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# Fifth Quarterly Progress Report of the Angola Fiscal Reform Project

September to December 2007

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## ABBREVIATIONS

AFRP	Angola Fiscal Reform Project
BNA	National Bank of Angola ( <i>Banco Nacional de Angola</i> ) (central bank)
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
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 fifth quarterly report, covering the period September to December 2007.

## **2. HIGHLIGHTS**

During this quarter, Dr. Paul Beckerman, senior technical advisor, made two visits to Angola. Dr. Mark Gallagher completed the prototype non-oil revenue projection model, but was unable to work side-by-side with counterparts in Angola due to changes in visa requirements, making it impossible to travel to Angola.

Ms. Maria Arminda Ribeiro de Sousa was also scheduled to travel to Angola to assist in the development of the Government Finance Statistics training program, as well as to assist in improving the work of the UPF in data compilation and reporting. Unfortunately, Ms. de Sousa was also unable to travel to Angola because of changes in visa requirements.

During the quarter the AFRP Team prepared for comment the second annual workplan, which also includes expanded performance monitoring and reporting.

## **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 as of end of December 2007.

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
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
		2. Quarterly bulletins. Components: a. includes brief data tables b. graphic presentation c. Analytic content c. Produced by March 2007	10
<i>B. General Government Accounts</i>	Government accounts accurately incorporate social security and certain parastatal organizations	1. Annual report for GFS for General Government in 2007	5
		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

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. 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 Expenditure Framework	20
<b>Total possible points for MTFF</b>			<b>50</b>
<b>Grand total of possible points for methods and MTFF use</b>			<b>100</b>

The following table presents the intermediate PMP target schedule and summarizes attainment as of December 2007.

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

Although table 2 indicates that only 30% of the capacity measure has been achieved by December, 2007, this 30% represents the crucial foundations for full capacity that will be developed and which AFRP's second year workplan has been developed to help achieve.

The following discusses progress as of December 31, 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 MTFE.

### **Capacity to produce an Annual Fiscal Report:**

UPF has been instrumental to the Ministry of Finance in the production of the first Annual Fiscal Report in several years. The report is not fully consistent with GFS Manual in that it continues to report financing, either new disbursements or amortizations, as above-the-line elements. Indeed, in line with traditional Iberian budgeting laws, financing is part of the “balanced budget” concept. Reporting in this method is traditional in most countries with Portuguese or Spanish histories. Yet, since the component data are all included in the reporting, there is a rather high degree of transparency attained.

The analytic content of the first annual report is excellent, placing Angola within the world economy, explaining how international prices and other factors have both affected the economy and the fiscal system. Indeed, the analytic quality is much higher than most similar reports produced by Ministries of Finance around the world.

#### **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. AFRP is planning to bring in additional expertise in 2008 to address systematically the issues related to debt recording and reporting.

#### **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 more than half way toward development of a rudimentary MTF.

#### **4. TASK 1: BUILDING BASIC CAPACITY IN UPF**

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 work products schedule**

<b>Deliverable</b>	<b>Due Date</b>	<b>Report</b>
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.

***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)**

After many months of frustrating difficulties, the UPF has at last made significant progress on the annual *fiscal-financing flows*, the so-called "below-the-line" accounts. Beckerman, AFRP consultant, and Alexandre Manuel, the UPF staff member who has been working especially closely on this issue area, made several visits to the BNA's DMFAS unit. The DMFAS unit was finally able to provide the detailed data required for the external-debt aspects of the work. The data were provided in a format that was a bit problematic, but after some work it turned out to be possible to process it and incorporate it into the fiscal reporting. The data have now been pieced together in an Excel workbook that shows the central-administration external-debt financing flows for 2006. In addition, the Treasury finally provided data on internal-debt flows in a usable format, so these could be incorporated as well. Soon after departing from Luanda, this consultant and Sr. Manuel were able to piece together a first estimate for 2006, in a spreadsheet format. A large amount of additional work remains, not only to refine the data-compilation procedures but to extend the methodology to 2005, 2004, and the four quarters of 2006, which would then make it possible to develop quarterly estimates for 2007.

### **Intragovernmental transfers**

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

#### ***b) Fiscal bulletins and reporting***

A draft of the *fiscal Boletim*, covering developments in 2004, 2005, and 2006, was already complete by the beginning of the quarter, i.e. October 2007. UPF staff had drafted its text, and had incorporated tables from the Excel workbook that was designed with assistance from AFRP.

Substantial revision took place over the course of the October and November visits. This revision reflected various things, including extensive comments by Finance Ministry officials outside the UPF and further review work within the UPF. AFRP senior technical advisor, Paul Beckerman, provided advice on the text and on its statistical underpinnings.

