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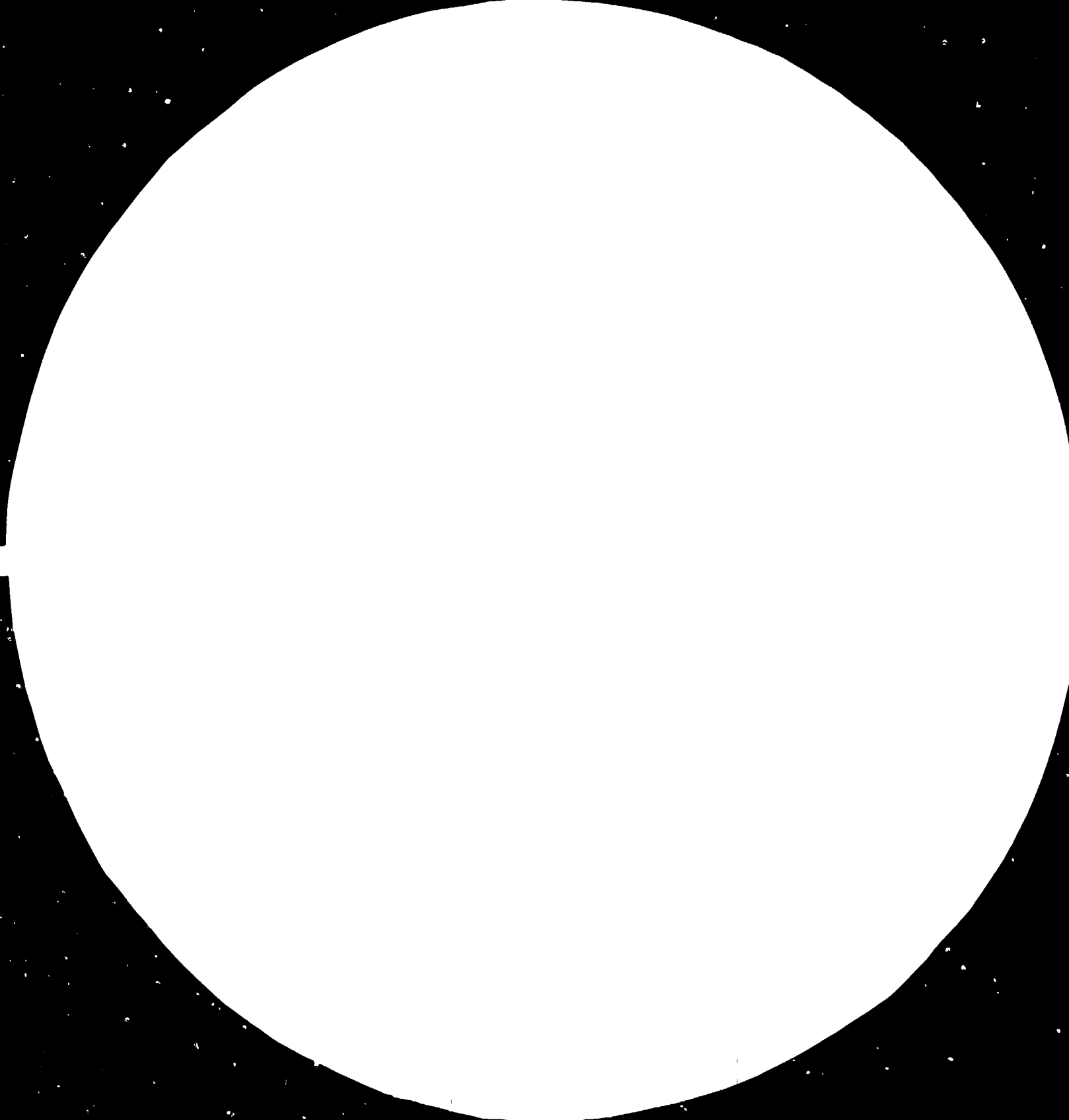
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Angola

IMPROVEMENT OF EFFICIENCY OF
PUBLIC SECTOR ENTERPRISES
(PREPARATORY ASSISTANCE)

DP/ANG/78/019

ANGOLA

Terminal report

Prepared for the Government of Angola by the United Nations Industrial
Development Organization, acting as executing Agency
for the United Nations Development Programme

Based on the work of Dr. H.Strüwing, Chief Technical Adviser

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION - VIENNA

This report has not been cleared with the United Nations Industrial
Development Organization, which does not, therefore, necessarily
share the views presented.

REVIEW OF PROJECT DP/ANG/78/019
IMPROVEMENT OF EFFICIENCY OF PUBLIC SECTOR
ENTERPRISES
(PREPARATORY ASSISTANCE)

Its Implementations, Findings and Recommendations

INTRODUCTION

During the last few years, the activities of Angola's public sector industry continuously decreased. The main reasons are deficient management practices at various levels and disciplines, lack of imported and local raw material, hardly practised financial accounting systems and deficient personnel qualifications.

