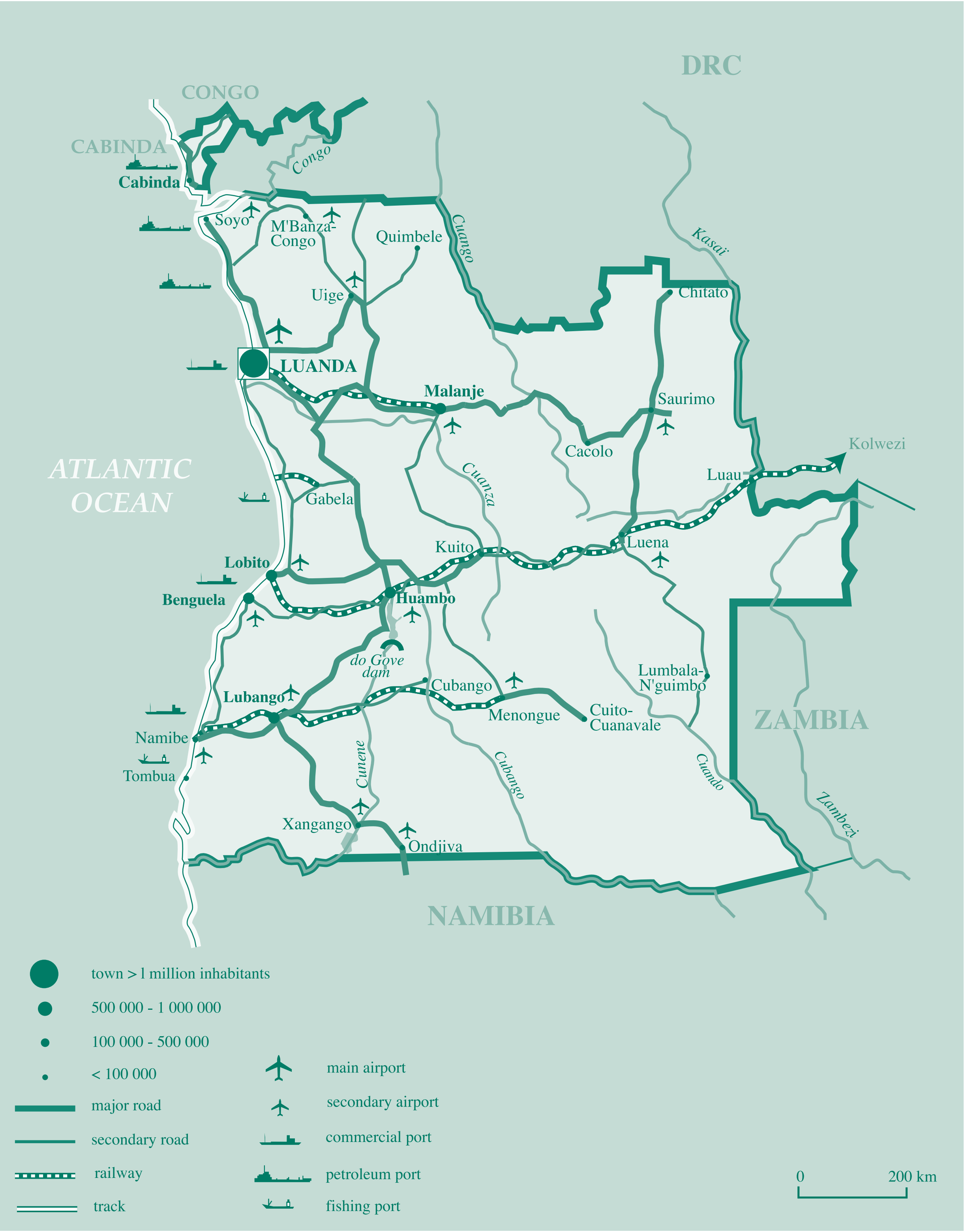
Angola

key figures

• Land area, thousands of km²	1 247
• Population, thousands (2007)	17 024
• GDP per capita, USD at constant 2000 prices (2007)	1 246
• Life expectancy (2007)	33.4
• Illiteracy rate (2007)	32.6

Angola


DRC
CONGO
CABINDA
Cabinda
Congo
Soyo
M'Banza-
Congo
Quimbele
Cuango
Kasaï
Chitato
Uige
LUANDA
Malanje
Saurimo
Cacolo
Kolwezi
Luau
Cuanza
ATLANTIC
OCEAN
Gabela
Kuito
Luena
Lobito
Benguela
Huambo
do Gove
dam
Lubango
Cubango
Menongue
Cuito-
Cuanavale
Lumbala-
N'guimbo
ZAMBIA
Namibe
Tombua
Cunene
Cubango
Cuando
Zambezi
Xangango
Ondjiva
NAMIBIA
town > 1 million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port
0
200 km

Angola

The Angolan economy grew by an estimated 19.8 per cent in 2007, up from 18.6 per cent in 2006, boosted by increasing oil production and prices. The non-oil sector also performed well, notably construction, agriculture, manufacturing and financial services, although slightly less well than the previous year. Inflation has remained steady in the past two years, with the consumer price index increasing 12 per cent in 2006 and 11.8 per cent in 2007. This is a significant decrease from the 19 per cent inflation rate in 2005.

