participation of civil society organizations.

While joining the EITI is a decision that can be made by government, the implications of the Dodd-Frank legislation in the USA that will take effect from 2012 are not optional. Having been termed a "*historic step to ensure energy industry transparency*" this legislation forces extractive industry companies registered with the US Securities and Exchange Commission (SEC) to publicly report how much they pay governments for access to their oil, gas and minerals²⁴⁴. Currently 29 out of the 32 biggest oil companies in the world are registered with SEC which means that the legislation is quite broad ranging (and does not exclusively apply to American or 'Western' companies). Other similar international initiatives to promote extractive industry transparency might be underway but the Dodd-Frank legislation is the only concrete initiative so far. When it takes effect the idea is that it could be used by civil society to hold governments to account. It will be a big challenge, however, for Angolan civil society to identify, compile and use this information to get a more accurate picture of Angolan oil revenues. It will for example not shed light over Sonangol's revenues as the state oil company is not covered by the legislation.

5.7.2 Openness and access to budget documents

One way to measure the level of a country's budget transparency is through the International Budget Partnership's Open Budget Initiative²⁴⁵. This survey is based on a questionnaire that covers all relevant budget documentation based on international best practice. It is carried out in 85 countries that are ranked according to their respective score.

In 2010, Angola's score on the Open Budget Index (OBI) increased from 4% to 26% moving it from the category of countries providing 'scant or no information' to countries providing 'minimal information'²⁴⁶. Although still low in relation to international standards, this represented a significant improvement. The advancement rests almost exclusively on the fact that the government has started making the executive's budget proposal available on the website of the Ministry of Finance before it is approved by the National Assembly. In the past, the budget proposal was considered public only after it had been approved by parliament.

Unfortunately the publication of the budget proposal has not been systematized with regular updates. In August 2010, the 2010 budget proposal (that improved Angola's OBI ranking) still appeared on the Ministry of Finance's website as the 'budget proposal' and the 2009 budget still appeared as the

²⁴⁴ Revenue Watch International (2010): *U.S. PWYP Law 2010 - Sec. 1504, Dodd-Frank Wall Street Reform Act* <http://resources.revenuewatch.org/en/official-document/us-pwyp-law-2010-sec-1504-dodd-frank-wall-street-reform-act>

²⁴⁵ See <http://www.internationalbudget.org/what-we-do/open-budget-initiative/>

²⁴⁶ International Budget Partnership (2010): *Open budgets transform lives – the open budget survey 2010*, http://www.internationalbudget.org/files/2010_Full_Report-English.pdf

‘current budget’ under implementation. The enacted 2010 budget was never posted online. Another concern that was raised in interviews was that the uploads of budget documents at some point in 2009 was changed from being easily accessible electronically converted pdf documents to massive 100 megabytes scanned documents that were almost impossible for civil society organizations (with slow internet connections) to download. It should be noted, however, that the website was updated in late 2010 with the 2011 budget proposal in an easily-accessible format²⁴⁷.

According to a representative of the Ministry of Finance it is a ‘struggle’ to get authorization to publish budget documents²⁴⁸. It is problematic however that staff are not automatically authorized to post certain documents such as the Executive Budget Proposal once it is submitted to parliament. This illustrates that the government is still coming to terms with this kind of relationship with the public and still needs to put the right systems in place. The National Assembly also ought to play a more proactive role in disseminating budget information but this is not the case and it does not even have a functioning website. As noted in the analysis of Law 15/10 on the general framework of the budget process above, article 74 states that ‘relevant’ budget documents should be publicized. As noted there is some ambiguity in the way the article is formulated and civil society needs to push for the interpretation of this article to become as wide-ranging as possible.

Another major problem in relation to accessing budget documents in Angola is related to the fact that key budget papers either do not exist or are prepared with a substantial time lag. The quarterly budget execution reports are a case in point as they are not produced. It will be important for the government to follow up on the implementation of the structural benchmark requiring the publication of these from June 2011, which is the new deadline, set in the fourth review of the IMF programme. The year-end budget execution reports for 2008 and 2009 were substantially delayed. The most recent year-end report that has been published on the website of the Ministry of Finance is from 2007. The year-end report for 2009 was submitted to the National Assembly in November 2010 but seemingly no report had been submitted yet for 2008. As noted earlier the extension of the deadline for submitting the year-end budget execution report to the National Assembly from April to September violates international best practice. On the other hand, if it means that reports are actually produced, published and disseminated it could represent a positive change.

The non-existence of an audit of the budget, as discussed above, is another drawback. It is crucial that the National Assembly makes it normal practice to request the Tribunal of Account to audit the budget.

5.7.3 Budget revisions

In part II of this report a number of budget revisions were referred to and the issue of the poor projections of the 2010 budget review was briefly discussed. These budget revisions constitute, in our view, a major problem in the Angolan budget process. They are not the type of mid-year reviews that are described in the OECD best practice on budget transparency that should be based on a comprehensive update of the budget’s implementation. In fact, the Angolan budget revisions do not take spending into account at all. Rather than a concern with actual spending, usually the reason for the revision is the fluctuation in international oil prices, the fundamental component of the country’s macroeconomic framework. These external developments then enable the government to adjust its revenues and expenditures upwards or downwards. The trend has generally been upwards (with 2009 as the only exception) leading to increased budgeted expenditure. This could be interpreted as irrational when budget execution has generally been low as a result of the country’s limited absorptive capacity. Moreover, as noted, it is not taken into consideration how much has actually been spent. The

²⁴⁷ See <http://www.minfin.gv.ao/docs/dspOrcaCorren.htm>

²⁴⁸ Interview, Luanda, September 2010

main problem with this practice is that it upsets the flow of the budget process by presenting new budget proposals every six months while still maintaining an annual reporting cycle.

This could perhaps be seen as acceptable in extreme situations such as in 2009, although arguably the government should have predicted that their originally-budgeted oil price was too optimistic given the free-fall from July 2008 onwards. Under normal circumstances this kind of budget revision should not be accepted as it increases the burden on the central administration and the members of the National Assembly and absorbs already restrained capacity from other critical parts of the budget process. It also complicates budget units' ability to plan, invest and deliver services and it makes it much more difficult for the National Assembly, members of civil society and indeed the government itself to monitor spending. Which budget figures should be used for example for the year-end report? All deputies we interviewed noted that this practice was problematic for their efforts (including the MPLA representative noting that this “*duplicated work*”²⁴⁹). In 2010 the revised budget was only finalized in August leaving budget units and the ministries involved in budget preparation very limited time to produce the budget proposal for 2011²⁵⁰.

On the positive side, it can be noted that at least the budget revisions are being done in an open and transparent way, even if the end result is less transparent, more confusion about the figures and overloading ministry staff and deputies.

Strangely this is an issue that seems to be of little general concern and the IMF has – perhaps unwittingly – endorsed it in the fourth review where policy discussions around the scale of public investments in the 2011 budget is concluded: “*The final agreement was that the 2011 budget would adopt a cautious stance, largely following the staff proposal; but that this position could be revisited in mid-year if oil prices evolved more favorably than assumed.*”²⁵¹ At first hand this could seem like an easy solution for the IMF in relation to concerns about increased budget expenses, but the problem is that this bargain will undoubtedly result in a repetition in 2011 of the problems described above. Instead the IMF should put more emphasis on supporting the Angolan government in making its projections better and identifying an acceptable level of investment that would be binding until the end of the year with any surplus being put in the Sovereign Wealth Fund. The improvements in revenue forecasting that were discussed above should enable this transition.

