



# **DIAGNOSIS OF FISCAL DECENTRALIZATION IN ANGOLA**

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## 1. INTRODUCTION

The Angolan government has identified as one of its priorities the creation of local municipalities, with directly elected representatives. This process should tentatively occur up to 2010, as indicated by the government authorities. In the understanding of the authorities, the present municipal administrations shall become the future autonomous governments holding executive and legislative powers.

The establishment of local municipalities, however, 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.

The issue is that even if one takes into consideration the de-concentration process unfolding in the country, it is found that just a few functions are actually allocated to the municipal administrations, confined mainly to the maintenance of some already existing government activities, with limited resources, determined and managed by the provincial governments.

Thus, the municipal administrations do not perform any functions with respect to the development and execution of economic and social plans for their villages, for example, and they further lack experience in the management of fiscal resources. It thus emerges that most municipal administrations are not capable to perform the tasks that will be assigned to them once they become autonomous governments.

Those resisting the transformation of municipal administrations into autonomous governments or even the fiscal decentralization argue that the lack of capacity of local administrators for public management renders it difficult or that it can even hinder the transfer of resources to the local administrations. According to those advocating this view, it is necessary to have *capacity* for the transfer of *responsibilities* and, subsequently, of *resources*. In this way, as the local administrations lack management capacity then they cannot be assigned functions and allocated resources.

Thus, there is a need to break this vicious cycle by building the capacity of local administrations to manage fiscal resources based on the transfer of minimum resources to enable the local managers to learn how to manage responsibly public resources. To this end, the local administrations are equally assigned minimum responsibilities, related mainly to social development so much so that while such mechanism leads to the capacity building in public resources management it also helps to reduce poverty.

In this connection, the Ministry of Territorial Administration – MAT, together with the United Nations Development Programme – UNDP, have proposed the setting up of a Municipal Development Fund – FDM, with the objective of transferring resources that are not earmarked from the central government to the municipal administrations. The FDM intends precisely to provide the municipal administrations with such minimum resources to allow for the capacity building of future municipalities both for the management of the fiscal cycle and for the promotion of social development leading, consequently, to poverty reduction.

Initially, the FDM will be established in four municipal administrations targeted by the joint MAT and UNDP Project on Fiscal Decentralization and Good Governance. Over the coming years up to the holding of local elections, the MAT has set itself the target to replicate this experience in other 37 municipal administrations, including the 18 provincial capitals. The objective is to build the capacity of at least 41 municipal administrations so that they get ready to take up their fiscal management and at the same time allow for the implementation of actions that will contribute to the social development of their villages in a bid to reduce poverty. The project envisages the implementation of the FDM before the local elections are held, to prepare the municipal administrations – future local municipalities – for the new functions that they will discharge following the elections.

In order to get an overview of the state of affairs in the inter-governmental relations in Angola and also the obstacles to be surmounted for the implementation of the FDM, it was proposed to undertake a diagnosis of the state of affairs concerning fiscal decentralization in the country. And this is precisely the purpose of this report.

In conducting this diagnosis we initially attempt to present a summary of the social and economic features of the country, as contained in section two. In the five subsequent sections, we provide an evaluation of the pillars in the inter-governmental fiscal relations. Then, in section three, we present the political and institutional context of fiscal decentralization in Angola, as we highlight the structure of the government structure and the pertinent legislation. The allocation of responsibilities and revenue between the central government and the local governments, as well as a review of the fiscal indicators are described in sections four and five, respectively. In section six, we refer to the existence of a formal system of inter-government transfer in Angola and we describe the mechanism for the transfer of resources from the central government to the provincial governments. Section seven seeks to present and discuss the principles and the budget cycle in Angola. Lastly, section eight presents some challenges to fiscal decentralization in Angola.

The last pillar in the inter-governmental fiscal relations, which is the sub-national loans, has not yet been developed in Angola. The local governments are autonomous and therefore they cannot legally get loans. Consequently, we do not discuss such theme in this report.

This report has been prepared based on interviews with the government authorities during the technical mission to Angola in August this year. In addition, existing legislation pertaining to decentralization and reports available were also reviewed.

## **2 – GENERAL FEATURES OF ANGOLA**

### **2.1 – Social and Economic Aspects<sup>1</sup>**

Angola is a country located on the western coast of Africa, bordering in the north and east the Democratic Republic of the Congo, further on the east Zambia, and in the south Namibia and on the west the Atlantic Ocean. Angola also includes the troubled Cabinda enclave, through which it shares a border with the Republic of the Congo in the north. The territory is divided into 18 provinces and 163 municipal administrations. The capital of the country is the city of Luanda located in the province with same name.

With its land area of approximately 1.2 million km<sup>2</sup>, Angola is the 22nd largest country in the world.

According to data provided by the Ministry of Finance, the Angolan population totalled some 17.7 million inhabitants in 2005. This figure can vary upward or downward given that the last Demographic Census held by the Angolan Government was in 1974. based on reports obtained in the interviews that preceded this report, the population of the country may vary between 10 and 20 million.

More than half of Angola's population is aged below or 20 and the average life expectancy is estimated at 42 years. Around 63% of the population lives below the poverty line and 80% of the people are unemployed. More than half the population, nearly 58%, is illiterate and the enrolment rate in primary education reaches just 74% of school age children<sup>2</sup>.

The access by the population to basic services is precarious: 59% of the people do not have access to potable water, 60% do not have sanitation and 76% do not have access to healthcare. The portion of the population that needs some degree of food aid stands at 22% of the total population whereas 13% of the people suffer from malnutrition.

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<sup>1</sup> The social indicators as well as the macroeconomic statistics for Angola remain unreliable. The country is in the process of organizing such information and because of that, the data presented subsequently should be looked at as estimates. The sources of information are not always official.

<sup>2</sup> UNDP, 2003.

According to official data from the UNHCR the internal displaced people (IDPs) are estimated at 3.5 million, and there over 350.000 Angolan refugees in neighbouring countries mostly in the Democratic Republic of the Congo and in Zambia (UNHCR, 2003).

Considering 17.7 million as a good population estimate, then the population density of the country is 14.2 inhabitants per km<sup>2</sup>. The province of Luanda, with a land area of just 2,257 km<sup>2</sup>, hosts more than ¼ of the country's population, which results in a massive population density – close to 2,069 inhabitants per km<sup>2</sup>.

Luanda is also the most industrialized province and the one with the highest economic growth, which results from the fact that it virtually did not suffer directly the effects of the civil war. This further explains the very high population density.

The war undermined profoundly the country's productive structure: it remove labour from productive activities and destroyed most basic infrastructures and the transport system (only 10% of the existing roads are paved roads - WB, 2004). Huge chunks of the territory are inaccessible due to landmines (there are still 6-7000000 landmines in about 35% of the country land area, INAROE, 2002).

The Angolan economy is essentially dependent of oil exports with reserves located mainly in Cabinda<sup>3</sup>. Oil production corresponds to 61% of the GDP in Angola, whereas 8% comes from agriculture and just 4% from industry.

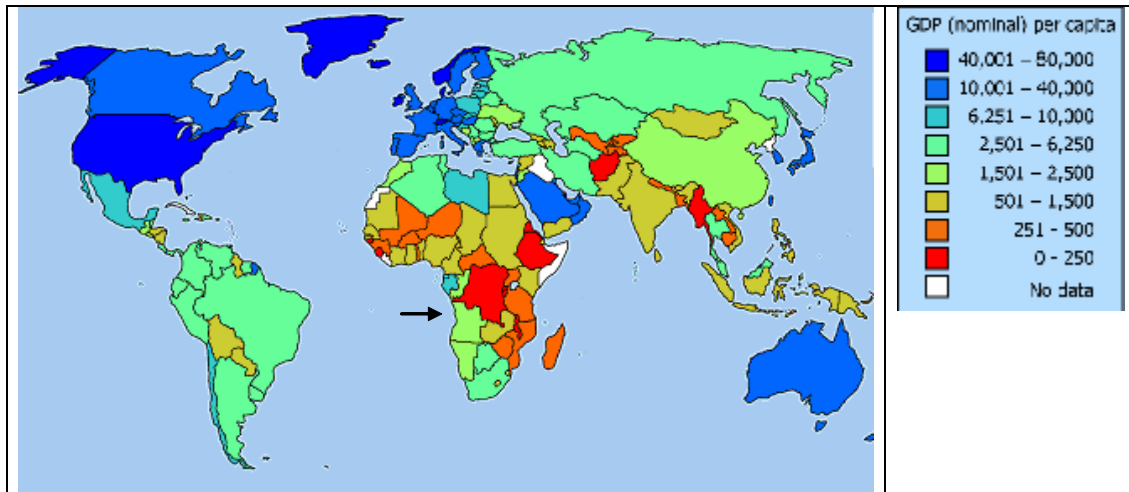
According to information provided by the research department in the Ministry of Finance, the country's GDP amounted to USD 35.7 million in 2005. The expectations for 2006 are for a strong real product growth – approximately 27.9% - because of international high oil prices. It is expected that this sector alone will present a real output of 37.2%.

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<sup>3</sup> More details on the features of Angola can be found in the free encyclopedia Wikipédia at this address: <http://pt.wikipedia.org/wiki/Angola>. However, there are not assurances that the information is updated because of the difficulty in obtaining social and economic statistics of the country.

The GDP per capita in 2005 amounted to USD 218, ranking the country at 104 in the world. According to IMF estimates, it ranks at 109. In the African continent, however, Angola appears as one of the countries with highest GDP per capita.

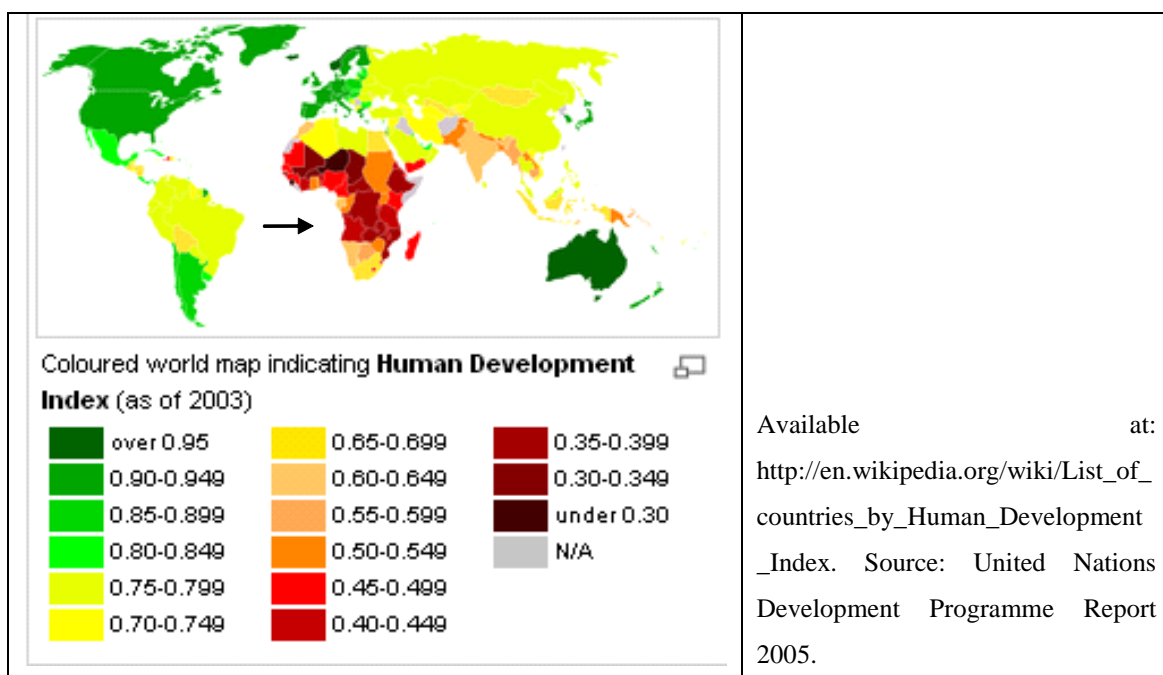
### Classification of countries GDP per capita – 2005 (USD)



Available at: [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_GDP\\_%28nominal%29\\_per\\_capita](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_%28nominal%29_per_capita).  
 Primary Source: IMF (2005).

Although Angola GDP per capita is not so low compared to other African countries, its human development index (0.381) is as low as that of the other countries. In the world context, Angola's HDI ranks at 166.

### Classification of countries based on HDI



Available at: [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_Human\\_Development\\_Index](http://en.wikipedia.org/wiki/List_of_countries_by_Human_Development_Index). Source: United Nations Development Programme Report 2005.

### **3 – FISCAL DECENTRALIZATION IN ANGOLA: POLITICAL AND INSTITUTIONAL BACKGROUND**

#### **3.1 – The size of the public sector in Angola and a snapshot of the degree of decentralization**

In 2005, the overall expenditures of the Angolan government amounted to USD 11,037 million or 30.9% of the GDP.

The overall revenues stood at USD 11,310 million or 31.7% of the GDP. In turn, tax revenues – excluding the resources resulting from loan amortization, sale of assets and internal and external funding, totalled about USD 9,522 million or 26.7% of the GDP.

The main source of revenue has been the collection of taxes, levies and charges – that is, taxable resources that amounted to approximately USD 8,133 million or 22.9% of the GDP.

Considering the distribution of expenditures by level of administration, it was found a low degree of fiscal decentralization in Angola: around 84% of overall expenditures were executed directly by the central government.

**Table 3.1**  
**Degree of Decentralization of Expenditures in Angola: 2005**

	<b>2004</b>	<b>2005</b>
<b>TOTAL</b>	<b>100</b>	<b>100</b>
Central Structure	84,5	84,7
Provinces	15,5	15,3

Prepared by the Authors. Primary Source: Ministry of Finance.

The prominence of the central government was also observed on the revenue side. Out of the total fiscal revenue collected in Angola, only 13% was in respect of the provinces and municipalities that make up the country.

Another issue worth pointing out is related to the strong concentration of tax revenue collection (both with respect to central and local governments) on the province of Luanda. Out of the 26.7% of the GDP generated in 2005, Luanda alone catered for 95.7%.

The same phenomenon occurs with regard to public expenditures. There is high concentration of expenditures in the province of Luanda, which alone was responsible for more than 25% of the total expenditures incurred by local governments.

**Table 3.2**  
**Degree of Regional Decentralization of Expenditures in Angola: 2005**

	2004	2005
<b>TOTAL</b>	<b>100</b>	<b>100</b>
Province of Luanda	28,7	26,0
Other Provinces	71,3	74,0

Prepared by the authors. Primary Source: Ministry of Finance.

