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Contractor Final Closeout Report for the Angola Fiscal Reform Project

August 2006 to February 2009

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The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



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ABBREVIATIONS

| | |
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| AFRP | Angola Fiscal Reform Project |
| AUPEC | An independent consulting firm, formerly Aberdeen University Petroleum and Economic Consultants |
| BNA | National Bank of Angola (<i>Banco Nacional de Angola</i>) (Central Bank) |
| CCN | Cooperating Country National |
| CTO | Cognizant Technical Officer |
| DfID | Department for International Development (U.K.) |
| DMFAS | Debt Management and Financial Analysis System |
| DNT | National Treasury Department |
| CUT | Single Treasury Account (<i>Conta Única do Tesouro</i>) |
| DAI | Development Alternatives, Inc. |
| 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 |
| 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>) |
| IMF | International Monetary Fund |
| INE | National Statistics Institute (<i>Instituto Nacional de Estatísticas</i>) |
| LOE | Level of Effort |
| MMF/MMM | Medium-term Macroeconomic/Fiscal Framework |
| MOP | Ministry of Planning |

| | |
|----------|--|
| 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 |

1. INTRODUCTION

On August 11, 2006 USAID signed the Angola Fiscal Reform Project (AFRP) contract and sent it to DAI, the prime contractor. DAI reviewed and then countersigned and returned the contract to USAID on August 15, 2006. The original task order value was \$1,198,818 but only \$1,000,000 was obligated. Estimated final project costs came to \$986,453. The original project completion date was December 13, 2008, but in December 2008 this was extended to February 11, 2009. No funds were added to the task order for this extension period.

This is the final contractor report, covering the entire project period from August 2006 to February 2009.

While the original task order specified three areas for work (strengthening procedures, providing training, and medium-term fiscal planning) training was provided in all of these areas. The overriding objective for the project was to strengthen the capacity of the Financial Programming Unit (FPU) within the Ministry of Finance (MOF) of the Government of the Republic of Angola (GRA).

This report first provides an overall assessment of the capacity improvements of the FPU that have been achieved with assistance from the AFRP. This is then followed by discussions of the work that AFRP undertook with FPU to help attain this capacity improvement. This is followed by a section specifically discussing achievements in medium-term fiscal programming. The report provides information on specific, more formal trainings provided under AFRP. After this discussion of technical work areas, we provide a frank discussion of some of the implementation problems that we faced and how we sought to overcome them. The final two sections report on labor used on the project and project financial outturn.

2. IMPROVED CAPACITY OF THE FINANCIAL PROGRAMMING UNIT

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 the UPF, as well as outside of MOF, that impede the ability of the UPF to fully implement its functions.

UPF staff now 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 projection, 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 some UPF staff have been steeped in the development of the macroeconomic and macro-fiscal 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 be unwilling 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 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 UPF'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. But, when the other government agencies can finally demonstrate true capacities, the UPF will be ready to play an active and important role.

The next section narrates AFRP's assistance in helping to develop the basic capacities of the UPF in the areas of data gathering, tabulation, and reporting.

3. BUILDING UPF CAPACITY IN FISCAL REPORTING

AFRP advisors provided assistance to UPF in the development of its data compilation, analysis and reporting functions. This work included advising on international standards for government financial accounts; aggregating financial statistics from a variety of sources, such as the Treasury (DNT), the National Bank of Angola (BNA – the central bank), and non-central budget entities (referred to as “indirect administration”) and others. The work included development of fiscal tables, based on procedures for proper aggregation and checks of balances and counterbalances.

This section reports on AFRP work and achievements and challenges both in the organizational development of the UPF as well as in capacity development in specific technical areas in fiscal reporting.

Organizational Development and the UPF Manual

AFRP advisors provided assistance to UPF in the development of an operations manual. The work of the advisors in developing capacity of the UPF follows the structure of the manual itself. The manual covers the following areas of work for UPF and AFRP advisors. These are:

- Consolidated financial tables for the Consolidated Public Sector,
- Principal structures and accounts for what is known in Angola as the Direct Administration,¹
- Structure and accounts for expenditures and receipts of the financial operations of the overall Public Administration,
- Sources of information for the construction of tables for the Public Administration,
- Intergovernmental (central to local entities) transfers
- Below the line accounts, meaning: internal and external stock and flows financing accounts.

