

HUMAN RIGHTS WATCH

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January 17, 2012

H.E. Mr. Carlos Alberto Lopes
Minister of Finance
Edifício do MinFin
Largo da Mutamba
Luanda, República de Angola

Your Excellency,

I am writing to you on behalf of Human Rights Watch to urge you to publicly account for the US\$32 billion unexplained discrepancy in Angola's public funds that was reported by the International Monetary Fund (IMF). We also urge you to fully disclose what the government is doing to trace the missing funds, which appear to be connected to the state oil company, Sonangol.

We are aware that Angola's government is working to improve accounting practices, including those of Sonangol. We recognize, moreover, that poor past practices have resulted in inconsistent reporting about government finances that may be difficult to untangle. Nevertheless, a gap in government accounts of this magnitude—equivalent to one-quarter of Angola's Gross Domestic Product (GDP)—is astonishing and requires an immediate explanation.

This major discrepancy came to light in December, when the IMF issued a report describing progress by the government of Angola under its 2009 Stand-By Arrangement. Although the IMF's assessment was largely positive, the report also identified several issues of concern. In a section entitled "Clarifying the Unexplained Residual in the Budget," the IMF report reveals that changes in the Angolan government's bank account balances (its "fiscal accounts") do not match up with the amounts it recorded as domestic and foreign financial transfers (its "financing flows"). For several years in a row, it appears that funds moved out of government accounts—whether as a result of spending or transfers or for some other reason—have exceeded what was officially reported at the time. In the IMF's words, "[t]his unexplained residual shows large cumulative outflows between 2007 and 2010." The discrepancy in government accounts totals approximately \$32 billion, according to the IMF.

The IMF report goes on to state that the Angolan authorities have traced a portion of the missing government funds. It cites evidence that \$7.1 billion was transferred into special foreign bank accounts set up to help guarantee external loans ("escrow accounts"). This amount, however, is greater than the total value of the payments owed by the government of Angola, suggesting that the funds transfers ("outflows") into those foreign accounts may have been carried out for a different purpose.

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The IMF report notes that the Angolan government, as of late 2011, was investigating the reason for the \$7.1 billion in escrow account transfers and that it was also working to trace the remaining \$24.9 billion. As described by the IMF, the Angolan authorities are exploring several possible explanations—all of them focused on Sonangol. One possibility identified in the report is that Sonangol has understated the funds it receives, including in connection with economic activities not currently reflected in the budget (“quasi-fiscal activity,” sometimes also known as off-budget activity). As noted in the IMF report, the Angolan government has pledged to prepare a report matching budgetary information with data on funds received from Sonangol ahead of the next IMF review, as well as take other steps to improve its management of public funds.

In a December 20 statement, Human Rights Watch drew attention to the \$32 billion discrepancy in government accounts and called on the government of Angola to clarify the situation without delay. To our knowledge, the government has not done so. We also understand from media accounts that you have declined to comment on the matter for reasons that are not clear.

The question of Angola’s management of public finances is of great consequence to the people of Angola and is of considerable relevance to many others. In light of the history of past problems with Angola’s finances that your ministry is working to overcome, and the continued poor ranking of Angola in Transparency International’s Corruption Perception Index (168 out of 182 countries in 2011), we strongly encourage you to issue a public clarification regarding this matter without further delay. If the investigation is ongoing, we would urge you to issue regular updates as it proceeds. The Angolan people have a right to know.

Thank you very much for your attention, and we extend our highest consideration.

Respectfully,

A handwritten signature in black ink, appearing to read "Arvind Ganesan". The signature is fluid and cursive, with a long horizontal stroke at the end.

Arvind Ganesan
Director
Business and Human Rights Program
Human Rights Watch