### **3.2 – Political and Administrative Environment for Decentralization**

Angola became independent in 1975. In April 2002, the Angolan Government and UNITA (União Nacional pela Libertação Total de Angola) signed the Lusaka Protocol (peace agreement) ending 27 years of civil war. The Lusaka Protocol (Meijer, Ed, 2004:74) establishes that : “National reconciliation means that in compliance with the Constitutional Law of the Republic of Angola the country’s administration is to be effectively decentralized and deconcentrated” and that the “Provincial authorities should have autonomy on administrative, financial, taxation and economic matters”.

The 1992 Constitution stipulates (art. 145-7) that “*The organization of the State at the local level entails the existence of sub-national governments (local municipalities) and the local administrative structure*”. In accordance with the Constitutional Law, local municipalities should have elected representative bodies. During the 1990s, despite the

armed conflict, the Executive introduced an important legislation on decentralization and deconcentration: Decree Law 17/1999 and the Executive Decree 80/1999<sup>4</sup>.

However, because of the political instability, ethnic diversity and the ideology adopted by the government, Angola has delayed the implementation of the substantive stages towards decentralization and local governance. Indeed, since independence, Angola has built a highly centralized government that put at stake democracy and participatory governance. Many basic public services are provided from a central perspective, detached from the needs of the poorest people.

The government's visible commitment towards decentralization emerged in recent years. By the end of 2001, the government approved the Strategic Plan for Deconcentration and Decentralization. Essentially, the plan envisages a gradual process of decentralization that will first go through de-concentration until it culminates with the creation of autonomous local municipalities<sup>5</sup>.

In 2003, the Cabinet approved the Study on the Macro Structure of Local Power (UNDP, 2003). The study carries out a diagnosis of local government in Angola from 1975 to 2002. The study also made recommendations for a sound reform of decentralization of the country, which were approved by Cabinet (September 2003). The main recommendations are related to the functions of the sub-national governments, the functional relations between the different levels of local government, the local partnership and the organizational resources, namely human and financial. The recommendations of the study have been incorporated in some key national policies: the Strategic Plan for Poverty Reduction (PRSP), the National Strategy for Long-Term Development (2005-2025) and the Medium-Term Development Plan (2005-2011). The government programmes (2003-2004 and 2005-2006) propose a shared and detailed vision of the reforms towards de-concentration and decentralization.

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<sup>4</sup> The legislative structure for decentralization and local governance is described in greater detail in section 3.4.

<sup>5</sup> See section 3.5 for more details.

The First National Meeting on Local Administration, which was officially opened by the President of the Republic, was held from 30 August to 2 September 2004, with the participation of Government Ministers, Provincial Governors and Municipal and Village Administrators. The government is consequently engaged in the devolution of power to the municipalities, culminating with the future municipal elections, and alongside the review of the legal, administrative and financial structure for decentralization.

Nonetheless, the Angolan government lacks a formal strategy paper for the decentralization as well as concrete plans and a time schedule for the holding of local elections.

However, there is a broad and ongoing support in Parliament, in the Government and within the civil society for the reforms towards decentralization and the development of autonomous municipal authorities, within a unitary State structure. A new constitution has already been drafted but has not been approved yet. And even with the absence of Municipalities, there is a Directorate for Municipal Affairs in the Ministry of Territorial Administration, which shows some commitment by the Government towards decentralization. In the new constitution proposal, which is currently under discussion, it is provided for local elected governments with administrative and financial autonomy.

Meanwhile, the prospects and timeframe for the actual creation of local municipalities remain obscure. Nothing is expected to happen until the presidential elections are held probably in 2007. Also, depending on the outcome of such elections, the decentralization agenda may speed up or slow down, and this is something that nobody can really predict at this stage.

### **3.3 – Structure of the government sector in Angola**

The Decree-Law 17/99, otherwise known as the Law of Local Governments, defines the nature, powers, composition and organic structure of each of the local administration layers. In keeping with this decree, the political and administrative division of Local Governments is as follows: 18 provincial governments, 163 municipalities and 532

villages. The three layers of local governments are hierarchically related and integrated into the central government.



### ***Provinces***

In line with the Decree-Law 17/99, the provincial governments are bodies de-concentrated from central power in order to “*ensure the undertaking of specific attributions of State Administration, direct the economic and social development and secure the provision of community services in the respective geographic area*”. It is incumbent upon the provincial governments, therefore, to execute the policy of the central government at the provincial level, to coordinate the central government agencies in the territory (Provincial Directorates and Provincial Delegations), as well to supervise the municipal and village administrations and the traditional authorities.

The Provincial Governor, appointed by the President of the Republic, is the representative of the central government in the respective province. The Vice-

Governors, also appointed by the President of the Republic, may be assigned by the Governor the task to follow-up, handle and decide upon issues pertaining to certain fields. In the specific case of the Luanda Province, it has three Vice-Governors responsible for the technical, social and productive areas, respectively.

The organic structure of the provincial governments comprises the services listed below.

*Consultative Support Service:*

Provincial Council

*Technical Support Service:*

Legal Office

Inspection and Supervision Office

Research, Planning and Statistics Office

Government Secretariat

Support and Control Office of the Municipal and Village Administrations

*Administrative Services:*

Office of the Governor

Office of the Vice- Governors

Documentation and Information Centre

*Executive Services:*

Provincial Directorates

Provincial Delegations

*Sponsored Services:*

Local enterprises

The Research, Planning and Statistics Office – GEPE – is the main office in the provincial structure given that it is responsible for the planning, programming and coordination of the activities in the Province in the ambit of State Administration. The Director of GEPE, appointed by the Governor, is the person that in reality has the power to undertake, pursuant to the directives of the Governor, all the fiscal management in the

context of the territory. In this regard, it is the responsibility of the GEPE to prepare the budget, work out the financial programming and carry out the execution of the expenditure both in the direct application and with regard to the subordinate bodies, including the municipal administrations<sup>6</sup>.

In the provincial governments, there is a replica of the ministerial structure for each specific area, namely the Provincial Directorates, which are responsible for the execution of the policies defined centrally. The Provincial Directors are appointed by the Governor, following a favourable opinion from the Ministry of Territorial Administration, with the input from the sector Ministry. The Provincial Directorates depend organically, administratively and functionally from the government of the Province, and methodologically from the central body in charge of the sector. This means that there is a strong link between the Provincial Directors and their respective sector Ministries given that these are the entities that define the policy, supervise and follow-up on the execution of the actions. In the case of the Province of Luanda, the Provincial Directorate of Health also undertakes the fiscal management of its area.

The Ministries of Finance, Home Affairs and Justice, meanwhile, remain with their representations in the Provinces, termed as Provincial Delegations, which direct and execute the powers and competencies of the sector central organs that they represent in the Province. Their representatives are appointed jointly by a directive from the Minister of Territorial Administration and the central sector Minister, following a proposal by the Province Governor.

The Finance Provincial Delegation, through the tax offices, are responsible for the collection of the *established local taxes* as contained in the Executive Decree 80/99<sup>7</sup> and they further act as consultative bodies of the provincial governments with regard to the preparation and execution of expenditures. It is important to point out that the taxes collected locally are deposited in the Single Treasury Account, and the provincial

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<sup>6</sup> In the Provinces that are not yet linked to the State Financial Management System – SIGFE, the execution of expenditures fall under the responsibility of the Finance Provincial of the Ministry of Finance.

<sup>7</sup> The Executive Decree 80/99 defined some taxes as being local, but in reality it is collected by the Ministry of Finance through its Provincial Delegations.

governments can only use it with the authorization from the Ministry of Finance. In section 5, this process is presented in more detail.

The provincial government is a State budget unit and as such it is entitled to a portion of the State General Budget (OGE). All resources managed by the provincial governments, as mentioned above, come from the Central Government based on financial quotas defined by the Ministry of Finance. These financial transfers from the OGE to the Provinces are made according to technical and objective criteria (e.g. population, development indicators and revenue performance).

The staff in the Provinces is poorly trained and their profile is inadequate to the functions assigned to them. The employees from the provincial governments are selected and hired by the Ministry of Public Administration and Social Security – MAPESS and of Personnel that distributes them throughout the Provinces. Meanwhile, there is an obvious asymmetry in the distribution of human resources amongst the provincial governments, with the limited functional body of those more qualified concentrated mainly in Luanda, followed by Bengo, Benguela and Huila, where the war produced less impact.

### ***Municipal Administrations***

The municipal administrations are de-concentrated bodies of the central government, reporting in respect of their activities directly to the provincial government. Their functions, in accordance with Decree-Law 17/99, are the same as those described for the Provinces except that confined to the territory of the respective municipality. The municipal administration has the responsibility to execute the deliberations of the provincial government and the decisions of the Governor in their territory. Apart from the traditional area of services related to the life in the communities, it is also envisaged an intervention in the economic and social arenas.

The Administrator of the Municipality is appointed by the Governor to whom he/she is accountable, following a favourable opinion of the Ministry of Territorial

Administration. The same process also applies to the Deputy Administrator of the Municipality.

The organic structure of the municipal administrations entails the services listed below:

*Consultative Support Service:*

Municipal Council

*Technical Support Service:*

Administration Secretariat

Research, Planning and Statistics Section

*Administrative Services:*

Office of the Administrator

Office of the Deputy Administrator

Documentation and Information Centre

*Executive Services:*

Economic and Social Affairs Section

Organization, Community Services and Inspection Section

Municipal Section of the Ministries

The Municipal Council comprises the Municipal Administrator, as the chair, the Deputy Administrator and the Heads of Sections. The Council can also include natural persons or collective bodies if invited by the Administrator of the Municipality, but these members are not remunerated. In the case of the municipality of Kilamba Kiaxi, located in the Province of Luanda, the Council meets ordinarily every three months and its main function is to approve the schedule of needs prepared by the municipal administration. Such council may operate as the seed for the future municipal council after municipal elections are held (see Box 3.1 for an example of the role played by the Municipal Council in Kilamba Kiaxi).

In the same token as the provincial government, in the structure of municipal administrations there is the Research, Planning and Statistics Section, headed by a

Section Chief, who formally has the responsibility to carry out studies and reviews on matters covered within the attributions of the municipal administration. In practice, however, his/her function consists merely of submitting to the GEPE of the provincial government on a monthly basis their needs of goods and services, i.e. expenditures for the maintenance of the municipal administration. This expenditure item includes the payment of electricity, water, telephone, stationery, pay television fee, and other similar expenditures. Generally, this schedule of needs is presented monthly to GEPE and reflects the previous month.

This section has also the responsibility to prepare and submit to the provincial GEPE a schedule of needs regarding the services provided to the community. Also in this case, in many municipalities, the schedule of needs is essentially a replica of the one presented in the preceding year. Therefore, the head of this section does not act directly in any of the stages of the fiscal management cycle, except minimally in the phase of identifying the needs of the municipality.

The municipal administrations also have the replica of the ministerial structure. The Municipal Section of Ministries, as it is called, should be the service that leads and executes the attributions and competencies of the sector provincial body it represents in the Municipality. In reality, the role of the Municipal Section is rather limited because of the lack of institutional capacity and the shortage of technicians. There are municipalities where these sections only comprise their chiefs.

The assignment of roles/functions to the municipalities is not accompanied by an adequate allocation of financial resources and human capital.

**Box 3.1 - An example of participatory budget: the relationship of Kilamba Kiaxi and the Province of Luanda**

*In the preparation of capital biannual plan, also termed as the schedule of needs, the municipality of Kilamba Kiaxi defines a series of priorities following previous discussions with their community. Such discussions follow a vertical hierarchy within the committee of residents that make up the municipality: quarter → neighbourhood → village → municipality (quarteirão → bairro → comuna → município).*

*Whenever there is a transition from one layer to the next, the priorities are consolidated and made compatible. This process is concluded in the committee of residents which brings together a set of needs to be considered by the Municipal Council which include representatives of the said committee, the Heads of Villages, the Section Chiefs, as well as other members from civil society deemed as relevant.*

*Following the discussions held in the ambit of the Municipal Council, which is chaired by the Administrator of the Municipality, the schedule of needs is finally prepared to be submitted to the Provincial government. This, in turn, will prepare its own schedule of needs taking into consideration the input from all municipalities of the territory.*

*The process of development of the capital plan described above is provided for in the norms that govern the functioning of the Angolan government, but according to reports obtained during the interviews with members from the Administration of Kilamba Kiaxi and from the Province of Luanda, not all municipalities and Provinces follow all the steps of negotiations envisaged. This process depends on the political will of the local authorities, but according to the interviewees, the negotiations have been conducted successfully in Luanda.*

*Meanwhile, it is worth pointing out that the existence of a schedule of needs does not always ensure that they will be heeded. The local governments depend on the definition of budget thresholds, which are set by the central government. This in*

*turn does not always take on board the real needs of the lower layers of administration.*

*Again as stated by the interviewees, the government of the Province of Luanda reported that presently it prepares two capital plans: one based on the sums defined centrally in the improvements plan and the other based on what the Province and its respective municipalities really need.*

Differently from the Provinces, the municipalities do not have the status of budget units and neither do they enjoy any autonomy to control their own resources. The municipal administrations are bodies that are dependent on the provincial governments, i.e. this means that they are not part of the State General Budget. The provincial governments are the ones that determine on a monthly basis the amount of resources that are available to the municipal administrations. These allocations are made in a discretionary and ad hoc fashion by the governors and the resources are earmarked just for the purchased of goods and services for the maintenance of the municipal administration.

Given that the municipal administrations are not Budget Units, they cannot manage directly the resources allocated to them by the provincial governments. Thus, the whole financial execution of municipal expenditures is carried out by the provincial governments in keeping with the needs pinpointed by the municipal administrations.

The staff from municipal administrations is rather reduced and affected by a dramatic shortage of administrative and technical staff.

### ***Villages***

Villages (comunas) are de-concentrated bodies of the central administrative power in their geographical area that are accountable for their activities to the municipal administration and they correspond to the lowest layer in the sub-national structure. The village is headed by the Village Administrator who is appointed by the Governor, in consultation with the Ministry of Territorial Administration.

The core responsibilities of the villages are related to the organization and maintenance of basic public services: waste collection, road maintenance, parks, cemeteries and marketplaces. In practice, the village administrators have to “follow-up and support” the organization and the work in the community villages in the same token as the traditional authorities. In reality, the Village Administrators act as spokespeople for the day-to-day problems of the community.

### **3.4 – Legislative structure for decentralization and local governance**

Angola has a legislative structure that is not complete for local government and there are contradictions between the constitutional principles and the ordinary legislation.

#### ***Constitution***

**The 1992 Constitution**, especially articles 145 and 147 of chapter VII, provides the framework for the decentralized structure of governance in Angola. Opting for the conciliation between the centralized presence of the State with the democratic participation in the selection of local leaders, the Constitution classifies the territorial bodies into two categories:

- Autonomous bodies, the sub-national governments (local municipalities), defined as collective people that pursue the accomplishment of specific interests of the population involved with the elected representative bodies; and
- Local administrative bodies, defined as local administrative units de-concentrated from the central authority that seek to ensure that a specific function of State administration is being executed at the local level, guide the economic and social development and ensure that basic services to the communities are being offered in the respective geographic area.