The manual also includes the organizational structure recommended for the UPF, along with job descriptions and skill requirements.

AFRP provided a project final version of the UPF Manual in Portuguese to UPF in the second quarter of CY 2008. The UPF and GEREI (Office of Studies and International Economic Relations - *Gabinete de Estudos e Relações Económicas Internacionais*) management in the MOF wish to consider this manual as a “living document” that can be updated and improved by themselves as time and learning progress, although AFRP has provided additional technical recommendations for various areas included in this report since delivering the project’s final version.

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. The April 2008 course in Government Financial Statistics, put on by AFRP, provided a crucial base of information for all participants. MOF staff members -- in particular the UPF -- continue to apply what they learned in that course.

¹ Annex 1 presents all the institutions included in the direct and indirect administrations, along with those of the local administrations of the state, and other entities.

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 fully incorporate below-the-line accounts.² 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. This work is progressing, but the UPF is still somewhat short of being able to produce complete quarterly below-the-line data.

Over the course of the AFRP, steps have been taken to organize the relevant data flows to make them periodic and routine.

Non-financial public sector accounts

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 complete 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. To put this in context, most developing countries face considerable difficulties in reporting on the entire non-financial public sector, while Angola has made considerable strides, which must be recognized as quite positive and commendable.

Indirect administration

Angola's government is unitary. There are no sub-national governments of any kind, though there is some movement to change this and introduce some fiscal decentralization. Regional, provincial, and municipal governments are simply agencies of the national government. Like many countries, however, the government comprises institutional entities of two types. The first are those belonging to the government's "central administration." They include ministries and other institutions that have no independent financial management. Their expenditures are made directly from the Treasury's deposit account. The second are agencies which, while belonging to the central government, have their own financial management. They include a variety of funds, special institutes, educational institutions, and other specialized agencies. These institutions make up what is known in Angola as the "Administração Indireta." One of the aims of the UPF is to develop reporting systems to enable the government to monitor their activities from a financial perspective.

² 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.

The General Budget of the State (OGE) provides “transfers” of resources to these entities. These transfers are programmed, executed, and monitored like any other central administration expenditure. But many of the entities of the *Administração Indireita* have significant “own” revenues, and carry out significant expenditures on staff, goods and services, and other objects. In addition, they maintain deposit accounts. Their accounts are under the control of the Finance Ministry’s accounting department in principle, but in reality, monitoring appears to be inadequate. The accounting systems used by the entities of the *Administração Indireita* are not uniform. Accounting procedures appear to be inadequate in many of the institutions in question.

During 2007 and 2008, AFRP advisor Paul Beckerman provided assistance to UPF staff in consolidating information about the entities of the indirect administration and incorporating these accounts with the rest of the public sector accounts. Methodologies were developed and spreadsheets for these consolidations were prepared.

In March 2008, AFRP advisor, Maria Arminda de Sousa worked with UPF staff to fully analyze the issues related to better incorporating the entities of indirect administration into the consolidated fiscal reporting efforts. de Sousa prepared an extensive report on the matter, incorporating many recommendations and tables. Ms. de Sousa provided her findings in both a written report and a seminar including UPF staff and staff from other parts of government.

UPF staff members have been steadily improving their basic understanding of the general-government accounts. In large measure because of Ms. Maria Arminda Ribeiro de Sousa’s work, the UPF now has an enhanced understanding of the “*Administração Indireta*,” 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 Indireta*, and the DNT’s information is incomplete, particularly regarding the below-the-line and own-revenue accounts of the entities of the *Administração Indireta*.

A significant amount of work remains to be carried out on the entities of the *Administração Indireta* in order to be able to bring their accounts into a consolidated structure comprising the consolidated central government.

Sonangol and quasi-fiscal operations

The “Sonangol problem” may be described as follows. Sonangol makes some debt-service and subsidy payments on behalf of the Treasury, which it deducts from taxes and other payments that it makes to the Treasury. These payments have been significant in magnitude. Because the Sonangol payments and the corresponding taxes were not recorded in the fiscal accounts, the fiscal accounts systematically underreported the government’s debt service and total receipts. To make matters worse, since some of the payments Sonangol makes would be financing, or “below-the-line” items if they were made by the Treasury, the fact that they are not recorded in the fiscal accounts implies that the net financing flows reported in those accounts, and hence the government deficit, are *over reported*.