The Finance Ministry published the *Boletim* in early December. This is a significant advance. Thus far, it has been received positively, as progress toward fiscal “transparency” and as a quantitative indication of the type of pressure now affecting fiscal policy-making. It is nevertheless important to note that the *Boletim* had a number of methodological shortcomings. One is that the fiscal data are presented in a “budget” format, with financing flows except for the movement in the Treasury account, “above the line,” rather than in a “GFS-compliant” format, showing all financing flows below the line. An important problem is that the financing flows remain incomplete (see below), and so the annual fiscal data continue to show substantial discrepancies. Moreover, the *Boletim* does not discuss or present any adjustment to incorporate the quasi-fiscal operations carried out by SONANGOL, despite the fact that the methodology and data for doing so are now clear (through work done under the AFRP). There are a number of other points on which data and methodology could be improved.<sup>1</sup> The 2008 work plan includes some efforts to improve the *Boletim*’s methodology in these and other areas.

The *Boletim* placed on the Finance Ministry’s web site promises that the Ministry will endeavor henceforth to publish on a regular – indeed, on a quarterly -- basis. This poses an important operational challenge, which the AFRP must help the UPF address over the coming year. Once publication of the *Boletim* becomes quarterly, the UPF must work to a disciplined “deadline” system. If the *Boletim* is scheduled for a particular date, a “countdown” must be set in place, so that the data-compilation, table-formulation, text-writing, and review processes all take place in time to meet it.

#### *c) Liaison with other organizations*

Beckerman, AFRP consultant, and Alexandre Manuel, the UPF staff member who has been working especially closely on this issue area, made several visits to the BNA's DMFAS unit.

#### *d) Manual*

Progress on the *UPF’s operating Manual* was limited during this quarter. Part of the reason was that the UPF’s Director was away on medical leave during part of the time and then was engaged in other urgent matters. But she has now obtained essential material from three of the four UPF staff members working under her. It seems reasonable to hope that the next version of the Manual will be ready early in 2008.

#### *e) Coordination*

Beckerman participated in coordination meetings at World Bank offices in Angola in both October and November.

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<sup>1</sup> Sonangol’s quasi-fiscal operations came to about 14% of GDP in 2006.

## 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 work products**

Deliverable	Due Date	Report
<b>Phase I (and throughout the first year)</b>		
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.
<b>Phase II</b>		
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	
<b>Phase III</b>		
Fiscal and macroeconomic frameworks	August 2007	Several trainings already completed. Next revenue forecasting sessions are planned for January 08. Macro-fiscal session OJT were undertaken in October and November 07.

## 6. TASK 3: FISCAL AND MACROECONOMIC PROGRAMMING

During the quarter, Beckerman worked closely with UPF staff on the *multiannual programming framework* (MMM in Portuguese). During the November visit Beckerman and Ms. Gardiana Melo of UPF prepared a joint memorandum describing the structure of the exercise as it would develop over coming months. The idea would be to carry out the work of spreadsheet formulation over the first three to four months of 2008.

Gallagher finalized the first prototype of the non-oil revenues projection model and has been preparing the technical documentation to accompany it. Although the intention was to develop the model side-by-side with UPF counterparts, this was not possible due to travel obstacles. Nonetheless, the first stages of model development had been undertaken in Angola with counterparts, and a number of trainings related to developing such a model were put on earlier in the year, by both Gallagher and Mr. Brandon Lundberg.

During one of Beckerman's visits to Angola during the quarter, he worked closely with the UPF counterparts to ensure their understanding of how the model works, its bases, and its applicability. A joint memo was sent to Gallagher about how the model might yet be improved, which Gallagher responded to and some of the changes have already been incorporated into the next version of the model. Gallagher will travel to Angola in January 2008 to continue to work with UPF on the further development of the model.

The MMM and the non-oil revenue projections model are essential components of the Medium Term Fiscal Framework.

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

**Table 5: Task 3 work products**

<b>Deliverable</b>	<b>Due Date</b>	<b>Report</b>
Rudimentary MTFF	August 2007	In progress
Workshops on MTFF for MOF	August 2007	June 2007, mostly work on OJT basis
Revised MTFF	Second year	Na
MTFF	Second year	Na

## 7. FINANCIAL REPORT

As of December 31, 2007, AFRP has burned almost 52% of the funds that have been obligated, and about 42% of total project budget, while 55% of project life or duration has passed.

**Table 6: AFRP Financial report**

<b>AFRP Billed &amp; Accrued - 12/31/07</b>					
	<b>Budget</b>	<b>Billed as of 11/30/07</b>	<b>Accrued</b>	<b>Cumulative as of 12/31/07</b>	<b>Remaining</b>
<b>Direct labor</b>	689,729.01	286,755.21	28,171.00	314,926.21	374,802.80
<b>ODCs w/o G&amp;A</b>	466,626.00	178,378.62	6,517.00	184,895.62	281,730.38
<b>G&amp;A</b>	42,462.99	16,232.40	593.05	16,825.45	25,637.55
<b>CEILING/TOTAL</b>	<b>1,198,818.00</b>	<b>481,366.23</b>	<b>35,281.05</b>	<b>516,647.28</b>	<b>682,170.72</b>
<b>CURRENT OBLIGATIONS</b>	<b>1,000,000.00</b>			<b>516,647.28</b>	<b>483,352.72</b>
<b>% of Obligation Expended</b>				<b>51.66%</b>	