The Provincial Governor is discussed in the same chapter and defined as the representative of the central government in the respective province, with the

responsibility to rule the Province and provide for the smooth functioning of the local organs.

A new constitution, which is under preparation, reinforces the pact towards decentralization.

**The draft constitution** includes a section on local government. According to the draft, local municipalities will be established gradually. The draft constitution defines the local governments (local municipalities) as collective entities whose objective is to represent and cater for the interests of the residents in a specific territorial area through appropriate structures. The structure of local governments (local municipalities) encompasses the Assembly, the Executive Power and the President. The Assembly is elected periodically through free, secret and universal suffrage elections for a four-year term. The local governments (local municipalities) have administrative and financial autonomy.

According to the draft constitution, the Provincial Governors are proposed by the majority party in the Province and appointed by the President of the Republic. In the areas that have not been selected for pilot decentralization in the first phase, the Municipal and Village Administrators are proposed by the provincial governor and appointed by the Minister for Territorial Administration. The draft constitution establishes that the traditional authorities will be catered for through a future specific legislation. It acknowledges the participation of the citizens in the definition of local resolutions, but it does not identify the specific vehicles/tools to secure their participation. Another important innovation in the draft constitution is the provision for the establishment of a High Level Anti-Corruption Commission.

### ***Ordinary Legislation (chronological order)***

***Financial Decentralization*** Decree-Law 6/95 and subsequent directives (despachos): 29/96, 38/96 and Executive Decree 80/99.

In keeping with Decree-Law 6/95, the Minister of Finance should apportion an overall percentage of tax revenue<sup>8</sup> and allocate it to the budgets of provincial and local administrations. The provincial government can suggest the percentage to be shared out based on criteria to be set in an additional legislation.

Directives 29/96 and 38/96 allocate, respectively, to the Provinces of Zaire and Cabinda 10% of the oil revenue.

The Executive Decree 80/99 of the Minister of Finance is conceived as a transitional measure pending the approval of the law on local finances. The Executive Decree 80/99 allocates the revenue from selected taxes<sup>9</sup> to the Provinces. The Provinces can retain “at source” the revenue from some national taxes stipulated in the ED 80/99, which will be deducted from the monthly transfers set centrally and which the Provinces receive, in line with the annual budget allocation. In addition, the Executive Decree 80/99 establishes that the resources transferred to the provincial governments can be spent on specific budget lines for development as pre-defined by the central government (35% administrative services, 60% infrastructure and 5% emergencies).

***Organizational and Functional Structure of Provincial Governments and Municipal and Village Administrations.*** Decree Law 17/99.

Decree-Law 17/99 is regarded as the “face” of the start of the de-concentration process in Angola. Furthermore, Decree-Law introduces some key elements for de-concentration:

- Recognition of the legitimacy of provincial governments also as municipal and village administrations to perform the role and responsibilities inherent to the sub-national governments until these are established;
- Reinforcement of the authority of provincial governments with the transformation of most delegations into provincial directorates;

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<sup>8</sup> Decree-Law 17/99 refers to “revenue resulting from Direct Taxes such as Corporation Tax Group C, Urban Property Tax and Inheritance and Donation Tax”

<sup>9</sup> In Section 5, in respect of revenue, there is the description of the so-called local taxes.

- Recognition of the extension of the formal organization of the State to the villages.

***Regulation of the Provincial Governments and Municipal and Village Administrations.*** Decree-Law 17/99 followed by Decree 27/00.

The latter Decree is aimed at eliminating the structure and services at the municipal and village level that used to fall under the responsibility of the central government and at establishing mechanisms to improve the efficiency and effectiveness of human, material and financial resources.

***Land Law.*** Approved in August 2004 (9/04) and its “complementary regulation” of 23 August 2006.

This legislation places most of the responsibility for the management of the soil on local governments (local municipalities).

### ***Legislation of Urban and Rural Planning – 2005.***

The legislation establishes the roles of the State and of the autonomous local governments (local municipalities) in the planning. The municipal sections should undertake, with the technical support from the provincial level, the adequate planning of their functions. At the municipal level, the municipal development plan (Municipal Master Plan) serves as the basis for the territorial planning. Although it does not establish the form of citizen’s participation in the development of such instruments, the Law, in its article 21, refers to the need of citizen’s participation in the planning, execution and review of the territorial plans.

### **3.5 – Initiatives for the Reform of the Legislation<sup>10</sup>**

The Strategic Plan for the De-concentration and Decentralization provides for the review of the main laws related to decentralization like Decree-Law 17/99 and the

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<sup>10</sup> This section of the report will be reviewed after the approval of the review of Decree-Law 17/99.

Executive Decree 80/99. The Angolan government is at present engaged in the review of Decree-Law 17/99 having the proposal been already passed by the National Assembly and it is now awaiting the endorsement by Cabinet.

The review focuses on the financial, functional and organizational structure of the local system of administration. The main modifications proposed are:

- *Financial.* Transformation of the municipal administration into budget units of the State General Budget;
- *Role and functions.* Assignment of specific functions to the Deputy Governors; transfer of provincial functions (for example, water and sanitation) to the municipal administrations;
- *Organization.* Establishment of a “Social Consultation Council” including the civil society, NGOs, CSOs and the private sector apart from the ordinary State bodies at the provincial and municipal level; transformation of the remaining Provincial Delegations (Finance, Justice and Home Affairs) into Provincial Directorates; establishment of the “holder of municipal administration”.

## **4 – Allocation of the functions and responsibilities for expenditures in Angola**

### **4.1 – Description and diagnosis of the allocation of responsibilities**

#### *Responsibilities of local governments*

Local governments basically act as de-concentrated bodies of the central power, with the primary responsibility for the execution of the policies set out by sectoral ministries. The model adopted is therefore that of delegated functions from the central government to the local governments.

The activities executed by the local administrations are consolidated into the State General Budget (OGE), as it is current practice in the soviet countries. There is only one budget item in the country that consolidates all programmes and activities developed both by the government central structure and by the local governments.

Decree-Law 17/99 is the legislation that establishes the functions of each level of local administration. In keeping with this Decree, the provincial governments have the following responsibilities:

- Public Security;
- Culture;
- Social, educational and health assistance;
- Preservation of the national and local historic heritage;
- Municipal and village libraries;
- Urbanization;
- Economic development.

The responsibilities of the municipal administrations are:

- Public security;
- Social, educational and health assistance;
- Public hygiene and sanitation;
- Urbanism, waste collection and treatment, lighting, road signs, toponymy and cadastres;
- Parks, gardens, green zones;
- Public markets, cemeteries and fairs; and
- Local development.

The villages, in turn, have similar functions to those of the municipal administrations, the only difference being that they act in a more restricted territorial area:

- Public hygiene and sanitation;
- Urbanism, waste collection and treatment, lighting, road signs, toponymy and cadastres;
- Parks, gardens, green zones;
- Local development; and
- Public markets and cemeteries.

This hints that there is not a clear legal division of powers between the local levels of administration and between these and the central government. Generally, the sectoral ministries are responsible for the planning, regulation, evaluation and supervision of the policies while the provincial governments execute some programmes developed centrally. The development of such model is based on the existence of the Provincial Directorates from the ministries (except the Ministries of Finance, Home Affairs and Justice) which kind of an “arm” of the ministries in the provincial governments.

**Box 4.1 – *The Health Sector in Angola***

*The National Health System comprises the Ministry of Health and the national public and private network of healthcare provision. The Ministry of Health is responsible for the regulation, planning and definition of sectoral policies, and for the evaluation and monitoring of the National Health System. In turn, the*

*provincial governments have the responsibility to ensure the functioning of the health units under their tutelage.*

*The health system is divided into three levels:*

- primary level, related to low complexity services, and consisting of approximately 228 municipal hospitals and health referral centres, with about 1.450 health posts and community promoters;*
- secondary level, related to medium complexity services, and consisting of 32 general hospitals, including the provincial hospitals;*
- tertiary level, related to high complexity services, and consisting of 8 central and specialized hospitals.*

*The Central Government, through the Ministry of Health, has the responsibility to monitor directly the national or central hospitals, the National Health Council and the public institutes. The provincial hospitals administratively are accountable to the Provincial Directorates of Health from the provincial Governments and financially to the Ministry of Finance given that they are Budget Units in the OGE. The health posts and centres and the municipal hospitals are administratively and financially accountable to the provincial governments through the municipal administrations.*

#### **4.2 – Degree of expenditure decentralization**

The making of expenditures in Angola is strongly concentrated on the structure of the central government. Despite the reduction of the participation of the central structure in the overall expenditures during 2004 and 2005, compared to the two preceding years, the percentage of expenditures by this government level remains very high. During the last two years for which data is available, the central structure was responsible for 84.5% and 84.7%, respectively, of the expenditures made, with the provincial governments accounting for a little more than 15%. It should be pointed out that the central structure includes the ministries and their subordinate bodies, public institutes and expenditures with the legislative and the judiciary.

The strong participation at the central government level can be explained by the capital expenditure that continued to be undertaken directly by bodies that are dependent on the central structure.

Another explanation lies on the fact that the resources earmarked to the local governments do not always tally with their needs. As already mentioned, the central government does not define the financial quotas to which the lower levels of government are entitled based on technical and/or in accordance with the responsibilities assigned to them. As a result, the central level ends up executing directly the expenditures, which in principle should be executed by the Provinces and by the municipal administrations.

**Table 4.1**  
**Distribution of Expenditures by Locations: 2001 to 2005<sup>11</sup>**

Locality	2001	2002	2003	2004	2005
<b>TOTAL</b>	<b>100,00</b>	<b>100,00</b>	<b>100,00</b>	<b>100,00</b>	<b>100,00</b>
Structure Central	84,28	86,91	89,25	84,46	84,75
Luanda	4,84	3,37	2,47	4,46	3,96
Bengo	0,29	0,35	0,29	0,40	0,50
Benguela	1,54	1,39	1,11	1,73	1,71
Bié	0,51	0,51	0,47	0,61	0,73
Cabinda	2,22	1,35	1,03	0,69	1,33
Huambo	0,73	0,87	0,79	1,16	1,10
Huíla	0,97	0,95	0,89	1,46	1,14
Kuando-Kubango	0,31	0,41	0,31	0,27	0,39
Kunene	0,39	0,25	0,28	0,43	0,42
Kwanza-Norte	0,35	0,28	0,30	0,48	0,37
Kwanza-Sul	0,57	0,57	0,47	0,80	0,80
Lunda-Norte	0,39	0,40	0,33	0,32	0,35
Lunda-Sul	0,29	0,28	0,25	0,44	0,35
Malanje	0,34	0,33	0,28	0,35	0,36
Moxico	0,42	0,37	0,44	0,54	0,45
Namibe	0,46	0,36	0,29	0,41	0,34
Uíge	0,40	0,48	0,34	0,64	0,65
Zaire	0,69	0,56	0,42	0,34	0,31

Prepared by the Authors. Primary Source: Ministry of Finance.

<sup>11</sup> Data pertaining to expenditures incurred.

### *Structure and Regional Distribution of Expenditures*

The regional distribution of expenditures is also very concentrated. As can be seen in Table 4.2, the Province of Luanda accounts for more than ¼ of the expenditures incurred in all Provinces.

Comparing the provincial distribution of expenditures with the participation of each locality in the total population of the country, it was found a shift in the percentages obtained. The data shows once again the absence of technical criteria to calculate the financial quotas that are monthly allocated to the Provinces.

Cabinda, Bengo, Lunda-Sul, Namibe and Zaire were the main Provinces that incurred expenditures in 2005 with percentages higher than their participation in the total population. In the case of Cabinda, the country's main oil reserve, such result should reflect increased tax collection, as will be illustrated in section 5.

**Table 4.2**  
**Distribution of Expenditures per Province: 2004 e 2005<sup>12</sup>**

	2004	2005	Population
<b>TOTAL</b>	<b>100,00</b>	<b>100,00</b>	<b>100,0</b>
Luanda	28,67	25,95	26,40
Bengo	2,59	3,26	1,32
Benguela	11,16	11,22	15,40
Bié	3,91	4,80	6,59
Cabinda	4,41	8,74	2,89
Huambo	7,48	7,20	7,35
Huíla	9,41	7,46	8,44
Kuando-Kubango	1,74	2,52	2,10
Kunene	2,76	2,74	2,14
Kwanza-Norte	3,07	2,44	2,12
Kwanza-Sul	5,17	5,26	5,81
Lunda-Norte	2,07	2,30	3,28
Lunda-Sul	2,85	2,27	1,53
Malanje	2,23	2,34	2,83
Moxico	3,50	2,93	2,79
Namibe	2,66	2,26	1,19
Uíge	4,13	4,26	6,50
Zaire	2,17	2,06	1,32

Prepared by the Authors. Primary Source: Ministry of Finance.

<sup>12</sup> Data related to the expenditures incurred.

### *Structure and Regional Distribution of Expenditures by Function*

Apart from analyzing the regional distribution of expenditures, it is also important to understand the degree of decentralization by economic function and by locality. The data used in this analysis are from the proposal for the State General Budget for 2005, i.e., they refer to the planned expenditures given the unavailability of information about the budget execution and not the expenditures incurred as in the case of the preceding Tables.

It should be noted that in the functions pertaining to education, social security and assistance, health, culture and sports, and housing and community services, the participation envisaged in the OGE for the central structure is lower than the average for the total expenditures. Nonetheless, the participation of the central structure is still high when one considers that such functions are typically offered by local governments.

**Table 4.3**  
**Distribution of Expenditures<sup>13</sup> by Function and by Location: 2005**

	<b>TOTAL</b>	<b>Central Structure</b>	<b>Province of Luanda</b>	<b>Other Provinces</b>
<b>TOTAL</b>	<b>100,00</b>	<b>82,53</b>	<b>6,30</b>	<b>11,17</b>
Agriculture, Fisheries & Environment	100,00	94,97	2,32	2,71
Fuel & Energy	100,00	94,94	0,44	4,63
Trade & Services	100,00	96,77	0,00	3,23
Culture & Sports	100,00	59,06	33,62	7,32
National Defence	100,00	96,45	3,55	0,0
Education	100,00	39,63	17,11	43,26
Financial Costs	100,00	100,00	0,0	0,0
Housing & Community Services	100,00	68,43	19,23	12,34
Industry & Mining	100,00	99,05	0,00	0,95
Other Economic Services	100,00	99,90	0,03	0,06
Health	100,00	50,43	7,11	42,46
Social Security & Assistance	100,00	49,15	40,31	10,54
Security & Public Order	100,00	98,83	0,16	1,01
General Public Services	100,00	79,44	2,32	18,23
Transport & Communications	100,00	92,22	3,39	4,39

Prepared by the Authors. Primary Sources: Ministry of Finance.

