



Fourth Quarterly Progress Report of the Angola Fiscal Reform Project

July to September 2007

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ABBREVIATIONS

AFRP	Angola Fiscal Reform Project
BNA bank)	National Bank of Angola (<i>Banco Nacional de Angola</i>) (central
CTO	Cognizant Technical Officer
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
GEREI	Office of Studies and International Economic Relations (<i>Gabinete de Estudos e Relações Económicas Internacionais</i>)
MTFF	Medium-term Fiscal Framework
SIGFE	Integrated Financial Management System (<i>Sistema Integrado de Gestão Financeira do Estado</i>)
SONANGOL	National Oil Company of Angola
SOW	Scope of Work
UCAN	Catholic University of Angola (<i>Universidade Católica de Angola</i>)
UPF	Financial Programming Unit (<i>Unidade de Programação Financeira</i>)

1. INTRODUCTION

On August 11, 2006 USAID signed the Angola Fiscal Reform Project contract and sent it to DAI, the prime contractor. DAI reviewed and then countersigned and returned the contract to USAID on August 15, 2006. This is the fourth quarterly report, covering the period July to September 2007.

2. HIGHLIGHTS

Further progress was made in the quarter toward developing the information bases required for producing Angola's first annual fiscal report in several years. The most important step in this regard was the formulation of an Excel data base and processing procedure that will be used mainly to compile information to be published and to formulate tables and charts (and may eventually be used for other purposes). In addition, UPF staff have drafted the text of the first report.

Further progress was also made toward completion of the "starting version" of the UPF operations Manual. Paul Beckerman helped draft a basic working document (in Portuguese) of some twenty pages, describing the main purposes of the UPF and its broad working procedures. On this basis, UPF staff have begun drafting a more detailed document, indicating more exactly how UPF staff members carry out their work. The UPF director has taken particular interest in leading the work on this, since she has come to see it as a potentially valuable management instrument.

We are pleased to have reached agreement in principle with a noted Portuguese fiscal-analysis specialist, Dra. Arminda de Sousa, to work with us on training and perhaps other aspects of our work. In particular, we plan to have her provide training for Finance Ministry officials on the topic of Government Financial Statistics. Finance Ministry officials have been asking us to organize this course. Dra. de Sousa has long experience as an IMF consultant in fiscal matters and, of course, possesses a solid knowledge of practices in the Portuguese tradition.

Paul Beckerman and Mark Gallagher completed mission work in Angola early in the quarter under review. Mr. Beckerman had planned to return to Luanda in September, but had to postpone his visit until October because hotel accommodation was unavailable. Mr. Beckerman and Mr. Gallagher plan to return in November, along with Dra. de Sousa, mainly to formulate a 2008 work plan.

In accordance with further USAID mission guidance, we have improved our Performance Monitoring Plan. In particular, table 2 presents a schedule for attaining performance improvement measures over the remaining duration of the project, with interim target dates.

3. PERFORMANCE MONITORING

The first annual workplan was approved by both MINFIN/GEREI and USAID during the final quarter of 2006, and continued to be implemented during the period under review.

The following table includes the PMP indicators, along with the AFRP Team’s assessment of progress made in attaining these results.

How the PMP indicators add up: The PMP indicators are an attempt to indicate the degree to which the UPF is capable of carry out its two main functions, namely: statistics compilation and reporting, and fiscal programming, specifically in understanding and operating the Medium Term Fiscal Framework. Capacity means that the staff have the knowledge, access to information, tools, and organization to carry out these two prime functions.

When UPF is fully capable of performing its two primary functions, then the overall capacity index will be 100. UPF may have part of the capacity to perform its functions, but perhaps still is operating with inadequate data access, or is lacking some technical knowledge, or is unable to organize to actually get the reports and information out the door, in which case its capacity index number will be below 100 but certainly above 0.

Organizational development of the UPF has been a fundamental aspect of USAID assistance since 2004 and continues today. Indeed, the UPF was designed by one of the AFRP advisors (Gallagher) back in 2004 under the original Fiscal Reform in Support of Trade Liberalization project, a USAID/EGAT worldwide technical leadership project. Under that project, another of the current AFRP advisors (Beckerman) developed the UPF’s initial “living” work manual. From this point onward, however, we do not specifically measure organizational capacity, but it is implicit in the various indicators or results. For instance, now the UPF is technically capable of producing the 2006 annual fiscal report, yet to this date, the Ministry has not signed off on this report. Technical knowledge and access to information are there. Organizational issues continue. AFRP advisors continue to work with UPF and others in the Ministry to try to get this report published.

