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# Report on the Impact of the Angola Fiscal Reform Project on the Capacity of the Fiscal Programming Unit of the Ministry of Finance

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## Performance Monitoring and Impact of AFRP on UPF's capacity

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## Acronyms

AFRP	Angola Fiscal Reform Project
BNA	National Bank of Angola ( <i>Banco Nacional de Angola</i> ) (Central bank)
CTO	Cognizant Technical Officer
DfID	Department for International Development (U.K.)
DMFAS	Debt Management and Financial Administration System
DNT	National Treasury Department
CUT	Single Treasury Account ( <i>Conta Única do Tesouro</i> )
DNC	National Accounting Directorate ( <i>Direcção Nacional de Contabilidade</i> )
DMFAS	Debt Management and Financial Administration System
DNI	National Tax Directorate ( <i>Direcção Nacional de Impostos</i> )
DNT	National Treasury Directorate ( <i>Direcção Nacional do Tesouro</i> )
DTO	Budget Directorate
FISCAL REFORM I	Fiscal Reform in Support of Trade Liberalization Project
GAT	Gabinete de Análise Técnico
GEREI	Office of Studies and International Economic Relations ( <i>Gabinete de Estudos e Relações Económicas Internacionais</i> )
GFS	Government Finance Statistics
GRA	Government of the Republic of Angola ( <i>Governo da República de Angola</i> )
INE	National Statistics Institute ( <i>Instituto Nacional de Estatísticas</i> )
MMF/MMM	Medium-term Macroeconomic Framework
MOP	Ministry of Planning
MTFF	Medium-term Fiscal Framework
OGE	General Budget of the State ( <i>Orcamento Geral do Estado</i> )
SIGFE	Integrated Financial Management System ( <i>Sistema Integrado de Gestão Financeira do Estado</i> )
SONANGOL	National Oil Company of Angola
SOW	Scope of Work
UPF	Financial Programming Unit ( <i>Unidade de Programação Financeira</i> )
USAID	United States Agency for International Development

## Performance Monitoring and Impact of AFRP on UPF's capacity

### **Introduction and summary**

This is the final performance monitoring report of the Angola Fiscal Reform Project (AFRP.) It is based on observations and assessment of capacity made by AFRP Project Director, Mark Gallagher, and AFRP Lead Technical Advisor, Paul Beckerman. The report is based on AFRP's Performance Monitoring Plan (PMP). The focus of the PMP was to first develop a set of indicators that would indicate standards for capacity of the Fiscal Programming Unit (FPU) of the Ministry of Finance (MOF) of Angola, and to set a schedule for attaining these targets. AFRP's two annual workplans were then designed to support the attainment of this capacity on this schedule.

There has been considerable success in improving the capacity of the UPF and its staff in all areas covered by AFRP. However, while AFRP has been able to improve the knowledge and skills of UPF staff, there are a number of factors outside of FPU, as well as outside of MOF, that impede the ability of the UPF to fully implement its functions.

UPF staff now thoroughly understand the finances of the Government of the Republic of Angola (GRA). UPF staff can now compile the best set of fiscal tables and access the best available data, from a variety of sources, to report on GRA finances and operations. UPF staff have learned techniques of revenue forecasting, debt projections, and the interface among fiscal accounts, monetary accounts, and integration with the real sector and the overall macroeconomy. UPF staff can calculate real growth, inflation and GDP deflators, and have a deep understanding of the IMF's Government Finance Statistics Manual (2001). The UPF staff understand how debt records should be kept, managed, and used in compiling fiscal tables.

UPF staff can and have produced reports on overall fiscal system performance and this is integrated into the domestic and global economies. The UPF staff have integrated foreign exchange rate changes, adjusted for inflation, and linked economic performance with oil sector and incorporated oil price projections into economic and fiscal forecasts and plans.

Despite the improved knowledge of UPF staff, the capacity to do these things remains severely restricted by external constraints. For instance, despite the fact that UPF staff have been steeped in the development of the macroeconomic and macrofiscal framework development, extremely poor statistical output of the National Statistics Institute (INE) and the Ministry of Planning (MOP), not only make it difficult to do the required technical work, but have caused the MOF to not be willing to publish reports. UPF and MOF have prepared a second Annual Fiscal Bulletin, but will not publish it until some of these issues are resolved.

Weaknesses in the Integrated Financial Management Information System (SIGFE), the Treasury (DAT), and the National Bank of Angola (BNA) continue to pose real problems that UPF simply cannot entirely overcome. Government spending information by some agencies is not yet in SIGFE and so subject to error, non-reporting, or tardiness in reporting. The system for managing debt information is inadequate and debt targeting and financing plans are weak. These are important inputs to FPU's fiscal reporting and macro-fiscal analysis and planning functions.