5.8 The role of civil society

Civil society can play a central role in monitoring the preparation and execution of budget policies and this can contribute to strengthening transparency, accountability and efficiency in public financial management. The question that we seek to answer in this section is whether Angolan civil society has become better at playing this role since the first CMI budget report was published in 2007. In the previous report the demand for good economic governance from Angolan civil society was described as weak. Since then budget work has been kept on the agenda by a few active civil society organizations (CSOs) and a civil society textbook on the budget process has been produced, as recommended by the 2007 CMI report. The national budget was also one of the main topics of the third Civil Society Conference held in 2009 in Benguela. In addition to the broader civil society conference *Acção para o Desenvolvimento Rural e Ambiente* (better known simply by its acronym

²⁴⁹ Interviews, Luanda, September 2010.

²⁵⁰ See deadlines described in the section of the new budget law above.

²⁵¹ IMF (2011): *Angola: Fourth Review Under the Stand-By Arrangement* p. 6 <http://www.imf.org/external/pubs/cat/longres.aspx?sk=24647.0>

ADRA) and the *Rede da Sociedade Civil de Educação Para Todos* (Education for All civil society network) held a conference in December 2009 addressing the 2010 budget²⁵².

In this section special attention will be given to two CSOs in Angola that stand out for their budget work. The first is the Catholic Church's Commission for Justice and Peace (CCJP) and the second is ADRA. The work of other organizations that were referred to during the research for this report is also briefly described. The final section makes some suggestions for the way forward for civil society.

5.8.1 The budget manual

An initiative that was highlighted in several interviews with civil society representatives was the development of a civil society budget manual (*Manual do OGE de Angola*) which was funded by the European Commission's Support Programme for Non State Actors (*Programa de Apoio aos Actores Não Estatais - PAANE*)²⁵³.

The World Bank facilitated the process to develop the manual with substantial civil society participation. The process started out very positively with lots of engagement and debate about the scope of the manual but ended up disappointing some because it did not take into account many of the recommendations on form and content made by CSOs involved in the initiative. Several people we interviewed noted it did not turn out to be as useful as it could have been. A common feeling was that the manual should have been more simple and practical and more than one organization expressed that they felt they had even wasted time and resources by participating in the process²⁵⁴.

The 73-page manual provides a detailed introduction to the Angolan budget legislation, but it is quite theoretical and includes few practical tools and methods suggesting how to get started working on budget issues in the Angolan context. This is what many Angolan organizations would need to begin budget work. The manual was distributed widely in 2010 but already needs to be updated to reflect the new budget legislation following the adoption of the new constitution in February 2010. Considering the overall content of the manual, as well as the less positive observations made by organizations involved in its compilation (who were supposed to be its end-users), the exercise can be seen as a missed opportunity to have got more organizations engaged in budget work.

5.8.2 The principal organizations working on budget issues

CCJP

The Catholic Church and its Commission for Justice and Peace (CCJP) was praised in the 2007 CMI report and described as: "...with little doubt the most important of those focused on budgetary and public finance issues in Angola."²⁵⁵ This role was partly attributed to the 2006 Pastoral Letter on economic justice (published by the leadership of the Church) and partly to its role in the International Budget Partnership's (IBP) first Open Budget Initiative (OBI) in 2006. Since then CCJP has carried out the research for two more consecutive versions of the OBI Survey (2008 and 2010)²⁵⁶. CCJP and its international partners (IBP and a consortium of Catholic development agencies) should be

²⁵² ADRA & Rede EPT – Angola (2009): Relatório da Conferência Nacional sobre o OGE 2010 Angola. <http://www.didosweb.com/LinkClick.aspx?fileticket=Xgrfy737hpM%3d&tabid=93&mid=442&language=pt-PT>

²⁵³ PAANE (2009): *Manual do Orçamento Geral do Estado de Angola*, <http://paaneangola.org/modulos/arquivo/arquivos/20100419101546.pdf>

²⁵⁴ Interviews, Luanda, September 2010.

²⁵⁵ Isaksen et. al. (2007) op. cit. p. 68

²⁵⁶ The findings of this report were referred to in the section on openness and access to budget documents

commended for their consistency in keeping this pioneering work on track for six years. This is the kind of approach that is needed to build up a solid foundation from which to do advocacy and is unfortunately not in generous supply within Angolan civil society. While CCJP deserves credit for having kept up the analytical work, it has unfortunately been much less vocal on its findings and not carried out much systematic advocacy on budget issues²⁵⁷.

There were also great expectations about the CCJP initiating comprehensive budget tracking (social monitoring) after this was stated in the 2006 Pastoral Letter. Unfortunately, this exercise has been very slow in getting off the ground, partly as a result of what appears to be delayed backing from the leadership within the church, as well as internal capacity constraints and difficulties in accessing information²⁵⁸. In 2010, the CCJP at its annual meeting reiterated its commitment to carry out budget monitoring in the entire country. As a spin-off from this work the local Commission for Justice and Peace in Lubango has now initiated its own project on budget monitoring.

ADRA

The ‘pole-position’ of CSOs working on budget issues seems to have been taken over by ADRA which is one of the most skilled and competently-led organizations in the sector.

ADRA was the main driver behind the national budget conference in late 2009 and has carried out a mapping of CSOs interested in budget issues. This mapping showed that organizations working on social issues such as health and education had great difficulties in understanding the budget²⁵⁹.

It has taken the lead of the Angolan Political and Social Observatory (*Observatório Político Social de Angola – OPSA*) on budget matters publishing two papers analysing the budget proposals for the revised budget in August 2010 and the 2011 budget in December 2010 in the name of this network²⁶⁰. The most recent of the two papers focuses on four aspects of the 2011 budget:

1. The social sectors and agriculture
2. The regional asymmetries
3. The revenue base and the diversification of the economy
4. The budget execution

The paper commends the Ministry of Finance for publishing the budget proposal on its website but finds that the limited participation in the preparation of the budget results in a budget that does not respond to the needs of the citizens. At the same time as criticizing the government for this, it also comments that fellow CSOs and political parties did not take advantage of the information available to create more debate around budget priorities: “*There seem to be a weak capacity to put forward positions [on the budget] and a weak involvement of members and sympathisers in the discussions...*”²⁶¹. It briefly analyses the budget execution based on 2009 figures and notes that ministries and other budget units often are left without funds for extended periods of time which

²⁵⁷ In addition to working on budget issues CCJP has also had focus on the extractive industries and published reports on the oil sector in 2008 and diamond sector in 2010.

²⁵⁸ Interviews, Luanda, September 2010

²⁵⁹ Interview, Luanda, September 2010

²⁶⁰ OPSA/ADRA (2010): *Análise da Proposta do OGE*, Luanda, Agosto de 2010 and OPSA/ADRA (2010): *OGE 2011 – Elementos para o debate*, http://cncs2009forum.bligoo.com/media/users/4/211695/files/23110/An_lise_da_Proposta_de_OGE_para_2011.pdf

²⁶¹ Ibid. p. 3: *Parece existir uma fraca capacidade de argumentação das suas posições e um fraco envolvimento dos seus militantes e simpatizantes nas discussões...*

results in numerous blockages in the budget execution. It also laments that the level of budget execution both on revenue collection and expenditures was very low in 2009. These are valid points. However, it should be taken into account, as we have shown in this report, that 2009 was an exceptional year for Angolan public finances and it might be fairer to look at 2008 figures to get a better overall understanding of budget execution.

