

Economic Governance and the Institutions

What way for Angola?

Alves da Rocha (CEIC), Jan Isaksen (CMI)

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Introduction

In 2006-2007 a CMI project with CEIC participation analysed the Angolan budget process and pointed out a number of deficiencies obstructing the possibility of delivering proper public services and channeling the country's resources in such a direction that particularly the poorer citizens would benefit. (J. Isaksen et al 2007)

Out of this arose a project on "Analysis of the Budget System and Public Expenditure" under the 2008-2010 CEIC-CMI programme. The overall objective of this ongoing project is to contribute to an improvement in the budgetary system of Angola through making available information about the actual workings of the system. One of the important foci of the project is to "compare various aspects of the Angolan budget processes to 'best practices' as they are found elsewhere in Africa". The objective of this first paper under the project is to take a comparative, broad and long term look at key institutions and organisations that handle the Public Finance Management (PFM) affairs of the State in Angola. The aim is to collect empirical and theoretical evidence that may contribute ideas for improving various aspects of the PFM system in Angola. This paper can barely make the first investigation into a big and complex question with interweaving institutional, managerial, technical and political strands. We hope nevertheless that we may - through looking at other countries in the region and considering some general empirical and theoretical evidence - put on the table some ideas that later may be considered in depth.

In *Angola* the next few years appears to be auspicious for thinking about the institutional aspects of PFM. There is a constitutional debate; next year will see a Presidential election. The relatively recent foundation of a new Ministry of the Economy, highly relevant to PFM aspects, has demonstrated the Government's openness to systemic change. It is not least interesting to note that the revised 2009 budget contains an extensive section on "budget policies and measures" announcing improvements in certain aspect of the budgetary system.

The extensive list (Government of Angola, 2009) among other things comprises institutionalization and regulation of the Contingent Fund of the National Treasury; Finalization of the work on regulation and act on public acquisitions and improvement of the observance of documentation and verification for internal and external control agencies; Beginning of the implementation of a program of financial sanitation and reorganization of strategic public companies to improve performance monitoring; Approval of a Plan for Fiscal reform and the respective executive programme for 2009; and the Revision of the Law of the Incentives for Private Investment.

At the *international* scene, the debate on development increasingly concentrates on *institutional* factors as key determinants of success in growth and distribution. Among the broad issues debated are (Chowdhury, A., 1999):

- The relation between low economic growth in developing economies and the absence of appropriate institutions.
- The challenge of designing institutions which are compatible with democracy.
- The importance of an elite bureaucracy based on competitive selection criteria.
- The degree of central bank independence from the executive branch of the government.
- Fiscal reforms designed to increase transparency and to safeguard against political interference.
- The importance of a well developed financial sector acting as an internal constraint to political misbehaviour.
- Trade liberalisation as an external constraint on the macroeconomic misbehaviour of politicians.

The above grand issues are important but are far outside the realm of those that may be handled by institutional reorganisation within the public sector. They may however strongly influence the *potential* for progress at the more mundane level.

Below we concentrate on experience from the work done on institutional/organisational issues of PFM. Often, country requests for advice from the IFIs arise from a realization that PFM system evolution and broader public sector changes have left the country with an outdated organizational structure ill-equipped for new roles. In other cases, the request arises from simpler issues, such as the minister of finance not having adequate information for managing national finances. (World Bank, 2008)

The areas of PFM we will touch on below are **first** the problematical and oft discussed question of whether a country is best served with a joint ministry for finance, planning and economic issues or whether these functions should be split between two or several ministries. **Secondly** we look at the core finance functions: macro-fiscal coordination and policy; budgeting and treasury functions; and management of government revenue.

Thirdly we consider a number of functions that are often handled by a Ministry of Finance (MF) but may also be the responsibility of a Ministry of Planning / Planning Commission (MP) or other ministries like Trade and Industry, Economy and in some cases the Central Bank. Important such functions are: procurement; internal audit; personnel management; financial sector regulation and; oversight of state owned enterprises.