<sup>13</sup> Data pertaining to expenditures envisaged in the State General Budget for 2005, because of the unavailability of information of actual expenditures incurred by locality and by economic function.

Education was the function that presented the lowest participation in the central structure. Nonetheless, it is envisaged that almost 40% of the planned expenditures will be undertaken by the central structure. Considering that the central structure is the one that presented one of the highest degrees of expenditures execution in the OGE for 2005, more than 82% of the expenditures made, whereas the average for the Provinces was 68%, it may turn out that the final picture will present an even higher degree of concentration. The same rationale can be applied to the other functions.

Another important point in Table 4.3 is the strong participation of Luanda, compared to the other Provinces, in the expenditures related to social security and assistance, and culture and sports. In such functions, the participation of Luanda is four times greater than that of the other Provinces.

Table 4.4 presents the expenditures envisaged in the OGE for 2005 by economic function for each of the Provinces where it is possible to verify the weight of Luanda in the decentralized public expenditures in Angola.

**Table 4.4**

**Distribution of Expenditures by Function and by Province: 2005**

<b>TOTAL</b>	<b>Agriculture, Fisheries &amp; Environment</b>	<b>Fuels &amp; Energy</b>	<b>Trade &amp; Services</b>	<b>Culture &amp; Sports</b>	<b>Educatio n</b>	<b>Housing &amp; Communi ty Services</b>	<b>Industry &amp; Mining</b>	<b>Other Economic Services</b>	<b>Health</b>	<b>Social Security &amp; Assistance</b>	<b>Security &amp; Public Order</b>	<b>General Public Services</b>	<b>Transports &amp; Communica tions</b>
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Luanda	46,15	8,62	0	82,12	28,35	60,91	0	34,52	14,35	79,27	13,47	11,30	43,61
Bengo	2,92	4,50	23,37	0,60	1,61	2,47	0	0	2,06	2,53	4,08	3,06	0,72
Benguela	16,55	6,48	0	1,81	17,06	3,47	47,88	0	15,66	1,49	7,14	6,62	1,09
Bié	2,00	0,77	0	0	3,66	0,27	0	0	7,55	0,86	6,19	5,15	0
Cabinda	13,77	53,07	41,86	8,73	5,72	14,52	52,12	0	9,31	0,74	5,59	7,79	34,84
Huambo	2,28	0	0	2,05	8,38	3,62	0	0	9,60	1,24	5,79	6,22	0,46
Huíla	3,95	5,96	34,77	0,78	8,15	1,22	0	0	7,32	1,26	7,13	6,96	1,63
Kuando													
Kubango	0	0	0	0	0,13	0,20	0	0	2,25	1,71	3,75	5,83	0
Kunene	5,80	0,70	0	0,29	1,90	0,76	0	0	2,33	0,26	4,75	3,78	0
Kwanza													
Norte	0,55	6,33	0	1,25	2,78	1,69	0	0	2,52	0,45	4,40	3,40	3,30
Kwanza													
Sul	1,10	0	0	2,39	6,92	0,27	0	0	5,41	1,92	5,92	5,08	0,62
Lunda													
Norte	0	0	0	0	0,77	1,18	0	0	2,65	1,45	4,68	4,06	0,35
Lunda													
Sul	0	0	0	0	1,59	0,51	0	0	1,64	1,90	4,62	4,02	4,39
Malanje	1,78	0	0	0	2,62	0,26	0	0	3,08	0,87	3,66	4,27	0,34
Moxico	0	1,48	0	0	0,56	1,30	0	65,48	3,73	3,10	5,79	8,34	0
Namibe	0,11	0	0	0	2,09	1,26	0	0	2,47	0,07	4,61	3,55	1,44

Uíge	0	1,12	0	0	6,32	1,25	0	0	5,19	0,58	3,86	5,86	3,05
Zaire	3,05	10,97	0	0	1,39	4,85	0	0	2,89	0,31	4,57	4,71	4,17

Prepared by the Authors. Primary Source: Ministry of Finance.

## 5 – STRUCTURE OF REVENUE IN ANGOLA

### 5.1 – Description & diagnosis of revenue allocation

#### *Total Tax Revenue*

In 2005, the Angolan government collected USD 9,522.2 million and most of this amount represented tax revenues.

It is worth highlighting that the country is heavily dependent on oil revenue. Out of the total revenue collected last year, about 75% resulted from taxes and other levies on oil related activities.

**Table 5.1**  
**Fiscal Revenue in Angola: 2005**

	<b>USD Millions</b>	<b>% of Total</b>
<b>TOTAL</b>	<b>9.522,2</b>	<b>100,0</b>
<b>Tax Revenue</b>	<b>8.183,4</b>	<b>85,9</b>
Oil	5.915,9	62,1
Non-oil	2.267,5	23,8
<b>Other Revenue</b>	<b>1.338,7</b>	<b>14,1</b>
Oil	1.268,9	13,3
Non-oil	69,9	0,7

Prepared by the Authors. Primary Source: Ministry of Finance.

Another relevant point is related to the heavy dependence on revenue collection in the Province of Luanda, which alone was accountable for virtually all the revenue resources collected in the country, both tax and non-tax related (Table 5.2).

**Table 5.2****Distribution of Fiscal Revenue per Province: 2005**

	<b>TOTAL</b>	<b>Tax Revenue</b>	<b>Other Revenue</b>
<b>TOTAL</b>	<b>100,00</b>	<b>100,00</b>	<b>100,00</b>
Luanda	95,67	95,31	97,88
Bengo	0,08	0,09	0,02
Benguela	1,01	1,11	0,37
Bié	0,06	0,04	0,16
Cabinda	1,12	1,16	0,90
Huambo	0,07	0,07	0,11
Huíla	0,22	0,24	0,13
Kuando-Kubango	0,04	0,04	0,03
Kunene	0,21	0,23	0,07
Kwanza-Norte	0,08	0,09	0,01
Kwanza-Sul	0,06	0,06	0,09
Lunda-Norte	0,08	0,09	0,01
Lunda-Sul	0,08	0,09	0,04
Malanje	0,03	0,03	0,03
Moxico	0,03	0,03	0,02
Namibe	0,30	0,33	0,08
Uíge	0,02	0,02	0,02
Zaire	0,85	0,98	0,04

Prepared by the Authors. Primary Source: Ministry of Finance.

The importance of Luanda is closely linked to the fact that the country's capital city is located in such province and it is where the main economic activities take place. Although Luanda does not account for oil production (Cabinda is the main source of production), the head offices of the oil sector exploration companies are located in its territory.

It is worth recalling that the distribution presented in Table 5.2 does reflect the distribution of resources between the levels of administration, but just the origin of the overall State resources per Province.

### ***Tax Revenue***

Most of Angola's tax revenue comes from income tax, which is worth comparing with other developing countries where the taxes levied on goods and services are usually predominant<sup>14</sup>.

*A more detailed picture is presented by the Ministry of Finance which posted on the Internet a summary about the taxation system. The document can be found at the following site: <http://www.minfin.gv.ao/dni/sintese.pdf>.*

*By accessing to the Ministry's site (<http://www.minfin.gv.ao/>) and then clicking on "fiscalidade (taxation)" (on the left side of the main page), it is also possible to find the legislation related to each tax.*

*In the annex to this report, there is a table that summarizes the major taxes levied in Angola.*

The explanation to this phenomenon can be found in the taxation of oil. If such revenue was to be excluded from the analysis, income taxes would remain relevant but in a smaller proportion. Furthermore, the excise and external trade duties would otherwise become more significant. (see Table 5.3).

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<sup>14</sup> Income taxes are levied on the income of natural persons and on the income and profit of corporations. More details on the legislation related to such taxes can be found on the Internet at the site: <http://www.minfin.gv.ao/dni/imposto/rend.htm>.

**Table 5.3**  
**Composition of Tax Revenue by the Main**  
**Taxable Modalities: 2005**

	% of the Total	
	With Oil	Without Oil
<b>TOTAL</b>	<b>100,00</b>	<b>100,00</b>
Income	66,37	32,50
Assets	0,16	0,57
Output	15,38	1,64
Consumption	7,66	27,64
External Trade	5,06	18,28
Miscellaneous	3,46	12,49
Fees	1,91	6,90
Social Security Contributions	0,00	0,00

Prepared by the Authors. Primary Source: Ministry of Finances.

According to information collected from the Taxation Department in the Ministry of Finance, a taxation reform is planned with the objective to reduce the number of taxes levied under the traditional taxation base. In the wake of such reforms, the taxes that are currently levied on goods and services would be converted into the value added tax.

The observation of the distribution of the main taxable modalities per province, presented in Table 5.4, once again showed the importance of Luanda in the generation of tax revenue.

It should be noted that only in two taxable modalities – miscellaneous and social contribution – there was a lower contribution in Luanda. Under the item miscellaneous – which include tax on assets, stamp tax and vehicle tax (see Annex 1) –, apart from Luanda, the Provinces of Zaire and Cabinda had also been significant. Under the item social security contributions, virtually all the revenues were collected in Huíla. Nonetheless, it should be noted that the resources from this modality had an almost zero representation in the overall tax revenue collected in the country.

**Table 5.4**  
**Distribution of Tax Revenue per Province**  
**Main Taxable Modalities: 2005**

	<b>TOTAL</b>	<b>Income</b>	<b>Assets</b>	<b>Output</b>	<b>Consumption</b>	<b>External Trade</b>	<b>Miscellaneous</b>	<b>Fees</b>	<b>Social Security Contributions</b>
<b>TOTAL</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
Luanda	95,31	98,16	85,30	100,00	89,09	88,41	53,44	78,30	9,19
Bengo	0,09	0,02	0,02	0,00	0,84	0,15	0,02	0,05	0,00
Benguela	1,11	0,32	7,40	0,00	4,42	4,23	4,84	9,00	0,00
Bié	0,04	0,05	0,33	0,00	0,00	0,00	0,18	0,09	0,00
Cabinda	1,16	0,57	0,39	0,00	0,91	2,67	13,42	5,84	0,00
Huambo	0,07	0,08	1,08	0,00	0,05	0,00	0,22	0,10	0,00
Huíla	0,24	0,17	3,33	0,00	0,98	0,01	1,06	0,33	90,81
Kuando-Kubango	0,04	0,02	0,09	0,00	0,14	0,22	0,06	0,12	0,00
Kunene	0,23	0,03	0,01	0,00	1,16	1,53	0,21	1,62	0,00
Kwanza-Norte	0,09	0,06	0,07	0,00	0,66	0,00	0,10	0,09	0,00
Kwanza-Sul	0,06	0,06	0,79	0,00	0,03	0,00	0,25	0,17	0,00
Lunda-Norte	0,09	0,13	0,01	0,00	0,00	0,00	0,03	0,01	0,00
Lunda-Sul	0,09	0,12	0,21	0,00	0,00	0,00	0,12	0,07	0,00
Malanje	0,03	0,03	0,18	0,00	0,01	0,00	0,22	0,13	0,00
Moxico	0,03	0,03	0,09	0,00	0,01	0,00	0,04	0,11	0,00
Namibe	0,33	0,06	0,59	0,00	1,34	2,32	0,75	2,33	0,00
Uíge	0,02	0,03	0,06	0,00	0,00	0,00	0,04	0,06	0,00
Zaire	0,98	0,05	0,05	0,00	0,35	0,44	25,01	1,57	0,00

Prepared by the Authors. Primary Source: Ministry of Finance.

The distribution presented in Table 5.4 does not mean that the revenue collected in each province is allocated to the same provinces. As observed in relation to Table 5.2, the data presented above only refer to the source of the resources.

### ***Local Revenue***

The Executive Decree n° 80/99 (DE 80/99) established a number of taxes and other revenues that should be allocated to the local governments – Provinces and municipal administrations. Table 5.5 contains a summary of such resources.

Although the ED 80/99 deals with the definition of local revenue, the correct thing would be to consider that such Decree actually legislates on the allocation of resources to the provincial governments.

The municipalities are bodies that are dependent on the Provinces and, as such, act essentially as administration agencies at the intermediary level. They do not have own resources and their share of local revenues is determined by the Provinces. As stipulated in the very ED 80/99: “8. *It is the responsibility of the Provincial Governments to allocate and make available budget provisions and resources collected therein to the municipalities, as well as the monitoring of the expenditures and of the submission of the corresponding execution reports*”.

The scenario of dependence of the municipalities in relation to the provinces with regard to the distribution of local revenue is, to a great extent, reproduced in the relations between the provincial governments and the central government, as will be seen below. Nonetheless, the Provinces enjoy a somewhat more comfortable situation compared to the municipal administrations because they constitute budget units in the State General Budget.

After these considerations, we shall now look at the main aspects related to the determinations of the ED 80/99. Before that, however, it should be pointed out that local revenues have little significance on the Angolan Government Budget.

