

CMIREPORT

Budget, State and People

Budget Process, Civil Society and Transparency in Angola

Jan Isaksen
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with Cesaltina Abreu

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Executive Summary

Introduction

The Norwegian Embassy in Luanda, through Norad, has contracted the *Chr. Michelsen Institute* to conduct this study on obstacles and opportunities for increased transparency and popular consultation in the prioritisation of state expenditure and handling of revenue. The overall objectives of the study are (a) to contribute to increased insight into the present state of budgetary transparency and openness to the public in Angola, and (b) to indicate ways in which such transparency and openness may be increased. The conclusions and recommendations in the report stand for the authors of the report and are not necessarily shared or supported by the Norwegian Embassy in Luanda.

We have attempted to describe the budget system and processes as our mission to Angola found them in late 2006. We attempt to point out the weaknesses we found and to some extent how these ought to be dealt with, and in particular what improving transparency and stimulation of public interest in budget matters via civil society organisations could do to improve budgeting in Angola.

Process and norms

The budget process comprises the political, bureaucratic and technical procedures of budget making and budget implementation. The budget process includes the setting of priorities, the construction of the budget by the administration and the political approval of the budget by the legislature; the implementation of the budget provisions; revision and reporting throughout the budget year and the final auditing.

Normatively, the budget process in a democratic society should reflect the aims and aspirations of the people. A budget process should therefore:

- be participatory, and involve the citizens in its formulation
- be transparent, so that governments can be held accountable for their priorities and for over- and under spending
- get the priorities right, so that it takes into account the basic needs of most of the people and the country's most pressing development issues

The report examines all the phases of the budget cycle. Our conclusions follow.

Conclusions at the political level

The main changes that will have to be brought about in order to make the budget process of major importance are the introduction of free and fair elections; guaranteed and protected political rights; legal guarantees of political parties' democratic credentials, funding and operation; a strengthening of the judiciary and the parliament in their powers of scrutiny and control; and a reinforcement of the independent institutions of financial supervision (auditors, comptrollers).

Conclusions at the institutional level

In Angola, the state institutions involved in the budget process are all rather weak but reforms, learning and improvements have taken place, in particular in the Ministry of Finance, of the Finance Committee of the Parliament and of the supreme audit institution (the *Tribunal de Contas*). Other institutions are also weak or non-existent.

The Parliament has little professional support and so far only has been through a real budget process two or three times but experience and capacity seems to be developing in a positive way. The court system is still weak, with a number of *Supreme Court* seats remaining unfilled.

The Supreme Audit Institution in Angola, the Court of Accounts (*Tribunal de Contas*), has only recently started functioning and still needs to strengthen substantially its competence, skills and capacity. While it has strong legal powers, no audit report has been produced as yet and its findings and recommendations as a tribunal are unknown to the public. The 1996 law on an anti-corruption commission has not been put into practice.

The National Statistical Institute (*Instituto Nacional de Estatística*, INE) is a weak institution. Whereas INE should lead a national statistical system, the basic elements of national statistics on which budget allocations should be based are unreliable or non-existent.

The provincial and local administrations have severe deficiencies in legitimacy as well as in professional capacity to analyse and shape public service delivery.

The municipalities near the bottom of the administrative ladder have budgets which are part of the respective provincial government budget. There are no elected bodies for municipal administrations to be accountable to. Experiments for a new style of municipal administration are under way in some provinces and a new local government law was introduced in early 2007

The budget process

The importance of a proper public finance management system is particularly great for Angola because of the public sector's very large share of GDP and also because of the substantial revenues that will flow into the fiscus over the next decade. Only a few mineral rich countries in Africa have succeeded in dealing with the 'paradox of plenty'. When they have succeeded, a key factor of success appears to have been institutional strengths and proper budget processes which have produced fiscal discipline and good distributive results.

The Angolan budget system has been shaped by a history of colonial rule, civil war and major economic fluctuations. The constitutional set-up of Angola, first based on its colonial status and later on a single-party regime, has led to budget institutions and processes that are highly centralised.

Our study, as well as cross-country comparisons by the International Budget Project, discern two main deficiencies in the budget process in Angola, both related to the lack of transparency: a) The executive's budget proposal is not publicly debated and no pre-budget paper is prepared; and b) comparisons between budgeted expenditure and actual outcomes are not made and audit reports are not prepared.

The policy basis for the budget tends to be unclear. Angola, like many other countries in Africa, does not have a planning system which creates a national consensus and a plan that underlies the allocation decisions typically taken in the early stages of the budget process. The biennial budget does not fulfil this role.

The legal framework for handling the budget, as spelled out in the Organic Budget Law, is appropriate but not fully adhered to. The budget preparation process takes place mostly inside the executive, in particular the Ministry of Finance, and is shrouded in secrecy. Recurrent and capital spending are divided between respectively the Ministry of Finance and the Ministry of Planning, but there is insufficient cooperation between the two.

The short time allotted to budget preparation leaves little time for analysis and discussion before budget approval. There are no pre-budget statements in line with the OECD ‘*Best Practices for Budget Transparency*’, or pre-budget conferences.

Budget execution is problematic because Angola has two parallel public finance systems: one conventional PFM system under the Ministry of Finance; and a (mainly) Sonangol-operated unconventional system.

In the conventional system, the use of cash rationing in financial management makes it difficult for *budget units* (BUs) to adopt efficient plans and procedures for their activities. It is difficult to ensure that commitments made by BUs are in line with the finance available, which makes it tempting for BUs to over-commit. The resulting delays in payments to suppliers make creditors consider the government a doubtful debtor. It is hoped that some of these deficiencies may be alleviated by the further roll-out of the integrated government finance system *Sistema Integrado de Gestão Financeira do Estado* (SIGFE)

Although the laws of Angola do not allow publication of tax payments by individual oil companies, and the country has not yet decided to subscribe to EITI or PWYP principles, there seems to be a movement towards more transparency, for example through the latest audits of Sonangol and more transparency in recent oil concession bidding processes.

Comparative international research indicates that budget transparency in Angola is nearly the lowest in the world. A comparison with other African countries shows that Angola’s performance in nearly all aspects of budget transparency is the worst.

The serious problems in local government budgeting and budget execution revolve around capacity problems in the local administration, authoritarian attitudes stemming from a hierarchical bureaucratic / military system, a lack of autonomy, poor linkages between local and central levels, and lack of sectoral expertise in executing the budget and performing public services.

The two audit institutions in Angola are the *Inspecção Nacional de Finanças* (INF) and the *Tribunal de Contas*. The INF is mainly an internal audit institution. The Tribunal is the Angolan Supreme Audit Institution and has a very strong mandate. Neither of the institutions is, however, operating fully. Both are troubled by capacity problems. The *Inspecção* in addition runs a system that seems to be mainly concerned with the legality of expenditure and less with efficiency, monitoring and performance.

Role for civil society

Civil society has historically been weak in Angola, and the political and societal space for civil society is limited. The Angolan authorities have not fully accepted the role of civil society’s voice, watchdog and control functions, and the legal framework is restrictive. Whereas very few civil society organisations in Angola have a specific focus on public finance, we still find that there is considerable scope for ‘budget work’ in Angola. Prime examples of successful budget work are the *Conferência Episcopal de Angola e São Tomé*’s (CEAST) pressure on the government to subscribe to EITI principles and for a more just distribution of Angola’s natural resource wealth, and Catholic Relief Services’ (CRS’s) participation in the *Open Budget Project 2006*.

During budget preparation in other countries, civil society organisations may debate budget reports and policies, for instance in a pre-budget conference which are now held in a number of countries. CSOs may also comment on tax proposals and promote compliance. During execution, on the expenditure side CSOs may be effective fighters against budget leakages because of corrupt practices, embezzlement and squander, if controls are weak or non-existent. At the accounting and auditing stages CSOs may act as whistleblowers and ensure a proper follow-up of audit reports.

Our overall recommendations are *first* that a sequenced, comprehensive plan for the overhaul of the budget and public finance management systems should be constructed by Government. Various reform activities are presently supported by international partners, for example the UNDP, EC, the World Bank and USAID. These activities should be framed by a

comprehensive plan. Civil society should push for such a reform plan, and ask to be invited to follow it.

Second, the recommended overhaul must focus on the basic elements essential for public service delivery. Concretely, we recommend that much more time and effort be spent on popular consultation and parliamentary debate about the policies which will underlie the budget and on defining clear targets so that outcomes can be assessed. A proper medium term plan based on broad national consensus and clear policies and targets is needed. Government must generally ensure support for and openness *vis-à-vis* civil society, for instance by arranging a pre-budget conference. It may be necessary to start the budget process much earlier than at present.

In the areas of budget preparation and execution it is important to press on with the further roll-out of SIGFE; train both accounting staff and analytical staff in ministries and provinces; and make a major investment in and overhaul of statistical services, focusing on the use of statistics in the planning, monitoring and evaluation of key public services.

Government will also have to deal with the large outstanding agenda from the Oil Diagnostic Study to end the quasi-fiscal activities of Sonangol and would benefit from a full participation in the *Extractive Industries Transparency Initiative* (EITI) and *Publish What You Pay* (PWYP). Also needed is a legal and institutional overhaul, including a reform of the framework for internal audit, the National Inspectorate of Finance (*Inspecção Nacional de Finanças*, INF), and the institutionalisation of a *Public Accounts Committee* in Parliament.

Not least, it is necessary to focus on local government and build political, institutional and human capacity in local government; strengthen provincial and municipal institutions in budget preparation, implementation and monitoring; and step up the battle against corruption.

For civil society

Civil Society in a country like Angola has a particularly important role in advancing the public demand for improving public finance management. At present the demand for good economic governance from the public through democratic processes is weak.

We suggest three main ways in which the role of civil society and NGOs may be strengthened. We hope that our overview of budget processes in Angola might become the initial step towards producing a ‘civil society textbook’ on the budget process.

First, civil society organisations (CSOs) and non-governmental organisations (NGOs) should acquire a better understanding of *public expenditure management* (PEM), mainly through capacity building in ‘budget literacy’ programmes and campaigns. The ability to collect, compare, interpret, analyse, evaluate, and present (in a simplified manner) financial data and information on public incomes, budgets and expenditures is pivotal.

Second, CSOs and NGOs need to build organisations and coalitions, cooperate and make strategic alliances with other NGOs and civil society organisations, with international organisations and the media.

Third, CSOs and NGOs should consider possible methods of intervention, of which we present a long list in this report.

We suggest that it may be possible to focus on the next budget process starting in July 2007, and propose activities towards that end, e.g., arranging a pre-budget meeting and/or organising workshops on the imminent publication of two reports on budget matters (the World Bank *PER* and the IMF *ROSC*). A parallel approach would be to work on the list of deficiencies suggested in the Angola questionnaire of the IBP survey 2006, turn them into suggestions for improvement. Also one should consider implementing *Public Expenditure Tracking Surveys* (PETS), which have proved useful in other countries.

It is important over time to ensure that capacity building takes place and that CSOs become involved in budget work beyond the initial phase. This would enable CSOs to make sound and well-timed comments on the government’s policy decisions.

Roles for international partners

First, partners, guided by the government, should harmonise their activities on budget issues better in order to have an impact. The existing ad hoc coordination group which has met a few times with the Ministry of Finance should meet and work in a more organised manner. The group should facilitate government coordination of inputs of expertise and technical resources from partners.

Second, bilateral partners and IFIs should work with Government institutions in order to strengthen transparency, oversight and sound budget management at both central and regional levels. There is for instance a need for support to the preparation of a sequenced plan for an overhaul of the budget system, and ways can be suggested of how to improve popular consultation and parliamentary debate on budgetary policies. Bilateral partners and IFIs can also give technical and financial support for the implementation of this.

There is also a need to put forward and support the preparation of a medium term plan through e.g. study tours to best-practice countries, to suggest and support that the government steps up the battle against corruption, and that the government participates fully in the *Extractive Industries Transparency Initiative* (EITI).

In particular, donors can increase support to local government reform and budgeting in rolling out SIGFE, and support the training of both accounting and analytical staff in ministries and provinces. Financial support can also be given for a major overhaul of statistical services for use in planning, monitoring and evaluating of key public services through an urgent resuscitation of INE.

Third, international partners should encourage and put substantial resources into CSOs' attempts to engage in various kinds of budget work, including training and education. Some international partners have already started exchanging information to assist coordination of such activities. Important partner contributions might be to help CSOs create relevant organisational structures for addressing public finance issues; finance CSO initiatives on learning and capacity building; support capacity building for CSOs to become involved in budget work; and use their international contacts and links to connect Angolan CSOs to the international budget work community.

In particular, as an early step international partners should encourage and support the arrangement of a CSO workshop to explain the concept and practice of budget work; encourage, further and support an early start to planning activities around the next budget process starting in July 2007; support a 2007 pre-budget meeting with or without government participation as the budget process gets going; encourage CSOs and the IFIs to organise one or more workshops when the World Bank PER and the IMF ROSC are released; and finally suggest and support relevant organisations, such as CEAST and IBP, in the use of the 'Open Budget 2006' survey to compile a list of small but concrete improvements in transparency for implementation by Government.

Finally, international partners may contribute expertise and funding to a *Public Expenditure Tracking Survey* (PETS) for one or two of the key social sectors, perhaps drawing on the experience of organisations such as the *Uganda Debt Network* and *Research on Poverty Alleviation* (REPOA, an independent Tanzanian foundation).

1. Introduction

In many ways Angola is still marked by the long years of war. The profile of public expenditure is still war-like, with a high proportion of expenditure on defence and public order to the detriment of expenditure on health and education, which is also affected by a much lower implementation rate¹. The transparency of expenditure suffers from the fact that a large part of the budget goes to 'general public services', and a large part of expenditure is still off-budget.

There are, however, few countries where it is as important as in Angola that the system dealing with public expenditure and providing public services is proper and well functioning. One reason for this is that a major part of the economic return from the country's natural resources materialise as fiscal revenue. It therefore becomes the responsibility of the government to deal with such resources justly and in the best interests of the poor majority of the Angolan people. A second reason is evident if we look at the substantial increase in oil revenues expected during the next few years. Also, in the longer term natural resources which are still far from reaching their revenue potential will make Angola a natural resource-rich economy with all the associated potentials and problems.

Norad, on request from the Norwegian Embassy in Angola, has contracted the Chr. Michelsen Institute to conduct this study on obstacles to and opportunities for increased transparency and popular consultation in the prioritisation of state expenditure and handling of revenue. We hope that the study will provide relevant insights for future development cooperation with the objective of reducing poverty, strengthening civil society and building good government.

The overall objectives of this project are (a) to contribute to increased insight into the present state of budgetary transparency and openness to the public in Angola, and (b) to indicate ways in which such transparency and openness may be strengthened.

The report aims to contribute to the general discourse on public sector strategy and operations among government and external partners but perhaps most of all to become a useful source of information and ideas for civil society in Angola. We have tried to describe the budget system and processes as our mission to Angola found them in late 2006. We attempt to point out the weaknesses and to some extent how these ought to be dealt with, and in particular we have indicated the role that improving transparency and creating public interest in budget matters via civil society organisations could do to improve budgeting in Angola.

The views, observations, comments and recommendations in the report belong to the authors of the report and do not necessarily express the official opinion of Norwegian Embassy in Luanda or Norad.

¹ Actual expenditure as a ratio of the budgeted amount.

2. Budgets and Budget Processes

Budget processes are not systems which are mechanically run by legal frameworks and rules once set up. They are more like organic processes consisting of a myriad of rules and regulations and in addition unwritten ideas, traditions, approaches and methods formed over time. They are also highly political, having a direct impact of the distribution of income and wealth, and so power, across society. In order to grasp the present circumstances it is therefore necessary to look at overarching systems and the history of budget development.

This section attempts to increase our understanding of the Angolan system by briefly looking at the functions and aims of budgets in general, then exploring some legal and constitutional aspects of the type of budget system that has evolved in Angola. Finally, we trace some political, economic and administrative features of Angola's history which have influenced budget conventions and operations as we see them today.

2.1 Functions and aims of budget processes

The budget is a government proposal. It is not a record of revenue and spending that has actually taken place, but a record of the intentions of the government. The budget expresses the objectives and aspirations of the government; it reflects the government's policy priorities and expectations about the performance of the economy; and it translates these into revenue proposals and expenditure allocations.

The budget process is the political and technical procedures of budget making and budget implementation. The budget process includes the setting of priorities, the construction of the budget by the administration, and the political approval of the budget by the legislature. It includes the implementation of the budget provisions, and revision and reporting throughout the budget year and the final auditing.

The domain of government budgeting is an on-going process of decision-making, in which different state bodies will have the leading role at each stage. In most countries, there is a main annual budget process, but most countries also have a budget revision after six months. The budget cycle is a process that includes at least these four stages:

Drafting of the budget. This is normally done by the budget office in the ministry of finance, after input from other line ministries, with a final decision being made by the executive (government, cabinet, president). The budget proposal is usually presented to the legislature by the minister of finance.

Approving the budget. This is the parliament's responsibility, and its reading and adoption of the budget usually takes place both in committees and in the plenary. The parliament usually amends the budget and then formally approves it, sometimes in the form of a budget law.

Execution of the budget. This is a task of the various ministries and government agencies, under the responsibility of the executive. The tax administration will, for instance, collect revenues as authorised, and the ministries and agencies will spend the money on planned services, investments and programmes in line with the budget.

In-year monitoring and evaluation of the budget. This is basically the responsibility of the Auditor General, but overseeing budget implementation is also the responsibility of the parliament and other institutions of oversight and control. They will assess whether revenue collection and spending has been in line with the budget plans.

Internationally, parliamentary influence on the state budget ranges from symbolic rubber-stamping almost without discussion and without any significant alterations (in strongly presidential and in authoritarian regimes), to a substantial overhaul and the possibility of voting it down

altogether (including the government that proposed it in the first place, in strongly parliamentary regimes).

Although in many countries the budget process is seen as the ‘monopoly’ of state institutions, there is internationally an increasing realisation that civil society ought to play a role. Civil society organisations involved in applied budget work usually focus on the expenditure side of the budget, pushing for pro-poor spending and spending on particularly vulnerable groups.

However, the income and the way income is collected (the distribution or balance of income) also has important implications for development, equality and participation. For instance, it is important from a pro-poor perspective whether or not the tax system favours the poor by being progressive, by having a rising tax rate as income increases. Income taxes are usually progressive whilst indirect taxes, such as VAT, are generally regressive, as the poor pay a higher proportion of their income on such taxes. Taxation rates and subsidies on consumer prices on certain goods comprise another issue of tax burdens with potentially strong effects on poor people. The budget balance and level of government debt may also have long-term effects on inflation and interest rates, growth and development.

The way government revenues are collected is important also for the country’s political development process. The theory of the ‘resource curse’ holds that regimes with easy access to mineral wealth (and not from direct taxation of people and small/medium businesses) will be chronically hard to democratise. These regimes can keep direct taxes low, and the link between people paying taxes and people demanding accountability from government for what happens to their tax money is broken. In such countries, people pay little in direct taxes, and taxpayers’ interests and organisations are weak. There is no ‘social contract’ between a government imposing taxes and a citizenry imposing control. Sudden and substantial mineral wealth also gives the ruling elite the financial muscle it needs to buy the military hardware and other means to defend itself against any rivals to its power. This also increases the ‘prize’ of state power and so encourages those who may be prepared to fight to win it.

A government budget can be divided into two basic components: revenue and expenditure. These two basic components are connected. The revenue side includes income that the government is expecting from a variety of sources. These can include taxes (direct and indirect taxes like income and wealth tax for people and businesses, tax on company profits, capital gains tax, property tax, VAT, and miscellaneous fees and levies), domestic and external borrowing, grants and international aid (for instance, budget support), sales of assets (sale or privatisation of property, services, and concessions), profits from state ventures, and from printing money.

The expenditure side of the budget comprises the planned use of the revenue on goods and services, administration, health and education, military and police, investment, and repayment of debt. A possible third component is the budget balance. A surplus occurs when revenues exceed expenditures, and a budget deficit occurs when government expenditure is greater than its revenue.

For many years it was accepted that government budgets would generally have a deficit which would be financed by borrowing. In recent years governments have been encouraged to plan for balanced budgets. Not all governments are equally successful at aligning actual revenue collection and spending with the proposals stated in the budget. Variances from the original budget may be necessary to react to changes in the external environment; as a result of refinements to government policy; or be due to poor management

However, the need for a balanced budget is contradicted by at least some of the evidence. Adam and Bevan (2005) show an association between maximum economic growth and a deficit of around 1.5 % of GDP. Most of the literature finds no statistically significant relationship between government deficits and inflation. The US and the UK had government debts of over 100 per cent of GDP in the late 1940s immediately before 30 years of the most sustained growth that these economies have had.

The state budget – the actual document that is drawn up and tabled in parliament on an annual basis, usually by the minister of finance – is an important part of the system that manages a

country's resources.² There is no clear consensus on what constitutes an appropriate or successful budget or a budget strategy but views have been formed from various angles.

Economists have contributed some normative ideas perhaps mostly on the tax side (optimal taxation), whereas the expenditure side is left with the macroeconomic idea of fiscal responsibility (keep the budget deficit low) and in micro terms the guidance that allocation should either address a market failure or achieve an equity objective. From time to time various techniques such as cost-effectiveness analysis and social cost-benefit analysis have been in vogue as tools for guiding policy choices.

A more practical normative contribution comes from public administration/public sector analysis, promoted by the World Bank and set out in the World Bank *Public Expenditure Handbook* (World Bank 1998). Currently these principles appear to be internationally recognised by governments and the IFIs. They see the budget as a technical exercise in which the preparation and execution of a government budget should comply with the interlinked requirements of:

- Aggregate fiscal discipline,
- Allocation of resources in accordance with strategic priorities, and
- Efficient and effective use of resources in the implementation of strategic priorities.

A more political and social view comes from the realm of political science and considers mainly the process aspects of budget preparation. This view considers the process in liberal democracies and holds that the budget should reflect the aims and aspirations of the people. A proper budget process should therefore:

- be participatory, and involve the citizens in its formulation,
- be transparent, so that governments can be held accountable for their priorities and over- and underspending, and
- get its priorities right, as it takes into account the basic needs of most of the people and the country's most pressing development issues.

Serious attention and scrutiny should also be given to a country's budget by government, ministries, parliament, political parties, civil society and the media. The better the transparency and scrutiny, the better are the chances for a 'good' budget.

This and similar views would point out that a budget process based on these fundamentals will also have a larger purpose than the distribution of public resources, namely that of contributing to building democracy in countries where state capacity is weak and formal political institutions remain unconsolidated.

2.2 Different legal frameworks for budget processes

The legal framework for the budget process is closely connected to a country's overall legal framework and its constitution. This ties the budget system to an historical past, and in African countries often links the budget system back to the colonial era. Below, we point to some features which have shaped the Angolan system and indicate some possible consequences.

The Angolan public finance management (PFM) system and budget process were originally based on the Portuguese system that was related to the systems predominant in continental Europe, including Belgium and France. Below we call this the *Central European System* (CES). The CES-based systems are slightly different from the Anglophone systems, which are predominant in Africa. Some notable divergences are analysed in Lienert (2003:33).

² The three main parts of the public sector are often seen as tax policy, expenditure policy and regulatory policy.

One particular feature of CES organic budget laws is that they typically provide better for the multiyear budgeting of capital expenditure than do the Anglophone equivalents. This feature gives a potential to link plans and budgets better by allowing ministries to commit expenditures for capital projects over periods exceeding one year. At year-end, any unspent credits may be carried over to the new fiscal year. The Angolan system should in this respect be more easily amenable to multiyear budgeting than under an Anglophone system, where budgets have traditionally been annual and unspent appropriations are cancelled at year-end and re-appropriated in the following year's budget.

The clearest difference between the systems is that CES-based systems are highly centralised around the Ministry of Finance. This is the case for budget preparation as well as execution. In terms of expenditure control there is a high reliance on centralised ex-ante controls, and weaker ex-post controls. In CES, the financial controller, representing the Ministry of Finance, verifies and approves all commitments. Without such verification government is not committed. In terms of banking arrangements CES places heavier emphasis on the Central Bank and does not allow payment by spending ministries. Whereas the tendency to centralisation in Angola may come from the former central control system and the historically strong influence of the military, it is likely that the origin of the system has contributed to the strong focus on the *Ministério das Finanças* (Ministry of Finance, MINFIN) in the budget process. This contributes to sustaining a centralised system over time and may be an obstacle to decentralisation.

In terms of accounting and internal audit the CES system is also based on strong centralisation whereas the Anglophone system leaves these functions partly to spending ministries. This is also a feature that may be seen clearly in the present Angolan system.

In one aspect the present operation of budget execution seems to have taken the worst part from both systems. Over time, the Angolan external audit system has deviated from the CES in that the heavy reliance on ex-ante control has been reduced, but at the same time this has not been counterbalanced by a strengthening of the ex-post controls. Commitments are not verified independently from the *budget units* (BUs) beforehand, thus posing a risk of over commitment.

An important difference between the two systems lies in the external audit institutions. Most of the African countries with a CES-based system have an audit agency under the judicial branch of government, headed by a magistrate. It is thus independent of both executive and legislative branches. In France, for example, the President of the *Chambre des Comptes* (CC) is appointed by the executive. The *Chambre* prepares an annual report, which is transmitted to the Parliament as well as to the President. In some countries Parliament does not receive the full report.

In the Anglophone African countries, state auditing is typically carried out by the *Office of the Auditor General* (AG). The Auditor General is usually appointed by the country's president and approved by the Parliament, or vice versa. The main task of the AG is to prepare an annual report on the government's accounts, which is reviewed by a parliamentary *Public Accounts Committee* (PAC). It is clear that the strength of the President *vis-à-vis* the legislature in budget matters in Angola is partly due to its CES-type legal framework.

Finally, the systems differ in the way in which the process treats the budgeting of recurrent expenditure for the operation of external audit. In the Anglophone systems the AG's salary (not the ones of his staff) is statutory expenditure decided by the Ministry of Finance on the recommendation of the AG. In the CES based systems the *Chambre* is one of several chambers of the *Supreme Court* and their budgets are determined by the administration instead of the *Chambre* itself. This gives the budget administration a chance to 'squeeze' the Chamber if desirable, whereas in the Anglophone system, the legislature has a direct control over on the financing of the audit function. The problems of budgetary resource allocation to the *Tribunal de Contas* noted below might partly be due to the particular features of the financing of the *Supreme Audit Institution* (SAI) in CES-based systems.

2.3 Historical features shaping the Angolan budget process

As explained above, the budget process is formed partly by the legal framework of the state in which it works. The process is, however, also shaped by economic, social and political developments. Below we describe some important features that have influenced the development of the system in the independence era and that still to some extent characterise the system today.

From soon after independence the ideological and military realities were the two key factors shaping the operation of the budget and the entire management of public finance in Angola. From the end of Portuguese rule in 1974 to 2002, only broken by a short lull in the fighting in 1991-92, major parts of the country were under conditions of war. From soon after independence Angola had a one-party Marxist-Leninist system ruled by the *Movimento Popular de Libertação de Angola - Partido do Trabalho* (MPLA-PT).³

Up to the start of reform attempts in 1989, central planning, at least formally, played a key role in the system of public finance management. The system was based on the principles of 'unified management' for all the country's administrative central, sectoral and regional units, 'centralism' to make higher level decisions binding on lower units, and the principle of 'planning' aimed at defining national priorities, ensuring inter-sectoral and inter-regional economic coordination, and selecting the most efficient alternative uses of factors of production (World Bank 1991:10).

The planning system was in reality not used. Although a plan was a key element of the centralised system, no national medium-term plan was ever prepared. All plans were annual. Although there were guidelines for preparation of the annual plans they were only occasionally followed. They became incomplete and unrealistic and the control of execution was inadequate. De facto this left management as well as policies to ad hoc administrative, bureaucratic and political controls.

In the bureaucratic-administrative structure that emerged, nearly all decisions were regulated and implied interventions of the MPLA, which was active at central, regional and local authority levels as well as in residential areas, enterprises and trade unions. A 'culture of dependency' in the relations between lower administrative units and higher units or levels was created and led to very slow decision-making and implementation of policies and programmes.

The system of bureaucratic controls which was supposed to manage the entire economy, not only public finance, became inefficient and uncoordinated. The motivation of civil servants broke down, and economic development suffered. The inability of central authorities to supply foreign exchange, spare parts, raw materials or other inputs became an excuse for state organisations to find solutions outside the system. Public sector organisations and public enterprises tended to become self-contained organisations which avoided bottlenecks and regulations by adopting independent solutions. Some public institutions, for example, created their own farms to feed their employees where non-functioning markets brought food production to a halt, or illegally appropriated foreign exchange revenue that should have been rendered to the Central Bank.

The budgeting and planning systems are also marked by the history of different phases in public finance. The time from independence to 1981 saw buoyant revenue performance but large overall deficits. After 1981, there were large fluctuations in both revenue and expenditure, and continuing deficits. The instability made budgetary management difficult and the development of the budgetary system did not keep pace with the spurts in government spending. The institutional structure and responsibilities, budgetary procedures and available accounting skills as well as the availability of relevant statistics and information were not adequate for the formulation and implementation of a large and complex budget. It was particularly bad that financial planning was suffering in a country where there were large swings in resource availability over time that would wreck the economy if not managed. Monitoring expenditure was hampered by a shortage of accounting skills, inadequate expenditure and reporting procedures and poor coordination between

³ Below referred to as MPLA

agencies. Organisational inadequacies also played their role. The Ministry of Finance (MINFIN) for example, did not have a *Treasury Department* before the early nineties.