Brief overview of the background

It has become commonplace to mention the effect of the many war years on Angola's physical infrastructure. It is less realized that those years also had a devastating effect on its institutional structure and so also on the PFM aspects of that structure. (Jan Isaksen et al., 2007)

The centrally directed form of government introduced in the 70's was according to the World Bank (1991) in reality not used. Although the Plan supposedly was a key element of the centralised system, no national medium-term plan was ever prepared. *De facto* this left management as well as policies to *ad hoc* administrative, bureaucratic and political controls. The government structure was changing quickly and somewhat erratically with a high turnover of ministers in many central PFM ministries. Fig 1 shows ministerial changes over the period 1990 to 2009.

Fig 1: Ministerial changes in present key ministries

MINISTRIES	No of chnges	1990	1993	1994	1995	1997	1999	2001	2003	2004	2005	2006	2007	2008	2009
Adm Púb.Trab. Seg Soci	1														
Ant Comb vets de Guer	1														
Obras Públicas	1														
Economia	1														
Comunicação Social	2														
Assistência e Reo Social	2														
Defesa Nacional	2														
Adminis. Território	2														
Transportes	2														
Correios e Telecomms	2														
Cultura	2														
Urbanismo Ambiente	2														
Comércio	3														
Hotelaria e Turismo	3														
Interior	4														
Relações Exteriores	4														
Justica	4														
Agricultura	4														
Pescas	4														
Energia e Águas	4														
Plano Planeamento	5														
Educação	5														
Petróleos	5														
Indústria	6														
Juventude Desportos	6														
Saúde	6														
Financas	9														

Source: Odebrecht Report

Apart from changes in ministerial *structures* (not shown in the figure) most ministerial portfolios have changed 2-4 times over the period 1990-2009. It is notable that those ministries which have changed most include the three key PFM ministries (Finance, Planning and the Economy, the latter established only 2008) and important economic ministries (Petroleum and Industry as well as the "heaviest" ministries of public services (Health and Education).

Changes in the budgeting and planning systems went hand in hand with this general turbulence. Several changes in the structure and "culture" of PFM were occasioned by developments in the Angolan economy. 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 Ministry of Finance

(MINFIN) for example, did not have a *Treasury Department* before the early nineties. Between 1989 and 2000, 12 different macroeconomic stabilisation programmes were introduced, all with poor results. The reasons for failures were several, including a continuing lack of fiscal discipline, ignorance of the problems of the Kz exchange rate as well as the mood of excessive centralisation still holding sway in the planning system. The de-bureaucratisation of the economy and the attempts to increase the efficiency of public sector promotion of growth and productivity was a slow process. The high fiscal deficits during the 1990s also made it difficult for the authorities to reduce inflation. 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). The Revised 2003 OGE was a landmark and represented 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, 2006)

Current status

On the question of *the number of core PFM ministries*, the issue in most countries is the relation between Planning and Finance functions and whether or not they should be in the same ministry. In Angola the introduction of the Ministry of the Economy sets up *three* parties that could and should be active in the field of PFM. The *ministerial structure* within the PFM area thus tends to get more complicated than a structure with only one or two "PFM" ministries. The new Ministry's functions is in short to "formulate and propose policies on sustainable development to be implemented through national plans; to formulate and propose policies of supervision and control of the management of public sector companies to increase their value; ensure the coordination and internal consistency between policies on taxation, incomes and prices as well as monetary policy on one side, and, on the other, consistency of those policies with the objectives of stability and economic growth; to monitor the management and execution of structural, macroeconomic and annual financial programming; to ensure the usefulness, coordination and control of the execution of the principal structural projects and programs; to monitor the institutions and processes that regulate and supervise the markets for goods and financial assets".

Given these functions for the Ministry of the Economy there appears to be scope for some institutional tugs of war with both the Ministry of Finance (e.g. with regard to taxation policy) and Planning (in relation to major Government projects and programmes). At least it will take some time before possible rivalries can be sorted out. Also, although the Economy Ministry's expected focus on some of the microeconomic issues is welcome it may need to be coordinated with also other Ministries like Ministry of Commerce and Ministry of Industry. The balance between the line ministries responsible for various SOEs and the Ministry of the Economy which now will play a role in the supervision of SOEs also may lead to some turf battle before it is sorted out.