In its analysis of the 2011 budget proposal ADRA points out the very low spending on health and education in Angola in comparison with other countries in the region²⁶². Trends in the evolution of spending on health, education and agriculture are presented showing a slight decrease in the amounts budgeted for health and education but an increase in the amount budgeted for agriculture. It goes on to address a number of other issues and concludes with recommendations for civil society, political parties and the government. The civil society recommendations, which are shared by the authors of this report, are:

1. Civil society groups with different thematic foci could increase the efficiency of their work by studying and distributing the national budget.
2. Civil society could advocate for local priorities to be reflected in the budget.

Political parties meanwhile are recommended to articulate alternative budget policies more clearly, strengthen the quality of budget debates in the National Assembly and the monitoring of budget execution both at central and local level. The most important recommendations to the government are to turn the preparation of the budget into a participatory process, reallocate funds from military and security to pro-poor expenditures (social sectors, agriculture and the transformative sector), strengthen efficiency and control with budget execution to reduce corruption and strengthen the capacity of state institutions. On the revenue side the paper recommends a revision of the income tax to enhance income redistribution and extend the tax base to diminish the dependency on the oil sector²⁶³. These are highly relevant general recommendations that are broadly shared by the authors of this report.

After taking this crucial first step into budget work ADRA needs to first ensure the continuation of the research. This can be done by identifying key areas to update when the government publishes a new budget. It is important in this respect to create a database to be able to easily monitor for example the trends in allocations to different sectors. It is also important to continue monitoring differences between allocations and actual spending, and not get them confused.

Secondly, they need to work on the timing and dissemination of the research. The 2011 report was circulated on December 13, 2010, two days before the budget was approved, which is not far enough in advance to make a significant impact²⁶⁴. It was also not published on the organization's website. To have a good impact, a report like this needs to coincide with the Executive submitting its budget proposal to the National Assembly.

The third and most important step will be to engage in systematic advocacy on the fulfilment of the recommendations. This depends on entry points to the political system which is challenging in the Angolan context. ADRA has however already taken the first step securing invitations to the National Assembly's 5th Commission on Economy and Finances where it has been able to present its views.

²⁶² The comparison is based on a 2009 UNDP report (no further reference details) using 2006 figures for health and 2000-2007 figures on education.

²⁶³ It is interesting to note that ADRA was the only CSO of those interviewed which raised concern about the content of the tax reform and the fact that it is not subject to consultations with civil society.

²⁶⁴ Unfortunately the paper circulated is not dated and the date referred to here is the date it this paper was received by the authors of this report. ADRA might have circulated it to other recipients earlier.

However (and very telling of the Angolan context) ADRA was only invited *after* the budget had been approved, but this is still an impressive breakthrough.

5.8.3 Other organizations addressing budget issues²⁶⁵

In this section we provide a snapshot of other important organizations working on budget issues. The general impression is that many of the initiatives go on in isolation which results in a highly fragmented overall approach to budget work amongst Angolan CSOs.

Other organizations that were mentioned in interviews included the **Platform for Women in Action** (*Plataforma da Mulher em Acção*), which has embarked on a gender budget analysis. This is a highly relevant but also technically very challenging entry point to budget work.

An organization focusing on increasing accountability through budget monitoring and sector budget analysis is the **Council of Christian Churches in Angola** (*Conselho das Igrejas Cristãs em Angola - CICA*) in which the old protestant mission churches are the leading actors. CICA is supported by **Norwegian Church Aid** and has started up budget monitoring activities in three municipalities in Benguela, Kwanza Sul and Uíge. It puts a lot of efforts into organizing groups and getting a dialogue going alongside the municipal administrations. Concrete results of this work have yet to materialize however.

OPSA was mentioned in a number of interviews and they could be seen as very active. However, their engagement is largely driven by ADRA and it is not clear what added value the network presents to this work. Their website is no longer accessible.

Save the Children has worked on budgets for children in the past. In 2008 they collaborated with the Catholic University's research centre (*Centro de Estudos e Investigação Científica – CEIC*) on a publication addressing children's wellbeing in Angola. The publication included budget figures on social spending.

CARE international was also mentioned as they have produced a manual on local finances. It was not clear however if this manual was developed for CSOs or for municipal administrations.

The **Open Society Initiative** is an interesting organization because it is an international NGO (part of the George Soros-funded OSISA network) implementing governance and budget work in Angola. It is the only organization that has used the civil society budget manual for trainings of partner organizations and has also supported partners engaging in budget monitoring. It is strong actor that has been able to attract highly qualified staff and it plays a key role in training local organizations in budget analysis techniques.

An organization that holds a seemingly unrealized potential for **coordinating** budget work is the **Angolan Centre for Partnership Development** (*Centro de Desenvolvimento e Parcerias de Angola – CDPA*). CDPA has focused its work on the decentralization issue but it is well placed to coordinate a group of CSOs working on budget issues. This could help bringing more coherence between the various on-going initiatives which there seem to be a need for.

²⁶⁵ Eight civil society representatives were interviewed for this study and clearly it was not possible to get a full overview of the budget work being done in Angola. It would be helpful if ADRA published the mapping it has done of organizations working on budget issues on its website.

5.8.4 Way forward for civil society budget work

There is an urgent need for Angolan civil society organizations to play a stronger role in holding government to account and push for more transparency and efficiency in the management of public finances. This has not been easy in the years marked by the impacts of the global financial and economic crisis and volatile political environment as changes have occurred very rapidly. On the other hand CSOs have not been good enough at using the entry points provided by this situation.

For example is it unfortunate that no CSOs seem to have been aware of the revision of law 15/10 of July 14 on the general framework of the budget process. As we saw above this law has resulted in some gradual improvements but also some setbacks to the Angolan budget process in comparison with international best practice. With its detailed knowledge of the budget process and best practices the CCJP were in an advantageous position to create debate about this reform and influence the text of the new law. No organizations are following the evolution of the IMF programme or using this as an entry point for influencing government policies. This is despite the fact that the IMF is obliged to meet with civil society if there is a request for this from local organizations.

In line with the suggestions made specifically in relation to ADRA's promising work above, Angolan CSOs in general need to invest in strengthening budget analysis with a focus on more consistent and targeted budget-related advocacy. Advocacy needs to be timed well and systematically implemented. Organizations should for example insist on budget documents being published and disseminated in line with Article 74 of law 15/10 that addresses publicity of budget documents. Moreover CSOs working on budget issues should insist on being invited to the budget hearings organized by the National Assembly's 5th commission.

The work should be carried out on an ongoing basis and not only done towards an annual conference such as the one organized by ADRA in late 2009, although this does represent an important stating point. More organizations should be brought on board and more organised groups such as ADRA and the Angolan office of OSISA could play a vital role in providing less-well developed organizations with the necessary tools to embark on this kind of work.

To support this process however the civil society budget manual needs to be updated to accommodate the new legislation. It should be made more practical and user-friendly taking the successes and failures of the first attempt into consideration. Above anything else, the objective should be to develop a simple and practical manual tailored to the specificities of Angola's national budget to help organisations and their members, some with limited education, to increase transparency, accountability and efficiency in the management of Angola's public finances.

5.9 Summary of part III

The eventful years of 2008-2010 underlined the need for reform in Angola's management of its public finances. This reform has been pursued on several fronts, led by both the government and other actors.

One major driver for reform was the involvement of the IMF through the Stand-By-Arrangement (SBA) approved in 2009. As well as providing US\$ 1.4 billion, this programme helped increase the credibility of Angola's economic policies and played a major role in helping Angola secure an international credit rating of B+. The SBA sought among other things to curb the accumulation of arrears, but this proved difficult. The fourth review was delayed leading to concerns that the programme had gone off-track, although it was finally completed in early February 2011. If the programme can be kept on-track until its conclusion it will continue to boost Angola's credibility among foreign investors possibly even improving its credit rating.