At the beginning of 1989 a Programme of Economic Recovery (*Programa de Recuperação Económica*, PRE) was prepared to make the necessary macroeconomic adjustment and to promote a recovery in production. The PRE was based on the economic reforms announced in the *Program of Economic and Financial Restructuring* (SEF), which included the following: (1) the reduction of the state budget deficit; (2) the adoption of new solutions to finance the budget deficit; (3) the restructuring of the financial situation of public enterprises; (4) the reform of domestic credit policies; (5) the rescheduling of external debts; (6) adjustments of controlled prices; and (7) adjustments in the exchange rate (see World Bank 1991).

In terms of the budget system the ambition was to achieve better coordination between the annual plans, the state budget and the foreign exchange budget by subordinating the latter two to the annual plan. Importantly, the package also included decentralisation of planning activities from the *Ministério do Planeamento* (Ministry of Planning, MINPLAN) to the planning organisations at regional levels. This was accompanied by the transition from the one-party system to a formal multiparty democracy following the 1992 elections.

The planned reforms did not work. Failed implementation of one programme led to the construction of another: between 1989 and 2000, 12 different macroeconomic stabilisation programmes were introduced, all with poor results. The reasons for failure were several, including a continuing lack of fiscal discipline, ignorance of the problems of the Kz exchange rate, a lingering mood of excessive centralisation in the planning system, the slow de-bureaucratisation of the economy and inefficiency of the state in promoting growth and productivity. The high fiscal deficits during the 1990s also made it difficult for the authorities to reduce inflation. Last but not least, the priorities of the war conditioned government expenditures to an emphasis on military expenditure to the neglect of social and development spending.

After the 2002 peace, government moved quickly to set up and start the implementation of a 'Public Finance Modernisation Programme' in the Ministry of Finance (*Programa de Modernização da Gestão das Finanças Públicas*, PMGFP). Within the programme, a 'Public Finance Management' component aims to strengthen the public financial system, an 'Information Technology' component aims at better use of *information and communications technology* (ICT) and a 'Training and Capacity Building' component focuses on improving individual and institutional capacity.

A coordination unit has been set up in the Ministry of Finance and a schedule of objectives and targets were set out, including an implementation calendar which covers 2004 and gives the impression that the programme has not been completed. However, in 2003 the World Bank reported that budgeting in Angola had taken a long step forward. In the words of its *Public Expenditure Management and Financial Accountability Report* (PEMFAR);

The Revised 2003 OGE is a landmark and represents the first major attempt by the Angolan Government to regularise its extra-budgetary and quasi-fiscal spending, and make them an integral part of the budget (World Bank 2005:29).

Box 1**Weak points in Angola's PFMs identified by the Government**

- Budgeting, managing, use and registration of state financial resources;
- Weak integration of the Public Investment Programme and the preparation and execution of the recurrent budget
- Recording and monitoring of public debt, donor grants and compensation funds
- Procedures for recording and monitoring of non-financial state assets
- Monitoring and evaluation of public enterprises
- Mechanisms and procedures for internal audit
- Customs administration procedures
- Automation of all management processes involved in the integrated system for Public Sector Management '*Sistema Integrado de Gestão Financeira do Estado*' – SIGFE

Source: World Bank 2005

In conclusion, the turbulent post-independence time has served to shape the ideas, traditions and processes underlying the present budget system. In particular, the authoritarian and centralised system that existed during colonial times was, if anything, strengthened by war and the central planning regime. The virtual downfall of the centralised system and the long and turbulent period in trying to reform it must have had a devastating effect on the credibility of planning and budgeting. It appears that the after-effects still linger and still affect the attitude of many people, both inside and outside the system.

3. State Institutions Involved in the Budget Process

In all countries the budget is a matter of the state and the process is conducted by state institutions. The performance of the system therefore depends on the performance of state institutions. This section describes aspects of the executive, the legislature and the judiciary which are important in a budget context.

3.1 The legislature

3.1.1 Brief overview

In most countries the state budget is formulated by the government and promulgated as a law by the legislature (parliament), the highest law-making authority in the country. Budget implementation is also usually monitored and supervised by the parliament and various state agencies under its supervision. The general soundness of the formal parliamentary system is therefore of utmost importance for the budget process in terms of institutional checks and balances, popular participation, transparency and proper prioritisation.

The Parliament of Angola (*Assembleia Nacional da República de Angola*; National Assembly of the Republic of Angola) is a 220-member unicameral national assembly, with 12 political parties represented. Angola is, however, a presidential system to an extreme degree. There is little or no Supreme Court influence on the Government and the Parliament has a very narrow mandate, little autonomy and a weak institutional capacity. The president is elected in a separate election, and the Government is not dependent on the Parliament. The Government cannot be voted out. The electoral system, the current party constellation and the political culture render support to presidentialism in Angola.

The reforms of 1992 brought democracy to Angola in a formal sense. The reforms included two constitutional revisions and in addition new and more liberal laws on freedom of association, the press and political parties. This led to the establishment of a number of new organisations, independent newspapers, radio stations and political parties. 1992 was also the year of the first multiparty parliamentary and multi-candidate presidential elections, but the civil war resumed and the opposition was largely absent from parliamentary work.

In 1997, a *Government of National Unity*, GURN, was formed that also included members of UNITA. In 1997 the majority of the UNITA deputies elected in 1992 also took up their seats for the first time, but parliamentary work was again interrupted by the war until early 2002, when UNITA leader Jonas Savimbi was killed. Thus, a real parliamentary process has existed in Angola only since 2002. Besides, as new elections have not (yet) been held, the Parliament is still operating on the basis of the 1992 elections and is increasingly being regarded as having no formal mandate and operating without a legal basis.

The history of the Parliament of Angola is one of political centralisation and recurring civil war. Prior to the establishment of the Parliament in 1992 there was a 'Peoples' Assembly'. The assembly was very passive because it operated in a single-party system and was subjected to the dominance of the single ruling communist party MPLA, which placed itself above all state institutions. Today, there is still a political culture of conflict, administrative secrecy and confidentiality, clientelism, favouritism and co-optation, which has weakened the political basis for a democratic Parliament in Angola. Most observers conclude that there is no real opposition, and that no real checks and balances are exercised by the Parliament.

The ruling party MPLA is in full control of the parliamentary process through its absolute majority (129 of 220 deputies). Besides, the existence of a coalition government (Government of

National Reconciliation) means that UNITA (with 67 of 220 seats in parliament) and several other smaller parties have been given ministerial and vice-ministerial positions, and cannot be seen as an 'opposition'.

3.1.2 Parliamentary organisation

Each of the Angolan National Assembly legislatures includes four sessions, as it is formally elected for a four-year term, starting on 15th October and ending in July. The Angolan Parliament has nine standing committees, which are to assist and prepare the activity of the plenary, studying projects, laws and resolutions, etc. These committees also have representation proportional to the representation of the parties. The nine standing committees do not, however, reflect the organisation of the 29 government ministries. Although they are supposed to cover all activities of the ministries and the office of the president, this is in practice impossible.

The financial autonomy of the Parliament is relatively weak. In formal terms, the operating budget of the Parliament is approved by the Parliament itself, being the budget approving authority. However, the actual size of the operating budget is a result of the budget process, and of the actual allocations made by the Ministry of Finance.

The MPs do have access to administrative support, in terms of administrative personnel, secretarial staff, availability of expertise on juridical, financial and other technical matters, library etc., but the deputies have expressed dissatisfaction with these services (Amundsen et al. 2005:17). The large majority of MPs say the administrative support resources are limited and rarely at their disposal, and that sometimes is their work hindered by this. Several MPs say that the number of secretarial staff is sufficient, but that their competence and efficiency is inadequate. The Parliament has a rather weak research capacity. Although some consultancies and studies have been commissioned, the resources available for this kind of support are very limited.

Remuneration for deputies includes a moderate basic salary of about \$ 5,000 a month and additional fringe benefits, which include, for instance, a very valuable health insurance cover with treatment at specialised clinics abroad when necessary. In total this amounts to an attractive remuneration. Deputies have parliamentary immunity from certain forms of legal prosecution.

The Parliament is situated in the centre of Luanda, in a former cinema building. Despite several extensions of the building to make it the 'Congress Palace', it is still too small to house all deputies and to provide them with decent working conditions, and the technical infrastructure is inadequate. A new parliament building is, however, under construction.

3.1.3 Parliamentary law-making

The most important control function of any parliament is its law-making powers. According to the constitution, the National Assembly of Angola has absolute supremacy when it comes to the passing of legislation in areas of strategic national interest. The right to initiate legislation, however, rests not only with the deputies (Members of Parliament) and the Parliament's Committees (and party groups), but also with the Government. A problem with legislation passed is that regulations for application of the laws are not given proper procedures for application ("*regulamentado*").

More than 90 % of all legislation is initiated and prepared by the Government, sometimes with external expertise and stakeholders involved. The proposal is then formally passed on via the *Council of Ministers* and the *President's Office* to the Parliament for approval. In practical terms, most legislation is initiated and formulated by the President's Office only, and is promulgated by Parliament without much discussion. Our impression is that the ruling party, rather than the Parliament, occasionally conducts proper political discussions on legal propositions. Robust debate in parliament in addition would be preferable.

According to one survey, parliamentarians are of the opinion that they lack the proper influence on the drafting, wording and passing of bills. Only in some cases did the parliamentarians

report that they had a decisive influence on the phrasing of new laws, namely on the *War Veteran's Bill*, the *Law of the Budget Process*, and the *Petroleum and Land Laws* (Amundsen et al. 2005:8).

Any law passed by the Parliament have to be ratified by the President, who has the right of veto. Although the constitution does not explicitly empower him with a veto (or state the terms under which he can veto a law), article 71 of the constitution states that if 'the laws referred to in Article 66 (s) [are] not promulgated by the President of the Republic, and Government decrees [are] not signed by the President of the Republic, [they] shall be null and void'. In practice this corresponds to veto powers, without constitutional restrictions. The president may also choose to delay ratification, and use other 'administrative' means such as the issuing of secondary legislation (decrees) and infinitely postponing the implementation the new legislation.

According to Article 93 of the constitution '*Members, parliamentary groups and the Government shall have the right to propose legislation*'. There is one very significant limitation to this right, however, namely that 'Members and parliamentary groups shall not in the course of the economic year present draft laws that involve an increase in the expenditure or decrease in the State revenue established in the Budget'. This obligation is currently inhibiting the approval of the new Press Law, for instance. The President and the Cabinet, on the other hand, can make secondary legislation and decrees having economic implications at will.

In terms of the budget law, parliament may not initiate legislation that will increase expenditure or decrease revenue.⁴ Although the Angolan Parliament has the authority to define the system of taxation and create taxes, the state budget (*Orçamento Geral do Estado*, OGE) is prepared and presented for approval by the Government, the Parliament in reality makes very few and insignificant changes, and the Government implements policies and spends resources almost without parliamentary control.

3.1.4 Future development prospects

Although many aspects of the de facto presidential system in Angola increase the significance of the Parliament, the political system in Angola contains some potential sources of parliamentary independence. Firstly, the Parliament and the president are elected in separate elections. Secondly, there is an absence of 'fusion' as members of the Angolan Parliament cannot at the same time be Government ministers.

A third potential for the development of a stronger and more autonomous National Assembly is that the political parties are relatively powerful. The election system ensures that the political parties decide who will stand for elections and independent candidatures are impossible. The political parties organise parliamentary debates and members cannot 'cross the floor'.

Fourthly, as the Parliament and parliamentarians gain experience there should be a tendency towards more pride, self-esteem and independence among the deputies. It is possible that over time MPs will find their role sufficiently valuable, honourable and personally beneficial to make it worthwhile to push for more parliamentary authority and autonomy. Some initiatives, some debates, and some activities in parliamentary commissions are pointing in this direction. Internationally, there are however many examples indicating that such positive aspects may not necessarily result in a strong National Assembly.

⁴ Constitution of Angola, article 90(f) and 93 (2).

3.2 The executive

3.2.1 President and cabinet

As explained above, Angola has a distinctly presidential system, with few tendencies or aspirations for a stronger parliament. The *President of the Republic* is elected in direct elections and may be re-elected for two consecutive or discontinuous terms. The President presides over the Cabinet (Council of Ministers, government) and is effectively the Head of State. The President also presides over the *Council of the Republic* (a consultative body for the President), and he is Commander-in-Chief of the armed forces (FAA) and President of the ruling party (MPLA).

All ministers and vice ministers are appointed and can be dismissed by the President, who also appoints the Prime Minister, the Central Bank Governor, the Chief of Staff of the Armed Forces, the Attorney General and Supreme Court judges.⁵ At the local government level the President also appoints and dismisses Provincial Governors and Vice-Governors. Furthermore, the President of the Republic has the exclusive right to dissolve the Parliament and call for new elections. The President cannot be voted out of office by parliamentary vote.

Both the constitution and the political clout of the President gives the Parliament a very weak mandate and is the basis for placing Angola formally in the group of strongly presidential systems on the scale from parliamentary to presidential countries.⁶ There is also 'a high degree of presidential intervention in the day-to-day management of state affairs. Presidential advisers often have greater influence than ministers, leading to a situation where ministers are unable to assert their authority' (Hodges 2004:56). In interviews, several MPs have also acknowledged the fact that the Parliament of Angola does not have the desired responsibility and influence of a democratic political system (Amundsen et al. 2005:7).

3.2.2 Ministries and local administration

Angola has 29 Ministries and 32 Ministers, three ministers heading sub-functions of the Office of the President. There are furthermore 39 vice ministers; Angola has one of the larger governments in the world. Each Ministry is a budget unit and has its own 'vote' in the budget. Ministry operations are led from the political angle by a *Diretor(a) do Gabinete* in the office of the Minister. A *Diretor(a) do Secretaria Geral* is usually tasked with the day to day affairs of running the ministry. In policy terms *Gabinete de Estudos, Planificacao e Estatistica* (Office of Studies, Planning and Statistics, GEPE)⁷ has a supporting role for policy work that takes place in the Sub-divisions, which are called *Gabinetes* or *Direcçoes* and in some cases work directly under the Minister. GEPE usually also has certain coordinating functions in the Ministry. Among officials there are also two *Secretarios Estados*.

The directors of offices and sub-offices are civil servants but the head of the *Gabinete do Ministro* is virtually a political appointee, usually being changed when the Minister changes.

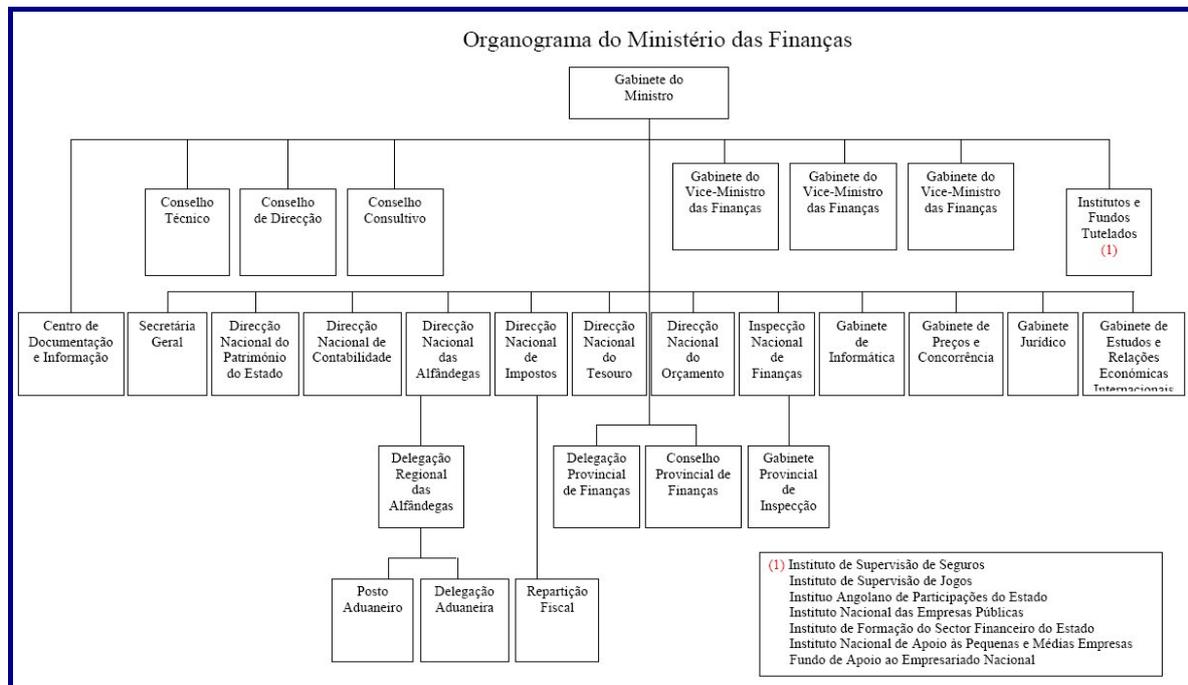
⁵ The only condition is that this takes place 'in consultation with' the Council of the Republic and sometimes with the Parliament.

⁶ This contradicts the official Angolan claim that the country is semi-presidential, due to the fact that there is a Prime Minister. We will maintain that Angola is purely presidential, because throughout most of the years 1999-2004 there was no prime minister, and even today the Prime Minister is not the Head of Government and he does not lead government meetings. He is subject to the President's exclusive powers to nominate and dismiss. The current Prime Minister Fernando da Piedade Dias dos Santos ('Nandó') is only entrusted with 'directing, guiding and coordinating the general action of the Government', and is 'politically responsible' to the President of the Republic under the terms of the Constitutional Law. The President nominates all the cabinet ministers and vice ministers (government or Council of Ministers) as well as the Prime Minister independently of the Parliament. Although the President should 'hear the political parties represented in the National Assembly' before appointing the Prime Minister, this is a non-binding formality and no consultation is necessary before dismissing the premier

⁷ In the Ministry of Finance called the *Gabinete de Estudos e Relações Económicas Internacionais* (GELEI).

Compared to the system in Anglophone countries, a strong and independently appointed Permanent Secretary does not exist and the organisational and political leadership are more closely linked. The organogram for the Ministry of Finance (below) illustrates the ministerial structure.

Fig 1: Organogram of the Ministry of Finance



Source: Ministry of Finance Website (www.minfin.gv.ao/historico/organigrama-mf.pdf)

Despite improvement over the last few years, most line ministries have a very weak capacity and culture for making detailed and comprehensive budget requests. The Budget Office of the Ministry of Finance has on the other hand become more adequately equipped to make professional budget preparations for the Council of Ministers.

Proper statistical information is a necessary ingredient for budgeting. The individual GEPES collect of statistics, but are advised and coordinated by the National Statistical Institute (INE) which gathers, stores and supplies quantitative data in Angola. INE is the secretariat for the National Statistical Council, which is headed by the Minister of Planning (MINPLAN) and comprises most of the Ministries. INE is set up as a separate entity under the Ministry of Planning but is an autonomous BU with some degree of administrative and financial autonomy.

The body of statistics available for budget preparation in Angola is extremely poor. The country e.g. lacks the most essential basis for all statistics, a proper Census. No Census has been carried out since 1970, which means that there are considerable uncertainties related to the size, composition and distribution of the population in Angola. Plans for carrying out a Census are, somewhat vaguely, set for implementation after 2010. Nor are official household data, with which an authoritative picture of poverty could be drawn, presently available. Since 2000 there has been little interest in 'social' statistics and the bureau has prioritised the collection and processing of macroeconomic indicators (de Rocha 2001). Census data is of great importance for example in budgeting for the education sector Without information on e.g. the number of school age children

by locality and of the pattern of disease throughout the country, education and health authorities will be at a loss in trying to locate schools and clinics etc.

Angola has 18 provincial governments, 163 municipalities and 532 *comunas* (communes)⁸. The three layers of local government are hierarchically related and integrated into the central government. Provincial Governors are nominated by the President of the Republic, and representatives of provincial governments, local councils and communes are all nominated by the presidency and the provincial governors. No provincial or local elections have ever been held.

The Provinces of Angola are administrative units which largely replicate those of central government, with Provincial Directorates under the Provincial Governor carrying out the same tasks as the central government ministries. Major responsibility for budget and financial matters are placed with the *Gabinete de Estudos Planificação e Estatística* (GEPE) of the provinces. The units of the municipal administration report to the provincial government and carry out tasks as instructed by provincial government.

Municípios and *Comunas* are the two lowest layers in the sub-national structure, and they are accountable to the municipal administration. The administrator of the *Município* (municipalities) is appointed by the Provincial Governor while the *Comuna* (Commune) administrator is appointed by the *Ministério da Administração do Território* (Ministry of Territorial Administration, MAT) and deals with basic public services such as waste collection, road maintenance, parks, cemeteries and marketplaces.

The quality and efficiency of public services in Angola suffer severely from lack of funding, from indiscipline and lack of education and training. It appears that central government is concerned about the state of the public administration and the quality of the civil service, and a number of programmes and projects for upgrading have been planned since 2002.

Most recently the Cabinet approved an Organic Statute of the Ministry of Public Administration, Employment and Social Security in order to boost public management, and the Cabinet approved the terms of reference of the National Administration School as a centre of excellence and quality in training and upgrading civil servants and managers in the public and private sectors. A *Citizen Integrated Services Office* (SIAC), an element of the Government's Administrative Reform Programme, was also given the go-ahead, aiming at removing excessive bureaucracy and the modernisation of public services.⁹

3.3 The Judiciary

Angola has a court system that consists of the Supreme Court, the highest operating appeals court, in addition to municipal and provincial courts which operate under the authority of the Supreme Court. The constitution and the laws in Angola give people legal protection of a wide range of social and economic rights as well as constitutional guarantees for the right to seek redress should these rights be violated. Yet, the courts themselves are in a miserable situation, and there is a wide gap between the constitutional rights given to people and their actual enforcement. According to one Human Rights Report, corruption and impunity are commonplace; arbitrary arrest, detention and lengthy pre-trial detention take place; and there is a lack of due process and an inefficient and overburdened judicial system (US Department of State 2005).

Partly, this is a question of underdevelopment and a serious lack of human and technical resources, and partly it is a lack of Government prioritisation and political will to have a functioning court system. The judicial system is – like the Parliament – dependent on the MPLA and the

⁸ The sub-division of the municipalities is (according to decree 02/07 as well as the previous legislation) *comunas* (communes) which is a territorial unit. Each commune could hold within it any number of villages. There is in fact also a territorial unit (according to the local administration laws) below that of communes – called *povoações* (settlement) in the rural areas, and *bairros* (township or neighbourhood) in the urban areas. There is however no administrative apparatus in most of these latter territorial sub-divisions.

⁹ <http://allafrica.com/stories/200703020551.html> (2 March 2007)

presidency. The president has the power to appoint and dismiss members of the judiciary, including the power to appoint Supreme Court justices, without reference to the National Assembly or anybody else. This power of the presidency casts strong doubts on Angola's judicial independence. A separation of powers between the executive, legislative and the judiciary does not exist in Angola (Vines, Shaxson and Rimli 2005:32).

One indication of the Government's lack of concern for institutional check and balances is its failure to establish a *Constitutional Court*, as provided for in the 1992 Constitution. Although the Supreme Court is in operation, only 9 of its 16 judges have actually been appointed. This crippled court is the actual guardian of the Constitution and the final arbiter in constitutional matters, but as such it is "invisible". At the same time it is criticised for being too close to the Government and 'seriously unconstitutional' (Skaar and Van-Dúnem 2006:12).

Another indication of the government's lack of concern for judicial checks and balances is its failure to establish a judicial protectorate and an anti-corruption commission. Despite the Constitution's article 142, which states that the judicial protectorate (a sort of Ombudsman's Office) 'shall be an independent public body, the purpose of which shall be to defend rights, freedoms and guarantees of citizens ensuring (...) the justice and legality of the public administration', it has not been instituted (Skaar and Van-Dúnem 2006:7). Likewise, one of the few important initiatives taken by the Parliament – the 1996 law establishing an anti-corruption commission in Angola (*Alta Autoridade contra a Corrupção*), has been ignored. The law was even ratified by the President, but the actual establishment of the commission has not taken place as the government is opposing it (Amundsen et al. 2005:11).

There is also a *Tribunal de Contas* (Financial Court) and an *Inspecção Nacional de Finanças* (National Financial Inspectorate, INF) in Angola. The Inspectorate has an internal audit function whereas the Tribunal is the supreme audit institution of the country. The Inspectorate is an office within the Ministry of Finance, and not independent of the Government (or the Minister of Finance). The Tribunal is an independent court with both judicial and administrative authority, but even when its 7 (to be 9) judges are appointed by the Parliament; they are not answerable to the Parliament. Neither body is mentioned in the Constitution of Angola, which is unusual and a weakness in terms of their legal authority and independence.

The auditors of the Angolan *Tribunal de Contas* are facing political, capacity and follow-up problems similar to many other developing countries. In Angola the court is inadequate in terms of independence. As a norm, the politically high-level and sensitive cases are not handled at all, except for those that serve a political purpose, on demand.

Finally, there are numerous community-based courts and judges that practise traditional law, outside the jurisdiction of the Constitution and the official legal system. It appears that traditional notions of justice often violate the Angolan Constitution and the international legal norms that Angola adheres to.¹⁰

¹⁰ See for example Guedes & Lópes 2007 and DPADM 2004:7.

4. The Budget Process in Angola

In Angola the budget cycle for the subsequent year starts formally in July. In most countries, this time marks the start of implementation of the budget authorised the previous year while the state accounts for the year before are being closed and audited at the Supreme Audit Institution. Normally then, three parts of the budget cycle are going on at any one time. Each budget process at least takes 2-3 years from start to conclusion.

The present section of the report first describes the budget cycle as consisting of 6 parts: technical preparation; cabinet decision; legislative approval; execution (considering the revenue and expenditure sides separately); and audit. In each part, shortcomings and attempts at improvement are indicated.

4.1 Budget preparation

4.1.1 Overview

The distribution of national resources that takes place as a result of the budget process is important in any country. The budget in Angola is particularly important because of the large share of the total national resources, in particular the oil wealth that is dealt with through the budget.

Usually, the Government prepares (drafts) the budget after consultations with and input from various sources, but mainly from the ministries and other state agencies (including the central bank and the state companies) and the ruling party (parties).

Angola's fiscal year runs from 1 January to 31 December. The budget process is regulated by the legal framework provided by the Organic Budget Law (*Lei Quadro do Orçamento*, LQOGE, Law no 9/97 of 17th October; *Diário da República* n.º48 de 17/10). The Organic Law sets out the basic principles for the budget, saying that it is the legal instrument which serves the administration of the state to manage the public resources. It also establishes the principles of unity, universality and annuity of the Budget in line with basic IMF codes. The annual budget law, *Lei do Orçamento Geral do Estado*, OGE, sets out the concrete revenue and expenditure estimates for a given fiscal year. Like many other African countries, Angola has a separate Investment (Development) Budget. The *Programa de Investimento Público* (Public Investment Programme, PIP), is elaborated by the Ministry of Planning but subject to Ministry of Finance budget ceilings.

The Ministry of Finance sets instructions for the preparation of the Budget. The budget preparation manuals for 2005 and 2006 are available on the website of the Ministry of Finance.

Box 2 Key features of the LQOGE

Principles of LQOGE

- Unity or totality: there should be one budgetary entity for consolidated public finances, although recognition of decentralisation by territory or by locality.
- Universality: the budget should contain all the revenues and expenditures of all entities of the Public Administration.
- Annual timeframe or frequency: the budget should be prepared for a one-year period, the calendar year. However, it allows for multi-year programmes like the Public Investment Programme and the Biannual Programme.
- Balance: this establishes that the expenditures should not exceed the planned revenues.
- Specification or description of expenditure: this establishes that revenues and expenditures should appear in the budget in a specified manner, disallowing the expenditures from being authorised as overall allocations.
- Financial programming: this is the main instrument for the management of public financial resources of the OGE.

Rules

Some rules for the practical handling of the various steps are laid out in the LQOGE, but often disregarded. Use of the *double entry* system, whereas public accounting is still cash based, single entry. Fixed assets should be recorded but records are for the time being incomplete and out of date. The present accounting information system does not allow the *closing of accounts* as stipulated in the Organic Law. According to PEMFAR this is out of reach for countries at Angola's level of development. Compensatory and inter-agency *transactions should be recorded* also when they are not realised in cash, but are not, which means that compensation to Sonangol will not be recorded. Two different charts of accounts are utilised.

Sources: UNDP study on fiscal decentralisation (MacDowell, Araújo et al. 2006:66) and PEMFAR

The opening step in the budget process is the publication of a time plan for the budget. This is followed by the preparation of the key macro and distributional features of the budget. In many countries there will be a pre-budget report based on this, a budget preparation call, ministerial preparation of budget proposals, a budget draft prepared for Cabinet by the Ministry of Finance after negotiations with ministries, after which follows Cabinet deliberations. In Angola the draft budget is reviewed by the MPLA and the President's Office, which makes the final decisions on the budget proposal before the Minister of Finance presents the Government's budget proposal to the Parliament for promulgation.

Implementation or execution (including financial transfers, procurement, and the payment of salaries, accounting and internal auditing) of the budget takes place from 1 January to 31 December. There may be one or more budget revisions; in Angola these usually take place in June-August for the second half of the year. The audit by the Supreme Audit Institution, the parliamentary debate and the final decision by the National Assembly which in most countries normally follows the preparation of final annual state accounts is not regularly done in Angola.