Also in the area of *macro-fiscal coordination* and policy which is now done more or less harmoniously between the MINFIN and the BNA it is clear that the MINEC's prescribed function of "monitoring of the management and execution of" ... "macroeconomic and annual financial programming" might be a bone of contention. Planning, which should be incorporated into the budget process (or vice versa) has been dealt with through the biannual plans. Since the publication of the medium term plan the institutional roles and the handling of macro-fiscal coordination seems a candidate for "sorting out" at the practical level.

As for *budgeting and treasury functions*, legally lodged with the MINFIN, the coordination of operational and investment expenditure has been raised as a difficult issue by successive IFI missions. There is perhaps a case for drawing the planning side more into this work. The major infrastructural programmes now under way raise most pertinent issues with a clear organizational aspect to them. Analysing and forecasting the effect of infrastructure maintenance on current expenditure needs a good grip on the character and size of the present enormous capital expenditure.

Management of government revenue is in principle lodged with the MINFIN. The enormous importance of petroleum revenue for the fiscus has led to the much debated role of Sonangol both with regard to revenue collection and disposal of revenue. Despite critique from the IFIs Sonangol steadily spreads its influence and now looks as if it is underway to become another Petrofina, the Malaysian state oil company which according to some observers have done a pioneering job in boosting forward looking investment in productive assets in Malaysia.

Currently there is no independent *procurement* institution in Angola responsible for either policy formulation or oversight of procurement decisions. The Tribunal of Accounts is given a mandate to check for regularity prior to signature, and at the same time, to audit a contract after signature. This mandate creates a conflict of interest: it threatens the independence of the Tribunal of Accounts in requiring that it performs an audit of its own prior authorizations and approvals. (World Bank, 2005)

The Procurement Law builds on thresholds which have been eroded by many years of inflation. Provisions applicable to procurement of public works are scattered. There is no central legal office where draft laws are vetted for compliance or contradiction. Different kinds of bidding documents are in use. Some documents are outdated, and, in some ministries, no real bidding documents exists.

In Angola, the *internal audit* function is carried out by ministries under the tutelage of the National Inspectorate of Finance (INF) while the external audit function is the responsibility of the Tribunal of Accounts. The Tribunal is the Supreme Audit Institution (SAI) whose sole function is to audit State accounts. Capacity for ex-post monitoring and auditing is insufficient, although there has been some improvement in the quality of returns from the provinces connected to the SIGFE. The Accounts Tribunal has officially adopted the double-entry Accounting Manual and Chart of Accounts underlying the SIGFE, which should help make more consistent the expenditure execution system and its ex-post auditing and monitoring functions.

There are deficiencies in the budgeting of *personnel expenditures and management*. At 2005 a World Bank study observed that the budget was formulated based on the payroll database maintained by MAPESS. The information on personnel entered in the SIGFE was provided by the Informatics Support Office (*Gabinete de Apoio Informático* - GAI) at the Ministry of Finance. The GAI updated the MAPESS database by adding information on newly hired civil servants. The interface between the GAI database and the SIGFE is poor, and data were still entered into the SIGFE manually. SIGFE did not maintain detailed information on wage costs, which were contained in the two payroll databases; and the system could only access financial information on wages by spending units. In practice, thus, the government would be using two different databases in parallel. (Neither including the military). It is unclear whether these inconsistencies and difficulties have been corrected over the last few years.

The *financial* sector in Angola is dominated by the banks. The banks include two state owned (BPC and BCI), private banks owned by foreign entities (BFA, BTA, BESA, BCP, NVB), some domestically controlled or with domestic entities as major shareholders (BAI, BSOL, BRK, BIC) or shared by domestic and foreign investors (BCA). Public development banks (BDA), three domestically controlled banks and one foreign controlled bank have been authorised. Financial services and

products normally offered by the banks are mainly limited to current and term deposits, short- and medium term lending, trade finance and foreign exchange trading activities.