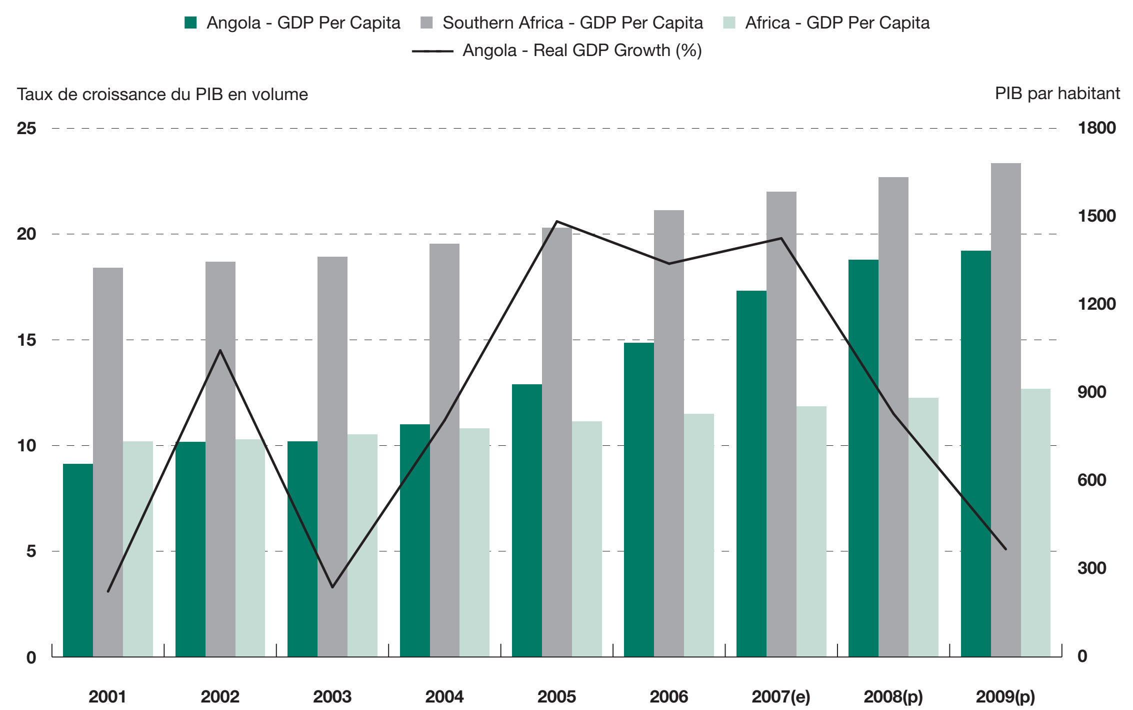
Growth is expected to moderate in 2008 and 2009 to about 11.5 and 5.1 per cent, respectively, as growth in oil production slows to about 11 and 2 per cent assuming that the country adheres to the new OPEC production quota of 1.9 million barrels per day (b/d).

The non-oil sector should continue to grow strongly and to attract increasing investment. Despite high government spending and strong domestic demand, inflation is expected to decelerate slightly in 2008 and 2009, approaching the government's target of 10 per cent.

Higher growth than expected has not brought poverty levels down and dependence on hydrocarbons remains.

High levels of oil revenue have resulted in substantial surpluses in both the fiscal and external accounts. Angola has improved its access to external credit by reaching an agreement with its Paris Club creditors on a repayment schedule for its remaining debt. This accord opens new possibilities for financing Angola's huge reconstruction needs.

Figure 1 - Real GDP Growth and Per Capita GDP
(USD at constant 2000 prices)



Source: IMF and local authorities' data; estimates (e) and projections (p) based on authors' calculations.

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Spillover effects from the oil boom to the rest of the economy have so far been limited, but manufacturing and financial services experienced strong growth in 2006 and 2007. The construction sector, in contrast, slowed down in 2007 after its buoyant performance in 2006. The challenges ahead are the continued development of the private sector (particularly in non-extractive sectors), poverty reduction and improvement in access to basic services.

To this end, priority should be given to creating a healthy business environment for domestic and foreign investors, implementing structural reforms, continuing to rehabilitate infrastructure and improving public expenditure management by decentralising public investment to the local level. The legal system is also in need of reform. To date, efforts in this direction have been insufficient, and doing business in Angola remains difficult.

Failure to spread the benefits of growth could cause increasing social tensions. Political pressure on the government is increasing, especially with long-delayed parliamentary elections scheduled in 2008 and presidential elections in 2009.

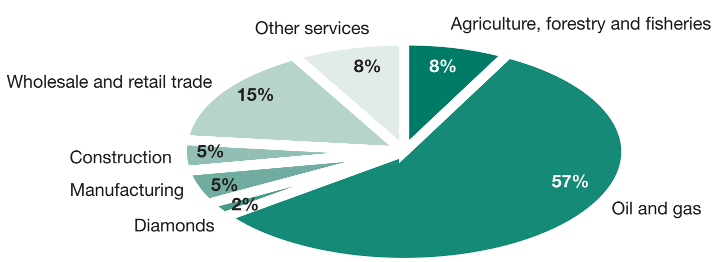
Recent Economic Developments

High oil prices and increased production continue to drive high rates of GDP growth, and the dynamism of the oil sector has attracted a great deal of ancillary investment in financial services, construction and manufacturing. Agriculture has also begun to exhibit strong growth thanks to improved security in rural areas, more favourable growing conditions and better transport links to urban markets. Until recently, growth in the non-oil sector was driven mainly by public investment, but private investment has begun to increase markedly, especially in the construction of office buildings in Luanda. Nevertheless, the constraints on private sector development remain strong and the creation of Angolan brands very limited.

Angola is the second-largest oil producer in sub-Saharan Africa, with reserves estimated at 13.5 billion barrels. The national oil company, Sonangol, is the sole concessionaire for exploration and production, and accounts for about 45 per cent of total Angolan oil exports. Foreign companies can participate only via joint ventures and production sharing agreements with Sonangol. At present, the biggest overseas companies operating in Angola are Chevron Texaco, TotalFinaElf and ExxonMobil, although smaller private companies and national oil companies from Brazil and China also play an active and growing role.

In 2006, production increased by 13.1 per cent as oil prices rose and new oil fields came on stream. Oil's share of GDP now stands at 57.1 per cent. In 2007, output rose by a further 20 per cent, to average about 1.7 million b/d, owing to new production from the five-field Greater Plutónio project. Output is expected to reach 1.88 million b/d in 2008 and to be held to 1.9 million b/d in 2009, the level of the quota agreed with OPEC. Very deep-water production, which is

Figure 2 - **GDP by Sector in 2006** (percentage)



Source: Authors' estimates based on National Institute of Statistics data.

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scheduled to start in 2012, will help to maintain and possibly raise this level despite declining production in more mature fields. Increasing exports in line with the increases in production capacity would eventually require an upward adjustment of the OPEC quota.

Although production of natural gas increased nearly nine-fold in 2006, reserves are sufficient to ensure production for the next 30 years. The exploitation of this resource will enable the country to diversify the hydrocarbon and petrochemicals sectors while cutting down on environmentally damaging flareups of associated gas from oil production. Angola LNG (Liquefied Natural Gas), a consortium led by Sonangol and Chevron, will receive approximately 1 billion cubic feet of associated gas per day from offshore production blocks and is expected to produce 5.2 million tonnes of gas per year by 2012, destined for both the domestic and overseas markets.