Upon earlier request by the Government of Angola UNIDO experts conducted field investigations and a large-scale project document was elaborated. This project document was based on findings and recommendations of the earlier assistance project DP/ANG/79/015. Later, UNDP had to reduce its financial inputs allocated for this project from US\$ 2.8 million to US\$ 0.8 million. This reduction has obviously required a modification of the project concept. The definition of a new project concept was therefore the main objective of the present mission. The reformulation and updating of the former project document prepared in 1981 required the identification of partly new priority areas for the technical assistance to be carried out during the subsequent four year period.

A.1. IMPLEMENTATION OF THE PREPARATORY PHASE OF DP/ANG/78/019

The four month mission started at November 1, 1982 and ended late March, 1983 including one month without project work. UNDP inputs for this preparatory assistance phase of an amount of US\$ 20,000.- and Government inputs of an amount of Kwanzas 752,000.- were allocated.

(Exchange rate 1 US\$ = 29.622 Kwanzas). Due to actual equipment prices UNDP inputs had to be increased by about 3,000 US\$. The actual expenditures of the Government, however, were only about 600,000 Kwanzas or about 80% of the original Government budget.

In spite of the fact that counterparts have been nominated in early January, 1983, the implementation was handicapped by several difficulties. For co-ordination of the project no department was responsible, the counterparts had no executive authority. Therefore, it took several months to organize the necessary discussions with the Ministry's National Directors of industrial sub-sectors and with managers at factory level. The working conditions for the international experts and their national counterparts were unsatisfactory, (small office space, no air-conditioning and office material, etc.). The implementation of the project mission was also handicapped because the procurement of UNDP-financed equipment (typewriters and copy-machine) could not timely be arranged due to delayed UNIDO authorization for payment. In view of the delays and the non-availability of a local bilingual secretary for typing the reports and documents, the C.T.A. had to request a qualified secretary from his home office at the expense of the Government of the G.D.R. Due to the above problems, the implementation of the preparatory phase became difficult. Nevertheless, secondary statistical data and other documents available gave sufficient information for a realistic assessment of the actual situation. Moreover, discussions during the last few weeks with high-level Government officials outside the Ministry of Industry and with managers of selected factories gave an indication of the requirements and priorities for improving the industrial performance monitoring and evaluation and for upgrading practices at both levels at the Ministry of Industry and at the industrial enterprises. Based on the actual findings, two draft project documents have been elaborated and submitted to the Minister of Industry for discussion.

The Chief Technical Adviser (C.T.A.) co-ordinated all activities related to the implementation of the preparatory phase. The C.T.A.

was effectively supported by the chief national counterpart, the future national Project Leader who also contributed to organize investigations and who participated in the numerous visits, meetings and discussions.

A.2. FINDINGS

A.2.01 General Economic Situation

The economic objectives of the current national five-year plan have been continuously reduced from year to year. The operational performance of the state-owned industrial sector has deteriorated considerably for the last four years. Several enterprises have been closed down due to a complete lack of raw material. The supply situation of enterprises and for the population is very precarious. The Government announced a National Emergency Programme for the next few years. Government authorities, political organizations and trade-unions started a campaign to overcome these present difficulties.

A.2.02 Management Problems

Laws, regulations and decrees published during the last few years concerning institutional, managerial, accounting and other management matters could serve as very good orientations. The quality of the regulations is high, the procedures are described in detail and the contents comply with the demands of a modern managed economy. But these documents do not take into consideration the limited possibilities of implementation due to the prevailing conditions. For this reason instructions must be made compatible to the situation. The gap between theoretical requirements and practically existing possibilities is too wide. This concerns e.g. the National Chart of Accounts, Decree No. 209 of Oct.19, 1979 and the decree for planning No. 2/82 of Feb. 8, 1982, the information system and others).

Decisions, activities and initiatives at high level starve on their way to the level of factory management because they do not consider the real demands. Several officials in the Ministry are convinced that all deficiencies arise out of lack of managerial ability at factory level. On the other hand, the directors of the factories often see the reasons for deficiencies at the Ministry level.

Moreover, there are sophisticated sectoral plans for each of both management levels, for industrial enterprises as well as for the Ministry of Industry. These plans, however, do not correspond with each other. There exist exact and clear printed reporting blanks, but they are often not used by the factory managers to inform the monitoring Government entities. The Government authorities hardly comment on the information and reports submitted by the factories. Information is given very often only on the basis of physical data, i.e. kg., m², hl, tons, etc., and corresponding values, if any, are not reliable. Therefore, it is impossible to evaluate the information and to determine the level of operational performance of state-owned factories. Due to unrealistic values adopted for industrial inputs and outputs the evaluation of performance is difficult. Many prices for industrial products do not even cover the present production cost. Some elements of normal price calculation are not taken into consideration at all.