The financial sector regulatory environment at present is governed by the Financial Institutions Act (the Act nº 13/05 of September 30, 2006) and a Stock Exchange Act (the Act nº 12/05 of September 23, 2006) to allow for the emergence of non-bank financial institutions (NBFIs) and the establishment of the stock market.

Under the Financial Institutions Act, BNA is responsible for the supervision and regulation of the banking sector and NBFIs¹.

The Supervision of Financial Institution Department within the BNA is responsible for the supervision of both banking and NBFIs industries. The Micro-finance Division is responsible for the supervision of the micro-finance industry. The BNA a legal Department helps draft the relevant legislations and regulations.

The basic regulations on *oversight of state owned enterprises* at the beginning of 2002 required public enterprises to have chartered accountants audit their accounts. In 2003 Government further required them to follow the General Accounting Plan (Decree 82/01) 16 Nov 2001. The Plan follows the international accounting practice and applies to all companies operating in Angola whether public or private. This improves the quality and detail of the accounting information produced by enterprises and the quality of national statistics. The Decree no 6/96 by the Council of Ministers legislates for the revaluation of fixed assets for all enterprises.

A Fiscal Council is appointed by the Ministry of Finance with responsibility for the supervision of enterprise accounting. The MINFIN, through the Council however performs its duties in cooperation with the individual ministries. The Fiscal Council will have oversight responsibility over the full scope of the enterprise activities given supervisory roles for the individual SOEs. MINFIN will assess the standard of enterprise accounts and in particular the annual report and accounts, audit enterprises and verify the equity values. It will report to competent bodies any financial irregularity identified and make declarations on any subject of financial interest to the enterprise. Public enterprises must submit the annual report and accounts for the previous calendar year to the Finance Ministry by end March each year. The report must include the balance sheet, the profit and loss account (including a proposal for the distribution of profits) the source and use of funds and the Fiscal Council's opinion. The recent development in this field is the introduction of MINEC's broad responsibility for supervision of SOEs.

Future development

The present status and the need for re-assessment must be seen against scenarios for the future. Although "it is difficult to predict, particularly the future" in Angola's case there are a few relevant developments that stand out as highly likely:

- The infrastructure boom will come to a halt little by little.

¹Foreign Exchange Bureaus; Credit Co-operatives; Factoring Companies; Leasing Companies; Foreign Exchange Broker Companies; Micro-Credit Companies and, other NBFIs defined as such by the Act nº 13/05

- BUT the maintenance question will loom. If not handled, Angola will see the erosion of infrastructure over the next 5-10 years. are reportedly The cracking up of some new transport infrastructure illustrates the need for stringent quality requirements and good supervision of construction projects.
- The oil production will peak off in a few years time.
- It will therefore become increasingly important to look at the investment in productive assets, particularly in the manufacturing industry
- Diversification and external non-oil trade will have to gain greater attention.
- Problems of the fiduciary aspects of budget management and planning and control of spending by provinces and local government will take a number of years to sort out.

We then turn to the question of institutional / organisational arrangements of relevance for these issues. What lessons may Angola from the region, from farther afield or from the general empirical and theoretical material available?

Relevant experience from PFM institutional / legal frameworks

Ministries of Finance, Planning and/or National Economy

A common institutional question is whether the Ministry of Finance (MF) should be merged with the Ministry of Planning (MP). There are many examples of mergers between Planning and Finance ministries and almost as many examples of a subsequent demerger. A number of countries have been through several rounds of this process. The important point is of course not the name of the ministry but rather how the MF and MP roles are reconciled. Planning and Finance Ministries tend to perceive each other as stereotypes which, as long as they persist, will make them uneasy bedfellows, and hence the issue of merger will be perceived as the subordination of one institution to the other. It is important therefore to look at the issues in terms of the **substance** of the planning and budgeting process rather than the institutional prerogatives and power involved. A key weakness is often the disharmony between recurrent and development budgets being drawn up by separate processes. "Merger" will not necessarily resolve the problem, and resolution of the problem need not necessarily involve merger. Whereas the inference is often that the problem with MP is loss of status and power the explanation for MP decline is often in reality that economic crises or economic development have exposed inherent defects in planning **systems**. In many cases their status has been devalued by the sharp diminution of the development budget as well as a tendency to produce planning documents which are inattentive of financial reality. (Lister, 1988)

