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Guidelines for Developing a Medium-Term Fiscal Framework

Angola Fiscal Reform Project

December 2006

This publication was produced for review by the United States Agency for International Development. It was prepared by Development Alternatives, Inc.

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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, the United States Government, or the Government of the Republic of Angola.



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Acronyms

DAI	Development Alternatives, Inc.
GEREI	Office of Studies and International Economic Relations (<i>Gabinete de Estudos e Relações Econômicas Internacionais</i>)
INE	National Statistics Institute (<i>Instituto Nacional de Estatística</i>)
MINFIN	Ministry of Finance
MTFF	Medium-Term Fiscal Framework
MTEF	Medium-Term Expenditure Framework
MTBF	Medium-Term Budget Framework
UPF	Fiscal Programming Unit (<i>Unidade de Programação Fiscal</i>)
USAID	United States Agency for International Development

INTRODUCTION

USAID is financing a technical assistance project in collaboration with the Ministry of Finance (MINFIN) of Angola, with the aim of improving fiscal statistics and macro-fiscal management. One of the key instruments used to conduct macro-fiscal management is a Medium-Term Fiscal Framework (MTFF). This project focuses on working with colleagues from the Fiscal Programming Unit (UPF), which is a division of the Office of International Economic Studies and Relations (GEREI) in the MINFIN.

The MTFF, an instrument applied in a variety of countries, links macroeconomic performance with fiscal policy at the aggregate level. Any MTFF requires inputs that come from different organizations, usually part of the governmental or state system, such as, for example, national accounts prepared by the National Statistical Institute (INE). In addition, macroeconomic projections in Angola are the responsibility of the Ministry of Planning.

This work will be prepared by the group of DAI consultants working with the specialists in the UPF. The work has a number of aspects, such as, macroeconomics and consistency, state or government revenues, debt, capital spending, and integration. Integration refers to integrating all of the various components of the MTFF into a single electronic workbook. Integration must be the responsibility of only one person (Dr. Paul Beckerman), who will also serve as the overall leader of the MTFF team.

The purpose of this document is to guide the team of consultants and UPF staff in the preparation of the MTFF.

MTFF FORMAT

While the concepts of this type of tool are complex and require knowledge of macroeconomics and public finances, the use of the model by persons with this technical knowledge should be direct, obvious, and intuitive. The format of the overall model and the specific spreadsheets should facilitate this usage.

The model should include the following characteristics:

1. The model includes Excel macros that ease the entry of assumptions and the updating of the database. For example, useful macros would be those that print particular tables, pages, or that guide the user or the technical specialist in the application of the model or in data entry.
2. The model includes liberal use of graphics, arrows, pointers, and boxes to indicate the purpose and use of each sheet, where to put new data, instructions for the user and technical specialist, and suggestions or indications of operations that are to be avoided.
3. The model is structured to be intuitive to the user, not based on the intuition of the model developer.
4. The model is sparing in the use of colors, patterns, and shading.

5. Excel allows the insertion of notes in each cell. The model developers should make full use of this function.

MTFF DESIRED OUTPUTS

The MTFF should produce the following results:

1. Overall financial resource envelope available to the government
2. Total government spending
3. Overall current spending
4. Total salaries and remunerations
5. Transfers to entities outside of government
6. Interest payments
7. Current account balance
8. Capital spending
9. Overall balance, deficit or surplus
10. Net financing (can be either negative or positive)
11. Reprogrammed amortizations based on projections of changes in debt outstanding, and terms
12. New disbursements, bonds, other

MTFF INPUTS

MTFF inputs are many, varied, and come from a number of different organizations. The work team should avoid duplication of efforts and maximize the use of these ready-made inputs, to the extent that they are useful and/or of reasonable quality and veracity.

Macroeconomic projections

The National Bank of Angola (BNA) and the National Statistics Institute (INE) are responsible for preparing multi-annual projections of the main macroeconomic variables. It must be kept in mind that these are not simply projections, but are also targets based on expectations of a number of policy and exogenous factors.

These macroeconomic projections and targets must be included in a macroeconomic consistency framework to ensure that they are consistent, reasonable, and are in accordance with the system of national accounts.

For the purposes of this activity, it would be ideal if we could collect these data in nominal kwanzas, and in constant terms, or at least in US dollars. The required data include, at least:

1. GDP
2. Aggregate demand accounts for:
 - a. Private consumption
 - b. Government consumption (Government Final Consumption Expenditure)
 - c. Private investment
 - d. Government sector investment
 - e. Exports of good and services
 - i. Petroleum sector
 - ii. Non-petroleum
 - f. Imports of good and services
 - i. Petroleum goods and derivatives
 - ii. Non-petroleum
3. Most important productive sectors, by aggregated value added:
 - a. Petroleum
 - b. Agriculture
 - c. Transport and communications
 - d. Public administration (equivalent to salaries and remunerations for the government sector) – in the final graphic in this report, this is indicated as VA Government, meaning value-added by government.
4. Incomes, such as:
 - a. Remunerations, total for the society
 - b. Operating surplus for enterprises
 - c. Other return on capital
5. Other results, such as national and domestic savings

Government Revenue Sources

There are three types of revenues: petroleum, direct, and indirect. It is our understanding that a petroleum revenue model already exists, which is produced with the technical assistance of the Aberdeen University in Scotland. The team working on the MTFE should obtain a copy of the model, or at least a document that explains the model and the projections it produces in order to incorporate them as a gross inflow to the MTFE.

It is also our understanding that the MINFIN and the general government do not produce a model of direct and indirect revenues. When a projection model of direct and indirect revenues does not exist, the MTFF team should design their own model.

The revenue projection model will have the following products and results:

1. Passive and active projections of total non-petroleum revenues
2. Passive and active projections for the entire detailed set of revenues
3. Method to change the effective tax base to simulate changes in tax policy and administrative measures
4. Method to simulate the changes in the nominal rates following changes in the tax laws.

The revenue model will be based on historical analysis of the components of the system and their tax bases or the proxies of the tax bases.

The model should be developed in close collaboration with the Tax Administration and the tax analysis project.

Public Debt

The MTFF requires information regarding the stock and flows of the government debt. The Treasury Department within the MINFIN manages internal debt data while the National Bank of Angola (*Banco Nacional de Angola*, BNA) is in charge of the external debt data. These two sources of information provide the basis for the MTFF, but the MTFF model will need to calculate changes in the debt and the servicing of the public debt in response to overall fiscal behavior and the new financing needs, or the accelerated reduction in the stock of debt following the politics to generate overall fiscal surpluses.

MANUALES

The work team should prepare a user manual and a technical manual or produce a single document incorporating both.

The user manual should be developed for use by non-technical users that only need to know how the base data are populated, how to enter new assumptions, how to produce simulations, and how to print tables and graphs.

The technical manual should explain clearly and in great detail the internal logic of the model, the data sources, the equations and relations inside the model, and indicate the methodologies to expand the coverage of the model and improve the database.

Structure of the MTFF