AFRP advisors recommended an interim correction for this problem which is to adjust the fiscal accounts to take account of the SONANGOL transactions. However, this solution has not been implemented.

The main fiscal-reporting worksheet used internally by UPF now incorporates estimates of the SONANGOL “quasi-fiscal” accounts, i.e., expenditures made by SONANGOL on behalf of the Treasury, following procedures AFRP has suggested, though official reporting is still hampered by other constraints. Most of the data are available from the office of “special tax regimes” (which include SONANGOL’s) in the Finance Ministry’s National Tax Directorate. The one exception is that debt service paid by SONANGOL is not classified into amortization and interest. It is possible to estimate the breakdown, and eventually to obtain the required data.

Debt reporting and below-the-line accounts

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.

The MOF, generally, and the GEREI and UPF, in particular, need up-to-date reports on external debt that they can use to inform policy decisions. The MOF has been requesting the BNA to provide reports, but thus far the BNA’s external-debt unit has been unable to provide the kind of report the MOF requires. The BNA’s external-debt unit has focused in recent years on compilation of debt data. The BNA had focused insufficiently on processing the data into summary reports that policy-makers can use. This problem is complicated by the reality that staff in the MOF and the BNA are still insufficiently trained in basic external-debt concepts.

AFRP technical assistance in this area included (a) development of a suggested reporting format (see the Excel spreadsheet PcDM.xls); (b) discussions with the external-debt unit of the Banco Nacional de Angola (BNA) on data-transmission procedures; (c) discussions with technical staff in several key Finance Ministry units that either report debt data or would make use of debt reports, including the UPF, the Gabinete de Análise Técnico (GAT), and the Departamento Nacional do Tesouro (DNT); (d) a one-day seminar on external-debt issues and methodology; and (e) a proposed methodology to improve the present system of data reporting by the BNA to the UPF (in the form of a new Excel spreadsheet, presently called AoDX.xls).

Angola’s Finance Ministry, as of November 2008, still had not been able to produce complete reports on the central government’s external and internal debt that it requires for policy formulation. Resolving this problem is clearly a prerequisite to improving the fiscal accounts’ “below-the-line” reporting.

The UPF has attempted to overcome this problem, at least for quarterly accounts, by using data on external debt compiled by the BNA's external-debt unit and data on internal-financing flows from the DNT. The UPF has been receiving quarterly (but quite tardy) external-debt figures from the BNA, and has attempted to process them using the Excel spreadsheet it constructed with AFRP assistance.

In December 2008, AFRP brought a specialized consultant (Mr. Fernando Archondo) to Luanda to provide recommendations on debt reporting. Mr. Archondo's main recommendations included:

- (i) The offices involved in external-debt management and information recording – the GAT (Office of Technical Support), the DNT (the National Treasury Directorate), and the External Debt Department of the BNA (National Bank of Angola) should continue their efforts already under way to improve communication.
- (ii) These offices should make every effort to ensure that all significant *events* – commitments, disbursements, and debt-service payments – are reported, by Email, by and to all three entities as soon as they occur.
- (iii) The BNA's Debt Management and Financial Administration System (DMFAS) can and should generate debt reports in an enhanced format, with some additional processing by the UPF. These reports should be provided to the authorities periodically. The aim is to ensure that the authorities have full, timely, and easily understood information regarding external-debt stocks and flows, amortization profiles, and debt service due.
- (iv) In addition, Mr. Archondo advised the UPF regarding its use and processing of the external-debt data. Mr. Archondo has recommended that the Excel file (AoDX.xls) currently under development by UPF with AFRP assistance for debt reporting should not be used for historical and debt reporting, because the DMFAS can be used to generate a more accurate and timely report. Mr. Archondo recommends that the AoDX.xls file be developed, instead, into a projection exercise. Mr. Alexandre Manuel of the UPF will continue to develop the file as a projection exercise.

Continuing efforts to improve the debt-reporting systems in Angola are on track. The BNA's External Debt Department, based on guidance from AFRP advisors, has now 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.