Examples of what one may call successful mergers include Botswana and Uganda. At independence Botswana had one ministry covering all functions but shortly after there were two separate ministries: "Development Planning" and "Finance". The consolidation in 1970 created the Ministry of Finance and Development Planning and involved, in effect, the takeover of Finance by Planning (the converse is more common) and took place in a context of rapid expenditure growth. The Uganda merger also was characterised by a strong influence of the planning / economist side in the new combined ministry. Indeed countries like Zambia and Lesotho have moved in the direction of merging finance and planning functions. Although the combined ministry has served Botswana well for a long time a review late 2008 launched again the idea of two separate ministries.

Other examples involving ministerial restructuring include South Africa which after the 2009 elections introduced changes that may seem to be of a fundamental character although some analysts see political expedience as the main driving force for the move. Trevor Manuel, long lasting guarantor of South Africa’s stable financial policy, became Minister in the newly created “National Planning Commission” placed within the Presidency. Also a “Ministry of Economic Development” was created. The old ministry of Trade and Industry appears not to have been curtailed, nor has the Ministry of Finance. South Africa therefore appears to have a *quartet* to perform key areas of the PFM. Several observers have asked the question of whether this can work.

Table 1: Institutional setup in selected countries

Country	Combined MF/MP	Planning Min or Comm	Min of Economy
Angola		1	1
Botswana	1		
Namibia		1	
Zambia	1		
Lesotho	1		
Swaziland		1	
South Africa		1	1
Mozambique		1	*director’t of nat pl and budget
Malawi		1	
Zimbabwe		1including inv. promotion	
Tanzania	1 former planning commission now under office of president	1	
Kenya		1	
Uganda	1		
Portugal	1 includes public admin		1 ...and innovation
UK		1	
France	1*		
Norway	1		
	8	10	3

* The Minister for the Economy, Industry and Employment (*Ministre de l’économie, de l’industrie et de l’emploi*), or Minister of Finance for short, is one of the most prominent positions in the cabinet of France after the Prime Minister. It has a colleague of equal rank: the Minister for the Budget, the Public Accounts and Civil Service (*Ministre du budget, des comptes publics et de la fonction publique*).

The table above reveals that among the selected countries roughly half have separate ministries and the other half joint planning / finance ministries. Only a very small majority of the selected countries have separate Planning and Finance Ministries. An entire Ministry of Economy was found only in Angola, South Africa and Portugal. It is clear however that without more in depth analysis it is hard to judge whether this or that composition of ministries means anything in terms of functionality. For example the Mozambican Ministry of Finance has a “Director of National Planning and the Budget”, which may have nearly the same role as a “Ministry of Development”. Tanzania still has a “Planning Commission” which does not appear in the formal ministry lists because it is part of the Office of the President. It could well have the same role as a “Ministry of Planning” although that is not the case at present. An example of a less orthodox structure is Portugal where the Ministry of Finance takes a major role in public administration has added “innovation” on to the Ministry of the Economy.

In some of the countries shown Ministries of Trade and Industries as well as individual sectoral ministries clearly play a role within the core areas. In the case of Norway just after WWII, what was called the Ministry of Trade in fact took care of a large number of tasks connected to planning and the rebuilding of infrastructure and housing.

Macro-fiscal coordination and policy

Much of the discussion in this field revolves around the issue of the role of Central Banks. What power do they have over monetary management? To what extent do they have to listen to the Ministry of Finance? Independent Central banks have been in vogue over the last decade. In nearly all the SADC countries the Central Bank acts have been revised over the last 10 years, all in a more independent direction. Less recognized are the other Ministries like Planning and perhaps be Trade that have their own macroeconomic perspectives and may many times act as they are the right ones without too much communication with the Central Bank and Finance.