Table 1: Performance Indicators and Progress Reporting

Targets	Results	Indicators	Capacity Index	Report
I. Improved statistical methods and capacity of UPF				
<i>A. Central administration's monthly accounts improved</i>	Good understanding of central administration's total and component fiscal accounts. Production of the annual report and quarterly bulletin's will demonstrate capacity and expanded capacity overtime	1. Annual government finance report for 2006 Components: a. Below line financing b. Improved coverage of quasi-fiscal operations c. Analytic content d. Produced by April 2007	10	5, Discussed below.
		2. Quarterly bulletins. Components: a. includes brief data tables b. graphic presentation c. Analytic content c. Produced by March 2007	10	3 Discussed below
<i>B. General Government Accounts</i>	Government accounts accurately incorporate social	1. Annual report for GFS for General Government in 2007	5	4

Targets	Results	Indicators	Capacity Index	Report
	security and certain parastatal organizations	2. Quarterly Bulletins include General Government accounts in 2007	5	Na
<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	5 Discussed below.
		2. Statistical error below 1% of GDP in 2008	10	Na
		3. IMF Art. IV consultations or other surveillance document acknowledges improvement in accounts.	Weighting between 50% and 100%	2
Total possible points for methods at UPF			50	12
II. MTFF tool for macro-fiscal management developed and capacity in place in UPF and GEREI				
<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 Discussed below.
		2. UPF staff demonstrate understanding by expanding MTFF and improving its database	10	5
<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
	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 Expenditure Framework	20	NA MTF has not yet been developed.
Total possible points for MTFF			50	

Targets	Results	Indicators	Capacity Index	Report
Grand total of possible points for methods and MTFF use			100	--

The following table presents the intermediate PMP target schedule.

Table 2: PMP measurements schedule

Capacity area	December 07	June 08	September 08	December 08
<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				
<i>I.B. General Government Accounts</i>				
Target	5	5	10	10
Attainment				
<i>I.C. Improved quality of government finance reporting</i>				
Target	0	0	10	20
Attainment				
<i>II. A. Rudimentary MTFF developed and being used for training UPF staff, and others</i>				
Target	5	10	15	20
Attainment				
<i>B. Complete quality MTFF developed and being used by GEREI</i>				
Target	5	15	20	30
Attainment				
TOTAL				
Target	25	45	75	100
Attainment				

Although table 2 indicates that only 25% of the capacity measure will likely be achieved by December, 2007, this 25% represents the crucial foundations for full capacity that will be developed and which AFRP's second year workplan will be developed to attain.

The following discusses progress as of September 30, 2007 that has been made in terms of enhanced UPF and GEREI capacity – more specifically, in terms of improving methods, broadening reporting, and being able to apply modern macro-fiscal analytic tools, specifically the MTFF.

Capacity to produce an Annual Fiscal Report:

The UPF has been developing its capacity to produce an annual report on a regular basis, against deadlines. It does not yet have this capacity, but continues to set the bases for it. We believe it is highly likely that it will acquire the capacity early in 2008. Considerable progress has been achieved in terms of being able to produce a report for the last fiscal year, but the report still has not been published.

Capacity to produce quarterly reports:

1. While it is still difficult to precisely measure the degree of achievement in this regard, clearly much of the capacity that goes into annual reporting also applies to quarterly reporting. We estimate that the UPF is more than eighty per cent of the way toward meeting this goal.
2. UPF now has increasingly rapid data input from the SIGFE program, and is able to produce above-the-line fiscal information on a monthly basis with a lag of several weeks.
3. The UPF also receives monthly quasi-fiscal operations data, though, as already mentioned, further work on the reporting procedure is still required to make it routine.
4. At this writing, the UPF aims to produce two semi-annual reports during 2008. We hope to persuade the authorities that they could move to quarterly reporting sooner than they now plan.

Improved quality of government finance reporting: reduced statistical error:

It will be impossible to assess the 2007 statistical discrepancy until well into 2008, nor the 2008 discrepancy until into 2009, after project completion. Yet, definite progress has been made with respect to data for 2006. UPF has made advances in quasi-fiscal activity reporting, in correcting some reporting by agencies still outside of SIGFE, and correcting financing that had earlier been classified as revenue.

Knowledge of MTFs:

Progress toward development of the MTF is more advanced than we had expected it would be when we wrote the preceding report. We believe that the substantial efforts made by Gardiana Melo; the work carried out by Gallagher on a non-oil revenue projection model; and work carried out by Beckerman on projection of product-side national accounts, the balance of payments, and the monetary accounts have brought development of an initial version of a rudimentary MTF significantly closer. We estimate we are now about half way toward development of a rudimentary MTF.