The legal time requirements are three. The budget proposal must go to Cabinet by 30 September. The Cabinet must transmit it to the national assembly before 31 October and the National Assembly must finalise its work by 15 December.

Fig 2: Budget Preparation Schedule 2006

Month	July	Augt	Sept	Oct	Nov	Dec
1. Identification (prog., prosj., activities)						
a) Central Government agencies						
b) Local government agencies						
2. Preparation of the macroeconomic framework						
3. Preparation of macroeconomic scenarios						
4. Preparation of the state budget						
a) Instructions forwarded to budget units						
b) Approval of spending limits by cabinet						
c) Preparation of proposals by budget units						
d) Preparation and analysis of projects for the PIP						
e) Processing of Budget Units' proposals						
f) MINFIN prepares the budget proposal						
g) Discussion of the proposal with Budget Units						
h) Meeting Government and Provincial Governors						
5. Economic Team approves budget						
6. Budget discussion and approval by cabinet						
7. Legal deadlines						
a) Budget proposal to Cabinet						
b) Budget proposal to the National Assembly						
c) Budget approved by the National Assembly						

Source: Adapted from the Budget Manual 2006 (Ministerio das Finanças 2006:424).

Many of these features of budget institutions, processes and systems are no different from those obtaining elsewhere on the African continent.

We now turn to a more detailed consideration of procedures which will make it clear that there are number of areas in which the Angolan system is different from others. One of the extraordinary and problematic features of the Angolan system is the quasi-fiscal activities taking place outside the system, particularly by the national oil company *Sonangol* and the *Banco Nacional de Angola* (Angola's National Bank, BNA). Such activities exist in many countries but the size of the oil revenue in Angola exacerbates this particular problem. Other problems relate to the lack of capacity in a number of central and local agencies, the lack of information to guide the allocation of the budget, the loosely-based budget revisions, the amount of extra budgetary resource flows, the lack of openness and (so far) the total lack of audit.

These problems have been apparent for some time and are dealt with in some detail in government's own plan *PMGFP* (Ministerio das Finanças 2002), by the World Bank *CPAR* (World Bank 2002), *PEMFAR* (World Bank 2005), *CEM* (World Bank 2006) and by different international partners like *DFID* (Bjørnstad 2007) and the *EU* (EC 2006).

4.1.2 Revenues

Various aspects of oil revenue inflows are analysed in section 4.6 below. PEMFAR considers the forecasting and assessment of government revenues to be inadequate and the procedures used to be ad hoc (World Bank 2005:40). The lack of economic data makes it very difficult to forecast non-oil revenue. Collection of revenue suffers from the fact that the National Tax Directorate, due to lack of capacity, relies heavily on self-assessment and only checks the big taxpayers.

The revenue forecasting problems also clearly affect the expenditure side. Both the weak assumptions for the forecast and lately the exceedingly rapid increase in oil revenue lead to budget revisions that take place in a somewhat haphazard fashion and contribute to conditioning the system in various ways. For example, it reduces the incentive for BUs to adhere to planned expenditure levels.

Weakness in revenue forecasting is a major reason for some drastic and somewhat random budget revisions. The initial 2005 budget expenditure was, for example, increased by 13 % through the revision. For 2006 the IMF expressed concern that the initial budget was excessively expansionary for a start, quintupling the actual spending performance for 2005. The 2006 budget was revised downwards¹¹ by less than the expected decline in revenue. The IMF recommended that the supplementary budget be given tighter expenditure ceilings to achieve fiscal balance. The Angolan government is however not overly influenced by the IMF and the Bank and argued that the revision of the 2006 State Budget was dictated by the perspectives of the world economy and by the evolution of the country's social and economic situation. A change in the assumptions underlying the initial budget, mainly the changes in the production, prices and exports of crude oil was therefore justified.

In the Ministry of Finance a financial model is under construction and may produce benefits in facilitating the establishment of a medium-term approach to oil revenue management. This may substantially increase the accuracy and reliability of oil revenue forecasts in terms of improvements in financial planning and reporting and better revenue and cash management, as well as improved monitoring of development revenue forecasting in the oil sector. It will not however, end the basic problem which is the fluctuation of oil prices in international markets.

4.1.3 Recurrent expenditure

The *Budget Units* (BUs) are the key institutional units in the budget preparation process. These may be ministries, provinces, provincial delegations and a number of other types of state agency such as institutes, universities and provincial university centres as well as national and provincial hospitals. Inside the Ministry of Finance the key operational unit is the *Direcção Nacional do Orçamento* (National Budget Directorate, DNO).

According to the budget preparation schedule the budget preparation starts in mid-July. Before this time some BUs reported to the team that Ministry of Finance arranges so-called budget seminars which focus on training and orientation of BU key personnel in budget preparation processes and procedures. This is not included in the manual's schedule.

The initial step in July is one during which central and local government institutions identify measures and actions to be taken and for which budgetary resources are needed. This stage is where political goals and intentions are prepared and analysed in such a way that they can become the basis for budgetary allocations. This stage can identify and express major policy choices in resource allocation. However, it is not clear to what extent the output from this identification stage is used in the subsequent budget preparation steps.

In a number of countries this stage entails decisions that attempt to balance the ambitions stated in long-term, medium-term and annual plans with the predicted resources available within the

¹¹ See IMF 2006 Article IV Consultations Preliminary Conclusions of the IMF Mission. www.imf.org/external/np/ms/2006/032906.htm

budget year. Long-term and medium-term plans are presently under elaboration in Angola, but these plans have not yet been approved by the National Assembly or implemented by the Government.¹² A biennial budget, the *Programa Económico e Social do Governo* (Government Economic and Social Programme) has been prepared each year since 2002-2003, but it is unclear what role it plays in the budget process. According to Bjørnstad (2007:15), recent budgets have started the preparation cycle with approval (or roll-over) of this programme,¹³ but this step is not mentioned in the budget schedule of the 2006 budget manual.

A further step planned to occupy most of August is the construction of the macroeconomic framework, which includes, again according to the schedule, macroeconomic scenarios. The scenarios are prepared by the so-called *Grupo de Consistência Macroeconómica* (Economic Consistency Team, GCM),¹⁴ and contain proposals with quantitative objectives and targets. However, the macroeconomic projections are not robust and they are not generally adhered to. Besides, final projections are often presented after the start of the budget formulation cycle (Bjørnstad 2007:25).

Based on this framework, in turn the *Direcção Nacional dos Impostos* (Tax Directorate, DNI) makes revenue projections and the *Direcção Nacional do Orçamento* (the Budget Directorate, DNO) establishes expenditure ceilings for spending agencies. Budget preparation guidelines for the following year's budget, with the guiding principles for budgetary policy, are then forwarded to BUs. Both the macroeconomic scenario and the budget guidelines require prior approval by the Cabinet. The BUs then prepare budget requests, which are reviewed by and negotiated with the Ministry of Finance.

The Ministério da Administração Pública, Emprego e Segurança Social (Ministry of Public Administration, Employment, and Social Security, MAPRESS) also plays an important role in the budget preparation process, being tasked with preparing estimates for salary payments, which usually absorb some 40-45 % of the total recurrent budget. The register of public servants that should be kept by MAPRESS is, however, in a bad state and the Ministry of Finance has come to rely on personnel lists prepared by BUs. These lists do not tally with the MAPRESS register and exclude defence and Ministry of the Interior staff who are paid by lump sum transfers. This opens the door to mismanagement and fraud, which shows up during the budget execution stage.

During the first week of August, the National Budget Directorate of the Ministry of Finance forwards the budget instructions to the budget units. The instructions are not published but they are not likely to include directions for allocation since budget ceilings are decided only later. Most likely they pertain to the formal layout of the BUs' budget proposals. The technical framework is described in the budget manual (Ministerio das Finanças 2006).

The first decisions on spending limits are scheduled to be taken by Cabinet by the end of August. By that time, however, the BUs are already in the process of preparing their budget proposals, which takes place throughout the month of August. According to most sources the budget is taken as given and sectoral ceilings as non-negotiable. An interaction and coordination between the central and provincial levels is almost completely lacking. The technical workers of the DNO, who are responsible for allocating the OGE between sectors have a very limited knowledge of the sectors and their needs. Generally, allocations are based on last year's level, incremented as regulated by the Ministry of Finance.

In late August, the budget units start to present their budget proposals for processing by the Ministry of Finance. The National Budget Directorate (DNO) of the Ministry of Finance will then prepare a recurrent budget proposal by the second half of September. This proposal may include

¹² According to MINPLAN.

¹³ The Angolan National Assembly website (www.parlamento.ao/leis/resul_2001.htm) notes that in 2001 the Assembly passed a resolution which approved the '*Programa Económico e Social do Governo*' and the '*Orçamento Geral do Estado*'.

¹⁴ Composed of the Minister of Planning, the Minister of Finance, the Governor of the Central Bank, BNA, and the Minister of Labour and Social Security.

cuts and changes compared to what was proposed by the BUs. Towards the end of September, the Ministry of Finance presents its budget proposals to the BUs.

Subsequently, a round of discussions between the Ministry of Finance and BUs, including provincial governors, begins and (according to the manual) continues until the beginning of October. The Ministry of Finance's budget proposal, however, has to be submitted to Cabinet by 30 September (as determined by LQOGE). By the same law, the Cabinet has to present the budget proposal to the National Assembly by 31 October. Over the last few years there have apparently been few noticeable delays as regards these two deadlines (CEAST 2006:12).

4.1.4 The development budget

The *Programa de Investimento Público* (Public Investment Programme, PIP) is a tool for programming public investment. According to the budget preparation guidelines, BUs must present their investment budget proposal not later than 22 August to the Ministry of Planning, which should present a PIP proposal to the Ministry of Finance not later than 15 September. The PIP is then incorporated into the subsequent budget preparation steps.

According to PEMFAR (World Bank 2005:19) the PIP is less of a programming tool than it ought to be, but rather takes the form of a list of projects to be carried out over a given year. While it is widely recognised that investment and recurrent budgets must be coordinated to avoid investing in assets without allocating resources for their use and maintenance, the system in Angola so far appears to be open to this risk in various ways.

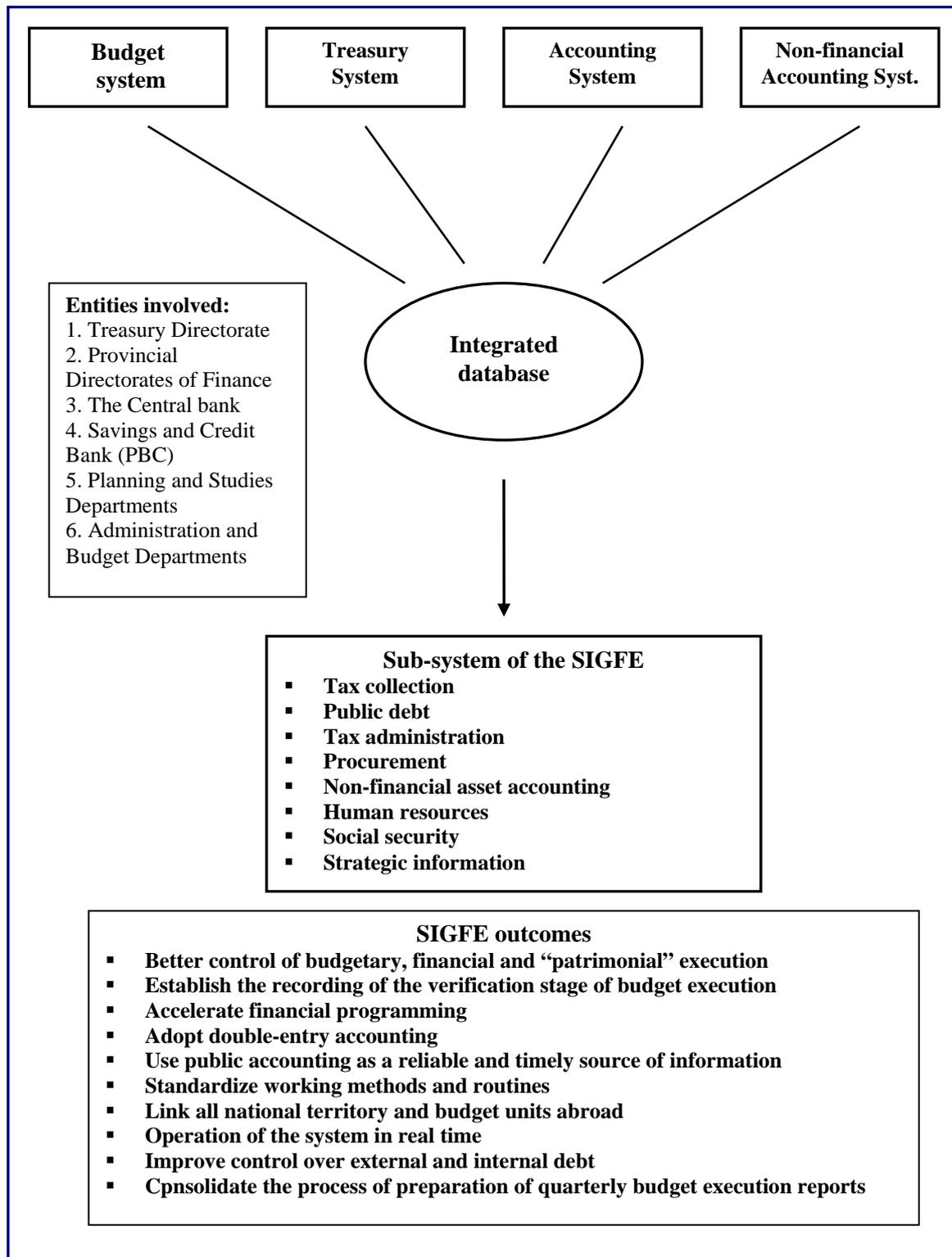
First, the PIP is coordinated by the Ministry of Planning and executed by ministries and provincial governments. The PIP is handled differently from the recurrent budget in both preparation process and execution. Secondly, recurrent expenditure is the responsibility of a sector ministry's general secretariat, whereas capital (PIP) expenditure is planned and monitored by its *Office of Studies, Planning and Statistics* (GEPES).

Third, whereas the Ministry of Finance runs the partly computerised system SIGFE for budget preparation and execution (see Fig. 3 below for further information), the Ministry of Planning runs another system called *Sistema Integrado de Gestão do Investimento Público* (System for Public Investment Management and Programming, SIGIP) for the formulation and implementation of the PIP. SIGIP, however, does not have an interface with SIGFE, which complicates the integration of the capital and recurrent budgets. A proper execution of the government's investment plans will be jeopardised if investment programming and monitoring of the physical implementation by MINPLAN is not coordinated with the financial programming and monitoring of financial flows, which is the responsibility of MINFIN.

Importantly, the SIGIP system is supposed to contain detailed information about PIP projects,¹⁵ but the computerised system at the present time does not do so. The project registration forms entered into a paper-based system by the BUs and forwarded to the Ministry of Planning do, however, contain objectives, beneficiaries, and expected results.

¹⁵ The budget publication only contains the project title, classification code, agency in charge and the amount allocated for the budget year.

Fig 3: Overview of SIGFE



4.2 Cabinet decisions

According to the budget preparation table, the Ministry of Finance budget proposal is dealt with by the Cabinet during the month of October before it goes to the National Assembly for debate and approval. It appears that discussions with BUs as well as with provinces take place some time after the budget proposal has gone to Cabinet. It is not quite clear how feedback to Cabinet from these meetings and discussions takes place, but our impression is that opportunities for BUs' to raise complaints and grievances and to take up discussion with the Ministry of Finance are very limited. The openness and possibilities for negotiations have, however, increased somewhat over the last three years and have developed some transparency compared to the immediate post-war situation when the budget proposal from the MINFIN was in practice not accessible to BUs before it was presented to the National Assembly.

Within Cabinet, two subgroups deal specifically with Budget matters. The *Comissão Permanente do Conselho de Ministros* (the Permanent Commission of Cabinet) consists of an 'inner circle' of 15 ministers and the Governor of the Central Bank. According to its terms of reference it functions in the intervals between Cabinet (*Conselho de Ministros*) sessions to ensure the implementation of Cabinet decisions on humanitarian, social, economic and productive issues.¹⁶ Whereas the permanent Commission is a cabinet committee, the other, the Economic Team '*Comissão de Coordenação da Política Fiscal e Monetária*' (*Equipa Económica*) is a joint commission between the Ministry of Finance and the *Banco Nacional de Angola* (BNA) which is responsible for monetary policy in the country. The team is coordinated by the vice-Prime Minister. According to the budget calendar this commission (the Economic Team) approves the budget before it is discussed and approved by the Cabinet as such.

It appears that although the final budget decision is taken by the entire Cabinet these subgroups, which comprise only a few members of the Cabinet and the President's Office, in fact has the final decision-making power on the state budget.

4.3 Legislative approval

Debating, adopting and approving the budget are the responsibility of the parliament, according to most constitutions. The parliament will usually approve the budget after more or less thorough committee and plenary discussions. The parliament may be able to alter the budget, within certain restrictions, and approves it in formal terms, in the French/Continental European system, usually in the form of a law.

In Angola the process of debate, revision and approval by the Parliament takes about 1½ months, as the budget has to be approved by 15 December.¹⁷ The different provincial deputies are consulted, and the party groups discuss it. Then each of the parliamentary committees also discuss it, highlight their issues of concern, and present a report to the *Comissão de Economia e Finanças* (Economy and Finances Commission; also called the 5th Commission). The Commission has the power and responsibility to monitor the budget preparation on behalf of the National Assembly, and holds discussions with all the Ministries when the budget arrives at the National Assembly. The real discussions seem to take place in this 30-member commission, which subsequently submits a final report to the President of the Parliament, and the budget is then finally discussed and voted on in a plenary session.

Although the Angolan Parliament's role in discussing, altering, formally approving and in overseeing and controlling the state budgets is firmly established by the constitution, it is not so in practice. Due to the civil war and fuelled by 'oil for weapons' arrangements, emergency and secrecy provisions, vested elite interests and corruption, parliamentary insight into state income and

¹⁶ See '*Regimento da Comissão Permanente do Conselho de Ministros*' at www.cministros.gv.ao/rdocdg.cfm.

¹⁷ According to N.º 2 do Art.º 20.º da Lei-Quadro do Orçamento Geral do Estado (Lei n.º 9/97, de 17 de Outubro)

expenditure was severely restricted for many years, and large parts of the income were outside parliamentary oversight and effective budget control.¹⁸

The soundness of the Angolan budget process is debated. Some observers would claim that all state income is accounted for and made transparent through the National Bank, the Treasury's single account, and the budget process. Other observers would hold that large tracts of the Government's income, in particular from the oil and diamonds sector, are still unaccounted for.

As far as the Parliament is concerned a genuine budget process started only in 2004, after two years of regular parliamentary operations and significant international pressure. The push for fiscal and budgetary reform was led by the IMF and the World Bank, supported by the private banks of the 'Paris Club' and others. The attempt to make Angola adhere to international budgeting standards and principles did not work as well as in other countries who are more dependent on these institutions.

There have been improvements in recent years. In late 2004, the 2005 budget was passed with only minor revisions, but the process as such was indeed improved, coming closer to international standards. The 2006 budget process was even better in terms of real discussions, input and alterations by the Parliament, as reflected, for instance, in a better media coverage of the process in late 2005, which included live media coverage of the parliamentary budget debate and a simplified presentation of the budget in the state newspaper *Journal de Angola*. There were also some lobbying (for instance by the Minister of Education and civil society groups). The 2006 budget was also slightly altered by Parliament, with some increases in social sectors and a corresponding reduction in military and government administration expenses.

On the other hand, the mid-year 2006 budget revision process in July-August was far from meeting international standards. The revised 2006 budget was almost doubled, from 23 bn US\$ to 41 bn US\$, because of increased revenues from very high oil prices and increased borrowing. A balanced budget with similar increases in expenditure, mainly in investment, was swiftly passed by the Parliament in August 2006 (with no evaluations of potential capacity problems).

This gives the Angolan Parliament an experience of three (3) budget processes. The learning curve is therefore still steep and is meeting several obstacles. For instance, the Angolan Parliament is legally somewhat restricted in its powers to alter the budget that is presented by the Government. Among other things, the Government's two-year planning programme places restrictions on what the Parliament can do, and the Parliament lacks technical and economic competence to exert real influence in the budget approval process. The various committees do not possess sufficient skills to make a detailed sectoral analysis and reading of the budget, and they do not have sufficient assistance from experts and research units and well-trained support staff. Even the finance committee has a lack of experience, capacity, and expertise. CEAST reports that the parliamentarians have neither the time nor the resources to do justice to the budget, and suggests

¹⁸ The IMF, for instance, had in 2002 '*concerns about the handling and disposition of oil and diamond concessions, revenue flows in the oil sector, the finances of Sonangol, and external borrowing practices*' (Hodges 2004:121). According to a statement of IMF Deputy Managing Director, Mr. Takatoshi Kato, upon his visit to Angola in October 2004, '*the Government needs to build upon recent advances to meet the President's objective that scarce resources are used in the best possible manner for the people of Angola who have borne immense sacrifices during the last two decades. This will involve further efforts to enhance transparency in the Government's budget and central bank operations, including the management of oil resources*' (www.imf.org/external/np/sec/pr/2004/pr04233.htm [021104]). The Bank still holds concerns about Sonangol's mixed roles as regulator, commercial enterprise and social contributor. See also the 2004 Human Rights Watch report '*Some Transparency, No Accountability*' on extra-budgetary and quasi-fiscal expenditures, which reads: '*The opaqueness of the Angolan government's budget and expenditures has generated widespread concern both with and outside Angola that finances were being grossly mismanaged. Public funds, derived largely from oil revenues were used to secretly finance arms purchases and to mortgage future oil revenues in return for immediate oil backed loans to the government. Under Angolan law (Decree 30/95), all oil revenue is supposed to be deposited in the BNA. However, oil revenues illegally bypassed the BNA and went through the state-owned oil company, Sonangol, or through the Presidency. These activities sparked allegations of official corruption.*' (www.hrw.org/reports/2004/angola0104/angola0104.pdf [100605]).

that they should form more specialist committees to hold hearings and question the executive on various budget matters (CEAST 2006:7).

However, in the preparations for the 2006 budget approval it appeared that parliamentarians had helped push the cause of three of the most war damaged provinces, and that a considerable increase was made in the development budget proposed by the executive. People in Angola do not appear to trust politicians or parliament, an opinion poll in September 2006 gave them the lowest confidence among possible institutions and persons that could 'solve problems' (International Republican Institute 2007:27).

In terms of registered political or ideological differences between the parties on economic priorities, there seem to have been none so far. No alternative budget propositions have been made by any opposition party, and the political parties are not expressing any coherent alternative priorities in the budget debates, either in the committees or in the plenary discussions on the budget. The only visible point of difference was made when UNITA for symbolic reasons voted en bloc against the budget in late 2003, and with one UNITA vote against it in 2004.

The National Assembly debate over the budget and the approval process has not changed much of the Cabinet's budget proposal. This means that the Cabinet preserves what CEAST calls the 'monopoly' of the elaboration of the budget proposal (CEAST 2006:11). This is undoubtedly related to the political situation where one party has a strong hold in both cabinet and parliament. The absence of a pre-budget discussion also reduces the scope for public debate on budgetary issues.

Civil society does not have a prominent role in the parliamentary discussions and approval of the budget. The exception is the launching of a position paper on key issues of the budget by *Observatorio Politico Social* (OPSA), which comprise leaders of civil society. Since the Cabinet budget proposal is not a public document even when submitted to Parliament, it is difficult for the general public to get hold of it and to find out about priorities and to make any input to it. The unavailability to the public does not appear to be total, however; some aggregated figures are given by the Minister of Finance during his presentation and in 2005 there was a simplified budget presented in the newspapers. Occasionally leaks by MPs during the deliberations also take place. The CEAST report also indicated that special groups like the *Associação dos Industriais Angolanos* (AIA) had been participating in hearings on the budget proposal (CEAST 2006:12).

4.4 Media coverage

The presentation of the budget in the National Assembly attracts public attention, of which there is little at earlier stages in the process. The budget debate in Parliament are occasionally televised and filmed by *Televisão Pública de Angola* (TPA).

An analysis of local media coverage in below was made for each year from 2002 to 2006 by picking articles that contained references to *Orçamento Geral do Estado* or *OGE* from 15 newspapers or websites (see table 1 below). The compilation, made by the DW documentation centre (Development Workshop 2007), shows a clear increase in media interest in 2005 compared to the earlier years.

About half of the media searched did not publish anything on the budget. The increase in the number of articles from 2004 to 2005 was almost entirely due to the increase in attention from *Journal de Angola* and the new-found interest from *Folho 8*. The slacker interest during 2006 was also mostly due to a drop in the interest of the same two papers, but it is notable that more newspapers published one or a few articles in 2006, indicating a more widespread interest.

The focus of the articles was roughly measured by counting the frequency of particular words. It appears that a main point of budgeting, to establish priorities, is not focused on strongly. The revisions of the 2005 and 2006 budgets have been important for public interest during those years. Comparing the frequency of words that point to the executive (*governo*) versus the legislative

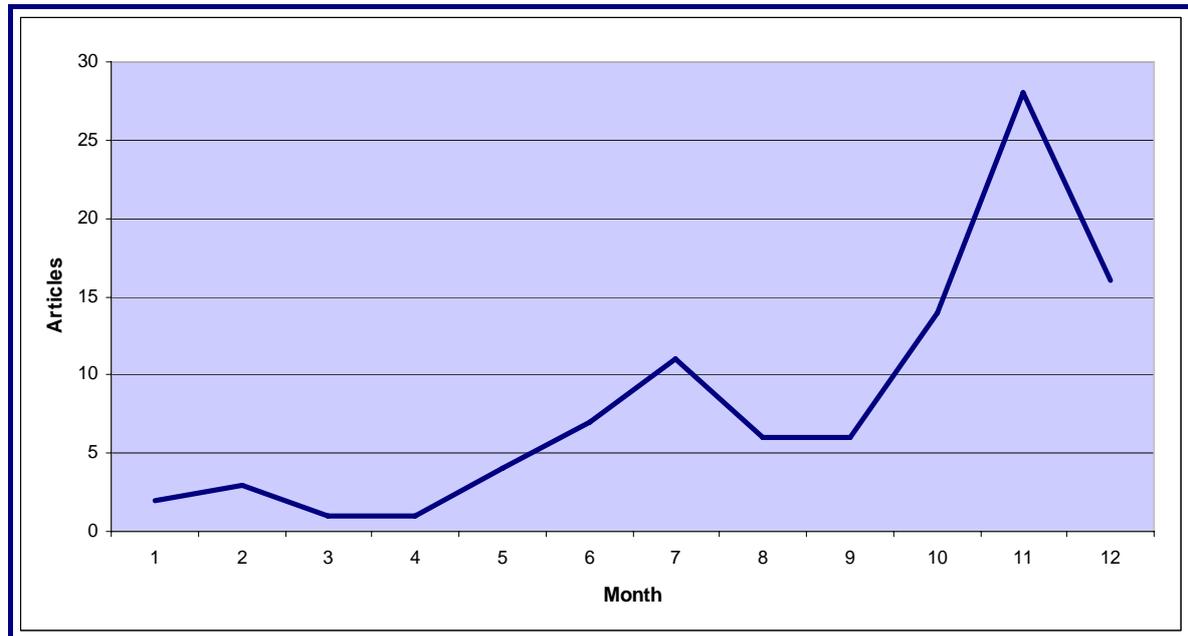
(*parlamento*) indicates clearly that the focus of media is on the role of the Government, which is nearly twice as often mentioned as the Parliament.

Table 1: Analysis of Angolan Media Interest in the State Budget

Media	2002	2003	2004	2005	2006	Total
Journal de Angola	0	11	7	20	10	48
Agora	1					1
Seamanario Angolense			10	4	7	21
Folho 8				8	3	11
Terra Angolana	1				2	3
Actual	3				1	4
A Capital					3	3
Angolense	5		1		2	8
Total no of articles	10	11	18	32	28	99
Total no of pages	13	7	14	23	19	76
Frequency of words (no of times mentioned)						
Statements about priority	5	2	8	18	6	39
“Revisão”	11	5	4	19	18	57
“Governo/conselho”	71	32	67	120	103	393
“Parlamento/Assembleia”	20	28	22	87	54	211

Media attention (number of articles) by month is related to the budget calendar as visible from figure 4 below. There appears to be little interest if any during the first six months of the year but interest is boosted in July, right at the beginning of the budget process and then sinks back in the subsequent months. The information emerging from Cabinet deliberations brings the level of interest up somewhat but it peaks during the Parliamentary budget session in November and falls back in December as the main decision is taken.

Fig 4: News Media Articles on the Budget



Note: Average number of articles per month, 2002 – 2006

4.5 Spending and controlling public money

4.5.1 Overview

The parliamentary decision on the annual budget ends the budget preparation stage. The following stage, ‘the execution of the budget’, is when the decisions are implemented in terms of actual financial allocations. This involves, at the macro level, the management of the inflow of tax revenues and of outflows from the treasury and, if needed, lending/borrowing operations. At the level of executive organs activities revolve around the transformation of financial flows into public goods and services, including the purchases of such by public sector purchases (procurement) from the rest of the economy and payment of public sector employees. Particular issues of flows, activities, purchases and controls arise in a decentralised system. Finally, in any public finance system accounting, internal audit and control is an important feature to build and preserve internal management as well as control and accountability *vis à vis* the public.