Central bank autonomy and accountability are generally accepted as good practice. Empirical studies for central bank autonomy are generally supportive but not compelling. Several studies have shown that the industrialized countries that accorded greater legal autonomy to their central banks also experienced lower average inflation. Empirical studies indicate that the correlation between legal autonomy and lower inflation in developing countries is less significant. (Lybek, T. and J. Morris, 2004)

There is less consensus regarding the structure, size, and composition of the governing bodies. Lybek and Morris (2004) point out that an appropriate balance must be struck between the functions of the governing entities, simplicity, and country specific factors.

It is recognized that the “chemistry” between the Minister of Finance and the Governor of the Central Bank has a lot of influence on the coordination of fiscal and monetary policy. For instance it was observed by a financial weekly when minister of Finance (Tendai Biti) was selected by the new government in Zimbabwe that “If Gono remains in place at the Reserve Bank, personality clashes and perhaps an incoherent fiscal versus monetary policy could be the result.” (It belongs to the story that Gono, probably the most dishonourable Governor in Africa, still has his job.) This kind of personality clash is hardly reparable with administrative tools, but when the danger is there, administrative arrangements may help by making responsibilities and borderlines very clear.

An important aspect of policy coordination in a number of developing countries concerns the management of oil and other resource revenues. For oil-exporting countries, two approaches are in use. One is to budget at a conservative, “normal” oil price as done for example by Nigeria and Angola. The second is to establish a resource fund to set aside some or all of the resource revenues. In the industrialised countries this has been done by Norway and (at the provincial level) in Canada and is planned in Angola. Also Gabon and Chad have oil revenue resource funds, and Botswana has its fund for revenues from diamond mining. Proper governance arrangements for such resource funds are essential but can be difficult to devise and implement.

Budgeting and treasury functions

All countries concentrate these functions in the ministry of finance. A key issue in countries that can afford a sizeable development budget is that operational and investment expenditure is coordinated.

In most countries, even some of those with an integrated planning and finance ministry this coordination is weak or lacking severely. Those with separate planning ministries will usually have the problem to much higher extent.

The one ministry solution which worked well for Botswana in fact entailed a very clear difference between budgeting (accountants) and planning (economist) people. The latest rumors is that they plan to merge the two.

Restructuring of the Ministry of Finance in **South Africa** since the start of the democratic government in 1994, has had four distinct phases. First, the Department of Finance functioned separately from the Department of State Expenditure from 1994 onwards, although coordination was somewhat facilitated by having one Minister, the Minister of Finance overseeing both departments. Second, in 1997 the Ministry of Finance was reorganized with the creation of the new Budget Office. A third phase included the merger of the Department of State Expenditure into the MOF with the creation of the so-called National Treasury. Fourthly, all the major activities of MOF were consolidated and some functions fine-tuned.

Government Revenue Management

Over the last decade a main issue for institutional structures in Government revenue management has been the question of Independent Revenue Authorities. The World Bank often finds strong cases for a move towards a separation of the revenue policy (for all taxes, including tariffs) and administration but cautions that the establishment of a single revenue administration agency should be approached cautiously and when adequate human and information resources are available.

There are now more than 15 revenue authorities in Africa. The Uganda Revenue Authority, established in 1991, is the oldest integrated revenue authority in sub-Saharan Africa. The Mauritius Revenue Authority is the newest; it became operational in 2005. Table 2 below outlines broadly how six of the RA's in the region are set up.

Table 2: Set up of Revenue Authorities in the region

<i>Country</i>	<i>Law</i>	<i>Legal form/character</i>	<i>Essential mandate</i>
Lesotho	Lesotho Revenue Authority Act 2001	Agency of the government; body corporate	Assessment, collection, and receipt of specified revenue
Mauritius	Mauritius Revenue Authority Act 2004 (previously the Unified Revenue Authority Act)	Agent of the state; body corporate	Assessment and collection of tax; and management, operation, and enforcement of the revenue laws
Rwanda	Rwanda Revenue Authority Act 1997	A "public" establishment and a body corporate	Assess, collect, administer, and account for fiscal and customs revenue
South Africa	South Africa Revenue Service Act 1997/revised in 2002	Public entity; organ of the state within the broad public administration, but outside public service	Efficient and effective collection of revenue; control over import, export, manufacture, movement, storage, or use of goods
Tanzania	Tanzania Revenue Authority Act 1996/revised 2001	Agency of the government; body corporate	Assess, collect, and account for government revenues; administer the revenue laws
Zambia	Zambia Revenue Authority Act 1994	Body corporate	Assess, charge, levy, and collect revenue due to the government

Source: Adopted from Kidd & Crandall (2006).