4. TASK 1: INSTITUTIONAL DEVELOPMENT

The first task comprises various “subtasks”: (a) compilation of “below-the-line” financing flows for the central-administration accounts; (b) compilation of complete data on SONANGOL’s “quasi-fiscal” activities; (c) compilation of data regarding the financial operations of governmental entities outside the central administration; (d) development of a “living” manual of procedures and methods for the UPF; and (e) formulation and dissemination of annual and, if possible, quarterly reports on fiscal operations. In addition to these five subtasks, AFRP will also serve as the technical assistance coordinator for GEREI.

Progress under Task 1 is summarized in Table 3.

Table 3: Task 1 deliverables

Deliverable	Due Date	Report
Revised "currently-complete" version of "living" manual for GEREI/UPF	June 2007	Significant improvement achieved, draft for final manual comments was made available by UPF director in October 2007
Workshop with GEREI/UPF on central-administration fiscal-financing flows methodologies	January 2007	completed March 07
Workshop with GEREI/UPF on treatment of transfers to other entities	January 2007	completed March 07
Sonangol accounts methodology in place	April 2007	Mainly complete. Details re debt service discussed below.

a) Technical development

This section discusses the various aspects of the areas where AFRP has provided technical assistance during the course of the reporting period.

Mapa fiscal (Fiscal accounts)

Work on fiscal-data compilation continues. As matters now stand, the UPF's quarterly fiscal tables still have significant inconsistencies. The basic sources of the discrepancy are now clearer than they were previously: they derive mainly from incomplete reporting of transactions through the SIGFE. Unfortunately, this implies that they cannot be resolved completely until the SIGFE's coverage becomes complete. Meanwhile, the UPF is continuing to work on a reporting process for the fiscal financing accounts that would rely on sources of information outside the SIGFE. Development has encountered some other difficulties, however. We intend to prioritize this work during the coming quarter.

UPF, in particular, Sr. Amaral, has been working toward adaptation of the fiscal accounts in keeping with recommendations by a recent IMF statistical mission. While these include some simple adjustment of conventions (e.g., a recommendation to have external grants and debt-service and other arrears above rather than below the line), they also include some reordering (and renumbering) of the accounts structure. This should be complete by the end of 2007, but work on improving the fiscal accounts will continue throughout the duration of AFRP, and beyond.

As noted, the reduction of the statistical discrepancy will not be completely possible until the SIGFE's reporting methodology improves.

The UPF has been developing alternative data sources, including (i) the BNA's debt-reporting system (for data on external financing) and (ii) the National Treasury (for data on internal financing). As this work progresses, it should be possible to determine how much progress can be made toward resolving the discrepancy.

Sonangol quasi-fiscal activities

The main fiscal-reporting worksheet used internally now incorporates estimates of the SONANGOL "quasi-fiscal" accounts, i.e., expenditures made by SONANGOL on behalf of the Treasury, following procedures AFRP recommended. Although the detailed data are incomplete (in particular, the breakdown of debt service between amortization and interest), the revised figures are a significant improvement.

Below-the-line accounts and external debt (two sections combined)

Beckerman worked with Sr. Manuel (see liaison with others) to develop the external-debt accounts on the basis of the data obtained from the BNA's debt-management system (DMFAS). We had worked out the broad accounts structure earlier this year, but we had been finding it difficult to bring together the data. Early in July Sres. Alexandre Manuel and Cláudio Amaral of the UPF, and Beckerman visited the BNA, and had a lengthy discussion with Dra. Poças, Director of the DMFAS and her staff to improve the data flow. UPF and AFRP continue working on the issue, but have found that we have had to return repeatedly to gather data on the country's various creditors. We have faced some challenges identifying the credit going specifically to the government as opposed to the remainder of the public sector, but this problem appears now to be resolved.

Intragovernmental transfers

AFRP team members did not focus on this area during this quarter.

b) Fiscal bulletins and reporting

The UPF has formulated a text for the Annual Fiscal Report and has made some revisions in the light of comments and recommendations made by Ministry officials (We have provided comments intended to improve and sharpen the exposition, but have tried to avoid influencing "the messages" the text conveys. There are fine lines here. UPF officials believe, as we do, that the text should be "objective" and technical in character, but they are fully aware that in many instances the choice of "facts" to present and discuss often conveys messages, intentionally or not.) The present draft will receive further review and revision over coming weeks, and will then be disseminated.

The Finance Ministry does not wish, for now, to go beyond the present official figures to incorporate SONANGOL "quasi-fiscal" operations in the first annual fiscal report. (It has

proven more difficult than anticipated to divide SONANGOL debt-service payments on behalf of the fisc into amortization and payment of interest.) The UPF hopes to be able to make this information available within the Finance Ministry, during 2008.

The AFRP team and the UPF have together created an Excel file, which is structured to receive and process a broad range of data from different sources. This file will henceforth be used to develop tables and charts for the report. The use of a single Excel file for the tables and charts is intended to help ensure consistency.