Budget execution reform has been pursued by the government through two channels: the hiring of Ernst & Young to provide support and the introduction by government of a raft of new legislation on fiscal and public investment policies.

To date little is known publicly about the Ernst & Young contract due to confidentiality terms but a Ministry of Finance memorandum indicates that the focus has been on reviewing the arrears situation. This report notes that despite the fact that the work of Ernst & Young diagnosed the problem including gross violations of the budget execution rules the government decided to pay the arrears apparently without holding to account the public officials that broke the rules. Enforcing existing rules is a key challenge to improve public financial management. The report finds that a strengthened and independent Tribunal of Accounts could assume the responsibility of holding public officials to account and an effective anti-corruption commission could play a supporting role.

In terms of new legislation, several new laws and decrees were adopted during 2010 dealing with budget execution, the Public Investment Programme (PIP), procurement, and the general budget process. It is too early to say if Decree 24/10 is going to strengthen controls over budget execution but early signs are not promising. Comparing it to earlier legislation, there is a lot of repetition, in relation to the rules on commitment, verification and payment. These are areas which have already been grossly violated in the past and it is not clear how repeating them will change the current situation. The decree on PIP while generally clear and straightforward does not present a new project appraisal system and leaves too little time for ministries and provincial governments to propose and comment on new proposals. The legislation on the general budget process also brings few positive changes, and includes several shortcomings, including non-binding audit requirements, non-binding formulations on budget transparency, a budget cycle with too little time to involve of the National Assembly and a lack of serious attention to issuing quarterly budget execution reports. Furthermore, if these laws and decrees are to have any real effect, the executive must focus on enforcing their terms.

Other reform areas relevant to this report are revenue, expenditure, and debt management. On the revenue side, a model has been developed to project expected revenue from oil. In terms of handling oil revenue, the IMF has encouraged the government to adopt a Sovereign Wealth Fund. However, the government seems to have back-tracked on this. A general tax reform which figured as a structural benchmark in the SBA was approved by the Council of Ministers in September 2010. Management consultants McKinsey & Co has been engaged to help design the reform programme but little is known to the public about the details of this reform.

In relation to expenditure policies meanwhile, the government has initiated several reforms. Firstly, attempts have been made to phase out fuel subsidies, but commitment waned in 2010 (seemingly due to fear of a public backlash) and the future of this reform remains unclear. Secondly, steps have been taken to improve social spending and regional asymmetries. The government will need to continue addressing the prioritization, quality and effectiveness of this expenditure. It also needs to address the quality of the data on the social situation that continues to be poor.

To improve debt management the government has created a specialised debt management unit, and it is developing a debt management strategy in conjunction with the IMF. There are plans to issue Eurobonds which could have a positive effect in terms of boosting the demand for transparency by foreign investors.

The government has insisted on following the 'hard Kwanza policy' in the aftermath of the crisis but the soundest approach to allow the Kwanza to regain strength would have been through fiscal reforms (particularly bringing down the non-oil fiscal deficit). On a more positive note, the Central Bank has become a focus point for reform through the IMF programme with specific new measures that will hopefully improve management of the international reserves.

Increasing transparency is a central benchmark for measuring progress throughout this analysis and two issues deserve further attention in this regard.

The first is the extractive sector. Since 2004 information on oil revenue has been published on the Ministry of Finance website, and Sonangol recently made available for the first time, audited financial statements. Unfortunately, this positive development was marred by major discrepancies of data from different government sources in the reported amounts which this study has been unable to reconcile. While Angola is not a member of the EITI, the Dodd-Frank legislation from the USA could force more transparency into oil revenue payments. This will take effect from 2012 and covers companies registered with the US Securities and Exchange Commission (SEC) but unfortunately not Sonangol.

The second issue is transparency in the budget itself. Angola registered large improvements in 2010 on the International Budget Project's Open Budget Index, but while these gains are positive, the country is still categorised as a nation providing 'minimal information' about its budget. Existing legislation states that 'relevant' budget documents should be publicized. Civil society needs to push for an interpretation of this article which is as wide-ranging as possible.

The regular budget revisions made during the financial year make budget monitoring even harder. Under normal circumstances this kind of budget revision should not be accepted as it increases the burden on the central administration and the members of the National Assembly and absorbs already restrained capacity from other critical parts of the budget process.

Turning to the Angolan civil society and their work around strengthening public financial management, it is commendable that a budget manual has been developed to help non-governmental organisations to engage in the budget process. However, the manual needs to be updated to accommodate new legislation and the new Constitution, and would benefit from being made more practical and user-friendly. A couple of CSOs have carried out important budget work but not made the most of the opportunities and entry points provided by the financial crisis to advocate for changes in Angola's public financial management. Angolan CSOs in general need to invest in strengthening their budget analysis capacities and improve the timing and quality of their advocacy.

6. Conclusion

In this report we have investigated the impact of two intertwined trends or developments – the domestic political changes and the global financial and economic crisis - on the reform of Angola's budget process and public financial management (PFM) between 2008 and 2010. We conclude this report with a discussion of the depth and sustainability of these reforms. Was the crisis really a wakeup call and has the government made good use of the crisis to address the longstanding problems in the budget and PFM systems? Will the reforms put in place have a lasting impact on Angola's economic governance through improving accountability, transparency and efficiency in the management of public finances? And what are their long term chances of success in the Angolan context?

The global financial and economic crisis put most economies around the world under severe pressure and the government's interventions should be seen in this light. It is clear however that the crisis exposed a number of existing weaknesses in the Angolan public financial management system. These weaknesses were exacerbated by the accelerated pace of economic and political activity in 2008 when the crisis hit Angola.

The most decisive government response to the crisis was monetary. It was sustained by the large amount of international reserves accumulated since 2004 that enabled a forceful intervention in the foreign exchange market in the beginning of the crisis. However this method came to terms when by late April 2009 the demands for foreign currency began to spin out of control. At this point the Central Bank had used around US\$ 8 billion to intervene in the market and it then decided to sell limited amounts of dollars at a fixed exchange rate of 78 Kz/US\$. Although the authorities could not have responded differently to the crisis when it hit Angola, this report finds that the fragility and long-term unsustainability of the 'hard Kwanza policy' which is dependent on high oil revenues has been duly exposed. The government does not however seem to be ready to break with this policy which it still considers the most viable way to keep the Kwanza stable and inflation under control.

Two other key weaknesses of Angola's PFM exposed by the crisis were the difficulties the government faced in managing revenues and controlling budget execution.

Revenue management is severely hampered by the parallel public finance system of quasi-fiscal expenditures managed by the national oil company (NOC) Sonangol. As documented by this report this problem continues. Official figures indicate that Sonangol spent US\$ 5.3 billion on behalf of the government and withheld another US\$ 2.6 billion in cash in 2009 where the value of the government's oil revenues were around US\$ 14.6 billion. This amount was about half of the level in 2008 and only half of that was transferred to the Treasury. This situation has made it difficult for the Ministry of Finance to steer the public finances through the crisis in a prudent manner. It could not draw on the budget surpluses of previous years as they had been deposited in the international reserves and it could not raise funds by issuing bonds as there was no market interest. The result was an acute liquidity crisis in the Treasury.