The table shows similarities in terms of legal set up. With the exception of the South African authority, which is within the broad public administration all RA are corporate bodies. A key common feature, including the South African RA, is that they are largely exempted from public service rules and salary structures. This makes it possible to recruit the most competent staff.

In terms of *mandates* there appears to be more diversity. In Lesotho and Zambia the RAs seem to be merely collection agencies whereas the South African RA has broader functions and powers. The three other fall in between with regard to comprehensiveness.

Odd Fjeldstad (2007) concludes that the establishment of semi-autonomous revenue authorities offers no 'quick-fix' to a country's revenue and tax administration quandaries. Creating a RA is expensive, may take a long time and require significant effort. Moreover, evidence is inconclusive as to whether the establishment of a revenue authority has led to better revenue administration performance compared to what would have been the case had the tax administration remained a department of government. However, a revenue authority can establish a platform from which change can be facilitated, but its initial impact and longer-term successful performance, depends much on the strength and quality of the management of the revenue authority.

The ways in which revenue authorities have been introduced and promoted in some African countries have led to problems. If a revenue authority is established in ways that stimulate rivalry and jealousy with the Ministry of Finance, cooperation might be severely jeopardized. The organisation has continually to demonstrate the value of its autonomy to those who could terminate it.

Procurement

A well-functioning tender procedure is dependent on a high degree of professionalism among the responsible public officials. Professionalism is, however, difficult to obtain when the general level of education is low and when jobs are better paid outside the state administration. An independent procurement unit of few but well trained officials has therefore been established in some countries. The way public procurement is effected may have a direct effect on a country's status and attractiveness for FDI and trade. Decisions about *what* to procure become no less important than decisions about *how* to carry out the procurement.

The importance of *transparency* to reduce the level of corruption can hardly be underestimated. All relevant information should be made available to all interested parties in the same way. Information to protect business or the competitive element of a tender has to be kept confidential, but the principal rule should always be to publish as much information as possible. The need to apply international prices as benchmarks has been amplified, as has the advantage of standardising – to the extent possible - the goods and services requested. (Tina Søreide, 2001)

There is a case for centralizing procurement in a country, relating to economies of scale and to concerns about corruption. However, this must be balanced by the considerable evidence that devolution of (most) procurement to line ministries is more likely to lead to better value for money. Such devolution must be supported by a hard budget constraint, sector strategies and effective audit. A separate agency, e.g. in the central administration department, is often found in transition and developing countries.

Internal Audit

The internal audit functions are most often conducted under sector ministries. The nearness of control organs as well as the knowledge of the substance dealt with in the particular ministry makes audit more effective.

The World Bank holds that there is a case for an internal audit unit to be established in the Ministry of Finance as now is the case with many of the countries in the region. Such a unit should provide support to and possibly even regulate internal audit at the line ministry and agency level. If MF does not do this, it will be unlikely to have sufficient authority based in any other central agency. Also, the internal audit is concerned with organizational systems and operations and many of these relate to the management of financial resources. Extending the mandate of a central internal audit unit to manage or undertake internal audit activities has the advantage of consistency of approach; of targeting scarce resources on substantial risk areas; and of keeping line ministries on their toes. Against this, such an approach could weaken accountability at the line ministry level and undermines the authority of ministry heads.

Personnel management

It is also necessary to take account of the role of the ministry responsible for manpower personnel, especially in view of the importance of planning and rationalisation of recurrent expenditures. Most countries have a personnel department or civil service commission which works with the Ministry of Finance as the sole agent of payment. In Tanzania when research was done some years ago it showed up that a fairly high percentage of the civil servants were "ghost workers". Similar problems have appeared in other countries.