Non-oil sectors exhibited strong growth of 25.7 per cent in 2006, mainly led by construction, manufacturing and services. Non-oil growth in 2007 is estimated at 21 per cent. Although high, this rate is well below the government target of 27.9 per cent.

The most disappointing performance was recorded in the diamond mining industry, where production fell by 3 per cent in the first half of 2007 after an increase of 30.9 per cent in 2006. The production shortfall was due to heavy rains that disrupted mining operations.

In an attempt to increase the value added of diamond exports, a new polishing and cutting industry will be created in Lunda Sul province. The state-owned diamond enterprise Endiama, which launched the first firm of this kind in 2005, has recently started up a second. The new firm is able to produce USD 20 million worth of diamonds per month. Endiama is establishing a jewellery manufacturer as well, which will include a training programme for 400 jewellers.

With the return of displaced people and the rehabilitation of rural infrastructure, which was almost completely destroyed by the war, the agricultural sector is gradually recovering. Agriculture is a priority sector for public investment, particularly in irrigation, owing to its importance in employment creation and poverty reduction. The government also hopes to attract donor support and private investment. An agreement was signed in late 2007 between Angola and the International Fund for Agricultural Development to provide a credit line of USD 45 million to 200 000 farmers to strengthen agricultural production and investment. Despite considerable progress, however, a number of obstacles continue to hamper agricultural development, including poor access to credit and problems with securing clear land titles despite the adoption of a new land law.

Following a poor harvest in the 2005/06 agricultural season due to unfavourable growing conditions, agricultural production rebounded in the 2006/07 season, growing by 9.3 per cent. This recovery was aided by improved weather and an increase in cultivated area due to the continued removal of land mines from the countryside. The outlook for the 2007/08 season is for growth of 12.5 per cent, owing to early rains and a further increase in cultivable area.

Angola could become one of the most important producers of biofuels in Africa. Sonangol, the Brazilian company Odebrecht and the Angolan firm Damer recently signed an agreement to set up a new biofuel company, Biocom. The deal involves a USD 200 million investment in a 30 000-hectare sugarcane plantation, which will produce enough fuel annually to fire a 140 MW power plant.

This biofuel project will be located in one of the three industrial clusters created by the government with a view to upgrading the entire agricultural value chain. These three clusters are Futila (in Cabinda), Viana (Luanda) and Catumbela (Benguela). The Viana cluster is the biggest and the most advanced, with 119 contracts signed in a number of agricultural and industrial sectors.

The manufacturing sector grew rapidly in 2006 (by 44.7 per cent), although its share in GDP remains quite small. The boom was supported by demand for intermediate goods used in construction and infrastructure rehabilitation. Growth in the first half of 2007 is estimated at 11.4 per cent.

The construction sector also continues to expand, especially in Luanda and Benguela. After growing by 30 per cent in 2006, the sector is estimated to have slowed to 4.9 per cent growth in the first half of 2007. The prospects for the medium term are for a renewed surge of growth due to an increase in infrastructure and residential projects. New projects include the construction of a new town in Benguela Baia Azul municipality, the Benguela Blue Ocean project. Several oil companies are building skyscraper office buildings, several major residential projects are in the pipeline, and 39 hotels are to be built over the next five years. Finally, in preparation for the 2010 African Nations Cup, the construction of a new international football stadium will begin in 2008.

The construction boom is rapidly increasing demand for cement, in response to which the government expects an overall production increase of more than 15 million tonnes per year until 2009. A new cement factory will be built in Lobito by a Portuguese firm with an annual capacity of 6 million tonnes, in addition to a new factory financed by a Brazilian firm. An industrial complex for producing clinker and cement will be built over two years in the Lobito area. Finally, Nova Cimangola plans to invest USD 200 million in a new cement plant in Luanda's Cacuaco municipality, which will be able to produce 2 million tonnes per year.

Having acquired the Luanda refinery from Total, the government is currently developing plans for Sonaref, a new refinery with a capacity of 200 000 b/d, in the central coastal city of Lobito. When this facility is fully operational in 2013, 80 per cent of the products refined there will be exported regionally. The Chinese have withdrawn from the USD 3.5 billion project, but the Japanese government has started discussions about participating in it in exchange for guarantees of oil imports.

In 2007, the government started a Programme of Restructuring the Logistics and Distribution of Essential Products to the Population (PRESILD). The programme consists of the construction of 10 000 retail sales outlets, 163 municipal markets, 31 "Nosso Super" supermarkets and 8 distribution centres. This initiative is expected to reduce food prices, enlarge the market for locally produced food products and help to create 200 000 jobs by 2012. The programme focuses on construction of distribution centres, but its positive impact may be limited because it ignores transport costs to remote rural areas.

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**28.4**	**11.3**	**-2.1**	**29.6**	**18.9**	**-0.5**	**5.3**	**3.9**
Public	12.6	8.9	-6.0	35.0	20.0	-1.0	4.7	3.3
Private	15.8	2.4	12.0	13.0	15.0	0.6	0.6	0.7
Consumption	**77.6**	**52.8**	**12.9**	**10.2**	**13.1**	**13.1**	**9.8**	**12.4**
Public	58.9	21.2	28.9	12.2	16.2	5.8	2.6	3.5
Private	18.8	31.6	9.0	9.6	12.2	7.3	7.1	8.9
External demand	**-6.0**	**35.8**				**7.2**	**-3.5**	**-11.1**
Exports	85.3	73.8	19.4	11.2	3.7	19.6	11.3	3.7
Imports	-91.3	-37.9	10.0	13.0	12.9	-12.4	-14.8	-14.8
Real GDP growth						**19.8**	**11.5**	**5.1**

Source: IMF and national authorities' data; estimates (e) and projections (p) based on authors' calculations.

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The sector developments described above are also reflected in the behaviour of the components of final demand. Domestic demand, especially public and private consumption, made the largest contribution to growth in 2007 and is expected to remain dynamic over the forecasting period. The contribution of private consumption is likely to increase strongly in the medium term as incomes rise due to the recent growth in the non-oil sector and the creation of a large number of jobs in public reconstruction. Private investment is also on the rise, especially in the oil sector, which accounted for 98 per cent of total private investment in 2006. Surprisingly, public investment fell in 2007 owing to capacity constraints, after a large increase in 2006; however, it is expected to grow strongly in both 2008 and 2009 due to an improving budget execution rate.