The lack of raw material in most of the factories is not only caused by lack of foreign currency or local transportation facilities, but also frequently by poor management of procurement and stock-keeping. Purchase orders are not timely issued to secure the availability of inputs to guarantee continuous production. An investigation covering forty different industrial inputs show that for seventeen items there are no orders at all. For most of the other input items, procurement contracts only cover about 20% of the inputs required for continuous industrial operation/production.

Concerning personnel, there is a considerable lack of highly-educated engineers and economists and on the other side, suitably trained personnel cannot find adequate jobs. Therefore graduated engineers and economists have to work in other fields or they try to emigrate.

B. CONCLUSIONS AND RECOMMENDATIONS

The entire industrial management urgently needs assistance in many fields to support the Government's decision of "Strengthening the Organization" as it is announced as slogan for the present period. Considering the extremely limited budget for technical assistance available for this immense task and the increasingly serious situation of the Angolan national economy as outlined under para 1.2 (FINDINGS) leads us to the conclusion that the technical assistance will have to be limited and therefore concentrated on the following key areas of management.

(a) Central (Ministerial) level

- (i) implementing consistent short-, medium, and long range planning system and creating a complete reliable and balanced system (material, equipment, finance) within and between the different economic sectors and at the different corresponding decision and production levels.
- (ii) creating a system for accounting information, analysis, evaluation and control as preconditions for the implementation of a suitable industry performance measurement system.
- (iii) establishing a regular and reliable system and flow of information between the industrial enterprises and the Ministry, in both directions.

- (iv) introducing a system for the preparation, evaluation and implementation of investment projects in line with previously established industrial development objectives.

- (v) Considering the intention of the Minister of Industry to install an office computer for the centralized de-bottlenecking of the operation of key industrial enterprises, a feasibility study should be prepared at an early stage of phase one. This study will contain recommendations and operating plans on organizational, educational and managerial requirements for the possible preparation, installation and operation of such a computer.

(b) Industrial Enterprise Level

One of the main tasks of the project at factory level is to provide the management with guidance for:

- (i) operating efficiently industrial manufacturing plants.

- (ii) organizing the procurement of inputs such as raw material and production facilities at the right time, quantity and value.

- (iii) planning, financial control and decision systems to operate the whole process in an efficient and economic manner.

- (iv) organizing the accounting system and its utilization in the management process.

- (v) organizing the continuous information and cooperation system with the Government institutions and other entities.

- (vi) demonstrating with simultaneous "on-the-job" training in the above mentioned fields. This activity shall be organized in one enterprise of the heavy industry and one of the light industry. Managers of other priority enterprises shall cooperate and be partly involved in selected activities and training courses.

(c) Utilization of additional resources

- (i) The ongoing UNDP and other bilateral, multilateral and TCDC projects and their result will be permanently considered regarding possible necessary changes of workplans, conclusions and recommendations during the design and implementation of this project.
- (ii) The main first project phase should start in June 1983 at the Ministerial level in order to assist the national institutions in preparing their decisions for 1984 and the centralized control for plan implementation. Immediately after achieving these first results activities will also start at the factory level. Both integrated phases of the project will be prepared and approved simultaneously.
- (iii) The key to the desirable and necessary improved industrial performance is the formation and effective subsequent operations of a centralized working group. This working group will consist of Government officials from all institutions directly or indirectly involved in industrial operations. Regular meetings and coordinated ad-hoc decisions within this group with immediate subsequent implementations in the respective Government institutions will ease the task of industrial management and operations at the beginning only for two industrial model enterprises.
- (iv) The wide range and the complexity of the tasks under this technical assistance project require resources in addition to the about US\$ 800,000 which will be provided from UNDP/IPF financing. Bilateral agreements between the Governments of the People's Republic of Angola and the German Democratic Republic (GDR) indicate that Angola will provide for this project cash in local currency 7.7 mio KWANZAS and GDR will provide equipment, goods and services of an estimated total value of US\$ 400,000 equivalent. Both bilaterally agreed

additional inputs will become integral part of the terms of reference of the sub-contract part of the technical assistance project. This exceptional arrangement is proposed in view of the serious economic situation in Angola which requires the start of technical assistance without delay. Otherwise the Government contribution of Angola would have called for a Trust Fund agreement with UNIDO and the German Government contribution for a Special Purpose Contribution to the United Nations Industrial Development Fund.

In the spirit of co-operation and for assistance without delay, this project is proposed to be subdivided into two subsequent project phases so that each phase can be approved by UNDP in the field.

The first project phase has already started under number DP/ANG/78/019 and includes the preparatory assistance step, subject of this report and the subsequent main part of the first assistance phase beginning at the Ministerial level.

The second project phase under number DP/ANG/82/023 will start after about 24 months and will continue with designing and introducing measures for increased production (improved efficiency) at the level of two selected industrial model plants.

