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March 26, 2012

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431

Re: March 28 Executive Board Meeting on Angola

Dear Managing Director Lagarde,

We are writing on behalf of Human Rights Watch and the Revenue Watch Institute to urge the International Monetary Fund's (IMF) Executive Board to withhold the final \$130 million to the government of Angola under the 2009 Stand-By Arrangement until key outstanding issues related to transparency and the use of funds can be adequately addressed. We firmly believe that disbursing the remaining funds under the present circumstances would send the message that the IMF is willing to provide substantial financing to the government of Angola even though it has not adequately accounted for tens of billions of dollars in public funds.

Human Rights Watch and Revenue Watch are deeply troubled by the revelation, contained in the IMF's December 2011 report, of a \$32 billion discrepancy in Angola's public accounts from 2007-2010 that is equivalent to one-quarter of the country's gross domestic product. We note that the IMF's Stand-By Arrangement with the government of Angola for \$1.4 billion in financing in part coincided with the period in which the government failed to properly track the public funds.

The Angolan government's inability or unwillingness to properly account for those funds and to do so in a fully transparent manner requires a firm response from the IMF. We urge the IMF to delay its final disbursement under that arrangement until it can verify that the government of Angola has:

- Clearly and adequately disclosed in meaningful detail to the IMF and the Angolan people how and for what purpose the \$32 billion in question was used;
- Explained why it apparently bypassed proper financial oversight processes when it spent these funds and demonstrated that the spending was nevertheless appropriate and in the public interest; and
- Implemented key safeguards to combat corruption and mismanagement, including by ending all "quasi-fiscal activities" (off-budget revenues and spending) by the state oil company, Sonangol, and providing a comprehensive, retrospective accounting of its off-budget financial and operational activities, as well as by strengthening and effectively enforcing measures to prohibit conflicts of interest by government officials.

The IMF staff's assessment of Angola's performance has identified several issues of concern. Beyond the recent discovery of the \$32 billion discrepancy, the IMF reports for numerous years have stressed the serious

problems with the government of Angola's accounting practices, Sonangol's extensive quasi-fiscal operations, and low social spending and very poor development indicators in the oil-rich country. These fundamental problems persist year after year even when the government has made progress in some areas.

Although Angola's government earns high oil revenues, development indicators remain very low and access to social services is limited. The country ranked 148th out of 187 countries in the United Nations Human Development Index and 168th out of 182 countries in Transparency International's Corruption Perception Index in 2011.

We are aware that in recent years the Angolan government has taken numerous steps toward improved transparency and management of its oil sector, many of them pushed as part of the IMF program. We recognize that the \$32 billion accounting gap was identified as a result of improved monitoring of Sonangol made possible after a 2010 legal reform and that the Angolan government is actively investigating the discrepancy. We also appreciate that it publicly addressed the matter in January 2012, following repeated calls on it to do so. The explanations it has offered to date, however, do not adequately explain the discrepancy and do not constitute evidence that Angola's public financial management practices have definitively and irreversibly changed for the better.

In particular, the provisional explanations offered by the government of Angola for the \$32 billion discrepancy in public accounts, as cited by the IMF in the December 2011 report, are not persuasive. For example:

- **Underreported revenues.** One explanation was that Sonangol has understated the funds it receives, which has been a longstanding concern. To partially address the issue, the Angolan government committed to provide the IMF with a report that matches budgetary information with data on funds received from Sonangol ahead of the forthcoming sixth review. No such document has yet been made public so we are not in a position to comment on it. We would note, however, that Sonangol's published audits have included a disclaimer by the auditor on the quality of the data.
- **Transfers to overseas accounts.** Another explanation given by the Angolan government is that several billion dollars were transferred into foreign escrow accounts established to help guarantee external loans, which are repaid with oil funds from Sonangol. The funds transferred abroad, however, were far in excess of the total value of the payments owed by the government of Angola. The government has not explained why these foreign transfers were in excess of the money owed.
- **Quasi-fiscal activities.** The government of Angola has stressed that Sonangol has carried out considerable spending on behalf of the government that was not duly recorded in budgetary accounts. It has said that a large social housing project, for example, was financed by Sonangol using oil revenues. Most of Sonangol's quasi-fiscal operations are to be phased-out by the end of this year, in accordance with a recent government decree, but the IMF has not yet verified the extent to which the decree is being implemented in practice.

Moreover, in view of the potential for off-budget activity to fuel corruption, we note that Sonangol's unrecorded spending with regard to a major housing development has been associated with public controversy over whether it involved conflicts of interest. Recent reporting, in particular articles by respected Angolan investigative journalist Rafael Marques de Morais and in *Africa-Asia Confidential*, allege that the then head of Sonangol and current Minister of State for Economic Coordination, Manuel Vicente, may have engaged in self-dealing. According to these reports, Sonangol oversees one very large housing development for which a company Vicente reportedly co-owns was contracted to sell the apartments. (Allegations that top Angolan officials have entered into private business deals in areas related to their public duties has also

drawn the attention of the United States authorities, who are investigating a US company's alleged ties to Mr. Vicente and other Angolan officials through a local partnership in an oil contract.)

In view of the important questions surrounding Angola's use of public funds and the lack of adequate public explanations by the government, we strongly urge the board to delay disbursement of any further funds to Angola when it meets on March 28. This would send an important message to the Angolan government that it cannot expect \$130 million dollars from the IMF when it has not fully accounted for how it spent billions of dollars in public funds.

Thank you very much for your consideration.

Sincerely,



Arvind Ganesan
Director
Business and Human Rights Program
Human Rights Watch



Karin Lissakers
President
Revenue Watch Institute

Cc: Mr. Naoyuki Shinohara, Deputy Managing Director
Mr. Mauro Mecagni, head of the IMF country team on Angola
IMF Executive Directors

Attachment: January 17, 2012, Human Rights Watch letter to H.E. Mr. Carlos Alberto Lopes, Minister of Finance of Angola