Fiscal bulletins

AFRP advisors worked closely with UPF staff in developing a format for the first annual fiscal bulletin. AFRP advisors worked in close collaboration with UPF and GEREI staff in determining the scope and depth of the annual fiscal bulletin. AFRP advisor, William Tyler,

prepared an annotated outline of the bulletin and a guide for developing and planning for the implementation of the bulletins. AFRP advisors also prepared a quick and dirty version of an annual bulletin, but the MOF had opted for the more extensive version.

AFRP advisors continued to work with UPF staff in the development of the first annual fiscal bulletin.

In 2007, the UPF/MOF issued its first annual bulletin in several years. This new bulletin includes a great deal of in-depth analysis of the international economy, the domestic economy, revenue and expenditure performance, and perspectives for coming years. The first fiscal bulletin was a milestone in the UPF's performance.

In mid-2008, the UPF was ready to publish its second annual fiscal bulletin. Indeed, UPF produced a draft. However, because of severe data problems arising from inconsistent national accounts information and projections from other agencies of government, the MOF has decided that it could not publish. As of this writing, expectations are that the MOF will publish the report in early 2009.

4. DEVELOPING THE MEDIUM-TERM MACRO-FISCAL FRAMEWORK MODELS

This work was developed in a number of stages. Prior to the initiation of AFRP, in May 2006, under the USAID/EGAT Fiscal Reform in Support of Trade Liberalization (FR II) project, Dr. Paul Beckerman provided training in macroeconomics and macro-fiscal tools and analysis. This training included participants from UPF as well as many other parts of the GRA.

Development of the government finance accounts, discussed above, also helped to develop the building blocks for the macro-fiscal framework model.

AFRP advisor and project director, Mark Gallagher, early in the project, developed a paper providing definitions and guidelines for the development of a Medium-Term Fiscal Framework (or Medium-Term Macro-Fiscal Framework) for Angola. This set of guidelines took as a basic assumption that macroeconomic national accounts data would be adequate for developing the MMF. Gallagher also presented the guidelines paper in a workshop held in the MOF, with participants from UPF, and other parts of MOF.

In 2007, Gallagher worked on development of the non-oil revenue projection model. Although the intent was to work closely with UPF staff on the development of the model, this was not possible. Gallagher attempted to travel to Angola three times to conduct this work, but for reasons related to logistics (hotels, cancelled connections, and changes in visa rules in the Angolan Embassy in Washington, DC), was unable to do so. As a result, most of the model development was performed in the US, with reduced interaction with UPF staff. Beckerman presented the completed model (an Excel workbook) in January 2008. The methodologies and projections of the model subsequently have been incorporated into the UPF's macro-fiscal modeling work.

Most advisory work by AFRP involving the MMP was performed by Paul Beckerman, working almost exclusively with only one member of UPF, Ms. Gardiana Melo. Mr Beckerman and Ms Melo worked very closely, both while Beckerman was in country, as well as via email exchanges and sharing of files.

Significant data problems emerged, and while AFRP advisors urged the UPF to use estimates for developing the projection procedures (and go back to correct these later), this procedure had not been adopted, as of this writing.

During the final months of the AFRP, 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 has an external-accounts projection, and is improving in projecting external debt.

A significant obstacle to progress on the MMF has been that the UPF has thus far been unable to make operational the oil-projection model it has been developing with consultants from Aupec.³ Without the oil-projection model, key aspects of the MMF will be inadequate. The UPF will be working with Aupec during 2009 to adapt and adopt the oil-projection model, and once this is accomplished it should be relatively easy to complete and begin applying the MMF.

Since, the UPF is unable, at this time, given its own preference to work cautiously, to produce a final MMF; Mr. Beckerman has developed an alternate macro-fiscal projection exercise in an Excel workbook (AoMC.xls), along with a highly detailed manual for that exercise. This AFRP-developed MMF goes some distance beyond the originally conceived "rudimentary MMF." As it continues to develop its own projection exercise, the UPF will be able to draw from this work.

The Annex details the steps, progress and linked files that comprise the MMF.