The report presents 2004-2006 “above-the-line” fiscal data (i.e., revenue and expenditure data), compiled from SIGFE sources. Because of the continuing difficulties presentation of “below-the-line” (financing) data must await a subsequent report.

c) Liaison with other organizations

Beckerman and UPF staff worked with Dra. Marília Poças and Dra. Eunice Vasconcelos of the external-debt department of the Banco Nacional (the unit that manages the DMFAS) on issues of external debt.

d) Manual

UPF has developed the manual and at the end of the quarter sent it to AFRP advisors for comment. AFRP advisors will work with the UPF leader, Ms. Arlete de Sousa in November to finalize the manual.

e) Coordination

There were no coordination meetings held. The IMF, however, is kept abreast of the work of the AFRP with the UPF and has mentioned UPF’s progress in statistical reporting in its most recent Article IV consultation. In addition, when our visits to Luanda have coincided with the monthly meetings of donors working on fiscal issues, we have attended those meetings, and have remained in touch with the key participants in those activities. In recent months, we have taken steps to improve our coordination with the World Bank.

5. TASK 2: TRAINING

Only OJT took place during this quarter. AFRP was severely hampered by not being able to travel to Angola after July due to lack of hotel rooms.

Table 4: Task 2 deliverables

Deliverable	Due Date	Report
Phase I (and throughout the first year)		
Skills training in data organization and presentation	Beginning December 2006	Continues as OJT throughout life of project.
Skills training in Excel	Beginning December 2006	Continues as OJT throughout life of project.
Phase II		
Skills training in government finance statistics	May 2007	MINFIN has asked to postpone this training until Q1:08.
Skills training in public finance	Second year	
Phase III		
Fiscal and macroeconomic frameworks	August 2007	Several trainings already completed. Next revenue forecasting sessions are planned for November 07. Macro-fiscal session OJT to be undertaken in October and November 07.

6. TASK 3: FISCAL AND MACROECONOMIC PROGRAMMING

During this quarter, we have been pleased and encouraged that the UPF has made a determined effort to advance in the area of fiscal-projection work. Ms. Gardiana Melo of the UPF has made impressive progress on a fiscal-projection exercise in Excel. In July 2007 she presented her work informally to an audience of Ministry officials outside the UPF, and received an encouraging response. Her exercise is fully compatible with other MTFF components on which we have been working thus far (external-, national-, and monetary-accounts projections). We hope in the next quarter to progress significantly in this work.

The fiscal projection workbook, although very much work in progress, is near the stage at which it combines historical data and projection assumptions to produce a fiscal projection. Beckerman has been working “elbow-to-elbow” with UPF staff on the details of the system, and plans to continue in this way over the next several months.

Gallagher has been developing a non-oil revenue forecasting model. Gallagher has been working with UPF during the quarter in developing the model and in the next quarter plans to work further still on its full development, as well as to present the model to a wider audience in the Ministry of Finance. It is important to note that non-oil revenues only comprise about 15% of GRA revenues, but still amount to about 9% of GDP.

As noted in the preceding quarterly reports, to help build the UPF's knowledge of MTFFs, Gallagher prepared a set of guidelines on building an MTFF, and also carried out a workshop in June 2007 on the topic for staff from UPF and other parts of the Finance Ministry. Follow-up is provided during each visit by AFRP staff, as well as in email consultations. This guide serves as the basis for the MTFF work being undertaken on the project.

In coming months, AFRP will continue work with UPF staff on the integration of the various components of the MTFF, and formulate a working version.

The following table summarizes the schedule of all Task 3 deliverables.

Table 5: Task 3 deliverables

Deliverable	Due Date	Report
Rudimentary MTFF	August 2007	In progress
Workshops on MTFF for MOF	August 2007	June 2007, more planned for next quarter
Revised MTFF	Second year	Na
MTFF	Second year	Na

7. FINANCIAL REPORT

As of September 30, 2007, AFRP has burned a little more than 43% of the funds that have been obligated, and about 36% of total project budget, while 44% of project life or duration has passed.

Table 6: AFRP Financial report

AFRP Accrual Estimates – Q3 2007					
	Budget	Billed as of Sept 30, 07	Accrued	Cumulative as of Sept 30, 07	Remaining
Direct labor	689,729.01	257,251.37	0	257,251.37	432,477.64
ODCs w/o G&A	466,626.00	162,277.13	0	162,277.13	304,348.87
G&A	42,462.99	14,767.15	0	14,767.15	27695.84
CEILING/TOTAL	1,198,818.00	434,295.65	0	434,295.65	764,522.35
CURRENT OBLIGATION	1,000,000				565,704.35
% of Obligation Expended				43.43%	