As pointed out in above sections, there may be technical, bureaucratic and political deficiencies in the preparation process which may thwart priorities in allocation. One may easily say with Bjørnstad that ‘*[t]he budget process in Angola suffers from the lack of a prioritisation process, rendering the budget as an expansion or contraction of the previous year’s budget.*’ (2007:26)

Whereas it may not be easy to pinpoint exactly where weaknesses materialise in the preparation process, a comparison between budgeted and actual allocations will make failures in the execution process evident. It is most often during execution that the more dramatic instances of misallocation and corruption take place. This is unfortunately a fairly common problem in African countries. For example, a team examining the budget process in Malawi concludes:

From the process of planning and formulating the budget, through its implementation and oversight, our study finds that the budget process in Malawi provides no realistic estimate of revenue or spending. Simply put, the budget process is a theatre that masks the real distribution and spending. This comes as no surprise to any of the stakeholders in the process; all the actors, from civil society, government, and donors seem aware that many of their statements and actions have little bearing on actual distribution of resources and that actual implementation is different from stated intentions (Rakner, Mukubvu et al. 2004:4).

A somewhat similar observation is made for Angola by CEAST:

Although the law speaks of universality, the reality in Angola is another. Two budgets exist: a virtual budget presented to the members of the assembly for analysis, and the other real budget that is executed by the Presidency of the Republic. The real budget in many cases has nothing to do with the virtual budget which the parliamentarians deal with (2006:15).

The World Bank (2005:i) notes a duality in the budget system, pointing out that Angola has two parallel public finance (PFM) systems. A conventional PFM system exists under the Ministry of Finance, and an unconventional system is run by Sonangol and the BNA. The latter, described in more detail below, finances various types of development expenditure, subsidises petroleum products and undertakes external debt operations which obscure and confuse the lines between government and Sonangol / BNA and has been much criticised by the Bank and the Fund as 'quasi-fiscal operations'. Despite the IFI's continuous pressure for a merger of the two systems, a definitive inclusion of Sonangol's roles in the conventional budget has not yet taken place. Progress has been made by reflecting Sonangol operations in the budget but the quasi-fiscal operations have not been phased out (World Bank 2006:xviii).

Deficiencies in the system have real effects. It has been noted that more than 20 percent of the executed budget went into the unspecified category of general public spending in 2005. The true amount of public resources in danger of being lost because of the quasi-fiscal operations is not publicly known. The impact of the budget on poverty reduction and employment generation is likely to be low given the tendency to favour large construction projects rather than investment in labour-intensive sectors. The share of public expenditure spent on social sectors such as health and education has also declined since 2000, despite government intentions to the opposite (Bjørnstad 2007:16).

Popular discourse confirmed by officially exposed cases of corruption indicates strongly the deviations between budget and reality in terms of misallocation and in terms of grand and petty corruption activities inside the conventional system. It is therefore very important to analyse the system that does the job of budget execution, which we do below. Box 3 below explains some important organisations and concepts in Angolan budget execution.

Box 3

Key Organisations and Concepts in Angolan Budget Execution

Unidade orçamental (UO) is a 'Budget Unit' (BU) which receives resources directly from, and reports to, the Ministry of Finance. The 'budget unit' may be a Ministry or part of a Ministry, an institute or an autonomous fund to which budget resources are allocated, under law no. 9/97.

Orgão dependente (OD) is a sub-unit of the BU, having its own budget. It may manage its own procurement but is not permitted to spend funds without the authorisation of a BU, which oversees it and authorises payments.

Quota financeira (QF) is a tranche, most often one twelfth (in early months less 20%) of the approved budget, which is made available to a BU by the Ministry of Finance on a regular monthly basis for salaries but not always on a monthly basis for goods and services and for investments.

Notas de cabimentação (NCB) is a 'commitment note' that identifies the type of expenditure (according to the budget classification) and the amount to be paid as well as the name of the beneficiary. The purpose of the NCB is to ensure that there are sufficient funds under a budget allocation.

Ordem de saque (OS) is a payment order which recognises a payment obligation for expenditure by a public institution. It may be issued by a BU or ODs but must be validated by the manager of the responsible BU for the BPC to pay a creditor.

Sistema Integrado de Gestão Financeira do Estado (SIGFE) is the Integrated State Financial Management System, a set of procedures and information systems that regulates the revenues and expenditures of the state, integrating them into a single system.

4.5.2 Financial management

In Angola, the public finance system is based on a fairly common structure with a *Conta Única do Tesouro* (Single Treasury Account or the government account) sub-divided into one account for local currency and another for foreign currency, both located in the Central Bank. A publicly-owned commercial bank (*Banco de Poupança e Crédito, BPC*) carries out treasury operations, payments to suppliers etc.

At the centre, responsibility for budget execution lies with the *Direcção Nacional do Tesouro* (Treasury Directorate, DNT) in the Ministry of Finance. It controls the finances of the central government and sets budget ceilings for the line ministries. The Treasury Directorate prepares a cash plan every month. A Financial Programming Commission at the ministerial level (Finance, Planning, and Central Bank) supervises this operation, which is supposed to balance BUs' spending needs and central government cash availability. The Ministry of Finance works with line ministries to prepare annual budgets and monitor adherence to budget ceilings. BUs are responsible to the Ministry of Finance for staying within agreed allocations. Sector ceilings also control the investment budget elaborated in the PIP by the Ministry of Planning.

In public finance management a cash quota system as used in Angola is a very robust but crude system which balances the cash flows into and out of the government account on a short-term basis. Where used, it has however tended to create stop-go situations and make outputs from cash-strapped operating ministries volatile and inefficient. More sophisticated systems manage to avoid making the output of services directly dependent on the inflow of cash to the fiscus month by month. A better revenue inflow forecast system can avoid this by building balances or making short-term loans that may also be used to keep service activities up when cash inflow is low.

How actual cash flows are handled depends on the type of expenditure. The major single category of expenditure will in most African countries be the salary bill (of the recurrent budget). Most countries have a centralised payroll system which deals with the actual payment. This is, however, not in existence in Angola, which both undermines the credibility of the estimated wage bill and opens gaps in the actual payment system. Whereas centralised systems will send a pay cheque directly to an employee, the Angolan system pays via the allocation to the BUs. Instances in the provinces of non-payment of salaries indicate that salary funds are sometimes used for other purposes.

Typically, during a budget year BUs, including those at the provincial level, the *Delegações Provinciais de Finanças* (Provincial Delegations of Finance, functioning as local Finance Departments) must present cash plans for the following quarter to the Ministry of Finance. In theory BUs will in turn receive monthly tranches (*quotas financeiras*) in response to their requests.

BUs complain that despite the monthly cash plan the *tranches* received usually do not even comply with the 1/12 formula and are not transferred regularly every month. A resigned attitude among BU staff prevails. According to a senior official, ‘-If the ministry of finance sends us money, and it is not enough, the matter is closed. What more can we do?’ It is felt that the Ministry of Finance is still set in a central planning mentality where BUs may make requests for funds but have little say in budget formulation or actual allocation. The unpredictable transfers to the BUs are not made easier by the rule that the BU will have to spend exactly its tranche during the month in which it receives it since funds cannot be carried over to the next month.

This clearly puts BUs and their sub-units *Orgãos Dependente* (ODs), which are allocated funds through the BUs, in a difficult position with regard to planning their activities and cash-flows. At the BU level, the cash rationing process in force with the cumbersome month-to-month cash management makes planning impractical. The system also has an unfortunate effect on the fiduciary situation. Shortage of cash leads to selective payment of invoices and the creation of arrears. It has also encouraged the practice of committing above ceilings and even above quarterly plans and budget limits. Since this cannot happen in the open it also affects transparency. The PEMFAR recommends introducing a reasonable degree of flexibility in the cash management process and better training on the SIGFE (World Bank 2005:v).

The practice of *virement* (transfer from one budget line to another) creates a bit of operational flexibility *vis-à-vis* the budget but does not apply to salaries nor capital spending. It can only be done on request of the BU and after approval by the National Budget Directorate (DNO). The condition will then be that the adjustment does not exceed the authorised budget ceiling. This arrangement, however, may not help if the main problem is the size of the overall cash tranche. A *virement* system exists in most countries but major transfers will often need a parliamentary sanction. In Angola it appears that a parliamentary sanction is not needed whatever the size of the *virement*.

4.5.3 Procurement

Government purchases of goods and services have an effect on the economy and the citizens of a country in two main ways. Firstly, a well-managed procurement system contributes to the efficiency of the public sector and hence increases the quality and quantity of services rendered to the public. Secondly, the state is usually a very big customer in the local economy and can – by directing its purchases towards local goods and services – help boost the local economy.

It is clear, however, that attempting to maximise the two effects at the same time may be contradictory. The cost of local products in relation to their quality may be less advantageous for the buyer than the cost/quality relation of imported products. This is often a problem in developing countries, particularly where the business cost level has been pushed up by high natural resource revenues.

4.5.3.1 *The procurement system*

Apart from salary payments and debt service, the government spends most of the budget on the purchase of goods and services for use in government activities. Major projects and purchases may be handled by specialised units; in Angola the Ministry of Works will be the main contractor for major projects together with some of the parastatal (e.g. Telecoms). The smaller, day-to-day purchases are handled by BUs in accordance with procedures whose main features do not differ much from country to country. The overall comment of the *Country Procurement Assessment Report* (CPAR) of the World Bank is that the operational framework for procurement was unclear to the extent that it was not possible to ascertain the rules which are used in procurement in the provincial administrations.

Usually, after a more or less competitive selection of the supplier, a commitment to purchase is made. After delivery has taken place there is a verification of the delivery and certification of quality. Then the purchasing unit issues a payment order, which may be presented for payment to the bank or the office which performs the 'treasury' function. In Angola, this is the *Banco de Poupança e Crédito* (BPC).

In the Angolan system the budget framework law prescribes the sequence of the system as *cabimentação* (commitment), *liquidação* (verification), *pagamento* (payment). Each of the stages unfortunately contains problems which together open the door to corruption and make the system inefficient. The CPAR gives a detailed review of the system and points out deficiencies. The conclusion is dismal:

An analysis of a country's procurement system usually examines several factors such as: (i) the degree to which high levels of government promote a culture of accountability; (ii) the status of procurement staff, their salary structure and capabilities; (iii) the degree to which procurement is free from political interference; and (iv) the existence of clear written standards. The Angolan procurement system was found deficient in all these areas, and consequently needs major improvements in each of these areas (World Bank 2002:18).

In Angola few rules appear to be used at the tender stage. The description of the goods and services to be tendered may not be clear. Together with the equally unclear composition and procedures of tender committees, this is likely to produce a situation where the competitive element of procurement is more or less missing.

At the commitment stage the problem is that there seems to be little trust by suppliers in the BUs' assurance of payment when goods are delivered. A BU can issue a *Nota de Cabimentação* (commitment note) without making sure that the cash to undertake payment will be available from the BPC. Over time, this has discredited the commitment notes. The lack of trust in it has produced a practice whereby the payment order is issued prior to delivery and the *liquidação* stage thus breaking the sequence of commitment, verification, and payment, which is the sequence that should be followed. One would hope the credibility of the 'commitment note' would be improved by the introduction of automated systems such as SIGFE, where a commitment has to be backed up by a guarantee of payment and more careful financial planning at the higher levels but SIGFE itself involves no guarantee for this.

The verification that should take place at the delivery stage either does not take place or is vague because of a poor description of the tendered goods and services at the outset. Also, as explained below, a physical asset register hardly exists and opens the way for the disappearance of purchased goods with little probability of penalty for culprits. With the introduction of a new SIGFE version in 2004, measures were introduced to strengthen enforcement of the verification stage whereby a *Nota de Liquidação* has to be issued by the BU and signed before a payment order can be issued. Payments to suppliers can only be made after a *Nota de Liquidação* is issued in the

system, attesting that the corresponding good was delivered or the service rendered. It appears that this has worked to some extent.

4.5.3.2 *Payment orders*

When a payment order is issued and sent to the BPC for payment, it is reported that payments may take as much as 90 days to be processed. This may cause losses due to exchange-rate fluctuations, particularly for providers of capital goods. Line ministries usually make an effort to commit expenditures only after receiving the monthly *quota financeira*, thus preventing a build-up of arrears. Both the arrears build-up and the delays in processing of payments make suppliers less interested in the government as a customer or give them an incentive to adjust prices upwards to offset their economic losses because of slow payment. In both cases government efficiency tends to suffer.

Various forms of corruption are also reported and make orderly procurement difficult. Luanda, like the rest of the country, is brimming with stories and allegations of corruption in public procurement, and even if only a small part of this is true, stories point to a considerable loss of resources for the public sector. The corruption problem furthermore seems to be woven into a system of illicit enrichment that includes embezzlement and fraud in various revenue flows, concessions for oil and diamond exploitation, as well as external borrowing. Also, according to the EIU, the corruption is “moving downstream” to the expenditure side of the budget, partly as result of the increased attention on revenue transparency.

Box 4

Procurement problems in Angola

Weaknesses of the legal framework and lack of enforcement

Laws and regulations relating to public procurement are written and promulgated but not adequately publicised or enforced.

Inefficient and costly procedures and practices

A number of procurement procedures and practices are neither economic nor efficient, and are not in compliance with recommended best practices in procurement.

Weak procurement organisation and capacity

There is a lack of procurement capacity at all levels, both in Luanda and in the provinces, including poor record-keeping within ministries.

Weak audit and anti-corruption mechanisms

There is no oversight mechanism to ensure regular application of procurement regulations, and there are no procurement audits.

Payment delays breed higher award prices

It is a common practice for government ministries and other departments to delay payments by more than 90 days whereas internationally accepted practice is some 30 to 45 days.

Source: CPAR (World Bank 2002)

A baseline for the overhaul of the procurement system in Angola is laid by the World Bank CPAR (World Bank 2002:ii), which focuses on three major problems: lack of transparency, lack of enforcement, and lack of capacity.

It was furthermore stressed that a decisive basis for success was to have a state agency or office take ownership and leadership of the process to overhaul the entire procurement system (World Bank 2002:ii). So far it appears that preparations for building an appropriate system have been taken under the tutelage of the Ministry of Finance: a task force of officials has been set up

and has produced a short report to the Minister. The drafting of the new procurement law, built on the Brazilian model, appears to be under way but has not yet been sanctioned by the Parliament. A new directorate of the Ministry of Finance for procurement policy formulation and analysis has been under preparation. The legal framework for the *Alta Autoridade contra a Corrupção* (an anti-corruption commission) has been created, but the government has not provided the funds for its operation (see 3.2.3 above).

Box 5

Some essential anti-corruption measures in procurement and PFM

- Public disclosure of assets and incomes of candidates running for public office, public officials, politicians, legislators, judges, and their dependants;
- Public disclosure of political campaign contributions by individuals and firms, and of campaign expenditures;
- Public disclosure of all parliamentary votes, draft legislation, and parliamentary debates;
- Effective implementation of conflict of interest laws, separating business, politics, legislation, and public service, and adoption of a law governing lobbying;
- Publicly blacklisting firms that have been shown to bribe in public procurement (as done by the World Bank); and 'publish-what-you-pay' by multinationals working in extractive industries;
- Effective implementation of freedom of information laws, with easy access for all to government information;
- Freedom of the media (including the Internet);
- Fiscal and public financial transparency of central and local budgets, adoption of the IMF's Reports on Standards and Codes framework for fiscal transparency, detailed government reporting of payments from multinationals in extractive industries, and open meetings involving the country's citizens;
- Disclosure of the actual ownership structure and financial status of domestic banks;
- Transparent (web-based) competitive procurement;
- Country governance and anticorruption diagnostics and public expenditure tracking surveys (such as those supported by the World Bank); and
- Transparency programmes at the city (and sub-national) levels, including budgetary disclosure and open meetings.

Source: Kaufmann (2005).

Further advances in the improvement of the procurement system are necessary. The latest World Bank *Angola Country Economic Memorandum* (CEM) points out that a dramatic increase in the public spending programme may exceed the government's planning, implementation and management capacity, with the result that it may be difficult to prevent wasteful spending (World Bank 2006:xi). The procurement system will also be a key area in the continuing battle against corruption in Angola.

4.5.4 Debt management

The Government's system for borrowing or guaranteeing debt appears to leave room for 'leakages'. The World Bank (2005:40) pointed out that government loans and guarantees are often contracted without being recorded. It recommended that the system be rationalised and streamlined in line with the implementation of SIGFE.

The responsibility for debt management in Angola is divided between the *Gabinete da Dívida* (Debt Unit) at BNA, the Treasury's External Debt Department, and Sonangol, which acts as

an underwriter and provider of collateral for oil-guaranteed loans and a source of information on the amortisation.

BNA's Debt Unit compiles external debt information in two databases, the more recently installed *Debt Management Financial and Analysis System* (DMFAS) and an 'old system' that produces different sets of numbers. The systems have no interface with MINFIN.

To facilitate coordination, a *Comitê de Gestão da Dívida Pública* (Public Debt Management Committee, CGDP) reporting to the Cabinet has been established.¹⁹ At a technical level, the work of the committee is supported by BNA's *Debt Unit* and the Ministry of Finance's *Departamento da Dívida Pública*. Curiously, Sonangol, which carries much of the burden of loan negotiations and contracting, is not represented at any level. A *Public Debt Framework Law* is still being worked out.

IMF and the World Bank have proposed the creation of a *Public Debt Management Operations Unit* (PDMOU), to operate as a working group with representatives from the National Bank (BNA), the Treasury (DNT), Sonangol and BPC.

4.5.5 Accounting and reporting

In Angola, accounting is centralised at the *Direcção Nacional da Contabilidade* (National Accounting Directorate, DNC). The public accounting system in Angola is cash-based and single-entry, but the roll-out of SIGFE involves a transition towards a double-entry accounting system, which may improve the accounting stage of the budget cycle. Given the state of the system at present this may however only happen in the longer run. Although centralised, the system makes BUs responsible for maintaining their own accounts. The BUs will submit monthly budget execution reports to the DNC, and every other week they will send data on the expenditure commitment (*cabimentação*) during the two previous weeks. In principle, this should facilitate the implementation of an accrual accounting system and improve the quality and reliability of the reports.

There is still a long list of shortcomings in the Angolan accounting system, of which the most serious are, according to the PEMFAR report (World Bank 2005:48), that:

- Some commitments are reported only in part, leaving portions of legally created commitments outside the system, without any monitoring and tracking.
- Reconciliation between the banking information of the Treasury and information from the BUs is not regularly performed.
- There is an excessive reliance on information from the banking system rather than on the government's own accounts.
- Reconciliation between the administrative (BUs) and fiscal accounts from SIGFE in the Ministry of Finance does not take place routinely, and end-year adjustments lack transparency. Un-reconciled items remain in the books or are arbitrarily allocated.
- The system of information collection and report generation by the DNC is dependent on the information provided by the BUs. At the time of the field work for this report, it appeared that consolidated reports had not been produced by early 2005.

Considerable hopes for improvement appear to rest on the process of implementing SIGFE. A public accountability manual and a new account classification were, at least in a formal sense, implemented in 2004 but discrepancies between the budget classification in the manual and the chart of accounts used in SIGFE will still have to be handled.

In Angola the Treasury's real-time linkage to the bank accounts allows monitoring of financial balances. This also helps the technical production of budget execution reports like

¹⁹ Comprises of the Minister of Finance (Head), the Minister of Planning and the Governor of BNA.

quarterly accounts to the National Assembly as well as the Conta Geral do Estado (the final annual government accounts). The final annual accounts are due to the National Assembly only 3 months after the end of the fiscal year but are seldom delivered on time. The present system also allows analyses of the accounts of state-owned enterprises (the *Autonomous Funds*), which are the responsibility of the Public Enterprises Department at the Treasury.

Whereas the legal framework for public financial accounting is in place and sets out a high-quality system, the present implementation lags far behind. Although the real world system at times behaves according to rules and manuals, the regularity needed to generate a steady flow of budget execution data to the Ministry of Finance and other stakeholders is lacking. Financial reports are often not complete and do not reflect all major financial transactions of the Government in a sincere way. The presence and costs of mismanagement and corruption can be reduced by a full implementation of SIGFE, but this will have to go hand in hand with strengthened internal and independent controls over classification, production of reports, and accounts data delivered from BUs.

Reporting on non-financial assets is also a problematic issue. Asset reporting is supposed to be undertaken by the *Direcção Nacional do Património do Estado* (National Directorate for the Management of Physical Assets of the State, DNPE). DNPE is supposed to maintain an inventory of all government physical assets at both central and provincial levels. The records are, however, maintained mostly by hand and according to the PEMFAR report they are incomplete and out of date (World Bank 2005:49). There are plans to integrate the physical asset records with SIGFE, but this will only help if the data are complete and reliable. The obvious importance of recording physical assets lies in discovering and preventing the theft of such assets, but if the register is not accurate and verified it will be impossible to reduce embezzlement and corrupt activities.

An internal audit department is usually established in the ministries and other budget units to verify the legal correctness of transactions, to undertake internal controls of activities, and to check compliance with procurement regulations. Internal auditing in Angola is first of all the responsibility of the *Inspeção Nacional de Finanças* (the National Inspectorate of Finance, INF), which is a technical support agency under MINFIN. In collaboration with the National Tax Directorate, INF can also conduct financial controls on private companies (mostly restricted to tax issues). Created in 1958, the INF work programme still reflects legislation prevailing in Portugal and passed during colonial times, but work on the preparation of new regulations for the institution has been initiated. INF does not have an audit manual, it does not publish an annual report on its activities, and it practises historical audit standards, not in line with Institute of Internal Auditors (IIA) standards.

It has been pointed out that the audit programme has a heavy emphasis on timeliness of reporting and on the legality of various activities, rather than on ensuring that built-in automatic internal checks and balances are operating as they should (World Bank 2005:59). Because of its limited human and material resources, only a few controls are carried out by INF annually. The absence of regular follow-up procedures further undermines the credibility of the internal control and audit functions. The deficient follow-up opens the way for the creation of a 'lawless' environment in budget matters and introduces a permanent risk for the quality of public expenditure. Even when improvements are under way, the capacity of INF must be enhanced and the terms of reference must be clarified.

The annual Budget Act 2005 establishes the government's duty to publish quarterly reports. Monthly reports are not practically feasible in Angola. In practice, however, the government also holds that regular publication of quarterly reports is not possible for lack of technical skills. The government thus clearly does not comply with the country's legal requirements.

In 2004 and 2005 the government published an annual financial report. Although this may be seen as a progressive step, unfortunately the documents are a long way from complying with best practice as set out by the OECD (OECD 2001). The 2005 annual report does not, for instance, comply with the following requirement: *'The year-end report is the government's key*

accountability document. It should be audited by the Supreme Audit Institution (...) and be released within six months of the end of the fiscal year' (OECD 2001: section 1.5 p6).

4.5.6 Decentralised public finance

Angola is administratively divided into 18 provinces, each with a provincial government, 163 municipalities (*municípios*) and 532 communes (*comunas*). The process of decentralisation (or rather de-concentration²⁰) of public administration that took place during the 1990s led also to some changes in budgetary and administrative systems. The main aim of the reforms was to strengthen the responsibilities of the provincial administrations.

The former *delegações provinciais* (provincial delegations), which were representatives of the central government ministries, were replaced with *direcções provinciais* (provincial directorates) organised under the provincial governors and responsible to the provincial governments.²¹ At the municipal level, de-concentration took the form of transformation of the *delegações municipais* (municipal delegations) into *secções municipais* (municipal sections), and their responsibility was transferred from the provincial directorate (or delegation) to the municipal administrator.

The directors heading the provincial directorates are now appointed by the provincial governors, with the approval of the Ministry of Territorial Administration (MINAT). The sectoral ministries will merely be 'consulted' about appointments. Although central ministries are responsible for overall policies in their sectors, their influence over the appointments of provincial directors is marginal. Also, provincial directors are in the provincial line of command (under the governor who is appointed by the President), giving the ministries limited influence. Clear policies and effective flows of information from the national ministries to the provinces will be a step forward in aligning provincial service delivery with national policies and standards in, for example, the health and education sectors. Ministerial capacity for appropriate guidance is, however, limited. Although better information will go some of the way, the main problem, at least seen from the side of the central ministries is that they have no authority to impose standards and policies in the provinces.

During the nineties the budget management system was changed and a large number of new budget units were set up. These units, like all BUs, have direct links to the Ministry of Finance involving submission of budget proposals, transfer of funds and financial reporting. Thus, line ministries have become 'short-circuited' and are more or less powerless to influence decisions regarding the distribution of resources within sectors. In summary, the structure of the administration itself does not correspond to the responsibilities for the management of funds.

The Finance Provincial Delegation, through local tax offices, is responsible for the collection of local taxes, which may only be used by provincial governments with the authorisation of the Ministry of Finance. They also act as consultative bodies with regard to budget execution. The provincial *Office of Studies, Planning and Statistics* (GEPE), under the governor's office, is the key BU for the provincial directorates. Some other provincial institutions also function as independent BUs.

The GEPE functions as a kind of Ministry of Finance *vis-à-vis* directorates, and this often conflicts with the attempts of the line ministries to control policy, information, co-ordination and inspection. GEPEs prepare the budget, they do the financial programming and they supervise the execution within the provincial administration and subordinate bodies such as municipal administrations. In the provinces not yet linked to SIGFE, Ministry of Finance provincial

²⁰ Deconcentration because the process was a transfer of power from the central level to several layers of regional and local administrations, but not to elected bodies as local elections were not held. The line (and culture) of command and responsibility remained intact, only with more and somewhat different layers, and provincial governments are largely a replica of the central government with a governor appointed by the president and provincial directors heading provincial directorates, which play a role as 'ministries' with responsibility for policy execution.

²¹ Only the Ministries of Finance, Interior and Justice retained their provincial delegations.

delegations are still responsible for budget execution. As outlined earlier, the Ministry of Finance budget proposal is not likely to be changed by comments from the BUs. This is also the case for the provincial budget.

In a somewhat similar fashion GEPEs are allotted ceilings for capital spending by the Ministry of Planning. It appears that in this process the provincial governments have little say. Provincial finance delegations have no authority to contest provincial GEPE criteria for allocation. Their tasks are merely to control adherence to budget ceilings and monitor actual expenditures.

Inconsistencies caused by a lack of coordination at the central level are not easily repaired at the provincial level, and tends to result in schools being built without budgeted resources for paying teachers and buying textbooks; hospitals being built without provision for doctors' and nurses' salaries, etc.

The central authorities' basis for allocating investment funds is weak. Since only poor data exists, and Census data are lacking, an indexed distribution of development funds cannot be undertaken. The mission was told that normally the investment budget – despite all the planning that was supposed to take place – was simply distributed in proportions of 1/18 to each province, disregarding all differences in population size, topography, war damage, etc.²²

The municipalities are extremely weak institutions. Their budgets are part of the respective provincial government budget. Presently there is very little scope for municipalities to influence allocations through bureaucratic or political channels. This is a result of a very bureaucratic and authoritarian system, of weak municipal administrations, and of having no elected bodies for municipal administrations to be accountable to. At present a number of experiments for a new style of municipal administration are under way in some provinces. This includes a new style of budget preparation with much more influence for various organisations in the municipality. The UNDP, CARE and other development organisations are supporting the government in its initiatives to create some pilot experiences in some municipios, where revenue collection is improved and budgets are created and executed according to local development plans.

During budget implementation there is little scope for the Provincial Delegations of the Ministry of Finance to manage expenditure with any flexibility. The budget ceilings are set, but still the provincial governments seem to find ways to be more flexible than the system allows. There are frequent reports about expenditure taking place outside of the programmed budget system through retention and spending of own revenues.

A study by the UNDP (UNDP 2002) on service delivery and budgeting in the social sectors concluded that considerable changes are needed in the administrative and budget systems at the provincial and municipal level. These suggestions are still highly relevant (see box 6 below).

By 2010 the Angolan Government envisages the creation of local municipalities, with directly elected representatives. The present municipal administrations would then hold executive and legislative powers. A diagnostic report on fiscal decentralization by MacDowell et al. argues that the establishment of local municipalities

does not end with holding of elections. It is fundamental that the municipalities, once established, enjoy a minimum autonomy in the management of public resources, which should be based on actions aimed at the effective and efficient public spending, to maximize the results (MacDowell et al. 2006).

²² During the budget preparation round for 2006, however, some provinces were successful in securing a bigger share by pointing out their urgent needs.

Box 6 Challenges for the fiscal decentralisation reform in Angola

- The huge vertical imbalances that exist in the sharing of resources between the central level and local governments must be corrected. Local governments will not be able to assume greater responsibility if their participation in the tax revenues stays at the current level – about 13%.
- The decentralisation reforms, apart from making essential the redistribution of the tax revenue from the central government, should be understood as an important element for the diversification of Angola's tax base.
- There is a need to reform the current system to give local governments greater autonomy with regard to the revenue that is allocated from central government.
- Power to collect and manage funds should be given to provinces and municipalities. This procedure is also positive in terms of planning capacity, definition of priorities and social control.
- Municipalities should become autonomous units or local public authorities. If the municipalities remain dependent bodies of the provincial governments, the benefits resulting from the decentralisation will be limited.

Source: UNDP (2002)

It is suggested that the lack of capacity of local administrators for public management may hinder the transfer of resources to the local administrations this renders a vicious cycle which may be broken by transferring a minimum of resources to enable the local managers to learn how to manage responsibly public resources.

This is the background for the initiative of the Ministry of Territorial Administration (MAT), supported by UNDP and CARE as mentioned above. It includes the setting up of a *Municipal Development Fund* (FDM) to provide resources to allow for the capacity building for the management of the fiscal cycle. The target is to replicate early experience in 37 municipal administrations, including the 18 provincial capitals.