**Table 5.5**

**Summary of the Taxes and Other Revenue Allocated to the Local Governments**

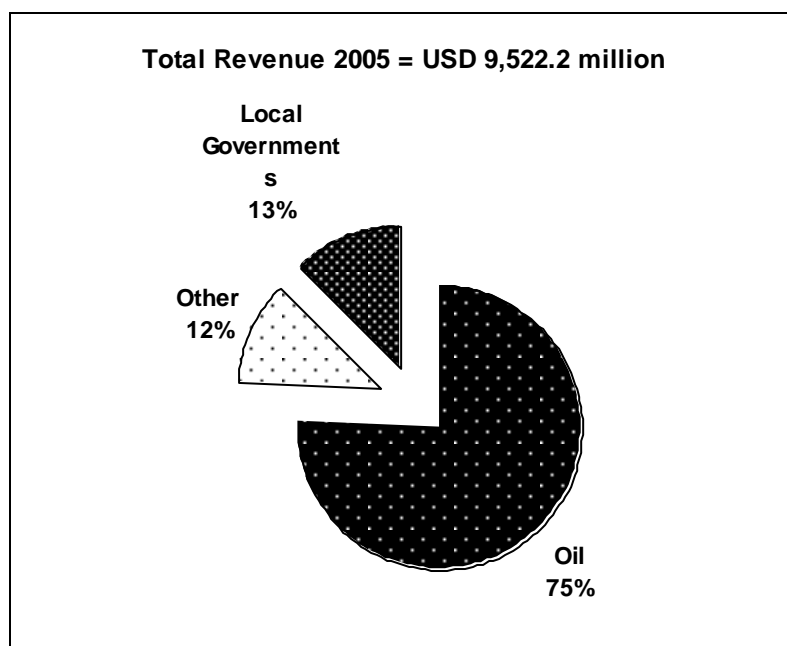
Economic Nature of the Revenue	Type of Revenue	Comments
<b>I. Tax Revenue</b>		
1. <u>Income</u>	a) Income Tax on Independent Work	This is levied on the income resulting from independent work notably from professions of scientific, artistic or technical nature or on the provision of services not levied through any other form of tax.
	b) Income Tax on Employment Work	Tax on all the remunerations received by employees of some other entity, including allowances and premiums. Income from the partners of a business, members of the Board or from other company management organs, board of auditors, shareholders representatives' general assemblies and other corporation bodies.
	c) Corporation Tax of Group C	Tax on potential estimated profits of entities that concurrently meet the following conditions: a) carry out commercial and industrial activities independently; b) work by themselves or with the assistance of up to three people; c) do not have reliable accounting; d) own more than 2 vehicles; and e) issue invoices.
	d) Tax on Capital Application	Annual tax on income from financial applications.
2. <u>Assets</u>	e) Urban Property Tax	This is levied on urban property. The calculation base actual or potential rental value and the taxable person is the one who will get the rent.
	f) Inheritance and Donations Tax	Progressive tax levied on the free transfer of ownership and on inheritance of monies, treasury bills, company or bank shares and any movable or immovable assets, and housing and water entitlements, perpetual servitude rights and unilateral waiver of annuities.
	g) Property Transfer Tax (SISA)	Tax levied on the transfer of immovable assets.
3. <u>Goods &amp; Services</u>	h) Excise	Set of specific taxes and <i>ad valorem</i> on the manufacture and importation of certain products such as beer, liquefied gas, industrial alcohol, jewellery, household goods, beverages, electronic goods, vehicles etc.

4. <u>Miscellaneous Taxes</u>	i) Stamp Tax	Tax levied on documents, deeds and operations indicated in the General Schedule of the Stamp Tax.
	j) Vehicle Tax	This is levied on all vehicles in circulation or which will come into circulation in the country.
<b>II. Property Revenue</b>		
	k) Housing Rentals	
<b>III. Services Revenue</b>		
	l) Community Services	Charges for the issuance of licenses for the use and/or modification of spaces. Includes market fees, construction licenses, rehabilitation, advertising etc.
<b>IV. Miscellaneous Revenues</b>		
	m) Fines	10% of the value of all fines charged by the State under the terms of art. 2 of Decree n° 17/96.

Prepared by the Authors. Primary Source: Ministry of Finance.

As illustrated in Graph 5.1, of all the resources collected in 2005 only 13% were allocated to all the Provinces and municipal administrations of the country, which reflects the fact that the central government enjoys exclusive powers over most tax revenues in Angola.

**Graph 5.1**  
**Participation of Local Revenues in the Total Collected**  
**by the Angolan Government: 2005**



Prepared by the Authors. Primary Source: Ministry of Finance.

The concentration of tax collection results from the fact that the ED 80/99 does not allocate to the local governments any participation in the revenues from oil activities, which, as has been seen, are preponderant in Angola's Budget.

In other words, as the central government enjoys the exclusive right to collect revenues from the oil sector it is inevitable that the country will be characterized by vertical imbalances in what concerns the distribution of resources through the different layers of administration.

In addition to the revenues being concentrated in the hands of the central government, the local units have little autonomy regarding the resources allocated to them.

All the legislation that regulates the revenues listed in the ED 80/99 is set centrally. For example, it is not allowed for the local powers to change the aliquot and the tax calculation base in order to adjust their revenue to the expenditure requirements.

In line with the set norms, the governors and municipal administrators do not even have the autonomy to directly levy and then collect from their respective "cashiers" the resources to which they are entitled.

As established in the law, local revenues should be collected by the Provincial Delegations of Finance – which represent the department of the Ministry of Finance in each Province – and then deposited in the Single Treasury Account. This body, in turn, is the one that will determine the amounts to be allocated to each Province based on their respective monthly financial quotas, which are also set centrally. As stipulated in the ED 80/99: "6. *The National Directorate of the Treasury should ensure the control over the revenue collected in each Province, in order to adjust such sums at the time of the allocation of the monthly financial quotas set in the State General Budget to the Provincial Governments*" and "7. *The use of the collected financial resources under the terms of n.º 1 [listing the local revenues] of this Executive Decree, will be done through the issuance of the respective drawing order, observing the budget credit thresholds set in the specific source of the resource*".

Although the provincial governments do not have autonomy to levy and collect local revenues, the ED 80/99 when it relates such revenues it seems to define that their distribution through the provinces will be processed according to devolution criteria. The Decree states in item n° 1 that: *“The financial resources from taxes and other sources of revenue that are next indicated are collected and allocated directly to each of the Provinces in which such collection occurs...”*.

In other words, in view of what has been stated above it is given the impression that the revenue earmarked to each Province would be equivalent to the amount that such level of administration would have collected if it was entitled to collect directly its own resources. Meanwhile, this is not exactly what happens.

The Decree itself establishes that, in certain cases, just a portion of the revenues will be allocated to the Provinces. Benguela, Cabinda, Kunene, Luanda and Namibe will only be entitled to 50% of Excise and Stamp Tax collected in their respective territories. It is further established that only half of the resources from the Vehicle Tax will be earmarked to the Provinces; the other half will be allocated to a Road Fund.

In principle, the collection in each Province should serve as the parameter for the definition of the budget credit thresholds. The issue is that, in practice, as pointed out in various interviews conducted before the drafting of this report, the definition of such thresholds is undertaken by the Ministry of Finance on an *ad-hoc* basis. The central government has strong powers to arbitrate the thresholds and financial quotas of the provinces without, in that regard, having to resort to the consideration of technical aspects.

In accordance with the ED 80/99, the collection in each province that exceeds the budget thresholds over a given period should be carried over to the next fiscal period. To put it differently, in principle, what will not be possible to use in one fiscal period would still belong to the Province and could be used in the future following a review of the budget ceiling. The problem is that, if such ceiling is not set based on technical criteria, nothing will ensure that the Provinces will indeed be able to access to their surplus resources.

In addition to all aspects mentioned so far, regarding the low level of local autonomy over the resources allocated to them, there is another element that reduces further such autonomy: the establishment of percentages for the use of the revenues in given areas. The rules are strict and the administrators failing to comply will be sanctioned. The ED 80/99 states that: “2. *Out of the financial resources allocated to each Province, 35% are meant for expenditures related to the maintenance and operation of the administrative services, 60% should be planned to cover the expenditures with local social and economic infrastructures, with the 5% earmarked for emergency interventions at the judgment of the respective Provincial Government*”; “9. *Without prejudice to the compliance of the other legal formalities regarding accountability, the Provincial Governors should submit (...) quarterly reports on the use of the financial resources allocated for the execution of local investments programmes*” ; and “*To the Provincial Governments that will fail to account for the use of the resources referred to in n° 1 (...) the Minister of Finance will suspend the allocation of the monthly financial quotas through the National Directorate of the Treasury, until such accountability takes place*”.

Following these considerations, next a summary is presented of the Angolan model for the allocation of revenues to the local governments.

In the public finance literature, there are various alternatives for the allocation of resources through the various levels of government like, for example, the *tax sharing* model. Explained in a simplified manner, tax sharing corresponds to an arrangement where the central government has the responsibility for determining the aliquots, the calculation base, as well as for the collection, administration and distribution of the tax revenue allocated to the local governments. Although this model, by definition, implies by definition that the local autonomy will, to a certain degree, be undermined, it is advocated by many experts because of the advantages it offers in terms of harmonization of the administrative and legislative procedures that govern the national taxation system.

It is argued that the sacrifice of the local autonomy can be abated when certain measures are adopted such as: participation of the lower levels of government in the definition of the rules for the distribution of revenues allocated to them, use of stable and transparent

criteria for sharing, reliable transfers and freedom on the use of the resources transferred.

The solution adopted in Angola to provide its Provinces and municipalities with financial resources is similar to what has been described in the preceding paragraphs just in regard to the centralization of the various aspects that regulate the revenues defined by the ED DE 80/99. As in practice, procedures have not been adopted aimed at mitigating the erosion of the autonomy as a result of the centralization, it cannot be stated that the Angolan model of revenue allocation to the local governments is similar to a situation where the lower levels administration themselves had collected their tax resources.

The local powers to influence the sharing criteria are very limited; the resources distribution rules, oftentimes, are not based on technical aspects and frequently are influenced by political objectives; the provinces and in particular the municipalities do not have control over the volume of resources transferred and, lastly, the freedom to use such resources is limited.

Having said this, if we consider that one of the measures of the degree of fiscal decentralization in a country lies in the ability of the local governments to collect and manage their own resources, one realizes that such process is still in its infancy Angola. Apart from the fact that the participation of the local resources is low in the total tax revenue for the country, it cannot be said that the ED 80/99 has been successful in granting the provinces and the municipalities, greater financial autonomy through a tax *sharing* system, as seems to be described in the first provision of the Decree.

In the face of this scenario, what local administrators have been trying to do in as much as possible is to overlook the rules that govern the use of resources to which they are entitled and/or find ways to secure funding from outside the OGE – i.e., off-budget revenues that are not subjected to the control by the central government. The latter aspect will be discussed next.

### ***Local Off-Budget Revenue<sup>15</sup>***

The possibility for local governments to secure directly resources that the ED 80/99 provides to them, in principle, is non-existent, for as it has been stated, the law establishes that all the local revenues should be collected by the representatives of the Ministry of Finances in the Provinces – i.e. by the Provincial Delegations of Finance through the Tax Offices. Apart from the tax collection function, the Delegations also have the obligation to ensure that the local revenues are deposited in the Single Treasury Account for subsequent sharing amongst the Provinces.

The ED 80/99 makes it clear that the Fiscal Delegations and Tax Offices have the obligation to inform the Treasury about the amount of revenue collected so as to ensure the central control over such revenues. The Decree states: *“4. The Tax Offices should prepare and send to the Provincial Delegation of Finance by the 5th day each month, the monthly schedule of revenues, referred to in n° 1 of this Executive Decree, collected in the Province in the preceding month”* and *“5. The Provincial Delegations of Finance should after reconciling the amounts recorded by the Tax Offices with the amounts in the bank accounts, communicate the Provincial Government and to the National Directorate of the Treasury by the 10<sup>th</sup> of the following month the consolidated amount of revenues collected in the Province”*.

Despite the preceding considerations, in practice some governors and even municipal administrators have been able to collect directly revenues from community services. According to information furnished by representatives from the Angolan government, this is particularly the case in the Province of Luanda.

This procedure is not legal, but it is made possible because the local administrators resort to certain powers vested in them by Decree-Law n° 17/99 (DL 17/99) that looks at the organic structure of the provincial governments and of the municipal and village administrations. Amongst other powers, the DL 17/99 stipulates that the provincial government has the powers to license land for various purposes as well as to monitor

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<sup>15</sup> The reports about the off-budget revenues collected by local governments are not found in official documents and therefore this may not exactly reflect the reality. The considerations that are subsequently made were based on interviews with representatives from the government of Angola.

and assist self-construction. In relation to the municipalities, it is established that they have the responsibility to promote the construction, maintenance and control of markets and cemeteries.

The direct collection of revenues related to community services occurs when the local governments are called upon to discharge the responsibilities described above. For example, without the authorization from the local authorities it is not possible to change the drawing of a building. Thus, whoever wishes to make any change should apply for a license to do proceed with the works and, among other factors, this is dependent on the payment of a fee to the local competent body.

By virtue of the law, community revenues should be transferred to the Tax Offices and consequently deposited into the Single Treasury Account. The issue is that the local administrators have little incentives to comply with the law for they know that the resources that they collect will not always find their way back through the financial quotas to which they are entitled in the desired proportion.

With the exception of the community revenues, the Provincial Delegations continue to play an important role in the collection of the other local revenues stipulated in the ED 80/99.

### ***Structure and Regional Distribution of Local Revenues***

Next, the composition of the local revenues by source of resource as well as their distribution by Province is presented. The data are official and therefore they do not take into consideration the possible occurrence of off-budget revenues.

As can be seen in Table 5.6, the main source of local resources was excise, which alone accounted for half the revenues from the provinces and local governments. Significant resources also came from the stamp tax and from employment income tax. The other

local taxes and revenues have a very small representation in the total revenue collected<sup>16</sup>.

**Table 5.6**  
**Composition of Local Revenue by Source of the Resource: 2005**

	<b>USD Millions</b>	<b>% of Total</b>
<b>TOTAL</b>	<b>1.199,2</b>	<b>100,00</b>
Income Tax on Independent Work	3,0	0,25
Income Tax on Employment Work	246,9	20,59
Corporation Tax of Group C	0,1	0,01
Tax on Capital Application	15,6	1,30
Tax on Urban Property	6,5	0,55
Inheritance and Donation Tax	0,3	0,02
Tax on Property Transfer (SISA)	6,1	0,51
Excise	626,6	52,25
Stamp Tax	281,5	23,47
Vehicle Tax	9,1	0,76
Housing Rentals	1,4	0,12
Community Services	1,9	0,16

Prepared by the Authors. Primary Source: Ministry of Finance.

With regard to the regional distribution of local revenues, the Province of Luanda was predominant in the total collection, following the trend that had been observed in relation to the overall tax revenues collected in Angola. Apart from Luanda, few provinces proved themselves relevant in terms of revenue collection: Zaire, Cabinda and Benguela (see Table 5.7).

The distribution of revenue only appeared less concentrated when weighed based on population size of each province. Luanda appeared amongst the provinces with the highest revenue per capita, but was surpassed by the Province of Zaire. This phenomenon is explained by the fact that although Luanda has more than 70% of local

<sup>16</sup> In the context of the local resources, all taxes and virtually all other revenues defined in the ED 80/99 were considered. The only exception was the 10% of the revenues from fines.

revenues, its population is also high in relation to the total number of inhabitants in Angola.

