



## global witness

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### **Donor commitment to oil revenue transparency and economic governance reforms in Angola**

We are writing to you regarding current discussions on increasing World Bank financial assistance to Angola, and negotiations for an International Monetary Fund Staff Monitored Programme (SMP).

Global Witness and other partner members of the international **Publish What You Pay** campaign are becoming increasingly concerned by the slow pace of economic governance reform in Angola, including recent reports about the postponement of an IMF mission planned for January 2005. The reason given for the postponement was the Angolan government's failure to provide the IMF with information on the oil sector, specifically the windfall from high oil prices. (see for example IRIN, 2/2/2005).

To date, the commitment of key bilateral and multilateral donors to making any discussion of increasing non-humanitarian assistance to Angola conditional on evidence of concrete progress in the fields of economic and political governance, including improving transparency and accountability in the management of revenues from oil and diamonds, has been commendable. However, we are concerned by evidence that this commitment may now be weakening, particularly among the multilateral donors.

### **Increasing World Bank lending to Angola**

In November 2004, the World Bank Country Office in Luanda produced an 'Interim Strategy Note (Jan 05-June 06)' for donors which referred to 6 triggers 'to phase up support' by the Bank. In the immediate term, such triggers are to determine the award of a \$200 million staggered credit to Angola.

Most of these triggers are related to fiscal transparency:

- A 50% reduction in 2003 extra-budgetary and quasi-fiscal outlays;
- Satisfactory implementation of the first year of the Public integrated financial management system;
- Publication of all government revenues: (i) Completion of the oil diagnostic study; (ii) Movement to [Banco Nacional de Angola] of all oil revenues (except those earmarked to service oil-backed loans) and their inclusion in the BNA's annual audit.

It is the Bank's view that all these triggers have now been 'met'. While welcoming the fact that the Angolan government has recently made some improvement in the amount and quality of economic data provided to the IMF, we believe that there is no evidence that any of these 4 triggers have been substantially met. Indeed, the Bank's own assessment accepts that its fiscal transparency criteria have not been achieved. In terms of the centralization of oil revenues through the Central Bank, the Bank adds the disturbing qualification that this is

'unlikely to be met for "Profit Oil"'. Finally, the document states that publication of government revenues is being held up by 'updating of the website'.

World Bank claims that full transparency over government revenues has been achieved, combined with the kind of statements made by the World Bank Country Director to Global Witness and representatives of other international NGOs that there are 'no discrepancies' outstanding in government accounts, are inaccurate, as will be discussed below. They also send a message to Angolan and international civil society, and to the Angolan government, that donor commitment to genuine reform is waning.

### **Reduction of extra-budgetary spending and oil revenue transparency**

As regards the question of the reduction of extra-budgetary spending, there is no published information to justify the Bank's claim. Angolan civil society has repeatedly raised the issue of the complete lack of transparency surrounding the budgetary process, and the broader question of the overall quality of expenditures remains unaddressed.

Angola continues to have very high expenditure ratios. In the 2005 budget defence allocations are 'set to rise sharply' (Economist Intelligence Unit/EIU, Angola Country Report, December 2004, p. 18). By contrast, social expenditure which, according to the EIU, 'historically has been shocking low even by regional standards' (EIU Angola Country Report, p. 18) is set to rise by only 1.5% of GDP. Overall, has been little progress on human development indicators and economic growth.

Overall, no government accounts are produced to justify budgetary expenditure, there is no proper public scrutiny of the budgetary process, and the government continues to seek oil-backed credit (for instance, in 2004, the \$2.25bn loan arranged by Standard Chartered bank and the \$2 billion oil-backed credit facility with China's Export-Import bank) whose terms and utilisation are not open to public scrutiny. Indeed, the Bank's call for a 50% reduction in extra-budgetary spending disturbingly seems to suggest that that the Bank is prepared to tolerate a certain amount of budgetary outlay outside the annual state budgetary process as enshrined in Angolan law.

In terms of oil sector transparency, while the government has made some limited steps forward - such as publishing the KPMG Oil Diagnostic in 2003 and the \$210 million bonus for the extension of ChevronTexaco's Block O concession in 2004 - there is no full publication of information on government oil revenues on the Ministry of Finance website. New data has been published about production but according to the Economist Intelligence Unit, some of this data appears to be erroneous: overall, it appears that higher oil prices have inexplicably resulted in lower rather than higher tax income for the government (EIU Angola Report December 04, p. 22).

There continues to be no public information about whether centralization of oil revenues through the BNA has been achieved, nor has any audit of the BNA, recommended by the KPMG Diagnostic, been published. Equally, there is no published audit of the state oil company, Sonangol, nor publication of Sonangol accounts.

In a meeting with Global Witness in December 2004, Aguinaldo Jaime, adviser to the Angolan Prime Minister, himself stated that the Angolan government was still in the process of implementing the recommendations of the KPMG Diagnostic. Global Witness' recent report **Time for Transparency** (March 2004; <http://www.globalwitness.org/reports/index.php?section=oil>) discussed how the Diagnostic outlined an accounting nightmare in terms of both BNA and Sonangol completely inadequate accounting procedures. The Diagnostic team also pointed out the extremely poor quality of data provision. The recent controversy over the exact amount, and utilisation, of the 2004 non-recurrent oil revenues is the latest example of the pervasive lack of transparency in

government accounting, with figures given by government representatives varying from an \$250 million to \$600 million, unaccompanied by any justifying data. Both figures seem inexplicably low given Angola's total oil exports are currently estimated at around \$8.5 billion (EIU Angola Country Report, p. 22).