Macroeconomic Policies

Fiscal Policy

The executed budget for 2007 exhibited an overall surplus estimated at 10 per cent of GDP, as against a surplus of 10.9 per cent of GDP in 2006. The deterioration in the overall fiscal balance between 2006 and 2007 was far smaller than expected, because the actual oil price (USD 64.50 per barrel) was well above the mid-year revised assumption of USD 52 per barrel. This largely offset an expected decline in oil receipts due to reduced oil production. Moreover, total revenue was sustained by a spectacular increase in customs revenue, reflecting both the dynamism of economic activity and the improvement in customs collection. Total expenditures were also revised downwards to reflect the lower-than-expected budget execution rate (50 per cent). Recurrent expenditure continued to rise due to wage increases, expanded employment creation and higher expenditures on goods and services. Capital expenditure fell by 6 per cent as a result of the government's poor capacity to execute the investment plan.

A deficit of 8.6 per cent of GDP, based on a conservative oil price forecast of USD 55 per barrel, is implicit in the recently approved 2008 budget. The new budget law restricts the volume of current expenditure to the same level as in the previous year, reflecting the government's recognition of its poor administrative capacity to execute the expenditure plan. However, the authorised investment budget, mainly allocated to reconstruction works, is a huge 23.4 per cent of GDP, almost double the 12 per cent actually realised in 2006. As is evident from the 2007 execution rate, achieving an increase of this size is improbable given the country's low absorption capacity for capital expenditure. On the assumption that international oil prices will be considerably higher in 2008 and 2009 than in 2007, and that Angola's oil production will remain within the

127

Table 2 - **Public Finances** (percentage of GDP)

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**43.4**	**36.9**	**40.7**	**46.4**	**45.2**	**44.1**	**44.2**
Tax revenue	4.7	6.8	6.1	5.7	5.2	4.8	5.0
Oil revenue	38.5	29.3	33.2	38.1	37.3	36.6	36.6
Total expenditure and net lending[a]	**59.9**	**35.8**	**32.2**	**35.5**	**35.2**	**34.9**	**40.3**
Current expenditure	45.8	30.6	27.2	23.5	25.3	24.3	27.9
Excluding interest	*40.9*	*28.3*	*25.2*	*22.0*	*24.3*	*23.5*	*26.8*
Wages and salaries	4.1	10.3	9.2	8.6	9.4	9.5	10.9
Interest	5.0	2.3	2.0	1.5	1.0	0.8	1.2
Capital expenditure	12.6	4.4	5.0	12.0	9.5	10.6	12.4
Primary balance	**-11.5**	**3.4**	**10.5**	**12.4**	**11.0**	**10.1**	**5.1**
Overall balance	**-16.5**	**1.1**	**8.5**	**10.9**	**10.0**	**9.2**	**3.9**

a. Only major items are reported
Source: Ministry of Finance data; estimates (e) and projections (p) based on authors' calculations.

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OPEC quota, it is more likely that the budget outcome for 2008 will be another large surplus of 9.2 per cent of GDP, decreasing to 3.9 per cent in 2009.

An important feature of the budget legislation for 2008 is the pilot decentralisation of budget execution. Sixty-eight of Angola's 167 municipalities have been designated as "fiscal units" (*unidades orçamentais*), and each will be allocated USD 300 000, which will subsequently be scaled up to USD 1 million. This reform, which reduces the dependence of local administrations on provincial governments, aims to raise the execution rate of capital projects and to accelerate and improve delivery of basic services.

An integrated system for current expenditure management (*Sistema Integrado de Gestão Financeira do Estado* – SIGFE) was introduced in 2006 and expanded in 2007 by the Ministry of Finance. Although SIGFE has been extended to all provinces, it does not include the quasi-fiscal activities of Sonangol and Endiama, nor does it track expenditures financed by foreign credit lines. A parallel effort to improve public sector management was made by the Ministry of Planning, which has set up an integrated system for public investment management (*Sistema Integrado de Gestão do Investimento Público* – SIGIP). These two computerised systems have been criticised for their lack of compatibility, however, and steps are being taken to remedy this situation. The increased transparency made possible by SIGFE and SIGIP has been complemented by annual auditing of Sonangol's financial statements by international accounting firms. Fiscal receipts from diamond exports were posted on the website of the Ministry of Finance for the first time in 2007. However, Angola has not yet become a member of the Extractive Industries Transparency Initiative.

While the high level of public capital expenditure (over 10 per cent of GDP) is welcome in the light of the country's reconstruction and development needs, the imminent elimination of budget surpluses underscores the importance of implementing a multi-year public investment programme and a medium-term expenditure framework, allowing for more scrutiny of investment projects and more careful evaluation of their social rates of return.

Monetary Policy

Inflation in Angola appears to have stabilised at about 12 per cent in 2006 and 2007, following a long period of hyperinflation. The objective of monetary policy is to reduce inflation to 10 per cent or less by maintaining a strong kwanza and a restrictive monetary policy. Thus, sterilised intervention in the exchange market – facilitated by selling large amounts of US dollars and simultaneously increasing the issue of central bank bills – continued throughout 2007. As a result, the growth of the monetary base was contained to less than 20 per cent in 2007. The nominal exchange rate appreciated from AON 80 to 75 (Angolan kwanza) per US dollar, while the real effective exchange rate appreciated by approximately 6 per cent.

The monetary stance was further tightened through increases in reserve requirements and in the discount rate. In April 2007, the composition of compulsory reserves was modified. The cash reserve requirement was raised from 7.5 per cent of deposits to 10 per cent, and that of treasury bills was lowered from 7.5 per cent to 5 per cent. As this measure did not prove effective enough in curbing liquidity, in September the reserve requirement was eliminated for treasury bills and raised to 15 per cent for deposits. These measures were accompanied by an increase in the rediscount rate from 14 per cent to 19 per cent in May 2007.

A gradually declining dollarisation rate due to the stability of the kwanza, as witnessed by the recent increase of deposits in local currency, is expected to increase the effectiveness of interest rate intervention as a policy instrument.