5. TRAINING PROGRAMS

The AFRP provided training to UPF staff and wider audiences in a variety of ways. Much of this training was provided in terms of learning by doing based on technical assistance in the areas of improving the basic functions and data work of the UPF, as well as similar work in the area of developing the macroeconomic medium-term framework and its accompanying medium-term fiscal framework.

The following table presents information on these training sessions presented by AFRP. Most of these trainings were small and lasted less than one day. The Government Finance Statistics training, however, was our largest event, including 25 participants for three weeks.

³ Aupec is a private consulting firm that had originally been part of Aberdeen University in Scotland.

Table 1: List of formal trainings

| Subject | Trainers | Date | Attendance/organization |
|---|------------------------|---------------|--|
| Government finance statistics, introduction to the topic | Gallagher | December 2006 | UPR, DNT, DNI, DNC |
| Introduction to non-oil revenues projections | Gallagher and Lundberg | December 2006 | UPR, DNT, DNI, DNC |
| Structure of the “mapa fiscal” covering arrears, Sonangol data flows, and transfers | Beckerman | March 2007 | UPF, DNT, DNI, GAT 8 persons |
| External debt | Beckerman | March 2007 | UPF, DNI, GATT, BNA 8 persons |
| One-day session: Non-oil revenue projections | Beckerman | March 2007 | UPF, DNI, GATT, BNA 8 persons |
| One-day session: Recurrent and non-recurrent expenditures | Beckerman | March 2007 | UPF, DNI, BNA 8 persons |
| One-day session: Workshop on central administration financing flows and methodologies | Beckerman | March 2007 | UPF staff only |
| Guidelines for developing an MTF | Gallagher | June 2007 | UPF staff and others from MOF |
| Non-oil revenue projection model | Beckerman | January 2008 | UPF staff only, 5 persons |
| Three-week full-day training in Government Finance Statistics | De Sousa and Beckerman | April 2008 | 25 persons From UPF, other MOF, BNA, Ministry of Planning (including INE) and others |

6. OVERCOMING CHALLENGES TO IMPLEMENTATION

In many ways, AFRP had a number of important advantages. Because some members of the team had already developed relationships with the MOF and UPF while working on USAID/EGAT’s Fiscal Reform in Support of Trade Liberalization project, prior to the start up of

AFRP, relationships had already formed and there was considerable good will and confidence shared among the team and the customer. MOF provided adequate space for the AFRP team members in the UPF offices in the newly rebuilt MOF. The team had complete access to all UPF staff and leadership, and also to Dr. Manuel Neto Costa, head of the GEREI in the MOF.

Nonetheless, there were a number of important obstacles to project implementation and to project effectiveness. This section briefly discusses these obstacles and the efforts AFRP made to overcome these obstacles.

Hiring capable, local staff

Challenge

AFRP had made several attempts to hire local economists to work with the project in UPF facilities. The economist's job was to help UPF staff in the implementation of technical guidelines that would be provided by the various project technical specialists. AFRP posted advertisements in local publications in Angola as well as having contacted staff of other DAI projects in the country. We interviewed several people and shared our selection choices with GEREI leadership.

Our top-choice candidate turned down the assignment, as did our second-choice candidate. The first candidate felt that we could not offer her sufficient job security, and the fact that her pay was essential for her family meant that she could not take the chance of leaving her present position, in which she enjoyed considerable security. After initially indicating that he would accept, the second-choice candidate accepted other employment in Angola. These other jobs paid greater than the USAID maximum salary that we were authorized to pay.

Finally, we were able to contract our third-choice candidate, who then after accepting the assignment soon told us that she had been offered a position in an entity of the *administração indirecta* that offered responsibility, job security, and relatively high pay.

Upon making further inquiries into the local job market, as well as reviewing the CVs that we had already gotten from the first round of recruitment efforts, we concluded, in collaboration with our CTO, Mr. Luis Hernandez, that it would not be possible to hire an adequate Angolan professional given the terms of employment.

Solution

Our solution, which was approved by the CTO, was to increase LOE and scope for Mr. Brandon Lundberg to include working about 40% of his time in Luanda as "implementation advisor." Mr. Lundberg's assignment was to then work inside UPF and assist all technical advisors in the preparations for their visits, as well as to help in the implementation of guidance provided by the technical advisors. This included helping UPF staff in the translation of some documents, translation and understanding of revenue models used in other countries, data collection and

compilation, as well as logistical support, such as car rentals, airport pickups, and hotel reservations.