**Table 5.7**  
**Local Revenue (2005) and Population per Province (estimates)**

	Local Revenue		Population		Revenue per capita (USD)
	USD Millions	% of Total	N° of inhabitants	% of Total	
<b>TOTAL</b>	<b>1.199,2</b>	<b>100,0</b>	<b>17.681.600</b>	<b>100,0</b>	<b>67,8</b>
Luanda	912,25	76,07	4.668.708	26,40	195,4
Bengo	6,45	0,54	233.682	1,32	27,6
Benguela	54,64	4,56	2.723.136	15,40	20,1
Bié	3,18	0,27	1.165.836	6,59	2,7
Cabinda	72,68	6,06	510.161	2,89	142,5
Huambo	4,83	0,40	1.299.835	7,35	3,7
Huíla	16,16	1,35	1.491.998	8,44	10,8
Kuando-Kubango	2,15	0,18	370.618	2,10	5,8
Kunene	9,48	0,79	378.753	2,14	25,0
Kwanza-Norte	5,97	0,50	374.645	2,12	15,9
Kwanza-Sul	3,71	0,31	1.026.910	5,81	3,6
Lunda-Norte	6,86	0,57	579.824	3,28	11,8
Lunda-Sul	6,69	0,56	270.919	1,53	24,7
Malanje	2,42	0,20	500.685	2,83	4,8
Moxico	1,82	0,15	494.128	2,79	3,7
Namibe	13,23	1,10	210.637	1,19	62,8
Uíge	1,59	0,13	1.148.564	6,50	1,4
Zaire	75,15	6,27	232.561	1,32	323,1

Prepared by the Authors. Primary Source: Ministry of Finance.

It is worth recalling that the results presented in Table 5.7 do not mean that the resources collected in each Province are returned to them in the same proportion, for, amongst other reasons, the sharing of revenues is regulated by criteria that are little precise and transparent.

In relation to the provincial distribution of revenues by origin of the resources, the only sources where Luanda was not predominant were the corporation tax levied on small businesses (Group C) and the revenues related to the housing rentals. Some deconcentration was also observed in relation to the revenue from community services, but in such case, it is worth recalling that some information could have been omitted because the collection is done as off-budget (see Table 5.8).

**Table 5.8**

**Provincial Distribution of Local Revenues per origin of the Resources: 2005**

	Tax Revenue										Other Revenues		
	Taxes									Fees			
	Income from Independent Work	Income from Employment Work	Corporation Group C	Capital Application	Urban Property	Inheritance and Donations	Property Transfer (SISA)	Excise	Stamp	Vehicles	Housing Rentals	Community services	
<b>TOTAL</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
Luanda	85,52	67,52	0,22	94,70	89,27	63,79	82,01	89,09	53,74	74,62	8,51	32,55	
Bengo	0,00	0,45	17,20	0,00	0,01	0,00	0,04	0,84	0,02	0,05	1,48	0,28	
Benguela	3,78	4,04	7,07	4,59	5,76	15,03	8,82	4,42	4,84	4,00	49,63	24,54	
Bié	0,00	1,00	0,00	0,00	0,07	0,00	0,62	0,00	0,18	0,94	3,45	0,10	
Cabinda	0,01	11,86	1,61	0,00	0,10	1,01	0,68	0,91	13,25	2,70	3,88	1,51	
Huambo	0,00	1,27	25,98	0,00	0,22	2,06	1,96	0,05	0,22	1,50	0,29	20,94	
Huíla	0,21	2,39	29,97	0,16	2,22	18,01	3,86	0,98	1,06	4,12	6,98	8,32	
Kuando-Kubango	0,00	0,43	0,00	0,00	0,07	0,01	0,12	0,14	0,05	0,10	0,86	0,16	
Kunene	0,00	0,61	0,03	0,03	0,00	0,00	0,02	1,16	0,21	0,60	0,44	0,29	
Kwanza-Norte	0,00	0,55	0,00	0,52	0,09	0,00	0,06	0,66	0,10	1,24	0,02	0,21	
Kwanza-Sul	0,00	0,96	10,44	0,00	1,11	0,00	0,47	0,03	0,25	2,08	7,58	0,83	
Lunda-Norte	0,00	2,74	0,40	0,00	0,00	0,00	0,02	0,00	0,03	0,01	0,50	0,00	
Lunda-Sul	3,15	2,47	3,13	0,00	0,03	0,02	0,41	0,00	0,12	0,80	1,80	1,24	
Malanje	0,00	0,56	0,82	0,00	0,16	0,00	0,21	0,01	0,22	2,13	9,90	0,12	
Moxico	0,00	0,61	2,11	0,00	0,04	0,05	0,15	0,01	0,04	1,29	0,52	1,62	

Namibe	0,09	0,92	0,72	0,00	0,76	0,01	0,42	1,34	0,75	1,96	3,58	6,37
Uige	0,00	0,57	0,00	0,00	0,03	0,00	0,09	0,00	0,04	0,11	0,35	0,17
Zaire	7,24	1,03	0,30	0,00	0,06	0,01	0,03	0,35	24,86	1,76	0,24	0,74

Prepared by the Authors. Primary Source: Ministry of Finance.

### ***Incentives for the Collection of Local Revenues***

The local units, as it has been mentioned, do not have the power to collect their revenues. The role of the Provinces, according to the DL 17/99 (article 2°, item 2, subparagraph j), is to “*oversee the collection of financial resources from taxes and other revenues payable to the State, which are allocated under the terms of the legislation that is in force*”.

As argued by the central authorities, the provincial governments, which is the performance of their activity of supervision help the Provincial Delegations to increase revenues collected in their territory will benefit with the review of the budget ceiling to which they are entitled.

In other words, according to these authorities, although the local governments lack the autonomy to directly collect the resources that are allocated to them, there are incentives for them to cooperate in the collection efforts, as this would give them greater bargaining power as they negotiate their quotas with the Ministry of Finance.

In practice, however, the incentives are very small. As the governors and notably the municipalities know that the budget ceilings and the release of the financial quotas are not so much related to the efforts of collection made, they do not feel motivated to cooperate with the Provincial Delegations.

There are only incentives to enhance the revenue collection when the units find loopholes that enable them to own directly the resources that are collected in their respective jurisdictions. The collection of revenues from community services as was seen is a clear illustration of this.

## **6 – INTER-GOVERNMENTAL FISCAL TRANSFERS**

### **6.1 – Description and diagnosis of the inter-governmental fiscal transfers**

There is not a formal system of inter-governmental fiscal transfers in Angola. The Provincial Governments receive *ad hoc* budget allocations from the Central Government for execution according to policies defined centrally. Such budget allocations are termed financial quotas. Such instrument for the transfer of resources is what comes closer to fiscal transfers in Angola.

#### ***Financial Quotas***

The definition of financial quotas for the Budget Units falls under the responsibility Treasury Directorate from the Ministry of Finance. Neither there is a specific legislation on the methodology employed nor have the Angolan authorities come out with a manual of procedures for the definition of such.

The financial quotas are monthly ceilings that each Budget Unit has available to spend, i.e. the financial quotas are not an instrument for the transfer of resources only for the provincial governments, but also for the other units that make up the State General Budget.

Based on what was reported in the interviews, the process starts with the financial programming, undertaken on a quarterly basis by the Treasury Department, which defines the commitment threshold available for each Province.

In line with the quarterly commitment threshold and based on the treasury cash plan the total amount of the financial quotas to be allocated to Budget Units. The distribution through the Budget Units is undertaken in accordance with (i) their financial needs per

economic category (operation costs, staff and investment) and (ii) the threshold set in the State General Budget for that year.

In the cases where the Budget Units do not submit their financial resources needs, the Treasury Directorate defines the financial quota based on the one-twelfth the unit in question is entitled to in the State General Budget.

According to the Treasury Directorate, there is not a huge volatility in the financial quotas in each Budget Unit during the year, which means that there is all likelihood that the one-twelfth division method is the one that is prevalent.

No technical criteria or socio-economic indicators are used in the definition of the financial quotas in each Budget Unit. Thus, such instrument for the transfer of resources to the Provinces does not cater for one of the basic requirements for an inter-governmental transfer system, which is the regional redistribution of resources.

In the same token, the financial quotas cannot be seen as a mechanism for vertical redistribution of resources given that its objective is nothing more than to divide the all the resources available in the Treasury amongst all the Budget Units, including also those directly linked to the organs of the central government structure.

Neither do the financial quotas take on board other basic principles of a fiscal transfer system like: adjustment of the revenues based on the responsibilities, fiscal autonomy, equity, predictability, efficiency and sensitiveness.

### ***The FDM as the seed for the inter-governmental transfer system***

The pillar of the weakest fiscal inter-governmental relations presently in Angola is that of the fiscal transfers. In this regard, the setting up of the Municipal Development Fund is extremely important and urgent for the country to continue to move towards the process of

decentralization. Indeed, there is a need to also develop a transfer mechanism that responds to the principles for the provincial governments, as they belong to the lowest level of administration with the capacity to manage resources.

***Box 6.1 – The role of FDM: a suggestion from the National Taxation Department***

*The first step that is required for the municipalities to get resources from the FDM is to declare that such units have autonomy to spend and manage resources, and to determine the body that will control such expenditures. Such measures can be taken even before the municipalities become local authorities (autarquias), and for this, a transitional provision would suffice. In addition, it is not required that the municipalities join the SIGFE, it is just necessary that they are entered into the system as resource beneficiary units. The FDM would be included into the OGE as an autonomous fund.*

*After these measures have been taken, FDM could operate as an equalization fund. As such:*

*The municipalities should undertake their forecast of revenues and expenditure needs to ensure that the structures under their jurisdiction remain operational. Such expenditure needs should be understood as minimum expenditures that the administrators need to incur to keep the streets clean as well as the health and education facilities, etc. In other words, these are minimum expenditures to cover the costs of the municipal activities that do not include capital needs.*

*For those municipalities where the revenues allocated to them are not sufficient to fund the minimum expenditures, the FDM would be transferred in a way to complement the balance.*

*In order to finance capital expenditures, the municipalities would be encouraged to increase their own revenue collection.*

*A provision could be put in place in the rules that will regulate the FDM instituting some kind of a prize for the municipalities embarking on efforts to enhance their revenue collection. In the instance where it is found that such endeavour has been made, instead of the municipality getting less from the FDM because the gap between their own revenues and the minimum expenditures needs has reduced, FDM will be maintained and the surplus resources on top of the minimum expenditures could be used for capital expenditures.*

*In such a model, the municipal budget municipal would not need to be submitted to the central organs. The role of control and monitoring would rest on the provinces.*

## **7 – THE STATE GENERAL BUDGET**

### **7.1 – Principles and Characteristics**

The Budget is an act through which the Legislative Power authorizes the Executive Power over a certain period of time and in detail to incur the expenditures required for functioning of the public services and for other purposes adopted in the economic or in the overall policy of the country, and also to collect the revenues as provided for in the law.

There are many definitions attempting to explain what the budget is in the public sphere, as its use is comprehensive in nature and represent the administrative, economic-financial, legal, technical and political aspects of the government management.

In this regard and considering the establishment of the Municipal Development Fund - FDM, it becomes necessary to look at the structure, the cycle and the budget process in Angola in order to understand the budget planning in administrative, economic, legal, technical and political terms in a context of fiscal decentralization.

#### ***Administrative Aspect of the Budget***

The budget is seen as an important piece in planning as the State attempts to find out as much it will have available in terms of financial resources to use to meet collective needs. In this regard, the budget helps those in charge of public finances in implementing the various stages of the administrative process: programming, execution and control.

In Angola, such process is extremely centralized in the central structure, which concentrates the source and the use of financial resources.

For example, in line with the report prepared for the health sector, the decentralization process of the State administration affected qualitatively and quantitatively the management model of this sector. In fact, there are 234 budgets in the health sector, defined as the direct allocation of resources that can be differentiated with the State General Budget - OGE, compared to 82 in 2000. However, the weight of the volume of resources of the health sector managed by the provinces, currently standing at about 45%, is the same as what existed 2002 and the allocation in 2005 to the health sector corresponds to 4.4% of the total OGE, which is about half of the African continent average.

### ***Economic Aspect of the Budget***

The budget consists of the expenditure decision, it materializes the economic functions translating into allocations, (re)distribution and it is a powerful instrument for the stabilization of a country's economy. In other words, the public manager can decide if he/she either in one or in another thing. The representation conferred to the members of the legislative regarding the budgetary issues imposes this connotation, given that the members of the Legislative Power can intervene in the allocation process of the public expenditure. And it is not just in terms of distribution of the expenditure but also on who will be vested the responsibility for the generation of the resources needed for the implementation of the proposed actions like for instance to raise the rate of a given tax.

In the economic aspect, the budget will go through a process of redesigning to absorb the Municipal Development Fund - FDM, considering that the fund will be a simulation of an inter-governmental transfer system, which will consider the efficiency and equity mechanisms in its management.

### ***Legal Aspect of the Budget***

The measures contained in the budget need to be approved, i.e. they require a legal framework in order to generate entitlements and obligations for the public agents and for

the people. Out of this need, emerges the need to transform the budget into law, as well as its alignment with the norms that set the format for its preparation, execution and control.

Considering that the budget is regarded as the “law of the means”, the transfer of resources to the municipal administrations through the FDM should be submitted to the National Assembly.

### ***Technical Aspect of the Budget***

On the technical front, methodological rules are established to achieve the targets set on the political, economic, administrative and legal aspects. To cater for this provision, various procedures were put in place to discipline and to provide uniformity to the structure of the budget law in the country, through the presentation of models, revenue estimates, financial statements, budget execution accounting and others.

In principle, it is fundamental to establish technically the mechanisms to forecast the revenue and fiscal target, for the preparation of the budget process and for the recurrent and capital expenditures.

### ***Political Aspect of the Budget***

The decisions related to the size of the budget, mainly to the distribution of expenditures, are political decisions that reflect the holding of power by economic groups and by social classes. The decisions taken, called “government policy”, are usually influenced by the interaction of the various forces that can be regarded as “groups of interest”. This phenomenon is called in the literature *rent seeking*, i.e., the agents get organized to get gains and defend their legitimate interests, which, at times, are not so legitimate, and this was particularly noted in the analysis of the issue in the context of public finances. The negative actions can be minimized when there is room for a broader discussion of the budgeting process not just in the preparation phase, but mainly throughout the whole

execution. Therefore, it is fundamental to structure the processes for the participation of the society.

### ***Principles of the Budget***

The budget has evolved over time. It shifted from an instrument used to minimize the State taxation requirements in relation to the feudal institutions in the Middle Ages to a technical accounts framework where public revenues and expenditures are presented, so as to reflect the Government's economic and financial policy and its work programme.

Later, the budget was seen as an instrument to materialize the government allocation function as it identified the sources of resources, and their use, so as to present to society its public policies. It is also understood that from the budget, redistribution and compensation policies are provided for in its design, aimed at reducing the regional disparities of income and wealth.

Thus, since its origins to this date, the budget can be understood through various angles, but it has to be looked essentially as a piece in the planning process, in other words, the Budget is a budget planning instrument.

In this connection, the State General Budget - OGE is the only document, defined in the law, which materializes the actions that characterize the allocation of resources for the execution of the government planning in Angola. It is an instrument that reflects its annual nature with the objective of managing public resources, also following the principle of universality and annual timeframe, established in the Law n° 9, of 17 October.

The Budget Law in Angola sets the norms and agglutinates the process of budget preparation, discussion, approval and execution, the financial programming and the accounting recording of the State resources, establishing in its Article 1, the principles of

annual timeframe, universality and unity, which seek to ensure some basic procedures for budget programming and execution.