External Position

In 2007 the current account surplus fell to 14.9 per cent of GDP, down from 23.3 per cent in 2006, mostly due to an increase in the volume of profits repatriated by foreign oil companies. The surplus is expected to continue its decline through 2008 and 2009, as oil

Table 3 - **Current Account** (percentage of GDP)

	1998	2003	2004	2005	2006(e)	2007(p)	2008(p)
Trade balance	33.1	38.6	51.4	49.3	49.7	49.6	42.2
Exports of goods (f.o.b.)	82.9	68.1	78.7	70.5	67.7	64.9	57.2
Imports of goods (f.o.b.)	49.8	29.5	27.3	21.2	18.0	15.2	15.0
Services	-39.1	-22.6	-21.6	-13.5	-13.8	-12.5	-10.9
Factor income	-22.0	-12.5	-13.2	-12.2	-20.7	-21.9	-17.5
Current transfers	0.9	0.0	0.1	-0.3	-0.3	-0.3	-0.2
Current account balance	**-27.1**	**3.5**	**16.8**	**23.3**	**14.9**	**15.0**	**13.6**

Source: IMF and Banco Nacional de Angola data; estimates (e) and projections (p) based on authors' calculations.

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production approaches a plateau, repatriation of profits increases and imports continue to grow in line with booming domestic absorption. The strength of the kwanza has reduced the potential competitiveness of import-competing sectors, but the lack of infrastructure is still the most binding constraint on production. Several years of current account surpluses have increased international reserves to a level sufficient to provide six months of import cover.

Although Angola is a member of the Southern African Development Community and the Economic Community of Central African States, its major trading partners are outside Africa. Portugal continues to be the largest source of imports and an important destination for exports. The former increased by 44 per cent from June 2006 to June 2007, and the latter by 28 per cent during the same period.

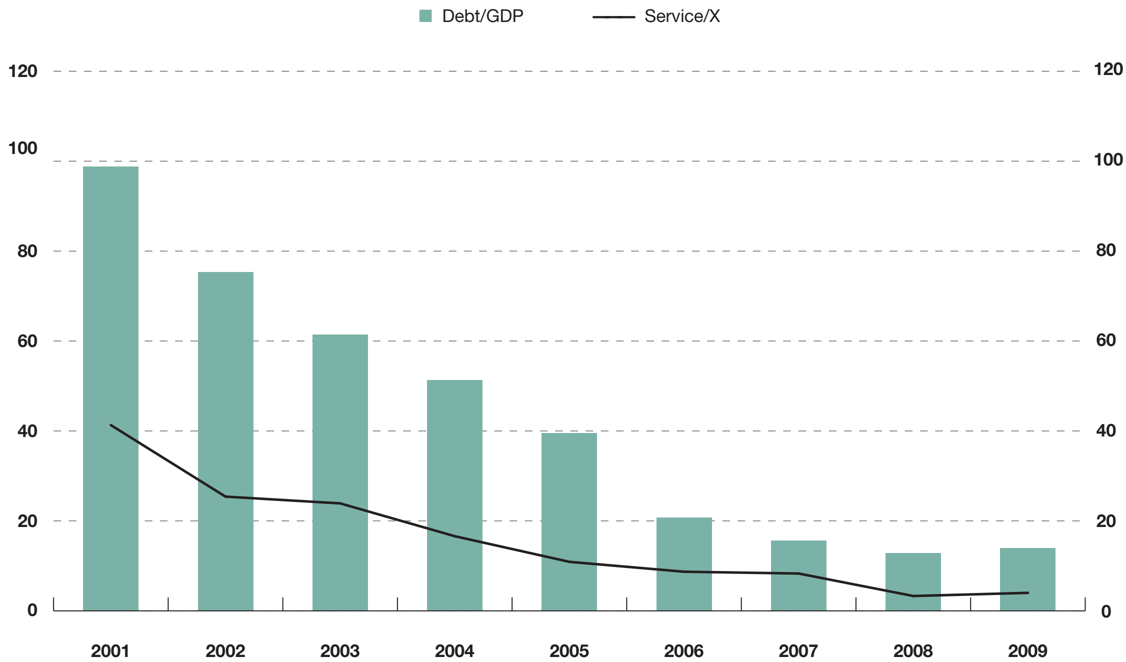
Trade with Brazil has increased dramatically, with imports rising more than four-fold between 2003 and 2006. Angola has become the fourth-largest African export market for Brazil. Following an official visit by Brazilian President Luis Ignacio Lula da Silva in October 2007, seven co-operation agreements were signed, together with a USD 1 billion extension of the existing credit line provided to facilitate Brazilian companies' investment. The Brazilian construction company Odebrecht has won contracts for many projects, including road rehabilitation. Imports from South Africa increased by 37 per cent from mid-2006 to mid-2007. In November 2007, Angola and South Africa signed two co-operation agreements in the oil and tourism sectors, as well as a declaration of intention on eliminating visa requirements.

Since 2006, China has become the largest destination for Angolan oil exports. Imports from China increased by 138 per cent from 2005 to 2006, making China the second-largest supplier to Angola after Portugal.

Financial relations between Angola and China are governed by an accord signed in November 2003, which established the basis for future bilateral economic and trade co-operation. The first credit accord with China's Eximbank was signed four months later to fund public investment projects proposed by Angola and approved by a joint working group. Financial support pledged by China for the reconstruction of Angola stands at nearly USD 7 billion. China's aid consists of two credit lines of USD 2 billion each from China's Eximbank and an additional USD 2.9 billion from China International Fund. The latter credit line has gone to Luanda International Airport, the Caminhos de Ferro de Luanda railway project, drainage systems in the capital, studies on the new city to be built close to Luanda, and improvements to the Luanda-Lobito, Malanje-Saurimo, Saurimo-Dondo and Saurimo-Luena highways.

Thanks to its strong fiscal and external positions, Angola has gradually reduced its external debt from 39.5 per cent of GDP at end-2005 to 20.7 per cent at end-2006 and an estimated 15.6 per cent at end-2007.

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318300676842

Towards the end of 2006 and during the first quarter of 2007, Angola eliminated its outstanding contractual obligations to the members of the Paris Club (USD 2.3 billion in interest and principal) and began to meet its current debt service payments on time. Towards the end of 2007, the government reached an agreement with the Paris Club on terms and conditions for payment of USD 1.8 billion in accumulated interest on late payments. Repayment is to be made in three instalments beginning in January 2008 and ending in January 2010. This agreement paves the way for normal financial relations with the Paris Club creditors, including the opening of new export credit lines. Spain was the first country to conclude a new agreement, opening a USD 600 million credit line, and Germany has recently begun negotiations.