Another feature of the development of the local government system are the so called “*autarquias*”. These are local autonomous governments provided for in the constitution. They would be bodies separate from the “state administration”, form legal persons, have locally elected leadership, and have the possibility of raising their own revenues, as well as elaborate their own budgets and executing them with little interference from the state bodies. Though constitutionally guaranteed in 1991, by mid 2007 no *autarquias* had been created.

The new legal framework for local government (Law-Decree 02/07) contains a number of elements which if implemented, will move the local government structures towards the aims and requirements stated above. Box 7 below sets out some key points of the legislation.

Box 7 Key points on Law-Decree 02/07

The law-decree nº 02/07 on the local administration of the state, emitted in January 2007, regulates the principles, functions and internal organisation of the local administration. The principal “local organs of the state” are defined as the provincial governments, and the *município* and *comuna* administrations. The decree 02/07 revokes the previous legislation from 1999. It introduces no fundamental changes to the local administrative system. As the previous legislation, the decree makes no provisions for the functioning of the territorial divisions at the *povoação* or *bairro* level and, no preparations for the *autarquias* promised to be part of the constitution.

The legislation regulates the appointment structure of the senior civil servants. Whereas the previous legislation held that the governors appointed *município* and *comuna* administrators, this prerogative has now passed to the minister of territorial administration.

The legislation creates more integrated *município* administrations and solves some of the difficulties created by the “double subordination” of its sectoral leaders. Under the new law, the *município* administrators can now appoint the heads of the administration’s service sectors.

The wording of the new legislation indicates that the gravity centres of planning and budgeting cycles will be moved closer to the *municípios* and *comunas*.

The legislation creates, in principle, *conselhos de auscultação e concertação social* – councils of consultation and cooperation – at the levels of province, *município* and *comuna*. These organs would integrate officials of the respective administrative organs as well as representatives of traditional authorities, business, peasant’s associations, registered churches, and NGOs and other invited individuals.

The law does not set out how these representatives should be selected, or the criteria for inviting other individuals. However, the intended role of these organs is clearly to improve planning and budgeting, and bring some form of representation of the local communities into dialogue with the state, as well as to create some accountability now largely absent in the Angolan local administrative system. The councils are to a certain extent functioning in quite a few *municípios* and *comunas* but there may be some way to go before they can be said to institutionally integrated into the planning and budget system. If it is implemented, the legislation could significantly increase participation and transparency at local levels, albeit with obvious limitations due to the unelected status of the leaders of the local organs their consultative character.

4.6 Public sector resources

4.6.1 The importance of growth in oil revenue

Angola is a lower middle income country. GDP per capita was 1,322 USD in 2004. As oil production accounts for 55 % of GDP, 94 % of exports and some 80 % of government revenue, the sector plays a key role in the development of the Angolan economy. Led by a tremendous growth in the value of oil production (26 % in 2005 and an expected 41 % in 2007), economic growth has climbed to a two-digit level and Angola is presently one of the world’s fastest growing economies. Growth is tremendous not only for crude oil; manufacturing, electricity, construction, trade and services have all experienced growth rates around 10 % (Aguilar 2005:25). Following the economic growth of the oil sector, Angolan fiscal revenue has also increased tremendously both in absolute and relative terms. Oil revenue as a share of GDP has increased from 27.9 per cent in 2003 to more than 30 per cent in 2006.

Table 2: National income and fiscal accounts

	USD	2003	2004	2005 (est.)	2006 (proj.)	2007 (proj.)
GDP per capita		959	1322	2129	2780	3614
Real GDP growth		3.3	11.2	20.6	14.6	30.2
In oil sector		-2.2	13.1	26.0	15.0	40.9
Total revenue % of GDP		37.9	36.9	38.0	38.0	37.9
Of which oil		27.9	28.4	30.1	30.0 ²³	30.5
Total expenditures		44.3	38.5	31.2	35.7	32.5
Overall balance		-6.4	-1.6	6.8	2.2	5.4
Oil production (bbs/day)		875	989	1247	1434	2019
External debt in billions USD		10.2	10.8	12.6	15.0	16.3

Source: WB 2006 table 2.2 page 20

Revenue from oil constitutes the main source of public income in Angola (projected at 80 per cent of the total in 2007). The rising income from oil has led to an improvement in Angola's fiscal balance from a deficit of -6.4 % of GDP in 2003 to a surplus of 6.8 % in 2005. This has given the government some leverage in its fiscal policy. Both high oil revenue and the present USD 6 billion credit line from China (Corkin 2007) (with no governance conditions) makes Angola much more independent from pressures to adhere to international standards from the World Bank, the IMF and the Western community of international partners. External debt as a percentage of GDP reduced from 73 % in 2003 to 38 % in 2005. The debt service ratio (in percent of net exports) was more than three times higher in 2003 than in 2005. The debt service ratio was less than 5 % in 2005.

4.6.2 Fiscal arrangements in the oil sector

The revenue from the oil sector is divided between the contractor and the government according to regulations and contracts specified before the production of oil takes place. After costs are deducted, the government receives a resource rent. The size and distribution of this resource rent depends on the fiscal arrangement, which in turn depends on the relative bargaining power of the oil companies and the government, their respective competence and preferences (related to risk and time frame for income) for a particular type of fiscal (government take) system. There are at least five main revenue sources for the government: bonuses (such as signature bonuses, which are upfront payments when signing an exploration contract for a block, and contributions to social funds, which are both very common in Angola), royalties related to production or sale volume, a share of oil profits, income from own production, and taxes.

In Angola, two different fiscal arrangements are applied in the petroleum sector. In the new deepwater fields, *production sharing agreements* (PSA) are common, where companies function as contractors to Sonangol; while concessionary systems based on taxes and royalties are applied e.g. in Cabinda. An increasing share of the fiscal arrangements takes the form of PSAs.

These fiscal arrangements have been consolidated into a *Petroleum Law* that compiles regulations and decrees that were previously scattered, aiming to unify as much as possible of the two main regimes in place: (i) the regime based on the use of royalties and income tax applicable to joint venture agreements (the most important being the Cabinda offshore concession); and (ii) the

²³ In the revised 2006 budget the government adjusted the oil revenue downwards to 28.5% of GDP. The figures presented here are from the World Bank (2006).

regime applicable to the production-sharing agreements commonly used in new deepwater fields (where the contractor meets the exploration and development costs in return for a share of any production that may result).

A fundamental element of the oil sector tax regime governing joint ventures in Angola is the *Petroleum Production Tax*, or royalty, a percentage charged on the quantity of oil (or equivalent substances) produced. It is a tax usually charged on the exploitation of non-renewable resources, and in Angola it is also used in diamond exploitation and in the exploitation of other non-renewable resources. The tax rate applicable to the oil sector is 20 %, compared to 5 % in other sectors.

The Petroleum Production Tax has the typical characteristics of a tax on profits from production activities and it is applicable to both types of contract referred to above. The tax rates applicable to taxable income are different: 50 % for the production-sharing agreements and 65.75% for other types of contract. As a comparison, the Industrial Tax, the general tax on the profits of all commercial and industrial activities in Angola, has a rate of 35 % while the tax rate on personal income is 15 %. It seems, therefore, that there is an expressed will to tax the oil sector more heavily than other activities.

To complete a rough overview of the taxation of the oil business, it is necessary to mention other taxes and fees, although they are less significant in terms of financial costs. The training tax, a mandatory contribution for the training of Angolan staff, determined on the basis of the production of oil, can be included in this group.

Box 8

Tax regimes of oil companies in Angola

Offshore / deepwater PSC

- Bonus and social funds
 - 1.1 billion and 200 million USD in each of Block 17 and 18
- Cost recovery
 - High 50-60%
 - Depreciation over 4 years
- Production sharing
 - State's share (split) increases with net income (IRR) of each field (from 40-80%)
- Tax
 - 50% of investor profit share
- State equity
 - Sonangol P6P 0-20% investor equity

Cabinda Concession

- Bonus
 - Negotiated item to extend contract
- Royalty
 - 20% of gross production
- Petroleum Transaction Tax (TTP)
 - 70% of revenue
 - Depreciation over 4-6 years
- Income tax (IRP)
 - 65,75% of revenue less depreciation, opex, 50% capex uplift, royalty and TTP
- State Equity
 - Sonangol 41% of investor equity

Source: Kellas 2006

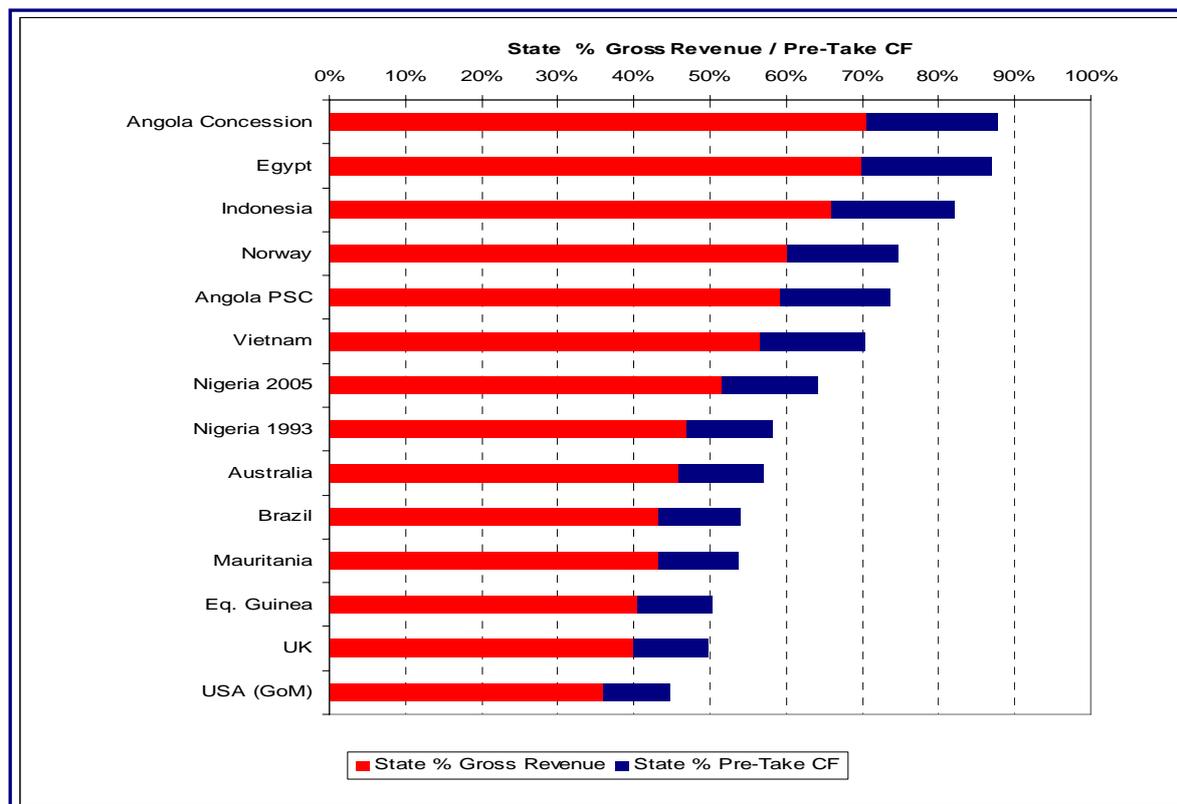
4.6.3 Comparisons of fiscal arrangements

Production sharing arrangements (PSA) are very common throughout developing countries (for instance, in Nigeria, Indonesia, India, Gabon and Vietnam), while *concessionary systems* are common in countries like Norway and the UK. Sunley provides a general overview of the evolution of petroleum tax systems for selected countries (Sunley et al. 2003:177).

In Angola, as in most oil-producing countries, the oil sector has always had a special and more demanding tax regime than in other sectors. Requirements and regulations are more detailed and rigorous, and tax rates are higher. The government take is large in Angola, but so are also the success rates and the size of the fields. A low government take under such circumstances would have been a rip-off and shown a lack of responsibility to future generations.

Precise comparisons of the specific oil tax regime in Angola with similar tax regimes in other countries are, however, difficult to make. This arises firstly because the system is usually determined by the type of contract adopted (production sharing or royalty/income tax). Secondly, the quality of the oil and the size of the field are different. Thirdly, there is a complexity and multiplicity of elements that are part of the tax system. As an example, if we consider exclusively the 50 % tax rate applicable in Angola to the production-sharing agreements, it is higher than the tax rate applied in a number of other countries. But if we look at the limit of ‘cost oil’ authorised to be used for the recovery of costs, it is high. In Angola, it is 50 %, as a general rule, and 60 % for deepwater contracts, but in some countries it is limited to 40 % (Sunley et al. 2003).

Fig 5: Comparison of Global Deepwater Fiscal Regimes



Note: Excludes bonuses and state equity

Source: Wood Mackenzie’s Global Economic Model (Kellas 2006)

Another approach to comparing tax regimes is to use the ratio of tax to exports of oil or the value of production. Wiig and Ramalho (2005) found an average of 45 %, or similar to the share in Norway during the same period. One weakness with this measure is that it is unable to distinguish between mature areas, as in Norway, and new areas such as Angola where investment costs are yet to be recovered.

With the mentioned limitations, we present the Wood Mackenzie comparisons of global deepwater fiscal regimes. The PSA tax regime is neither the most demanding nor the weakest in the world – it is about the same level as in Norway.

As the government share of profits increases with the internal rate of return (IRR), the government exposes itself to a huge risk. During a period of increasing prices, this is good as Government gets an increasing proportion of the profit, but as soon as oil prices go down, it loses a larger share of the reduction in profit.

4.6.4 Challenges: Transparency, taxation and Sonangol

Angola has a low internal resource mobilisation apart from the revenue from oil and minerals. In the following, we will, however, highlight the importance of simplifying the tax structure and making it more transparent.

On the one side, low taxes on income or on profit benefit private household or private firms, but on the other side the government is less liable to its citizens (as they do not pay taxes and may expect fewer services from the government in return). A narrow tax base also makes it difficult to find alternative revenue sources when the income from oil plunges. The government needs to be prepared for a future decrease in the tax revenue from oil. Meanwhile, it makes sense not to impose a too heavy tax burden on the private sector.

One may argue that the tax burden is already too high. Angola scores as number 147 out of 172 countries in terms of the total corporate tax rate. Angola has a wide range of corporate taxes that are cumbersome to comply with.²⁴ Angola should therefore seek to simplify its tax structure to avoid serious damage to private sector development because of bureaucratic bottlenecks.

Transparency is a starting point for a simplification procedure. From textbooks in public economics, it is clear that transparency is one of the key characteristics of a good tax system. The tax system in Angola is not transparent although we notice some improvement regarding the transparency of revenue from oil.

In Angola, many different forms of taxation exist, but the individual form of tax is difficult to disentangle from public accounts. The International Budget Project in its survey on Angola (see open budget Questionnaire)²⁵ found, for instance, that:

- The budget does not identify the individual sources of tax revenue for the budget year
- The budget does not identify the different sources of non-tax revenue for the budget year
- The budget does not provide any multi-year estimates of aggregate or individual revenue
- The budget provides data neither on the total government debt outstanding and its composition nor on the interest on the debt
- The budget does not present any information about the macroeconomic forecast upon which the budget is based.

In revenue collection the World Bank has pointed out the lack of control mechanisms. There is, for example, no mechanism for reconciliation of the revenue flow to the Treasury with taxpayers' deposits at the tax office (World Bank 2005:40). Reconciliation is not regularly done to confirm that all collected revenue ends up in the government account, thus creating considerable scope for tapping the flow between the tax office and the Treasury.

²⁴ See www.doingbusiness.org/documents/DB_Paying_Taxes.pdf

²⁵ See www.openbudgetindex.org/Questionnaire05AngolaFinal.pdf

Another issue is that Sonangol has a large number of roles in the Angolan economy: it is an oil concessionaire, a regulator of the oil industry and is partnering with foreign oil companies. The company also carries out quasi-fiscal activities,²⁶ for example in supplying petroleum products to the domestic market at subsidised prices (421 million USD in 2003) and managing and servicing public debt (not only its own debt). Sonangol also markets the Government's share of crude oil (World Bank 2005:116).

The company has in many ways been 'a law unto itself'. The regulator role meant that the company would oversee other companies' tax-payments, cost recovery claims and oil profits, and therefore would have to oversee itself in its role as a partner or operator. These multiple roles would leave the door open to irregular and fraudulent practices. Lately however, the Ministry of Finance has contracted the auditing firm *Deloitte & Touche* to examine the tax declarations of the oil companies.

Not only is Sonangol's role an abnormality, leading to misunderstanding and usurping the strong command that a Ministry of Finance needs in a country like Angola. The arrangement also appears to spawn rumours about corruption and political patronage dependent on the presidency. Observers such as EIU and Vines (Vines and Shaxson 2005) point out that despite reforms, the patronage system is not fundamentally disrupted but has only shifted from the income side to the expenditure side, which includes irregularities like kickbacks in procurement, the award of public works contracts to companies in which officials have a large stake, over-billing and the sale of state assets below market value.

Sonangol is also central to the practice of oil-backed loans that appeared in the late 1980s. The oil-backed loans were then a way to provide financing for expansion of Sonangol development and later the purchase of arms in the face of distrust from international lenders. The form of operation itself and the desired secrecy on arms procurement as well as opportunities for graft kept it out of the budget system. Presently, both Western partners and the IMF have expressed concern about the practice labelled as expensive borrowing. However, it still appears to go on.

The PEMFAR (World Bank 2005:iv) proposes a sequenced transition process, or 'path towards normalisation',²⁷ whereby unconventional execution mechanisms would be eliminated. This 'path towards normalisation' should involve the establishment of clear reporting mechanisms from Sonangol to both the Ministry of Finance and the Central Bank on all transactions it carries out on behalf of the Treasury; strengthened internal control mechanisms to ensure that such transactions are conducted in accordance with legitimate fiscal policy objectives and acceptable public expenditure management practices; and improved accounting procedures, whereby the National Accounting Directorate (DNC) at the Ministry of Finance obtains from Sonangol all the information it needs to prepare the yearly *General State Accounts* as well as *Quarterly Budget Execution Reports*.

The proposed changes face resistance from influential quarters in Angola. The process of dismantling the 'non-conventional' processes over a period of time will involve dealing with powerful vested interests and traditional sources of rent-seeking. One important technical argument against transferring the concessionaire role to the Ministry of Petroleum is that the lack of competence and salary levels within the Ministry will make it impossible to run a satisfactory system. Still, some improvement is taking place: Sonangol P&P has been created as a separate production company which could at least in theory insulate the production activities.

In the area of transparency some improvement has also taken place. Data on oil production, exports and tax revenue are now published on the website of the Ministry of Finance (at least figures for 2004 and some figures for 2005). The financial statements of Sonangol have been audited by international firms for 2003 and 2004, even though the latest audit reports have not been published yet.

²⁶ Financial expenditure outside the formal budgetary framework

²⁷ 'Normalization' refers in this context to a situation in which the 'non-conventional' activities would have been eliminated over an agreed time period.

Although aggregate revenue data are public, tax receipts from individual oil companies are not and the oil companies are not allowed to publish their tax payments. Revenue collection in the expanding diamond industry remains unclear. Both factors may explain why Angola has not yet signed the *Extractive Industries Transparency Initiative* (EITI) or *Publish What You Pay* (PWYP).

During a 2006 bidding round of the relinquished part of Blocks 15, 16 and 17, signature bonuses and contributions to social funds were around 1 billion USD for each of the blocks.²⁸ In contrast to previous bidding rounds, this bidding round seems relatively transparent as it is based on a set of predetermined criteria and a sealed bid process in which all the participants were present when the bids were opened.

The latest *Country Economic Memorandum* by the World Bank (World Bank, 2006) gives an outline of the progress in governance and transparency in the important oil and diamond areas of Public Finance Management which is summarized below:

The CEM finds a number of problems in the management of oil and diamond wealth in Angola. Improvements in the areas of governance, transparency and institutional capacity are needed in the following areas; The conflicts of interest which arise because of the double functions of Sonangol and *Endiama* (the national diamond company) as operators and regulators should be removed by reassessing the role of Sonangol and introduce a transparent licensing, regulatory, and tax structure that would avoid conflicts of interest and privileged access to development rights in the diamond sector.

While Government's move to reflect quasi-fiscal activities in the budget, and Sonangol's steps to identify and audit activities undertaken on behalf of the Government are welcome, concrete efforts to phase out the offsetting mechanism have yet to materialize. The present system a) is not transparent; b) leads to frequent disputes; and c) misrepresents Sonangol's position on taxes. Sonangol can contribute more effectively to the development of the country by focusing on its core business.

The Bank finds that Government has addressed governance and transparency since 2002. Angola has adopted a number of recommendations made by *Oil Diagnostic Study* and in the 2005 PEMFAR, such as

- publishing details of oil payments received on the Ministry of Finance website
- Conducting audits of the petroleum sector but has yet to publish them
- Progressing with roll out of the SIGFE, but with weak inclusion of revenue data
- Using a model for oil revenue forecasting.

Progress is however found to be slow in some areas of the oil sector and the following are points for action:

- Lack of a timeframe for phasing out Sonangol's quasi-fiscal operations
- Indications of no change in Sonangol's dual role at least until 2010.
- Certain information on the Ministry of Finance website continues to be outdated.
- High level workshops on petroleum revenue management should be complemented jointly with civil society.
- Angola has been cautious about announcing formal adherence to the principles and objectives of the *Extractive Industries Transparency Initiative* (EITI), despite the encouragement of the Bank, IMF and bilateral partners.

²⁸ In Block 15, ENI won the sealed bidding competition with a signature bonus of 900 million USD (in addition come 50 million USD in social funds. Social funds are administered by Sonangol and do not constitute part of the public budget). Statoil is part of the consortium. A Sinopec (Chinese company)/Sonangol joint venture) won contracts in Block 17 in cooperation with Total, and Block 18 in cooperation with Petrobas. In both cases, the signature bonus was 1.1 billion USD and social funds constituted 200 million USD.

The following World Bank “scorecard” describes areas where progress has been made and where further actions are required to meet objective governance and transparency criteria which are considered good practice (table 3 below).

Table 3: World Bank Scorecard for Governance and Transparency in the Oil Sector

Criteria	What Has Been Done So Far	Required Further Action
Resolve conflict of interest potential (Sonangol as concessionaire)	Sonangol is ring-fencing concessionaire activities	Subject to credible institutional capacity, transfer concessionaire role to Ministry of Petroleum
Introduce adequate Government oversight of Sonangol	MOF/MOP have little capacity to provide oversight	Engage qualified consultant support. Build capacity.
Reconcile/include Sonangol financial flows with budget	Sonangol ring-fencing and auditing quasi-fiscal activities. Own expenditures are still outside budget. Quasi-fiscal expenditures comply with budget procedures with a 90-day lag/	Bring Sonangol quasi-fiscal and own expenditures into budget and comply with budget procedures without delays.
Create adequate institutional capacity in key ministries/agencies	Seriously under-resourced. Inadequate skills. Salaries low. Ministry of Finance now using oil revenue forecasting model developed by AUPEC.	Strengthen technical capacity in DNI. Build or transfer capacity to MOP. Resolve salary issue.
Perform qualified, independent audit of payments made and revenues received	Annual industry cost and fiscal audits by experienced international auditors. Auditor reconciles tax filings with revised tax assessments and with payments made, and identifies discrepancies.	Take notice and act according with the auditors’ recommendations. This will allow a comparison of payments made by industry and revenues received by the federal and provincial governments. Audit revenues received by MOF, Cabinda and Zaire; include Sonangol, and clear arrears.
Publication of audit results in accessible form	Current detailed publication of company payments on MOF website. Audit results not yet published.	Add audit results. Improve accessibility of website. Consider broader media publication.
Audit exercise should apply to all companies, including Sonangol	Current practice, but Sonangol data derived from block operator.	Sonangol to provide data directly to MOF. Publication of Sonangol corporate audits
Engage civil society in revenue management and transparency process	No current engagement	Topical workshops to include civil society. Establish independent public information center
Introduce clarity on legal, contractual and fiscal framework/procedures	Legal drafts and texts difficult to access. DNI preparing tax manual	Compile and publish legal texts, procedures. tax manual.
Develop time-bound, funded, action plan for implementation of transparency agenda	No current plan, although individual components have been scheduled	Prepare and publish explicit plan

Source: World Bank (2009)

In the diamond sector, the World Bank finds that there are a lot of improvements possible and that the sector to a large extent remains secretive. Important areas where improvements are called for include:

- legal framework that adequately defines investors' rights and obligations
- competitive and equitable fiscal package for the concerned stakeholders
- security of tenure of mining permits
- strengthened capacity of the Government to monitor and regulate the sector
- firm commitment towards marketing liberalization.
- Over the medium term, the interventions for improving the artisanal and small scale mining sub-sector should focus on:
 - improving the quality of life of those living and working in diamond fields;
 - rehabilitating the environment and improving agricultural productivity;
 - upgrading regional infrastructure;
 - improving mining productivity and safety; and
 - encouraging general economic growth via multiplier effect of mining activity and infrastructure improvement.

Continued implementation of the Kimberley Process and harmonization of the domestic policies with those of competing and neighbouring countries should be stressed to discourage smuggling and encourage trading through official channels.

4.7 Audit, oversight and control

4.7.1 State audit institutions

It is the responsibility of the supreme audit institutions to assess whether revenue collection and spending has been in line with the budget. In most countries this is the responsibility mainly of the Auditor General, plus some other institutions of oversight and control, and increasingly commercial audit firms are hired to perform specific audit tasks. The responsibility of the supreme audit institutions is mixed, depending on the executive/parliamentary power relations in each country. Partly, the oversight and control institutions are accountable to and report to the executive only (president, government), sometimes to the parliament, sometimes to both. Rather often, the parliament also does its own, separate investigations and evaluations. Internationally, the *International Organisation of Supreme Audit Institutions* (INTOSAI) operates as an umbrella organisation for the government audit community under a code of ethics and auditing standards.

In Angola, there are two main bodies for state audits. Both are supreme and special auditing institutions, but in contrast to most countries, they are not established by or subject (answerable) to the Parliament. The Angolan Parliament does have, however, its own standing *Economy and Finance Committee* (the 5th committee), which to some extent serves the purpose of auditing and control.

The first special institution is the *Inspecção Nacional de Finanças* (General Inspectorate of Finance, INF), which is an office within the Ministry of Finance. This is a supreme Government auditing office with a national outreach, in contrast to the internal audit offices of the various ministries, which have responsibility for only the ministry in which it is placed. The Inspectorate is not functioning well, however, according to several interviews. Allegedly, it does not have clearly defined powers and legal independence, it is subject to political interventions, and it lacks the proficiency, competence and resources necessary to carry out a comprehensive, national audit. It seems to be working in an ad hoc, unsystematic and 'depoliticised' way. We have registered, however, that the Inspectorate does select various state institutions for inspection and financial

audit, sometimes outsourcing specific audits to commercial audit companies, and that the president of the Inspectorate makes visits to the provinces to check the actual use of budget allocations and public investments.

The other institution is the *Tribunal de Contas* (Audit Court), Angola's Supreme Audit Institution (SAI), which should be laid down in the country's Constitution. The framework was legislated by Law no. 5 of 1996, (*Lei Orgânica do Tribunal de Contas*) and more recently changed by Law No. 21 of 2003.

The Court has both judicial and administrative authority, in line with the Napoleonic (Latin) so-called *cour des comptes* system. Although its seven judges (five in effect, nine to be) are appointed by the President after selection by Parliament, they are not answerable to the Parliament. The Tribunal has only become effective recently, as its first president was appointed on 4 April 2001. The law and regulations gives it the power to investigate as well as adjudicate any government ministry, department and agency, including public companies and companies in which the Government is a majority shareholder.²⁹

The president and the other six judges of the Tribunal are appointed by the President of the Republic. According to the law, recommendations for appointment are based on qualifications and experience, and made by a jury consisting of the president of the Supreme Court, a member of the Superior Council of Judicial Magistrates, and a Professor from the Law Faculty of the *Agostinho Neto University*. The tribunal has extensive powers and responsibilities.

Box 9

Powers and responsibilities of the *Tribunal de Contas*

The Tribunal is empowered to control and conduct any analysis, review and supervision of a broad range of personnel and institutions:

- All personnel
- All entities that are part of the central administration, including BUs
- All institutions and associations
- Public enterprises
- Other enterprises where the state has the majority of the capital
- Entities, private or public, that execute financial transactions involving state resources

Source: Organic Law of the Tribunal de Contas

In line with most *cour de comptes* systems, the Angolan *Tribunal de Contas* is preoccupied with financial or attest audits, mainly checking for accuracy and regularity of accounts statements, for instance through a detailed scrutiny of the accounts of all provinces; and compliance audits, checking for proper authorisation and approval of spending, conformity with laws and regulations, for instance approval of all Government contracts above the sum of USD 50,000 and all appointments of people. The court also investigates and adjudicates on economic offences. It is less concerned with monitoring and performance (value-for-money audits); it makes only very limited checks on operational efficiency or the value of the results of spending.

No audit of the state accounts has yet been produced, which is extraordinary in terms of budget management standards worldwide. This leaves the parliament and the public at large in the dark about the extent to which the budget is implemented as previewed by the Government and the

²⁹ Law No. 5, 1996 (*Lei No 5/96*, with its statutes specified in *Lei No 31/03* and the two decrees *Decreto No 23/01 and 24/01*). Neither the *Inspecção Nacional de Finanças* nor the *Tribunal de Contas* are mentioned in the Constitution of Angola, however. This is unusual, and a weakness in terms of their legal authority and constitutional independence.