There is an important lesson here, that while the AFRP was a valiant attempt to build capacity of a particular unit of government, it was simply too little to overcome all the severe limitations of the rest of the agencies related to fiscal and economic reporting and planning.

The next sections of this report cover the capacity index, the schedule of performance in terms of improving capacity, and our assessment of this capacity, and the bases for this assessment.

### The capacity index

As with the previous Performance Monitoring Report (August 2008), monitoring was in accord with the following matrix of indicators.

**Table 1: Performance Indicators and Capacity Index**

Targets	Results	Indicators	Capacity Index
I. UPF able to use improve statistical and reporting methods			
<i>A. Central administration's monthly accounts improved</i>	Good understanding of <b>central administration's</b> total and component fiscal accounts.	1. Annual government finance report for 2006 Components: a. Below-the-line financing b. Improved coverage of quasi-fiscal operations c. Analytic content d. Produced by April 2007	10
	Production of the annual report and quarterly <b>bulletin's will</b> demonstrate capacity and expanded capacity over time	2. Quarterly bulletins. Components: a. includes brief data tables b. graphic presentation c. Analytic content c. Produced by March 2007	10
<i>B. <b>General</b> Government Accounts</i>	Government accounts accurately incorporate social security and	1. Annual report for GFS for General Government in 2007	5

<b>Targets</b>	<b>Results</b>	<b>Indicators</b>	<b>Capacity Index</b>
	certain parastatal organizations	2. Quarterly Bulletins include General Government accounts in 2007	5
<i>C. Improved quality of government finance reporting</i>	Government finance statistics reported by UPF/GEREI demonstrate fewer discrepancies and reports are considered of higher quality.	1. Statistical error for government finance statistics for 2007 half, in terms of % of GDP, of that in 2006	10
		2. Statistical error below 1% of GDP in 2008	10
		3. IMF Art. IV consultations or other surveillance document acknowledges improvement in accounts.	Weighting between 50% and 100%
<b>Total possible points for methods at UPF</b>			50
<i>A. Rudimentary MTFF developed and being used for training UPF staff, and others</i>	Rudimentary MTFF produced with UPF staff and Training in macro-fiscal topics leads to increased understanding UPF staff fully understand how the MTFF can assist in setting macro-fiscal targets and demonstrate understanding of how to build an MTFF	1. Pre and post training exams demonstrate increased knowledge of how an MTFF works and how to build one.	10
		2. UPF staff demonstrate understanding by expanding MTFF and improving its database	10
<i>B. Complete quality MTFF developed and being used by GEREI</i>	1. UPF staff quite expert in application of MTFF	1. UPF staff develops the MTFF and demonstrate understanding by holding presentations for rest of MINFIN and others on MTFF.	10
	2. MINFIN/GEREI capacity to improve macro-fiscal policy making in place	2. GEREI Director adopts MTFF as main tool for macro-fiscal planning, and MTFF is used by budget director and others in conjunction with work to be carried out by the European Union in the development and implementation of a Medium Term	20

<b>Targets</b>	<b>Results</b>	<b>Indicators</b>	<b>Capacity Index</b>
		Expenditure Framework	
<b>Total possible points for MTFF</b>			50
<b>Grand total of possible points for methods and MTFF use</b>			100

### **Assessment of performance in improving capacity**

The following table shows the overall target schedule as set out in the August 2008 PMP Report, showing progress we believe was attained. (As explained in the August 2008 Report, the table was not set out on a strict quarterly basis, since the nature of the work and likely accomplishments were deemed unsuited to such a format.)

**Table 2: PMP measurements schedule**

<b>Capacity area</b>	<b>December 07</b>	<b>June 08</b>	<b>September 08</b>	<b>December 08</b>
<i>I. Improved statistical methods and capacity of UPF</i>				
<i>I.A. Overall improved central administrative accounts</i>				
Target	10	15	20	20
Attainment	10	15	15	15
<i>I.B. General Government Accounts</i>				
Target	5	5	10	10
Attainment	5	5	5	5
<i>I.C. Improved quality of government finance reporting</i>				
Target	0	0	10	20
Attainment	5	5	10	10
<i>II. A. Rudimentary MTFF developed and being used for training UPF staff, and others</i>				
Target	5	10	15	20
Attainment	5	10	10	15
<i>B. Complete quality MTFF developed and being used by GEREI</i>				

<b>Capacity area</b>	<b>December 07</b>	<b>June 08</b>	<b>September 08</b>	<b>December 08</b>
Target	5	15	20	30
Attainment	5	5	10	15
TOTAL				
Target	25	45	75	100
Attainment	30	45	50	60

### **Bases of assessment**

The following narrative indicates the bases for the scores given in Table 2.