This situation, coupled with the inability of the Ministry of Finance to control the spending of budget units (as they continued not to adhere to existing budget legislation) significantly weakened Angola's response to the crisis. Attempts were made, notably in the 2009 revised budget, to reduce spending by 16.6%. Although budget figures indicate that this reduction was achieved, it does not include the accumulation of up to US\$ 9 billion in arrears during 2009 which happened as a result of budget units continuing to make spending commitments mainly to construction companies. The commitments violated existing budget execution rules but after years of neglect of enforcing these rules, this should not have surprised the authorities. The rules were neglected largely as a consequence of the country's extensive post-war reconstruction needs and the populations' expectations of a 'peace dividend' (through improved infrastructure and service delivery) and the abundance of oil revenues. This situation opened a huge window of opportunity for fraud and mismanagement of public funds and

when revenue plummeted due to the fall in oil prices, the impact of this poor management of the public finances was sorely felt.

The reforms put in place to address these issues were to a large extent driven by the government but also had added impetus from the IMF and its Stand-by-Arrangement which articulated a number of reforms.

The IMF programme is structured around three pillars: fiscal policies, monetary policies and the financial sector and outlined a long list of relevant reforms. Although a 27-month IMF programme can help kick-start a reform process, it does not necessarily provide sustained long-term reform. The limited length of the programme (and its associated close monitoring of Angola's economic policy) is exacerbated by the fact that the loan was heavily frontloaded with 80% of the funds being scheduled for disbursement within the first 15 months. This reduces the government's incentives to complete the programme if they feel they have to make too many sacrifices to keep it on track. Notably by the end of 2010, the government had already started backtracking on some of its commitments such as the pledge to phase out fuel subsidies and use a Sovereign Wealth Fund to save some of the oil wealth for future generations. The extent to which the reforms put forward by the IMF are taken on board by the government is therefore crucial for their long-term chances of success.

The engagement of the international accounting firm Ernst & Young holds more potential for leaving a lasting positive impact on public financial management, although there are still some concerns related to this relationship. For a start the company is being made to operate under a strict confidentiality clause and this represents a missed opportunity to shed light over the management of public finances. Fortunately the Ministry of Finance in 2010 circulated information such as the memorandums on the accumulation of the arrears that compensated for this lack of transparency. What counts in favour of this effort having a lasting impact is that the government has full ownership of the relationship. The hiring of the company is the strongest single indicator that the government is truly committed to addressing the arrears as soon as possible and possibly tackle uncontrolled spending. The government's highest priority seems to have been to pay the companies. This is illustrated by the decision to pay despite the gross violations of the budget rules and seem to have been done out of fear of the economy becoming paralyzed if payments were not settled. The legislative initiatives indicate however that there is some level of commitment to address the lacking control of the budget units too.

To show this commitment is real the government needs to move its focus from legislation to practice. Decree 24/10 (on budget controls) is a case in point. It strongly emphasizes the complexity of the legal framework but rather than addressing this problem it seems to aggravate it. The new procurement legislation is equally complex. Decree 31/10 on the Public Investment Programme (PIP) at least appears very clear and logical but it falls short of presenting a project appraisal framework which is one of the reforms on the government and IMF's agenda. To deepen the reform effort the government needs to consolidate and simplify legislation, invest significantly in building capacity across budget units so they are able to stick to the new rules, and crucially, penalize non-complying budget units. This effort needs to go hand in hand with strengthening the independence of the Tribunal of Accounts and put it in a better position to be able to hold budget units to account. These efforts are however up against the Angolan political economy where many individuals hold vested interests and there is a growing pressure to appear to deliver tangible service delivery (at whatever financial cost) ahead of the upcoming legislative election in 2012.

This report concludes that there are four reforms central to improving revenue management in Angola. These are the strengthening of revenue projections (which has been on the agenda from before the crisis), the creation of a Sovereign Wealth Fund (SWF), the implementation of a wide-ranging tax reform, and the role of Sonangol needs to be normalized and quasi-fiscal activities brought to an end.

Progress towards the first of these three reform areas is being made with the revenue projection model developed by AUPEC being operational and ministry staff trained in its use. The IMF is continuing to support the creation of a SWF although the government's position on this has changed from

supporting a mechanism for savings, to insisting on the need for investments in infrastructure and other growth-supporting projects. The argument is that investment will bring about long-term economic growth but this will only be the case if the quality of the infrastructure and contracts can be guaranteed. The governance and investment regulations of a SWF would have to be properly thought out but it could be a viable approach regulate the application of windfall oil revenues and smoothen spending which would increase the probability of quality in public investments. The government has made a firm commitment to tax reform, but the public has no details about the content of this legislation which could severely undermine its long-term sustainability. Finally the reform of Sonangol's role in the Angolan economy has begun as illustrated by the 'transitory dispositions' in decree 24/10. This process should be accelerated and quasi-fiscal activities should be eliminated as it is at the core of the problems affecting PFM in Angola.

Finally, included as, article 16 of the decree specifies how the obligations that have been assumed by Sonangol should be "treated" (if not addressed elsewhere). This tackles the provision of fuel to government entities that Sonangol has historically provided free of cost. It is established that the delivery of fuel should be accounted for and paid for by the budget units of dependent organs benefitting from it. The national energy company (ENE) and airline (TAAG) are specifically referred to. The last point in the article address expenditures related to the National Reconstruction Office (*Gabinete de Reconstrução Nacional - GRN*). This part basically summarizes the general budget execution rules and makes it clear that these also apply to GRN which has since been disbanded.

In addition to the efforts to bring public spending under control through the decrees and laws on budget execution, the PIP and procurement, expenditure reform efforts have centred on phasing out fuel subsidies and ring-fencing 30% of total expenditures for the 'social sectors'. The commitment to phasing out fuel subsidies (which currently cost about US\$ 4 billion a year) seems to have been very short-lived because of the government's anticipation of public resistance to this. The fiscal impact of the price adjustments in September 2010 has moreover been significantly reduced as a consequence of inflation. The target of keeping government social spending at 30% also misses the important element of ensuring the quality of this expenditure and it is therefore too shallow to be classed as a real reform effort. To increase efficiency the government needs to prioritize improving basic data on social issues and fast-track the preparations for the census so that it can better direct its public spending to areas of greatest need.

Strengthening debt management is a reform effort that has figured prominently on the IMF's agenda. This has so far resulted in the creation of a new debt management unit within the Ministry of Finance. It is not yet clear however how this unit will relate to the existing department for debt financing and management. The conclusion of the IMF programme, expected at latest by December 2011, will show if this is an area that the government will prioritize. At current levels, Angola's debt figures are sustainable but additional credit lines or falling oil prices could change this scenario quickly. The plan to issue Eurobonds will add to Angola's debts, but at the same time it is likely to increase the demand for transparency through interest from investors and credit rating agencies.

Although the above points represent a fairly strong reform effort to which the government appears somewhat committed, broader reforms are needed to strengthen transparency, accountability and efficiency. This is true both for the extractive industries and for the budget process.

In relation to the extractive industry the government has since 2004 been publishing oil and diamond revenues on the website of the Ministry of Finance and the publication of the audited financial statements of Sonangol in recent months has also greatly increased access to information (the publication of these were also a structural benchmark in the IMF programme). The positive development however is marred by the large discrepancies documented in part II of this report. There is an urgent need to address these discrepancies but this has not yet formally entered the reform agenda. Going forward, the best way for Angola to address these issues would be to join the voluntary Extractive Industry Transparency Initiative (EITI) which would require the government to publish and

reconcile revenues from oil, gas and minerals. Joining the EITI would send a strong signal about the country's commitment to transparency.

Likewise transparency in the budget process needs to be addressed. Angola could easily continue improving its score on the International Budget Partnership's Open Budget Index by securing that more budget documents are published on a systematic basis. A proactive interpretation of article 74 in the new general budget framework law (15/10) on publication of budget documents has the potential to improve budget transparency but it needs to be applied and that application monitored. Initiating regular elaboration and publication of quarterly budget execution reports is also crucial. This is one of the key structural benchmarks of the SBA that has been there from the outset but which has not yet at the time of this report been addressed, suggesting a lack of political will in this area. It is also important to reduce the constant budget revisions made throughout the financial year. These create an additional burden for the central administration and obscure the budget process making it more difficult for members of parliament and civil society to monitor budget execution.