This arrangement worked very well for about a year, when Mr. Lundberg accepted full-time employment at the World Bank in Washington, DC.

By the time Mr. Lundberg left the project, we felt that it would no longer be necessary to fill this position. Relations with UPF were very strong. We were able to clearly explain our technical needs and recommendations to UPF staff via email and Skype communications, and UPF staff were capable of proceeding with implementation without any further need to rely upon an expatriate Implementation Advisor.

Weak statistical and economic institutions in Angola

Challenge

As discussed briefly above and in other AFRP reports, statistical systems in Angola are extremely weak. The system of national accounts managed by the INE is inconsistent with economic reasoning. The demand-side statistics of the economy are estimates made by organizations located in Washington, DC, and upon inspection, seem inconsistent with observed realities on the ground. The Ministry of Planning's forecasts or projections of GDP show drops in output when rapid increases have otherwise been observed.

Government financial statistical reporting remains weak. Reporting by many of the extrabudgetary institutions of the Indirect Administration do not follow the rules of government finance reporting. Although the GRA has established accounting standards, there is no General Accounting Law to compel compliance by these entities. Debt data are reported in multiple currencies and with conversions taking place at different times of the year. Although the SIGFE is progressing, its progress remains slow and numerous entities remain outside the regular SIGFE reporting.

Solutions

AFRP has taken a multi-pronged approach to the problem of poor statistical data and projections in Angola. We have provided guidance to UPF for "work arounds" that attempt to overcome weak reporting by some institutions of government so they can be included in more consistent and coherent fiscal accounts. For instance, such work-arounds include methods for allocating Sonangol's quasi-fiscal operations to revenue, expenditure, and financing accounts, or for adjusting the revenue reporting of the Social Security system to fit the GFS framework.

We have provided training to and held technical discussions with partners throughout Angola's economic-policy administration, including the DNT, BNA, INE and elsewhere, in attempts to introduce ideas and concepts that can be helpful in improving reporting on debt, intra-governmental transfers, expenditures, and revenue, and financing. There is some progress on all of these fronts – except maybe the national accounts – but the problems remain large.

Our work in the area of developing the models and projections for the medium-term macroeconomic and fiscal framework had been hostage to poor reporting and projections of national accounts information. In order to ensure that at least the learning for these methodologies progress, we developed a rudimentary model and projection methodologies and then developed them much further. These efforts are based on AFRP advisors' own projections of the national economy rather than on official INE projections. This is obviously not something that the MOF would be willing to publish, but it does serve as a very useful tool for those inside the UPF and GEREI to use in helping to set medium-term macroeconomic and fiscal policy and for holding dialogue with counterparts in other government ministries. Most importantly, the model AFRP developed, in close collaboration with Ms. Melo of UPF, and fully documented served as an excellent learning experience for her and UPF and GEREI, in general.

7. LABOR REPORT

All told, AFRP provided assistance of 14 persons, with a total level of effort (LOE) of 632 days. Of these 632 days of LOE, 21 days were provided by CCNs and 53 were provided by one TCN advisor. The following table provides details on the labor provided under AFRP.

Table 2: Labor provided under AFRP task order

| Person | CLIN | Main areas of work | LOE* |
|------------------------|---------------------------|---------------------------------------|-------------|
| Paul Beckerman | Senior Economist | Lead technical advisor and MMF | 181 |
| Brandon Lundberg | Administrative Support | Implementation Advisor | 125 |
| Mark Gallagher | Project Manager | All areas, plus revenue forecasting | 61 |
| William Tyler | Senior Economist | Fiscal reporting/bulletins | 60 |
| Maria Arminda de Sousa | TCN/Public Finance Expert | Government finance statistics | 53 |
| Bryn Saxe | Administrative Support | Support to GFS training | 20 |
| Frank Wade | Public Finance Expert | Accounting | 17 |
| Matesso Malungo | CCN/Economist | CCN/Economist | 11 |
| Andrew Fitzpatrick | Administrative Support | Administrative Support | 10 |
| Paulo Dacruz | CCN/Logistics | CCN/Logistics | 10 |
| Fernando Archondo | Public Finance Expert | Debt-reporting systems | 8 |
| Donata Kane | Administrative Support | Administrative Support | 6 |
| Karly Geers | Administrative Support | Administrative Support | 5 |
| Heather Roberston | Training Support | Support in first workplan development | 4 |
| | | | |
| TOTAL LOE* | | | 572* |