#### *IMF assessment of adequacy of government financial statistical reporting*

One component for this capacity and performance index was to be an assessment of the adequacies of public financial reporting made by the International Monetary Fund (IMF). However, the IMF has not published any reports on Angola since October 2007 (Selected Issues and Statistical Appendix) and this did not include any assessment of government financial reporting. In a September 2007 announcement about the conclusion of an Article IV Consultation in Angola, the IMF stated, “[D]irectors commend the progress in strengthening public financial management and enhancing governance and accountability.” This statement, while positive and germane, was issued during the mid-point of AFRP duration and provides little sense as to the quality of public financial management, governance, or accountability.

#### *Overall improved central accounts*

UPF staff have continued to deepen their understanding of how the fiscal accounts should be reported to the Ministry of Finance and how they can format the data into useful fiscal reports. As noted in the August 2008, the April 2008 course in Government Financial Statistics provided a crucial base of information for all participants. MOF staff members -- in particular the UPF -- are still continuing to apply what they learned in that course.

Nevertheless, the fiscal reporting systems remain inadequate in several ways. In the monthly fiscal reports, below-the-line reporting (i.e., financing flows) remains deficient. It will be some years before the Integrated Financial Management System (SIGFE), which the MOF’s National Accounting Directorate (DNC) has been implementing, will be fully able to incorporate below-the-line accounts. (The World Bank has indicated that it may be interested in providing support for a project that would enable this to take place more rapidly.) As an alternative, the UPF has been working with the MOF’s National Treasury Directorate (DNT) and with the Central Bank’s (BNA) External Debt Department to develop information flows for internal and

external financing. (AFRP provided specialized support for debt reporting, as discussed below, and much of this work is simultaneously relevant for the below-the-line fiscal accounts.) This work is progressing, but the UPF is still somewhat short of being able to produce complete quarterly below-the-line data.

Broadly speaking, the below-the-line accounts, or financing flows, have four broad categories: (i) net disbursements of external debt, (ii) net disbursements of internal debt, (iii) net sales of internal assets and net withdrawals from internal deposits, and (iv) net sales of external assets and net withdrawals from external deposits. Data on the net disbursements of external debt will be obtained from the BNA/DMFAS (the computerized debt-reporting system). Data on net disbursements of internal debt will be obtained from the Treasury (in the MOF. The Treasury will also provide data on the movement of its deposit account. Data on the central government's external deposits have also come from the Treasury.

Over the course of the AFRP, steps have been taken to organize the relevant data flows to make them periodic and routine. During the final AFRP mission, as discussed below, recommendations were made to have the BNA/DMFAS improve its provision of data on external debt. Once these recommendations are implemented, the UPF will have an improved data base for external-financing flows, and this will enable it to add the relevant lines to the fiscal accounts. In addition, the UPF is continuing to work with the DNT to develop data flows on internal debt and movements in the Treasury's deposit account.

#### *General government accounts*

UPF staff members have been steadily improving their basic understanding of the general-government accounts. In large measure because of Ms. Arminda de Souza's work, the UPF now has an enhanced understanding of the "*Administração Indirecta*," but it is now awaiting responses to its requests for accounting data from the relevant entities. More broadly, the UPF remains dependent on external information sources, such as the SIGFE, the DNT, and the BNA, and, while these entities have made significant improvements, their provision of information remains inadequate. The SIGFE has not yet begun to work with the *Administração Indirecta*, and the DNT's information is incomplete, particularly regarding the below-the-line accounts of the entities of the *Administração Indirecta*.

A significant amount of work remains to be carried out on the entities of the *Administração Indirecta* in order to be able to bring their accounts into a consolidated structure comprising the full central government. (It is important to note that many developing economies have a similar problem with government entities that have independent financial administrations, and that Angola's MOF deserves recognition for its willingness to tackle the problem.) Many of the entities have accounting systems that differ in important ways from that of the central government, and the process of consolidation will require further work over 2009.)

### *Non-Financial Public Sector Accounts*

Thus far, the UPF has focused on providing and analyzing data covering the central administration. While the process of compiling and reporting central-administration data remains incomplete, there has been progress and the way forward is clear. In contrast, the UPF has barely begun to compile and report data on elements of the non-financial public sector beyond the central administration. In part, resolution of this problem must await further development of the Secretariat for the Public Enterprise Sector. This entity is now part of the new Economy Ministry, established in August 2008 to ensure better coordination among the Ministries of Finance and Planning.

### *Debt reporting*

Inadequacies in debt reporting have been an underlying problem for the below-the-line fiscal accounts, as noted above, but they have also been a broader problem for the MOF. Lack of information has prevented policy-makers from properly managing public external and even internal debt. Particularly during 2008, the AFRP has focused on diagnosing the specific nature of the debt-reporting problem and taking steps to resolve it.

