

## Establishing the Fiscal Programming Office

Ministry of Finance,  
Government of the Republic of Angola

### Scope of Work

#### **Introduction:**

The Ministry of Finance (MINFIN) of the Government of the Republic of Angola (GRA) is seeking to strengthen its ability to undertake fiscal programming. This work is currently the responsibility of the *Gabinete do Estudos e Relações Económicas Internacionais* (GEREI). At present, GEREI focuses most of its effort on gathering and compiling fiscal data from a variety of sources and producing comprehensive fiscal tables that serve to monitor fiscal performance. GEREI compiles these data from *Contabilidade* (MINFIN's Accounting Office), *Tesouro* (MINFIN's Treasury Office), *Orçamento* (the Budget Office), and a variety of off budget or extra-budgetary operations, such as those run by *SONANGOL*, the country's government-owned petroleum company.

MINFIN is planning to develop, with assistance from USAID and an external advisor (Mr. Alejandro Saavedra), a "project" to be included in next year's budget. The project will be created within GEREI and will be coordinated by the its current head, but which would have adequate funding and greater leeway in hiring the quality professional staff that are needed. This could also include the purchase of adequate equipment, and possibly the procurement of additional space for this expanded staff.

In addition to these new resources to be included in next year's budget, discussions with SONANGOL have been very promising. SONANGOL has expressed a willingness to provide on secundment basis a number of its professional staff that are currently working on its quasi-fiscal operations.<sup>1</sup>

#### **Background:**

##### *Requirements*

Financial Programming refers to the setting of macro-fiscal targets consistent with IMF-type economic target setting. It includes economic growth targets, national and domestic savings targets, and international balance of payments and foreign financing targets. Fiscal Programming supports the overall financial program by setting targets for government revenues, expenditures, current account and overall balances and financing. This Scope of Work focuses on developing fiscal programming capacity in GRA.

The GRA needs to establish the mechanisms and systems to set up, in conjunction with the IMF, the targets for government receipts, spending, balances and financing. This

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<sup>1</sup> SONANGOL is expected to cease these quasi-fiscal transactions around the end of 2004.

requires annual forecasting, monthly and quarterly targets, and constant review, calling to task of the appropriate officials who are responsible for meeting said targets, and proposing and implementing adjustments to the program and to government actions.

In other countries, this fiscal programming and monitoring activity is the primary method for imposing fiscal discipline on the government, the key factor in any SMP. The person in charge of this function must have sufficient stature that he/she can convoke department heads, such as the heads of customs, internal revenues, treasury, and accounting.

The office responsible for Financial or Fiscal Programming requires:

1. Strong leadership
2. International credibility
3. Power within the Ministry of Finance to call others to meetings and account
4. Good and timely statistical information
5. Analytic support.

To carry out the fiscal programming function the following capabilities would be needed:

1. Overall management
2. Statistical compiling and analysis and expertise in government finance statistics
3. Budget analysis
4. Economic studies
5. Revenue and receipts projections
6. Adequate professional staff for each of these sub-departments.

Technical staff must have at least a university degree (*Licenciado*), strong experience in economics, public finance and statistics and general finance. Particular knowledge of Government Finance Statistics (GFS) and national accounts is also required. Ideally, these three heads would also have specialized knowledge of public finance at the post-graduate level. If possible, they should each be allowed to participate in the IMF's six-week course on public finance.

The supporting staff should also include *Licenciado*-level professionals, although perhaps with somewhat fewer years of experience. They will be responsible for gathering information, preparing tables and reports, and supporting their section heads.

The office should produce timely reporting on the state of the economy, compliance with fiscal program targets, and other relevant products.

The office would be responsible for coordinating the work related to fiscal programming of Treasury, Internal Revenues, Customs, Budget, and other offices of the MINFIN, and ensuring that these fit in the overall Financial Programming targets and macro program. The Head of the office or the person in MINIFN to whom this office would report should call these actors, and others, as may be necessary, together on a regular basis to review all the revenue and expenditure targets, ascertain compliance with these targets, demand

responses from those available for meeting these targets, and recommend actions to adjust the fiscal program and MINFIN actions to these review findings.

### *Constraints*

GEREI faces a number of obstacles to performing as a true fiscal planning office. A primary obstacle this year has been the paucity of data produced by *Contabilidade*. *Contabilidade* is responsible for producing all government finance statistics encompassing the entire government sector on a timely basis. Due to the implementation of a new, comprehensive Integrated Financial Management System, referred to as SIGFE, *Contabilidade* has not been able to produce timely statistics for the GEREI for all of 2004. The reasons for this are varied, but *Contabilidade* is planning to produce very shortly (i.e., in July 2004) comprehensive government finance statistics for first quarter 2004. *Contabilidade* also assures that SIGFE should be operational by December 2004 and will then be producing complete, comprehensive government finance statistics in “real time.”

GEREI has focused on filling in information gaps by collecting data from *Tesouro* and other institutions on its own, i.e., separately from the efforts of *Contabilidade* and SIGFE. This has resulted in a continuous scurry for information and its formatting and precious little attention paid to analysis of these data. GEREI has not been able to overcome the data limitations discussed in the prior paragraph and the GRA has not started an SMP with the International Monetary Fund (IMF) yet.