Like any science, the budget principles operate as a nucleus on which the conditions deemed as true to the object of the science under study are sustained. The principles are normative enunciations of generic value, which condition and guide the understanding of the legal order both for use and interpretation and for the development of new norms.

The principles are not absolute or dogmatic in nature, rather they constitute historical categories and as such, are subjected to transformations and modifications in their concept and meaning. Meanwhile, they should serve as reference for the implementation of the process for the decentralization of the fiscal, financial and accounting management of the sub-national levels.

The international literature is full of budget principles. However, in the diagnosis carried out on the Angolan legislation we identified just some of them, which are specified in Table 7.1.

In this case, we conducted a diagnosis of the principles based on the legislation and we analyzed them taking into consideration the need for fiscal and financial decentralization in the country. Thus, we introduced the meaning that should guide the budget cycle and process for the successful fiscal decentralization of the government entities.

Indeed, it is important to point out that the decentralization pursued should be based on principles that consolidate the relationship pact between the levels of central, provincial and municipal government. And this should happen even in highly centralized economies like in the case of Angola, which in its 2005 budget execution, the central government structure was accountable for 84.7% of the expenditures and, according to the Stage General Budget for 2006, the Central Government will be accountable for 91.75% of the planned expenditures.

Angola's Law 9/97 is grounded on universal budgeting principles such as:

**Table 7.1**  
**Budgeting Principles and Legal Base**

<b>Principles</b>	<b>Meaning</b>	<b>Legal Base</b>
<b>Unity or Totality</b>	This principle was reformulated with the objective to show the importance of consolidating public finances. The Administration should have just one budgetary whole, i.e. such totality should respect the organic separations that result from the administrative and financial decentralization by territory or by locality.	Art. 1 of Law 9/97
<b>Universality</b>	The budget should contain all the revenues and expenditures of all powers and entities from Public Administration. One objective of the decentralization is to ensure that all revenues and expenditures are known and authorized in advance. To provide for any revenue and expenditure operations get parliamentary endorsement.	Art. 1 of Law 9/97
<b>Annual Timeframe or Frequency</b>	<p>The budget should be prepared for a one-year period, which in Angola coincides with the economic year (Art.3 °, Law 9/97).</p> <p>There should be an integrated process for all government entities: central government, provinces and municipalities, even with the restrictions to comply with the longer term programming, the annual timeframe is a unanimously accepted by modern nations and does not impair the Reconstruction Programmes, Public Investment Programme and the Biannual Programme in Angola.</p>	Art. 1 of Law 9/97

<p><b>Balance</b></p>	<p>Establishes that the expenditures should not exceed the planned revenues. Thus, the budget should be established in terms of the existing revenues and expenditures compatible with the inflows. This principle actually poses other challenges, when dealing with more than one level of government or when there is relative autonomy, for the objective is to maintain a situation of fiscal balance with economic development.</p>	<p>Art. 5, of Law 9/97</p>
<p><b>Specification or Description of the Expenditure</b></p>	<p>Establishes that revenues and expenditures should appear in the budget in a specified manner, disallowing the expenditures from being authorized as overall allocations. It is important to point out that such rule should also be applicable to the sub-national governments, considering also the need to have a unified accounting interpretation of the economic categories of revenue and expenditure, as well as the uniformity of the statements.</p>	<p>Art. 11, of Law 9/97</p>
<p><b>Programming</b></p>	<p>The financial programming is the main instrument for the management of public financial resources developed through the OGE. The modern language should also be absorbed by the sub-national governments, for the establishment of an adequate evaluation of public decentralized policies.</p> <p>The programming should be standardized, with the objective to enhance the consolidation of the expenditure. By praxis, up to the level of function and sub-function, leaving it for the municipalities to define their programmes that can be guided by the central government.</p>	<p>Art. 6, of Decree 73/01</p>

It is worth highlighting the importance of consolidating and ratifying other principles that will influence a consistent process of decentralization, such as: exclusivity, programming, clarity, transparency, publicity, compatibility, etc. (See Table 7.2).

**Table 7.2**  
**Budget Principles and the Decentralization Context**

<b>Principles</b>	<b>Meaning</b>	<b>Correlation of the Principles with the Decentralization</b>
<b>Exclusivity</b>	<p>The budget should only contain financial matters, and not include matters that are alien to revenue forecasting and to the setting of the expenditure.</p> <p>It is fundamental to enshrine this principle into the constitution to exclude the legal possibility of interference in private relations that do not constitute a matter of the public budget.</p>	<p>The municipalities should establish rules with the objective of avoiding interference on non-financial matters.</p>
<b>Clarity</b>	<p>The public budget should have a clear and simple language that all economic agents can understand and that can be brought to the population knowledge.</p>	<p>Considering the process of decentralization, the budget language should have a concise translation and contain examples for Angolans to understand.</p>
<b>Transparency</b>	<p>Has the same meaning as the Principle of Publicity.</p>	<p>It is fundamental, regardless of the form of government structure, including consolidating and improving fiscal decentralization, to establish transparency mechanisms in the allocation of public expenditure.</p>

<b>Compatibility</b>	Establishes that there should be compatibility in the long-term, medium-term and short-term objectives.	The diagnosis found that the legislation is rather fragmented, without a linking line between the planning instruments and the State General Budget.
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Explicitly, the Budget Law cites the principles of unity, annual timeframe, universality, but also consolidates in the text the principles of balance and the specification or description of the expenditure, making the public budget similar in its process to that of Latin countries.

It is important to realize that in the case of the implementation of the decentralization process, through budget funds, these principles should also guide the procedures of the sub-nation governments, given that they are universal principles and constitute the foundation of the procedures at all government levels. Therefore, in line with the consolidation of the budgeting process, these principles should serve as the foundation of the accounting and financial legislation that will institute the financial fund.

Regarding the principle of balance, the Budget Law, in its Art. 5, establishes that the State Budget should forecast the resources required to cover all the expenditures and that recurrent expenditures should not in any circumstances exceed the recurrent revenues.

No mention is made here of the relationship with the capital budget, i.e., the law does not mention the possibility of capital revenues funding recurrent expenditures or recurrent revenues funding capital expenditures.

The law also gives “flexibility to the balance” in the budget, by allowing for the possibility of deficit in the recurrent budget, but this cannot be financed through the issuance of currency, in other words, the deficit is offset through over taxation, credit operations based on anticipated revenues (Item 4, Art.6) or through the issuance of bonds.

It was also found that the structure and the budgeting process follow the budget by programmes, disseminated by the United Nations as from the late 50's for underdeveloped or developing countries and this defines a tri-dimensional classification of the expenditure.

The budget language is essentially the language of accounting. Thus, the basic element in the budget is the account through which it is possible to embark upon procedures such as:

- Anticipate the asset situations (in the budget itself);
- Register the asset movement (in the budget execution); and
- Show asset results (in the financial statements).

The account, as an analysis and synthesis instrument, allows for the representation of the big picture and of any variation in asset and synthesis elements, for the aggregation of the accounts makes it possible to grasp the overall outcome of the management. Therefore, it is fundamental to comply with and to consolidate the budget principles presented here when putting in place the procedures for decentralization into sub-national governments in Angola.

The budget expenditures follow a tri-dimensional classification of the expenditure, in line with the following structure:

i) Institutional Classification

The institutional classification, also referred to as departmental, is the oldest of the budget expenditure classification. Its purpose is to highlight the administrative and budget units, and identify those responsible for the expenditure execution. Such classification will make it possible to distinguish, for example, the expenditures in the Province of Cabinda, the expenditures in the Province of Malanje, or the expenditures of these with the capital

Luanda, for each will have some coding to identify them, as well as differentiated by account codes for the municipalities of these Provinces.

The Institutional Classification has the advantage of comparing at a glance various municipalities or Provinces in terms of budget allocations received or expenditures committed, and will also enable the identification of the originators of expenditures in a decentralized way. It can also be stated that this classification will serve as the starting pointing for putting in place a cost accounting programme and for the geo-spatial mapping of government expenditures.

#### ii) Functional-Programmatic Classification

The main purpose of the functional classification is to provide the foundations for the presentation of data and statistics about public expenditures in the core segments where the organizations of the Angolan State intervene. Thus, to link the budget expenditure to the actions and objectives and targets of the government, with focus on the National Plan, which actually can be understood to be the Reconstruction Programme for the two-year period 2005/2006, and the Public Investment Programme.

In Angola, the functional-programmatic classification entails three levels of aggregation namely: functions, programmes, activities or projects.

This classification contains is significantly rich for with the fiscal and financial decentralization at the municipal level, it will be possible to get to know the functions, programmes and the budget execution at the level of the municipalities, alongside the Institutional Classification, which will identify the municipalities and its functions.

#### iii) Economic Classification

The Economic Classification is aimed at defining the categories of expenditures, universally set as recurrent and capital expenditures. It will be possible to investigate the

composition of the recurrent or capital expenditure by Municipality, with resources coming from the Municipal Development Fund, if such resources have no strings attached, and are not bound to expenditure items. Here it will be possible to identify the level of investment and make comparisons among the municipalities.

The principle of programming has only been defined with the establishment of the Integrated System for the State Financial Management through Decree n° 73, of 12 October 2001. The objective of the said system is to define the procedures for the decentralized execution of the OGE and it sets a number of norms for the budget execution and, consequently, the expenditure programming.

## **7.2 – The Budget Process and Cycle**

The budget preparation process in Angola runs concurrently for recurrent and capital expenditures, the latter being undertaken through the Public Investment Programme - PIP. The preparation of the budget proposal lacks the strategic guidelines from the sectors, and also a link and correlation with the actual planning instruments. Over the last few years, the budgeting exercise of goods and services is spearheaded by the Ministry of Finance, which sets the timing and the procedures, the latter ones based, at least theoretically, on the budget-programme methodology. In practical terms, the recurrent budget preparation exercise is confined to the costing of the resources, within a budget ceiling, and without any link to the expected outcome, and in addition, there are not indicators to monitor performance. With regard to capital budgeting, the listing of interventions does not have either a national or provincial investment framework, defining the adequate sectoral model for the country.

### ***General Guidelines***

The budget proposals should be developed in compliance with a number of guidelines contained in the Budget Proposal Preparation Manual. In order to lay the foundations for the diagnosis and envisaging the establishment of the Municipal Development Fund, the

principles of the said manual have been reproduced to which some pertinent observations have been added, taking into consideration the decentralization context:

1. The budget proposal is prepared based on forms attached to the Budget Preparation Manual, which is edited annually (for more details check the site <http://www.minfin.gv.ao/>).

2. The values, in respect of both the revenues and the expenditures, should be expressed in Kwanzas (Kz), including for expenditures to be incurred in hard currency. It should be pointed out that the values realized and to be realized in a running fiscal period should serve as a reference for the preparation of the Budget Proposal for the following year.

This assumption here is important, considering the establishment of the Municipal Development Fund, for the financial balance should be reflected in the Fund Asset Statement, and recorded as a cash balance for the following fiscal period.

3. The revenues should be estimated in a way that covers all sources, namely own sources, earmarked sources, and those resulting from grants and from funding, including counterpart funds.

Here we highlight the importance of the consolidation of the budget principles for such diagnosis. It is important to ratify the principle of universality and unity of both revenues and expenditures. Here it has been found that with the setting up of the FDM, it becomes necessary to establish strong mechanisms to make effective such instituted universal principles in an environment of fiscal decentralization.

4. The expenditures to be incurred in respect of grants already received or to be received should be entered into the OGE with the corresponding source of the resources, in order to ensure the principle of budget universality.

5. The expenditures to be incurred should in terms of priority start with the Own Resources and Earmarked Resources, as opposed to the Ordinary Treasury Resources.

6. The expenditures with the Projects from the Public Investments Programme – PIP should explain clearly the sources of the resources to cover them, in particular the Own Resources, the Earmarked Resources and lastly the Ordinary Treasury Resources.

7. Government priorities have to be observed when proposals for expenditures for the following economic period are put forward, in order to conform to the Government Programme, namely the Poverty Reduction Strategy. Thus, the programmes, projects and activities to be carried out should contribute to the achievement of the Government programmatic objectives, taking into account the format of the “performance budget” of the OGE, making room for the evaluation of the results based on indicators of the expenditures previously set and incurred.

Such guideline will need some “fine tuning”, as it has been seen that there is a major lack of articulation between the budget planning instruments and considerable weaknesses in the evaluation and control of the public policies to be used as a parameter for the preparation of the budget proposal for the subsequent year.

8. The consolidated budget proposal of each Budget Unit (sum of the proposals of all Subordinate Bodies) should respect the threshold (ceiling) set for the various activities and projects.

Here a comment should be made with regard to the diagnosis, for such foundation should be extended to the municipalities that will benefit from the transfer of resources, i.e. if ceilings are set with binding principles of efficiency and equity in the allocation of public expenditures.

9. The expenditures with the staff should be aligned with the directives for civil servants and the threshold allocated. They should also clearly present the requirements of new staff

to be recruited, to allow for the evaluation and recruitment authorization under the terms of Decree-Law n.º 5/02, of 1 February.

10. A strict review of the expenditures incurred over the past two fiscal periods should be undertaken in connection with the expenditures proposed for the following economic period, taking into account the consistent cutting of superfluous expenditures or of those expenditures that can be postponed, and the impact that this will cause on the benefits that would be brought to society.

11. The Services and Funds as well as the Public Institutes with autonomy, as they propose expenditures to be covered through transfers from the Treasury should consider the threshold of 75% (seventy-five percent) of the total amount in the respective proposed budget, with the remaining 25% (twenty-five percent) have to be covered through own resources as provided for in Decree-Law n.º 9/03, of 28 October.

12. Under the terms of Decree 120/03, of 14 November, the Ministry of Planning sets expenditures thresholds for the Public Investment Programmes and, therefore, the guidelines for public project investments are not included in the Manual for Budget Proposal Preparation.

Next we present a schedule for the OGE, from the identification of the main actions of the priority programmes until their passage in the National Assembly, showing the budget cycle in compliance with the principle of annual timeframe, which in the case of Angola, coincides with calendar year for budget execution.