In December 2008, AFRP brought a specialized consultant (Mr. Fernando Archondo) to Luanda to provide recommendations on debt reporting. The first recommendation was that the agencies involved in debt transactions and in debt registration -- the DNT, the Office of Technical Support (GAT), the BNA and the UPF -- immediately communicate, by Email, any time any external-debt "event" (commitment, disbursement, debt-service payment) takes place. These agencies have in fact been implementing this recommendation since mid-2008, and there are clear signs that the timeliness of external-debt reporting has improved.

The second recommendation has been to have the BNA use the DMFAS to produce clear, timely reports with well-organized information about (i) recent movements of stocks and flows, (ii) debt-service payments coming due over coming weeks and months, and (iii) the amortization profile. These reports are now being developed. Once implemented, they should provide the UPF with the information it requires routinely to produce quarterly below-the-line fiscal accounts.

The BNA's External Debt Department has signed an agreement with UNCTAD to begin an important updating process for the DMFAS. This will improve the BNA's ability to generate these debt reports.

### *Quarterly and Annual Fiscal Bulletins*

The UPF has continued to improve its ability to produce an annual bulletin, as well as eventually to produce quarterly bulletins. The UPF has continued to improve and reorganize its basic Excel data base. It needs to hire another staff member capable of managing the data base and drafting its text.

Over the course of 2008, the UPF and GEREI carried out the analytical work and wrote the text for a Bulletin covering the year 2007, but were unable to disseminate it. The basic reason is that it would have been required to use the Planning Ministry's official 2007 GDP estimate. Unfortunately, this figure was clearly underestimated. The UPF could not publish a Bulletin with the figure, because all calculations involving this figure (such as percentages of GDP) would have been severely distorted and hence difficult to explain. Nor could it publish with a better estimate, on the other hand, because the Planning Ministry's figure was official.

### *UPF Procedures Manual*

The procedures manual describes UPF operations in both broad and specific terms. Having clear descriptions of the UPF's procedures is expected to fulfill several purposes. One is to enable staff members and UPF administrators to understand these procedures explicitly. In particular, in the event staff members are absent or depart, other staff members should be able to use the Manual to gain a quick understanding of what the absent personnel were doing, and so be able to fulfill their functions with a minimum of disruption. Another purpose is to enable people outside the UPF – MOF staff, consultants, or staff members of international agencies – rapidly to understand any UPF procedures, should that become desirable or necessary. Yet another purpose is to enable managers more easily to allocate staff time and carry out their administrative functions.

The Manual is “live,” in the sense that it will be revisited and updated frequently to take account of evolving changes in procedures. The revision process itself is expected to help UPF staff members clearly articulate and understand the procedures. The Manual is intended to be “informal,” a document to stay “within” the UPF. It is hoped that the UPF will *make* it useful.

Over 2007 the UPF completed a draft, with assistance from the AFRP. This version is the Manual's first edition, complete and valid for the date indicated. It now stands ready for revision, as and when new procedures are introduced or old procedures are substantially revised. New sections of the manual recording procedures for carrying out macroeconomic projections, compiling the below-the-line fiscal accounts, and for processing data on the *Administração Indireta* will need to be written and incorporated in the manual. The UPF will make these changes when the relevant procedures are established. In addition, existing sections will need some revision to improve their quality and to reflect detailed procedural changes.

### *Medium Term Fiscal Programming*

The MMF advanced slowly over 2008, and this slow progress slowed the AFRP's overall performance. Many of the problems noted in the August 2008 PMP continued to be significant. Only one UPF staff member works on the MMF exercise. This UPF staff member also works on the Bulletin and has a number of other responsibilities, and this meant that her time for work on the MMF was relatively limited. In addition, significant data problems emerged, and while this consultant has urged the UPF to use

estimates for developing the projection procedures (and go back to correct the data later), a lot of time and energy has gone into discussions toward improving the data.

During November and December 2008, the UPF made significant advances on the basic fiscal-accounts projection, the real-economy projection, and the projection of the BNA's accounts. The MMF already includes an external-accounts projection, and improvements in projecting external debt will be achievable with implementation of the recommendations made by AFRP advisor, Fernando Archondo.

A significant obstacle to progress on the MMF has been that the UPF has thus far been unable to operationalize the oil-projection model it has been developing with consultants from Aberdeen University. Without the oil-projection model, key aspects of the MMF will be inadequate. The UPF will be working with Aberdeen University during 2009 to operationalize the oil-projection model, and once this is accomplished, it should be relatively easy to complete and begin applying the MMF.