July 9, 2012

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

Re: July 11 Executive Board Meeting on Angola

Dear Ms. Lagarde,

We are writing on behalf of Human Rights Watch, the Open Society Initiative of Southern Africa (OSISA) Angola and the Revenue Watch Institute to express our concern about the continued absence of a full and satisfactory justification for the very large discrepancy in Angola's public accounts from 2007 to 2010. The US$31.4 billion discrepancy in the public accounts is equivalent to one-quarter of the country's Gross Domestic Product (GDP). We find that the public clarifications the government of Angola has offered to date are vague and lack the essential details that would substantiate the information the government has provided and allow for it to be independently verified. We also are troubled that an additional $7.7 billion of Angola's oil proceeds apparently was spent without adequate disclosure in 2011.

We therefore urge the International Monetary Fund's (IMF) Executive Board at its upcoming meeting on Angola to insist that the government provide a detailed, comprehensive explanation that fully and credibly accounts for its use of public funds from 2007 to the present to facilitate public accountability. The government should publish this information without delay and have the information independently audited.

When Human Rights Watch and the Revenue Watch Institute wrote to you in March, we urged the board to withhold the final $130 million disbursement to the government of Angola under the 2009 Stand-By Arrangement until problems surrounding transparency and the use of public funds had been adequately addressed. The board elected to approve that disbursement, citing "decisive steps toward enhancing accountability in public spending." In an April 9 reply to our letter, Antoinette M. Sayeh, the director of the IMF's African Department, stressed the IMF's work to promote transparency and improved fiscal controls in Angola, including the government's commitments to phase out "quasi-fiscal operations" (off-budget revenues and spending) by the state oil company, Sonangol, and to fully reconcile its accounts.

The Angolan government has made some progress toward full disclosure and the IMF continues to make welcome efforts to promote transparency and accountability in

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Angola's public finances. However, the steps the government has taken are far short of what is needed to ensure meaningful oversight of its use of public funds.

We previously highlighted several key conditions the IMF should insist that the government of Angola meet, namely that the government should:

- Clearly and adequately disclose in meaningful detail to the IMF and the Angolan people how and for what purpose a sum of approximately $32 billion dollars was used;
- Explain why it apparently bypassed proper financial oversight processes when it spent these funds and demonstrate that the spending was nevertheless appropriate and in the public interest; and
- Implement key safeguards to combat corruption and mismanagement, including by ending all quasi-fiscal operations by Sonangol, and by 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.

Unfortunately the government has not taken these steps. The most recent publicly available IMF staff report, dated March 14, 2012, and published in May, reflects the "preliminary results" of the Angolan government's investigation, which as of that date ostensibly had "explained" 85.9 percent of the fiscal discrepancy that accumulated from 2007 to 2010. (The IMF revised its earlier estimate of that discrepancy downward, from $32 billion to $31.4 billion.) Moreover, the Angolan government's initial explanation for its use of those funds still does not account at all for $4.2 billion, or 14.1 percent of the discrepancy. We understand that IMF staff prepared a subsequent report reflecting on the outcome of their most recent consultation trip to Angola. This report may provide updated figures, but has not yet been published. If there is more detailed information in that report, we would urge the IMF and Angolan authorities to expedite the release of this information to the public.

Of the amount the Angolan government has publicly identified in the May staff report, it attributed the largest share ($18.2 billion or 58 percent) to spending by Sonangol that was not duly recorded in public accounts. According to the government's initial findings, the "bulk" of Sonangol's off-budget spending of oil proceeds during the 2007 to 2010 period "relate[d] to housing projects, railway rehabilitation, infrastructure for special economic zones, and the provision of other infrastructure," which are not specified further. Additional sums were attributed to financial transactions related to loan repayments, including funds that accumulated in overseas escrow accounts controlled at the time by Sonangol as a result of fluctuations in the price of oil.

The government's clarifications, however, are vague and do not provide sufficient detail to answer basic questions about how the money was spent. For example, the Angolan authorities have not named or otherwise specified any of the projects financed by Sonangol. It is not clear how much was spent for each project, how the projects were selected and approved, who was contracted to carry them out or why they were financed using off-budget spending rather than subjected to a budgetary process involving

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parliamentary approval. Furthermore, there is no information about whether those projects or funds have been audited to ensure that the funds allocated to them were used effectively for a legitimate purpose. The same is true of the excess funds in the overseas escrow accounts: no information has been provided to clarify how the funds were used or by whom.

In short, the Angolan government's current disclosures fall far short of what is needed to explain its use of tens of billions of dollars in public funds and to instill public trust. This is particularly troubling in light of ongoing concerns about the management of public funds in Angola, including allegations that Sonangol-financed projects have entailed self-dealing.

Ms. Sayeh noted, in her April 9 letter, that "[w]e understand that the final reconciliation report for 2007-2010 is to be examined by the [Angolan] Court of Auditors and will be published soon thereafter." This report is not yet public. In its statement following the conclusion of its May mission to Angola, the IMF staff team appeared to indicate that the effort was still underway, stating that "the [Angolan] authorities are working to...make further progress in explaining the large cumulative residual in the fiscal accounts for 2007-2010." We urge the IMF to press the government to conclude this review and make the report available promptly.

Additionally, the IMF should press for accountability for Sonangol's more recent quasi-fiscal operations. The May IMF staff report makes clear that in the first 10 months of 2011 the company "reimbursed" itself at least $7.7 billion from oil proceeds. This is disclosed through a reference to Angola's "first-ever Reconciliation Report" detailing oil production, revenues and Sonangol's off-budget operations from January through October 2011. As with the reconciliation report covering the prior three years, which the IMF report indicates was developed subsequently using the same methodology, the 2011 reconciliation report has not been made public.

The IMF has reported that the Angolan government had "begun" to implement two presidential decrees issued in 2011, committing itself to phase out quasi-fiscal spending by Sonangol by the end of 2012 (with some limited exceptions) and to more closely monitor oil revenues and how they are recorded in public accounts. It will be essential that the IMF also track and report on developments concerning Sonangol and its subsidiaries to ensure that quasi-fiscal activities are duly phased out and that no new entity emerges to assume the company's longstanding role as financing agent for off-budget government projects.

We appreciate that the IMF's report indicates that "the [Angolan] authorities and staff remain committed to continue the reconciliation of fiscal accounts until a full understanding of the relevant transactions is achieved." As we noted in our March letter to you, we urge the IMF to make clear that it expects the Angolan government to provide a much more detailed explanation for the use of past and future funds and to support those disclosures with relevant documentation and external auditing. These explanations need to be made public.

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We again urge the Executive Board to press the Angolan government for adequate public explanations of its use of public funds, including the publication of reconciliation reports and an independent audit, and look forward to continued dialogue on these issues.

Thank you once again for your consideration.

Sincerely,

Arvind Ganesan
Director
Business and Human Rights Program
Human Rights Watch

Elias Isaac
Country Director
Open Society Initiative of Southern Africa (OSISA) Angola

Karin Lissakers
President
Revenue Watch Institute

Cc: Mr. Naoyuki Shinohara, Deputy Managing Director
Ms. Antoinette M. Sayeh, director of the IMF African Department
Mr. Mauro Mecagni, head of the IMF country team on Angola
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