Assuming that the data problems can be overcome with the promised full implementation of the SIGFE in December, GEREI still faces severe constraints on its ability to gather statistics, analyze them, and play an active role in fiscal programming, including establishing fiscal targets, monitoring their attainment and defining measures for fiscal adjustments. GEREI staff is inadequate to the task. Other than a few staff members, there is little economics professional level knowledge, and even less in terms of public finance, IMF-type financial programming, macro-fiscal analysis, and overall fiscal management. Junior staff in GEREI do not have the university degrees (they are technical school graduates) to prepare them adequately to participate in remedial training programs that could bring them up to the knowledge and skills levels that would be required for a fiscal programming office.

MINFIN faces great difficulty in hiring new, professionals since the ability to pay differentiated salaries or reward above pay grades, which are not at all generous, is precluded. The problems of hiring professional staff and providing them with appropriate incentives and other conditions for professional growth are not limited to MINFIN; indeed, this is an inherent in the Angolan civil service system, which is in desperate need for reform.

Since the civil service system will not be reformed in the immediate future and the need to establish fiscal programming and introduce greater fiscal transparency and discipline is urgent it has been decided that the MINFIN would develop a “project” office that can

undertake these activities and employ the appropriate staff while developing capacity. This project office will be funded mainly by the GRA, but support from USAID and possibly SONANGOL will also be provided.

**Goal:**

The goal of this assistance is to aid MINFIN and its GEREI to establish its Fiscal Programming Project. This assistance provided will be in organizational development and training of new professionals in the area of fiscal programming.

The Fiscal Programming Project will introduce greater fiscal planning, accountability within MINFIN, propose adjustments and measures for achieving fiscal targets, report on fiscal program targets and adjustments, and interface directly with the IMF in the implementation of its Staff Monitoring Program (SMP).

**Tasks:**

The Fiscal Reform Project will carry out the following tasks.

1. Develop, with the head of GEREI and the GRE's advisor, an **organizational and project plan** for the Fiscal Programming Project. The organizational and project plan will be submitted to the Minister of Finance by the head of GEREI and will include, among other things, the following:
  - a. Organizational plan
  - b. Project mission and vision
  - c. Staffing plan
  - d. Linkages with other organizations and offices, such as *Tesouro*, *Contabilidade*, Banco Nacional de Angola, SONANGOL and others
  - e. Job descriptions
  - f. Job announcements for newspapers
  - g. Definition of equipment and software needs
  - h. Training plan.
2. Develop a **workplan** for the assistance to assist the MINFIN establish the Fiscal Programming Project.
3. Assist in the **recruitment process**. The USAID-funded advisor will work with MINFIN counterparts, including GRE's external advisor, to rank and short list the candidates who apply for the project positions, will participate in interviewing these candidates, and will make recommendations to the head of GEREI on hiring.
4. Develop a set of **remedial short courses** that will be provided both by a local university, such as the Catholic University of Angola (UCAN). Courses that might be included in this project are discussed in Appendix II.

5. Develop a set of **higher-level short courses** that would be provided at a location in Angola, perhaps UCAN, but by project experts. These courses are also discussed in Appendix II.
6. Provide intermittent **general monitoring** and **advisory assistance**, as may be required.
7. Project may provide limited assistance in the purchase of **equipment or supplies**.

**Coordination:**

Coordination with other donors and the IMF is extremely important for this assignment, as is coordination with the US Embassy Economics Section. Primary day-to-day coordination, however, will be to work with the Head of Department of Economic Studies and International Relations, Mr. Manuel Neto da Costa, and with Mr. Alejandro Saaverdra, MINFIN's consultant on Government Finance Statistics.

USAID technical guidance in Luanda will be provided by Ms. Gail Spence.

This activity represents a "buy-in" under the Fiscal Reform in Support of Trade Liberalization Project, aka Fiscal Reform Project, managed in Washington, DC under USAID/EGAT auspices. Dr. Mark Gallagher is the Chief of Party of the Fiscal Reform Project and will provide technical backstopping services. Consultants under this activity will provide Gallagher with draft documents for review, comment, and possible revision, prior to presenting finalized documents to the USAID mission or to counterparts in the GRA.

**Level of Effort:**

About 100 days LOE at the senior economist level and mid-level economist.

**Duration:**

The project will commence in September 2004 and end by May 31, 2005. This may be revised as required.

## Appendix I

### Government Finance Statistics in Angola

The GRA needs to monitor and report on its receipt of tax and non-tax revenues, its use of those revenues, i.e., its expenditures, and its deficit and its financing. To manage its affairs properly, this type of information needs to be cohesive, comprehensive, and timely.

The task facing the GRA is to consolidate the normal transactions that flow through the central treasury with those of provincial and municipal governments, plus the Agostinho Neto University, the extra-budgetary transactions carried out by SONANGOL and to incorporate the other parts of the Non-Financial Public Sector (total of 65 additional institutions).