Relations with the IMF have improved despite the Angolan government's decision in February not to pursue negotiations on an IMF-supported agreement.

Structural Issues

Recent Developments

The pace of reform has recently been stepped up, particularly with regard to state-owned enterprises (SOEs), access to credit and infrastructure rehabilitation.

The legacy of Angola's past includes a highly centralised state, with equity participation in 216 enterprises. In the most important ones, such as oil, water, energy and transport firms, the public sector is a majority owner. Most of these activities entail heavy direct and indirect subsidies from the treasury. The absence of investment during the years of war coupled with a dramatic shortage of managerial skills resulted in suspension of production for many and the accumulation of operational deficits for the rest.

In 2007, a state secretariat for SOEs was created with the aim of centralising responsibility for public sector enterprises. The first step in the reform process was the launching of a diagnostic tool (based on enterprise surveys) to evaluate performance and costs. The final objective is substantial disengagement of the state from the economy through the resumption of the privatisation process interrupted at the beginning of 2001. The state will retain 57 enterprises of strategic or public interest.

Recent years have seen progress regarding the transparency of oil revenue management, although much remains to be done. On one hand, the government has published extensive oil sector data on the website of the Ministry of Finance and has improved oil bidding practices; on the other, Angola has not yet joined the Extractive Industries Transparency Initiative, and Sonangol and Endiama continue to carry out quasi-fiscal operations for the treasury and the central bank[1].

In order to make better use of the oil windfall, in December 2006 Angola created the Angola Development Bank (Banco de Desenvolvimento de Angola – BDA) to administer its new Development Fund (FDA), to which 3 per cent of annual oil revenues and 2 per cent of diamond revenues will be channelled. By the end of 2007, the BDA had already approved a series of projects having a combined value of USD 307 million. Of this total, 55 per cent is for industrial projects, 32 per cent for agriculture projects and 13 per cent for wholesale and retail trade. There are concerns, however, regarding risks of corruption and mismanagement of funds, which are supposed to be channelled through commercial banks and allocated according to transparent criteria based on project profitability. The BDA and FDA are expected to ease access to credit for the private sector, which is a major constraint on investment, especially in agriculture.

Accompanying the acceleration of growth in the non-oil sectors of the economy, particularly in the construction and service sectors, credit to the private sector grew by 101.8 per cent in 2006 and 70.6 per cent in 2007. Most of this growth, however, represents credit to households, presumably for consumption. The structural savings deficit is still substantial, notably because of Angola's huge reconstruction needs, estimated at more than USD 20 billion. A USD 3.5 billion agreement between the Ministry of Finance and a syndicate of Angolan banks was signed to fund national reconstruction of infrastructure, plant and equipment.

In 2006, the number of branch offices of public and private banks increased by 20 per cent and 55 per cent respectively. Other services to customers are increasing as well; in 2007, for example, the Visa credit card system became fully operational. However, in 2006, although deposits grew by 76 per cent to USD 8.7 billion, only 5.8 per cent of the population had access to banking services, compared to 25 per cent in sub-Saharan African middle-income countries and 46 per cent in South Africa.

The banking system is well capitalised. In January 2008 a new prudential regulation will be implemented, bringing the Angolan banking system closer to the Basel II regulations. Stricter accounting and prudential rules will entail a tightening of credit before banks adapt to the new environment by increasing capitalisation.

Despite the increase in banking competition (with 16 institutions in 2007), three banks – Banco de Fomento de Angola (BFA), Banco de Poupança e Crédito (BPC) and Banco Africano de Investimento (BAI) – dominate the system. In line with the Angolan government's strategy of limiting foreign participation to 49.9 per cent, Sonangol will acquire a 40 per cent share of BFA, which is currently owned by the Portuguese group Banco Português de Investimento. As Sonangol already has shares in BAI, and BPC is publicly owned, this acquisition – likely to be made through the Luanda stock exchange, which is expected to begin operating in the first quarter of 2008 – will lead to further concentration of the banking system in the hands of the public sector.

1. In particular, debt operations on behalf of the treasury and distribution of subsidised refined products to SOEs.

The government of Angola has made great efforts to rehabilitate transportation infrastructure, which was almost totally ruined by the war and chronic underinvestment. Although infrastructure remains highly concentrated in the capital city, improvements have begun elsewhere, especially for road transport infrastructure. During the past two years, the government has allocated over USD 33 million of its Public Investment Programme to the rehabilitation of roads. In Luanda, China is financing the substantial Luanda Bay project to enlarge the main costal road. This work, begun in 2007 and scheduled for completion by end-2009, should help reduce congestion in Luanda. Commuting problems certainly harm the business environment of the city, where 90 per cent of economic activity is concentrated. In 2007, 1 200 kilometres of roads and 94 bridges were rehabilitated. In 2008 the government plans to build or rehabilitate a further 1 500 kilometres of roads[2], mainly financed by China, Portugal and Brazil.

The 479-kilometre railway from Luanda to Malange should be operational before the end of 2008, along with the 1 000-kilometre railway running from Namibe (on the coast) to Menongue (in Cuando Cubango province). However, the rehabilitation of the Benguela railway line, which links the coast to the border with Democratic Republic of the Congo, has been postponed to 2010 because of the need for de-mining.

In 2007, the national airline TAAG was banned from EU airspace for safety reasons. Despite the protests of the Angolan government, this decision will not be reviewed until February 2008. In the meanwhile, TAAG has finalised an agreement with other African companies to ensure passenger connections to Europe. The strategic plan of the national airport administrator Empresa de Navegaçao Aerea (Enana) features an investment of USD 400 million to rehabilitate all the airports in the country. Since the Luanda airport cannot be upgraded and expanded due to its proximity to the city, the Chinese government will contribute to the construction of a new international airport and associated infrastructure as part of a EUR 9 billion investment. The new airport will cover an area of around 11 000 hectares to the north of Luanda and will also be the site of a Boeing-certified maintenance centre for the region.

Major problems persist in the port of Luanda, which cannot keep pace with the rapid development of the economy and the huge volume of cargo entering the country. As a result, ships wait offshore for up to several weeks, raising the cost of transport. During 2007, a long-delayed 20-year concession for management of the port was finally awarded to Sogester, a joint venture between Maersk and an Angolan pension fund. An investment of USD 35 million is expected to modernise the port and create a deep-water harbour. Other projects planned by the government include a new container terminal and the Viana drydock.