Financial Sector Regulation

At the political level, oversight of financial markets is often with the MF, but the actual regulator may be the central bank or a separate agency. Business sector regulation is usually separate from financial market regulation. Although arguably financial market regulation is not a core public finance function, it is undertaken by the MF in many smaller countries by default. Establishing private sector accounting and auditing standards is an essential aspect of regulating financial markets, and in more developed countries this is undertaken by standards board's outside the MF.

Oversight of State Owned Enterprises

There is a good case for having a unit responsible for policy in relation to SOEs within MF but the day-to-day interaction between MF and individual SOEs (either through their parent ministry or directly) on issues to do with capital injections, subsidies and dividends should be undertaken by the relevant sector group in Government Expenditure. Policy on guarantees and other contingent liabilities may reside here as well (execution of the policy might be with Treasury).

Conclusions

A number of issues with regard to the institutional set up of the PFM mechanisms in Angola could be discussed and handled over the next few years. This paper covers a wide range of potential field for further investigation but draws no firm conclusions.

On the issue of *functional coordination within the PFM area* there are several reasons for arguing that it will be even more important in future than it is at the present time. First, there is the need for close cooperation between Planning, Finance and Economy to ensure that the enormous quantity of infrastructure mobilized through the first 10 years of the new millennium is maintained. In particular joint analysis and action on the coordination between investment and recurrent budgets requires close coordination between the MINFIN and the MINPLAN. Secondly, the possible slowdown in the increase (or even decline in) government revenues from oil means a much stricter annual and medium term budget policy to enhance the effectiveness and efficiency of public expenditure. Thirdly, on the revenue side, emphasis on non-oil taxation will be important as it for oil-taxation. Fourth, the instability of oil revenue will require particularly efficient macro-fiscal coordination and therefore focus cooperation between BNA, Finance and Economy. Fifth, an increasing body of research points to the importance of considering the economic micro-climatic effects of budgetary and fiscal policies. Here the new ministry of planning will come in but the coordination with the MINFIN will become a difficult and important issue when economic growth policies have to be weighed against fiscal policies.

Is there a case then for looking at functional borderlines and relations between Finance, Planning, Economy and BNA as well as Sonangol? Whether a well functioning PFM system will be best served with the present institutional set up or a different one requires much more in depth analysis than what is possible to do here. Also, on the question of making a super-ministry or keeping smaller institutions to cover different responsibility the evidence appears to be inconclusive.

Is the BNA independent enough? Opinions seem to be divided. Collier (2006) suggests that BNA should be totally independent with only one task: fighting inflation to the extent that the Governor would lose his job if he did not hit the target. It is possible that BNA Act gives it less formal independence than regional central banks but the evidence of advantages to autonomy is not strong and Angola has the most interesting institution of the economic team at both official and high policy level which if it works ensures contact and coordination.

Should Angola establish a Revenue Authority? The increased emphasis on non-oil taxation in future and the need to improve the strength of the current system could be arguments for considering that. Looking at the evidence on this point however gives no grounds for strong optimism.

A dedicated unit for internal audit? At the moment, the major obstacle for the fiduciary enforcement in ministries is a lack of adequately trained personnel. A new dedicated unit would have to draw from the same limited personnel pool. Given also strong counter arguments for such units in general and the existence of the accounts tribunal, there might be little sense in moving in this area in the near future.

Unified personnel management of civil service expenditure? It is uncertain whether the present problems will be amended with any institutional restructuring.

Need for institutional changes in the financial sector regulation? An appropriate financial structure will be important in a situation where financial resources are plentiful but good sustainable projects are few. There does not seem to be much evidence pointing to a need for *institutional* changes at present.

Should there be a unified institution for the oversight of State Owned Enterprises (SOE)? Both the mandate of the new Economy Ministry and the indication in the 2009 (revised) budget indicates that Government is focusing on SOE issues. A special unit would certainly be under consideration.

Should there be a unified procurement agency perhaps with both operational and supervisory functions? The statement in the 2009 budget shows that Government is focusing on these issues. We believe this is the central issue for the entire budget system at the present time. Again, whether progress can be made by means of institutional reorganisation is a question that requires more evidence to decide on.

DRAFT (To be revised)

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