These and other budget transparency issues need to be publicly tabled by civil society as it cannot be expected that the government will address them without pressure. Civil society could play a crucial role in strengthening transparency, accountability and efficiency in the budget process. This report however found that to date only a few civil society organizations in Angola are active in terms of budget work. The Catholic Commission for Justice and Peace (CCJP) as a previously key player seem to have reduced its engagement which is disappointing, but on a more positive note the NGO *Acção para o Desenvolvimento Rural e Ambiente* (ADRA) has scaled up its activities in this area. A number of other organizations are active but going forward more organizations need to come on board and international partners have an important role to play in supporting this process, especially in terms of capacity building to equip many more Angolan CSOs with the necessary skills.

More than anything else Angola needs to invest in building strong domestic institutions with sufficient independence to provide checks and balances in the budget process and management of public resources. This is the only way to keep vested interests under control. The new Constitution's institutionalization of power in the Presidency is a concern in this regard as the institutions that need to ensure accountability need to have powers to challenge anyone in society. For example the fact that the President is entitled to request a fast-tracking of the preventive control exercised by the Tribunal of Accounts is unfortunate as it signals that he is above this control.

The fact that the government continues to go through repeated personnel reshuffles and department restructuring (apparently influenced as much by personality as policy) is also concerning and suggests there is a lack of political will to settle on a single approach. Although it may of course also be argued that the government is trying to find the right framework in which to grow stronger institutions they need time to settle in to their roles and functions. This is hardly possible when roles and responsibilities continue to be in a constant flux. For now, this has created an unsettled base on which to sustain reform.

It is positive that the budget has moved to the centre stage in the new Constitution, replacing the previous National Plan, and that the existence of the government's economic team has been reconfirmed in decree 8/10. Unfortunately the recent changes have left a number of unanswered questions in relation to the functioning of this team. In the Ministry of Finance it will be interesting to see whether the new setup with a Secretary of State for the Treasury and the new Department for Financial Programming and Management will be better at enforcing the revisited budget execution rules and overcome the problems faced by the old Treasury department. It will also be interesting to see how the Ministry of Planning will handle its regained strength and formulate the government's macroeconomic policies. Reportedly it does not have the resources to perform this task. The most likely scenario is that this will de facto be handled by the Presidency which has already taken charge of negotiations with the IMF. Furthermore, the role of the demoted Ministry of Economy in this setup is far from settled.

The improvements in the governance structure of the Central Bank might turn it into a stronger institution despite the curbing of its autonomy which in any case has always been weak. A decision to move away from the hard Kwanza policy would be such a major change to the approach to macroeconomic management that it would be expected to come from the Presidency. This however is not likely to happen in the near future as oil prices are expected to remain high and spending pressures will increase in the run up to the 2012 elections.

The Tribunal of Accounts has increased its capacity to undertake a review of the state accounts (Conta Geral do Estado) but the new legislation (16/10) stipulates that the government is no longer obliged to submit this to the TC. This appears to be a significant reduction of the TC's mandate and a step in the wrong direction in terms of accountability. Moreover the Tribunal of Accounts needs full autonomy in order for it to be an effective controller of government expenditure. Other institutions that could play a supporting role such as the General Financial Inspectorate and an anti-corruption commission continue weak or non-existing.

The current status of a very large MPLA majority in the National Assembly does not enhance its role as a counterweight to the executive. The temporary suspension of control and oversight of the Executive which was instigated in 2010 is a case in point. Moreover, although there have been some improvements in technical assistance, opposition deputies say that the role of the National Assembly in the budget process had deteriorated after the adoption of the new Constitution because the process is seen as more controlled by the executive now than before the new Constitution. On the other hand it could be argued that the MPLA majority facilitates the government's ability to implement reforms that might be difficult in the short term but hugely beneficial in the long term. The government is expected to win a comfortable victory in the 2012 elections as the opposition parties are unlikely to be able to mount an effective campaign which would even begin to challenge the government's majority. This of course leaves a great responsibility on the shoulders of the incumbent government.

Civil society could play an important role in holding government to account and promote reforms in the budget process and management of public finances. For now, that seems a fairly remote possibility both because of the political context and the limited number of organizations involved. The seeds have however been sown particularly with quality research on the openness of the Angolan budget process having been carried out for a number of years. Leading civil society organizations involved in budget work need however to strengthen the advocacy component of their budget work and get a wider range of organizations involved. It is crucial that organizations start addressing provincial and municipal administrations too for example through monitoring budget execution and the enforcement of the new procurement legislation. This would help both deepening and sustaining reform efforts in the medium term.

It is time for Angola to move from an uncontrolled and haphazard approach to reconstruction to a transparent, accountable and efficient development paradigm where the pace of improvements might slow down but be much more sustainable in the long-term. For that to happen it needs strong institutions that imposes checks and balances in the management of the country's public finances. Although steps have been taken in the right direction the reforms analysed in this report are not yet deep enough to guarantee this transition. Moreover their long term chances of success is threatened by inherent pressures from vested interests and patronage systems that have an interest in moving back to the situation in 2008 where the government was 'paying with its eyes closed'.

7. Recommendations

7.1 The Angolan Government

Budget Execution

Regularly publish updates on the arrear situation to avoid creating suspicion that the situation is once again getting out of control

Give maximum priority to the elaboration and publication of quarterly and annual budget execution reports

Undertake a thorough review of all existing budget execution legislation (as referred to in decree 24/10) and replace it with a single law that consolidates and simplifies the rules and make compliance more straightforward for budget units

Maintain a degree of fiscal decentralization but ensure that budget units are held to account by strengthening ex-post controls, investing massively in building capacity and rigorously punish budget units not complying with rules

Shift the balance from formulating additional legislation to legal enforcement

Strengthen the independence of the Tribunal of Accounts by providing the body with full autonomy, putting in place a proactive and independent leader and make ex-post enforcement of the budget rules its main obligation

Undertake a thorough, transparent and participatory analysis of how to create an efficient anti-corruption commission with a real impact and follow the recommendations to set it up

Require Ernest & Young to build capacity and transfer skills to the General Financial Inspectorate and invest in strengthening this office

Public investments and procurement

Ensure that programming and execution of public investments is coordinated with recurrent expenditure programming

In collaboration with the World Bank review the new procurement law and its functionality through an update of the 2002 Country Procurement Assessment Report

Budget process

Ensure that the Executive's budget proposal is published and widely disseminated for discussion in the media and civil society

Start the annual budget preparation cycle at least one month earlier to:

- provide the National Assembly with more than the six weeks to analyse, discuss and approve the Executive's budget proposal (in line with OECD best practice)
- require that the budget is approved in early December to allow budget units to prepare their quarterly financial programming for the first quarter in a timely manner

Ensure publication of the year-end budget execution report within six months of the end of the fiscal year

Remove the ambiguity of article 74 of law 15/10 on publicity of budget documents by making all budget documents available to the public in a timely and systematic manner

Bring the six-monthly budget revisions based on changes in oil prices that have become a standard practice to an end

Revenue management

Ensure that fiscal data – particularly on oil revenue – is reconciled and future discrepancies minimized. This could be achieved by:

- using an international accounting firm such as Ernst & Young to reconcile all fiscal data available
- signing up to the Extractive Industry Transparency Initiative (EITI) and engage proactively in the reconciliation process promoted by this initiative