Table 7.3

Schedule for the Preparation of State General Budget

Schedule for OGE Preparation																											
Actions to be carried out	Period (months/weeks)																										
	July					August				September					October				November				December				
	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27
<b>1. Identification of the actions to be carried out (programmes, projects, activities)</b>																											
a) Central State Organs	a)																										
b) Local State Organs																											
<b>2. Development of the Reference Macroeconomic Framework</b>																											
<b>3. Development of Macroeconomic Scenarios</b>																											
<b>4. Preparation of the State General Budget</b>																											
a) Issuance of Guidelines for the Budget Units																											
b) Approval of Expenditures thresholds by Cabinet																											
c) Proposal Preparation by the Budget Units																											
d) Reception & Handling of the PIP																											
e) Collection and Processing of the Proposals from Budget Units																											
f) Preparation of the Draft OGE																											
g) Discussion of the Draft OGE with the Budget Units																											
h) Meeting with the Members of Government & Provincial Governors																											
<b>5. Approval of the OGE by the Economic Team</b>																											



The OGE preparation process starts in July and ends in September. The process is spearheaded by the Ministry of Finances, which has the powers to control the budget execution, pursuant to Decree 73/2001. The budget proposal should be submitted by the Minister of Finance to Cabinet for review and approval by 30 September of the year preceding the one to which the budget refers.

The 2006 budget proposal was reviewed based on the average price of crude oil and the estimated average exchange rate, whose impact on the national economy and on the OGE is very relevant.

**Table 7.4**  
**Macroeconomic Framework for the 2006 OGE Review**

Indicator	Assumptions, Targets, Objectives	
	Original	Reviewed
Annual Inflation (%)	10.0	10.0
Annual Oil Production (millions of barrels)	597.1	523.3
Average price of export crude oil (US\$)	45.0	56.0
Gross Domestic Product		
Nominal Value (billion Kwanzas)	3,389.1	3,287.1
Real Growth Rate (%)	27.9	15.5
Oil Sector	37.2	15.0
Non-oil Sector	11.9	16.2
Exchange Rate	94.20	80.47

Source: State General Budget for the 2006 - Revised. Republic of Angola

As can be seen, the change in the macroeconomic framework stems from the 12.4% drop in the daily crude oil production and the government's further reduction in production to avoid the pro-cyclic behaviour of expenditures influenced by the patterns of oil revenues. Thus, assuming a more conservative production level, the volume was set at 498.1 million barrels.

In addition, the average oil price per barrel in Angola increased 24.4%, if we consider the first six months of 2006, and there is the expectation that it remain stable during the budget period.

In a bid to maintain the budget balance, the tax revenues were reduced in 8.7%, taking into consideration the net combination of higher prices, lower production and the currency exchange impact.

Because of this adjustment, the expenditures were reduced in Kz 87.8 billion, resulting in a final fiscal deficit that jumped from 6.6% of the GDP to 7.8% of the GDP in Angola.

These adjustments, which stem from the huge dependence on the oil prices in international trade, prompt changes in the ceilings set for the provinces and sectors. In this regard, the review ends up establishing definitions of expenditures based on incremental considerations and on political criteria that are not known to the Ministries, Provinces and, and least still, to the Municipalities.

### **7.3 – Description of Capital Investment Budgeting**

The planning and budgeting for capital investments occur concurrently. This process is spearheaded by the Ministry of Planning, which engages directly with the Research, Planning and Statistics Offices - GEPEs in the Ministries and in the Provinces.

In the analysis about the process of the allocation of resources from the OGE it is important to separate three categories of expenditures, namely with staff, goods and services and capital expenditures. In the first category, the allocation of resources in the short-term is semi-automatic, with resources flowing to where the staff is assigned to work.

Figure 7.1 presents a macro-flow for the health sector<sup>17</sup>, which describes the gestation of the budget planning from the country's macroeconomic framework. However, it can be seen that such macro-flow is applicable to all sectors in Angola's Public Administration.

Although this is not in the macro-flow, presently revenue forecasting is also carried out, considering that this is explicitly provided for in the Angolan budget legislation (see Table 7.1) the budget balance between the projection and the setting of the level of expenditures while developing the budget proposal. It is important to highlight that there is a lack of a model for revenue projection, a procedure which would be very complex, considering that about 75% of the country's tax revenue comes from oil.

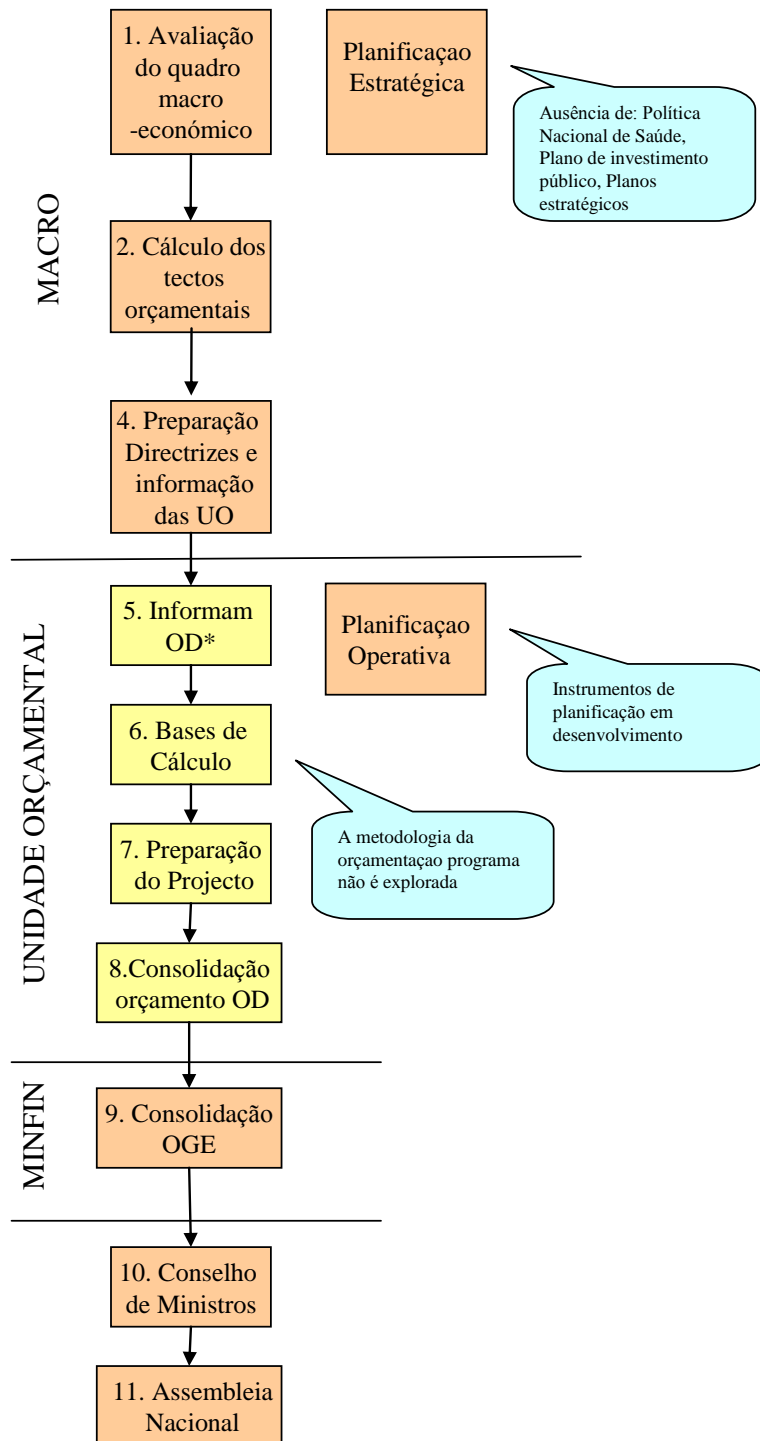
The said evaluation falls under the responsibility of the Ministry of Planning, with a strong influence from the Ministry of Finance, which is the body of the State central administration responsible for the control and execution of the State General Budget. This responsibility of the Ministry of Finance is stipulated in Decree-Law n° 4/98, which defines in its Organic Statutes, the responsibilities for the preparation, execution, supervision and control of the State General Budget, and which was ratified by Decree n° 73/01, which institutes the Integrated System for the State Financial Management - SIGFE.

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<sup>17</sup> This macro-flow is found in "Angola: Public Expenditure in the Health Sector". Ministry of Health. Government of Angola.

Figure 7.1

Budgeting process for the institutions of the health sector



The objectives set in the scope of the standardization of the SIGFE define the importance of hierarchical accountability of the hosts of Budget Units in the decentralized execution of expenditure and the dynamics and operationalization related to the collection of revenues and the payment of public expenditures through the Single Treasury Account System kept at the National Bank of Angola.

### ***Public Investment Programme***

As from 2003, the Angola Government established, by Decree, the Regulation on the Public Investment Programme, comprising the National Plan and the State General Budget, with the aim of regulating the preparation, execution and monitoring of the investments to ensure that the public investment procedures are efficient and effective.

The disciplinary drive is focused on the following aspects:

- a) Definition of procedures, methods and criteria to be used in the process of preparation and approval of public investment projects;
- b) Characterization and definition of tasks to be carried out at each phase of the public investment process;
- c) Delimitation of the different levels of competency, accountability and decision on matters of public investment, in the process of its programming, approval and execution.

The scope of application involves investments in the following areas:

- a) Rehabilitation or construction of economic and social infrastructures;
- b) Creation, rehabilitation or restoration of the productive capacity of public companies, in all kinds of expenditure;
- c) Valuing national human resources, in particular in the areas of education, vocational training, health and food security;

- d) Scientific and technological research, the acquisition and adaptation of technology and building of networks for information sharing, when this is a public responsibility, relevant for economic and social development.

It was found that just the recurrent expenditures related to the maintenance of the public administration are excluded.

## **8 – CHALLENGES FOR THE FISCAL DECENTRALIZATION REFORM IN ANGOLA**

If the fiscal decentralization process in Angola is to move forward, the first challenge consists of correcting the huge vertical imbalances that exist in the sharing of resources between the central level and the local governments. Such governments will not be able to assume greater responsibilities if their participation in the tax revenues stays at the current level – about 13%.

As oil revenues represent the main source of tax collection in the country, the correction of the imbalances referred to requires inevitably the setting up of mechanisms that will allow local governments to somehow partake in such revenues.

Despite the fact that the process of fiscal decentralization in Angola requires a better distribution of oil revenues through the various levels of administration, the country's strong dependence in relation to such revenue is a matter of concern. As is it well known, oil is a non-renewable resource and its price is depend on international quotes.

The reduction of this dependence and the promotion of a sustainable increase in tax revenue from sources other than oil require the broadening and expansion of the country's economic base by exploring the provincial/municipal development potential. This is a strong argument for opting out for a more decentralized administration model. The decentralization reforms, apart from making it essential the redistribution of the tax revenue from the central government, should also be understood as an important element for the diversification of Angola's tax base.

With regard to the revenue that is already been allocated to the local governments pursuant to DE 80/99, there is a need to reform the current system in a bid to give such governments greater autonomy.

In the reform process, the best would be for the provinces and the municipalities to be given powers to collect directly and manage such resources. Such situation enhances the

capacity of such units to adjust their revenue to the local needs. This procedure is also positive in terms of planning capacity, definition of priorities and social control.

In order for the model above to be successful regarding the objective of increasing the degree of fiscal decentralization in Angola, some requirements need to be met.

First, there is a need for the municipalities to become autonomous units or local public authorities as it is already being discussed in the country. Without this, it will not be possible to give to this level of administration power to collect their own taxes. To allocate such powers to the Provinces would already constitute progress in relation to the existing set up. The issue is that, if the municipalities are not included in the process and remain bodies dependent on the provincial governments, the benefits resulting from the decentralization will be limited.

Decentralization cannot be seen as a movement that ends with the devolution of the fiscal powers to the local units. In line with what was illustrated in Table 5.7, the collection of local revenues is concentrated in some Provinces. Unfortunately, there is not information available about the amount collected in each municipality, but it is likely that in such case the concentration was even stronger.

The previous considerations take us to a second requirement. In order for decentralization to turn into a reality, a twofold movement is required: on the one hand, the already discussed allocation of powers to the local units to collect their own taxes and, on the other, the need for the implementation of a transfer system to enhance the expenditure capacity of local governments. In other words, the process of fiscal decentralization should be designed in a way that allows for the de-concentration of revenues currently held by the central government (to address the vertical imbalances) and at the same time promote some redistribution of resources through local units (to address the horizontal imbalances).

In the interviews conducted with representatives from the Angolan government, it was stated that if the current municipalities become local authorities (autarquias), they could have powers over property taxes, vehicle registration taxes, housing rentals and a portion of the revenue from community services. Such revenues are, in fact, those that

anywhere in the world are assigned to such level of administration. The issue in Angola is that such resources are poorly explored as shown by the findings contained in Table 5.6. In other words, by merely giving the municipalities the right to collect them, this in itself will not assure that such units will secure an adequate volume of revenues.

The picture described above suggests a third requirement. In addition to the already highlighted need to strengthen the local economies, there is a need for administrative capacity building of the municipalities so that they can explore their taxation potential.

In the reform of the system for revenues allocation to the local governments, the introduction of a *tax sharing* model could be an alternative to the assignment of powers for these units to collect their own taxes.

Under the existing system, most of the aspects related to local revenues – like the definition of the aliquots and the calculation base, collection and sharing of revenues between the provinces and the municipalities – would remain under the responsibility of the central government. Nonetheless, in order for the local governments to enjoy some autonomy over the resources that are transferred to them, there is a need to change the present framework so that the sharing model can resemble a situation as if these governments had themselves collected the taxes.

This model, like the one in which the local units have the power to directly collect and manage their revenues, would have to be complemented with the introduction of a fiscal transfer system aimed at the redistribution of the resources through such units.

Meanwhile, it is important to highlight that the two models described here are not equivalent. On the advantages of a sharing system in terms of the harmonization of the administrative and legislative procedures for the set of taxes levied in the country, such system brings fewer benefits with regard to the efficiency and effectiveness in the expenditure and in respect of the monitoring of public accounts by the taxpayers. This is so because the local population tends to stand before their province and their municipality differently when such units depend essentially from the transfer of resources and when a portion of their respective budgets is obtained from the local community.

Collecting taxes from the local community, no matter how small its relative weight is on the budget of the municipality or even of the province, stimulates greater attention and monitoring by taxpayers over the budget in their jurisdictions, implying what is termed as the social control.

Fiscal decentralization is healthy when the lower levels of government are responsible for financing, with their own resources part of the expenditures and when such units the units whose economies do not generate significant taxation they fund their expenditures through compensation transfers that abide by principles of fiscal equalization and transparent transfer rules. In the construction of a more decentralized administrative model, the exercise of taxation powers is one of the simplest yet one of the most important steps to enhance the quality of public management.

In addition to this issue of *accountability*, (as the benefits mentioned above are described in the international literature) in countries characterized by huge regional disparities – like in the case of Angola – the adoption of a more decentralized model plays a key role to address the diverging interests at the local level. Despite the need and the major financial weight of the transfers from the central level in the context of the redistribution, the capacity to generate own resources contributes to strengthen the identity of the municipalities and the provinces as autonomous entities of the country.