Parliament. The Tribunal's de jure independence from the executive has yet to be tested. If the legal intentions are confirmed by actual practice, it would allow the tribunal to play a major role in the implementation of the strategy for public financial reform proposed by the PEMFAR.

The auditors of the *Tribunal de Contas* are, furthermore, as pointed out above, facing political, capacity and follow-up problems similar to many other developing countries. Besides, there is a shortage of resources and skilled personnel, despite its 40 audit staff and the hiring of some private audit firms.³⁰ As a relatively new institution, the Tribunal is still building its competence and skills.

Furthermore, the findings and recommendations of the tribunal are unknown to the public, not discussed in parliamentary debates, and often not implemented by the executive. Basically, the Tribunal sends its audit reports to the court's judges, who make the decision on whether to approve, investigate further or prosecute. No recommendations are made by the Tribunal to the Parliament on bottlenecks in the system, on serious under- or over-spending by government ministries, or other systemic change recommendations.

4.7.2 Role of parliament

In addition to the auditing function described above, the parliament has usually also the right to exercise controls through its own investigations, to question ministers, receive petitions and conduct parliamentary hearings, and to establish various special institutions of control and oversight.

Most legislatures in the world have established Public Accounts Committees (PACs). Their functions are to oversee government expenditures. Angola has no PAC, but the 5th committee on Economy and Finance to some extent serves this purpose. On some occasions, the committee president as well as committee members have made visits to the provinces to check the actual use of budget allocations and public investments. The slowly increasing contact between MPs and their local constituencies will most probably oblige MPs also to serve this role.

In Angola, hearings, questions and motions are formally instituted in the political system, but actual experience is still rather weak. Article 83 of the constitution reads: *Members of the National Assembly shall have the right, in accordance with the Constitutional Law and the Regulations of the National Assembly, to question the Government or any of the members thereof, and to obtain from all public bodies and enterprises the cooperation needed to discharge their duties.*

The various parliamentary committees are now increasingly making inquiries to relevant ministries, and individual ministers are called in by Parliament to answer specific questions. According to the law, the Prime Minister as well as other members of Government should attend parliamentary hearings on censure motions, ministerial reports, questions and the National Plan/General Budget. Notwithstanding the legal obligations, some members of the Government have nevertheless refused to give detailed information about actions they have taken.³¹ In November 2006, the 2007 state budget of USD 31 billion was approved with 42 abstentions from opposition deputies who complained that no implementation report on the USD 23 billion 2006 state budget had been presented.

Despite the weak control mechanisms of the Angolan Parliament, it has not set up many special agencies for oversight and control. Other parliaments have established various special institutions and agencies, such as ombudsmen, committees and commissions, complaints committees and anti-corruption commissions, working on behalf of the parliament and assisting it in its checks and balances function.

³⁰ The Tribunal has submitted a proposal to increase staff numbers and salary levels to the National Assembly, which has passed it and sent it for decision to the President of the Republic.

³¹ One well-known case was the purchase of two armoured luxury cars, each worth US\$ 800,000, for the President of the Supreme Court. Neither the Minister of Transport nor the Minister of Finance appeared before the Parliament despite being called, arguing that they needed to be summoned by the President of the National Assembly and not merely by some opposition deputies.

In Angola, this kind of institutionalisation is only in its incipient phase. One increasingly important parliamentary committee is, however, the committee on ‘Human rights and citizen petitions, complaints and suggestions’. This is a standing parliamentary committee, which takes up complaints and suggestions from the public. The 22-member committee is quite active, addressing various government ministries and agencies on behalf of the citizens. In this respect, the committee acts quite like an ombudsman’s office.

The Parliament of Angola also set up an anti-corruption commission, but this has not yet become operative. The Parliament passed the law establishing this commission (*Alta Autoridade contra a Corrupção*) in April 1996, and the President has ratified the law, but there has been no follow-up, no actual establishment of the institution, and no concrete action taken to implement this law.

Box 10

African Anti-Corruption Commissions

‘Our study found a lack of synchronicity and compatibility between the needs, aims, motivations, capacities and expectations of governments, donors and ACCs. This leads to a lack of coordination, complementarities and confidence between the three parties, which, in turn, is connected to their differing ‘lifecycles’.

The lifecycle of a new ACC is characterized by initially high expectations from governments and donors but the ACC is an infant organization unable to meet the unrealistic expectations imposed upon it. This failure usually means that there is no sustained support for the ACC which limits its capacity to develop as an organization. This failure ‘to thrive’ encourages disillusionment in governments, donors and in ACCs themselves.

The lifecycle of governments involves the gradual displacement of anti-corruption as a high priority and indeed political commitment is frequently confined to exposing the crimes of previous regimes. Governments experience periods of instability and, where ACCs investigate corruption at the highest political levels, the response is not often supportive. Rather, ACC Directors are dismissed, authority to prosecute is withheld in sensitive cases and under-resourcing of the ACC becomes the norm, further undermining its capacity and reputation.

When discredited governments are toppled or new leaders emerge, donors become enthusiastic again and the neglected ACC is reborn or reconstituted. Where once donor support had been difficult to obtain, or had even been withdrawn, suddenly there is a rush to support the ACC with a new set of expectations. The previous famine of resources is replaced by a feast but the ACC often lacks the infrastructure and capacity to make effective use of the sudden increase in funds. Donor neglect is, at worst, replaced by donor competition and, at best, by inadequate and irregular donor coordination.

Our perception (is) a general pervasiveness of a culture of impunity with respect to corruption. Several senior politicians and officials who have been censured or sanctioned for corruption, for example by Parliament, have not really been called to account or prosecuted. Instead they have been rewarded with later transfers to the ruling party or elsewhere in government. Administrative sanctions, dismissals and prosecutions appear to be rare and poorly publicized.’

Excerpts from the U4 commissioned report *Measuring ‘success’ in five African Anti-Corruption Commissions* (Bergen, 2005, CMU/U4). (Available at www.u4.no/themes/aacc/main.cfm).

5. Transparency and the Budget

Transparency is given an important position in the *Declaration of Human Rights*.³² Transparency in budget systems has over the last ten years emerged as a focal point for all organisations and institutions that aim to improve the just distribution of public resources. It is an important concept to understand and indeed the main tool for any civil society organisation which attempts to improve the budget process. Without insight and information, the possibility for influence is minimal.

This section examines transparency in some depth and not particularly in the budget context. This is because the concept cannot be applied sectorally; it can only be developed as a society-wide tradition, movement or culture. We first explain what transparency is about and why it is important. We then consider why it is so difficult to increase the level of transparency in a country. Why are there obstacles to instilling a sense of transparency in the public sector? Against this general background we look at the role of transparency and finally summarise salient points of the contemporary Angolan context.

5.1 What is transparency?

‘Transparency’ refers to whether information flows are effective: do all relevant stakeholders have access to relevant and good quality information at the right time? A lack of transparency refers to situations of secrecy, misinformation, opacity or partial information foreclosure.

Transparency may be considered as a part of good governance,³³ including governance in the private sector. Kaufmann (2003) uses a broad concept of transparency: it is related not only to governmental policies regarding information about public decisions, of which the state budget constitutes a key factor, but also to information flows from the private sector to the public and vice versa.

It is thus about private investors’ use of loans and the creditworthiness of borrowers; about properly audited accounts of key governmental, private, and multinational institutions; about the budgetary process and data from the government; about monetary and real economy statistics from the central bank and government service provision; about political and campaign finance disclosure and the voting records of parliamentarians; and about the effective oversight role of parliament, the media, and the citizenry in the public budgetary accounts –as well as about the activities of international institutions and foreign investors. Conversely, a lack of transparency occurs when an agent – whether a government minister, a public institution, a corporation, or a bank– deliberately withholds access to or misrepresents information or fails to ensure that the information provided is timely, relevant, or of adequate quality (Source: Kaufmann 2003:20).

Transparency in public financial management may exist between different audiences and stakeholders. How information is provided to the different stakeholders varies according to the type

³² ‘Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers.’ Article 19. Universal Declaration of Human Rights

³³ Kaufmann (2003:5) defines governance as the exercise of authority through formal and informal traditions and institutions for the common good. Governance is distinguished along three dimensions: (1) the process of selecting, monitoring, and replacing governments; (2) the capacity to formulate and implement sound policies and deliver public services; and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them.

of issue and audience involved (see box 11 below). At the international level, the internet has made it increasingly important and more common to disclose information about the state budget directly.

The *International Budget Project* represents one way of presenting data on the transparency of various aspects of the public budget (see www.internationalbudget.org). Angola scores low on all measures of transparency (see section 5.5 below).

Box 11

Transparency; Audience and Forms

- Within central administration
 - Circulation of key documents
- To the media
 - Facilitate availability of budget publications
- To the public at large
 - Produce a popularised people's budget
 - Holding a pre-budget conference
 - Facilitating public discourse and understanding
- To the private sector
 - Clarification about changes in policies

5.2 Why is transparency important?

In the literature about the resource curse, there is consensus that good institutions play a key role in avoiding the problems which many resource-rich countries face. Transparency reduces the possibilities of destroying (for instance through corruption) institutions and is a prerequisite for the establishment of proper regulatory institutions (institutions that support the rule of law).

Democratic institutions play a key role dealing with resource curse problems. Secrecy is an important way in which government officials may attempt to influence public opinion or create rents for themselves. This can only happen if information about their activities is not available to the public. Transparency reduces the possibilities of rent-seeking activities and increases the accountability of the government. One of the key characteristics of a modern democracy is that it is accountable to its citizens. The 'voice' or participation of the citizens in various aspects of the governance process is a way of stimulating the accountability of public officials (Andrews, 2003). Transparency facilitates the creation of trust between citizens and their government.

Meaningful participation requires informed participants – citizens that know what alternative actions are available, and what the results might be if other policies are put in place. Lack of transparency discourages public participation in democratic processes. Secrecy raises the price of information and thereby discourages voters or groups without special interests from participation. If outsiders or particular groups have less information than the rulers, they may feel less confident about participating in the political process and this may impede their voice as well as political and social change. Voices from the ruling elite alone do not make a country more accountable. Accountability needs voices from all sections of its citizenry.

Economists know that private markets may break down when there is asymmetric information. Similar breakdowns may occur in public sector services, with consequences even more disruptive than in the private sector. A vicious circle may arise where lack of information leads to low service quality which in turn leads to lower use of public services and a reduced willingness to finance public services. Transparency is therefore particularly important for budget discipline and public financial management.

Good financial management is a key to successful development in resource-rich countries, and should pervade all phases of the budget process from policy formulation to rules for predictability and control, accounting and reporting, and external audit (see Box 12). There is a huge number of examples of resource-rich countries with ‘soft’ budget constraints that have spent too much money on useless activities (huge investment projects and bad service delivery). With asymmetric information and secrecy, the market for public services may break down. More transparent public decisions will put more pressure for efficiency in public investment and service delivery.

Box 12

How can transparency contribute to improvements in the budget system?

- Contribute to policy-based budgeting through openness and consensus building in the planning process and pre-budget publications/meetings
- Increase predictability and control by informing about tax policies and tax collection (oil revenue)
- Improve accounting and reporting through producing and disseminating in-year implementation reports
- Increase public awareness of and demand for external audit by clarifying and disseminating audit rules and timely audit reports
- Improve efficiency in service delivery by letting people know about budget allocations concerning their local communities
- Prevent corruption through transparency in government procurement

Lack of information makes it difficult to set proper priorities for the use of funds and to assess or evaluate the efficiency of the use of public funds spent on, for example, service delivery. Without proper information, decisions may be ill-founded. This is particularly dangerous for policies that by their nature are complex, such as dealing with macroeconomic shocks (changes in oil prices) and war. For instance, the former Chief Economist of the World Bank, J. Stiglitz, explained the East Asian crisis in 1997 in terms of non-transparent policy from the IMF:

But bad economics was only a symptom of the real problem: secrecy. Smart people are more likely to do stupid things when they close themselves off from outside criticism and advice. If there’s one thing I’ve learned in government, it’s that openness is most essential in those realms where expertise seems to matter most (Stiglitz 2000).³⁴

Transparency is also important for fostering innovation and economic growth. Kaufmann (2003:20) found some evidence that countries with high levels of transparency, effective parliamentary oversight and high standards of corporate ethics had higher rates of GDP growth than countries scoring low on these variables. An additional factor to explain the gain from transparency is that transparency may attract business and international investment.

Transparency is also a key instrument for ensuring that governments protect human rights. Transparency on the sources and use of public funds are prerequisites for protecting human rights. Transparency makes it easier to follow the money as most governmental operations (including human rights abuses) have a budgetary element.

The state budget is the key political instrument of a government. It is a basic human right to know and to be informed about what the government is doing and why. Following such a perspective, citizens have a basic right to know, or at least to have access to, relevant information

³⁴ See e.g. www.whirledbank.org/ourwords/stiglitz.html

that does not threaten a country's security. This is part of the social contract between the government and its citizens.

5.3 The role of transparency

During recent years a number of publicly financed organisations have implemented significant reforms to increase transparency. The *European Commission* has, for instance, implemented significant organisational and procedural reforms to improve accountability and openness. The International Monetary Fund has adopted a voluntary code of good conduct as a guide for countries to increase transparency in their financial policies (IMF 2001).³⁵ After the Enron scandal, many firms have revisited their codes of conduct and improved their accounting and transparency procedures. Many countries are considering and some have implemented laws that explicitly give emphasis to their citizens' right to information.

To make a difference, guidelines must be comprehensive and agents must be willing to make information public. Furthermore, they need media to disclose information. The internet facilitates the spreading of information, including information about public financial decisions. With the internet, information about the use, and the misuse, of public funds can easily be available to the public – at least those who have access to the internet. People all over the world expect their governments to use the internet to provide information about how public funds are used. With the internet, the spreading of information about potential abuses does not take long. The same applies to Angola, where budget information is increasingly available on the Ministry of Finance's homepage, although many organisations in civil society feel the process of disclosing information is too slow. In war-torn Angola, agents lack a culture of public disclosure and openness, which could speed up the process.

5.4 Why is transparency so difficult to implement?

As there appears to be an overwhelming number of reasons for making public decisions transparent, why is then openness so difficult to implement?

Secrecy provides some guarantee against being accused of making mistakes. If a policy has gone wrong, a shroud of secrecy will help a policy maker to get away with claiming that the situation would have been even worse without the policy. The causal (policy – effect) link is hidden through lack of transparency; a government may take credit for its good policies when the positive outcome was really due to non-policy factors. If good policies require more effort than bad policies and the initial situation is characterised by the implementation of bad policy by the government, secrecy is an institutional outcome that is reproduced. As other decision makers possess their own information secrets, no one has any individual incentives to get out of the 'secrecy trap' and the more who are caught in this trap, the fewer the incentives to drop out. The decision maker does not take into the account the gain to others for transparent behaviour. To come out of such an equilibrium requires fundamental changes to the rules of the game: the culture of information secrecy must change (see Stiglitz 1998).

The less directly accountable the government agency, the more difficult is it to change the culture of secrecy. If a country lacks institutions for checks and balances in the management of public funds, suffering, for instance, from weak judicial institutions, an ineffectual civil society or a non-independent press, the importance of transparency only increases. If external agents, say private firms, play the same game of secrecy, this culture of secrecy becomes entrenched and extremely difficult to change.

Transparency may be furthered by decentralisation. In a context where decentralisation is stimulated without addressing the information asymmetries, it may, however, not be possible to

³⁵ See e.g. www.imf.org/external/np/fad/trans/code.htm

exploit these opportunities by experimentation. Lack of information leads to biased participation and decentralisation does not necessary lead to a more accountable government, or to quote the main conclusion in Andrews:

In those cases where voice expression lacks any kind of influence, voice mechanisms do not lead to improved accountability. Where voice expression is influential, but voice focus is narrow, accountability relationships are developed—but these are narrow and can facilitate government capture. Where voice expression is influential and voice focus is broad, resulting accountability relationships are also broad (Andrews 2003:8).

Table 4: Transparency in Angola – Motivations, Potentials and Obstacles

Motivation for public sector transparency	Obstacles and potentials for greater transparency in Angola
Build good institutions	Angola is a resource-rich country, but lacks institutions to deal with resource curse problems. Corruption is widespread.
Democracy, accountability and trust	Lack of elections since 1992. Lack of other internal and external checks and balances that include the private sector, other parts of civil society and donor communities. Lack of an internal tax base that makes the government accountable. Angola scores extremely low on how information on public decisions is created and disseminated. Donor communities lack measures to improve governance as they provide hardly any donor aid. Angola is increasingly financing its activities through credit lines from China. Oil companies do not disclose information about their payment of taxes to the government. In the restructuring of Angola after the war, the generation of trust between people from different provinces and with different political backgrounds is of high importance.
Improve public management and service delivery	Transparency generates more fiscal discipline to reduce wasteful expenditure.
The <i>special</i> importance of equitable public sector services in Angola	Government is a particularly important part of the economy. Crude oil and gas production constitutes 56 % of GDP. Exports of oil were 28.5 billion USD in 2006. Revenue (mostly from oil) constituted 38 % of GDP in 2005. Reliance on a few revenue sources will cause fluctuations. Government is responsible for stabilisation. Oil and diamonds are exhaustible and Government will have to budget with a long time horizon. Oil will peak in 2012 at 30 billion USD in government revenue at \$45/bbl. The concurrence of a rich government and a large number of poor people means that poverty reduction through effective and equitable service delivery to low-income groups is particularly important in Angola.
To advance experimentation and learning	Angola seeks increasingly to decentralise some of its public decisions, but it is extremely difficult to resolve on what basis it distributes its funds to the different provinces. Lack of information may generate perverse incentives.
Encourage a public culture of openness	Secrecy is stimulated during a war, when there is advantage in keeping information secret and when a country lacks the human resources for designing mechanisms for disclosing information. These factors have been prominent in Angola. Corruption is widespread. Lack of external press (oil companies comply to Angolan regulation on keeping taxes secret. But: The war is now over and Angola is receiving support for improving management in the Ministry of Finance. We also see some improvement in transparency during recently tenders of oil concessions.
Protect human rights	Citizens lack proper information about the use of public funds. Human right issues are prevalent in the oil and diamond areas. Saying that, it is difficult to reveal what the problems are, how comprehensive they are

	and what the government is doing to do about them – for instance, to what extent it complies with the rule requiring the transfer of part of the taxes from oil and diamonds to the areas where the extractive income has been generated.
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5.5 How transparent is Angola's budget process?

The *International Budget Project (IBP)*³⁶ is a Washington-based NGO which works with organisations that focus on the impact of the budget on poor and low-income people in developing countries or new democracies. The overarching aim of its project is to make budget systems more responsive to the needs of society and, accordingly, to make these systems more transparent and accountable to the public.

In October 2006 the IBP published a report on one of its projects called the Open Budget Project, in which, using criteria covering 122 different specific questions, it ranked 59 countries according to the openness of their budget processes. The results are intended to provide citizens, legislators, and civil society advocates with the comprehensive and practical information needed to gauge a government's commitment to budget transparency and accountability.

The ranking exercise was implemented by local researchers or research teams in each of the 59 countries and then peer reviewed by one or more reviewers. A final control of the comparability of the answers was done by the IBP headquarters. All questions, rankings instructions and peer review comments are available at the IBP website.

Box 13

IBP on budget transparency in Angola

'Angola scores 4 percent out of a possible 100 percent on the Open Budget Index 2006. The Index evaluates the quantity of information provided to citizens in the seven key budget documents that all governments should make public during the course of the budget year. Angola's performance indicates that the government provides citizens with scant or no information on the central government's budget and financial activities and that there is much room for improvement.

The executive's budget proposal is one of the most important documents released during the budget year. Angola's proposal provides no information to the public, scoring 0 percent out of a possible 100 percent of the information needed to present the public with a comprehensive picture of the government's financial activity. Angola does not make its executive's budget proposal public prior to its adoption by the legislature.

Governments should report to citizens regularly during the budget year on their spending, revenue collection and borrowing with in-year reports. Angola does not produce in-year reports or a comprehensive mid-year review; publishing these two documents allow for public accountability. These documents provide the public with updates of the execution of the budget to date and what can be expected for the rest of the budget year. A year-end report by the executive is released, but it provides scant information needed to facilitate comparisons between enacted levels and actual outcomes. Angola does not produce an audit report and does not provide any information on whether the audit report's recommendations are successfully implemented.

Citizens require both access to information, and opportunities during the budget's consideration to use that information, to ensure their informed participation in budget debates. Angola's score on the Open Budget Index suggests that the public's access to information has to be improved. The researchers also found that opportunities for citizen participation could be increased. For example, the legislature does not hold public hearings on the budget in which the public can participate.'

Citation: International Budget Project (IBP), Open Budget exercise 2006

³⁶ www.internationalbudget.org

Angola unfortunately came out as perhaps the country that had the least transparent budget process of all. In Box 13 above, the summary assessment is quoted *in extenso*. With a score of 4, Angola ranked among the group of countries which score lowest on the index. The only country with a lower score was Vietnam with a score of 2. Angola was also one among the six countries (Angola, Burkina Faso, Chad, Egypt, Mongolia and Vietnam) which keep their budget secret until after it is adopted by the legislature – effectively barring any public participation in the budget’s consideration.

Comparing Angola with other African countries, as in table 5 below, also tends to show the country as the ‘odd man out’ although in a slightly more nuanced way.

Table 5: Comparison of Open Budget Exercise for some African countries

	Average	Botswana	Kenya	Malawi	Namibia	SA	Uganda	Zambia	Angola
Executive Budget Documents									
Budget year and beyond	65	67	77	67	92	100	72	59	0
Prior year and before	63	94	83	39	78	100	87	26	0
Comprehensiveness	40	92	55	50	33	49	19	21	0
<i>Category average</i>	56	84	72	52	68	83	59	35	0
Monitoring and Evaluation Reports									
In-year monitoring reports	45	0	67	0	23	95	38	26	0
End-of-year evaluation reports	43	83	61	11	6	69	58	36	23
<i>Category average</i>	44	42	64	6	14	82	48	31	12
Encouraging Public and Legislative Involvement									
Highlight policy / performance goals	31	25	46	46	31	72	51	15	3
Involvement of legislature	49	62	49	33	49	82	41	31	21
Public discourse & understanding	38	21	44	19	19	76	71	10	13
<i>Category average</i>	40	36	46	33	33	77	54	19	12

Note: The table is based on team calculations of Angola’s score. Other country results are taken from an earlier 36-country version of the Open Budget Index which was presented in a way more amenable to comparison at this level of aggregation.

The ‘0’ score for all categories that deal with transparency in terms of budget documents drives home the poor performance outlined in previous sections of this report. Under ‘monitoring and evaluation’ Angola in fact does not take the bottom position, which is left to Malawi with Namibia not faring much better. The main factor moving Angola a bit up would be the recent year-end reporting, which is given a better rating than both Malawi and Namibia.

Angola keeps above the zero rating also when it comes to the degree to which public and legislative improvement is encouraged, but it ranks far below all the other countries. The worst performing sub-area is the degree to which the government highlights policy and performance

goals. Here, the lack of clear sectoral policies and a proper participatory planning system clearly has contributed to the low score. The involvement of the legislature, as pointed out above, is both restricted by unsuitable institutional frameworks and capacity problems. Public discourse is still limited both because a lack of invitation to discussion and linked to the authoritarian and hierarchical culture. There is a lot of room for improvement in these sub-areas.

As argued elsewhere the budget system is a most intricate and multifarious system with many interlinked parts and aspects based on historical and cultural features of the society it applies to. The indicators are only indicators weighted together in unsophisticated ways and should not be taken as authoritative statements that something is wrong and must be changed. Indeed one may argue, for example, that in a country like Angola there is no chance or no need for extensive debates and consultations at the beginning of the budget process. Low or high indicators do not necessarily tell us how and where to implement improvement measures.

It is clear, however, that there is a strong concurrence between our interpretation of the indicators in the table and the analysis in the chapters above. Whereas there is an urgent need for improvement in many aspects of the process, the most important of them deal with a transparency of the policies which the budget is set up to realise and transparency about the results achieved. Since a national plan based on consultation and participation is not in existence, there is a need for much broader policy debates both in the Parliament and on public platforms about what each year's budget is meant to achieve so that targets can be stated clearly. Without clear and transparent targets it is not possible to judge performance. The messages that (a) there is a need to have the budget proposal publicly debated and a pre-budget paper prepared, and (b) that comparisons between enacted levels and actual outcomes are not made and audit reports not prepared, are serious and can be acted upon.

6. Civil Society Roles in the Budget Process

Public budgeting is a complex process that can sometimes be arcane, closed to the public and understood only by experts. Ideally, however, the process should incorporate citizen insight, participation and control in a way that can enhance transparency, accountability and participatory democracy.

Civil society has a very important role to play, in particular in situations where participation through representative, elected democracy is deficient. ‘Participatory budgeting’ or ‘applied budget work’ includes mechanisms that can directly involve citizens in defining needs, in decision-making about the allocation of public resources, and in monitoring the collection and use of public funds. Participatory budgeting therefore includes elements of supervision of public revenue and spending. In the area of taxes and tax collection it may serve as a check on the fairness of the collection system. For public expenditure, various techniques may be used to check for mismanagement, waste and leakages.

Applied budget work for civil society involves several related activities, ranging from training in budget literacy skills, budget analysis, civic action and advocacy. This involves by necessity the important element of access to information. Public participation in decision-making and control of public budgets requires access to timely and accurate information, not only on the budget itself but also on the budget process as such.

The core strategy of applied budget work is to use budget research to generate information that can be used to advocate for change. Although the budget is only one aspect of government decision-making, it is an especially important one, and citizen participation in public budget making is an issue of transparency as well as accountability. In the broadest sense it is a deeply political issue of democratisation.

Ultimately, the goal of civil society budget work is to lift out, from the pages and pages of often undecipherable figures, the real stories behind the numbers. When done well, citizens’ budget efforts strip away the complexity to reveal the basic value choices buried underneath... Making these choices clearer opens up new possibilities for citizen involvement in those decisions (Shultz 2002:22).

This section outlines a number of ideas about how civil society may in various ways be active in the different phases of the budget process given the state of the Angolan system. We also briefly review the present and potential activities of Angolan civil service organisations in budget work.

6.1 The budget preparation process

At the central level, civil society organisations have attempted to strengthen the budget process, transparency and accountability in several ways. Discipline, equity and efficiency have, for instance, been promoted through PEM processes (public expenditure management), which is the approach strongly advocated by the IMF and World Bank.³⁷ The World Bank and IMF produce reviews such as *Public Expenditure Reviews* (PER), *Country Procurement Assessment Report* (CPAR), *Report on the Observance of Standards and Codes* (ROSC), and *Country Financial*

³⁷ See the World Bank paper by Schick 1998. This approach, developed by the World Bank Institute, is mainly about public administrative reform, in terms of behavioural rules and norms for allocating and controlling public expenditure. The three basic themes are aggregate fiscal discipline, the allocation of public resources in accord with strategic priorities, and the promotion of efficient provision of services. It is thus less focused on civil society input to the process. See also the *Governance and Social Development Resource Centre* (GRC) for more material on PEM and other public financial management and accountability issues (www.gsdr.org)

Accountability Assessment (CFAA). A slightly different approach outside the World Bank is the *Public Expenditure and Financial Accountability* (PEFA) review, which attempts to strengthen recipient and donor ability to assess the condition of country public expenditure, procurement and financial accountability systems, and to develop a practical sequence of reform and capacity-building actions. Angola however appears to be relatively immune to pressures from outside.

Furthermore, accountability and transparency in the budget process include issues such as a legal framework that clearly defines the institutional roles and responsibilities of the various agencies (who needs to do what and when); the totality of the government's fiscal operations (there should be no off-budget revenue or expenditure); accurate and timely information and projections; and responsiveness to changing conditions. These are all important principles for civil society to work towards.

In the process of making state budget priorities, organisations can exercise a push for the prioritisation of their preferred sectors and expenditures through the political parties, the members of parliament, the media, and through the ministries. Lobbying and arguments can sometimes make a difference, in particular at the formulation stage of the budget. Important, therefore, pre-budget conferences, in which civil society organisations can collectively make an input to the government prior to the formulation of the budget by the executive branch and in particular prior to the budget debate and final approval by the parliament.

Box 14 **Pre-budget conferences**

In a number of countries, various forms of pre-budget seminars and conferences have been held with a number of stakeholders, at various levels. In many countries, the political parties usually hold annual pre-budget seminars for their members and the media, to criticise or to defend the coming budget. In Pakistan, there have been regular pre-budget conferences at the provincial level involving businesses, CSOs and regional authorities. In India and many other countries private business schools, business associations and other institutions arrange pre- and post-budget seminars for students, academics, members and stakeholders, mainly on the budget's impact on them. Civil society groupings like the Poverty Reduction Forum (PRF) in Zimbabwe and the IDASA Women's Budget Initiative in South Africa have also held national pre-budget seminars, bringing together NGOs and civil society groups, academics, the private sector, donors and government in an attempt to influence the formulation of the national budget in a direction more favourable to the poor and to women.