For the time being, electricity generation in Angola is limited to the Capanda hydroelectric power plant, whose fourth turbine has finally been installed. The dam has been operating at its full capacity of 520 MW, but its potential cannot be fully exploited until distribution is improved. Inadequate distribution capacity causes increasingly frequent power cuts, especially in Luanda, where the demand for electricity rose by more than 20 per cent in 2007 and is expected to increase rapidly in the near future. Numerous small distribution lines destroyed during the war have been restored since 2006. By the end of 2008, Luanda's power distribution company, Empresa de Distribuição de Electricidade de Luanda (EDEL), will install 41 000 meters throughout the capital. The new meters will be programmed with a pre-payment system, aimed at controlling demand and preventing power outages. A major reform programme being designed for the electricity sector will address regulation, the structure of the industry, tariffs and expansion of the grid.

Despite some progress in addressing important structural bottlenecks, the business climate is unfavourable and Angola is still at the bottom of the World Bank's *Doing Business* ranking. During the period of the socialist regime, private initiative was highly

2. Fifty per cent of the amount called for in the Government Plan for 2007-08.

restricted and the elite in power, particularly the president's close entourage, had total control over the economy. With the restoration of peace, the same small group of people gained access to previously state-owned assets through an opaque privatisation process and are thought by many to continue to have easy access to licences, concessions, credit and business opportunities generally. If the economy is to be truly opened up to private initiative, it is necessary to foster fair competition through a strong, well-defined legal and regulatory framework. However, the legislature has not yet enacted a competition law that was submitted for approval in 2004. The perception of widespread corruption also needs to be addressed.

Technical and Vocational Skills Development

Technical and vocational education and training (TVET) is especially important in post-conflict Angola. Economic reintegration and restoration of sustainable livelihoods for the population depend upon it – particularly for the 3.8 million former displaced people, 450 000 refugees and 280 000 former soldiers.

As a result of the war, an entire generation has been entirely excluded from any form of education or training. The percentage of unskilled labour in the total labour force is as high as 94 per cent among the 15-19 age cohort, 74 per cent among those 20-24 and 68 per cent among those 25-29. The situation is also highly gender-biased, with 88 per cent of women totally unskilled.

Both general education and TVET have fallen under the responsibility of the Ministry of Public Administration, Labour and Social Security (MAPESS) since 2000, and are organised by the National Institute of Vocational Training (INAFOP), a division of the MAPESS. Initiatives for the reintegration of former soldiers are carried out by the Institute for Social and Occupational Reintegration of Former Combatants (IRSEM), an arm of the Ministry for Social Assistance and Reintegration.

At the secondary school level, where students have a choice in the type of education they receive, students have exhibited a strong preference for technical training over general schooling. Unlike in other countries, technical education is seen as a path leading to university (engineering or sciences) rather than to immediate entry into the labour market. Since the prestige of acquiring a university qualification is deeply rooted in the mentality of the student population, vocational training suffers from a severe lack of esteem – remaining only as a residual option for those who cannot continue with technical or general education. Angola recently undertook a major three-year plan (2005-07) to develop technical education, involving the construction of 35 new technical institutes with Chinese funds. Curricula have not been updated for decades, however, and there are no plans to do so in the near future. Furthermore, there are no current plans to hire and train new technical teachers.

Angola currently has 304 vocational training centres, of which 36 fall under the responsibility of the INEFOP, 245 are private and conduct only lifelong learning activities, and 23 belong to other organisations. Their total capacity of 24 564 students can accommodate only a fraction of the potential demand, since every year 300 000 new job seekers enter the labour market.

Public intervention remains very much focused on the reintegration of former soldiers. Most often, reintegration is conducted through the informal sector, reflecting the importance of the informal economy. IRSEM often collaborates with NGOs and trade associations. One major initiative was the World Bank-financed Angola Emergency Demobilisation and Reintegration Project (ADRP), which ended in 2006. However, these technical and vocational training programmes were conducted in isolation, with inadequate material support and little or no follow-up to help trainees get through the first few difficult months. As a result, their impact was limited.

The extractive industry is engaged in TVET, in order to train its own workers and contribute to the country's development. Many partnerships have been formed between public bodies and enterprises, as in the case of Chevron and the United Nations Development Programme, or between NGOs and firms, as in Total's initiative involving NGOs and local banks. The aim is nearly always to promote small businesses in sectors with high growth potential, such as mechanics or food processing. In 2006, Sonangol and other oil companies launched an initiative called "Formação di Fornecedores" (training of suppliers), aiming at increasing SMEs' capacity to participate in the oil industry as suppliers of goods and services.

Problems in the TVET system in Angola are manifold. Despite the huge number of recent initiatives, training is inadequate in both quantity and quality. The technical and vocational profiles of those actually receiving training do not match the skills in demand in the economy, private and public sectors alike. There are a number of reasons for this: no market study was done prior to the definition of the TVET strategy; the private sector was not involved in designing the strategy; there is a lack of co-ordination between vocational training centres and the educational system; private and other initiatives are often fragmented. Finally, the quality of basic education is very low, which limits students' ability to learn and take real advantage of the training they undergo. More generally, in order for a TVET strategy to be effective, it must be integrated in an overall long-term development strategy. The government of Angola has only recently begun working on such a long-term vision (known as Angola 2025).

The government has placed human resources development among the priorities of its short-term Government Plan for 2007-08 to achieve national reconstruction and promote economic activities. As a result of this new engagement, overall TVET capacity increased by 6.9 per cent in 2006, from 22 988 students in 2005 to 24 564 in 2006. In particular, public centres increased their capacity by 12.5 per cent for vocational training and by 7.8 per cent for other programmes. Thirty-four per cent of the training programmes delivered were in the field of construction, 30 per cent in information and communication technology and 36 per cent in other areas. Moreover, 16 new itinerant centres for vocational training were created as part of the *Esta é a tua vez* and *Estamos contigo* projects. The aim of these innovative programmes is to bring these kinds of services closer to people inhabiting remote areas. Altogether, almost 16 000 people were trained. Training in public administration has also increased, and 1 716 civil servants were trained through 84 different programmes. In order to build institutional capacity in local communities, the government will rely on the training centres attached to various ministries (fishery, transport, health and industry) as well as on the training programmes provided by the Social Action Fund (Fundo de Apoio Social), a public organisation funded mainly by the World Bank.