* Rounded to whole days

8. FINANCIAL REPORT

The following table provides actual and accrued expenditures under the Angola Fiscal Reform Project, as of end of February 11, 2009. This is not meant to represent the final billing under the contract.

Table 3: Estimated financial outturn

| Line Items | Budget in Task Order | Billed as of 1/31/2009 | Estimated thru 2/11/2009 | Final Estimated | Remaining Balance |
|-------------------|-----------------------------|-------------------------------|---------------------------------|------------------------|--------------------------|
| Labor | 689,729 | 565,661 | 4,986 | 570,647 | 119,082 |
| ODCs and G&A | 509,089 | 415,045 | 761 | 415,806 | 93,283 |
| TOTAL | \$1,198,818 | \$ 980,706 | \$5,747 | \$986,453 | \$212,365 |

Annex: Roadmap to the MMF

The following table provides a road map for the development of the Angolan MMF, along with comments on its state of development, as of this writing.

Table 4: Components and progress in the MMF

| No. | Item | Data source | Content | State of advance | Other comments |
|-----|------------------------------|--------------------------------------|--|--|---|
| 1 | Fiscal projection | SIGFE, DNT, BNA/DMFAS | 'Core module' of the fiscal projection: brings together fiscal projections from projections of oil revenue, non-oil revenue, expenditure, and central-government financing | Initial version prepared by Gardiana Melo. | 'Above-the-line' historical data and projections are in relatively good condition, but below-the-line historical data and projections still need to be completed. |
| 2 | Oil-based revenue projection | Projection model formulated by AUPEC | Projection model formulated by AUPEC | Advanced model now undergoing revision, among other things, to make it more 'user-friendly' and adaptable to the needs of the MMP. | Needs to be linked with the fiscal projection |
| 3 | Non-oil revenue projection | | | Preliminary version prepared by Mark Gallagher | Needs to be reviewed, reformulated to the extent necessary, and then linked with the fiscal projection |
| 4 | Projection of current non- | Direcção Nacional do Orçamento, | Expenditure to be organized in a ministerial-cum- | Progress has been made, and a | Needs to be linked with the fiscal |

| No. | Item | Data source | Content | State of advance | Other comments |
|-----|--|------------------------------|--|---|--|
| | financial government expenditure | SIGFE | economic classification, making it possible to carry out projections at this level of detail | projection methodology is nearly complete | projection |
| 5 | Capital-expenditure projection | Public Investment Program | | To be prepared | A more detailed analysis of the Public Investment Program is clearly required. |
| 6 | External-debt projection (incl. stocks and flows of government debt) | BNA/DMFAS | | An initial version has been incorporated in the fiscal projection | |
| 7 | Internal-debt projection (incl. stocks and flows of government debt) | Direcção Nacional do Tesouro | | To be prepared | The AoMC.xls incorporates a projection with a recommended approach. |
| 8 | Balance-of-payments projection | BNA | | | The AoMC.xls incorporates a projection with a recommended approach. |
| 9 | National-accounts projection - production | INE | | An initial version is in preparation | The AoMC.xls incorporates a projection with a recommended approach. |

| No. | Item | Data source | Content | State of advance | Other comments |
|-----|--|-------------|--|---|---|
| 10 | National-accounts projection - aggregate expenditure | INE | Projections of government consumption, investment, exports and imports, which make it possible to calculate non-government consumption | An initial version is in preparation | A fundamental problem is that aggregate investment data do not exist. Additional work is necessary to estimate capital formation. |
| 11 | Monetary-accounts projection | BNA | Projection of the BNA accounts | A revised projection exercise is now in preparation | Original version prepared for the BNA conference, January 2007 |
| 12 | Poverty-incidence projection | | | | The AoMC.xls incorporates a projection with a recommended approach. |