At the level of the parliament, involving CSOs as well as the private sector to make recommendations and priorities for the state budget as such is a more atypical venture. Although the present situation in Zimbabwe does not encourage best practice stories from there, the country has for some time had Pre-Budget Seminars which have been arranged by the Parliament. The annual event is held before the presentation of the national budget. These seminars have allowed parliamentarians to share views with government, business and labour, and have contributed to the fulfilment of the parliamentarians' representational role. Participants have been the Minister of Finance, the Speaker of the House and other MPs, academics, representatives of Zimbabwean and foreign CSOs and NGOs (including UNDP). Topics discussed have included the taxes and revenues, the agricultural sector, HIV/AIDS and the health delivery system, as well as overarching issues like the strengths and shortcomings of the reformed budget process and the parliament's role in this.

6.2 Public revenue and taxation

On the public revenue and taxation side, there are taxpayer organisations in many countries, both for individual and corporate taxpayers. These are often efficient lobbyists, being able to exert influence on both tax levels and taxation principles and procedures.

Furthermore, civil society organisations exercise some pressure on the government by repeatedly asking for information, figures and analyses, by assessing the accuracy of information and by making inquiries about discrepancies. Some organisations have developed the skills to compile, compare, evaluate, interpret (simplify) and disseminate information on fiscal revenues on a continuing basis.

CSOs have also wielded some pressure on governments to sign international initiatives on income transparency and budget principles, and they have been asking foreign companies operating in their country to sign up to transparency principles. Organisations have also linked up with international organisations in order to be efficient, both for inspiration and technical skills and in order to increase the necessary pressure for government transparency. In this way, civil society organisations have assisted citizens to access this information, and have promoted transparency and accountability in the country's tax administration and revenue management.

This kind of initiative is most relevant in resource-rich countries, but the lessons are also applicable to others. Two of the best-known initiatives of this sort are the *Publish What You Pay* (PWYP) campaign and the *Extractive Industries Transparency Initiative* (EITI). The first is an international NGO initiative to exert pressure on international companies to publish what they pay in taxes, bonuses, fees etc. to the governments of certain mineral rich countries. The second is an initiative supported by international partners to persuade resource-rich developing countries to spend their revenues in a way that can contribute to sustainable development and poverty reduction.³⁸

6.3 Public expenditure

As exemplified in section 4.4 above, weak or non-existent controls on government expenditure may lead to losses of huge sums in corrupt practices, embezzlement and squander. Citizens can and should, therefore, work through civil society organisations to monitor and assure the proper use of the money.

The principles are relatively straightforward. It is about assets declarations for public officials, to check whether illegal or improper enrichment has taken place (abuse of position). It is about expenditure tracking, to check whether funds allocated are actually being used for the purposes stated (or mismanaged, embezzled or squandered). And it is about procurement, to check that goods and services ordered and paid for by public agencies are actually delivered.

In some countries, the private assets, liabilities and incomes of public officials and politicians are monitored, to ensure the public that this wealth has been legitimately acquired (and not by abusing position and influence). This has become a popular anti-corruption tool, and implemented as a part of the anti-corruption strategy of quite a number of other countries. Some anti-corruption agency or audit body of the state usually does this, but official monitoring is noticeably inadequate in highly corrupt countries, and civil society activism and media coverage has sometimes been added with success.

For instance, an NGO in the Philippines took pictures of the cars and houses of regime dignitaries and published the pictures on the internet. In Uganda, the *Inspectorate General of Government* (IGG) is mandated to enforce the *Leadership Code of Conduct*, which includes the provision that all senior political and administrative leaders submit a written declaration to the IGG of their income, assets and liabilities as well as those of their spouses, children or dependants. In the current political situation in Uganda, however, the assets declarations and 'discrepancies' of presidential appointees are not being checked by the IGG. Some investigative journalists and CSOs

³⁸ See the international *Publish What You Pay* (www.publishwhatyoupay.org/english) or the Norwegian *PWYP* homepage (www.publishwhatyoupay.no/component/option.com_frontpage/Itemid,1) for background, objectives, toolkits, benchmarks, reports and news on the campaign. See also *Revenue Watch* (www.revenuewatch.org) for country reports and literature. See also the *Extractive Industries Transparency Initiative* (EITI) homepage (<http://eitidev.forumone.com>) for more information on this donor-supported initiative.

have therefore attempted to check the declarations and to publish discrepancies. This has given a new momentum to the IGG's efforts.

Expenditure tracking has been developed as a tool to monitor the use of public funds, sometimes with CSO assistance. *Public Expenditure Tracking Surveys* (PETS) have emerged as a popular tool for identifying problems with the flow of resources between different levels of the public administration and frontline service providers, and can be a useful tool for anti-corruption and civil society oversight and control of public expenditure. The key question that a PETS sets out to answer is: do public funds and material resources end up where they are supposed to? If they do not, PETS will go further and ask: why and how are funds diverted?

The first question is referred to as the diagnostic part of PETS. This part consists in identifying the actual flows of public funds in a programme or a sector and establishes to what extent public funds and other resources reach the service providers, that is, the schools, teachers, health facilities and health staff. A discrepancy between the amount of funds disbursed and the amount of funds received is referred to as leakage, not necessarily indicating that funds may be embezzled, they could as well be diverted to other areas of expenditure.

The second question is referred to as the analytical part of PETS, where the aim is to explain why leakage is occurring. Why is there more leakage in some districts than others? Why do some schools receive more of their entitlements than other schools? By studying variation in characteristics between different parts of the administrative structures and different service providers, PETS may contribute with knowledge about how to reduce leakage and improve the performance of the system. Local involvement at the frontline service delivery posts may result in better financial management at this level than at district and regional offices.

Almost all existing PETS track resource flows either in the education sector, in the health sector, or both. Among the most successful examples of PETS is expenditure tracking in the education sector in Uganda, through which leakages have been reduced from 87 to 18 % over five years.³⁹

This success is largely due to the strong transparency component of PETS, as well a strong civil society engagement in the process. For instance, the Uganda Debt Network did help to monitor and correct leakages, and to establish a system to involve the community and civil society organisations in tracking funds. Besides, the amounts that each school is supposed to receive are posted on a signboard or tree in the village. The Uganda Debt Network then follows up with the Parent Teachers Association in each school to ascertain whether it has received the correct amount. Finally, they compare this information to the official Central Bank releases of expenditures at the national level, and report their findings to the Ministry of Finance.⁴⁰

Likewise with procurement, in a corrupt environment public control mechanisms are insufficient (someone must guard the guardians, too) and civil society engagement in supervision and control becomes necessary. For instance, in the Philippines civil society groups were involved in drafting a new law on public procurement, and NGOs and the *Catholic Church* also formed an organisation called *Procurement Watch Inc.* (PWI). The PWI conducted a strategic and well-planned awareness campaign, and is also an officially recognised partner of various government agencies such as the Ombudsman and an invited observer to government procurement processes.⁴¹

6.4 Accounting and auditing

There are three types of audit: financial or attest audits (checking the accuracy and fairness of accounting statements), compliance audits (checking for proper authorisation and approval of

³⁹ See the *U4 Anti-Corruption Resource Centre* web pages on *Public Expenditure Tracking* (PETS) for more information and examples (www.u4.no/themes/pets/main.cfm)

⁴⁰ See *The International Budget Project*: 'What role can civil society and parliament play in strengthening the external auditing function?' (www.internationalbudget.org/auditorgeneral.htm)

⁴¹ See *Procurement Watch Inc.* (www.procurementwatch.org.ph)

spending, and conformity with laws and regulations), and performance or value-for-money audits (checking for operational efficiency as well as the value of the results of spending). All types of audit system perform all forms of audits, but the *cour de comptes* system in Angola is usually more preoccupied with compliance auditing and less concerned with performance criteria. Concentration on sound internal controls (which should help to reduce corruption) and accurate financial reporting may be the most fruitful approach in the present situation.

Auditors, both *cour de comptes* and auditor-generals, face substantial problems in many developing countries. They are rarely effective oversight institutions. The problems facing them include political problems, such as inadequate independence and interference from the executive, and shortages of resources and/or skilled personnel. Findings and recommendations are often not implemented by the executive and do not go further than parliamentary debate or 'frying some small fish'.

Civil society organisations have a potentially important role to play in making these institutions effective through political influence as well as technical expertise but have generally been little involved in the accounting and auditing stages of the budget process.

There are, however, some options and some lessons from civil society involvement that apply also in the accounting and auditing process. First of all, it is a matter of awareness since neither the public nor CSOs are much aware of the role of the auditors and their potential impact on peoples' lives. The auditors can complement this function by developing outreach campaigns or contracting budget groups and the media to assist. Budget groups and the media can build expertise in translating complex materials into timely, accessible documents and in designing and delivering training courses specifically targeted at non-technical audiences.

Furthermore, CSOs can suggest sites for audits. This is the most common way for civil society to open a dialogue with the auditors: to create a mechanism for civil society to alert the auditors to potential problems and request that an audit be performed. Such requests can enable the auditors to benefit from the contact that civil society organisations have with citizens throughout the country.

One good example of this is the Ugandan *Justice and Peace Commission* of the Catholic Church, which approached the *Uganda Debt Network*, a coalition of civil society organisations, since they were concerned about the government's repeated awarding of contracts to a private firm that had been producing poor quality work. Following complaints and investigations, a skewed tendering process was identified and exposed in the media, and as a result, the disbursement of funds to the district was suspended until evidence of remedial action was provided.⁴²

Civil society organisations can also ensure a proper follow-up to various audit reports, like the *Public Sector Accountability Monitor* (PSAM) in South Africa. They work closely with the legislature and track the executive branch's response to allegations of misconduct, as revealed in the Auditor General's report.⁴³ The success of this initiative demonstrates how civil society can complement scrutiny by parliament.

Civil society organisations can also measure programme performance as a contribution to the auditor's value-for-money and performance auditing. This is a particularly cost-effective measure because civil society organisations are usually present at the local and village level. Such initiatives have for instance improved the availability of medicines and syringes in hospitals and the prompt payment of teachers. Civil society organisations can also be involved in corruption monitoring by, for instance, establishing '*Citizen Watchdog Committees*' to monitor high-impact projects.

In sum, civil society (and the media) can:

⁴² See *The International Budget Project*: 'What role can civil society and parliament play in strengthening the external auditing function?' (www.internationalbudget.org/auditorgeneral.htm). See also *The Uganda Debt Network* webpage (www.udn.or.ug)

⁴³ See the *Public Sector Accountability Monitor* (PSAM) webpage at www.psam.ru.ac.za

- Help build citizen literacy on the auditors' function and on issues of financial management and oversight
- Raise issues for the auditors to investigate based on their close contact with citizens
- Conduct initial investigations into financial mismanagement or further investigate the issues that arise from an audit report
- Help monitor the executive's follow-up to an audit report and parliamentary hearings
- Place pressure on the executive to take corrective action
- Directly assist the auditors' work through its involvement in tracking expenditure, assisting with local auditing and measuring programme performance.

6.5 Building capacity for budget work

It has been argued that a well-functioning participatory budgeting process can improve government efficiency by focusing on waste and mismanagement; it can build greater trust between citizens and government as participation takes effect and public services improve; and it can support collective decision-making capacities. Participatory budgeting can also generate more tax revenues, as taxpayers become more confident that their tax money is being properly spent. Participatory budgeting can even expand a culture of transparent and accountable government. Box 15 below summarises some conclusions from six case studies on the effect of budget work.

Box 15 Effects of budget work

Budget advocacy had influenced decisions to introduce new programmes and leveraged additional financial resources for programmes that had already received legislative approval. Additional allocations tended to be in areas that directly contributed to social justice and equity outcomes

However great in dollar terms, the additional resources generated from successful advocacy initiatives were relatively small as a proportion of overall government spending

Systematic tracking of budget commitments and implementation of expenditure outcomes resulted in substantial savings through improved efficiency and reduced corruption, ensuring that expenditure allocations were implemented fully and used efficiently

The benefits of budget analysis and tracking extended beyond the financial by improving accountability and enhancing the answerability of the politicians and the executive in relation to policy decisions and budget commitments.

Budget groups assisted legislators in becoming more conversant with budgets in several ways. They learned more about the technical dimensions of the budget process from these activities than from information provided from political parties and government. More informed legislators tended to play a more active role in budget debates, scrutiny and policies review, and hold government decision-makers to account.

Improved budget transparency is a major objective of several budget groups and the research evidence confirms that this is an area of significant and positive impact. Budget groups provided an authoritative source of information on budget issues and in several cases were the only source of information and expertise outside government.

Improving budget transparency was closely linked to anti-corruption efforts. Several budget groups had managed to identify cases where public resources have been misused by placing government budget data in the public domain.

Budget groups were successful in contributing to deepening legislative participation in budget debates and had facilitated the involvement of other civil society organisations in budget deliberations with government, but this has generally not extended to widening the scope for involvement of ordinary citizens and there are only a few instances where this has occurred.

The structure of the budget process, especially in federal and presidential systems, was often not amenable to broader participation. In such contexts, specialist intermediaries with the appropriate technical skills and access to decision makers, as well as linkages to a broader array of groups in civil society, may be in a better position to exercise influence.

Source: Robinson, 2006:288

If we take a look at the question of how citizens and civil society organisations can exert influence on the more specific processes of public budgeting, we must divide the budgeting process into four processes. The first is the process of deciding upon and collecting taxes, i.e. all public revenue, income and tax administration, from taxes, duties, levies, fines, customs, loans and grants to public income from state and parastatal enterprises. The second process is the formal budget-making process, from the formulation stage when the budget plan is put together by the executive branch of government to the enactment stage, when the budget plan is debated, possibly altered, and finally approved by the legislative branch. The third process is the execution stage, when the various line ministries and government agencies carry out the policies and execute the expenses as stipulated in budget. The fourth and final process is the auditing and assessment stage, when the actual expenditures of the budget are accounted for and assessed for proper use and effectiveness.

At all four stages, there are specific tasks that are essential for civil society organisations to accomplish. In general, citizens and civil society organisations must:

- Develop literacy, detailed knowledge and technical insight in public finance management, including revenue collection, fiscal regimes, tax administration, budget processes, and budget execution and spending principles
- Develop relevant organisational structures (NGOs, CSOs) to address public finance issues, including administrative and managerial efficiency and skilled personnel
- Develop the necessary independence and integrity, including a secure financial basis, sound management, internal democracy and transparency of the organisations. This should ideally include an informed and engaged membership base
- Develop the ability to collect, compare, interpret, analyse, evaluate and present (in a simplified manner) financial data and information on public income, budgets and expenditure. The outputs of civil society's applied budget work needs to be accessible and useful to citizens so as to strengthen public participation
- Develop the ability to exert qualified pressure on government agencies, ministries, the parliament, political parties and audit and control institutions throughout the budget cycle
- Make sound and well-timed outputs in order to impact on the government's policy decisions
- Cooperate and make strategic alliances, with other NGOs and civil society organisations, and with international organisations and the media.

Box 16

Local participatory budgeting in Latin America

Participatory budgeting has been developed as a tool for citizen participation in public finance allocations in developing countries for many years already, and the principles are relatively well-known. In Brazil, for instance, participatory budgeting started at the local level more than 15 years ago, and has expanded rapidly throughout the country and beyond. Today, various forms of participatory budgeting at the local level are being practised in more than 250 cities around the world, mostly in Latin America.

At the state level, civil society is also increasingly involved in budgeting throughout the developing world. In South Africa, for instance, various organisations have built expertise on, among other things, the budget processes, women's and children's budget, disabled people's budget, and health and social development budgets.

See for more information *Partners of the Americas* (2006): Involving Citizens in Public Budgets. Page 6 (www.partners.net/partners/psrtners_jan-mar06A4_EN.asp?SnID=1064610360). See also the *International Budget Project* homepage (www.internationalbudget.org) and *Institute for Democracy in South Africa* (IDASA; www.idasa.org.za) and in particular their Budget Information Service (BIS). A lusophone web page is the one of *Forum Brasil de Orcamento* at www.forumfbo.org.br/cgi/cgilua.exe/sys/start.htm?sid=52

Box 17 Africa Budget Project (ABP)

The ABP works to build capacity in civil society organisations and legislatures in African countries so that they can participate effectively in budget processes. The ABP is a unit within the Budget Information Service of the Institute for Democracy (Idasa), which is based in Cape Town, South Africa. It is also a partner of the International Budget Project, based in Washington, D.C. Idasa is committed to furthering the demand for applied budget work and nurturing strong budget organisations on the African continent. The ABP:

- Undertakes training and joint research projects to help organisations acquire the technical knowledge and skills needed to access budget processes;
- Provides research instruments and analysis frameworks that groups can apply;
- Provides technical assistance and one-on-one support; and
- Works with international organisations to improve the transparency of budgets and build the credibility of civil society organisations in budget debates.

For more information, see the *Institute for Democracy in South Africa* (Idasa) homepage (www.idasa.org.za) and the *International Budget Project* (IBP) homepage (www.internationalbudget.org). Of particular interest is the IBP *Civil Society Budget Initiative* (CSBI) (www.internationalbudget.org/CSBI.htm). For an excellent introduction to applied budget work, see the IBP '*Guide to Budget Work for NGOs*', which offers a systematic overview of the different aspects and stages of applied budget work, with an emphasis on the activities and approaches a non-governmental organisation might want to undertake in its initial years of such work (www.internationalbudget.org/resources/guide/index.htm). See also report by Jim Shultz (2005): '*Follow the Money. A Guide to Monitoring Budgets and Oil and Gas Revenues*', which provides practical information on how citizens of resource-rich countries can become effective monitors of government earnings and expenditures. This report is highly relevant for Angola.

6.6 Potential for civil society budget work in Angola

The situation of civil society in Angola with regard to budget work has been extensively analysed by Amundsen and Abreu (2006). They find that organisations with a core mandate for promoting fiscal transparency and a sound budget process in a more narrow sense are very few and very weak. With the possible exception of some new and small organisations, only *Jubileu 2000* and to a lesser extent the *Associação Fiscal* have a clear mandate in this area.⁴⁴

The *Coligação Pela Reconciliação, Transparência e Cidadania* (CRTC) is a group of organizations and individualities of the civil society started with the aim of consolidating peace and to participate actively in the process of reconciliation, reconstruction and development of the country, human values and public morality.

The *Jubileu 2000* is a network composed of other organisations which from specific debt relief mandate has been reorienting itself towards good public finance management. Its EITI initiative is particularly relevant. The *Associação Fiscal* is basically an interest organisation for private companies working in the audit sector.

However, a large number of the civil society organisations in Angola will have a natural interest in one or another aspect of budget preparation, execution or audit. National and international NGOs such as *ADRA* and *DW* have programmes which aim at empowering the marginalised rural population. *Rede Eleitoral* is essential to secure basic freedoms at the next

⁴⁴ This entire section builds extensively on Amundsen & Abreu 2006.

presidential and legislative elections. Human rights and development organisations like *Mãos Livres*, *AJPD* and *ADPCI* will have similar interests.

Among international NGOs such as *Care International*, *Open Society*, *Oxfam*, *Trocaire*, *IBIS*, *Save the Children*, *Médecins sans Frontières* and *ACORD*, some are monitoring Angola from a distance, sometimes with excellent reports on social and political issues. *Human Rights Watch* and *Save the Children UK* are good examples.

Some religious and church organisations have already shown that they take a serious interest in budgeting and budget transparency. CRS has no doubt taken a prominent position in backing up the 'Episcopal Commission for Justice, Peace and Migrations' under the *Bishops Conference of Angola and São Tomé* in its work to put pressure on Government to subscribe to EITI principles, as well as its role in the *Open Budget Project* and budget analyses by the same organisation (CEAST 2006). This organisation is with little doubt the most important of those focused on budgetary and public finance issues in Angola. They have produced significant results. Perhaps more important than the EITI statement, the Catholic bishops have called for social justice denouncing the extensive poverty in Angola given the huge and increasing resource income. The churches are much more important actors in Angola than the other small organisations without broad membership⁴⁵. Also the protestant churches are starting to move although not as far yet as the catholic ones.

The press in Angola is important, often privately owned, very forthright in its comments and increasingly bringing information on various aspects of the budget process. In a country with high illiteracy, the radio has a great deal of influence. There are five commercial radio stations. The Catholic Church's *Rádio Ecclésia de Angola* is known for openly criticising government policies, highlighting poor socioeconomic conditions, and sensitising people on social and political issues.

Professional organisations and trade unions are also active in budget-related fields. The independent union of professors and high school teachers (*Sindicato dos Professores*, Sinprof) is relatively well organised. The *Ordem dos Avogados* (the Angolan Bar Association) has a human rights component (office), which is training lawyers and law students. The journalists' union (*Sindicato dos Jornalistas Angolanos*, SJA) is also active.

Gender organisations like *Movimento Angolano Mulheres, Paz e Desenvolvimento* (Angolan Movement for Women, Peace and Development), an independent, non-profit, non-governmental organisation, represents a wide range of women from different sectors of Angolan society and may play a role in budget work in the future. Movements aiming to give women and children a place in the budget have become visible during recent years, for example through the *Women's Budget Initiative* in South Africa.

The so-called link organisations have not so far been active in budget work but could play a role in coordinating the diverse angles of budget interest. The committee of international NGOs in Angola (*CONGA*) was created in 1988 as a committee for NGOs working in Angola to meet and discuss issues of common interest. The Forum of Angolan NGOs (*FONGA*) was created as an umbrella organisation for NGOs in 1991 as a reaction to the international dominance and strong government links of *CONGA*.

The Universities have been much less active in budget matters than is the case in other African countries. The old state university (*Universidade Agostinho Neto*, UAN) has not shown much interest until recently, when the faculty of Law agreed with the World Bank to host a public petroleum information centre. The Catholic University (*Universidade Católica de Angola*, UCAN) has a research centre (*Centro de Estudos e Investigação Científica*, CEIC) which is the exception among academic organisations in terms of budget-related work. In addition to its academic and

⁴⁵ The work has attracted international notice. The IBP's website refers to it, pointing out that in addition to seminars with policymakers and other stakeholders the Angolan Catholic Bishops included in their pastoral letter the issue of budget transparency and highlighted the importance of access to information, especially regarding natural resource revenue, in the fight against poverty. The pastoral letter was distributed and read in almost every church throughout the country. This accomplishment demonstrates an effective tactic to reach and educate the general public on budget transparency in an environment where access to information and a free press is limited.

research aims, the explicit objectives of CEIC are to foster informed public debate on public policy issues, including governance and international economic relations. The centre has been quite successful in reaching out to the informed public in Luanda and in contributing to the evolution of a 'culture of openness'. With its focus on human rights and good governance, CEIC is an important player in this field.

A larger number of Angolan NGOs have indicated a willingness to engage in applied budget work, but would need both funding and skills to become effective. A number of international organisations like the IBP and its *Civil Society Budget Initiative*, and closer to home the Africa Budget Project run by *Idasa*, have considerable expertise that may continue to be employed in training workshops for Angolan NGOs. It is notable that *Transparency International* (TI) does not have a national chapter in Angola, which might be a good supplement to, for example *Jubileu 2000*. A broad-based initiative, perhaps supported by international partners, would be desirable.

7. Conclusions

It has been said that a national budget is where ‘politics meets reality’. It is indeed a complicated and manifold meeting place where the system, built on a legal basis and shaped by tradition and history, is presumed to mobilise and distribute the country’s resources to various ends, ideally in line with the desires and wishes of the people.

Whereas an ideal national budget system or process can hardly be said to exist anywhere, and will anyway certainly change with the country’s economy and society, there are now some fairly clearly agreed upon ‘rules of thumb’.

Seen as a technical exercise (see e.g. *Public Expenditure Handbook*, World Bank 1998:15), the preparation and execution of a government budget will have to comply with the interlinked requirements of:

- Aggregate fiscal discipline,
- Allocation of resources in accordance with strategic priorities, and
- Efficient and effective use of resources in the implementation of strategic priorities.

Whereas the degree of compliance with good practice may be possible to establish at levels 1 and 3, level 2 is enormously complex. The term: ‘strategic priorities’ disguise major important political questions and power relations. These often eventually decide the real budget priorities and the execution process.

The last decade of practical policy discourse has increasingly focused on measures to ensure that the budget priorities are in fact those of the nation (Robinson 2006). This has run parallel with an increasing openness of the budget system in most countries and the increasing capacity of civil society to find entry points and participate constructively in budget preparation and oversight. Although a technically appropriate budget is considered important, the emphasis has increasingly come to focus on the process and the results in terms of:

- Participation and involvement of citizens in budget formulation
- Transparency, so that governments can be held accountable for their priorities and for over- and underspending
- Priorities which take into account the basic needs of most of the people and the country’s most pressing development issues.

7.1 Democratic reforms needed

With the democratic deficiencies existing in Angola at present, the proper functioning of the budget process in the country will be constrained. A partial reform of the budget process will have limited impact in the current setting, and broader political reforms are necessary. Among the reforms that would be important in Angola in order to strengthen both vertical and horizontal accountability mechanisms (the electoral channel and the counterbalancing state institutions), are:

- Enforcement of political rights, including the right of assembly, voice and access to information guaranteed and protected in the Angolan Constitution. This is necessary for free and fair elections, the free formation of civil society organisations, NGOs and political associations.
- Party system changes, in terms of a legal framework guaranteeing democratic credentials, funding and operation. A solid party system will be of importance for forming a viable opposition which has an important role in any country.

- Better checks and balances. Excessive presidentialism is blocking the emergence of efficient institutional controls. In particular, the judiciary and the parliament need to be enhanced in their powers of oversight and control (reducing correspondingly the powers of the president); and the special institutions of control need to be strengthened (auditors, comptrollers).

7.2 Institutional improvements and reforms needed

The state institutions involved in the budget process are all rather weak in Angola. There has been some reforms, learning and improvements, in particular in the Ministry of Finance, and to some extent the of *Finance Committee* of the Parliament and the supreme audit institution (the *Tribunal de Contas*), but other institutions are still weak, some are even non-existent.

- The Parliament is not well equipped and has little professional support and only the budget-making experience of two or three real budgets. The budgets proposed by the executive are very seldom opposed by the Parliament, meaning that resources are spent with very little legislative control. There are, however, some indications that the experience and capacity of the Parliament are developing in a positive way. This trend should be encouraged, supported and made use of by civil society.
- The court system is still weak. The Supreme Court is in operation, although only 9 of its 16 judges have actually been appointed. This crippled court is the actual guardian of the Constitution and the final arbiter in constitutional matters, but as such it is absolutely invisible
- The Supreme Audit Institution in Angola, the Court of Accounts (*Tribunal de Contas*) started functioning in 2001. While it has strong legal powers, no audit report has been produced yet. As a relatively new institution, the *Tribunal de Contas* is still building its competence and skills. Furthermore, the findings and recommendations of the tribunal are unknown to the public, not discussed in parliamentary debates, and often not implemented by the executive. Being a Tribunal its judges make formal judgements on for example the *Conta Geral*. In cases of severe misuse of public funds/office these are to be followed up by the Attorney General through criminal proceeding. The executive is certainly to follow up more general “system improvement” recommendations in the luso-legal system
- There is no Anti-Corruption Commission, even though this has been mandated by the Parliament. The 1996 law establishing an anti-corruption commission in Angola (*Alta Autoridade contra a Corrupção*) has not been put into practice.
- The *National Statistical Institute* (INE) is a weak institution. Whereas it should lead a national statistical system, the most basic elements of national statistics are inadequate as reliable information on which budget allocations may be based
- Local administration has some legal budget power *vis-à-vis* the central administration, but local and regional administrations have severe deficiencies in legitimacy as well as in professional capacity to analyse and shape public service delivery. Recent initiatives to make municipalities into budget units and to improve the professional capacity indicate that some positive changes are likely to happen over time, providing increased space for interaction between local governments and local CSOs.
- On the positive side, experiments with a new style of municipal administration are under way in some provinces and a new local government law (Law-Decree 02/07) was introduced early in 2007.

7.3 Budget process weaknesses

There are several reasons for being concerned about Angola’s budget system at the present time. For various reasons, Angola has long had a public sector which controls a very large share of its GDP. The sector therefore has the potential for achieving a considerable impact on the economic

well-being of its citizens. In addition, it is expected that substantial oil revenues will flow into the *fiscus* over the next decade.

Looking further ahead, Angolan's fundamental economic structure will be based on natural resource exports. Oil is the present source of wealth but other rich natural resources including diamonds, hydroelectricity, fisheries, and agricultural and forest potential have far from reached their potential. It is well known that the 'lottery winner' syndrome endangers macroeconomic management and fosters public sector inefficiency. Economic management in economies with this syndrome is particularly difficult. Only a few such countries in Africa have succeeded in dealing with the 'paradox of plenty'. When they have succeeded, a key factor of success appears to be institutional strengths and proper budget processes that produce fiscal discipline and good distributive effects.

The Angolan budget system has been shaped by a history of colonial rule, civil war and major economic fluctuation. The constitutional set-up of Angola, based on its colonial and single-party communist origins, implies budget institutions and processes that are highly centralised. The top-down centralised command system that existed during colonial times was, if anything, strengthened by war and central planning. The long and turbulent reform period has had a devastating effect on the credibility of planning and budgeting, and it appears that the after-effects still influence the attitude of people, both inside and outside the system.

Furthermore, budget execution in Angola suffers from the existence of two budget systems and considerable weaknesses in financial management, procurement, internal audit and reporting. The problems are particularly serious at the provincial and local level. Although the technical aspects of public accounting have improved with the introduction of the SIGFE system, and the link between the banking system and the Ministry of Finance allows efficient checking of financial flows, the weak point lies in the reconciliation between the commitments and payments of the BUs and the banking data. If the present weaknesses in the accounting done at BUs are not addressed, the present loopholes in the system will encourage irregular practices. Although rules for physical assets exist as well as an institution to do the job, a public asset register can hardly be said to exist. This opens another loophole that makes it possible for public assets to 'walk' without being discovered. However an increasing number of transactions begin to be reconciled through the SIGFE system.