Equally, statements regarding the government's intention to join the UK government's international transparency initiative, the Extractive Industries Transparency Initiative (EITI) along with other African oil producers such as Nigeria, Sao Tome and Republic of Congo, have not materialized in any concrete commitments. Angola continues to invent for itself the status of 'observer' at the EITI, and Angolan government representatives were conspicuously absent from a recent World Bank EITI workshop in Paris.

In addition, the recent law on the regulation of oil activities (Lei n.10/04 'Das Actividades Petrolíferas', 12 November 2004) shows no evidence of increased government commitment to oil sector transparency. While it is true that the Bill is an "upstream" law, regulating exploration and production activities and does not touch upon how oil revenues are to be accounted for and managed, there are aspects of the upstream regulation that has consequences for the transparency of oil revenue management. In particular, Articles 76 and 77 enshrine contract confidentiality, stating that all information provided by licensees, as well as information provided by the Ministry to the licensees is to be kept strictly confidential. This prevents public disclosure of the type specified as a key indicator of the government's economic reform effort.

The general impression is of a law that vests near-exclusive power to allocate and remove rights to participate in the oil industry in the Council of Ministers. Alongside this concentration of power is an absence of requirements that information about the performance of either the Ministries or of the entities involved in oil operations should be made public.

### **Diamond Revenues**

There are similar concerns over lack of transparent and responsible management of Angola's other main source of wealth, diamonds. While Angola's membership of the Kimberley Process international certification system and its offer to host a Kimberley Process review visit in late 2005 are positive signs, internal controls in the diamond industry in Angola remain extremely weak, providing no assurances of the origin of diamonds mined informally, nor that they are conflict-free.

Moreover, there is no regular monitoring and auditing of the diamond industry. Statistical data, a pre-requisite for membership of the Kimberley Process, is also hugely problematic: Angola has a weak system of collecting statistics and did not submit its production and trade data on time to the Kimberley Process.

In addition, according to evidence collected by Angolan and international civil society, government attempts to crack down on the informal sector by forcibly expelling diamond diggers has led to widespread human rights abuses by formal and informal security forces. Accompanying these extensive expulsions is the militarization of the diamond fields in Angola. According to information obtained by Global Witness and other sources, large areas are now mined exclusively by the military and their production is systematically smuggled out of the country, bypassing the official Kimberley Process certification system. Official Angolan government sources themselves state up to \$1 million per day of diamonds are exiting the country by this method.

### **The Reconstruction Process**

The long-standing concerns about the lack of fiscal transparency and accountability also extend to the reconstruction process. There has to date been no public scrutiny of either specific reconstruction projects nor of the procurement process managed by the National

Reconstruction Office, including of projects selected under the terms of the \$2 billion credit line extended to Angola by China.

Overall, there has been no public, up-to-date evaluation of Angola's financing needs for reconstruction (estimated at US\$300-500 million in 2002/03 discussions with IMF, Bank and other donors), especially given the huge surplus in both oil quantity and oil price increases in 2004, and the recent oil-backed loans.

Before launching any infrastructure projects in Angola, we would suggest that the Bank should:

- (i) Evaluate the state of progress through the Poverty Reduction Strategy Paper (PRSP) and issue a public statement to ensure transparency;
- (ii) Verify that the PRSP-identified needs are consistent with the projects financed by the Chinese credit line;
- (iii) Such considerations and analyses should constitute an integral input into the country strategy currently being drafted by the country team.

At issue here is the transparency of the Bank's own decision-making over increasing assistance to Angola. Given the history of governance failure in Angola, donor decisions must be made with open public scrutiny of the criteria on which those decisions are based.

#### **The IMF Staff Monitored Programme**

With regard to an IMF Staff Monitored Programme (SMP) in Angola, any agreement should contain the same indicators for oil sector transparency and accountability as implemented under the IMF SMP for Republic of Congo (ROC). Such measures are vital to ensuring full accounting for oil-related resources, including windfall revenues. While understanding the need for some measure of flexibility according to different country contexts, Global Witness and its Angolan and international civil society partners would expect current 'best practice' by the IMF in the field of oil revenue management to be applied in Angola, which shares with ROC the same structural poor governance and natural resource revenue mismanagement.

Key transparency indicators would include:

- Annual audits of Sonangol by an independent, internationally recognised auditor;
- Quarterly, independent certification of government receipts from Sonangol;
- Publication of Sonangol financial statements;
- Publication of Sonangol's investment budget. This budget should be subject to democratic scrutiny in the context of the country's overall investment strategy, including the budget for reconstruction;
- Centralisation of all oil revenues through the Central Bank in a transparent manner;
- Audit of the country's oil-backed debt obligations;
- An end to all forms of oil collateralized borrowing (whether short, medium or long term);
- Cost audits of the private sector operators by an independent third party;
- Publication of Production Sharing Agreements.

Further indicators of a genuine government commitment to reform might include:

- A public declaration by the Angolan government of their intention to participate in the EITI;
- A public commitment by the government to full independent civil society participation in the design of the EITI process, one of the fundamental criteria of the initiative;

We believe that this is critical moment in the process of governance reform in Angola. Continued and consistent bilateral and multilateral donor engagement with the Angolan

government is fundamental to achieving genuine, institutionalised transparency reforms, including the proper management of the country's oil and diamond wealth, without which there can be no effective poverty reduction and development.

More generally, Global Witness and its **Publish What You Pay** partners believe that all non-humanitarian economic and technical assistance by donors to resource-rich developing countries with a history of bad governance and corruption, such as Angola, should be conditional on minimum standards of fiscal transparency, to ensure that taxpayers' money is not being used to fill the gaps left by corruption and mismanagement.

We hope that you take into account the concerns raised in this letter in upcoming donor meetings and we look forward to hearing from you shortly.

Yours sincerely

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