Cohesion in this type of reporting refers to a set of standards that applied to ensure transparency and usefulness. To facilitate this throughout the world, the International Monetary Fund in 1986 published its *Government Finance Statistics Manual (GFSM)*, which it then revised substantially in 2001. The GFSM, from either year, provides definitions and formats for reporting government revenues, current and capital expenditures, current and overall balances (or deficits/surpluses), and the financing of these balances.

Proper reporting of government finance statistics means that not only are the statistics to be gathered and classified according to those used in the GFSM, but these must also be comprehensive. Comprehension means that these data need to be reported in Angola on two bases: Government (there is only Central Government, no local government exists) and Non-Financial Public Sector.

Reporting on Central Government revenues, expenditures and deficit financing has been complicated by the existence of a variety of extra-budgetary operations, as well as the lack of a unitary treasury system and lack of infrastructure for reporting and control of transactions in the provinces. The state-owned petroleum enterprise, SONANGOL, exercises a number of functions that go beyond the normal operations of a state-owned enterprise in other countries. For instance, SONANGOL not only is a major supplier of revenues to the GRA's treasury, it also undertakes a number of expenditure functions as if it were a budgetary agent of the MINFIN, which it is not. For instance, SONANGOL deducts from its revenue remittances to MINFIN the costs of fuel that it "sells" or delivers to the state-owned electric company, the Ministry of Interior, and a number of other governmental entities. SONANGOL reports these transactions, appropriately disaggregated, to MINFIN. MINFIN could then consolidate these data into the overall reporting of the GFS.

The problem with the SONANGOL operations is not that it undertakes these fiscal transactions on behalf of MINFIN, but that these transactions are not properly monitored

and, therefore, fiscal control over these transactions cannot be exercised in accordance to the outlays allocated in the budget.

The SONANGOL expenditures of fuel deliveries to the various budgetary and extra budgetary entities are reported as expenditures on fuels, but are not charged against the expenditure budgets of these various entities. Electricity supply in Angola is provided with the national budget covering the cost of fuels, but these fuel costs never being charged to the electricity company and these costs being recovered from users or customers. The fuel delivered to the Ministry of the Interior is not charged against the budget of this ministry, which means that there is no real transparency. The Legislature, the Angolan people, and the international community, such as the IMF, cannot monitor how public monies are actually spent.

There is an excellent basis for the production of GFS. In many countries the main obstacle to the production of a good set of GFS is that, 1) the chart of accounts (*plano de contas*) is inadequate, and 2) government finances are not appropriated or budget for in this way. In Angola, the chart of accounts and the budget system are both consistent with the GFS economic and classification systems for expenditures, as well as the revenues are reported in the same way. For instance, the budget presents both economic and functional (14 plus finance expenses) classifications. The revenue forecasts or expectations and collections are also reported in a GFS-compliant manner.

The basic statistics on government finance are produced by the Accounting Department in the MINFIN, referred to as *Contabilidad*. Until last year, Contabilidad had been reporting in GFS compliant format the revenues, expenditures, and balances and financing for the entire GRA, incorporating transactions that flow directly through the Treasury system, with the spending and receipts data from provincial and local government offices, as well as the “quasi-fiscal” operations of SONANGOL.

With the start up of SIGFE operations in Contabilidad, there has been a halt to the production of these statistics, with not a single quarterly report being produced to date (13 of July 2004). Apparently, Contabilidad has not produced these statistics while it was starting up its new SIGFE platform. From discussions with counterparts, this impediment has now been overcome and first quarter statistics are expected to be compiled this month, i.e., July 2004.

## Appendix II

### Illustrative List of Short Courses:

Each course would be of about 15 hours, taught over five days in UCAAN or another location in Angola. Some of the courses could be taught by UCAAN professors: these are underlined.

1. Microeconomic refresher

Covers theory of consumer, producer, consumer surplus, producer surplus, deadweight loss, technical and economic efficiency.

2. Quantitative Analysis

How to create indices, ratios, percentages, methods for calculating growth rates,

3. Macroeconomic refresher

This will cover general macroeconomics and include international experiences and economic growth theory, and trade and international finance accounts.

4. Financial Programming I

Introduction to IMF type programs, types of assistance, foreign aid and foreign financing, macro and fiscal accounts.

5. Report writing

How to write a report that would be useful to top level government decision makers.

6. Macroeconomics and the Public Sector

An ISLM/National Accounts approach that explicitly ties in fiscal accounts.

7. Financial Programming II

Mathematical approach to target setting for macro and fiscal accounts, role of national and domestic savings, foreign lending and balance of payments

8. Revenue Forecasting

How to build annual revenue projection models that will allow explicit assumptions and changes in tax rates, tax bases, and efforts to increase tax enforcement. Also, methods for making projections of monthly receipts.

9. International Experience in Public Expenditure Management

Brings in international experience from variety of African and other countries. Good example is Uganda and the Medium Term Expenditure Framework.

10. The Government Finance Statistics Manuals: 1986 and 2001

How to build a budget on a GFS consistent chart of accounts, execute that budget, account for those expenditures and revenues.

11. Natural Resource Revenue Management.

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