Two of our main conclusions on the budget process in Angola are related to the lack of transparency. First the executive's budget proposal is not publicly available for debate before it has been passed by the National Assembly and no pre-budget paper is prepared. This effectively blocks the possibility for a debate on budget issues and priorities between citizens, civil society organisations and parliamentarians. Secondly, comparisons between budgeted expenditure and actual outcomes are not done in a timely manner, and external audit reports are not prepared. This makes it very difficult for the citizens and the parliamentarians to hold the executive accountable for the use of the public resources.

If even more dramatic misuse of funds than at present is to be avoided, it is important to strengthen the budget processes at all levels: preparation, approval, execution and verification.

At the budget preparation stage, this includes addressing the following problem areas:

- The policy basis for the budget tends to be unclear. Angola, like many other countries in Africa, does not have a planning system which attempts to create a national consensus and an overall or sectoral plan which underlies the allocation decisions typically taken in the early stages of the budget process. The biannual budget does not fill this role.
- The budget preparation process takes place mostly inside the executive, in particular MINFIN, and is shrouded in secrecy. This has led to a virtual closing off of information to civil society organisations, which have not themselves so far shown much interest in budgetary matters. However, there has been a tendency towards increased media coverage over the last two years.

- Angola does not issue advance release date calendars for fiscal information and a statement of fiscal policy objectives, which is a requirement of the IMF 'Codes'. For 2005 and 2006, manuals for the elaboration of the budget proposal, containing a timetable for budget preparation, were posted on the Ministry of Finance website (Ministerio das Finanças 2006) but were not generally accessible and contained no fiscal policy objectives.
- In Angola, budget preparation has an appropriate legal framework but it is not adhered to, as much of the process takes place within the executive and receives little guidance from plans and policies. The budget process and the key principles are spelt out in the Organic Budget Law. The law spells out clearly the principles for budget-making, which are quite in line with internationally accepted principles. The problems appear to lie in the extent to which the legal framework is not followed.
- Taxation and revenue management have suffered from poor forecasting, but a financial model which is hoped to improve the accuracy and reliability of oil revenue forecasts is presently under construction
- Key roles in the preparation (as well as execution) of recurrent and investment budgets are divided between two ministries (Finance and Planning), and subject to different processes. Whereas this is a system in use in some African countries, the separation appears to be stronger than in other countries, and there appears to be less cooperation between the two sides.

At the budget approval stage, this includes addressing the following problem areas:

- Angola, along with most African countries,⁴⁶ does not prepare a pre-budget statement in line with the OECD's '*Best Practices for Budget Transparency*' (OECD 2001). Neither has Angola taken up the practice of holding a pre-budget conference, which occurs in several African countries.
- Angola's formal budget calendar places budget instructions from MINFIN at the beginning of August, which contributes to a compression of the budget preparation phase and leaves little time for analysis and discussion.

At the budget execution state, this includes addressing the following problem areas:

- The central state administration is in general weak and has little experience in proper budgeting processes. Capacity is low and disciplinary problems exist.
- The procurement system is a particular case in point. There are weaknesses in the rules for procurement, which open the door to serious procurement fraud and give rise to stories of procurement corruption, which flourishes in Angola. There is little doubt that many of the stories are true. Progress in this area has, however, been slow.
- Angola has in fact two parallel public finance systems, one conventional PFM system under the Ministry of Finance, and a (mainly) Sonangol-operated unconventional system that finances various types of development expenditure and undertakes external debt operations. The two have insufficient cooperation, communication and institutional linkages, and the existence of the two systems breeds misunderstanding, erodes Ministry of Finance control and spawns rumours about corruption and political patronage. The two should be merged (so only reflected in the state budgets), and quasi-fiscal operations should be phased out.
- Debt management is divided between two different systems that apparently record different data. A coordination committee (consisting of MINFIN and the BNA) has been set up and is supposed to remedy this fault, but it leaves out Sonangol, which does a lot of the loan negotiation and contracting.
- A problem in the management of revenue is that the National Tax Directorate (DNI), for lack of capacity, relies heavily on self-assessment and checks only the big taxpayers. The revenue

⁴⁶ Kenya, Nigeria, South Africa, Uganda and Zambia do prepare pre-budget statements.

collection and transfer of collected revenue to the single account is neither efficient nor transparent.

- The use of cash rationing in the financial management system makes it difficult for budget units (BUs) to adopt efficient plans and procedures in their activities.
- Although the financial flows are controlled and managed by the Ministry of Finance, there are a number of difficulties in allocating finance to the Budget Units and to balancing commitments with the resources actually available.
- Since there is little or no control of commitments made by BUs being in line with the finance available, it is tempting for BUs to over commit and then hold back payment to suppliers. This of course means that suppliers become doubtful about government as a debtor and has led to payment orders being issued before commitments.
- Since verification is also considered weak, the above practice, if it gains ground, will damage orderly budget execution and leave room for corrupt practices.
- Angola receives a fair share from oil export earnings, but the fiscal system is not transparent or EITI compliant, and the non-oil tax system is an obstacle to growth. Revenue from oil exports is the source of about 80 % of total public sector revenue in Angola. This major income gives great potential for development and gives government leverage *vis-à-vis* the IFIs and bilateral partners.
- Although tax regimes are difficult to compare, international comparisons show that Angola's regime is neither the most demanding nor the weakest in the world. It is quite sensitive to swings in the oil price.
- There is a lack of transparency in the oil sector and to other sectors on types of taxation. The Open Budget Project mentions a number of cases where the publication of taxation is less than adequate. Although the country does not allow publication of tax payments by individual oil companies, and has not yet decided to subscribe to EITI principles, there seems to be some movement towards more transparency, for example through the latest audits of Sonangol and more transparency in recent bidding rounds.
- Compared to the oil sector and perhaps diamonds, taxation of other sectors in Angola is relatively low, but the country is still among those countries where the private business corporation tax is highest internationally. The taxation system is also said to be cumbersome and there is a case for overhauling and streamlining it.
- The technical aspects of public accounting appear to have improved with the introduction of the SIGFE system. The link between the banking system and the Ministry of Finance allows efficient checking of financial flows. The weak point lies in the reconciliation between commitments and payments of the BUs and the banking data. If the present weaknesses in the accounting done at BUs are not ironed out, the present loopholes in the system will encourage irregular practices.
- In-year budget adjustment takes place in the BUs through virements (transfer from one budget line to another) or budget revisions. Virements have to be approved by DNO but parliamentary approval is not needed whatever the size of the virement.
- Budget revisions regularly take place at mid-year. The lack of reliable revenue forecasts and the perceived need to spend as you earn have led to upward revisions of expenditure in a fairly erratic fashion, which makes the flow of finance to BUs difficult to anticipate for them and is an obstacle to their activity planning.
- Both in the Angolan government and among the concerned IFIs and bilateral partners there is a belief that further progress in expanding and rolling out SIGFE will take care of the execution and accounting problems. While this is partly correct, it is important to keep in mind that there is an acute capacity problem and that there are grave problems at the local government levels in that the budget preparation, execution and service delivery systems are not properly aligned.
- Comparative international research indicates that budget transparency in Angola is nearly the lowest in the world; increased transparency can contribute to a sound budget process.

- The IBP exercise and this team's analysis concur on important points. The 2006 Open Budget exercise on transparency reports an Angolan score of 4 out of a possible 100 and the conclusion points out that the government provides citizens with scant or no information on the central government's budget and that Angola's executive's budget proposal provides no information to the public. A comparison with other African countries shows that Angola's performance in nearly all sub-areas is the worst.
- Since a real and participatory budget plan is not in existence, there is need for much broader policy debates both in the Parliament and on public platforms about what the budget is meant to achieve so that targets can be stated clearly. Without clear and transparent targets, it is not possible to judge performance.
- The serious problems in local government budgeting and budget execution revolve around capacity problems in the local administration, authoritarian attitudes stemming from a hierarchical bureaucratic / military system, a lack of autonomy, lack of linkages between local and central levels and a budget system that does not answer to the need for sectoral expertise in executing the budget and performing public services.
- Retention of revenue collected at the provincial / municipal level is illegal but appears to infuse a degree of flexibility into the public finance management system. Present experiments where citizens may participate in planning and budgeting for development projects in their own area bear promise.

At the budget audit and verification stage, this includes addressing the following problem areas:

- External audit lays under *Tribunal de Contas* being part of the judiciary, but this has little political autonomy and is susceptible to be 'squeezed' by the Ministry of Finance. The considerable ex ante controls built into the system have been somewhat weakened in Angola, but not replaced with the ex post controls of the Anglophone systems. Angola's system therefore has relatively fewer controls than other similar systems.
- The *Inspecção Nacional de Finanças* (the National Inspectorate of Finance, INF) does not have an audit manual, does not publish an annual report on its activities, and practises historical audit standards with an emphasis on timeliness of reporting and legality of various activities, rather than on ensuring that built-in automatic internal checks and balances are operating as they should.
- Financial reporting to the legislature and the public was undertaken in 2004 and 2005 through financial reports. However, neither timing nor content of the reports complied with prescribed international practices.
- The audit function has problems in terms of legal framework, approach and capacity. Parliament has little power over the audit institutions, and calls for information from the executive are from time to time ignored. The two audit institutions in Angola are the *Inspecção Nacional de Finanças* and *Tribunal de Contas*. The Tribunal has a very strong mandate. Neither of the institutions is, however, operating fully. Both are troubled with capacity problems. The *Inspecção* appears not to be concerned with monitoring and performance (value-for-money audits).
- Although the audit institutions are not answerable to the Parliament, the standing *Economy and Finance Committee* (the 5th committee) does to some extent serve the purpose of a parliamentary accounts committee. Other committees are increasingly making inquiries to relevant ministries, and calling on individual ministers. Notwithstanding their legal obligations, some members of the Government have, however, refused to give detailed information to the committees.

7.4 Weak civil society with some potential

Civil society has historically been weak in Angola, and the political and societal space for civil society is limited. The Angolan authorities have not fully accepted the role of civil society's voice, watchdog and control functions, and the legal framework is restrictive. Most organisations are careful in their approach to and contact with government. There is a tangible fear of backlash, based on previous negative experiences.

We still find that there is considerable scope for civil society budget work in Angola. This is not because of civil society knowledge or activities in the area but rather because of the enormous room for improvement. Transparency, however, meets certain barriers, which means mainly that groups of powerful people are utilising secrecy to their own advantage. Increased transparency may improve the budgeting process by contributing to policy-based budgeting through openness and consensus building in the planning process and pre-budget publications / meetings; by increasing predictability and control by providing information about tax policies and tax collection (oil revenue); by increasing public awareness of and demand for external audit by clarifying and disseminating audit rules and timely audit reports; by improving efficiency in service delivery by letting people know budget allocations concerning their local community; and by preventing corruption in government procurement and reducing the possibilities of rent-seeking activities and increasing the accountability of the government.

Civil society has a role to play in all the phases of the budget cycle, in budget preparation, in execution, accounting and auditing, but few civil society organisations in Angola have a specific focus on budget work, which necessitates capacity building. International experience shows that civil society can have a very important role to play, in particular in situations where participation through representative, elected democracy is deficient. 'Participatory budgeting' or 'applied budget work' includes mechanisms that can directly involve citizens in defining needs, in decision-making about the allocation of public resources, and in monitoring the collection and use of public funds.

However, very few civil society organisations in Angola have a specific focus on budget work. Only a limited number of organisations within the NGO system, the media, professional organisations and trade unions, as well as gender organisations, show an interest in the budget process.

- In budget preparation, at the front end of the process civil society organisations may debate budget reports and policies, for instance in the pre-budget conferences which are now held in a number of countries.
- On the revenue side of the budget, CSOs may comment on tax proposals and promote compliance. They may also promote openness on natural resource revenues by pressing for government compliance with EITI principles.
- On the expenditure side, CSOs may be effective fighters against budget leakages because of corrupt practices, embezzlement and squander, if controls are weak or non-existent. Therefore, citizens can and should, through civil society organisations, monitor and assure the proper use of the money.
- At the accounting and auditing stage CSOs may potentially have an important role to play in effecting institutional change through a political approach as well as technical expertise in order to make these institutions effective. They may also act as whistleblowers and ensure a proper follow-up to various audit reports, like the *Public Sector Accountability Monitor* (PSAM) in South Africa. Considering participatory budgeting, the report enumerates a number of skills that citizens and civil society will have to acquire in order to play a constructive role in the various budget processes.
- Although the general interest in budget issues amongst the academic community is perhaps lower than in most neighbouring countries, CEIC already has a programme that has been quite successful in reaching out to the 'informed public' in Luanda and contributing to evolve a 'culture of openness'.

- Perhaps the most formidable power on budget issues at the present is the church. Through CEAST's pressure on government for subscribing to EITI principles and CRS's participation in the *Open Budget Project 2006*, the church has shown that it has seen the enormous potential for development that lies within the budget system.

8. Recommendations

8.1 Entry points for transparency

Our point-by-point examination of the Angolan budget process has shown a large number of areas where there is scope and indeed a critical need for improvement. When added to already existing technical proposals,⁴⁷ the Angolan government will have ended up with a myriad of proposals, all (according to the authors of the reports) to be done urgently and all of high importance. It is obvious that a prioritisation and a comprehensive but realistic plan for sequencing will have to be undertaken, and that the plan must have one or more clear objectives. It is important to focus on the clarification of policies because Angola, with future oil wealth, has a possibility to change future public spending and development patterns.

- Our first recommendation is that a sequenced plan for the overhaul of the budget system (in the wide sense as described above) must be constructed by Government. International partners should support such an effort technically if requested
- Our second recommendation is that the budget-system overhaul focuses on basic elements essential for public service delivery. This will mean a focus on those aspects of the system which are concerned with setting policies and objectives for budget expenditure in such a way that they are clear and transparent, and that the actual outcomes can be controlled.

If government moves towards transparency and citizen participation, it is possible that people's interest will be mobilised, and this might have the potential to break the barriers of procrastination, bad management and corruption. In line with this, we recommend that the Government of Angola:

- Spend much more time and effort on popular consultation and parliamentary debate about the policies which underlie the budget and define clear targets so that the outcomes can be measured.
- Start the budget process much earlier than at present, and take much more time to discuss priorities.
- Prepare a medium-term plan on the basis of broad national consensus with clear policies, with maximum popular participation and measurable targets.
- Include in this both the expenditure and the revenue sides. Confidence by citizens that natural wealth is shared equally is necessary to reduce the conflict potential that lies in vast mineral wealth.
- Participate fully in the *Extractive Industries Transparency Initiative* (EITI) and Publish What You Pay (PWYP).
- Build political, institutional and human capacity in local government; strengthen provincial and municipal institutions in budget preparation, implementation and monitoring.
- Ensure support to and openness *vis-à-vis* civil society, for instance by arranging a pre- budget conference.
- Press on with the further roll-out of SIGFE, and train both accounting staff and analytical staff in ministries and provinces.
- Make a major overhaul of statistical services, focusing on their use in planning, monitoring and evaluating key public services.

⁴⁷ See, for instance, the IMF's recommendations in its latest (2006) *Article IV mission report on Angola*, the *PEMFAR 2005*, the coming *World Bank Public Expenditure Review (PER)* and the IMF's Fiscal Transparency 'Report on the Observance of Standards and Codes' (ROSC)

- Deal with the quasi-fiscal activities of Sonangol. There is a large outstanding agenda from the Oil Diagnostic Study issued in May 2004 and in PEMFAR.
- Make a legal and institutional overhaul, including a reform of the framework for internal audit, the National Inspectorate of Finance (INF), and consider institutionalising a *Public Accounts Committee* in Parliament.
- Step up the battle against corruption. Moving ahead with the procurement reform is urgent, and so is the establishment of the Anti-Corruption Commission.

8.2 Inroads for civil society

We have demonstrated how civil society is presently involved in budgetary processes, and we have suggested ways in which this role can be strengthened. We hope that our overview of formal and informal budget processes in Angola might be the initial step towards forming a 'civil society textbook' on the budget process.

- Our first recommendation is that CSOs and NGOs should acquire a better understanding of PEM, for example through capacity building in 'budget literacy' programmes and campaigns. The ability to collect, compare, interpret, analyse, evaluate and present (in a simplified manner) financial data and information on public income, budgets and expenditure is pivotal. The outputs of civil society's applied budget work need to be accessible and useful to citizens so as to strengthen public participation. As an early step, a workshop to explain the concept of budget work and to exemplify parts of it should be arranged. (This might, for instance, be undertaken by *IDASA* and *World Learning* and might benefit from the information in the present report).
- Our second recommendation is to build organisations and coalitions, to cooperate and make strategic alliances with other NGOs and civil society organisations, with international organisations and the media. Relevant organisational structures should be created to address public finance issues. Organisations need administrative and managerial efficiency and skilled personnel, as well as independence and integrity, a secure financial basis, internal democracy and transparency.
- Our third recommendation is that CSOs and NGOs should focus on the basic and feasible elements of intervention. A strategic approach is needed.

Then there is a long list of various approaches to budget work (see chapter 6 above), from which we will only highlight a few for a longer-term strategy. The actual elements must be agreed upon and selected only after discussion between involved organisations and stakeholders:

- Discuss the next budget process starting in July 2007, and suggest activities in that connection. One early activity could be to arrange a pre-budget meeting as the budget process gets going. Another could be to organise workshops on the imminent publication of the World Bank's *PER* and the IMF's *ROSC*. A third could be to work on the list of small but concrete improvements in transparency suggested in the Angola questionnaire of the IBP survey 2006.
- Consider implementing some *Public Expenditure Tracking Surveys* (PETS), which has proved useful in some other countries. Check comparative experiences with organisations such as the *Uganda Debt Network and Research on Poverty Alleviation*, and *REPOA* of the University of Dar es Salaam.
- Build traditions of pre-budget work, first through CSO conferences and later (if possible) also with the government in a movement towards a pre-budget publication.
- Ensure that capacity building takes place and that CSOs become involved in budget work beyond the initial phase. Some international partners have taken a role in financing and arranging capacity building. This includes literacy, detailed knowledge and technical insight

into public finance management, revenue collection, fiscal regimes, tax administration, budget processes, and budget execution and spending principles.

- Make sound and well-timed outputs in order to have an impact on the government's policy decisions.

8.3 Roles for International partners

Bilateral partners and IFIs are also concerned about the way in which the state budget in Angola is prepared and executed, and concerned about the slow pace of reform. They also have limited possibility to influence the reforms as the Government does not need financial aid financing any more. This report has argued that the overriding problem with the Angolan budget system is the lack of transparency, in addition to weakly based and imprecisely formulated policies and objectives. Furthermore, we point out that civil society in Angola has been active only to a small extent in budget work, but has considerable potential.

The bilateral partners and IFIs have, and may contribute, financial resources, human resources, experience and network linkages to the ongoing and potential attempts at budget work by Angolan CSOs as well as to the Angolan Government. Some of them also have strong contacts with their national oil companies working in Angola. Several projects dealing with budget issues are ongoing and a number of studies and reviews have been made. It is our impression, however, that the potential synergy of the international partner community as a whole could be better utilised.

- Our first main recommendation is that bilateral partners and IFIs should better harmonise their activities on budget issues in order to have an impact, and that a coordination group should be formed. The existing ad hoc coordination group which has met a few times with the Ministry of Finance should meet and work in a more organised manner. The group should facilitate government coordination of inputs of expertise and technical resources from international partners.
- Our second main recommendation is that bilateral partners and IFIs should work with government institutions in order to strengthen transparency, oversight and sound budget management at both central and regional levels. The following inputs would be in line with the above conclusions:
 - Suggest to Government the preparation of a sequenced plan for an overhaul of the budget system (in the wide sense as described above) and support the preparation and implementation of the plan with finance and expertise.
 - Suggest ways of improving popular consultation and parliamentary debate on budgetary policies and implementation targets; assist government in coming up with approaches for such consultation and debate that may be used, for example, by assisting in arranging familiarisation trips to other countries for key people; and if necessary support the implementation technically and financially.
 - Suggest and support the preparation of a national medium-term plan. Support, financially and administratively, study tours to best-practice countries in terms of planning and budgeting on the basis of broad national consensus, with clear policies and measurable targets.
 - Support Government in stepping up the battle against corruption and help to build confidence amongst citizens that natural wealth is equitably shared.
 - Use their links with the oil industry and with Government to prepare the way for full government participation in the *Extractive Industries Transparency Initiative* (EITI).
 - Concentrate particularly on supporting local government reform and budgeting. This may be done by supporting both government and NGOs in finalising the experiments in local government which are now going on.

- Suggest and support financially and technically the arrangement of a pre-budget conference with Government and civil society participation.
 - Support technically and financially the further roll-out of SIGFE, and the training of both accounting and analytical staff in ministries and provinces.
 - Press for and financially support a major overhaul of statistical services for use in planning, monitoring and evaluating key public services by focusing on the urgent resuscitation of INE.
 - Suggest and support the finalisation of the considerable outstanding agenda from the Oil Diagnostic Study issued in May 2004 and recommended by the World Bank.
 - Propose assisting a legal and institutional overhaul, including a reform of the framework for internal audit, the National Inspectorate of Finance (*Inspecção Nacional de Finanças*, INF), and the institutionalisation of a *Public Accounts Committee* in Parliament.
- Our third main recommendation is that bilateral partners (as well as IFI's) encourage and put resources into CSOs' attempts to engage in various kinds of budget work, including training and education. Some bilateral partners have already started exchanging information towards the coordination of such activities. Concretely, partner contributions in line with areas of deficiency pointed out above might be to:
- Help CSOs create relevant organisational structures to address public finance issues. Through funding and by acting as a catalyst for the exchange of information with CSOs in other countries as well as international organisations like the IBP, they could make it possible for CSOs to build necessary administrative and managerial efficiency and skilled personnel, as well as independence and integrity, a secure financial basis, internal democracy and transparency.
 - Finance CSO initiatives on learning and capacity building. Support capacity building in CSOs to become involved in budget work. This would include literacy, detailed knowledge of and technical insight into public finance management, revenue collection, fiscal regimes, tax administration, budget processes, and budget execution and spending principles. Some bilateral partners and foreign NGOs have taken a role in financing and arranging capacity building.
 - Use international contacts and links to connect Angolan CSOs to the international budget work community.
 - Generally encourage and support CSOs' and NGOs' initiatives to acquire a better understanding of budget work and make the results of such work accessible and useful to citizens so as to strengthen public participation.
 - In particular, as an early step bilateral partners should encourage and support the arrangement of a CSO workshop to explain the concept and practice of budget work. This might, for instance, be done by IDASA and World Learning and might benefit from the information in the present report
 - Encourage, further and support a process, starting soon, to plan activities around the next budget process starting in July 2007.
 - Support a 2007 pre-budget meeting, with or without government participation, as the budget process gets going.
 - Encourage CSOs and the IFIs to organise one or more workshops when the World Bank's *PER* and the IMF's *ROSC* are released.
 - Suggest and support relevant organisations such as CEAST and IBP to use the 'Open Budget 2006' survey to compile a list of small but concrete improvements in transparency for implementation by Government.
 - Contribute with expertise and funding to a *Public Expenditure Tracking Survey* (PETS) for one or two of the key social sectors, perhaps drawing on the experience of organisations

such as the Uganda Debt Network and Research on Poverty Alleviation, REPOA, an independent Tanzanian foundation.

Annex 1: Acronyms and Abbreviations

AG	Auditor General
AIA	Associação dos Industriais Angolanos
BNA	Banco Nacional de Angola
BPC	Banco de Poupança e Crédito (Savings and Credit Bank)
BUs	Budget Units (Unidades orçamentais)
CC	Chambre des Comptes
CEAST	Conferencia Episcopal de Angola e São Tomé
CEIC	Centro de Estudos e Investigação Científica
CEJPM	Comissão Episcopal de Justiça Paz e Migrações
CEM	Country Economic Memorandum (of the World Bank)
CES	Central European System (of PFM)
CFAA	Country Financial Accountability Assessment
CGDP	Comité de Gestão da Dívida Pública (Public Debt Management Comm.)
CONGA	Comité das Organizações Não-Governamentais em Angola
CPAR	Country Procurement Assessment Report
CRS	Catholic Relief Services
CSOs	Civil Society Organisations
DFID	Department for International Development (UK)
DMFAS	Debt Management Financial and Analysis System
DNC	Direcção Nacional da Contabilidade (National Accounting Directorate)
DNI	Direcção Nacional dos Impostos (National Tax Directorate)
DNO	Direcção Nacional do Orçamento (National Budget Directorate)
DNPE	Direcção Nacional do Património do Estado (National Directorate for the Management of Physical Assets of the State)
DNT	Direcção Nacional do Tesouro (Treasury Directorate)
FAA	Forças Armadas de Angola (Angolan Armed Forces)
FONGA	Forum das Organizações Não-Governamentais em Angola
EDD	External Debt Department (of MINFIN)
FDM	Municipal Development Fund
EC	European Commission (of the European Union)
EITI	Extractive Industries Transparency Initiative
Endiama	Empresa Nacional de Diamantes de Angola
FDM	Municipal Development Fund
GCM	Grupo de Consistência Macroeconómica (Economic Consistency Team)
GDP	Gross Domestic Product
GEPE	Gabinete de Estudos, Planificação e Estatística (Office of Studies, Planning and Statistics)
GURN	Government of National Unity
ICT	Information and Communication Technology
IGOs	International Governmental Organisations
INE	Instituto Nacional de Estatística (National Statistical Institute)
INGOs	International Non-Governmental Organisations
IFIs	International Finance Institutions (e.g. the World Bank, IMF)
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
INF	Inspeccção Nacional de Finanças (National Inspectorate of Finance)

INTOSAI	International Organisation of Supreme Audit Institutions
LQOGE	Lei Quadro do Orçamento (the Budget Law)
MAPRESS	Ministério da Administração Pública, Emprego e Segurança Social (Ministry of Public Administration, Employment, and Social Security)
MDG	Millennium Development Goals
MINAT	Ministério da Administração do Território (Ministry of Territ. Administration)
MINFIN	Ministério das Finanças (Ministry of Finance)
MINPLAN	Ministério do Planeamento (Ministry of Planning)
MPLA	Movimento Popular de Libertação de Angola
NCB	Notas de cabimentação
NDB	Direcção Nacional do Orçamento (National Directorate of the Budget)
NGOs	Non-Governmental Organisations
Norad	Norwegian Development Association
OD	Orgão dependente
OGE	Orçamento Geral do Estado (the State Budget)
OPSA	Observatorio Politico Social (leaders of Civil society organisations)
OS	Ordem de Saque
PAC	Public Accounts Committee
PDMOU	Public Debt Management Operations Unit
PEM	Public Expenditure Management
PEMFAR	Public Expenditure Management and Financial Accountability Report
PER	Public Expenditure Reviews
PETS	Public Expenditure Tracking Surveys
PFM	Public Finance Management
PIP	Public Investment Programme
PMGFP	Programa de Modernização da Gestão das Finanças Públicas (Public Finance Modernisation Programme)
PRE	Programa de Recuperação Económica (Programme of Economic Recovery)
PSA	Production Sharing Agreements
PWYP	Publish What You Pay
QF	Quota financeira
ROSC	Report on the Observance of Standards and Codes
SAI	Supreme Audit Institutions
SEF	Program of Economic and Financial Restructuring
SIGFE	Sistema Integrado de Gestao das Finanças do Estado (Integrated Financial Management Information System)
SIGIP	Sistema Integrado de Gestão do Investimento Público (System for Public Investment Management and Programming)
Sonangol	Sociedade Nacional de Combustíveis de Angola (the national oil company)
TI	Transparency International
TPA	Televisão Pública de Angola (Angola Public Television)
TTP	Petroleum Transaction Tax
UAN	Universidade Agostinho Neto
UCAN	Universidade Católica de Angola
UNDP	United Nations Development Programme
UNITA	União Nacional para a Independência Total de Angola
USAID	United States Agency for International Development
UO	Unidade orçamental

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SUMMARY

This study discerns several deficiencies in the budget process in Angola. The government's budget proposal is not publicly debated, no pre-budget paper is prepared, comparisons between budgeted expenditure and actual outcomes are not made, and audit reports are not prepared. Besides, budget execution is problematic because Angola has two parallel public finance systems, one conventional system under the Ministry of Finance; and a (mainly) Sonangol-operated unconventional system.

The Angolan state institutions involved in the budget process are all rather weak, but reforms, learning and improvements have taken place, in particular in the Ministry of Finance, in the Finance Committee of the Parliament and in the supreme audit institution (Tribunal de Contas). However, other institutions are still weak or non-existent. The 1996 law on an anti-corruption commission has not been put into practice. The National Statistical Institute is a weak institution, and thus the basic national statistics, on which budget allocations should be based, are unreliable or non-existent. The provincial and local administrations have severe deficiencies in legitimacy as well as in professional capacity to analyse and shape public service delivery.

During budget preparation in other countries, civil society organisations may debate budget reports and policies, for instance in a pre-budget conference and comment on tax proposals. CSOs can also be effective fighters against budget leakages, corruption, embezzlement and squander. However, civil society has historically been weak in Angola, and the political and societal space for civil society is limited. The Angolan authorities have not fully accepted the role of civil society's voice, watchdog and control functions, and the legal framework is restrictive.

The report suggests how to increase insight and transparency of the budget processes in Angola, how civil society can be more involved in the processes for example through capacity building in "economic literacy", and how donors can take measures to ensure more transparency and public involvement in budgetary processes.

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