A Sovereign Wealth Fund (SWF) should *not* be created for the sake of creating it but with the main purposes of smoothening spending and regulate the application of windfall oil revenues, this could for example be achieved by:

- in the short-term: establish a fiscal rule fixing the price of oil in the budget at a conservative level that cannot be changed during the fiscal year with windfalls above this value being transferred to the SWF
- in the medium-term: balance non-oil revenues with recurrent expenditures albeit allowing for a development budget including well-defined investments in strengthening human resources that are not necessarily capital investments (mainly in education) to be financed with proceeds from oil
- as quality of public spending increases allow for the development budget to be gradually increased while phasing out the contribution made from oil revenues

If a SWF is created ensure that its legal framework is designed to safeguard checks and balances to its governance and management learning from experiences from similar country contexts

Push ahead with Tax Reform but ensure that this is done in a way that creates openness and public debate to increase the likelihood of a sustained broadening of the revenue base

Expenditure policies

Phase out fuel subsidies and align fuel prices to those paid in neighbouring countries

Analyse the social impact of reduced fuel subsidies on prices for public transportation and mitigate potential negative impacts

Ensure that the massive amounts saved on fuel subsidies are channelled towards effective poverty reduction policies and improved public transportation systems

Generally scale up spending on social sectors while addressing the prioritization, quality and effectiveness of this expenditure and focus on substantially reducing regional asymmetries

Invest in improving data on social issues and ensure that the national population census is carried out in 2013

Monetary policies

Gradually phase out the ‘hard Kwanza policy’ and address the issue of inflation and currency stability through its fiscal rather than monetary policies

The National Assembly

Create a website and support publication and dissemination of budget documents

Make it normal practice to request the Tribunal of Account to audit the budget

7.2 International partners

Finance an improved version of the Civil Society budget manual taking the shortcomings of the first version as articulated by its end-users into account

Support civil society organisations doing budget work

World Bank

The World Bank should reinitiate the production of macroeconomic briefing papers targeted at keeping journalists, analysts and civil society organizations up to date on developments on the economic and financial front

The World Bank should update the 2002 Country Procurement Assessment Report and the 2007 Public Expenditure Review

International Monetary Fund

The IMF should push for the reconciliation of fiscal data especially on oil revenues

The IMF should make the structural benchmark on publication of quarterly budget execution reports a prior action for the fifth review of the SBA

The IMF should put more emphasis on supporting the Angolan government in making its revenue projections better and identifying an acceptable level of investment that would be binding until the end of the year with any surplus being transferred to the Sovereign Wealth Fund

The IMF and other international partners should refocus on the SIGFE and support the government to improve the system, invest in capacity building and support mechanisms designed in collaboration with users

The IMF should make its staff reports and other relevant documents available in Portuguese to foster broader participation in the discussions and ownership of the reforms being promoted by the programme

African Development Bank

The African Development Bank (AfBD) should review past failed attempts in providing technical assistance to the Angolan government and learn from these experiences to be able to add value to their interventions

7.3 Civil society

Civil society groups with different thematic foci could increase the efficiency of their work by studying and distributing the national budget (OPSA/ADRA recommendation shared by the authors of this report)

Civil society could advocate for local priorities to be reflected in the budget (OPSA/ADRA recommendation shared by the authors of this report)

Ensure continuation and improve timing and dissemination of research on the budget as well as carry out advocacy based on the findings systematically

Push for a broad interpretation and enforcement of article 74 of law 15/10 on publication of budget documents by insisting on getting access to information

Insist on being invited to the budget hearings organized by the National Assembly's 5th Commission

Engage with and oversee that the Office for Parliamentary Studies (*Gabinete de Estudos*

Parlamentares) undertakes studies that hold the potential of improving the quality of the information available to the members of the 5th commission on economy and finances

Develop a strategy on how to use the Dodd-Frank legislation to hold the government to account on oil revenues

Research institutions

Continue studying the details of PFM reforms such as the new procurement legislation and the composition and division of labour within the government's economic team

Study the composition of social expenditure and its efficiency in reducing poverty

Study the ongoing tax reform and review if the creation of an independent revenue authority could improve tax administration in Angola

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Appendix I: Government reshuffles in key institutions 2008 – 2010

2008	2009	2010
<p>Composition of key government entities pre-elections September 2008:</p> <p>President: José Eduardo dos Santos</p> <p>Chief of Civilian Staff: Frederico Manuel dos Santos e Silva Cardoso</p> <p>Chief of Military Staff: Helder Vieira Dias "Kopelipa"</p> <p>Prime Minister: Fernando Piedade Dias dos Santos "Nando"</p> <p>Vice-Prime Minister: Aguinalde Jaime</p> <p>President of National Assembly: Roberto Almeida</p> <p>Minister of Finance: Pedro de Moraes</p> <p>Minister of Planning: Ana Dias Lourenço</p> <p>Minister of Economy: Not existing</p> <p>Governor of Central Bank: Amadeu Maurício</p> <p>Head of Sonangol: Manuel Vicente</p>	<p>April 2009</p> <p>Governor of Central Bank Abraão Pio dos Santos Gourgel (exit Amadeu Maurício)</p>	<p>Reshuffle 2: Post-new Constitution, February 2010</p> <p>Vice-President Fernando Piedade Dias dos Santos "Nando"</p> <p>Minister of state and Chief of Civilian Staff: Carlos Feijó</p> <p>Minister of State and Chief of Military Staff: Helder Vieira Dias "Kopelipa"</p> <p>Minister of State and Economic Coordination: Manuel Nunes Jr.</p> <p>President of National Assembly: Paulo Kassoma</p> <p>Minister of Finance Carlos Alberto Lopes (exit Severino de Moraes)</p>
<p>Reshuffle 1: Post elections October 2008</p> <p>Prime Minister Paulo Kassoma (exit Nando)</p> <p>President of National Assembly Fernando Piedade Dias dos Santos "Nando" (exit Roberto Almeida)</p> <p>Minister of Finance Severino de Moraes (exit José Pedro de Moraes)</p> <p>Minister of Economy Manuel Nunes Jr.</p>		<p>Reshuffle 3: October 2010</p> <p>Minister of Economy Abraão Pio dos Santos Gourgel (exit Manuel Nunes Jr.)</p> <p>Governor of Central Bank José de Lima Massano (exit Abraão Pio dos Santos Gourgel)</p>