In 2006, the MAPESS also implemented a series of measures to promote TVET and employment, in the framework of the overall implementation of the new "First Job" law. To monitor employment and vocational training, the ministry also founded an observatory to collect, process and disseminate statistical data. Helping trainees find work is a prerequisite for successful training schemes. Three other initiatives were launched: *i)* an internship programme in firms, aimed at providing students from technical secondary schools with occupational skills developed in the workplace. After training, the state is expected to contribute 60 per cent of trainees' salaries in order to foster job creation and ease the transition from training to employment; *ii)* a programme to foster the creation of micro and small enterprises, including training in business management; and *iii)* a programme to develop self-employment, mainly targeting former soldiers (*desmobilizados*).

These TVET initiatives are financed by the government, by the private sector (for initiatives involving extractive industries) and by donors. The latter – in particular, the World Bank and the European Union, together with national co-operation agencies (through NGO projects) – are involved in many activities conducted by both the MAPESS and IRSEM that target vulnerable groups (disabled war veterans, former soldiers, war victims, etc.).

Political Context

The first elections since the war ended will be held in 2008. The only previous time that multi-party elections were held, in September 1992, they led to further strife. At that time, the ruling party, the Movimento Popular de Libertação de Angola (MPLA), won the legislative elections, followed closely by the União Nacional para a Indepêndencia Total Angola (UNITA), its opponent in the election and in the war. In the subsequent presidential elections, however, neither José Eduardo dos Santos, Angola's president since 1979, nor UNITA leader Jonas Malheiro Savimbi (since deceased) won a majority, and a fierce conflict erupted.

In the forthcoming 2008 legislative elections and the 2009 presidential election, the ruling party and the incumbent president are widely expected to retain power. There are 126 political parties, but most of them are small and little known. Consequently, the real contest will be between the two traditional rivals, the MPLA and UNITA. The MPLA has access to public resources (including the press), limiting the opposition's ability to reach the electorate. Social unrest following the results of the elections is thought to be highly unlikely, due to the population's strong desire to live in peace, but the widespread mistrust of the political system could result in massive abstention.

Angola today is a country at peace, apart from sporadic fighting in the Cabinda enclave between the remaining separatist guerrillas of the Frente de Libertação do Enclave de Cabinda (FLEC) and the Angolan Armed Forces. The resettlement process has also come to an end, with the 4 million formerly displaced people having decided either to remain in their host communities or to return to their original communities or farms.

Social Context and Human Resources Development

When the latest estimates of income poverty were made in 2001, 68 per cent of the population was living below the poverty line and inequality was rising. Income remains highly concentrated in the oil sector and in Luanda, and the Gini coefficient is one of the world's highest (0.64 in 2005).

The impact of recent growth on poverty has probably been favourable. The living conditions of the Angolan people have probably improved due to the increase in employment (stemming from an expansion of private and public investment), the reintegration of displaced people into the workforce and a renascent agricultural sector. The unemployment rate is estimated to have fallen from 39.8 per cent in 2002 to 25.2 per cent in 2006[3]. The public sector remains the largest source of jobs, particularly in the education and health sectors, and 3 million new jobs are to be created in 2007 and 2008. Growing employment has tended to raise incomes and reduce food insecurity and malnutrition. On the other hand, the purchasing power of those in employment has been decreasing during the last few years, as wage increases have not kept pace with inflation. In the public sector, for example, real wages suffered a cumulative loss in purchasing power of around 30 per cent over the 2004-06 period.

Opportunity is concentrated in Luanda. For the majority of the city's estimated 4 million residents, however, living conditions in the capital are difficult, with very high prices and poor access to basic services, including water and sanitation. This situation is due in part to the rapid and unmanaged increase in the urban population fuelled by the war. Most inhabitants of Luanda are very poor and hold no formal title to their house or land. The country's housing shortage has been estimated at 800 000 dwellings, which corresponds to about 4 million people without adequate housing, most of whom are in Luanda. The government has approved plans to build 200 000 houses, including 120 000 in Luanda. Recently, 20 000 poor Luandan residents were forcibly evicted without appropriate compensation on the grounds that the land was needed for development projects in the public interest.

The poverty reduction strategy paper adopted in 2005, more widely known as the Strategy to Combat Poverty (ECP), has had little actual influence on policy. It is supposedly the basis for an extension of a medium-term development plan covering the 2005-09 period, but it is not clear to what extent it has been used for

3. According to calculations performed at the Centro de Estudios et Investigacao Centifica, Catholic University of Luanda.

this purpose. The key sectors of action for poverty reduction in the ECP are social reintegration, demining, food security, rural development, HIV/AIDS, education, health and basic infrastructure. They correspond to the priorities laid down in the government plans of the last few years.

Progress has been achieved in terms of construction and rehabilitation of basic infrastructure: in 2007, 112 primary schools, 7 secondary schools, 4 hospitals and 32 health centres were built. Moreover, 55 per cent of public jobs are allocated to the education sector (50 000 teachers have been hired since 2002), while health, which is the second-highest priority, accounts for 20 per cent of public sector jobs. Access to both health and education services remains problematic, however, because of high costs and poor quality. Although improving slightly, indicators for health and basic education remain low – certainly below those of the other countries in the region. According to local sources, in 2005, the net primary and secondary school enrolment rates were 56 per cent and 12.5 per cent respectively, with an illiteracy rate of almost 30 per cent of those aged 15 years or older. In the health sector, maternal mortality was extremely high (1 700 deaths per 100 000 live births), with only 35 per cent of births assisted in hospitals. Thirty per cent of children under five years of age were undernourished. More generally, only 30-40 per cent of the population had access to health services, 30 per cent to treatment and 40 per cent to vaccination coverage.

Multinational oil companies are also involved in the social development of the country. They are obligated, according to the terms of their concessions, to promote social and economic development by providing training directed at developing human capital or by building infrastructure such as roads. Within this framework, the government of Cabinda concluded an agreement in 2006 with the firms of the Oil Association for Block Zero for a social bonus of USD 35 million. Overall, oil companies contributed USD 400 million to the government to finance social projects in 2006. However, they can undoubtedly do more, especially in the light of the high profits they are earning.