Appendix II: Overview of Structural Benchmarks in the Stand-By Arrangement

Objectives	Actions – Request for SBA (November 2010)	Actions – First review (May 2010)	Actions – Second and Third review (September 2010)	Actions – Fourth review (February 2011)
Limit fiscal risk	Cabinet approval of the 2010 budget (prior action) Cabinet approval of the tax reform strategy (June 2010)	Cabinet approval of the tax reform strategy (June 2010)	Cabinet approval of the tax reform strategy (June 2010)	
Improve public financial management	i) Publication of quarterly budget execution reports by the central government ii) Reporting on a quarterly basis by major SOEs to the government of their quasi-fiscal operations and investment activities and publishing the reports (June 2010) Submission to the cabinet of the approval documents of the Angola Sovereign Wealth Fund (future SBA reviews will set benchmarks on implementation) (June 2010)	i) Publication of quarterly budget execution reports by the central government; ii) Reporting on a quarterly basis by major SOEs to the government of their quasi-fiscal operations and investment activities and publishing the reports (June 2010) Establishment of the project appraisal framework (September 2010) Completion of the first project assessment report (December 2010) Submission to the cabinet of the approval documents of the Angola Sovereign Wealth Fund (future SBA reviews will set benchmarks on implementation) (June 2010)	i) Publication of quarterly budget execution reports by the central government; ii) Reporting on a quarterly basis by major SOEs to the government of their quasi-fiscal operations and investment activities and publishing the reports (June 2010) Submission to the cabinet of the approval documents of the Angola Sovereign Wealth Fund (future SBA reviews will set benchmarks on implementation) (June 2010) Establishment of the project appraisal framework (September 2010) Auction of all new treasury securities based on fully market determined interest rates (October 2010)	Begin quarterly publication of reports of central government budget execution on the Ministry of Finance website, including coverage of the expenditures undertaken by Sonangol on behalf of the central government (reset to June 2011) Development of the project appraisal and monitoring framework, for use in evaluating new projects on a pilot basis during the 2012 budget process (reset to May 2011) Auction of all new treasury securities based on fully market determined interest rates (met with delay November 2010) Complete the settlement of all verified central government domestic arrears incurred prior to end December 2010 (March 2011) Submit for consideration to the National Assembly the new Public Enterprise Law (March 2011)
Strengthen fiscal transparency	Completion of the 2008 audit of the accounts of Sonangol, including its quasi-fiscal operations, by an audit firm of international reputation (November 2009)	Publication of Sonangol's 2007 and 2008 audited financial statements which includes its quasi-fiscal operations (prior action) Publication of Sonangol's 2009 audited financial statements including quasi-fiscal operations (November 2010)	Publication of Sonangol's 2009 audited financial statements including quasi-fiscal operations (November 2010)	Publication of Sonangol's 2009 audited financial statements including quasifiscal operations (met with delay (December 2010)

Reduce financial sector vulnerability	Amend provisioning regulation to reflect the credit risk of foreign currency loans (March 2010) Development of an off-site supervisory tools to monitor banks' credit exposures by currency and maturities (March 2010)	Amend provisioning regulation to reflect the credit risk of foreign currency loans (March 2010) Development of an off-site supervisory tools to monitor banks' credit exposures by currency and maturities (March 2010)	Amend provisioning regulation to reflect the credit risk of foreign currency loans (March 2010) Development of an off-site supervisory tools to monitor banks' credit exposures by currency and maturities (March 2010)	Amend the regulation on capital adequacy to reflect the credit risk of foreign currency loans (March 2011)
Strengthen central bank transparency		Publication of the audited financial statements of BNA for 2008, including the explanatory notes and Deloitte's signed audit opinion, on the BNA's external website (prior action) Completion of the audited financial statements of BNA for 2009, with the signing of the BNA (prior action) Publication of the audited financial statements of BNA for 2009, including the explanatory notes and Deloitte's signed audit opinion, on the BNA's external website (June 2010)	Completion of the review of National Bank of Angola's net international reserves (Prior Action) Publication of the audited financial statements of BNA for 2009, including the explanatory notes and Deloitte's signed audit opinion, on the BNA's external website (June 2010)	Complete the 2010 audit of the BNA's financial statements (June 2011)
Tax reform			Submission of the draft laws of the General Tax Code, the Code of Tax Procedure and the Tax Collection Enforcement Code as well as the draft tax code on Stamp Duty to the National Assembly (October 2010)	Submission of the draft laws of the General Tax Code, the Code of Tax Procedure and the Tax Collection Enforcement Code as well as the draft tax code on Stamp Duty to the National Assembly (met except for the draft tax code on Stamp Duty) Submission to the cabinet of a time-bound action plan for the government's tax reform program (June 2011)
Improve public debt management		Cabinet approval the main recommendations of the forthcoming IMF technical assistance on developing a sound medium term debt Strategy (December 2010)	Cabinet approval the main recommendations of the forthcoming IMF technical assistance on developing a sound medium term debt Strategy (December 2010) Completion of the first project assessment report (December 2010)	Cabinet approval of new debt management strategy (March 2011)

Mitigate safeguards risks		<p>Completion of an external audit on BNA by an international audit firm to confirm: (i) the existence, availability, and fair value of foreign assets as of June 2010; and (ii) the accuracy of NIR data reported to the Fund, including compliance with the definitions agreed under the program. The scope of the audit should be based on Terms of Reference agreed with Fund staff (August 2010)</p> <p>Appointment of an investment committee by the Board of Directors of BNA to meet at least monthly to oversee reserves management operations and reporting (May 2010)</p> <p>Formalization of investment guidelines for foreign reserves of the BNA by the Board of Directors of BNA (July 2010)</p> <p>Issuance of semiannual reports by the Internal Audit Office of the BNA to the Board on compliance with the foreign reserve investment guidelines (September 2010)</p> <p>Appointments of consultants with significant proven experience in capacity building within the field of internal auditing for a minimum period of two years to build capacity and bring the Internal Audit Office of the BNA up to the level of a modern internal audit function (June 2010)</p>	<p>Appointments of consultants with significant proven experience in capacity building within the field of internal auditing for a minimum period of two years to build capacity and bring the Internal Audit Office of the BNA up to the level of a modern internal audit function (June 2010)</p> <p>Appointment of an investment committee by the Board of Directors of BNA to meet at least monthly to oversee reserves management operations and reporting (May 2010)</p> <p>Formalization of investment guidelines for foreign reserves of the BNA by the Board of Directors of BNA (July 2010)</p> <p>Issuance of semiannual reports by the Internal Audit Office of the BNA to the Board on compliance with the foreign reserve investment guidelines (September 2010)</p>	<p>Appointment of an investment committee by the Board of Directors of BNA to meet at least monthly to oversee reserves management operations and reporting (Met with delay, November 2010)</p> <p>Formalization of investment guidelines for foreign reserves of the BNA by the Board of Directors of BNA (Met with delay, December 2010)</p> <p>Issuance of semiannual reports by the Internal Audit Office of the BNA to the Board on compliance with the foreign reserve investment guidelines (Reset to March 2011)</p>
Strengthen central bank governance		<p>Reconstituting the Audit Board by (i) replacing the member who has a conflict of interest, (ii) adopting a Charter to define all statutory responsibilities, and (iii) assuming oversight of the external audit and financial reporting process. (June 2010)</p>	<p>Reconstituting the Audit Board by (i) replacing the member who has a conflict of interest, (ii) adopting a Charter to define all statutory responsibilities, and (iii) assuming oversight of the external audit and financial reporting process (June 2010)</p>	<p>Reconstituting the Audit Board by: (i) replacing the member who has a conflict of interest; (ii) adopting a Charter to define all statutory responsibilities; and (iii) assuming oversight of the external audit and financial reporting process. (Reset to January 2011)</p>

Color code: **Bold: prior action**

Blue: completed

Red: in progress

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INDEXING TERMS

Angola

Budget process

Public finance management

2008 economic crisis

This report deals with Angola's budget process – in the wide sense – in the period between 2008 and 2010. Three concepts - transparency, accountability and efficiency - are used as central benchmarks against which various reforms are measured.

The first part of the report shows how political events between 2008 and 2010 led to significant changes in institutions and had a major impact on Angola's budget process and its methods of public financial management. At the end of 2010 Angola seemed as far as ever from settling on a close-knit governmental structure to design and implement its economic and financial policies.

The second part shows that the global financial and economic crisis had a serious impact on Angolan public finances as oil prices temporarily collapsed. The immediate consequence of this was the accumulation of US\$ 9 billion in arrears in 2009 alone. The crisis exposed inherent weaknesses within the Angolan economy, and specifically the management of public finances.

The third and last part analyses the current budget reforms and concludes by highlighting outstanding needs. The report recommends it is time for Angola to move from a haphazard approach to reconstruction to a transparent, accountable and efficient development paradigm.